

To All Cabin Owners, Congressional Staff and Forest Service Personnel,

NFH and Cabin Coalition 2 have finalized a permit fee determination method that we are recommending as a solution to the fee determination problem. We are recommending the User Fee / Transfer Fee approach with several significant modifications to the initial version of the proposal. We believe we have addressed most of the early concerns that were expressed.

The research and review process has been difficult and required compromises from all participants. Many ideas and approaches to the problem have been weighed and discussed. The internal and external dialogue has been challenging. However, feedback on the two fee models from cabin owners across the country has been very helpful and informative to the final proposal.

The information compiled from the fee model feedback, the field discussion think tanks and our own research has led us to conclude that an appraisal-based fee determination system remains problematic. Adjusting either the appraisal itself or the multiplier to a level that solves the problem of excessive fees in certain areas would result in fees that are unreasonably low in other areas. A multi-tiered multiplier might be able to overcome this difficulty, but the fees would remain fluid and uncertainty would persist. The subjective nature of the appraisal process, combined with the difficulty of the appraisal assignment, renders a truly objective determination of the value of the use difficult to attain. Inconsistency and unfairness would be the inevitable result.

For these and other reasons, we have developed an alternative approach that we believe is workable, more predictable and would provide affordable fees for decades to come. If implemented, the potential loss of cabins due to unreasonably high fees currently facing cabin owners would be averted. Also, we will demonstrate that, during these challenging financial times, our proposal will meet what is called “budget neutrality”. This means that current federal revenues from permit fees will be maintained and moderate revenue projections met. This is a critical prerequisite to Congressional consideration of a solution. In addition, this method will result in administrative savings to the Forest Service. The sustainability of the Program also is greatly enhanced with a system that brings certainty to permit fees.

Attached are two documents. The first is the C2 Model Recommendation “Ver. Final”, describing the User Fee / Transfer Fee solution. The second is a PowerPoint presentation, as a pdf file, that is intended to illustrate most aspects of this approach to valuing the use authorized by the permits. Please take the time to read and study these documents. This is an important time to move forward and retain our momentum with Congress using these documents to represent our appeal for their support and intervention. These documents may very well shape the future of the Recreation Residence Program on National Forest Lands.

Thanks for your continued involvement and support.

National Forest Homeowners and Cabin Coalition 2
August 8, 2009

National Forest Homeowners and Cabin Coalition 2

Recreation Residence Program: Recommended Permit Fee Solution

August 8, 2009

The current process for determining a fee for the right to own and use a recreation residence on National Forest System land does not reflect the value of what user families actually receive. Change is needed. CUFFA was drafted with this intent: (1) to ensure that the Recreation Residence Program (to the maximum extent practicable) is managed to preserve the opportunity for individual and family-oriented recreation; and (2) to develop and implement a more consistent procedure for determining cabin user fees. However, ambiguity in the legislation has allowed for widely varied interpretations of CUFFA requirements and called into question the fulfillment of these purposes.

The existing appraisal process under CUFFA uses valuation of ‘comparable’ fee simple private lots while excluding the value influences of the many conditions and restrictions imposed by the permit and Forest Service guidelines. It is based on valuing a fee simple estate with full ownership rights rather than establishing a value for a bundle of restricted rights. The results are inaccurate valuations and unfairly high (and occasionally low) fees for the authorized use. Unreasonably high fees are unsustainable and threaten the continued existence of the Recreation Residence Program. Very low fees fail to cover the cost to administer the Program.

Many of the cabins on National Forest land have been in existence since the inception of the Program, supported by multi-generational ownership and responsible stewardship of the land. The nature and intent of this Program, as a continuing opportunity for family-oriented recreation, will not survive the existing fee-setting process. Whether viewed from the position of a present cabin owner or a prospective purchaser, the current fee mechanism will lead to only the very affluent owning cabins and the general public will no longer be afforded the recreational opportunities that Congress authorized with this Program. Most cabin owners cannot afford to pay, nor should they be expected to pay, unreasonably high fees, particularly when these high fees depress the sale prices of cabins and in some areas have already made cabins completely unmarketable. Our recommendation for changing the fee-setting process has been developed according to the following principles and guidelines.

General Principles:

1. The Recreation Residence Program is a valid and responsible use of the National Forests.
2. The Program should be managed to preserve the opportunity for individual and family-oriented recreation and recognize the value that cabin stewardship brings to the Forests.
3. As stated in CUFFA, there should be “a more consistent procedure for determining cabin user fees, taking into consideration (all of) the limitations of an authorization and other relevant market factors.”

Guidelines:

1. The fees need to be fair to cabin owners, but also provide a fair return to the general public for the use of its lands and resources.
2. The highest and best use of the land is the current use as a recreation residence site.
3. Cabin value and marketability must be maintained. This protects both the cabin owner’s interest and government revenue.
4. Sustainability of the Program can best be ensured by certainty and predictability in the fee determination process.
5. The fee-setting process should be simple to understand, calculate and administer.
6. Revenue neutrality must be achieved to ensure that future revenue from permit fees is maintained.
7. The process must recognize that this unique shared “ownership” relationship requires a strong partnership between cabin owners and the Forest Service.

8. The level of risk and the costs to the cabin owner must be recognized (i.e. the limited term of the permit, risk of termination at any time with the expense of removal, the cost of compliance and maintenance of the land and cabin).
9. The long-term interests of the Forest Service and the Cabin Community must be aligned to enhance sustainability and ensure the long-term viability of the Cabin Program.
10. To cover the costs of administering the Recreation Residence Program, retention by the Forest Service of at least a portion of the revenue from permit fees should be considered. (The Park Service currently benefits from fee retention of 50 %)

Adhering to these General Principles and Guidelines, Cabin Coalition 2 recommends the following fee-setting method as the long-term solution to the fee determination problem facing the Recreation Residence Program. The financial modeling attached to this document supports and is part of our recommendation.

User Fee / Transfer Fee

This two-fee approach to valuing the use of National Forest Lands includes both an annual user fee and a transfer fee 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. We believe that 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 allows 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* easily understandable and consistent administrative procedures for both the USFS and cabin permittees to follow. This approach eliminates any future appraisal costs, resulting in at least \$8.3 million in savings to the Forest Service based on the projected total cost of the current CUFFA appraisal cycle.

Key elements of the User Fee / Transfer Fee Method:

Annual User Fee

- 1) Each lot's annual user fee is assigned to one of five fee tiers. The tier assignment is made according to *relative* (rank order) valuations from existing CUFFA appraisal data. Please refer to the fee modeling document (attached). Using this data recognizes the time and cost already incurred by the Forest Service and does not make this data meaningless. The annual user fee shall be the same for all cabins in a particular tier;
- 2) The fee tiers shall range from \$500 to \$4,000. The method of permit fee allocation to tiers and the resulting program revenue will be subject to negotiation. However, we believe that following a bell curve allocation of permits to tiers that parallels the distribution of values under the current system is a reasoned and defensible process;
- 3) The individual fee tiers are set so that the sum of all resultant annual user fees equals no less than the total revenue produced from all 2009 fees. The intent is to ensure revenue neutrality from current revenue amounts;
- 4) The user fee for each tier is increased or decreased annually according to changes in the IPD-GDP index, or other similar agreed upon index, for that year;
- 5) A portion of the annual user fee should be retained by the Forest Service to cover the agency's administrative costs.

Transfer Fee

- 1) Reasonable compensation for the permitted use and revenue neutrality will be achieved through the annual user fee. However, when a cabin is for sale a prospective purchaser takes into consideration the location of the cabin. (Cabins on lakes are usually worth more than those in the woods.) Location is a land value characteristic and the US taxpayers own the land. The transfer fee recognizes this value component when a cabin is sold;
- 2) A transfer fee of \$1,000 shall be assessed when a permit is issued to a different permittee. The transfer fee applies when a cabin sells for value, as well as when it is gifted or inherited (e.g. intra-family transfers). The \$1,000 fee covers the cost of administration while acknowledging the “location value” associated with a special use permit. A transfer fee *surcharge* for cabin sale amounts greater than \$250,000 recognizes higher values (beyond most replacement costs). Such sales are *more likely* to contain location value as a portion of the cabin sale price, therefore justifying a higher transfer fee. The transfer fee *surcharge* is based on the gross sale price and shall also be tiered. This is simpler and less prone to manipulation than setting the transfer fee as a percentage of the cost basis of the cabin;
- 3) When a cabin sells for value or an intra-family transfer occurs where money is exchanged, the fee is calculated as shown below. The rationale for an increasing transfer fee percentage, as sale prices increase, is to capture more of a location factor above the cost to build or replace the existing residence and associated infrastructure;
 - a. For sales under \$250,000, the transfer fee is \$1,000;
 - b. For sales from \$250,000 to \$500,000, the fee shall be \$1,000 plus 5% of the sale price that exceeds \$250,000;
 - c. For sales over \$500,000, the fee shall be calculated as in b. above, plus 10% of the sale price that exceeds \$500,000;
- 4) For intra-family transfers where money is not exchanged, the \$1,000 transfer fee shall be assessed;
- 5) The transfer fee is collected at escrow for sales or as a condition of issuing the new permit. Issuing a new permit to the buyer should be considered part of the escrow process. This approach maximizes the reporting and collection of the transfer fee;
- 6) One hundred percent (100%) of the Transfer Fee should be retained by the Forest Service.

Cabin Coalition 2 Member Organizations: National Forest Homeowners, American Land Rights Association, Washington State Forest Homeowners Association, Oregon Forest Homeowners Association, Sawtooth Forest Cabin Owners Association (ID), Priest Lake Association (ID), Lake Wenatchee Summer Home Association (WA), Mt. Hood Forest Homeowners (OR) and individual members in Arizona, California, Florida, Minnesota, Montana, Tennessee and Wyoming.

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Recreation Residence Program Permit Fee Proposal



Cabin Coalition 2
National Forest Homeowners
August 2009

(Version 2.2)

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Statement of the Problem

1. The purpose of CUFFA, which is to preserve the opportunity for individual and family-oriented recreation, is not being fulfilled.

- CUFFA was originally drafted with the intent of including permit restrictions in the appraisal process (limited permit rights vs. fee simple bundle of rights). The failure to do so is undermining the health of the Program as a whole.

2. Appraisals under CUFFA frequently yield inconsistent and irrational results.

- Very high fees threaten the existence of the Program. Cabin Owners will be forced to abandon their cabins when permit fees exceed their ability to pay them and no buyers can be found.
- Low fees fail to cover the cost of the Program.

Statement of the Problem (continued)

3. The appraisal process is a burden to both parties.

- There is a high cost to the Forest Service in terms of time, effort and money.
- Questionable results lead to second appraisals paid for by the Cabin Owners, with no guarantee of a satisfactory outcome for either party.

4. Permit Fee uncertainty leads to Program instability.

- The 10-year appraisal cycle, with its unpredictable results, leads to fee uncertainty.
- Fee uncertainty impacts the value of a cabin and in some cases has rendered cabins unsellable at any price.

The Proposed Solution

➤ Implement a Two-Fee Model:

- Annual User Fee
- Transfer Fee when there is a change of ownership

➤ User Fee: Permits are grouped into five tiers based on current appraisal/fee value order (lowest to highest). The fee is the same for all permits within each tier and adjusts with the IPD-GDP index annually (not subject to any other increase).

- 1) \$500
- 2) \$1,000
- 3) \$2,000
- 4) \$3,000
- 5) \$4,000

➤ Transfer Fee: Collected upon the transfer of permit/sale of cabin.

- 1) \$1,000 Transfer Fee applies to all permit transfers
- 2) A Transfer Fee Surcharge is assessed for cabin sales $> \$250,000 =$
 - 5% of sales amount $> \$250,000$ up to $\$500,000 +$
 - 10% of sales amount $> \$500,000$

Annual User Fee Revenue Projection

*Based on Current Appraisal Cycle

Tier	Appraisal Value Range	No. of Permits	Target Tier %	Tier % Total	User Fee
1	\$0 - \$19,999	502	10%	9%	\$500
2	\$20,000 - \$45,999	1,837	35%	35%	\$1,000
3	\$46,000 - \$119,999	2,123	40%	40%	\$2,000
4	\$120,000 - \$199,999	627	10%	12%	\$3,000
5	\$200,000+	221	5%	4%	\$4,000
Total		5,310	100%	100%	\$1,714

*Projected out to 14,000 Permits

CUFFA
Fee Range
 <\$1,000
 \$1,000-\$2,299
 \$2,300 - \$5,999
 \$6,000 - \$9,999
 \$10,000+

Projected Permits	User Fee	User Fee Revenue
1,324	\$500	\$661,770
4,843	\$1,000	\$4,843,315
5,597	\$2,000	\$11,194,727
1,653	\$3,000	\$4,959,322
583	\$4,000	\$2,330,697
14,000	\$1,714	\$23,989,831

- This approach establishes “flat” annual user fees, grouped into five tiers
- The annual User Fees adjust each year by the IPD-GDP Index
- The permit allocation per tier is based on current CUFFA appraisals/fees (lowest to highest)
 - Used actual appraisal results from current cycle representing 5,310 permits
 - Assumes same pattern of appraisal results continues, projected out to 14,000 permits
- The distribution of permits by tier resembles the distribution of appraisal results (i.e. bell curve)
- 75% of User Fees in the \$1,000-\$2,000 range, with fewer in lower (\$500) or higher (\$3,000-\$4,000) tiers
- With this fee model, revenue from annual user fees of ~\$24M exceeds FS 2010 CUFFA projection

Transfer Fee / Total Revenue Projection

3%

*Estimated Annual Transfers

Transfer Fee Revenue:

Annual No. Cabin Sales	Avg Cabin Sale Amt	Transfer Fee Per Sale	Transfer Fee Revenue	User Fee Revenue	Total Program Revenue
40	\$50,000	\$1,000	\$40,000	\$661,770	\$701,770
145	\$125,000	\$1,000	\$145,000	\$4,843,315	\$4,988,315
168	\$200,000	\$1,000	\$168,000	\$11,194,727	\$11,362,727
50	\$350,000	\$6,000	\$300,000	\$4,959,322	\$5,259,322
17	\$600,000	\$23,500	\$399,500	\$2,330,697	\$2,730,197
420			\$1,052,500	\$23,989,831	\$25,042,331

- A flat transfer fee of \$1,000 applies to all permit transfers (cabin sales)
- We estimate 3% of permits transfer per year based on cabin owner surveys
- A transfer fee “surcharge” applies to cabin sales > \$250,000
 - 5% for sale amount > \$250,000 up to \$500,000 +
 - 10% for sale amount > \$500,000
- Cabin sale amounts are listed at various assumption levels, most in the \$125,000 to \$200,000 range
- Program revenue will increase over time with Cabin sale amounts
- Total Program Annual Revenue projection is ~\$25M, ~95% of which is from the annual user fee

Summary of Fee Alternatives

Criteria	Current CUFFA	User Fee / Transfer Fee
Cabin Owner Retention	2,500+ loss*	100% Retained
Average Annual Fee (2010)	\$1,571*	\$1,714
Annual Permit Fee Range	\$125 - \$76,000	\$500 - \$4,000
Transfer Fee	No	Yes
Future Permit Fee Increases	High?	Modest
Predictable Fee	No	Yes
Administration / Process	Complex	Simple
Program Revenue (2010)	~\$22M*	~\$25M
Forest Service Cost Savings	No	Yes

*Over time, average Permit Fee and Program Revenue under CUFFA will be negatively impacted by loss of permit holders.

Conclusion

- We recommend the **User Fee / Transfer Fee** method for determining special use permit fees as our single proposal to Congress and the Forest Service.
- We recommend the **Appraisal** permit fee alternative be considered a back up proposal, subject to further refinements.
- We recognize that the final fee tiers, dollar amounts, and percentages will be subject to negotiation with Congress and the Forest Service.
- We believe that projected revenues from the **User Fee / Transfer Fee** method will maintain revenue neutrality and be fair value to the US Taxpayer.
- We believe that elimination of the appraisal costs (\$8-\$10M every ten years) *and* the associated administrative burden may be well received by the Forest Service.
- The simplicity and predictability of the **User Fee / Transfer Fee** method provide significant benefits to both the Cabin Owner and the Forest Service, thus creating a “Win-Win” scenario.