CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 31, 2018

H.R. 5859
Education and Energy Act of 2018

As ordered reported by the House Committee on Natural Resources on June 27, 2018

SUMMARY

H.R. 5859 would require the Department of the Interior (DOI) to make payments to states and counties from certain mineral receipts that otherwise would be deposited in the Treasury. Using information provided by DOI, CBO estimates that enacting the bill would increase direct spending by $200 million over the 2019-2028 period; therefore, pay-as-you-go procedures apply. Enacting the bill would not affect revenues.

CBO estimates that enacting H.R. 5859 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 5859 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit states by increasing the royalties they receive from resource production on federal lands.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 5859 is shown in the following table. The costs of the legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
						INCREASES IN DIRECT SPENDING						
Estimated Budget Authority	15	20	20	20	20	20	20	20	20	25	95	200
Estimated Outlays	15	20	20	20	20	20	20	20	20	25	95	200

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the end of 2018.

The cost of enacting H.R. 5859 would stem from additional payments to states and counties that would be required under the bill if annual proceeds from certain mineral development activities on federal lands exceeded CBO's estimates of such proceeds in any year.

Background

Under current law, proceeds from activities carried out under the Mineral Leasing Act (MLA) and the Geothermal Steam Act (GSA) are used for various purposes. Under the MLA, states receive 49 percent of all proceeds (royalties, rents, and bonus bids, which are amounts that companies pay to the federal government to acquire leases).[1]
Forty percent of all proceeds are deposited into the Reclamation Fund, which is used for projects of the Bureau of Reclamation to the extent those funds are appropriated. Under the GSA, half of all proceeds from royalties, rents, and bonus bids is paid to states and 25 percent is paid to counties. Under both acts, any remaining funds (generally 11 percent of gross proceeds under the MLA and 25 percent of gross proceeds under the GSA) are deposited in the general fund of the Treasury.

Direct Spending

Under H.R. 5859, DOI would make additional payments to states and counties in any year in which gross proceeds from activities under the MLA and the GSA exceeded the amounts CBO projected would be received in that year. Those payments would be made only from proceeds that exceed CBO's projections and would be equal to 50 percent of the portion of those amounts that otherwise would have been deposited in the general fund. States and counties would be required to use those funds to support public schools and universities. CBO anticipates that DOI would use the most recent CBO baseline to determine whether actual receipts in a fiscal year were above or below projected receipts for that year.

CBO's baseline projections represent the expected value of proceeds within a range of possible outcomes. In developing its estimate of the budgetary effects of H.R. 5859, CBO identified the probability that proceeds would exceed expected projections because of higher mineral prices, increased mineral production, or both were higher than CBO projections. Then, to arrive at its estimate of total proceeds, CBO estimated average prices and production for the 2019-2028 period.

1. Alaska is an exception to this provision of the MLA. It receives 90 percent of royalties, rents, and bonus bids from federal leases outside of the National Petroleum Reserve in Alaska. The remaining proceeds are deposited in the Treasury.

Over the period, CBO anticipates, the expected amount of excess proceeds (after accounting for the probability that receipts could be equal to or below CBO's projections for those years) could range from $250 million to $500 million (or 8 percent to 12 percent more than CBO's baseline projections for the period). Of those amounts, between $30 million and $50 million would be deposited into the general fund each year under current law. Under H.R. 5859, half would be paid to states and counties instead. Thus, CBO estimates that enacting the bill would increase direct spending by $20 million a year, on average, over the 2019-2028 period.

Uncertainty

CBO aims to produce estimates that generally reflect the middle of a range of the most likely budgetary outcomes that would result if the legislation was enacted. In estimating the effects of H.R. 5859, CBO had to account for many sources of uncertainty inherent in projecting the prices and quantities of minerals produced on federal lands. In addition, because the bill's language provides significant room for interpretation, CBO made two key assumptions about DOI's implementation. If the agency chose some other approach, the estimated budgetary effects could differ significantly.

The text of H.R. 5859 would require additional payments to states and counties to be made only in years when *proceeds* under the MLA and GSA "exceed the amount of revenues that the Congressional Budget Office previously estimated would be received." For this estimate, CBO assumes that DOI would interpret *revenues* to mean offsetting receipts, which is how proceeds under the MLA and GSA are classified in the federal budget. That assumption is key because CBO does not project that any budgetary revenues would be collected as proceeds under those acts. If DOI implemented the bill using a strict interpretation of the language, it would determine that CBO's previous estimates of revenues from those activities were zero for each year, thus effectively eliminating the threshold that would determine when additional payments to states and counties could be made. If DOI were to implement H.R. 5859 using zero as the threshold for the level of mineral *revenues* in CBO's baseline estimate (which CBO expects is unlikely), the bill's cost would be about 10 times higher than CBO has presented in the estimate.

In preparing this estimate, CBO also assumed that DOI would use the most recent baseline produced in each fiscal year to determine whether actual proceeds received in that year exceeded the projected amounts. The text of the bill would require DOI to make additional payments only when actual proceeds under the MLA and GSA exceed amounts "previously estimated" by CBO. Because CBO's baseline projections cover a 10-year period and because CBO generally releases more than one baseline each year, the agency would probably have anywhere from 20 to 30 previous CBO estimates to choose from for each fiscal year. Because CBO's projections change over time, we cannot determine how using projections that are different from those assumed for the purpose of this estimate would affect the amount of payments to states and counties under the bill. DOI could use previous CBO baseline estimates that would either maximize or minimize payments to states and counties in each year. Thus, the estimated budgetary effects of enacting H.R. 5859 could be larger or smaller than those in this estimate.

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. 5859, the Education and Energy Act of 2018, as Ordered Reported by the House Committee on Natural Resources on June 27, 2018

	By Fiscal Year, in Millions of Dollars											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
	NET INCREASE IN THE DEFICIT											
Statutory Pay-As-You-Go Effect	15	20	20	20	20	20	20	20	20	25	95	200

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 5859 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 5859 contains no intergovernmental or private-sector mandates as defined in UMRA and would benefit states by increasing the royalties they receive from resource production on federal lands.

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