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Resources, Community, and
Economic Development Division

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October 6, 1997

The Honorable Frank H. Murkowski
Chairman, Committee on Energy
and Natural Resources
United States Senate

The Honorable Don Young
Chairman, Committee on Resources
House of Representatives

Subject: Federal Land Management: Estimates of Value and Economic Effects of Canceled and Suspended Timber Sale Contracts in the Pacific Northwest

Legislative and legal efforts to protect the habitat of two threatened or endangered species—the spotted owl and the marbled murrelet—virtually halted federal timber sales in the Pacific Northwest during the early 1990s. The Department of Agriculture's Forest Service and the Department of the Interior's Bureau of Land Management (BLM) have responsibility for these federal timber sales. As of August 1, 1997, the two agencies had canceled 9 timber sale contracts and suspended 85 timber sale contracts in the Pacific Northwest to protect the habitat of these two species. Those who rely on federal timber sales are concerned about the effects of the reduction in timber harvesting on the area's economy.

To respond to your interest in the federal costs of these cancellations and suspensions, we obtained estimates of the value of the timber associated with the canceled contracts, as well as the projected effects of canceling these contracts on jobs, payrolls, and taxes. The estimates of the timber's value vary, largely because of differences in the key assumptions and methods of computing them. We obtained estimates of the cancellation costs and of the timber's value from (1) contractors, (2) the Forest Service, and (3) BLM. We also obtained projections of employment, payrolls, and taxes from representatives of industry and of both agencies.

GAO/RCED-98-18R Canceled and Suspended Timber Sale Contracts

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In summary, we found that the federal government paid about \$8.6 million to settle contractors' claims for the value of replacement timber and for damages resulting from the cancellations of nine timber sale contracts in the Pacific Northwest. In addition to these canceled contracts, the Forest Service and BLM suspended a total of 85 timber sale contracts. The Forest Service plans to offer replacement timber for most of its 62 suspended contracts. BLM subsequently lifted the suspension on its 23 contracts, and the timber has been or is being harvested. Although contractors have filed several lawsuits over the suspensions, the Forest Service and BLM did not have estimates of the potential costs to the federal government attributable to these suspensions.

The estimates of the value of the remaining uncut timber associated with the nine canceled contracts varied with the methods of estimation and the assumptions used. The Forest Service used the original bid price to estimate the value of the timber remaining under its eight canceled contracts, while BLM performed an appraisal to estimate the value of the timber remaining under its single canceled contract. The agencies' estimates totaled about \$6.5 million. The various contractors used comparable sales and other market data to estimate the value of their individual contracts. Their estimates totaled about \$9.4 million.

The estimates of forgone employment range from a low of 264 jobs to a high of 360 jobs potentially associated with the canceled contracts. We found only two estimates of forgone payrolls and taxes: The Vice President of the Northwest Forestry Association estimated that the pay for each job directly related to timber harvesting would range between \$20,000 and \$40,000 annually, and the Forest Service estimated that the federal tax revenue could be \$60,000 annually.

BACKGROUND

For the past few decades, federal policies simultaneously required timber to be harvested at or near historical rates and environmental protection to be increased. Accompanying these often conflicting policies was an emotional debate over which one should receive greater emphasis. The debate intensified in the late 1980s, when conflict over the issue gained national attention. A series of legislative and legal battles in the late 1980s led to an injunction in 1991 that prevented the Forest Service from preparing any new timber sales in the northern spotted owl's habitat; in 1992, BLM was also enjoined from any new timber sales in the owl's habitat. The marbled

murrelet, a small sea bird that also nests in Pacific Northwest forests, was listed by the Fish and Wildlife Service as a threatened species in 1992.

From 1991 through 1994, the federal timber sale program west of the Cascade Range was virtually shut down by court injunctions. In April and May of 1994, the injunctions on BLM timber sales in the Pacific Northwest were lifted, but litigation over whether BLM could proceed with these sales was not completed until January 1995. In June 1994, the injunction prohibiting timber sales on Forest Service lands in the Pacific Northwest was lifted, and the 1995 Rescissions Act required harvesting under some of the suspended timber sale contracts to begin.

TOTAL COST TO THE FEDERAL GOVERNMENT FOR
CANCELED AND SUSPENDED TIMBER SALES IS UNCERTAIN

The Forest Service and BLM canceled nine timber sale contracts in the Pacific Northwest, leaving 24 million board feet (MMBF) of sold timber uncut. Contractors claimed damages totaling about \$15 million to cover the costs of the interruptions in their operations and the replacement value of the timber. These claims were subsequently settled for a total of about \$8.6 million. The Forest Service settled the claims that were filed on its eight canceled timber sale contracts for about \$6.7 million. BLM settled the claim related to its one canceled contract for about \$1.8 million. Specific information about the claims and settlement amounts is presented in enclosure I.

The Forest Service and BLM have also suspended 85 timber sale contracts in the Pacific Northwest. According to the Forest Service, replacement timber of similar quality and within the same geographic area will be offered for the majority of the 62 contracts it suspended. BLM has lifted the suspension on its 23 contracts, and the timber originally covered by these contracts has been or is being harvested. Contractors have filed several lawsuits against the federal government for damages attributable to the delays in harvesting under the suspended contracts. Because the lawsuits are still in the early stages of litigation, according to the Forest Service and BLM, it is too early to know how the courts will decide these cases or whether the government will be required to pay any damages. We therefore did not obtain estimates of the potential costs, if any, to the federal government of these suspensions.

Several agency officials referred to our October 1996 timber management report as the best available estimate of the federal government's potential

liability for canceled and suspended timber sale contracts nationwide.¹ In that report, we looked at timber sale contracts that were suspended or canceled to protect threatened or endangered species and at claims settled or pending from October 1992 through June 1996. We also updated information on pending claims as of October 1, 1996. We reported that the two agencies had paid more than \$6.6 million in claims for 49 canceled or suspended contracts, faced potential damages of about \$63 million on 73 pending claims, and estimated that their potential future liability could be as much as \$238 million on 225 possible claims. However, our 1996 report did not identify how many of these contracts and claims involve Pacific Northwest timber.

ESTIMATES OF THE VALUE OF THE TIMBER RESOURCES VARIED

The estimates we obtained of the value of the 24 MMBF of timber that was not cut under the nine canceled timber sale contracts varied from about \$6.5 million (the total of the estimates provided by the Forest Service and BLM) to about \$9.4 million (the total of the contractors' estimates). Different methods and assumptions were used in developing these estimates. The Forest Service estimated the value of the 20 MMBF remaining under its eight canceled contracts on the basis of each contract's original bid price, arriving at a total estimate of about \$4.4 million. Forest Service officials stated that the best indication of the timber's value is the amount the high bidder originally paid for the sale. BLM appraised the 4 MMBF remaining under its canceled contract, estimating the value of this timber at about \$2.1 million as of August 31, 1995. The contractors based their estimates on recent appraisals or calculations of current value derived from comparable sales and other market data. This information was included in their damage claims against the Forest Service and BLM. Their estimates of the value of the 24 MMBF remaining under the canceled contracts totaled about \$9.4 million. Specific information about these estimates is presented in enclosure II.

FEW ESTIMATES OF JOBS, PAYROLLS, AND TAXES WERE AVAILABLE

The estimates we obtained of potential employment range from a low of 264 jobs to a high of 360 jobs associated with the canceled Forest Service contracts. These estimates are based on projections that each MMBF of timber harvested would generate from a low of 13 jobs to a high of 16 to 18

¹Timber Management: Opportunities to Limit Future Liability for Suspended or Canceled Timber Sale Contracts (GAO/RCED-97-14, Oct. 31, 1996).

jobs. In commenting on our draft report, BLM pointed out that it had provided replacement timber under the settlement agreement for the canceled Elkhorn Ridge contract. Consequently, the cancellation of BLM's Elkhorn Ridge contract did not have a negative impact on jobs. BLM estimated that harvesting the uncut timber remaining under the canceled contracts could provide about 13 jobs per MMBF harvested (5.5 jobs directly related to timber harvesting and another 7.7 jobs indirectly related). BLM used the model in its 1995 Resource Management Plan to arrive at its estimate, while the Forest Service estimated 14 jobs per MMBF, using data from its Timber Sale Program Information Reporting System. The Vice President of the Northwest Forestry Association estimated that harvesting the uncut timber would create eight to nine direct jobs and another eight to nine indirect jobs per MMBF. He based these estimates on his knowledge of the industry; the estimates include positions such as loggers, pulp mill workers, and truck drivers. Specific information about employment estimates is presented in enclosure III.

We found only one estimate of potential payrolls. The estimated payroll for each job directly related to timber harvesting would range between \$20,000 and \$40,000 annually, according to the vice president of the Northwest Forestry Association. Relying on his knowledge of the industry, he estimated loggers' average income at \$20,000 to \$30,000 annually, pulp mill workers' average income at \$40,000 annually, and truck drivers' average income at \$20,000 annually. This estimate yields an annual payroll of between \$3.2 million and \$7.2 million potentially associated with jobs directly related to the 20 MMBF of uncut timber remaining under the Forest Service's canceled contracts.

We found only one estimate of potential tax effects, which was limited to federal taxes. Harvesting the timber remaining under the canceled timber sale contracts could produce \$60,000 in federal tax revenue annually, according to the Forest Service. This estimate is equal to 15 percent of the total income generated in 1996 dollars and uses data from the Timber Sale Program Information Reporting System. The actual annual revenue would depend on the rate of harvest.

AGENCY COMMENTS

We provided the Department of Agriculture's Forest Service and the Department of the Interior with a draft of this report for review and comment. The Forest Service and Interior agreed with the information presented in the report and provided technical clarifications, which we incorporated as appropriate.

SCOPE AND METHODOLOGY

To obtain estimates of the value of the timber and of the potential employment, annual payrolls, and taxes associated with the canceled or suspended timber sale contracts, we contacted federal, state, and local government agencies; a timber industry group; an association of Oregon and California counties; resource developers; and an environmental group. Specifically, we contacted representatives of (1) the Forest Service at its headquarters office in Washington, D.C.; regional offices in Portland, Oregon, and San Francisco, California; and Olympic National Forest and Siuslaw National Forest in Washington State; (2) BLM at its headquarters office in Washington, D.C., and state offices in California and Oregon; (3) the Department of Justice; and (4) the Council on Environmental Quality. We also contacted local government officials in Clallam, Grays Harbor, and Skagit counties in Washington State. We spoke with representatives of the Northwest Forestry Association; the O&C County Association; the Eel River Timber Company; the Hoh River Timber Company; Mayr Bros., Inc.; and the Sierra Club Legal Defense Fund, Inc.

We obtained estimates of the timber's value from (1) the Forest Service and BLM, (2) timber contractors, (3) reports of damages claimed, and (4) settlement agreements. For each of the estimates we obtained, we reported some of the key assumptions and methods identified. We did not examine or determine the appropriateness or reasonableness of these assumptions and methods. Similarly, we reported the employment, payroll, and tax estimates as reported to us; we did not verify the assumptions or methods used to compute them. We did not address other potential economic and social effects of the canceled or suspended timber sale contracts.

We obtained projections of employment and payrolls associated with the canceled or suspended timber sale contracts from the Northwest Forestry Association. In addition, employment estimates were provided by the Forest Service and BLM. Projections of federal taxes were provided by the Forest Service. Projections of local and state taxes were unavailable. Each of the employment, payroll, and tax estimates was based on the volume of timber available for harvest, not on an annual rate of harvest.

We performed our review from April through September 1997 in accordance with generally accepted government auditing standards.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report for 14 days. At that time, we will make copies available to the Secretaries of the Interior and of Agriculture and to other interested parties. We will also make copies available to others upon request.

If you or your staff have any questions, please call me on (202) 512-3841. Major contributors to this report were Jennifer Duncan, Diane Lund, Sue Naiberk, and Victor S. Rezendes.

A handwritten signature in black ink, appearing to read "Barry T. Hill". The signature is fluid and cursive, with the first name "Barry" being the most prominent part.

Barry T. Hill
Associate Director, Energy,
Resources, and Science Issues

AMOUNTS CLAIMED AGAINST AND PAID BY THE FEDERAL GOVERNMENT
FOR CANCELED TIMBER SALE CONTRACTS

Agency/sale	MMBF of timber		Damages claimed ^c	Claims paid ^d
	Sold ^a	Remaining ^b		
Forest Service				
Boyd Creek	3.750	1.225	\$488,727	\$488,727
Camel	5.400	2.148	1,757,802	1,131,635
Deodar	9.600	1.076	240,944	240,944
Not Bad	7.100	2.161	1,341,265	1,341,265
Stevens	5.113	0.710	663,450	407,615
West Boundary	3.448	2.547	2,542,898	1,440,937
Wynoochee Resale	14.780	8.382	5,039,412	1,204,658
You Who	12.100	1.753	489,919	489,919
Forest Service total	61.291	20.002	\$12,564,417	\$6,745,700
BLM				
Elkhorn Ridge	4.028	3.830	2,424,451	1,825,230 ^e
Total	65.319	23.832	\$14,988,868	\$8,570,930

^aVolume of timber included in the original timber sale contract.

^bRemaining volume of timber listed in each settlement agreement between the federal agency and the purchaser.

^cAmount of reimbursement requested by the purchaser to cover the costs of interrupted operations and the replacement value of the remaining volume of timber.

^dAmount on which both the agency and the purchaser agreed in the settlement agreement.

^eAppraised value of the 5.165 MMBF of timber substituted for the original Elkhorn Ridge timber under the settlement agreement .

**ESTIMATES OF VALUE OF REMAINING TIMBER
ASSOCIATED WITH CANCELED CONTRACTS**

Agency/sale	MMBF remaining ^a	Estimate of value	
		Agencies ^b	Contractors ^c
Forest Service			
Boyd Creek	1.225	\$147,184	\$454,369
Camel	2.148	556,525	757,398
Deodar	1.076	354,520	214,490
Not Bad	2.161	930,224	1,320,969
Stevens	0.710	127,722	243,170
West Boundary	2.547	255,846	1,074,483
Wynoochee Resale	8.382	1,577,576	2,651,160
You Who	1.753	480,199	470,199
Forest Service total	20.002	\$4,429,796	\$7,186,238
BLM			
Elkhorn Ridge	3.830	2,113,902 ^d	2,206,801
Total	23.832	\$6,543,698	\$9,393,039

^aRemaining volume of timber listed in each settlement agreement between the federal agency and the purchaser.

^bFor the Forest Service's contracts, this value is based on the original bid price and reflects the remaining volume of timber, as calculated by a Forest Service representative. For BLM's contract, this value is based on BLM's appraisal of the remaining volume of timber.

^cAmount requested for each sale, reflecting the costs associated with the replacement value of the remaining volume of timber.

^dThe value of the timber under the canceled Elkhorn Ridge contract was appraised by BLM at \$2.113 million as of August 31, 1995. Before the settlement agreement was reached, a July 1995 appraisal valued the Elkhorn Ridge timber at \$1.4 million.

ESTIMATES OF EMPLOYMENT ASSOCIATED WITH CANCELED CONTRACTS

Employment	BLM's estimate		Forest Service's estimate		Northwest Forestry Association's estimate	
	Jobs per MMBF ^a	Jobs per 20 MMBF ^{b,c}	Jobs per MMBF ^d	Jobs per 20 MMBF	Jobs per MMBF ^e	Jobs per 20 MMBF ^e
Direct	5.5	110	f	f	8 to 9	160 to 180
Indirect	7.7	154	f	f	8 to 9	160 to 180
Total	13.2	264	14	280^c	16 to 18	320 to 360

^aEstimate based on the model in BLM's 1995 Resource Management Plan.

^bBLM provided replacement timber for the Elkhorn Ridge contract; therefore, no jobs were lost because of this contract's cancellation. Accordingly, this total reflects only the volume canceled under the eight Forest Service contracts.

^cReflects GAO's calculations.

^dEstimate based on the Forest Service's Timber Sale Program Information Reporting System. This estimate was not divided into direct and indirect jobs.

^eEstimate provided by the Vice President of the Northwest Forestry Association.

^fNot available.

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