

**STATEMENT OF GREG GOULD
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U.S. DEPARTMENT OF THE INTERIOR
BEFORE THE
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES**

**OVERSIGHT HEARING:
*“Leveraging America’s Resources as a Revenue Generator and Job Creator”***

July 22, 2014

Introduction

Madame Chairman Landrieu, Ranking Member Murkowski, and members of the Committee, I am pleased to appear before you today to discuss the impact of leveraging natural resource production as a revenue-generator and job-creator for States and local governments.

Economic Impacts and Importance to State and Local Governments

The Department of the Interior manages the public lands and federal waters that provide resources critical to the Nation’s energy security; is responsible for collecting and distributing revenue from energy development; and ensures that the American taxpayer receives a fair return for development of those federal resources. The lands and resources managed by the Department are vast. Onshore, in the 33 states where there are federal leases, over 36 million acres are under lease. Offshore, the Department has made 60 million acres available for development in the past three offshore lease sales alone. In just the Gulf of Mexico, there are over 32 million acres under active lease.

These onshore and offshore lands contribute to our nation’s economy in large and small ways. According to the Department’s 2013 Economic Contributions Report, a project that the Office of Policy Analysis led, the activities of the Department of the Interior contributed \$360 billion to

the U.S. economy in 2013, supporting 2 million jobs in activities including outdoor recreation and tourism, energy development, grazing, and timber harvest.

The Leasing Process

When individuals or companies lease Federal lands, they competitively bid and pay an initial bonus and annual rent for the right to explore and develop energy and mineral resources on the leased lands. If they find, extract, and sell minerals, the Federal government is entitled to a certain percentage of—or royalty on—the production. In many cases, States and, sometimes, local governments receive a direct share of these revenues.

Disbursements

The Federal government has been collecting leasing revenues from energy mineral production on Federal onshore lands since 1920; on American Indian lands since 1925; and on Federal offshore lands since 1953. In 1982, the Federal Oil and Gas Royalty Management Act (FOGRMA) created a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. From 1982 through FY 2013, Interior has provided \$257.0 billion to Federal, State, and American Indian recipients through this program. Approximately 61 percent of all annual collections have gone to the General Fund of the U.S. Treasury, 22 percent to special purpose funds, 14 percent to States, and 3 percent to the American Indian community.

In fiscal year 2013, the Office of Natural Resources Revenue (ONRR) disbursed over \$14.0 billion to the U.S. Treasury, various State and American Indian accounts, and special use accounts, such as the Land and Water Conservation Fund.

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National

Historic Preservation Fund, and the Reclamation Fund, have received \$56.5 billion in ONRR collected mineral revenues since 1982.

Disbursements to States

Revenues disbursed to States and local governments from energy and mineral development occurring on Federal lands within their borders are particularly important to many States today. They apply these revenues to a variety of local needs ranging from school funding to infrastructure improvements and water conservation projects. States have used Federal mineral revenues to build new schools, senior citizen facilities, and hospitals. In some cases, this money pays salaries for teachers, funds local road improvements, and provides grants for important local projects.

In Wyoming, for example, revenues that the State receives from energy production on Federal lands are generally distributed on a percentage basis. A portion of the money goes to the State general fund, the University Fund, the School Foundation (K-12), the Highway Fund and county roads, cities, and towns based on population, School Capital Construction (K-12) and to the Budget Reserve.

The State of Louisiana distributes the Federal funds to individual Parishes for schools and other local projects: it distributes 50 percent to Parishes for schools, and 50 percent to the “Police Jury” (the local governing authority for each Parish), based on production that occurs in the local parishes.

In New Mexico, the State Land Office collects Federal royalties and, primarily, their distributions support education. Approximately 83 percent goes to public schools (K-12), which

pays teacher salaries and provides overall operating funds. In addition to public schools, a portion of the money goes to Higher Education. A small percentage also goes to the correctional system.

Federal mineral lease revenues to the State of Colorado are distributed in a formula set in state statute. The State distributes Federal mineral lease revenues to education (K – 12), local governments for operating and capital expenses, water conservation, and for higher education capital projects.

In Utah, a portion of the federal disbursements goes to the Community Impact Board, which makes awards to local governments (in the form of grants or loans) for various projects, including infrastructure, water and sewer, and public safety. A portion of the funds are returned to the county of origin.

Many other States benefit in a similar manner from the revenue that the Department of the Interior collects and disburses.

Revenue Distribution

The distribution of revenue is governed by statute and varies by land type, as follows:

- Onshore mineral leasing receipts from public domain lands leased under Mineral Leasing Act (MLA)¹ authority disburse at a rate of 49 percent to the States, 40 percent to the Reclamation Fund for western water projects, and 11 percent to the General Fund of the

¹ Section 302 of the Bipartisan Budget Act of 2013 directs the Department to deduct 2 percent from the amount payable to each State in fiscal year 2014 and each year thereafter. Percentages shown in the text have been adjusted to reflect this deduction.

U.S. Treasury. Alaska receives 88.2 percent of mineral leasing receipts for Mineral Leasing Act lands.

- The collections from State Select Lands disburse at a rate of 90 percent to the States and 10 percent to the General Fund of the U.S. Treasury. Alaska receives 100 percent of mineral leasing receipts from State Select Lands.
- The collections from geothermal production disburse at a rate of 50 percent to the States, 25 percent to the county, and 25 percent to the General Fund of the U.S. Treasury.
- Collections from the National Petroleum Reserve in Alaska disburse at a rate of 50 percent to Alaska and 50 percent to the General Fund of the U.S. Treasury.
 - The Energy Policy Act of 1992, P.L. 102-486, requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the Mineral Leasing Act for Acquired Lands. Therefore, the Department distributes:
 - Collections from lands acquired for flood control, navigation, and allied purposes, transferring 25 percent of the total to the General Fund of the U.S. Treasury and 75 percent to the States.
 - Collections from National Forest Lands, transferring 75 percent to the Forest Service and 25 percent to the States.
- Outer Continental Shelf (OCS) receipts, including rents, bonuses, and royalties, are the main funding source for the mandated \$900 million required to be deposited annually in the Land and Water Conservation Fund (LWCF). OCS receipts also provide \$150

million in funding for the Historic Preservation Fund. Of the remaining OCS receipts, the majority are deposited into the general fund of the U.S. Treasury.

- The Gulf of Mexico Energy Security Act of 2006 (GOMESA, P.L. 109-432) opened additional areas in the Gulf of Mexico for offshore oil and gas leasing. The Act provided that 50 percent of revenues from these open areas (termed “qualified OCS revenues”) disburse to four Gulf of Mexico oil and gas producing States (Alabama, Louisiana, Mississippi, and Texas) and their Coastal Political Subdivisions (CPSs) and to the Land and Water Conservation Fund, with specific provisions for allocation during fiscal years 2007–2016. Beginning in 2017, the Act would allocate additional revenue to these States, their CSPs, and the LWCF from any new leases signed after enactment in the current program areas of the Gulf. The revenue would be shared in the same percentages (37.5 percent to Gulf States and their CPSs and 12.5 percent to LWCF) in the newly opened areas, and payments are similarly made in the year following the revenue collection. However, this additional revenue sharing is subject to a cap of \$500 million per year (through 2055); revenues in excess of this cap would continue to go to the U.S. Treasury. The National Park Service (NPS) currently administers GOMESA funds allocated to LWCF State grants.
- Under Section 8(g) of the OCS Lands Act, payments are also made to coastal States for an area known as the 8(g) zone, which is the area approximately three miles seaward from the State/Federal boundary. States receive 27 percent of OCS collections within the 8(g) zone.

ONRR Background

Within the Department of the Interior, ONRR is responsible for collecting, disbursing, and verifying Federal and Indian energy and other natural resource revenues on behalf of all Americans.

ONRR's 2010 reorganization into the Office of the Secretary provided an opportunity for a strategic review to improve the management and oversight of revenue collection and disbursement activities for the Department. We institutionalized our employee-driven continuous improvement process by implementing semiannual prioritization discussions, requesting regular employee input, and integrating recommendations into day-to-day mission work.

ONRR's goal is to be a world-class natural resources revenue management program, setting the standard for accountability and transparency. We are focused on implementing priority initiatives aligned with our strategic goals to achieve:

- Timely and accurate revenues and data distributed to recipients.
- Timely compliance from companies and payment of every dollar due.
- Trust in ONRR's professionalism, integrity, efficiency, and quality.

Conclusion

Madame Chairman, the Department of the Interior manages these federal resources for the good of the American people, who all share in their ownership. As we continue to move forward with executing our mission, we are committed to enhancing our royalty management program to ensure that the American public receives every dollar due. Thank you for the opportunity to testify. I am happy to answer any questions that the Committee may have.