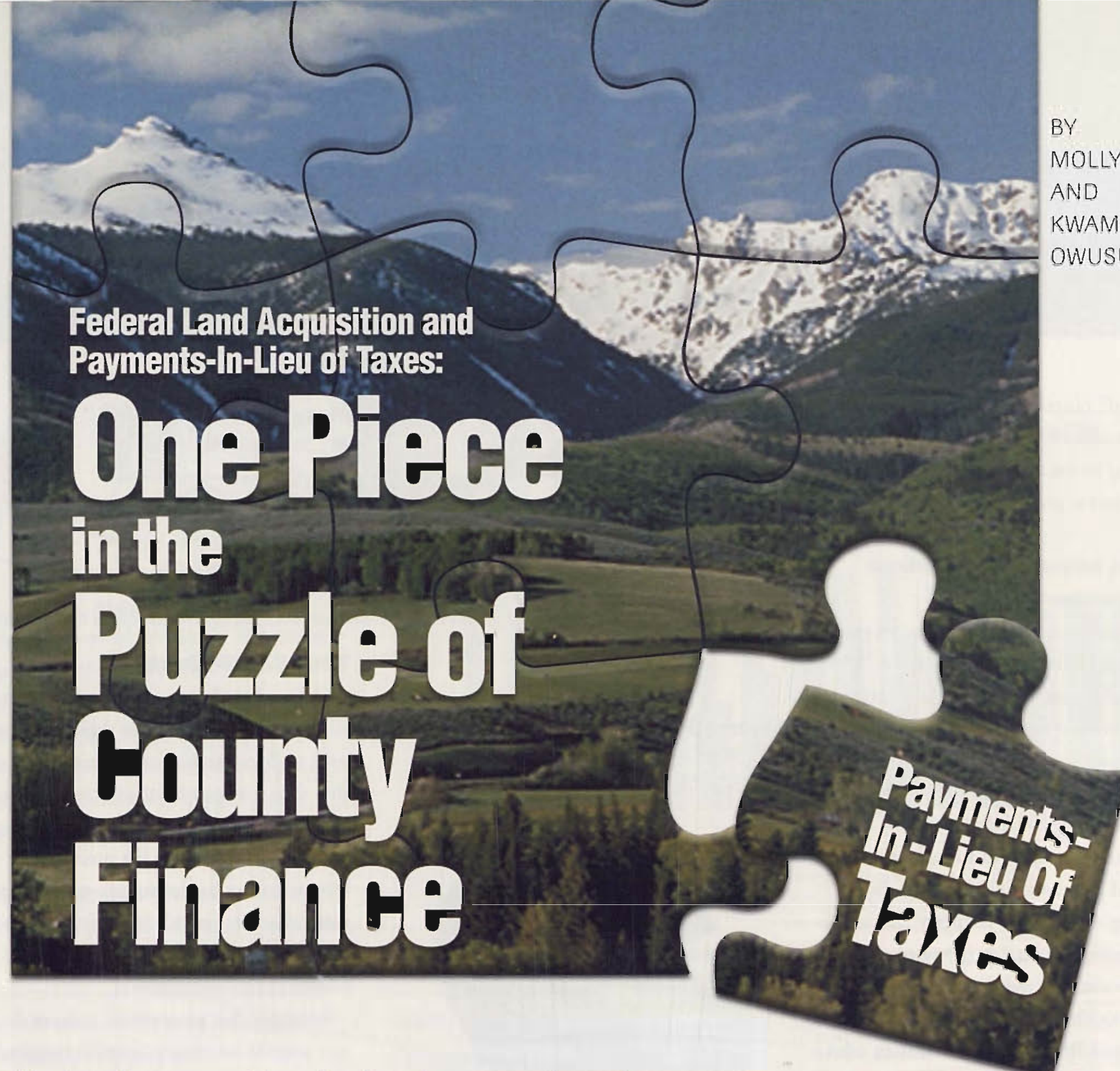
BY
MOLLY ESPEY
AND
KWAME
OWUSU-EDUSEI



Federal Land Acquisition and Payments-In-Lieu of Taxes:

One Piece in the Puzzle of County Finance

Federally owned lands deprive counties of property tax revenue opportunities, but government payments in lieu of taxes help feed the kitty. Here's how the program looks in practice, in several Western states.

The federal government owns over 657 million acres — nearly thirty percent of the total land area of the United States. This acreage includes mountains, deserts, prairies, lakes, oceans, forests, rangelands, national parks, and wildlife refuges. It also takes 657 million acres off state and local tax rolls.

The government makes a variety of payments to counties to compensate for the loss of local tax revenues that would be generated if these lands were privately held. The payments include a share of timber and mining revenues generated from federal lands in the county as well as payments called "payments-in-lieu of taxes," or PILT. Recent legislation is designed to facilitate more federal land acquisition, so many counties, especially in the West, are concerned about the impact on their payments. Ostensibly, PILT replaces lost property tax revenue. In reality, however, an increase in federal land ownership may or may not be accompanied by an increase in PILT. After providing background on federal land ownership patterns, PILT, and relevant recent legislation, this article describes the relationship between federal land acquisition and PILT for counties in the twelve western states, excluding Hawaii.

Go West, Young...Federal Land Buyer

The early story of westward expansion of the United States was one of large federal land acquisitions, including the Louisiana Purchase (1803), the Oregon Compromise (1846), the Mexican Cession (1850), and the Alaska Purchase (1867). The intent was always to transfer the land to private ownership. Land was transferred to railroads, to aid in opening the West; to states, to provide revenue for public education and the establishment of agricultural colleges; and to individual citizens, via the various Homestead Acts.

By the late 1800s, concerns over timber and water management and the protection of natural areas led to federal land retention efforts, resulting in the origins of national forests and national parks. Remaining federal land west of the 100th Meridian, except in Washington and Alaska, was withdrawn from homesteading when the Taylor Grazing Act became law in 1934. This effectively ended the era of rapid federal land disposal.

Thirty years after the Taylor Grazing Act, the federal government began a program of acquiring certain lands. Beginning in 1964, the Land and Water Conservation Fund provided funding of up to $900 million annually for federal land acquisition and for matching grants for state and local land acquisition and conservation easements. The funding for these purchases comes primarily from tax revenues received from companies engaged in offshore oil and gas drilling. Over seven million acres have been purchased with LWCF appropriations — two-thirds of this by the federal government.

Today, four agencies — the Bureau of Land Management (BLM), the Forest Service (FS), the Fish and Wildlife Service (FWS), and the National Park Service (NPS) — manage 96 percent of all federally owned land. Excluding transfers of BLM land in Alaska to other federal and state agencies, federal land acreage has increased by over 43 million acres since 1960. This increase is more than the total land area of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, and Delaware combined (Table 1). Ninety-two percent of this acreage is now in the twelve western staes, except Hawaii. Table 2 shows the percentage of the land area of these states that is owned by the federal government. If ranges from a high of 82.9 percent in Nevada to a low of 27.6 percent in Montana.

Table 1:

Federal Land Ownership in the Western States (millions of acres)

Agency	2000	Change since 1960*	Percentage Change
Bureau of Land Management	264.4	—	—
Forest Service	192.2	7.4	4%
Fish and Wildlife Service	93.0	23.9	34.6%
National Park Service	83.3	11.9	16.7%
Total	632.9	42.5	7%

* This excludes the transfer of BLM land in Alaska under the Alaska National Interest Lands Conservation Act.

Sources: Data compiled from the Department of Interior, U.S.F.S., and publications of the Political Economy Research Center, Bozeman, Montana.

Table 2:

Federally Owned Lands By State (Western States only)

	State Acreage of Federal Land (in millions)	Percent of Total State Area
Nevada	58.2	82.9%
Utah	34.0	64.5%
Idaho	33.1	62.5%
Alaska	228.0	62.4%
Oregon	32.3	52.5%
Wyoming	31.1	49.5%
Arizona	32.4	44.6%
California	43.7	43.6%
Colorado	24.2	36.5%
New Mexico	26.6	34.2%
Montana	25.8	27.6%
Washington	12.2	28.5%

Source: Public Land Statistics (2000)

Payments-In-Lieu of Taxes

The PILT Act of 1976 (Public Law 94-565) provides for payments to local units of government, generally counties, that contain certain federally owned lands. These payments are designed to supplement other federal land receipt sharing payments and are based, in part, on the number of acres of "entitlement lands" within the county. Entitlement lands include most of the lands managed by the four federal agencies mentioned above.

Since 1996, the annual PILT payments have been adjusted for inflationary changes in the Consumer Price Index. Payments are the larger of two alternative values. Calculation of the first is based on $0.26 (2001 dollars) per acre of entitlement land within the county. Calculation of the second is based on $1.92 (2001 dollars) per acre but is reduced by the amount of certain other federal land payments received by the county during the preceding year. PILT are also subject to a limitation or ceiling based on the county's population. In 2001, the sliding scale started at $128.38 per capita for a county with fewer than 5,001 persons. The maximum total payment was $2,567,500. If the calculated per acre payment exceeded this population-based ceiling, deductions were made from other federal land payments.

Impact of Recent Legislation: Federal Shopping Spree?

Recent legislation can increase significantly the pace of federal land acquisition. Title VIII of the Department of the Interior's 2000 appropriations bill, "Land Conservation, Preservation and Infrastructure Improvement," provides $12 billion dollars over six years for conservation, preservation, and maintenance programs. About 33 percent of this is allocated to LWCF programs, just under 20 percent to other state and local conservation programs, 25 percent to coastal programs, ten percent for urban and historic preservation programs, ten percent to land maintenance, and three percent to PILT.

Appropriations from the LWCF have averaged close to $320 million since 1970 although the enabling legislation authorized up to $900 million to be appropriated annually. The largest appropriation in a single year was $805 million in 1978, and the largest appropriation since 1980 was $341 million. The recent appropriations to the Department of the Interior would nearly double LWCF funding, at least for the next six years. President Bush has promised full funding for the LWCF, bringing this amount up to the $900 million ceiling and nearly tripling average annual funding.

Other recent legislation, the Federal Land Disposal Facilitation Act (FLDFA) may also affect the extent of federal land acquisition activity. This act authorizes the sale of Department of the Interior and U.S. Forest Service lands with the proceeds to be placed in a special "Federal Land Disposal Account." Funds in this account are to be used to purchase inholdings (private land entirely surrounded by federally owned land) and other lands adjacent to federally designated areas. This act will likely speed the sale of federal lands designated for disposal as well as increase the availability of funding for federal land purchases.

In the past, revenue from the sale of federal land went directly to the U.S. Treasury, discouraging the disposal of designated lands, primarily Bureau of Land Management lands on the fringes of urban areas. Two bills passed prior to the FLDFA create similar accounts for revenue from federal land sales. However, these have been limited in scope, with designated lands for disposal confined to the vicinity of Las Vegas. Moreover, revenues from these sales had to be used to purchase lands in the Tahoe Basin and other parts of Nevada. FLDFA expands the power of agencies to retain revenue from the sale of all Department of the Interior and

Forest Service lands, and requires this money to be spent on federal land acquisition.

Federal Land Acquisition May Increase, But Will PILT?

Increased funding for federal land purchases raises concerns about the impact on county revenues in counties with lands targeted for acquisition. PILT pays an average of $1.13 per entitlement acre in the western states. Whether or not this is equivalent to what would be received in property tax revenue depends on land values and property tax rates in each community. However, given the way PILT is calculated, a given county's PILT will not necessarily increase if federal land ownership in the county increases. For some counties, PILT would not replace lost property tax revenues for any additions to the federal land holdings.

Figure 1 shows the percentage change in federal land holdings necessary to trigger an increase in PILT in each Western county. Any increase in federal holdings will trigger an increase in more populated counties that have little federal land. Counties with low populations and large acreages of federally-owned grazing land will not enjoy increases in PILT given the current payment formula.

Figure 2 shows the relationship between the percentage of land currently owned by the federal government and those counties for which PILT would not increase with a ten percent increase in federal land. This map indicates that counties with a high percentage of federal lands are generally less likely to realize an increase in PILT in response to additional increases in federal ownership.

Figure 3 shows the relationship between population density and those counties for which PILT would not increase with a ten percent increase in federal land. This map indicates that the more rural areas (lower population density) are less likely to realize an increase in PILT, probably because most are already at the payment ceiling.

Figure 4 shows the relationship between per capita income and those counties for which PILT would not increase with a ten percent increase in federal land. This map indicates that the poorer areas are also less likely to realize an increase in PILT.

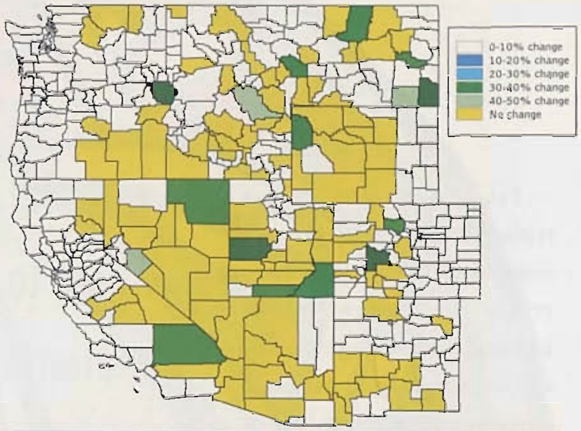


Figure 1: Percentage change in federal land ownership necessary to produce an increase in federal PILT, by county.

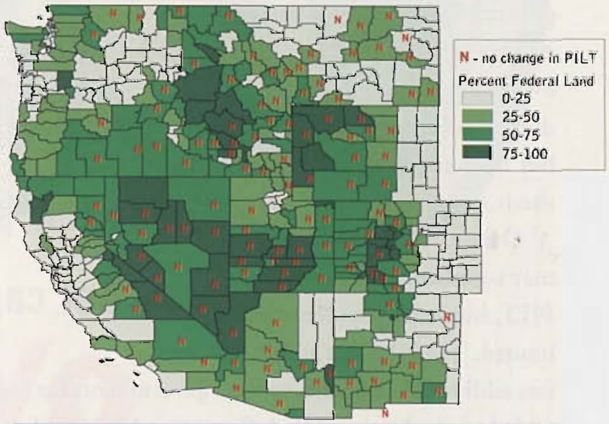


Figure 2: Relationship between current federal land ownership and federal PILT for a hypothetical 10-percent increase in PILT by county

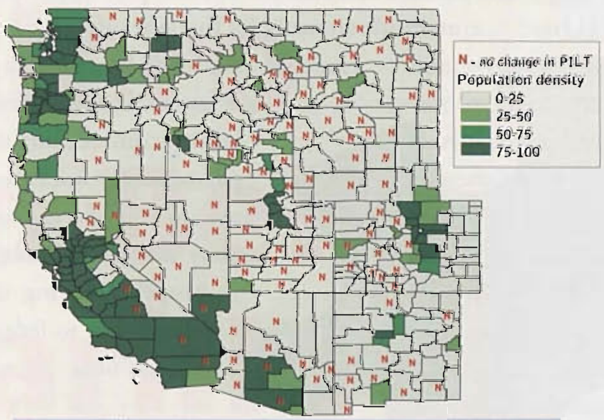


Figure 3: Relationship between population density and federal PILT for a hypothetical ten percent increase in federal land ownership, by county.

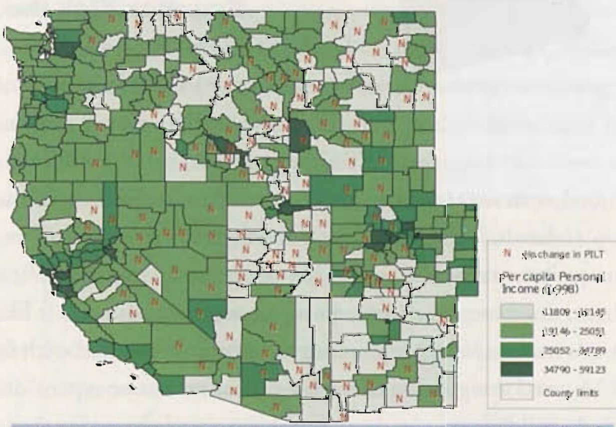


Figure 4: Relationship between per capita personal income and federal payments in lieu of taxes for a hypothetical ten percent increase in federal land ownership, by county.

PILT does not always replace lost property tax revenue when federal land ownership in a given county increases. Even though the federal government also pays local governments a percentage of timber and mining revenues generated from federal lands, additions to the federal land ownership are usually not productive timber or mining land but land acquired for its aesthetic or wildlife benefits.

Other federal payments may supplement the standard PILT, but such payments are limited. The PILT Act authorizes additional payments to local governments for lands added to the National Park System or National Forest Wilderness Areas after 1970. These payments, which are made annually for five years after the purchase, are calculated at one percent of the fair market value of the lands acquired, but the payment may not exceed the amount of real property taxes levied on the property during the year prior to federal acquisition.

In general, the areas most likely to be negatively affected by (federal land) acquisitions are those least able to make adjustments...(t)hat is, counties with low populations and low per capita incomes....

The Future: Can Counties Kick the PILT Habit?

The 2000 Department of the Interior appropriations bill increased PILT appropriations by $50 million, but with no change in the formula for distributing of these funds, it is unlikely that this will compensate for lost property taxes. As the pace of federal land acquisition increases, the impact on poorer, rural counties is likely to increase. An increase in tourism associated with federal designation of national monuments or expansion of wildlife refuges may more than compensate for the loss of private property tax revenue over time, but these gains are site-specific and speculative.

This article highlights the impact of changing land ownership patterns on federal payments-in-lieu of taxes. This information can be useful to local authorities in counties with lands targeted for federal acquisition, enabling them to better anticipate fiscal impacts and plan accordingly.

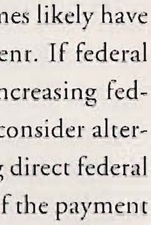
In general, the areas most likely to be negatively affected by the acquisitions are those least able to make adjustments. That is, counties with low populations and low per capita incomes likely have less room to maneuver toward adjustment. If federal land policy shifts significantly toward increasing federal ownership, future legislation might consider alternatives or adjustments to PILT, including direct federal payment of property taxes, elimination of the payment ceiling, or sharing of recreational fee revenues, that would minimize the transition costs to counties.

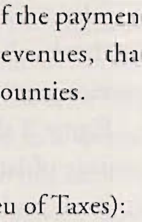
For More Information

Corn, M. Lynne. "PILT (Payment in Lieu of Taxes): Somewhat Simplified." Congressional Research Service Report 98-574, 1998.

Payments in Lieu of Taxes Act, Public Law, 94-565, 31 U.S.C. 69, 1976.

U.S. Department of the Interior, Bureau of Land Management, "Payments in Lieu of Taxes," published annually.





Molly Espey is Associate Professor in the Department of Agricultural and Applied Economics at Clemson University. Kwame Owusu-Edusei is a PhD candidate in the Department of Agricultural and Applied Economics at Clemson University.