

Prepared Testimony of Autumn Hanna, Vice President, Taxpayers for Common Sense

Legislative Hearing: *Roads to Ruin: Examining the Impacts of Removing National Forest Roadless Protections.*”

National Parks, Forests and Public Lands and Subcommittee
United States House of Representatives Natural Resources Committee

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Good afternoon Chairman Haaland, Ranking Member Young, and members of the subcommittee. My name is Autumn Hanna, and I am vice president of Taxpayers for Common Sense (TCS), a national, non-partisan budget watchdog organization.

Thank you for the opportunity to testify today on our budget concerns regarding the repeal of the Roadless Rule in the State of Alaska.

TCS has long supported reforming the U.S. Department of Agriculture’s Tongass timber program and its associated road costs and are pleased to be a part of the discussion today.

The mission of Taxpayers for Common Sense is to achieve a government that spends taxpayer dollars responsibly and operates within its means. Over the years, we have identified, highlighted, reformed and eliminated wasteful spending and tax breaks in agriculture programs, Pentagon spending, corporate welfare, and infrastructure.

For nearly 25 years, TCS has worked to ensure that taxpayers receive a fair return on ALL resources extracted or developed on federal lands and waters. This includes oil, gas, coal, hardrock minerals, wind, solar and timber. Revenues collected from resource development represent an important source of income for the federal government and must be collected, managed and accounted for in a fair and accurate manner. As the rightful owners of these resources, taxpayers are entitled to fair market compensation, just like private landowners.

This morning, I will discuss our concerns with the timber program in the Tongass National Forest and how the repeal of the 2001 Roadless Rule in the State of Alaska would exacerbate our concerns.

Background

The U.S. Forest Service within the U.S. Department of Agriculture (USDA) manages 193 million acres of public forests and grasslands collectively known as the National Forest System. The Tongass National Forest (Tongass) in Southeast Alaska is the nation’s largest at 16.7 million acres, roughly the size of West Virginia. Every year, the Forest Service prepares and conducts sales for the rights to harvest millions of board feet of timber from the Tongass. These sales have historically generated less revenue than the Forest Service spends to administer them, resulting in large net losses for U.S. taxpayers.

Whether a timber sale generates a net gain or loss to taxpayers depends on how much the Forest Service spends to prepare and administer it, and the amount of revenue collected when the sold timber is harvested.

The Forest Service follows what is known as the GATE system to plan, prepare, and offer timber for sale. This process includes six stages, or gates: initial planning, project analysis and design, timber sale preparation, advertisement of the sale, bid opening, and awarding the contract. Though the system builds in cost-efficiency and competition, over the years it has fallen dramatically short at recouping a fair return for taxpayer-owned timber in the Tongass.

For decades, the Forest Service has administered timber sales in the Tongass that have generated net losses for the agency, and thereby federal taxpayers. That is, the costs incurred by the Forest Service to administer its timber sales program have surpassed receipts generated from the resulting sales. The U.S. Government Accountability Office (GAO) has criticized the Forest Service for preparing and conducting these “below-cost” timber sales in the Tongass since the 1980s.

A History of Taxpayer Losses

In its first report on below-cost timber sales, the GAO documented that the problem was widespread and identified 433 out of 1,630 sales in four Forest Service regions in fiscal year (FY) 1981 that had been sold for a collective loss of \$64 million. Similarly, the report found that 42 percent of sales conducted in regions 1, 2, 4, and 6 in FY1982 had been below-cost and generated \$92.8 million in total losses.¹

In 1988, the GAO reported that the Forest Service’s timber sales program in the Tongass alone had lost a total of \$22.1 million in FY1986, equivalent to roughly \$51.5 million today.² Over several years in the 1990s, the GAO returned to the subject and audited the Forest Service’s timber program accounts for the Tongass and other forests.³ According to budget data published by the agency, the Forest Service’s timber program lost \$210 million from FY1992 to FY1997, in today’s dollars, or roughly \$35 million per year. Even after allowing for the Forest Service’s ridiculous accounting practice of accepting road credits instead of cash for timber,⁴ which Congress rightly ended in FY1999, the Tongass timber program still lost more than \$11 million per year on average over those six years.

Recent Estimates of Timber Sale Losses

In 2016, the GAO reported that from FY2005 to FY2014, the Forest Service expended an average of \$12.5 million annually for timber-related activities in the Tongass and received only \$1.1 million on average in receipts from timber harvest, resulting in an average net loss of roughly \$11.4 million per year.⁵ The agency was careful to note, however, that those totals did not take into account the millions of dollars the Forest Service spends annually to build and maintain roads in the Tongass National Forest. By the Forest Service’s own admission “the vast majority” of roads in the Tongass were built for timber harvest purposes.⁶ Road expenses are timber expenses.

Using the GAO’s 2016 methodology, but including road expenses, my organization recently published a report reviewing the Tongass timber program’s finances over the 20-year period from FY1999 to

¹ General Accounting Office, RCED-84-96, “Congress Needs Better Information on Forest Service’s Below-Cost Timber Sales,” June 28 1984. Regions 1,2,4 and 6 include every state from Kansas north to North Dakota and west to Washington, excluding California.

² General Accounting Office, RCED-88-54, “TONGASS NATIONAL FOREST: Timber Provision of the Alaska Lands Act Needs Clarification,” April 11 1988.

³ GAO, RCED-95-237FS; GAO, RCED-96-122R; GAO, RCED-99-24; GAO, RCED-99-174

⁴ The Purchaser Credit Program allowed timber harvesters to accrue credits equal to their costs for building some timber access roads and then pay the Forest Service for the timber with those credits. For more information, see Congressional Research Service report 97-706, “Forest Roads: Construction and Financing,” July 16, 1997. The program was ended through P.L. 105-277 §329

⁵ GAO, “TONGASS NATIONAL FOREST: Forest Service’s Actions Related to Its Planned Timber Program Transition,” April 2016.

⁶ U.S. Forest Service, “Final Environmental Impact Statement: Tongass Land and Resource Management Plan.” June 2016. Appendix C, pg. C-4

FY2018.⁷ Our report concluded that the Forest Service lost \$600 million through its Tongass timber program over those 20 years, after adjusting for inflation, or roughly \$30 million per year.

In our analysis, we included six budget line items as outlays associated with timber sales. These six budget accounts fund three types of Forest Service activity: timber sale preparation, reforestation, and road building. Other expenses that are necessary for timber sales but primarily serve other Forest Service missions, such as forest inventory and monitoring activities, were not included. That is, an average loss of \$30 million per year is a conservative estimate of the Forest Service's losses in the Tongass over the last 20 years.

It is worth noting that the choice of methodology for calculating Forest Service expenses is almost rendered moot by the paltry revenues generated by the Tongass timber program. Over the last 20 years, the Forest Service collected just \$33.8 million, in 2018 dollars, or \$1.7 million per year on average. That level of revenue is insufficient to cover one-tenth of the agency's Forest Products budget account alone. The Tongass timber program is a money-loser any way you slice it.

Using the budget data available for 26 out of the last 33 years, we conclude that the Tongass timber sales have cost taxpayers more than \$850 million dollars.

Unfortunately, these losses were not unpredictable as they occur year after year, sale after sale with little to no exception. Fundamentally, the system is flawed. The Forest Service has and continues to administer its timber program in a way that first and foremost protects the logging industry and its interests, rather than taxpayers. This bias is, in part, congressionally directed and must be corrected to protect U.S. taxpayers.

Road Costs and the Maintenance Backlog

Addressing timber sale losses becomes even more urgent when considered in the larger budget context. The Forest Service is in tight budget times. According to Forest Service testimony earlier this year before the Senate Energy and Natural Resources Committee, the agency faces an overall deferred maintenance backlog of more than \$5.2 billion but has an annual budget of less than \$450 million for all maintenance and infrastructure needs.⁸

The Forest Service cannot adequately maintain the existing 370,000 miles of roads in the National Forest System. The deferred maintenance backlog for these roads is currently around \$3.2 billion.⁹ New timber sales in roadless areas would increase the mileage of roads that must be maintained, further exacerbating Forest Service budget constraints, again, ultimately at taxpayer cost.

On the front end, National Forest System road construction costs are largely covered by the Forest Service, even though their primary intended use is to facilitate timber harvest. A Tongass roads analysis prepared for the Forest Service in January 2003, found that, "the availability of maintenance level 3, 4, and 5 roads (those open to passenger cars) in Southeast Alaska is sufficient to satisfy local demand for roaded recreation, subsistence, and community connectivity needs and demands in most districts."¹⁰ Though the demands for transportation infrastructure for non-timber purposes have surely changed since

⁷ Taxpayers for Common Sense, "Cutting Our Losses: 20 Years of Money-Losing Timber Sales in the Tongass." October 2019. <https://www.taxpayer.net/energy-natural-resources/cutting-our-losses-tongass-timber/>

⁸ US Forest Service, "Reducing our deferred maintenance backlog," April 2019. <https://www.fs.fed.us/inside-fs/leadership/reducing-our-deferred-maintenance-backlog>

⁹ Lenise Lago, Associate Chief, USDA-Forest Service, testimony before the Senate Committee on Energy & Natural Resources. June 18 2019. https://www.energy.senate.gov/public/index.cfm/files/serve?File_id=9D5D526C-2337-4002-9072-285BE733E072

¹⁰ *Tongass National Forest Forest-Level Roads Analysis*, Prepared for Tongass National Forest Region 10 USDA Forest Service, January 2003.

2003, the Forest Service acknowledges that the demand for new roads in the Tongass is driven by timber harvest needs. Forest Service analyses for recent timber sales¹¹ and the new proposed Roadless Rule¹² all demonstrate that increasing the number of logging roads is fueling the administration's drive to open the Tongass to increased road construction.

Adding more miles to the road system in National Forests without devoting funds to pay for their maintenance will only increase that backlog. Any assessment of allowing timber harvest in roadless areas, which would require significant new road construction, must account for the maintenance costs associated with new roads.

Roadless Rule Exemption

Taxpayers for Common Sense has significant concerns regarding the fiscal implications and economic significance of the Forest Service's proposal for the management of inventoried roadless areas in the Tongass National Forest in Southeast Alaska (Alaska Roadless Rule).

The Forest Service's Alaska Roadless Rule preferred alternative would fully exempt the Tongass National Forest from the protection provided by the Roadless Area Conservation Rule (Roadless Rule).¹³ Adopted by the Forest Service in 2001, the Roadless Rule generally prohibits road construction and commercial logging within national forest inventoried roadless areas, including 9.2 million acres in the Tongass National Forest.¹⁴ A full exemption for the Tongass would have major adverse economic impacts nationally and regionally, while providing few if any benefits.

While developing the current proposed rule, the Forest Service put together five separate alternatives for altering the 2001 Roadless Rule, in addition to a no action alternative which would maintain the status quo. The first four of these alternatives would withdraw areas from the current roadless acreage to varying extents and create new categories for managing the remaining roadless areas with fewer or greater restrictions than the current roadless rule.

Specifically, under Alternative 2, the Forest Service would remove the roadless designation from 113,000 acres of the Tongass that are known to have had prior timber harvest or roads in them, known as "roaded roadless" areas. The agency would then apply the roadless designation to 133,000 new acres for a total of 9.22 million acres in roadless areas. More than half of this, 5.11 million acres, would then be further designated and managed under the new "Roadless Priority" category, which would impose fewer restrictions on roadbuilding and development than the 2001 Roadless Rule. In particular, development of leasable resources, like oil, gas, and coal would be allowed. The remaining 3.2 million acres in roadless areas would be managed under the new "Watershed Priority" category, which allows for roadbuilding and timber harvest in fewer circumstances than the 2001 Roadless Rule.

Under Alternative 3, the Forest Service would remove the "roaded roadless" areas from roadless protection, adjacent lands which are a "logical extension" of old road networks or harvest areas, as well as 826,000 acres which are protected from development by statute as "LUD II acres." The agency would then apply the roadless designation to 105,000 new acres, mostly on small islands, to create a total of 8.1 million acres in roadless areas. Of these, 3.2 million would be managed as Watershed Priority lands, 4.7

¹¹ See the Final Environmental Impact Statement (FEIS) for the Prince of Wales Landscape Level Analysis Project, page 331; or, the Draft EIS (DEIS) for the Central Tongass Project, page 360.

¹² U.S. Forest Service, DEIS for the Rulemaking for Alaska Roadless Areas, page 3-142. Hereafter referred to as the "Alaska Roadless Rule DEIS"

¹³ U.S. Department of Agriculture, Proposed Rule, "Special Areas, Roadless Area Conservation: National Forest System Lands in Alaska," October 17 2019. 84 FR 55522

¹⁴ U.S. Department of Agriculture, "Alaska Roadless Rulemaking Questions and Answers," April 2019. https://www.fs.usda.gov/Internet/FSE_DOCUMENTS/fseprd595057.pdf

million would be considered Roadless Priority lands, and 241,000 would be Community Priority lands, where small scale timber harvest would be allowed around certain cities and towns in Southeast Alaska. The Forest Service notes it plans to expand the land managed under this category in its final analysis.

Under Alternative 4, the Forest Service would remove 375,000 from roadless areas and manage the remaining 8.9 million acres under new categories that more permissive than the 2001 Roadless Rule to varying extents. The agency would manage 856,000 acres as “LUD II Priority” instead of removing the LUD-II lands from roadless areas. Another 7.3 million acres would be deemed “Roadless Priority” lands. Then uniquely, Alternative 4 calls for a new “Timber Priority” designation for certain roadless areas that would impose no restrictions on roadbuilding or timber harvest, and thereby defeat the purpose of managing certain parts of the forest as roadless areas.

Alternative 5 would remove 2.3 million acres from any roadless category, far more than Alternatives 2-4, in order to provide for “maximum additional timber harvest opportunity.”¹⁵ Those acres remaining within roadless area would be managed as either LUD II Priority lands, or Roadless Priority lands.

Finally, Alternative 6 would completely exempt the Tongass from the 2001 Roadless Rule, thereby removing all acres from roadless areas. It would not, however, provide for any more timber harvest opportunity than Alternative 5. This is the Forest Service’s preferred alternative.

Each of the alternatives under consideration were developed and are described in the Draft Environmental Impact Statement (DEIS) accompanying the rule as opening up new areas of the Tongass to timber harvest and roadbuilding to varying degrees. This rule is and always has been about timber harvest. As the Forest Service materials indicate, the rule would not materially impact the ability to carry out energy, mining, communications, and infrastructure projects throughout the Tongass:

Exploration, mining, and mineral processing activities, including road construction and reconstruction, are presently allowed in [Inventoried Roadless Areas] and would continue to be allowed under all alternatives...

None of the alternatives are expected to substantially affect the development of energy projects or related infrastructure. (DEIS, page 3-51)

Despite its focus on timber development, the Forest Service maintains that the rule would not significantly change timber harvest levels in the Tongass. The basis for this claim is that the target for timber sales of 46 million board feet (MMBF) per year set in the 2016 Tongass Land Management Plan would not change under the rule.¹⁶ This is misleading. Targets are not reality. Over the last four fiscal years, the Forest Service sold 19 MMBF, on average, or less than half the target. Last year, it sold only 9.2 MMBF.

The decrease in timber sales in recent years is not for lack of agency effort. In FY2018, the Forest Service offered an additional 23.6 MMBF of timber through three sales and did not receive a single bid.¹⁷ The inability of the agency to find a purchaser for this timber after spending millions of dollars to prepare and analyze the three sales over the course of years represents an enormous waste of taxpayer resources.

After devoting considerable resources toward preparing timber sales, the Forest Service is often compelled to subsidize sales if it wants to open them up for bidding because of statutory requirements

¹⁵ DEIS, page 2-15.

¹⁶ U.S. Forest Service, “Alaska Roadless Rulemaking: Regulatory Impact Assessment and Cost-Benefit Assessment.” Page 31.

¹⁷ Alaska Roadless Rule DEIS, page 3-32.

enacted by Congress. In the Department of the Interior and Related Agencies Appropriations Act for FY1998, Congress stipulated that the Forest Service could not offer any timber sale in Region 10 (Alaska) including Western red cedar unless it used local sales values and manufacturing costs.¹⁸ The provision has remained in some iteration in the annual Interior appropriations act ever since. When it appeared in the FY2000 appropriations act, the provision read that no timber sale in Region 10 could be advertised if indicated rates were deficit as determined through a “transaction evidence appraisal system.”¹⁹ By the FY2003 act,²⁰ this had become the “residual value” appraisal system, as it is known today.

The residual value appraisal approach assigns value to timber by first calculating its Selling Value, then subtracting all expected production costs and a profit and risk margin. Production costs are the sum of all manufacturing, logging, log transporting, *and road costs*.²¹ If the indicated advertised rate – the selling value minus the production costs and the 15 percent profit and risk margin – is negative, the Forest Service is prohibited from advertising the sale.²² In recent years, many of the timber sales prepared by the Forest Service have had a deficit appraisal.²³

Instead of abandoning these projects, the Forest Service often attempts to make these sales appraise positive. It does this either by waiting for timber prices to increase, thus increasing the Selling Value in the formula, or by reducing the would-be purchaser’s production costs. The Forest Service reduces harvester costs, primarily, by building roads. This means the Forest Service often spends millions of dollars more before offering the sale. For example, after failing to sell the Kuiu sale, for which a Record of Decision (ROD) was signed in 2008, the Forest Service spent more than \$3 million constructing, reconstructing, and reconditioning 88 miles of roads in the sale area.²⁴ A revised Kuiu sale was subsequently re-offered in both 2016 and 2018 and still failed to attract a bid.

Building roads before advertising sales eliminates any possibility that the revenues gained from the sales will cover all Forest Service costs and guarantees a loss for taxpayers.

To re-state, because of a congressional mandate that all Tongass timber sales must appraise positive, the Forest Service spends millions of dollars on building roads to reduce harvester costs and guarantee harvesters a profit of at least 10 percent. The timber sale process in the Tongass is fundamentally skewed to protect the interest and profits of logging companies, with little or no regard for the cost to taxpayers.

The repeal of the 2001 Roadless Rule has been designed to provide the timber industry with access to any desirable location with little attention to the cost to the Forest Service. The focus of a federal agency should not be to cater to industry. If repealed, there is overwhelming evidence the economics of Tongass timber harvest would not improve, and the returns to federal taxpayers would decrease.

As the materials accompanying the proposed rule state, timber harvest in roadless areas as currently designated would require more road construction, on average.²⁵ These are significant costs. To make timber sales more economical for logging companies to meet annual statutory requirements, the Forest Service will likely end up covering more roadbuilding costs.

¹⁸ P.L. 105-83 §347

¹⁹ P.L. 106-113, Div. B, Appendix C, §333

²⁰ P.L. 108-7 §318

²¹ Forest Service Handbook, Alaska Region, Timber Appraisal Handbook, Chapter 10 – Residual Value Appraisals. Supplement 2409-22. December 11 2018.

²² The calculated “Timber Property Value” – or the increase in timber value from processing - can be added to the calculation in certain circumstances to potentially eliminate the deficit.

²³ The Forest Service often notes it is hard to create timber sales that are economical in the Tongass, see the Roadless Rule DEIS, page 3-32

²⁴ Complaint in the U.S. District Court for the District of Alaska. Case 1:18-cv-00005-HRH, May 16 2018.

<https://earthjustice.org/sites/default/files/files/Timber%20Sale%20Complaint.pdf>

²⁵ Alaska Roadless Rule DEIS, page 3-144

In 2017, the Forest Service began developing alternatives for the Prince of Wales Landscape Level Analysis project, which ultimately provided for the sale of 656 MMBF over the next 15 years. In developing this project, the Forest Service considered one alternative that would have allowed the sale and harvest of timber in current roadless areas. Through a Freedom of Information Act request, my organization received one of the agency's initial cost analyses for the alternative. Even under the assumption that constructing a mile of new road would cost the same in a roadless area as in a roaded area, the Forest Service found that roadbuilding in roadless areas would be more than twice as expensive per board foot of timber.

We expect the same to be true of roadbuilding in all roadless areas. Because many of these costs would necessarily be covered by the Forest Service to make sales economical, the proposed rule would likely result in significantly greater financial losses to the U.S. Treasury and American taxpayers. Over the years, our research and the research of several independent entities has shown that logging on the Tongass National Forest in Southeast Alaska cannot occur without significant federal taxpayer subsidies. Our most recent analysis of two decades of timber sales in the Tongass indicates these losses average \$30 million per year.

Regarding the proposed exemption of the Tongass from the Roadless Rule, our study concluded that “[e]xempting those acres from the rule in the future would allow the USFS to expand timber sales to new areas, which would require comparatively more road construction for timber access. This would only drive up USFS expenses and deepen taxpayer losses from Tongass timber sales.”

Conclusion

At nearly 17 million acres, the Tongass National Forest in Southeast Alaska is the largest in the United States and is an important resource and natural place for the entire country. Tourism and fishing are the foundation of the region's economy, but money-losing timber sales and costly logging roads too often take priority in the Tongass.

Tongass roadless areas provide other economic benefits for fish and wildlife. Tourism and commercial fisheries, make up approximately 25% of regional employment and are both directly dependent upon the protected roadless areas of the Tongass.²⁶ In contrast, timber industry employment has fallen by 80% since the 1990s and currently represents less than one percent of regional employment.²⁷

We believe that exempting the Tongass National Forest from the Roadless Rule would result in adverse economic and associated environmental impacts. As I have discussed, these sales return a few pennies on each dollar expended. If the U.S. Forest Service moves forward on the proposed repeal of the 2001 Roadless Rule, heavily subsidized timber sales will expand and lock in taxpayer losses for many years to come.

The country is now facing a \$23 trillion debt. Many things need to be done to resolve the nation's fiscal woes, not the least of which is ensuring federal taxpayers get the revenue they deserve for the resources they own and are not saddled with billions in subsidies and liabilities for resource development, including timber harvest.

²⁶ Southeast Conference, “Southeast by the Numbers 2019,” September 2019.

<http://www.seconference.org/sites/default/files/FINAL%20Southeast%20by%20the%20Numbers%202019.pdf>

²⁷ Southeast Conference, “Southeast by the Numbers 2014,” September 2014.

<http://www.seconference.org/sites/default/files/Southeast%20Alaska%20by%20the%20numbers%202014%20FINAL.pdf>

During this time of sky-rocketing budget deficits, Taxpayers for Common Sense believes it would be more fiscally responsible to prioritize spending on current infrastructure before proposing new areas for constructing new and costly logging roads that offer little benefit to U.S. taxpayers.

Thank you for the opportunity to testify.