COUNTY PAYMENTS 4.0: BUILDING A PERMANENT ENDOWMENT TO STABILIZE FEDERAL PUBLIC LAND COMMUNITIES

HEADWATERS ECONOMICS WORKING PAPER, DECEMBER 2017
A version of this paper is in review with the Humboldt Journal of Social Relations Special Issue: *The Pacific Northwest After the Timber Wars.*

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INTRODUCTION
Federal land management agencies, including the U.S. Forest Service and Bureau of Land Management (BLM), make payments to local governments to compensate for the non-taxable status of federal public lands. The original “county payments” program began in 1908 and paid an estimated $4.9 million (in 2015 dollars) to local governments based on the value of commercial activities on federal lands, primarily timber harvesting (County Payments 1.0). By 2015, county payments were made to nearly 2,000 local governments in 52 U.S. states and territories totaling more than $750 million from three of the largest county payment programs—the original revenue-sharing payments, Payments in Lieu of Taxes (PILT), and the Secure Rural Schools and Community Self-Determination Act (SRS).

County payments are important for rural federal public land communities facing economic challenges in the 21st century economy. The shift away from employment in manufacturing and natural resources to new services activities has changed and expanded the economic opportunities related to federal public lands. The changing economy also has increased the importance of critical rural institutions such as education, infrastructure, health and social services, and other public amenities provided by local governments to attract and retain families and businesses in rural communities. County payments make up a significant share of total
governmental revenue in many rural communities and therefore play a leading role in economic development and community well-being in these places.

County payments programs present rural communities with a variety of challenges that can limit economic development and diversification opportunities. For example, the original revenue-sharing policy did not anticipate the major changes in the volume and types of activities on National Forest lands that have evolved during the past century leading to unequal compensation among counties and uncertain payments from year to year associated with changing markets and changing uses of federal public lands. Congress addressed issues of fairness by adding PILT in 1976 (County Payments 2.0), and addressed uncertainty and land management issues with a variety of “transition payments” between 1990 and 2015 (County Payments 3.0). More recently, the President’s FY 2018 proposed budget would not extend SRS—ending transition payments—and would limit appropriations for PILT. If this budget proposal is accepted by Congress, overall county payments would decline by $304 million (39 percent) compared to FY 2015 (the last year SRS was paid). Some rural western counties would see their payments fall by as much as 97 percent (Headwaters Economics 2017).

This paper proposes as a policy solution—or County Payments 4.0—building an endowment for federal public land counties by creating a permanent trust at the federal level. A long-term county payments solution must address two fundamental concerns: the economic challenges and opportunities for counties with federal public lands in the 21st century economy, and the problems of uncertainty, fairness, and incentives generated by previous county payment policies. A permanent trust would stabilize and grow revenue over time, eliminate the need for cycles of conditional appropriations, and provide flexibility to address economic and forest management needs in federal public land counties.

To demonstrate the logic of this policy solution, this paper begins with a description of the changing economic geography of federal public land counties and its implications for local government finance and economic development. Next, it reviews the history of county payment policies and how these programs exacerbate the challenges that rural counties face in succeeding in the changing economy. We conclude with a discussion of how the proposed policy solution—the formation of a permanent trust at the federal level—would remake the fiscal relationship between federal public lands and local governments.
CHANGING ECONOMIC GEOGRAPHY OF Federal Land Counties

The federal government owns and manages about 640 million acres of land, about 28 percent of the land in the United States. Most of these lands are in the western U.S.: federal public lands make up more than a third of Alaska, Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming. Because of their extent and the resources and amenities they provide, federal public lands play a large role in the economy of the West, a role that has changed in fundamental ways in recent decades. Changes in federal land management and in county payments policies and funding levels play out across this diverse and changing economic geography. To contextualize the nature of these changes and their implications in the Pacific Northwest, this section begins with a broader discussion of trends in the U.S. and the West’s economy.

The West is the fastest growing region of the U.S. It has added jobs and population at roughly twice the rate of the rest of the U.S. since 1970 (U.S. Department of Commerce 2017a). Personal income growth in western counties also outpaced the rest of the nation. Most of the growth in new jobs (92%) and income occurred in a variety of services occupations, including doctors, lawyers, accountants, retail, and restaurant workers (U.S. Department of Commerce 2017b). The most important of these new services jobs are a set of high-wage jobs in “innovation,” including software, research and development, finance, and technology. Non-services sectors—including manufacturing, natural resources, and construction—by comparison are holding steady or declining. Another important trend is the increasing importance of non-labor income—including investment and retirement income and Social Security and Medicare payments—which accounts for 60 percent of net growth in real personal income during 2000-2011 and 34 percent of total personal income in 2011 (Lawson, Rasker and Gude 2014).

Not all counties are sharing evenly in the region’s growth. Eighty-nine percent of the population and 90 percent of the jobs in the region are located in metropolitan counties (31 percent of all western counties) (Office of Management and Budget 2009), and most of the new growth is located in these same metropolitan counties. Driving geographic inequality are the dramatic structural changes in the U.S. and the West’s economy that are moving toward services and away from employment in mature natural resources sectors and manufacturing that affect the economic opportunities for different types of counties. Innovation jobs tend to locate in cities and clusters of creative employees, companies, and finance (Moretti 2012, Glaeser 2011). These
high-wage services sector jobs create new wealth and support other sectors (e.g., they have multipliers that create additional jobs in related sectors). Rural western areas relatively remote from cities are not competing as well for these new services sector jobs due to relative isolation from markets (Rasker et. al. 2009). They face challenges associated with productivity gains and trade that have reduced employment in natural resources sectors and manufacturing (Hicks and Devaraj 2015, U.S. Department of Labor 2016).

These broad economic trends explain how the decline in timber was experienced in different types of counties in the Pacific Northwest. For example, the region in California, Oregon, and Washington covered by the Northwest Forest Plan lost 30,000 jobs in the timber industry in the 1990s and added 1.4 million new jobs in other sectors over the same period (Charnley et al. 2006). The performance of individual counties, however, remains mixed, with some growing rapidly, others holding steady, and some losing population and jobs. The economic performance today of formerly timber-dependent communities is largely determined by their performance in the late-1980s. Interventions included in the Northwest Forest Plan intended to stabilize and transition the economies of timber-dependent communities generally failed to overcome the structural and geographic context. Isolated timber-dependent communities experienced the loss of a major employer acutely and continue to struggle. By comparison, connected areas—particularly those with high-value amenity landscapes—that were already growing continued to do so despite the loss of a major employer. Efforts by the BLM and Forest Service to stabilize timber supply, albeit at lower levels, ignored the effects of market volatility, mill consolidation, and productivity gains responsible for the majority of job losses in timber in the 1990s, and the access, workforce, and services required to develop and attract high-wage jobs in emerging services sectors (Power 2006).

Remote, isolated, formerly timber-dependent counties continue to face real economic challenges in the 21st-century. Even in this challenging context, however, there are approaches and investments that may make a difference for communities (Goetz, Partridge and Stephens 2017). Connectivity to cities via highways and airports has benefited some rural areas while others are growing because of in-migration related to amenity landscapes (Johnson and Cromartie 2006, Chen and Weber 2011). When competing for employers and residents, a community’s assets—such as quality education, health care services, and a high quality of life—increasingly play important roles in distinguishing rural places (Halseth and Ryser 2006).
County payments programs are critical in public lands counties adapting to structural changes in the economy. In the 20th century, communities endowed with natural resources had a competitive advantage in generating employment and income from resource extraction (Gunton 2003). In the 21st century, productivity gains, automation, changing markets, and new regulations mean resource extraction does not return the same level of employment or wage benefits, and levels of extraction and harvest are less certain from year to year.

Today, the competitive advantage associated with federal public lands and natural resources includes their ability to attract and retain families and businesses to rural communities. In this changed context, the largest opportunity from resource extraction is not so much in terms of jobs, although this is important, but rather in terms of the government revenue generated by royalties and resource taxes that local governments can invest into activities necessary for today’s economy. These include community infrastructure such as roads and libraries, conservation and outdoor recreation, economic diversification, and saving for the long term.

Despite declines in employment, the revenue benefits of resource extraction remain substantial for states and local governments and outweigh the employment and income benefits. For example, in 2010 oil and gas activity contributed 8.5 percent of total employment, 10.7 percent of personal income, and 37 percent of total governmental revenue in Wyoming. In Montana, oil and gas contributed 1.7 percent, 1.9 percent, and 12 percent to total employment, personal income, and governmental revenue, respectively (Haggerty and Haggerty 2015).

Investing these revenues to maintain rural infrastructure and services can help diversify economies and lead to a virtuous cycle of growth from the initial resource endowment (Gunton 2003). Existing fiscal policies often do exactly the opposite, allowing resource revenue to be extracted from rural areas or spent locally to maintain low taxes. These policies do not build wealth over time, but rather exacerbate dependence on resource wealth, exposing community budgets to boom-and-bust market dynamics and uncertain politics and policy change. Dependence on resource revenue can discourage economic diversification and lead to slower long-term growth—a resource curse (Gunton 2003; Morrison-Saunders et al. 2016; Taylor, Hufford and Bilbrey 2017).

The next section describes how local governments are financed and the importance of county payments.
LOCAL GOVERNMENT FINANCE AND COUNTY PAYMENTS

Counties are the largest political subdivisions of states and are responsible for providing basic public services including public works and public safety. Another primary responsibility of county governments is administering state mandates, including organizing elections, assessing property, issuing licenses, and recording documents. Because of the direct importance of payments to county budgets, this paper focuses on county governments and not school districts which also receive payments from federal lands. School district funding is equalized in many states, and payments from federal lands have less bearing on their annual budgets (Gebert, Calkin and Schuster 2004).

Another reason to focus on counties is their outsized role in local and regional economic and community well-being. In addition to basic infrastructure and services, counties provide community health and social services, environmental conservation, parks and trail infrastructure, libraries, and cultural services. Counties also play an expanding role in economic development activities including workforce development, business support, and marketing activities in response to changing demographics, funding, and economic pressures (Istrate 2014). Public-private partnerships and collaborations with the business community and nonprofits are emerging as key strategies to provide services critical to rural economic development (Sullivan, Ryser and Halseth 2014, Agranoff and McGuire 2004).

To discharge these responsibilities and roles, counties have revenue-generating authority and receive grants and distributions from state and federal governments. Local governments in the Pacific Northwest generate revenue directly through property taxes, local sales taxes, and a variety of charges and fees. These sources of “own-source” revenue made up two-thirds (66 percent) of all county governments in the Pacific Northwest in 2012 (U.S. Census Bureau 2012). Intergovernmental revenue—including county payments and other distributions and grants from state and federal governments—make up the remaining third of county government revenue. County payments made up three percent of total county government revenue in the region in 2012, but were more important to individual counties: county payments made up a third or more of total governmental revenue in eight counties, a fifth or more in another 16 counties, and 10 percent or more in another 22 counties (46 counties total in which county payments made up 10 percent or more of governmental revenue) (U.S. Census Bureau 2012, U.S. Department of Interior 2016a; U.S. Department of Agriculture 2016a; U.S. Department of Interior 2016b).
Local government “own-source” revenue is often constrained in various ways by taxation and expenditure limits (TELs) established in state constitutions or state law (Mullins and Wallen 2004, Stallmann et al. 2017). TELs typically restrict budget and tax levy increases to the rate of inflation with some provisions for new growth. State and federal assistance also is declining, putting more pressure on local revenue (Berman and Salant 1996). The importance of county payments to county budgets combined with budget restrictions and declining federal and state assistance hints at the outsized role that county payments play in taxation, public land management, and economic development conversations in the Pacific Northwest.

The next section provides history to describe how payments programs arrived in their current form.

A SHORT HISTORY OF COUNTY PAYMENTS
County payment programs fall into three periods that correspond to major changes in markets, public land management, and congressional funding priorities. This section describes these historic periods: 1) initial payments linked to commodities; 2) the addition of appropriations to address problems with commodity revenue-sharing payments; and 3) “transition” payments that added economic diversification and collaboration as new goals for county payment programs. These historic periods lead up to the present when transition payments have ended, renewing debate about the long-term viability and purpose of county payments programs.

County Payments 1.0: Compensation Linked to Commodities, 1908-1976
Gifford Pinchot, the first Chief Forester of the U.S. Forest Service, advocated for the first compensation payments, arguing that while public lands reduce the tax base in rural areas, sharing the proceeds from their conservation and sustainable use provided for fair and sufficient payments in lieu of local taxation. These first payments were equal to 25 percent of the proceeds from commercial activities on public lands, mainly from timber sales; hence, the program became known as the “25 Percent Fund” (see Figure 1). Payments were restricted to funding county roads and local school districts with state governments determining the allocation of payments between these uses.

In 1937, the Bureau of Land Management (BLM) began sharing commercial receipts generated on the Oregon and California Railroad Grant Lands (O&C) with counties and schools.
BLM lands initially granted to the railroads as private land were revested to the federal government and managed for timber harvests. Fifty percent of the proceeds of timber sales are shared with county governments using a formula based on the relative taxable value of land in the counties in 1915.  

For the entire period between 1908 and World War II, total payments for all counties averaged $10 million. After World War II, payments increased substantially when timber extracted from public lands helped to fuel the nation’s housing boom. From 1945 to 1980, payments averaged $391 million, reaching a high of $1.2 billion in 1977 (U.S. Department of Agriculture 2016b).

Figure 1. Key Reforms in County Payments, 1908-2016

*County Payments 2.0: Payments In Lieu of Taxes Address Equity, Uncertainty, and Incentives, 1976-1990.*

The rapid increase in the value of payments after World War II made payments a significant source of revenue for many public land counties. As payments increased in size, weaknesses in the revenue-sharing model became more noticeable. In 1970, the U.S. Public Lands Law Review Commission (1970) wrote: “Although they were originally designed to offset the tax immunity
of Federal Lands, the existing revenue-sharing programs do not meet a standard of equity and fair treatment either to state and local governments or to the Federal taxpayers.” Payments proved to be too unpredictable for local governments to use for effective annual budgeting, to engage in long-term planning, or to pay for costly infrastructure improvements. On a national basis, payments could rise and fall on the order of 30 percent annually (Hoover 2015) and individual counties experienced even more extreme volatility.

Payments based on the commercial values generated on public lands also were unequally distributed among counties. Counties in Oregon, the leading producer of public land timber, received more than a third of total revenue-sharing payments while counties in states with relatively lower-value commercial logging on public land received little compensation by comparison, leading the Public Lands Law Review Commission (1970) to write: “In some cases, payments made by Federal programs undercompensate, while in others they overcompensate.” The report added that payments based on commercial activities created perverse incentives for counties such that “pressures can be generated to institute programs that will produce revenue, though such programs might be in conflict with good conservation practices.”

These concerns eventually led Congress to pass Payments in Lieu of Taxes (PILT) in 1976. PILT is a formula-driven payment based primarily on the number of acres of eligible “entitlement land” in each county and is funded with appropriations from the U.S. Treasury (Schuster 1995, Corn 2008). PILT guarantees all public land counties a minimum payment but avoids overcompensation by subtracting prior-year revenue-sharing payments received by local governments from their PILT payment, and each local government’s total PILT payment is limited by a population threshold. In these ways, PILT is designed to work in concert with sharing payments to improve the equity and stability of compensation for non-taxable federal lands.

County Payments 3.0: Transition Payments Decoupled from Commodity Receipts, 1990-2016

Declining timber harvests after 1989 lowered revenue-sharing payments to counties—by more than 90 percent in some Pacific Northwest counties (Hoover 2015). PILT, established largely to ensure payments to counties that did not already receive large revenue-sharing payments, was not a replacement for declining Forest Service and BLM O&C payments.
To stabilize declining payments, Congress began making “transition” payments to counties that were losing a significant revenue source. The first transition payments were made in 1990 only to the O&C counties in Oregon, but they established a framework that would be utilized later in larger programs extended to Forest Service public land counties. The BLM transition payments established a “floor” payment that was paid from appropriations between 1990 and 1993 and based on the average payment during the five-year period 1986 to 1990 (U.S. Department of Interior 2016c). The Northwest Forest Plan extended transition payments to all BLM and Forest Service public land counties covered by the Plan. The so-called “spotted owl” transition payments decoupled the link between timber harvests and county compensation by guaranteeing a stable payment equal to 85 percent of the five-year average payment during 1986 to 1990, declining to 58 percent in 2003, after which payments would expire (Tuchmann, Brookes and Daterman 1996).

In 2000, Congress passed the Secure Rural Schools and Community Self-Determination Act (SRS) that effectively extended transition payments nationally to address a similar decline in commercial receipts from public lands nationally. Initially authorized for six years, SRS provided optional payments equal to 85 percent of the highest three years of revenue-sharing payments between 1986 and 1999.

An important part of the negotiation concerning SRS was the desire on the part of some counties to maintain the link between public land management and county payments. The National Association of Counties lobbied successfully to allow counties to elect to retain their revenue-sharing payment beyond 1999 instead of electing to receive a payment under SRS. Inherent to this debate is a fundamental disagreement about the nature of the transition. One side of the argument, forwarded by some timber-dependent communities, suggested the transition was a period of adjustment that would eventually allow the land management agencies to restore timber harvests to previous levels with new environmental safeguards in place. As justification they point to the O&C Act that mandates these vested lands be used to supply a steady flow of timber to support local economies.

The other side of the argument is that the transition would be away from a reliance on timber and toward a more diversified economy—including new sources of governmental revenue that would stabilize local government budgets and end the need for transition payments funded by Congress. Evidence for this side of the argument is seen in the SRS formula that added
additional funds for public land projects recommended by Resource Advisory Councils (RACs). Title II funding opened the possibility for new collaborative efforts to address economic development goals on public lands (Sierra Institute for Community and Environment 2006).

Reauthorization and reforms in 2008 went further by altering the SRS funding formula to include a per capita personal income adjustment that directs relatively higher payments to counties with low per capita personal income and by providing a significant temporary increase in transition funding. Reforming the distribution formula based on economic need reflected a desire to make payments to counties that need them most. The increased funding level returned total payments close to historic highs (on a national level, only payments in the years 1977 to 1980 exceeded the FY 2008 payment in real terms). 11

Status at the Time of Writing
County payments have entered a new phase with the expiration of SRS transition payments in FY 2015. Without SRS, county payments revert to the revenue-sharing payments made under the Forest Service Act of 1908 and BLM O&C Act of 1937. A bill that would provide two years of SRS funding retroactively for FY 2016 and 2017 was introduced in the Senate in May 2017 with bipartisan support but has not passed as of this writing. The President’s FY 2018 proposed budget would not reauthorize SRS and would limit appropriations for PILT. If the budget proposal is accepted by Congress, total payments to counties and schools would decline by $304 million (39 percent) from FY 2015 (the last year SRS was paid) to FY 2018. The impact on individual counties would be uneven. Some rural western counties would see their payments fall by as much as 97 percent (Headwaters Economics 2017). 12

IMPLICATIONS OF ENDING TRANSITION PAYMENTS TO COUNTIES
The expiration of transition payments has renewed the challenges of equity, uncertainty, and incentives associated with revenue-sharing payments. Changes in the regional economy and new taxation and expenditure limitations on local governments since transition payments began in 1990 add new urgency to resolving these challenges. This section describes the ways in which counties became dependent on federal payments, and the implications of dependence for economic development and federal land management.
Local decisions to utilize revenue-sharing payments prior to 1990 largely to maintain low tax rates created a reliance on federal payments to maintain annual government budgets. For example, the Oregon counties that historically received the largest revenue-sharing payments maintained among the lowest property tax rates and the lowest local revenue per capita of all counties in the state (Oregon Secretary of State 2016).

State taxation and expenditure limitations (TELs) have exacerbated reliance on county payments by making it more difficult to raise local tax revenue to replace declining county payments. For example, Oregon’s Measures 5 and 50 passed in 1990 and 1997, respectively, limited property tax rates, lowered property assessed values, and limited growth in assessed values (Oregon Department of Revenue 2009). Tax increases in Oregon require voter approval at the local level. These limitations on local revenue authority and capacity ossify relatively anemic local tax efforts. Efforts to increase local tax levies have failed, resulting in fiscal stress and deep cuts to services (Johnson 2017). The uncertainty—and promise—of continued appropriations or of renewed timber receipts from increased harvest keep some local officials focused on county payments as the solution (Mortenson 2012). Other states have limited local revenue authority in similar although typically less stringent ways. Notably, Idaho limits growth in revenue received from property taxes to three percent annual growth without voter approval, with some allowances for new construction and annexation (importantly, new industrial property is not exempt from the revenue limits) (Idaho Tax Commission 2017).

The National Association of Counties reports that the expiration of SRS and limits on PILT’s appropriation (as proposed in the President’s FY 2018 budget) will require sharp budget cuts in many counties (Shuffield 2017). Testimony from several county commissioners in front of a Senate committee in May 2017 illustrated the revenue and budget impacts of declining county payments (U.S. Senate Committee on Energy and Natural Resources 2017). Cuts to critical services—including education, public safety, road infrastructure, and libraries—can have implications for rural communities because of the increased importance of local government services, partnerships, and initiatives for economic development. For example, Idaho and Clearwater counties in Idaho could lose more than half their federal payments, a decline of more than $7 million and $1.1 million, respectively. The two counties together lost population between 2011 and 2015 (the latest year for which data are available) and had more than 500 fewer jobs in 2015 compared to 2007 before the start of the Great Recession. Declining enrollment at
Clearwater County, Idaho’s schools and reduced budgets jeopardize gifted and talented programs, shop, art, and music classes. The school district is now on a four-day week and cannot support day-long kindergarten classes. Retaining and attracting families and businesses becomes increasingly difficult without robust community services and school programs.

Another implication of over-reliance on federal payments is to discourage economic development in sectors outside of commercial timber in public land counties. The Oregon Governor’s Task Force on Federal Forest Payments and County Services (2009:40) found that:

“In 1995, Alcan Cable, an industrial manufacturer, located in Douglas County. By 2008, the value of Alcan Cable’s plant and 200 new homes to house employees resulted in only $63,000 of county taxes for public services. A typical Deputy Sheriff now costs Douglas County $75,320 per year, or 20 percent more than public revenues generated from this extensive development. Contrast that with a medium-sized saw mill cutting 60 million board feet of timber per year purchased from federal O&C forests. At about $300 per thousand board feet, the cost to the mill of that timber was $18 million. One-half of those revenues, or $9 million, was shared with O&C counties as discretionary revenues. Of that $9 million, Douglas County received $2,254,500, over 35 times the property taxes generated by the Alcan plus-homes development.”

This dynamic prompted Jackson County, Oregon Commissioner and Task Force member C.W. Smith to remark: “Most of these counties can’t build themselves or develop themselves into solvency. Every new resident is a negative on the budget” (Oregon Governor’s Office 2009:40). As a result, counties lobby for continued payments from appropriations or for land management reforms that will boost revenue-sharing payments as appropriations disappear.

Opposition from the Association of O&C Counties to expanding the Cascade-Siskiyou National Monument is directly related to concerns about lost revenue potential if public lands that could otherwise be logged to generate revenue for local governments are set aside for conservation and recreation purposes (Cevagske 2017). Legislation introduced in the U.S. House of Representatives (H.R. 2936 2017) on forest management reform include a focus on the need to increase revenue for counties, including proposals to increase commercial harvests and redirect creative contracting and funding mechanisms associated with Stewardship Contracting authorities to revenue-sharing payments.
Forest management as an economic development strategy is not the same as forest management as a fiscal solution for county payments. The Forest Service stresses that generating receipts sufficient to meet the needs and expectations of counties year over year is unrealistic under variable market conditions and budget realities (Tidwell 2014). Diverting receipts from stewardship contracts is estimated to add less than $6 million annually to revenue-sharing payments (Rural Voices for Conservation Coalition 2017) and would take away resources from restoration activities that are creating jobs and income in public land counties. As with earlier efforts under the Northwest Forest Plan, the land management agencies likely do not have the social license to increase and sustain timber cuts at historic levels, particularly in California and Washington, making these efforts politically uncertain as well (Power 2006). The changed nature of the commercial logging sector, including the concentration of mill capacity and productivity gains, means that an increase in commercial activities on public lands will not benefit some historically timber-dependent places that have lost their local workforce and infrastructure.

Public land counties are diverse, and the solutions for public land management also must be diverse. Trails, conservation, and restoration projects may have the largest economic benefits for cities, connected communities, and rural areas where amenities are playing a large role in growth. Rural areas still need robust infrastructure to pursue landscape-scale restoration efforts, including thinning, road removal and maintenance, prescribed fire, stream restoration, and other labor- and capital-intensive activities. The restoration economy needs to be seen as an economic development strategy as it has contributed to economic diversification and stability in many Pacific Northwest communities (Hibbard and Lurie 2013). The drive to maximize revenue from federal lands threatens this work because it places a focus on commercial sales and limits creative contracting tools and funding available for restoration.

Historic approaches to compensating counties for non-taxable federal land based on commercial receipts and uncertain discretionary appropriations have worked to undermine fiscal health in public land counties and continue to discourage economic diversification and forest restoration. During a Senate hearing in May 2017, Senator Murkowski (R-AK) argued for an end to the “annual cycle of begging” for SRS and PILT appropriations, suggesting the possibility of a new path for county payments. She cited the importance of timber management reform for forest health and to sustain rural employment opportunities, but added that timber harvests alone are
unlikely to provide a fiscal solution. For this, she recommended considering new ideas, including the creation of a permanent trust to replace annual revenue-sharing and annual appropriations.

COUNTY PAYMENTS 4.0: BUILDING AN ENDOWMENT FOR COUNTIES

This section details how a permanent trust (“Trust”) could resolve the problems generated by previous iterations of county payment policies and address the specific challenges and opportunities associated with the new economic geography of the West. The Trust would build an endowment from the management of federal lands that would become the dedicated funding source for a permanent extension of transition payments (Haggerty 2017).

The idea has several advantages in concept. First, it still utilizes receipts to fund county payments, but stabilizes these revenues over time to guarantee predictable and increasing payments year over year. Second, the Trust would not require discretionary appropriations from Congress after the endowment grows to a size sufficient to meet payment obligations. Third, decoupling county payments from annual commercial receipts would allow forest management reform to move forward with a focus on management strategies intended to restore forest health and on economic development strategies sensitive to the varied needs of different types of public land counties.

The Trust would be funded with receipts already dedicated to counties, including the Forest Service 25% Fund receipts and BLM O&C 50% Revenue Sharing receipts. Congress also could make discretionary appropriations from other revenue sources to capitalize the Trust more quickly. For example, there is precedent for allocating revenue from tariff or settlement revenue related to Canadian softwood imports to the U.S. into a permanent fund that benefits public land counties (Owen 2016). The principal balance of the Trust would be held in perpetuity and invested to earn income. The Trust would make distributions at the end of each year to fund a permanent reauthorization of SRS.

To ensure the Trust is held in perpetuity, Congress would authorize an independent entity to establish and manage the Trust. Congress could charter a new organization, as it did when it created the U.S. Endowment for Forestry and Communities. Congress also could authorize an existing organization—for example, the National Forest Foundation, a congressionally chartered nonprofit partner organization to the U.S. Forest Service. The entity would have fiduciary responsibility to state and local governments that are the beneficiaries of the Trust and would
ideally be subject to oversight by the Inspectors General of the Department of Agriculture and Department of Interior.

Best practices would require that the fiduciary adopt asset management strategies that are in accordance with the Prudent Expert Rule (Employee Retirement Income Security Act of 1974) that seeks to achieve a five percent real rate of return. The Trust would distribute no more than five percent of the ending fund balance (or total market value of the Trust) in each fiscal year, inflation-proofing the Trust (Alaska Permanent Fund Corporation 2015). Distributions would be sent directly to states and local governments based on the existing SRS formula, and the distribution must be used in accordance with the existing law.

**Permanent Trusts in States and Other Nations**

Utilizing permanent trusts to stabilize revenue and build an endowment from the extraction of natural resources is not a new idea. Permanent trusts are utilized by nearly every U.S. state with significant natural resource wealth. For example, Alaska, Louisiana, New Mexico, North Dakota, Oklahoma, Texas, and Wyoming have state land royalty and severance tax permanent trusts with a combined value of more than $100 billion (Alaska Permanent Fund Corporation 2009, Williams 2008, Wyoming Taxpayers Association 2015). Permanent trusts also are common internationally, led by Norway’s massive sovereign wealth fund created from oil revenue and valued at more than $850 billion (Johnson 2007, Kottosova 2017).

The most relevant models for a federal public land endowment are the numerous state permanent trusts funded with royalties and fees generated from commercial activities on state-owned land, including timber harvests. Beginning in 1803 with Ohio’s statehood, the federal government transferred to new states a portion of the public domain not yet claimed by homesteaders or granted to railroads or for other purposes (Souder and Fairfax 1996). In most western states, the federal government transferred two sections in each township. The lands were intended to generate revenue for local schools and other purposes. Initially, states often sold lands and spent the proceeds of sales as they came in. The unsustainability of this practice soon led states to hold “trust lands” in perpetuity and to establish permanent trusts that would receive the proceeds from the management of trust lands.

Norway’s experience also offers a useful example. Oil production began in Norway’s North Sea waters in 1971. Price spikes in oil in 1979 and 1980 generated significant revenue to the
government, and the government spent that money on an annual basis. Norway’s economy grew rapidly with rising wages, spending, and borrowing in the public and private sector. When prices subsequently collapsed in 1986, the economy’s dependence on annual oil revenue quickly precipitated a fiscal crisis. In 1990, while the country was still suffering high unemployment and persistent cuts in government spending, Norway established its sovereign wealth fund as a forward-looking fiscal tool that would help the country do better if and when the oil price rose again. The sovereign wealth fund was designed to buffer the economy from the annual uncertainty in oil revenue and build a lasting endowment from oil wealth to benefit future generations. The fund was set up in 1990 but no money was available to invest into the fund until 1996 when oil prices began to recover. Today, Norway’s sovereign wealth fund is worth about $900 billion (Rosalsky 2014).

**Missed Opportunity for County Payments**

The total value of timber harvests from Forest Service land since 1908 is about $80 billion (in 2016 $s) (U.S. Department of Agriculture 2016b). Had Congress followed the example of the states and established a permanent trust in 1908 instead of annual revenue-sharing payments, it would distribute between $3 and $4 billion today to counties and schools, three to four times larger than the maximum revenue-sharing payment made in 1977 (Headwaters Economics 2014). Had Congress established a permanent trust in 1977 to address concerns about uncertainty and equity, instead of PILT, it would have been worth $11.9 billion in FY 2013 and would have distributed payments equal to $594 million in the same year. Had Congress established a permanent trust in 2000 instead of SRS, it would have been worth $1.2 billion in FY 2013 (Headwaters Economics 2014 ) and made annual distributions equal to or greater than the revenue-sharing payment made in FY 2016.

Commercial receipts from federal lands remain at relatively low levels. It would take time to establishing a permanent trust today and build a significant endowment. With Congress considering forest management reform and new uses—and revenue streams—on public land, establishing a permanent trust today creates the framework to capture future receipts and build a sizeable endowment.
CONCLUSION
The structure of county payments—including the certainty of payments and the source of funding—is one of the most important and under-appreciated policies affecting the fiscal and economic well-being of many public land counties. It also affects how public lands are managed. The current models—revenue-sharing payments and discretionary appropriations from Congress—have failed to provide predictable and fair compensation to counties. This failure has exacerbated fiscal crises in rural communities and left them unprepared to meet the economic challenges and opportunities for public lands counties in the 21st-century economy. Remaking the fiscal relationship between public lands and public land counties by establishing and funding a permanent trust would stabilize and grow revenue over time, eliminate the need for annual congressional appropriations, and provide flexibility to address economic and forest management solutions appropriate to the needs of diverse federal public land counties.
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ENDNOTES

1 In this paper the “West” is defined as the 11 western states in the continental U.S.: Arizona, Colorado, California, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.


3 OMB defines metropolitan counties as having at least one urbanized area of 50,000 or more in population. Non-metropolitan counties are all other counties.


5 O&C Lands Act, Pub. L. No. 74-405, tit. II(a) (1937). The county government share of the O&C payments is not restricted to roads but can be used for any governmental purpose.

6 Act of June 24, 1954 (68 Stat. 270). Payments are based on the “value of O&C lands assuming the same value for all lands as the average value of those lands that were assessed in 1915.”

7 Unless noted otherwise, all values in this paper are adjusted for inflation to 2016 dollars.


10 Under Section 102(a) and 103(a), states eligible to receive Forest Service and/or BLM revenue-sharing payments can elect to receive either (1) the Twenty-Five Percent (Forest Service) or Fifty Percent (BLM) Payment, or (2) the “full payment amount,” calculated as the average of the three highest yearly revenue-sharing payments from FY 1986 to FY 1999. The SRS payment was tied to the average of the three highest historical payments to each state as a means of further reducing the volatility of timber receipts at the county level. Under the 2000 version of the SRS Act, funding for payments to states and counties is derived from revenues, fees, penalties, or miscellaneous receipts received by the federal government from activities of the Forest Service on National Forest land, and the Bureau of Land Management on revested and reconveyed grant lands (lands returned to federal ownership). Pub. L. No. 106-393, §§ 102(b)(3), 103(b)(2). To the extent of any shortfall, payments are derived from Treasury funds not otherwise appropriated.

11 It is unclear from the legislative history why certain states were selected to be “covered states,” but concerns over equitable distribution of payments likely played a role in California, Oregon, and Washington being included. A political motivation also lay behind expanding the number of states receiving higher SRS payments as it may increase the likelihood of future authorizations.

12 Headwaters Economics estimates. To see a data visualization of the county-by-county change in payments, see https://headwaterseconomics.org/county-payments/policy-options/presidents-budget-cuts-county-payments/.