Congressional Budget Office
Cost Estimate

September 25, 2019

At a Glance

H.R. 2181, Chaco Cultural Heritage Area Protection Act of 2019

As ordered reported by the House Committee on Natural Resources on July 17, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	2	3
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	2	3
Spending Subject to Appropriation (Outlays)	0	*	not estimated

Statutory pay-as-you-go procedures apply?	Yes	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	< $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	Yes, Cannot Determine Costs

* = between zero and $500,000.

The bill would

- Withdraw federal land within a 10-mile buffer of Chaco Culture National Historical Park in New Mexico from entry under hardrock mining laws and from mineral and geothermal leasing acivities, subject to valid existing rights
- Terminate any existing leasing agreements in the withdrawal area that are not producing by the end of their initial terms

Estimated budgetary effects would primarily stem from

- Forgone government income resulting from prohibiting new mineral leasing on the affected land

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

H.R. 2181 would withdraw federal lands within roughly a 10-mile buffer of Chaco Culture National Historical Park in New Mexico from entry under hardrock mining laws and from mineral and geothermal leasing activities, subject to valid existing rights. That is, the bill would not allow new hardrock mining claims or mineral and geothermal leases on land adjacent to the park. The bill also would terminate any existing leasing agreements on the affected land that have not commenced drilling operations or mineral production before the end of their initial terms.

Estimated Federal Cost

The estimated budgetary effect of H.R. 2181 is shown in Table 1. The costs of the legislation fall within budget functions 300 (natural resources and environment) and 800 (general government).

Table 1.
Estimated Direct Spending Under H.R. 2181[a]

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Estimated Budget Authority	0	0	*	*	*	1	*	*	*	*	*	2	3
Estimated Outlays	0	0	*	*	*	1	*	*	*	*	*	2	3

Components may not sum to totals because of rounding; * = between zero and $500,000.

a. CBO estimates that any administrative costs incurred by the Department of the Interior to implement the withdrawal would not be significant; any such spending would be subject to the availability of appropriated funds.

Basis of Estimate

For this estimate, CBO assumes that the legislation will be enacted near the start of 2020.

Background

The Bureau of Land Management (BLM) administers onshore mineral leasing on federal lands. For all leasing agreements that are executed, lessees pay the federal government a bonus bid (the amount that a company is willing to pay for the right to extract mineral resources), annual rent to retain the agreement, and royalties based on the value of any oil or gas produced. Those payments are recorded in the budget as offsetting receipts, or reductions in direct spending. Under the Mineral Leasing Act (MLA), states receive 49 percent of all royalties, rents, and bonus bids collected. (The federal government generally does not collect any bonus bids, royalties, or rents from hardrock mining activities on federal lands in New Mexico.)

Direct Spending
CBO estimates that enacting H.R. 2181 would increase direct spending by $3 million over the 2020-2029 period.

Potential for Future Leasing Under Current Law. In recent years, the Department of the Interior (DOI) has deferred mineral lease sales on the affected land. Using information from BLM and the Energy Information Administration, CBO expects that the land has high potential for oil and gas resources and low-to-moderate potential for geothermal and coal resources.

Based on the number of parcels that have been deferred for oil and gas leasing, CBO estimates that roughly 18,000 acres will be leased in the near future, under current law. In recent years, lessees have paid about $250 per acre in bonus bids to lease federal lands in northwest New Mexico. On that basis, CBO estimates that the federal government will collect roughly $5 million in gross bonus bids over the 2020-2029 period to lease out the affected land. At $1.50 per acre until production commences, annual rental payments will total less than $500,000 over that same period.

Using information from DOI on mineral leasing in northwest New Mexico, CBO estimates that the agency could execute 20 new federal leasing agreements on the affected land in the near term. We estimate that each agreement will produce between 3,000 and 10,000 barrels of oil and between 40,000 and 50,000 thousand cubic feet of gas annually over the initial years. Using projections for oil and gas prices under CBO's May 2019 baseline, and applying the 12.5 percent royalty rate under the MLA, CBO estimates that gross royalties from oil and gas production could total $8 million over the 2020-2029 period. In addition, CBO estimates that any bonus bids, rents, and royalties from coal and geothermal leasing will be insignificant over that same period.

However, CBO has no basis to estimate the specific probability of BLM conducting lease sales on the affected land. In the absence of specific information, CBO uses a 50 percent probability that the land will be leased under current law. On that basis, and accounting for payments to states under the MLA of 49 percent, we estimate that net federal receipts from mineral and geothermal leasing on the affected land will total $3 million over the 2020-2029 period. Under the bill, the federal government would forgo those receipts. Thus, CBO estimates that the withdrawal required under the bill would increase net direct spending by $3 million over the 2020-2029 period.

Termination of Existing Agreements. H.R. 2181 would terminate any leasing agreements on the affected land that have not commenced drilling operations or production before the end of their primary term, which is typically 10 years. Current law already authorizes DOI to terminate such leases. The bill also would prohibit reinstatement of terminated leases.

According to BLM, there are 32 nonproducing agreements on the affected land; roughly one-third will expire if they do not commence operations by 2024. CBO expects that under current law, a small portion of those agreements will expire and be reinstated and will commence production before 2029. Under the bill, we expect that some of those agreements would commence production earlier than they otherwise would, while others would be terminated without reinstatement. CBO estimates that the net increase in direct spending (from forgone royalties) would be insignificant over the 2020-2029 period.

Spending Subject to Appropriation

Based on the costs of similar tasks, CBO estimates that any administrative costs incurred by DOI to implement the withdrawal would be insignificant; any spending would be subject to the availability of appropriated funds.

Uncertainty

The amount the government will collect from bonus bids and royalties for mineral leases in the proposed withdrawal area is uncertain and could be higher or lower than CBO estimates. Specifically, CBO cannot forecast with certainty whether or when DOI will hold lease sales, and the amount of acreage that companies will lease. CBO also cannot foresee with certainty the volume or value of oil and gas production on the affected lands.

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. 2181

	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	0	1	0	0	0	0	0	2	3

Increase in Long-Term Deficits

CBO estimates that under H.R. 2181 the federal government would forgo royalties from oil and gas production after 2029 on the affected land. However, we estimate that enacting the bill would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2030.

Mandates

H.R. 2181 would impose a private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA) by prohibiting DOI from extending or reinstating oil and gas leases that are terminated as a result of the bill. Under current law, DOI is authorized to reinstate or extend terminated leases in certain circumstances. The cost of the mandate would be revenue forgone by leaseholders that would be unable to reinstate their terminated leases. CBO estimates revenue from potential production of oil and gas from those leases would be less than $1 million per year, well below the private-sector threshold established in UMRA ($164 million in 2019, adjusted annually for inflation).

H.R. 2181 contains no intergovernmental mandates as defined in UMRA.

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