



**CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE**

October 7, 1998

**H.R. 3381
Gallatin Land Consolidation Act of 1998**

As cleared by the Congress on October 2, 1998

SUMMARY

H.R. 3381 would facilitate an exchange of assets between the federal government and several private parties involving land and timber in the state of Montana, federal timber receipts, and other federal cash payments.

CBO estimates that enacting H.R. 3381 would affect direct spending (including offsetting receipts); therefore, pay-as-you-go procedures would apply to the act. However, we estimate no significant effect on direct spending over the 1999-2003 period.

DESCRIPTION OF THE ACT'S MAJOR PROVISIONS

H.R. 3381 provides for an exchange of assets between the federal government and several private parties. According to the Forest Service, the agency has general authority under current law to complete such exchanges. However, H.R. 3381 would:

- direct the Secretary of Agriculture to complete these specific exchanges;
- waive the requirement to comply with certain environmental laws with regard to certain land to be exchanged;
- restrict the mandatory trust fund allocations that could be deducted from certain timber receipts; and
- reduce payments to the state of Montana from certain receipts from the sale of timber from the Gallatin National Forest otherwise mandated under current law.

Exchange with Big Sky Lumber Company

H.R. 3381 would authorize an exchange of assets between the federal government and Big Sky Lumber Company (BSL) involving land, timber, federal timber receipts, and other cash

payments. The land and timber that would be exchanged are located in the state of Montana. The terms and conditions of the proposed exchange would be governed by an option agreement dated July 29, 1998, subject to minor corrections and supplemental provisions if mutually agreed to by the Secretary of Agriculture and BSL.

Under the proposed exchange, BSL would offer to convey to the federal government approximately 54,000 acres, including land in the Taylor Fork Area. In exchange, the Secretary would be required to convey to BSL about 31,000 acres of federal land and cash payments of almost \$9 million from a combination of federal timber receipts and appropriated funds. The act requires that the receipts from federal timber harvests be made available to BSL no later than the end of the fifth full calendar year after enactment.

H.R. 3381 would specify a process for federal acquisition of some of BSL's Taylor Fork lands. Those lands comprise about 7,360 acres out of the approximately 54,000 total acres to be conveyed by BSL to the Secretary. The act provides that if BSL places in escrow title to 11.5 sections (a section consists of 640 acres) of BSL land in the Taylor Fork area that is acceptable to the Secretary, the Secretary would be required to place in escrow title to four sections of federal land within the Gallatin National Forest.

Of the BSL's Taylor Fork land in escrow, the act would direct the Secretary to purchase 7.5 sections for about \$4 million using appropriated funds. The act would direct the Secretary to purchase the other four sections using federal timber receipts from certain national forests in Montana. The option agreement specifies that the amount of payments from timber receipts would be \$4.5 million. H.R. 3381 would direct the Secretary to implement a timber sale program in the Gallatin National Forest, and potentially other national forests in Montana, to generate sufficient timber receipts to purchase some of BSL's Taylor Fork land. Timber receipts from the sales in the Gallatin National Forest dedicated to completing the exchange with BSL would not be subject to the normal process of sharing 25 percent of the receipts with Montana.

H.R. 3381 further provides that if appropriations are not available to purchase the BSL's Taylor Fork land put in escrow under the act, the Secretary would be authorized to use timber receipts to acquire those lands. Therefore, the Secretary could purchase all of BSL's Taylor Fork land using receipts from federal timber harvests. If the Forest Service fails to generate sufficient timber receipts within five years to complete the exchanges, the act would entitle BSL to receive the escrowed federal land and allow the exchange to be completed on a land-for-land basis.

If the land, timber, and other assets exchanged by BSL and the United States are not approximately equal in value, as determined by the Secretary, the act would permit the values to be equalized using one or more of several methods: additional federal appropriations or federal timber receipts to acquire BSL's Taylor Fork land, sale of Taylor Fork land to conservation groups, conveyance of additional federal land identified by the Forest Service, reservation of timber on BSL's Gallatin lands that currently have roads, withdrawal of BSL parcels from the land to be conveyed to the federal government (except for the Taylor Fork lands), and use of other public or private funds.

Other Land Exchanges

H.R. 3381 would direct the Secretary of Agriculture to enter into two land exchanges in the Gallatin National Forest if the private landowners are willing. The Wapiti land exchange would involve the conveyance of about 247 acres of federal land in exchange for about 320 acres of nonfederal land. The Eightmile/West Pine land exchange would involve the conveyance of about 644 acres of federal land in exchange for about 640 acres of nonfederal land.

In addition, H.R. 3381 would encourage the Secretary to pursue a land exchange with the owner of section 1 of the Taylor Fork land, and would require the Secretary to report to the Congress on implementation of that exchange.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 3381 would affect direct spending (including offsetting receipts) because of provisions affecting the amount of timber harvested on federal land, restrictions on receipts allocated to mandatory trust funds, and reduced payments to Montana from certain federal timber receipts. CBO estimates that these changes would have no significant effect on direct spending over the 1999-2003 period.

Effects of the Land Transfer on Timber Harvest

According to the Forest Service, the federal land that would be conveyed to BSL and other private parties under H.R. 3381 includes about 45 million board feet that, under current law, would likely be harvested over the next 20 years. It is unlikely that any of the timber on the land that would be acquired from BSL would be harvested by the Forest Service, at least over

the next 10 years. Therefore, enacting H.R. 3381 would reduce the volume of timber harvested on federal land over the next 10 years. We estimate that the reduction in offsetting receipts from this forgone timber harvest would total roughly \$2 million over the 1999-2003 period.

We expect this change would have little net effect on direct spending because such harvests typically do not result in net income to the Treasury. That is, most or all of such collections are spent, resulting in little or no net budgetary impact. In fact, according to the Forest Service, timber sales on the Gallatin National Forest and other national forests in Montana often result in small net costs to the Treasury under current law. Virtually all timber receipts are available to the Forest Service and allocated to mandatory trust funds, such as the Knutson-Vandenberg reforestation trust fund, out of which the agency can spend any deposited receipts without further appropriation. In addition to such spending, an amount equal to 25 percent of gross receipts is paid to Montana and another 10 percent is allocated to the Roads and Trails Fund. The result is often no net receipts to the Treasury. Thus, transferring federal land with timber to BSL would probably have no significant net effect on direct spending over the 1999-2003 period.

Receipts Allocated to Trust Funds

H.R. 3381 provides that \$4.5 million in net receipts from federal timber harvests be paid to BSL to complete a portion of the exchange. The option agreement identifies timber in the Gallatin National Forest that could be used to complete the exchange, and the act would allow timber harvests in certain other national forests in Montana to be used as well. The net effect on direct spending would be less than \$1 million, however, because the payments to BSL would be offset by a combination of increased federal receipts from more timber sales and a reduction in Forest Service direct spending by eliminating certain projects that otherwise would be completed under current law.

Based on information from the Forest Service, in the absence of this proposed exchange the Gallatin National Forest would operate a timber program of about 5 million board feet per year (excluding timber harvested for personal use). If this proposed exchange were implemented, the Forest Service would roughly double the timber program in the Gallatin Forest during fiscal years 1999 and 2000.

According to the Forest Service, virtually all timber receipts in the Gallatin National Forest are currently allocated to and later spent from mandatory trust funds, whereas under H.R. 3381, between 10 percent and 20 percent of these timber receipts would be set aside for

essential planting. The remainder would be used to pay BSL. The act would effectively dedicate to BSL that portion of federal timber receipts from the Gallatin National Forest that the Forest Service would, under current law, allocate to mandatory trust funds and spend for items other than essential planting. Such expenditures are typically for reforestation and wildlife projects, preparation for sales of salvage timber, and overhead costs. The projects other than essential planting that would be conducted under current law might be eliminated, paid for from other timber sales, or paid for out of additional appropriations, depending on how the Forest Service chooses to manage the area. In any case, the reduction in direct spending from mandatory trust funds would be offset by the payments to BSL to complete the exchange.

Payments to Montana

H.R. 3381 would reduce direct spending slightly because it provides that no 25-percent payments be made to Montana based on timber harvested from the Gallatin National Forest and dedicated to the BSL exchange. The amount of forgone payments to the state would be no more than \$250,000 for each fiscal year.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. CBO estimates that the net change in direct spending would total less than \$1 million over the 1999-2003 period and would be less than \$500,000 each year. The act would not affect governmental receipts.

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