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Reauthorizing the Secure Rural Schools and Community Self-Determination Act of 2000

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January 21, 2015

Congressional Research Service

7-5700

www.crs.gov

R41303

Summary

Many counties are compensated for the tax-exempt status of federal lands. Counties with national forest lands and with certain Bureau of Land Management (BLM) lands have historically received a percentage of agency revenues, primarily from timber sales. However, timber sales have declined substantially—by more than 90% in some areas—which had led to substantially reduced payments to the counties. Thus, Congress enacted the Secure Rural Schools and Community Self-Determination Act of 2000 (SRS; P.L. 106-393) as a temporary, optional program of payments based on historic rather than current revenues.

Authorization for SRS payments originally expired at the end of FY2006, but the program was extended through FY2013 by several reauthorizations, starting with a one-year reauthorization for FY2007 (P.L. 110-28). In 2008, the Emergency Economic Stabilization Act (P.L. 110-343) enacted a four-year extension to SRS authorization through FY2011, with declining payments, a modified formula, and transition payments for certain areas. In 2012, Congress enacted a one-year extension through FY2012, and amended the program to slow the decline in payment levels and to tighten requirements that counties select a payment option promptly (P.L. 112-141). In 2013, Congress again enacted a one-year extension through FY2013 (P.L. 113-40). SRS payments are disbursed after the fiscal year ends, so the FY2013 SRS payment—the last authorized payment—was made in FY2014.

Congressional debates over reauthorization have considered the basis and level of compensation (historical, tax equivalency, etc.); the source of funds (receipts, a new tax or revenue source, etc.); the authorized and required uses of the payments; interaction with other compensation programs (notably Payments in Lieu of Taxes); and the duration of any changes (temporary or permanent). In addition, legislation with mandatory spending, such as SRS reauthorization, raises policy questions about congressional control of spending. Current budget rules to restrain deficit spending typically impose a procedural barrier to such legislation, generally requiring offsets by additional receipts or reductions in other spending.

SRS expired at the end of FY2013. County payments are set to return to a revenue-based system for FY2014. On January 15, 2015, the Forest Service announced that the revenue-sharing payment to be disbursed in February 2015 will be \$50.4 million, which is significantly lower than the previous years' SRS payments. The 114th Congress may consider extending SRS (with or without modifications), implementing other legislative proposals to address the county payments, or taking no action.

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Federally owned lands cannot be taxed by state or local governments, but may create demand for services from state or local entities, such as fire protection, police cooperation, or longer roads to skirt the property. Under federal law, local governments are compensated through various programs due to the presence of federal lands. Counties with national forest lands and with certain Bureau of Land Management (BLM) lands have historically received a percentage of agency revenues, primarily from timber sales. However, timber sales have declined substantially since the historic high cut values in 1989—by more than 90% in some areas—which had led to substantially reduced payments to the counties. Congress enacted the Secure Rural Schools and Community Self-Determination Act of 2000 (SRS)¹ to provide a temporary, optional system to supplant the revenue-sharing programs for the national forests, managed by the Forest Service (FS) in the Department of Agriculture, and for certain public lands administered by the BLM in the Department of the Interior.

The law authorizing these payments (SRS) originally expired at the end of FY2006, but was extended an additional seven years through several reauthorizations. The 109th Congress considered the program, but did not enact reauthorizing legislation. The 110th Congress extended the payments for one year through FY2007, and then enacted legislation to reauthorize the program for four years with declining payments, and to modify the formula for allocating the payments. The 112th Congress extended the program for one more year through FY2012, and amended the program to slow the decline in payments. The 113th Congress again enacted a one-year extension, reauthorizing the program through FY2013, but did not reauthorize the program for FY2014. SRS payments are disbursed after the fiscal year ends, so the FY2013 payment was made in FY2014.

Without additional congressional action, payments for FY2014 (to be made in FY2015) will revert to a percentage of agency revenues, primarily from timber sales and recreation fees. This report explains the changes enacted for the program by the amendments in 2008 and 2012 and the effect of the FY2013 sequester order on the FY2012 payments. It then describes the issues that Congress has debated and may continue to debate in the 114th Congress.

Background

In 1908, the FS began paying 25% of its gross receipts to states for use on roads and schools in the counties where national forests are located; receipts come from sales, leases, rentals, or other fees for using national forest lands or resources (e.g., timber sales, recreation fees, and communication site leases).² This mandatory spending program was enacted to compensate local governments for the tax-exempt status of the national forests, but the selected compensation rate (10% of gross receipts in 1906 and 1907; 25% of gross receipts since) was not discussed in the 1906-1908 debates. This revenue- or receipt-sharing program is called FS Payments to States (also referred to as the 1908 payment, or the 25% payment), because each state must spend the funds on road and school programs, although states have no discretion in assigning the funds to the county: the FS determines the amount to be allocated to each county based on the national forest acreage in each county. The states cannot retain any of the funds; they must be passed

¹ P.L. 106-393, 16 U.S.C. §§7101-7153.

² Act of May 23, 1908, 16 U.S.C. §500. For more on these and other county-compensation programs with mandatory spending for federal lands, see CRS Report RL30335, *Federal Land Management Agencies' Mandatory Spending Authorities*.

through to local governmental entities for use at the county level (but not necessarily to county governments themselves) for authorized road and school programs. State law sets forth how the payments are to be allocated between road and school projects, and the state laws differ widely, generally ranging from 30% to 100% for school programs, with a few states providing substantial local discretion on the split.

Congress has also enacted numerous programs to share receipts from BLM lands for various types of resource use and from various classes of land. One program—the Oregon and California (O&C) payments—accounts for the vast majority (more than 95%) of BLM receipt-sharing.³ The O&C payments are made to the counties in western Oregon containing the revested Oregon and California grant lands that were returned to federal ownership for failure of the states to fulfill the terms of the grant. The O&C counties receive 50% of the receipts from these lands. These mandatory payments go directly to the counties for any local governmental purposes. Concerns about, and proposals to alter, FS revenue-sharing payments also typically include the O&C payments, because both are substantial payments derived largely from timber receipts.

Payment History: Declining Revenue-Sharing Payments Leads to Enactment of SRS

FS revenue—and consequently, revenue-sharing payments—peaked in the late 1980s. The FY1989 FS 25% payments totaled \$362 million, while O&C payments totaled \$110 million. FS and O&C receipts have declined substantially since FY1989, largely because of declines in federal timber sales (see **Figure 1**), but also due to a variety of factors. The decline began in the Pacific Northwest, owing to a combination of forest management policies and practice, efforts to protect northern spotted owl habitat, increased planning and procedural requirements, changing public preferences, economic and industry factors, and other values. Provisions in the Omnibus Budget Reconciliation Act of 1993⁴ directed FS payments for 17 national forests in Washington, Oregon, and California and BLM payments to the O&C counties at a declining percentage of the average payments for FY1986-FY1990.⁵ Declining federal timber sales in other regions led to the nationwide SRS program replacing these “safety net” or “owl” payments in 2000.

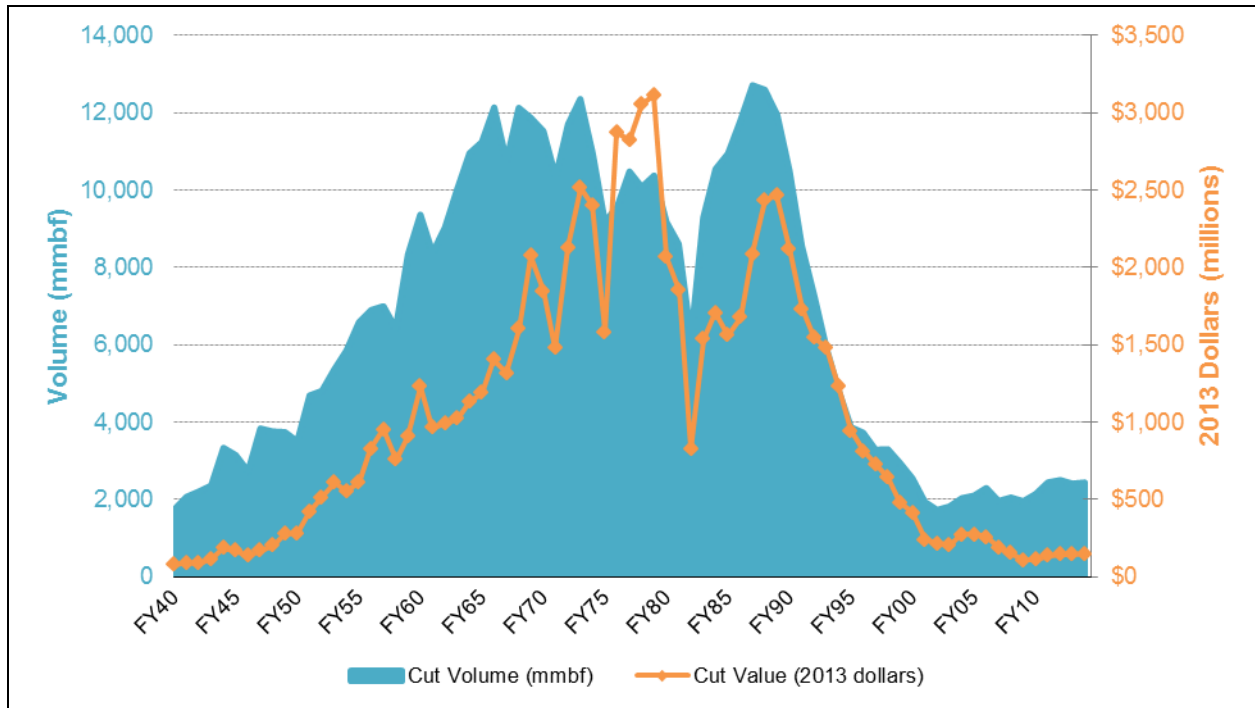
Similar to the owl payments for the Pacific Northwest, the SRS program was an optional payment that counties could elect to receive instead of receiving the 25% receipt-sharing payment. As originally enacted, the SRS payment was calculated as an average of the three highest payments between FY1986 and FY1999. With the extension in FY2007, the SRS payment calculation was modified to also consider county population and per capita income, and established a declining payment level.

³ For more information, see CRS Report R42951, *The Oregon and California Railroad Lands (O&C Lands): Issues for Congress*.

⁴ P.L. 103-66 §13982-3.

⁵ The payment amount began at 85% of the average FY1986-FY1990 payment, and declined by 3 percentage points annually.

Figure 1. Forest Service Cut Volume and Cut Value (2013 dollars)



Sources: FY1977-FY2014 data: U.S. Forest Service, *Forest Cut and Sold Reports*, <http://www.fs.fed.us/forestmanagement/products/sold-harvest/cut-sold.shtml>, accessed December 17, 2014. FY1940-FY1976 data: U.S. Forest Service legislative affairs office.

Note: mmbf= million board feet.

Payments under SRS are substantial (see **Table 1**), and significantly greater than the receipt-sharing payments currently would be. The FS payment rose from \$194 million in FY2000 (all figures in nominal dollars) to a \$346 million SRS payment in FY2001.⁶ For the initial six years SRS was authorized, the average FS SRS payment was \$360 million annually, more than \$130 million above the average annual FS payment for the six years prior to the enactment of SRS (FY1995-FY2000). Over the life of the program, the FS SRS payment averaged \$356 million, and the BLM SRS payment averaged \$85.3 million.⁷ **Figure 2** shows a comparison of the FS actual payments to estimates of what the payments would have been had SRS not been enacted. For example, FS receipts (for revenue-sharing purposes) in FY2012 totaled \$230 million.⁸ If revenue-sharing had been used rather than SRS payments, then the payments would have been around \$58 million.⁹ However, the payments under SRS actually totaled \$274 million. Similarly, BLM timber receipts from western Oregon (which includes some non-O&C lands) totaled \$28 million in FY2012.¹⁰ If 50% payments had been used, then approximately \$14 million would

⁶ Unless otherwise specified, “SRS payment” means the payment made to counties under SRS Title I and Title III payments, but does not include SRS Title II payments, which remain with the agency. Data from annual Forest Service report, *All Service Receipts: Title I, II, and III Region Summary (ASR-18-3)*, available from <http://www.fs.usda.gov/main/pts/home>.

⁷ BLM data from annual *Official Payments Made to Counties reports*, available from <http://www.blm.gov/ot/rac/ctypaypayments.php>.

⁸ Data provided by the Forest Service Legislative Affairs office, February 21, 2013.

⁹ Estimated 25% payments data available from <http://www.fs.usda.gov/main/pts/securepayments/projectedpayments>.

¹⁰ U.S. Dept. of the Interior, Bureau of Land Management, *Public Land Statistics, 2012*, Table 3-12, (continued...)

have been transferred to the counties, compared to SRS payments of \$34 million. If SRS had not been reauthorized for FY2013, FS estimated that the revenue-sharing payment would have been approximately \$54 million and BLM estimated the O&C payment would have been \$12 million. The FS SRS payment for FY2013 was \$259 million, and the BLM SRS payment was \$36 million.¹¹ With the expiration of SRS, FY2014 payments will again be based on a percentage of agency receipts (25% for national forest lands; 50% for O&C lands. The FS announced that the FY2014 FS revenue-sharing payment will be \$50.4 million.¹²

Table I. SRS Payments, FY2000-FY2013

(dollars in millions)

	FS Payment	BLM Payment	Total SRS Payment
FY2001	\$346.2	\$102.0	\$448.2
FY2002	\$343.5	\$102.3	\$445.7
FY2003	\$356.2	\$103.3	\$459.5
FY2004	\$360.8	\$104.5	\$465.4
FY2005	\$371.3	\$107.1	\$478.4
FY2006	\$376.7	\$108.9	\$485.6
FY2007	\$381.6	\$111.9	\$493.5
FY2008	\$422.5	\$96.7	\$519.2
FY2009	\$466.1	\$87.2	\$553.3
FY2010	\$373.8	\$78.0	\$451.9
FY2011	\$291.2	\$36.3	\$327.5
FY2012	\$274.0	\$34.3	\$308.3
FY2013	\$259.0	\$36.3	\$295.3

Source: FS FY2001-FY2005, FY2007 data: FS legislative affairs office. FS FY2006, FY2008-FY2013 data: annual Forest Service report, *All Service Receipts: Title I, II, and III Region Summary (ASR-18-3)*, available from <http://www.fs.usda.gov/main/pts/home>. BLM data from annual *Official Payments Made to Counties reports*, available from <http://www.blm.gov/or/rac/ctypaypayments.php>.

Notes: The data presented include SRS Title I and Title III payments, but do not include SRS Title II payments, FS revenue-sharing payments, or other miscellaneous county payments authorized through various FS payment programs not discussed in this report, such as payments from land utilization projects.

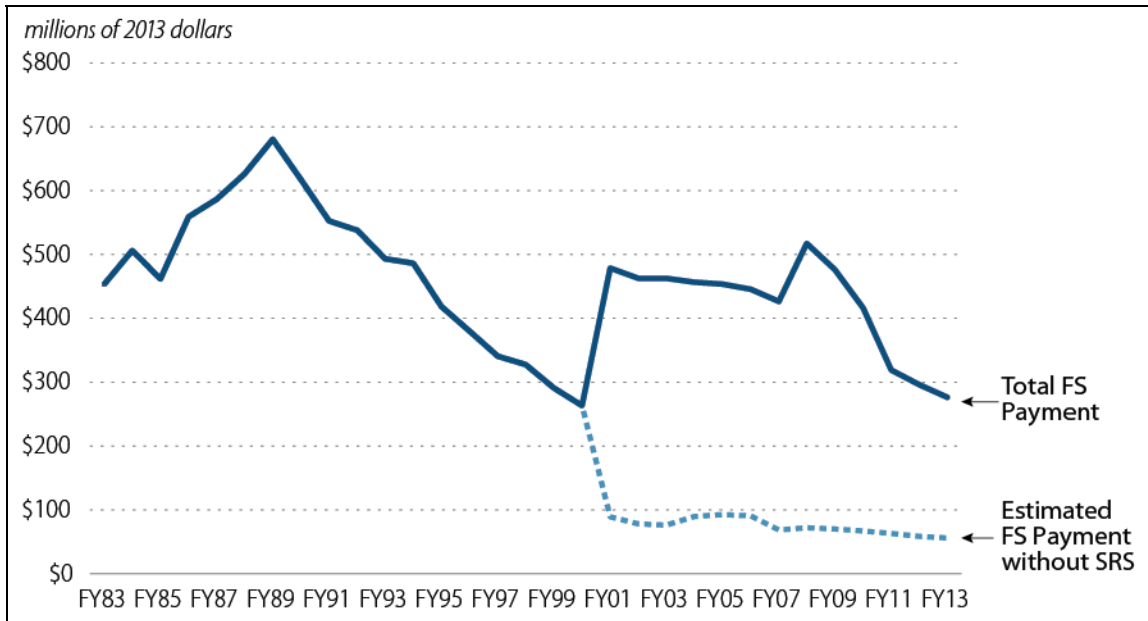
(...continued)

http://www.blm.gov/public_land_statistics/pls12/pls2012-web.pdf.

¹¹ SRS payments reported here only include the Title I and Title III payments made to the counties, and do not include Title III payments retained by the agency or the payments to the counties that opted to receive revenue-sharing payments.

¹² Forest Service, *Forest Service announces payments to States to support local schools and roads*, January 15, 2015, <http://www.fs.fed.us/news/releases/forest-service-announces-payments-states-support-local-schools-and-roads>.

Figure 2. FS Total Payments and Estimated Payments



Source: CRS. FS total payments are from the annual Forest Service report, *All Service Receipts: Final Payment Summary Report PNF (ASR-10-01)*, available from <http://www.fs.usda.gov/main/pts/home>. The estimated FS payments if SRS had not been enacted for FY2001-FY2007 are from an unpublished spreadsheet received from Rick Alexander, Secure Rural Schools Act National Program Manager, U.S. Forest Service, on November 30, 2011. The estimated payments for FY2008-FY2013 are from an FS spreadsheet available at <http://www.fs.usda.gov/main/pts/home>.

Notes: The data presented include payments under the 25% Payments to States and SRS Title I and Title III programs, but do not include SRS Title II payments and miscellaneous county payments authorized through various other FS payment programs not discussed in this report, such as payments from land utilization projects.

SRS and Other Federal Compensation Programs

In addition to the FS and BLM receipt-sharing programs, Congress has enacted other programs to compensate for the presence of federal land. The most widely applicable program, administered by the Department of the Interior, is the Payments in Lieu of Taxes (PILT) Program.¹³ PILT payments to counties are calculated in dollars per acre and are based on eligible federal lands, as specified in statute. The eligible lands include national forests and O&C lands in each county (but total amounts are restricted in counties with very low populations). PILT payments are reduced (to a minimum payment per acre) by other payment programs—including FS Payments to States but not including BLM’s O&C payments—so increases in FS payments may decrease a county’s payments under PILT (and vice versa). This helps to explain why FY2012 PILT payments to Colorado were double the PILT payments to Oregon, even though there is more federal land in Oregon (32.6 million acres) than in Colorado (23.8 million acres).

Before 2008, annual appropriations were necessary to fund PILT. When the appropriations were less than the authorized total payments, each county received its calculated pro rata share of the appropriation. However, the 2008 and 2012 SRS amendments also made PILT payments

¹³ Payments in Lieu of Taxes Act of 1976 (P.L. 94-565 as amended, 31 U.S.C. §§6901-6907). For more information, see CRS Report RL31392, *PILT (Payments in Lieu of Taxes): Somewhat Simplified*.

mandatory spending for FY2008-FY2012. P.L. 112-141 extended mandatory spending to FY2013 and P.L. 113-79 extended payments to FY2014. Thus, for those fiscal years, each county received 100% of its authorized PILT payment.

For FY2015 and FY2016, P.L. 113-291 (Section 3096 of the National Defense Authorization Act (NDAA), FY2015) appropriated \$70 million in mandatory spending for PILT. Of this amount, \$33 million will be made available in FY2015; the remaining \$37 million will be made available after the start of FY2016 on October 1, 2015. In addition, P.L. 113-235 (Consolidated and Further Continuing Appropriations Act, 2015) provided \$372 million in discretionary spending. Together, the two provisions provide \$405 million for the payment expected in June 2015. This amount would have been sufficient for 92.7% of full funding in FY2014; with PILT's required correction for inflation, it would be a somewhat lower fraction of full funding for FY2015.¹⁴ It is unclear whether the additional \$37 million made available after October 1, 2015, by the NDAA will be issued to counties as a supplemental check in October, or whether it would form part of the FY2016 payment that will be issued in 2016.

Revenue-Sharing Program Concerns and Responses

Congress, the affected counties, and other observers have raised three principal concerns about FS and O&C revenue-sharing programs.¹⁵ These are the decline in FS and O&C receipts due to the decline in timber sales, the annual uncertainty about payment amounts, and the linkage between timber revenue and county payments.

Declining Timber Receipts

A primary concern about the revenue-sharing programs is how counties are responding to declining revenue. National forest receipts (subject to sharing) declined from their peak of \$1.44 billion in FY1989 to \$230 million in FY2012—a drop of 84%. In some areas, the decline was even greater; for example, payments to the eastern Oregon counties containing the Ochoco National Forest fell from \$10 million in FY1991 to \$309,000 in FY1998—a decline of 97% in seven years. The impact of these declining revenues to individual counties is varied, ranging from minimal to substantial. Some counties in Oregon, for example, have begun exploring alternative options to generating revenue to replace the loss of timber receipts and declining SRS payments.¹⁶

Annually Fluctuating Payments

Another concern has been annual fluctuations in the payments based on revenue generated. Even in areas with modest declines or increases in recent decades, payments varied widely from year to

¹⁴ FY2014 full funding was \$436.9 million, and if (a) inflation is the major factor raising each year's annual total, and (b) inflation is about 2%, then the FY2015 full funding level would be about \$446 million, or about \$41 million more than the two bills provide. Based on these assumptions, the two bills would provide about 91% of full funding for the payment expected in June 2015.

¹⁵ Forest Counties Payments Committee, *Recommendations for Making Payments to States and Counties: Report to Congress* (Washington: GPO, 2003). The committee was established in §320 of the FY2001 Interior and Related Agencies Appropriations Act, P.L. 106-291.

¹⁶ See <http://www.seattlepi.com/news/science/article/Curry-County-Ore-rejecting-public-safety-tax-4955794.php>.

year. From FY1985 to FY2000, the payments from each national forest fluctuated an average of nearly 30% annually—that is, on average, a county’s payment in any year was likely to be nearly 30% higher or lower than its payment the preceding year. Such wide annual fluctuations imposed serious budgeting uncertainties on the counties.

Linkage

A third, longer-term concern is referred to as linkage. Some observers have noted that, because the counties receive a portion of receipts, they are rewarded for advocating receipt-generating activities (principally timber sales) and for opposing management that might reduce or constrain such activities (e.g., designating wilderness areas or protecting commercial, tribal, or sport fish harvests). County governments have thus often been allied with the timber industry, and opposed to efforts of environmental and other interest groups to reduce timber harvests, in debates over FS management and budget decisions. This source of funds was deemed appropriate when the FS program was created (albeit, prior to creation of federal income taxes). Some interests support retaining the linkage between county compensation and agency receipts; local support for receipt-generating activities is seen as appropriate by these constituencies, because such activities usually also provide local employment and income, especially in rural areas where unemployment is often high. Others assert that ending the linkage is important so that local government officials can be independent in supporting whatever management decisions benefit their locality, rather than having financial incentives to support particular decisions.

Legislative History of the Secure Rural Schools and Community Self-Determination Act of 2000, as Amended

In 2000, Congress enacted the Secure Rural Schools and Community Self-Determination Act (SRS)¹⁷ after extensive debates and several different bill versions. (See **Appendix B** for an overview of historic proposals to change the revenue-sharing system prior to the enactment of SRS.)

The act established an optional alternative payment system for FY2001-FY2006. At each county’s discretion, the states with FS land and counties with O&C land received either the regular receipt-sharing payments or 100% of the average of the three highest payments between FY1986 and FY1999. Title I of the act directed that counties receiving less than \$100,000 under the alternative system could distribute the entire payment to roads and schools in the same manner as the 25% payments. However, counties receiving over \$100,000 under the alternative system were required to spend 15%-20% of the payment on (1) federal land projects proposed by local resource advisory committees and approved by the appropriate Secretary (Secretary of Interior or Secretary of Agriculture) if the projects met specified criteria, including compliance with all applicable laws and regulations and with resource management and other plans (identified in Title II of the act) or (2) certain county programs¹⁸ (specified in Title III of the act).

¹⁷ P.L. 106-393, 16 U.S.C. §§7101-7153.

¹⁸ The authorized uses for Title III funds included search, rescue, and emergency services; community service work (continued...)

Funds needed to achieve the full payment were mandatory spending, and came first from agency receipts (excluding deposits to special accounts and trust funds) and then from “any funds in the Treasury not otherwise appropriated.”

SRS was originally enacted as a temporary program, expiring after payments were made for FY2006. However, SRS has been reauthorized four times, extending the payments an additional seven years (see **Table 2**). The following sections describe each reauthorization process and any program modifications.

Table 2. SRS Legislative History

Statute	Duration	Authorized Payment Level	Major Changes
P.L. 106-393	FY2001-FY2006	Determined by formula; average annual payment was \$500 million nationally	Established program
P.L. 110-28	FY2007	\$525 million	None
P.L. 110-343	FY2008-FY2011	\$500 million FY2008; FY2009-FY2011, 90% of previous year funding ^a	Established a declining full funding amount; modified payment calculation formula; phased out transition payments; modified payment allocations; 25% payment based on rolling 7-year average
P.L. 112-141	FY2012	95% of FY2011 level (\$346 million)	Modified the declining full funding amount
P.L. 113-40	FY2013	95% of FY2012 level (\$329 million)	None

Notes: The payments were authorized as mandatory spending, with a portion of the payment derived from agency revenue and the balance from the General Treasury.

- a. The transition payments for specific states authorized in P.L. 110-343 for FY2008-FY2010 resulted in the total payment amount exceeding the “full funding” amount defined in the act.

Reauthorization Efforts in the 110th Congress

SRS expired at the end of FY2006, with final payments made in FY2007. Legislation to extend the program was considered in the 110th Congress; various bills would have extended the program for one or seven years. The Emergency Supplemental Appropriations Act for FY2007¹⁹ extended SRS for one year, but the bill was vetoed by President George W. Bush. However, Congress passed a new version of the Emergency Supplemental Appropriations for FY2007,²⁰ which included a one-year extension of SRS payments. P.L. 110-28 authorized payments of \$100 million from receipts and of \$425 million from appropriations, to “be made, to the maximum extent practicable, in the same amounts, for the same purposes, and in the same manner as were

(...continued)

camps; easement purchases; forest-related educational opportunities; fire prevention and county planning; and community forestry projects.

¹⁹ 110th Congress, H.R. 1591, the U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007.

²⁰ 110th Congress, H.R. 2206.

made to States and counties in 2006 under that Act.²¹ Thus, preliminary FY2007 payments were made at the end of September 2007, with final payments made at the end of December 2007.

Four-Year Extension through FY2011 Enacted in the 110th Congress

In October 2008, Congress passed the Emergency Economic Stabilization Act,²² which extended SRS payments for four years and made several changes to the program, including providing “full funding” that declined over four years; altering the basis for calculating payments; providing transition payments for certain states; and modifying the use of SRS funds for Title II and Title III activities. These are discussed in more detail below. In addition, Section 601(b) modified the original FS 25% payment program (under which counties can get compensation in lieu of SRS payments and for payments after SRS expires).

The act also provided five years of mandatory spending for the PILT program, FY2008-FY2012. This meant that eligible counties received the full calculated PILT payment for those five years—a significant increase in PILT payments, since appropriations averaged less than two-thirds of the calculated payments over the past decade. PILT was further extended in subsequent bills through the FY2015 payment (and a supplemental payment for FY2016).

Full Funding

The act defined *full funding* for SRS in Section 3(11). For FY2008, full funding was defined as \$500 million; for FY2009-FY2011, full funding was 90% of the previous year’s funding. However, total payments exceeded the full funding amount in the first two years; payments under SRS totaled \$572.9 million in FY2008 and \$612.8 million in FY2009. This occurred because the *calculated payments* (discussed below) are based on full funding, as defined in the bill, but the act also authorized *transition payments* (discussed below) in lieu of the calculated payments in eight states. Since the transition payments exceeded the calculated payments for those states, the total payments were higher than the full funding amount.

Calculated Payments

SRS payments to each state (for FS lands) or county (for O&C lands) differed significantly from the payments made under the original SRS; **Table A-1** shows the dollars and share of total SRS payments in each state in FY2006 and FY2009. Payments under Section 102 were based on historic revenue-sharing payments (like SRS), but modified based on each county’s share of federal land and relative income level. The payment calculations required multiple steps:

- **Step 1.** Determine the three highest revenue-sharing payments between FY1986 and FY1999 for each eligible county, and calculate the average of the three.²³
- **Step 2.** Calculate the proportion of these payments in each county (divide each county’s three-highest average [**Step 1**] by the total of three-highest average in all eligible counties, with separate calculations for FS lands and O&C lands).

²¹ P.L. 110-28 Title V, Chapter 4, Section 5401.

²² P.L. 110-343, Section 601(a).

²³ Eligible counties are those that choose to receive payments under this program; counties that choose to continue to receive payments under the original revenue-sharing programs are excluded from these calculations.

- **Step 3.** Calculate the proportion of FS and O&C lands in each eligible county (divide each county's FS and O&C acreage by the total FS and O&C acreage in all eligible counties, with separate calculations for FS lands and O&C lands).
- **Step 4.** Average these two proportions (add the payment proportion [**Step 2**] and the acreage proportion [**Step 3**] and divide by 2, with separate calculations for FS lands and O&C lands). This is the *base share* for counties with FS lands and the *50% base share* for counties with O&C lands.
- **Step 5.** Calculate each county's *income adjustment* by dividing the per capita personal income in each county by the median per capita personal income in all eligible counties.
- **Step 6.** Adjust each county's base share [**Step 4**] by its relative income (divide each county's base share or 50% base share by its income adjustment [**Step 5**]).
- **Step 7.** Calculate each county's *adjusted share* or *50% adjusted share* as the county's proportion of its base share adjusted by its relative income [**Step 6**] from the total adjusted shares in all eligible counties (divide each county's result from **Step 6** by the total for all eligible counties [FS and O&C combined]).

In essence, the new formula differed from the original SRS by basing half the payments on historic revenues and half on proportion of FS and O&C land, with an adjustment based on relative county income. This was done because of the concentration of payments under the original SRS to Oregon, Washington, and California (more than 75% of payments in FY2006; see **Table A-1**). Several counties opted out of the amended SRS system, while others opted in, because of the altered allocation. For example, in FY2006 100% of the payments to Pennsylvania were under SRS, but in FY2009 only 54% of the payments to Pennsylvania were under SRS. Conversely, in FY2006 none of the payments to New Hampshire were under SRS, but in FY2009, 44% of the payments to New Hampshire were under SRS.

In addition, the act set a full payment amount allocated among all counties that chose to participate in the program (eligible counties). Thus, the fewer counties that participated (i.e., the more that opted for the original, revenue-sharing payment programs), the more each participating county received.

Transition Payments

In lieu of the calculated payments under Section 102, counties in eight states—California, Louisiana, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, and Washington—received transition payments for three fiscal years, FY2008-FY2010. These counties were included in the calculations, but received payments of a fixed percentage of the FY2006 payments under SRS, instead of their calculated payments. The schedule in the act specified FY2008 payments equaling 90% of FY2006 payments, FY2009 payments at 81% of FY2006 payments, and FY2010 payments at 73% of FY2006 payments. Because the transition payments were higher than the calculated payments (using the multi-step formula, above), total payments have been greater than the “full funding” defined in the act.

Title II and Title III Activities

As with the original SRS, the amended version allowed counties with less than \$100,000 in annual payments to use 100% of the payments for roads and schools (or any governmental purpose for O&C counties). However, it modified the requirement that counties with “modest distributions” (annual payments over \$100,000 but less than \$350,000) use 15%-20% of the funds for Title II projects (reinvestment in federal lands). Instead, these counties could use the required 15%-20% either for Title II projects or for Title III projects (county projects). Counties with payments of more than \$350,000 were limited to a maximum of 7% of the payments for Title III programs. The amendment also modified the authorized uses of Title III funds, deleting some authorized uses (e.g., community work centers) while expanding authorized uses related to community wildfire protection.²⁴

Income Averaging

The extension also altered the FS revenue-sharing (25% payment) program. It changed the payment from 25% of current-year gross receipts to 25% of average gross receipts over the past seven years—essentially a seven-year rolling average of receipts. This reduced the annual fluctuation in payments, providing more stability in the annual payments. Thus payments increase more slowly than in the past when and where national forest receipts are rising, but decline more slowly when and where receipts are falling. This change immediately affected counties with FS land that chose not to participate in the SRS payment program, and will affect all counties with FS land in FY2015 (unless SRS is reauthorized or some other alternative is enacted).

One-Year Extension Through FY2012 Enacted in the 112th Congress

SRS was set to expire at the end of FY2011, with final payments made at the end of December 2011 (FY2012). Legislation to extend the program for five years was considered in the 112th Congress.²⁵ However, the Moving Ahead for Progress in the 21st Century Act (MAP-21),²⁶ contained a one-year extension for SRS. MAP-21 authorized a FY2012 SRS payment set at 95% of the FY2011 level (approximately \$346 million) and included requirements for the counties to select their payment option in a timely manner.

Legislative Activity in the 113th Congress

The 113th Congress considered several options for extending, modifying, or reforming SRS (and other county payment programs, such as PILT). Several bills were introduced and both the Senate and House held legislative hearings.²⁷ The 113th Congress also conducted oversight on the SRS

²⁴ A 2012 GAO report found inconsistencies among agency (FS and BLM) oversight and county use of SRS Title III funds. U.S. Government Accountability Office, *Payments to Counties: More Clarity Could Help Ensure County Expenditures Are Consistent with Key Parts of the Secure Rural Schools Act*, GAO-12-755, July 16, 2012, <http://www.gao.gov/products/GAO-12-775>.

²⁵ The County Payments Reauthorization Act of 2011 (S. 1692 and H.R. 3599) would have extended SRS through 2016 and included provisions to slow the decline of the full funding levels to 95% of the preceding fiscal year. Neither the Senate nor the House version was reported out of committee.

²⁶ P.L. 112-141, §100101.

²⁷ For example, U.S. Congress, Senate Energy and Natural Resources Committee, *Keeping the Commitment to Rural* (continued...)

program, particularly regarding the decision to sequester the FY2012 SRS payment (see **Appendix C**).²⁸

The President's FY2015 budget request for the Forest Service and the BLM proposed a five-year reauthorization of SRS, with mandatory funding, starting at \$279 million for FY2014 and declining to \$101 million by FY2018.²⁹ The President's proposal also would have decreased the Title I and Title III allocation while increasing the Title II allocation.

One-Year Extension Through FY2013 Enacted in the 113th Congress

SRS was again set to expire at the end of FY2012, with final payments made in February 2013 (FY2013). In the first session of the 113th Congress, Congress enacted the Helium Stewardship Act of 2013,³⁰ which included a one-year extension of SRS through FY2013 at 95% of the FY2012 SRS payment (approximately \$329 million). The payments were disbursed in early 2014.

FY2014 Reauthorization Efforts

SRS expired after the FY2013 payments were made in early 2014. Although the 113th Congress considered options for reauthorizing or modifying SRS for FY2014, the program was not reauthorized prior to adjournment.

The House passed the Restoring Healthy Forests for Healthy Communities Act,³¹ which would have directed the FS and BLM to distribute a payment to eligible counties in February 2015, essentially a FY2014 SRS payment. The payment amount would have been equal to the FY2010 payment for the counties receiving FS payments. For the O&C counties, the payment amount would have been \$27 million less than the FY2010 payment. After that payment had been made, county payments would have returned to a revenue-sharing system. The bill would have established Forest Resource Revenue Areas within at least half of the National Forest System, and created a fiduciary responsibility to generate revenue by removing forest products for the beneficiary counties. The bill also would have changed the calculation for the FS revenue-sharing payment. It would have changed the payment from 25% of average gross receipts over the past seven years back to the original calculation of 25% of current-year gross receipts. The Senate did not take up the measure.

Legislative Issues

Congress may consider extending SRS, with or without modifications, implementing other legislative proposals to address the county payments, or taking no action (thus continuing the

(...continued)

Communities, 113th Cong., 1 sess., March 19, 2013, pp. <http://www.energy.senate.gov/public/index.cfm/2013/3/full-committee-hearing-funding-programs-for-rural-communities>.

²⁸ House Natural Resources Committee, press release, November 5, 2013, <http://naturalresources.house.gov/news/documentsingle.aspx?DocumentID=360388>.

²⁹ U.S. Forest Service, *FY2015 Budget Justification*, pp. 11-1, <http://www.fs.fed.us/aboutus/budget/>.

³⁰ P.L. 113-40.

³¹ 113th Congress, H.R. 1526, §501 et seq.

revenue-based system that took effect upon the program's expiration). Seven issues commonly have been raised about compensating counties for the tax-exempt status of federal lands: the geographic distribution of the payments; the lands covered; the basis for compensation; the source of funds; the authorized and required uses of the payments; and the duration of the new system. In addition, any new mandatory spending in excess of the baseline that would result in an increase in the deficit may be subject to budget rules such as congressional pay-as-you-go (PAYGO) rules, which generally require budgetary offsets.³² Although SRS has previously been authorized as mandatory spending, Congress may consider funding the program through the regular annual appropriations process.

Offsets for New Mandatory Spending

The original SRS authorization—and all subsequent reauthorizations—have been for mandatory spending. One policy issue concerns legislation with mandatory spending that would increase federal expenditures, and whether such spending should be offset so as not to increase the deficit. Congress has enacted a set of budget rules requiring that most legislation that creates new or extends existing mandatory spending (in excess of the baseline) be balanced—offset—by increases in receipts or decreases in other spending. Congress may choose to waive or set aside these rules in particular instances, but the increased deficit spending remains a consideration.

Legislation to reauthorize SRS (with or without other modifications), or to enact a different alternative, would require an offset—increased revenues or decreased spending from other mandatory spending accounts—or a waiver to the budget rules. In 2000, Congress provided such a waiver by including a specific type of provision, called a reserve fund, in the budget resolution.

In 2006, to fund a six-year reauthorization of SRS, the Bush Administration proposed selling some federal lands. To fund the O&C payments, the BLM would have accelerated its land sales under Section 203 of the Federal Land Policy and Management Act of 1976 (FLPMA; 43 U.S.C. §1713). For the FS payments, estimated at \$800 million, the FS would have sold approximately 300,000 acres of national forest land. This would have required legislation, as the FS currently has only very narrow authority to sell any lands. The Administration offered draft legislation to authorize these land sales, but no bill to authorize that level of national forest land sales was introduced in the 109th Congress. Instead, Congress again included a reserve fund for SRS payments in the budget resolution. In 2007, the Bush Administration again proposed selling national forest lands to fund a phase-out of SRS payments, with half of the land sale revenues to be used for other programs (including land acquisition and conservation education). Again, no legislation to authorize national forest land sales was introduced.

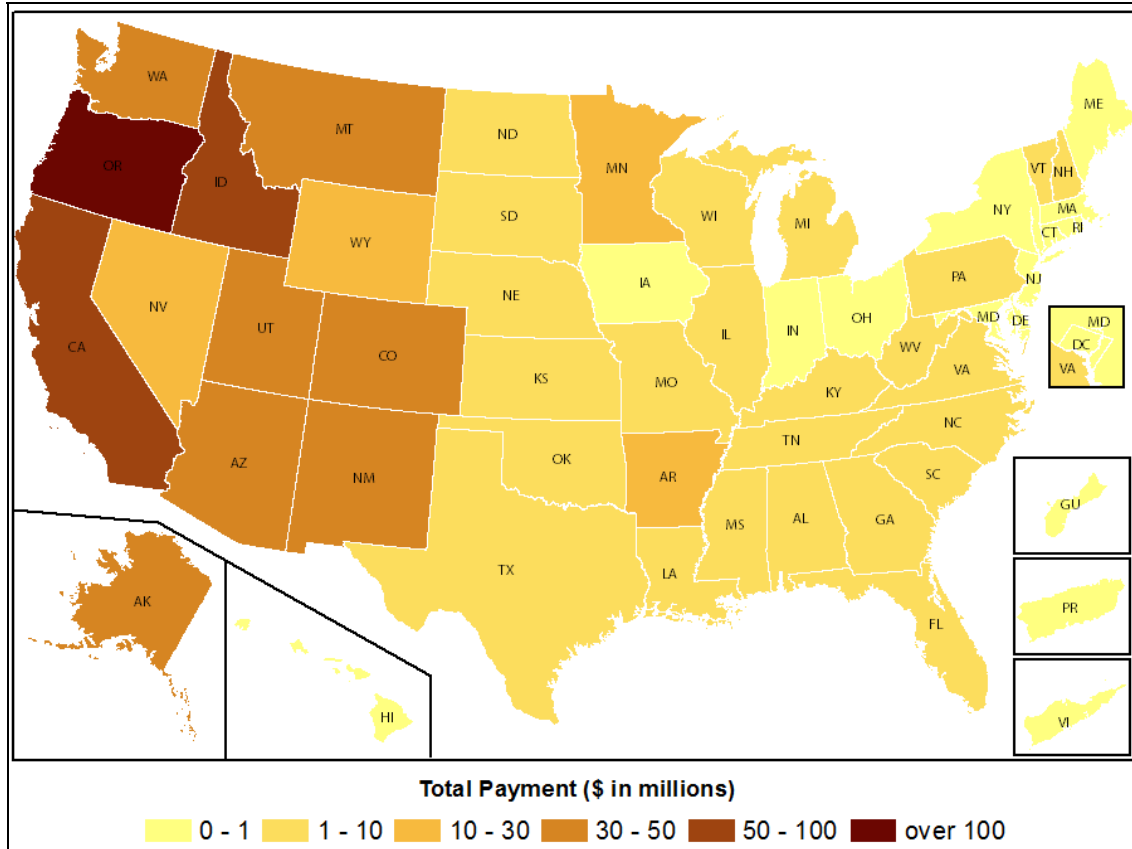
Geographic Distribution of SRS and PILT Payments

An issue for Congress is the geographic allocation of the SRS and PILT payments (see **Figure 3**). **Table 3** shows the payments for FY2013. The only BLM SRS payment is made to Oregon for the O&C lands, and Oregon receives the largest FS SRS payment. With a total SRS payment of approximately \$97 million, Oregon received nearly one-third of the total SRS payments made in FY2013. The next-largest SRS payments are in California and Idaho, which both received just

³² For an overview of federal budget procedures, see CRS Report 98-721, *Introduction to the Federal Budget Process*. For background on PAYGO rules, see CRS Report RL34300, *Pay-As-You-Go Procedures for Budget Enforcement*.

under 10% of the total payment that year. PILT payments are more evenly distributed, with no state receiving more than 10% of the total payments.

Figure 3. PILT and Forest Service Payments, FY2013



Source: Prepared by CRS from data reported in **Table 3**. See sources listed for that table.

Notes: The Forest Service Payment includes the revenue-sharing payment, FS SRS Title I and Title III payments, and BLM Title I and Title III payments.

The preponderance of payments going to western states is mostly due to the large percentage of federal lands located in those states.

Table 3. FY2013 SRS and PILT Payments, by State
(in thousands of dollars)

	SRS	PILT		SRS	PILT
Alabama	\$1,707.0	\$901.1	Nebraska	\$193.1	\$1,120.6
Alaska	\$12,173.6	\$26,458.5	Nevada	\$3,496.7	\$23,331.9
Arizona	\$13,025.7	\$32,203.9	New Hampshire	\$197.4	\$1,767.3
Arkansas	\$6,135.6	\$5,840.9	New Jersey	\$0.0	\$97.3
California	\$28,784.2	\$41,445.2	New Mexico	\$9,512.7	\$34,693.0
Colorado	\$9,566.0	\$31,986.3	New York	\$17.8	\$144.5
Connecticut	\$0.0	\$28.9	North Carolina	\$1,766.3	\$3,997.2

	SRS	PILT		SRS	PILT
Delaware	\$0.0	\$17.8	North Dakota	\$0.4	\$1,374.4
Florida	\$2,300.8	\$4,968.3	Ohio	\$241.0	\$554.8
Georgia	\$1,454.2	\$2,286.1	Oklahoma	\$914.9	\$2,794.6
Hawaii	\$0.0	\$326.9	Oregon	\$97,058.2	\$15,578.8
Idaho	\$25,203.8	\$26,326.2	Pennsylvania	\$993.6	\$685.6
Illinois	\$31.4	\$1,120.0	Rhode Island	\$0.0	\$0.0
Indiana	\$252.2	\$489.6	South Carolina	\$1,678.2	\$470.4
Iowa	\$0.0	\$453.9	South Dakota	\$1,650.1	\$5,669.8
Kansas	\$0.0	\$1,104.6	Tennessee	\$1,113.8	\$1,877.0
Kentucky	\$1,665.1	\$1,949.7	Texas	\$2,255.9	\$4,804.0
Louisiana	\$1,633.1	\$634.3	Utah	\$9,899.6	\$35,391.1
Maine	\$67.2	\$299.8	Vermont	\$317.1	\$944.4
Maryland	\$0.0	\$99.6	Virginia	\$1,461.9	\$3,263.8
Massachusetts	\$0.0	\$111.2	Washington	\$18,989.2	\$17,222.8
Michigan	\$2,855.7	\$4,187.9	West Virginia	\$1,735.4	\$2,892.6
Minnesota	\$2,204.5	\$1,975.0	Wisconsin	\$1,701.0	\$1,305.0
Mississippi	\$5,334.3	\$1,580.4	Wyoming	\$3,782.4	\$25,340.6
Missouri	\$3,259.3	\$3,079.1	Other ^a	\$141.2	\$62.5
Montana	\$18,607.4	\$26,497.1	Total	\$295,298.3	\$401,756.1

Sources: **SRS:** U.S. Dept. of Agriculture, Forest Service, “All Service Receipts (ASR), Final Payment Summary Report PNF (ASR-10-01),” http://www.fs.usda.gov/Internet/FSE_DOCUMENTS/stelprdb3795399.pdf, and U.S. Dept. of the Interior, Bureau of Land Management, *FY2013 Secure Rural Schools Act Payments*, <http://www.blm.gov/or/rac/ctypaypayments.pdf>. **PILT:** U.S. Dept. of the Interior, *Payments in Lieu of Taxes (PILT) Payments by State*, http://www.doi.gov/pilt/state-payments.cfm?fiscal_yr=2013.

Notes: The SRS payment only includes the SRS Title I and Title III payments, and does not include amounts paid in Title II. The Oregon payment includes \$36.3 million paid to the O&C counties under SRS Title I and Title III.

a. “Other” includes the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

Lands Covered

SRS includes payments only for national forests and for the O&C lands. These compensation programs provide substantial funding for the specified lands, while other federal lands that are exempt from state and local taxation receive little or nothing. The easiest comparison is with the counties that contain national grasslands, which receive 25% of net receipts and were excluded from SRS. Both forests and grasslands are part of the National Forest System, although the laws authorizing their establishment differ. However, it is unclear why national forest counties are compensated with 25% of gross receipts and were protected from declines in receipts under SRS, while national grassland counties are compensated with 25% of net receipts and did not receive the option of receiving SRS payments.

More significantly, many other tax-exempt federal lands provide little compensation to local governments. The BLM has numerous compensation programs, but generally the payments are

quite small. (The O&C payments account for about 95% of BLM compensation payments, but O&C lands are only about 1% of BLM lands.) The National Park Service has two small compensation programs related to public schooling of park employees' children at two parks. PILT provides some compensation for most federal lands, but many lands—inactive military bases, Indian trust lands, and certain wildlife refuge lands, for example—are excluded, and the national forests and O&C lands get PILT payments in addition to other compensation. In 1992, the Office of Technology Assessment recommended “fair and consistent compensation for the tax exempt status of national forest lands and activities.”³³ Congress could consider several options related to extending a compensation program to all tax-exempt federal lands, although determining a fair and consistent compensation level would likely generate significant debate

Basis for Compensation

The legislative histories of the agriculture appropriations acts establishing the FS payments to states (the last of which, enacted on May 23, 1908, made the payments permanent) indicate that the intent was to substitute receipt-sharing for local property taxation, but no rationale was discussed for the level chosen (10% in 1906 and 1907; 25% in 1908 and since). Similarly, the rationale was not clearly explained or discussed for the Reagan tax-equivalency proposal, for the owl payments (a declining percent of the historical average), or for the legislation debated and enacted by the 106th Congress (generally the average of the three highest payments during a specified historical period). The proposals' intents were generally to reduce (Reagan Administration) or increase (more recently) the payments.

The geographic basis has been raised as a potential problem for FS payments. FS revenue-sharing payments (25% payments) are made to the states, but are calculated for each county with land in each national forest.³⁴ Depending on the formula used—the average of selected historical payments from each national forest or to each county or each state—the calculations could result in different levels of payments in states with multiple national forests.³⁵ (This is not an issue for O&C lands, because the O&C payments are made directly to the counties.)

Source of Funds

As noted above, the FS revenue-sharing payments (25% payments) are permanently appropriated from agency receipts, and were established prior to federal income taxes and substantial federal oil and gas royalties. Most of the proposals for change also would establish mandatory payments; lacking a specified funding source, funds would come from the General Treasury. SRS directed payments first from receipts, then from the General Treasury. **Figure 4** shows the breakdown of FS SRS funding between receipts and the General Treasury. Critics are concerned that retaining the linkage between agency receipts (e.g., from timber sales) and county payments (albeit less directly than for the 25% payments) still encourages counties to support timber sales over other FS uses. Another concern is the reliance on General Treasury funds, given the current fiscal

³³ U.S. Congress, Office of Technology Assessment, *Forest Service Planning: Accommodating Uses, Producing Outputs, and Sustaining Ecosystems*, OTA-F-505 (Washington: GPO, February 1992), p. 8.

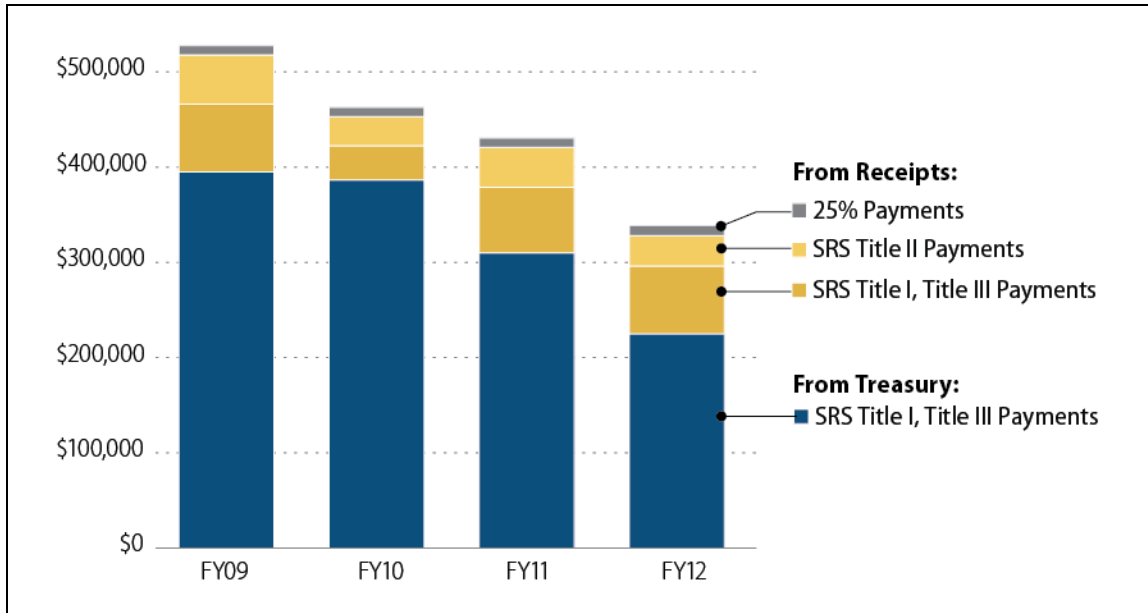
³⁴ There was no discussion in the legislative history of why the payments were made to the states, and not directly to the counties.

³⁵ The complexity of this situation is shown using Arizona as an example in out-of-print CRS Report RL30480, *Forest Service Revenue-Sharing Payments: Legislative Issues* (available from the author).

climate and some Members’ desire to reduce government spending. On the other hand, recipients of these funds argue that it is fair compensation for the presence of these lands in their jurisdiction.

Figure 4. Source and Distribution of FS Payments

(dollars in thousands)



Source: CRS. Data from Forest Service, *FY2010-FY2013 Budget Justifications*, available from <http://www.fs.fed.us/aboutus/budget/>.

Notes: FS SRS Title I and Title III payments are passed through the state to the counties to use for specified purposes. SRS Title II payments are retained by the Forest Service for use on approved National Forest projects in the same county.

Authorized and Required Uses of the Payments

SRS modified how the counties could use the payments by requiring (for counties with at least \$100,000 in annual payments) that 15%-20% of the payments be used for other specified purposes: certain local governmental costs (in Title III); federal land projects recommended by local advisory committees and approved by the Secretary (under Title II); or federal land projects as determined by the Secretary (under §402). Use of the funds for federal land projects has been touted as “reinvesting” agency receipts in federal land management, but opponents argue that this “re-links” county benefits with agency receipt-generating activities and reduces funding for local schools and roads. The Forest Counties Payments Committee recommended granting local governments more flexibility in their use of the payments.³⁶ The committee also recommended that the federal government prohibit the states from adjusting their education funding allocations

³⁶ Forest Counties Payments Committee, *Recommendations for Making Payments to States and Counties: Report to Congress* (Washington: GPO, 2003). The committee was established in §320 of the FY2001 Interior and Related Agencies Appropriations Act, P.L. 106-291.

because of the FS payments.³⁷ In practice, such a prohibition could be difficult to enforce. The O&C payments are available for any local governmental purpose.

Duration of the Programs

Other policy questions that arise from the SRS payments include (1) how often should Congress review the payment systems (these or any other county compensation programs) to assess whether they still function as intended; and (2) what options are available (e.g., a sunset provision) to induce future Congresses to undertake such a review? The FS revenue-sharing payments and the O&C payments are permanently authorized.³⁸

SRS was originally enacted as a six-year program that expired on September 30, 2006, but was extended an additional seven years through four separate reauthorizations. As noted earlier, SRS expired on September 30, 2013, with the final payment made in FY2014. The last two reauthorizations have been for one year. The annual uncertainty about the continuation and level of the program concerns those interested in providing a consistent and predictable payment for local governments.

³⁷ Some states include FS payments allocated for education in their calculations allocating state education funds to the counties.

³⁸ The FS 25% payments were established in 1908 (after having been enacted as a one-year program in 1906 and again in 1907). The O&C payments were established in 1937. The owl payments were to be a 10-year program, enacted in 1993.

Appendix A. SRS Payments in FY2006 and FY2009

As described in the text, under “Four-Year Extension through FY2011 Enacted in the 110th Congress,” the SRS payment formula was modified to include federal acreage and relative income in each county, as well as transition payments in some states. The result was a change in the payments and the allocation of total payments in the modified formula. These changes are shown in **Table 2**. Note, however, that the change in the payment formula led some counties that had chosen 25% payments for FY2006 to opt for SRS payments for FY2009, and vice versa. Some of the increase in SRS payments in FY2009 is due to more counties opting for SRS payments in some states, such as Michigan, New Hampshire, Ohio, Puerto Rico, and Wisconsin. In at least one state—Pennsylvania—a portion of the decline is due to some counties opting for 25% payments in FY2009.

Table A-1. FY2006 and FY2009 FS and O&C Payments Under SRS, by State
(in thousands of dollars and percent of total SRS funding for all of U.S.)

	FY2006		FY2009			FY2006		FY2009	
	Dollars	Percent	Dollars	Percent		Dollars	Percent	Dollars	Percent
AL	2,133.8	0.44%	2,236.2	0.44%	NY	16.9	<0.01%	29.5	0.01%
AK	9,377.2	1.92%	18,760.5	3.68%	NC	1,020.9	0.21%	2,326.6	0.46%
AZ	7,289.8	1.50%	16,688.2	3.27%	ND	0.0	0.00%	0.8	<0.01%
AR	6,568.0	1.35%	8,309.6	1.63%	OH	68.8	0.01%	339.7	0.07%
CA	65,279.3	13.44%	50,125.6	9.83%	OK	1,238.9	0.26%	1,192.4	0.23%
CO	6,338.7	1.31%	14,641.3	2.87%	OR-FS	149,153.3	30.72%	121,316.4	23.80%
FL	2,504.5	0.52%	2,862.3	0.56%	OR-O&C	108,852.0	22.42%	87,175.0	17.10%
GA	1,304.6	0.27%	1,864.1	0.37%	OR-Total	258,005.3	53.13%	208,491.4	40.91%
ID	21,173.5	4.36%	34,900.0	6.85%	PA	6,491.6	1.34%	2,505.6	0.49%
IL	304.2	0.06%	107.6	0.02%	PR	0.0	0.00%	184.7	0.04%
IN	130.2	0.03%	337.4	0.07%	SC	3,288.2	0.68%	2,498.4	0.49%
KY	682.1	0.14%	2,596.9	0.51%	SD	3,823.4	0.79%	2,931.1	0.58%
LA	3,726.1	0.77%	2,620.1	0.51%	TN	560.3	0.12%	1,428.4	0.28%
ME	41.4	0.01%	99.3	0.02%	TX	4,688.8	0.97%	3,655.9	0.72%
MI	789.8	0.16%	3,397.1	0.67%	UT	1,872.5	0.39%	14,177.0	2.78%
MN	1,468.8	0.36%	3,330.1	0.65%	VT	392.3	0.08%	400.7	0.08%
MS	8,287.2	1.71%	7,705.7	1.51%	VA	925.2	0.19%	2,093.7	0.41%
MO	2,767.2	0.57%	4,681.7	0.92%	WA	42,293.9	8.71%	33,990.9	6.67%
MT	12,934.8	2.66%	24,523.6	4.81%	WV	2,006.3	0.41%	2,356.8	0.46%
NE	55.6	0.01%	584.4	0.11%	WI	577.6	0.12%	2,730.1	0.54%
NV	408.8	0.08%	5,174.2	1.02%	WY	2,387.4	0.49%	4,357.6	0.85%

	FY2006		FY2009			FY2006		FY2009	
NH	0.0	0.00%	275.2	0.05%					
NM	2,383.6	0.49%	18,185.9	3.57%	Total	485,567.7		509,667.8	

Sources: FS: U.S. Dept. of Agriculture, Forest Service, "All Service Receipts (ASR), Final Payment Summary Report PNF (ASR-10-01)," unpublished reports. **O&C:** U.S. Dept. of the Interior, Bureau of Land Management, *FY2011 Budget Justification*, p. X-6, http://www.doi.gov/budget/2011/data/greenbook/FY2011_BLM_Greenbook.pdf.

Note: Counties could choose to receive the regular 25% FS payments or 50% O&C payments, rather than the SRS payments, and in many cases opted for the 25% in FY2006 or FY2009, and sometimes in both fiscal years. Thus, a change in the SRS payments in the table might not reflect the total change in FS payments to that state.

Appendix B. Historical Proposals to Change the Revenue-Sharing System

Concerns about the FS and BLM programs have led to various proposals over the years to alter the compensation system. Most have focused on some form of *tax equivalency*—compensating the states and counties at roughly the same level as if the lands were privately owned and managed. Many acknowledge the validity of this approach for fairly and consistently compensating state and county governments. However, most also note the difficulty in developing a tax equivalency compensation system, because counties and states use a wide variety of mechanisms to tax individuals and corporations—property taxes, sales taxes, income taxes, excise taxes, severance taxes, and more. Thus, developing a single federal compensation system for the tax-exempt status of federal lands may be very difficult if not impossible.

In his 1984 budget request, President Reagan proposed replacing the receipt-sharing programs with a tax equivalency system, with a guaranteed minimum payment. The counties argued that the proposal was clearly intended to reduce payments, noting that the budget request projected savings of \$40.5 million (12%) under the proposal. The change was not enacted. The FY1986 FS budget request included a proposal to change the payments to 25% of *net* receipts (after deducting administrative costs). Legislation to effect this change was not offered.

In 1993, President Clinton proposed a 10-year payment program to offset the decline in FS and O&C timber sales, and thus payments, resulting from efforts to protect various resources and values including northern spotted owls in the Pacific Northwest. Congress enacted this program in Section 13982 of the 1993 Omnibus Budget Reconciliation Act (P.L. 103-66). These “owl” payments began in 1994 at 85% of the FY1986-FY1990 average payments, declining by 3 percentage points annually, to 58% in 2003, but with payments after FY1999 at the higher of either this formula or the standard payment.

In his FY1999 budget request, President Clinton announced that he would propose legislation “to stabilize the payments” by extending the owl payments formula to all national forests. The proposal would have directed annual payments from “any funds in the Treasury not otherwise appropriated,” at the higher of (1) the FY1997 payment, or (2) 76% of the FY1986-FY1990 average payment. This approach would have increased payments in areas with large payment declines while decreasing payments in other areas, as well as eliminating annual fluctuations in payments and de-linking the payments from receipts. The Administration’s proposed legislation was not introduced in Congress. The FY2000 and FY2001 FS budget requests contained similar programs, but no legislative proposals were offered.

The National Association of Counties (NACo) proposed an alternative in 1999.³⁹ The NACo proposal would have provided the counties with the higher of (1) the standard payment, or (2) a replacement payment determined by the three highest consecutive annual payments for each county between FY1986 and FY1995, indexed for inflation. NACo also proposed “a long-term solution ... to allow for the appropriate, sustainable, and environmentally sensitive removal of timber from the National Forests” by establishing local advisory councils. The NACo approach

³⁹ National Association of Counties, *NACo Resolution in Support of a Forest Counties “Safety Net,”* Washington, DC, April 21, 1999.

would have maintained or increased the payments and might have reduced the annual fluctuations, but would likely have retained the linkage between receipts and payments in at least some areas.

Appendix C. FY2013 Sequestration Issues

Section 302 of the Budget Control Act (BCA)⁴⁰ required the President to sequester, or cancel, budgetary resources for FY2013, in the event that Congress did not enact a specified deficit reduction by January 15, 2012.⁴¹ Congress did not enact such deficit reduction by that date, and on March 1, 2013, the Office of Management and Budget (OMB) determined the amount of the total sequestration for FY2013 to be approximately \$85 billion.⁴²

Under the BCA, half of the total reduction for FY2013 was allocated to defense spending, and the other half to non-defense spending.⁴³ Within each half, the reductions were further allocated between discretionary appropriations and direct spending.⁴⁴ Discretionary appropriations are defined in the BCA as budgetary resources provided in annual appropriations acts.⁴⁵ In contrast, direct spending was defined to include budget authority provided by laws other than appropriations acts.⁴⁶ The BCA further required OMB to calculate a uniform percentage reduction to be applied to each program, project, or activity within the direct spending category.⁴⁷ For the direct spending category, OMB determined this percentage to be 5.1% for FY2013.

Section 102(d)(3)(e) of SRS directed that payments for a fiscal year were to be made to the state as soon as practicable after the end of that fiscal year, meaning that the FY2012 payment was made in FY2013.⁴⁸ Because the authority to make these payments is not provided in an annual appropriations act, such payments are not discretionary spending for purposes of the BCA. These payments were classified as non-defense, *direct* spending for purposes of sequestration.⁴⁹ The BCA exempts a number of programs from sequestration; however, the payments under SRS were not identified in the legislation as exempt.⁵⁰ Consequently, these payments were subject to sequestration as non-defense, direct spending. However, BLM and FS managed the sequestration of the FY2013 payments in different ways.

BLM Sequestration of SRS Funds

BLM issues SRS payments only for the O&C lands in Oregon. In February 2013, BLM distributed \$36 million to the 18 O&C counties in Oregon for FY2012 SRS payments. However, DOI had held back 10% of the scheduled payments across all three titles in anticipation of the

⁴⁰ P.L. 112-25, as amended by P.L. 112-240.

⁴¹ 2 U.S.C. §901A. The sequester was originally supposed to be ordered on January 2, 2013, but was delayed by the American Taxpayer Relief Act of 2012, P.L. 112-240, until March 1, 2013. For more information on sequestration issues, see CRS Report R42972, *Sequestration as a Budget Enforcement Process: Frequently Asked Questions*.

⁴² This amount was identified based on a formula set forth in §302 of the BCA.

⁴³ 2 U.S.C. §901A(4).

⁴⁴ 2 U.S.C. §901A(6).

⁴⁵ 2 U.S.C. §900(7).

⁴⁶ 2 U.S.C. §900(8). Budget authority is further defined as “the authority provided by Federal law to incur financial obligations.” 2 U.S.C. §622.

⁴⁷ Although not relevant here, additional restrictions are placed on the degree by which Medicare payments in the direct spending category may be reduced. 2 U.S.C. §901a(8).

⁴⁸ 16 U.S.C. §7112(e).

⁴⁹ 2 U.S.C. §900(8).

⁵⁰ 2 U.S.C. §905.

possibility of sequestration. The reduction to DOI's SRS program required by sequestration was 5.1% of the total payment, or \$2.0 million.⁵¹ Since the sequestered amount was less than the amount withheld, DOI-BLM owed an additional SRS payment for the difference. In May 2013, BLM distributed the remaining 4.9% of the payment, resulting in a total of \$38 million for the SRS payment to the O&C counties for FY2012.⁵²

Forest Service Sequestration of SRS Funds

The Forest Service distributed the full FY2012 SRS payments in January and February 2013, without withholding any amount in preparation for the potential sequester order. On March 19, 2013, the Forest Service announced it would seek to recover from the states the 5.1% of the payments that were subject to sequestration.⁵³ In letters sent to each affected governor, the Forest Service outlined two repayment options and asked for the states to respond by April 19, 2013, with how they planned to repay. Invoices for repayment were not included. In addition to repaying the 5.1%, the FS offered the states the option of having the full sequestered amount taken out of Title II funds (for those states with enough Title II money). Three states—Alaska, Washington, and Wyoming—publicly indicated their intention not to repay the SRS funds.⁵⁴ In an April 16, 2013, hearing before the Senate Committee on Energy and Natural Resources, the FS indicated that invoices for the repayment would be sent in late April 2013.

On August 5, 2013, the Forest Service sent additional letters which included invoices for the repayment to the governors of the 18 states with insufficient Title II money to cover the sequestered amount.⁵⁵ The invoices outlined three options for the affected states to take within 30 days: pay the debt in full; agree to a payment plan; or petition for administrative review of the debt. The invoices also included a Notice of Indebtedness to the U.S. Forest Service and Intent to Collect by Administrative Offset, which describes the basis of the indebtedness and the Forest Service's intent to offset future payments—without assessing penalties—from future Forest Service and Department of Agriculture state payments. As of May 21, 2014, two states had remitted an SRS sequester-related payment—New Hampshire paid \$27,884.17 and Maine paid \$3,648—and no collection efforts have been initiated by the Forest Service or Treasury Department in the remaining 16 states.⁵⁶ On August 20, 2013, the Forest Service sent additional letters to the governors of the 22 states that had sufficient Title II money to cover the sequestered amount.⁵⁷ The letters informed the governors that the Title II allocations were reduced by the sequestered amount.

⁵¹ Testimony of DOI Deputy Assistant Secretary Pamela K. Haze, in U.S. Congress, Senate Committee on Energy and Natural Resources, *Keeping the Commitment to Rural Communities*, hearing, 113th Cong., 1st sess., March 19, 2013.

⁵² Personal communication with BLM Legislative Affairs office, June 19, 2013.

⁵³ Testimony of Forest Service Chief Thomas Tidwell, in U.S. Congress, Senate Committee on Energy and Natural Resources, *Keeping the Commitment to Rural Communities*, hearing, 113th Cong., 1st sess., March 19, 2013. SRS payments are made from the Forest Service to the states, which then distribute the payment to the eligible counties.

⁵⁴ Phil Taylor, "Hastings probes Forest Service's withholding of timber payments," *E&E News*, May 21, 2013.

⁵⁵ The following states did not have sufficient Title II funds to cover the sequester and received invoices: AL, AR, GA, IL, IN, ME, MN, MO, NC, ND, NE, NH, NY, OH, PA, PR, TN, VT, and VA. WA received a letter and invoice to collect money from a special act payment, but the letter also indicated the total SRS Title II reduction.

⁵⁶ WA paid \$317.15 to reimburse for the sequester-related overpayment of a special act payment. Personal communication with Katherine Armstrong, Legislative Affairs Specialist, Forest Service, November 13, 2013.

⁵⁷ The following states had the sequester withheld entirely from their Title II funds: AK, AZ, CA, CO, FL, ID, KY, LA, MI, MS, MT, NM, NV, OK, OR, SC, SD, TX, UT, WI, WV, and WY.

To date, the last congressional action on the issue was a House Committee on Natural Resources oversight hearing on January 14, 2014.

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Acknowledgments

Ross Gorte, retired CRS Specialist in Natural Resources Policy, made important contributions to earlier versions of this report.