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California Community Topics, an occasional publication series of the California Communities Program (CCP), provides useful information to citizens and local leaders about important issues of community governance, leadership, and economic development. The CCP is a statewide unit of the University of California's Division of Agriculture and Natural Resources, with applied research and outreach responsibilities. It is housed by the Department of Human and Community Development, College of Agricultural and Environmental Sciences, at UC Davis. David Campbell is director of the CCP. He may be reached at (530) 754-4328; FAX 752-5855; E-Mail dave.c.campbell@ucdavis.edu.

California's Forest Counties: Payments From the U. S. Forest Service

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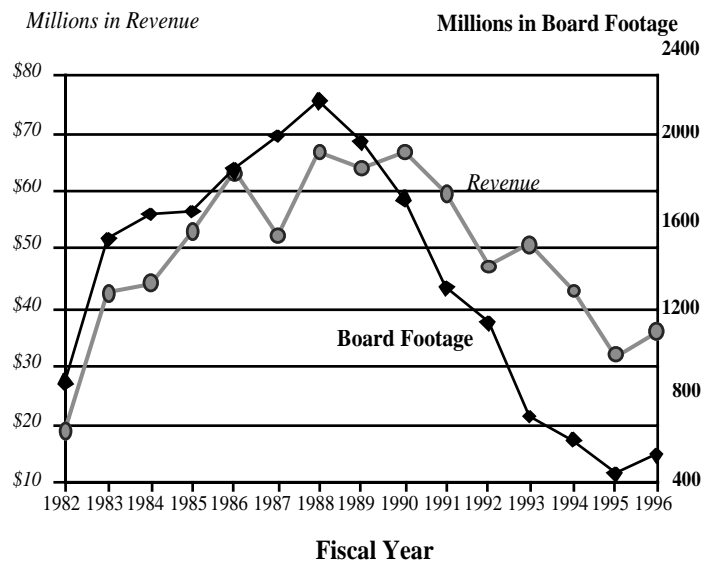
County and school districts in rural California are trying to make sense of a traditionally inconsistent federal revenue source that has been shrinking in recent years.

Counties that contain national forests within their boundaries are awarded 25 percent of gross receipts from timber production and other commercial activities on those forests. This was a \$36 million sum statewide in 1995-96, spent in equal proportions on county road and school district programs. Since the early part of this century (under the National Forest Receipts Act of 1908 and 1911) the U.S. Forest Service has distributed these funds annually to compensate for the non-taxable status of federal lands and informally in recognition of the costs that national forest activities impose on nearby communities.

Although a form of compensation in lieu of property taxes, the Forest Service payments are not based on property valuations. Officially known as the Payments to State and Counties, this federal revenue-sharing program also has the popular designation of Forest Reserve Revenues.

Local officials in forest counties worry about the predictability of this revenue source for the future. Certain California county governments and school districts have long relied on these receipts for substantial portions of their budgets. That dependency is now threatened by downward fluctuations in timber production since the early 1990s, caused primarily by environmental ecosystem restrictions and the Forest Services emphasis on ecosystem management. This is a fundamental shift from past periods, when timber productions was

Figure 1
 Forest Reserve Revenue to Local Governments & Forest Service Timber Harvest Levels in California



Data Sources: Controller of the State of California, *Financial Transactions Concerning Counties of California: Apportionment of Federal Forest Reserve Receipts*. Annual. Controller of the State of California, *Annual Report of Financial Transactions Concerning School Districts of California*. Forest Service Timber Sale Accounting System Cut and Sold Report, 1980-1996.

driven largely by home-building requirements and other economic factors.

This Community Topics brief describes recent trends in the forest payments to local governments in California, samples the views of county and school district officials in three counties, and reviews criticisms of the current revenue system and suggested changes.

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Top Forest Revenue Counties in California, 1993-94

Figure 1 shows how both revenues to California local governments and the underlying timber harvests have fluctuated in recent years. A national recession in the late 1970s and early 80s reduced the number of housing starts, causing a significant decline in timber harvests throughout the West.

The economic recovery of the mid-80s rejuvenated California's housing industry and stimulated a steady upward climb in national forest timber production within the state. Then in the 90s, Forest Service timber production began a steady decline unrelated to economic trends. Instead, the decline reflected recent constraints placed on federal timber programs by environmental litigation and changing Forest Service priorities, shifting the emphasis from commodity production to ecosystem management.

The peak timber harvest years were between 1986 and 1990, when total California receipts averaged around \$65 million annually. In the 60s and 70s, revenues rose steadily from a low of \$5 million in 1964 to \$50 million in 1979. Then they dropped drastically for two years, to a low of \$18 million in 1982, climbing dramatically for the next several years to peak in 1988 and 1990 at just under \$70 million. While not approaching the lows of 1964 and 1982, the steady decline since 1990 has local governments concerned.

In California, Forest Service revenues are concentrated in several northern regions—the Sierra Nevadas, Siskiyou, and North Coast. These regions account for more than 90 percent of the total payments received by California counties. Sixteen counties within these areas received at least \$1 million apiece in revenues in 1993-94 (Table 1). But the significance of Forest Service revenues for their budgets varied widely. Counties with smaller populations and overall budgets are far more dependent on this revenue than larger jurisdictions. Alpine (1994 estimated population of 1,228) and Fresno (755,000 in 1994) are the smallest and largest, respectively, of the 16 counties. Forest revenues in 1993-94 represented 12 percent of Alpine's combined county government and school district revenues, but only one-tenth of one percent of Fresno's combined revenues.

Counties with small populations depend heavily on the revenue-sharing fund for road expenditures. Del Norte and Trinity counties, with populations under 30,000, used the fund for half their road budgets in

County	Total Forest Reserve Revenue	Percent of Total County and School Revenues	Percent of Total Road Expenditures	Percent of Total School Expenditures	County Population 1994
Siskiyou	\$5.4 Mil	5.44%	29%	5.46%	45,500
Trinity	5.2	2.32	49	14.36	13,700
El Dorado	4.4	1.81	15	1.76	144,002
Plumas	3.6	7.59	31	9.18	21,000
Tuolumne	2.9	3.33	27	3.93	52,900
Fresno	2.6	0.16	5	0.09	755,000
Modoc	2.2	7.14	29	7.14	10,424
Shasta	2.2	0.80	13	0.80	147,036
Del Norte	2.0	3.87	55	4.52	28,800
Lassen	1.8	3.01	20	3.04	29,331
Humboldt	1.4	0.60	9	0.68	126,000
Tulare	1.4	0.10	6	0.18	350,000
Placer	1.2	0.31	4	0.38	200,000
Tehama	1.2	1.14	13	1.12	54,700
Sierra	1.1	6.83	3	7.35	3,400
Alpine	1.0	1.90	33	21.70	1,228

Data Sources: Controller of the State of California, *Financial Transactions Concerning Counties of California: Apportionment of Federal Forest Reserve Receipts, 1994*. Controller of the State of California, *Annual Report of Financial Transactions Concerning School Districts of California 1994*.

1993-94 while Tulare, Fresno, and Placer counties, with populations in six figures, used the fund for only 5 percent of their road budgets.

The pattern is similar for school receipts. Trinity and Plumas counties, two of the smallest counties, funded 14 and 9 percent of their school budgets, respectively, with Forest Service payments in 1993-94. Conversely, the receipts in larger Fresno and Tulare counties represented only one-tenth of one percent of school district revenues.

How the Fund Works

Forest Service payments are initially placed in the United States Forest Reserve Fund in the California Treasury. The State Controller keeps a record of the money received on account of each forest reserve (national forest) in the state. The funds are transferred from the state to the counties in which the national forests are situated. The State Treasurer pays the warrants to the counties which administer the designated road and school programs.

Each county receives an annual amount of money based on two criteria: the total receipts for each national forest and the proportion of that forest's land contained within the county. The auditor of the county receiving a payment immediately apportions the money, by placing 50 percent to the credit of the forest reserve account in the county school service fund (eventually distributed to individual school districts) and 50 percent to the credit of the county road fund.

Impacts on County Road and School Programs

How do counties and school districts use these funds and how do they deal with the declining revenue? To provide answers, we interviewed in late 1996 three officials in each of three timber counties. They were the County Administrative Officer, County Superintendent of Schools, and the County Public Works Director in Plumas, El Dorado, and Humboldt counties. The three counties represent different northern California regions and population sizes. But all three counties have substantial national forest land within their boundaries and have historically received significant amounts of Forest Service revenue.

Most of the programs represented by these officials in the past treated the fund as a discretionary source of income. All three county school superintendents viewed it as a "soft money," to be used on one-time purchases or short-term projects only. One superintendent was explicit on this point; she said that she had advised the separate school districts accordingly:

We view it as a discretionary fund. It is a soft source of money, and not a particularly dependable source, particularly in the last four or five years. A percentage is allotted to each individual school district's general fund. Since it is so uncertain, we advise the districts to treat it as discretionary.

Under this principle, one school district elected to use the money to hire a one-year drug and tobacco counselor to work with students.

County administrators and public works directors take a similar approach on how to budget the funds they receive for road maintenance. Two public works directors said they spent it only on general road repairs and maintenance on an as-needed basis. According to one public works official:

We use the money for routine maintenance as opposed to capital projects. We use it for after-the-fact projects, like fixing potholes. We consider the money a discretionary fund.

One county facilitates timber hauling by maintaining an important county road that accesses the national forest, employing a "significant percentage" of Forest Service receipts for this purpose.

The unpredictable nature of the revenue-sharing program has forced the county and school administrators to craft new plans to take account of the

fluctuations. In one county, school administrators developed a plan that saves the Forest Service revenue-sharing allotments for one year:

We maintain a reserve for the funds on an annual basis. We spend this year what came in last year, so we are always a year ahead of any problems. This gives us a one year lead so we can plan accordingly.

County administrators also indicated that they have had some limited success budgeting the money for the future. Since it is a flexible revenue source, Forest Service funds can be carried over from one fiscal year to the next without a reappropriation. One public works department, in an attempt to mitigate future shortfalls, has successfully saved \$250,000 a year for the last three years.

One school superintendent was pessimistic about the recent shortfalls. His district has been forced to eliminate several employees and cancel several educational programs:

Problems develop when we build an annual budget based on projected Forest Service revenue-sharing receipts and they do not come in. Adjustments during the year are made, often resulting in layoffs and canceled programs.

Appropriated Forest Service Funds and the Payment to Counties

The Forest Service operates according to a complex budgetary process that includes six large, permanently appropriated funds related to timber sales. Some of these funds are included in gross receipts when factoring the payments to counties, even though they are reinvested back into the forest and do not reflect net Forest Service profits. That is why the fund is determined from gross receipts from total commercial activities on the national forests. Two important funds included in revenue-sharing are Knutson-Vandenberg (KV) and Salvage Sale funds.

KV funds are the portion of timber sale receipts that are needed to conduct reforestation and stand improvement activities, as determined by the Forest Service. Salvage Sale funds were originally exempt from local payments, but in 1987 existing timber sale programs were altered to include mainly salvage operations because of extensive fires in California and Oregon

Alternate Payment Methods

Besides local government concerns about diminishing revenues, there are other questions about the adequacy of the present arrangement for compensating local governments in communities that are impacted by national forest activities. Environmentalists dislike the linkage with timber sales and hence the level of harvest, arguing that this stimulates community as well as industry pressures to cut more trees, thus compromising the ecological integrity of the forests. Why should local needs take precedence over the national interest in the ecological integrity of the forests, they question. Up to 95 percent of gross Forest Service receipts traditionally came from timber sales, with smaller portions derived from mining, ranching, and other activities.

Other critics, including university-based analysts, attack the Forest Reserve Revenue program as it reflects more generally the budgetary and administrative practices of the U.S. Forest Service. They fault the political pressures on the agency from both environmental and production advocates, and want to see a more “business-like” approach to Forest Service management. This includes allowing managers in this and other federal natural resource agencies (BLM, National Park Service) to charge fair market value for all uses, including grazing, recreation, hunting, etc. as well as timber production.

Considering these and other objections, several ideas for changing the current system of compensating local governments have been put forward over the years.

- *Remove Earmarking.* The 25 percent of forest revenues set aside for local governments under current law are earmarked for just two local government services—county roads and K-12 schools. Yet national forest activities impose costs on nearby communities and their public sectors in other ways, notably for such emergency services as police protection, fire suppression, ambulance, and search and rescue operations. The argument is that the elected officials who run local governments, particularly county boards of supervisors, should have discretion in budgeting forest receipts according to their perceptions of community needs.

- *Change the In-Lieu Formula.* Although ostensibly meant to compensate local governments for the loss of property taxes that private ownership of the forest land would generate, current payments are not truly

“in-lieu” of taxes because they have no direct relationship to the assessed valuation of the property. Shifting from the timber harvest to a property value basis for payments would stabilize revenues to local governments, probably increase the equalization of payments among counties according to their national forest acreage, and reduce community pressures for higher timber cuts. A negative consequence from a national perspective is the impact on the federal treasury, although payments could be based on a low percentage of actual assessed valuation. A possible model for this shift is the Payment in Lieu of Taxes (PILT) program operated by the BLM.

- *Privatization.* Most radical is the suggestion that large sections of the national forests be sold to private parties, thus allowing the land to be taxed as regular property. Generally this would mean low property tax payments compared to most privately-owned property, since most commercial forest acres under California law are placed in a special property tax category. One argument is that privatization would appeal to both environmental organizations and commercial timber companies, interested respectively in preservation and sustainable commodity production.

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