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WASHINGTON, D.C. 20548

8844

B-182143

JANUARY 15, 1979

Chairman, Subcommittee on Environment,  
Energy, and Natural Resources  
Committee on Government Operations HSE4508  
House of Representatives

Dear Mr. Chairman:

The late Chairman, in letters dated August 7 and October 16, 1978, requested that we review the cost of the Redwood National Park expansion authorized by Public Law 95-250. In response to these letters and subsequent meetings with his office we are providing a report on (1) the status of the 1978 legislative taking and the steps involved in settling claims of the previous property owners including three redwood companies: Arcata Redwood, Louisiana Pacific Corporation, and Simpson Timber Company, (2) the original park cost estimate for the additional 48,000 acres legislatively taken, and (3) the redwood lumber industry, its production trends, its price trends, and the reasons given to us, by redwood companies not involved in the taking, for decreased production and increased prices.

Ident (CA)

Our review disclosed that:

- The process to resolve claims for compensation by the former owners of the redwood trees and land is complex and time consuming, and unless an out of court settlement is reached will probably be determined in the U.S. District Court in San Francisco. (See p. 4.)
- The original estimate of \$359 million for acquiring the 48,000 acres of land and trees was developed without visiting the land to determine the number of trees and volume of timber. The value of the trees was estimated without benefit of comparable sales prices for purchases of this magnitude. Also, the estimate did not include other costs unidentifiable at that time, such as costs for severance and interest. (See p. 5.)
- Most redwood lumber is produced by 10 to 12 companies, generally from their own trees. Production increased steadily over the last 10 years. Industry sources explained it is now dropping because of a loss of trees

STATUS of Acquisition  
NPS Cost estimate

Review  
lumber prices & trees

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Report  
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to the Redwood National Park expansion and because industry has adjusted its production downward to provide for long-term, sustained operations. (See p. 7.)

*price trends*

- There is little public information available outside of timber companies on price structure and pricing practices of the redwood industry. (See p. 8.)
- The price of redwood lumber has increased dramatically during the last 10 years. Industry sources said this was the result of supply and demand. (See p. 10.)

AGC 00037

Our review was performed from August through December 1978. We contacted officials in the Departments of the In-terior and Justice in Washington, D.C., and San Francisco, California, who are or were responsible for administering and implementing the Redwood National Park acts. Wherever possible we examined and obtained copies of pertinent documents and records. We also interviewed officials of the Save-The-Redwood League, the California Redwood Association, and several California redwood timber wholesalers and producers, except those affected by the 1978 legislative taking. One of the companies involved in the taking contacted us. We briefly talked to an official regarding the scope of our review who provided information similar to that provided by other redwood producers contacted. Much of our information on the redwood lumber industry was received through interviews and was not verified by a review of records because if they exist, they are proprietary property of the individual companies.

*NPS  
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BACKGROUND

The Redwood National Park was established in northern California in two increments: Public Law 90-545, October 2, 1968, created the Park and limited it to 58,000 acres and Public Law 95-250, March 27, 1978, added 48,000 acres.

Public Law 90-545

The 1968 Redwood National Park Act created the park, vested title in the land, and provided authority which the Federal Government used to take immediate possession of about 28,800 acres of privately owned lands (legislative taking) that were within the park boundaries. In addition, three California State parks, totaling about 27,900 acres, and 1,300 acres of Federal land were included in the boundaries, making the original park 58,000 acres.

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To compensate private landowners whose lands were taken, the act provided that compensation could be paid in cash, by the exchange of federally owned property, or a combination of both. The act authorized \$92 million to be appropriated for the land acquisition. Interest on the amount to be paid was set by the act at 6 percent a year from the date of taking to the date of payment. Existing law permitted landowners to bring action in the U.S. Court of Claims should they and the Government fail to reach agreement on the amount of compensation.

The landowners pursued this matter in court and at the end of December 1978 had been awarded about \$190 million in land and cash. Another \$58 million in claims is still under litigation. Of the amount awarded, four timber companies received approximately \$151 million for land, \$27.3 million for interest, and \$2.6 million for severance. <sup>1/</sup> The remaining amounts were for settlements to small landowners and for program administration.

#### Public Law 95-250

To expand, protect, and preserve the Redwood National Park, the Congress amended the 1968 act by enacting Public Law 95-250, which became effective when the bill was signed into law on March 27, 1978. This act immediately vested title in the Government to an additional 48,000 acres of privately owned land adjacent to the existing park. The act also authorized rehabilitation programs to protect the park areas. In addition, it provided the Secretary with standby authority to acquire other land necessary to protect the park. This land, totaling 30,000 acres, is in an area designated as "the Park Protection Zone," located on a watershed above the park. Park Service officials have no plans to acquire this added property and believe that the park is adequately protected by State harvest laws and lumber companies' cooperation.

Under this act, the Federal Government, as in the original acquisition, took immediate title and possession of privately owned lands in excess of 50 acres that were within the park boundaries. Also, as in the first act, "just compensation" for lands legislatively taken was mandated. Unlike the 1968 act, the amendment did not specifically authorize an amount for compensation. However, during hearings

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<sup>1/</sup>Defined as any loss in value of remaining property caused as a result of the taking of part of the property.

on the expansion of the park, the Park Service estimate of \$359 million for land and timber was mentioned repeatedly.

Additionally, instead of permitting the case to be settled in the U.S. Court of Claims, the new act specified that either the owners or the Government could file suit in the U.S. District Court should they fail to reach agreement on the amount of just compensation. According to congressional records, this change apparently was made to (1) permit the Government to file suit against landowners to resolve claims, (2) allow a jury to decide the amount of money to be awarded claimants, and (3) permit funds to be deposited with the court and distributed to claimants to stop the interest from accruing.

#### STATUS OF ACQUISITION

Since March 27, 1978, when the land became Government property, the National Park Service and the Department of Justice have been involved in a complicated process to determine the cost of the acquisition. It may take several years to settle the claims of the 21 former owners. Three were large redwood timber owners while the other 18 were owners of smaller pieces of property.

When the Government took title to the property, only a preliminary estimate of land and timber costs had been made. Much was unknown including the location of the Park's boundaries; the exact acreage taken; the timber quality and volume; and other costs, including interest and severance damages--such as loss of capital assets, interruption of operations, and loss of profit--that the former owners could claim.

A Department of Justice attorney heads the Government team established to settle the claims of the former owners. The team made arrangements for the Bureau of Land Management to survey the park to establish boundaries to conform with natural ridge lines. This survey could take up to 2 years to complete.

A consultant has also been retained to develop specifications for a timber cruise. <sup>1/</sup> To reduce the potential for extended litigation and to expedite the process, the Government will attempt to gain former owners' acceptance of its cruise specifications.

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<sup>1/</sup>A method of counting and measuring the size of trees to determine timber quantity and quality.

Following these tasks, the Government will solicit proposals from firms for the cruise and the evaluation of the trees and property. Because so few firms are qualified to cruise and appraise redwood, the Park Service anticipates that it may be difficult to find a firm and this may result in a delay. Further, the cruise and appraisal may be quite time consuming because some of the more valuable tracts of land included in the 48,000-acre acquisition may have to be completely cruised and because the appraisal will have to consider the impact on parcels of land outside of the park boundaries. Additionally, in view of the significance of the acquisition more than one evaluation may be made.

It could take 2 or 3 years to complete the cruise and evaluation phases to establish the Government's estimate of the land and timber value. Negotiations will then be started with the former owners to agree on the value of trees and land taken. However, the ultimate question of value probably will be resolved by the district court after protracted litigation. The three large timber companies already have filed suits in the U.S. District Court in San Francisco. ①

To reduce the amount of interest on the cost of the park and to provide compensation to former landowners the Congress has appropriated \$305 million. Of this, \$300 million was deposited with the district court for distribution to the former owners. The remaining \$5 million will be used for various costs relating to the settlement. No further appropriations are anticipated until the final settlement, which will probably be in the mid-1980s.

#### NATIONAL PARK SERVICE COST ESTIMATE

After the initial 1968 park taking, much controversy arose about potential damage to the park from logging in the surrounding forest located on steeper, wetter, and more unstable hillslopes above the park. Reacting to this concern and to indications that the Congress was interested in obtaining additional park area, the National Park Service's Western Regional Office, in October 1976, prepared a proposal to acquire five units of property, or an additional 21,460 acres. Later in March 1977 the Park Service issued a study setting forth a series of land acquisition options which expanded the earlier plan by adding three more units bringing the total to eight units and 78,365 acres.

A bill was submitted on July 26, 1977, by the Secretary of the Interior which proposed a 48,000-acre park expansion at an estimated cost of \$359 million. This estimate, the

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only one currently available from the Park Service, was developed from information in these two studies which excluded such costs as interest and severance costs and was made using only two basic sets of factors: (1) estimated acreage and timber volumes, and (2) estimated value per unit of land and timber.

Because inventory data was not available, boundaries not known, and access to land for cruise and appraisal purposes not permitted by the timber companies, the Park Service found it necessary to use an alternative process to estimate the cost of the land and trees. Acreage figures were developed using Geological Survey maps and aerial photographs. Timber volumes were developed using information from cruises conducted in 1967 which were later found to be understated. Timber volumes were corrected by using more accurate volume statistics used to settle claims from the original acquisition. This approach resulted in an estimate that the expansion area of 48,000 acres contained 1,557,055,000 (1.557 billion) board feet of timber.

The Park Service had difficulty estimating the value of land and redwood timber because of a lack of transactions of comparable redwood sales. The California Department of Forestry in 1976 estimated forest land costs at \$185 to \$285 per acre. However, increases in second-growth, standing timber suggested to the Park Service that these figures might be low; consequently, the Park Service arbitrarily estimated land costs at \$350 per acre to take into account the potential increase in timber value. About 3,000 acres of treeless prairie land were lumped together with the timbered lands for the estimate.

The estimated value of the timber was made by deriving an average value for the standing timber for the various species, including old growth redwood, second-growth redwood, douglas fir, hemlock, and spruce, and estimating the proportion of each species present. Limited information on the price of logs was available from the Humboldt County Assessor's Office and the California State Board of Equalization. After adjusting this information for probable logging costs, the Park Service estimated that the standing timber had a value of about \$200 per thousand board feet. The Park Service then used \$220 per thousand board feet to adjust for expected appreciation in value over time.

The \$359 million park estimate submitted to the Congress on July 26, 1977, was then calculated by applying a \$350 cost per acre for the 48,000 acres and a \$220 cost per thousand

board feet for the estimated 1,557,055,000 board feet in the taking. No factors were included in the estimate for probable but unidentified or unknown costs which were awarded in the 1968 court settlement. These costs included severance and interest.

Early in 1978, just prior to enactment of the legislation, the Park Service reconsidered its initial 1977 estimate. At that time it decided that it was still valid although it felt that the cost of standing trees (stumpage) had probably gone up. But it also felt this would be offset by the large amount of timber that had been cut down by the timber companies between the two dates.

#### REDWOOD LUMBER PRODUCTION AND TRENDS

Redwood lumber production is relatively small in volume but a highly distinctive segment of the lumber industry because of the special nature of the product, the geographical compactness and limited amount of timber lands in the northern California and Oregon growing regions, the small number of producers, and the special production problems. Aside from the large size of the logs handled, the most striking characteristic of the production process is the lengthy period, at times, 1 to 2 years, required to air-dry lumber before it can be successfully kiln-dried. Another striking feature of the industry, compared to softwood lumber in general, is that fewer than 12 companies produce the bulk of the lumber. According to a University of California economist, these factors, coupled with the strong demand inspired by the special features of the wood, cause the industry to reflect an oligopolistic character (shared monopoly) which is reflected in redwood prices that usually show a steady upward price trend.

Redwood is in high demand because of its versatility, appealing grain and surface patterns, variety of colorings, and resistance to weather elements. This demand is enhanced even more by extensive advertising and promotional activities of the redwood industry to convince builders, architects, and the general public of the merits of redwood.

The major uses of redwood are in construction, particularly in the finishing stages, and in expensive custom homes and commercial buildings, while little is used in subdivision tract homes. Other uses include furniture, fences, retaining walls, tanks, tubs, and cooling towers. All these uses result in a strong and steady demand not comparable to that for white softwoods, where demand is closely correlated with changes in construction as measured by housing starts and

where prices are affected by many producers reacting in a highly competitive market. Industry representatives were not able to identify any one specific factor which would be indicative of demand for redwood.

### Redwood lumber production trends

The number of redwood lumber producers has been substantially reduced over the years while the volume of redwood lumber has increased until recently. At one time, there were well over 100 small mills involved in production. This has changed, and today only a few firms, which own most of their timberland, dominate the market. The volume of lumber processed through redwood mills, as reported by the California Redwood Association, which represents the preponderance of industry production, shows that total annual production ranged in the area of 500 to 700 million board feet from 1964 to 1975, peaked at 812 million board feet in 1976, and recently has shown a decreasing trend, especially since January 1977 through July 1978. (See charts 1 and 2 on next page.)

Information is not publicly available to describe the specific production trends by company, nor the reasons for changes. We interviewed a number of wholesale lumber companies, as well as most of the lumber producers who produce the bulk of redwood lumber. There was essentially a universal response that the Government is at fault for the reduction in production of redwood lumber because it took so much land out of production by creating the Redwood National Park and its expansion. Timber companies also responded that the reduced supply of redwood timber has caused them to cut back on their production to insure long-term, sustained operations. Several speculated that the drop in redwood production in 1978 is specifically due to the fact that the companies involved in the park taking may no longer have redwood timber to process in their mills.

### REDWOOD LUMBER PRICE TRENDS

Generally, redwood trees are not sold standing on the stump. The practice for most of the producers of redwood lumber is to internally process the lumber from their own trees and to sell the finished lumber through wholesalers, jobbers, and directly to some retail outlets. Redwood is primarily sold in the form of boards such as 1 by 8's, larger beams, or siding.

Information on wholesale prices quoted for redwood lumber and the prices paid generally is not available. Some



CHART 1  
TOTAL ANNUAL REDWOOD LUMBER PRODUCTION  
1964-1977

MILLIONS OF BOARD FEET

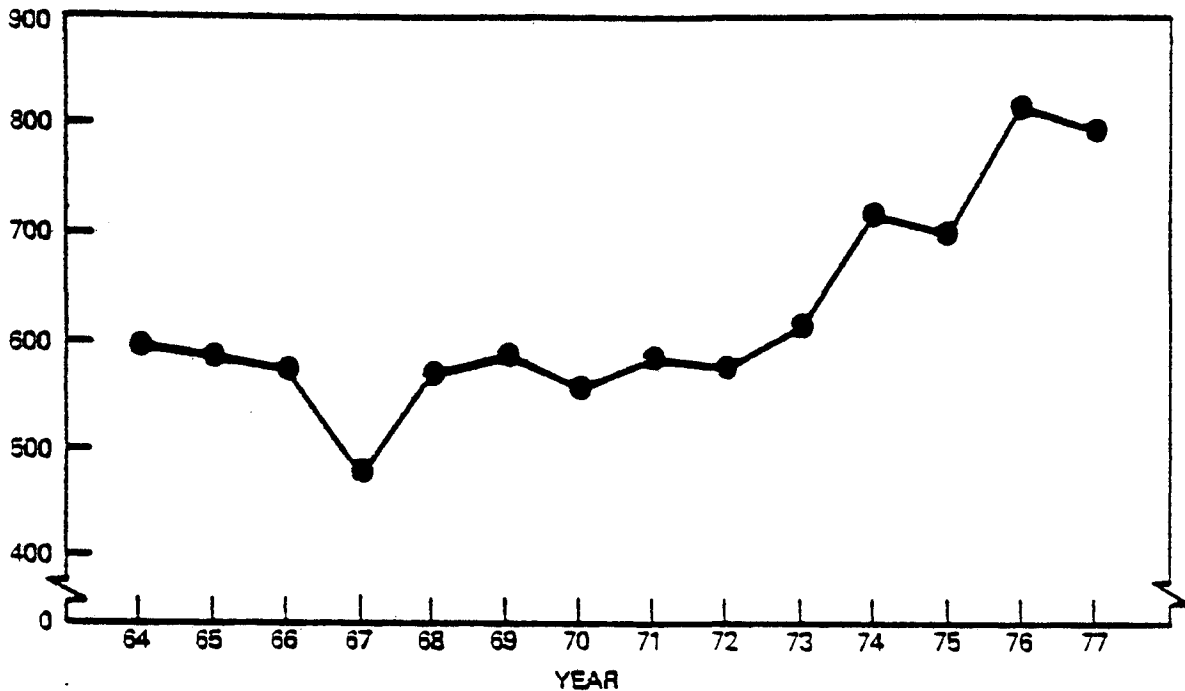
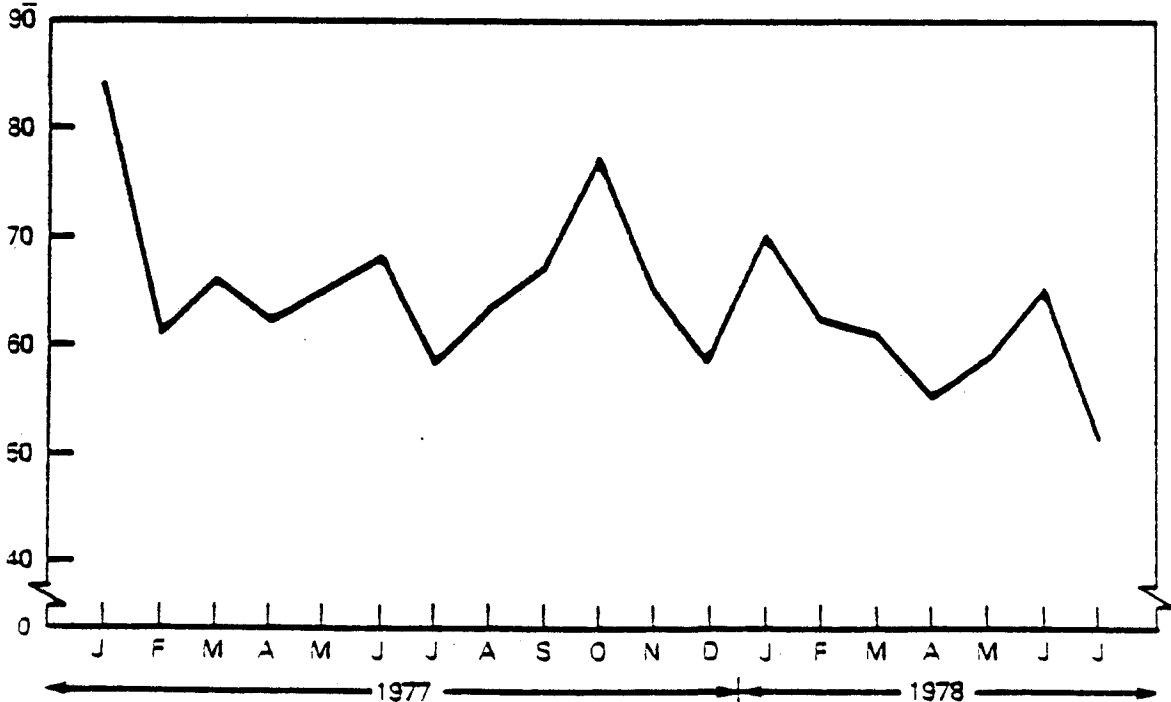


CHART 2  
MONTHLY REDWOOD LUMBER PRODUCTION  
JANUARY 1977 - JULY 1978

MILLIONS OF BOARD FEET



of the larger companies periodically publish price lists which are made available to their customers but not to the public. Some of the smaller mills do not publish lists, but will make specific quotations upon inquiry by potential purchasers. Additionally, while lists are published, they do not necessarily reflect the prices that were paid for lumber.

Industry officials described the dealing in lumber as involving a considerable amount of negotiating and bartering over the price of lumber depending on the volume bought and the size of their inventory. We also noted some indications that purchasing a certain scarce or premium product could result in higher prices to the purchaser and at times if a surplus exists, lower prices.

The value of redwood lumber varies greatly depending on its qualities: grade; width and length; grain pattern, whether vertical or flat; and whether kiln-dried or green. The grade, the predominant value factor, is determined by the suitability of the wood for the intended uses in construction and includes evaluation of visual factors, including presence of knots and their location and size; the stain or color pattern, the existence of sapwood (cream colored wood); and other visual factors. Grades run from the highest valued redwood, "clear all heart" which contains only the most insignificant defects and "clear" which is the same except sapwood is permitted, down to the lowest grades of "merchantable and economy" which contain larger defects and imperfections and which may be suitable for only temporary construction or crating.

The primary source of public information on prices of redwood lumber we identified is the Bureau of Labor Statistics price index. The Bureau publishes prices for random lengths of 6 to 20 feet and 1 by 8 inches of clear all heart, flat-grain, kiln-dry redwood boards and the same size of green merchantable, flat-grain redwood boards. These boards represent an upper grade board and a lower grade board, respectively. Information on sales prices for these products is reported to the Bureau by various producers on a confidential basis. The Bureau publishes these figures monthly and will not reveal the names of the firms or even the number of companies supplying the data.

Information from the Bureau shows that the price per thousand board feet of redwood lumber remained relatively stable from 1964 to 1968 at about \$200 to \$250 for clear all heart, dry boards and \$80 to \$110 for green merchantable boards. In 1968 at the time of the first park taking, the

upward trend accelerated. Prices increased even more in the period beginning in 1973. (See charts 3 and 4 on next two pages.) In July 1978 prices reached an all-time high of \$813 for the clear all heart and \$336 for green merchantable lumber.

We discussed these charts with various lumber producers, who agreed that these were indicative of the prices charged for that type of product. They said that prices would even be higher for the premium redwood boards with vertical grain and larger dimensions, such as 2 by 12's.

In discussions with producers, we stated that the information we were able to obtain from wholesalers, including some price lists, indicated that individual company prices were generally following the same pattern and asked the producers to explain this. The producers responded that high prices are a result of supply and demand. There is a constant demand from the many wholesale operators for more redwood lumber. In other words, because production is limited and demand is very high, high prices result. They also pointed out that some clear, white wood, such as pine, has also increased dramatically.

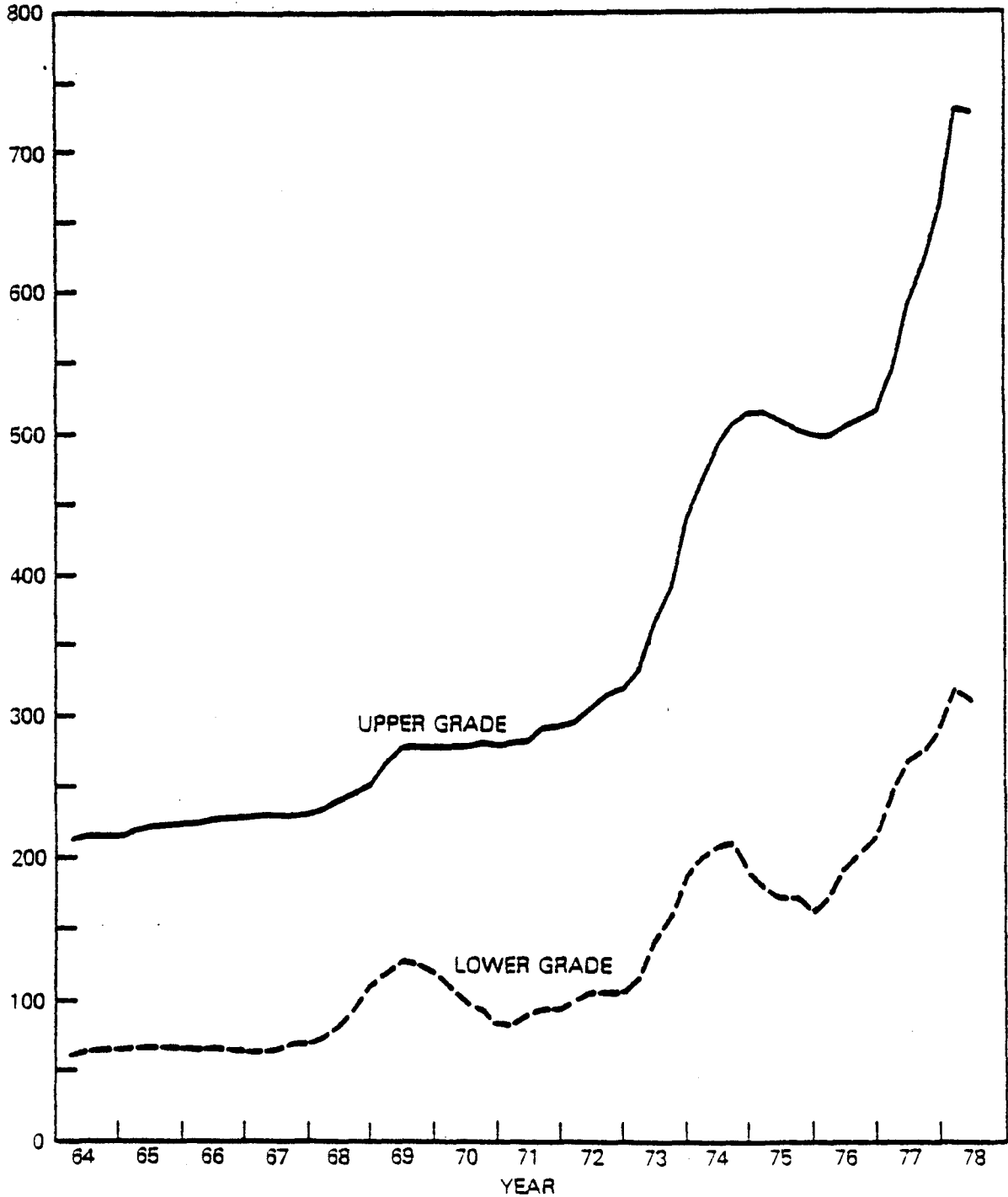
With respect to similar prices being charged, producers stated that everyone in the industry, because it is so small, knows what is being charged. Many producers also purchase redwood lumber to fill out their lines and therefore gain price information in this manner as well as through the negotiation process with their own customers. Some said that there was no reason why they should sell their products for less than other companies. One indicated that if sales of a given item are too brisk, it is indicative that they are selling too low. Aside from the basic explanation of supply and demand being the major factor in price increases, several producers cited higher costs associated with increasing labor and fuel, as well as increased costs attributable to Federal and State environmental regulations.

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Because of time constraints our report has not been presented to the National Park Service or Department of Justice for written comments. However, during the course of the review we solicited the comments of agency officials and have included their explanations where appropriate. During our discussions, these officials said that they did not believe the information we are reporting would adversely affect the Government's position in resolving the claims of the

CHART 3  
REDWOOD BOARDS PRICES  
1964 - JUNE 1978

DOLLARS/PER THOUSAND BOARD FEET

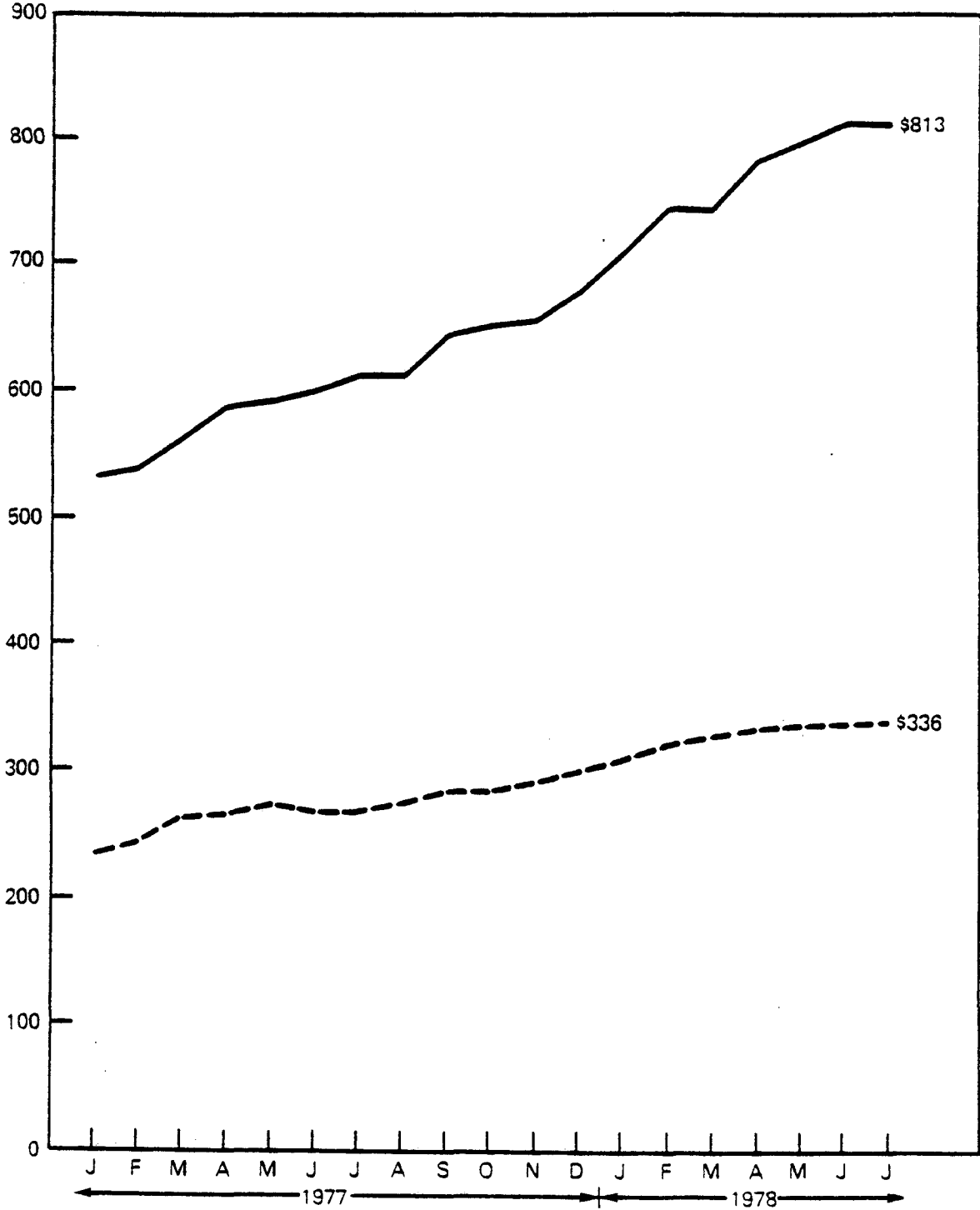


LEGEND:

- REDWOOD BOARDS, 1 INCH BY 8 INCHES, CLEAR ALL HEART, FLAT GRAIN, KILN DRY
- - - REDWOOD BOARDS, 1 INCH BY 8 INCHES, MERCHANTABLE FLAT GRAIN, GREEN

**CHART 4**  
**REDWOOD BOARDS PRICES**  
**JANUARY 1977 - JULY 1978**

DOLLARS/PER THOUSAND BOARD FEET



LEGEND:

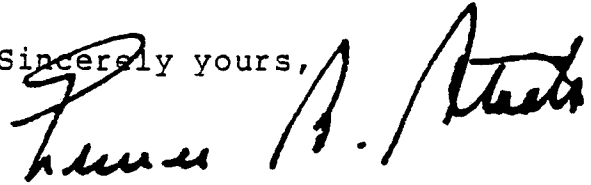
- REDWOOD BOARDS, CLEAR ALL HEART, FLAT GRAIN, KILN DRY
- - - REDWOOD BOARDS, MERCHANTABLE FLAT GRAIN, GREEN

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former landowners involved in the 1978 expansion of the Redwood National Park.

Unless you publicly announce its contents, we will be in touch with your office regarding further distribution of this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas A. Stebbins". The signature is written in a cursive style with a large, prominent initial "T".

Comptroller General  
of the United States

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No. 1 of 2

TITLE OF REPORT

Review of the Cost of the Redwood National Park (Code 14860)

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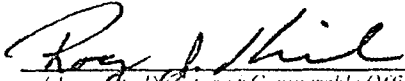
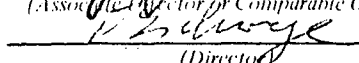
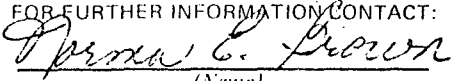
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1	Mr. Tom Reese, CED, Room 6802

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Review of the Cost of the Redwood National Park (Code 14860)

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	_____ TO EACH PARTICIPATING REGIONAL AND BRANCH OFFICE

CODES		
BUDGET FUNCTIONS <u>0806</u>	ORGANIZATIONS <u>DINT</u>	ISSUE AREAS/LINES OF EFFORT <u>None</u>
_____	_____	_____
_____	_____	_____

DETERMINATION OF QUANTITY TO BE PREPARED		QUANTITY
INITIAL DISTRIBUTION	EXTERNAL DISTRIBUTION	60
	INTERNAL DISTRIBUTION	—
	TOTAL INITIAL DISTRIBUTION	60
SUBSEQUENT DISTRIBUTION AND RESERVE STOCK	RECURRING SUBSEQUENT DISTRIBUTION	—
	DIVISION IS TO CHECK APPLICABLE BOX(ES): <input type="checkbox"/> ALL <input type="checkbox"/> SELECTED SUBJECTS <input checked="" type="checkbox"/> NONE	—
	RESERVE STOCK	100
	PROVISION FOR DISTRIBUTION TO THE NEWS MEDIA	
	BY MAIL _____	—
	BY HAND _____	—
PROVISION FOR ADDITIONAL QUANTITIES, IF NECESSARY	—	
TOTAL SUBSEQUENT DISTRIBUTION AND RESERVE STOCK	100	
TOTAL QUANTITY TO BE PREPARED		160

APPROV <u><i>Ray J. Hill</i></u> (Associate Director or Comparable Official) _____ (Director)	<u>12/15/78</u> (Date) _____ (Date)	FOR FURTHER INFORMATION CONTACT: <u>Norma E. Brown</u> (Name) <u>343-4594</u> (Phone Number)
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*new 12-7*

U.S. GENERAL ACCOUNTING OFFICE

APPROVAL FOR RELEASE AND DISTRIBUTION OF REPORT

(CONTINUATION SHEET)

GAO FORM 115-1 (Rev. Nov. 71)

TITLE OF REPORT

Review of the Cost of the Redwood National Park (Code 14860)

REQUISITION NUMBER

B-NUMBER

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1	The Honorable Secretary of the Department of the Interior 1951 Constitution Avenue Room 6151 Main Interior			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2	Mr. William J. Whalen, Director National Park Service - Main Interior - 1951 Constitution Ave. N.W. Room 3104				<input checked="" type="checkbox"/>
20	Mr. William Kendig, Acting Deputy Inspector General Office of Inspector General - Department of the Interior Room 5358 Main Interior			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2	Alson R. Kemp Jr., Pillsbury Madison & Sutro 225 Bush Street, P.O. Box 7880 San Francisco, California 94120				<input checked="" type="checkbox"/>
1	Department of Justice Attorney General 10th & Pennsylvania Ave., N.W.			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2	Max Findley Department of Justice - Room 1258 10th & Pennsylvania Ave. N.W.			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
2	Congressman Phillip Burton, Chairman Subcommittee on Parks and Insular Affairs House Committee on Interior and Insular Affairs			<input checked="" type="checkbox"/>	