



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 11, 1998

H.R. 3381

Gallatin Land Consolidation Act of 1998

As ordered reported by the House Committee on Resources on August 5, 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 implementing H.R. 3381 would increase discretionary outlays by about \$9 million over the 1999-2003 period, assuming appropriation of the necessary amounts. Because enacting H.R. 3381 would affect direct spending (including offsetting receipts), pay-as-you-go procedures would apply to the bill; however, CBO estimates no significant effect on direct spending over the 1999-2003 period.

H.R. 3381 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). As a result of the authorized exchange, however, the state of Montana would lose certain federal payments over the 1999-2003 period.

DESCRIPTION OF THE BILL'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 bill 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 bill 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 bill would direct the Secretary to purchase 7.5 sections for about \$4 million using appropriated funds. The option agreement provides that any payments made after closing or December 15, 1998, whichever is later, shall include an interest payment. Discretionary outlays for Taylor Fork lands could not exceed \$6.5 million.

The bill 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 bill, 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 bill 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 bill 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

The estimated budgetary impact of H.R. 3381 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and the environment) and 800 (general government).

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Budget Authority ^a	4	0	0	0	0	0
Estimated Outlays	0	4	0	0	0	0
Proposed Changes						
Estimated Authorization Level	0	8	1	0	0	0
Estimated Outlays	0	2	2	2	2	1
Spending Under H.R. 3381						
Estimated Authorization Level ^a	4	8	1	0	0	0
Estimated Outlays	0	6	2	2	2	1
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	b	b	b	b	b
Estimated Outlays	0	b	b	b	b	b

a. The 1998 level is the amount appropriated for that year.

b. Less than \$500,000.

BASIS OF ESTIMATE

Spending Subject to Appropriation

CBO estimates that implementing H.R. 3381 would cost about \$9 million over the 1999-2003 period, subject to appropriation of the necessary amounts.

Restoration of land to be acquired. H.R. 3381 would require the Secretary of Agriculture to make reforestation and watershed enhancements on land acquired in the exchange, some of which has already been harvested. The Forest Service estimates that costs for such restoration work would total about \$7 million over the next five years. This restoration work would not be necessary in the absence of the proposed exchange.

Timber program on the Gallatin National Forest. H.R. 3381 would require the Secretary to provide sufficient funds to the Gallatin National Forest to implement the bill, including operating a timber program that would generate the necessary timber receipts to complete the

exchange. 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. As a result, discretionary outlays to operate the timber sale program in the Gallatin also would increase.

The Department of the Interior and Related Agencies Appropriations Act, 1999 (S. 2237), as approved by the Senate Committee on Appropriations, would provide about \$700,000 of budget authority for the Gallatin National Forest to implement the larger timber program that would be necessary to complete the exchange with BSL. CBO estimates that an additional appropriation of the same amount also would be required in fiscal year 2000.

Amending forest plans. The bill would provide for a public process to amend the forest plans for the Gallatin and Deerlodge National Forests to integrate the acquired lands, and it would require that the amended plans prohibit surface occupancy of the acquired lands for exploring or developing oil or gas. The Forest Service estimates that discretionary costs to amend the plans would total about \$120,000 in fiscal year 1999.

Acquiring certain of BSL's Taylor Fork lands. The bill would direct the Secretary to purchase about 4,800 acres of BSL's Taylor Fork land for about \$4 million, using appropriated funds. The option agreement provides that any payments made after closing or December 15, 1998, include an interest payment. The option agreement would set the maximum amount of such discretionary outlays for Taylor Fork lands at \$6.5 million.

The fiscal year 1998 appropriation for Forest Service land acquisitions included about \$1.5 million for land acquisition in the Gallatin National Forest. The Forest Service has requested permission to allocate another \$2.5 million of the fiscal year 1998 appropriation for acquisition in the Greater Yellowstone area. Assuming that \$4 million of the fiscal year 1998 appropriation is made available for this BSL exchange, funds would be available before December 15, 1998, and no additional appropriations for land acquisition would be required to purchase this Taylor Fork acreage. However, if land acquisition funds are not allocated to this purpose, if the Forest Service cannot generate sufficient timber receipts to complete the exchange with BSL, or if the option agreement is amended to provide for further purchases of BSL land using discretionary funds, additional appropriations would be required.

Other potential effects on discretionary spending. As discussed below, H.R. 3381 would dedicate to BSL a portion of the federal timber receipts that under current law would be deducted from gross receipts and spent out of mandatory trust funds. Such expenditures are

typically for reforestation and wildlife projects, preparation for sales of salvage timber, and overhead costs. Depending on how the Forest Service chooses to manage the area, certain projects and related indirect costs could be eliminated. Overhead costs could be paid for out of other timber sales, or paid for from additional discretionary funding, subject to appropriation action. However, the Forest Service does not expect to request additional appropriations related to the change in allowable deductions from the timber receipts dedicated to the BSL exchange. For purposes of this estimate, CBO assumes that the agency would eliminate projects other than essential reforestation and cover any other overhead costs using existing funds, so that there would be no net effect on either discretionary or direct spending from changes in forest management and related activities. In other words, based on information from the Forest Service, CBO expects that the new activities required by H.R. 3381 will be paid for by reducing costs for other activities—specifically, by completing fewer projects elsewhere on the affected Forest Service lands.

The land exchange under H.R. 3381 would consolidate the current checkerboard pattern of federal and private land ownership in the area. The consolidation could reduce costs to administer the area, particularly for fire suppression and right-of-way easements. Any overall decrease in discretionary spending would depend on how the Forest Service uses appropriated funds and on future appropriation action by the Congress. But CBO estimates that no significant overall change in spending for general management activities would result from this consolidation.

Direct Spending (including Offsetting Receipts)

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.

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

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.

Net receipts paid to BSL. 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 bill 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.

The bill 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. 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 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.

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. CBO estimates the net effect on direct spending of enacting H.R.3381 would total less than \$1 million over the 1999-2003 period.

H.R. 3381 would allow BSL to retain one million board feet of timber on the land BSL would convey the federal government. This provision would not affect direct spending because the federal government would not harvest this privately owned timber under current law in any case.

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 bill would not affect governmental receipts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3381 contains no intergovernmental mandates as defined in UMRA. The bill would, however, reduce payments to the state of Montana that are based on timber sales within the state. CBO estimates that the state would lose payments totaling roughly \$1 million over the 1999-2003 period. This loss would be partially offset by an increase in payments in lieu of taxes (PILT) made to the affected Montana counties. Enactment of this bill would not, in itself, result in an overall increase in PILT, but rather would increase the share of these payments going to the affected Montana counties. PILT is a discretionary program and the actual amount of PILT received by these counties, as well as other jurisdictions, will depend on the total amount appropriated by the Congress each year.

Under current law, states generally receive an amount equal to 25 percent of timber harvest receipts from national forests within their borders. These receipts are to be used to benefit the counties in which the forests are located. Enactment of H.R. 3381 would reduce payments to Montana both because national forest system lands would be transferred to private ownership and because the state would receive no payments from the harvests on the Gallatin National Forest dedicated to compensating BSL. The formula used to determine each county's share of PILT takes into account other federal payments benefitting those counties. As a result, the reduced payments from timber harvests would trigger an increase in PILT received by the affected counties.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill would impose no new private-sector mandates as defined in UMRA.

COMPARISON WITH OTHER ESTIMATES

On July 28, 1998, the Forest Service completed an appraisal of the lands to be exchanged with BSL. Based on that appraisal, the value of the federal lands to be conveyed to BSL is a little less than \$35 million. The cash payments of a little less than \$9 million bring the total value of the assets to be conveyed to BSL to a little more than \$43 million. The value of the BSL lands that would be conveyed to the federal government is about \$44 million. According to the Forest Service, the difference of about \$700,000 is equalized by the provision in the Option Agreement allowing BSL to reserve timber on BSL's land in the Gallatin Roded Area that would be conveyed to the federal government.

According to the Forest Service, the value of the lands to be exchanged in the Wapiti and Eightmile/West Pine land exchanges is approximately equal, with both the federal land and the private land that would be exchanged valued at about \$2 million.

Because the federal budget is on a cash basis, the budgetary impact of the proposed exchange is measured by its effect on the government's cash flow, such as changes in offsetting receipts from timber harvesting and associated mandatory payments to states and other spending, discussed above.

PREVIOUS CBO ESTIMATE

On September 11, 1998, CBO prepared a cost estimate for S. 1719, the Gallatin Land Consolidation Act of 1998, as ordered reported by the Senate Committee on Energy and Natural Resources on July 29, 1998. The two bills are identical, as are the estimates.

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