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United States General Accounting Office
Washington, DC 20548

May 9, 2003

Congressional Committees

Subject: Natural Resources: Status of Merchantable Material Contracting Pilot Program Authorized by the Secure Rural Schools and Community Self-Determination Act of 2000

The Secure Rural Schools and Community Self-Determination Act of 2000, enacted October 30, 2000,¹ mandated that we assess a merchantable material contracting pilot program authorized by the act and report on our assessment by September 30, 2003. The pilot program encompasses certain forest-related projects undertaken as a result of the act and mandates the use of separate contracts for the harvesting or collection of merchantable material, such as timber, and the sale of that material rather than a single contract for both activities.

In summary, based on our preliminary work, of the approximately 1,300 forest-related projects approved at the time of our review, only 13 are expected to generate merchantable material and, thus, be eligible for the pilot program. Only 6 of these 13 are expected to be conducted within the pilot program—and none of the 6 has yet been implemented. Given the preliminary nature of the pilot program and the small number of projects, a full-scale assessment by September 30, 2003, would provide very limited information. We briefed your offices on these findings and reached agreement that no further assessment of the pilot program will be conducted at this time. Also as agreed, we are providing this letter summarizing program activity to date.

Background

Since the early 20th century, counties containing federal lands have been compensated for the tax-exempt status of federal lands within their boundaries. This compensation generally represents a percentage of the receipts generated on federal lands through the sale or use of natural resources—such as timber, minerals, recreation, or grazing permits. Localities generally are required to use these funds for roads, schools, or other services and facilities. However, the steep decline in federal timber

¹Pub. L. No. 106-393, 114 Stat. 1607 (2000).

sales during the 1990s resulted in a significant decrease in federal payments to counties that historically depended on timber receipts.

The Secure Rural Schools and Community Self-Determination Act of 2000 was enacted, in part, to address the decline in federal payments by stabilizing payments to counties that depended on revenues from timber sales on Forest Service and certain Bureau of Land Management (BLM) lands.² Under the act, each county may continue to receive a portion of the revenues generated from these lands or can choose instead to receive annual payments equal to the average of the three highest annual revenue payments to the county from fiscal year 1986 through fiscal year 1999.

Counties electing the second option generally must use 80 to 85 percent of the payments on certain county services such as maintaining roads and schools.³ The remainder can be (1) reserved by the county for special projects that benefit federal lands, known as Title II projects; (2) reserved by the county for county projects related to federal lands (such as search-and-rescue work on federal lands), known as Title III projects; or (3) returned to the Treasury. The merchantable material contracting pilot program applies only to Title II projects.

Title II projects are to be proposed by local resource advisory committees and must be approved by Forest Service or BLM; these agencies then carry out approved projects using the reserved Title II funds. Projects are to improve maintenance of existing infrastructure, enhance forest ecosystems, and restore and improve land health and water quality. The act requires that a certain percentage of Title II projects nationwide that are expected to generate merchantable material must be implemented under the pilot program, using separate contracts for harvesting or collecting the material and selling it.⁴ The authority to initiate Title II projects under the act expires September 30, 2006.

²The act covers all National Forest System lands as well as certain BLM lands in Oregon.

³Counties receiving less than \$100,000 annually from National Forest System lands may spend up to 100 percent of the payment on these county services.

⁴In fiscal year 2001, 15 percent of Title II projects generating merchantable material were to be conducted under the pilot program; in fiscal years 2002 and 2003, 25 percent of projects; and in fiscal years 2004-2006, 50 percent.

Few Pilot Projects Have Been Approved, and None Have Yet Been Implemented

According to our analysis, as of February and March 2003, the Forest Service or BLM had approved 1,268 Title II projects. Of these, 13 projects are expected to generate merchantable material: 1 began in fiscal year 2002 and is ongoing, 9 are expected to begin in fiscal year 2003, and the remainder to begin in fiscal year 2004 or later.⁵ Of the 10 projects underway or expected to begin in fiscal year 2003, 6 are expected to be included in the pilot program using separate contracts for harvesting and selling merchantable material. All six pilot program projects are in Oregon, and all involve removing small-diameter trees. As of March 2003, no harvesting or collection of merchantable material had begun on any of the six projects. Table 1 shows the projects' locations and anticipated start dates.

Table 1: Title II Projects to Be Conducted Under the Merchantable Material Contracting Pilot Program

Project name	Project location (county and state)	Title II funds reserved	Estimated start date	Managing agency
Boaz Forest Health and Small Diameter Utilization	Jackson (OR)	\$108,362	Spring 2003	BLM
Density Reduction—Chetco	Curry (OR)	75,000	Spring 2003	Forest Service
Small Tree Treatment Project—Illinois Valley	Josephine (OR)	67,500	Summer 2003	Forest Service
Waters Creek Fuel Reduction	Josephine (OR)	146,250	Spring 2003	Forest Service
Westside Small Tree—Chetco	Curry (OR)	75,000	Summer 2003	Forest Service
Westside Small Tree—Gold Beach	Curry (OR)	68,550	Summer 2003	Forest Service

Source: Forest Service and BLM.

Because of the small number of approved projects expected to be conducted within the merchantable material contracting pilot program, further assessment of the program by September 30, 2003, would provide limited useful information. As agreed with your offices, we are providing this letter summarizing program activity to date and plan no further assessment of the pilot program at this time.

⁵No Title II projects involving merchantable material were approved or undertaken in fiscal year 2001.

Scope and Methodology

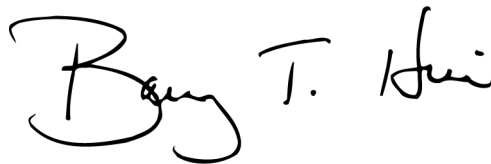
To determine the number of Title II projects, including the number of projects expected to generate merchantable material and the number to be conducted in the pilot program, we reviewed Forest Service and BLM documents including lists and descriptions of projects; interviewed officials in all nine Forest Service regions and BLM's Oregon State Office; and interviewed cognizant headquarters officials in Forest Service and BLM. We conducted our work from January through March 2003 in accordance with generally accepted government auditing standards.

Agency Comments

We requested comments on a draft of this letter from the Secretaries of Agriculture and of the Interior. In response, we received oral comments from the Forest Service's Director of Policy Analysis and BLM's Acting Group Manager for the Forest and Woodland Management Group, who generally concurred with the information presented in our letter. The BLM official also provided some technical corrections, which we incorporated as appropriate.

We are sending copies of this letter to the Secretary of Agriculture and the Secretary of the Interior. The letter also is available on GAO's home page at <http://www.gao.gov/>.

If you have questions about this letter or need further information, please contact me at (202) 512-3841, or David P. Bixler, Assistant Director, at (202) 512-7201. You may also reach us by email at hillbt@gao.gov or bixlerd@gao.gov. Other key contributors to this assignment were James Espinoza, Steve Gaty, and Diane Lund.



Barry T. Hill
Director, Natural Resources
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