CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 8, 2017

H.R. 1399
American Soda Ash Competitiveness Act

As ordered reported by the House Committee on Natural Resources on June 27, 2017

SUMMARY

H.R. 1399 would require the Department of the Interior (DOI) to charge a 2 percent royalty on the value of sodium compounds and related products produced on federal lands for a five-year period following enactment.[1] Under current law, the royalty rate is about 6 percent. About half of the royalties collected by the federal government are paid to the states where the minerals are produced. Thus, enacting the bill would reduce both offsetting receipts, which would have the effect of increasing direct spending, and the subsequent payments to states stemming from those royalties.

CBO estimates that enacting H.R. 1399 would increase net direct spending by $50 million over the 2018-2027 period. Because the bill would affect direct spending pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

Enacting H.R. 1399 would not increase net direct spending or on-budget deficits by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1399 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1399 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

1. Sodium compounds and related products include soda ash, anhydrous sodium sulfite, borax-decahydrate, borax-pentahydrate, boric acid, sodium bi-carbonate, sodium bisulfite, sodium sesquicarbonate, sulfide, and trona. Over the 2012-2016 period, soda ash accounted for 87 percent of the total production of those minerals.

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Estimated Budget Authority	14	13	13	12	11	-6	-1	-2	-2	-2	63	50
Estimated Outlays	14	13	13	12	11	-6	-1	-2	-2	-2	63	50

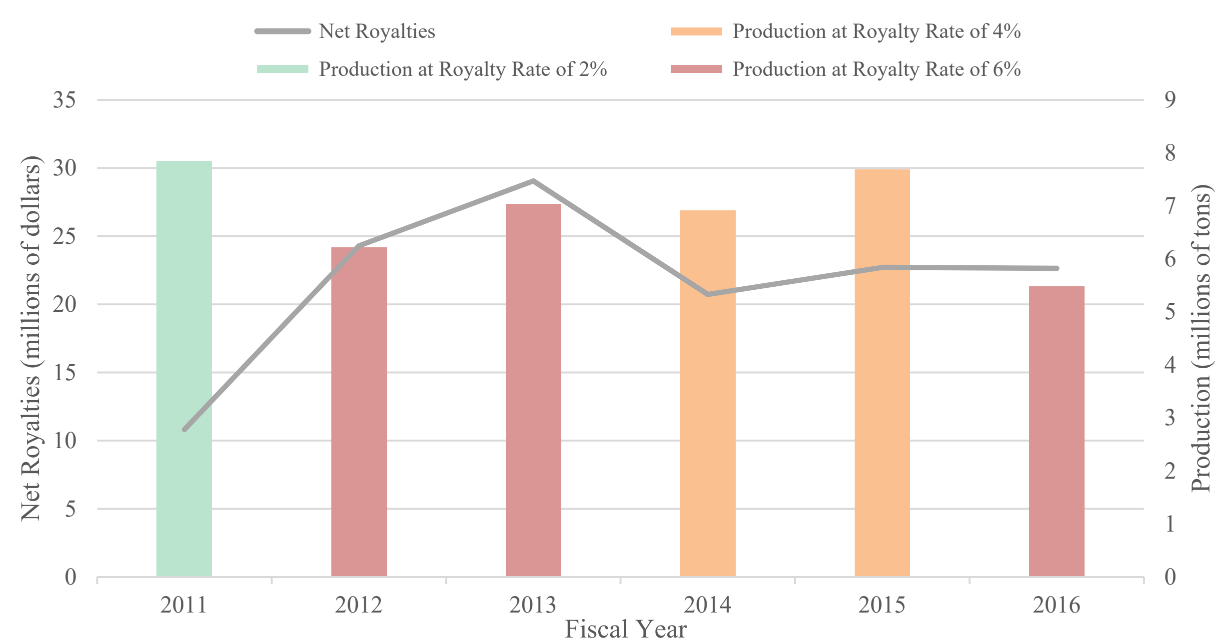
BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted around the beginning of calendar year 2018.

Background

The royalty rate on sodium compounds produced on federal lands has fluctuated in recent years because of Congressional action. Legislation, which was similar to H.R. 1399, was enacted to lower the royalty rate from 6 percent to 2 percent for the five-year period from 2007 through 2011, after which the rate returned to 6 percent for 2012 and 2013. In 2014, legislation lowering the royalty rate to 4 percent for 2014 and 2015 was enacted. Beginning in 2016, the royalty rate returned to 6 percent and CBO expects that it will remain at 6 percent under current law (see Figure 1).

Figure 1: Production Rates and Royalties for Sodium Compounds Produced on Federal Lands, 2011-2016



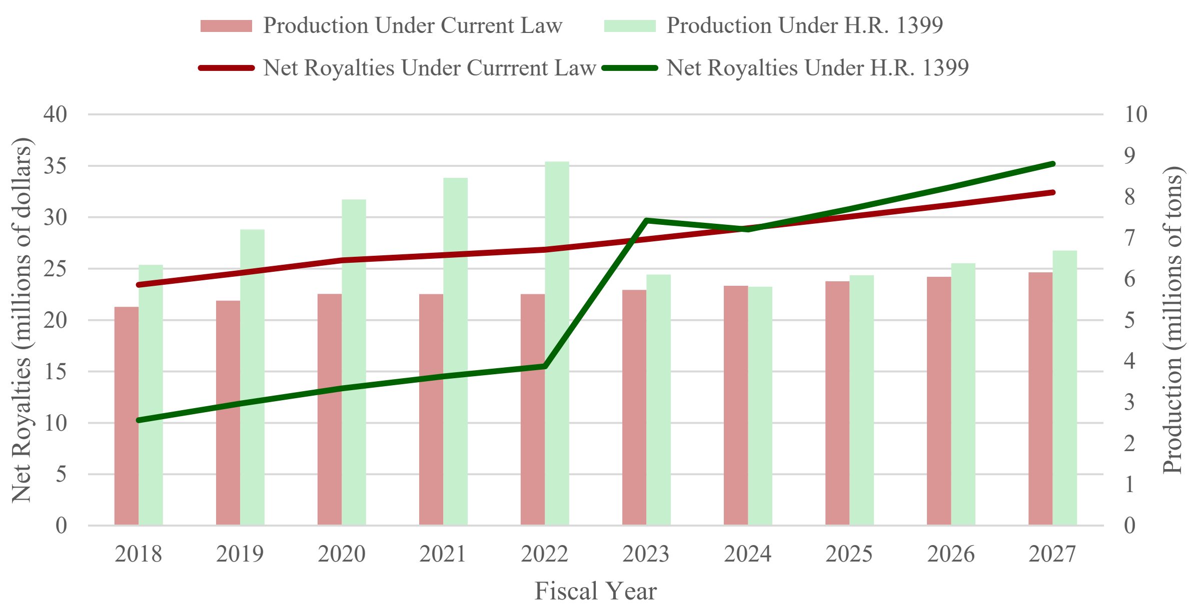
In 2011, the last year in which the royalty rate was set at 2 percent, firms produced 7.8 million tons of sodium compounds on federal lands, and the federal government received net royalties totaling $11 million. (About half of all gross federal royalties collected from the affected minerals production are paid to the states where those minerals are produced.) In 2012 and 2013, when DOI assessed a royalty of 6 percent, annual production of sodium compounds decreased to an average of 6.6 million tons; however, net royalty collections increased to an annual average of $27 million.

During 2014 and 2015, when the royalty rate on sodium compounds declined to 4 percent, production on federal lands increased to an average of 7.3 million tons while net royalty collections decreased to an average of $22 million a year. In 2016, when the royalty rate was again at 6 percent, production on federal lands fell by about 30 percent to 5.5 million tons and royalty collections declined slightly (by about $100,000) from 2015. Using information from DOI, CBO expects that the amount of those minerals produced on federal land in 2017 will be about 30 percent lower than in 2015 (the last year the royalty rate was 4 percent) but net royalties will be roughly $3 million higher because of higher mineral prices. (Actual figures for fiscal year 2017 are not yet available.)

Direct Spending

CBO estimates that by reducing the royalty rate, enacting H.R. 1399 would reduce net offsetting receipts (and thus increase direct spending) by $50 million over the 2018-2027 period (see Figure 2).

Figure 2: H.R. 1399 vs. Current Law
Fiscal Years 2018-2027



Over the 2018-2022 period, CBO estimates, enacting H.R. 1399 would reduce offsetting receipts from royalties on sodium compounds by $63 million. We estimate that, under current law, production of those compounds on federal lands will increase at a slightly slower pace than the expected growth in the soda ash industry as a whole (about 2 percent a year), with annual production increasing from 5.3 million tons to 5.6 million tons and net royalty receipts increasing from $23 million to $27 million annually over that period.

Under H.R. 1399, CBO estimates that production of sodium compounds on federal lands would be significantly higher than under current law, ranging from 6.1 million tons in 2018 to 8.9 million tons in 2022. That increase would stem primarily from firms shifting operations from nonfederal lands to federal lands to take advantage of the lower royalty rate. Despite the higher production levels, net receipts would be significantly lower than under current law because of the much lower royalty rate, and would total $10 million in 2018 and $16 million in 2022, CBO estimates.

In 2023 and 2024, the first two years after the royalty rate would return to 6 percent, CBO expects that production levels would fall sharply as firms rapidly shift operations back to nonfederal lands that they would have bypassed to take advantage of reduced royalties on federal lands. After 2024, production on federal lands would increase at a higher rate than average industry growth until the federal share of production reaches about 50 percent, CBO estimates. The lower costs of production over the 2018-2022 period would prompt firms to increase production capacity, which would result in higher production and a greater share of the global market. Over the 2023-2027 period, CBO estimates that production of sodium compounds on federal lands would be about 500,000 tons higher each year, on average, and net receipts would be $13 million higher over that period than estimated receipts under current law.

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 H.R. 1399 as ordered reported by the House Committee on Natural Resources on June 27, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASES OR DECREASES (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	14	13	13	12	11	-6	-1	-2	-2	-2	63	50

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

MANDATES

H.R. 1399 contains no intergovernmental or private-sector mandates as defined in UMRA. The royalty reduction required by the bill would reduce federal payments to California, Colorado, New Mexico, Utah, and Wyoming by about $60 million over the 2018-2022 period.

ESTIMATE PREPARED BY

Federal Costs: Jeff LaFave
Mandates: Jon Sperl and Amy Petz

ESTIMATE APPROVED BY

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis