Congressional Budget Office
Cost Estimate

July 12, 2019

At a Glance

H.R. 205, Protecting and Securing Florida's Coastline Act of 2019

As ordered reported by the House Committee on Natural Resources on June 19, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	100	400
Revenues	0	0	0
Deficit Effect	0	100	400
Spending Subject to Appropriation (Outlays)	0	-14	n.e.

Statutory pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
		Contains intergovernmental mandate?	**No**
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**Cannot Determine**	Contains private-sector mandate?	**No**

n.e. = not estimated.

The bill would

- Prohibit future auctions of leases for oil and gas development in areas of the Gulf of Mexico that are within 125 miles of the coast of Florida and in most of the eastern Gulf of Mexico.

Estimated budgetary effects would primarily stem from

- Reducing collections of offsetting receipts from offshore oil and gas leases
- Reducing spending subject to appropriation for administrative expenses related to leasing activities in the affected regions of the Outer Continental Shelf (OCS)

Areas of significant uncertainty include

- Estimating the amount and timing of any future government income from oil and gas leasing activities in the affected regions of the OCS under current law

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

The Gulf of Mexico Energy Security Act of 2006 (GOMESA) imposed a temporary moratorium on oil and gas leasing in areas in the Gulf of Mexico that are within 125 miles of the Florida coast and in most of the Eastern Gulf of Mexico. Under current law, that moratorium will expire on June 30, 2022. H.R. 205 would amend existing law to permanently ban oil and gas leasing in those regions.

Estimated Federal Cost

The estimated budgetary effect of H.R. 205 is shown in Table 1. The costs of the legislation fall within budget functions 950 (undistributed offsetting receipts),and 300 (natural resources and environment).

Table 1.
Estimated Budgetary Effects of H.R. 205

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Increases in Direct Spending												
Estimated Budget Authority	0	0	0	0	50	50	60	60	60	60	60	100	400
Estimated Outlays	0	0	0	0	50	50	60	60	60	60	60	100	400
	Decreases in Spending Subject to Appropriation												
Estimated Authorization	0	-5	-6	-2	-1	-1	n.e.	n.e.	n.e.	n.e.	n.e.	-15	n.e.
Estimated Outlays	0	-3	-6	-4	-1	-1	n.e.	n.e.	n.e.	n.e.	n.e.	-15	n.e.

n.e. = not estimated.

Basis of Estimate

CBO assumes that the legislation will be enacted near the end of 2019.

Background

Companies that lease federal oil and gas resources pay a bonus bid when they acquire leases, make rental payments on nonproducing acreage, and pay royalties based on the value of the oil and gas produced. Using the technical and economic assumptions that underlie CBO's May 2019 baseline projections, CBO estimates that offsetting receipts from leasing activities in all areas of the Outer Continental Shelf will total $56 billion over the 2020-2029 period. Royalties on production account for about 90 percent of that total, and bonus payments for most of the remainder. Because production in the OCS usually begins several years after a lease is issued, CBO expects that most of the proceeds during that period from leases issued after 2020 would be from bonus payments.

CBO's baseline projections of bonus bids reflect recent trends in OCS auction proceeds as well as factors that may affect the value of resources in specific areas. In particular, CBO considers the number of leases acquired by bidders in auctions and trends in the winning bids for the top 10 leases, which recently have accounted for more than 40 percent of the total proceeds from individual auctions.[1] Receipts from individual sales also vary depending on the bidders' assessments of the strategic value of specific geological resources, the degree of competition, and the size of the companies acquiring the leases. For new areas, CBO expects that proceeds also would reflect the bidders' assessment of the type and quality of the infrastructure and the costs of operating in a region.

CBO's baseline projections assume no leasing will occur through 2022 in the region subject to the GOMESA moratorium. Once those statutory restrictions expire, decisions about where and when to offer leases in this portion of the OCS will be made by DOI administratively—in consultation with industry and affected states—for five year periods. CBO's baseline projections of oil and gas leasing receipts after 2022 reflect the possibility that DOI will authorize auctions in those areas under future leasing plans.

Direct Spending

CBO estimates that enacting H.R. 205 would reduce offsetting receipts (which are recorded in the budget as decreases in direct spending) and thus would increase direct spending by $400 million over the 2020-2029 period. That estimate reflects the effects of prohibiting leasing activity in the OCS that otherwise may occur under current law.

Because no leasing has occurred in the affected region since the 1980s, estimates of future proceeds are uncertain. Based on recent discoveries and infrastructure investments in adjacent areas, CBO expects that there may be significant industry interest in some of the deepwater resources of the eastern Gulf region.[2] Access to those areas also was identified as high priority in comments submitted by industry on DOI's leasing plan for the 2017-2022 period.[3] On the other hand, defense-related constraints on operations and state siting restrictions on related facilities may reduce the value of some leases. In addition, some resources off the coast of Florida probably would be excluded from auctions because leasing may not be compatible with state coastal zone management plans.

1. Since 2015, the top 10 bids in each auction of leases in the Gulf of Mexico have accounted for fewer than 10 percent of the leases issued but more than 40 percent of the proceeds generated by the sales. Winning bids from the top 10 leases in the Central Gulf of Mexico have declined from an average of about $60 million each over the 2008-2014 period to about $10 million over the past five years.
2. For a discussion of Norphlet play (a geological formation in the Gulf of Mexico) and related issues, see Brian Scheid, "With US Offshore Plan Likely Scrapped, Industry Pursues Changes to Federal Lease Terms," *S&P Global/Platts* (May 23, 2019), http://tinyurl.com/yxz6kd9n.
3. See Bureau of Ocean Management, 2017-2022 Outer Continental Shelf Oil and Gas Leasing Draft Proposed Program (January 2015), pp. 3-13, www.boem.gov/2017-2022-DPP (PDF, 6.2 MB).

CBO has no basis to estimate the specific probability of auctions occurring in the future. In the absence of specific information, CBO uses a 50 percent probability that auctions would occur after 2022 to reflect the legal authority that would exist after 2022 to hold such auctions.

Taking into account such uncertainties and assuming that 50 percent chance that auctions would occur after 2022, CBO estimates that, under current law, auctioning leases in areas of the OCS currently subject to the GOMESA moratorium would generate offsetting receipts totaling $400 million over the 2023-2029 period. That estimate is roughly equivalent to a theoretical case in which 50 percent of the value of 300 leases are acquired at an average price of $2.5 million—an amount that is more than double the $1 million average price paid per lease in 2018. CBO expects that global energy companies would actively compete for leases in this region because of its strategic and resource potential.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 205 would reduce DOI's administrative costs by $15 million over the 2020-2024 period. That estimate is based on historical spending patterns for developing leasing plans and completing the environmental, geologic, and economic assessments that are required under current law for potential auctions of leases in the eastern Gulf of Mexico. Any reduction in spending would depend on future appropriations being reduced by the estimated amounts.

Uncertainty

The amount the government might collect under current law for leases in areas in the Gulf of Mexico subject to the GOMESA moratorium is uncertain and could be higher or lower than CBO estimates. The timing of any auctions will depend on future administrative actions that cannot be predicted. In addition, potential bidders could rely on assumptions that differ from CBO's, including projections of the long-term prices for oil and gas, production costs, the area's resource potential, and alternative investment opportunities. The factors that affect companies' investment decisions could result in a wide range of possible bonus bids.

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 Table 2.

Table 2.
CBO's Estimate of Pay-As-You-Go Effects of H.R. 205

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Net Increase in the Deficit												
Statutory Pay-As-You-Go Effect	0	0	0	0	50	50	60	60	60	60	60	100	400

Increase in Long-Term Deficits:

CBO cannot determine whether enacting the bill would increase net direct spending by more than $5 billion in any of the four consecutive periods beginning in 2030. H.R. 205 would preclude the development of some oil and gas resources that otherwise may occur in the Gulf of Mexico under current law. The potential loss of offsetting receipts after 2029 would depend on several factors, including future prices for oil and gas and the timing, quantity of any production, and future administrative actions. For example, the cost of implementing the bill may not exceed $5 billion in any of those periods if prices are similar to those assumed in CBO's May 2019 baseline projections of $74 per barrel in 2029. On the other hand, costs could exceed $5 billion in some periods if prices or production exceed those projected amounts.

Mandates: None.

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