



Protecting the Taxpayer's Share of Natural Resource Revenues on Public Lands and Oceans

The Costs, Benefits, and Risks of Natural Resource Revenue Proposals Before Congress

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Introduction and summary

Each year, taxpayers earn more than \$11 billion from the natural resources developed from the public lands and oceans that belong to them and which federal agencies manage on their behalf. This income—generated from activities ranging from deepwater drilling in the Gulf of Mexico to coal mining in Wyoming to geothermal plants in Nevada—is one of the largest nontax sources of revenue for U.S. taxpayers and is available for the benefit of all Americans.

Congress, however, is currently considering several proposed changes to U.S. natural resource revenue policy that, if enacted, would have profound budgetary and policy implications. These changes would fundamentally undermine the principle that the resources on and under public lands and waters belong to all Americans and should be shared equitably.

The leading proposal, the Fixing America's Inequities with Revenues, or FAIR, Act, would divert a greater share of oil and gas revenues from the federally owned 1.3 billion-acre Outer Continental Shelf, or OCS, to five energy-producing coastal states—Alaska, Louisiana, Mississippi, Texas, and Alabama. This revenue-sharing proposal, according to a recent Center for American Progress analysis, would increase the federal debt by more than \$49 billion by 2040 while penalizing coastal states that oppose expanded offshore drilling. While the Congressional Budget Office has projected that the cost of this bill would be only \$6 billion, it looks out only to 2023, before the revenue-sharing caps are lifted under the FAIR Act.

In addition, CAP's analysis shows that the FAIR Act is anything but fair and would result in a significant and arguably inequitable windfall for a handful of states. Under the proposed legislation, federal energy payments to Louisiana alone would rise to nearly \$2 billion per year by 2025—33 times more than what the average energy-producing state is currently collecting and 12 times more than what either of two of the onshore energy-producing giants, Colorado and Utah, are receiving in federal oil, gas, and coal payments. This imbalance appears particularly indefensible in light of the fact that OCS resources belong to all Americans.

Unlike onshore federal lands, OCS lands lie outside state boundaries, and the federal government is responsible for the full cost of their management, safety, and environmental protection.

Rather than creating new revenue-sharing entitlements, Congress should take a comprehensive, fiscally sound approach to addressing the natural resource revenue challenges facing the nation. In this report, we offer four recommendations that are in line with this type of common-sense and equitable approach.

1. Congress should put taxpayers first by reaffirming that the resources on and under federal lands and waters belong to all Americans. With U.S. taxpayers shouldering the impacts and costs of Washington's short-sighted and damaging across-the-board spending cuts under sequestration, and with ongoing budgetary constraints expected for the foreseeable future, taxpayers should not be asked to forgo any additional natural resource revenues.
2. Congress should establish a new mitigation fee that oil and gas companies would pay when drilling on the OCS. The environmental damage and costs of offshore oil and gas development must be accounted for and addressed. Instead of asking U.S. taxpayers to incur these costs through expanded revenue sharing, the revenues from this new fee would be dedicated specifically to the protection and restoration of coastal and environmental resources that are affected by oil and gas operations.
3. Congress should create a true conservation royalty by using OCS revenues to fully and permanently fund America's premier conservation program, the Land and Water Conservation Fund, or LWCF. Because the revenues from oil and gas development on federal lands and waters belong to taxpayers, they should be invested for the benefit of all Americans. In addition, Congress should act on President Barack Obama's proposal to establish an Energy Security Trust Fund—modeled on the LWCF—which would use revenues from the depletion of oil and gas reserves to help the country forge a sustainable and clean energy future.

4. Congress must address the expensive legacy of revenue-sharing agreements that were established during earlier natural resource booms. States and counties with federal lands within their jurisdiction, from which they cannot collect property taxes, face ongoing uncertainty related to whether Congress will extend county payments through the Secure Rural Schools and Payment in Lieu of Taxes programs. As Congress considers whether and how to reauthorize county payments, it should endeavor to simplify the programs and provide a clear path to reducing their costs to taxpayers over time.

Let's examine the issue of natural resource development on our public lands and oceans in greater detail.

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