CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 31, 2005

Reconciliation Recommendations of the House Committee on Resources

As approved by the House Committee on Resources on October 26, 2005

SUMMARY

This legislation would increase offsetting receipts (a credit against direct spending) resulting from programs to develop federally owned natural resources and from sales of certain federal property. Under the legislation, some of those receipts would be spent, without further appropriation action, for payments to certain states and for other federal activities related to the development and conservation of natural resources.

CBO estimates that enacting this legislation would reduce net direct spending by $6 million in 2006, by $3.7 billion over the 2006-2010 period, and by $3.4 billion over the 2006-2015 period. Enacting the legislation would not affect federal revenues.

The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO expects that enacting this legislation would benefit a number of state, local, and tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the legislation is shown in Table 1. The savings would fall within budget functions 300 (natural resources and environment) and 950 (undistributed offsetting receipts).

TABLE 1. ESTIMATED BUDGET IMPACT OF THE RECONCILIATION RECOMMENDATIONS OF THE HOUSE COMMITTEE ON RESOURCES

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Oil and Gas Leases in ANWR												
Estimated Budget Authority	0	0	-2,000	-1	-500	-1	-1	-1	-1	-75	-2,501	-2,580
Estimated Outlays	0	0	-2,000	-1	-500	-1	-1	-1	-1	-75	-2,501	-2,580
Oil and Gas Leasing within the OCS												
Estimated Budget Authority	0	-524	-5	-211	-151	149	153	24	-21	267	-891	-319
Estimated Outlays	0	-524	-5	-211	-151	149	153	24	-21	267	-891	-319
Mining on Federal Land												
Estimated Budget Authority	-1	-11	-18	-69	-59	-52	-31	-30	-28	-27	-158	-326
Estimated Outlays	-1	-11	-18	-69	-59	-52	-31	-30	-28	-27	-158	-326
Sales of Federal Land												
Estimated Budget Authority	-5	-3	-29	-44	-47	0	0	0	0	0	-128	-128
Estimated Outlays	-5	-3	-29	-44	-47	0	0	0	0	0	-128	-128
Total Changes												
Estimated Budget Authority	-6	-538	-2,052	-325	-757	96	121	-7	-50	165	-3,678	-3,353
Estimated Outlays	-6	-538	-2,052	-325	-757	96	121	-7	-50	165	-3,678	-3,353

NOTE: ANWR = Arctic National Wildlife Refuge, OCS = Outer Continental Shelf.

BASIS OF ESTIMATE

For this estimate, CBO assumes that this legislation will be enacted in December 2005.

This legislation would make several changes to programs to develop federally owned resources, particularly oil and natural gas. It would:

- Direct the Secretary of the Interior to establish an oil and gas leasing program for the coastal plain of the Arctic National Wildlife Refuge (ANWR) in Alaska,
- Increase oil and gas leasing in certain areas of the Outer Continental Shelf (OCS) and provide new spending authority for some of the resulting offsetting receipts,
- Make changes to certain fees and requirements related to mining on federal land,
- Direct the Secretary to sell certain federal property; and

- Require the Secretary to hold commercial lease sales for the right to develop federal oil shale and tar sands.

On balance, CBO estimates that those changes would reduce direct spending by $6 million in 2006, by $3.7 billion over the 2006-2010 period, and by $3.4 billion over the 2006-2015 period.

Oil and Gas Leasing in ANWR

This legislation would direct the Secretary of the Interior to implement an oil and gas leasing program for the coastal plain of ANWR. The federal government would receive proceeds first from auctioning leases for oil and gas development rights, from annual rental payments, and—once production began—from royalties. Under the legislation, Alaska would receive half of the gross proceeds generated from the proposed program.

The legislation contains several provisions related to the administration of the proposed leasing program, including provisions that would deem an existing environmental impact statement sufficient for certain requirements under the National Environmental Policy Act and specify procedures for complying with that act. The legislation also would specify procedures for judicial review of certain administrative actions, deem the proposed leasing program and associated activities to be compatible with the purposes for which ANWR was established, and specify that the Alaska National Interest Lands Conservation Act would not apply to any rights-of-way or easements granted across the coastal plain for purposes of transporting oil and gas. The legislation would require leasing to begin 22 months after enactment. Considering those provisions and the time frame for lease sales specified in the legislation, CBO expects that the required sales would occur in 2008 and 2010, and that receipts from winning bids would be collected in those years. Without those provisions, CBO expects that such collections would occur later.

We estimate that gross proceeds from bonuses paid by winning bidders would total $5 billion. That estimate is based on information from the state of Alaska, the Energy Information Administration, and other sources. It also relies on estimates by the Department of the Interior (DOI) of the amount of economically recoverable oil that might be produced from ANWR's coastal plain. As specified in the legislation, one-half of those receipts would go to Alaska, leaving net federal receipts of $2.5 billion over the 2008-2010 period.

In addition to receipts from bonus bids, CBO estimates that the federal government would collect net receipts of about $1 million a year from rental payments starting in 2008. Most of those payments would end in 2015, when we expect production would begin. CBO estimates that gross royalties in that year would total $150 million, and after sharing half of those receipts with Alaska, net federal collections would total $75 million. We expect that the federal government would continue to collect royalties for many years beyond 2015.

Oil and Gas Leasing Within the OCS

The legislation would make several changes to current law that CBO expects would increase offsetting receipts from leasing the right to develop oil and natural gas resources within the OCS. It also would increase direct spending for payments to certain state and local governments and for other new federal programs. Taken together, CBO estimates that these provisions would reduce direct spending by $891million over the 2007-2010 period and by $319 million over the 2007-2015 period (see Table 2).

Increased Receipts from OCS Leases. CBO expects that enacting the legislation would increase proceeds from new leases in areas where we currently expect no new leasing would otherwise occur over the next 10 years. We also expect that a provision to end an existing program for sharing certain OCS receipts with states after 2013 would increase gross receipts starting in 2014. In total, CBO estimates that the legislation would increase gross receipts by about $1.6 billion over the 2007-2010 period and by $3.7 billion over the 2007-2015 period. (Under current law, CBO estimates that gross receipts from OCS leases will total $64 billion over the 2006-2015 period.) Under the legislation, we expect that the federal government would continue to collect additional receipts for many years beyond 2015.

Under current law, moratoria generally prohibit new leasing and preleasing activities in most OCS areas outside of the western and central Gulf of Mexico (leasing occurs in small parts of the eastern Gulf of Mexico and the Alaskan OCS). Under current law, those moratoria are in effect through June 2012. As a result, CBO does not expect significant receipts from new offshore leases to be generated in the moratorium areas—under current law—over the next 10 years.

Upon enactment of the legislation, states would have discretion over whether to allow new leasing for oil or natural gas within 125 miles of their respective coastlines, and could petition the Secretary of the Interior to allow such leasing within some or all of those areas, subject to certain procedural requirements. In addition, starting in July 2013, the legislation would require the Secretary to offer for leasing 75 percent of available OCS areas beyond 125 miles of shore, pursuant to new management plans for those areas. The federal government would receive the proceeds from auctioning leases for oil and gas development rights in areas offered under the legislation, then from annual rental payments, and—once production began—from royalties.

TABLE 2. ESTIMATED BUDGET IMPACT OF CHANGES IN OIL AND GAS LEASING WITHIN THE OCS

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
CHANGES IN DIRECT SPENDING												
Increase In OCS Receipts												
Estimated Budget Authority	0	-554	-307	-390	-374	-155	-245	-506	-629	-518	-1,625	-3,678
Estimated Outlays	0	-554	-307	-390	-374	-155	-245	-506	-629	-518	-1,625	-3,678
New Spending of OCS and Onshore Receipts												
Payments to states and local governments from new OCS receipts												
Estimated Budget Authority	0	0	244	137	177	258	78	204	188	291	558	1,577
Estimated Outlays	0	0	244	137	177	258	78	204	188	291	558	1,577
Payments to state and local governments from OCS receipts anticipated under current law												
Estimated Budget Authority	0	0	0	0	0	0	250	250	320	380	0	1,200
Estimated Outlays	0	0	0	0	0	0	250	250	320	380	0	1,200
Programs to enhance natural resources												
Estimated Budget Authority	0	15	29	21	23	23	35	38	50	57	88	291
Estimated Outlays	0	15	29	21	23	23	35	38	50	57	88	291
Programs to enhance mineral engineering education												
Estimated Budget Authority	0	12	23	17	18	18	28	30	40	46	70	232
Estimated Outlays	0	12	23	17	18	18	28	30	40	46	70	232
Geologic mapping												
Estimated Budget Authority	0	3	6	4	5	5	7	8	10	11	18	59
Estimated Outlays	0	3	6	4	5	5	7	8	10	11	18	59
Subtotal, New Spending												
Estimated Budget Authority	0	30	302	179	223	304	398	530	608	785	734	3,359
Estimated Outlays	0	30	302	179	223	304	398	530	608	785	734	3,359
Net Effect of OCS Provisions												
Estimated Budget Authority	0	-524	-5	-211	-151	149	153	24	-21	267	-891	-319
Estimated Outlays	0	-524	-5	-211	-151	149	153	24	-21	267	-891	-319

NOTE: OCS = Outer Continental Shelf.

Based on information from DOI, CBO expects new leasing would begin in 2007. We estimate that gross proceeds from bonuses for new OCS leases paid by winning bidders and royalties from those leases would total about $1.6 billion over the 2007-2010 period and $3.4 billion over the 2007-2015 period. That estimate relies on studies prepared by DOI on the amount of economically recoverable oil that might be produced in areas where CBO expects new leasing would occur, particularly the eastern Gulf of Mexico, the Atlantic OCS, and the Alaskan OCS. Although CBO cannot predict whether states would choose to allow leasing within areas under their jurisdiction, for this estimate, CBO assumes that roughly half of the area in the eastern Gulf of Mexico, the Atlantic OCS, and the Alaskan OCS would be made available at states' discretion. Our estimate also relies on information from the Energy Information Administration and other sources.

In addition to receipts from bonus bids and royalties, CBO estimates that the federal government would collect rental payments totaling $35 million over the 2007-2010 period and $110 million over the 2007-2015 period. We also estimate that a provision to end an existing program for sharing certain OCS receipts with states after 2013 would increase gross receipts by $94 million in each of fiscal years 2014 and 2015.

In addition, the legislation would expand the definition of the OCS to include certain lands surrounding Puerto Rico and other Territories of the United States. By making those areas available for oil or gas leasing, that provision could result in a further increase in receipts from leases in those areas. CBO is unaware of any federal assessments of economically recoverable resources in those areas, however; thus we have no basis for estimating the timing or magnitude of any additional receipts from leasing activities in those areas.

New Direct Spending of OCS and Onshore Receipts. The legislation would authorize the Secretary to spend, without further appropriation action, a portion of the proceeds from new OCS leases as well as specified percentages of amounts that would be collected under current law from onshore and offshore mineral leases. Based on historical spending patterns for activities similar to those proposed, CBO estimates that new direct spending under the legislation would total $734 million over the 2007-2010 period and about $3.4 billion over the 2007-2015 period, with additional spending continuing for many years after 2015. That estimate of spending includes:

- $558 million over the 2008-2010 period and $1.6 billion over the 2008-2015 period for payments to state and local governments to share a portion of receipts from new OCS leases;

- $1.2 billion over the 2012-2015 period for additional payments to state and local governments of a portion of OCS receipts we anticipate would be generated under current law (this spending would not commence until 2012);

- $88 million over the 2007-2010 period and $291 million over the 2007-2015 period to support projects to enhance natural resources;

- $70 million over the 2007-2010 period and $232 million over the 2007-2015 period for grants and financial assistance to certain colleges, universities, and vocational schools that offer training in petroleum, mining, or mineral engineering; and,

- $18 million over the 2007-2010 period and $59 million over the 2007-2015 period for geologic mapping programs.

Mining on Federal Land

The legislation would make several changes to current law related to mining on federal land. Based on information from DOI and industry sources, CBO estimates that enacting those amendments would increase gross receipts by $11 million in 2006, $240 million over the 2006-2010 period, and $426 million over the next 10 years. Those increases would result primarily from provisions that would increase fees for locating and recording new mining claims, establish a new schedule for annual fees charged to maintain existing claims, and authorize DOI to resume patenting of mining claims and to sell certain other federal land where mineral development has occurred.

Under the legislation, 30 percent of receipts from issuing patents and selling certain land would be available, without further appropriation action, for efforts to reclaim mining land and to support colleges, universities, and vocational schools that offer training in petroleum, mining, or mineral engineering. Based on historical spending patterns for similar programs, CBO estimates that such spending would total $10 million in 2006, $82 million over the 2006-2010 period, and $100 million over the next 10 years. As a result, we estimate that enacting those provisions would reduce net direct spending by $1 million in 2006, $158 million over the 2006-2010 period, and $326 million over the 2006-2015 period.

Sales of Federal Land

The legislation would direct the Secretary of the Interior to sell certain federal land administered by the Bureau of Land Management and the National Park Service (NPS). CBO estimates that the proposed sales would increase offsetting receipts by $5 million in 2006 and $128 million over the 2006-2010 period. We expect no further sales would occur after 2010.

The legislation would direct the Secretary to sell, for amounts specified in the legislation, roughly 7,500 acres of federal land in Nevada and Idaho. CBO estimates that net proceeds from those sales, after making specified payments to those states and the counties where the affected properties are located, would total $3 million in 2006.

The legislation also would direct the Secretary to sell at fair market value about 150 acres of NPS lands located in the District of Columbia. The lands to be sold include Poplar Point (about 100 acres of waterfront property located on the east side of the Anacostia River), around 30 acres of parking lots and other property abutting the Robert F. Kennedy Stadium, nearly 11 acres of land adjacent to South Capitol Street, and 14 smaller tracts in Southwest and Southeast Washington.

While the value of these properties is uncertain and will ultimately be determined by the outcome of a competitive bidding process, CBO estimates that sales proceeds to the federal government would be about $140 million over the next five years. Offsetting these receipts would be about $15 million of new direct spending authorized over that period, including about $5 million to implement sales (such as preparing appraisals and conducting auctions) and $10 million over the 2007-2010 period to relocate NPS facilities currently located at Poplar Point.

This estimate is based on information obtained from the Department of the Interior, the General Services Administration, the District of Columbia's Office of Tax and Revenue, and private developers. It reflects current real estate tax assessments of the affected federal lands as well as recent sales of comparable properties in the District. We estimate that other provisions in the legislation relating to the conveyance of title or transfer of administrative jurisdiction of other NPS lands to the District of Columbia would not have a significant impact on the federal budget.

Accelerated Sales of Commercial Leases for Oil Shale and Tar Sands

The United States is widely believed to contain significant amounts of unconventional oil resources, particularly in the form of oil shale, but historically, commercial oil shale production has not been economically viable. It is likely that DOI will offer some of these resources for leasing by private firms within the next 10 years. The legislation would set deadlines in law for DOI to complete preleasing activities and require the agency to offer leases sooner than would be expected under current law. Because new technology that would make it feasible to economically exploit these resources is not fully developed, CBO does not expect that bonus bids for such leases would be significant over the next five years.

Oil Shale and Tar Sands Leasing under Current Law. The Administration has recently acted to support the establishment of a commercial leasing program for oil shale and tar sands. It established a task force in 2003 to address issues related to such a program. In addition, under the Energy Policy Act of 2005 (Public Law 109-58), the Secretary of the Interior has initiated environmental studies that will be the basis for a commercial leasing program. Pursuant to that act, the Secretary offered, for nominal fees, leases to relatively small tracts of federal land to support research and development of new technologies for processing oil shale and tar sands. DOI accepted applications for such leases during the summer of 2005, and CBO expects the agency to make decisions regarding those applications soon. Under the terms of those leases, companies that meet certain conditions could lease up to 4,960 additional contiguous acres to support efforts to transform research and development projects into commercial operations. Assuming DOI meets its administrative obligations within a timely fashion, CBO expects that the agency could issue some commercial leases for oil shale or tar sands over the next 10 years, depending on the amount of industry interest. Based on information about the likely time required to determine the economic viability of new technologies under development, however, we expect that any such leasing would not occur until after 2010.

Proposed Requirement for Commercial Lease Sales. This legislation would require the Secretary to offer for commercial leasing at least 35 percent of federal lands considered to be geologically promising for leasing of oil shale and tar sands. As a result, CBO expects that such sales could occur sooner than expected under current law, potentially resulting in a short-term increase in receipts from bonus bids. In keeping with treatment of bonus bids from prior oil shale leases, those bonuses would likely be paid in installments over several years. Because 50 percent of the proceeds from leasing under the legislation would be paid to states, any short-term increase in receipts would be partially offset by a corresponding increase in direct spending. Based on oil companies' expressed interest in participating in the existing research and development leasing program, CBO expects there would be interest in obtaining leases offered under the legislation. Given significant uncertainty surrounding several factors that would be critical to companies' willingness to bid for those leases, however, CBO expects that the potential increase in receipts from winning bids would not be significant over the next five years. We further expect that, over the longer run, increased net receipts from early sales would be offset by forgone receipts from sales that would otherwise occur later.

The uncertainties confronting potential bidders include the volatility of oil prices and other aspects of the oil market, the future availability of viable technologies to produce resources and mitigate environmental impacts, governmental permitting and regulatory processes, and issues related to developing the infrastructure necessary to support operations. The legislation would address some uncertainties related to federal regulatory processes by stating that no leases issued would be subject to further environmental review and specifying federal royalty rates. CBO expects, however, that much uncertainty would remain in the next few years when leases would be offered under the legislation, and that bids by potential lessors would be depressed as a result. Considering the vastness of the resource, however, bonus bids could be very large after 2010—perhaps totaling several hundred million dollars after 2010. CBO has not had sufficient time to interview potential bidders for this resource to estimate its market value to the government in later years.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

This legislation contains no intergovernmental or private-sector mandates as defined in UMRA. CBO expects that some state, local, and tribal governments would receive substantial benefits from enactment of this legislation.

The state of Alaska would receive 50 percent of the gross proceeds from federal oil and gas leases in ANWR and Alaska native corporations that own land within ANWR would be able to develop oil and gas resources on their lands. In addition, certain Alaska communities could receive assistance totaling up to $5 million per year.

Other states would receive additional receipts from federal oil and gas leases in the Outer Continental Shelf and from the oil shale and tar sands leases. The District of Columbia would benefit from the land conveyances authorized by the legislation because they would be available for economic development.

PREVIOUS CBO ESTIMATE

On October 20, 2005, CBO transmitted a cost estimate for the reconciliation recommendations of the Senate Committee on Energy and Natural Resources, as approved on October 19, 2005. Provisions in that legislation that would open the coastal plain of ANWR to oil and gas leasing are similar to those contained in the reconciliation recommendations of the House Committee on Resources, and our estimates of net receipts under the two ANWR proposals are the same.

ESTIMATE PREPARED BY:

Federal Costs:
  Megan Carroll—ANWR, OCS, hardrock mining, and oil shale
  Deborah Reis—Federal land sales

Impact on State, Local, and Tribal Governments: Marjorie Miller

Impact on the Private Sector: Selena Caldera

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis