

**STATEMENT OF
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UNITED STATES DEPARTMENT OF AGRICULTURE**

**Before the
U.S. House of Representatives Committee on Agriculture
Subcommittee on Department Operations, Oversight, Nutrition, and Forestry**

July 15, 1999

Thank you for your invitation to testify on H.R. 2389, "County Schools Funding Revitalization Act of 1999" and the Administration's proposal, "The Stabilization Act of 1999." I appreciate the opportunity to join you today to continue the dialogue that the Administration began last year on the need to provide a stable, permanent level of payments, commonly known as the twenty-five percent fund, and to separate the payments from National Forests receipts. With me this morning is Sandra Key, Associate Deputy Chief, Programs and Legislation from the Forest Service.

In addition to H.R. 2389 and the Administration's proposal that we will testify on today, we will also offer our views on a similar bill, H.R. 1185, "Timber-Dependent Counties Stabilization Act of 1999."

Administration's proposal, "The Stabilization Act of 1999".

The Administration's proposal will:

- 1) provide a stable, predictable payment that counties can depend on to help fund education and maintenance of roads,
- 2) provide increased payments above the payments projected under current law to compensate states for National Forest lands that are not available to the local tax base,
- 3) provide a mandatory, permanent payment not subject to the annual appropriation process, and
- 4) sever the connection between timber sales and critically important education and road maintenance needs.

The Administration's over-arching reason for proposing this legislation is the need to provide a stable, predictable payment that counties can depend on to help fund their education and road maintenance needs. Under 16 U.S.C. 500, (commonly known as the twenty-five percent fund), twenty-five percent of most Forest Service receipts are paid to the states for distribution to the counties in which National Forest lands are located for financing public roads and schools. Historically, the primary source of National Forest receipts has been from the sale of timber on National Forests. Over the past 10 years, timber harvest from National Forests has declined 70% in response to new scientific information, changing social values, and our evolving understanding of how to manage sustainable ecosystems. During that same period, payments to states made under 16 U.S.C. 500 have been reduced 36%; from \$361 million in 1989 to \$228 million in 1998.

Under the Administration's proposal, states will receive the higher of the 1998 fiscal year payment or a new special payment amount. The special payment amount will be 76% of the average of the 3 highest payments made to the state during the 10 year period from fiscal years (FY) 1986 through 1995 of both twenty-five percent fund payments and payments under section 13982 of the Omnibus Budget Reconciliation Act of 1993. The special payment amount will not exceed the 1998 FY payment by more than 25 percent. The special payment amount will pay the states approximately \$269 million annually, representing an additional \$27 million above the existing baseline in FY 2000, \$72 million in FY 2004, and \$259 million more over the next five years.

The special payment is modeled on the formula used in what was referred to as the "owl county safety-net" adopted by Congress in 1990 as a provision of the Interior and Related Agencies Appropriations Act. The provision was adopted at the request of certain counties in western Washington, Oregon, and northern California affected by decisions relating to the Northern Spotted Owl. It was renewed annually until 1993 when Congress authorized a 10 year, gradually declining, payment stabilization formula which will expire in 2003. We chose 76% of the historic baseline because that was the level of the owl county safety-net payment guarantee when the Administration first proposed to stabilize payments over a year and a half ago.

Second, we want to provide a reasonable payment, based on all benefits of National Forest lands, to compensate states for these lands that are not available to the local tax base. Historically, states received payments based on revenues generated from commodity extraction, primarily timber. For a variety of reasons, including new scientific information about the sustainability of our resources, commodity extraction from our National Forests has been reduced. National Forests continue to provide a myriad of benefits to local communities through jobs, income generation, recreation and tourism, timber and mining, and hunting and fishing. Payments made through the payments in lieu of taxes (PILT) are often not appropriated to their fully authorized

levels, creating difficulties for counties with a limited tax base due the presence of public lands. Our proposal ensures that states continue to benefit from both the intrinsic value and the economic value of public lands by guaranteeing a payment to make planning and budgeting predictable for counties. Thus, we propose that states receive a permanent, stable annual payment based upon a percentage of historic payment averages.

Third, the payment needs to be excluded from the annual appropriation process. We cannot rely on either revenues or the annual appropriation process to produce a consistent, reliable level of funding. The Department's proposal will provide a mandatory, permanent payment to states from the general fund of the Treasury.

Fourth, we must make distinct and separate the social and moral imperative of children's education from the manner that public forests are managed. Both activities, children's education and forest management, are essential, but continuing to make one dependent on the other could continue to reduce funding for some children's most basic education needs, particularly in rural communities.

There has been resistance to this proposal. In part, the resistance may stem from a belief that timber harvest levels will rise dramatically again in the future. This belief is mistaken: 1) timber harvest has steadily declined over the past decade, and 2) in FY 1999 and FY 2000, the Administration and both Houses of Congress each proposed as part of the appropriations process timber offer levels that were below 4 billion board feet, including salvage opportunities. It is highly unlikely that timber harvest levels will return to the 11 billion board feet volume of the early 1990s.

Continuing this linkage -- or tightening it as one of the two congressional proposals before us today would do -- will only serve to ensure that payments to states will continue to be tied to controversial forest management issues.

In contrast, separating payments to states, from the receipts generated from the sale of commodities and user fees will allow for a stable, reliable increased level of funding for the states and counties.

H.R. 1185, "Timber-Dependent Counties Stabilization Act of 1999"

The Administration supports the objectives of H.R. 1185, but will seek amendments to more closely align this bill with the Department's proposal. For FY 2000 through FY 2004, this legislation will provide stable payments to states based on an amount equal to 76 percent of the average of the 3 highest twenty-five percent payments made to the state during the 10 year period from fiscal years 1986 through 1995 (special payment amount).

In addition, the bill would provide that after FY 2004 each state will make a one time permanent, binding choice of receiving either the twenty-five percent payment or the special payment amount. This will give states the option to have a permanent, stable payment, not based on revenue generation, or to continue with the decreasing, unpredictable twenty-five percent fund payments. While this is definitely a step in the right direction, it simply puts off decisions which can, and should, be made today. The Administration prefers to ensure that all states receive a permanent stable payment as is provided in the it's proposal.

This legislation also provides for the special payment amount to be adjusted to reflect changes in the consumer price index for urban uses. The Department's proposal does not reflect changes in the consumer price index, but we are willing to work with the Subcommittee to discuss the additional funding that this will require.

H.R. 2389, "County Schools Funding Revitalization Act of 1999"

Again the Administration agrees with one of the objectives of H.R. 2389, that is to stabilize payments, but strongly opposes this bill and, in its current form, is unacceptable for the following reasons: 1) it does not provide a stable payment past 5 years nor does it provide for a mandatory payment to states from the general fund of the Treasury; 2) the funding provisions for FY 2000-2005 payments could create significant impacts on Forest Service programs; and 3) it does not separate payments to states from the contentious, controversial debate over natural resource management of the National Forests, but only fuels this debate by establishing an advisory committee to address issues concerning management of our National Forests.

First, H.R. 2389 would only temporarily stabilize payments to states for a five year period beginning in FY 2000. Under this bill, the short-term payments for fiscal years 2000 through 2005 would be the twenty-five percent fund payment for the fiscal year or the full payment amount, whichever is greater. The full payment amount would be equal to the average of the three highest twenty-five percent fund payments or the owl county safety-net payment during FY 1986 through FY 1999. This formula would yield a payment that is over \$170 million more than the \$269 million that is available for the Administration's proposal. Since current payment levels equal \$242 million for FY 2000, currently projected harvests would need to more than double in order to fund the legislation's higher payments to state levels, or the Forest Service will have to significantly reduce non-revenue producing programs. In addition, after 5 years this issue will have to be addressed again. Assuming this issue will not be easier to resolve, then

payments to states will return to the twenty-five percent fund payments resulting in a significant reduction in funding for education and roads.

Second, under the Administration's proposal, payments to states will be made automatically from the general fund of the Treasury and will not be subject to the annual appropriation process. In contrast, H.R. 2389 will fund the difference between the twenty-five percent fund payment amount and the full payment amount from revenues received from activities on National Forest lands and funds appropriated for the Forest Service. Forest Service appropriations that fund programs generating revenues for the twenty-five percent fund, and funds from trust funds or other special accounts established by statute for specified uses will not be eligible to fund this difference. Under this provision, in FY 2000 the Appropriations Committees will have to either increase Forest Service funding or divert over \$170 million from Forest Service programs such as fire suppression, watershed improvement, wilderness, wildlife and fisheries that do not generate revenue. This is neither tenable nor appropriate.

Third, H.R. 2389 will fail to separate payments to states from the debate over the management of National Forest lands. In fact, the bill would only fuel this debate by continuing to make the payment amount dependent on decisions relating to natural resources management. Most significantly, the bill would establish an advisory committee charged with developing recommendations for a long term method for generating payments at or above the full payments amount. The advisory committee will be required to "seek to maximize the amount of ...revenues collected from Federal lands" and to "ensure that this method is in accord with a definition of sustainable forest management in which ecological, economic and social factors are accorded equal consideration in the management of the Federal lands."

The concept of maximizing revenues collected from National Forests is a fundamental change in Forest Service policy and direction. There is nothing in the Organic Act or National Forest Management Act (NFMA) that requires optimization of revenues. For the last 30 years, Congress has declined emphasizing economic return over natural resource management needs. To do so now is a major reversal to long-standing, carefully hammered out policy. NFMA certainly recognizes the important contributions of economic products from the National Forests, but it also recognizes that such production should be within the ecologically sustainable limits that also preserves our children's economic future.

We strongly believe that payments to states for the purposes of funding schools and roads should not be thrust into the debate over the appropriate management of our natural resources.

Closing

Since 1908, the twenty-five percent fund has worked well to provide funding for local schools and roads. But as demands on our National Forests have increased and timber harvest has declined, we need to provide a stable, permanent mechanism for making payments to states.

Mr. Chairman, the Department supports the objectives of H.R. 1185, but we prefer a complete separation between the payments to states and revenue generation from National Forests. The Department strongly opposes H.R. 2389 because it neither provides a permanent stable payment to states nor separates payments to states from the controversial debate over management of our National Forests. As currently written, the Secretary would be forced to recommend that the President veto this bill. However, I hope that as the process moves forward we can work with you to craft an acceptable alternative approach. We recommend that you consider our proposal to provide a permanent, predictable payment that states can depend on to help fund schools and roads. We look forward to working with the Subcommittee to pursue options that might meet our respective goals.

This concludes my statement; I would be happy to answer any questions you and the Members of the Subcommittee might have.