



Legislative Fiscal Bureau

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TO: Representative Jeffrey Mursau
Room 18 North, State Capitol

FROM: Erin Probst, Fiscal Analyst

SUBJECT: National Forest Income Payment Distribution to School Districts

This memorandum provides information regarding the current distribution of national forest income payments to towns and an estimate of the impact of, alternatively, providing these payments to school districts.

Federal Payments in Lieu of Taxes

Under federal law, local governments receive payments in lieu of taxes (PILT) for most federally-owned land within a municipality as recognition of the inability of local governments to tax the property value of federally-owned land. While this PILT program covers most categories of federally-owned land, some categories of land (such as national wildlife refuges) are covered under separate programs. In Wisconsin, the payments primarily relate to federal holdings in the 1.5 million acre Chequamegon-Nicolet National Forest, with somewhat over 1.2 million acres eligible for federal PILT payments (approximately 300,000 acres do not qualify for PILT). Payments under the general PILT program are determined by: (a) county population; (b) acres of eligible federal land in the county; and (c) payments received in the previous year under certain other federal land payment programs.

The PILT payment made to a county in 2012 was the higher of the following amounts:

Formula A: \$2.47 per acre of eligible land within the county boundary, reduced by the amount received under certain other federal land payment programs in the prior federal fiscal year;
or

Formula B: 34¢ per acre of eligible land. The maximum payment a county can receive is limited by population, ranging from \$110 per person for counties of 5,000 people and under, rising to a maximum payment of \$2.2 million (in federal fiscal year 2008). Federal law provides an

inflationary increase to the per acre payments in subsequent fiscal years. Under state law, federal PILT payments are made to the state and PILT payments related to national forest land are distributed to towns based on the number of national forest acres in the town (in all other states the federal government distributes funding directly to the eligible local government). However, PILT payments for certain other types of federal lands, such as national parks, are made to the counties and are not distributed to towns (approximately \$320,000 in 2011).

Federal funding for the PILT program is appropriated annually. If the funding appropriated is not sufficient to fully fund payments generated under the federal formula, the payments are prorated equally across all local jurisdictions. However, the Emergency Economic Stabilization Act of 2008 authorizes local governments to receive their full entitlement level payment (less federal administrative costs) from federal fiscal year 2008 through 2012. Table 1 provides a history of the federal PILT appropriation, the amount received by Wisconsin and the rate of proration for the payments.

TABLE 1

Federal PILT History

<u>Federal Fiscal Year</u>	<u>Appropriation</u>	<u>Wisconsin Payment</u>	<u>Proration</u>
2012	\$393,044,500	\$1,087,200	99.9%
2011	375,158,600	907,900	99.9
2010	358,078,600	741,500	99.9
2009	381,647,900	1,355,170	98.9
2008	367,200,000	1,238,700	100.0
2007	232,133,800	785,600	64.7

National Forest Income Payments

In addition to PILT payments, Wisconsin also receives payments under the federal Secure Rural Schools and Community Self-Determination Act (SRS Act). Under the SRS Act, the federal government provides annual payments to states in which national forest land is located from revenue derived from national forests (primarily from timber sales). These annual national forest income (NFI) payments are received by DNR. The Department is statutorily required to distribute the payments to counties, which in turn are required by state law to distribute the payments to towns based on the proportion of national forest land located in the town. The majority of NFI funds are provided under Title I of the SRS Act. These funds are required to be utilized for improvements to roads and public schools. In Wisconsin, 50% of this amount is to be used for town roads. In 2012, Wisconsin Title I payments to towns totaled over \$2 million and averaged almost \$2.4 million from 2008 through 2012.

In addition, some funds are provided to the counties under Titles II (\$265,300 in 2012) and III (\$70,500 in 2012) of the act. These funds are not distributed to towns. Title II projects are projects recommended by Resource Advisory Committees established by the U.S. Secretary of

Agriculture, which consist of 15 members who are residents of the state where the forest is located and who are representatives of: organized labor; commercial timber; nationally recognized environmental organizations; archaeological and historical interests; nationally recognized horse, wildlife, hunting, or watershed associations; representatives of local, state, and tribal government; school officials or teachers; and members of the public. Resource Advisory Committees review projects proposed under Title II by participating counties and make annual recommendations to the Secretary of Agriculture. Title II projects are approved by the Secretary of Agriculture or a designee, such as a Forest Supervisor or District Ranger and include road, trail, infrastructure maintenance, soil productivity improvement, forest ecosystem health, watershed restoration, and non-native invasive species control projects. Title III projects are projects selected by a county and certified yearly by the U.S. Forest Service including: firewise community programs, development of community wildfire protection plans, and reimbursement for emergency services paid for by counties and performed on federal land.

The federal act was reauthorized in 2008 and contained a number of changes to the calculation of the Title I NFI payments. As in the prior version of the act, states and counties must choose from two types of payment options: (a) a share of 25% of timber sale revenue generated on the forest, or (b) a share of the state payment (formula payment). However, the reauthorized act specifies that instead of 25% of total timber sale revenue in a given fiscal year, payment option (a) is based on a rolling average of the previous seven years of timber sale revenues. Additionally, the act changed the formula used to calculate the state payment. For federal fiscal years 2008 through 2011, the formula is based on several factors including: acres of federal land within an eligible county, the average three highest 25% payments previously made to each eligible state for each eligible county, and an income adjustment based on the per capita personal income for each county. In addition, the calculation for the state payment is made each year based on a full funding amount of \$500 million in federal fiscal year 2008 (Wisconsin state fiscal year 2009) which decreases by 10% in each subsequent year through 2011 (\$364.5 million was used to calculate the federal fiscal year 2011 payment). A county that elected to receive a share of the 25% payment in 2008 could choose again in 2010 between a share of the 25% payment and a share of the state payment. A county that in 2008 elected to receive a share of the state payment may not change its election - it received a share of the state payment for 2008 through 2011. Only one county in Wisconsin (Oneida County) elected to receive a share of the 25% payment in 2008 and again in 2010, whereas prior to the reauthorization, most counties chose a share of the 25% payment. The act was re-authorized for one additional year on July, 6, 2012. In August, 2012, the U.S. Forest Service announced that NFI payments of \$308 million would be available for federal fiscal year 2012 (Wisconsin state fiscal year 2013), with a projected payment to Wisconsin of over \$2 million.

Table 2 shows the payments received by Wisconsin in the past six state fiscal years.

TABLE 2

National Forest Income Payments to Wisconsin

<u>State Fiscal Year</u>	<u>Title I</u>	<u>Title II</u>	<u>Title III</u>	<u>Total</u>
2011-12	\$2,042,100	\$265,300	\$70,500	\$2,377,900
2010-11	2,379,400	308,600	83,900	2,771,900
2009-10	2,631,900	341,900	112,100	3,085,900
2008-09	2,938,800	364,700	144,000	3,447,500
2007-08	1,816,500	0	78,400	1,894,900
2006-07	1,846,400	0	78,600	1,925,000

Certain payments to towns under the general PILT program are reduced by the amount of national forest income received in the prior federal fiscal year. However, under federal law, if NFI payments are given to school districts or other single- or special-purpose districts, then the amount of those payments will not be deducted under the general federal PILT program in certain instances. Therefore, overall federal aid to the state would be expected to increase should these payments be provided to school districts, rather than the current payments being made to townships. However, since the PILT formula takes into account national forest income payments received by states in the previous year, there would be a one-year delay between the transfer of NFI payments to school districts and the expected increase in federal PILT payments to townships.

Potential Distribution Shift

This office has also received inquiries regarding an estimate of the revenue effect on towns and school districts if NFI payments were provided to school districts rather than towns. An overall increase in federal forest land payments to Wisconsin would be expected as a result of such a shift. Many factors outside of the state's control would affect such an estimate, including the amount of federal funding appropriated for PILT payments in future years, federally established payment proration levels, NFI formula modifications, and the amount of revenue generated annually by timber harvests on federal forest land in Wisconsin. However, in general, federal payments to the state could be expected to increase one year after implementation. While towns would generally see some loss in revenues, school districts would realize a gain in revenues.

While future federal policy and appropriations levels are not known, for the purposes of illustration this office has used the approximate average from federal fiscal year 2008 through 2010 for PILT payments received by towns (\$800,000) and Title I NFI payments (\$2.5 million) received by Wisconsin (2010 is the most recent fiscal year for which detailed data is readily available). One of the key factors in determining the extent to which towns are ultimately made whole is the federal PILT proration rate. As shown in Table 1, this rate has been very close to 100% over the past four years, but was considerably lower previously. For the purposes of this illustration, the federal PILT proration level is set at 99.5%.

Using these assumptions, an estimate of the result of a shift of NFI payments from towns to school districts is shown in Attachment 1. Because the federal formula for calculating PILT payments considers NFI payments received by townships in the previous year, there would be a one-year lag between the implementation of the transfer of NFI payments to school districts and the general increase in federal revenues as a result of the NFI payment to towns no longer being deducted from the calculation of the PILT payment. The following funding example illustrates the process.

In Ashland County, the Town of Chippewa encompasses the Butternut School District. While the actual amounts received by the town and school district would vary each year, the payments are assumed to be static at the average level of payments received between 2008 and 2010 for the purpose of this illustration. Currently, the Town of Chippewa receives PILT payments for approximately 39,700 eligible acres in the Chequamegon National Forest in the amount calculated under Formula A, as previously described (\$2.47 per acre, less certain other federal payments, and prorated as necessary).

TABLE 3

**Alternate Distribution of Federal Land Payments to the
Town of Chippewa and the Butternut School District**

	Average Payments 2008 <u>through 2010</u>	Alternative <u>1st Year</u>	2 nd Year and <u>Annually</u> <u>Thereafter</u>
Town of Chippewa:			
PILT Payment	\$35,400	\$35,400	\$97,300
NFI Payment to Town	<u>62,200</u>	<u>0</u>	<u>0</u>
Total Town Payments	\$97,600	\$35,400	\$97,300
Change to Town		-\$62,200	-\$300
Butternut School District:			
NFI Payment	\$0	\$62,200	\$62,200
Total Federal Payments	\$97,600	\$97,600	\$159,500
Change in Total Federal Payments		\$0	\$61,900

Under the illustration, the Butternut School District would receive the NFI payment in the first year of implementation. Meanwhile, the Town of Chippewa would not receive any portion of the NFI payment beginning in the first year and annually thereafter. As shown in Table 3, under the alternate distribution, the Town of Chippewa would receive total payments of approximately \$35,400 in the first year, a loss of approximately \$62,200 compared to the average payments received from 2008 through 2010, while the Butternut School District would receive an NFI payment of approximately \$62,200. The second year PILT payment to the town would reflect the fact that no NFI payment was made to the town in the first year, which would increase the amount of the PILT payment to the town. The town would see a loss of approximately \$300 (due to the

assumed one-half percent proration factor) in the second year and annually thereafter, but the total amount of federal payments received would be expected to increase by approximately \$61,900 compared to the average payments received from 2008 through 2010.

While both NFI payments and federal PILT payments vary from year to year based on a number of factors, including federal timber harvest, the annual reimbursement rate per acre established by the federal government, and the total amount of funding appropriated for payments (establishing the annual proration rate of payments), in general, shifting the NFI payments from towns to school districts would be expected to increase the total amount of federal payments received. If payment rates are assumed to be held constant at the average level of payments received between 2008 and 2010, the federal proration rate is held constant at 99.5%, federal timber harvests remain constant, and the NFI payments are distributed to school districts, it is estimated that the transfer would decrease revenues to towns by approximately \$2.5 million in the first year, and approximately \$12,000 in the second year and annually thereafter. The estimated impact of this shift by county is shown in Attachment 1. School districts would see an increase in revenues at a corresponding level of nearly \$2.5 million annually. A potential distribution of these payments by school district, based on national forest acreage and payments received from 2008 through 2010, is shown in Attachment 2. The acreages used in the analysis were based on actual federal 2009 NFI payments to towns, and then compiled by school district based on how many acres of each town's National Forest acres were in each school district. That data was based on figures DNR used when they distributed the payments to school districts as required under 1999 Act 9 (repealed in 1999 Act 74), and does not reflect changes to school district boundaries since that time. Under these assumptions, total federal payments to the state could be expected to increase by nearly \$2.5 million beginning in the second year (the first year after NFI payments begin being distributed to school districts). Again, it should be noted that actual payments would vary from the amounts shown in the Attachments based on federal appropriations, formula changes and timber harvest activities. For example, based on the state fiscal year 2011-12 NFI payments, school districts would have seen a benefit of approximately \$2 million. It should also be noted that the actual change in revenue to towns would depend on the proration level of the PILT payments. To the extent that the proration percentage decreased (from the 99.5% utilized in the Attachment 1 calculations), towns would see a corresponding decrease in PILT payments, and would see a larger loss in revenue if NFI payments were shifted to school districts.

I hope this information is helpful. Please contact me if you have any questions or would like additional information.

ER/sas
Attachments

ATTACHMENT 1

Estimated Impact of Shifting National Forest Income Payments to School Districts By County

<u>County</u>	<u>Eligible PILT Forest Acres</u>		<u>Average Payments 2008 through 2010</u>	<u>Alternative 1st Year</u>	<u>2nd Year and Annually Thereafter</u>
Ashland	161,156	PILT Payment	\$146,900	\$146,900	\$406,500
		NFI Payments to Towns	260,900	0	0
		Total Town Payments	\$407,800	\$146,900	\$406,500
		Change to Town		-260,900	-1,300
		NFI Payment to School Districts	\$0	\$260,900	\$260,900
		Total Federal Payments	\$407,800	\$407,800	\$667,400
		Change to Federal Payments	\$0	\$0	\$259,600
Bayfield	209,925	PILT Payment	\$159,200	\$159,200	\$551,200
		NFI Payments to Towns	394,000	0	0
		Total Town Payments	\$553,200	\$159,200	\$551,200
		Change to Towns		-\$394,000	-\$2,000
		NFI Payment to School Districts	0	394,000	394,000
		Total Federal Payments	\$553,200	\$553,200	\$945,200
		Change to Federal Payments	\$0	\$0	\$392,000
Florence	54,810	PILT Payment	\$17,800	\$17,800	\$154,800
		NFI Payments to Towns	137,700	0	0
		Total Town Payments	\$155,500	\$17,800	\$154,800
		Change to Towns		-137,700	-700
		NFI Payment to School Districts	\$0	\$137,700	\$137,700
		Total Federal Payments	\$155,500	\$155,500	\$292,500
		Change to Federal Payments	\$0	\$0	\$137,000
Forest	305,620	PILT Payment	\$175,900	\$175,900	\$879,400
		NFI Payments to Towns	707,000	0	0
		Total Town Payments	\$882,900	\$175,900	\$879,400
		Change to Towns		-707,000	-3,500
		NFI Payment to School Districts	\$0	\$707,000	\$707,000
		Total Federal Payments	\$882,900	\$882,900	\$1,586,400
		Change to Federal Payments	\$0	\$0	\$703,500

<u>County</u>	<u>Eligible PILT Forest Acres</u>		<u>Average Payments 2008 through 2010</u>	<u>Alternative 1st Year</u>	<u>2nd Year and Annually Thereafter</u>
Langlade	27,217	PILT Payment	\$7,700	\$7,700	\$71,200
		NFI Payments to Towns	63,800	0	0
		Total Town Payments	\$71,500	\$7,700	\$71,200
		Change to Towns		-63,800	-300
		NFI Payment to School Districts	\$0	\$63,800	\$63,800
		Total Federal Payments	\$71,500	\$71,500	\$135,000
		Change to Federal Payments	\$0	\$0	\$63,500
Oconto	107,594	PILT Payment	\$35,000	\$35,000	\$260,300
		NFI Payments to Towns	226,400	0	0
		Total Town Payments	\$261,400	\$35,000	\$260,300
		Change to Towns		-226,400	-1,100
		NFI Payment to School Districts	\$0	\$226,400	\$226,400
		Total Federal Payments	\$261,400	\$261,400	\$486,700
		Change to Federal Payments	\$0	\$0	\$225,300
Oneida	9,555	PILT Payment	\$6,900	\$6,900	\$21,200
		NFI Payments to Towns	14,400	0	0
		Total Town Payments	\$21,300	\$6,900	\$21,200
		Change to Towns		-14,400	-100
		NFI Payment to School Districts	\$0	\$14,400	\$14,400
		Total Federal Payments	\$21,300	\$21,300	\$35,600
		Change to Federal Payments	\$0	\$0	\$14,300
Price	126,882	PILT Payment	\$109,500	\$109,500	\$316,300
		NFI Payments to Towns	207,800	0	0
		Total Town Payments	\$317,300	\$109,500	\$316,300
		Change to Towns		-207,800	-1,000
		NFI Payment to School Districts	\$0	\$207,800	\$207,800
		Total Federal Payments	\$317,300	\$317,300	\$524,100
		Change to Federal Payments	\$0	\$0	\$206,800
Sawyer	117,875	PILT Payment	\$101,300	\$101,300	\$290,000
		NFI Payments to Towns	189,600	0	0
		Total Town Payments	\$290,900	\$101,300	\$290,000
		Change to Towns		-189,600	-900
		NFI Payment to School Districts	\$0	\$189,600	\$189,600
		Total Federal Payments	\$290,900	\$290,900	\$479,600
		Change to Federal Payments	\$0	\$0	\$188,700

<u>County</u>	<u>Eligible PILT Forest Acres</u>		<u>Average Payments 2008 through 2010</u>	<u>Alternative 1st Year</u>	<u>2nd Year and Annually Thereafter</u>
Taylor	62,589	PILT Payment	\$20,800	\$20,800	\$219,200
		NFI Payments to Towns	199,400	0	0
		Total Town Payments	\$220,200	\$20,800	\$219,200
		Change to Towns		-199,400	-1,000
		NFI Payment to School Districts	\$0	\$199,400	\$199,400
		Total Federal Payments	\$220,200	\$220,200	\$418,600
		Change to Federal Payments	\$0	\$0	\$198,400
Vilas	42,293	PILT Payment	\$19,800	\$19,800	\$105,100
		NFI Payments to Towns	85,700	0	0
		Total Town Payments	\$105,500	\$19,800	\$105,100
		Change to Towns		-85,700	-400
		NFI Payment to School Districts	\$0	\$85,700	\$85,700
		Total Federal Payments	\$105,500	\$105,500	\$190,800
		Change to Federal Payments		\$0	\$85,300
Total	1,225,516	Payments to School Districts	\$0	\$2,486,700	\$2,486,700
		Payments to Towns	3,287,500	800,800	3,275,200
		Change to Towns	0	-2,486,700	-12,300
		Federal Payments Received	3,287,500	3,287,500	5,761,900
		Change to Federal Payments Received	\$0	\$0	\$2,474,400

ATTACHMENT 2

Estimated Distribution of National Forest Income Payments by School District

	<u>Acres</u>	<u>Payment</u>
Chequamegon National Forest		
Ashland	22,294	\$32,900
Butternut	43,300	62,200
Drummond	161,502	232,200
Lac du Flambeau/Lakeland	6,487	9,700
Gilman	54,204	86,500
Glidden	98,516	141,700
Hayward	70,562	103,500
Maple	661	900
Medford	22,664	36,200
Mellen	42,748	60,300
Park Falls	93,314	127,900
Phillips	58,273	79,900
Rib Lake	48,065	76,700
South Shore	29,870	42,300
Washburn	59,841	85,700
Winter	<u>56,235</u>	<u>82,800</u>
Subtotal	868,536	\$1,261,400
Nicolet National Forest		
Antigo	80	\$600
Crandon	172,324	352,400
Florence	85,175	137,700
Goodman-Armstrong	8,558	17,500
Laona	65,462	133,700
Northland Pines	10,128	16,000
Phelps	37,950	60,000
Rhineland	805	1,100
Suring	82,648	132,000
Three Lakes	17,277	27,100
Wabeno	147,073	276,400
White Lake	<u>37,378</u>	<u>70,800</u>
Subtotal	664,858	\$1,225,300
TOTAL	1,533,394	\$2,486,700