Can Subsidized Timber Save County Payments?
Analysis of the Draft National Forest County Revenue, Schools, and Jobs Act

Headwaters Economics
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Counties have received federal payments as compensation for non-taxable Forest Service and BLM lands for more than 100 years. The latest version of these payments, the Secure Rural Schools and Community Self-Determination Act (SRS) was created in 2001 and is set to expire soon. Budget concerns (SRS is paid out of the general treasury) make reauthorization uncertain.

Last week, the U.S. House Subcommittee on National Parks, Forests, and Public Lands released a draft of the “National Forest County Revenue, Schools, and Jobs Act of 2011” (County Revenue Act) aimed at ramping up commercial timber harvests on National Forests as a way of replacing the soon to expire SRS payments.¹

The County Revenue Act requires that each National Forest meet Annual Revenue Requirements based on historic timber value produced over the period 1980 to 2000. To achieve these mandated targets the County Revenue Act creates a new type of timber sale, “Revenue Trust Projects,” that will be exempt from certain environmental laws, cannot be appealed by the public, and will share 75 percent of gross receipts with counties (current law shares 25%).

Current SRS appropriations are intended to achieve several policy goals, including creating jobs, improving forest health, and supporting county services. Headwaters Economics has a long-standing interest in understanding county payments and what they mean for rural communities.

Our analysis of the draft County Revenue Act finds:

- Based on current timber prices, annual timber cuts would have to increase dramatically—up to total cuts levels of 14.8 or 42.8 billion board feet—to maintain current county payments or to produce timber equivalent in value to historic averages.
- The cost of implementing the County Revenue Act would require significant new federal spending—from $1.8 billion to as much as $5.9 billion annually above current SRS appropriations—based on the current cost of preparing and administering timber sales.
- The County Revenue Act would create winners and losers among counties compared to current county payments; for example, $61 million more would go to Oregon counties and $14 million less would go to New Mexico counties.

The cost of implementing the County Revenue Act, the significant re-write of federal law it requires, and the dramatic shift in payments from county to county raises the question of whether this proposal is the most practical use of public dollars and public land resources to support rural America. Another option is to re-invest in current SRS appropriations and boost existing and proven stewardship and restoration funding and authorities to create jobs and support rural communities today.
The County Revenue Act Would Require Annual Timber Cuts Far Above Historic Highs

The draft County Revenue Act mandates that each National Forest establish “Annual Revenue Requirements” equal to an as yet undetermined percent of average annual gross receipts derived from each National Forest during the period 1980 to 2000. Because the percent of average annual gross receipts necessary to determine Annual Revenue Requirements is unspecified in the draft County Revenue Act, we developed two scenarios:

**Scenario A: Equivalent Timber Value.** Annual Revenue Requirements based on 100 percent of average annual gross receipts. This scenario mandates that future timber cuts be equal in value to historic averages.

**Scenario B: Maintain Current Payments.** Annual Revenue Requirements based on 35 percent of average annual gross receipts. This scenario mandates that future county payments are equal on a national basis to average current payments from FY 2008 to 2011, though individual counties will see higher or lower payments.

To achieve the Annual Revenue Requirements, each National Forest would need to determine and accomplish “Minimum Sale Levels” (mandated timber cuts). The County Revenue Act would allow the Forest Service to designate “Revenue Trust Projects” that will share 75 percent of gross receipts generated by the project (an increase from the existing 25%). Revenue Trust Projects will be exempt from certain environmental laws, and the public will be barred from seeking judicial review.

**Table 1. Minimum Sale Levels (Mandated Timber Cuts) Under Two Scenarios Compared to Historic Average Timber Cuts**

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<tbody>
<tr>
<td>Scenario A: Equivalent Timber Value</td>
<td>$1,741,714,793</td>
<td>$1,306,286,094</td>
<td>42,887,166</td>
<td>5,757,667</td>
<td>745%</td>
</tr>
<tr>
<td>Scenario B: Maintain Current Payments</td>
<td>$1,741,714,793</td>
<td>$453,388,904</td>
<td>14,885,380</td>
<td>5,757,667</td>
<td>259%</td>
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</table>

Based on current timber prices, annual timber cuts would have to increase dramatically—up to total cuts levels of 14.8 or 42.8 billion board feet—to maintain current county payments or to produce timber equivalent in value to historic averages. These mandated timber cuts exceed the record single year timber cut in 1987 of 12.7 bbf.
Both scenarios illustrate the problem of mandating revenue targets every year without taking into account the volatility of timber demand and timber price. To generate timber values equivalent to long-term averages at today’s price, timber cuts would need to be more than eight times higher than historic levels, or more than three times the single year record cut in 1987. To generate timber values necessary to maintain current county payments, timber cuts would need to be three-and-a-half times higher than historic levels, also higher than the single year record cut.

If timber prices rise significantly from current levels, future timber cuts could be lower to meet annual revenue requirements. However, today’s prices are the highest in three years, and the proposal needs to be evaluated in the context of recessions, not on speculative future prices. Today’s low prices and the inherent volatility of timber markets calls into question the ability of the Forest Service to produce timber receipts sufficient to provide dependable payments to counties year in and year out across each National Forest.

To better understand how price volatility will affect the ability of the Forest Service to meet Annual Revenue Requirements will require a closer look at timber market and price projections on a National Forest level, and taking into account the potential affect on price that the dramatic increase in timber volume mandated by the draft County Revenue Act will have.
The County Revenue Act Would Dramatically Increase Federal Spending

Based on 2010 Forest Service costs to plan and administer timber sales, meeting Minimum Sale Levels for two scenarios would require $1.8 or $5.9 billion increase in federal spending above average SRS appropriations ($378 million during the period FY 2008 to 2011).

The Forest Service, in its Fiscal Year 2010 Budget Justification, proposes an average unit cost of $158.30 per mbf to plan and administer its timber sale program. Using this cost estimate, the County Revenue Act will require more than a six-fold increase, and up to a seventeen-fold increase, in spending to achieve the Annual Revenue Requirements defined here as either maintaining current payment levels or achieving timber production values equivalent to historic averages.

Table 2: Cost of Achieving Annual Revenue Requirements through Minimum Sale Levels Compared to Current Average Annual SRS Appropriations from FY 2008 to 2011.

<table>
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<tr>
<th>Scenario</th>
<th>Mandated Timber Cut to Achieve Revenue Requirement (mbf)</th>
<th>Net Cost to Achieve Mandated Cut ($158.3/mbf minus 20% Gross Receipts)</th>
<th>Average Annual SRS Appropriation, FY 2008-2011</th>
<th>County Revenue Act Cost Increase Above Current SRS Appropriations</th>
<th>% Spending Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A: Equivalent Timber Value</td>
<td>42,887,166</td>
<td>$6,325,857,046</td>
<td>$378,524,121</td>
<td>$5,947,332,925</td>
<td>1671%</td>
</tr>
<tr>
<td>Scenario B: Maintain Current Payments</td>
<td>14,885,380</td>
<td>$2,195,593,603</td>
<td>$378,524,121</td>
<td>$1,817,069,481</td>
<td>580%</td>
</tr>
</tbody>
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Revenue Trust Projects are defined in ways intended to speed up timber sales and hold down costs. Certain exemptions from environmental review and prohibitions against judicial review may reduce costs, but the extent to which this is possible (politically and legally) and effective is uncertain.

At a minimum, estimating potential cost savings will require a careful review of actual project budgets and cost allocations. For example, the Salvage Timber Sale program in the 1990s waved some environmental review, but there is no evidence that it lowered costs or increased sales.

The Forest Service conducts below cost timber sales (where the agency’s costs of planning and administering sales exceed receipts generated) for a variety of purposes, including economic development, forest and watershed restoration, and fire risk reduction. The stated goals of the County Revenue Act are to create jobs and educational opportunity, and to provide dependable revenue to counties. These goals may justify the increased federal spending, but the relatively high cost of this proposal raises important questions about the most effective and efficient use of federal dollars to support local government services, create jobs, and improve forest health.
County Revenue Would Create Winners and Losers, Harming Rural and Poor Counties that Currently Benefit from SRS

A return to payments that are distributed solely based on historic timber production will shift money from away from counties that benefit from the SRS formula to counties where production was high in the 1980s, mainly counties in Oregon and the Pacific Northwest.

Under Scenario A, which would maintain current national county payment levels, we determined each county’s share based on historic gross receipts and compared these to each county’s current SRS payments (defined as the average payment during the period FY 2008 to 2011). By holding total payments at a national scale constant between the two payments systems, we can compare which counties will gain revenue under the County Revenue Act, and which will receive lower payments.

Eight of the top ten counties in terms of revenue increase are from Oregon. They receive a total of $41.5 million more from the County Revenue Act than they do from SRS (the top ten counties are Crook, Douglas, Grant, Harney, Klamath, Lake, Lane, and Linn in Oregon, along with Plumas, CA, Douglas, WA, and Skamania, WA).

Counties that benefit from SRS—counties that have large areas of Forest Service land that are low in timber productivity and counties that have relatively low incomes—can expect lower payments. The biggest losers include unorganized portions of Alaska (-$7.5 million), Idaho, ID (-$5.4 million), Catron, NM (-$4.9 million), Lemhi, ID (-$2.8 million), and Saguache, CO (-$2.7 million).

Map 1 illustrates that the draft County Revenue Act, by changing the funding mechanism, would also redistribute payments between counties across the country. To better understand the County Revenue Act and its impact on counties and National Forests, we also estimated what it would take (in terms of timber cuts by National Forest) to maintain current payment levels at a national level, but and each county. Overall, timber cuts would range from 19.8 bbf to maintain average SRS payments during the period FY 2008 to 2011, to 15.1 bbf to maintain the lowest year’s SRS payments in FY 2011. Map 2 shows the change in timber cuts from 2010.

Because SRS payments are largely divorced from past timber values, some counties receive payments far in excess of what a timber program could support, or has ever supported in the past.
Map 1: How Will County Payments Change if the County Revenue Act (CRA) Generates Receipts Equivalent to Current SRS Appropriations?
Map 2: How Will Timber Cuts Change from 2010 Levels if the County Revenue Act (CRA) Mandates That Payments to Each County are Equivalent to Average SRS Payments (FY 2008-2011)?
Conclusion

Current SRS appropriations are intended to achieve several policy goals, such as creating jobs, improving forest health, and supporting county services. Similarly, the County Revenue Act aims to meet goals, such as creating jobs and educational opportunity, and providing dependable revenue to counties.

Other options are available to Congress and the Administration for using county payments to achieve policy goals. For example, Congress could choose to re-invest in current SRS appropriations and boost existing and proven stewardship and restoration funding and authorities to create jobs and support rural communities today. Alternatively, Congress could do away with the Forest Service payment program altogether in favor of a simple tax equivalency payment divorced from broader policy agendas.

Headwaters Economics has a long-standing interest in understanding county payments and what they mean for rural communities. For more information, see the Headwaters Economics white paper County Payments, Jobs and Forest Health at www.headwaterseconomics.org/tools/reforming-federal-land-payments-to-counties/. For more information on an analysis of the President’s proposal: http://headwaterseconomics.org/tools/county-payments-presidents-budget/.

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2 Average annual gross receipts were estimated for each state using actual state payments under the 25% Fund from 1980 to 2000. USDA Forest Service, Secure Rural Schools and Community Self-Determination Act. Annual Payment Information.


3 USDA Forest Service Fiscal Year 2010 President’s Budget; Budget Justification.


