



WHITE

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***LAND OF
NO RETURNS\$***

**Bankruptcy of the BLM
Public Domain Forestry Program**

Part Six of a
Comprehensive Study of the

Public Domain Forestry Program
of the
Bureau of Land Management

April 1997

About PEER

Public Employees for Environmental Responsibility (PEER) is an association of resource managers, scientists, biologists, law enforcement officials and other government professionals committed to upholding the public trust through responsible management of the nation's environment and natural resources.

PEER advocates sustainable management of public resources, promotes enforcement of environmental protection laws, and seeks to be a catalyst for supporting professional integrity and promoting environmental ethics in government agencies.

PEER provides public employees committed to ecologically responsible management with a credible voice for expressing their concerns.

PEER's objectives are to:

1. **Organize** a strong base of support among employees with local, state and federal resource management agencies;
2. **Inform** the administration, Congress, state officials, the media and the public about substantive issues of concern to PEER members;
3. **Defend** and strengthen the legal rights of public employees who speak out about issues of environmental management; and
4. **Monitor** land management and environmental protection agencies.

PEER recognizes the invaluable role that government employees play as defenders of the environment and stewards of our natural resources. PEER supports resource professionals who advocate environmental protection in a responsible, professional manner.

For more information about PEER
and other White Papers that cover a variety of issues, contact:

Public Employees for Environmental Responsibility
East Coast: 2001 S Street, N.W., Suite 570
Washington, D.C. 20009-1125
Phone: (202) 265-PEER
Fax: (202) 265-4192

West Coast: PO Box 30
Hood River, OR 97031
Phone: (541) 387-4781
Fax: (541) 387-4783

E-Mail: info@peer.org

About This Report

For the past year and a half, Public Employees for Environmental Responsibility (PEER) has studied the timber program of the U.S. Bureau of Land Management (BLM).

The BLM in the U.S. Department of the Interior manages more land than the Forest Service, National Park Service and the Fish & Wildlife Service combined. In fact, BLM manages 270,441,663 acres of land – about one-eighth of the country's entire land surface – mostly in the West. Despite its size, the BLM's forestry program receives very little attention.

Land of No Return\$ concludes that BLM's timber sale program consistently operates at a significant financial loss to American taxpayers. Rather than being an economically self-sufficient program, as required by federal law, the agency's Public Domain forestry program fails to offset even the cost of administering the program. Moreover, the more money budgeted to BLM for logging operations, the higher the fiscal losses. Worse, the agency's ineffective management is creating massive future indebtedness which dwarfs the program's annual losses as a result of contract liability to timber companies and massive reforestation expenses.

Like other installments in this series, *Land of No Return\$* focuses on public domain lands. This report specifically covers the five major timber-producing states that make up the twelve state area that encompasses public domain land. The five states are: Idaho, California, Montana, Washington and

Oregon. The west side of Oregon and northern portion of California (the "O & C" lands) are not included.

Land of No Return\$ is the sixth and final installment in a series of reports on BLM's Public Domain forestry program. PEER's entire study constitutes the most comprehensive review and assessment of BLM forestry ever undertaken. The purpose of this massive study is to evaluate BLM management practices and to determine whether, and to what extent, the agency's forestry program has been and is conducted in accordance with the laws, regulations and policies mandated for public lands. Additionally, PEER has sought to discover what, if any, environmental problems might be associated with BLM's timber management activities.

PEER wishes to thank BLM staff members who assisted in our review of field sites and agency files for their valuable time, expertise and commitment to environmentally ethical resource management. Special thanks to Randal O'Toole of The Thoreau Institute for providing much of the economic analysis contained in this report.

PEER's study of the BLM forestry program received the generous support of the Bullitt Foundation, the Educational Foundation of America, The Global Environment Project Institute, the Richard and Rhoda Goldman Fund, the Strong Foundation, the Janelia Foundation and the W. Alton Jones Foundation.

Jeff DeBonis
PEER Executive Director

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BLM PUBLIC DOMAIN. Because public domain lands are not as dense as traditional commercial forests, BLM must cut as much as nine times as much land to get the same timber volume. Views of BLM land in Idaho and California, respectively.

I. Executive Summary

An 18-month investigation of the Bureau of Land Management's (BLM) Public Domain forestry program by Public Employees for Environmental Responsibility (PEER) reveals that nearly all BLM districts lose money on their timber sale programs. Monetary losses from the BLM's forestry program are roughly equal to the agency's entire forest management budget. Based on current and projected future budget allocations, the program stands to lose more than \$30 million over the next five years.

The agency's attempt to spend its way out of the red has proved counterproductive — the more money spent by BLM to sell timber, the greater the losses. Nonetheless, the forestry program budget continues to grow. The BLM is currently requesting an increase of nearly 20 percent for fiscal year 1998.

PEER's findings show that hundreds of sales conducted on public domain lands every year do more than just drain the U.S. Treasury. Public domain lands are not as timber dense as other traditional commercial forests. PEER found the **BLM must cut trees from more than nine times as much land in order to get the same volume of timber.** Millions of board feet cut translate into significant ecological damage to fragile, transitional forests, many of which possess little commercial value but provide a vital wildlife habitat buffer zone between range land and upland forests.

Public domain lands encompass a vast geographic area of nearly 50 million acres, yet only a small portion — approximately 12 million acres — outside of Alaska are considered commercially productive, and only marginally, compared to BLM's rich forest resources located in western Oregon and northern California. Before litigation on behalf of the spotted owl in the early 1990s, these "O&C" lands generated a billion board feet of lumber annually, dwarfing the amount produced on public domain lands.

Since then, in an effort to take up the slack caused by dwindling O&C supplies, BLM logging activity has virtually doubled on public domain lands to 100 million board feet per year. As harvests continue to be limited in the Pacific

Northwest, more and more trees are being cut on public domain lands.

In the five states major timber-producing states on the public domain, receipts received by BLM for timber simply do not cover the costs of administering the sale program. The agency's appraisal system understates the true value of timber, resulting in prices below fair market value. These violations of basic business principles translate into a net loss to the U.S. Treasury.

The report reveals BLM's preference for "lump sum" timber sales in which little or no competition occurs. Most public domain sales are sold on a "first come, first served" basis at the minimum bid price, not to the highest bidder.

Although the agency is legally required to repay the government to offset the costs of sale administration, only a fraction of timber proceeds are returned to the U.S. Treasury. PEER found that most BLM districts operate their forestry programs at a considerable economic loss, with a significant portion of revenues diverted to salvage operations in an account called the Ecosystem Health Fund. This salvage harvesting fund, in turn, finances more money-losing timber sales for BLM.

Another glaring problem with the Public Domain forestry program is that BLM's financial shortfall has caused a marked increase in reforestation needs. Not only is the current replanting backlog an ecological time bomb waiting to go off, but government studies show that BLM is foregoing huge future revenues due to the loss of potential timber sales on public domain lands. In fact, the Interior Department Inspector General estimated that the agency lost as much as \$90 million in potential timber revenue from 1986-1989. Records show that during the last decade alone BLM squandered an estimated \$2 billion in future logging revenues by failing to reforest in Oregon.

Despite slight budget reductions since the early 1990s, the Public Domain forestry program faces further financial instability due to the threat of legal action against BLM for timber sale

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contract defaults. The federal government estimates the agency faces potential liability risks that could end up costing taxpayers tens of millions of dollars.

This report, which focuses primarily on the poor financial track record of the BLM's logging operation, is the sixth and final installment in a series by PEER critiquing the agency's Public Domain forestry program. PEER's first report, *Phantom Forests*, showed that BLM forest inventories used as the basis for planning timber sales are outdated, inaccurate and incomplete despite agency policy to the contrary. The report also revealed that BLM has vastly exaggerated the success of reforestation efforts, counting barren tracts as fully restored.

The second PEER report, *Where Timber Beasts Rule the Earth*, detailed how the BLM is destroying fragile, transitional public domain forests through systematic over-cutting. This report exposed the agency's failure to harvest timber in a sustainable manner due to the practice of exceeding maximum allowable logging levels and relying on erroneous data.

PEER's third installment in the series, *Savage Salvage*, documented the BLM's abuse of the "salvage rider," a temporary Congressional mandate to increase logging for the purposes of insect control and fire prevention. The report showed that, under the guise of "forest health," BLM cut large quantities of "green" or healthy trees to the detriment of fragile and fragmented ecosystems. Further, the report showed how

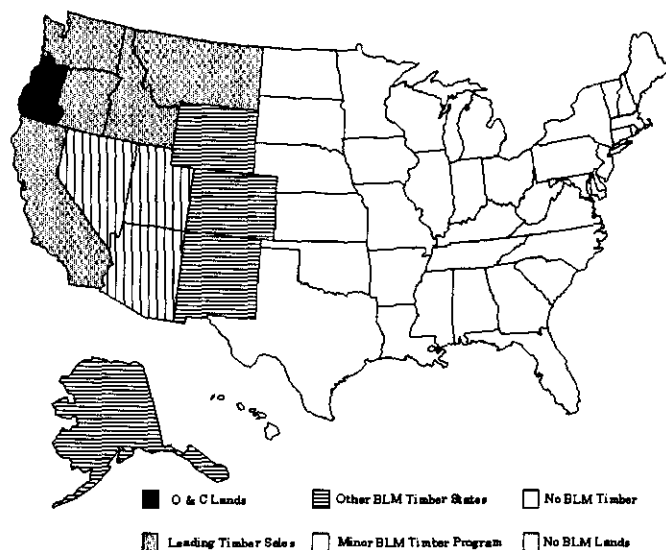
BLM forestry practices actually increased rather than reduced fire danger.

The fourth PEER report, *Never Mind NEPA*, confirmed that BLM routinely violates federal environmental statutes, particularly the National Environmental Policy Act. The report identified many instances in which the agency falsified records, conducted illegal timber sales and targeted old growth habitat for harvest while ignoring the advice from BLM's own biologists as well as scientists from state and federal wildlife agencies.

PEER's fifth report, *Bureau of Land Mismanagement*, exposed extensive maladministration by the agency, resulting in widespread timber theft and contract fraud. The report documented sweetheart negotiated sales, one-sided land swaps and routine failure to enforce post-sale requirements, all to the detriment of both the public lands and the public treasury.

The BLM in the Department of Interior manages more land than the Forest Service, National Park Service and Fish & Wildlife Service combined. In fact, the BLM is responsible for more than 270 million acres of land in the West. Despite its size, the BLM Public Domain forestry program has received very little attention. This PEER study is the first major review of the agency's timber practices in more than two decades.

PEER is a national organization of resource management professionals at the local, state and federal levels dedicated to environmental ethics.



Until recently, 95 percent of all BLM timber cutting came from western Oregon, where just 25 percent of BLM timber lands are located. Declining sales in western Oregon and increasing sales elsewhere have brought BLM's other timber programs into greater prominence. The "five leading states" produce the most valuable BLM timber outside of western Oregon. "Other BLM timber states" also produce sawtimber, while states with a "minor BLM timber program" have commercial forest but mainly produce firewood or other products. The BLM manages 338,000 acres in North and South Dakota and 33,000 acres in other midwestern and eastern states, none of which contain significant commercial timber.

II. Public Forests and the BLM

The Bureau of Land Management (BLM) is responsible for the management, development, and protection of nearly 270 million acres of federal land, consisting mostly of range or grazing lands. The agency does, however, manage a substantial amount of forests.

The bulk of these timber resources—48 million acres—is spread out over twelve states and falls under the jurisdiction of BLM's Public Domain forestry program. Twenty-two million acres of this timber is contained in Alaska. About 12 million acres of the remaining forest resources in the "Lower 48" are classified as "productive commercial timber land." The most valuable of this timber—amounting to a million or so acres—is found primarily in the five states of California, Montana, Idaho, Washington and eastern Oregon. (See map on page 6.)

Approximately two and a half million acres of BLM forest lands are located in western Oregon. These "O&C" Lands—so known because they were once part of an Oregon and California land grant—contain the most valuable and productive timber resources. These forests are not considered part of public domain lands and are therefore excluded from this report.

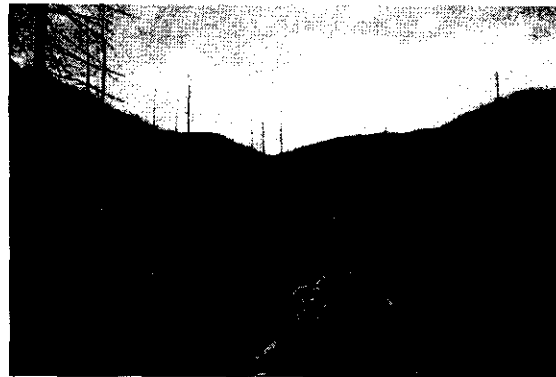
In years past, BLM has sold over 1 billion board feet of timber per year from its lucrative O&C lands, primarily in western Oregon. A board foot measures 1 foot by 12 feet by 12 feet (1' x 12' x 12'). It is essentially an inch-thick square foot of wood. Building a typical house, for instance, requires about 20,000 board feet.

By comparison, from 1986 to 1992, BLM conducted an average of 120 timber sales per year in each of the five states mentioned by PEER. During this period the agency annually sold nearly 65 million board feet of saw timber under the Public Domain forestry program.

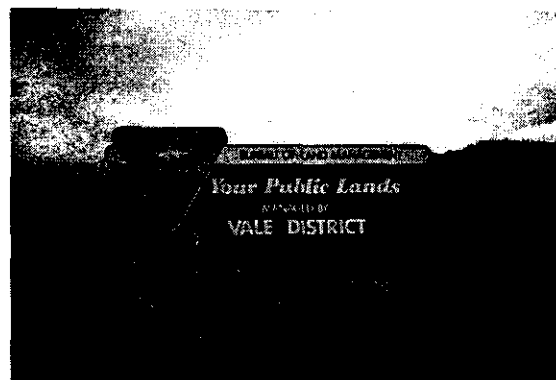
In the early 1990s, spotted owl injunctions in the Pacific Northwest reduced timber sales in

western Oregon to just 43 million board feet. Political controversy surrounding endangered species has continued to limit harvests in the area. By contrast, since 1992 logging has increased substantially on public domain forests, with BLM timber sales on these lands averaging well over 100 million board feet annually.

General indications are that while standard timber sales have fluctuated dramatically over time, these kinds of sales have tapered off in most states in recent years as salvage harvests have begun making up a higher proportion of sales. This is due primarily to the impact of the federal ecosystem health fund and the roughly year-and-a-half implementation of the timber "salvage rider" passed by Congress in 1995.



FORESTRY TOOL OF CHOICE. Aftermath of salvage sale in Vale District of Oregon. Upper photo taken five years after sale.



Ecosystem health funds can only be used on forest health activities such as salvage sales. This provides the agency with a powerful

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incentive to cut and sell more timber. Such a broadened approach to forest management was officially incorporated into the controversial salvage rider which effectively authorized BLM to by-pass normal environmental assessments, administrative appeals and legal reviews when selling salvage timber. For a detailed analysis of BLM's abuse of the salvage rider under the Public Domain forestry program, see PEER's white paper, *Savage Salvage: The Timber Feeding Frenzy Within BLM* (September 1996).

It is just as important to note that the millions of board feet cut from public domain forest lands are ecologically significant out of proportion to their sheer amount. While the total volume of public domain timber sold appears less significant compared with previous levels of cutting on O&C lands, the environmental impacts of logging public domain lands are not proportional to the volume of timber sold; instead, they are roughly proportional to the number of acres cut.

For example, a million board feet can be cut from just 30 acres of BLM land in western Oregon. To get this much board feet out of public domain forests, which are far less productive than O&C lands, it would be necessary to cut an average of 140 acres, sometimes many more.

This means, then, that logging **60 million** board feet of timber from Public Domain forests has roughly the same environmental effect as harvesting **280 million** board feet of O&C lands.

So while public domain timber volume makes up roughly **10 percent** as much as those in western Oregon, the logging of fragile, transitional forests on public domain lands by the BLM causes nearly **half as much environmental impact**. Indeed, because they are not very timber dense, **BLM must cut more than nine times as much** land on the public domain in order to get the same timber volume as other traditional commercial forests.

III. Another Day Older and Deeper in Debt

The BLM's budget is divided into a dozen or so major line items or "activities," including such things as fire, construction, easements, land acquisition and range improvements. Each activity is divided into "subactivities." The largest activity, constituting about 75 percent of BLM state budgets, is called "management of lands and resources," or MLR.

MLR involves managing resources such as forests, grazing lands, recreation, wildlife, as well as general administration. Budget subactivities under MLR for "forest management" are limited to timber sales, reforestation, thinning and ecosystem health. Comparing the cost of this subactivity with the money derived from timber resources shows that, by and large, the BLM's expenses in this area are greater than the receipts.

Timber Sale Process

The BLM manages timber sales in three different ways. "Advertised" sales are larger sales open to competitive bidding. "Negotiated" sales contain no more than 250,000 board feet of wood and are sold without competition at an appraised price. "Permits" are also sold at fixed prices for firewood and Christmas trees.

Advertised sales go through several specific steps. First, BLM managers identify the timber to be sold. Second, planned sales are announced publicly. Each year state BLM offices publish announcements advertising all sales for the coming year. The list includes the sale name, approximate volume, species, logging and harvest methods and the estimated date of the sale. Final acreage and volume figures are specified prior to each sale.

Shortly before a sale takes place, the BLM appraises the timber and sets a minimum bid price. Prospective buyers submit written bids, most offering the minimum advertised price. If more than one buyer bids on a sale then they must compete in an oral auction, regardless if one bid is higher than another. Few sales receive more than two to three bids and many times there is only one bid. Occasionally when two buyers bid on the same timber

sale, one drops out and lets the other take the sale for the minimum acceptable price.

If a sale fails to attract any interest at all from buyers—a not uncommon occurrence because forests on public domain lands consist predominantly of lesser valued "scrub brush"—districts sometimes put them on a "first come, first served" basis, selling the timber to the first buyer to offer the minimum bid price. This type of transaction is considered a negotiated sale.

Unlike most Forest Service sales, in which the amount purchasers pay depends on the volume of timber removed, BLM timber is sold on a "lump sum" basis, meaning purchasers pay a flat rate for trees that are marked for removal. The price is adjusted if purchasers and the BLM agree to add or delete any trees to or from the sale. If the agency finds that a purchaser took any trees not marked specifically for cutting, the purchaser must pay for those trees up to triple the rate their bidding price.

The purchaser of timber is granted a fixed amount of time—usually two to three years, but sometimes even longer—in which to cut the trees. Purchasers generally have 24 months to cut an advertised sale, but some sales allow up to 36 months. Negotiated sales follow the same steps, excluding the sale announcement and bidding process. Negotiated sales usually allow just one to six months, but larger ones may allow up to 12 months.

Purchasers are sometimes required to build roads in a sale, but these are not treated as "credits" as they are with the Forest Service. Instead, the appraiser and purchaser merely account for the cost of road construction when determining the price of a timber sale.

Although the BLM requires that timber sales larger than 250,000 board feet be advertised, or offered for sale under a competitive bidding process, PEER found that in reality few sales are offered this way. By far, the majority of timber sales are not advertised but instead go by way of "lump sum" negotiation.

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NON-ADVERTISED SALE. In this Idaho sale, located in a meadow-riprarian area, the largest trees were selected for cutting.

In Idaho, for example, only a handful of BLM timber sales, generally ten out of several hundred each year, are advertised. Only six out of 260 sales in Montana were bid upon in 1992. Many of these sales contained large volumes of timber but not enough to require a bidding process, which might increase the price of the timber offered for sale. This technicality provides a lucrative loophole for those who buy public domain timber from the BLM.

How Low Can BLM Go?

Like the U.S. Forest Service, the BLM uses two types of appraisal systems: "residual value" and "transactions evidence." The "residual value" system involves estimating the value of logs at the mill, then subtracting the estimated costs of logging and transporting the timber to the mill. The result is an estimate of the value of the standing trees to the buyer. The problem with this appraisal system is that it is notorious for underestimating the price of timber.

Where competition exists, sales often go for double and sometimes for several times the estimated price. But when there is little competition, as is often the case, or when the system is applied to negotiated sales which allow no competition whatsoever, timber purchasers are able to buy trees for prices far below their true value.

Even if price estimates for the buyer were more accurate, the residual value system makes no attempt to determine the timber's true value to the seller, which is necessary in order to determine whether the price is sufficient to earn a profit on the sale. What this means is that in relying on residual value appraisals, **the BLM makes no assessment of whether or not timber is sold at fair market prices.**

The alternative appraisal system used by the BLM, transactions evidence, is

supposed to overcome the problem of underestimating timber prices. Under transactions evidence, the prices garnered for previous timber sales are used to develop a formula for estimating the value of a sale depending on variables such as the species of trees and methods of logging. This formula is supposed to allow the BLM to predict the correct prices to be paid for timber.

Because very little competition exists with BLM timber sales under the Public Domain forestry program, previous transactions may not accurately reflect the true value of timber to purchasers. Like the residual value system, transactions evidence appraisal **makes no attempt whatsoever to accurately determine value of timber to the seller** (i.e., the BLM).

Caveat Vendor: "Let the Seller Beware"

The BLM's forestry objectives are based on legal requirements set forth in the Federal Land Policy & Management Act (FLPMA), mandating that the agency manage timber on a sustained yield basis and allowing BLM to sell timber, but only at a price no lower than appraised value.

"Appraised value" is an estimate of fair market value. In turn, "fair market value" is defined by common law as a price agreeable to both the buyer and seller, provided neither is

compelled to buy or sell and that both know the value of the good.

Because no seller would perpetually sell a product for less than its cost, this suggests that Congress intended that BLM appraisals insure cost-recovery when the fair market value of timber is estimated. However, the BLM makes no effort to insure that sale prices of timber make up for actual sale expenditures. **In fact, BLM appraisals only estimate the value of the timber to the buyer, not the seller.** This, by the way, is the same practice employed by the Forest Service, an agency which lost over \$1 billion on its timber sales in just the last three years.

In addition to FLPMA, BLM timber sales are covered by the Materials Disposal Act of 1947. This law lists timber as just one of nine specific commodities or "forest products"—the others being "sand, stone, gravel, jucca, manzanita, mesquite, cactus [and] common clay"—that the agency can sell. Besides maintaining that the agency receive "adequate compensation" for the sale of these resources, this law requires that sales occur through competitive bidding and that receipts from sales "be disposed of in the same manner as moneys received from the sale of public lands."

As for the disbursement of sale receipts, the Reclamation Fund Act of 1902 directs five percent of all timber receipts on public lands to the states in which the sales are made, with the states' share distributed to counties in lieu of property taxes. The Bureau of Reclamation gets the remaining 95 percent to be used for "the examination and survey for and the construction of maintenance of irrigation works." A portion of this share may also go to land grant colleges.

Internal regulations, as stated in the agency's manual, specify that before the states or the Bureau of Reclamation get their share of timber proceeds, the BLM must first return 20 percent of gross receipts to the U.S. Treasury "to offset the cost of [timber] sales." This effectively reduces the amount received by the Bureau of Reclamation to 76 percent, while the states receive approximately four percent. It is important to consider, however, that even when 20 percent of timber receipts

are sent back to the Treasury, the actual costs associated with preparing and administering BLM sales in most cases is much higher.

The "Forest Health" Scam

Decades of fire suppression has drastically altered the ecological balance of many western forests, leading to many so-called "forest health" problems. Salvage harvesting is intended to remove timber that is dead or dying as a result of fire, insects or disease.

In 1992 Congress created the "Forest Health and Recovery Fund," also known as the "ecosystem health fund," from salvage ("5900 sale") receipts. After paying four percent to the states, this fund allows the BLM to keep all other revenues from the sale of salvage without having to return any of the money to the federal Treasury. Presumably the proceeds generated by salvage sales are used to arrange new salvage sales. This provides an endless cycle of logging to ensure a steady flow of income.

Under the law, the receipts from salvage sales go into a national pool to be distributed upon request to BLM state offices. The ecosystem health fund effectively gives the BLM a strong incentive to sell more timber under the premise of "salvage," even in cases where no treatment is necessary—or other preventative treatments such as prescribed burning are better—to achieve the goal of forest health.

PEER found that salvage logging accounts for much of the sales conducted in BLM districts on public domain lands. The agency attempts to address forest health problems only by harvesting timber, failing to utilize funding for other management methods. When the only tool is a hammer, everything becomes a nail. And when the only funding available is directed toward a single use, the solution to every problem, according to BLM's record, is a timber sale.

The Fiscal Impact of Salvage

The BLM believes that timber sales are primarily needed to treat forest health problems, such as eliminating insect epidemics or preventing or decreasing fire risks. As a consequence, BLM's state timber budgets have in-

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creased by an average of 50 percent over the past decade. This, despite the fact that timber sale volumes have remained somewhat constant and in some cases have even declined.

In 1993, the BLM successfully used the forest health “crisis” to increase its funding still further. Appropriations to the Public Domain forestry program in each state grew by an average of 10 percent. This funding was augmented by the ecosystem health fund, which added another 12 percent to Montana’s BLM district budgets, 21 percent to district budgets in Idaho, and 72 percent to eastern Oregon’s district budgets. In some districts, the fund more than doubled timber program budgets.

Using Idaho as an example, what this means is that the baseline budget for BLM districts amounts to more than \$1.6 million—double

the pre-1978 average. However, the agency sells less timber in Idaho on an annual basis than it did before 1978—an average of 12 million board feet since 1988 compared to nearly 16 million board feet during the period of 1968 through 1977. Moreover, Idaho districts collect less money for this timber now—approximately \$77 per thousand board feet since 1998 compared to \$97 per thousand board feet in 1968 to 1977.

As this example illustrates, the impact of the ecosystem health fund, in effect, has been to lessen the BLM’s incentive to return timber proceeds to the federal Treasury, because the more money that is made through salvage sales, the more the agency gets to keep to use for future salvage sales. In the name of forest health, the Public Domain forestry program becomes a self-propagating quest and taxpayers foot the bill.

IV. "Show Me the Money"

PEER's study reveals that public domain timber sales return essentially no dollars to the federal government because all sale receipts are dedicated either to counties or to the Bureau of Reclamation. So it is fair to say that losses from the BLM's Public Domain forestry program are roughly equal to the agency's entire forest management budget. Based on present and expected future budget allocations, **the Public Domain forestry program stands to lose more than \$30 million over the next five years.**

Only one of the eleven BLM districts PEER examined consistently made money, and only two others collected in most years more revenues from timber sales than their costs. Ten districts spent more tax dollars on timber sales than they returned to the federal Treasury in actual receipts.

Whether "below-cost" sales are defined as "net total receipts" or "net returns" to the U.S. Treasury, BLM records indicate that, over the past decade at least, most of the agency's districts lost money on the overall administration and operation of the Public Domain forestry program. Total taxpayer losses attributable to the program averaged a minimum of \$2.9 million per year, not counting various state overhead costs that are attributable to timber.

Making this persistent problem worse is the "ecosystem health fund," which allows BLM to divert the bulk of receipts from salvage sales to fund further salvage harvesting. This results in an additional loss of timber sale revenues that normally would be returned to the government.

BLM's timber program has continued to lose money despite attempts to shore up its finances. Below is the incomplete budget history of the Public Domain forestry program for the years included within the PEER study:

YEAR	MILL\$
1985	7.755
1986	7.396
1987	7.081
1988	7.219
1990	6.674
1992	7.003
1995	6.721
1996	5.500
1997	5.510

Much of the forestry program's budget has been absorbed within the agency's three-tiered management system. Moreover, staff levels have not been reduced in proportion to the overall decline in the agency's logging program. Nonetheless, the size of the timber program staff has been reduced. PEER found that these recent reductions in staff have still failed to produce profits for the agency.

The latest reduction in 1995 decreased BLM's Public Domain forestry program personnel from 105 full-time employees to the current level of 88. The BLM's current budget proposal for fiscal year 1998 calls for a \$142,000 increase and one additional full-time employee.

PEER has determined that staff size is not the underlying cause of the program's budget distress. On the contrary, the few field staff who remain are often unable to perform the widespread and demanding management functions necessary to ensure an ecologically sustainable and financially successful timber program. For a more detailed discussion of this issue, see PEER's white paper, *Bureau of Land Mismanagement: Timber Sale Maladministration* (March 1997).

State-By-State Profiles: A Number's Game

Idaho

Historically one of the largest BLM Public Domain forestry programs, Idaho districts conduct hundreds of timber sales each year, which until 1994 totaled an average of 13 million board feet. That annual volume has dropped by half in the last few years. Since 1947, when the BLM was created, the agency has sold close to 1 billion board feet of timber from its Idaho public domain lands. Some 97 percent of the volume and 99 percent of the revenue comes from saw timber.

BLM's Coeur d'Alene District, located in the northern part of the state, accounts for nearly 80 percent of public domain timber generated in Idaho. The Boise District, covering southwest Idaho, operates a much smaller forestry program and the remaining four BLM districts—Burley, Idaho Falls, Salmon and Shoshone—all

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in the eastern part of the state, conduct very few timber sales.

According to BLM's assessment, when comparing timber sale prices to budgeted expenses for timber sale administration and forest management, Idaho districts tended to make money up through the 1970s. PEER's findings conflicted with those of the BLM. In fact, using the agency's figures, BLM's timber expenses clearly exceeded sale revenues in half the years since 1968 and in all but three years since 1979. Beginning in 1980 the agency more often than not lost money on its forestry program in Idaho, because of low monetary returns generated by timber sales.

Another contributing factor is the huge increase in costs associated with BLM's operation of the program, beginning in 1978. It is possible that BLM managers may have convinced Congress that increased budgets were justified by the higher timber prices during the 1970s, but when prices dropped in the 1980s budgets were not decreased accordingly. The result: **Inflated forestry budgets became the norm for BLM during the last decade despite the fact that income from timber sales continued to dwindle, usually far below program operating costs.**

Further exacerbating BLM's accounting problems are other factors. PEER's review found that the agency deceptively exaggerates the returns from its timber sales in two ways.

First, the value of timber sold is reported annually, but actual receipts—money received by BLM for timber—in any given year are often less than the reported value. This is due to inflation and purchasers defaulting on some sales. As a consequence, PEER found that BLM timber receipts have been well below actual sale prices in most of the past ten years in Idaho.

Second, it must be remembered that while funding for BLM's Public Domain forestry program comes primarily from the U.S. Treasury (with the exception of some salvage sales since 1993), by law only 20 percent of timber sale receipts

collected by the agency is used to reimburse taxpayer expenses for sale administration. In Idaho, the 20 percent of receipts returned to the government has actually failed to cover the costs of the timber program every year since 1968. In 1977 the 20 percent returns covered roughly half the program's costs. But since 1978, Idaho BLM timber costs have exceeded receipts every year by a wide margin.

Even if all timber receipts went directly to repay the government during the last decade or so, the BLM's Public Domain forestry program in Idaho would still have lost taxpayer money. For the ten years up until 1993 (the last year of sufficient BLM data), for example, Idaho districts collectively spent an average of \$735,000 per year more than they garnered in receipts. During this time, revenues returned to the government fell short of costs by an average of \$1.13 million per year. Moreover, PEER's overview revealed that in years when timber prices rose or sales increased, the BLM Public Domain forestry program's revenue-producing potential was offset by sky-rocketing budget increases.

A more serious problem has been the impact of the ecosystem health fund. Since its creation, Idaho districts have kept nearly 75 percent of their timber receipts in this fund to underwrite the preparation and administration of salvage sales on public domain forests. As a result, fiscal returns to the federal Treasury have declined by nearly 70 percent even as overall timber receipts have increased by 20 percent. Simply put, more timber sales are occurring on BLM lands in Idaho for salvage purposes, but less money is devoted to repaying taxpayer-funded timber program costs.

California

The Golden State is another major producer in terms of the sheer volume of public domain timber cut each year. California contains some of the agency's most commercially valuable timber and on average BLM districts sell between 10 and 12 million board feet of it annually.

Idaho in Brief

Idaho BLM districts typically spend \$1 million annually on the Public Domain forestry program, yet until 1990 their receipts averaged \$200,000 per year. Since 1990 timber sale receipts in Idaho have climbed to around \$900,000 due to a dramatic increase in sales, but still bring in less money than program expenditures. Only the Coeur D'Alene District tends to collect more money from timber sales than it spends. At best, overall returns to the Treasury from Idaho have been less than one-fifth of the costs, and have decreased further as the ecosystem health fund takes up about 10 percent of district timber budgets in Idaho.



TIMBER BREAD BASKET. Susanville District in California experienced a marked boom in timber production.

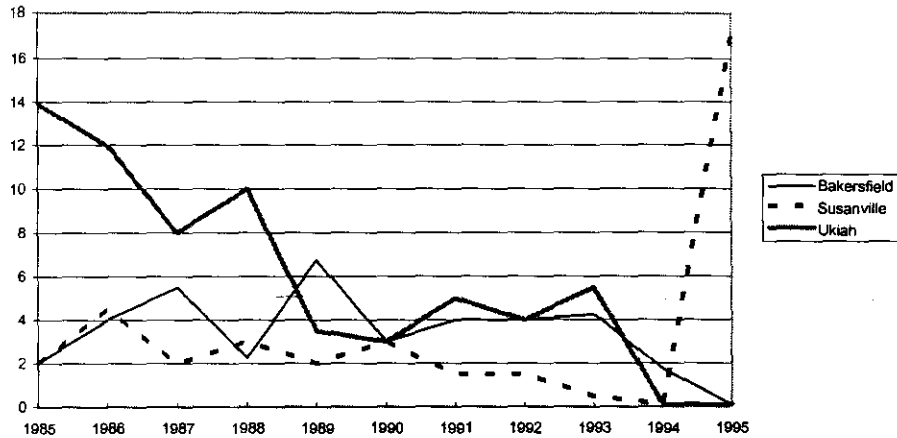


HEAVY GOING. A wide Susanville haul road needed for chip trucks and other heavy equipment. Note trees burried in road to provide a running surface. Despite the road, heavy equipment and trucks had to be pulled out by a bulldozer.

California in Brief

California BLM districts have steadily spent between \$800,000 and \$1.1 million per year on the Public Domain forestry program. Yet timber receipts have fluctuated tremendously, ranging from \$500,000 one year and \$5.5 million the next. On average, the BLM collects about \$2 for every dollar it spends on its California timber, but the U.S. Treasury receives only 40 cents on each tax dollar spent on the Public Domain forestry program. Also, the ecosystem health fund absorbs approximately 20 percent of BLM district budgets, wiping out most of the Treasury's share.

BLM Forestry Study: Part 6



The Bakersfield and Ukiah districts sold significant amounts of timber before 1994, while Susanville sales zoomed in 1995. Data for 1995 include the first seven months of the fiscal year.

Treasury line does not account for proceeds going to the ecosystem health fund, so actual receipts are probably even lower than those shown in 1993 and later.

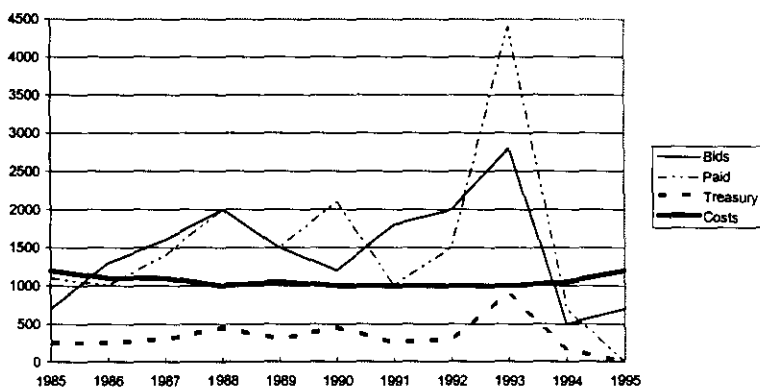
The way the agency presents its sales figures obscures reality. Based on available information, BLM's California districts appear to

There appears, however, to be no "average" year for California districts. Sales on the Ukiah District, for example, were relatively high during the 1980s but have declined significantly in this decade. Bakersfield District sales were steadier but dropped off sharply in 1994.

In contrast, the Susanville District has experienced a logging boom by selling record amounts of timber since 1995, probably in response to fire. BLM's "shining star" district in the state, then, appears to be benefitting from the short-term economic gains of an unexpectedly large supply of fire-damaged trees slated for removal as salvage. When these trees are finally harvested, Susanville's timber base may collapse. (See figure above.)

The figure (right) compares the prices bid and paid for timber, as well as fiscal returns to the federal Treasury, with direct timber program-related costs. As the graph illustrates, timber receipts (identified as "paid") have been higher than costs in most—but not all—years. Actual returns to the government, however, have been significantly less than costs except in 1993. The

produce timber receipts in excess of program expenses, but this is deceptive. Because the BLM state office controls each district's forestry budget, it apportions operating funds among the districts weighted by the volume of timber sold, not the revenue generated. The Bakersfield and Ukiah districts lost money on their Public Domain forestry programs in three out of the four years for which data are available, while the Susanville district actually made more money than it lost in two out of the three years for which data are available. **Overall, BLM districts in California operate programs which consistently generate less money from timber sales than they spend.**



Returns to the Treasury have been significantly less than costs, mainly because 80 percent of timber receipts are dedicated to the Bureau of Reclamation or counties. Although returns in 1993 approached costs, 1993 was the first year that the BLM was allowed to keep some of the remaining 20 percent, which will effectively prevent California sales from ever covering their costs to the Treasury.

Montana

BLM records in Montana are not nearly as extensive or detailed as Idaho's, only dating back about ten years or so. PEER was able to determine that Montana BLM districts conduct approximately 200 timber sales annually, containing anywhere between 8 and 12 million board feet. Since 1994, timber sale volumes have dropped to roughly half that amount, although much more salvage is harvested in Montana than in the past.

Montana's Public Domain forestry program is predominantly located in the Butte District, which covers all of the state west of the Rocky Mountains, or approximately the western one-third of the state. This district generally sells six times as much timber as BLM's other Montana districts. The Butte District also records the highest timber values in the state, probably because it sells most of its wood through competitive bidding, while the other BLM districts rely mainly on negotiated sales.

The Lewistown District, in north-central Montana, operates a smaller timber sale program. Southeastern Montana's Miles City District sells less than half a million board feet of timber per year. Not considered in this report is the very small timber program that BLM's Montana State Office administers in South Dakota.

Over the past 20 years, the Public Domain forestry program, as conducted by Montana BLM districts, produced enough timber sale receipts to cover or exceed program expenses only twice—in the years 1983 and 1992. Otherwise, **BLM's forestry program has lost money every year in Montana and continues to be a financial drain for taxpayers.**

Worse, the ecosystem health fund is included by BLM as a "cost," just like sale preparation, administration, forest management and development, and pest control. This means that money is diverted each year from the 20 percent Treasury repayment obligation to fund further salvage sales. For instance, PEER discovered

that in 1993 BLM's Montana State Office diverted \$87,000 in timber sale receipts to the ecosystem health fund. That year the portion of proceeds returned to the federal Treasury was less than the mandated 20 percent.

Eastern Oregon and Washington

BLM's Oregon State Office manages nine districts in addition to the Spokane District in eastern Washington. Six of the Oregon districts contain O&C lands, which are separate and distinct from the Public Domain lands. This report focuses on the remaining four districts—Prineville, Vale, Burns, Lakeview—as well as the Spokane District.

Although each district's sales have fluctuated over the past few years, several hundred public domain timber sales are conducted every year by the BLM in Oregon and Washington, usually containing 15 to 20 million board feet.

The Prineville District regularly sells both the most timber and some of the most valuable timber on public domain lands. Overall, its receipts have more than covered costs for the years for which data are available. By and large, however, the other districts have lost money on their forestry programs. While the Lakeview and Spokane districts have broken even or better in a few years, the Burns and Vale districts have consistently lost taxpayer money on their timber programs.

PEER's research clearly indicates that the Prineville District earns so much money from the sale of timber that it carries all of the other BLM districts in Oregon. Although BLM staff willingly provided PEER with budgetary information on overall state forestry program performance, they were reticent to provide PEER with information on individual district expenses and revenues.

BLM staff told a PEER researcher that the agency often sent data on eastern Oregon as a whole to Washington, D.C., "so we can get more money out of Congress." Naturally,

Montana in Brief

Montana BLM districts typically spend \$800,000 per year on the Public Domain forestry program, yet until 1992 their timber receipts averaged less than \$600,000 annually. Since 1992, receipts have doubled due to cutting increases. The ecosystem health fund takes about 10 percent of district budgets so returns to the Treasury—which even in recent years have been less than a third of costs—have declined as a result.

BLM Forestry Study: Part 6

Congress might be more reluctant to appropriate more money to BLM if they knew that only one district office regularly earned a profit from public domain timber sales.



WHAT PRICE PROFIT? Loading area for a Prineville District sale. Slash piles and cull material not removed from site.

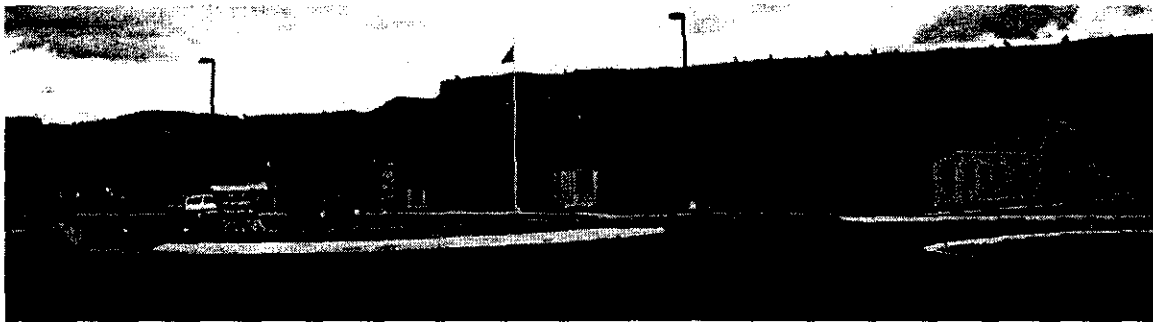
Prineville may be the only BLM district featured in this report for which the 20 percent return to the Treasury actually covered costs in some years, including 1989 through 1991.

Of course, as in other states investigated by PEER, any timber "profits" earned by the Prineville District are really nonexistent, since federal law requires that most of the receipts be turned over to the Bureau of Reclamation and the localities.

When comparing returns to the federal Treasury with actual Public Domain forestry program costs, the Prineville District, like other BLM districts, has usually taken in less money than it has spent on timber sales.

Moreover, as salvage sales have increased, as they have in all districts since 1993, the ecosystem health fund has put even the Prineville District in the red. Although the BLM failed to provide a district-by-district breakdown, in 1993 total contributions to the ecosystem health fund from public

domain lands in eastern Oregon were \$666,500. The latest available figures showed that contributions to the fund for the first nine months of 1994 exceeded \$745,000.



NEW DIGGS. The new Prineville District office building drew some criticism for its size and expense.

Eastern Oregon and Washington in Brief

Eastern Oregon and Washington BLM districts have at times earned total receipts well in excess of forestry program costs, but most of those receipts came from one district in Oregon—Prineville. Until 1992 that district made so much money from timber sales that even the 20 percent that went to repay the government usually offset costs. Since then, most of the money earned from timber sales has remained in the ecosystem health fund, depleting gains for the government. Oregon's Lakeview district, like the Prineville District, also tended to make a profit from timber sales before the institution of the ecosystem health fund. It has regularly lost taxpayer money since then. On the contrary, other BLM districts such as Spokane, Burns and Vale all appear to be perennial money losers.



V. Legacy of Loss

As in any business venture, profitability should be the most important criteria of BLM's timber sale program. When selling a commodity like timber, the government competes in the marketplace with private timber suppliers. It is quite evident, then, that government sales of public resources at unduly low prices represents not only fiscal mismanagement but also unfair competition.



COST OF DOING BUSINESS. BLM Timber program costs include building roads to provide access to sale sites. This Prineville logging road facilitated the harvest of old-growth ponderosa pine.

The immediate economic result of "below-cost" timber sales is to increase supply and drive down the price of lumber; the long-term effect is to discourage private suppliers from growing timber, which in turn makes sawmills overly dependent on public timber supplies.

Below-cost timber sales also suggest that the government is attempting to produce artificial demand for a product that the public doesn't really want. In the process, timber sales may conflict with other resources that are valued by the public, such as recreation, water quality or wildlife habitat.

Myth of the Money Tree

When counting only the monetary returns to the U.S. Treasury against costs to the Treasury, it is estimated that more than 80 percent of all national forest timber sale programs lose money. Using Forest Service methods of accounting, about half of all national forest timber programs operate at a loss to the federal government.

In its annual report for fiscal year 1995 the White House Council of Economic Advisors concluded that the national forest timber sale program lost \$234 million. Contrary to Forest Service claims that its logging operations posted a \$59 million profit that year, the council's report said the agency collected \$616 million in

timber receipts but spent more than \$850 million on timber management, reforestation, logging roads, payments to states and other costs. "Generally, U.S. Forest Service subsidizes timber extraction from public lands by collecting less in timber sale revenues than it spends on timber program costs," the report stated.

PEER's study demonstrates that, much like the Forest Service, the BLM is also guilty of losing large amounts of taxpayer money on its Public Domain forestry program, although on a somewhat smaller scale. Still, the results are ultimately the same. More money is "going out" of BLM coffers than is "coming in" to repay the government for timber sale expenses. The agency's poor performances proves the theory that spending other people's money is no way to run a business.

What is evident from PEER's review is that the BLM rarely bothers to compare timber receipts with true sale costs. Perhaps because the agency's costs derive from tax dollars, not from its actual receipts, the BLM generally reports sale prices as receipts—despite the fact that defaults and inflation mean that actual receipts are usually less than prices, and fiscal returns to the federal Treasury are even lower.

BLM Forestry Study: Part 6

Under a loose criteria, then—counting all timber sale receipts against all costs to the Treasury—during a span of more than twenty years, only a handful of BLM districts actually balanced their books, much less earned a profit, from the Public Domain forestry program.

The Prineville District remains the only one to regularly have earned a profit using this standard, with the Spokane, Coeur D'Alene and Susanville districts having made money in a majority of years. The Bakersfield and Ukiah districts, under this criteria, would sometimes have collected more money from timber sales than they spent while the Butte District would have done so only once in ten years. Even under this loose accounting measure, the majority of BLM districts nearly always spent more than their total timber receipts.

Under a stricter formula, counting only actual monetary returns produced by public domain timber sales to the federal Treasury against the program's costs, only one BLM district—Prineville—made a profit in the last two decades. Still, this district has failed to make a profit since 1991 and has continued to lose money, partly because the ecosystem health fund allows it to retain from salvage sales even the 20 percent of timber receipts that it had been returning to the government.

Regardless of the particular formula used to assess the overall performance of BLM's Public Domain forestry program, without a doubt the program is a distinct money-loser.

Spending the Principal

Another serious problem facing the program is a persistent reforestation backlog. In 1985, for example, the BLM received a \$1.5 million add-on to reduce the backlog by reforesting 20,179 acres of commercial forests on public domain lands. By 1992 the

agency increased its estimate of the backlog to 25,708 acres—a 24 percent increase.

The situation has not improved since then. Even before the reforestation backlog estimate was revised upward, the Public Domain forestry program never had the resources to fully reforest its lands. Moreover, there are tens of thousands of additional acres of forest land not identified as backlog that have been denuded by fire and other natural causes. These lands need to be reforested for reasons other than future harvest, but they are not scheduled for reforestation and are not included in the harvest base.

The BLM's vast backlog in its reforestation program ends up costing the government huge amounts of money in projected timber productivity. Simply put, the agency's failure to replant trees means that in the future those trees cannot be harvested and sold for profit. In fact, the Department of Interior Inspector General's office conducted an audit in 1992 which concluded that "timber growth with an estimated net value of about \$90 million in future revenues was lost from 1986 to 1989" due to BLM's failure to reforest. A subsequent federal inquiry revealed that BLM had squandered an estimated \$2 billion in future logging revenues in the last decade alone by failing to invest in reforestation in Oregon.



FUTURE TIMBER PRODUCTIVITY. Healthy reforestation of lodge pole pine in Lewistown District, Montana.



PRODUCTIVITY LOST. Reforestation failure following clearcut in Salmon District, Idaho.

In a letter to Interior Secretary Babbitt, then chairman of the House Small Business subcommittee on regulation and business opportunities, Senator Ron Wyden (D-Ore) complained that the agency needed to produce an honest accounting system. "The BLM's seeming unwillingness to address this issue is simply unacceptable," he said.

In short, the daily losses incurred by BLM for essentially "below-cost" timber sales are being compounded by the long-term, deferred costs of reforestation.

Looming Liability

The General Accounting Office (GAO) issued a report in October, 1996, *Timber Management: Opportunities to Limit Future Liability for Suspended or Canceled Timber Sale Contracts*, warning of impending economic doom for the BLM's forestry program caused by potential timber contract liability.

From October 1992 through June 1996, the BLM paid claims for one sale contract that was suspended or canceled to protect threatened and endangered species. The agency

paid the purchaser for the value of replacement timber, interest, lost profits, and such unrecovered costs as those incurred in maintaining performance bonds.

The BLM settled its single claim for almost \$228,000 plus interest by modifying another contract held by the purchaser. As of October 1996, however, the BLM had another pending claim for almost \$2.2 million. This trend seems to be just the beginning of trouble ahead for the agency's timber program. BLM's "best estimates" indicate that the agency could incur between \$37 million and \$42 million more in potential future liability.

BLM's Contract Liability for Timber	
<i>Pending Claims</i>	1
<i>Amount of damages claimed</i>	2.2 million
<i>Number of possible claims</i>	22
<i>Amount of future potential liability</i>	37-42 million

BLM Forestry Study: Part 6

More precise estimates of how much, when, and whether the agency will have to pay any of their potential future contract liability are uncertain due to BLM's inability to predict the outcome of ongoing and future litigation.

Lawsuits against the agency could result in the award of more or less in damages than the purchasers claim, the results of countersuits that could be filed by the agency, or the success of the agency's efforts to offer replacement timber or other settlements in

lieu of paying damages.

According to GAO, if purchasers sought and were awarded damages, available strategies for repayment, such as attempting to reduce the price of existing contracts to offset damages, might not be enough to ensure the already tenuous viability of BLM's Public Domain forestry program.

Meanwhile, the logging continues unabated on public domain lands.



MECHANICAL PAUL BUNYONS. "Faller-Bunchers" set to work on ponderosa pine in Klamath Falls Resource Area, Oregon.
