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Cutting Our Losses: 20 Years of Money-Losing Timber Sales in the Tongass



Clearcut timber harvest in the Tongass National Forest on Prince of Wales Island, AK. Photo used with permission.

The U.S. Forest Service (USFS) within the Department of Agriculture 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 largest national forest at 16.8 million acres, roughly the size of West Virginia. Every year, the USFS 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 USFS spends to administer them, resulting in large net losses for U.S. taxpayers. New budget data reveal that the USFS has continued to lose millions of dollars on Tongass timber sales in recent years.

- **In total, the USFS has lost approximately \$600 million over the last twenty years or \$30 million per year on average.**
- **USFS could end up losing more than \$180 million in the Tongass over the next four years.**

USFS Timber Sales—Background

Commercial logging accounts for the vast majority of timber harvest in the Tongass National Forest. To provide for commercial logging consistent with the Tongass Land Management Plan, the USFS prepares and administers commercial timber sales through a complicated process known as the “**Gate System**.” As part of this process, the USFS spends years selecting suitable timber stands, thinning them when necessary, analyzing the environmental effects of various harvest options, calculating the sale’s financial efficiency, advertising the sale, and evaluating bids from private logging companies. For some sales, the USFS also pays to construct or reconstruct roads to facilitate harvest of the chosen timber stands.

After a successful sale, the winning logging company will harvest the timber and transport it to a sawmill, or when allowed, prepare it

for export. When the value of the cut timber is determined at the sawmill, the logging company pays the USFS the set amount per board foot based on the determined value agreed to during the timber sale. The USFS deposits these receipts and then manages the reforestation and recovery of the affected areas in the Tongass.

Sizing Up Tongass Timber Sales

Whether a timber sale generates a net gain or loss to taxpayers depends on the how much the USFS spent to prepare and administer it, and the amount of revenue collected when the timber is harvested. For decades, the USFS has conducted timber sales in the Tongass that consistently generate huge losses for taxpayers. Various independent analyses have attempted to quantify these losses, but no such evaluation has been conducted in recent years. Newly released budget data indicate that the USFS continues to lose millions of dollars every year on Tongass timber sales.

NET GAIN OR LOSS FOR A TIMBER SALE	Equals	VALUE RECEIVED FROM TIMBER	Minus	VALUE EXPENDED TO SELL TIMBER
<u>VALUE RECEIVED FROM TIMBER</u> --cash only, or --cash and roads. <u>VALUE EXPENDED TO SELL TIMBER</u> --sale preparation and administration costs, --road engineering and construction costs, --sale area reforestation costs, and --payments to the counties.				

Source: Government Accountability Office **RCED-84-96**

Net Losses

Over the last 20 fiscal years (FY1999-2018), the USFS spent \$632 million in connection with its timber sale program in the Tongass and collected \$33.8 million in timber sale receipts, resulting in a net loss of **\$598.2 million**, in 2018 dollars. That is, the USFS lost \$29.9 million per year, on average from FY1999 to FY2018. Or put another way, Tongass timber sale revenues covered just 5.4 percent of timber sale costs. (See table "Tongass Timber Program: Receipts, Expenses, Losses (FY1999-2018)" for detail.)

Timber sale expenses and revenues fluctuate significantly from one year to the next. A

comparison of the three-year moving averages of timber sale losses indicates that losses have decreased substantially over the 20-year period. The inflation-adjusted average loss for FY16-18 of \$17.9 million is less than half the average for FY99-01, \$38.2 million. Rather than some gain in efficiency, the decrease in losses reflects the lower volume of timber being sold in recent years.

The rate of losses per amount of timber sold has not decreased. During the 20-year period from FY 1999 to 2018, the USFS **reported selling** 977 million board feet of timber in the Tongass. Overall, the USFS lost approximately \$612 for every thousand board feet (mbf) of timber it sold. Further, the three-year moving average for losses per mbf more than doubled within the last decade, indicating that the financial efficiency of Tongass timber sales has declined in recent years.

Under **current plans**, the USFS will offer more than 290 million board feet in several timber sales in the Tongass over the next four years. If spending to prepare those sales and the revenue generated from them match the long-run average, the USFS could end up losing more than \$180 million.

Receipts Analysis

The USFS reports its "**All Service Receipts**" by national forest, region, and fiscal year to provide transparency into the distribution of receipts to states and localities directed by Congress. Total revenue generated by the USFS timber program includes receipts from commercial timber sales, salvage sales, and amounts deposited into certain trust funds.

Over 20 fiscal years (1999-2018), the USFS has collected a total of \$33.8 million from timber sales in the Tongass, after adjusting for inflation. On average, the USFS collected \$1.7 million per year in that period, though over the last ten years, the average has dropped to \$1.2 million per year.

The timber sales receipts included in the above total are deposited and reported in three separate accounts: National Forest Fund, Knutson-Vandenberg Fund, and Salvage Sales Fund. In short, the Knutson-Vandenberg Fund receives a percentage of timber receipts and uses them to fund timber sale area improvement (reforestation) and some regional cooperative work. The Salvage Sales Fund receives the receipts from sales of



Tongass trees. Source: Joseph, via Flickr Creative Commons

“salvage” timber—timber that is dead, damaged, downed by other natural means, or otherwise in need of clearing—and uses its funds to prepare and administer future salvage sales.

Outlays Analysis

Over the 20 fiscal years (1999-2018), the USFS spent \$632 million, adjusted for inflation, in association with timber sales in the Tongass. On average, the USFS spent \$31.6 million per year, but annual expenses have declined steadily over the two decades. In that period, the inflation-adjusted, three-year moving average of Tongass timber expenses dropped by more than half from \$45.1 million to \$18.6 million.

Of the \$632 million, \$334 million was spent from the “Forest Products” account, the primary fund for preparing and administering timber sales. For road construction and maintenance, the USFS spent \$221 million. Expenditures from the Knutson-Vandenberg Fund, Salvage Sales Fund, and Reforestation Trust Fund make up the remaining \$38 million.

Methodology Note — The USFS does not report how much it spends to prepare and administer timber sales individually or collectively. As a result, estimates of USFS timber sale losses often vary due to different determinations of which expenses are appropriately categorized as timber sale outlays.

In this analysis, outlays associated with timber sales represent the total of six budget line items. These six budget accounts fund three types of USFS activity: timber sale preparation, reforestation, and road building. The latter is included because the vast majority of roads in the Tongass have been built and maintained to facilitate timber harvest.¹ 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.

Information on USFS budget allocations and expenses in the Tongass is generally unavailable to the public. The USFS provided Tongass budget data to Taxpayers for Common Sense in response to several formal and informal information requests dating back to 2004.

Comparison and Discussion

The USFS’ administration of timber sales throughout the National Forest System, and in the Tongass specifically, has been scrutinized for decades. The Government Accountability Office (GAO), an independent congressional watchdog, has published dozens of reports assessing various aspects of the USFS timber program including harvest levels, contract bidding, road construction, cost accounting systems, receipt distribution, reforestation, data deficiencies, and below-cost sales, among others.

In one of its first reports on the economics of USFS timber sales in 1984, the GAO found that 27 percent of sales in fiscal year (FY) 1981 and 42 percent of sales in FY 1982 were below-cost.² After increased Congressional scrutiny in the 1980s, GAO helped the USFS design a new accounting system to address severe deficiencies in the agency’s collection and reporting of timber sale data—the Timber Sale Program Information Reporting System (TSPIRS).³

¹ U.S. Forest Service, *Tongass National Forest—Land and Resource Management Plan Amendment*. Final Environmental Impact Statement, Vol. II—Appendix C, Table C-1.

² U.S. General Accounting Office (now, Government Accountability Office) - GAO. RCED-84-96, “Congress Needs Better Information on Forest Service’s Below-Cost Timber Sales.” June 28, 1984.

<https://www.gao.gov/products/RCED-84-96>

³ U.S. GAO. AFMD-87-33, “TIMBER PROGRAM: A Cost Accounting System Design for Timber Sales in National Forests.” April 21, 1987. <https://www.gao.gov/products/AFMD-87-33>



Carroll Inlet in the Tongass National Forest. Source: Wikimedia Commons

In 1988, the GAO reported that USFS timber sales had lost \$22.1 million in FY1986,⁴ roughly equivalent to \$50.6 million in 2018 dollars. As its most recent estimate, the GAO reported in 2016 that Tongass timber sales had lost \$11.4 million per year on average during the period FY2005-2014. The agency was careful to note, however, that its estimate excluded USFS roadbuilding costs.⁵

Like the GAO calculations in previous reports, this analysis represents a basic accounting of the Tongass timber program on a cash basis—reflecting what outlays are paid and receipts are collected in a given year. The profitability of a specific timber sale is more appropriately measured on an accrual basis—where the amounts spent to prepare and administer a timber sale over many years are matched against the receipts collected when the sold timber is eventually harvested. However, the USFS does not publicly release its financial data for each timber sale, making such analysis impossible.

Conducting a cash-flow analysis of the timber program instead can have significant limitations. Comparing the receipts collected from previous timber sales and spending for future sales in any one year can provide a skewed indication of timber sale profitability. Over a longer period, however, discrepancies between when expenses and receipts are tallied diminish, and a cash-basis accounting more accurately estimates the overall

financial return from timber sales. By looking at timber receipts and program expenses over 20 years, the approach adopted in this report not only mirrors most previous attempts to quantify Tongass timber losses, but also provides a more accurate assessment of overall timber sale performance.

Lastly, given current efforts to exempt the Tongass National Forest from the 2001 National Roadless Area Conservation Rule (“Roadless Rule”),⁶ roadbuilding costs will likely increase. The USFS constructs or reconditions roads to provide harvesters access to timber stands it sells. Covering roadbuilding costs improves the economics of a timber sale for logging companies, but also significantly increases the total costs of the USFS timber program. In fact, USFS spending on roads in the Tongass made up more than 40 percent of all timber sale expenses from FY1999 to FY2018.

The 2001 Roadless Rule prohibits new road construction and reconstruction in inventoried roadless areas with national forests, including 9.2 million acres in the Tongass. Exempting 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.

⁴ U.S. GAO. RCED-88-54, “TONGASS NATIONAL FOREST: Timber Provision of the Alaska Lands Act Needs Clarification.” April 11, 1988. <https://www.gao.gov/products/RCED-88-54>

⁵ U.S. GAO. GAO-16-456, “TONGASS NATIONAL FOREST: Forest Service’s Actions Related to Its Planned Timber Program Transition.” April 25, 2016. <https://www.gao.gov/products/GAO-16-456>

By excluding roadbuilding costs in its 2016 estimate, the GAO significantly understated the losses associated with Tongass timber sales.

⁶ See TCS Comments to the USFS during the Roadless Rule Scoping Period. Available at: <https://www.taxpayer.net/energy-natural-resources/tcs-submits-comments-to-the-us-forest-service-on-its-roadless-rule-scoping/>

Tongass Timber Program: Receipts, Expenses, Losses (FY1999-2018)

(\$ in millions)

FISCAL YEAR	TIMBER VOLUME SOLD (MBF)	TIMBER RECEIPTS	TIMBER EXPENSES	NET RECEIPTS	TIMBER RECEIPTS: (\$2018)	TIMBER EXPENSES (\$2018)	NET RECEIPTS (\$2018)
2018	9,211	\$0.4	\$18.1	-\$17.7	\$0.42	\$19.07	-\$17.65
2017	20,808	\$1.0	\$17.8	-\$16.7	\$1.04	\$18.20	-\$17.16
2016	13,535	\$0.5	\$18.5	-\$18.1	\$0.47	\$19.40	-\$18.92
2015	22,625	\$0.3	\$19.7	-\$19.5	\$0.29	\$20.91	-\$20.62
2014	105,523	\$0.6	\$22.4	-\$21.8	\$0.6	\$23.8	-\$23.1
2013	15,866	\$0.6	\$19.7	-\$19.1	\$0.6	\$21.2	-\$20.6
2012	52,483	\$1.9	\$21.5	-\$19.6	\$2.0	\$23.5	-\$21.5
2011	44,190	\$3.3	\$18.0	-\$14.8	\$3.7	\$20.1	-\$16.5
2010	45,632	\$1.9	\$22.3	-\$20.4	\$2.2	\$25.7	-\$23.5
2009	22,670	\$0.6	\$26.4	-\$25.7	\$0.7	\$30.8	-\$30.1
2008	5,351	\$0.4	\$23.5	-\$23.1	\$0.5	\$27.4	-\$27.0
2007	30,392	\$0.3	\$25.1	-\$24.8	\$0.3	\$30.4	-\$30.1
2006	85,007	\$0.8	\$27.9	-\$27.1	\$1.0	\$34.8	-\$33.8
2005	65,075	\$0.4	\$34.4	-\$34.0	\$0.5	\$44.2	-\$43.7
2004	87,072	-\$4.3	\$36.9	-\$41.2	-\$5.7	\$49.1	-\$54.8
2003	36,489	\$2.0	\$31.0	-\$29.0	\$2.7	\$42.3	-\$39.6
2002	24,372	\$1.3	\$33.4	-\$32.2	\$1.8	\$46.7	-\$44.9
2001	49,592	\$1.8	\$35.0	-\$33.2	\$2.6	\$49.6	-\$47.1
2000	170,329	\$6.9	\$23.8	-\$16.9	\$10.0	\$34.7	-\$24.7
1999	61,426	\$5.3	\$33.8	-\$28.5	\$8.0	\$51.0	-\$42.9
2009-2018 TOTAL	362,544	\$11.0	\$204.4	-\$193.4	\$12.1	\$221.8	-\$209.7
1999-2018 TOTAL	977,649	\$25.9	\$509.4	-\$483.5	\$33.8	\$632.0	-\$598.2


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