Analysis of the Senate County Payments Reauthorization Act

Can a Five Year Extension of SRS and PILT Complete the Transition from Dependence on Timber to Diverse Rural Economies?

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 recently expired.

A bi-partisan group of Senators have submitted the County Payments Reauthorization Act of 2011 that would extend SRS at declining levels (95% of the previous year's payment from FY 2012 to FY 2016) and full funding for Payments in Lieu of Taxes (PILT) for five more years (FY 2013 to FY 2017). [i]

If enacted, our analysis of the County Payments Reauthorization Act finds that total payments by FY 2016 will be $72 million lower when compared to FY 2011 payments. Details include:

- Renewing SRS and PILT concurrently benefits county governments as **525 counties would see no change** because they do not elect to receive SRS, or because PILT will make up the difference in lower SRS payments.
- Overall, **196 county governments will receive lower payments** because lower SRS payments will not be offset by higher PILT. These county's PILT payments are capped by population limits, or their SRS payments will remain above thresholds that will allow PILT to rise.
- **School districts in up to 30 states will receive payments 22.6 percent lower by FY 2016.** School districts are not eligible for PILT, and lower SRS payments directed to local schools will not be offset by higher PILT. In at least 11 states—AR, CO, LA, MO, NE, OR, PA, TN, VT, WA, and WY—local schools do not receive SRS directly, and will be buffered from lower SRS payments.[ii]
- **Oregon will receive $26.9 million less** in FY 2016 when compared to FY 2011 payments (a 10.9% decline) because the BLM O&C payments are exempt from the PILT formula, and PILT will not offset SRS losses.

Many rural places are still struggling to recover from the recent recession, and how the County Payment Reauthorization Act helps them create jobs and continue to diversify and transition their economies will ultimately determine if the extension is successful, and what options are available in FY 2017 for continued county payments.

While the County Payments Reauthorization Act of 2011 extends payments for five years, it ultimately represents a missed opportunity as it falls short of providing needed incentives and links to existing programs creating jobs and improving forest health on public lands. We offer detailed analysis and reform suggestions that could start creating jobs and renewing forest health during the 5 year extension, moving closer to a long-term solution beginning in FY 2017.

Extending PILT Lessens the Impact of Extended, But Declining SRS Payments for Most Local Governments, But Not All.

State and local government cannot tax federally owned lands the way they would if the land were privately owned. Federal land payments support basic county services, including education, transportation, and public safety.

Federal payments were originally funded from commodity receipts on public lands, linking local government budgets directly to timber harvests on public lands. Commodity receipts proved volatile creating uncertainty for local governments needing to fund services annually.

Congress passed PILT in 1976 to tackle volatility by stabilizing and increasing county payments.[iii] PILT authorizes a maximum payment for each county based on the number eligible federal acres within each county. This full payment is reduced by the amount of revenue sharing payments (including SRS) from the previous year and is subject to a population cap. A minimum base payment covers counties whose PILT authorization falls below a per-acre threshold after revenue sharing payments are subtracted.

PILT will rise in response to lower SRS payments in counties where the current PILT payment is not capped by a population limit, and is at or above the minimum (floor) payment (eg. where prior year SRS and revenue sharing payments do not exceed the difference between the maximum and minimum PILT authorization). Overall, 256 counties will see no change in overall federal compensation, while 196 will see their payments decline (see Map 1 on page 4). In FY 2016, all counties combined will receive $79 million less when compared to current FY 2011 payments (a 10.9% decline).

School districts are not eligible for PILT, and schools will experience a larger decline in federal payments than will county governments (See Map 3 on page 6). Overall compensation to schools will decline by 22.6 percent by FY 2016 when compared to FY 2011. Some states, however, do not distribute Forest Service payments directly to local schools, but lump these dollars into the state equalization fund. These states include AR, CO, LA, MO, NE, OR, PA, TN, VT, WA, and WY.[iv]

For example, Oregon deposits SRS funding for schools into State School Fund. In FY 2011, SRS contributed $27 million to the State School Fund that had total payments to Oregon schools of 2.867 billion. SRS payments made up 0.9 percent of the total distributed to Oregon schools from the State School Fund. That means local schools in counties eligible for SRS will only see revenue declines of 0.9 percent on average, compared to the 22.6 percent losses experienced by schools in states that make direct distributions.

Oregon county governments, however, stand to lose the most money as payments from the O&C lands are exempt from PILT.[v] While Oregon counties have received higher PILT payments over the years because O&C payments received this special exemption, the declines will be felt more sharply. Oregon counties will receive a FY 2016 payment $26.9 million lower than current FY 2011 payments (a 20.5% decline).

Discussion: Can a Five Year Extension of SRS and PILT Complete the Transition from Timber to Diversified Rural Economies?

In addition to addressing persistent structural problems like volatility and fair compensation to counties, SRS attempted to tackle the perverse incentives created by linking payment levels directly to commodity production, mainly timber, on public lands.[vi] This linkage led local officials to lobby for particular uses of public lands, often contrary to changing economic conditions and in opposition to evolving public land management goals.

SRS decoupled payments from commodity receipts and introduced new funding for projects on public lands that would help counties transition away from a dependence on timber to a more diverse economic base in the face of declining timber production on public lands and changing economic opportunities related to restoration and conservation.[vii]

As rural communities continue to emerge from the recent recession, the transition from commodities to restoration and forest health as the basis for community prosperity has experienced mixed results. Some communities adjacent to public lands experienced rapid growth over the last 20 years, while others have struggled.[viii]

Extending SRS at even lower levels is unlikely to solve the underlying problem that payments are not leveraging desired outcomes. Creating jobs and improving forest health to affect the economic transition could be better accomplished by extending SRS along with an array of existing successful programs, such as the Collaborative Landscape Restoration Initiative, Forest Legacy Roads and Trails Remediation Initiative, Priority Watershed Restoration funding and stewardship contracting authorities.

Reforming the SRS formula to deliver payments to counties with the greatest need, or based on timber, restoration, and conservation outcomes could leverage these programs, ensuring a best effort to affect the economic transition at the end of five years.

For example, Headwaters Economics developed an economic performance and opportunity index for all counties that receive Forest Service payments as a way of measuring which counties have performed best, and to identify those counties most in need of continued federal assistance to transition their economies (see Map 1 for examples of counties with the worst economic performance). Reforming the SRS formula to deliver payments based on economic need would help achieve SRS's economic goals.

For more information on the history of county payments and reform ideas, see the Headwaters Economics white paper *County Payments, Jobs and Forest Health* and analysis of the President's and U.S. House proposals at: http://headwaterseconomics.org/tools/county-payments-presidents-budget/.

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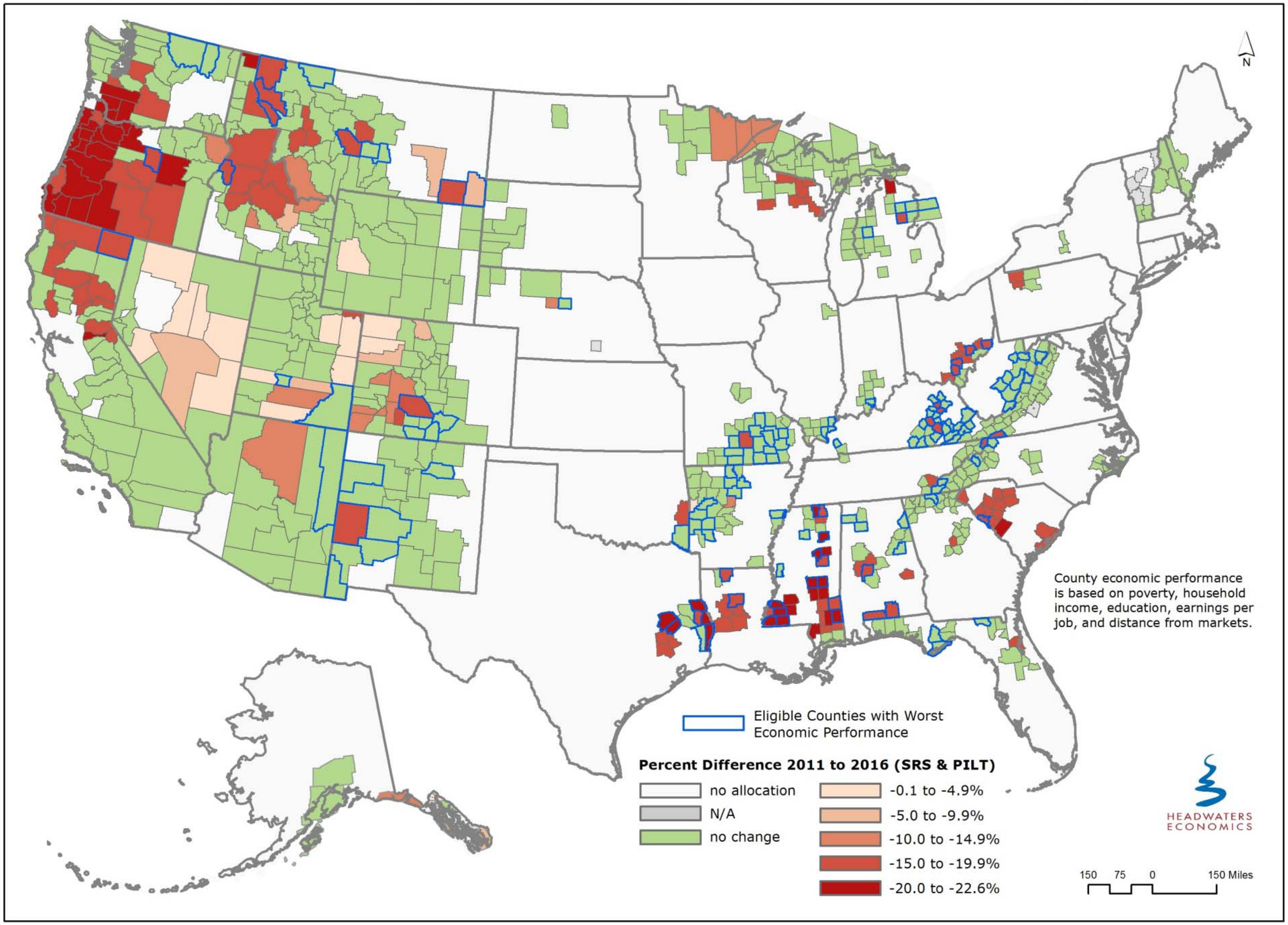
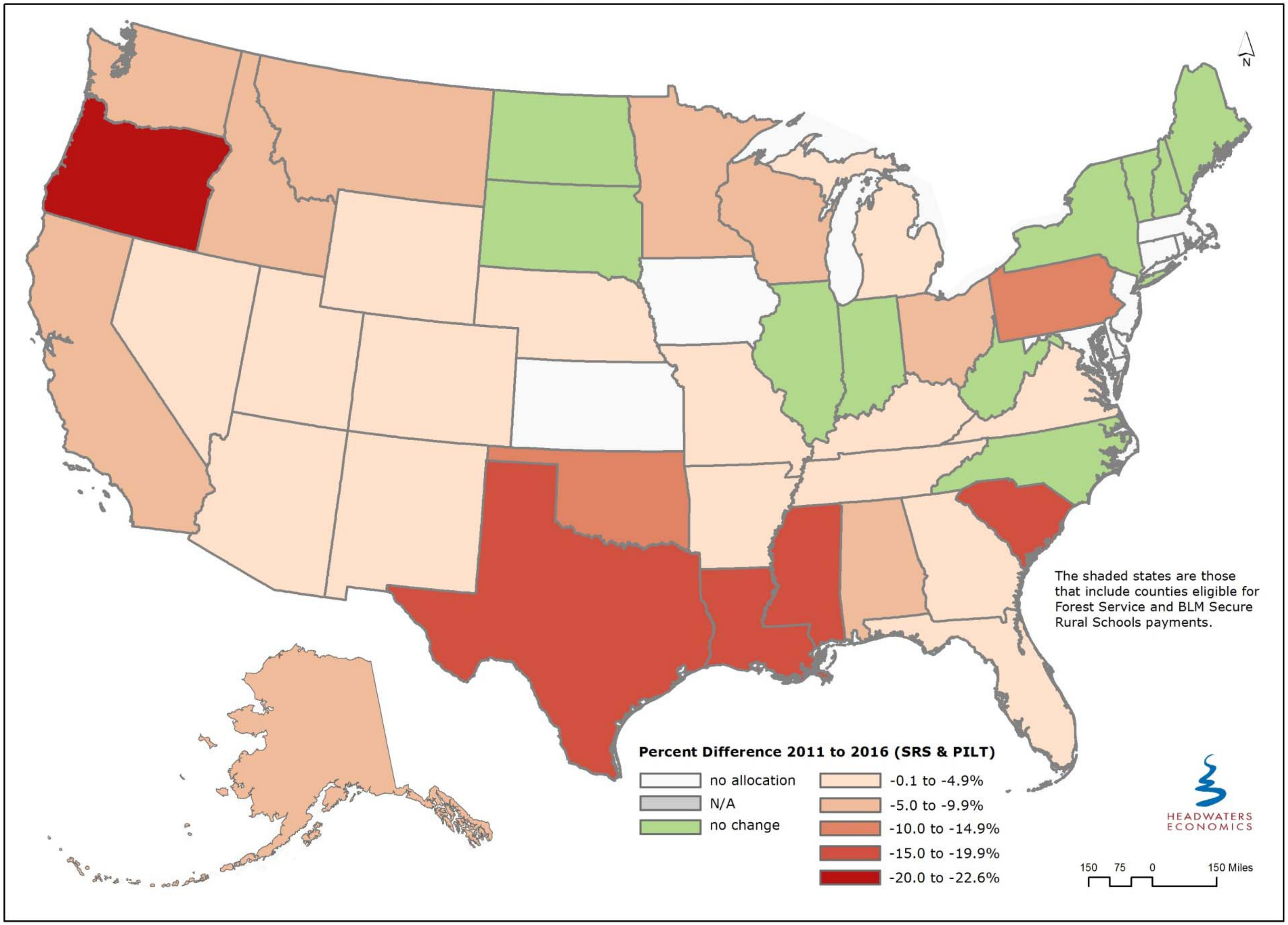
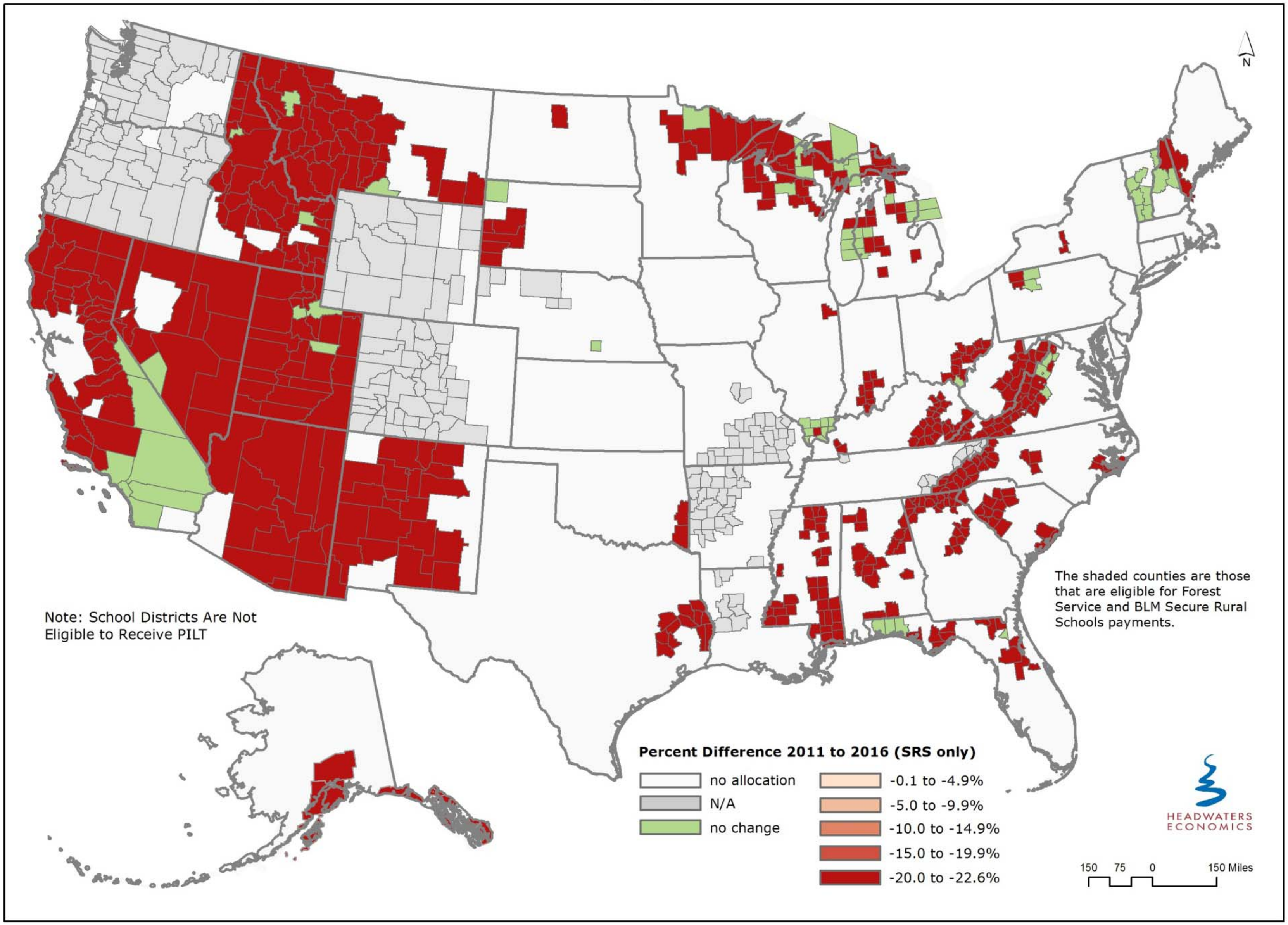
Map 1: How Will County Payments Change if SRS and PILT are Extended for 5 Years?: A Comparison of Payments to Economic Need.[ix]



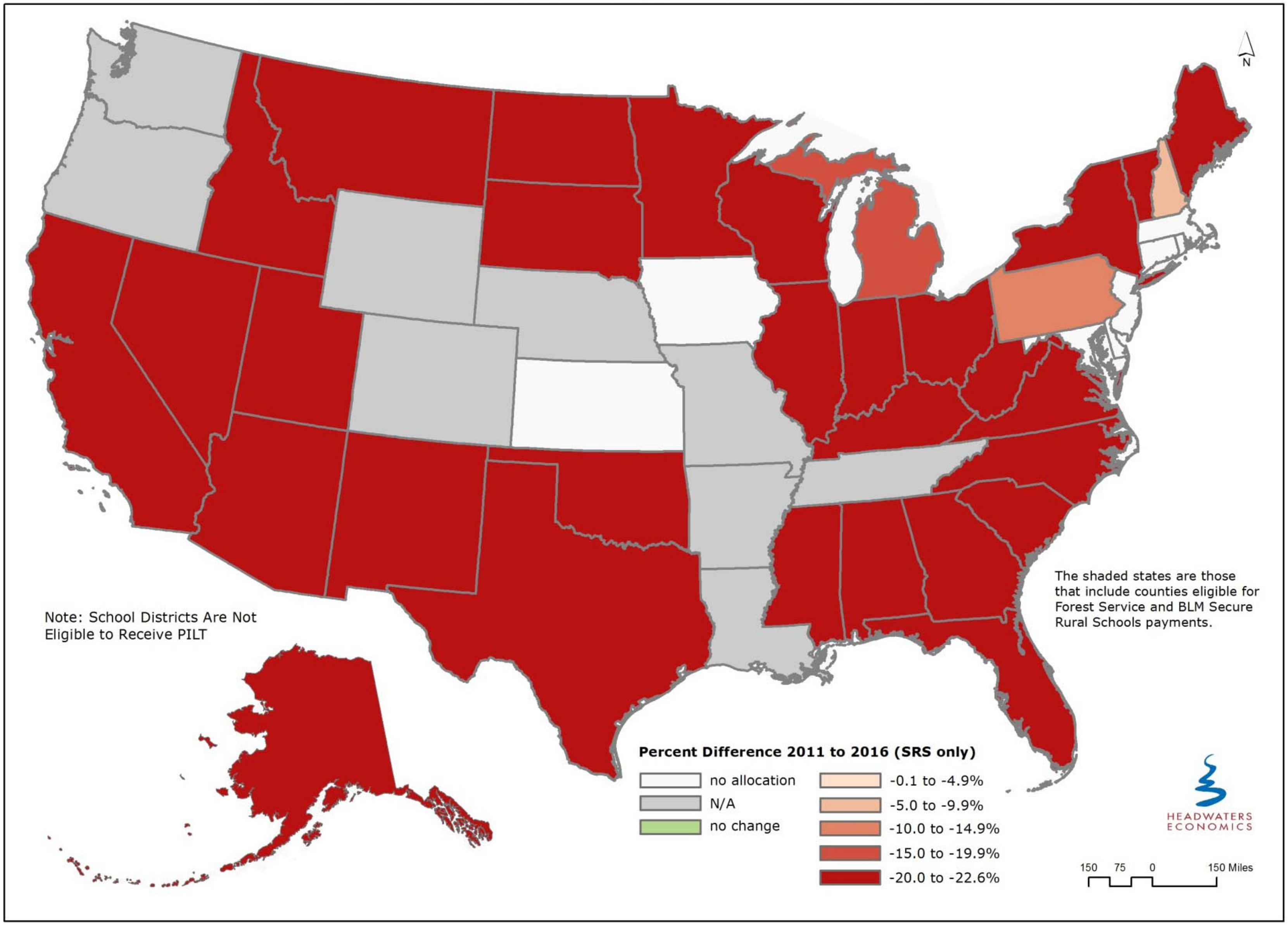
Map 2: How Will County Payments Change if SRS and PILT are Extended for 5 Years?: A State by State View.[x]



Map 3: How Will School District Payments Change if SRS and PILT are Extended for 5 Years?[xi]



Map 4: How Will School District Payments Change if SRS and PILT are Extended for 5 Years?: A State by State View.[xii]



Methods

Forest Service and BLM Payments: To estimate county payments based on the language in the draft Senate bill, we assume each county's SRS payment declines by five percent from the FY 2011 amount for each year FY 2012 to FY 2016. By FY 2016, each county electing to receive SRS will receive a payment 22.6% lower than the payment they received in FY 2011.

PILT: Each county's PILT authorization is equal to a per-acre base payment that is reduced by prior year revenue sharing payments, and is subject to a population limit. How PILT changes relative to changes in Forest Service payments depends on both the amount of revenue sharing payments, and how each county' s PILT payment is determined.

Because PILT payments are made only to county governments, the portion of SRS payments directed to schools or to autonomous transportation districts will not be made up in higher PILT payments. For states that include Forest Service payments to school districts in the state equalization funding formula, we assume that the formula will automatically adjust and increase by an amount proportional to the decline in Forest Service payments. These states include AR, CO, LA, MO, NE, OR, PA, TN, VT, WA, and WY.

Additionally, BLM O&C payments are exempt from the PILT formula, so as they have risen in the past counties did not have to give up PILT funds. Now, as they decline, counties will not see a PILT increase.

Economic Performance and Opportunity Index:
Taken together the first three measures below (income, earnings, and poverty) are an indication of a county's economic performance relative to their peer counties that receive payments, and the last two measures indicate relative economic opportunity of a county relative to public lands (education and access to markets).

1. Median Household Income : a measure of all sources of income, including wages, salaries, retirement income, investment income, and others.
2. Average Earnings per Job : an indicator of the relative quality of the jobs in the county.
3. Percent of Families Below the Poverty Level: a measure of economic hardship.
4. Percent of the Population with a Bachelor's Degree or Higher : an indicator closely associated with lower unemployment rates and higher wages.
5. County Typology – Degree of Isolation from Markets: a measure of the proximity to population centers and job markets.

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[i] Senate Bill 1692. The County Payments Reauthorization Act of 2011. http://energy.senate.gov/public/index.cfm?FuseAction=IssueItems.View&IssueItem_ID=38ae91dc-720c-48ad-b679-97b10c09eeb5.

[ii] It was beyond the scope of this report to analyze current state policy on the distribution of SRS payments. We rely on a 2002 Forest Service paper: An Inquiry into Selected Aspects of Revenue Sharing on Federal Lands. 2002. A

report to the Forest County Payments Committee, Washington, D.C. Research Unit 4802-Economic Aspects of Forest Management on Public Lands, Rocky Mountain Research Station, USDA Forest Service, Missoula, MT.

[iii] 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. Some state policy may have changed or been updated in subsequent years.

[iv] An Inquiry into Selected Aspects of Revenue Sharing on Federal Lands. 2002. A report to the Forest County Payments Committee, Washington, D.C. Research Unit 4802-Economic Aspects of Forest Management on Public Lands, Rocky Mountain Research Station, USDA Forest Service, Missoula, MT.

[v] See note iii.

[vi] Other suggestions to address incentives have called for ending Forest Service payments to counties altogether, in favor of a PILT-only compensation program, or a "tax equivalency" approach with an aim of eliminating incentives altogether – whether for timber production, job creation, or forest health. Even though the proposal moves in the direction of relying more on PILT, the goal does not appear to be ending the incentives inherent to SRS and revenue sharing (to accomplish that, the Act would need to let SRS expire and repeal the Forest Service 25% Fund and the BLM O&C revenue sharing payments).

[vii] 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.

[viii] McGranahan, D.A., et al. (2010). "The Rural Growth Trifecta: Outdoor Amenities, Creative Class and Entrepreneurial Context." Journal of Economic Geography pp 1-29. Lorah, P., R. Southwick, et al. (2003). "Environmental Protection, Population Change, and Economic Development in the Rural Western United States." Population and Environment 24(3): 255-272. McGranahan, D. A. (1999). "Natural Amenities Drive Rural Population Change." E. R. S. U.S. Department of Agriculture. Washington, D.C. Haas, W. H., W. J. Serow, et al. (2002). "The Baby Boom, Amenity Retirement Migration, and Retirement Communities: Will the Golden Age of Retirement Continue?" Research on Aging 24(1): 150-164. Johnson, J. D., R. Rasker, et al. (1995). "The role of economic and quality of life values in rural business location." Journal of Rural Studies 11(4): 405-416. Beyers, W. and D. Lindahl (1996). "Lone eagles and high fliers in the rural producer services." Rural Development Perspectives 11: 2-10. Mathur, V. K., S. H. Stein, et al. (2005). "Do amenities matter in attracting knowledge workers for regional economic development?*." Papers in Regional Science 84(2): 251-269.

[ix] **County Payments**: U.S. Department of Interior. 2011. Payments in Lieu of Taxes (PILT) National Summary; U.S. Department of Agriculture. 2010. Forest Service Final Payment Detail Report ASR10-3 and ASR18-1; USDA Forest Service, Secure Rural Schools and Community Self-Determination Act. Annual Payment Information; U.S. Department of Interior, Bureau of Land Management, Oregon State Office. County Payments Citizen Advisory Committee, Official Payments to Counties. **Economic Performance Index:** U.S. Department of Commerce. 2010; Bureau of Economic Analysis, Regional Economic Information System, Washington, D.C.; U.S. Department of Labor. 2010. Bureau of Labor Statistics, Local Area Unemployment Statistics, Washington, D.C.; U.S. Department of Labor. 2010. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Washington, D.C.; U.S. Department of Commerce. 2010. Census of Governments Survey of State and Local Government Finances, Washington, D.C.

[x] Ibid.

[xi] **County Payments**: U.S. Department of Interior. 2011. Payments in Lieu of Taxes (PILT) National Summary; U.S. Department of Agriculture. 2010. Forest Service Final Payment Detail Report ASR10-3 and ASR18-1.
U.S. Department of Interior, Bureau of Land Management, Oregon State Office. County Payments Citizen Advisory Committee, Official Payments to Counties; In Inquiry into Selected Aspects of Revenue Sharing

[xii] Ibid.