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Resources, Community, and
Economic Development Division

B-247958

April 1, 1992



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The Honorable Harold L. Volkmer
Chairman, Subcommittee on Forests,
Family Farms, and Energy
Committee on Agriculture
House of Representatives

Dear Mr. Chairman:

In your October 29, 1991, letter you requested that we analyze two bills: H.R. 2501, the National Forest Timber Sales Cost Recovery Act of 1991, introduced by Representatives Jontz and Ravenel; and H.R. 3414, the Timber Economics Act of 1991, introduced by Representatives Olin, Morrison, and yourself. Specifically, you asked us to compare provisions in those bills regarding below-cost timber sales on national forests with the three recommendations we made in our April 25, 1991, testimony before your Subcommittee.¹

We recommended that the Secretary of Agriculture direct the Chief of the Forest Service to (1) expand the proposed below-cost sales policy beyond forests as a whole to individual sales, (2) define the minimum rate for timber sales bids as the cost of timber sale preparation and administration and ensure that the sale prices recover these costs, and (3) amend the timber sale process to include a below-cost determination at the first decision point in the sale preparation process so that unnecessary costs can be avoided. Both H.R. 2501 and H.R. 3414 address our first two recommendations. However, neither directly addresses our recommendation of making an early determination concerning whether a timber sale is below-cost.

¹Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, Apr. 25, 1991).

GAO/RCED-92-160R, Comments on Below-Cost Timber Bills

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CONSIDERING COSTS AND REVENUES
ON A SALE-BY-SALE BASIS

On April 16, 1991, the U.S. Department of Agriculture's Forest Service issued a draft policy and guidelines addressing below-cost timber sales programs on individual national forests. However, our analysis of fiscal year 1990 timber sales showed that nearly every forest had below-cost sales and that more than half the total unrecovered sales preparation and administration costs had occurred on forests that, as a whole, were above-cost. Therefore, we recommended that the Forest Service expand the below-cost sales policy beyond forests to individual sales.

We believe that both bills would require the Forest Service to expand the below-cost sales policy to individual sales. Section 3(a) of H.R. 3414 and section 101 of H.R. 2501 provide for below-cost analysis on an individual sale basis. However, H.R. 2501 does not always define timber sale costs and revenues in accordance with generally accepted accounting principles. For example, road construction costs generally are capitalized, that is, set up as an asset, and then depreciated over the useful life of the road. However, under H.R. 2501, the total costs to construct a road would be recognized in the year in which the funds are appropriated. Also, program revenue would generally include all revenue earned. However, H.R. 2501 includes as revenue only cash returned to the general fund of the U.S. Treasury, which excludes other revenues earned but deposited in special Forest Service accounts for such things as brush disposal.

DEFINING A MINIMUM RATE
FOR TIMBER SALE BIDS

When the Forest Service first established minimum rates for timber sale bids in the early 1900s, it defined a minimum rate as the cost to the government to prepare and administer the sale. Over time, however, this definition fell from use, and now minimum rates often do not reflect sale preparation and administration costs. Therefore, we recommended that the Forest Service define the minimum rate for timber sale bids as the cost of timber sale preparation and administration to ensure that the sale price recovers these costs.

Although neither bill specifically establishes a minimum bid rate, they ultimately do not allow below-cost timber sales.

Section 3(a) of H.R. 3414 and section 101 of H.R. 2501 require that the cost of timber sale preparation and administration be included when determining whether a timber sale is below-cost.

MAKING AN EARLY DETERMINATION OF
THE POTENTIAL FOR RECOVERING COSTS

In our April 25, 1991, testimony, we stated that the Forest Service is not evaluating, before incurring most preparation costs, whether the benefits of a below-cost sale justify the unrecovered costs. By making such a determination early in the process, the Forest Service could (1) stop further work, thus avoiding much of the sales preparation and administration costs; (2) raise sales prices to cover the timber sales costs; or (3) document its reasons for selling below costs. Therefore, we recommended that the Forest Service amend the timber sale process to include a below-cost determination at the first decision point in the sale preparation process, so that, if the sale is not conducted, unnecessary preparation costs can be avoided. We also recommended that, if a below-cost sale proceeds, the reasons should be documented.

Section 3(a) of H.R. 3414 would require the Secretary of Agriculture to make a below-cost determination before advertising a timber sale. However, advertising a timber sale is the last decision point in the timber sale process, and by that time, almost all of the costs associated with the timber sale have been incurred. Most costs, such as environmental reviews, occur very early in the process. Specifying a below-cost determination at an earlier point in the process would help avoid such costs on those sales the Forest Service decides should not be conducted. With regard to documenting the reasons for proceeding with a below-cost sale, section 3(a) exempts three types of timber sales from the below-cost determination process--sales made for a primary purpose other than making forest products available for commercial harvest, personal use sales such as firewood, and salvage sales. These exemptions would allow the Forest Service to proceed with below-cost timber sales if it documents that such sales contribute to the forests' multiple-use objectives.

H.R. 2501 neither defines when in the timber sale process a below-cost determination should be made nor provides any exceptions for allowing a below-cost sale to proceed. Rather, it addresses the below-cost analysis strictly on an

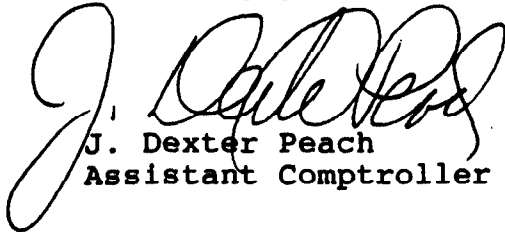
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accounting basis and allows no exceptions to recognize the forests' multiple-use objectives.

In accordance with our policy, we are restricting distribution of these bill comments for 30 days from the date of this letter.

Comments on these bills were prepared under the direction of James Duffus III, Director, Natural Resources Management Issues, who may be reached at (202) 275-7756.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach". The signature is stylized and cursive, with a large initial "J" and a long, sweeping underline.

J. Dexter Peach
Assistant Comptroller General