

**STATEMENT OF CHRIS KEARNEY
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DEPARTMENT OF THE INTERIOR
BEFORE THE
HOUSE RESOURCES COMMITTEE,
SUBCOMMITTEE ON FORESTS AND FOREST HEALTH
ON THE PILT, REFUGE REVENUE SHARING PERMANENT FUNDING ACT, AND
PROPERTY TAX ENDOWMENT ACT OF 2002**

JULY 25, 2002

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to testify today on H.R. 1811 and H.R. 5081, bills that would make the Bureau of Land Management's (BLM) Payments-in-Lieu of Taxes (PILT) Program and the Fish and Wildlife Service's Refuge Revenue Sharing (RRS) Program mandatory. A hearing on S. 454, took place on May 9, 2002, before the Senate Energy and Natural Resources Committee, Subcommittee on Public Lands and Forests. Our position on these bills remains unchanged. The Administration strongly supports the PILT and RRS programs and views them as high priorities, but the Administration is strongly opposed to both S. 454 and H.R. 1811 because it would force the Federal Government to either raise taxes or cut into other programs that are integral to the President's budget.

Background

The PILT Act (P.L. 94-565) was passed by Congress in 1976 to provide payments to local governments in counties where certain Federal lands are located within their boundaries. PILT is based on the concept that these local governments incur costs associated with maintaining infrastructure on Federal lands within their boundaries but are unable to collect taxes on these lands; thus, they need to be compensated for these losses in tax revenues. The payments are made to local governments in lieu of tax revenues and to supplement other Federal land receipts shared with local governments. The amounts available for payments to local governments require annual appropriation by Congress. The BLM allocates payments according to the formula in the PILT Act. The formula takes into account the population within an affected unit of local government, the number of acres of eligible Federal land, and the amount of certain Federal land payments received by the county in the preceding year. These payments are other Federal revenues (such as receipts from mineral leasing, livestock grazing, and timber harvesting) that the Federal government transfers to the counties.

The President's FY 2003 budget request demonstrates our commitment to PILT. The Administration requested \$150 million for FY 2002 for PILT, and this year the Administration is requesting \$165 million, an increase of \$15 million.

Despite the budget pressures resulting from the events of September 11th, and in light of the fact that the Department's overall budget for FY 2003 was nearly unchanged from the prior year, the Department sought a ten percent increase over last year's budget for this important program because of our commitment to making progress and we fully realize this obligation. In addition, while we recognize the importance of the PILT program, it should not be viewed in isolation from other departmental and federal programs that bring or will bring benefits to counties in the future. Examples include funding provided for rural fire assistance and our efforts to work with Gateway Communities to increase tourism opportunities.

The Refuge Revenue Sharing Act (16 U.S.C. 715s) as amended, was enacted in 1935. It authorizes payments to be made to offset tax losses to counties in which U.S. Fish and Wildlife Service (FWS) fee and withdrawn public domain lands are located. The original

Act provided for 25 percent of the net receipts from revenues from the sale or other disposition of products on refuge lands to be paid to counties. The Act was amended in 1964 to make it more like the payment-in-lieu of tax program. The new provisions distinguished between acquired lands that are purchased by the Service and lands that are withdrawn from the public domain for administration by the Service. For fee lands, the counties received 3/4 of 1 percent of the adjusted value of the land or 25 percent of the net receipts, whichever was greater, with the value of the land to be reappraised every 5 years. They continued to receive 25 percent of the net receipts collected on the withdrawn public domain lands in their county.

The Act was amended again in 1978 in order to provide more equitable payments to counties with lands administered by the Service within their boundaries. The method used to determine the adjusted cost of the land acquired during the depression years of the 1930's (using agricultural land indices) resulted in continuing low land values compared to the land prices that existed in 1978. Also, other lands that were purchased during periods of inflated land values were found to be overvalued. The Congress decided that the payments did not adequately reflect current tax values of the property. It also recognized that national wildlife refuges are established first and foremost for the protection and enhancement of wildlife and that many produce little or no income that could be shared with the local county.

In the 1978 amendments, Congress chose to distinguish between lands acquired in fee and lands withdrawn from the public domain, by recognizing that the financial impact on counties tends to be greater when lands are directly withdrawn from the tax rolls, rather than when the refuge unit is created out of the public domain and has never been subject to a property tax. The formula adopted then, and still in effect, allows the Service to pay counties containing lands acquired in fee the greater of: 75 cents per acre, 3/4 of 1 percent of the fair market value of that land, or 25 percent of the net receipts collected from the area. If receipts are insufficient to satisfy these payments, appropriations are authorized to make up the difference.

Counties can use funds for any government purpose, and pass through the funds to lesser units of local government within the county that experience a reduction of real property taxes as a result of the existence of Service fee lands within their boundaries. Counties with Service lands that are withdrawn from the public domain continue to receive 25 percent of the receipts collected from the area and are paid under the provisions of the PILT Act.

I would like to note that many of the same concerns we have expressed regarding PILT funding hold true for RRS funding as well. Moreover, we believe that it would be prudent to take another look at the PILT and RRS formulas, authorization levels and other issues, including those raised in the Department's report to Congress dated January 11, 1999, before considering such a significant action as converting these payments to permanent mandatory payments.

H.R. 5081

The Administration supports the purposes of H.R. 5081, but we must oppose this legislation for the same reasons that we oppose H.R. 1811. This legislation seeks to protect local governments against the loss of property tax revenue when private lands are acquired by a federal agency by making the PILT program mandatory spending for the next five fiscal years. The Administration is strongly opposed to creating a new mandatory spending category to fund the PILT program because it would force the federal government to either raise taxes or cut into other programs that are integral to the President's budget.

With regard to the other sections of H.R. 5081, the Administration supports the concept that the federal government

should pay for the actual cost of land acquisitions, including some provision for reimbursing counties for lost tax revenue. While the Administration wants to work with the sponsors and with the Committee on ways to incorporate this theory into the land acquisition process and budget, the Administration also has some concerns with these sections.

We believe the provision that allows retroactive selections could expose the United States Treasury to a potentially enormous liability. If every unit of local government where federal land acquisitions have occurred since September 30, 1998, were to select a one-time lump sum payment in lieu of PILT payments, the immediate liability for federal taxpayers could run into the hundreds of millions of dollars.

The Administration also wants to work with the sponsors and the Committee to clarify the relationship of PILT and entitlement lands to the one-time payments, in order to ensure that units of local government would receive only one form of payment or the other for federally acquired lands.

We believe it is important to note for Members of Congress that this legislation could dramatically increase the initial costs of acquiring land for the federal government. This will negatively impact the ability of Congress and the Administration to acquire high-priority lands. While the Administration has not estimated the amount of additional money that would be needed to fund the principal for new trust funds associated with land acquisitions, it is safe to say that a dramatic increase in funding would be required in order to accomplish the same level of acquisition activity provided by the Interior Appropriations Act for Fiscal Year 2002. If acquisition funding were to remain level, this legislation would curtail the ability of the federal government to acquire fee land.

The Administration appreciates having the opportunity to review and comment on this legislation. Unfortunately, the bill raises significant budget and policy issues that remain unaddressed and the Administration must oppose the bill as drafted. We would like to work with the sponsors and the Committee to find an approach that accomplishes the goals of the bill without increasing the demands on the budget.

Conclusion

The Administration recognizes that these payments are important to local governments, often comprising a significant portion of their operating budgets. Recently, the Secretary signed an MOU with the President of the National

Association of Counties under which they plan to work closely together on a number of issues including matters related to PILT. The PILT and RRS monies have been used for critical functions such as local search and rescue operations, road maintenance, law enforcement, schools and emergency services. These activities are often undertaken in support of people from around the country who visit or recreate on Federal lands. The BLM and the FWS look forward to continuing to work cooperatively with the communities on these important issues.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or the other members may have.