Ryan M Yonk PhD

Assistant Professor

Southern Utah University

Testimony on "Payments in Lieu of Taxes"

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Chairman Bishop and members of the Subcommittee, I appreciate the opportunity to share with you the results of a number of studies conducted by myself and my colleagues Dr. Randy T. Simmons and Dr. Brian C. Steed of Utah State University. My Name is Ryan Yonk and I am an assistant professor of political science at Southern Utah University. My primary area of research is focused on issues surrounding public lands and the effects they have on rural communities.

Understanding PILT and its role in Local Communities:

The Department of the Interior describes the PILT Program as, "Payments in Lieu of Taxes (or PILT) are federal payments to local governments which help offset losses in property taxes due to nontaxable federal lands within their boundaries. PILT was passed at a time when US policy was shifting from one of disposal of federal lands to one of retention. With that shift, Congress agreed with recommendations of a federal commission that if these federal lands were never to become part of the local tax base, then some compensation should be offered to local governments to make up for the presence of non-taxable lands within their jurisdictions. The DOI has distributed more than $5.5 billion dollars in PILT payments (on average, $157 million annually) to each State (except RI) plus the District of Columbia, Puerto Rico, Guam and the Virgin Islands since the program began in 1977."[1]

PILT legislation was put into place to help local governments avoid the negative financial impact resulting from their inability to collect property taxes on federally-owned land. Congress appropriates PILT payments each year according to a formula that includes population and the amount of federal land within an affected county. Payments are made annually for tax-exempt federal lands administered by the BLM, the National Park Service, the U.S. Fish and Wildlife Service, the U.S. Forest Service and for federal water projects and for some military installations.

The fundamental logic of the establishment of PILT funds was to prevent the systematic disadvantaging of counties where vast federal land holdings would forever be excluded from

[1] Language directly taken from the Department of the Interior Website www.doi.gov/pilt/summary.html

taxable land base. This initial recognition of the potential harms of large permanent federal ownership of large portions of rural primarily western counties has unfortunately given way to claims that suggest this ownership imposes not a cost to local communities but a benefit regardless of the type of lands owned. Questions about the effectiveness and importance of PILT should explore the trade-offs that occur when large tracts of land are federally owned and the opportunity costs that arise from those holdings.

The Current State of Public Lands Counties:

Beginning in 2004 the Center for Public Lands and Rural Economics began a series of studies funded by the Department of Agriculture to investigate the effect of public lands on rural communities. These studies, which focused on Health, Social Services, Education, The effect of Wilderness on Life Quality, and on economic conditions all share similar results. These results suggest that across the wide variety of policy areas the presence of public lands has a non-positive effect on rural communities at best and a negative effect in the worst case.

For example, we find with regards to education that one of the effects of large federal ownership of areas is an increase in the size of the county and school district. Large blocks of federal ownership increase costs as local communities attempt to provide educational service for students. Transportation costs were of particular concern for public officials in Nevada for example. They complain that millions of miles are put on school buses without adequate compensation from the federal government. Similar stories and costs are expressed across the west where federal lands cross-sect counties leading to smaller populations dispersed over an increasingly large area.

We further find that areas with large federal lands holdings face market conditions for health care services that lead to higher prices as a result of those lands holdings and that public lands that cross sect rural communities lead to changes in the way in which hospital markets are defined.

One last example illustrates the current state of public lands counties namely their economic conditions. Our research indicates that communities with 25% of their gross acreage held by the federal government have on average household incomes that are between $741 dollars and $1450 less than their non-public lands counterparts. Further despite the logic of PILT payments we find no effect on the budgetary processes and decisions of public lands counties as a result of those funds. This is not to say that these funds are not an essential portion of any single counties budget but rather that they are not the panacea that corrects the other effects of large scale federal land ownership. Indeed counties with substantial public lands are severely disadvantaged when PILT payments are reduced or delayed.

Our work in these areas have attempted to provide a clear understanding of the problems faced by public counties but does not take into account the opportunity costs imposed on these counties by large scale federal ownership. Indeed attempting to estimate these costs is problematic because we have no clear example of whole sale transfers of public to private lands in the recent past. We do find, however, examples where lands are transferred from one category of protection to another and those transfers can help illustrate the potential costs of excluding lands from active commercial use.

Example One: The Grand Staircase

One example that provides a clear opportunity to test the effect of these transfers is the Establishment of the Grand Staircase-Escalante National Monument.

The Grand Staircase-Escalante National Monument was created by President Clinton in 1996. The Monument spans nearly 1.9 million acres in south-central Utah along the Arizona border. The monument resides completely within Utah, and as can be seen in Figure 1 below, occupies the majority of Kane County and much of Garfield County. Each of these counties already contained a vast majority of public land. Much of this land had been placed in protected status. Bryce Canyon National Park, for instance, straddles Kane and Garfield Counties. Capitol Reef National Park crosses into eastern Garfield County, and much of Southern Kane County contains the Glen Canyon Dam National Recreation Area.

Located in a geologically diverse region, the Grand Staircase contains a treasure trove of mineral deposits. The area contains an estimated 62 billion tons of coal—estimated to be worth hundreds of billions of dollars. The area also contains large oil deposits, estimated at around 270 million barrels of oil. In the early 1990s, Andalex Resources Company, a Dutch based coal mining company, had acquired permits to mine coal from the area. Conoco Oil, PacifiCorp, and various other companies had also acquired permission to develop mineral extraction activities in the area.

In 1996, President Clinton stood atop the South Rim of the Grand Canyon in Arizona to make the announcement regarding the creation of the Monument.[2] In making the announcement, the President alluded to the vast mineral deposits found within the Grand Staircase. He stated, "[m]ining jobs are good jobs, and mining is important to our national economy and to our national security. But we can't have mines everywhere, and we shouldn't have mines that threaten our national treasures" (1996 1787). The national treasures contained in the Grand Staircase identified by the President included the area's aesthetic quality, geology, archeological artifacts, fossils, biology, and its history. Each of these items provides recreational opportunities for explorers and research opportunities for geologists, archeologists, biologists, and historians.

The Grand Staircase-Escalante National Monument became the largest National Monument in the United States. Due to its size, the President established a new management regime for the park. Although all National Monuments up to that date had been managed by the National Park Service, the determination was made that the Grand Staircase would remain under the management of the Bureau of Land Management.

[2] The fact that the President did not enter Utah in making the announcement was not lost on the local residents and further fueled the resentment regarding the creation of the Monument.

Many local officials complained bitterly about the dramatic negative economic impact that the designation would have. One newsmagazine reported in 1996 regarding the sentiments expressed by Kane County Commissioner Joe Judd:

> "Kane Commissioner Joe Judd fumed, 'The most powerful politician in the world just kicked me in the teeth.' Judd figures he can kiss goodbye the 900 jobs and millions in tax revenue promised by a coal mine that Andalex Resources Corp., a Dutch company, had planned for the sandstone bluffs and wind-carved buttes of the Kaiparowits Plateau." (Glick and Begley 1996)

In direct contrast to Commissioner Judd's view, many academics, environmentalists, and federal government officials have alleged that large federal land holdings and protected lands help generate economic growth. The Sonoran Institute, for example, recently noted:

> [T]he presence of public lands is good for the economy. Personal income, adjusted for inflation, grows faster in counties with significant percentages of their land base in public ownership. What's more, counties with protected lands—land set aside for conservation—show an even more marked increase in personal income (2006).

National Park Service (NPS) data seems to bolster the finding that the National Park and Monument System contributes greatly to local economies.[3] 2008 data from all units administered by the NPS generated the following findings:

> [P]ark visitors spent $11.56 billion in the local region surrounding the parks in 2008. Local residents account for 9.8% of this spending. Visitors staying in motels and lodges outside the park account for 55% of the total spending, while non-local visitors on day trips contribute 21% of all spending (Stynes 2009).

All of this spending resulted in over 200,000 jobs with 4.4 billion dollars in labor income, and 6.9 billion dollars of value added. The industries most benefitted from this activity include lodging, restaurants, retail trade, and amusements (Stynes 2009). The Federal Government may also add to the local economy where parks exist by employing various workers to maintain the infrastructure or otherwise conduct the activities of the park.

Our evaluation of the monument focuses on one of the most basic assertion presented by proponents of protected land designation, including those who advocated the creation of the monument, that protection of physical lands should over time increase economic prosperity in communities where the protected land is located. This theory runs counter to other approaches that have generally focused on the consumptive extraction of resources in order to power economic development.

We sought to test which assessment of the effect of the designation was correct and we found that we could identify a particular effect of the designation. The single result where the

[3] It should be pointed out that the NPS does not manage the Grand Staircase Escalante. Due to its size, the service declined management, leaving management decisions to the Bureau of Land Management. The Grand Staircase was the first National Monument not managed by the NPS.

designation appears to have an effect is in Kane County where the designation appears to have provided between 5 and 16 million dollars in additional tax revenues in comparison with the match counties for Kane. However the evidence for increased payroll which is a measure of the gross economic activity shows no such effect. As well in Grand County we see no effect with relation to the comparison counties, and as we cannot reject the null find no evidence that the designation of the monument is either helping or hurting the Economy of Grand County.

The net of our evaluation of the designation of the Grand Staircase-Escalante National Monument is that like general protection, this specific designation has had little or no effect on the economic situation of the host counties. Only with respect to tax revenues in a single model can we identify a statistically significant effect of the monument, and taken on sum these results confirm our broader results.

Example Two: Wilderness Areas

Wilderness, so designated pursuant to the Wilderness Act of 1964, is the most restrictive of all federal land-use designations. The Wilderness Act protects areas “untrammeled by man” that have not been developed for other human uses. To preserve wild characteristics, the Wilderness designation prohibits roads, road construction, mechanized travel, and the use of mechanized equipment. Wilderness also impacts extractive industries such as mining, logging, and grazing. The stringent requirements of the Wilderness Act also disallow the construction of telecommunication towers, facilities for power generation, transmission lines, and energy pipelines.

Due to these restrictions, local officials frequently complain that Wilderness harms local economies by limiting the opportunities for economic development. The State of Utah, for instance, recently passed House Joint Resolution 10 which requested that the U.S. Congress not designate any additional Wilderness in Utah. Through a vote by a supermajority of members, the state legislature asserted that Wilderness’ limitation of multiple uses causes substantial economic hardship for the state.

Environmentalists counter that the presence of Wilderness actually attracts residents and businesses to nearby communities. Wilderness is claimed to increase property values and create a higher quality of life in those communities. Environmentalists also claim that Wilderness contributes to a healthy tourism industry. The Wilderness Society notes “[d]esignated wilderness areas on public lands generate a range of economic benefits for individuals, communities, and the nation—among them, the attraction and retention of residents and businesses.” The Sonoran Institute similarly finds, “protected natural places are vital economic assets for those local economies in the West that are prospering the most.” The Sonoran Institute further notes, “Wilderness, National Parks, National Monuments, and other protected public lands, set aside for their wild land characteristics, can and do play an important role in stimulating economic growth—and the more protected, the better.”

Despite these differing views, Congress has continued creating Wilderness Areas. There are 759 Wilderness Areas currently in the United States, totaling 109,663,992 Acres (Gorte

2010). Wilderness is managed by four federal agencies: the National Forest Service, the National Park Service, the Fish and Wildlife Service, and the Bureau of Land Management. Wilderness Areas dramatically vary in size from the Pelican Island Wilderness in Florida, which occupies a mere six acres, to the 9,078,675-acre Wrangle Island Wilderness in Alaska. Due to the stringent requirements laying out Wilderness characteristics, the majority of Wilderness Areas are found within largely rural and lightly populated counties within Alaska, California, Colorado, Montana, New Mexico, Nevada, Oregon, Utah, and Washington. Only six states contain no Wilderness: Connecticut, Delaware, Iowa, Kansas, Maryland, and Rhode Island.

Understanding the Economic Impact of Wilderness

To provide better evidence of economic impacts, we use longitudinal statistical analysis over every county in the United States dating back to 1995. The panels each contain measurements of economic conditions taken every five years. We selected three uniformly applicable variables as proxies for county economic conditions: average household income, total payroll, and total tax receipts. Average household income and total tax receipts are gathered by the U.S. Census Bureau. Total payroll figures are gathered by the Bureau of Labor Statistics.

Average household income is calculated by dividing the sum of all income of the residents over the age of 18 in each household by number of households. Average household income has the advantage of specifically addressing how individual households are on average affected by Wilderness designation in these counties. It has the disadvantage of being self-reported to the U.S. Census Bureau and, accordingly, may not be as valid as more direct measures.

Total payroll is a broader metric that captures those under the age of 18 and commuters who may live outside but work within a county. Further, it is a measure of the economic situation of individuals rather than households. Total payroll is not a perfect proxy because it does not capture the capital investment, county residents who work outside the county, or most importantly, retirees who do not receive payroll. Nevertheless, the data are readily available and considered a reliable metric for local economic conditions.

County tax receipts present two advantages over the others measures. First, the data are largely complete; local governments are required by state and federal statute to report tax receipts correctly. These requirements provide some confidence in the data that self-reporting does not provide. Second, tax receipts represent all taxable transactions in the county. This provides a useful metric of economic activity. Tax receipts, however, are not a perfect proxy as there are significant institutional differences across states, regions, and often counties themselves about how, when, and why taxes may be collected.

Although none of our dependent variables is a perfect proxy for economic conditions, taken together, they paint a relatively complete picture of the economic situation. We expect that the presence of Wilderness would have similar effects on each variable. To ensure that it is the effect of Wilderness and not simply federal land ownership that harms economic conditions we include control variables for each of the federal agencies that manage public land. We also include variables that control for the significant differences among counties. These variables include population, land area, number of households, birth rate and school enrollment, and infant death rate. Further, we include variables indicated by the economic development literature as likely important in determining outcomes: high school graduates, median household income, poverty rate, crime rate, government employment, unemployment rate, and social security recipients.

Controlling for other factors influencing county economic conditions, the Wilderness designation is significantly associated with lower per capita income, lower total payroll, and lower total tax receipts in counties. These results indicate that Wilderness impacts both households and counties. Average household income within Wilderness Counties is estimated to be $1,446.06 less than Non-Wilderness Counties. Total payroll in Wilderness Counties is also estimated to be $37,500 less than in Non-Wilderness Counties. County Tax Receipts in Wilderness Counties is estimated to be $92,910 dollars less than in Non-Wilderness Counties.

The argument often stated by the environmental community that Wilderness is good for local economies is simply not supported by the data. When comparing Wilderness and Non-Wilderness Counties, Wilderness Counties are at an economic disadvantage to their Non-Wilderness counterparts. Accordingly, if the test for whether or not to designate Wilderness is economic, Wilderness fails. But economics did not underlie the Wilderness Act or any of the Wilderness Areas established since the Act was passed. Wilderness is established for emotional, ecological, and cultural purposes. Our results show that those purposes are accomplished at a cost to local economies.

A variety of factors could lead to the negative relationship between Wilderness and economic conditions. Arguably, areas "untrammeled by man" have less existing economic activity and reducing the potential for future economic development by designating those areas as Wilderness will not, on net, be economically positive. It is also possible that different types of Wilderness may have different implications for economic conditions. As noted, four federal agencies currently manage Wilderness Areas, and different agencies may have different economic impacts on counties. Wilderness within National Parks, for instance, may more effectively attract tourists than Wilderness on Bureau of Land Management or National Forest Service lands.

Finally, it is probable that the location of Wilderness has an impact on the direction and magnitude of its economic impact. Phillips (2004), for instance, found that Wilderness designation in the Green Mountains of Vermont had a positive impact on private land values in that area of Vermont. We should assume that some Wilderness can, in fact, have positive economic impacts, even though our findings indicate that this is not the general rule.

While there may be other legitimate, non-economic reasons for the designation of Wilderness, the tradeoff will likely impose an economic burden on local families and businesses. The benefits and costs from Wilderness are unevenly distributed between local and non-local communities, with local communities incurring a larger burden of the costs. This provides a good reason why local officials often rally against and adamantly oppose Wilderness.

When environmentalists and national agencies consider the creation of Wilderness designations in the future, they should pay attention to the interests of local communities. This paper illustrates the adverse economic costs of Wilderness on local economies. By working together with local communities to address their concerns, environmentalists can help develop balanced policy that genuinely acknowledges the local economic costs associated with Wilderness.

Example Three: Treasured Landscapes

In 2011 we conducted a review of the fifteen areas identified by the "Treasured Landscapes" memorandum evaluating the likely boundaries, interested parties and most significantly, the energy production potential of each proposed area. The focus of this study was on whether there are substantial opportunity costs to imposing increased legal protection in these areas. To explore this question we use data from the US Department of the Interior, US Department of Agriculture, local environmental groups, energy development companies, and state agencies.

Summary of Results

In conducting the inventory of energy potential for each site we focused on both traditional fossil fuel energies, and the renewable potential of each site. In conducting this review we found that relatively few of the sites identified as candidates by the DOI had significant fossil fuel reserves, although many had the potential for shale extraction, including oil shale. Our review indicates that only the Berryessa Snow Mountains and the Vermillion Basin have readily identifiable oil production possibilities. Similarly only the San Rafael Swell and Montana's Northern Prairie have a high likelihood of coal production. Natural gas production appears possible only in Montana's Northern Prairie, the Heart of the Great Basin, and the Vermillion Basin.

While these fossil fuel resources appear only in a handful of the potential monuments, over half have shale formations likely to enable commercial fossil fuel production. While these areas have identifiable potential for shale production the development of shale fields is highly controversial and the subject of a number of ongoing environmental reviews and lawsuits. [4]

These findings while interesting tell only part of the energy development story. We also evaluated the possibility of renewable energy development in each of these potential monuments. Most of the potential monuments have significant renewable energy possibilities that would be foreclosed by increased protections. Twelve of the fifteen potential monuments have the potential for multiple types of renewable energy development, and only the San Rafael Swell has no renewable energy potential. Developing renewable energy has been a priority of the DOI, environmental groups and energy production companies and has been deemed a national priority by President Obama. The reality, however, is that should these monuments be created, renewable energy production on a significant scale and across a variety of landscapes will be foreclosed.

These results paint a difficult picture for those, including the authors, who in many instances support both the preservation of landscapes like those proposed in the 'Treasured Landscapes' memorandum, and who also support increased production of renewable energy.

[4] These suits leave us skeptical whether production of large scale shale projects will be allowed on any federal lands.

Indeed the most significant lesson we draw from this data is that conflicts between priorities, including environmental priorities, will inevitably require trade-offs. Indeed the potential monuments pose significant costs to renewable energy production if the preservationist impulse is to be followed.

Conclusion

Our research suggests that the reality of federal land ownership and the effects of those lands can be best summed up in two core economic concepts. First, trade-offs, every policy action necessarily chooses to do something and not others. In the case of federal lands local communities face the realities of the decisions of federal policy makers. These decisions often represent choices which place other interests above those of local communities. These sorts of choices suggest that the potential tradeoffs need to be thoroughly evaluated and considered. It is not simply enough to claim that any decision leads to better outcomes and thus the choice can only help local communities. Our research finds no evidence that this assertion can be supported by the data. Second when considering these trade-offs opportunity costs must be appropriately accounted for in the decision making process. Often the trade-offs of large federal land ownership are not about precluding currently active projects and activities but rather about prevention future opportunities from being developed. These costs are and substantial and should be considered carefully in making decisions about federal lands.

A final observation is rooted in the nature of federally owned public lands. These lands have varying potential and treating each as having identical trade-offs and opportunity costs as the current PILT system does fails to recognize the context that each community and public lands area functions within and arbitrarily assigns a value that independent of that context.