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[Review of Impact of Corps of Engineers Owned land in McCormick County, South Carolina]. GGD-78-41; E-146285. January 27, 1978. 12 pp.

Report to Sen. Strom Thurmond; by Victor L. Lowe, Director, General Government Div.

Issue Area: Intergovernmental Policies and Fiscal Relations: Fiscal Problems and Potential Solutions (407).

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Budget Function: Revenue Sharing and General Purpose Fiscal Assistance: Other General Purpose Fiscal Assistance (852).

Organization Concerned: Department of the Army: Corps of Engineers; McCormick County, SC.

Congressional Relevance: Sen. Strom Thurmond.

Authority: Payment in Lieu of Taxes Act of 1976 (P.L. 94-565). National Forest Management Act of 1976. Knutson-Vandenberg Act of 1930. 16 U.S.C. 831z.

McCormick County, South Carolina, has experienced financial problems due to Federal ownership of large portions of county land. Legislative alternatives suggested to alleviate this problem include: (1) require the Corps of Engineers to pay a percentage of timber harvest sales receipts to local governments; (2) require that a portion of powerplant revenues be paid to local counties; (3) permit local governments to tax the value of Corps of Engineers land leased to private groups and individuals; and (4) require Federal agencies to pay localities an amount equal to the tax revenue such property would generate if privately owned. A proposed development comprising approximately 800 acres which would include a motel, marina, cabins, picnic areas, and a commercial service center has been leased from the Corps by the Clark Hill Authority, a State agency, and will be sublet to private developers. Auctioning a 128 acre parcel would enable the county to retain other lands and would be compatible with the Corps master plan for development. Aside from this project, McCormick County has no long-range plan for optimal lake development. Another situation which may contribute to the county's financial difficulties is the low property assessment rate. The Advisory Commission in Intergovernmental Relations has found that Federal land ownership generally does not adversely affect local government finances. (RBS)



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT  
DIVISION

JAN 27 1978

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The Honorable Strom Thurmond  
United States Senate

Dear Senator Thurmond:

Your July 8, 1977, letter with accompanying attachments explained that McCormick County, South Carolina, was experiencing financial problems due to Federal ownership of large portions of county land. County officials wrote you that unless the Federal Government does something to support the county, the county government will have to dissolve within 8 years. In a subsequent discussion, you asked us to identify some actions either you or the county could consider to alleviate the problem.

As requested, we have identified certain alternative actions for the county's and your consideration. We have not evaluated the policy effects of these alternatives, nor have we indicated any order of preference or acceptability. Our efforts have been limited, and, in any event, it would seem inappropriate for us to make specific recommendations of this nature.

Our research shows that McCormick County's situation is not unique. Hearings held in 1970 by the House Subcommittee on Energy and Environment, Committee on Interior, demonstrated that other localities shared similar problems. They, too, were States or counties where the Federal Government held major portions of land. In August 1977, we provided you a list showing the 484 counties nationwide that receive Corps of Engineers payments for water resource projects in their district.

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The following discusses legislative alternatives you may wish to consider as well as specific actions McCormick County and the Corps of Engineers could take. Because many counties are similarly situated, legislation with national application may be desirable.

### Legislative alternatives

The Public Land Law Review Commission in its June 1970 report entitled "One Third of the Nation's Land," recommended that:

"If the national interest dictates that lands should be retained in Federal ownership, it is the obligation of the United States to make certain that the burden of that policy is spread among all the people of the United States and is not borne only by those states and governments in whose area the lands are located."

The following are legislative actions which would support that policy with reference to McCormick County.

- Require the Corps of Engineers to pay a percentage of timber harvest sales receipts to local governments.
- Require that a portion of power plant revenues be paid to local counties.
- Permit local governments to tax the value of Corps of Engineers land leased to private groups and individuals.
- Require Federal agencies to pay localities an amount equal to the tax revenue such property would generate if privately owned.

Require the Corps of Engineers to pay a percentage of timber harvest sales receipts to local governments

Presently, the Department of Agriculture is authorized to pay local governments a percentage of its timber harvest

sales receipts; however, the Corps is not. Before the National Forest Management Act of 1976 was enacted (October 22, 1976), the U.S. Forest Service reimbursed States 25 percent of all moneys received during any fiscal year for timber sales from each national forest in each State. The State then disbursed the money to counties based on the proportion of the forest in each county.

The 1976 Act raised the 25-percent payments to States by increasing the base on which such payments are calculated. In addition to the present base, consisting of national forest receipts, two other sources were added; (1) all collections under the Knutson-Vandenberg Act of June 9, 1930, from timber sales for reforestation and timber stand improvement on cutover lands, and (2) all credits to the timber purchaser for construction of permanent roads.

The Forest Service estimated that under these provisions, payments to some States and counties after October 1, 1976, could be 25 to 50 percent higher. We could not determine what increase, if any, would go to McCormick County.

The Corps of Engineers harvests and sells timber in McCormick County and around Clark Hill Lake as part of its management program. These funds are considered in determining the Corps' annual appropriation. If 25 percent of these revenues were returned to the local communities, it would amount to a 5 to 10 percent increase in county revenues. The following table shows the total revenues from timber harvested from Corps-owned Clark Hill land over the last 8 years and what McCormick County's share would be, based on a 25-percent distribution to local governments and the proportion of Corps land located in McCormick County.

<u>Fiscal Year</u>	<u>Clark Hill Timber Harvest Revenue</u>	<u>25% Distributed to local Governments a/</u>	<u>Portion to McCormick b/</u>	<u>Portion to Georgia Counties b/</u>
1970	\$ 130,693	\$ 32,673	\$ 10,455	\$ 22,218
1971	133,364	33,341	10,669	22,672
1972	106,705	26,676	8,536	18,140
1973	234,827	58,707	18,786	39,921
1974	574,108	143,527	45,929	97,598
1975	592,994	148,249	47,440	100,809
1976	367,518	91,880	29,401	62,479
1976*	86,397	21,599	6,912	14,687
1977(thru July)	<u>498,247</u>	<u>124,562</u>	<u>39,860</u>	<u>84,702</u>
Total	<u>\$2,724,853</u>	<u>\$681,214</u>	<u>\$217,988</u>	<u>\$463,226</u>

\*Transition Quarter

a/25 percent is chosen because that is the amount which the Forest Service redistributes.

b/Roughly 32 percent of Corps lands held above the water line around Clark Hill Reservoir is in McCormick County. The remaining 68 percent is held in Georgia counties.

Require that a portion of the power plant revenues be paid to local counties

Precedent exists for this type of legislation. The Tennessee Valley Authority (TVA) under 16 U.S.C. 831z is required to pay a percentage of gross proceeds from power sales to certain States and local governments. The payment percentage was established in 1940 at 10 percent and gradually reduced until 1948 when it reached 5 percent where the percentage has remained. The funds are apportioned to the States and local governments in which the project is located.

The following table shows the amount that would have been paid to McCormick County if a 10-percent 5-percent distribution formula were used and McCormick County received half of the amount distributed. TVA payments are based on the percentage of gross proceeds from power sold in the State and the proportion of TVA property at "book value" contained in the locality. We assumed, for illustration purposes, that one-half of the distribution would go to McCormick County.

Fiscal year	Previous year's Clark Hill operating revenue 1/	Return to McCormick County	
		10-Percent Distribution	5-Percent Distribution
1975	FY'74 \$2,019,293	\$100,965	\$ 50,482
1976	FY'75 1,834,262	91,713	45,857
1977	FY'76 <u>2,664,951</u>	<u>133,248</u>	<u>66,624</u>
	<u>\$6,518,506</u>	<u>\$325,926</u>	<u>\$162,963</u>

1/TVA formula calculates payments each year using the previous year's operating revenue.

Permit local governments to tax the value of Corps of Engineers land leased to private groups and individuals

Federal law does not now allow local governments to tax private ownership of Corps leased land. McCormick County would not be greatly affected by legislation permitting such taxation, although other counties with similar situations could benefit more. The Corps leases 14 lots and one marina on the McCormick County side of the reservoir to private groups. The following table shows estimated taxes accruing to McCormick County in 1977 if leased land could be taxed.

	Number of acres privately leased	Assumed value per acre 1/	South Carolina <sup>2/</sup> assessment percentage	County millage rate	McCormick County return
Clubs	120.7	\$1,500	6 %	65	\$ 706
Marina	<u>49.5</u>	1,500	10.5%	65	<u>507</u>
	170.2				<u>\$1,213</u>

1/Value is estimated on the basis of the June 1977 sale of Catfish Bay property which borders on the reservoir.

2/McCormick County officials said that South Carolina law assesses property at 6 percent of market value for second homes and 10.5 percent for commercial and industrial property.

The following table shows the estimated payments McCormick County would have received in fiscal years 1975 and 1976 from Federal Government-owned property if the three previously discussed legislative actions had been in effect in 1975. Also included are actual payments made to the county under existing legislation; timber payments by the U.S. Forest Service; and payments by the Corps of Engineers under the U.S. Flood Control Act. 1/

Source	Fiscal Year 1975			Fiscal Year 1976		
	Actual	Estimated	Total	Actual	Estimated	Total
U.S. Forest Service	\$77,829	-	\$ 77,829	\$ 99,309 <sup>a/</sup>	-	\$ 99,309 <sup>a/</sup>
U.S. Flood Control	4,649	-	4,649	8,792	-	8,792
Timber receipts (Corps)	-	\$ 47,440	47,440	-	\$ 29,401	29,401
Power plant (10-percent distribution)	-	100,965	100,965	-	91,713	91,713
Taxing property	-	-	-	-	1,213	1,213
	<u>\$82,478</u>	<u>\$148,405</u>	<u>\$230,883</u>	<u>\$108,101</u>	<u>\$122,327</u>	<u>\$230,428</u>
Mills generated	14	26	40	19	21	40
Contribution per acre <u>b/</u>	\$1.09	\$1.97	\$3.06	\$1.44	\$1.62	\$3.06

<sup>a/</sup>FY 1976 amount is for a 15-month period which includes the July 11, 1976 to September 30, 1976, transition quarter.

<sup>b/</sup>Based on Federal Government-owned land above the 330-foot mean sea level water line (normal water level elevation) in McCormick County.

1/This Act requires the Corps to reimburse the Treasury 75 percent of revenue from leases granted on Corps land. The payment is returned to the State and then transferred to the county in which the land is located.

These total payments would be a significant contribution to the county's property tax revenues of \$45,000 in both fiscal years 1975 and 1976. The county collects about 31 cents per acre on privately-owned lands, but estimates that the new property reassessment will increase this amount to about 56 cents per acre next year.

Require Federal agencies to pay localities an amount equal to the tax revenue such property would generate if privately owned

The Public Land Law Review Commission proposed that Federal agencies pay localities in lieu of taxes, an amount equal to tax revenues that the property would generate if it were privately owned. A deduction of 10 to 40 percent from the computed value would be made to recognize the benefits localities receive because the land is held by the Federal Government. In late 1976, the Congress stated that it did not believe it was "feasible at this time to \* \* \* establish a single system based solely on tax equivalency." Instead, in recognition that inequities exist in public land payments, Congress enacted the Payment in Lieu of Taxes Act of 1976 (Public Law 94-565) in October. This section compares payments to McCormick County under P.L. 94-565 with those that we estimate would be made under a tax equivalency payment in lieu of taxes.

Public Law 94-565 sets a ceiling on the amount payable, based on local population. Then, it allocates either 75 cents per acre minus any Federal payments already made, such as those based on timber sales revenues, or 10 cents per acre, whichever is greater. Under this law, McCormick County will receive 10 cents per acre or about \$9,600 per year in addition to amounts received from Forest Service timber sales and Corps lease payments under the Flood Control Act. Thus, if all other federally authorized payments remain equal, in fiscal year 1977, revenues to McCormick County would be:

Forest Service	\$ 99,309
Flood Control Act	8,792
Public Law 94-565	<u>9,636</u>
Total	<u>\$117,737</u>
Mills	20



Under a tax equivalency method for determining payments in lieu of taxes, there are many difficulties in computing the payment amount including evaluating the land and applying the appropriate tax rate. However, assuming that all of the Government-held land in McCormick County were evaluated at an average of \$1,000 per acre with a 6 percent market value assessment rate, and a 65-mill tax rate, the payment to the county would be approximately \$375,800. Allowing different discount rates ranging from 10 to 40 percent as the Public Land Law Review Commission recommends, the tax equivalency payment would be as follows:

<u>Percentage reduction</u>	<u>Payment</u>	<u>Mill contribution</u>
10	\$338,200	58
20	300,700	52
30	263,000	45
40	225,500	39

We have presented some possible legislative actions for your consideration along with rough estimates of the impact on McCormick County revenues. Following are possible actions which the county and the Corps of Engineers could pursue, without new legislation, to alleviate the county's problems.

POSSIBLE COUNTY AND CORPS ACTIONS

Little River project land acquisition could be auctioned instead of exchanged

The Little River project is a proposed development comprising approximately 800 acres adjacent to Clark Hill Lake. The planned project includes a motel, marina, cabins, picnic area, and a commercial trade and service center. This land has already been leased from the Corps by the Clark Hill Authority, a State agency, and will be sublet to private developers. The Authority wishes to obtain a tract from the Corps to add to the Little River project. The Corps has agreed to exchange 128 additional acres for county-owned land of equal value. Under the development plan, these 128 acres will be sold for private ownership and cottage development.

The county would prefer that the Corps sell these 128 acres rather than exchange them so that the county could retain the other land for future use. The Corps believes an exchange better serves the general public interest. The land the Corps will obtain is roughly four times larger in area but is not located along the reservoir. It once belonged to the Corps but was declared excess and sold in 1962.

The Corps could sell the 128-acre parcel at public auction under authority granted by Public Law 84-999, and stipulate that it be subdivided into one-acre improved lots. Auctioning the land would enable the county to retain the other lands and would be compatible with the Corps' master plan for Clark Hill Lake development. The 128 acres is already zoned by the Corps for private use by sailing and boat clubs, and is bordered on the Northeast and South by residential areas.

The prices set at an auction will add to the county's tax register. For example, assuming sales prices of \$1,500 or \$2,000 per acre for these 128 one-acre lots, the annual property tax revenues on the land before development would be as follows:

<u>Cost per acre</u>	<u>Total sales price</u>	<u>County revenue (6 percent rate and 65 mills)</u>
\$1,500	\$192,000	\$ 749
2,000	256,000	998

The Corps has valued the land at \$166,600 as of June 1977, for purposes of the transfer. However, after development, the total value added to the tax register would be greater.

Opportunity exists for intergovernmental planning and cooperation

We believe an opportunity exists for increased communication and intergovernmental planning to design a lake plan that would best meet the Corps' objectives and still provide development opportunities to the counties around the lake.

The Corps states that its Clark Hill Master Plan and the lakeshore management plan are "living documents" and will be periodically refined and modified to accommodate changing circumstances and conditions. During locally-held meetings, however, citizens expressed concern that they did not have true opportunities to contribute to the plans.

On the other hand, aside from the Little River project, McCormick County has no long-range plan for optimal lake development. This project, valued at approximately \$15 million not including the private cottage development, will net approximately \$58,000 annually in property taxes to the county. The county's expected growth will require more revenue than this amount.

If the county should seek more and more lakeside land, such piecemeal acquisition and development could harm the lake's aesthetic beauty. A regional council of the counties bordering the lake could meet regularly with Corps officials to discuss coordinated development which would provide benefits for all the governments yet still be compatible with general public interest.

The Corps owns other land which may be suitable for private development for camping, cottages, and motels similar to Little River. It has approximately 2,300 acres in McCormick County which is designated for recreational development by the Corps, or which is to be granted to private groups or local government agencies. These are spread along the shore and some are bordered by shoreline designated in the lakeshore management plan for public recreation use. As demand for lakeside land grows, private commercial concessionaires could be encouraged to lease and build public recreational facilities on these lands. This could add to the county's tax base, provide employment for county residents, and by providing for public, rather than private use, comply with the recommendation in this regard made by the Public Land Law Commission discussed below. Coordination and cooperation between the county and the Corps can help encourage limited lake development with proper control over deleterious environmental effects.

The Public Land Law Review Commission recommended that public lands not be made available under lease or permit for private residential and vacation purposes. They believed that the demand for vacation homes and property is very great and public lands could never accomodate this demand without serious conflict with public recreation use. The Commission believed that only a privileged few would be able to benefit.

McCormick County's property tax could be increased

Finally, another situation which may contribute to McCormick County's financial difficulties is the low property assessment rate. County officials believe that any tax rate increase of 50 mills or more will encourage residents to move elsewhere. However, compared to Lincoln County, Georgia, which also borders Clark Hill Lake, the property taxes are low. The following chart shows a comparison of taxes paid on hypothetical property valued at \$50,000 located in Lincoln and McCormick Counties. The McCormick County property is listed under three separate situations because South Carolina assesses different percentages of appraised value depending on property use.

	Lincoln County, Ga.	McCormick County		
		Commercial industrial	Second home or corporate farms	First home or private farms
Appraised property value	\$50,000	\$50,000	\$50,000	\$50,000
State assess- ment rate	40%	10.5%	6%	4%
County millage rate	<u>19.65</u>	<u>65</u>	<u>65</u>	<u>65</u>
Tax paid	\$ 393	\$ 341	\$ 195	\$ 130
Contribution per \$ of value	\$ 0.008	\$0.0068	\$0.0039	\$0.0026

It appears that the tax liability on property is less in McCormick County than in Lincoln County. Given this comparatively low tax and the county's stated need to raise \$1,000,000 annually, the county may wish to consider increasing property assessments or seek ways to expand its tax base through imposing new taxes such as vehicle taxes.

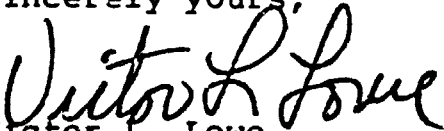
Advisory Commission on Intergovernmental Relations Study

The Advisory Commission on Intergovernmental Relations is in the process of completing a "Forest Reserve Report" to assess the impact of Federal lands on local governments. The tentative findings did not support the claim that Federal compensation payments should be increased. The Commission found that generally, Federal land ownership does not adversely affect local government finances. The "Forest Reserve Report" contains several recommendations affecting Federal compensation. You may wish to obtain this report when it is issued.

Clark Hill Reservoir attracted approximately 6 million visitors in fiscal year 1976, ranking seventh in visitations among all Corps of Engineers reservoirs in the country. Visitations are expected to approach 15 million in 1990. Therefore, any actions taken by the Corps, the Congress, or McCormick County should consider the needs of the general public and those of the surrounding counties.

I hope this information will be useful to you.

Sincerely yours,

  
Victor L. Lowe  
Director