

GAO

Report to the Chairman, Subcommittee
on Oversight of Government
Management and the District of
Columbia, Committee on Governmental
Affairs, U.S. Senate

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U.S. FOREST SERVICE

Fees for Recreation Special-Use Permits Do Not Reflect Fair Market Value





United States
General Accounting Office
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Resources, Community, and
Economic Development Division

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The Honorable William S. Cohen
Chairman, Subcommittee on Oversight
of Government Management and
the District of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

The Department of Agriculture's Forest Service authorizes, through special-use permits, a variety of recreational activities within the nation's forests. These activities include such things as hunting, fishing, rafting, lodging services, the use of lots for vacation houses, and a variety of special group events. The Forest Service generally is required to obtain fees that reflect fair market value for the rights and privileges authorized by the permits.¹

Since 1993, we have issued a number of reports demonstrating that the Forest Service does not routinely charge fees reflecting fair market value for many of the larger, commercially oriented activities authorized in the nation's forests. These special-use activities have included ski area concessions, the use of mountain tops for communications sites for radio and TV broadcasting, and rights-of-way for pipelines and power lines.² Overall, our past work has shown that frequently the Forest Service charges considerably less than fair market prices for the use of the land for these major commercial activities and that as a result federal fee revenues are millions of dollars less than they could be. This report builds on our past work by focusing on another group of authorized activities occurring within the nation's forests. Specifically, this report addresses special uses that provide recreational opportunities for forest visitors, including such activities as commercial hunting, fishing, rafting, lodging services, the use of lots for private recreational cabins, and a variety of special group events.

¹The term permit in this report refers to several types of Forest Service authorizations to occupy and use national forest system land, including permits, short-term permits, and leases.

²Forest Service: Little Assurance That Fair Market Value Fees Are Collected From Ski Areas (GAO/RCED-93-107, Apr. 16, 1993); Federal Lands: Fees for Communications Sites Are Below Fair Market Value (GAO/RCED-94-248, July 12, 1994); Forest Service: Fee System for Rights-of-Way Program Needs Revision (GAO/RCED-96-84, Apr. 22, 1996).

As part of its activities as the nation's largest single supplier of outdoor recreation, the Forest Service administers about 26,000 recreation special-use permits to businesses and individuals. In 1994, the most recent year for which complete data are available, fees from these recreation special-use permits totaled about \$36.7 million. For years, however, the adequacy of the agency's fees for recreation special-use permits and the effectiveness of the program's administration have been questioned. Since 1992, for example, the Forest Service has reported its administration of the recreation special-use program as a material management weakness resulting in the loss of potential revenues to the federal government.

Concerned about the Forest Service's progress in addressing these issues, you asked us to review the agency's management of the recreation special-use program. Specifically, you asked (1) whether the fees currently charged for recreation special-uses reflect fair market value; (2) whether application processing and review costs are recovered; and (3) if fees do not reflect fair market value and costs are not being recovered, why not. In addition, as you requested, we are providing information on the Forest Service's efforts to streamline its permit processes in order to stretch available resources. This information can be found in appendix I.

Results in Brief

In many instances, the Forest Service is not getting fair market fees for commercial and noncommercial recreation special-use permits. The Forest Service's fee system that sets fees for most commercial uses has not been updated in nearly 30 years and generally limits fees to less than 3 percent of a permittee's gross revenues. In comparison, fees for similar commercial uses of nearby state-held land average 5 to 15 percent of a permittee's gross revenues. For example, marina operators on state lands in Colorado pay fees averaging about 7 percent of gross revenues while marina operators on Forest Service lands in Colorado pay fees that average about 2.8 percent. Furthermore, fees for holders of recreation residence permits—the most common noncommercial users of national forest lands—are based on out of date assessments of the value of the land. For example, in the forests we visited, most of the appraisals for recreation residences were conducted between 1978 and 1982. As a result, fees for many of these permit holders are lower than they should be on the basis of current market conditions.

While the Forest Service has been authorized to recover costs incurred in reviewing and processing all types of special-use permit applications since as far back as 1952, it has not done so. On the basis of information

provided by the agency, we estimated that in 1994 the costs to review and process special-use permits were about \$13 million. However, this would not represent the cost to run the entire program, which also includes activities such as annual billing, conducting inspections, and training staff. Forest Service officials acknowledge that because they do not have a cost accounting system, they do not know the cost of administering all aspects of the special-use permit program.

Two major factors contribute to the agency's problems in collecting fees and recovering costs—the lack of priority given to the program by agency management and the lack of incentives to correct known problems. Forest Service officials acknowledge that the relatively small size of this program has translated into little recognition or priority being given to it. As a result, resources needed to improve known program weaknesses—such as outdated fee systems and untimely billings—have not been made available. Furthermore, updating and collecting fees are labor-intensive efforts and would require additional resources. However, since additional fees collected would generally be returned to the U.S. Treasury—and not benefit the forest—there is a lack of incentive for the agency to dedicate the additional resources to address these issues.

Background

Lands managed by the Forest Service cover an area roughly equal in size to California, Oregon, and Washington. In 1994, the Forest Service reported more than 835 million recreational visits to these lands, an average of nearly three visits for each man, woman, and child in the United States. Recreational special-use permits are one way in which the Forest Service provides recreational opportunities on these lands.³ Permitted recreational special uses fall into two main categories, as follows:

- Commercial activities such as the operation of ski lodges and trails, resort lodges, marinas, and guide services. There were about 7,000 such permits in fiscal year 1994, generating sales of more than \$1.2 billion a year to permit holders.
- Noncommercial activities ranging from the use of a cluster of cabins for a organizational camp and groupings of individual recreational cabins on lakes or in the woods to temporary one-day activities like church, club, or recreational events. There were about 18,000 such permits in fiscal year

³The Forest Service also provides recreation through numerous recreation facilities that it manages directly, including about 3,000 campgrounds, over 120,000 miles of hiking trails, and thousands of picnic areas and boating sites. Except in cases where fees are authorized, such as developed campgrounds, these facilities are generally free to the public. We did not include these activities and fees within the scope of our work for this report.

1994. Most of these permits—about 15,200—are for lots where individuals are authorized to build private recreation houses or cabins.⁴

In fiscal year 1994, the fee revenue from recreation special-use permits was \$36.8 million—about two-thirds of these fees were from commercial recreation activities. After timber sales, the special-use program is the second largest generator of revenue for the Forest Service.

A number of statutes authorize the Forest Service to issue a broad range of special-use permits. For example, special recreation permits for uses such as group activities, recreation events, and other specialized recreational uses are authorized by the Land and Water Conservation Fund Act, as amended (16 U.S.C. 4601-6a(c)). Permits for hotels, resorts, summer homes, stores, and facilities for industrial, commercial, educational, or public uses are authorized by the Act of March 4, 1915, as amended (Term Permit Act) (16 U.S.C. 497).⁵

The policies governing the establishment of fees for these activities have been prescribed for decades. The primary authority for permit fees is provided by title V of the Independent Offices Appropriation Act of 1952 (IOAA), as amended (31 U.S.C. 9701). The IOAA authorizes an agency to issue regulations to assess a fair fee for a service or thing of value provided by the agency to an identifiable recipient beyond that provided to the general public. The Office of Management and Budget's (OMB) Circular A-25 implements the fee requirements of the IOAA. Circular A-25 classifies charges under two categories, which are (1) special services and (2) lease or sale. When providing special services, an agency is to recover its costs of providing the service, resource, or good. For example, under the special service category, the Forest Service may recover its costs incurred in reviewing and processing permits.

When the government sells or leases goods, resources, or real property, agencies are to establish user fees to recover the fair market value of the good, resource, or service provided. Most of the special-use permits that the Forest Service issues are analogous to leases because the government acts as a landowner in granting permittees long-term use and occupancy of its land. Under the provisions of the IOAA and OMB Circular A-25, fair market value should be obtained in the absence of specific legislation to

⁴Because individual cabin permits constituted over three-fourths of all noncommercial permits, we focused our review on this category of permits.

⁵Permits for ski areas are authorized by the National Forest Ski Area Permit Act of 1986 (16 U.S.C. 497b).

the contrary.⁶ Finally, Forest Service regulations implementing its authority to issue special-use permits call for fees to be based upon the fair market value of the rights and privileges authorized by the special-use permits as determined by appraisals or other sound business management principles.

In response to these requirements, the Forest Service uses two main fee-setting approaches for most of these recreational special uses, as follows:

- Fees for commercial operations or services. These annual fees are for activities in which the permit holder sells a service or use to the public, such as ski lifts, food, or guide services.⁷ Most of these fees are set using the Graduated Rate Fee System (GRFS). GRFS was developed about 30 years ago. Under this system, fees are calculated by applying a selected rate to gross sales in nine business categories.⁸ The rate applied to each business category is determined by the proportional relationship of sales to gross fixed assets. As sales increase, a higher rate is applied to the higher increment of sales, and, as a result, the total fee increases.
- Fees for sites of noncommercial recreation residences. These fees are based on an appraisal of the fair market value of a cabin lot sites. The fees for these sites, which represent the most common type of noncommercial permit, are based on 5 percent of each lot's initial appraised value indexed annually for inflation.

In addition to the special-use permit fees that are specifically for the use of the land, the Forest Service is authorized to recover the direct and indirect costs incurred in providing services that support the permitted activity. These costs could include things like administrative costs incurred in processing new permit applications, expenses for studying environmental impacts that might occur as a result of a new permit or the modification of an existing permit, or expenses for monitoring the construction of projects undertaken as part of a permitted activity and are in addition to the basic fee charged for the use of the land.

⁶Fees for permits issued under the Land and Water Conservation Fund Act are to be fair and equitable, taking into consideration, among other things, the direct and indirect cost to the government, the benefits to the recipient, and comparable recreation fees charged by nonfederal public agencies.

⁷A new fee system for ski areas was included in the Omnibus Parks and Public Lands Management Act of 1996 (P.L. 104-333), which became law in November 1996.

⁸GRFS establishes separate rates for nine business categories: grocery, merchandise, food service, liquor service, car service, lodging, rentals and services, outfitting/guiding, and ski area-related activities.

Fees for Recreation Special-Use Permits Are Frequently Below Fair Market Value

The various approaches used by the Forest Service to calculate recreation special-use fees result in fees that are below fair market value. GRFS, which calculates fees for commercial recreational activities, limits the Forest Service's fees to generally less than 3 percent of the permittees' gross revenues while states receive 5 to 15 percent of gross revenues for similar uses of state lands. In addition, appraisals used to calculate fees for the use of about 15,200 lots for recreation residences—the largest single noncommercial recreational use of national forest lands—are nearly 20 years old, resulting in some fees being as low as one-third of estimated fees based on more recent land appraisals.

Commercial Recreation Special-Use Fees Are Less Than Market Prices

The Forest Service relies on GRFS to calculate fair market fees for commercial recreation special uses. GRFS is a formula-based fee system that the agency has been using for decades. In 1994, total GRFS fees collected from about 7,000 permittees totaled about \$26 million. The inability of GRFS to generate fees that reflect fair market value has been the subject of reports for nearly 15 years. On the basis of our judgmental sample of sites, fees charged by states for concessions activities are currently 2 to 7 times higher on average than GRFS-generated fees for similar activities on federal land. (See app. II for a description of our objectives, scope, and methodology and a more detailed discussion of our judgmental sample.)

Many prior studies—including studies by the Forest Service, the Department of Agriculture's Office of the Inspector General, and us—have criticized GRFS for generating fees that are lower than fair market value. For example, in 1988 and 1993, we reported that GRFS does not ensure that the government receives fees based on the fair market value for the use of its land.⁹ When GRFS was developed, about 30 years ago, the Forest Service's intention was that the factors used in the formula for determining the fee rates would be adjusted periodically to reflect changes in economic conditions. However, the various factors in the GRFS formula have not been routinely updated. Thus, it is unlikely that the fees generated by GRFS approximate fair market value today. As part of the 1993 report, we estimated that GRFS-generated fees would, on average, be less than 3 percent of gross revenues. More recently, in 1994, Forest Service officials reported that commercial fees established under GRFS averaged about 2.2 percent of the gross receipts generated by commercial

⁹Parks and Recreation: Problems With Fee System for Resorts Operating on Forest Service Lands (GAO/RCED-88-94, May 16, 1988); Forest Service: Little Assurance That Fair Market Value Fees Are Collected From Ski Areas (GAO/RCED-93-107, Apr. 16, 1993).

recreation permittees. Compared to similar activities on state lands, these fees are low.

In an effort to compare state and federal fees for commercial recreational activities, we compared some Forest Service-authorized commercial recreational uses and fees in national forests that we visited to similar uses and fees on state lands. We found some similar comparisons in three of the five states we visited. In those instances—in California, Idaho, and Colorado—the states' fees for commercial recreation uses ranged from 6 to 15 percent of gross sales or revenues, while the Forest Service's fees averaged less than 3 percent. Specifically, in 1994, there were six authorized operators of commercial marinas in California state lands. The state fees paid by these operators averaged about 8 percent of gross revenue. In comparison, the 25 marinas and resorts operating in the national forests in California paid the federal government about 2.5 percent of their gross revenue. We found similar situations on state lands in Idaho and Colorado.

- Outfitters and guides in Idaho. Idaho's fee for 12 of these activities is 5 percent of gross sales or \$250 annually, whichever is greater. In comparison, the Forest Service's fee for outfitters and guides is a maximum of 3 percent of gross revenues or \$70, whichever is greater.
- Commercial recreational activities in Colorado. Eleven marinas operating on state lands paid fees averaging about 7 percent of gross revenue. In comparison, 11 marinas operating on lands in the national forests in Colorado paid fees that averaged about 2.8 percent.

A 1995 survey of state land managers, conducted by the National Parks and Conservation Association (NPCA),¹⁰ supports the findings in the comparisons that we made. In this survey—an update of NPCA's 1991 survey—state land managers provided data on the amounts charged by the states for commercial activities on their lands, including the operation of lodges and marinas, guide services, and food and beverage sales. According to NPCA, the survey results indicate that in 1995, the 48 responding states averaged a return of 10 percent of gross sale receipts. For the five states in which the nine national forests in our review were located, fee rates reported were all above the Forest Service's average of about 2.2 percent. (See table 1.)

¹⁰NPCA is a private, nonprofit citizen organization dedicated to protecting, preserving, and enhancing the U.S. National Park System.

Table 1: 1995 Rate of Return for State Commercial Permits Covered in Our Review

	California	Colorado	Idaho	Minnesota	Montana
Percent of gross sales charged for permit	11	6-12	7.5-15	12	5

Source: NPCA.

Most Noncommercial Recreation Permit Fees Are Outdated and Are Not Based on Fair Market Value

For the largest group of noncommercial recreation permits—approximately 15,200 recreation residence permits—the Forest Service’s method of determining annual fees results in charges that frequently do not keep up with appreciation in land values. Accordingly, the fees are frequently lower than what they should be because they are based on out-of-date information.

The Forest Service’s recreation residence program began nearly 75 years ago to stimulate the use of national forest land by providing individuals or families with the opportunity to own single-family recreation cabins in designated areas of the forests. This was accomplished by establishing tracts on recreation land and designating individual building sites within those tracts to be offered—under permit—for recreational enjoyment. The permit allows the holder to build a structure for recreational purposes but not as a permanent full-time residence.

Under the Forest Service’s current policy, annual fees are determined by establishing a base fee, which is 5 percent of a site’s—land only—appraised value.¹¹ Appraisals are currently updated every 20 years, with the most recent appraisals conducted between 1978 and 1982. To reflect changes in land values between the 20-year appraisal periods, the Forest Service adjusts the fee each year, using an inflation factor (the implicit price deflator for the gross domestic product).¹²

Given that current recreation residence appraisals are 14 to 18 years old, we determined whether fee adjustments using the implicit price deflator kept up with appraised values. We did this by judgmentally sampling lots in 5 of the 10 forests included in our review. We selected lots having

¹¹The value of structures—built at the permittee’s expense—are not included in the Forest Service’s fee-basis appraisal. However, local government jurisdictions may assess a property tax based on the appraised value of the structures.

¹²The gross domestic product implicit price deflator is the ratio of the gross domestic product’s (GDP) current dollar value to its constant dollar value.

waterfront access because they are typically the highest value lots. The five forests we selected had a large number of recreation residences.¹³

At each of the five forests, Forest Service officials identified what they considered to be a representative lot having water access for inclusion in our sample. For each of these five lots—one in each forest—we asked the local county tax assessor to estimate the current appraisal value of the lot on the basis of the value of similar lots in the vicinity.¹⁴ While our sample results may not be representative of all recreation residences, the results indicated that during this time period the implicit price deflator did not result in fee adjustments that kept pace with changes in land values since the last appraisals. In the five forests, the estimated current values for the lots ranged from 2 to 14 times higher than the 1978 to 1982 appraisals. To determine what the current fee would be for these lots, we used the local county tax assessor's estimate of current appraisal value based on the value of similar lots in the vicinity. Since the Forest Service's fee is based on 5 percent of the appraised value, we multiplied the county assessors' estimated current values by 5 percent. Compared with the existing fees established under the old appraisals and adjusted using the implicit price deflator, the fees if based on current estimates of land values would be 5 percent to over 350 percent higher than existing fees. (See app. III for the details of this analysis.)

Furthermore, Forest Service officials told us that, in their opinion, the conditions we found in our sample were probably indicative of the situation that exists for most lots having waterfront access on national forest lands. Similarly, the officials told us that in their view, it is likely that many of the nonwaterfront lots also have fees that have not kept pace with appreciating land values. The Forest Service's Chief Appraiser also told us that appraisals may result in significant increases in lot values and associated fees for lots having waterfront access in many areas. However, regarding nonwaterfront lots the Chief Appraiser had a somewhat differing view. According to the Chief Appraiser, when new appraisals are done, the value and fees for most nonwaterfront lots will rise but not increase appreciably and in some instances, because of market conditions, they may actually decline.

¹³The five forests were Superior in Minnesota, Panhandle in Idaho, Lolo in Montana, Stanislaus in California, and Pike/San Isabel in Colorado.

¹⁴County assessor's valuations may not be truly comparable to the Forest Service's valuation of federal land because the purpose of assessed value is to establish a tax base not determine fair market value. The best way to assess the value of these sites is through an appraisal performed by a qualified appraiser. However, these estimated valuations include current market sale comparisons and provide some gross indication of the value of the Forest Service's land at a point in time.

The situation the Forest Service now faces is the same as the agency faced when it last appraised the value of recreational residences in 1978 to 1982. At that time, the appraisals for many lots contributed to permit fees increasing dramatically. Such large increases in fees caused many permittees to protest and appeal to the Congress for relief. As a result, the Congress included language in appropriations legislation that statutorily limited fee increases from fiscal year 1983 through fiscal year 1986. As a result, the Forest Service rolled back appraisal valuations and phased in the fee increases. The net effect of these actions essentially limited any fee increases to no more than \$75 in any one year. Overall, this action significantly contributed to lowering the initial base fee resulting from the 1978 to 1982 appraisals and slowing the rate of fee increases since the last appraisal.

The Forest Service Is Authorized to Recover Costs—but Does Not

Forest Service officials estimated that the agency received an estimated 6,500 applications for new special-use permits and changes to existing permits in 1994. Forest Service officials estimate that about half of these new permit and change requests—about 3,250—are related to recreational special-use activities. The costs incurred in reviewing and processing these recreation special-use applications were estimated to be about \$6.5 million. Furthermore, for 1995, the agency estimates that because of increased trends in recreational use, the number of new applications and the costs of reviewing and processing them will surpass the 1994 levels. While the Forest Service has been authorized under the IOAA to seek reimbursement of these costs from the applicants, the agency has never done so. In order to recover these costs, the Forest Service is required to promulgate regulations explaining how the agency will implement its authority. The implementing regulations have never been issued. As a result, these costs are not being recovered.

Application Review and Approval Is Costly

As individuals, groups, and businesses pursue opportunities to use national forest land for recreational purposes that require occupancy, use, rights, or privileges above those available to the general public, they are required to get special-use permits from the Forest Service. To get these permits, those pursuing opportunities to use national forests are required to submit applications to the Forest Service describing the intended use of the land and requesting authorization for using it as planned. New applications must be submitted for first-time users as well as for existing users seeking modifications to their permits. For example, putting an addition on an existing recreation residence would require the user to

submit an application in order to get an authorized modification for an existing permit.

The Forest Service estimated about 6,500 new special-use permit applications and changes to existing permits were submitted to forest officials for review and approval in 1994. Forest Service officials estimated that about one half of these applications were for recreational special uses, which ranged from requests involving relatively simple 1-day group recreation events to complex projects such as ski area developments. Forest Service officials estimated that the number of applications would increase in 1995.

The Forest Service's process for reviewing these applications varies according to the scope and complexity of the proposed activity and its potential impact on the environment. For example, a simple permit application requesting approval for a 1-day temporary recreational event—such as a 5K Fun Run—on existing trails or roads would not require extensive analysis and could be approved relatively quickly. On the other hand, an application for a major new ski area, or even significant modifications to an existing one, would require substantial collecting of environmental data to determine the suitability and compatibility of use, evaluating financial and business plans, and providing for public meetings to describe the proposed action and obtain comments. These analyses frequently require members of special disciplines such as biologists, hydrologists, and engineers. As the potential impact of a proposed permit application becomes more significant, more specialists are needed and more public review and debate is sought, and the costs of reviewing the permit application increase substantially.

The Forest Service does not know the actual costs of reviewing permit applications. According to the Service's Associate Deputy Chief for Administration, the agency's current system for maintaining cost data does not enable the Service to associate the costs incurred in generating revenues from the various forest uses. In order to fully recover the costs of the special-use permit program, the Forest Service would need a cost-accounting system that would accurately track costs. In commenting on a draft of this report, agency officials indicated that the Department of Agriculture (USDA) does not have cost-accounting standards, and any cost-accounting system that is implemented should not just be for the special-use permit program, but rather, in concert with USDA's cost-accounting standard as a whole. USDA plans to implement a cost-accounting system by the end of fiscal year 1998.

However, in the Forest Service's 1995 task force study on special-use permit management, permit administrators surveyed in 44 of the agency's 118 administrative units estimated the average cost of processing a new permit at about \$2,000.¹⁵ Assuming that this is an average Forest Service-wide cost, the total cost for processing the 3,250 recreational special-use applications received in 1994 would be about \$6.5 million. For all 6,500 applications for special-use permits—which include both recreation and nonrecreation permits—estimated costs for processing and reviewing permits in 1994 would have been about \$13 million. Because of the lack of a cost-accounting system, Forest Service officials were not able to provide us with information on the overall cost of administering the recreation special-use permit program, which would not only include processing and reviewing applications for permits, but also include activities such as annual billing, conducting inspections, and training staff.

Forest Service Unprepared to Recover Application Costs

The authority for the Forest Service to seek reimbursement of expenses incurred in reviewing and approving permits is contained in the IOAA.¹⁶ The IOAA authorizes executive branch agencies to recover the direct and indirect costs incurred in providing services that confer a special benefit to identifiable recipients above and beyond those that accrue to the general public. OMB Circular A-25 implements the fee requirements of IOAA and establishes the policy for executive branch agencies to recover the full cost of rendering special services such as processing a permit. However, the IOAA entitles an agency to recover costs only if it issues regulations specifically addressing its authority to recover costs. But even after more than four decades, the Forest Service has never issued the necessary regulations. Without cost recovery regulations, or a cost-accounting system to accurately track costs, the Forest Service does not have the basis to recover the costs incurred in processing and reviewing new applications.

¹⁵For financial reporting purposes, the Forest Service groups its 155 national forests into 118 administrative units because many forests are too small to have their own management structure. In addition, permit costs reported in the survey include both administrative costs of personnel within the special-use permit program (\$1,142) and functional support costs from other programs such as ones covering timber, engineering, and heritage resources (\$946).

¹⁶Forest Service officials informed us that for some projects with significant application costs, such as ski areas, the agency has used "collection agreements" as a vehicle to fund the costs of reviewing permit applications. According to Forest Service officials, collection agreements are authorized under 16 U.S.C. 572. This provision of law authorizes the Forest Service to cooperate with and assist permittees using lands the agency administers. We have asked USDA's Office of General Counsel for its views on the appropriateness of using this provision to collect application costs for permits.

Not having cost recovery regulations deprives the federal government of a source of revenue—possibly as much as \$13 million in 1994. Forest Service headquarters and forest-level staff we talked to said that recovering costs for these activities—as authorized—would make good business sense. Taking such action is not unique for federal land management agencies. The Bureau of Land Management (BLM), under the same statutory authorities governing the recovery of costs for processing applications, adopted cost recovery regulations in 1981. Under BLM’s regulations, a new permit applicant is required to (1) submit data deemed necessary for review of the application and (2) pay a nonrefundable application processing fee. The Forest Service initiated action to develop cost recovery regulations three times in the last 10 years, but according to the Deputy Director of the Lands Division, the first two were abandoned because of higher priorities within the Forest Service. The most recent effort is a joint effort by the Forest Service and BLM to issue similar regulations on cost recovery. For the BLM, this effort would be a revision of its existing regulations. Each agency plans to publish a draft proposed rule in the Federal Register for public comment in 1997.

Lack of Priority and Incentives Hinder Program

Many of the Forest Service officials we talked with—both in headquarters and in the forests—acknowledge that the relatively small size of this program has translated into little recognition or priority being given to it. Despite the 26,000 existing permits, the \$37 million in annual fee revenue, and about 3,250 new permit applications or modifications each year, the recreation special-use program is small compared with the Forest Service’s timber program. In comparison, the agency’s timber program generates approximately \$911 million in sales receipts.

Evidence of the low priority for this program at the national level can be seen in the lack of resources dedicated to improve known program weaknesses. As a result, these weaknesses have not been addressed. For example, since as far back as 1982 we and others have criticized the Forest Service’s GRFS for obtaining fees that are lower than fair market value. Furthermore, many of the forest officials we contacted during this review questioned the ability of GRFS to obtain fair market value, particularly in light of higher fees charged for commercial activities on state lands. To date, GRFS remains unchanged.

Another example of the low priority given to this program is the agency’s failure to develop needed cost recovery regulations. Even though the Forest Service has had the authority to recover costs since 1952, it has not

developed the needed regulations to do so. At least two times since the IOAA was enacted in 1952, the Forest Service developed draft regulations for recovering costs that, if enacted, would have allowed forest managers to recover costs for new permit applications. These efforts occurred in 1987 and 1995. Neither time were the draft regulations finalized or published because, according to Forest Service headquarters officials, the staff resources assigned to develop and publish the regulations were diverted to other higher-priority tasks. Forest Service officials could not provide us with an explanation as to why no initiative was taken to develop regulations between 1952 and 1987.

In addition to a lack of priority, there is a lack of incentives for forest managers to seek higher permit fees. Even though updating and collecting fees are labor-intensive efforts, the permit program provides no direct financial benefit to the forest unit that collects the money or the agency as a whole. For the most part, fee revenues generated from permits for recreational special uses—as with all of the Forest Service’s permit fees—are deposited in the U. S. Treasury.¹⁷ As a result, efforts to get fees more in line with fair market values generally have no direct financial benefit to the Forest Service. In fact, Forest Service officials believe that efforts to get more accurate fees are a disincentive in terms of the additional staff workload, administrative effort, and costs that the agency and the individual forests incur, with little or no benefit returning to the nation’s forests. This additional workload and cost must be absorbed by each forest unit. The net result is that the effort to raise fees generally increases fee revenues to the U.S. Treasury, but at a cost of thinning the available resources in the individual forest budgets. Consequently, the needed work does not get done, and fees become out of date.

Conclusions

In recent years, it has become clear that the federal government needs to operate in a more business-like manner. As companies are accountable to shareholders, the federal government is accountable to taxpayers. Under these conditions, combined with today’s budget constraints and the continued recreational demands being placed on the Forest Service, it is reasonable to expect that the agency pursue opportunities to (1) get a better return on the use of the nation’s resources and (2) recover the costs

¹⁷The National Forest Revenue Act of 1908 (Twenty-Five Percent Fund Act), authorized the Secretary of the Treasury to pay the states 25 percent of all moneys received during any fiscal year from each national forest. The moneys are intended to compensate the counties for lost tax revenues and are to be used to benefit roads and schools. The Omnibus Budget Reconciliation Act of 1993 amended the Land and Water Conservation Fund Act to authorize the Forest Service to withhold up to 15 percent of recreation fees to recover fee collection costs.

of programs to the extent reasonable. However, the Forest Service's recreation special-use program is not receiving fair market value or recovering the costs of the program. This is largely due to the relatively low priority of the program and the lack of incentives to address critical program needs. Incentives for moving the agency to a more business-like approach to this program would be provided if the individual forest managers were permitted to keep the cost recovery revenues to offset the costs incurred for this program. However, permitting the Forest Service to retain fees may raise questions of oversight and accountability, as well as scoring and compliance issues under the Budget Enforcement Act. These issues need to be weighed in considering fee retention proposals.

Recommendations

We recommend that the Secretary of Agriculture direct the Chief of the Forest Service to do the following:

- Update the methods used to calculate fees for commercial and noncommercial special-use permits so they better reflect fair market values and comply with the requirements of the Independent Offices Appropriations Act of 1952 and OMB Circular A-25. To minimize any impact that large increases in fees could have on permittees, the agency may wish to consider phasing in new fees. In addition, once the fees are updated, the agency needs to routinely keep them up to date.
- Develop and issue cost recovery regulations so that the agency has the proper legal basis for recouping the administrative costs incurred in reviewing and processing special-use permit applications. In order to fully implement this recommendation, it will be necessary for the agency to develop a cost accounting system.

The Secretary should also consider seeking legislation permitting the agency to retain application and processing fees in the Forest Service unit where the costs were incurred. Permitting the agency to retain the revenues necessary to offset the costs of the program would provide additional incentive and resources for getting the necessary work done.

Agency Comments

We provided a draft of this report to the Forest Service for its review and comment. We met with agency officials, including the Deputy Director of the Lands Staff, to discuss their comments. The officials generally agreed with the report's findings, conclusions, and recommendations. With regard to developing a cost-accounting system to accurately track costs, the officials said that USDA does not currently have cost-accounting standards.

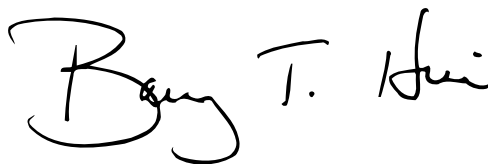
According to these officials, any cost-accounting system that is implemented should be in concert with USDA's cost-accounting standards as a whole and not just address the special-use permit program. We agree, and the report has been modified to reflect this point. In the discussion comparing the appraised values of recreation residences' sites with estimates of current values from county tax assessors, agency officials said that the report should clearly state that using tax assessors' estimates is not a valid representation of the fair market value of these sites. An appraisal of a site, performed by a qualified appraiser, would be the best way to assess its value. We agree. The information on tax assessors' estimates of the value of recreation residence sites was used as a gross indicator of value and is not reliable as a site-specific estimate of fair market value. Agency officials also provided some technical clarifications, which have been included in the report.

We conducted our review from July 1995 through October 1996 in accordance with generally accepted government auditing standards. We performed our work at Forest Service headquarters and field offices. We also contacted state and local officials in the areas where we did our field work. Appendix II contains further details on our objectives, scope, and methodology.

We are sending copies of this report to the Secretary of Agriculture; the Chief of the Forest Service; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please call me at (202) 512-3841 if you have any questions about this report. Major contributors to this report are listed in appendix IV.

Sincerely yours,

A handwritten signature in black ink that reads "Barry T. Hill". The signature is written in a cursive style with a large, looped "B" and "H".

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

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Abbreviations

BLM	Bureau of Land Management
IOAA	Independent Offices Appropriations Act of 1952
GAO	General Accounting Office
GRFS	Graduated Rate Fee System
NEPA	National Environmental Protection Act
NPCA	National Park and Conservation Association
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

Examples of Selected “Best Practice” Initiatives Implemented at Some Forests to Improve the Efficiency of the Special-Use Program

To increase the efficiency of the special-use program, the Forest Service has recently begun a study to streamline the special-use permit process. Among other things, the goal is to design a work process that reduces the time required to process applications. This effort began in mid-1996, and the report is due early in 1997. However, it should be noted that similar attempts to improve the system have been made in recent years but have met with little success. A recent example was a National Task Force on Special-Use Management, done in 1993 to 1994, which addressed issues similar to the current streamlining effort. The task force identified numerous program problems and developed suggested ways to streamline the permit process and make the program more consistent Service-wide. But, none of the task force’s recommended actions were adopted because, like several of the other situations described earlier in this report, Forest Service officials told us that the initiative was discontinued because of other agency priorities. In light of the early stage of the newly initiated streamlining effort and the lack of follow through on previous efforts, it is too early to determine what, if any, improvements will arise from the current effort. A key to the success will be the commitment of the Forest Service leadership to support the findings and provide resources needed to implement recommended actions.

As a part of our review, we identified a number of actions that need to be considered by the new study team and the agency as a whole to better administer the program within existing resource constraints. Many of these actions are already being used by individual regions, forests or individual districts within forests and could have broader applicability as best practices throughout the agency. In addition to actions already being taken, administrators in the forests and regions provided us with many suggestions for improving efficiency. The specific efforts and suggestions we identified are summarized in table I.1.

Appendix I
Examples of Selected “Best Practice”
Initiatives Implemented at Some Forests to
Improve the Efficiency of the Special-Use
Program

Table I.1: Selected Best Practices Initiatives

Initiative	Explanation	Potential benefits
Simplifying operations and sharing expertise		
Centralizing annual fee billing at the forest level	At many forests, billing responsibility rests with administrators in each forest ranger district. Some forests we reviewed have centralized billings in the forest supervisor’s office.	Contributes to consistent billing practices across participating forest units resulting in improved permit fee accuracy, and program administrative cost savings.
Establishing “expert zones” for managing certain types of permits.	In many forests, permit management is divided by district with someone at each district responsible for all permits. At several forests we reviewed, permit managers with knowledge in outfitter and guides or resorts administered those types of permits in multiple districts.	Fosters consistent treatment of similar types of permit applicants and holders across forest units. Develops a cadre of experts who work expeditiously and can further improve the permit administration processes.
Simplifying fee calculations	Some administrators have suggested that establishing a flat fee for some commercial uses (such as outfitters and guides) may be preferable to the complex computation, documentation, and permittee review that GRFS requires.	Results in easy to understand fee rate that requires less computation time and fewer checks to ensure documents submitted by the permittee are accurate. Flat rate fees would likely not result in reductions to current fees, and would allow field resources dedicated to fee review to focus on other permit issues.
Improving program direction and consistency		
Developing consolidated directives and guidelines	Many administrators thought permit administration guidance was confusing and hard to follow, and expressed a need to update, consolidate and simplify the organization of permit direction provided in Forest Service manuals, handbooks, and regulations.	Provides a clear blueprint for special-use permit administration that reduces the potential for misinterpretation by providing a usable, single desk reference. Making this process more understandable may save resource time and effort and provide consistent administration of permits.

(continued)

Appendix I
Examples of Selected “Best Practice”
Initiatives Implemented at Some Forests to
Improve the Efficiency of the Special-Use
Program

Initiative	Explanation	Potential benefits
Identifying common standards for permit administration	Some administrators believed that common standards for permit review and processing, performance monitoring and inspection were needed and should be adopted system-wide.	Provides a consistent “core” approach to administration between forest units, and provides some flexibility for “unique” permit situations. A thorough review of standards will likely identify areas where current standards could be reduced.
Giving higher priority to program activities	Administrators raised concern about their ability to provide proper resources to special-uses administration. They noted a lack of funding, staff, and commitment which delays or prevents some permits.	Provides equitable sharing of resources to ensure reasonable response time to special-uses program new applicant and permittee requests.

Objectives, Scope, and Methodology

We were asked by the Chairman of the Subcommittee on Oversight of Government Management and the District of Columbia, Senate Committee on Government Affairs to determine (1) whether the fees currently charged for recreation special-use permits reflect fair market value; (2) whether permit processing and review costs are recovered; and (3) if fees do not reflect fair market value and costs are not being recovered, why not. As agreed, we focused our review on the Forest Service's management of commercial and noncommercial recreation special-use permits because these permits account for approximately 73 percent of the annual fee revenue received from all Forest Service special-use permits.

We used the Forest Service's 1994 Forest Level Use Report database to identify the number and type of recreation special-use permits located in each of the Forest Service's nine regions. We selected four Forest Service regions that had a large number of recreation special-use permits and provided geographic diversity. The four regions were Region 1-the Northern Region; Region 2-Rocky Mountain Region; Region 5-Pacific Southwest Region; and Region 9-Eastern Region. We also visited Region 4-Intermountain Region (Bridger National Forest) during the survey stage of this review. Overall, the five regions account for about two thirds of the Forest Service's total authorized recreation special-use permits and two-thirds of total annual fees collected from these permitted uses. In each region, we selected two or three National Forests that had a large number and diverse mix of recreation special uses: Region 1-Lolo National Forest in Montana and the Panhandle National Forest in Idaho; Region 2-Pike-San Isabel and White River National Forests in Colorado; Region 5-Shasta-Trinity, Stanislaus, and Inyo in California; and Region 9-Chippewa and Superior National Forests in Minnesota.

To determine federal policy for charging permit fees, we reviewed federal laws, regulations, and guidelines. To determine whether the Forest Service is charging fair market value for recreational special-use permits, we met with officials at Forest Service headquarters and field locations, and reviewed GAO, Department of Agriculture Inspector General, and other reports to obtain views on the ability of the Forest Service's fee systems to achieve fair market value. In addition, at the five national forests visited, we asked forest officials to select permits in their forests that were representative of commercial activities (outfitter and guides and marinas) and noncommercial individual use (recreational residences). We reviewed permit documentation to determine the Forest Service's fee methods and the annual fee charged for these activities and visited sites where possible.

To assess the fair market value of fees for commercial activities, we compared the average Forest Service fee for commercial activities with the average fee charged by states for similar commercial activities. We spoke with state officials responsible for commercial permits in the five states in which the nine forests we visited were located (California, Colorado, Idaho, Minnesota, and Montana). In addition, we talked with officials at the National Parks and Conservation Association, who provided preliminary information on a recent updated survey of fee rates for commercial activities in state parks.

To assess the fair market value of fees for noncommercial activities, we limited our review and comparison to recreation residence permit sites. We judgmentally identified five forests (Chippewa, Panhandle, Lolo, Stanislaus, and Pike-San Isabel) as locations to select recreation permit sites for fee comparison because we visited recreation residences lots in those forests. At each of the recreation areas we visited, we asked forest recreation residence permit administrators to identify a waterfront lot that was representative of the waterfront lots in the area. To compare fees, we asked local county assessors to estimate the current appraised value of the representative lot, calculated the Forest Service fee based on that value, and compared it to the actual 1995 fee paid for the lot.

To determine whether permit processing and review costs are being recovered, we contacted Forest Service officials at the headquarters, regional, forest and district levels. We also reviewed Forest Service task force reports on the special-uses program and talked with officials from the USDA's Office of General Counsel.

To determine the causes of program problems and what can be done to improve agency management, we interviewed Forest Service headquarters and field officials to obtain their views on major factors contributing to problems and suggestions on what can be done to help improve the program.

Appendix II
Objectives, Scope, and Methodology

Table II.1: Forest Service Regions and Forests GAO Visited

Forest Service Region	National Forest	State
1 - Northern	Panhandle	Idaho
	Lolo	Montana
2 - Rocky Mountain	Pike-San Isabel	Colorado
	White River	Colorado
4 - Inter-mountain	Bridger-Teton	Wyoming
5 - Pacific Southwest	Stanislaus	California
	Inyo	California
	Shasta-Trinity	California
9 - Eastern	Chippewa	Minnesota
	Superior	Minnesota

Comparison of Current Forest Service Recreation Residence Fees to a Recalculated Fee Based on County Estimates of Current Value for Selected Lots

National Forest	Lot location	Forest Service base appraisal	Adjusted value based on county estimate	Forest Service current fee	Recalculated fee based on county estimate	Percent change current to adjusted fee
Chippewa	Lake Winnibigoshish	\$3,900	\$22,300	\$355	\$1,115	214
Panhandle	Priest Lake	\$17,500	\$175,000	\$1,910	\$8,750	358
Lolo	Seeley Lake	\$22,040	\$47,380	\$1,753	\$2,369	35
Stanislaus	Pinecrest Lake	\$8,000	\$112,685	\$1,458	\$5,634	286
Pike-San Isabel	Chalk Creek	\$7,500	\$14,000	\$669	\$700	5

All lots are similar to lots in the vicinity. All but the Chalk Creek lot are lakefront lots. The Chalk Creek site is 20 feet from a stream.

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