RVCC
Rural Voices for Conservation Coalition

STEWARDSHIP & COUNTY PAYMENTS

Summary

Stewardship end-result contracting allows for flexible and innovative approaches to public land management, generates diverse economic opportunities for adjacent rural communities, contributes to increasing pace and scale of national forest management, and enjoys strong bipartisan support.

With the expiration of Secure Rural Schools (SRS) funding, county payments have declined precipitously (from $608 to $433 million) and returned to a revenue sharing model that fails to meet county's needs of predictable and fair payments. The expiration has added pressure to apply county revenue-sharing mandates to retained receipts from stewardship contracts.

This paper provides substantive data on the status of county payments and the use of stewardship authorities. Our analysis demonstrates the need for a lasting and adequate solution for county payments and for the continued use of stewardship receipts to accomplish needed management and economic development in rural communities.

RVCC believes that public lands counties provide significant public benefits, and should be compensated adequately for them. More importantly, these communities deserve certainty and security. A long-term and stable solution to county payments is critical, and thoughtful dialogue that addresses chronic funding shortfalls is urgently needed.

KEY POINTS

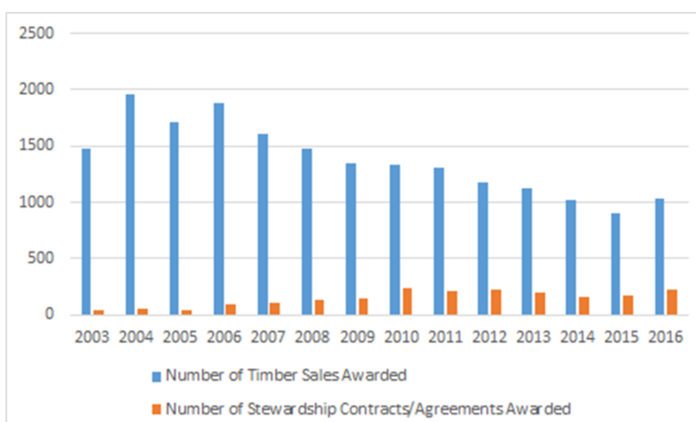
- Stewardship contracts generate $22 million annually – these funds are currently invested in forest and watershed restoration work done by local contractors, thereby supporting local jobs.
- Diverting 25% of these dollars to counties would increase payments, but not enough to address the dire financial situations counties face.
- A durable and equitable solution to the county payments dilemma is urgently needed for counties and to ensure continued investments in stewardship and economic development.

Background

Stewardship end-result contracting

Stewardship end-result contracting is an innovative way for the Forest Service and Bureau of Land Management (BLM) to collaboratively restore public lands and create economic benefit for rural communities. Stewardship contracting has been in use for nearly 20 years, and was permanently authorized in the 2014 Farm Bill (P.L. 113–79). Since FY 2003, over 2,000 contracts and agreements have been awarded, resulting in millions of acres of restoration, job creation, expanded forest products markets, and improved watershed function. Across the National Forest System, stewardship contracts account for approximately 25-30% of timber volume annually and are a small percent of overall sales (Figure 1).

Figure 1: Number of Commercial Timber Sales and Stewardship Contracts, FY 2003 – 2016



Working together for healthy landscapes and vibrant rural communities throughout the American West.

The authority allows for the Forest Service and BLM to enter into contracts and agreements to carry out land stewardship projects—which often trade the value of goods (e.g. timber) for the service of forest or watershed restoration. The authority calls for the retention of timber receipts to apply to service work in the same project; awarding contracts based on criteria in addition to cost – establishing the basis for "best-value contracting"; allowing for contracts up to 10 years in length; designating by description; and enabling the BLM and Forest Service to enter stewardship agreements with non-traditional bidders.

Unlike traditional timber sales, stewardship contracting does not include a county revenue sharing component. Instead it trades the value of goods for services, or reinvests receipts into further management activities. This use of funds helps build and sustain consistent work for local forest contractors. It also helps ensure that restoration activities critical to sustaining social license for forest management are implemented. Without these funds, many restoration projects might not take place.

County Payments

County payments compensate local governments for lost tax revenue due to federal land ownership. In 1908, Gifford Pinchot and President Roosevelt began sharing 25% of receipts from the management of public lands as fair compensation for the creation of the new National Forests. The BLM began sharing 50% of receipts from the Oregon and California Railroad lands in 1937. States redistribute payments to fund county roads and public schools. [1]

After World War II, these payments increased substantially, raising concerns about equity and volatility of revenue sharing payments as compensation for non-taxable lands.[2] In response, Congress passed Payments in Lieu of Taxes (PILT) in 1976—a fixed per-acre payment—to ensure a minimum payment for all counties and to stabilize revenue sharing payments. In the 1990s, Congress acted to decouple payments from receipts as timber production on federal forests waned. The Northwest Forest Plan included transition payments in 1994 and Congress later extended these payments nationally with the Secure Rural Schools and Self Determination Act of 2000 (SRS)[3] and provided full funding for PILT starting in 2008.

Current Status

SRS expired in FY 2015, resulting in a sharp decline in county payments (SRS and PILT) from $608 million to $433 million from FY 2015 to 2016 (a loss of $175 million). The President's FY 2018 budget proposal would reduce PILT and would not reauthorize SRS, lowering payments to $397 million, and returning to the 1908 revenue sharing model. Declines will be felt most acutely in the rural counties most reliant on these payments.

Estimated Impact of Stewardship Receipts on County Payments

As the impact of reduced county payments becomes increasingly clear, calls for applying a revenue sharing mandate to stewardship contracts have grown louder. For example, House Resolution 2936, also known as the Westerman Bill, proposes to extend SRS. However, the legislation anticipates relying on receipts over the long-term, and proposes reallocating stewardship receipts from management activities to payments.

Using data on the volume and value cut from USDA Forest Service stewardship contracts and agreements, we analyzed what a revenue sharing option would look like if 25% of the total value of receipts (cut value) from stewardship contracting were allocated to counties.[4]

Table 1 displays the average cut volume (MBF) and cut value between FY 2010 to FY 2016. Also displayed is a representation of the 25% stewardship payment that counties would have seen in FY 2016 based on the 7 year rolling average of stewardship contracting receipts. Nationwide, over this 7 year period allocating 25% of the cut value would have been about $5.7 million. Because PILT is adjusted for prior year payments, the net to counties will be less (than the total amount of receipts shared).[5] Therefore, we estimate the net increase to counties would have totaled about $4.3 million overall, or a 1% increase.

Table 1. Estimated 7-Year Rolling Average 25% Stewardship Payment (FY 2010 to FY 2016)

Forest Service Region	Cut Volume (MBF)	Cut Value	Estimated 25% Stewardship Payment
Alaska Region	18,521	$671,844	$167,961
Eastern Region	44,901	$3,615,461	$903,865
Intermountain Region	22,750	$775,554	$193,889
Northern Region	47,323	$2,442,730	$605,682
Pacific Northwest Region	148,460	$10,333,634	$2,583,408
Pacific Southwest Region	53,140	$1,189,198	$297,299
Rocky Mountain Region	36,097	$116,901	$29,225
Southern Region	64,727	$3,672,294	$918,073
Southwestern Region	27,888	$62,290	$15,573
Grand Total	**463,808**	**$22,859,905**	**$5,714,976**

Figure 2. Estimated 7-Year Rolling Average 25% Stewardship Payment Compared to PILT, SRS and 25% Fund commercial receipts payments (FY 2015 to FY 2018)

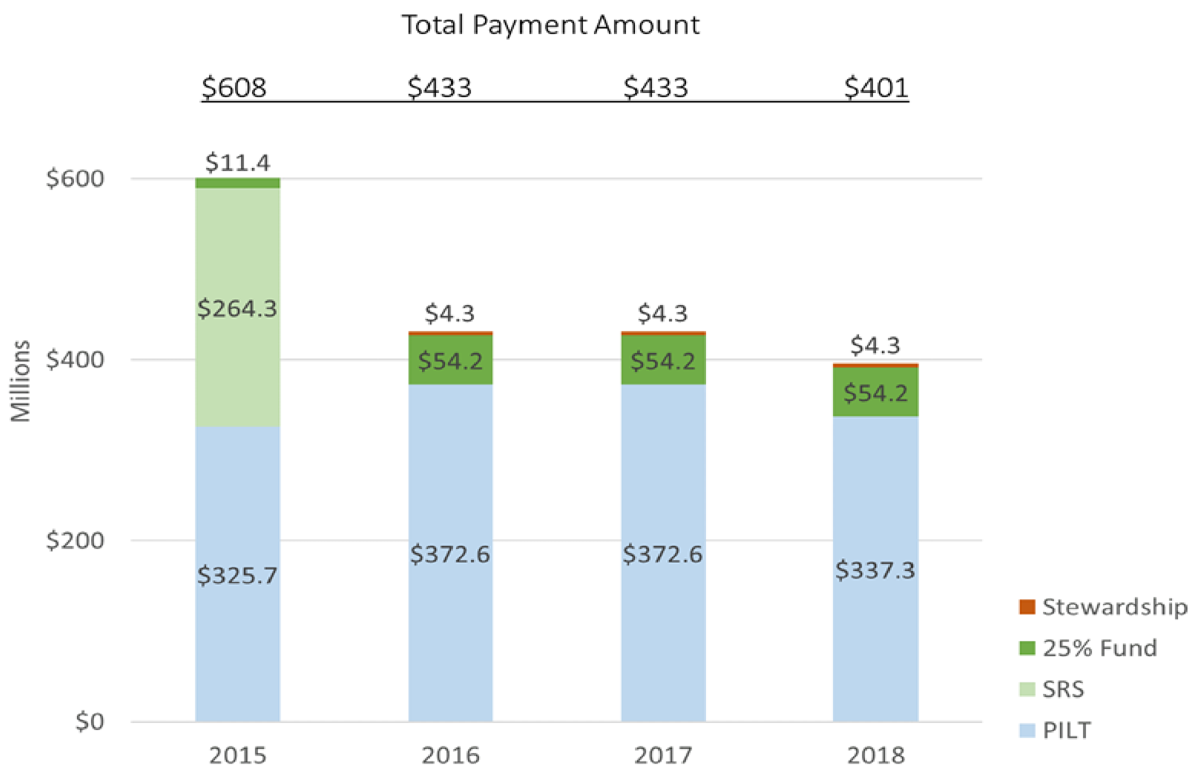


Table 1 and Figure 2 above show that sharing stewardship contract receipts with local governments would increase payments over the status quo. However, the total additional payment is small.

These receipts would not fill the gap relative to SRS or proposed cuts to PILT. Furthermore, sharing receipts would not resolve the fundamental challenges of equity or uncertainly that comes with tying local government budgets to unpredictable and uneven commodity markets, resources, and policies.

The recent history of stewardship contract accomplishments suggests the value of these receipts are better placed on the ground to accomplish necessary work and create jobs.

For example, the requirement for collaboration in project design and implementation, and the emphasis on integrated projects with comprehensive objectives, has led to implementation at an increased scale and larger, more complex projects that garner greater community support. Hundreds of projects directly involve non-federal agencies, tribal governments, local communities, nongovernmental organizations, and numerous other partners.

These collaborative partnerships have leveraged significant non-federal resources into stewardship projects – creating additional benefits for local contractors and employment. For instance, a sample of Forest Service stewardship contracting projects active from 2010 to 2012 shows that partners added non-federal funding to about half of all contracts.[6] Another report estimated the value of stewardship accomplishments, including fuel treatments, stream restoration, and recreation access, at more than $1.5 billion annually, far outstripping the commercial values available to be shared with communities.[7]

Alternative Solutions

There are clear trade-offs for county economies in these policy choices. Current options either starve county government, or further reduce contracting opportunities off public land. Proposed alternatives for a county payments solution that would not require sharing stewardship receipts include:

- Reauthorize SRS and provide full funding for PILT.
- Establish a Natural Resources Trust that will build an endowment for local governments dependent on revenue sharing payments from Forest Service and BLM O&C lands. Annual revenue sharing payments would be deposited into the trust and the principal balance would be held in perpetuity and invested to earn income. As the trust grows in value, dividends will be distributed to local governments to ensure predictable and rising payments over time.
- Establish a single payment mechanism that combines Secure Rural Schools, revenue sharing, and Payments in Lieu of Taxes. The PILT formula would be adjusted based on historic payments and economic needs, and raise the population limit based on acres of protected public lands.
- Establish a revenue sharing system based on an expanded definition of “gross receipts” that counts and provides compensation for the value of increases in forest health, such as watershed restoration and wildlife habitat improvements.

Conclusion

Public lands counties provide significant public benefits, and should be compensated adequately for them. More importantly, these communities deserve certainty and security. A long-term and stable solution to county payments is critical. Thoughtful dialogue that addresses chronic funding shortfalls is urgently needed.

At the same time, we must increase investment in, and implementation of, restoration and stewardship projects on public lands to address the ecological challenges at hand; communities are working collaboratively on creative and meaningful solutions. RVCC recommends maintaining the current stewardship contracting authority and reinvesting receipts into forest management and economic development activities.

Citations

1 Hoover, Katie and Cassandra L. Foley. “Forest Service Payments to States: Distribution System.” *Congressional Research Service.* Memorandum, January 27, 2015.
2 United States Public Land Law Review Commission. “One third of the Nation's land: a report to the President and to the Congress.” (1970).
3 P.L. 106–393 et seq. See Hoover, Katie. "Reauthorizing the Secure Rural Schools and Community Self-Determination Act of 2000." *Congressional Research Service* (2015).
4 USDA Forest Service. FY 2010 – FY 2016 Cut and Sold Reports—Stewardship, Cut Volume (MBF) and Cut Value of Convertible Products by State and National Forest.
5 USDA Forest Service. FY 2010 – FY 2016 Cut and Sold Reports—Stewardship, Cut Volume (MBF) and Cut Value of Convertible Products by State and National Forest.
6 Corn, M. Lynne. "PILT (Payments in Lieu of Taxes): Somewhat Simplified." Congressional Research Service. (2014). Schuster, Ervin G. 1995. “PILT--its purpose and performance.” Journal of Forestry. 93(8):31-35.
7 Headwaters Economics, “County Payments, Jobs, and Forest Health: Ideas for Reforming the Secure Rural Schools and Community Self-Determination Act (SRS) and Payments in Lieu of Taxes (PILT). Bozeman, Montana (2010). https://headwaterseconomics.org/wp-content/uploads/Reform_County_Payments_WhitePaper_LowRes.pdf.