

Written Hearing Testimony for:

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National Forest Homeowners, Director
Cabin Coalition 2 Steering Committee

Before the:

U.S. House of Representative Natural Resources Subcommittee on National Parks, Forests and Public Lands
hearing on H.R. 4888: "To revise the Forest Service Recreation Residence Program as it applies to units of the National Forest System derived from the public domain by implementing a simple, equitable, and predictable procedure for determining cabin user fees, and for other purposes."

April 22, 2010

Permit Fee and Program Revenue Overview

Introduction

The Cabin Fee Act of 2010 (CFA) includes both an annual User Fee and a Transfer Fee that is applied when a cabin is sold or otherwise transferred. The tiered annual User Fee pays for the rights granted by the permit that every cabin owner receives, while addressing the costs to administer the Program and the relative value differences due to location. The Transfer Fee (percentage of the sale price) also addresses the value influence of the cabin site location and attempts to capture some location or site values that exceed the value of the structure alone at higher sale prices. We believe the location differences, site variability and the impact of the permit restrictions on value are best captured when a cabin sells, when the *market* determines value. This Transfer Fee also provides for payment when funds are available from the sale of the cabin. With established User Fee tiers and fixed Transfer Fee percentages, this approach provides future predictability and affordability for the Cabin Program long-term *plus* easy and consistent administrative procedures for both the Forest Service and permit holders to follow.

Five annual User Fee tiers are established under the CFA, ranging from \$500 to \$4,000, replacing the current fee structure under CUFFA. The User Fee tiers were determined by balancing the user rights and privileges of the permit, which are equally applied to all permit holders regardless of location, with the recognition that location and associated recreation amenities do influence the value of the permitted use. The CFA places the vast majority of the annual User Fees in the \$1,000 to \$3,000 range, which we believe represents the fair market value of the permitted use. Fewer permits are assigned to the \$500 and \$4,000 levels which recognize those User Fees where location and/or recreational amenities may be substantially lower than, or higher than, a typical cabin site. This balance of common rights with differences for location yields a fee structure where the highest fee is eight times the lowest fee. This contrasts with the current fees under CUFFA where the highest fees are more than 100 times greater than the lowest fees.

Converting from the CUFFA-based annual permit fees to the CFA 5-tier User Fees requires the assignment of each permit to one of the fee tiers. We recognize there is no perfect method of assigning the current permits to the User Fee levels. After consideration of various alternatives, we determined the use of quantifiable information offered the best method for dividing the 14,000 permits into the five fee tiers. While the current appraisal system under CUFFA is subject to much criticism, we believe using the permit holder's most recent appraised lot value, ranked in order from the lowest appraised value to the highest appraised value provides a basis for assigning each permit to a fee tier. The 10% lowest appraised lots are assigned to the \$500 level, the next higher 35% are assigned to the \$1,000 level, the next higher 40% are assigned to the \$2,000 level, the next higher 10% are assigned to the \$3,000 level, with the highest 5% assigned to the \$4,000 level. Because 85% of the permits are assigned to the affordable range of \$1,000 to \$3,000, the imperfections of the actual appraised values are not likely to cause major inequities with the assignment of permits to fee tiers.

The following discussion refers to Illustration 2A.

- a. The fee tier assignment is made by using the relative order of the most recent appraised value of each permitted lot. Permitted lots with the 10% lowest appraised values will be assigned to the \$500 level, while permitted lots with the 5% highest values will be assigned to the \$4,000 level.
- b. The resulting "normal distribution" of fee tier assignments follows the same general distribution of values found in the current cycle of Forest Service appraisals.
- c. The vast majority of permit holders would pay a CFA User Fee of the same or lesser amount compared to fully implemented CUFFA permit fees, based on the current appraisal cycle. A relatively small number of permit holders, those at the very lowest levels, would pay slightly higher fees under CFA, than under CUFFA.
- d. This mix of permits to fee tier levels generates sufficient annual Program revenue to the U.S. Government to replace expected net revenues under CUFFA.
- e. The annual User Fees are adjusted each year by the changes in the Implicit Price Deflator for Gross Domestic Product (IPD-GDP) index, published by the Bureau of Economic Analysis of the Department of Commerce.
- f. Two objectives of the CFA are affordability and long-term predictability. The fee structure established achieves both these objectives and is annually adjusted to compensate for inflation. The CFA provides for affordable, predictable fees going forward, unlike the current appraisal methodology which could have dire impact every ten years.

- g. The User Fee total Program revenue is projected to be \$23.8M for the base year of 2010, assuming the legislation becomes effective beginning this year.

The following discussion refers to Illustration 2B.

- a. The projected number of cabins sold per year is 3% of the total or approximately 420 cabins. (*Sales Data and Appraisal Survey Report*, National Forest Homeowners & Cabin Coalition 2, November, 2009.)
- b. The Transfer Fee projections use average sale prices from five ranges of cabin sales.
- c. The percentage of cabins sold per range and the average sale price within each range were determined from the Sales Data and Appraisal Survey, conducted by the NFH & Cabin Coalition 2 during the fall of 2009.
- d. A Transfer Fee of \$1,000 is assessed for all cabin sales, plus an additional amount equal to 5% of the sale price that exceeds \$250,000 up to \$500,000, plus an additional amount equal to 10% of the sale price that exceeds \$500,000.
- e. The \$1,000 Transfer Fee is intended to cover the Forest Service administrative costs and provide for a "location factor" for cabin sales under \$250,000, where the location factor in the sale price is considered minimal. The \$250,000 amount was arrived at by estimating reproduction costs associated with typical cabins. Most Forest Service Regions restrict the size of the cabin, usually within a range of 900 to 1,600 sq. ft. The cost of construction can range from \$125 to \$300 per sq. ft., depending on the quality of construction, materials used, and the remoteness of the location. For cabins designated as historic, reproduction costs can increase substantially. Some areas provide easy access, others require long distance travel for supplies and labor and still others are accessed only by water, on foot or by pack animal. The cabin owner also bears the cost of infrastructure improvements, such as utilities. Using an average of 1,200 sq. ft. and an average cost of \$200 per sq. ft., we arrive at a figure of \$240,000 (1,200 sq. ft. x \$200), rounded up to \$250,000 for site improvements.
- f. For a cabin selling for more than \$250,000, it's difficult to determine how much of the sale price may be associated with location, compared to actual and intrinsic value of the cabin property itself. The design, artistic characteristic, materials, and historic value of the cabin structures may be valued differently from one prospective purchaser to another. While it's difficult to arrive at any precise formula, we generally believe cabins sold for very high prices are more likely to contain location value as a component of the sale price, thus justifying higher Transfer Fees above the \$250,000 level.

- g. Using the Transfer Fee formula, the projected number of sales, and average cabin sale prices, the projected total Transfer Fee revenue is \$1,013,750 for the base year 2010, which is approximately 4% of the projected total Program revenue.
- h. Over 50% of the annual Transfer Fee revenue will be generated from the top 10-15% of cabin sale prices, supporting the premise that values for location are more likely present where sale prices are substantially higher than average or typical cabin sale prices.
- i. When the Transfer Fee revenue is combined with the User Fee revenue, the Total Program Revenue under the CFA is approximately \$24.8M for the base year of 2010. This amount compares favorably with the Forest Service projection of \$22M for 2010 under CUFFA. The Forest Service Revenue Projection was provided to Senator Feinstein last summer 2009 upon her request for the information. (Exhibit 2A)

The following discussion refers to Illustration 2C.

- a. The annual IPD-GDP index of 2.4% used for the projections is based on the average of the last 25 years.
- b. The CUFFA Gross Revenue projections were provided by the Forest Service for years 2008-2014. The projected amount for 2016 was interpreted from the Forest Service statement *"the agency projects \$40 million in annual fees upon full implementation. The last appraisals will be reviewed in FY 2012 and will begin a 3-year phase-in in FY 2014."* The projected revenue amounts for 2017-2019 were calculated by applying the IPD-GDP index increase over the previous year fee amount.
- c. Under CUFFA, some permit fees will increase beyond the level the current or any prospective permit holder would be willing or able to pay. The number of abandoned permits is projected to increase steadily as higher fees are implemented from the current CUFFA appraisal cycle. Upon full implementation of CUFFA, approximately 2,100 permits, or 15% of the total, are projected to be lost due to high fees as determined from the Break Point analysis found in the Sales Data and Appraisal Survey Report. (Exhibit 2B)
- d. The CUFFA Net Revenue is determined by subtracting the revenue lost due to abandoned permits from the gross CUFFA revenue projections. Because abandoned permits generally occur at higher fee ranges, the projected revenue loss is approximately twice the percentage of permits lost. The amount of Program revenue loss under CUFFA is projected to reach 30% by 2016, the year CUFFA reaches full implementation.

- e. The annual Program revenues under the CFA increase each year by the IPD-GDP index of 2.4%. All 14,000 permits are expected to be retained under the CFA by keeping annual user fees within an affordable range.
- f. The total CFA Net 10-Year Program Revenue of \$276M compares favorably with the projected CUFFA Net Revenues of \$267M.
- g. Applying a discount rate of 3.75% (10-yr treasury rate) to the 10-year revenue streams of both programs yields a Net Present Value (NPV) of the CFA Program Revenues that is approximately \$8M greater than the NPV of the CUFFA Program Revenues for the same period.

The following discussion refers to Illustration 2D.

- a. This summary, based on the *Comparison of Recreational Home Sites Leases*, National Forest Homeowners, January, 2010, provides us with a method for comparing the Forest Service Recreation Residence Program to other programs with a similar use. While the authors make no representation that the study includes all such programs, we believe their best effort survey offers a reasonable representation of *the market* for recreation residence programs in the United States.
- b. While no two programs are identical, a number of similarities exist. Each program provides the permit holder with the right to maintain a recreation residence on forest land in return for an annual fee. The market study focused primarily on programs using public lands, while also including several programs on private lands where terms were similar to the public land programs. Over 11,000 cabin lots are represented.
- c. Several observations can be made when comparing to the Forest Service Recreation Residence Program:
 - While all programs have use limitations, some programs allow greater use (exclusive use of land, permanent residency, no dwelling limitations, etc.), while others are more restrictive. The Forest Service permitted use appears to be among the most restrictive when compared to other programs.
 - Some programs use appraisal methods to set annual fees while other programs use alternative methods to achieve the same end. Non-appraisal based user fees are found more often (>70% lots).
 - Where non-appraisal based user fees are found, most adjust (increase) fees annually via a price index.

- Where appraisals are used, most programs attempt to use a fair market approach to value the land, then apply a rate factor to arrive at an annual user fee:
 - CUFFA was the *only* appraisal method found with specific instructions to exclude value adjustments for permit restrictions and limitations placed on land use, thus resulting in higher appraised amounts.
 - Rates for determining annual fees range from 2.5% to 5.5%, placing the Forest Service CUFFA 5% rate at the higher end of the range.
- While a wide range of user fees is found due to variations in the permit/lease terms and location considerations, the average annual user fee is less than \$1,000 for the 11,000 lots represented by this study. If we limit the analysis to public lands only, the average annual user fee remains less than \$1,000, considerably less than average fees under CUFFA or the CFA.

Permit Fee and Program Revenue Summary

The Cabin Fee Act of 2010 provides a permit fee structure that is affordable and predictable for the cabin owner, while ensuring a fair return to the U.S. Government. The total program revenue under the CFA compares favorably to the total program revenue under CUFFA, not only for the base year of 2010, but over a period of time as reflected in the ten-year program revenue projection.

The annual User Fees for 2010 under the CFA range from \$500 to \$4,000, with an overall average of \$1,700, over 70% higher than the *national average* user fee for a recreation residence lot with a similar use, on lands held for a similar purpose. We offer this as further evidence that the CFA fee structure provides more than fair return to the U.S. Government and is based on sound market principles.

Under the CFA fee structure, we expect all 14,000 current permits to remain active, keeping the Forest Service Recreation Residence Program within reach of the typical American family. By contrast, while the CUFFA fees are expected to provide total program revenues similar to the CFA fees, it does so with a decline of permit holders to less than 12,000 over the next 5-6 years based on the current appraisal cycle, thus reducing the typical American family's participation in the Recreation Residence Program. This same pattern of permit loss is likely to be repeated in future appraisal cycles, eroding the Recreation Residence Program still further over time.

We understand that the number of second appraisals and permit fee appeals has risen considerably under the current CUFFA appraisal cycle, increasing administrative costs to the Forest Service, while potentially reducing services to the public. This increase in Forest Service Administrative costs was

discussed in the *Recreation Residence Assessment*, Pacific Southwest Region, USDA Forest Service, June 10, 2009, Updated November 12, 2009. The elimination of on-going appraisals will yield substantial administrative cost savings to the Forest Service, potentially exceeding \$1M annually. The proposed CFA provides the opportunity for the Forest Service to redeploy resources resulting from these cost savings into more productive delivery of programs and services to the public.

The strength of the Cabin Fee Act of 2010 is its simplicity. The simple and straight forward fee structure provides future predictability and affordability for the Cabin Program long-term *plus* easy and consistent administrative procedures for both the Forest Service and permit holders to follow. The CFA provides a true win-win outcome for the cabin owners and the U.S. Forest Service. We thank you for your support of this legislation.

Illustration 2A

Projected Annual Program Revenue from User Fees

2010 Base Year

Tier	% by Tier	No. of Permits	User Fee	User Fee Revenue
1	10%	1,400	\$500	\$700,000
2	35%	4,900	\$1,000	\$4,900,000
3	40%	5,600	\$2,000	\$11,200,000
4	10%	1,400	\$3,000	\$4,200,000
5	5%	700	\$4,000	\$2,800,000
Total	100%	14,000	\$1,700	\$23,800,000

Illustration 2B

Projected Annual Program Revenues from Transfer Fees

2010 Base Year

Cabin Sale Range	% of Cabin Sales	No. Cabin Sales	Avg Cabin Sales Amt	Transfer Fee Per Sale	Transfer Fee Revenue
< \$100,000	40%	168	\$65,000	\$1,000	\$168,000
\$100,001 - \$200,000	35%	147	\$155,000	\$1,000	\$147,000
\$200,001 - \$300,000	15%	63	\$275,000	\$2,250	\$141,750
\$300,001 - \$500,000	8%	34	\$400,000	\$8,500	\$289,000
\$500,001+	2%	8	\$700,000	\$33,500	\$268,000
Total	100%	420			\$1,013,750

Illustration 2C

Ten-Year Total Program Revenue Projection, comparing CFA with CUFFA

(\$ Millions)

Year		IPD-GDP % Index	CUFFA Gross Revenue	Est. No. Permits Lost	CUFFA Net Permits	CUFFA Net Revenue	CFA Net Revenue
2008			\$14.6				
2009			\$20.0				
1	2010	0.0%	\$22.0	0.0%	14,000	\$22.0	\$24.8
2	2011	2.4%	\$24.0	-2.5%	13,650	\$22.8	\$25.4
3	2012	2.4%	\$26.0	-5.0%	13,300	\$23.4	\$26.0
4	2013	2.4%	\$32.0	-7.5%	12,950	\$27.2	\$26.6
5	2014	2.4%	\$35.0	-10.0%	12,600	\$28.0	\$27.3
6	2015	2.4%	\$37.5	-12.5%	12,250	\$28.1	\$27.9
7	2016	2.4%	\$40.0	-15.0%	11,900	\$28.0	\$28.6
8	2017	2.4%	\$41.0	-15.0%	11,900	\$28.7	\$29.3
9	2018	2.4%	\$41.9	-15.0%	11,900	\$29.4	\$30.0
10	2019	2.4%	\$42.9	-15.0%	11,900	\$30.1	\$30.7
Total 10-Year Program Revenues						\$267.6	\$276.7
Net Present Value of 10-Year Revenues						\$217.5	\$225.6

Illustration 2D

Comparison of Recreational Home Sites Leases

No.	Property Owner	Land	Location	No. Lots	Weighted Avg Annual Fee	Fee Range Annual	Lease Length	Fee Adjustment	Basis of Fee	Restrictions
1	Tacoma City Light	Public	Lake Cushman, WA	3,200	\$158	\$130 - \$584	99 yrs	CPI Index (every 5 yrs)	User Fee	Few
2	St. of Washington	Public	North Woods, Swift Reservoir, WA	210	\$1,906	\$1,800 - \$2,500	100 yrs	CPI Index (every 10 yrs)	User Fee	Few
3	St. of Montana	Public	Placid and Seeley Lakes, MT	179	\$2,842	\$1,500 - \$7,000	15-25 yrs	CPI + RE index	Moving to User Fee*	Few
4	St. of Montana	Public	Flathead, Echo, McGregor, & Rogers Lakes, MT	127	\$5,138	\$2,500 - \$6,000	15-25 yrs	CPI + RE index	Moving to User Fee*	Few
5	St. of Idaho	Public	Payette Lake, ID	167	\$8,097	\$1,500 - \$24,000	10 yrs	Appraisal (every 5 yrs)	2.5% County appraised	Few
6	St. of Idaho	Public	Priest Lake, ID	354	\$8,000	\$6,000 - \$10,000	10 yrs	Appraisal (every 5 yrs)	2.5% Ind. appraised	Few
7	St. of Wyoming	Public	Statewide	20	\$1,000	\$1,000 - \$2,300	25 yrs	CPI 10-yr moving avg	5.5% Estimated value	Very Few
8	St. of Utah	Public	Statewide	30	\$1,500	\$1,000 - \$3,000	20-30 yrs	Not Known	3.5% State appraised	Very Few
9	St. Louis County, MN	Public	St. Louis County, MN	1,260	\$395	\$300 - \$500	Annual	CPI Index (periodic)	User Fee	Moderate
10	St. of Pennsylvania	Public	Statewide	4,000	\$200	\$200	10 yrs	Period new fee	User Fee	Many
11	Bureau of Reclamation	Public	Lake Conconully, WA	82	\$900	\$900	20 yrs	Appraisal (every 5 yrs)	3.75% Appraised value	Moderate
12	Bureau of Reclamation	Public	Alcova Lake, WY	100	\$3,250	\$2,750 - \$4,000	20 yrs	Appraisal (every 5 yrs)	5.0% Appraised value	Moderate
13	Pacific Gas & Electric	Private	Bucks Lake, CA	71	\$2,577	\$2,200 - \$2,600	10 yrs	Annual	Appraisal less restrictions	Moderate
14	Pacific Gas & Electric	Private	Philbrook Lake, CA	44	\$1,250	\$1,200 - \$1,300	10 yrs	Annual	Appraisal less restrictions	Moderate
15	Minnesota Power	Private	St. Louis, Cass, Morrison, & Lake County, MN	1,500	\$800	\$100 - \$2,000	30 yrs	Annual	2.5% County appraised	Moderate
16	PacifiCorp	Private	Merwin Lake, WA	40	\$12,000	\$8,000 - \$15,000	15 yrs	CPI	% Est. fee simple	Moderate
17	PacifiCorp	Private	Northwestern Lake, WA	55	\$5,645	\$3,600 - \$6,000	5 yrs	CPI	Negotiated user fee	Moderate
18	Private Rancher	Private	Northeastern Nevada	5	\$1,000	\$1,000	14 yrs	None	User Fee	Very Few
19	Private Family	Private	Sierra Mountains, Northern CA	81	\$1,869	\$1,825 - \$2,125	Annual	Annual	User Fee	Few
20	Private Rancher	Private	Northern CA	13	\$275	\$275	99 yrs	Fixed	User Fee	Very Few
			Combined Public/Private Totals	11,538	\$902					
	FS CUFFA (gross)	Public	National	14,000	\$3,533	\$125 - \$76,000	20 yrs	IPD-GDP + reappraisal	5% appraised value	Many
	FS CFA (proposed)	Public	National	14,000	\$1,700	\$500 - \$4,000	20 yrs	IPD-GDP + Transfer Fee	User Fee	Many

Exhibit 2A

**Forest Service Revenue Projection,
provided to Senator Feinstein by the Forest Service upon her request (Summer 2009).**

Cabin User Fees

Question. What is the total annual cost to the Forest Service for administering the recreation residence program for each of the past five fiscal years, including projected costs for FY 2009? How many FTE does the program require? Please provide the basis for how the costs were calculated, and separate out direct and indirect costs.

Answer: The Forest Service accounting system does not distinguish the cost of performing recreation residence permit administration from the cost of processing and administering recreational permits overall. In FY 2009, the total for the administration of recreation special use authorizations is estimated at \$43.1 million and 338 FTEs. Of that planned amount, approximately \$6.7 million are indirect costs or about 15.5 percent. The FY 2009 estimate for administering recreation special uses overall is based on regions' capability data. The indirect cost estimate is based on FY 2008 actual expenditures and that same indirect cost percentage is applied to FY 2009 planned levels.

Question. What are the real and projected costs to the Forest Service for implementing the Cabin User Fee Fairness Act of 2000 for the past five fiscal years, including FY 2009? How much is budgeted for FY 2010? Please separate direct and indirect costs.

Answer: The cost of implementing the Cabin User Fee Fairness Act of 2000 (CUFFA) is reflected in the direct appraisal costs estimated at \$7 million from FY 2007 through FY 2012 and an additional \$1.3 million in indirect costs. CUFFA did not result in a significant increase in direct appraisal costs per appraisal cycle, but by requiring appraisals every ten years as opposed to the previous policy of every twenty years, CUFFA effectively doubled these costs. Indirectly, CUFFA resulted in a significant amount of time and money devoted to the writing of regulations, meeting with interested parties, and responding to the controversy generated by its implementation. However, there is no budget line item for CUFFA implementation, as it is part of overall recreation permit program costs.

Question. Specifically, what are the costs of new appraisals to implement CUFFA in Fiscal Years 2007, 2008 and 2009? What appraisal costs are budgeted for Fiscal Year 2010? What is the expected total cost of an entire appraisal cycle for all forests? Please explain how the overall CUFFA implementation costs and the appraisal costs were determined.

Answer: Costs of new appraisal are spread out from FY 2007 through FY 2012. Our accounting system does not split out these specific costs, but the agency has developed the following estimates based on known direct contract costs and review appraiser costs, and then projecting forward. An estimated additional \$1.3 million over FY 2007 – FY 2012 is estimated for indirect costs.

(\$ thousands)

Fiscal Year	Direct Estimate	Indirect Estimate	Total Estimate
2007	\$1,600	\$300	\$1,900
2008	\$1,800	\$300	\$2,100
2009	\$1,600	\$300	\$1,900
2010	\$1,000	\$200	\$1,200
2011	\$600	\$100	\$700
2012	\$400	\$100	\$500
Total	\$7,000	\$1,300	\$8,300

Question. How much revenue did the Federal Government receive from the fees paid for recreation residence permits in Fiscal Year 2008? Under current law and policies, how much revenue is the Federal Government projected to receive from fees paid for recreation residence permits in each Fiscal Years from FY 2009 to FY 2014?

Answer: In FY 2008, revenue received was \$14.6 million. Assuming there is little change in fees from second appraisals and assuming the increase indicated from the completed appraisals is representative for the whole, the agency projects \$40 million in annual fees upon full implementation. The last appraisals will be reviewed in FY 2012 and will begin a 3-year phase-in in FY 2014. Breaking out the increase over the intervening years would indicate the following estimates.

FY 2009: \$20 million
FY 2010: \$22 million
FY 2011: \$24 million
FY 2012: \$26 million
FY 2013: \$32 million
FY 2014: \$35 million

Exhibit 2B**NFH Sales and Appraisal Survey (Oct. 2009)****Breakpoint Analysis**

The 'breakpoint' is the financial point where cabin owners cannot pay or will not pay the permit fee increases that result from the current CUFFA appraisal process. We assume sales attempts will occur and/or folks will walk away from their cabins. We believe that as fees exceed cabin owner breakpoints, some cabins will be sold, but other cabins will be added to the list of cabins already unsalable, due to their high current fee and the uncertainty in the existing CUFFA appraisal process. Permits abandoned will result in lost revenue.

In the following table the breakpoint average from the survey was **\$3,190**, with a range of \$200 - \$20,000. This is quite a range. Please note that some cabin owners are **willing and able** to pay fees above the \$5,000 level, but others **are unwilling or unable** to pay a fee that is less than \$1,500. Challenges to cabin owners exist across the spectrum. All non-zero responses (1263) to the breakpoint survey question are included in the following table.

Table 1: Breakpoint ranges

Fee Range	# in range	Breakpoint Avg.	% of Total	%Cumulative
\$100 - \$1,000	44	\$698	3.5	3.5
\$1,000 - \$1,500	137	\$1,110	10.8	14.3
\$1,500 - \$2,000	144	\$1,568	11.4	25.7
\$2,000 - \$3,000	352	\$2,239	27.9	53.6
\$3,000 - \$4,000	215	\$3,130	17.0	70.6
\$4,000 - \$5,000	120	\$4,104	9.5	80.1
\$5,000 - \$7,000	167	\$5,248	13.2	93.3
\$7,000 - \$20,000	84	\$9,424	6.7	100.0
Total/Avg./%	1,263	\$3,190	100%	

What year will you reach your 'Breakpoint'?

The following table suggests that at least 57.7% of cabin owners will reach the 'breakpoint' in **this** appraisal cycle when fully implemented in year 2014 or 2015. This percentage probably overstates the reality on the ground because most people will try to ride out the process and hang on in hopes of success in changing CUFFA, which is already occurring in tracts appraised with high values in this cycle. The 'Don't Know' responses (41.1%) reflect the fact that about 40% of all cabins have yet to receive their CUFFA appraisals and cabin owners have no idea of the potential outcome. Uncertainty is inherent in this process.

Table 2: Breakpoint year

	Percent	Number	Cumulative %
2009	5.6%	73	5.6%
2010	19.7%	258	25.3%
2011	19.1%	250	44.4%
2012	8.2%	108	52.6%
2013	3.1%	40	55.6%
2014	2.1%	27	57.7%
Don't Know	41.1%	538	98.8%
Never	1.2%	16	100.0%
	100.1%	1,310	

Reasons given for reaching their Breakpoint or Walk-away point

- 34.7% couldn't afford the fee.
- 51.4% indicated the fee exceeded the value of the rights and privileges granted.
- 13.8% other

After deeper analysis of the 'other' comments, we conclude that approximately 40% of cabin owners can't afford the fee, while 60% are unwilling to pay a fee they believe exceeds the value received.

Comparison of 2010 Estimated Fee to projected Breakpoint

The following table demonstrates that as fees exceed the \$4,000 level, at least 53.8% of the cabin owners will reach a point where they are unable or unwilling to pay the fee, they have reached their 'Breakpoint'. Plus, if CUFFA fees become fully implemented, these data suggests that 35.3% of all cabin owners will reach this point.

Table 3: Estimated Fees

2010 Est. Fees	# in Fee Range	# in Range where Fee > BP	% in Range where Fee > BP
< \$1,000	72	5	6.9%
\$1,000-1,999	248	24	9.7%
\$2,000-2,999	142	33	23.2%
\$3,000-3,999	94	34	36.2%
\$4,000-4,999	78	42	53.8%
\$5,000-5,999	52	39	75.0%
\$6,000-6,999	39	33	84.6%
\$7,000-7,999	8	6	75.0%
\$8,000-8,999	28	24	85.7%
\$9,000-9,999	22	20	90.9%
\$10,000-14,999	23	19	82.6%
\$15,000-\$19,999	5	5	100.0%
\$20,000+	4	4	100.0%
Total Responses	815	288	35.3%

Breakpoint Data Summary

- The survey responses indicate that, without changes to CUFFA, 35% of cabin owners will reach their breakpoint or walk-away point in the *current* CUFFA appraisal cycle following full implementation of CUFFA. The recently passed temporary moratorium on fee increases greater than 25% may change this projection for 2010.
- 60% indicated the CUFFA fee exceeds the value of the rights and privileges granted. This number supports the contention that cabins will be very difficult to sell, because a potential buyer would likely reach the same conclusion. This is consistent with both anecdotal and hard evidence that cabins in some high-fee locations are difficult or nearly impossible to sell.
- These comparisons are made with data that is estimated and projected. This must be weighed and considered in the analysis. However, the data does clearly demonstrate that we have a serious problem in the immediate future if we are not successful in changing CUFFA. Even if the breakpoint response data is discounted by 50%, the implication remains that at least a 15% loss of cabins, in this appraisal cycle, is probable. The next section further illustrates this point.

Projected Impact on Revenue due to Permit Loss

The following table illustrates the amount of fee revenue loss that occurs when permits are lost. The ‘% Lost Permits’ percentage is arrived at by reducing the survey results by 20% for each level and rounding to the nearest 10%. This adjustment yields a more conservative result by attempting to reduce or eliminate any cabin owner bias with the survey. The permit loss ranges from 30% for permits at the \$4,000-\$5,000 level, increasing to 80% for those fees greater than \$10,000. Extending the % permits lost by the average fee per range shows the revenue loss per level. The projected total revenue loss (38%) is approximately twice the number of permits lost (17%), supporting the 2-to-1 ratio of revenue loss to number of permits lost conclusion. Both percentages are rounded down to 15% and 30% for the CUFFA program revenue fee projections.

Table 4: Revenue Impact of Permit Loss

2010 Est. Fees	# in Fee Range	Avg Fee by Tier	Revenue by Tier	% Lost Permits	No. Lost Permits	Lost Revenue	Net Revenue
< \$1,000	72	\$766	\$55,176	0.0%	0	\$0	\$55,176
\$1,000-1,999	248	\$1,482	\$367,475	0.0%	0	\$0	\$367,475
\$2,000-2,999	142	\$2,329	\$330,773	0.0%	0	\$0	\$330,773
\$3,000-3,999	94	\$3,367	\$316,462	0.0%	0	\$0	\$316,462
\$4,000-4,999	78	\$4,414	\$344,322	30.0%	23	(\$103,297)	\$241,025
\$5,000-5,999	52	\$5,277	\$274,418	50.0%	26	(\$137,209)	\$137,209
\$6,000-6,999	39	\$6,346	\$247,496	60.0%	23	(\$148,498)	\$98,998
\$7,000-7,999	8	\$7,325	\$58,600	60.0%	5	(\$35,160)	\$23,440
\$8,000-8,999	28	\$8,469	\$237,125	70.0%	20	(\$165,988)	\$71,138
\$9,000-9,999	22	\$9,274	\$204,032	70.0%	15	(\$142,822)	\$61,210
\$10,000-14,999	23	\$12,254	\$281,836	80.0%	18	(\$225,469)	\$56,367
\$15,000-\$19,999	5	\$18,510	\$92,550	80.0%	4	(\$74,040)	\$18,510
\$20,000+	4	\$24,188	\$96,750	80.0%	3	(\$77,400)	\$19,350
Total Responses	815		\$2,907,015		138	(\$1,109,882)	\$1,797,133
				% Lost =>	17.0%	-38.2%	
				Rounded	15.0%	-30.0%	

Conclusion

- The survey ‘breakpoint’ data is consistent with the cabin owner forums and communication received from individual cabin owners from all Forest Service regions. Most express concern they will be forced to sell or abandon their cabins when fees reach the \$3,000-\$4,000 level, which is supported by the survey results.
- The Forest Service expects the current cycle of field appraisals to be completed by 2012. Second appraisals and appeals are likely to extend this process by another year or two. For fee increases exceeding 100%, a three year phase in of fees suggests full implementation of CUFFA fees is not expected until 2016. We expect permit loss will occur as higher CUFFA fees are implemented in the same phased-in pattern (from 2011 to 2016), reaching the full 15% permit loss in 2016 as CUFFA is fully implemented. The attached Ten-Year Total Revenue Projection factors this permit loss into the CUFFA net revenue projections.