Economic Impacts on Oregon of the Termination of Secure Rural Schools Payments to Counties:

2011 Update

A Report of the "Changing Federal County Payments Policy
and Rural Oregon Counties: Impacts and Options" Project

by

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INTRODUCTION

Over half the land in Oregon (53%) is owned by the Federal government. Many Oregon counties with substantial shares of their land in Federal forests have depended on shared revenues from Federal forestlands for significant portions of their county government revenues. Over the past several decades, a number of forces have converged to disrupt the historical patterns of funding for county government services in Oregon. New voter-initiated limitations on property taxes were put in place in the early 1990s as Federal government forest management practices and national policies constrained the timber harvest on Federal land and thus the harvest-based revenues that had been shared with county government. These changes introduced a considerable amount of uncertainty into county finance, and expiration in 2007 of legislation that authorized the Federal forest payments to counties seriously threatened the fiscal capacity of a majority of Oregon counties. Many county governments in Oregon entered fiscal year 2008-09 with the prospect of having to implement drastic cuts in services. Eight of the 36 counties faced cuts of more than 50 percent in their road funds, and 6 counties faced cuts of more than 30 percent in their general funds. (Association of Oregon Counties, 2008, p. 4)

Beginning in 1993 Congress attempted to counter the declines in payments to counties by restructuring the county payments policies. The Omnibus Reconciliation Act of 1993 and then the Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) (hereafter SRS) stabilized payments to counties and schools by providing payments to counties based on receipts during years with historically high harvest levels. The SRS provided payments to counties and schools in 42 states. In Oregon, the SRS payments went to 33 of 36 counties. Most funding to counties tied to Forest Service lands must be used on county roads and schools (with a specified share being passed through directly to schools), while funding tied to Bureau of Land Management lands can be used for general purposes. Title I of the Act (providing 80% to 85% of total payments) funded a general safety net for county services and schools. Title III funded search and rescue and fire protection and other county services related to Federal forest lands. Title II expenditures, guided by local Resource Advisory Committees, supported projects aimed at restoration of public lands and nearby private lands. In the analysis that follows, only Title I and Title III payments are considered "discretionary" county funds since Title II funds remain in Federal accounts.

The original SRS act expired in September 2006 and a one-year extension of the SRS expired in September 2007. This meant that final payments would have been received during the 2007-08 county fiscal year ending June 30, 2008. Despite efforts by the Oregon Congressional delegation and others, counties entered the 2008-09 county fiscal year without SRS funds. In October 2008, Congress reauthorized the SRS act as part of P.L. 110-343. This reauthorization, which continued and phased down payments, expired in 2011. Counties are receiving final SRS payments in the current fiscal year (ending June 30, 2012).

This report provides estimates of the economic impact of the termination of SRS payments. There are many different ways that economic impacts of the termination of the SRS payments could be analyzed. One could, for example, estimate the difference between the final SRS payments that counties are receiving during the current fiscal year (FY 2011-12) and the payments they would receive under historical timber harvest revenue sharing formulas next year (FY 2012-13). The final payments for FY 2011-12 are significantly lower than the original level of payments established in P.L. 106-393. As stipulated in P.L. 110-343, FY 2011-12 payments are less than half of the levels established in the original bill (which pegged the SRS payments to levels received in the years with historically high timber harvests). Using SRS payments for FY 2011-12 would therefore not capture the full effect of the termination of the SRS program on Oregon counties or the state. Our analysis in this paper provides estimates of the impact on the Oregon economy of Oregon county governments not receiving in FY 2012-13 the level of Secure Rural Schools funding they received in the 2007-08 fiscal year. It shows the effects of this loss on employment, output, and value added in the Oregon economy.

Table 1 shows the difference between (1) SRS payments received by counties in FY 2007-08 and

Table 1: Difference between 2007-08 SRS Payments to Counties and Expected County Shared Federal Timber Harvest Receipts in 2013[1]

	County Roads ($)	County General and Other Funds($)	TOTAL ($)
FY 08 FS Title I	104,474,510		104,474,510
FY 08 FS Title III		13,861,546	13,861,546
FY 08 BLM Title I		99,335,098	99,335,098
FY 08 BLM Title III		12,533,055	12,533,055
FY 08 SRS TOTAL	104,474,510	125,729,698	230,204,208
FY 13 County Receipts from Federal Harvests[2]	(5,968,103)	(8,809,188)	(14,777,291)
Difference	98,506,407	116,920,510	215,426,917

Source: FY 2008 SRS payments data from Table 1, *Governor's Task Force on Federal Forest Payments and County Services*, Final Report, January 2009. Estimated FY 2013 Harvest SRS receipts are based on data from BLM and USFS provided by Rocky McVay, Executive Director of the Association of O&C Counties.

[1] These amounts do not include Title II SRS funds or funding that goes to Schools.

[2] FY 2013 Harvest receipts are shown in parentheses because these Federal shared revenues are subtracted from the SRS Total in the SRS formula for determining the amounts to be paid to the counties.

(2) county receipts expected from federal timber harvests in 2013 if the SRS payments are terminated. This difference is the amount that counties will have to raise in 2013 if there is no extension of payments in order to reach the level of federal funding they would have gotten under the original P.L. 106-393 formula. If SRS payments are terminated, counties would still receive shared revenue from timber harvests from federal USFS and BLM land. The next-to-last row of Table 1 presents estimates of the harvest-based payments that the counties would continue to receive under the original revenue sharing formulas, assuming that USFS Oregon harvest receipts remain at the average of the last seven years (FY 2004-2010) and the harvest values removed from O&C lands remain at the FY 2010 level.

IMPACT OF REDUCTION IN COUNTY SECURE RURAL SCHOOLS FUNDING

The economic impact of Oregon counties not receiving the 2007-08 level of SRS payments was estimated with an input-output model of the Oregon economy developed using the 2009 IMPLAN[3] software and database. Input-output models are used to estimate impacts on the regional economy of external “shocks” such as changes in Federal payments or export sales. Impact estimates take into account both the direct initial effects of the “shock” and subsequent impacts due to local re-spending of initial changes.

The revenue losses in Table 1 were entered into the IMPLAN model to estimate employment (full- and part-time jobs), output (sales), and value added (employee compensation, proprietor income, rent and other property income, special business taxes) impacts in the State of Oregon. The road fund revenue loss impact was treated in the IMPLAN model as a reduction in spending on maintenance and repair construction of nonresidential structures. The loss of discretionary (general and other non-road fund) revenues was treated as a reduction in non-educational spending by state and local government.

Economic impacts of loss of Secure Rural Schools funding are summarized in Tables 2 and 3. The estimates in Table 2 are based on the assumption that all cuts in county spending would be roughly proportional to their current allocations between personnel and non-personnel costs. Based on an informal 2011 Association of Oregon Counties survey of 18 counties geographically distributed across all regions of the state, the average share of county general fund spending allocated to personnel costs is about 65%.

[3] IMPLAN, a software and database product of the Minnesota IMPLAN Group, Inc., generates regional input-output models of the economic interdependence (estimated purchases and sales) among industry sectors within the region and with the outside world. IMPLAN is widely used in regional impact analysis because of its transparency and the care with which it modifies the national input-output model to create a regional model using data on the local and regional economies.

Table 2: Economic Impacts of Termination of County SRS Payments in Oregon
Assumption: 65% of General Fund Cuts for Personnel

Measure of Impact	Impacts		
	General and Other Discretionary Funds	Road Fund	TOTAL
Output	- $ 177,257,438	- $207,461,557	-$384,718,995
Value Added	- $134,407,870	- $115,435,199	-$249,843,069
Employment	**- 2,034**	**-1,799**	**-3,833**

Alternatively, one could assume that all of the general fund cuts in county spending as a result of not receiving SRS payments at 2007-08 levels would come from cuts in personnel. (This is the estimate that comes from the standard IMPLAN model, which assigns all state and local non-educational sector spending to payroll expenditures.) This would be the case where county government has exhausted options for cuts in non-personnel expenditures. The impacts based on this assumption are reported in Table 3.

Table 3: Economic Impacts of Termination of County SRS Payments in Oregon
Assumption: All County General Fund Cuts are for Personnel

Measure of Impact	Impacts		
	General and Other Discretionary Funds	Road Fund	TOTAL
Output	- $ 230,374,846	- $207,461,557	-$437,836,403
Value Added	- $ 183,505,938	- $115,435,199	-$298,941,137
Employment	**- 2,670**	**-1,799**	**-4,469**

CONCLUSION

County governments in Oregon have historically received a large share of general and road fund revenue from Federal forest payments. With the decline in Federal timber harvests in the 1990s, the Federal government supplemented the reduced shared timber payments with SRS payments. The SRS payments are ending this year. In its 2009 report on the implications of scheduled termination of the Secure Rural Schools and Community Self-Determination Act, the Governor's Task Force on Federal Forest Payments and County Services estimated that, without the SRS payments, one quarter of Oregon's counties (9 counties) would face losses of more than 25% of discretionary General Fund revenues, and almost one-third of counties (11 counties) would lose more than half of their Road Fund revenues. Since 2008, Oregon counties have seen SRS payments under the 2008 reauthorization decline by more than half. Without new legislation, there will be no SRS payments in FY 2012-13, and projected federal forest-related payments will drop 94 percent from the amounts counties received in 2008.

Without reauthorization of the Secure Rural Schools and Community Self-Determination Act, Oregon faces the prospect of 3800 to 4400 fewer jobs, $385 million to $438 million less total output, and $250 million to $300 million less in value added than there would be if SRS funding were at 2007-08 levels.

Some counties already have cut jobs, eliminated services, increased local fees and reduced road repairs and construction in anticipation of the termination of these payments. In counties with financial reserves, the full impacts of termination may not be evident during the next year or so as counties delay spending cuts by spending down reserves. The full impact will come as reserves are depleted. However, for other counties – particularly those for whom federal forest revenues represent more than half of their general fund – the impacts will come sooner. For some counties, SRS termination threatens their fiscal viability as governmental units.

These estimates of job and income loss and reduced business sales are of the *short-run* economic impacts related to the reduced spending and re-spending of SRS payments. Without additional funding, there may be more significant longer term negative economic impacts that result from the county not providing the former levels of county services in public health, law enforcement and other services that are important to current and potential businesses and citizens in these counties.

This report also provides estimates only of the economic impacts of reduced funding to *county* governments with the termination of the SRS payments. SRS payments also go to schools. Indeed, in FY 2007-08, almost $32 million (over 13 percent of the $238 million in SRS payments) went to Oregon schools. Loss of this SRS funding will have additional impacts on the Oregon economy not accounted for in this analysis.

In its January 2009 Final Report, the Governor's Task Force on Federal Forest Payments and County Services examined ways that the counties, state and Federal government could respond to cover the shortfalls that would be created by termination of the SRS payments. The Task Force asked "what counties and county taxpayers can do to help themselves" and whether the counties could grow their way out of the shortfalls.

What can counties do for themselves? The Task Force said:

> We looked to the local level where the funding losses will occur and assessed the potential for cutting county budgets and raising revenues. We found that many counties have already cut services to bare bones levels. Also, we found that

> constitutional limitations on property taxes, voter resistance to such taxes and state constraints on other revenue sources make it difficult for counties to respond to this crisis by raising revenues. Finally, we found that many of the hard hit counties have low tax rates compared to the statewide average. We concluded that:
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> - Counties statewide have significant unused property tax capacity within constitutional limitations;
> - It is reasonable to expect hard hit counties to seek voter approval of property tax increases in the range of ten percent to 30 percent, which will increase overall taxes paid by county taxpayers by just two to five percent; and,
> - Counties should be freed from restrictions in state law that limit or prohibit their ability to enact transient lodging tax and real estate transfer taxes.
>
> *These solutions could enable the counties to recover eight percent to 24 percent of their revenue losses*. [p. 6. Italics in original]

Can counties grow their way out of this? According to the Task Force,

> all Oregon counties are saddled by a property tax system that has tied local tax rates to rates in effect more than a decade ago and fails to capture the full value of economic activity and growth. As a consequence, counties cannot grow their way out of these problems in the way that the state rode the wave of economic recovery to a fiscal comeback between 2003 and 2007. [p. 12]

The Task Force concluded that "[m]ultiple responses will be needed from all levels of government – county, state and federal." [p.11]

REFERENCES

Association of Oregon Counties, "P.L. 1006-393 Briefing" presented to U.S. Sen. Mitch McConnell, Salem OR, June 16, 2008.

Office of the Governor, *Governor's Task Force on Federal Forest Payments and County Services*, Final Report, Salem OR, January 2009.

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