



*Conservation
Economics
Institute*

A Response to the Policy Analysis Group's Issue Brief No. 16

By Dr. Evan Hjerpe, Executive Director

December 5, 2014

Dear Members of the Federal Lands Interim Committee:

Please accept the following evaluation of the recent economic analysis submitted to the Committee by Dr. Jay O'Laughlin ([PAG Issue Brief No. 16, November 2014](#))¹, entitled, "Would a transfer of federal lands to the State of Idaho make or lose money?"

I completed an economic analysis of HR22 on behalf of the Idaho Conservation League and presented the findings to the committee in December of 2013 (attached, "Fiscal Impacts to the State of Idaho from HR 22 Implementation" and Fact Sheet). Since then, I was asked by Dr. O'Laughlin to provide a review of his draft analysis. I provided input and specific suggestions to address shortcomings of the analysis. Upon review of the final analysis, I would like to offer additional comments directly to the committee concerning this economic analysis.

The November 2014 PAG Issue Brief No. 16 ("PAG report") suffers from a number of critical economic deficiencies and deserves to be closely scrutinized before it is used as a basis for further deliberation on this topic. Despite the PAG report's flaws, its findings still illustrate that eight of nine scenarios would cause the State of Idaho to lose millions of dollars annually.

The most critical flaw of the PAG Report is not showing the billions of dollars lost while taking 10-15 years to transition to increased timber harvests. Other issues include analyzing a transfer of only 60 percent of the federal lands called for transfer under HR 22, incorrectly estimating changes in jobs and income that would result from a transfer, and providing no arguments for a correlating increase in demand for Idaho timber.

¹ See <http://www.uidaho.edu/cnr/pag/publications/pag-issue-briefs>
www.conservationecon.org

- ***The PAG report fails to calculate vast fiscal losses to the State of Idaho for the first 10-15 years of the increased timber harvest scenarios.*** The PAG report uses IDL’s assumptions of a 10-15 year ramp-up period for timber harvest after a transfer of federal lands. Yet, analysis of the fiscal costs to the State of Idaho are only presented after a full ramp-up of timber harvests---omitting the most costly years of a federal lands transfer. For example, the findings from the Idaho Conservation League’s study, “Fiscal impacts to the State of Idaho from HR 22 Implementation” (ICL), indicate a loss of \$1.5 billion in the first 10 years and more than \$2 billion over the first 20 years. By omitting a fiscal analysis of the first 10-15 years, these substantial losses are treated as a zero in the PAG report.

Net present valuation is the appropriate method for valuing fiscal returns and costs to the State of Idaho because it accounts for flows of costs and revenues over time. Likewise, net present valuation is the economic approach used by timberland owners to evaluate the financial viability of timber harvests. Without conducting a net present valuation, the PAG report provides no basis for understanding the full suite of costs and revenues to the State of Idaho associated with a transfer of federal lands. Furthermore, costs or revenues today are valued greater than the same amount in the future, meaning that the early years of a federal lands transfer carry greater economic importance.

Despite not including the vast fiscal losses to the State during the transition period, the results of the net cash flow analysis (10-15 years after implementation) demonstrate large losses for the State of Idaho in eight of the nine timber quantity-price scenarios into the future (nine quantity-price scenarios presented in Table 6 and total net cash flow ranges presented at the bottom of Table 7). This indicates that on top of spending billions of dollars to ramp timber harvests up, the State of Idaho will continue to lose money as almost all net cash flow scenarios after the transition are negative as well.

- ***The PAG report includes only 60 percent of the federal lands being proposed for transfer.*** The report fails to analyze the bill passed by the Legislature (HR 22), and instead analyzes costs and revenues from a transfer a portion of Forest Service-administered timberlands (approximately 7 million acres) and Bureau of Land Management (BLM) lands (approximately 9 million acres). Instead, HR 22 calls for the transfer of approximately 28 million acres of federally managed lands. The only economic analysis to analyze HR 22 found losses to the state of Idaho of billions of dollars (see attached). The fiscal impacts of a federal lands transfer are much more than those just represented by transfers of timberland and BLM lands.

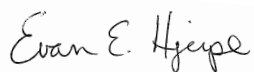
- ***The PAG report findings of additional timber-related jobs and income was poorly conducted, resulting in a biased representation of the ensuing economic impacts.*** Economic impacts (e.g., changes in jobs and income) of a transfer of Idaho's federal lands would be spurred in a number of industrial sectors, beyond just the new timber-related jobs presented in the PAG report. For example, federal jobs critical to rural communities would be lost and tourism and recreation industries would likely see adverse economic impacts associated with such increase in timber harvests. While the PAG report addresses some of these losses, the analysis incorrectly applies timber-related multiplier effects to both new timber jobs and lost federal jobs. This is biased treatment for timber industry employment, and does not reflect the reality that federal jobs have different multiplier effects in the State of Idaho and are almost entirely funded by dollars from outside the State. The PAG report makes no attempt to reconcile the impact of increased logging on other industries such as tourism and recreation. A thorough analysis of changes in jobs resulting from a transfer of federal lands should include equal treatment and analysis of potential new jobs from the timber industry and the potential losses of jobs in the federal and outdoor recreation sectors.

Conclusion

In summary, the PAG report found that eight out of nine analyzed timber scenarios under a transfer of federal lands would lose money, costing the State of Idaho millions of dollars annually even after peak timber harvest is achieved. The median scenario analyzed resulted in a loss of \$50 million annually for the State of Idaho. However, the PAG report did not present the much greater losses that would occur in the first 10-15 years after a federal lands transfer. These initial costs have been estimated elsewhere at almost \$2 billion dollars of loss to the State of Idaho (attached study). In conclusion, the PAG report suffers from a number of deficiencies and has only quantified part of the fiscal cost to the State of Idaho.

Please do not hesitate to contact me if I can answer any questions about this review, or if I can be of any further assistance to the Interim Committee.

Sincerely,



Evan E. Hjerpe, Ph.D
Executive Director
Conservation Economics Institute
evan@conservationecon.org
208-869-1675