REPRESENTING CALIFORNIA'S RURAL COUNTIES

To: RCRC Board of Directors

From: Paul A. Smith, Vice President Governmental Affairs

Date: January 8, 2019

Re: The Forest Management for Rural Stability Act - **ACTION**

Summary

This memo provides an analysis of the Forest Management for Rural Stability Act, authored by Senator Ron Wyden (D-Oregon), Senator Larry Crapo (R-Idaho), Senator Jeff Alan Merkley (D-Oregon), and Senator James Risch (R- Idaho). The Forest Management for Rural Stability Act creates an endowment to permanently fund the Secure Rural Schools & Community Self-Determination Act (SRS) program. RCRC staff recommends adopting a "support" position on the Forest Management for Rural Stability Act.

Background

Adopted in 1906, federal law requires the U.S. Forest Service to provide counties and schools with 25 percent of the revenues generated on federal forest lands from a variety of activities including timber harvesting, mining, and recreational activities (commonly referred to as the 25 percent receipts rule). In 2000, Congress enacted the SRS program to provide funding for forested counties and school districts to replace revenue from dwindling forest receipts due to a national decline in timber harvesting. When first enacted, SRS provided \$90 million in 2001 (in 2017 dollars) to California's forested counties, with nearly half of the funding allocated to school districts, and the other half allocated to counties for county roads. SRS initially expired in 2006, but has been reauthorized multiple times. Most reauthorization efforts have included program funding reductions. In 2017, SRS provided \$26 million to California's forested counties.

In March of 2018, Congress enacted a 2018 federal spending bill which contained a reauthorization of SRS payments for Fiscal Year 2017 and Fiscal Year 2018. Even though SRS formally expired on October 1, 2018, RCRC staff expects 2018 payments to be made on their traditional schedule, whereby counties will receive SRS monies in early 2019.

In the closing days of the 115th Congress, efforts were made to reauthorize SRS to provide either a one or two-year set of payments. Those efforts were unsuccessful.

Issue

The on-again, off-again flow of SRS payments continues to frustrate California's forested counties. Not only are the revenue losses problematic, but the lack of certainty in receiving these payments makes it difficult for forested counties to properly build annual budgets. Furthermore, with the absence of significant reforms to ensure increased harvests on federal forest lands, it is likely that forested counties cannot sustain services on federal land payments per the 25 percent receipts rule. In most counties, relying on 25 percent receipts payments translates into a loss of over 75 percent of the revenue a county would otherwise experience (in 2016, counties that elected SRS payments received only about $5 million compared to an SRS payment of more than $26 million had it been paid that year).

The recently introduced Forest Management for Rural Stability Act creates a permanent endowment fund (Fund) to provide stable and increased funding for forested county that is separate from the current annual appropriations process.

A one-time congressional appropriation of $6 billion would be placed into the Fund, along with annual commercial receipts generated on lands owned by the U.S. Forest Service, National Wildlife Refuge (RRS), and Oregon and California (O&C) lands which are managed by the Bureau of Land Management. The Fund would grow through prudent investments and continued directing of 25 percent receipts into the Fund. In turn, the Fund would immediately begin to pay SRS counties an annual SRS payment at their baseline of no less than Fiscal Year 2017 levels. Payments to counties would be according to the current SRS formulas.

Assuming growth in the overall Fund, payments to counties would be capped at the historic highest year of revenue sharing payments under the Forest Service, O&C, and RRS payment laws (equal to the $90 million payment in 2001 for SRS). Once this payment cap is reached from the Fund, SRS counties would subsequently receive the maximum SRS payment every year, and also retain their 25 percent receipts (these would be additional payments).

In the event the Fund fell below the Fiscal Year 2017 funding levels, or in the event Congress does not seed the fund with the required initial payment, the U.S. Treasury Department would be required to make a mandatory payment to backfill it, meaning there would be no need to go to Congress for supplemental funding.

Upon enactment of the Forest Management for Rural Stability Act, all counties receiving SRS payments would be included into the scheme. However, counties have the ability to opt-out within the first three years of the enactment. If a county chooses to opt-out, it would have two years to opt back into the scheme, provided this occurs within the first five years of the enactment of the Forest Management and Rural Stability Act. This option is to ensure that counties can retain their monies if they believe their federal lands can generate a 25 percent receipts payment above and beyond their historically high SRS payment.

Counties that elect to retain their 25 percent payments currently (instead of opting into SRS) also are included in the endowment. These counties would be guaranteed a revenue sharing payment at least equal to their 2017 payment, annual receipts would be invested into the Fund, and these counties' payments would grow predictably until they reach their historic high revenue sharing payment. After that time, the "receipts" counties would receive a payment from the endowment equal to their historic high payment and also receive annual receipts.

The endowment includes a provision for counties to invest additional monies into the Fund, using the endowment like a mutual fund for individual investments. This provision would allow counties to continue to invest receipts into the Fund after they reach their historic high payment, effectively growing their payment in perpetuity, or to invest other monies into the fund.

Finally, the Forest Management for Rural Stability Act abolishes Title II of the current SRS program, which are monies used by the U.S. Forest Service, at the discretion of local entities, towards fire prevention and other forest management activities. In essence, Title II would be melded in with Title III, giving counties 15 percent of all SRS monies to be used for a variety of forest-related projects.

Congress will charter a new non-profit corporation to manage the Fund. The corporation is independent from the U.S. Government to ensure the Fund is held in perpetuity and best serves the interest of the beneficiary local governments. The board of directors of the new corporation will be made up primarily of county officials.

Staff Recommendation

Reauthorization and funding of the Federal SRS program has, and will continue to be, a high priority for RCRC. Over the past year, RCRC leadership and staff have met with key Congressional staff members to discuss the approach reflected in the Forest Management for Rural Stability Act. As such, RCRC staff is recommending the Board of Directors adopt a “support” position for the Forest Management for Rural Stability Act (or its successor) as a way to gain a permanent, stable revenue stream for California’s forested counties.

Attachment

- Copy of the Forest Management for Rural Stability Act