



# **The Art of the Land Deal:** Failure to Get Fair Market Value for Federal Lands

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## Executive Summary

Nationwide there are about 640 million acres of federal land owned by taxpayers. These federal lands have significant value, derived from agricultural resources, minerals under their soil, development possibilities, recreational opportunities, or many other uses. Federal taxpayers have paid to manage, preserve, and protect federal lands for generations, in many instances since before the founding of the states where the lands now reside.

Much of the land once owned by the federal government is now owned by nonfederal entities, such as states or private companies. Federal law permits certain federal agencies to convey public lands through sale, exchange, or transfer, so long as doing so serves the public interest. All too often, however, federal taxpayers have gotten shorted in land deals. *The Art of the **Land Deal*** examines problems historically associated with federal land disposal, new legislative threats, and the enduring structural issues that disadvantage the federal government in land transactions.

Fundamental problems in the appraisal functions and internal operations of land management agencies have led to systemic undervaluation of federal land in countless transactions conducted over decades. Independent reviews of the agencies in question report improved oversight of land transaction processing, but also document continued deficiencies in securing appraisals of federal land that meet recognized standards. Reform efforts have not fully addressed these problems, and no review has been conducted in recent years.

At the beginning of the 115<sup>th</sup> Congress, the House of Representatives voted to change the procedural rules to allow Congress to enact land conveyance legislation without fully considering its cost. This, combined with the demonstrated intent of some members of Congress to accelerate land conveyances and the inadequacy of valuation operations at the agencies that would conduct them, could result in significant losses to taxpayers.

Taxpayers for Common Sense is not opposed to federal land transfers or exchanges, just bad deals for taxpayers. Any effort to sell, exchange, or transfer federal land must reflect the land's fair market value. Land deals must not favor parochial, well-connected interests who will unfairly benefit at taxpayers' expense. And any such disposal must consider the long-term impact on federal balance sheets. Land disposal can serve the public interest if it takes place as the result of an open, honest, and transparent process.<sup>i</sup>

## Managing and Valuing Our Public Lands

The federal government, through various agencies, manages more than 640 million acres of land, or about 28 percent of the United States. That land is held in trust for federal taxpayers, its rightful owners. Most of this land is in the 11 most western states and Alaska.

Public lands have played an important role in American history. When the 13 original colonies formed a central government organized under the U.S. Constitution, they agreed to cede control of 40 percent of western lands to the federal government and give it the authority to regulate federal property. Under the Property Clause of the U.S. Constitution: "The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States."<sup>ii</sup> The Supreme Court has held that "power over the public land thus entrusted to Congress is without limitations."<sup>iii</sup>

# Land Transaction Terminology

In most cases, the terms used to discuss the various types of land deals conducted by federal agencies have acquired specific meanings in legislation or regulations. For clarification, simple definitions of common terms are provided below. Please note that use of “land” below should be taken to include, or sometimes exclusively refer to, interests in land (e.g. mining rights), which are often involved in land transactions.

- › **Acquisition:** a deal that results in the addition of land to federal ownership, typically for cash
- › **Disposal:** an umbrella term referring to all deals in which ownership of federal land is transferred to another party; includes sales, exchanges, and transfers; synonymous with “conveyance”
- › **Conveyance:** umbrella term synonymous with “disposal”
- › **Sale:** a deal wherein federal land is offered for purchase
- › **Exchange:** a deal wherein federal land is transferred to nonfederal ownership in return for nonfederal land
- › **Transfer:** a deal wherein ownership of federal land is given over to another party, sometimes for compensation
- › **Public Lands:** refers exclusively to lands managed by the BLM in federal law, but is used synonymously with “federal lands” herein



*Thousand Springs Valley, Idaho*

In the 19<sup>th</sup> century, Congress passed laws authorizing the disposal of federal lands to private entities to encourage settlement of the West. During the 20<sup>th</sup> century, emphasis shifted to retention of federal lands. The change in policy was marked by the passage of the Federal Land Policy and Management Act of 1976 (FLPMA). The law repealed the Homestead Act of 1862 and numerous similar statutes authorizing homesteading and other transfers of federal land to private interests.<sup>iv</sup> It set out a definitive mission for the Bureau of Land Management (BLM), which the agency had previously lacked, and established a comprehensive system for managing the remaining federal lands.

In 2016, the BLM celebrated the 40<sup>th</sup> anniversary of its “legislative charter,” which granted sweeping authorities to the BLM, other agencies in the Department of the Interior (DOI), and the U.S. Forest Service (USFS) to administer public lands. In addition to directing the relevant agencies to develop land use plans for the first time, FLPMA set policy for the sale, acquisition, exchange, conveyance, and withdrawal from development of public lands. In each case, and in general, Congress asserted that agencies should fully recognize the market value of public lands as they carry out the Act’s directives.

In FLPMA’s introductory provisions, Congress declared its official policy that:

*“the United States receive fair market value of the use of the public lands and their resources...;”<sup>v</sup>*

And in the section authorizing the sale of public land:

*“Sales of public lands shall be made at a price not less than their fair market value as determined by the Secretary.”<sup>vi</sup>*

In the statutory language directing land exchanges, the law expressly instructs the Secretary of the Interior, and DOI sub-agencies by extension, to consider and compare the value of federal and nonfederal lands involved throughout the exchange process.<sup>vii</sup>

Emphasizing the importance of appropriately valuing federal lands is not unique to FLPMA. A number of other statutes authorizing land exchanges or sales also require agencies to obtain fair market value when conveying federal lands.<sup>viii</sup> Because land value is central to the execution of public land deals, as directed by federal law, establishing systems that ensure federal lands are *accurately* valued is paramount to their responsible administration.

The 640 million acres of federal land are managed by numerous agencies. However, more than 610 million acres, or 95 percent of these holdings, are managed by just four agencies: the BLM (248 million); the USFS (193 million); the Fish and Wildlife Service (89 million); and the National Park Service (80 million).<sup>ix</sup> The set of laws that guide federal land management authorize these agencies, to varying degrees, to conduct a range of land transactions, including the acquisition, exchange, sale, and transfer of federal lands (see sidebar, p. 3).

Of the four agencies, the BLM and the USFS have the broadest standing authority to administer federal land transactions, and they indeed complete more land transactions than the others. How accurately these two agencies value land, therefore, has the greatest implications for taxpayers. For that reason, this investigation predominantly focuses on the activities and practices of the BLM and the USFS.

## Land Transactions Failing Taxpayers

Historically, the BLM and the USFS have come under heavy scrutiny for failing to protect the taxpayer interest while administering each type of land deal. For example, a 2001 report from the General Accounting Office (now Government Accountability Office or GAO) titled, “Federal Taxpayers Could Benefit More from Land Sales,” identified certain instances where the two agencies failed to capture an appropriate return through land *sales*.<sup>x,xi</sup>

In general, however, the ability of each agency to value federal land has had much greater import when conducting land *exchanges*, where appraisal determinations stand in for competitive bidding to determine market value. The appraisal process is the specific means by which the BLM and the USFS value land, and understanding the appraisal function will be key to this examination of whether federal agencies are securing a fair return for federal land. To see why it’s so important, it’s necessary to have a general understanding of the land exchange process.<sup>xii</sup>

For exchanges carried out by both the BLM and the USFS, FLPMA serves as the primary statutory authority.<sup>xiii</sup> The law mandates that each exchange meet several requirements, including:

- 1) The public interest must be better served by disposing of the federal lands for nonfederal lands than through retention of the federal lands;
- 2) The federal and nonfederal lands to be exchanged must be of approximately equal value, and any difference in value—up to 25 percent—must be equalized by a cash payment, which should be minimized when possible and in some circumstances can be waived;
- 3) The federal and nonfederal lands to be exchanged must be in the same state;
- 4) The titles to the federal and nonfederal lands to be exchanged, or interests thereof, must be transferred simultaneously; and,
- 5) Any land acquired by exchange within the boundaries of an existing federal administrative system, such as the National Forest System, National Park System, National Wildlife Refuge System, etc. immediately becomes part of that system.

Since the law's enactment, the systems set up by the BLM and the USFS to carry out land exchanges have been criticized, primarily, for failing to ensure that the first two requirements are being met—the public interest and equal value requirements. This was largely attributed to deficiencies in the agencies' appraisal mechanisms. Without adequate appraisals, the ability of federal agencies to ensure a fair return for federal land in any land deal is fundamentally compromised.

Examining the problems historically associated with the appraisal function of the BLM in particular, how the agency has addressed them, and the current state of the BLM exchange program is crucial to determining whether future land deals, including legislated conveyances and transfers to states, will protect taxpayer interests. As things stand now, problems in the appraisal functions for the primary land management agencies persist despite reform efforts, and could lead to losses for taxpayers in future land deals.

## Undervaluation in Past Land Exchanges

A series of reports published in the 1990's by the Inspectors General of the Departments of Agriculture and the Interior, as well as the GAO, found consistent shortcomings in the administration of land exchanges by the BLM and the USFS. In 1997 and 1998, the BLM itself acknowledged the problem by identifying its land exchange program as a "material weakness," and the agency, along with the Forest Service, subsequently attempted to implement some corrective actions.

In 2000, the GAO issued a seminal report on the land exchange programs of the BLM and the USFS, the central conclusion of which was that the agencies "...did not ensure that the land being exchanged was appropriately valued or that exchanges served the public interest or met certain other exchange requirements."<sup>xiv</sup> The GAO found, furthermore, that the actions taken by the agencies to date had been insufficient to correct the problems with their administration of land exchanges.

The report's most startling finding was that the BLM had been illegally selling land under the pretext of its exchange authority, then depositing the receipts in off-the-book accounts that were unknown to both its chief, and deputy chief, financial officers. Though not illegal, the GAO also highlighted the serious and systemic failures of both the BLM and the USFS to demonstrate that exchanges were in the public interest and to value land properly.

For example, while reviewing a proposed land exchange with the Del Webb Corporation in Nevada in 1995, the BLM's Washington Office ignored the findings of the chief appraiser in its Nevada State Office and approved Del Webb's valuation of the land instead. Had the DOI inspector general not intervened after a 1996 audit, **the federal land would have been undervalued by more than \$9 million.**<sup>xv</sup>



Red Rock, Nevada

In three land exchanges reviewed by the USDA inspector general in 1998, the Forest Service was found to have overvalued the nonfederal land it acquired by \$8.8 million.<sup>xvi</sup> In another instance, the nonfederal party to an exchange acquired 70 acres of federal land from the BLM for a total of \$763,000 and then sold the same land, on the same day, for \$4.6 million to another buyer.<sup>xvii</sup>

## The Appraisal Foundation (TAF)

The TAF was established in 1987 to implement the Uniformed Standards of Professional Appraisal Practice (USPAP) it had developed in response to the Savings and Loan Crisis. Congress sanctioned it as the authority on appraisal standards and guidance in 1989.

At times, the BLM seemed to demonstrate a complete disregard for its responsibility to serve the public interest. In the 1995 Red Rock exchange in Nevada, the BLM discarded the valuation made by one of its chief appraisers because the nonfederal party was “unhappy” with the low value assigned to its land.

Instead, the BLM assigned one of its more

junior appraisers to the exchange and then accepted a subsequent valuation of the nonfederal land that was \$1.2 million higher.<sup>xviii</sup>

As a result of these findings and others, the GAO concluded, “We do not believe that the agencies’ best efforts to improve their programs can address the inherent difficulties associated with land-for-land exchanges. These difficulties have been present for as long as land exchanges have been occurring and are exacerbated in today’s rapidly developing real estate markets.”<sup>xix</sup> The GAO then went so far as to conclude that Congress should consider de-authorizing the agencies’ land exchange programs.

### Holding the BLM to Account

It was clear from the string of mishandled exchanges in the 1990’s that the ability of the USFS and BLM to value federal and nonfederal land was materially compromised. In response to the aforementioned reports and pressure from Congress, the BLM requested an independent evaluation of its appraisal function from The Appraisal Foundation (TAF).

In the watershed report it produced in 2002 at the BLM’s request, TAF described in great detail how the culture, protocol, and practice of the BLM had systematically undermined and precluded any effective appraisal function at the organizational level. In its conclusion, TAF stated:

*The Foundation Team concluded that there is no appraisal organization within the BLM as such. This lack of factual organization has permitted abuse of the appraisal function. It has led to a virtual disassembling of cohesive appraisal operations except in those states that have overcome the BLM’s Washington, D.C. alternative approaches and its failure to provide an appraisal organization.<sup>xx</sup>*

TAF attributed the deficiency in the BLM’s appraisal system to a number of factors, including fundamental problems like confusion about core concepts such as “the public interest,” “appraisal,” “highest and best use,” and “market value.”<sup>xxi</sup> TAF highlighted that the BLM’s distinction between the terms “market value,” and “fair market value,” was unique to the agency—the two are used synonymously in the applicable appraisal standards.<sup>xxii</sup>

In practice, the BLM had been using market values—as determined by a qualified BLM appraiser—as a starting point in “negotiations” with private entities. BLM management would then deem any offer for nonfederal land above the appraised value, the “fair market value,” because it was more “fair” for the individual property owner. TAF concluded that the practice was not only inherently flawed and justified by neither law nor BLM guidance, it was also “misleading and improper.”<sup>xxiii</sup>

According to the report, creating this ad hoc definition of “fair market value” for expediency was only a manifestation of the underlying issue: that BLM management was regularly adopting alternative approaches to the valuation process. TAF documented many ways BLM management was bypassing standard operating procedures and the Delegation of Authority derived from law to develop value determinations. Generally, this meant ignoring, pressuring, supplanting or

# The Appraisal and Exchange Workgroup and Its Findings

The Workgroup was formed in October, 2002 by the Director of the BLM to address the problems in the agency's exchange program highlighted by a series of independent reports. It comprised officials from the BLM, other Interior agencies, and state agencies familiar with land exchange matters. The group published its report and the recommendations from its two subgroups in May 2003.

Of the seven recommendations made by the Appraisal Subgroup, two echoed TAF: establish a consolidated and independent appraisal function outside the BLM's organizational structure; and, clarify common terms such as "market value" and "price," among others. The Appraisal Subgroup also called for maintaining the level of contractor use, contradicting TAF's recommendation.

The Exchange Subgroup issued 10 significantly less substantive recommendations, such as—build public confidence, work with states, and strengthen process management. In subsequent audits, the OIG and the GAO measured the BLM's progress and commitment to reforming its land exchange function against this set of recommendations.

subverting BLM's own qualified appraisers and approving valuations before chief appraisers could review them.<sup>xxiv</sup> This led to substantial confusion "over what constituted 'value' and who had the authority to determine value."<sup>xxv</sup> Reportedly, management abided the confusion because, cynically, it "was helpful as a rationale for BLM's application of alternative approaches."<sup>xxvi</sup>

Aside from the inherent problems posed by a federal agency "rife with internal dissatisfaction, confusion, controversy, and political pressures that affect performance,"<sup>xxvii</sup> the abject dysfunction of the BLM's appraisal function had very real costs for taxpayers. Its effect on the bottom line was quantifiable in the case studies mentioned above, as well as in the particularly calamitous DeMar exchange in Utah. In great detail, TAF chronicled how the persistent use of an alternate valuation approach in that instance led to the acquisition of nonfederal land at *more than seven times* what BLM's Utah Chief Appraiser deemed it was worth.<sup>xxviii</sup>

After presenting its findings, TAF concluded that since the exchanges it had audited, the BLM had not made substantial progress addressing the deficiencies identified by the GAO, the DOI Office of Inspector General (OIG), or in the agency's own determination of material weaknesses.<sup>xxix</sup>

## Uncertainty in the Current System

In the wake of the 2002 TAF report, the BLM Director established an Appraisal and Exchange Workgroup in October 2002 to assess the exchange program's weaknesses and issue recommendations.<sup>xxx</sup> The Workgroup published its resulting report in May 2003 (see sidebar).

The DOI-OIG also issued a report in 2003 evaluating the San Rafael land exchange (see p. 9).<sup>xxxi</sup> In the wake of this OIG audit, and in accordance with recommendations made by both the 2002 TAF report and the Appraisal and Exchange Workgroup, the DOI created the Appraisal Services Directorate (ASD) in November 2003.<sup>xxxii</sup>

By consolidating appraisal staff previously tied to realty teams in the Fish and Wildlife Service, the National Park Service, the Bureau of Reclamation, and the BLM into the ASD under the National Business Center, the DOI hoped to reestablish the independence of its appraisal function and increase compliance with uniform appraisal standards. According to a 2006 GAO report, the ASD succeeded in some respects, but failed in others.<sup>xxxiii</sup>





*San Rafael, Utah*

In its re-evaluation of Interior’s appraisal function, the GAO noted that the creation of the ASD had “improved the independence and objectivity of appraisals,” as intended. Specifically, by removing staff appraisers’ attachment to realty teams focused on completing land deals at almost any cost, undue influence on the appraisal process was reduced. However, the GAO found that 40 percent of appraisals still did not meet established standards. As a result, “For these appraisals, the federal government has limited assurance that the land it appraised for purchase, sale, or exchange, reflected market value.”<sup>xxxiv</sup>

The GAO attributed this continued failure to staff appraisers who lacked necessary expertise, cursory and non-standardized appraisal reviews, and a shortage in qualified contract appraisers. The DOI appraisal function, according to the GAO, was still not able to reliably ensure that federal land was being appropriately valued in disposal transactions.

Since then, the only other independent reviews of the DOI and USFS appraisal functions have come from two reports issued in 2009—one by the GAO, and the other by the DOI-OIG. In its assessment of the ASD, the OIG stated categorically that the office had not become the strong and independent organization envisioned at its creation. Instead, the absence of strong leadership and persistent problems contracting for appraisals had hobbled the agency. In fact, contracting for appraisals had been moved back to the individual land management agencies in June 2009—precisely one of the problems the ASD had been formed to address.<sup>xxxv</sup> The reversion to previous practice was all the more significant because instead of decreasing the reliance on contractors, as TAF and others had recommended, the ASD had come to depend on nonfederal contractors for almost 80 percent of its workload.<sup>xxxvi</sup>

The GAO found similarly that while the USFS and the BLM had taken actions to improve the management of their land exchange programs, and their respective appraisal operations, neither had fully addressed the problems of previous decades.<sup>xxxvii</sup> The GAO did not conduct audits of the agencies’ appraisals as it had in previous reviews, but noted that the ASD was struggling to provide timely appraisals for land exchanges, and the USFS had delegated the review of appraisals to its regional offices, which lacked the guidance on how to execute that function. In 2011, the ASD was restructured and renamed the Office of Valuation Services.<sup>xxxviii</sup> The reorganization decentralized the DOI’s appraisal function, which had been a source for some of the problems identified by TAF. In March 2018, the Secretary of the Interior ordered the further reorganization of the Office of Valuation Services into the Appraisal and Valuation Services Office, with few changes to its structure or function.<sup>xxxix</sup>

Since 2009, no outside auditor has assessed the ability of the BLM and USFS to responsibly administer land exchanges or other transactions. Without evidence of progress or improvement, it is likely that valuation of federal land under both agencies still suffers from fundamental

deficiencies. The GAO and the Inspectors General for the DOI and the USDA need to revisit the issue of whether federal agencies are reliably conveying public lands in ways that ensure a fair market return for federal land. Until then, all further land conveyances, especially those facilitated by legislation, will represent potential new losses to taxpayers.

## Legislated Land Deals

In legislated land conveyances, Congress directs federal agencies to conduct specific land transactions. In most cases, the piece of legislation will identify the land to be conveyed and facilitate the transaction in some way, either by providing authority not otherwise granted in statute, or by easing requirements for the deal that would normally apply.

While legislated land conveyances typically adhere to the general fiduciary standards set out in FLPMA, such as the equal value requirement for BLM land exchanges, or the competitive bidding requirement for land sales, this is not always the case. To the extent that legislated land deals diverge from statutory requirements that protect the proper valuation of federal land, and facilitate transactions by agencies with deficient valuation operations, they create an opportunity for undervaluation of federal lands.

In addition, the ability of lawmakers to bypass criteria for responsible land disposal provided under federal law has long been ripe for abuse. There is a long history of politicians using land deals for personal benefit. For example, Rep. Rick Renzi (R-AZ) was convicted in 2010 after he used his position in Congress for personal gain.<sup>xl</sup> He pressured outside entities to purchase land from a business partner, while promising to support a proposed land exchange. That partner then used the proceeds to pay off \$750,000 in Renzi's campaign debt.<sup>xlii</sup>

In another legislatively proposed exchange in Utah, the San Rafael Land Exchange,<sup>xliii</sup> "BLM officials negotiated away a substantial interest in potentially valuable resources and improperly valued other federal and state lands."<sup>xliiii</sup> The GAO reported, "According to the U.S. Office of Special Counsel, BLM's own internal estimates showed that the federal government stood to lose between \$97 million and \$117 million on this exchange." It took, among other things, a whistle-blower complaint from a BLM appraiser to reveal the skewed nature of the bill making its way through Congress.<sup>xliiv</sup> (The deal was pulled again by the BLM in 2013.<sup>xliiv</sup>)

Legislated land transfers can also undermine statutory protections in much more subtle ways. The GAO conducted a review of legislated land deals from 2004 to 2008 and found several were hurried through technical and environmental land reviews. A few were so rushed that the Department of the Interior (DOI) simply opted not to complete the standard environmental reviews because "the short time frame provided by Congress to complete the exchange...precludes the Secretary [of the Interior] from complying with NEPA."<sup>xlv, xlvii</sup>

The ability of Congress to independently authorize or direct land disposal, and do so in pre-determined terms, has always presented a risk to financially responsible management of federal lands. That risk has been exacerbated by the recent willingness of some lawmakers to consider using Congress' authority to wholesale transfer federal lands to western states through legislated land conveyances. A recent change to the procedural rules in the House of Representatives, which makes exercising that authority much easier, now provides those lawmakers with a unique opportunity, if the rule is still in place during the 116<sup>th</sup> Congress.

## Procedural Rule Change in Congress to Convey Federal Land

In January 2017, the House of Representatives passed H.Res.5 establishing the rules governing legislative procedure in the chamber for the duration of the 115<sup>th</sup> Congress.<sup>xlviii</sup> The resolution put in place a number of ‘Separate Orders’ that only apply to the current Congress. The last of these was a provision easing passage of legislation to convey federal lands to a state, local government, or tribal entity.

As section 3(q) of H.Res.5, the provision reads,

*(q) TREATMENT OF CONVEYANCES OF FEDERAL LAND.—*

*(1) IN GENERAL.—In the One Hundred Fifteenth Congress, for all purposes in the House, a provision in a bill or joint resolution, or in an amendment thereto or a conference report thereon, requiring or authorizing a conveyance of Federal land to a State, local government, or tribal entity shall not be considered as providing new budget authority, decreasing revenues, increasing mandatory spending, or increasing outlays.*

Under standard procedure, if a measure that provided for new spending above the level set in the annual budget resolution made it to the House floor without an offset, any Member of the House could raise a “point of order”<sup>xlix</sup> against it. If sustained, the point of order would preclude any further consideration of the measure.

The new provision in the House Rules for the 115<sup>th</sup> Congress would simply remove that hurdle exclusively for measures that add to the deficit by conveying federal land to states, localities, and tribes.

Importantly, the House rules will not change how the Congressional Budget Office (CBO) calculates the cost of land conveyance legislation.<sup>1</sup> Taking advantage of the new provision, therefore, entails ignoring the known cost of a given land transfer.

### The Rule Change in Practice

The House Rules provision is significant for taxpayers because it signals Congressional intent to defy a statutory mandate that taxpayers receive proper compensation for the disposal of federal lands. As noted above, FLPMA authorizes the BLM to conduct land exchanges only if the acquired land is of equal value to the federal land being conveyed. It also provides for the sale of federal lands, “at a price not less than their fair market value...”



Columbia River Gorge, Oregon

Legislated land conveyances typically do not run afoul of House budget rules. Those rules would need to be circumvented only if Members of Congress intend to pass legislation that disposes of federal land without receiving a fair return for its future revenue earning potential. Removing procedural hurdles particularly facilitates the transfer of land that currently generates net receipts for the federal government, i.e. those with valuable natural resources or recreational opportunities.

In total, more than 50 bills directing the DOI or other agencies to convey federal land, or federal interests in land, to other entities through sale, exchange, or transfer have been introduced in the 115<sup>th</sup> Congress. Most, if not all, alter the terms under which the conveyance would otherwise be conducted, circumventing requirements for conveyances to cohere with land-use plans or undergo environmental reviews. Just over half of the bills have been scored by the CBO, and it's clear that some qualify for the loophole. Furthermore, if one of them or the others that are currently not scored were introduced on the House floor, pay-as-you-go restrictions would normally allow any representative to raise a point of order against the measure, preventing its further consideration. The current House rules however, would preclude such a point of order, and the bill could be enacted without offset.

Forcing the hand of the agencies managing federal lands to push through land deals that add to the budget deficit inherently disadvantages the federal taxpayer. That disadvantage compounds any structural problems in how federal agencies execute land deals, and could lead to taxpayer losses in proportion to the amount of land being conveyed in a given transaction. The rule change would be especially relevant, therefore, if western states and their representatives push for wholesale transfer of federal lands.

## Western States Push for Massive Land Transfers

In 2016, the Republican National Committee called on all national and state leaders and representatives to support the immediate transfer of public lands to all willing western states.<sup>i,ii</sup> The American Legislative Exchange Council (ALEC), an organization of conservative state lawmakers and private sector interests that proposes model legislation, passed a resolution urging the U.S. federal government to convey title and jurisdiction of all public lands held in trust by the federal government to states.<sup>iii</sup>

Rep. Rob Bishop (R-UT), chairman of the House Natural Resources Committee, requested that \$50 million be set aside in the FY 2018 budget for the costs to transfer federal land to state or local governments.<sup>iv</sup> Rep. Jason Chaffetz (R-UT), who resigned in April 2017, introduced a bill, H.R. 621, The Disposal of Excess Federal Lands Act, to sell 3.3 million acres of federal land in Arizona, Colorado, Idaho, Montana, Oregon, Utah and Wyoming (the bill was withdrawn in February 2017 due to backlash from the public).<sup>lv,lvii</sup> The Alaska delegation has introduced companion bills in the House and Senate to accelerate USFS land exchanges in order to expedite timber sales.<sup>lviii</sup>



*Gila Lower Box Canyon, New Mexico*

In 2012, Utah enacted the Transfer of Public Lands Act to require the federal government to transfer title to certain types of federal lands within its borders to the state by the end of 2014.<sup>lviii</sup> This law, and other state laws like it, are superseded by federal law and have had little effect. In general, only an act of Congress may expand states' authority over federal lands. Nevertheless,

Utah and other states conducted feasibility studies for large-scale transfers, only considering what would happen if federal lands were transferred **for free**. They found that states would be able to manage the additional lands only under the most optimistic scenarios.

If efforts to transfer federal land to states are successful, states would become responsible for the significant costs of administering and maintaining the land, and would take on all liabilities associated with it, such as reclamation and wildfire fighting costs. Several studies indicate that in addition to being bad for federal taxpayers, the transfer of federal land could be infeasible for states (See Appendix).

## Looking Ahead

Examination of federal land valuation systems reveal serious shortcomings. Federal agencies have historically underperformed in securing a fair return for taxpayers in the disposal of federal lands. Reviewing how those systems have failed, what steps agencies have taken to improve them, and current agency practice indicates undervaluation of federal land in future transactions.

Actions in the 115<sup>th</sup> Congress and among western states demonstrate an intense interest in the transfer of federal lands to states and other entities. Members of Congress have introduced dozens of pieces of legislation to facilitate land conveyances, and some western states and their Congressional delegations are now pushing for Congress and federal agencies to carry out the transfer of extensive swaths of federal lands to state control.

Taxpayers will continue to lose on federal lands that are sold, transferred or exchanged until better protections are in place. **To help ensure the land deal process provides taxpayers a fair return on our publicly owned assets, the following actions should be taken:**

**Members of Congress should remove the Separate Order titled, “Treatment Of Conveyances Of Federal Land” from the Rules of the House of Representatives for the 116<sup>th</sup> Congress and all subsequent sessions of Congress.**

- The Separate Order allows land conveyance legislation that increases the deficit to avoid proper consideration under budget rules Congress put in place to self-impose fiscal discipline. Congress should not be making it easier to increase the deficit, especially if that increase is the result of the disposal of valuable federal land.

**Congress should institute regular oversight of the current policies and process regarding federal land disposal.**

- The USFS, the BLM, and the Secretary’s office of the Interior Department undertook efforts aimed at correcting for previous failures in the valuation of federal lands and the processing of land deals. The last comprehensive review of those efforts or audit of land deals was completed nearly a decade ago. Since then, the DOI’s appraisal function has been renamed and reorganized as the Appraisal and Valuation Services Office (AVSO) and the adequacy of appraisal services under the new structure has not been evaluated.
- Congress should request that the Government Accountability Office (GAO) conduct a thorough audit of land conveyances at the DOI and the USFS. The GAO investigation should include: a catalogue and review of select appraisals used in land deals; an evaluation of the efficacy of the DOI’s appraisal function under the AVSO and its use of contractors; and, an assessment of whether legislated land conveyances are consistently in the public interest. This report should be followed up with hearings on the issue, action to correct for identified problems, and sustained oversight.

**The Bureau of Land Management and the Forest Service must build more transparency into the land conveyance process.**

- Currently, identifying and tracking almost any federal land deal is difficult or impossible. To allow taxpayers to see how their land is managed and valued, the BLM, the USFS, and other federal agencies conducting land deals should publish information on proposed and completed conveyances in an accessible online location. For example, the BLM should consider publishing all Notices of Exchange Proposal and Notices of Decision for land deals in the Federal Register, along with the agency's public interest determination for a given deal and a citation of the transaction's LR2000 case number(s).

**At a minimum, Congress must require any proposal for federal legislation to transfer public lands to the states to go through the same valuation process as other transfers, so that Congress and the public are aware of the fiscal impacts of the transfer.**

- In a number of recent proposals to transfer land from federal to state control, the need to compensate federal taxpayers for federal land is ignored. The current system for valuing and conveying federal land is flawed and needs reform (see above), but the appraisal process built into the system provides some mechanism to capture the land's value. State and legislative proposals to bypass the system, or rush land transfers through it, threaten to undermine what little protection federal taxpayers currently have.

## Appendix—State Transfer Studies

### Utah

A 2014 study commissioned by the Utah State Legislature examines the possible transfer of 31.2 million acres, 94 percent of federal lands within Utah's border, to the state of Utah.<sup>lix,lx</sup> With 784 pages of economic analysis, econometric models, regulatory considerations, and revenue estimates, the report prepared by professors from three different Utah universities addresses how the transfer of this land would work and the burdens of stewardship Utah would face. However, the report sets aside a fundamental question—the value of the federal land—by assuming Utah will be gifted the land, without remitting payment to the federal government and taxpayers in exchange for the valuable land.

The report calculates that Utah would need to generate an additional \$280 million a year to manage the newly acquired federal lands (in 2013 dollars). The figure accounts for PILT (payment in lieu of taxes) payments, managing hatcheries and fisheries, forest maintenance, public use, and about \$86.6 million in wildfire management costs. The report notes almost \$100 million in deferred maintenance on the federal lands that would be transferred, plus an additional \$26 million needed to remediate abandoned mines on these lands.

To cover these costs, the report estimates the effect of collecting royalties from oil and gas, coal, and other kinds of minerals as well as various permitting and fee collections that the federal government currently manages. For oil and gas royalty estimates, the report models a series of scenarios including increasing the share that states would gather in royalties (at the expense of the federal government), increasing the royalty rate on new wells from 12.5 percent to 16.7 percent, and/or assuming an increase in the number of new wells drilled once lands transfer to the state.

Ultimately, the report found that if commodity prices are high, revenues could cover the costs and if they are low, the state would have to make up the difference. “Given the state’s desire to finance the management of these lands using revenue raised from the land, that would be essentially tied to commodity prices—that is the price of oil, the price of gas,” said Utah State University Professor Paul Jakus, one of the report’s authors. “If prices are high, then, in fact, they can generate the revenues necessary to manage the land. If prices are low, then, in fact, we would have trouble covering those expenses. Really, what it boils down to is your appetite for fiscal risk.”<sup>lxi</sup>

The report also assumes that Utah starts collecting 100 percent of all royalties from current federal leases in Utah. Since the federal government currently captures a full half of those royalties, this money would come directly out of federal taxpayers’ pockets. That amounts to billions of dollars of losses for federal taxpayers over the next decade and even more in the decades that follow.

This money transfer directly from federal taxpayers to Utah is only one problem created by the land transfer. The report assumes that the federal government would transfer all federal land to the state of Utah free of charge. Of course, the federal land owned and maintained by the federal government for generations has significant value. One very rough estimate values federally owned land in Utah at more than \$100 billion, though it could be significantly more than that.<sup>lxii</sup> Under FLPMA, the federal law which governs how and when federal land sales and transfers can take place, the federal government and its taxpayers must be properly compensated for any land that is disposed of. Given the current federal debt, decades of deficits, and long-term forecasts that predict an ever-worsening fiscal situation, the federal government and taxpayers simply cannot

afford to give things away for free. Not only does the report struggle to figure out how to pay for management of the land, it also does not address how Utah might make federal taxpayers whole.

## Other Western States

No other state has taken as aggressive an approach to these questions as Utah. A slightly less confrontational approach has been taken by similar bills considered or passed in Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, and Wyoming. Studies by these states have considered how a transfer would occur and what the regulatory and financial impacts on the states in question would be.

In 2013, Wyoming created a task force “on the transfer of federal lands” which required a report from the attorney general on legal options to compel the federal government to turn over its lands to the state, as well as a study and report on policy and economic questions related to such a forfeiture.<sup>lxiii</sup>

Unlike Utah, this first pass at understanding the problem was specifically tasked with contemplating “whether the state should offer to purchase land and mineral rights from the federal government,” within certain parameters. This was an acknowledgement of the inherent value of the land to federal taxpayers that any land transfer must account for. A second measure to study this question passed in Wyoming in 2015, this time without the instruction to look at costs to the federal government.<sup>lxiv</sup> The resulting report, released in August 2016, appropriately identified how extremely complicated any such transfer would be.<sup>lxv</sup> It did not attempt to offer as conclusive of an economic analysis as the Utah study had.<sup>lxvi</sup>

Similar efforts in Montana were even more moderated. A 2013 joint resolution from the Montana statehouse called for a report and survey.<sup>lxvii</sup> In 2014, the resulting report was a survey of relevant stakeholders, with a recommendation that the various federal, state, county, public, and private land managers should come together in a concerted way to better address problems.<sup>lxviii</sup>

Every analysis has found that large-scale transfers of federal land to states would be incredibly complicated. None has explained how state governments would adequately cover the costs of monitoring and managing these new lands. And no one has provided a serious explanation for how the federal government would be meaningfully compensated for such transfers. While Taxpayers for Common Sense supports the sale or transfer of federal lands when it serves the public interest and is done on financial terms that protect federal taxpayers, we are very skeptical that such large transfers of land could be done responsibly, that federal taxpayers could be protected during any such transfer, or that serious financial liabilities would not remain on the federal government’s books after such a transfer took place. **\$**



## Endnotes

- <sup>i</sup> See, for example, the Elkhorn Ranch and White River National Forest Conveyance Act, which would simply correct for a previous land survey error.
- <sup>ii</sup> United States Constitution, Art. 4, Sec. 3, Clause 2.
- <sup>iii</sup> U.S. Supreme Court; *United States v. San Francisco*, 310 U.S. 16 (1940), in reference to *United States v. Gratiot*, 39 U.S. 526 (1840).
- <sup>iv</sup> In total, the Federal Land Policy and Management Act of 1976 (FLPMA) repealed more than 1,000 out-of-date statutes that previously guided land policy—See the Bureau of Land Management (BLM) report “What exactly is FLPMA? And why should we care?” <https://www.blm.gov/or/districts/burns/newsroom/files/FLPMA102116.pdf>
- <sup>v</sup> Public Law 94-579, title I, §102, (a) (9) (43 U.S. Code § 1701 (a) (9)).
- <sup>vi</sup> Public Law 94-579, title II, §203 (d) (43 U.S. Code § 1713 (d)).
- <sup>vii</sup> Public Law 94-579, title II, §201-214 (43 U.S. Code § 1711-1723).
- <sup>viii</sup> National Wildlife Refuge System Administration Act of 1966, Public Law 89-669 (16 U.S. Code § 668DD); 1958 Townsites Act, Public Law 85-569 (16 U.S. Code § 478a); Southern Nevada Public Land Management Act of 1998, Public Law 105-263 (31 U.S. Code § 6901).
- <sup>ix</sup> Congressional Research Service (CRS) report “Federal Land Ownership: Overview and Data.” CRS-R42346. March 3, 2017. <https://fas.org/sgp/crs/misc/R42346.pdf>.
- <sup>x</sup> General Accounting Office (GAO) report “BLM AND THE FOREST SERVICE: Federal Taxpayers Could Benefit More From Land Sales.” GAO-01-882. Published: Jul 23, 2001. Publicly Released: Sep 10, 2001. <http://www.gao.gov/products/GAO-01-882>.
- <sup>xi</sup> Then, the General Accounting Office. “Effective July 7, 2004, the GAO’s legal name was changed from the General Accounting Office to the Government Accountability Office.” <https://www.gao.gov/about/namechange.html>.
- <sup>xii</sup> For an overview of the steps taken to complete a land exchange, see CRS report “Land Exchanges: Bureau of Land Management (BLM) Process and Issues” CRS-R41509. November 7, 2016. P. 6-8. <https://fas.org/sgp/crs/misc/R41509.pdf>; or GAO report “FEDERAL LAND MANAGEMENT: BLM and the Forest Service Have Improved Oversight of the Land Exchange Process, but Additional Actions Are Needed.” GAO-09-611: Published: Jun 12, 2009. Publicly Released: Jun 12, 2009. P. 7-8. <http://www.gao.gov/products/GAO-09-611>.
- <sup>xiii</sup> The USFS is authorized to conduct exchanges under several other statutes, but usually does so at least in conjunction with its FLPMA authority, rendering most USFS exchanges subject to FLPMA requirements.
- <sup>xvi</sup> GAO report “BLM AND THE FOREST SERVICE: Land Exchanges Need to Reflect Appropriate Value and Serve the Public Interest.” RCED-00-73: Published: Jun 22, 2000. Publicly Released: Jul 12, 2000. P. 4. <http://www.gao.gov/products/RCED-00-73>.
- <sup>xv</sup> U.S. Department of the Interior, Office of the Inspector General, “The Del Webb Land Exchange in Nevada.” 98-I-363. March 1998. P. 3. <https://www.doi.gov/sites/doi.gov/files/98-i-363.pdf>.
- <sup>xvi</sup> U.S. Department of Agriculture, Office of the Inspector General, “Humboldt-Toiyabe National Forest Land Adjustment Program.” 08003-02-SF. August 1998. P. 19. <https://www.usda.gov/oig/webdocs/fshtnf.pdf>.
- <sup>xvii</sup> U.S. Department of the Interior, Office of the Inspector General, “Nevada Land Exchange Activities.” 96-I-10. July 1996. P. 11. <https://www.doi.gov/sites/doi.gov/files/96-i-1025.pdf>.
- <sup>xviii</sup> *Id.* P. 6.
- <sup>xix</sup> GAO report “BLM AND THE FOREST SERVICE: Land Exchanges Need to Reflect Appropriate Value and Serve the Public Interest.” RCED-00-73: Published: Jun 22, 2000. Publicly Released: Jul 12, 2000. P. 37. <http://www.gao.gov/products/RCED-00-73>
- <sup>xx</sup> The Appraisal Foundation (TAF) report, “Evaluation of The Appraisal Organization of the Department of Interior Bureau of Land Management.” October 9, 2002. P. 11.
- <sup>xxi</sup> *Id.* P. 9, 21
- <sup>xxii</sup> *Id.* P. 39 referencing UASFLA, §B-2 (in the 5<sup>th</sup> edition, now §4.2 in the 6<sup>th</sup> edition).
- <sup>xxiii</sup> *Id.* P. 22.
- <sup>xxiv</sup> *Id.* P. 39.
- <sup>xxv</sup> *Id.* P. 31.
- <sup>xxvi</sup> *Id.* P. 31.
- <sup>xxvii</sup> *Id.* P. 8.
- <sup>xxviii</sup> *Id.* P.43; See also GAO report “BLM AND THE FOREST SERVICE: Land Exchanges Need to Reflect Appropriate Value and Serve the Public Interest.” RCED-00-73: Published: Jun 22, 2000. Publicly Released: Jul 12, 2000. P. 17. <http://www.gao.gov/products/RCED-00-73>.
- <sup>xxix</sup> *Id.* P. 35.
- <sup>xxx</sup> BLM Instruction Memorandum 2003-28, “Follow-Up to the Appraisal Foundation’s Report.” October 25, 2002.
- <sup>xxxi</sup> Department of the Interior, Office of Inspector General, Report of Investigation: San Rafael Land Exchange, Case Number OI-NM-02-0073-I. July 11, 2003.
- <sup>xxxii</sup> Department of the Interior, Secretarial Order No. 3251, “Consolidation of the Department’s Real Estate Appraisal Functions.” November 12, 2003. [https://www.doi.gov/sites/doi.gov/files/archive/news/archive/03\\_News\\_Releases/031112e.htm](https://www.doi.gov/sites/doi.gov/files/archive/news/archive/03_News_Releases/031112e.htm).
- <sup>xxxiii</sup> GAO Report, “INTERIOR’S LAND APPRAISAL SERVICES: Actions Needed to Improve Compliance with Appraisal Standards, Increase Efficiency, and Broaden Oversight.” GAO-06-1050. Published: Sep 28, 2006. Publicly Released: Sep 28, 2006. <http://www.gao.gov/products/GAO-06-1050>.
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- <sup>xxxv</sup> Department of the Interior, Office of the Inspector General report. “Evaluation Report on the Department of the Interior’s Appraisal Operations.” Report No. WR-EV-OSS-0012-2009, December 2009. P. 7. <https://www.doi.gov/sites/doi.gov/files/WR-EV-OSS-0012-2009.pdf>.
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<sup>xxxix</sup> Department of the Interior, Secretarial Order No. 3363, “Consolidation of the Office of Appraisal Services and the Office of Valuation Services into the Appraisal and Valuation Services Office.” March 19, 2018. [https://www.doi.gov/sites/doi.gov/files/elips/documents/so\\_3363\\_-\\_consolidation\\_of\\_the\\_office\\_of\\_appraisal\\_services\\_and\\_the\\_office\\_of\\_valuation\\_services\\_in\\_the\\_appraisal\\_and\\_valuation\\_services\\_office\\_0.pdf](https://www.doi.gov/sites/doi.gov/files/elips/documents/so_3363_-_consolidation_of_the_office_of_appraisal_services_and_the_office_of_valuation_services_in_the_appraisal_and_valuation_services_office_0.pdf).

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<sup>xlix</sup> See CRS report, “Points of Order in the Congressional Budget Process.” CRS-97-865. October 20, 2015. <https://fas.org/sgp/crs/misc/97-865.pdf>.

<sup>i</sup> See CBO, “Letter to the Honorable Paul Ryan Regarding Estimating the Budgetary Effects of Disposing of Land and Associated Natural Resources.” December 2, 2014. <https://www.cbo.gov/publication/49811>.

<sup>ii</sup> Oregon Public Broadcasting, “GOP Platform Supports Transferring Western Public Lands To States.” July 19, 2016 <http://www.opb.org/news/series/election-2016/republican-platform-public-land-privatization/>.

<sup>iii</sup> Republican National Committee, “Republican Platform 2016.” July 2016. P. 21. <https://prod-cdn-static.gop.com/static/home/data/platform.pdf>.

<sup>iiii</sup> American Legislative Exchange Council, “Resolution Demanding That Congress Convey Title Of Federal Public Lands To The States.” January 28, 2013. <https://www.alec.org/model-policy/resolution-demanding-that-congress-convey-title-of-federal-public-lands-to-the-states/>.

<sup>lv</sup> The Hill, “GOP Chairman Seeks \$50M to Transfer Federal Land.” March 6, 2017. <http://thehill.com/policy/energy-environment/322537-gop-chairman-seeks-50m-to-transfer-federal-land>.

<sup>lv</sup> H.R. 621 “Disposal of Excess Federal Lands Act of 2017.” Introduced: January 24, 2017. <https://www.congress.gov/bill/115th-congress/house-bill/621>.

<sup>lvi</sup> The Washington Post, “Facing backlash, Utah Rep. Jason Chaffetz withdraws bill to transfer federal land to the states.” February 2, 2017. [https://www.washingtonpost.com/news/energy-environment/wp/2017/02/02/facing-backlash-utah-rep-jason-chaffetz-withdraws-bill-to-transfer-federal-land-to-the-states/?noredirect=on&utm\\_term=.a167cb30f390](https://www.washingtonpost.com/news/energy-environment/wp/2017/02/02/facing-backlash-utah-rep-jason-chaffetz-withdraws-bill-to-transfer-federal-land-to-the-states/?noredirect=on&utm_term=.a167cb30f390).

<sup>lvii</sup> S. 131, “Alaska Mental Health Trust Land Exchange Act of 2017.” 115<sup>th</sup> Congress. Introduced: January 12, 2017. <https://www.congress.gov/bill/115th-congress/senate-bill/131>; H.R. 513, “Alaska Mental Health Trust Land Exchange Act of 2017.” Introduced: February, 10, 2017. <https://www.congress.gov/bill/115th-congress/house-bill/513>.

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<sup>lix</sup> Public Lands Policy Coordinating Office Report, “An Analysis of a Transfer of Federal Lands to the State of Utah.” November, 2014. <http://publiclands.utah.gov/wp-content/uploads/2014/11/1.%20Land%20Transfer%20Analysis%20Final%20Report.pdf>.

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<sup>lxiv</sup> Wyoming House of Representatives, 63<sup>rd</sup> Legislature, Bill No. 78. <https://trackbill.com/bill/wy-sf56-study-on-transfer-of-public-lands/750029/>.

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<sup>lxviii</sup> Montana Legislature - Environmental Quality Council, “Evaluating Federal Land Management in Montana.” June 24, 2014. <http://leg.mt.gov/content/Publications/Environmental/2014-federal-land-report.pdf>.

**On the cover:** BLM land in California-Nevada. © BLM.

## **About Taxpayers for Common Sense**

Taxpayers for Common Sense is a national budget watchdog and independent taxpayer advocate dedicated to increasing transparency and exposing wasteful and corrupt government spending. Founded in 1995 as a 501(c)(3) organization, TCS believes the federal government should operate efficiently and live within its means.

Taxpayers promotes government spending decisions that reflect national priorities and encourages common sense solutions to complex policy problems.

