# Written Testimony of Mark Haggerty
# Policy Analyst at Headwaters Economics
# Senate Energy and Natural Resources Committee Hearing on Keeping the Commitment to Rural Communities: Options for Reauthorizing and Reforming the Secure Rural Schools and Community Self-Determination Act and Payments in Lieu of Taxes

**March 19, 2013**

Thank you Chairman Wyden, Ranking Member Murkowski, and members of the Committee. I am pleased to join you today to discuss the Secure Rural Schools (SRS) and Payments in Lieu of Taxes (PILT) county payments programs. As a policy analyst at Headwaters Economics, I work closely with counties and collaborative groups across the West. I appreciate the important role county payments play in supporting local government services and rural economies.

Headwaters Economics is an independent research group based in Montana that works with local, county, and state governments to improve economic and community development decisions in the West.

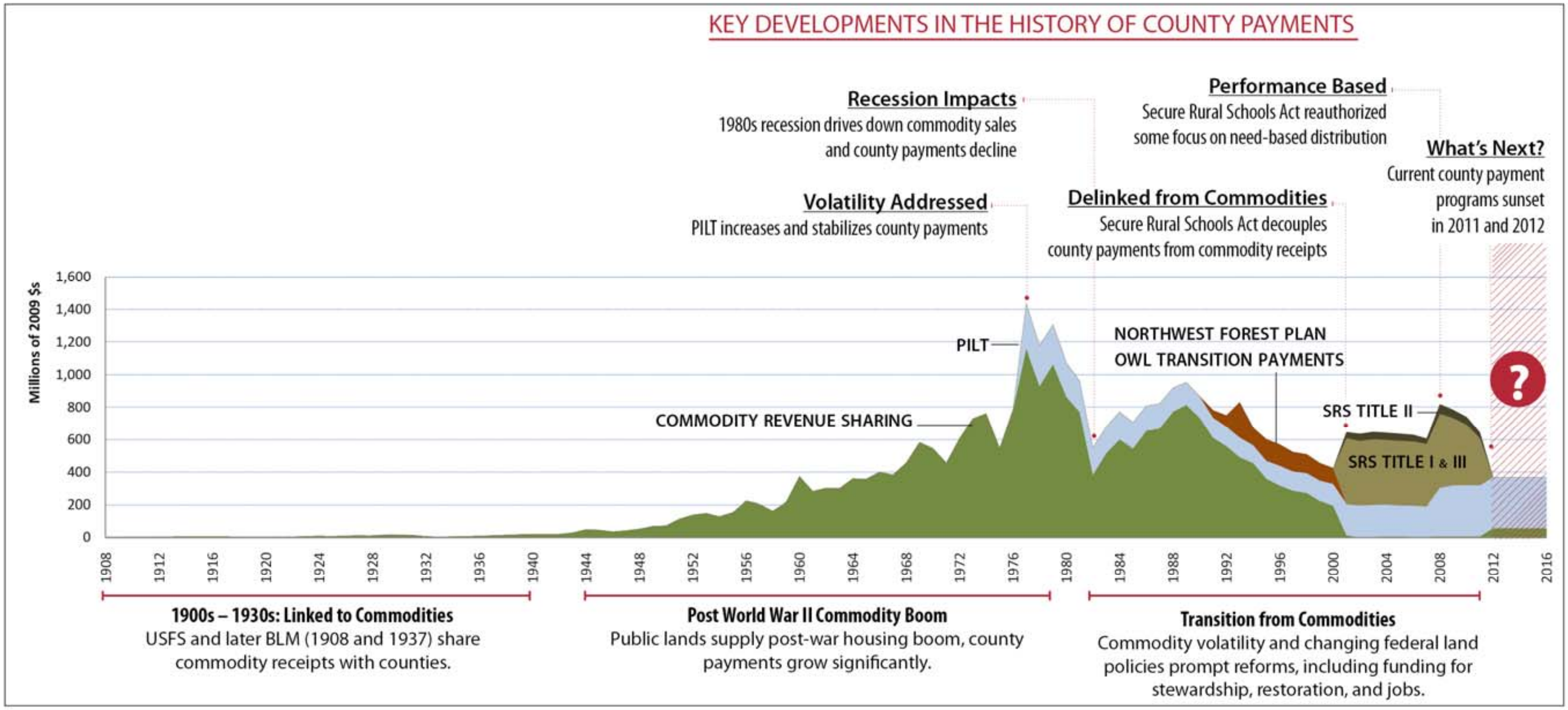
For a number of years my research has focused on the role of federal county payments in rural economic development. We have developed white papers analyzing outcomes of different county payment scenarios based on current law and proposed policy options on a county-by-county basis. Headwaters Economics also worked as a contractor to the the Forest Service and BLM to develop a free software tool (the Economic Profile System-Human Dimensions Toolkit) that generates county level reports on all federal land payment programs, including SRS and PILT. Please refer to the appendix for a summary of this work.

<u>The Opportunity to Reform County Payments</u>

With SRS already expired and funding for PILT in question, there is a risk for counties of returning to a revenue sharing model that has known problems. A revenue sharing approach would reduce overall payments to counties and also would expose funding for basic government services to the tremendous volatility that has characterized timber markets since the late 1960s. Indeed, the current PILT and SRS programs were developed to address the challenges inherent to a revenue sharing approach.

Faced with the challenges, Congress has an opportunity today to implement minor reforms to create a county payment program that advances rural economic development, forest restoration, and conservation goals while avoiding the volatility risks associated with direct revenue sharing payments.

Figure 1. Key Developments in the History of County Payments



Combining SRS and revenue sharing with PILT, and making small changes to the PILT formula, can achieve three critical goals:

1. Provide fair, stable, and predictable payments to counties.
2. Target payments where they can have the most economic benefit.
3. Reduce costs to federal taxpayers.

Let me first briefly review the history of county payments, summarized in Figure 1, which shows the fluctuating value of federal reimbursements to counties along with the dates of landmark reforms.

Congress Has Repeatedly Reformed County Payments to Respond to Changing Needs

These reforms, made by Congress to respond to changing economic and political conditions, demonstrate the long-term flexibility of the program. Today, with the SRS program expired and the need to re-appropriate PILT after 2013, Congress again is poised to consider reforms to county payments that reflect changing budget realities and the fiscal and economic need of local governments with significant acres of public lands.

Payments Originally Linked to Commodity Receipts

The policy origin of Forest Service payments to counties in 1908 is clear: as compensation for public ownership of the Forest Reserves, the federal government initiated payments to counties in lieu of paying property taxes.[1] These payments were funded from commercial receipts generated on public lands, and counties could use the payments to fund roads and schools.[2]

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 along the same model as the Forest Service.[3]

The value of initial Forest Service and BLM O&C revenue sharing payments was insignificant to most counties for the first 30 years.[4] From 1908 to 1942, payments averaged less than $10 million nation-wide in real terms. After World War II, when commodities from the National Forests and BLM O&C lands helped to fuel the nation's housing boom, revenue sharing payments provided significant funding to counties. From 1945 to 1980, payments averaged $391 million, reaching a high of $1.2 billion in 1977.

[1] Act of May 23, 1908, Pub. L. No. 60-136 (the Twenty-Five Percent Payment).
[2] Federal legislation mandated payments fund county roads and schools, but left to states how to allocate these funds between these two services. See Congressional Research Service Memorandum, Forest Service Revenue-Sharing Payments: Distribution System. November 19, 1999. Ross Gorte.
[3] The main difference is that the county government share of payments is not restricted to roads but can be used for any governmental purpose. See: O&C Lands Act, Pub. L. No. 74-405, tit. II(a) (1937).
[4] Revenue sharing payments are estimated from historic timber cut and sold reports from the Forest Service at the national level. Source: USDA Forest Service. All values in this paragraph are offered in real dollars.

Reforms Made to Address Volatility and Incentives Inherent to Commodity Payments

After WWII, many counties, particularly in the Pacific Northwest, grew to depend on timber for jobs and income, and payments to counties supported significant portions of local school and county budgets. As payments became more important, the use of commodity receipts as a funding source started to show several weaknesses.

Volatility in commodity extraction in the 1960s and 1970s made it difficult for local government to plan for and provide quality public services consistently on an annual basis. In 1970, the U.S. Public Lands Law Review Commission 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.”[5]

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.”[6] By conservation practices the authors meant the sustainable use of public land resources for commercial activities and environmental conservation including new national parks or other land designations that potentially limit revenue sharing payments.

Concerns about stability and predictability eventually led Congress, in 1976, to pass Payments in Lieu of Taxes (PILT) in addition to the existing revenue sharing payments.

PILT interacts with Forest Service revenue sharing payments as a shock absorber. When revenue sharing payments decline, counties are eligible for larger PILT payments. When revenue sharing payments rise during boom years, the PILT formula responds with lower appropriations.[7]

Yet even with PILT in place, total payments declined by 62 percent during the recession of the early 1980s.

Payments Have Been Decoupled from Commodity Receipts

More recently, changing economic conditions along with new goals for public land management slowed the pace of logging on federal land, lowering revenue sharing payments to counties by more than 90 percent in some areas.[8] The Northwest Forest Plan that set new management goals

[5] United States Public Land Law Review Commission. 1970. “One third of the Nation's land: a report to the President and to the Congress.” Washington, D.C.:273.
[6] Ibid.
[7] Schuster, Ervin G. 1995. “PILT--its purpose and performance.” *Journal of Forestry*. 93(8):31-35 and Corn, M. Lynne. 2008. *PILT (Payments in Lieu of Taxes): Somewhat Simplified*. Congressional Research Service (CRS) Report RL-31392.
[8] Gorte, Ross W. Reauthorizing the Secure Rural Schools and Community Self-Determination Act of 2000.Congressional Research Service (CRS-R41303). June 2010. Washington, D.C.

for forests in the Pacific Northwest included the first "transition payments" to counties—a recognition that changing management goals that reduce resource extraction also reduce local government payments. The so-called "spotted owl" payments decoupled the link between extraction and county compensation by guaranteeing a stable, albeit declining, annual payment funded by federal appropriations.

The decline in timber receipts felt most acutely in the Pacific Northwest was also occurring across the rest of the National Forests. In 2000, Congress passed the Secure Rural Schools and Community Self-Determination Act (SRS) that effectively extended transition payments to the rest of the country.[9] 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.[10]

In SRS, Congress ended the reliance of most counties on commodity receipt-based payments that were unlikely to return to historic highs. Decoupling payments from commodity receipts reduced the importance of producing commodities in order to generate revenue for county payments. It also opened the possibility for new collaborative efforts to address restoration, stewardship, and conservation goals on public lands.

<u>SRS Promoted Economic Diversification and Reflected Costs Associated with Public Lands</u>

In Title II and Title III of SRS, Congress introduced new purposes to the county payments program. Title II provided public land managers and communities with limited but important resources for collaboration and on-the-ground work such as stewardship and restoration projects that create jobs and improve forest health (counties that receive more than $100,000 from SRS must allocate 15-to-20% between Title II and Title III).

Title II dollars are retained by the federal government and spent on public lands activities following the recommendations of Resource Advisory Committees (RACs). Title II could fund infrastructure, restoration, stewardship, and other projects on public lands. Title II was the first time the county payments program set aside funding for the direct purpose of creating economic opportunities in counties that have public lands. The funds were also used to improve forest

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[9] Secure Rural Schools and Community Self-Determination Act of 2000, Pub. L. No. 106-393. Payment information is available from the Forest Service website at http://www.fs.fed.us/srs/ (last accessed 11/22/10).

[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.

health, aiding in transitioning counties away from dependence on commodities by creating new jobs in restoration and forest stewardship.

Title III of SRS represented another important reform: it made explicit for the first time the links between federal lands and the direct demands those lands create for county emergency services and wildland fire safety. Title III funds could be used on special county projects including reimbursement for emergency services provided on federal lands and funding for community fire plans and fire-wise activities.

The abnormally harsh fire season in 2000, described at the time as the worst fire season in the United States since 1910, likely influenced Congress to include funding for wildfire preparedness in Title III.[11] Whereas the 2000 legislation provided funding for projects in six broad areas, subsequent reauthorizations limited funding to projects in three specific areas, two concerned with wildfire preparedness and the third funding emergency services and search and rescue activities on public lands.

SRS Reforms in 2008 Adjusted Payments Based on Economic Need

Congress made other important reforms in 2008 to adjust the SRS distribution formula based on the per-capita personal income in each eligible county. The goal was to direct relatively higher payments to counties with low per-capita personal income. Reforming the distribution formula based on economic need reflected a desire to make payments to counties that need them most.

Two other mechanisms were incorporated into the 2008 reauthorization to achieve a more equitable distribution of payments nation-wide, based on more general concerns about the distribution of payments. The SRS "base share" formula was reformed to include the total acres of federal lands along with historic revenue sharing payments, and certain "covered states" (California, Louisiana, Oregon, Pennsylvania, South Carolina, South Dakota, Texas and Washington) were given "transition payments" pegged to the sums paid to states and counties in 2006 under the SRS Act as then implemented.[12]

The 2008 reauthorization of SRS provided a significant temporary increase in transition funding, making payments close to historic highs (on a national level, only payments in the years 1977 to 1980 exceeded the FY 2008 payment levels in real terms). In essence, the two latter reforms (not based on economic need) had the effect of distributing the increased appropriation more broadly to all states eligible to receive payments.[13]

[11] U.S. Fire Administration, 2000 Wildland Fire Season, http://www.usfa.dhs.gov/downloads/pdf/tfrs/v1i2-508.pdf (last accessed 3/16/2010).
[12] U.S. Forest Service, Title I-Secure Payments for State and Counties Containing Federal Land. Pub. L. No. 110-343, tit.VI, § 103. http://www.fs.fed.us/srs/Title-I.shtml (last accessed 11/22/10).
[13] 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.

SRS accomplished more equitable distribution through adjustments to the formula.[14] SRS payments were based on three factors: a base payment considering 1) historic timber receipts and 2) acres of Forest Service and BLM land which is 3) adjusted by per capita personal income.

County Payment = Base Payment / Per Capita Income Adjustment.

The pressing issues associated with SRS's expiration are continued volatility, decreased total revenue, and a return to an inefficient, inequitable distribution of payments.

Continued Volatility

The recent national recession made it clear that the boom and bust nature of commodity markets persists and can be especially damaging in resource-dependent counties in the West. Headwaters Economics recently analyzed all 413 counties of the 11 contiguous western states in the context of the recent recession, and looked at how this economic downturn varied from earlier business cycles.[15]

Four critical findings from this analysis about economic performance during the recession are:

1. The faster a county's population grew from 2000 to 2007, on average, the faster the area tended to lose jobs during the recession.
2. Counties that were more timber-dependent tended to lose jobs at a faster rate during the recession.
3. On average, counties with higher education rates (based on the percent of adults with a college degree) experienced lower rates of job loss.
4. Higher government employment was also associated with lower rates of job loss.

The study results underscore important tenets of economic development in a modern economy such as the importance of education in the emerging global economy and the stabilizing effect of government employment during economic contraction. Of particular relevance to the topic of county payments from federal lands is the danger of over-reliance on single sectors, in particular those that fluctuate with commodity markets, such as the timber industry.

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[14] The existing SRS formula is described in an eight-page technical document, "Calculating Payments," available on the Secure Rural Schools website: http://www.fs.fed.us/srs/docs/calculations.pdf (last accessed 11/22/10). Each county's payment was based partially on historic timber receipts and partially on the number of acres of federal land within the county's boundaries. A county's payment was also dependent on how many of their peers opted into the SRS payment formula. The fewer counties that elected to receive SRS payments (opting to receive their revenue sharing payment instead), the higher the SRS payment to each county was, and vice-versa.

[15] Patricia H. Gude, Ray Rasker, Kingsford L. Jones, Julia H. Haggerty, Mark C. Greenwood. 2012. The Recession and the New Economy of the West:
The Familiar Boom and Bust Cycle? In press in the *Journal of Growth and Change.*
http://headwaterseconomics.org/wphw/wp-content/uploads/Western_Counties_Recession_Paper.pdf.

Timber-dependent counties received SRS and PILT payments during the recession which helped stabilize county finances. These already vulnerable county economies could have faced even greater challenges if their payments were dependent on low commodity prices, as would be the case in the absence of some form of SRS reauthorization.

Exposure to boom-bust commodity cycles is a constant hazard for remote rural counties in the West. By reforming county payment programs to focus on the long-term security of funding for basic government services, Congress can help create a buffer against this hazard.

Inequitable Distribution For Rural Counties

If SRS is not reauthorized, the decline in total funding will be felt most acutely in rural communities. Consider Gallatin County, Montana, where I live, which has a prosperous diverse economy anchored by the thriving city of Bozeman. If SRS goes away, a $271,000 increase in PILT payments will offset most of this loss. In contrast, Beaverhead County, Montana, is a nearby ranching, timber, and tourism-dependent county with a small population and a budget more dependent on county payments. Beaverhead County will not be able to recoup $1.2 million losses because of the population limit in the PILT formula.

The PILT formula places an upper limit on the total payment each county can receive based on the county's population. The population limit effectively limits the amount any one county can receive, and lowers the potential cost to the federal treasury if revenue sharing payments decline precipitously.

If SRS is not reauthorized, two things will occur. The reforms in SRS that provided for a more equitable distribution of payments based on per capita personal income will be lost. Moreover, utilizing PILT only will mean that rural places will experience a disproportionate share of payment losses. Across the U.S., rural counties stand to lose twice as much as metropolitan counties and will receive only about one-third of payments if SRS is not reauthorized.

Single Payment Model Creates Security, Equity, and Efficiency

Here is how a single payment idea could help resolve long-standing challenges:

1. Combine SRS and revenue sharing payments into a new PILT formula.
2. Provide stable and predictable payments by maintaining the decoupling between county distributions and the funding source.
3. Benefit rural counties by raising the population cap based on acres of protected public lands.
4. Target payments to counties that have the greatest economic needs.

Table 1 compares the single payment proposal with current and estimated payments. The single payment proposal reflects the new PILT formula and a reduction of about $45 million from FY 2011 payment amounts.

**Table 1: National comparison of current SRS and PILT, estimated revenue sharing payments, and a Single Payment proposal.**

| | Metropolitan Share | Micropolitan Share | Rural Share | Total |
|---|---|---|---|---|
| Current (SRS and PILT FY 2011) | $214.9 | $238.7 | $317.4 | $771.0 |
| | 28% | 31% | 41% | |
| SRS Expires (Estimated Revenue Sharing and PILT FY 2011) | $158.0 | $162.6 | $202.2 | $522.8 |
| | 30% | 31% | 39% | |
| Single Payment | $137.0 | $213.7 | $372.3 | $726.0 |
| | 19% | 30% | 51% | |

Map 1 in the appendix shows how county-by-county distributions of a single payment change from FY 2011 payment distributions. For example, payments are shifted away from metropolitan areas, including the Puget Sound metropolitan region in Washington, the Wasatch Front in Utah, and Phoenix and Tucson in Arizona to rural areas in central Idaho, southern Utah, and coastal Oregon, among others.

Increasing the Population Limit

Increasing the population limit for rural counties offers a mechanism for reversing the shift of payments from rural to urban counties as total payments decline. Raising the population limit allows rural counties to receive a larger share of appropriated dollars at any given funding level.

Under the current PILT formula, each county's PILT payment is equal to the number of eligible acres in each county times an entitlement amount of $2.47 in FY 2012. This combined value is then compared to the population ceiling limitation amount, and the final PILT payment is the lesser of the two.

The single payment proposal raises the population ceiling limitation, but not the entitlement amount, for each county. The ceiling is raised by an amount equal to the number of acres of protected public lands in each county times the entitlement amount of $2.47 in FY 2012.[16]

Raising the population ceiling limit increases payments only for counties where such limits currently apply. As a result, a larger share of payments will go to rural counties that have protected public lands.[17]

[16] We utilized a list of protected lands as defined in the EPS-HDT software as "Type A" lands. These include: National Parks and Preserves (NPS), Wilderness (NPS, FWS, FS, BLM), National Conservation Areas (BLM), National Monuments (NPS, FS, BLM), National Recreation Areas (NPS, FS, BLM), National Wild and Scenic Rivers (NPS, FS, BLM), Waterfowl Production Areas (FWS), Wildlife Management Areas (FWS), Research Natural Areas (FS, BLM), Areas of Critical Environmental Concern (BLM), and National Wildlife Refuges (FWS). See http://headwaterseconomics.org/tools/eps-hdt.

[17] PILT currently authorizes higher payments for newly acquired Wilderness and National Park acres for a period of five years. The additional payment covers lands acquired by the federal government to be included in the National Park system or as national forest Wilderness. The law states that "The Interior Secretary shall make payments only for the five fiscal years after the fiscal year in which the interest in land is acquired. Under guidelines the Secretary prescribes, the unit of general local government receiving the payment from the Secretary shall distribute payments proportionally to units and school districts that lost real property taxes because of the acquisition of the interest. A

Economic Performance Adjustment

The SRS formula contained an "income adjustment" based on per capita personal income. Counties with relatively lower levels of income received a larger share of the total appropriated amount. By comparison, counties with relatively higher levels of income would receive lower payments.

The single payment idea retains the adjustment to ensure equity of payments and to lower total appropriations by directing payments to those counties that need them most.

While the past SRS formula used just one measure of economic performance, we recommend using a set of five variables: percentage of households below poverty,[18] median household income,[19] average earnings per job,[20] percentage of the workforce with a bachelor's degree or higher[21] and county typology (on a continuum: metro, metro outlying, micro, micro outlying, and rural).[22]

These metrics used to assess economic need are widely utilized and well understood. Map 2 in the appendix shows the relative economic performance of counties using these measures from best (light blue) to worst (dark blue).

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unit receiving a distribution may use a payment for any governmental purpose." P.L. 97-258, as amended Section 6904. Additional Payments.

[18] The term poverty, as used by the U.S. Census Bureau, is defined at: http://factfinder.census.gov/servlet/MetadataBrowserServlet?type=subject&id=POVERTYSF3&dsspName=DEC_2000_SF3&back=update&_lang=en (last accessed 9/9/10).

[19] For the full definition of Median Household Income, see the U.S. Bureau of the Census: http://factfinder.census.gov/home/en/epss/glossary_i.html#income (last accessed 9/9/10).

[20] For the full definition of Average Earnings per Job, see the Bureau of Economic Analysis, U.S. Department of Commerce: http://www.bea.gov/regional/definitions/ (last accessed 9/9/10).

[21] Education is one of the most important indicators of the potential for economic success, and lack of education is closely linked to poverty. Studies show that areas whose workforce has a higher-than-average education level grow faster, have higher incomes, and suffer less during economic downturns than other regions. Education rates make a difference in earnings and unemployment rates. In 2009, the average weekly earnings for someone with a bachelor's degree was $1,025, compared to $626 per week for someone with a high school diploma. While in 2009 the unemployment rate among college graduates was 5.2 percent, for high school graduates it was 9.7 percent. For information on the relationship between level of education, earnings, year-round employment, and unemployment rates, see: U.S. Census Bureau's 2002 publication "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings." http://www.census.gov/prod/2002pubs/p23-210.pdf (last accessed 9/9/10). The wage and unemployment effects of education are available from the Bureau of Labor Statistics: http://www.bls.gov/emp/ep_chart_001.htm (last accessed 10/23/10).

[22] Definitions of county typologies can be found at the U.S. Census Bureau.http://www.census.gov/population/www/metroareas/metroarea.html (last accessed 9/9/10).

During the last 30 years many rural counties have experienced a dramatic shift in their economies. Counties have diversified into more service-related occupations while commodity-related sectors have contributed less than three percent of total new jobs from 1990 to 2008.[23]

Not all public lands counties, however, have been able to create a diverse, robust, and resilient economy with a healthy tax base. Poverty, low-paying jobs, lack of education, isolation from markets, and difficulties competing in expanding service industries are persistent challenges for some counties.

Favoring the neediest counties for relatively higher county payments is consistent with the original goal of SRS to help counties diversify economically and to provide equity in payments to counties and for federal taxpayers.[24]

By adjusting the single payment formula to give preferential treatment to the neediest counties, the federal payments will serve an important goal of economic development, job creation, and poverty alleviation. In addition, using a broader and improved set of criteria to link payments to economic performance and opportunity has the advantage of more efficiently targeting payments to those counties that need payments the most.

<u>Benefits for Counties and Rural Economies</u>

I want to draw your attention to Idaho to show how a single payment model could support ongoing collaborative resource management and economic development efforts.

Founded in 2008, the Clearwater Basin Collaborative (CBC) is an innovative partnership of twenty-one tribal, federal, state, local, industry, and conservation associations in central Idaho united by a shared vision: "to enhance and protect the ecological and economic health of the forests, rivers, and communities within the Clearwater Basin." The CBC seeks to develop

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[23] U.S. Department of Commerce. 2010. Bureau of Economic Analysis, Regional Economic Information System, Washington, D.C.

[24] The States of Oregon, Washington, and California received the lion's share of the approximately $2.7 billion of funding distributed under Titles I, II and III of the SRS Act between 2000 and 2007. Oregon received by far the largest share, with $1.2 billion, while California and Washington received $473 million and $322 million respectively. From one perspective, this result was exactly as it should have been. SRS was initially passed to make up for lost timber receipts, and so it was only appropriate that the Pacific Northwest, historically a great timber producing region, benefitted disproportionately. States that did not have historically high timber harvesting levels were understandably less enthusiastic. The Bush Administration favored revising the funding formula to take stock of current economic conditions. Mark Rey, Under Secretary of Natural Resources for the Department of Agriculture, testified "Many now largely urban or suburban counties in the west are getting a substantial amount of money . . . because the formula was a reflection of the historical timber receipts that those counties enjoyed . . . at an earlier time. Many of those counties . . . are pretty vibrant right now." The Administration felt that urbanized areas that could generate funds from traditional municipal revenue sources ought to do so, rather than rely on federal handouts. As a result, the distribution formula was changed in 2008 so that other states realize a more substantial benefit from it. Secure Rural Schools and Community Self-Determination Reauthorization Act of 2007: Hearing on S. 380 Before the Subcommittee on Public Lands and Forests, Committee on Energy and Natural Resources, 110th Cong. 1 (2007).

resource management priorities collaboratively among historically often conflicted parties, finding solutions that take all stakeholders' interests into account.

Diverse stakeholder interests include creating predictability for commercial timber supply, improving recreation access, and accomplishing forest restoration and conservation goals, all across a large landscape. The CBC is a progressive approach to creating solutions to conflicts. This is the kind of approach that could be thwarted in the absence of effective reforms to the county payments programs.

The (CBC) has considered alternatives to SRS. Analysis of proposals that rely on commodity extraction as the main source of revenue—and as the main purpose of public lands management—suggest this approach will not provide predictable or sufficient payments to area counties and schools. Current proposals to return to a revenue sharing model and transfer federal public land management to the states clearly threaten to alienate some CBC stakeholders.

If SRS is not reauthorized, Idaho and Clearwater counties will receive $6 million less annually than they did in FY 2011. In contract, the single payment proposal would allow the two counties to retain similar or higher payments compared to 2011 levels, even with lower appropriations.

Equally important, a single PILT payment moves the goals of the CBC forward in ways that the status quo cannot. The new single payment formula supports a consensus approach to solving shared goals with stronger outcomes for local economies and forest health. In contrast, returning to a revenue sharing model would re-entrench the battle lines over federal management and re-expose counties to payment uncertainty.

<u>Conclusion</u>

For these reasons, we see a critical role for continued appropriations as part of future federal payments to counties. The uncertainty and decreased funding levels that accompany a return to revenue sharing are not desirable. The history of the program shows that revenue sharing will work only for a handful of counties nationally, and even then will fail to provide certainty year over year.

By comparison, receipts will rise and economic development opportunities will be greatest where payment certainty is provided. Local and regional efforts to create jobs and improve forest health will succeed if all sides have greater certainty: certainty and fairness for counties; certainty for industry of increased supply; and certainty for conservation interests for continued restoration and protections, among others.

Maintaining decoupling between the size and relative distribution of payments and the source of revenue creates a framework that can accommodate new dedicated funding streams from public lands. This basic arrangement provides a path to reducing the need for federal appropriations over rising payments over time, buffered from the booms and busts in commodity markets. It also allows new revenue to come from anywhere, and ideas range from higher oil and gas royalties, to new leasing fees, to a carbon tax.

Thank you for your attention to this issue. I look forward to answering any questions you may have.

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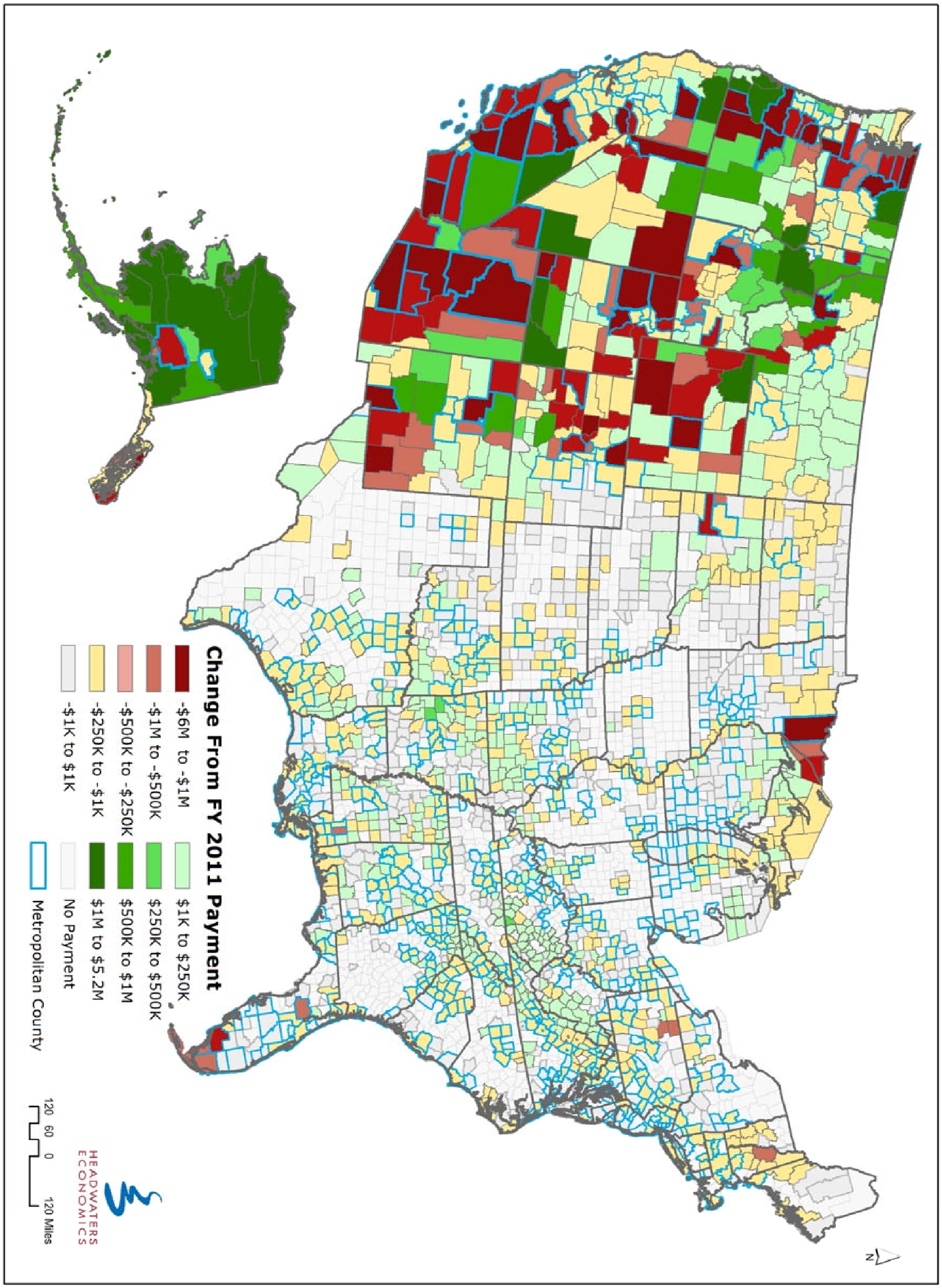
## Contact

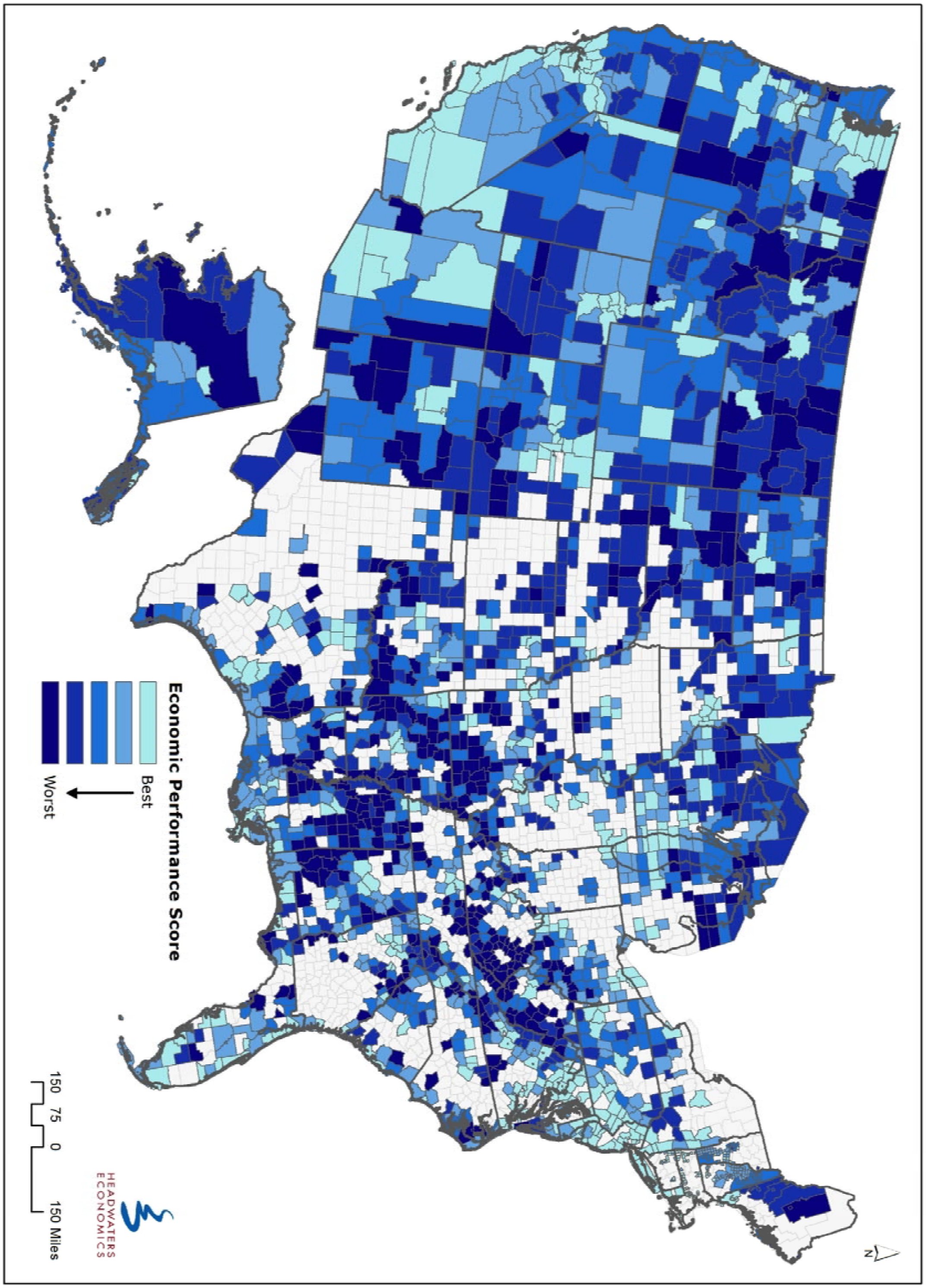
**Mark Haggerty**: 406-570-5626, mark@headwaterseconomics.org

**All County Payments Research:** See the Headwaters Economics web page for the latest research and analysis: http://headwaterseconomics.org/land/county-payments-research/.

**About:** Headwaters Economics is an independent, nonprofit research group that assists the public and elected officials in making informed choices about land management and community development decisions in the West, http://headwaterseconomics.org/.

Map 1: Change in County Payments from FY 2011 with Single Payment Reforms






Map 2: Counties Receiving PILT Payments Ranked by Economic Performance (FY2012)

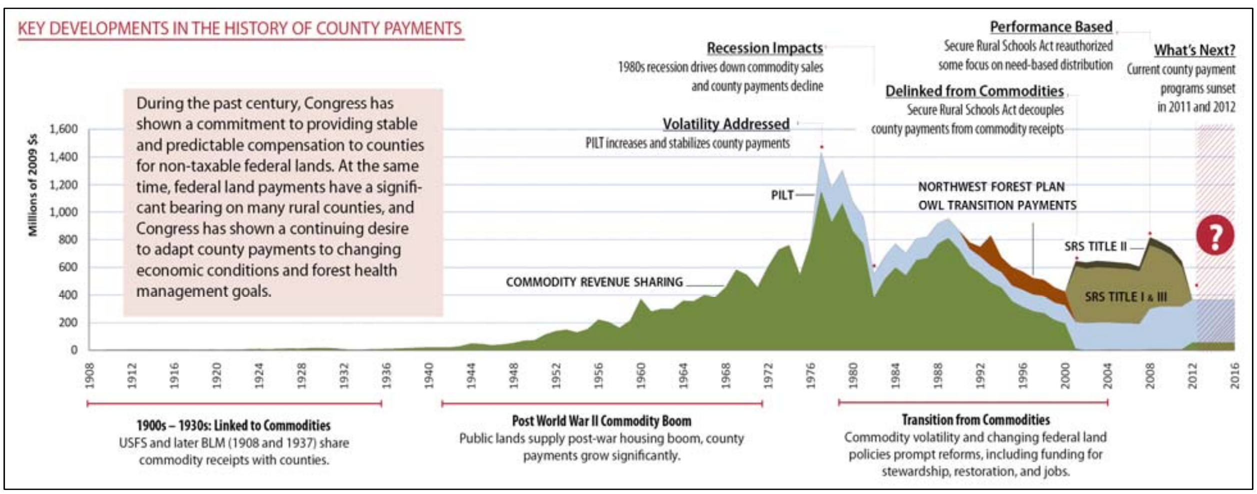
## Summary: Research on Payments to Rural Counties Analysis of How Potential Proposals Would Impact Counties, Spending, and Economic Performance

Headwaters Economics | March 2013

### Summary

County payments play an important role in many rural communities–influencing public lands management, economic development, and funding for local schools, roads, and public safety. The largest county payments program, SRS, has expired, and uncertainly about future funding provides an opportunity for reform, while renewing the commitment to rural public lands counties.

Headwaters Economics has analyzed the impact of current programs and reform proposals on counties, the economy, and public lands management through white papers, research briefs, and interactive maps. All of our work is supported by a detailed database of payments, economic and demographic data, and commercial activities on public lands—facilitating quick evaluation of the impacts of various proposals and legislation.




### EPS-HDT: Detailed Reports of All Federal Land Payments for Every County in the U.S.

EPS-HDT is a free, easy-to-use software application that runs in Excel, from your desktop, and produces detailed socioeconomic reports of communities, counties, states, and regions, including custom aggregations and comparisons. The "Payments From Federal Lands" report includes detailed payment data for PILT, Forest Service, BLM and BLM O&C, U.S. Fish and Wildlife Service, and Federal Mineral Revenue Sharing from the Office of Natural Resources Revenue. Users can run custom reports for any county, counties, or states. The reports also include detailed descriptions of each program and links to data sources and methods.

### Analysis of Current Proposals

Headwaters Economics has a written analysis for each major proposal along with interactive maps that show impacts at county and state levels.

- Senate Proposal – Bi-partisan proposal from 2011
- House Proposal – Made in 2012 by Subcommittee on National Parks, Forests, and Public Lands
- President's Proposal – Proposal from President's FY 2012 submitted budget

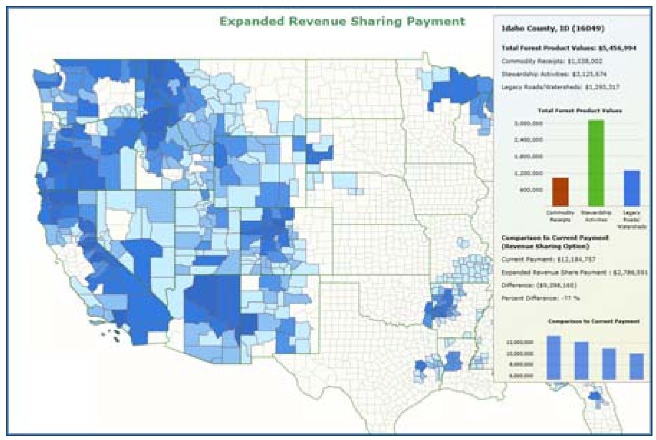
Details on all three proposals: http://headwaterseconomics.org/land/county-payments-presidents-budget/.

## White Paper—Specific Reform Ideas

Our white paper and other analysis tools consider eight ideas for the reform of county payments. We present the policy options for consideration in the spirit of determining how to best provide counties with stable and predictable compensation while reinforcing today's economic and land-health goals. We do not advocate for one idea over another and several ideas could be implemented concurrently.

Ideas:

Figure 1: Example of Interactive Map




1. SRS expires and return to commodity revenue sharing, where county payments are tied to timber harvest levels and other resource extraction on public lands.
2. Reauthorize SRS with no substantive changes.
3. Let SRS expire and return to a revenue sharing system based on an expanded definition of "gross receipts" that counts the value of increases in forest health, such as watershed restoration and wildlife habitat improvements.
4. Retain SRS payments and change the distribution formula to give proportionately higher payments to counties based on:
    - Economic need and development potential.
    - Control of wildfire costs by curtaining home-building on fire-prone lands.
    - Increases in the value of forest health by public lands.
    - The proportion of federal lands in protected status.
5. Replace SRS, commodity revenue sharing, and PILT with a tax equivalency program, paying counties the equivalent of what they would be paid in taxes if the land were privately-owned.

More details: http://headwaterseconomics.org/land/reforming-federal-land-payments-to-counties/.

## Interactive Maps on National Forest Commercial Activities

Headwaters Economics has created two interactive maps that show the commercial activities on National Forests such as the timber economy–gross receipts, timber harvest sales, and timber cuts:

- Gross Receipts from Commercial Activities, FY 2005-2010
- Timber Sales and Timber Cuts, 1980-2010

More details: http://headwaterseconomics.org/land/commercial-activities-national-forests/.

## Contact

**Mark Haggerty**: 406-570-5626, mark@headwaterseconomics.org

**All County Payments Research:** http://headwaterseconomics.org/land/county-payments-research/
Headwaters Economics is an independent, nonprofit research group that assists the public and elected officials in making informed choices about land management and community development decisions in the West, http://headwaterseconomics.org/.