Closing the Dirty Energy Gap

By Sarah Lutz, Climate Campaigner at Friends of the Earth

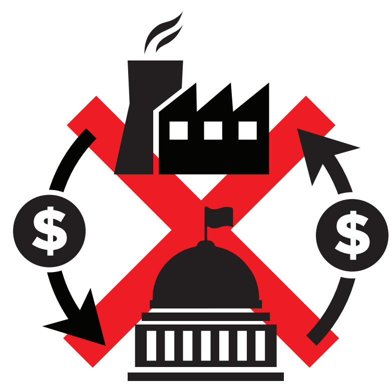
Overview

- **The funding of public services must be decoupled from the federal fossil fuel leasing program in Western states.**
- **As the boom-and-bust fossil fuel industry continues to decline, the federal government can and must develop a plan and direct resources to decouple state and local budgets from oil, gas, and coal revenue from extraction on federal lands.**
- **We could cover state royalty revenue from the federal fossil fuel leasing program for decades with the amount thrown away on corporate giveaways during the Trump years, even if we use FY 2019, the record year in the last decade for state disbursements from onshore public lands, as a starting point.**

Intro

President Biden has promised to Build Back Better from COVID-19. That includes an unprecedented plan for $2 trillion in climate investments. This is an important step forward in combating the climate crisis and building a more just and resilient society.

A just transition toward a sustainable economy requires direct support for the workers and communities that have been tied to polluting industries for generations. Nowhere is that need more apparent than in the states that continue to draw heavily on revenue from oil, gas, and coal royalties from federal lands. Relying on the federal fossil fuel leasing program and its boom-and-bust cycles to fund vital public services like health care and education is inherently risky. We can and must end this dependence on the federal leasing program and transition to more-stable sources of revenue. While this federal royalty revenue is critical to some state budgets, it is a drop in the bucket compared to the corporate giveaways included in Trump's coronavirus bailouts, which could cover state revenue for decades.



Mineral Leasing Revenue

The Department of the Interior leases federal land for resource extraction, including oil, coal, and natural gas. The onshore leasing of these public lands is managed through the Bureau of Land Management (BLM). These leases generate revenue through a variety of methods, including rents, bidding bonuses, and production royalties. However, the largest contributors are the royalties collected on production, which are set at a minimum of 12.5%. Mineral leasing revenue varies widely year to year because the royalties depend heavily on boom-and-bust energy market prices. For example, between FY 2015 and FY 2016, the total amount of onshore royalties collected from fossil fuels dropped over 30%, from $3.021 billion to $1.983 billion. [i]

Revenue from the leasing program is collected by the Office of Natural Resources Revenue (ONRR), an agency within the Department of the Interior. If the extraction occurs onshore, half of this money is returned to the state where the minerals were extracted, with the exception of Alaska, which receives 90%. The largest recipients of these disbursements are Western states, due to their geology and the higher proportion of federal versus state and private land.

Some Western states such as Colorado, Montana, and Nevada derive a comparatively small portion of their state budgets from extraction on public lands. For example, in FY 2019, Colorado received $81 million in fossil fuel-related disbursements from public lands. But between July 2018 and June 2019, the state's total revenue from marijuana legalization alone was $274 million.[ii] The story is different in states such as New Mexico and Wyoming, which are comparatively more royalty dependent (see below).

There are an additional 1.7 billion acres of offshore federal waters on the U.S. outer continental shelf, with the majority of extraction in the Gulf of Mexico. This offshore mineral leasing is overseen by the DOI's Bureau of Ocean Energy Management. As specified in the Gulf of Mexico Energy Security Act, 37.5% of revenues from eligible leases in the Gulf are disbursed to the states of Alabama, Louisiana, Mississippi, and Texas and associated counties along their coasts. But BOEM estimates that as of 2017, only 61% of active leases in the entire Gulf are eligible under the law.[iii] A separate stream of state revenue comes from so-called 8(g) disbursements, which are worth 27.5% of offshore leases that fall within three nautical miles of their coasts. The result is that states receiving revenue from the Gulf are comparatively less dependent than states in the West.

Consider FY 2019, the last full fiscal year before the coronavirus and the highest year for state and local disbursement for the last decade. Offshore disbursements to state and local governments totaled $235 million, while onshore disbursements to states totaled $2.211 billion. When the share of onshore revenue from non-fossil fuel resources like sulfur, helium, and phosphate is subtracted, the number drops to $2.131 billion.

	State/County GOMESA	State 8(g)	Onshore Total	Onshore (only fossil)	Total Fossil Fuel income
FY19[iv]	$214,938,996	$10,538,488	$2,211,276,035	$2,130,166, 895	**$2,355,644,379**

Digging deeper into the state totals, it is clear that a disproportionate burden of royalty dependence falls heavily on the West. Here are the top six total disbursement amounts to state governments, minus the share of revenue from onshore non-fossil fuel resources. With the exception of $19 million to coastal counties in Louisiana under GOMESA, these sums reflect direct payments to states:

	New Mexico	Wyoming	Colorado	Louisiana	North Dakota	Utah
FY19 Fossil Fuel Disbursement[v]	$1,161,208,629	$613,494,734	$81,150,663	$101,327,287	$93,654,132	$69,996,271

Close the Dirty Energy Gap

As the nation continues to contemplate how to allocate potential trillions in COVID-19 relief funds, a just transition to decouple Western states from federal oil, gas, and coal revenue must be prioritized. Currently, these states are forced to make draconian budget cuts every time the energy market takes a plunge. But the salaries of our teachers and nurses should not be threatened by downturns in fossil fuel profits, especially as fossil fuels enter a permanent decline.

In times of crisis, the fossil fuel industry's first and only concern is its bottom line, not the public from whose lands they profit. During the COVID-19 pandemic, when communities were suffering from disease and economic uncertainty, polluters pushed to have federal royalties temporarily lowered or even eliminated.[vi] Although Big Oil lobbyists failed to secure an across-the-board emergency cut to royalty rates, many individual oil companies applied for, and were subsequently granted, temporary royalty reductions. Despite pleas from the Western Governors Association to consider state input before lowering federal royalties,[vii] the BLM proceeded to approve 581 out of 1,689 applications for oil and gas royalty relief over a three-month period. The burden fell heaviest in Wyoming, North Dakota, Montana, and Utah. A report from the Government Accountability Office was sharply critical of the BLM for ignoring its own rules in rushing to implement the policy and for failing to calculate the total amount of revenue lost to state governments.[viii]

The global energy market that drives the prices of these fuels is volatile and susceptible to geopolitical shocks. Tying states' operating budgets to the boom-and-bust cycles of fossil fuels puts vital public services in danger. At the start of the pandemic, about a third of New Mexico's budget came from oil and gas, with revenue from the state share of public lands the largest single source.[ix] But due to the pandemic, New Mexico had to implement emergency budget cuts in June and pull on $750 million in emergency federal coronavirus aid.[x]

Although some states have attempted to smooth the ups and downs of dirty energy by investing in a rainy day fund, it will not be enough to fill budget gaps as the fossil fuel industry continues to decline. Wyoming entered 2020 with the largest state reserve in the U.S. However, over half of Wyoming's budget depends on extractive industries, so despite the fund, the state faced a budget shortfall in 2020-21, caused in large part by the sharp drop in fossil fuel revenue.[xi]

Ultimately, the declining fossil fuel industry is too volatile to be weathered with rainy day funds. As Adele Morris from the Brookings Institution writes, "rainy day planning is an entirely different endeavor if you suddenly find yourself in a rain forest."[xii] The best way to protect communities from harsh budget cuts to their public services is through decoupling fossil fuel revenues.

The Dirty Energy Gap in Context

We can and must decouple state revenue from federal fossil fuel royalties as part of a just transition. Although royalties from the federal leasing program make up a notable portion of some state and local budgets, they are actually quite small in terms of the federal budget. Building back better means that communities will not have to suffer through cycles of strained public services followed by budget cuts tied to unreliable fossil fuel royalties. The fossil fuel industry has been propped up by preferential tax benefits and other giveaways for far too long. Ending these giveaways would be more than enough to completely replace dirty energy revenue from the federal leasing program in the communities that currently must rely on this funding.

Let's compare some of the most notorious corporate giveaways from the Trump years and beyond to the cost of permanently decoupling state and local governments from federal royalties from fossil fuel extraction on public lands. Using the banner year of FY 2019 as a point of comparison shows that the cost of protecting Western communities from the decline of federal dirty energy revenue is modest indeed.

- **The CARES Act included a little-noticed tax break especially generous to real estate investors. Dubbed the "Millionaires Giveaway" and noted for its particular benefits to the Trump family, the provision lifts a $500,000 cap on the amount of business losses that can be claimed against other forms of income. The result is that "paper losses" from the depreciating value of real estate and other investments can be used to offset taxes owed on things like stocks. The provision is estimated to have cost taxpayers $75 billion in 2020 alone. That is enough to replace the entire state and local share of federal fossil fuel revenue from public lands and waters for 31 years.**

- **Another tax giveaway in the CARES Act allowed corporations to deduct losses from 2018, 2019, and 2020 from taxes paid over the previous five years. According to a survey from the University of Chicago, at least a third of oil companies are likely to benefit from this provision. The estimated cost of this giveaway in 2020 was $80.032 billion. That is enough to replace the fossil fuel share of revenue from federal lands in New Mexico for over 68 years.**

- **Yet another tax giveaway from the CARES Act temporarily raised the legal amount of interest corporations were able to deduct from their income taxes. This disproportionately benefitted sectors like oil and gas with large debt burdens. The cost of this incentive to taxpayers was $7.173 billion in 2020 alone. That is enough to cover the Colorado share of federal fossil fuel revenue from public lands for the next 88 years.**

- **The fossil fuel industry benefitted substantially from the Paycheck Protection Program, an emergency program of forgivable loans established through the CARES Act. A maximum of $9.110 billion in loans passed to polluters in 2020, despite the fact that the nonprofit group BailoutWatch found that these loans tended to be larger and to save fewer jobs than those to other sectors.[xiii] That is enough to cover Wyoming's share of federal fossil fuel income from public lands for 14 years.**

- **The so-called Main Street Lending Program was established with taxpayer funds from the CARES Act, ostensibly to provide small and medium businesses hit hard by the coronavirus with credit. It was notoriously modified by the Trump administration to allow bigger oil companies with heavy pre-COVID debts to access it. The result was an estimated $828 million in loans to fossil fuel companies by the time the program was suspended.[xiv] That is enough to cover the Montana share of federal fossil fuel income from public lands for 28 years.**

Conclusion

A just transition can, and should, include communities on the front lines of our dirty energy economy. Instead of bailing out the failing fossil fuel industry, federal resources should be used to decouple state and local governments dependent on federal fossil fuel revenue. The amount fossil fuel-reliant communities require to decouple from the federal leasing program pales in comparison to the bailouts the failing fossil fuel industry receives. As we build back better, we should build back with new protections for communities tied to fossil fuel extraction that foster a safer, healthier, and more economically secure future.

Methodology

All of the revenue data is publicly available from the ONRR database on revenue and disbursements. To control for the share of onshore revenue from non-fossil fuel resources like helium, sodium, and sulfur, we subtracted 49% of the revenue from those resources from the state and local disbursement total. All of the tax estimates are courtesy of the Joint Committee on Taxation from the official scoring of the CARES Act, available as JCX-11-20.

Contact Information:

Sarah Lutz
Climate Campaigner
Friends of the Earth
slutz@foe.org

Friends of the Earth

Endnotes

i https://revenuedata.doi.gov/

ii 2019 Annual Report. Colorado Department of Revenue. https://cdor.colorado.gov/data-and-reports/cdor-annual-reports

iii https://www.energy.senate.gov/services/files/B462409D-A180-465F-809F-EABA0538F861

iv https://revenuedata.doi.gov/query-data

v https://revenuedata.doi.gov/query-data

vi https://westernpriorities.org/tracker-trump-administration-oil-and-gas-handouts-during-global-pandemic/

vii https://westgov.org/news/article/western-governors-seek-consultation-with-doi-on-suspending-reducing-oil-and-gas-royalties-due-to-covid-19

viii https://www.gao.gov/products/GAO-21-169T

ix https://d3n8a8pro7vhmx.cloudfront.net/nmoga/pages/131/attachments/original/1610642216/NMOGA_FuelingNewMexico_2020.pdf?1610642216

x https://www.governor.state.nm.us/2020/06/30/gov-signs-budget-adjustment-bill/

xi https://www.theguardian.com/environment/2020/sep/04/trump-cuts-oil-and-gas-drillers-rent-on-public-lands-as-state-budgets-suffer

xii https://www.brookings.edu/wp-content/uploads/2016/08/state-fiscal-implications-of-fossil-fuel-production-0809216-morris.pdf

xiii https://report.bailoutwatch.org/

xiv https://bailoutwatch.org/analysis/mslp-november-analysis