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Barriers to and Opportunities for Generating Revenue

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Mr. Chairman and Members of the Subcommittee:

We are here today to discuss barriers to and opportunities for generating revenue on lands managed by the Department of Agriculture's Forest Service. Our comments are based primarily on two reports that we issued within the last year that address this issue.¹ In summary, we have found the following:

- Generating revenue is not a mission priority for the Forest Service. Increasingly, legislative and administrative decisions and judicial interpretations of statutory requirements have required the agency to shift its emphasis from uses that generate revenue, such as producing timber, to those that do not, such as protecting species and their habitats. Furthermore, the Forest Service is required by law to continue providing certain goods and services at less than fair market value. Among these are most recreation sites that the agency manages directly, hardrock minerals, and livestock grazing. Certain legislative provisions also serve as disincentives to either increasing revenue or decreasing costs. For example, the agency is sometimes allowed to retain and spend a portion of the revenue it generates without deducting its costs. Because the costs are funded from annual appropriations rather than from the revenue generated, the agency does not have an incentive to control costs. Moreover, when the Congress has provided the Forest Service with the authority to obtain fair market value for certain uses, such as timber, resort lodges, private recreational cabins, and oil and gas pipelines, or to recover costs for services, such as reviewing and processing special-use permit applications, the agency often has not done so. As a result, the Forest Service forgoes at least \$50 million in revenue annually.
- Given a financial incentive and the flexibility to explore innovative entrepreneurial ideas and more businesslike practices, the Forest Service can and will increase revenue. For example, the recreational fee demonstration program, first authorized by the Congress in fiscal year 1996, allows the agency to (1) test new or increased fees at up to 100 sites and (2) retain the revenue to help address unmet needs for visitor services, repairs and maintenance, and resource management. By allowing the agency to retain the fees collected, the Congress created an incentive for forest managers to emphasize fee collections. Gross revenue from recreational fees on the national forests increased from \$10.0 million in fiscal year 1996—the last year before the demonstration program was

¹Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 13, 1998) and Recreation Fees: Demonstration Fee Program Successful in Raising Revenues but Could Be Improved (GAO/RCED-99-7, Nov. 20, 1998).

implemented—to \$26.3 million in fiscal year 1998, an increase of 163 percent.

- The administration plans to forward legislative proposals to the Congress, and the Forest Service is considering other legislative changes, that would allow the agency to collect, retain, and spend more fee revenue. However, allowing forest managers to retain and spend all or a portion of the revenue they collect would involve risks and difficult trade-offs. In particular, the Forest Service is still far from achieving financial and performance accountability and thus cannot accurately account for how it spends money and what it accomplishes with it. Allowing the agency to collect, retain, and spend more of the revenue generated by goods and services on the national forests would also require difficult trade-offs or policy choices between increasing revenue and other values and concerns, such as providing free access to public lands, promoting the economic stability of historic commodity uses, and setting aside additional lands for resource protection and conservation.

The Forest Service Lacks Clear Revenue-Generating Priorities and Flexibility

The low priority assigned to increasing revenue results, in part, from the importance or emphasis given to other values and concerns, especially protecting resources and providing goods and services. Language in federal statutes implies that maximizing revenue should not be the overriding criterion in managing national forests. Moreover, increasingly, legislative and administrative decisions and judicial interpretations have required the Forest Service to give priority to non-revenue-generating uses over uses that can and have produced revenue. For example, the Endangered Species Act and other environmental and planning laws and their judicial interpretations limit the agency's ability to generate revenue, requiring instead that priority be given to protecting species' diversity and other natural resources, including clean water and clean air. In addition, both the Congress and the administration have increasingly set aside National Forest System lands for conservation—as wilderness, wild and scenic rivers, national monuments, and recreational areas. Only limited revenue-generating uses, such as timber sales and oil and gas leasing, are allowed in some of these areas.

When the Forest Service can generate revenue, it is sometimes required to provide goods and services at less than their fair market value. For instance, the fee system for ski areas on national forests, developed by the ski industry and enacted into law in 1996, does not ensure that fees collected from ski areas reflect fair market value. Other legislative decisions not to charge fees for the use of most recreational sites and

areas managed directly by the agency reflect a long-standing philosophy of free access to public lands. In addition, federal statutes and regulations have narrowly defined the instances in which the Forest Service can charge fees for noncommercial recreational activities, such as hunting and fishing by individuals on national forests, and the agency generally defers to state laws regulating these activities. As a result, forest managers do not charge individuals for hunting and fishing on their lands.

Other legislative requirements that limit the generation of revenue from activities such as hardrock mining and livestock grazing reflect a desire to promote the economic stability of certain historic commodity uses. For example, the Mining Law of 1872 was enacted to promote the exploration and development of domestic mineral resources as well as the settlement of the western United States. Under the act's provisions, the federal government receives no financial compensation for hardrock minerals, such as gold and silver, extracted from Forest Service and other federal lands. In contrast, the 11 western states that lease state-owned lands for mining purposes impose a royalty on minerals extracted from those lands. Similarly, the formula that the Forest Service uses to charge for grazing livestock on its lands keeps fees low to promote the economic stability of western livestock grazing operators with federal permits.

In addition, revenue-retention and revenue-sharing provisions discourage efforts to control costs. For example, legislation allows the Forest Service to retain a portion of the revenue it generates from timber sales and requires the agency to share a portion of that revenue with states and counties, without deducting its costs. The costs to prepare and administer the sales are funded primarily from annual appropriations rather than from the revenue generated by the sales. As a result, neither the agency nor the states and counties have an incentive to control costs, and the Forest Service may be encouraged to sell timber at prices that would not always allow it to recover its costs. From fiscal year 1992 through fiscal year 1997, the Forest Service spent about \$2.5 billion in appropriated funds and other moneys to prepare and administer timber sales but returned less than \$600 million in timber sale revenue to the General Fund of the U.S. Treasury.²

When the Congress has given the Forest Service the authority to obtain fair market value for goods or to recover costs for services, the agency often has not done so. As a result, forgone revenue has cost taxpayers

²Forest Service: Distribution of Timber Sales Receipts, Fiscal Years 1992-94 (GAO/RCED-95-237FS, Sept. 8, 1995) and Forest Service: Distribution of Timber Sales Receipts, Fiscal Years 1995 Through 1997 (GAO/RCED-99-24, Nov. 12, 1998).

hundreds of millions of dollars, as the following examples from our prior work show.

- In June 1997, we reported that the sealed bid auction method is significantly and positively related to higher bid premiums on timber sales. However, the Forest Service used oral bids at single-bidder sales rather than sealed bids, resulting in an estimated decrease in timber sale receipts of \$56 million from fiscal year 1992 through fiscal year 1996.
- In December 1996, we reported that, in many instances, the Forest Service has not obtained fair market fees for commercial activities on the national forests, including resort lodges, marinas, and guide services, or for special noncommercial uses, such as private recreational cabins and special group events. Fees for such activities are the second largest generator of revenue for the agency, after timber sales. The Forest Service's fee system, which sets fees for most commercial uses other than ski operations, has not been updated for nearly 30 years and generally limits fees to less than 3 percent of a permittee's gross revenue. In comparison, fees for similar commercial uses of nearby state-held lands averaged 5 to 15 percent of a permittee's total revenue.
- In December 1996, we also reported that although the Forest Service has been authorized to recover the costs incurred in reviewing and processing all types of special-use permit applications since as far back as 1952,³ 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.
- In April 1996, we reported that the Forest Service's fees for rights-of-way for oil and gas pipelines, power lines, and communication lines frequently did not reflect fair market value. Agency officials estimated that in many cases—particularly in high-value areas near major cities—the Forest Service may have been charging as little as 10 percent of the fair market value.

Given a Financial Incentive, the Forest Service Can and Will Increase Revenue

The Forest Service's failure to obtain fair market value for goods or recover costs for services when authorized by the Congress results, in part, because the agency lacks a financial incentive to do so. One incentive would be to allow the agency to retain and spend the revenue generated to address its unmet needs.

For example, from the end of World War II through the late 1980s, the Forest Service emphasized timber production on national forests, in part,

³Title V of the Independent Offices Appropriation Act of 1952, as amended (31 U.S.C. 9701).

because a substantial portion of the receipts from timber sales are distributed into a number of funds and accounts that the agency uses to finance various activities on a sale area. Even now, many forest managers have the opportunity to increase their budgets by increasing timber sales.

Conversely, before fiscal year 1996, the Land and Water Conservation Act of 1965, as amended, required that revenue raised through collections of recreational fees be deposited in a special U.S. Treasury account. The funds in this account could become available only through congressional appropriations and were generally treated as a part of, rather than a supplement to, the Forest Service's regular appropriations.

However, in fiscal year 1996, the Congress authorized the fee demonstration program to test recreational fees as a source of additional financial resources for the Forest Service and three other federal land management agencies. The demonstration program legislation allows these agencies to experiment with new or increased fees at up to 100 sites per agency. The Congress directed that at least 80 percent of the revenue collected under the program be spent at the unit collecting the fees. The remaining 20 percent can be spent at the discretion of each agency. In essence, the more revenue that a national forest can generate through new or increased fees, the more it will have to spend on improving conditions on the forest.

By allowing the agency to retain the fees collected, the Congress created a powerful incentive for forest managers to emphasize fee collections. Gross revenue from recreational fees on the national forests increased from \$10.0 million in fiscal year 1996 to \$18.3 million in fiscal year 1997, or by 83 percent, and to \$26.3 million in fiscal year 1998, or by 163 percent compared with fiscal year 1996. Five sites each generated over \$1 million in fiscal year 1998 compared with only two sites in fiscal year 1997. Two sites—the Mount St. Helens National Volcanic Monument on the Gifford Pinchot National Forest in Washington State and the Enterprise Forest Project in Southern California—each generated over \$2.3 million in fiscal year 1998.

The legislation also provided an opportunity for the four federal land management agencies to be creative and innovative in developing and testing fees by giving them the flexibility to develop a wide range of fee proposals. As a result, the Forest Service has, among other things, developed new methods for collecting fees and has experimented with more businesslike practices, such as peak-period pricing. These practices

can help address visitors' and resource management needs and can lower operating costs.

Observations on the Need for Legislative and Other Changes

According to Forest Service officials, the agency is evaluating whether to issue regulations that would allow forest managers to charge fees to recover their costs to review and process special-use permit applications. The administration also plans to forward legislative proposals to the Congress in the near future that would allow the agency to retain and spend all of the revenue generated by fees for commercial filming and photography on the national forests. Other legislative changes being considered by the agency would allow it to retain and spend all or a portion of the (1) revenue generated by fees charged to recover the costs to review and process special-use permit applications and (2) fees collected for resort lodges, marinas, guide services, private recreational cabins, special group events, and other commercial and noncommercial activities on the national forests.

On the basis of our work, we offer the following observations on the Forest Service's ongoing efforts to secure alternative sources of revenue. First, sustained oversight by the Congress will be needed to ensure that the agency maximizes revenue under existing legislative authorities. For instance, according to Forest Service officials, the agency is evaluating whether to issue regulations to allow forest managers to charge fees to recover their costs to review and process special-use permit applications. However, the agency has been authorized by the Congress to recover these costs since 1952 and has twice in the past 12 years developed, but not finalized, draft regulations to implement the authority. According to Forest Service headquarters officials, both times, staff assigned to develop and publish the regulations were reassigned to other higher-priority tasks. As a result, the agency estimates that it forgoes \$5 million to \$7 million annually.

Second, new legislation that would allow the Forest Service to retain and spend more of the revenue generated by fees would provide forest managers with additional incentive to emphasize fee collections. However, providing the agency with this authority at this time would involve risks and difficult trade-offs. In particular, the Forest Service would not be able to accurately account for how it spent the money and what it accomplished with it. While the agency has made progress in recent years, it is still far from achieving financial accountability and possibly a decade

or more away from being fully accountable for its performance.⁴ Because of its serious long-standing financial management deficiencies and the problems it has encountered in implementing its new accounting system, we recently designated the Forest Service's financial management as a high-risk area vulnerable to waste, fraud, abuse, and mismanagement.⁵

In addition, allowing the Forest Service to retain and spend revenue that is generally treated as a part of, rather than an addition to, its regular appropriations would be included under the limits on discretionary spending imposed by the Budget Enforcement Act, as amended. Allowing the agency to retain fee revenue—rather than depositing the money in the General Fund of the Treasury—would also reduce the Congress's ability to use these funds for other priorities. Furthermore, while this fee revenue may be initially earmarked for the Forest Service, nothing would prevent the Congress from using the revenue to offset, rather than supplement, the agency's regular appropriations.

Finally, new legislation being proposed or considered by the Forest Service is limited to special-use fees and, as such, does not address other potential sources of revenue. For instance, in a July 1998 report, a team of Forest Service employees identified steps that the agency should take to improve the way it conducts its business.⁶ In addition to recreational and special-use fees, the team identified the minerals and geology program and the relicensing of hydroelectric sites on the national forests as the greatest opportunities for securing alternative sources of revenue. In addition, we have reported that enacting legislation to impose a royalty on hardrock minerals extracted from Forest Service and other federal lands could generate hundreds of millions of dollars in increased revenue.

However, allowing the Forest Service to collect, retain, and spend more of the revenue generated by goods and services on the national forests would require difficult policy choices and trade-offs. For example, collecting recreational fees conflicts with the long-standing philosophy of free access to public lands. Imposing a royalty on hardrock minerals extracted from national forests conflicts with the desire to promote the economic stability of this historic commodity use. And allowing forest managers to retain and spend revenue from oil and gas leasing and production would give them a

⁴Major Management Challenges and Program Risks: Department of Agriculture (GAO/OCG-99-2, Jan. 1999) and Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste (GAO/T-RCED-98-135, Mar. 26, 1998).

⁵High-Risk Series: An Update (GAO/HR-99-1, Jan. 1999) and Major Management Challenges and Program Risks: Department of Agriculture (GAO/OCG-99-2, Jan. 1999).

⁶Project Ponderosa: Report of the Business Action Team, Forest Service (July 29, 1998).

strong financial incentive to lease lands that they might otherwise set aside for resource protection or conservation. Therefore, if the Congress believes that increasing revenue from the sale or use of natural resources should be a mission priority for the Forest Service, it will need to work with the agency to identify legislative and other changes that are needed to clarify and modify the Congress's intent and expectations for revenue generation relative to ecological, social, and other values and concerns.

Mr. Chairman, this concludes our prepared statement. We will be pleased to respond to any questions that you or Members of the Subcommittee may have.

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