CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 6, 2015

S. 2011
Offshore Production and Energizing National Security Act of 2015

As reported by the Senate Committee on Energy and Natural Resources on September 9, 2015

SUMMARY

S. 2011 would amend existing laws related to oil and gas leasing on the Outer Continental Shelf (OCS) and would remove restrictions on exporting crude oil produced in the United States. The legislation would modify the terms and conditions governing certain leasing activities and authorize new direct spending of proceeds from federal oil and gas leasing for certain programs and for payments to certain coastal states. In addition, the bill would authorize appropriations for grants to Indian tribes for capital projects and other activities aimed at adapting to climate change.

CBO estimates that enacting S. 2011 would reduce net direct spending by about $0.2 billion over the 2016-2025 period. Provisions in titles I-III would affect oil and gas leasing on the OCS and CBO estimates those provisions would have a net cost about $1.3 billion over the 10 year period. Increased collections from eliminating restrictions on exports of crude oil would total $1.4 billion over the same period.

In addition, CBO estimates that implementing the bill would increase spending subject to appropriation by about $700 million over the 2016-2020 period mainly for programs to assist Indian tribes. Because enacting the legislation would affect direct spending, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

CBO estimates that enacting the legislation would increase both direct spending and net on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2026.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. To the extent that the bill would increase royalties and other revenue from offshore oil and gas development, the bill would benefit certain coastal states through the sharing of leasing receipts with the federal government. Some local and tribal governments, as well as

institutions of higher education, also would benefit from receipt sharing and grant programs funded by leasing revenues.

The bill contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of S. 2011 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and the environment), 450 (community and regional development), 800 (general government), and 950 (undistributed offsetting receipts).

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
Title I – Leasing in the Gulf of Mexico												
Estimated Budget Authority	0	0	0	55	160	140	245	195	210	210	215	1,215
Estimated Outlays	0	0	0	15	115	115	235	195	210	210	130	1,095
Title II – Leasing in the Alaskan OCS												
Estimated Budget Authority	0	4	6	3	4	13	61	111	2	5	17	209
Estimated Outlays	0	3	3	3	4	10	63	73	13	14	13	186
Title III – Leasing in the South Atlantic OCS												
Estimated Budget Authority	0	0	0	0	0	-80	-20	60	15	15	0	-10
Estimated Outlays	0	0	0	0	0	-80	-20	60	15	15	0	-10
Title V – Eliminating Restrictions on Exports of Crude Oil												
Estimated Budget Authority	*	*	-50	-95	-105	-155	-215	-220	-275	-330	-250	-1,445
Estimated Outlays	*	*	-50	-95	-105	-155	-215	-220	-275	-330	-250	-1,445
Total												
Estimated Budget Authority	*	3	-44	-37	59	-82	71	146	-48	-100	-19	-32
Estimated Outlays	*	2	-47	-77	14	-110	63	108	-37	-91	-108	-175
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	200	200	199	200	200	199	200	189	200	199	999	1,986
Estimated Outlays	56	112	154	186	200	199	199	196	196	197	708	1,695

Notes: OCS = Outer Continental Shelf; Components may not sum to totals because of rounding; * = between -$500,000 and $0.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2011 will be enacted by the end of calendar year 2015 and that the necessary amounts will be appropriated for each fiscal year.

Changes in Direct Spending

CBO estimates that enacting S. 2011 would reduce net direct spending by $0.2 billion over the 2016-2025 period. That estimate reflects the budgetary effects of provisions that would change the terms and conditions governing oil and gas leasing on the Outer Continental Shelf; authorize direct spending for payments to states and other purposes; and remove restrictions on exports of crude oil produced in the United States. Collections from oil and gas leasing activities on federal lands are recorded in the budget as offsetting receipts, which are treated as a reduction in direct spending.

OCS Leasing Activity. CBO estimates that enacting the provisions related to OCS leases in titles I- III would increase net direct spending by $1.3 billion over the 2016-2025 period. That increase in spending would stem from provisions that would authorize new direct spending of about $1.8 billion over the 10-year period, primarily for payments to states along the coast of the Gulf of Mexico, and from additional receipts of about $0.6 billion from added leasing activities.

Leasing in the Gulf Mexico. Title I would require the Department of the Interior (DOI) to auction leases in certain areas of the Eastern Gulf of Mexico, modify performance standards for certain leases, and increase spending for payments to states and activities funded by the Land and Water Conservation Fund (LWCF). CBO estimates that offsetting receipts from new leasing activity would increase by $480 million and direct spending would increase by $1.6 billion. On net, direct spending would increase by $1.1 billion over the 2016-2025 period.

Under current law, DOI cannot offer leases in most areas of the Eastern Gulf of Mexico until the statutory ban on such activities expires on June 30, 2022. Based on recent trends in leasing proceeds from similar areas, CBO estimates that firms would pay about $360 million over the 2023-2025 period to acquire and hold leases in this area, but CBO's baseline projections include half of that amount, or $180 million, to account for the possibility that auctions will occur under current law after the ban expires. Title I would accelerate and increase the certainty of such leasing activity by immediately repealing the restrictions on leasing in areas within 50 miles of the Florida coastline and requiring auctions to be held starting in 2018. CBO estimates that those changes would increase offsetting receipts by $480 million over 2016-2025 period. Those receipts comprise $180 million stemming from the increased certainty of leasing we expect could occur under current law and $300 million from new leasing activity.

Title I also would allow half of the proceeds from future leasing activity in the Eastern Gulf of Mexico to be spent without further appropriation; 75 percent of that spending would be payments to states and the other 25 percent spending from the LWCF for a variety of activities. CBO estimates that enacting that change would increase outlays by $270 million over the 2016-2025 period. That estimate reflects spending half of the $180 million CBO projects will be collected under current law and the additional $480 million CBO estimates would be collected under the bill. Those amounts would be made available for spending the year after leasing proceeds are collected.

Other provisions in title I would increase direct spending of receipts from leases issued after 2006 in the Central and Western Gulf of Mexico. Starting in 2018, up to $375 million will be paid each year under current law to four states—Alabama, Louisiana, Mississippi, and Texas—and another $125 million will be available to be spent by the LWCF without further appropriation. Current law caps payments at those levels through 2055, after which payments will be determined by formula. S. 2011 would raise the statutory cap by $199 million a year for payments made in 2019 through 2026, and by $499 million a year for disbursements in fiscal year 2027 through 2055. CBO estimates that enacting this change would increase spending by $1.3 billion over the 2016-2025 period.

Finally, CBO estimates that provisions modifying performance standards would effectively extend the time allowed for lessees to perform certain activities and would reduce the number of leases that otherwise would expire and be re-auctioned. Based on historical trends on the number of leases affected by the existing regulations and the minimum bids for new leases, CBO estimates that enacting those changes would reduce payments from bonus bids and rental fees thus increasing direct spending by about $9 million over the 2016-2025 period.

Leasing in the Alaskan OCS. Title II would lengthen the term of certain oil and gas leases in the Alaska OCS and would authorize spending of some of the proceeds from new and existing leases without further appropriation. It also would direct DOI to auction leases in certain near-shore areas separately from other areas and to hold those sales in specific years. CBO estimates that enacting those changes would increase net direct spending by $186 million over the 2016-2025 period.

Under title II, the length of most new leases in the Alaskan OCS would increase from 10 years to 20 years and DOI could extend the term of certain existing leases to 20 years with the consent of the lessee. By extending the length of existing leases, the government would forego receipts from future auctions of the most valuable leases. Those lost receipts would be partially offset by a small increase in receipts for new leases. (Those new leases would be more speculative and CBO expects the longer lease terms would increase the number of leases.) CBO estimates that implementing those changes would reduce net offsetting receipts by $53 million over the 2016-2025 period. For this estimate, CBO assumes that DOI would only extend existing leases that are part of a geologic unit that has been explored during the initial lease term. Based on the typical size of large units and the technical assumptions used in CBO's baseline. CBO estimates that about 10 leases would be extended under the bill. CBO also estimates that the relationships between the number of valuable and speculative leases acquired in future lease sales would be similar to those in the last major lease sale in the Alaskan OCS.[1]

Title II also would phase in new direct spending of leasing proceeds from the Alaska OCS, authorizing the expenditure of 25 percent of the amounts collected over the 2016-2026 period and 50 percent thereafter. Those amounts would be made available for spending the year after funds are collected. CBO estimates that enacting these provisions would cost $136 million over the 2016-2025 period, reflecting the amounts CBO projects will be collected under current law from new and existing leases in the Alaska OCS (including the effect on receipts from the bill's provisions regarding the length of leases). For this estimate, CBO expects that the spending formulas in the bill would apply to royalties, bonuses, and rental payments collected after the date of enactment.

Finally, CBO estimates that provisions modifying the schedule and geographic scope of lease sales in the near-shore areas of the Alaska OCS could affect the timing of bonus and rental payments, but would have no significant net effect on offsetting receipts over the 2016-2025 period.

Leasing in the South Atlantic OCS. Title III would make several changes to the federal oil and gas leasing program in the Atlantic OCS. It would redefine the administrative boundaries used by DOI so that the planning area known as the South Atlantic would span from the northern border of Virginia to the southern border of Georgia. DOI would be required to hold lease sales in that area in 2021 and 2022, similar to the schedule included in DOI's draft plan for the 2017-2022 period. Finally, the bill would authorize 37.5 percent of the proceeds from all future leases in that area to be spent without further appropriation for payments to the states of Virginia, North Carolina, South Carolina, and Georgia. CBO estimates that enacting those provisions would reduce net direct spending by $10 million over the 2016-2025 period.

Although the South Atlantic area is included in DOI's draft leasing schedule for the 2017-2022 period, CBO's baseline projections include half of the potential proceeds from those auctions to reflect the uncertainty about whether the lease sales will be included in the final plan. Requiring those auctions to occur would increase the certainty that the government would receive the $320 million that CBO estimates would be paid for South Atlantic leases over that five-year period, resulting in a net increase in offsetting receipts of

1. Based on an analysis of winning bids in the 2008 lease sale in the Chukchi Sea and in ongoing auctions in the Central Gulf of Mexico, CBO estimates that the amounts paid for the top 50 leases usually are about 40 times more than the average amount paid for all other leases. For example, nearly 60 percent of the $2.7 billion raised in the 2008 Chukchi lease sale was for 35 leases associated with what is known as the Burger field. The other 452 leases accounted for the remaining receipts.

$160 million relative to current law. Enacting S. 2011 would not affect the leasing schedule or CBO's estimate of potential receipts from auctions that may be held in the South Atlantic area after 2022.

Authorizing additional payments to the four South Atlantic states would increase outlays by $150 million over the 2016-2025 period, CBO estimates. That estimate includes payments totaling $120 million from amounts estimated to be collected by 2022 and an additional $30 million from the receipts that CBO estimates will be collected over the 2023-2025 period under current law.

Tribal Resilience. Title IV would establish a Tribal Resilience program within the Bureau of Indian Affairs (BIA) to assist tribes in adapting to the effects of climate change. CBO estimates that those activities would cost $15 million over the 2016-2025 period; that amount is included in the total spending under title II. Starting in 2027, the legislation would authorize BIA to spend up to $200 million a year of the proceeds from all OCS leases for this program without further appropriation.

Eliminating Restrictions on Exports of Crude Oil. Title V would amend existing law to allow exports of crude oil without restrictions. CBO expects that removing existing restrictions would increase demand for oil produced in the United States, thus raising the prices received by some domestic firms and encouraging additional production. CBO estimates that the increases in domestic prices and production would boost federal receipts from federally owned oil and gas leases, which are calculated as a percentage of the value of the oil produced on the lease (also known as the wellhead price). Based on projected trends in U.S. and international oil markets, CBO estimates that enacting title V would increase offsetting receipts from federal leases by $1.4 billion over the 2016-2025 period, net of payments to states (which receive 49 percent of proceeds from most onshore federal oil and gas leases).

Background on Current Export Restrictions. Various laws have imposed conditions on exporting domestically produced crude oil since the 1970s. Those restrictions can affect the price received by producers, which in turn affects income to entities that collect royalties from producers, including the federal government. For many years, those export restrictions had a negligible effect on oil producers because domestic output accounted for a small and declining share of refiners' crude oil supplies. Given that historical shortfall in domestic supplies, many existing refineries were designed to use a mix of imported oil, particularly oil from countries in Latin America that produce a type of crude oil known as "heavy oil."

Domestic oil markets changed abruptly as U.S. oil production increased by about 60 percent over the 2009-2014 period. That increase was almost entirely driven by increased production of "light oil" from onshore oil fields. Accommodating more oil from new locations and with new physical characteristics required operational changes at refineries and investments in new transportation and storage facilities. During that transition period, many producers had to accept prices that were discounted well below global prices in order to sell light oil in the U.S. market.

Such large discounts to global prices could recur in the future if growth in the supply of U.S. oil causes domestic refiners to need economic incentives to process more domestically produced oil, especially light oil. If the amount of added production is relatively small, firms may be able to handle the additional oil using several low-cost options, such as expanding exports to Canada, exchanging oil with Mexico, processing "condensates" (a type of ultra-light oil) for export, or making operational changes that would alter the mix of oils being blended in the refinery. If the volume of new supplies grows larger, however, refiners probably would need to add more costly refinery capacity or would set the price of light oils at levels comparable to those of less expensive alternative supplies. Based on information from several industry, academic, and government experts about the cost and complexity of various processing options, CBO estimates that the additional costs to refiners could range from less than $1 to about $7 per barrel of oil over the next 10 years, depending on the amount and characteristics of the surplus oil.[2] CBO anticipates that refiners would recover those costs by discounting the prices they pay to producers for crude oil.

Additional Royalty and Bonus Bid Collections Under Title V. Allowing domestic producers of crude oil to export oil without any statutory restrictions would expand the market for U.S. oil and therefore would probably result in higher wellhead prices, which are the basis for royalty payments to the federal government. Any increase in wellhead prices would depend on global buyers' willingness to pay more than the domestically discounted price for the crude oil, net of the logistical and shipping costs of getting domestically produced oil to overseas markets. CBO expects most of the effects on federal royalties (and on bonus bids that firms pay for the right to drill for oil on federal land) would occur after 2016 because of the time needed for lawmakers to enact the legislation and for producers to develop the contractual and physical arrangements for exports.

CBO's estimate of the budgetary effects of eliminating export restrictions reflects the weighted average of various scenarios of future oil production and processing costs. It includes projections of domestic oil production in 2025 that are 15 percent to 50 percent higher under current law than 2014 levels. We expect that additional production of light oil will account for nearly all of that increase in each scenario. Variations in the timing of that

2. See Energy Information Administration (EIA), *Technical Options for Processing Additional Light Tight Oil Volumes within the United States*, April 2015 http://www.eia.gov/analysis/studies/petroleum/lto/pdf/lightightoil.pdf; EIA, *Implications of Increasing Light Tight Oil Production for U.S. Refining*, May 2015 http://www.eia.gov/analysis/studies/petroleum/morelto/pdf/lightoilprod.pdf; and Center for Energy Studies, Rice University Baker Institute for Public Policy, *To Lift or Not to Lift,* March 2015 http://bakerinstitute.org/research/lift-or-not-lift-us-crude-oil-export-ban-implications-price-and-energy-security/

growth affect estimates of when domestic pricing discounts would be large enough to create incentives for export activity, resulting in projections of negligible effects in some years and estimated increases in wellhead prices for light oil of up to $6 per barrel, net of export-related expenses, in other years.[3]

Under those conditions and the economic assumptions used in CBO's March 2015 baseline projections, CBO estimates that authorizing exports of domestically produced crude oil without restrictions would increase wellhead prices of light oil by an average of roughly $2.50 per barrel over the 2016-2025 period, on an expected value basis. Although this estimate reflects CBO's best judgment of possible outcomes, actual changes in wellhead prices resulting from such exports would depend on factors that are inherently unpredictable, such as global oil prices, competition from other international suppliers, and administrative actions related to exports that are authorized under current law.

CBO estimates that removing export restrictions would affect the wellhead prices of medium oil differently than light oil because of differences in their physical characteristics and in the market conditions for those types of crudes. Medium oil, particularly medium-sour which is produced in the Gulf of Mexico, is one of the most favored types of oil for U.S. refineries. In addition, CBO anticipates that the domestic refining system will be able to accommodate any growth in the production of this type of oil over the next 10 years, suggesting that price discounts directly tied to this type of oil are unlikely over that period. Thus, CBO expects that any changes in wellhead prices for producers of medium oil, particularly producers in the Outer Continental Shelf (OCS) that resulted from enactment of title V would largely depend on the extent to which changes in other domestic and global markets would indirectly affect the price of medium oil. As a result, CBO estimates that any increases in the price of medium oil would be smaller than the increases for light oil.

Additional Receipts from Onshore Oil Production**.** CBO estimates that higher wellhead prices would increase federal royalties and the amounts producers would pay to acquire leases on federal lands (bonus bids) by about $550 million over the 2016-2025 period. About 70 percent of that amount ($375 million) would come from additional royalties from production that CBO expects would occur under current law. The remaining 30 percent ($175 million) would come from royalties and bonus bids associated with new production that we estimate would occur because higher wellhead prices would provide an incentive for firms to produce more oil. On net, after accounting for states' share of those receipts, CBO estimates that removing export restrictions would increase federal receipts from onshore oil and gas production by about $280 million over the 2016-2025 period. How CBO arrived at those estimates is detailed below.

3. For example, if production spikes in the near term, CBO anticipates that export activities would start early in the 10-year period; by contrast, if production grows slowly, the domestic pricing discounts may not be large enough to justify significant export activities until later in that period.

Under current law, CBO projects that oil production on federal lands will average about 145 million barrels a year over the 2016-2025 period.[4] We estimate that, of that amount, about 105 million barrels of light oil and 25 million barrels of medium oil will be produced each year. If export restrictions are lifted, we estimate that the wellhead price for light oil would increase by roughly $2.50, on average, over the next 10 years and that the wellhead price for medium oil would increase by about half that amount. As a result, we estimate that royalties paid by the producers of that oil (equal to 12.5 percent of the wellhead price) would be $375 million higher if export restrictions are removed.

CBO also estimates that, under current law, firms operating on leased federal land in certain western states, particularly in California, will produce about 15 million barrels of heavy oil each year over the 2016-2025 period. We anticipate that most of that oil will be processed in nearby refineries configured to handle heavy oil. Because those refineries cannot economically substitute domestic light oil for heavy oil, we expect that growing supplies of cheaper light oil will not threaten to displace oil produced in the region. As a result, western refiners will not have the leverage to demand price discounts from local producers, unlike refiners in other parts of the country that process lighter oils. Thus, CBO expects that, if export restrictions were lifted, any change in the price paid to producers of heavy oil would be negligible.

CBO also expects that, if export restrictions are removed, higher wellhead prices would provide an incentive for firms in most parts of the country to produce more oil. In particular, we expect that firms would increase oil production in three states—North Dakota, Texas, and Oklahoma—that contain the most light oil and accounted for about 90 percent of the increase in total U.S. oil production over the 2009-2014 period. Because federal lands make up only two percent of the total land area in those states, we expect that nearly all new production in those states would occur on nonfederal lands.

CBO estimates that in certain western states containing significant amounts of federal land and parts of North Dakota there would be a small increase in production (2 million barrels per year) on such land if export restrictions were lifted.[5] Using CBO's March 2015 forecast of oil prices and the increase expected from lifting restrictions on oil exports, we estimate that royalties from new production on federal lands would total $150 million over the next 10 years. We also estimate that bonus bids would increase by 1 percent ($25 million) over that period. In total, we estimate that new onshore production driven by higher prices would increase offsetting receipts by $175 million over the 2016-2025 period; 49 percent of that amount would go to states.

4. Firms produced 137 million barrels of oil on federal lands in 2014.

5. That amount is equal to about 2 percent of federal production in those states in 2014.

Additional Royalties from Offshore Oil Production**.** Removing restrictions on exports of crude oil might affect federal royalties from offshore leases differently than onshore leases because of differences in the physical and economic characteristics of the crude oil produced in those areas. On balance, CBO estimates that enacting title V would increase royalties collected from leases in the OCS by about $1.2 billion over the 2016-2025. That estimate is based on CBO's March, 2015 baseline projections for oil production on the OCS, excluding the portion of production on which royalties are not paid under the terms of the 1995 Royalty Relief Act (about 20 percent in 2014). CBO estimates that royalty-bearing production will average about 550 million barrels a year over the 2016-2025 period, with a royalty rate of about 15 percent. Crude oil production from the OCS totaled roughly 530 million barrels in calendar year 2014, or about 17 percent of total domestic production.

Most of that estimated increase in OCS royalties reflects the indirect effects of higher prices for light oil on the prices paid for the medium-sour crude oil produced from offshore leases. Although prices for different types of domestic crude oil generally move in tandem, several factors suggest that OCS wellhead prices will not change as much as prices for light oil. For example, prices for OCS oil have usually been a few dollars lower than the key benchmark prices for light oil, and CBO expects that those price differences will return once oil markets adjust to the new levels of supply. In addition, CBO anticipates that competition in the domestic oil market may affect the extent to which the pricing discounts needed to accommodate new supplies of light oil will be borne by producers of other types of oil. CBO accounts for this uncertainty by projecting that OCS wellhead prices would rise by about half as much as prices for light oil if title V was enacted.

Global demand for medium-sour oil could create incentives for exporting OCS oil, but CBO estimates that such transactions probably would have no significant effect on the wellhead prices for OCS production because of uncertainty regarding market conditions. According to industry reports, foreign refiners may benefit from importing medium-sour crudes from the United States because of the premiums they currently pay when importing oil from other suppliers.[6] The net benefit to U.S. producers would depend on whether other international suppliers would respond by lowering the prices they charge in order to maintain market share, which is difficult to predict.

Finally, CBO estimates that the changes in wellhead prices would have no significant effect on OCS production over the 2016-2025 period and would have a negligible effect on bonus or rental payments for new OCS leases. Given the high cost of acquiring and developing oil resources in the deep waters of the OCS, CBO anticipates that investment decisions will be affected more by firms' expectations for global oil prices than by the

6. See Wood Mackenzie, *Implications of Changing U.S. Crude Oil Export Policy*, Presentation by Harold York at the Annual Meeting of the American Fuel and Petrochemical Manufacturers, March 2015 http://crudecoalition.org/app/uploads/2015/06/Implications-Changing_US_Crude_Oil_Export_Policy-Wood-McKenzie.pdf

proportionately small changes in prices that we project would result from enacting title V. Similarly, CBO estimates that implementing title V would have a negligible effect on proceeds from the heavy oil produced from the OCS.

Spending Subject to Appropriation

Title IV would establish the Tribal Resilience Fund to finance a Tribal Resilience Program within BIA. The Tribal Resilience Program would provide grants to improve infrastructure and increase tribes' ability to adapt to the effects of climate change. Under the bill, the fund would receive a portion of the Alaskan OCS receipts and additional amounts through annual appropriation acts. The legislation would limit the total amount of grants to $200 million annually. The spending of Alaskan OCS receipts (totaling $15 million) would be classified as direct spending and are included in the estimate of spending under Title II. CBO estimates that implementing this program would cost an additional $700 million over the 2016-2020 period, assuming appropriation of the estimated amounts.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 2011, as reported by the Senate Committee on Energy and Natural Resources on September 9, 2015

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	2	-47	-77	14	-110	63	108	-37	-91	-108	-175

INCREASE IN LONG TERM DEFICIT AND NET DIRECT SPENDING

CBO estimates that enacting the legislation would increase direct spending and on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2026.

Several provisions in S. 2011 would authorize new direct spending that would increase outlays after 2025. For example, title I would make an additional $499 million available each year for payments to four Gulf states and for activities funded by the LWCF from 2027 through 2055; title II would authorize direct spending of 50 percent from proceeds collected from leases in the Alaskan OCS starting in 2027, which CBO estimates could increase in the future if firms successfully develop resources in the Chukchi Sea and other areas; title III would authorize direct spending of 37.5 percent of the proceeds from leases in the Atlantic OCS that are expected to be collected under current law after 2025, including any royalties from any future production; and title IV would authorize direct spending of up to $200 million a year starting in 2027 for tribal resilience programs, net of any spending derived from title II.

By contrast, CBO estimates that the estimated increase in offsetting receipts resulting from enacting title V would end sooner than most of that new direct spending. CBO expects that the pricing discounts projected under current law would be phased out after refiners expand their capacity to accommodate any added supplies, which would limit the duration of the estimated budgetary savings from removing restrictions on exports of domestically produced crude oil. That outcome would be consistent with the pricing patterns experienced in the last few years and with experts' expectations that refiners would want to recover their costs quickly because of uncertainty regarding market trends and public policies.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. To the extent that the bill would increase royalties and other revenue from offshore oil and gas development, the bill would benefit certain coastal states through the sharing of leasing receipts with the federal government. Some local and tribal governments, as well as institutions of higher education, also would benefit from receipt sharing and grant programs funded by leasing revenues.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On September 29, 2015, CBO transmitted a cost estimate for H.R. 702, a bill to adapt to changing crude oil market conditions, as ordered reported by the House Committee on Energy and Commerce on September 25, 2015. H.R. 702 and title V contain similar provisions, and CBO's estimates of the budgetary effects are the same.

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