



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 17, 2013

H.R. 1526 **Restoring Healthy Forests for Healthy Communities Act**

*As ordered reported by the House Committee on Natural Resources
on July 31, 2013*

SUMMARY

H.R. 1526 would substantially increase the amount of timber harvested on federal lands. The bill also would require the Secretaries of Agriculture and the Interior to make payments in 2014 to certain counties that contain federal lands. Finally, the bill would authorize the Forest Service and the Bureau of Land Management (BLM) to enter into contracts with non-federal entities to carry out activities related to forest management.

Based on information provided by the affected agencies, CBO estimates that enacting the legislation would increase direct spending by \$376 million in 2014 and by \$86 million over the 2014-2018 period, but would reduce direct spending by \$269 million over the 2014-2023 period. Because the bill would affect direct spending, pay-as-you-go procedures apply.

In addition, CBO expects that implementing H.R. 1526 would increase discretionary spending for certain Forest Service activities and reduce discretionary spending for certain BLM activities. Based on information from those agencies, CBO estimates that the change in net discretionary spending would not be significant, assuming appropriation actions consistent with the purposes of the bill. Enacting the legislation would not affect revenues.

H.R. 1526 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on plaintiffs, including public and private entities, seeking judicial review of some activities on federal lands. CBO estimates that the cost of the mandates would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates (\$75 million and \$150 million in 2013, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1526 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | 2014- | 2014- | |
|--|--|------|------|------|------|------|------|------|------|------|------|--------|-------|--|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2018 | 2023 | | |
| CHANGES IN DIRECT SPENDING | | | | | | | | | | | | | | |
| Additional Timber Receipts | | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -58 | -116 | -175 | -233 | -291 | -294 | -297 | -300 | -303 | -582 | -2,068 | | |
| Estimated Outlays | 0 | -58 | -116 | -175 | -233 | -291 | -294 | -297 | -300 | -303 | -582 | -2,068 | | |
| Mandatory Spending of Timber Proceeds | | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 2 | 48 | 94 | 141 | 190 | 238 | 244 | 249 | 259 | 285 | 1,465 | | |
| Estimated Outlays | 0 | 2 | 48 | 94 | 141 | 190 | 238 | 244 | 249 | 259 | 285 | 1,465 | | |
| Direct Payments to Counties | | | | | | | | | | | | | | |
| Estimated Budget Authority | 375 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 375 | 375 | | |
| Estimated Outlays | 375 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 375 | 375 | | |
| Demonstration Projects | | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -4 | -5 | -6 | -7 | -8 | -9 | -9 | -9 | -9 | -21 | -64 | | |
| Estimated Outlays | 0 | -4 | -5 | -6 | -7 | -8 | -9 | -9 | -9 | -9 | -21 | -64 | | |
| Receipts from BLM Lands | | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 9 | 9 | 9 | -1 | -1 | -1 | -1 | -1 | -1 | 25 | 19 | | |
| Estimated Outlays | 0 | 9 | 9 | 9 | -1 | -1 | -1 | -1 | -1 | -1 | 25 | 19 | | |
| Stewardship Contracting | | | | | | | | | | | | | | |
| Estimated Budget Authority | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 4 | | |
| Estimated Outlays | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 4 | | |
| Total Changes | | | | | | | | | | | | | | |
| Estimated Budget Authority | 376 | -50 | -63 | -77 | -100 | -111 | -66 | -63 | -61 | -53 | 86 | -269 | | |
| Estimated Outlays | 376 | -50 | -63 | -77 | -100 | -111 | -66 | -63 | -61 | -53 | 86 | -269 | | |

Notes: Components may not sum to totals because of rounding.

BLM = Bureau of Land Management.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the end of 2013.

Direct Spending

The largest budgetary effects of H.R. 1526 would stem mostly from provisions that would increase receipts from timber sales, and spending associated with those receipts, over the 2015-2023 period—for net budgetary savings of about \$600 million over that period—and would increase federal payments by \$375 million to certain counties in 2014. Other provisions in the bill would reduce direct spending by \$41 million over the 2014-2023 period.

Additional Timber Receipts. Title I would require the Forest Service to significantly increase the volume of timber it offers for sale each year. CBO estimates that, under the bill, offsetting receipts from timber sales would increase by about \$2.1 billion over the 2015-2023 period. The Forest Service is authorized under current law to retain and spend a portion of those proceeds to carry out reforestation activities and conduct salvage sales of timber. (Salvage timber sales are generally designed to remove diseased, insect-infested dead, damaged, or downed trees.) In addition, the Forest Service is required to pay 25 percent of the proceeds from timber sales to counties where timber is harvested. Additional spending for those purposes would total \$1.5 billion over 10 years. On net, CBO estimates that enacting Title I would reduce outlays by about \$600 million over the 2015-2023 period.

The amount of receipts the Forest Service would generate under title I could vary significantly from CBO's estimate depending on the type of timber the agency would offer for sale, the location of that timber, and the methods it would allow firms to use to harvest it. The Forest Service's ability to increase the amount of timber it offers for sale under the bill would also be affected by the extent to which outside groups opposed the agency's actions. Finally, the amount of timber sold and the price paid for that timber would depend on the decisions of firms in the timber industry.

Timber Volume Requirement. H.R. 1526 would require the Forest Service to offer for sale a volume of timber equal to one-half of the sustainable yield of the National Forest System. The sustainable yield is the amount of timber extracted from a forest that can be replaced by new growth. Based on information provided by the Forest Service, CBO expects that, under the bill, the agency would be required to offer roughly six billion board feet (BBF) of timber for sale each year. By comparison, the agency sold an average of 2.5 BBF of timber a year over the past five years.

CBO expects that provisions of the bill would enable the Forest Service to significantly increase the amount of timber it sells annually. In particular, the legislation would expedite the environmental assessment and judicial review processes for timber sales. The bill also would require any person or entity seeking to challenge a timber sale to post a bond equal to the amount the Forest Service would spend on associated court proceedings. CBO expects that those provisions would reduce the amount of time

required for the agency to conduct individual timber sales and deter some parties from challenging the legality of those sales.

But CBO also expects that other factors could impede the ability of the Forest Service to sell the amount of timber required under H.R. 1526:

- Based on information provided by the agency, CBO expects that sawmilling capacity may constrain the amount of timber purchased in certain regions of the United States in the first few years after the bill's enactment.
- In addition, because the Forest Service would need to change the types and amounts of timber products it sells and increase the number of sales it conducts each year, we expect that it would take a few years for the agency to implement new procedures.
- Finally, although the bill would make it more difficult for parties to challenge the legality of timber sales, CBO expects that the Forest Service would face more legal challenges to timber sales under the bill than under current law, particularly in the Pacific Northwest, where timber harvesting may threaten certain endangered species.

On balance, CBO estimates that the Forest Service would eventually increase the volume of timber it offers for sale each year to more than five billion board feet—about 90 percent of the total volume required under the bill—by 2023. That amount would be more than double the average annual amount of timber sold over the past five years. Because CBO expects that it would take time for the Forest Service to develop new procedures and ramp up sales, and that firms in the timber industry would need time to adjust to those changes, we expect that the increase in sales would occur gradually over the 2015-2023 period.

Timber Products and Values. Information provided by the Forest Service indicates that over the 2008-2012 period, saw timber (trees large enough to be made into planks and boards) accounted for roughly 60 percent of the volume of timber products sold by the agency; products with significantly lower values, such as pulpwood and firewood, accounted for the remaining 40 percent. Over that period, the value of timber products sold by Forest Service averaged about \$60 per thousand board feet (MBF). By comparison, CBO estimates that the average value of timber products harvested from state and private lands, where saw timber comprises a larger portion of the total volume of timber sold, sold for \$100 to \$250 per thousand board feet over the same period. Those comparisons are based on information provided by the Forest Service and data about the value of timber products harvested from state lands.

CBO expects that, under H.R. 1526, the Forest Service would continue to sell roughly the same amount of low-value timber products as it does under current law. Thus, we believe that the agency would need to significantly increase the amount of saw timber it sells in order to meet the volume requirement established in the bill. Because we expect that the Forest Service would increase the amount of saw timber harvested in all regions of the United States, including a significant increase in the amount harvested in the Pacific Northwest, where saw timber values are very high, we estimate that the value of additional saw timber sold under the bill would average between \$100 and \$150 per MBF. CBO expects that those prices would probably be less than the value of similar timber harvested from state and private lands because, in general, timber harvesters operating on state and private lands would face fewer of the impediments that tend to increase the cost of extracting timber.

Mandatory Spending of Proceeds from Timber Sales. Under current law, the Forest Service has the authority to retain and spend a portion of the proceeds from timber sales to carry out reforestation activities and to conduct sales of salvage timber. Over the past five years, the agency retained roughly 50 percent of the available proceeds for those purposes. CBO anticipates that, under the bill, the amount of timber harvested from Forest Service lands would significantly increase and that the agency would allow timber producers to use methods to extract timber that would increase the cost of reforestation activities. Consequently, we expect that the Forest Service would increase the portion of timber proceeds it retains for reforestation by 5 percent to 10 percent over the next 10 years. Based on information from the Forest Service, CBO estimates that enacting H.R. 1526 would increase the amount of timber proceeds retained and spent by the agency by about \$1 billion over the 2015-2023 period.

Pursuant to a law known as the Act of May 23, 1908, the Forest Service is required to make annual payments to counties equal to 25 percent of the proceeds from lands administered by the agency in those counties. CBO estimates that, under the bill, the increase in required payments would range from about \$15 million in 2015 to about \$75 million in 2023. However, CBO estimates that those payments would be reduced by roughly 7 percent each year (until 2022) under the Budget Control Act of 2011.¹ On net, CBO estimates that enacting H.R. 1526 would increase payments to counties, relative to current law, by \$430 million over the 2015-2023 period.

Direct Payments to Counties. Title V would require the Secretaries of Agriculture and the Interior to make direct payments to certain counties in 2014. The amount of those payments would equal the amount distributed for 2010 to the affected counties under the Secure Rural Schools and Community Self-Determination Act of 2000. CBO estimates that the required payments would total \$405 million; however, CBO estimates that those payments would be reduced by roughly 7 percent under the sequestration provisions of

1. The Budget Control Act of 2011 requires a sequestration (that is, a reduction in spending) for certain expenditures over the 2013-2021 period.

the Budget Control Act of 2011. On net, CBO estimates that enacting this provision would increase direct spending by \$375 million in 2014.

Demonstration Projects. Title IV would require the Secretary of Agriculture to establish up to 10 areas consisting of at least 200,000 acres of land within the National Forest System to conduct community demonstration projects. Under the bill, governors would appoint advisory boards to manage those areas. The boards would collect all proceeds generated from activities within those areas and would be required to make payments to the federal government based on the amount of annual receipts generated by the surrounding national forest lands over the previous 10 years. Any proceeds remaining after those payments are made would be used by the boards to cover the costs of administering the demonstration areas and distributed to counties where the areas are located.

CBO expects that most of the demonstration areas would be located in the western United States. Based on information regarding the amount of receipts generated per acre of national forest land in those states, CBO estimates that the advisory boards would increase annual payments to the federal government by \$4 million in 2015, rising to \$9 million in 2023. In total, CBO estimates that implementing title IV would increase offsetting receipts by \$64 million over the 2015-2023 period.

Receipts from BLM Lands. Title III would require BLM to transfer management authority over 1.3 million acres of federal lands to the state of Oregon and Coos County. Beginning in 2015, those governments would retain any proceeds generated on the affected lands. Because CBO expects that, under current law, BLM would collect receipts totaling \$9 million a year over the 2015-2017 period, we estimate that enacting the transfer provision would reduce offsetting receipts by \$27 million over that three-year period.

Title III also would require the state of Oregon and Coos County to make payments to the federal government totaling \$10.4 million a year over the 2018-2023 period. Those payments would increase offsetting receipts relative to current law by \$1 million a year over the 2018-2023 period. All told, CBO estimates that enacting the provisions of title III would reduce offsetting receipts by \$19 million over the 2015-2023 period.

Stewardship Contracting. Title V would authorize the Forest Service to enter into special contracts known as stewardship contracts through 2017. Under such contracts, the Forest Service and DOI use timber resources owned by the government in lieu of cash to compensate firms that provide certain services related to forest management. Under current law, the authority to enter into stewardship contracts expires at the end of 2013. Because CBO expects that some of the timber that would be used as compensation under stewardship contracts would be sold under current law, we estimate that enacting this provision would reduce offsetting receipts by \$1 million a year over the 2014-2017 period.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1526 would have no significant net impact on discretionary spending. Title I would require the Forest Service to substantially increase the amount of timber it offers for sale each year. Because CBO expects that implementing that provision would increase the workload of the agency, particularly in regions where significant volumes of timber are harvested, we estimate that implementing that title would increase discretionary spending over the 2014-2018 period.

However, title III would require BLM to transfer management authority over 1.4 million acres of federal land to the state of Oregon and local governments. Over the 2009-2013 period, CBO estimates that the agency received appropriations averaging about \$60 million a year to manage those lands. Because the bill would reduce the amount of land administered by the federal government in Oregon, we estimate that implementing title III would reduce discretionary spending over the 2014-2018 period.

Considering those changes, CBO estimates that implementing the bill would have a negligible impact on discretionary spending over the next five years.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in direct spending that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1526 as ordered reported by the House Committee on Natural Resources on July 31, 2013

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | 2013- 2018 | 2013- 2023 |
|---|--|------|------|------|------|------|------|------|------|------|------|----|---------------|---------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | | | |
| NET INCREASE OR DECREASE(-) IN THE DEFICIT | | | | | | | | | | | | | | |
| Statutory Pay-As-You-Go Impact | 0 | 376 | -50 | -63 | -77 | -100 | -111 | -66 | -63 | -61 | -53 | 86 | -269 | |

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1526 would impose intergovernmental and private-sector mandates on plaintiffs, including public and private entities, seeking judicial review of some activities on federal lands. CBO estimates that the aggregate cost of the mandates in the bill would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates (\$75 million and \$150 million in 2013, respectively, adjusted annually for inflation).

The bill would impose a mandate on plaintiffs seeking judicial review of projects carried out by the Forest Service under title I by establishing bonding requirements. In order to elicit judicial review of those projects, plaintiffs would be required to post a bond. The value of the bond would be equal to the estimated litigation costs of the federal government. The cost of the mandate would be the purchase price of required bonds, typically 10 percent of the bond amount. CBO expects that both the number of timber projects by Forest Service that would be subject to litigation and the bond fee in those cases would be relatively small. Therefore, CBO expects that the annual cost of the mandate would not be substantial.

Additionally, the bill would prohibit plaintiffs from seeking a preliminary injunction to temporarily stop activities, such as logging, on the federal lands to be managed by the state of Oregon under title III. Preliminary injunctions are issued only in cases where compensation awarded by the court could not equal the potential personal damage or damage to property. By eliminating a right of action, the bill would impose a mandate. The cost of the mandate would be any forgone income that would occur without a preliminary injunction. Because losses of income would generally not occur for the types of cases involved, the mandate would probably impose no costs.

Counties with federal forest lands and the State of Oregon would benefit from provisions in the bill related to timber sales and would receive about \$900 million over the 2014-2023 period.

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