



# Stewardship Contracting: An Assessment of Opportunities for Forest Restoration and Rural Communities

## Key Points:

- In 2003, Congress extended the stewardship contracting program (first initiated in 1999) over 10 years on national forests and lands managed by the Bureau of Land Management.
- The intent of the legislation was to support stewardship of public land — with the needs of local communities in mind.
- To ensure that the objectives of the stewardship contracting program are met, systematic and consistent monitoring with broad public involvement is essential.

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The promise of stewardship contracts as a positive force for forest restoration and community involvement is real. Just as real are concerns that the promise will not be realized if the agencies choose to use their new authorities to perpetuate business as usual. This Science & Policy Brief examines stewardship contracting — both the promise it holds and its potential problems.

## Background

In 1999, Congress passed legislation that authorized the U.S. Forest Service to use new contracting authorities in a series of Stewardship Contract Pilot Projects. By 2003, the number of those projects stood at 84. Congress extended the program over 10 years and included the Bureau of Land Management (BLM), an agency of the Department of the Interior that also manages public land.<sup>1</sup> In early 2004, the Forest Service and BLM finalized guidelines for agency managers who carry out the stewardship contracts at the field level.<sup>2</sup>

The primary intent of the legislation was to foster restoration of public forestland managed by the federal government through creative new approaches and to foster greater participation by local communities and the public in setting goals and carrying out the work.<sup>3</sup>

## What is a stewardship contract?

Stewardship contracting differs substantially from traditional federal forest contracting, which entails sale and service contracts on national forests and forested lands managed by BLM. Sale contracts focus on removal of commercial products — most often, timber. Service contracts focus on activities such as road maintenance, thinning of trees (not for commercial purposes), the reduction of fuels as a fire management tool, and inventory and survey work. Both of these contract mechanisms cover a specific type of work over a short period of time. Both forbid a combination of sale and service. And both are often awarded to large companies, sometimes based well outside the local area, because larger companies can usually underbid smaller, local outfits.

<sup>1</sup> Public Law 108-7, Section 323.

<sup>2</sup> Forest Service Handbook (2409.19 Ch. 60) (hereinafter FSH) and BLM Stewardship Contracting Guidelines.

<sup>3</sup> Public Law 105-277, Section 347.

New direction in forest stewardship is clearly needed. Both the Forest Service and BLM report significant backlogs in their stewardship programs — from reforestation and reduction of hazardous fuels to control of invasive weeds and insects, restoration of degraded lands and watersheds, improvements in wildlife habitat, and maintenance of trails and other recreation amenities.<sup>5</sup>

In contrast, stewardship contracting incorporates principles of ecosystem and forest health management that capture the full range of long-term benefits offered by forests — from carbon sequestration, high-quality watersheds, wildlife habitat, and recreation opportunities to wood fiber and other commercial uses. Stewardship contracts emphasize the vital role of local residents, through strong partnerships with federal land managers, in formulating the goals of forest stewardship *and* accomplishing the necessary work. Stewardship contracting also seeks to engage local businesses, community leaders, and other interested parties in a long-lasting commitment to the land.

The 2003 legislation embodies many of these principles. It allows the Forest Service and BLM to:

- consider criteria other than bid prices in awarding contracts (called best-value contracting)

- issue contracts up to 10 years in duration
- exchange goods for services
- spend “excess” receipts on additional stewardship work
- ensure that contractors play a larger role in determining how the work will be done

In addition, and importantly, the agencies are relieved of “full and open competition” strictures, which are otherwise required by federal law.<sup>4</sup>

Congress made it clear that stewardship contracts were to “meet local and rural community needs” and fulfill a number of goals related to restoration of watersheds and wildlife habitat. In addition, Congress directed the Forest Service and BLM to create a multi-party monitoring and evaluation process to track stewardship projects.

How well are the agencies meeting these goals? Issues and preliminary findings are discussed below.

## The New Authorities

**Best-value contracts.** Congress directed that “agreements and contracts shall be awarded on a best value basis.” This means the Forest Service and BLM must consider more than just bid price. The agencies must take into account any existing contracts and a bidder’s technical expertise, past performance, and quality of work performed. In other words, the agencies can select bidders based on their capacity for careful stewardship, not just because they submitted the lowest bid.

Local community needs are closely linked with best-value contracts, signaling a significant shift in the way the Forest Service and BLM conduct



Dense ponderosa pine forest in Colorado overgrown with thick Douglas-fir and white fir. Without episodic natural fires, fire-dependent ponderosa pine communities quickly produce densely grouped sub-canopy trees. A fuels reduction program would greatly reduce the risk of catastrophic fire.

<sup>4</sup> See Federal Procurement Policy Act (P.L. 93-400).

<sup>5</sup> See Alvarez, M., and P. Greenberg. 2003. Stories and Documentation about the Impacts of Wildfire Suppression. Unpubl. paper. American Forests, Washington, DC, and Alkire, C. 2004. The Bureau of Land Management Budget — Let’s Fix It. The Wilderness Society, Washington, DC.

business. The agencies may award contracts to counties or other non-traditional local contractors, thus fostering and integrating community capacity into contracted work. For local communities, best-value contracts may help to develop a skilled workforce with a long-term commitment to the health of the ecosystem.

But best-value contracts will require vigilance to assure that favoritism does not result in inappropriate “insider deals” with bidders who are well known to agency personnel through past contracts or other collaborations. Both Forest Service and BLM guidelines appear to prohibit such collusion, but it will take careful and impartial monitoring of emerging projects to dispel these concerns.

**Long-term contracts.** Stewardship contracts can last up to 10 years, which is generally longer than a sale or service contract period. The longer-term stewardship contract is meant to reduce agency overhead and administrative costs, foster solid working relationships among contractors and communities, allow for comprehensive long-term planning, and accomplish real results on the ground. Some proponents of long-term contracts also point to their potential for building a stewardship ethic and the local capacity to put that ethic to work.

The pilot projects show mixed results. In some cases, multi-year contracts have reduced administrative costs; in other cases, the complexity associated with longer-term contracting has actually increased administrative overhead costs.<sup>6</sup>

In addition, longer contracts may present obstacles to potential contractors. Because annual congressional appropriations cannot be assured to cover all contract costs, many contractors must secure

their own bonding for the contracted work. Bonding requirements can be substantial for multi-year, large-scale projects and may inhibit qualified small local businesses and organizations in competing with larger companies.

It also appears that long-term contracts will not be subject to environmental assessments under the National Environmental Policy Act (NEPA) if project goals and procedures should change during the course of the contracts. This may translate into lower overall costs for the agencies, but also less oversight. A 10-year contract based on only one round of public participation (required by NEPA) may operate without sufficient accountability and may not adequately address changing conditions within a specific project area.

**Goods for services.** The authority to exchange goods for services means that contractors can offset the costs of their service work with the value of forest resources that are removed through that work. Generally, the removal of small diameter trees and other fuels reduction or restoration projects yields little, if any, commercial value. Occasionally, byproducts of restoration have some value that can be captured and used to stretch congressional appropriations in support of stewardship projects. Proponents suggest that this approach will also improve the efficiency of a contractor’s work.

This authority appears to promote the twin goals of ecological restoration and community well being. However, it clearly can create incentives to remove the largest, most valuable trees, which are usually key elements in maintenance of an ecosystem’s health. Thus, stewardship contracts could, in some cases, become nothing more than thinly veiled timber sales.

<sup>6</sup> The Pinchot Institute for Conservation. 2003. Implementation of Multi-Party Monitoring and Evaluation: The USDA Forest Service Stewardship Contracting Projects, FY 2002: A Report to the USDA Forest Service. Washington, DC. (Hereinafter Pinchot Institute, 2003)

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The mixing of service costs with timber sale revenues also promises to create an accounting nightmare. The General Accounting Office has firmly established exceptionally poor performance by the Forest Service in financial tracking; annual audits of the agency's records report "major inaccuracies . . . shortcomings in accounting . . . pervasive errors" and a seeming inability to "track and report."<sup>7</sup> This bodes ill for executing new, more complex accounting authorities.

**Retention of receipts.** The legislation allows the Forest Service and BLM to retain, for local work, portions of the proceeds from the sale of forest resources under stewardship contracts instead of sending all proceeds to the general Treasury. Receipt retention is not new, at least to the Forest Service. It is the underlying mechanism for trust funds authorized by the Knutson-Vandenberg Act and the Brush Disposal Act that apply trust fund monies to Forest Service project areas where the money is initially generated.

Proponents of this approach contend that investment of receipts from timber sales into on-site forest restoration or slash removal is the best and highest use of the proceeds. Others argue that slash removal should be part of the initial contract, and receipts should only be calculated after the contract has accounted for full project costs.

Receipt retention suggests that project revenues will cover costs, but the data tell a different story. "Stewardship" sales of timber on national forests, designed for both timber harvest and forest restoration goals and first reported in 1993, consistently lost money. In 1998,

costs exceeded receipts by \$111 million dollars on national forests.<sup>8</sup> Financial losses that year were incurred in every Forest Service region across the country. Given this history, it is difficult to understand why the Forest Service anticipates that future projects will make money.

Even if the value of goods exceeds fully accounted project costs, the retention of receipts at the forest level could establish a perverse incentive. Forest managers might well encourage high-value sales to underwrite restoration needs in their district, even though cutting down the biggest and most valuable trees runs counter to restoration objectives because of the critical role that large trees play in a healthy forest.

**Designation by description/prescription.** In traditional timber sales, agency foresters mark trees to be logged. Potential contractors visit the site, learn what the agency has in mind, and then submit bids. While expensive and time-consuming, this process maintains agency control and accountability on public lands.

As an alternative to marking, the Forest Service and BLM have long had authority to use "end-result" contracting for some forms of straightforward service work. Two approaches are used in end-result contracting. Designation by Description gives little or no discretion to contractors; the agencies issue a clear description of what can be removed, without marking. For example, contractors are told to remove all ponderosa pine trees under 10 inches in diameter within a clearly defined area. Designation by Prescription gives contractors more

<sup>7</sup> General Accounting Office. 2003. Forest Service: Year End Financial Reporting Significantly Improved, but Certain Underlying Problems Remain. GAO-03-538. Washington, DC.

<sup>8</sup> USDA Forest Service. 2001. Forest Management Annual Report: Fiscal Year 1998. Washington, DC.

control; the agencies prescribe desired post-treatment conditions and specify treatment goals such as the retention of large trees. For example, contractors might be directed to create “patch” cuts interspersed with dense stands of lodgepole pine; the specific configuration of standing trees is left to contractor discretion. Bidders submit plans, showing how they will treat the land to achieve the objectives.



PHOTO BY MICHELE CRIST

Stewardship contracting authorizes the Forest Service and BLM to expand use of the designation approaches. While advocates say that agency planning expenses will be reduced, the preliminary results from pilot projects indicate that “for most projects, stewardship contracts are costing more than traditional projects.”<sup>9</sup> In addition, the Congressional Research Service notes that “no standardized measures of desired forest conditions for contracting . . . have been developed.”<sup>10</sup>

The vast majority of traditional contractors are not trained in restoration ecology and cannot reasonably be expected to determine which trees should be cut to achieve treatment objectives without specific direction from the agencies. Since stewardship contracting, however, is also intended to foster stewardship capacity, end-result

contracting might be well used to improve these skills among contractors through training provided by the agencies. Even agency administrators note that use of the end-result approach will only succeed if “the amount of material removed is verifiable and accountable.”<sup>11</sup>

The question of excessive cutting also arises. If contractors earn their living based on the number of board feet they can generate and are given broad discretion in the field, they have a strong incentive to cut large, valuable trees. At the least, end-result contracting merits close scrutiny — especially in light of the goods for services and receipt retention authorities.

Old-growth ponderosa pine forest in Idaho. Large trees such as these are exactly the wrong trees to cut, but they are likely to go under misguided application of stewardship contracting incentives and criteria.

<sup>9</sup> Pinchot Institute, 2003.

<sup>10</sup> Gorte, R.. 2001. Stewardship Contracting for the National Forests. Congressional Research Service. Washington, DC.

<sup>11</sup> FSH, p. 24.

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### **Less than Full and Open Competition.**

The Federal Procurement Policy Act<sup>12</sup> and National Forest Management Act<sup>13</sup> require that all contracts be awarded on the basis of full and open competition, with the bidding process equally available to all eligible potential contractors. Stewardship contracting projects are exempted from this requirement. This means the Forest Service and BLM are empowered to award contracts to sole bidders or through direct sales.

Relieving the agencies from full and open competition obligations theoretically helps to address complex ownership patterns and difficult pricing scenarios that may conceivably block much-needed restoration work. This type of discretion might also help build community capacity and foster local economic growth. As Forest Service guidelines state, the agency should “give additional weight to those proposals that are responsive to the local community needs.”<sup>14</sup>

In practice, though, the Pinchot Institute, retained by the Forest Service to facilitate and coordinate monitoring of the pilot projects, found that combined with best-value contracting, the new authority on competition has left would-be bidders confused over how bids will be evaluated and has discouraged some bidding.<sup>15</sup>

### **Collaboration and Community Needs**

Linking forest restoration with rural and community needs is one of the most promising and unique dimensions of the

stewardship contracting program. The creation of long-term, locally based sustainable forest management means that local economic, technical, and scientific capabilities must be enhanced.

Stewardship contracting was designed to give rural communities an economic boost by returning (or creating) forest-based jobs and economic benefits.

To achieve the goals of forest restoration and rural community development, both agency personnel and potential contractors need training to better understand the objectives and implementation strategies of stewardship contracting. It is important to remember that the Forest Service and BLM missions are not solely dedicated to local economic sustainability. Community capacities and opportunities should be fostered *in concert* with goals for stewardship of public resources — to the benefit of the land and people.

It should also be remembered that stewardship contracting promises more than community development. The program also pledges to “involve” local residents in a collaborative process.<sup>16</sup> Such a process identifies those community needs that might be addressed through forest restoration and builds community support for restoration. The concept of collaboration has been chronically difficult for the Forest Service to implement effectively<sup>17</sup>, and the BLM has even less experience in this arena. In general, the agencies seem to find the National Environmental Policy Act process of involving the public to be cumbersome and time-consuming<sup>18</sup>

<sup>12</sup> Federal Procurement Policy Act, 41 U.S.C. 253(c).

<sup>13</sup> National Forest Management Act, Section 14, Subsection (e)(A).

<sup>14</sup> FSH, p. 27.

<sup>15</sup> Pinchot Institute, 2003.

<sup>16</sup> *Ibid.*, p.18.

<sup>17</sup> The Committee of Scientists. 1999. *Sustaining the People’s Lands: Recommendations for Stewardship of the National Forests and Grasslands into the Next Century*. USDA: Washington, DC.

<sup>18</sup> USDA Forest Service. 2002. *The Process Predicament: How Statutory, Regulatory, and Administrative Factors Affect National Forest Management*. Washington, DC.

and even that process does not amount to true collaboration. Rather, the public is given specific time frames and modes to comment on projects that are already in the planning process and under agency control. A truly collaborative process, on the other hand, greatly increases and enriches the public's role in land management. Stakeholders are included in early planning stages and given decision-making power.

The agencies' traditional methods for public involvement such as legal notices and newsletters have not engendered the kind of strong community support and involvement that collaboration implies, nor have they fully engaged agency personnel. Stakeholders must be included in early planning stages, and they must share decision-making powers, creating a shift "away from the agency as 'expert' and toward shared learning, trust, and responsibility represent[ing] a fundamental change in the way public lands are managed."<sup>19</sup>

### Multi-Party Monitoring

Multi-party monitoring emphasizes active participation of citizens and stakeholders in the review and evaluation of projects. In fact, monitoring is one of the most critical components of stewardship contracting.<sup>20</sup> Consistent with collaboration goals, the multi-party monitoring process can be a tangible link between communities and forest restoration.

Since 1999, the Pinchot Institute has coordinated national, regional, and local monitoring of stewardship pilot projects across the country. Three layers of monitoring were initially incorporated into the pilot stage of the program. A national team has tracked the entire program across the country; thus far, their consistent reporting has been instrumental in



PHOTO BY ANDREA BEDELL LOUCKS (PINCHOT INSTITUTE FOR CONSERVATION)

the development of better guidelines for program management. Regionally, monitoring teams of interested citizens and local experts in land management meet periodically, either alone or in concert with teams from other regions, to share information and work with the Institute to refine the stewardship contracting program. At the forest level, monitoring teams made up of local citizens are assembled to monitor individual projects.

The Stewardship Contracting Pilot Program required that "the Forest Service shall establish a multiparty monitoring and evaluation process that accesses [sic] each individual stewardship contract."<sup>21</sup> The monitoring and evaluation teams were instructed to gather data on social, economic, biophysical, and administrative criteria for each project. Assessing these dimensions of a given project would allow the agency to "measure whether the new authorities have achieved the desired results."<sup>22</sup> As a result of the 2003 law expanding stewardship contracting authorities, rigorous

Pinchot Institute National Team members examine a longleaf pine restoration project on the Conecuh National Forest in Alabama (2004).

<sup>19</sup> USDO I BLM and The Sonoran Institute. 2000. A Desktop Reference Guide to Collaborative, Community-Based Planning. U.S. Department of the Interior, Washington, DC.

<sup>20</sup> Public Law 105-277, subsection (g).

<sup>21</sup> Ibid.

project-level monitoring requirements have been loosened in favor of larger-scale, programmatic-level monitoring.

Important issues related to monitoring in the future mirror concerns about other aspects of the stewardship contracting program. Vague guidelines and inadequately funded mandates threaten to undercut the best intentions. Without rigorous project-level monitoring, it will likely be difficult to assess the impact of the new authorities described here.

### Looking Ahead

Stewardship contracting is a promising and potentially transformative package of new contracting authorities that help to re-define the way work is done on public lands. New priorities in the 21<sup>st</sup> century, including the need for expensive forest restoration and the existence of multi-dimensional opportunities to connect with communities more productively, are moving federal land management agencies to reconsider fundamental ways of doing business. The new authorities contained within the stewardship contracting program both create and reflect these changes. Careful monitoring and review by the public is critical to ensure that the goals of the program are met.

The Forest Service reminds its staff in the agency's Handbook that "deriving revenue from the sale of products designated for removal through stewardship contracting projects is a secondary objective to achieving land management goals."<sup>23</sup> Interested individuals and groups should welcome opportunities to collaborate with the agencies and help

maintain the primacy of that key objective. Rigorous record-keeping protocols need to be established so that lessons learned from individual projects outlast individual staff members. Agencies need more guidance on the kind of data they should collect, thereby improving the comparability of monitoring results from one forest to another and greatly enhancing land managers' capacity to employ adaptive management.

The call for more structure in the monitoring program does not mean that guidelines need to be overly complex. Multi-party monitoring places high importance on the accessibility of the process to a diverse public, and therefore guidelines should be kept as simple as possible. The absence of a formalized monitoring process makes transparency and the provision of public collaboration opportunities even more critical. Not only will such processes strengthen trust between agencies and the public, they will also improve results. The Pinchot Institute reports that "without fail, projects that have developed through some form of partnership have enjoyed the greatest success."<sup>24</sup>

Expanded public participation in forest management, stronger local stewardship skills, and healthier forests may yet emerge from the authorities contained in the stewardship contracting legislation. The risks associated with those authorities are real, however, and public participation in oversight and implementation is needed to achieve the stewardship contracting ideal.

<sup>22</sup> USDA Forest Service Notice 3410-11.

<sup>23</sup> FSH, p. 29.

<sup>24</sup> Ibid., p. 5.