Enjoyed recreationally by many and economically utilized by others, federal lands such as the National Forest System present unique challenges to the state and local relationship with the federal government. This is particularly apparent in the West (defined as the 13-state region covered by the Western Rural Development Center), containing the bulk of federal lands. Ninety-eight percent of Western rural counties (with less than 50,000 residents) have federal land within their boundaries, and 74% have National Forest land (NACo analysis of U.S. Department of Interior data, 2015). Counties and states cannot constitutionally tax federal landholdings. This is a major opportunity cost for Western counties, given that property taxes are the main general revenue source for counties overall.
Congressional resolutions to this revenue disadvantage span more than a century. The Payments to States Act of 1908 mandated 25% of the funds generated by National Forest lands be transmitted to the state in which the commercial activity occurs and shared with county governments. Over the years, the federal government implemented additional revenue sharing arrangements related to timber, mining, recreational, geothermal energy production, and other land uses on federal holdings. In 1976, Congress authorized the Payments in Lieu of Taxation (PILT) to compensate counties on a formula basis with a minimum amount of dollars per each federally-owned acre. Western rural counties use PILT dollars to fund essential services, such as transportation infrastructure, schools, forest management, ecosystem protection, wildfire protection, search and rescue, and emergency services. Currently, funding for the Payments in Lieu of Taxes program is provided through annual Congressional appropriations.

Beginning in the late 1980s, payments associated with the Payments to States Act became volatile and also trended lower due to a reduction in logging activity on federal lands. In 2000, Congress enacted the Secure Rural Schools (SRS) program (as part of the U.S. Department of Agriculture grants) that sought to alleviate this payment uncertainty and decline. The SRS enabling legislation offered states one of two options for payments from National Forest land holdings: 1) either continue to accept the current 25% annual payout based on the 1908 Payments to States Act, or 2) receive a federal payment each year based on the average of the three highest payouts from the years 1986-1999. Although the new program does not provide a long-term, active forest management solution, the second option based on historically high forest production proved more beneficial for the vast majority of states.

This analysis of estimates provided by the Department of the Interior and U.S. Forest Service examines the fiscal impact of a potential termination of the SRS program on Western rural counties, assuming the PILT program remains subject to annual discretionary appropriations by Congress.

For FY 2015, the SRS program provided $278 million for roads and schools and other critical services in 732 mostly rural counties. These funds were especially critical, as many of the western rural counties have fragile economies, still reeling from the effects of the latest economic downturn. By 2015, only 45% of small western county economies had recovered to their pre-recession levels on economic output (GDP); and only six percent of all small western county economies had recovered on four economic indicators: economic output, unemployment rate, jobs, and home prices (Istrate and Knudsen, 2015).

Without the Secure Rural Schools program, federal compensation for National Forest land would be based once again on the Payments to States Act of 1908—the 25% share of federal revenue from these lands. This amount will rarely match the SRS funding per acre. Estimates from the U.S. Forest Service indicate county payments under the 1908 Act would have been 86% less than funding under the SRS program in 2014. As such, locales with National Forest acreage will be forced to rely more heavily on funding from the PILT program as the mechanism through which the Federal government upholds its commitment to public lands counties. But, unless Congress drastically increases funding for the PILT program by providing long-term mandatory finding for PILT (an unlikely outcome in the current budget environment) these PILT funds will cover just five percent of the drop in Western counties’ SRS funding.

“On a statewide basis, every Western state would have seen a drop in aggregate Payment In Lieu of Taxes and Secure Rural Schools funding, for a combined loss of more than $216 million. Oregon’s loss of nearly $72 million would have been the highest. But Idaho, California, Utah, Alaska, Arizona, Montana, New Mexico, Washington, and Colorado, all stood to lose in excess of $10 million each.”
In addition, the increased use of the Payment in Lieu of Taxes program means that even counties not reliant on SRS funding will suffer financial consequences.

The PILT formula determines the maximum amount of PILT funds the federal government can provide to a county based on numerous factors, including county population and total federal acres. The amount received in the prior year by a county for federal lands payments under programs other than PILT (such as SRS) is deducted to varying extents from the amount of federal funds to be paid under PILT. If SRS were to terminate, many counties that used to receive SRS funds would then be entitled to an increase in PILT funds under the formula. However, Congress is under no obligation to fund this authorized amount and is unlikely to do so in the current fiscal climate. When funding falls short of the amount authorized to be paid under PILT by the formula, each county is paid just a prorated share of the full amount authorized—affected SRS and non-SRS counties alike.

The NACo Research Department estimated the changes to the PILT (federal FY 2015) and SRS (federal FY 2014) payments to counties if the SRS program had not been reauthorized for FY 2014 and PILT payments were adjusted accordingly based on the congressionally appropriated amount of $452 million for FY 2015. In aggregate, the total impact of SRS elimination and PILT changes would have exceeded $235 million in annual funding cuts, or nearly a 33% drop. In many counties, however, the funding decline would have been far more severe.

The termination of the SRS program would have resulted in less federal funding for more than 95% of Western counties as a whole along with Western rural counties specifically. Nationally, nearly 88% (1,677) of the more than 1,900 counties with federal lands would have witnessed reductions in PILT and SRS federal funding combined. In 64 Western rural counties, the annual fiscal hit would have exceeded $500,000; and in 26 of those counties, the annual fiscal decline would have exceeded $1 million. Nationally, 27 counties would have lost amounts of at least $1,000,000 and in excess of 50% of current funding. Of those, 26 are Western counties of which 17 are rural. (See Figure 1.)

Of special note, rural counties in the 13 Western states would have borne nearly $107 million of those cuts. For instance, Saguache County, Colorado, would have lost nearly $1 million, and Nye County, Nevada, would have lost just shy of $2 million. (See Figure 1.)

[Notes: The receipts year reflects when the U.S. Forest Service (USFS) collects revenues from national forest lands. Without the SRS reauthorization, states revert to the Payments of States Act of 1908 as amended, receiving a 25 percent payment from national forest receipts. USFS estimates FY 2015 county 25 percent payments based on county shares of the national forest receipts. These estimates do not reflect the application of a 6.8 percent sequester to state payments. Sixteen Oregon counties receive SRS payments from both the U.S. Forest Service and the Bureau of Land Management. Two Oregon counties only receive SRS payments from the Bureau of Land Management.]

[Source: NACo Analysis of data from the U.S. Forest Service and Bureau of Land Management and Headwaters Economics analysis of the U.S. Geological Survey, Protected Areas database, 2015.]
On a statewide basis, every Western state would have seen a drop in aggregate PILT and SRS funding, for a combined loss of more than $216 million. Oregon’s loss of nearly $72 million would have been the highest. But Idaho, California, Utah, Alaska, Arizona, Montana, New Mexico, Washington, and Colorado, all stood to lose in excess of $10 million each. (See Figure 2.) Overall, only two states in the nation (Louisiana and South Carolina) would have avoided a loss and realized just $800,000 positive upside in total—less than eight cents per resident. (See Figure 2.)

Examples of counties which traditionally receive little or no SRS funds but which would have experienced aggregate funding cuts nonetheless are abundant. For instance, the negative SRS impact in Natrona County, Washington, would have been a miniscule $288. But the combined SRS/PILT impact would have exceeded $656,000. Malheur County, Oregon, would have experienced no SRS funding impact because they already opt to receive 25% payments under the 1908 Act; yet, the PILT reductions would have exceeded $454,000. Likewise, Elko County, Nevada, would have suffered more than a $646,000 reduction. Of the 104 Western counties that currently qualify for PILT funds but that do not receive SRS funds, all would see a reduction in federal funding if SRS is terminated, for a total reduction of more than $7.84 million annually.

Over the past 15 years, the Secure Rural Schools program has supported rural economies in the West, funding rural schools, roads, and other essential services. Based on NACo’s estimates of changes to federal payments to counties with National Forest land in absence of the SRS program, Western rural counties would be the most affected if authorization for the SRS program were allowed to lapse. The effects would not be limited to counties receiving SRS funding currently, it would affect states and counties with federal lands around the country. This analysis shows the importance of federal-local revenue sharing through active forest management and the role of Secure Rural Schools as a critical safety-net funding while Congress works toward a long-term forest management solution.

Figure 2. Estimated Effects of Potential SRS Termination on PILT Funding to Counties, by State, Using 2014 Funding Levels.

[Notes: The receipts year reflects when the U.S. Forest Service (USFS) collects revenues from national forest lands. Without the SRS reauthorization, states revert to the Payments of States Act of 1908 as amended, receiving a 25 percent payment from national forest receipts. USFS estimates FY 2015 county 25 percent payments based on county shares of the national forest receipts. These estimates do not reflect the application of a 6.8 percent sequester to state payments. Sixteen Oregon counties receive SRS payments from both the U.S. Forest Service and the Bureau of Land Management. Two Oregon counties only receive SRS payments from the Bureau of Land Management.]  

[Source: NACo Analysis of data from the U.S. Forest Service and Bureau of Land Management and Headwaters Economics analysis of the U.S. Geological Survey, Protected Areas database, 2015.]