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Message from the Deputy Chief

Dear National Forest Owner:

Enclosed is the *Forest Management Program Annual Report* for fiscal year (FY) 1998. This marks the 10th year the Forest Service has published this document, which is largely a summary of data compiled by the Timber Sale Program Information Reporting System (TSPIRS). As with previous editions in this series, this year's report documents program accomplishments, estimates various program-related economic effects, and applies accrual accounting principles to identify the revenues earned and expenses incurred in association with the Forest Service's timber program.

Past TSPIRS reports have documented a continuing decline in the profitability of the National Forest timber sales program and have examined some key reasons for this trend. Important changes highlighted in these earlier reports include the following:

- The marked decline in program size. – Over the last decade the volume of National Forest timber being offered, sold, and harvested each year has dropped from approximately 12 BBF (billion board feet) to less than 4 BBF. As the program has declined in size, revenues have tended to drop and unit costs to increase.
- The marked shift in program objectives. – Since the Forest Service started tracking sales by purpose in FY 1993, the proportion of National Forest timber being offered, sold, and harvested each year for timber commodity purposes has dropped from 71 to 51 percent whereas the proportion being managed for forest stewardship purposes has grown from 24 to 43 percent. Because stewardship purpose sales are undertaken for reasons other than producing commercially valuable fiber, their revenues are frequently less and unit costs more than for commodity purpose sales. Still, such sales oftentimes are the “least net cost” way to achieve management objectives requiring manipulation of the existing vegetation. This is because in contrast to the other tools that might be applied – e.g., prescribed burning, use of chemical herbicides, or mechanical treatments such as cut-&-leave – stewardship sales generate some revenue to help offset any treatment costs that are incurred.
- The marked change in the types of products being harvested. – Over the last decade more thinning and less regeneration harvesting has been occurring on the National Forests. As a consequence, less sawtimber and more small-sized trees are now being offered, sold, and harvested than was the case in the past. To illustrate, in FY 1998 sawtimber accounted for only 60 percent of harvest volume whereas in FY 1989 it accounted for 79 percent. Additionally, most of the decline

in the size of the program has occurred in the “green” rather than the “salvage” component. As a result, salvage sales now represent a greater proportion of the program than was the case in the past. Specifically, in FY 1998 salvage sales accounted for 37 percent of offer volume as compared to just 17 percent in FY 1989.

Following release of our FY 1997 report, acting on a belief that the preceding changes were rendering TSPIRS, as traditionally structured, increasingly less relevant to today’s National Forest timber program, the Chief asked that a team be established to develop and offer recommendations on how the reporting system could be modified to do a better job of documenting the critical role that timber harvesting and timber sales now play in National Forest management. This year’s report implements one of that team’s recommendations; specifically, it includes a chapter highlighting several “case study” projects. These case studies, one from each Region, were chosen to illustrate how National Forest managers are currently using timber harvesting and timber sales as tools to achieve a diversity of land management goals.

Although the process that we initiated following release of the FY 1997 report was a step in the right direction in terms of reforming how we report on our forest management activities, in light of additional changes occurring within both the program and the agency, it seems likely that further refinements will be needed in the future. Much of the information now being reported in TSPIRS is only marginally relevant to today’s timber program. TSPIRS was developed at a time when the program’s focus was on producing commercially valuable timber to help meet the nation’s demand for wood. In this setting, it arguably made some sense to stress timber output levels and profitability – but this is no longer the case. As previously noted, today’s timber program emphasizes using timber harvesting and timber sales as cost-effective tools for improving resource conditions on the land, and consequently our principal interest is on outcomes as opposed outputs. While many of the activities we now pursue may not be profitable in a strict financial sense, we firmly believe they will eventually provide benefits to society that far outweigh any short-term financial losses. These benefits will be received in the form of such things as cleaner water, more abundant fish and wildlife habitats, increasingly diverse recreational opportunities, enhanced aesthetic values, improved soil productivity, and greater contributions to local communities. Much of the information currently reported in TSPIRS is, or soon will be, available through other agency reports. This situation even applies to the financial information reported in TSPIRS. The Forest Service, like all federal agencies, is under direction to implement managerial cost accounting for all its programs. The mechanism the agency intends to employ to satisfy this requirement is “activity based costing.” Once fully implemented, which could be as early as FY 2002, this procedure will enable the Forest Service to provide equivalent financial information for all its programs. At this point in time there will be no need for a stand-alone financial reporting system such as TSPIRS.

Since the FY 1998 report is substantially overdue, I want to conclude my remarks by highlighting a couple of factors that contributed to its delayed release. One key factor was that in FY 1998 the Forest Service once again changed the way it accounts for road prism costs. This was the second such change in as many years, and was prompted by the results of a General Accounting Office (GAO) study. It took time for the Agency to determine how best to respond to GAO's conclusions. More importantly, it took time for us to restate our prior year financial results so they would be consistent with the information we reported in earlier years. Another key factor causing delay was the push to fully implement our new Foundation Financial Information System (FFIS) – which, effective in FY 2000, totally replaced our old Central Accounting System (CAS). The timely implementation of FFIS was a cornerstone of our continuing financial reform initiatives. Accordingly, when staffing resources were limited, activities relating to FFIS took precedence over those relating to TSPIRS.

We hope that you find this report useful and that it will add to your understanding of the many roles that timber sales now play in management of the national forests.

James R. Furnish

JAMES R. FURNISH
Deputy Chief, NFS

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Preface

This report is produced each year to provide Congress and the public with accomplishment, economic, and financial information about the Forest Service's forest management program. The format of this year's report is somewhat different, but the information provided is essentially the same as in previous years. After presenting an Executive Summary highlighting significant observations and findings, the body of the report is organized into five main chapters:

- **Review of TSPIRS and FY 1998 Changes.** – This chapter describes the origin and structure of TSPIRS, briefly explains what each part of the reporting system is intended to do, and discusses any procedural changes implemented during the reporting year.
- **Review of Stewardship Harvesting Case Studies.** – This chapter is new to the FY 1998 TSPIRS report; it describes a representative sampling of stewardship purpose sales from around the country. The goal in reviewing these sales is to provide some concrete illustrations of how timber harvesting and timber sales are currently being used as tools to help achieve a diversity of National Forest resource management objectives. Besides describing the purposes of each project, the reviews also attempt to document some of the advantages of using timber harvesting and timber sales as opposed to other possible management treatments.
- **Accomplishments of the FY 1998 Forest Management Program.** – This chapter documents various accomplishments of the forest management program. Among the direct accomplishments discussed are the volume of national forest timber offered, sold, and harvested; the amount of free-use firewood provided; the number of Christmas trees provided; the value of nonconvertible products provided; the acreage of national forest land regenerated; the number of acres of timber stand improvement treatments completed; and the mileage of timber access roads constructed and/or reconstructed. Resource management activities accomplished using funds collected from timber purchasers are also documented.
- **Economic Effects of the FY 1998 Forest Management Program.** – This chapter displays the economic effects directly or indirectly attributable to the forest management program during the reporting year. Consistent with past practice, three types of economic effects are documented: employment effects, regional income and Federal income tax effects, and the “present net value” (PNV) of the estimated resource effects.

- **Financial Results of the FY 1998 Forest Management Program.** – This chapter displays the revenues received and expenses incurred due to forest management during the reporting year. Revenues and expenses are reported by program component as well as for the program as a whole. This year's report, like prior reports, also includes an analysis of past revenue, cost, and net revenue (i.e., profit) trends.

Most of the data presented in this report has been aggregated to the national level; however, several appendixes provide more detailed information by region; forest; and, in some instances, state. The report includes a glossary of technical terms, a map showing the boundaries of all administrative regions and national forests, and instructions about how to obtain additional information.

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Executive Summary

The Forest Service administers approximately 192 million acres of public land -- 187 million acres designated as national forests and 4 million acres designated as national grasslands. This report provides information about the agency's forest management program activities in FY 1998. Key points discussed in the report include the following:

Accounting Changes in FY 1998

- In FY 1998, for the second year in a row, a major change was made in the way the TSPIRS financial account handles "road prism" costs. These include the costs associated with constructing the roadbeds that are an integral part of all timber access roads. Prior to FY 1997, consistent with generally accepted accounting principles (GAAP) applicable to the private sector, these costs were capitalized into the value of the underlying land. In FY 1997, consistent with the Forest Service's understanding of a new accounting standard specifically applicable to Federal agencies, these costs were annually expensed. In FY 1998, based on the results of a General Accounting Office (GAO) study completed after issuance of the FY 1997 TSPIRS report, these costs have been depreciated over an anticipated useful life of 50 years. This change means that to draw meaningful comparisons between past and future TSPIRS financial results, prior results must be restated to ensure consistent handling of road prism costs.

Stewardship Harvesting Case Studies

- Recognizing the changes that have been occurring in the national forest timber sales program, following release of the FY 1997 TSPIRS Report Chief Dombeck asked that a taskforce be created to recommend ways to modify the report so that it would henceforth do a better job of displaying "the full range of services and values provided by timber sales and other forest vegetation management activities." The FY 1998 report incorporates one of the recommendations suggested by that taskgroup; specifically, it highlights a number of timber sale projects from around the country that have been consciously chosen to illustrate how sales are being used to help achieve, often in a least net cost manner, a diversity of land management objectives, other than fiber production, that require manipulating the existing vegetation.

Selected Accomplishments in FY 1998

- In FY 1998, both the volume of timber offered and the volume sold declined slightly as compared to FY 1997. Harvest volume was essentially unchanged during the year. Specific accomplishments were:
 - Volume offered = 3.42 billion board feet (BBF)
 - Volume sold = 2.96 BBF
 - Volume harvested = 3.30 BBF
- In FY 1998, the volume of national forest timber harvested for timber commodity purposes continued to fall, while the volume harvested for forest stewardship purposes continued to grow – but the shifts were less pronounced than in previous years. The volume harvested for personal use purposes was down slightly as compared to FY 1997. The specific proportions were:
 - Timber commodity = 51 percent,
 - Forest stewardship = 43 percent, and
 - Personal use = 6 percent.

Although the shifts in FY 1998 were not dramatic, there has been a significant change since FY 1993 when TSPIRS first recognized different sale purpose categories. In that year the proportions were:

- Timber commodity = 71 percent
 - Forest stewardship = 24 percent
 - Personal use = 5 percent
- Of the total volume of timber harvested for stewardship purposes in FY 1998, the vast majority was harvested for the following reasons:
 - Forest ecosystem health = 76.9 percent
 - Wildlife habitat management = 9.8 percent
 - T&E species habitat management = 5.8 percent

The acreages treated in connection with the preceding resource objectives are estimated to be:

- Forest ecosystem health = 190,848 acres
 - Wildlife habitat management = 22,008 acres
 - T&E species habitat management = 15,715 acres
- Other direct accomplishments of the FY 1998 forest management program were:
 - Seedlings produced = 66 million

- Seed produced = 12,000 pounds
- Acres harvested (including thinning) = 524,785
- Acres regenerated = 292,902
- Acres treated for timber stand improvement = 300,202
- Free-use firewood provided = 15.7 MMBF
- Christmas trees sold = 216,467
- Value of nonconvertible products sold = \$2.98 million
- Families served through personal use sales = 145,077
- Miles of existing forest roads reconstructed = 2,557
- Miles of new forest roads constructed = 221

To help put the amount of road construction and reconstruction in perspective, it is interesting to look at the amount of road being decommissioned. In FY 1998 the figure was:

- Miles of forest roads decommissioned = 2,098

- In FY 1998, other accomplishments indirectly attributable to the forest management program in the sense that they were funded using either Knutson-Vandenberg (K-V) or Brush Disposal (BD) funds collected from timber purchasers included the following:

Wildlife and Fish:

- Acres of TES terrestrial habitat restored/enhanced = 25,434
- Number of TES habitat improvement structures built = 957

Range:

- Acres of range non-structural improvements = 8,641
- Number of range structural improvements built = 169
- Acres of rangeland monitored and evaluated = 10,339
- Acres of noxious weed treatment = 36,502

Soil and Water:

- Acres of resource improvements = 18,153

Recreation:

- Miles of trail construction/reconstruction = 17

Fuels Management:

- Acres treated = 116,252

Economic Effects in FY 1998

- In FY 1998, the harvest of national forest timber directly or indirectly created the following economic effects:
 - Local community jobs = 55,738
 - Regional income = \$2.1 billion
 - Federal income tax receipts = \$318 million
- In FY 1998, the net present value of the long-term economic benefits and costs expected to result from the harvesting of national forest timber was estimated to be \$291 million.
- In FY 1998, as mandated by law, \$212.5 million in gross timber sale receipts were returned to the states and counties where national forest timber had been harvested – for use in benefiting local schools and roads. Timber-related “owl payments” to those states and counties where national forest timber harvests have been reduced to protect habitat for the northern spotted owl were \$88.8 million, or over two-fifths (42 percent) of this total.

Financial Results in FY 1998

- In FY 1998, all components of the national forest timber sale program, considered in combination, lost \$125.9 million. By comparison, the overall loss in FY 1997 was \$88.6 million – but this was based upon annual expensing of “road prism” costs. Had the net revenue in FY 1997 been calculated using the same procedures as were employed in FY 1998, the reported loss would have been about \$27.0 million higher.
- In FY 1998, the various components of the forest management program produced the following net revenues:
 - Timber commodity = +\$12.7 million
 - Forest stewardship = -\$110.6 million
 - Personal use = -\$27.9 million