CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 17, 2018

H.R. 6771
Domestic Offshore Energy Reinvestment Act of 2018

As ordered reported by the House Committee on Natural Resources on September 13, 2018

SUMMARY

H.R. 6771 would change the disposition of the proceeds from federal oil and gas leases in the Outer Continental Shelf (OCS) and other federal lands. Under the Gulf of Mexico Energy Security Act of 2006, half of the proceeds from OCS leases issued after 2006 are deposited in the Treasury and the remainder is available for spending without further appropriation, subject to annual caps on spending that expire after 2055. This bill would repeal the annual spending limits and would increase the portion of OCS receipts available for spending to 62.5 percent. In addition, the bill would increase the share of proceeds paid to states from onshore mineral leases from 49 percent to 50 percent.

CBO estimates that enacting H.R. 6771 would increase direct spending by $2.5 billion over the 2019-2028 period, largely as a result of provisions increasing the portion of OCS receipts that could be spent without further appropriation.

Because enacting H.R. 6771 would affect direct spending, pay-as-you-go procedures apply. The bill would not affect revenues.

CBO estimates that enacting H.R. 6771 would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2029.

H.R. 6771 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit states by increasing the share of proceeds they receive from oil and gas production in the OCS and other federal lands.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6771 is shown in the following table. The costs of the legislation fall within budget functions 300 (natural resources and the environment) and 800 (general government).

	By Fiscal Year, in Millions of Dollarsa											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
						INCREASES IN DIRECT SPENDING[a]						
Outer Continental Shelf Oil and Gas Receipts												
Estimated Budget Authority	0	50	130	145	190	190	230	315	400	575	515	2,225
Estimated Outlays	0	60	130	140	175	180	220	295	375	530	505	2,105
Onshore Oil and Gas Receipts												
Estimated Budget Authority	24	32	33	34	35	36	37	38	38	38	158	345
Estimated Outlays	24	32	33	34	35	36	37	38	38	38	158	345
Total												
Estimated Budget Authority	24	82	163	179	225	226	267	353	438	613	673	2,570
Estimated Outlays	24	92	163	174	210	216	257	333	413	568	663	2,450

a. H.R. 6771 would increase the portion of receipts paid to states. Because those payment are disbursed more quickly than payments from the Land and Water Conservation Fund, the net effect of the bill on outlays in 2020 is estimated to be larger than the net change in budget authority.

BASIS OF ESTIMATE

CBO estimates that enacting H.R. 6771 would increase direct spending by $2.5 billion over the 2019-2028 period, with $2.1 billion of that cost stemming from provisions that would increase the portion of OCS receipts that could be spent without further appropriation. For this estimate, CBO assumes the legislation will be enacted by the end of 2018.

Outer Continental Shelf Oil and Gas Receipts

Federally owned oil and gas resources are developed under a system of leasing that requires companies to pay bonus bids when leases are issued, annual rental payments on nonproducing leases, and royalty payments based on the value of any oil and gas production. Those payments are recorded in the budget as offsetting receipts or as reduction in direct spending. Under current law, 50 percent of the offsetting receipts from leases issued after 2006 in the Central and Western Gulf of Mexico are paid to certain states and spent by the Land and Water Conservation Fund (LWCF) without further appropriation, subject to certain limits. CBO estimates that such spending will total $4.8 billion over the 2019-2028 period, reflecting provisions in current law that generally cap total spending at $500 million a year through 2055.[1]

H.R. 6771 would increase such spending by repealing the caps on annual spending and by increasing the portion that may be paid to certain states and spent by the LWCF from 50 percent to 62.5 percent. The bill also would change the share of the proceeds allocated to states and the LWCF.

Under the technical and economic assumptions in the April 2018 baseline, CBO projects that offsetting receipts from oil and gas leases in the OCS will total about $52 billion over the 2019-2028 period. CBO estimates that the receipts attributable to post-2006 leases will equal roughly 25 percent of the total over the next 10 years, as more projects produce oil and gas and pay additional royalties.[2]

Because payments derived from OCS leases are made the year after income is collected, CBO expects that the new formulas in the bill would apply to receipts accrued from January, 2019 through the end of fiscal year 2027. After adjusting for the timing of payments to states and spending patterns of the LWCF program, CBO estimates that enacting H.R. 6771 would increase direct spending of OCS receipts by $2.1 billion over the 2019-2028 period.

Onshore Oil and Gas Receipts

Under the Mineral Leasing Act, states receive 49 percent of all royalties, rents, and bonus bids from onshore mineral leases. Those payments are made on a monthly basis and in the same year that the receipts are collected. H.R. 6771 would direct the Department of the Interior to convey to states an additional 1 percent of those receipts upon request by a state. CBO expects that all states would request that additional payment upon enactment. Using CBO's April 2018 baseline estimates of receipts from onshore oil and gas leases,

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1. There are some statutory exceptions to the $500 million limit on annual spending. The cap on the spending of proceeds from post-2006 leases is $650 million in each of the years 2020 and 2021. In addition, spending of receipts from two specific geographic areas is exempt from the annual caps.

2. By comparison, CBO estimates that leases issued after 2006 accounted for about 17 percent of the OCS receipts collected over the previous 10-year period. CBO expects that the share of receipts attributable to those leases will increase in the future, because most of the production from OCS leases occurs more than 10 years after the parcel is leased. For more information, see Congressional Budget Office, *Options for Increasing Federal Income from Crude Oil and Natural Gas on Federal Land, (*April, 2016), www.cbo.gov/publication/51421.

we estimate that implementing the provision would increase direct spending by $345 million over the 2019-2028 period.

UNCERTAINTY

In estimating the effects of H.R. 6771, CBO had to account for several sources of uncertainty:

- CBO does not know how much oil and gas will be produced from OCS leases issued after 2006. Spending could be higher or lower than estimated depending the technical and economic characteristics of each parcel.

- CBO cannot predict the timing of bonus payments or royalties from leases issued after 2006, which depend on investment decisions made by private companies. Differences in the timing of payments could affect the years in which costs are incurred.

- CBO cannot predict future oil or gas prices, which affect royalties and bonus payments for both offshore and onshore leases. Differences between estimated and actual prices would have a corresponding effect on the cost of the legislation.

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. 6771, the Domestic Offshore Energy Reinvestment Act of 2018, as Ordered Reported by the House Committee on Natural Resources on September 13, 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	24	92	163	174	210	216	257	333	413	568	663	2,450

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 6771 would increase net direct spending and on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 6771 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit states—primarily those along the Gulf Coast—by increasing the share of proceeds they receive from oil and gas production in the OCS and from other federal lands. Over the 2019-2028 period, CBO estimates those states would receive about $2.5 billion more in proceeds, relative to current law, as a result of the legislation. Most of that amount would come from increasing the share of production proceeds, but states would also receive a small portion of those proceeds in the form of federal grants through the Land and Water Conservation Fund.

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