Congressional Budget Office
Cost Estimate

June 24, 2020

At a Glance

S. 2418, Conservation of America's Shoreline Terrain and Aquatic Life Act

As reported by the Senate Committee on Energy and Natural Resources on February 25, 2020

By Fiscal Year, Millions of Dollars	2020	2020-2025	2020-2030
Direct Spending (Outlays)	0	3,550	10,240
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	3,550	10,240
Spending Subject to Appropriation (Outlays)	0	0	not estimated

Statutory pay-as-you-go procedures apply?	Yes
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2031?	> $5 billion

Mandate Effects	
Contains intergovernmental mandate?	No
Contains private-sector mandate?	No

The bill would

- Repeal the statutory caps on direct spending of offsetting receipts derived from certain oil and gas leases in the Gulf of Mexico
- Authorize the spending of 62.5 percent of the proceeds from leases issued since 2000 in the Gulf of Mexico without further appropriation
- Exempt payments to states derived from federal leases in the Gulf of Mexico from budget sequestration orders
- Authorize the spending of 50 percent of the proceeds from certain oil and gas leases issued in the Alaska region of the Outer Continental Shelf (OCS) without further appropriation
- Convey an additional 1 percent of the proceeds from onshore oil and gas leases to states, without further appropriation.

Estimated budgetary effects would primarily stem from

- Increasing direct spending of offsetting receipts from oil and gas leases onshore and in the OCS

Areas of significant uncertainty include

- The amount of oil and gas that will be produced from leases affected by the bill
- The future prices of oil and natural gas
- The amounts companies will pay in the future to acquire new oil and gas leases in areas affected by the bill

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

S. 2418 would change the disposition of the proceeds from certain federal leases in three geographic areas: the Gulf of Mexico outer continental shelf (OCS), the Alaska OCS, and most onshore areas.

Existing laws governing leases in the Gulf of Mexico would be amended in four ways:

- The statutory caps on the amounts that may be spent without further appropriation from leases issued in the Gulf of Mexico after 2006 would be repealed,
- The portion of future receipts eligible to be spent without further appropriation would increase from 50 percent to 62.5 percent,
- 62.5 percent of the future proceeds from leases issued from 2000 through 2006 in the Gulf of Mexico would be authorized to be spent without further appropriation for payments to states and spending by the Land and Water Conservation Fund (LWCF), and
- Current and future lease payments to states would be exempt from the mandatory budget sequestration procedures in current law.

S. 2418 also would direct the Department of the Interior to spend 50 percent of the future proceeds from certain leases in the Alaska region of the OCS region for payments to the state. Finally, S. 2418 would increase the share of future proceeds paid to states from onshore mineral leases under the Mineral Leasing Act from 49 percent to 50 percent.

Estimated Federal Cost

The estimated budgetary effect of S. 2418 is shown in Table 1. The costs of the legislation fall within budget functions 300 (natural resources and the environment) and 950 (undistributed offsetting receipts).

Basis of Estimate

CBO estimates that enacting S. 2418 would increase direct spending by $10.2 billion over the 2020-2030 period, with most of those costs stemming from provisions that would increase the portion of OCS receipts that could be spent without further appropriation. For this estimate, CBO assumes that legislation will be enacted by the end of 2020.

Table 1.
Estimated Budgetary Effects of S. 2418

	By Fiscal Year, Millions of Dollars												
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2025	2020-2030
Increases in Direct Spending													
Gulf of Mexico OCS													
Estimated Budget Authority	0	600	620	710	790	890	1,010	1,160	1,320	1,520	1,720	3,610	10,340
Estimated Outlays	0	520	570	670	760	860	980	1,120	1,280	1,460	1,660	3,380	9,880
Alaska OCS													
Estimated Budget Authority	0	0	0	0	3	3	3	3	3	3	3	6	21
Estimated Outlays	0	0	0	0	3	3	3	3	3	3	3	6	21
Onshore Spending													
Estimated Budget Authority	0	33	32	32	33	34	34	35	35	35	36	164	339
Estimated Outlays	0	33	32	32	33	34	34	35	35	35	36	164	339
Total Changes													
Estimated Budget Authority	0	633	652	742	826	927	1,047	1,198	1,358	1,558	1,759	3,780	10,700
Estimated Outlays	0	553	602	702	796	897	1,017	1,158	1,318	1,498	1,699	3,550	10,240

Components may not sum to totals because of rounding; OCS = outer continental shelf.

Direct Spending

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, which are accounted for in the budget as reductions in direct spending.

Current law authorizes some receipts from federal offshore and onshore oil and gas leases to be spent without subsequent appropriation, subject to certain conditions. Under the Mineral Leasing Act, for example, states receive 49 percent of all royalties, rents, and bonus bids from onshore mineral leases. Another act, the Gulf of Mexico Energy Security Act of 2006 (GOMESA), authorizes 50 percent of the offsetting receipts from leases issued after 2006 in the Central and Western Gulf of Mexico to be used for payments to states and for the federal Land and Water Conservation Fund (LWCF), subject to annual limits of about $500 million a year through 2055. In contrast, proceeds from leasing activities in other regions of the OCS may not be spent without further appropriation.

Gulf of Mexico OCS. S. 2418 would authorize 62.5 percent of the future receipts from oil and gas leases issued in the Gulf of Mexico since the year 2000 to be spent without further appropriation. CBO estimates that enacting those provisions would increase net direct spending by $9.9 billion over the 2020-2030 period.

Because payments under GOMESA are made the year after receipts are collected, the estimated costs would depend on the amount of royalties, rents, and bonus payments collected from 2020 through 2029. Using the economic and technical assumptions that underlie CBO's March 2020 baseline projections, CBO estimates that federal receipts from those cohorts of leases will total about $24.2 billion over the 2020-2029 period.

Section 101 of the bill would authorize a portion of those receipts, totaling, an estimated $14.5 billion, to be spent over the 2021-2030 period (after adjusting for the timing of outlays for payments to states and the LWCF). That amount is about $9.7 billion more than the $4.9 billion CBO projects will be spent under GOMESA under current law.

In addition, section 102 would exempt payments to states under GOMESA from budget sequestration procedures. (Sequestration is a cancellation of budgetary resources; under current law, many direct spending accounts have a part of their budget authority sequestered every year.) Enacting that exemption, CBO estimates, would increase direct spending by about $230 million over the 2020-2030, reflecting the states' 80 percent share of the spending authorized by the bill. Thus, CBO estimates the total cost of this provision over the next 10 years would be $9.9 billion.

Alaska OCS. S. 2418 would authorize 50 percent of the proceeds from certain leases in the Alaska OCS to be spent without further appropriation, for payments to states and other jurisdictions. Those payments would be made from the receipts from leases that currently are not subject to revenue sharing and would be disbursed the year after the government collects the royalties, rents, and bonus payments from the leases. After adjusting for the timing of those receipts, CBO estimates that spending under the provision would total $21 million over the 2020-2030 period, reflecting projected receipts of $50 million from the leases over the same period.

Onshore Spending. Payments to states under the Mineral Leasing Act are made on a monthly basis and in the same year that the receipts are collected. S. 2418 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 March 2020 baseline estimates of receipts from onshore oil and gas leases, we estimate that enacting that provision would increase direct spending by $339 million over the 2020-2030 period.

Uncertainty

When estimating the effects of S. 2418, 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 in the Gulf of Mexico after 1999. Similarly, CBO cannot predict how much oil will be produced from leases in the Alaska OCS. Spending could be higher or lower than estimated depending on the technical and economic characteristics of each lease.

CBO also cannot predict the timing of future bonus payments or royalties from OCS leases issued after 1999, which depend on investment decisions made by private companies. Differences in the timing of payments could affect the years in which costs are incurred.

Finally, CBO cannot predict future oil and 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 Table 2.

Table 2.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of S. 2418, the Conservation of America's Shoreline Terrain and Aquatic Life Act, as Ordered Reported by the Senate Committee on Energy and Natural Resources on February 25, 2020

	By Fiscal Year, Millions of Dollars												
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2020-2025	2020-2030
	Net Increase in the Deficit												
Pay-As-You-Go Effect	0	553	602	702	796	897	1,017	1,158	1,318	1,498	1,699	3,550	10,240

Increase in Long-Term Deficits

CBO estimates that enacting S. 2418 would increase on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2031.

Mandates: None.

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