

Fact Sheets on
Federal Land Payments to Counties

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1. General Information

To compensate state and local governments for the tax-exempt status of federal lands, each year the federal government pays millions of dollars to 42 states and 714 counties that contain national forests. Most of the payments are made through two different but interrelated programs – 25% revenue sharing and payments in lieu of taxes (PILT).

25% Revenue-Sharing Payments

In 1908 the Forest Service began returning 25% of the receipts taken from national forests to the states in which these forests are located. Payments are made from an off-budget Forest Service fund and are not subject to annual congressional appropriations. The states must allocate these payments to the local governments and counties for funding of roads and schools. In 1998, states and counties received a total of \$220 million in 25% payments.

Over the past 20 years, timber sales have accounted for 89%-95% of the revenue generated from national forest lands. Fees for grazing, recreation, and other uses and activities also contribute to the revenue subject to the 25% payment. Forest Service revenues have fluctuated greatly from year to year, depending on factors such as interest rates, national and international recessions, and, more recently, changes in federal land management policy.

Many people support “decoupling” county payments from national forest revenues so that the amount of funding for roads and schools will no longer be determined by the amount of commodity production on public lands. Oregon Governor John Kitzhaber, for example, has said, “The management of our public forest lands should not be driven, either directly or indirectly, by the need to produce timber revenue to pay for county services.”

Payments in Lieu of Taxes (PILT)

PILT was established in 1976 to compensate units of local governments, usually counties, for tax-exempt federal lands within their borders. PILT payments are made from the U.S. Treasury through the annual appropriations process. The payment amounts are based on the acreage of federal land within the county, not on the amount of revenue generated by that land. All counties with more than 50,000 residents receive the same per-acre PILT payment, while per-acre payments may be lower for counties with smaller populations. PILT payments are allocated directly to the individual counties by the federal government and may be used for any governmental purpose. In 1998, counties received a total of \$120 million in PILT payments.

PILT supplements other revenue-sharing programs such as the 25% payments to states. The amount of PILT given to counties is reduced by the amount of money coming from the 25% payments to prevent the doubling of funds. As illustrated in Example A, if a county’s revenue-based 25% payment does not exceed the acreage-based PILT payment, the county will ordinarily receive the same amount regardless of whether the federal land produces any revenue.

EXAMPLE A: Jones County has 100,000 acres of federal land and more than 50,000 residents. The PILT program is funded at \$.80 per acre, or \$80,000 per year. In year 1 it receives \$40,000 from 25%

payments and \$40,000 in PILT payments. In year 2 it receives no 25% payment, but is compensated by the full PILT payment amount of \$80,000. The county's total payment each year is \$80,000.

In recent years, Congressional appropriations for PILT have fallen far below the amount counties are authorized to receive. Prior to 1994 the base payment rate for PILT was \$.75 per acre. In 1994 Congress approved a plan to increase PILT payment levels gradually to \$1.65 per acre by 1999, if Congress appropriated the proper amount of money. However, as illustrated in Figure 1, appropriations for PILT payments have lagged far behind. In Fiscal Year 1998, Congress appropriated \$120 million for PILT – just 40% of the \$260 million authorized.

FIGURE 1 (BLM annual budget justifications)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
(in thousands of dollars)				
Authorized amount	130,562	165,088	212,022	260,533
Appropriated amount	101,409	113,500	113,500	120,000

Reasons for decoupling and stabilizing 25% payments and fully funding PILT:

1) 25% payments to states result in significant economic instability for counties.

The levels of commodity revenues from federal lands are subject to large fluctuations based on changing public land management policies as well as national and international market factors such as domestic interest rates, housing starts, and economic recessions in Europe and Japan. National forest receipts subject to revenue-sharing payments have declined from the peak of \$1.44 billion in 1989 to \$557 million in 1998. Unstable federal land payments have made it more difficult to properly fund roads and schools in some counties. Fully funding PILT and decoupling 25% payments would provide a more stable income source.

2) 25% payments create strong incentives for commercial development.

Since 25% payments are currently based on the amount of revenue generated from federal lands, funding for local schools and road maintenance is directly linked to the amount of logging and other commercial uses in the national forests. This link promotes high levels of commodity extraction often at unsustainable levels that put the counties and their resources at risk over the long run. PILT payments, on the other hand, are not tied to commercial development.

3) 25% payments have resulted in economic inequity between various counties.

A few states and counties have historically received the lion's share of the 25% payments. For example, Oregon contains 8% of all national forest lands in the U.S., but it receives more than one-third of all 25% payments. In 1997, Skamania County in Washington received \$1,787 per student, while McHenry County in North Dakota received \$.02 per student. PILT, which relies on acreage for distribution of money, is a more equitable payment system.

2. Education

Education is one of the two purposes for which states and counties can spend money they receive through the U.S. Forest Service's 25% payments program. This fact sheet addresses the education funding issue as it relates to federal land payments.

The Issue

The debate over 25% payments is not about the importance of education funding. All sides agree that rural and urban schools alike should have adequate and stable funding. Rather, the question is whether school funding should depend on revenues generated from logging and other commercial uses of the public lands.

For the past few decades, Forest Service revenues have fluctuated greatly from year to year, depending on factors such as interest rates, national and international recessions, and, more recently, changes in federal land management policy. The amount of timber sold in the national forests declined from 11 billion board feet in 1988 to 4 billion board feet in 1992 and has remained at that lower level for the past seven years. The drop in national forest timber sales resulted primarily from scientific documentation that logging was damaging the wildlife, streams, and other environmental values, along with changing public attitudes toward management of the national forests.

Many local government leaders, education officials, and conservationists support revamping the 25% payments system so that counties and schools receive a guaranteed level of funding each year that is not tied to the amount of revenue generated by logging and other environmentally harmful development in the national forests. As Forest Service Chief Mike Dombek has stated, "There is no reason the richest nation on earth should be funding the education of rural kids at the expense of our national forests."

Financial Impacts on Schools

Twenty-five percent payments allocated by the states to local counties must be used to fund roads and schools. How the payment is divided between the two purposes varies from state to state. California and Washington give 50% of the payment to road funding and 50% for educational purposes. Oregon, on the other hand, gives 75% of the payment to roads and only 25% to schools. Idaho and Montana both allocate 70% to roads and 30% to schools.

From a statewide perspective, Forest Service payments do not amount to significant funding for schools for the vast majority of the students and counties. The table below shows that, among the five states that receive the most Forest Service payments, only Oregon has relied on those payments to fund more than one percent of their statewide school budgets.

Proportion of School Expenditures Funded by Forest Service Payments in Five States, 1986-1996

State	CA	ID	MT	OR	WA
Avg. %	0.12	0.57	0.39	1.28	0.40

Financial Impacts in California

In California, as in other states, Forest Service payments amount to a very small percentage of educational expenses in most rural counties but are significant for some rural counties. California has 39 counties receiving some form of payment for federal land. In 1992, there were 28 counties with an estimated 3,608,000 students that depended on these funds for an average of only .05% of their educational cost. The students each received an average payment of just \$3.23.

The major recipients of Forest Service payments in California are 11 rural counties with relatively small student populations. The 11 counties have less than 1 percent of the state's students, but they receive the majority of the Forest Service payments. The table below shows the 11 counties' student populations, the proportion of their school expenditures that are funded by Forest Service payments, and the amount paid per student, as of 1992.

County	# of Students	% School Expenditure	Amount Per Student
Mariposa	2,300	2.2%	\$134
Mono	1,700	2.5%	\$148
Toulumines	8,000	3.0%	\$179
Del Norte	4,400	4.1%	\$247
Lassen	5,000	5.5%	\$328
Modoc	2,000	10.2%	\$614
Trinity	2,800	17.2%	\$1,032
Plumas	4,000	18.5%	\$1,107
Sierra	500	26.7%	\$1,603
Alpine	300	27.8%	\$1,668

By 1997 the payments had decreased for all counties due to declines in timber sales and other revenue generators. Nonetheless, the inequalities between California counties showed a similar pattern to 1992. Thirty-one counties, with an estimated 3,620,000 students, received .03% of their educational expenses from county payments, an average of \$2.03 per student. Eight counties received over 1% of their educational cost from county payments, ranging from Lassen receiving 2.9% (\$175 per student) to Sierra receiving 15.2% (\$853 per student).

Solutions for Rural Schools

Schools in some rural counties with large amounts of national forest land and small student populations have been adversely affected by declining Forest Service payments. Congress has temporarily provided guaranteed funding for counties in the Pacific Northwest that were facing serious budgetary problems due to reduced federal timber revenues. Legislation has been proposed to provide similar guaranteed funding to counties in other regions.

Many local government leaders, educational officials and conservationists support equitable, guaranteed funding for counties with national forest lands, so long as federal payments do not provide incentives for increased commercial development of the national forests.

3. Pacific Northwest

The Pacific Northwest receives substantially higher payments to counties than any other region of the country. This fact sheet explains the unique circumstances in the Northwest.

Federal Forests in the Northwest

Oregon and Washington contain about 26 million of the 192 million acres of national forests. In addition, the Bureau of Land Management administers 2.4 million acres of public forest land in western Oregon.

During the 1980's, the Pacific Northwest's federal forests produced an average of 5 billion board feet annually – 4 billion from national forests and another 1 billion from BLM forests. The region's national forests typically generated more than 60% of all Forest Service timber sale revenue nationally. By the late 1990's, however, timber production from all federal forests in the region had declined by 80%, to about 1 billion board feet, and timber sale revenues had dropped correspondingly.

Like counties in other regions, the 58 Northwest counties that have national forest lands receive 25% of the revenues generated on those lands (see General Information fact sheet). Oregon allocates one-quarter of the federal payments to education and three-quarters to roads, while Washington divides the money equally between schools and roads. In addition, 18 counties in western Oregon with BLM "O&C" forest lands receive 50% of revenues from those lands.

O&C Lands County Payments

Most of the BLM's forest lands in western Oregon are called "O&C" lands because they were once granted by Congress to the Oregon and California Railroad Company. These lands reverted back to federal ownership because the company failed to comply with the terms of the land grant established by Congress. Under the Oregon and California Revested Lands Act of 1937, O&C counties receive 50% of the revenue generated from these lands, which they can use for any purpose. Until the late 1980's, the BLM managed the O&C lands primarily for timber production, selling large volumes of valuable old-growth timber and generating millions of dollars in payments each year for western Oregon counties.

Owl Payment Guarantees

In the late 1980's and early 1990's, timber harvest decreased in western Oregon, western Washington, and northern California as a result of federal management decisions related to protecting the northern spotted owl and other species and values associated with the old growth forests. To counter the declining 25% payments and O&C payments, Congress appropriated additional funds in the beginning of the fiscal year 1991.

In the 1993 Omnibus Budget Reconciliation Act, Congress enacted a county payments "safety net" for counties in Pacific Northwest within the range of the northern spotted owl. The owl safety net provided counties with guaranteed funding for ten years based on the average payment level between 1986-1990 from both Forest Service and BLM timber revenue-sharing programs.

The safety net's guaranteed payments start at 85% of the historic average in 1994 and decline by 3% for each of the next nine years, until they reach 58% in 2003, at which point the safety net expires. For 1999-2003, the counties will receive either the safety net amount or their usual 25% payment payments, whichever is greater.

The region's counties have received about \$200 million per year through the owl safety net, more than twice the amount they would have received otherwise. The impending expiration of the safety net in 2003 has provided an impetus for counties and policy makers to seek a long-term solution that will avert a major drop in county payments.

Non-Owl Counties

Many Northwest counties outside the range of the northern spotted owl have experienced major declines in 25% payments, but have not had a guaranteed payment program to offset the decreases. The impact has been especially severe in eastern Oregon, where nine counties that received 25% payments totaling \$34.8 million in 1992 received only \$4.9 million in 1998 – an 86% decline (see table below).

1000s of \$

	Baker	Crook	Grant	Harney	Lake	Umatilla	Union	Wallowa	Wheeler
1992	1026	4757	12371	5236	6529	1415	885	1002	1561
1998	373	158	1438	404	1401	193	313	536	66

The sharp decline in county payments has caused significant budgetary problems and loss of services for some non-owl counties. For example, in Oregon's Wallowa County, which has a population of less than 8000 people, county payments from federal forest lands amounted to more than half of the county's road funds in the late 1980's. Since then, the county's federal land payments have declined by three-quarters, forcing the county to cut road service and crews, while road conditions are worsening.

Education Financing

The vast majority of public schools in Oregon and Washington have never depended on federal land payments to provide an adequate education for their children. In 1992 (prior to the decline in county payments), 85% of all public school students resided in Northwest counties that relied on 25% payments for less than one-half of one percent of their school budgets.

In 1997, 20 of the region's 63 counties depended on 25% payments to provide between 1% and 6% of their school funding, while Skamania County's dependence was 30% - the highest in the nation. The educational impact of declining federal land payments has primarily been felt in the non-owl counties of eastern Oregon, where four counties (Harney, Lake, Wheeler, and Grant) relied on 25% payments to provide between 14% and 30% of their school budgets in 1992. In Grant County, Oregon, federal land payments for education fell from \$1,819 per student in 1992 to \$336 in 1997.

4. Proposals for Change

This fact sheet describes several options for reforming the county payments system and presents an alternative suggested by The Wilderness Society. As of November 1999, there were three legislative proposals to change the 25% payments system and one proposal to change the PILT program. The House of Representatives debated and adopted a bill on November 3.

25% Revenue-Sharing Payments

1. The “National Forest Counties and Schools Coalition” and National Association of Counties (NACO) have proposed legislation that for the next five years would give all national forest counties the greater of (1) the highest 3-year average of payments made since 1986 and (2) the normal 25% payment amount. Northwest counties with BLM O&C forest lands would receive the same treatment, except that counties would take in 50% of revenues from those lands. Future payments would be adjusted for inflation. Money for the guaranteed payments would be taken from the Forest Service’s budget that would otherwise be spent on non-timber management activities. In addition, the bill would establish an advisory committee, consisting mainly of county and school officials, to develop recommendations for legislation that would seek to restore historically high payment levels. The legislation, H.R. 2389, was introduced by Rep. Nathan Deal in June and was approved by the House Agriculture Committee in September.

2. Rep. Peter DeFazio and the Clinton Administration have advocated legislation – H.R. 2868 - that would decouple county payments from federal land revenues and not take money from the Forest Service budget. Instead, counties would receive permanent, guaranteed payments from the general fund of the Treasury. Counties would receive either the average of the highest three annual payments made since 1986, or the payment for FY 1998, whichever is greater. As with the Deal bill, payments would be adjusted for inflation and would apply to BLM O&C lands as well as national forests. The DeFazio bill does not establish an advisory committee.

3. Sen. Ron Wyden and Sen. Larry Craig have introduced a county payments bill – S. 1608 – which, like the Deal bill, would not de-couple payments from national forest receipts. The guaranteed payments would come first from any Forest Service receipts that are not deposited in trust funds and, if necessary, from the Treasury. A novel feature of the Wyden/Craig bill would earmark 25% of the county payments for management and restoration projects in national forests that are supported by county officials and local advisory committees. Any receipts from those projects would be split equally between the Forest Service and the counties.

UPDATE: On November 3, 1999, the House of Representatives voted 274-153 to adopt the “Secure Rural Schools and Community Self-Determination Act,” which was based on Rep. Deal’s H.R. 2389. Similar to S. 1608, the House bill earmarked 20% of county payments for projects on federal lands supported by local counties and advisory committees. Unlike any of the prior bills, the House bill authorized appropriations for increased payments but did not provide a guaranteed source of funding.

Payments in Lieu of Taxes (PILT)

Rep. Don Young has proposed to provide permanent, full funding of PILT as part of the Young/Dingell bill (H.R. 701) dealing with the Land and Water Conservation Fund and other uses of the Off-Shore Continental Shelf (OCS) oil revenues. Young's proposal would remove PILT payments from the annual appropriations process by directing a portion of the annual OCS revenues to fund PILT. This proposal would increase PILT funding from the current appropriated level of \$120 million to the full authorized level of \$300 million.

The Wilderness Society's Alternative

The Wilderness Society believes there is an opportunity to combine elements of current county payment proposals to produce an alternative that provides greater assistance to more counties, while decoupling payments from federal land management. Thus, this alternative would provide optimal benefits to counties and schools, as well as to the forest environment. The key elements of this alternative are:

- Fully fund PILT. Congress in 1994 authorized doubling of PILT payments to counties by 1999, but PILT appropriations have remained virtually unchanged and are now just forty percent of the authorized level. Full funding of PILT would immediately benefit many counties with federal lands that do not produce much revenue, including many counties in California and Idaho. It would also help to rectify existing inequities in the county payment system. The TWS alternative would guarantee a fully funded PILT program independent of annual appropriations by establishing a Trust Fund that would receive revenues from currently producing oil and gas wells located on the Outer Continental Shelf of the United States.
- Provide additional, guaranteed funding to counties that historically have received substantial 25% payments. Numerous counties are experiencing budget problems due to reduced 25% and "O&C" payments, and those problems will become increasingly acute for many Pacific Northwest counties once the "safety net" of county payments expires in 2003. Legislation should provide for guaranteed payments to these counties at or near historical levels, include BLM O&C lands, and be indexed to inflation. The TWS alternative would provide for the enactment of a special Department of Treasury account that would guarantee counties payments similar to the 1993 Omnibus Budget Reconciliation Act safety net. The special account would guarantee funding for all counties based on the average payment level between 1986-1998 from both Forest Service and BLM timber revenue-sharing programs and not be subject to annual appropriations. In contrast, the NACO-supported bill would take county payments directly from Forest Service annual appropriations.
- Decouple national forest commodity receipts from payments to counties. Legislation should not provide counties the option of receiving 25% payments if they would exceed the guaranteed payments. The 25% payments create an economic incentive to maximize commodity production on federal lands, regardless of environmental impacts.
- Commission a study to examine alternative county payment systems. The existing system and current proposals for change are not necessarily as beneficial and equitable as possible. The legislation should commission a study that would evaluate potential alternatives, such as payments based on tax equivalency, and produce recommendations for further action by Congress.