United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

March 12, 1975

MEMORANDUM TO: JAMES M. CANNON
EXECUTIVE DIRECTOR OF THE DOMESTIC COUNCIL

SUBJECT: Option Paper on Sharing Outer Continental Shelf Revenues

Attached is a new version of the option paper prepared by my staff on sharing Outer Continental Shelf revenues with States. This version includes additional options by request of Jim Lynn of OMB.

Royston C. Hughes

Royston C. Hughes
Assistant Secretary --
Program Development and Budget

Attachment

cc: James T. Lynn
Director, OMB

[3/12/75]
[Dept. of Interior]

OPTION PAPER

Sharing Outer Continental Shelf Revenues with States

An accelerated leasing program has been initiated on the Outer Continental Shelf (OCS) to open up frontier oil and gas prospects and provide a badly needed supplement to domestic onshore production. Coastal States are troubled by the prospect of accelerated leasing off their shores because they would have to bear the brunt of certain costs of development while the entire Nation receives the benefit of increased domestic supplies of oil and gas.

Coastal State concerns about OCS development involve:

- environmental damages, including possible oil spills

- esthetic impacts

- economic effects, including possible disorderly development, injury to existing industry, and the burden of providing new public services.

To meet these concerns, the Federal Government has already proposed increased planning money for the Coastal Zone Management Act, and is developing a Comprehensive Oil Spill Liability bill.

It has, however, up to now opposed providing Coastal States with a share of OCS revenues on the grounds that -

- OCS revenues belong to all the Nation, and their revenues should benefit all citizens

- a number of Federal programs already exist which provide assistance to States in ameliorating impacts of development

- sharing OCS revenues with Coastal States would reduce the amount of revenues available to support other Federal expenditures and require compensating adjustment elsewhere in the Federal budget

- onshore development induced by offshore activities will eventually provide State and local governments with an increased tax base to finance necessary public facilities, so that there may be no need for a long-term sharing program for impact aid

- States' rights to revenues from offshore minerals leasing were legislatively determined in the Submerged Lands Act of 1953 which gave States complete jurisdiction over the first three miles of seabed, but nothing beyond

- sources of opposition to OCS leasing are varied, and not all might be eliminated by sharing of revenues

However, there are reasons for reconsidering this position.

- failure to respond to State concerns could solidify opposition which would postpone leasing in frontier OCS areas and delay receipt of the National benefits of accelerated development. In Federal revenues alone, the loss in discounted-value terms of even a one-year delay would be about $2.9 billion

- there may be a valid need for Federal assistance now that frontier OCS areas will be opened. For example, "front-end" money would help State and local governments begin building public facilities before OCS developments provide an increased tax base on which to finance such expenditures

- the three-mile state jurisdiction is of little revenue value to States in frontier areas such as the Atlantic Coast, where oil and gas reserves are all located farther offshore

- shared revenues could give Coastal States a financial stake in prompt OCS development

- sharing OCS revenues would be consistent with various onshore sharing precedents, notably the Minerals Leasing Act which gives affected States 37 1/2 percent of Federal leasing revenues

- Congressional action on shared revenues is possible regardless of the Administration position

There are three general approaches to providing funds to States:

- <u>provide money for impact-amelioration projects</u>--tie use of funds to specific purposes which underwrite costs faced by States as a result of CCS activity

- <u>provide formula-based, no strings money to States affected by OCS activity</u>--make funds available which are sufficient to keep Coastal States from being worse off on balance as a result of OCS activity, and distribute these revenues generally in accordance with expected impacts, but leave to the States the decision as to how to use the money

- <u>provide an "ownership" stake in OCS development through a share of Federal revenues</u>--distribute a proportion of revenues without direct regard to expected impacts, perhaps to both inland and Coastal States

Option I: Coastal State Impact Aid

Description

This option provides funds to Coastal States to ameliorate negative impacts of OCS development

- some modest proportion of Federal OCS revenues, would fund grants to Coastal States

- funds would be made available soon enough for "front-end" costs, not delayed until actual offshore production starts

- grants could be distributed either by formula based on general indices of impacts, or by project after a showing of specific impacts, or both

- grants could either require State matching or provide full Federal funding, and could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- the option would focus specifically on ameliorating onshore impacts of OCS development, and reduce them as a barrier to accelerated leasing in frontier areas

- the use of grant funds would be tied directly to impacts

- budget outlays would be modest by comparison with the other options considered

Unfavorable:

- mere amelioration of impacts might be insufficient to lead Coastal States to accept OCS development

- the grants might be opposed on grounds that OCS revenues are a National asset and should not be disbursed only to Coastal States

- clear identification and measurement of impacts for purposes of awarding grants would be administratively difficult

- the impact rationale focuses assistance efficiently on future impacts but makes no allowance for past impacts, which may seem inequitable to States where OCS leasing has already occurred

- the option would not address the energy impact concerns of inland States, and might appear to single out Coastal States for special treatment, although inland States already receive 37 1/2 percent of Federal revenues from minerals leasing within their boundaries

Three specific variants of this option warrant particular attention.

Option Ia: Formula Impact Aid

Description

This variant would distribute among Coastal States a fixed percentage of Federal OCS revenues without time limit or annual dollar ceiling

- 10 percent of Federal OCS revenues would be deposited in the impact aid fund

- alternatively, as in a current congressional proposal, the fund would be financed by 10 percent of Federal OCS revenues or 40 cents per barrel of oil, whichever is greater, although the structure of Federal revenues (bonus plus royalties) would complicate the 40 cents per barrel calculation

- grants would be distributed by formula based on general indicators of impact

Program Effects

Favorable:

- 10 percent funding as long as Federal revenues continued would provide a continuing source of funds to meet Coastal State impact needs whenever they arose

- 10 percent funding would be ample to meet currently anticipated needs thereby reassuring Coastal States that their impact concerns would be sufficiently provided for

Unfavorable:

- 10 percent funding might result in distributing more money than strict impact accounting would require

Budget Outlays

Impact aid for Coastal States equal to 10 percent of Federal revenues would range between $141 million and $724 million per year between 1975 and 1985, based on current production estimates. Revenue distribution by State would depend on the project eligibility rules or the distribution formula adopted, but if properly administered would closely approximate the distribution of actual impacts. More detailed projections of the budget outlays under this option and those that follow are provided in the attached tables.

Option Ib: Targeted Impact Aid

Description

This variation would provide impact aid to Coastal States under terms that would link the aid directly to the alleviation of negative impacts:

- the fund would be limited to a total of $600 million to be built up from bonus receipts at $100 million per year

- aid to impacted communities for public capital investment would be made in the form of 50 percent grant and 50 percent loan funds

- the balance of the fund not spent on actual, demonstrated impacts would revert to the Treasury after 15 years.

Program Effects

Favorable:

- the timing and jurisdictions receiving aid would be directly tied to impacts

- the loan feature would reduce the likelihood of overbuilding public facilities

- the aid would be cut off after 15 years, which should be ample time to meet impact needs

Unfavorable:

- clear identification and measurement of impacts for purposes of awarding grants would require complex eligibility criteria and administrative review

- grant amounts might appear to Coastal States to make inadequate provision for their anticipated needs

Budget Outlays

Impact aid under this variation of Option I would be limited to $100 million annually or less. The distribution by state would depend on the distribution of demonstrated impacts.

Option Ic: Combination Impact Aid

Description

Under this variation of Option I, funds would be allocated to Coastal States by formula but allocated funds would be paid out only for demonstrated need.

- the fund would be built by a deposit of 2 1/2 percent of annual OCS lease revenues for a period of 10 years

- revenues in the fund would be allocated to the 22 Coastal States by formula, giving an equal share to each state

- aid payments would be made to states out of this allocation when triggered by a showing of need

- aid payments would be available as grants and loans

- the balance of funds not expended on need would revert to the Treasury after 15 years.

Program Effects

Favorable:

- equal shares would provide more aid per capita to the less populous states, where impacts could be more pronounced

- formula aid would determine, in an administratively easy way, the maximum amount a state could get

Unfavorable:

- equal sharing by Coastal States could lead to a misallocation of resources because of impacts in rural areas of large, populous states

Budget Outlays

The outlays under Option Ic, as projected by OMB, would reach $100 million a year, totalling $600 million. At 2 1/2 percent of OCS revenues, $1,120 million would be available if needs exceeded that projection.

Option II: Coastal State Impact Aid and Production Shares

Description

In addition to the impact grants of Option I a, this option includes payment to Coastal States of 5 percent of the value of OCS oil and gas which is brought onshore within their boundaries.

- the 5 percent share of the value of oil and gas would be approximately equal to 37 1/2 percent of the minimum allowable OCS royalty; thus setting production shares at 5 percent would assure that those shares never constituted a higher proportion of Federal OCS revenues than the proportion of leasing revenues currently paid to States for onshore minerals

- basing the payment on the value of oil and gas rather than on the Federal royalty income itself is intended to prevent the level of royalties from becoming a political issue, and retain needed flexibility in financial terms for leases

- the base for figuring the 5 percent payments could be limited, if desired, to "new oil" only, or to production above the level of a base period, say 1974

Program Effects

Favorable:

- the 5 percent production share adds to the front-end program of Option I a continuing source of funds for the effects of bringing OCS oil ashore

- making payments dependent on taking oil ashore would give the States an increased stake in OCS development off their shores, while it still targets payments on the areas which would feel impacts

Unfavorable:

- like Option I, this Option is subject to the objection that revenues from a National resource would be distributed only to selected States

- outlays under this Option would be substantially greater than under Option I

Budget Outlays

This Option would add to the costs of Option Ia an amount equal to 5 percent of the value of oil produced, or between $240 million and $834 million per year over the years 1975 to 1985. The total amount shared would reach $1112 million per year by the end of the period

Option III: Coastal State Production Shares plus Nationally Shared Revenues

Description

This Option would combine the 5 percent Coastal State production shares of Option II with an additional sharing of Federal OCS revenues with all States.

- the additional National sharing would be 37 1/2 percent of all Federal OCS revenues minus the 5 percent Coastal State production share. Thus, total revenues shared in the two parts of the program would amount to 37 1/2 percent of all Federal OCS revenues, the same proportion that is now shared with States in onshore leasing programs

- the National shares could be distributed among States on a per capita basis, or by the General Revenue Sharing formula. The per capita basis emphasizes the idea that OCS reserves belong to all citizens, while the General Revenue Sharing formula makes use of an existing method for distributing Federal funds to States, although that method could itself become a source of controversy in the future

Program Effects

Favorable:

- this Option would extend a direct financial stake in OCS leasing and production to inland as well as Coastal States

- it would provide some front-end money to Coastal States through their National share, which would become available to them well before the 5 percent payments started as oil was brought onshore

- shared revenues would be of maximum value to States since they would not be tied to any particular use and could be applied as States saw fit

- the Option would feature a set of sharing formulas which, once established, would be relatively easy to administer

Unfavorable:

- it would use a substantial amount of Federal funds, perhaps more than strictly necessary to encourage prompt OCS development

- it would not recognize any special front-end money needs of OCS-affected Coastal States, but would give them only the same National share as other States until their 5 percent production share became available

- it would not require that money shared with Coastal States be used by them to ameliorate impacts, which could work against the Federal interest in smooth development both on and offshore and might not satisfy the impact concerns of some particular groups who could still delay leasing

- it would result in a variable, and to a degree, unpredictable flow of funds to States, since OCS bonus revenues fluctuate considerably from sale to sale, though by averaging over more than one year this problem can be eliminated

Budget Outlays

This Option would distribute 37 1/2 percent of all Federal OCS revenues to States, or between $530 million and $2717 million per year over the period 1975 to 1985. The 5 percent Coastal production share of this total would be $240 million to $834 million per year. The remainder to be distributed among all States would amount to between $106 million and $2344 million per year.

Option IV: Coastal State Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid

Description

This Option combines the 5 percent production shares and the 37 1/2 percent nationally shared revenues of Option III with a program of impact aid like that in Option I but available to all States to meet the front-end costs of energy development, both off and onshore.

- the total amount paid out would equal 37 1/2 percent of OCS revenues, as in Option III, but this sum would be divided three ways: 5 percent of the value of the oil to Coastal States, up to $500 million (or a like amount) for a nationwide impact grant fund, and the remainder of the 37 1/2 percent for National per capita or General Revenue Sharing distribution

- front-end grants would be available to all States on a project or formula basis for all types of energy-related impacts

- grants could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- this Option has the advantages of Option III, plus the beneficial effects of impact-related front-end money for all States

- it would treat all energy-related impacts consistently, without singling out OCS impacts for special consideration

- it would use OCS revenues, which are substantial, to ameliorate energy impacts inland where needs may also be significant

- it permits taking advantage of the good features of both project assistance and no-strings-attached revenue sharing

- it addresses expressed concerns of Western States about front-end energy development costs, and encourages them to undertake energy developments of National interest

Unfavorable:

- the timing of the flow of OCS revenues into the nationwide impact aid fund would bear no necessary relationship to the demands on that fund from inland energy development activities

- the impact aid fund would have the same administrative problems as the fund in Option I, but on a larger, nationwide scale

- combining all three elements in one proposal may make it too complex to be appealing

Budget Outlays

The total amount to be shared with States would be identical to Option III. The only difference would be that some percent of Federal revenues, perhaps up to a ceiling such as $500 million per year, would be earmarked for States experiencing energy development impacts. An impact fund of 10 percent of Federal revenue up to $500 million per year would leave between $0 and $1844 million per year for nationally shared revenues.

Table 1

PROJECTIONS OF OCS PRODUCTION, VALUE AND FEDERAL REVENUES

Year	Oil Production (millions of barrels)	Value of Oil Production (millions of dollars)	Federal Revenues (millions of dollars)		
			Bonus	Royalty (16-2/3%)	Total
1975	447	$ 4,792	$6,000	799	$6,799
1976	476	5,103	6,000	851	6,851
1977	506	5,424	6,000	904	6,904
1978	601	6,443	6,000	1,074	7,074
1979	696	7,461	6,000	1,244	7,244
1980	791	8,480	-	1,413	1,413
1981	944	10,120	-	1,687	1,687
1982	1,097	11,760	-	1,960	1,960
1983	1,250	13,400	-	2,234	2,234
1984	1,403	15,040	-	2,507	2,507
1985	1,557	16,691	-	2,782	2,782

Assumptions:

1. Production at levels corresponding to Project Independence Report.

2. Oil priced at $8 per barrel and gas priced at $0.70 per thousand cubic feet, giving a total value 1.34 times the value of oil production.

3. 16-2/3 percent royalty collected on all production from Federal OCS lands.

Table 2

SUMMARY OF PAYMENTS TO STATES UNDER FOUR OPTIONS
(millions of dollars)

	Option Ia	Option II			Option III			Option IV			
Year	Coastal State Impact Aid	Coastal State Impact Aid	Production Shares	Total	Production Shares	National Shares	Total	Production Shares	Nationwide Energy Impact Aid	National Shares	Total
1975	680	680	240	920	240	2310	2550	240	500	1810	2550
1976	685	685	255	940	255	2314	2569	255	500	1814	2569
1977	690	690	271	961	271	2318	2589	271	500	1818	2589
1978	707	707	322	1029	322	2331	2653	322	500	1831	2653
1979	724	724	373	1097	373	2344	2717	373	500	1844	2717
1980	141	141	424	565	424	106	530	424	106	--	530
1981	169	169	506	675	506	127	633	506	127	--	633
1982	196	196	588	784	588	147	735	588	147	--	735
1983	223	223	670	893	670	168	838	670	168	--	838
1984	251	251	752	1003	752	188	940	752	188	--	940
1985	278	278	834	1112	834	209	1043	834	209	--	1043

Definition of options:

Option Ia -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.

Option II -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.
-- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.

Option III -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed.

Option IV -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- Nationwide Energy Impact Aid equal to 10% of OCS revenues not to exceed $500 million per year.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed and less 10% of OCS revenues not to exceed $500 million per year (no negative payments to States).

Table 3

SUMMARY OF PAYMENTS UNDER VARIANTS OF OPTION I

	Option Ia	Option Ib*	Option Ic*
1975	680	--	--
1976	685	--	--
1977	690	--	--
1978	707	50	50
1979	724	50	50
1980	141	100	100
1981	169	100	100
1982	196	100	100
1983	223	100	100
1984	251	100	100
1985	278		

*Note: Payments for Options Ib and Ic are limited to OMB projection of $600 million in expected impacts. Option Ib would have $600 million available whereas Option IIb would have a total of $1120 million.

Table 4

SUMMARY OF STATES' AND FEDERAL
SHARES UNDER FOUR OPTIONS
(millions of dollars)

		OPTION I		OPTION II		OPTIONS III & IV	
Year	Total Federal OCS Revenues	States' Share	Federal Share	States' Share	Federal Share	States' Share	Federal Share
1975	6799	680	6119	920	5879	2550	4249
1976	6851	685	6166	940	5911	2569	4282
1977	6904	690	6214	961	5943	2589	4315
1978	7074	707	6367	1029	6045	2653	4421
1979	7244	724	6520	1097	6147	2717	4527
1980	1413	141	1272	565	848	530	883
1981	1687	169	1518	675	1012	633	1054
1982	1960	196	1764	784	1176	735	1225
1983	2234	223	2011	893	1341	838	1396
1984	2507	251	2256	1003	1504	940	1567
1985	2782	278	2504	1112	1607	1043	1739

Table 5

REGIONAL DISTRIBUTION OF
PRODUCTION SHARE
(millions of dollars)

Total OCS Production

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	224	215	9	0	0
1975	240	226	14	0	0
1976	255	235	20	0	0
1977	271	247	24	0	0
1978	325	267	48	0	10
1979	373	287	67	0	19
1980	419	305	89	0	25
1981	505	334	116	15	40
1982	589	359	147	24	59
1983	670	382	174	40	74
1984	752	406	203	53	90
1985	844	434	234	67	109

OCS Production Above 1974 Levels Only

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	0	0	0	0	0
1975	16	11	5	0	0
1976	31	20	11	0	0
1977	47	32	15	0	0
1978	101	52	39	0	10
1979	149	72	58	0	19
1980	195	90	80	0	25
1981	281	119	107	15	40
1982	365	144	138	24	59
1983	446	167	165	40	74
1984	528	191	194	53	90
1985	620	219	225	67	109

Table 6

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Alabama	1.686	39.058	1.601	37.084
Alaska	0.157	3.642	0.144	3.332
Arizona	0.981	22.713	1.020	23.634
Arkansas	0.971	22.481	1.039	24.063
California	9.817	227.361	10.355	239.833
Colorado	1.161	26.896	1.084	25.099
Connecticut	1.466	33.948	1.346	31.176
Delaware	0.274	6.357	0.302	6.997
D.C.	0.355	8.233	0.422	9.772
Florida	3.659	84.738	3.134	72.587
Georgia	2.281	52.820	2.087	48.336
Hawaii	0.396	9.182	0.437	10.115
Idaho	0.367	8.498	0.395	9.157
Illinois	5.354	124.005	5.079	117.632
Indiana	2.533	58.670	2.033	47.090
Iowa	1.384	32.050	1.324	30.666
Kansas	1.086	25.152	0.922	21.350
Kentucky	1.593	36.884	1.627	37.680
Louisiana	1.794	41.541	2.166	50.157
Maine	0.490	11.345	0.634	14.685
Maryland	1.939	44.918	1.987	46.013
Massachusetts	2.772	64.210	3.256	75.420
Michigan	4.310	99.813	4.203	97.337
Minnesota	1.857	43.009	2.096	48.535
Mississippi	1.087	25.174	1.470	34.045
Missouri	2.267	52.500	1.923	44.538

Table 6
(continued)

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Montana	0.344	7.957	0.369	8.535
Nebraska	0.735	17.018	0.668	15.464
Nevada	0.261	6.048	0.231	5.353
New Hampshire	0.377	8.730	0.315	7.291
New Jersey	3.508	81.239	3.133	72.549
New Mexico	0.527	12.206	0.628	14.537
New York	8.704	201.580	11.340	262.641
North Carolina	2.513	58.195	2.432	56.318
North Dakota	0.305	7.063	0.306	7.083
Ohio	5.114	118.432	4.082	94.542
Oklahoma	1.269	29.390	1.106	25.609
Oregon	1.060	24.556	1.052	24.357
Pennsylvania	5.672	131.355	5.321	123.233
Rhode Island	0.464	10.738	0.433	10.032
South Carolina	1.299	30.085	1.407	32.587
South Dakota	0.326	7.560	0.400	9.255
Tennessee	1.966	45.536	1.861	43.093
Texas	5.620	130.164	4.853	112.403
Utah	0.551	12.769	0.590	13.664
Vermont	0.221	5.121	0.309	7.145
Virginia	2.293	53.096	2.015	46.663
Washington	1.634	37.844	1.458	33.764
West Virginia	0.855	19.799	0.905	20.966
Wisconsin	2.177	50.425	2.545	58.934
Wyoming	0.168	3.896	0.158	3.656

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Duval

MAR 10 1975

Memorandum

To: Executive Director, Domestic Council

From: Assistant Secretary--Program Development and Budget

Subject: Option Paper on Sharing Outer Continental Shelf Revenues with States

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Secretary Morton favors Option III as outlined in the paper; FEA also favors Option III (applied to new oil only) and would consider adding Option I as well, but only if actual impacts could be accurately measured; Treasury favors a modified version of Option II (5 percent production shares applied to both new and old oil, but no impact aid); and NOAA supports Coastal State impact aid (a feature of Options I, II and IV).

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- <u>provide money for impact-amelioration projects</u>--tie use of funds to specific purposes which underwrite costs faced by States as a result of OCS activity

- <u>provide formula-based, no strings money to States affected by OCS activity</u>--make funds available which are sufficient to keep Coastal States from being worse off on balance as a result of OCS activity, and distribute these revenues generally in accordance with expected impacts, but leave to the States the decision as to how to use the money

- <u>provide an "ownership" stake in OCS development through a share of Federal revenues</u>--distribute a proportion of revenues without direct regard to expected impacts, perhaps to both inland and Coastal States

Option I: Coastal State Impact Aid

Description

This option is similar in some respects to proposals introduced recently in the Congress:

- 10 percent of Federal OCS revenues, perhaps with an annual upper limit, would fund grants to Coastal States to ameliorate negative impacts of OCS development

- alternatively, the total amount of funds in any year could be based on demonstrated impacts rather than on a percentage of OCS revenues, again possibly up to some limit

- funds would be made available soon enough for "front-end" costs, not delayed until actual offshore production starts

- States could apply for grants for only a five (perhaps ten) year period, so that the program would phase out after front-end impact aid was no longer needed

- grants could be distributed either by formula based on general indices of impacts, or by project after a showing of specific impacts, or both

- grants could either require State matching or provide full Federal funding, and could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- the option would focus specifically on ameliorating onshore impacts of OCS development, and reduce them as a barrier to accelerated leasing in frontier areas

- the use of grant funds would be tied directly to impacts

- budget outlays would be modest by comparison with the other options considered

Unfavorable:

- mere amelioration of impacts might be insufficient to lead Coastal States to accept OCS development

- the grants might be opposed on grounds that OCS revenues are a National asset and should not be disbursed only to Coastal States

- clear identification and measurement of impacts for purposes of awarding grants would be administratively difficult

- the impact rationale focuses assistance efficiently on future impacts but makes no allowance for past impacts, which may seem inequitable to States where OCS leasing has already occurred

- the option would not address the energy impact concerns of inland States, and might appear to single out Coastal States for special treatment, although inland States already receive 37 1/2 percent of Federal revenues from minerals leasing within their boundaries

Budget Outlays

Impact aid for Coastal States equal to 10 percent of Federal revenues would range between $141 million and $724 million per year between 1975 and 1985, based on current production estimates. An annual limit such as $200 million would reduce these outlays. Revenue distribution by State would depend on the project eligibility rules or the distribution formula adopted, but if properly administered would closely approximate the distribution of actual impacts. More detailed projections of the budget outlays under this option and those that follow are provided in the attached tables.

Option II: Coastal State Impact Aid and Production Shares

Description

In addition to the impact grants of Option I, this option includes payment to Coastal States of 5 percent of the value of OCS oil and gas which is brought onshore within their boundaries.

- the 5 percent share of the value of oil and gas would be approximately equal to 37 1/2 percent of the minimum allowable OCS royalty; thus setting production shares at 5 percent would assure that those shares never constituted a higher proportion of Federal OCS revenues than the proportion of leasing revenues currently paid to States for onshore minerals

- basing the payment on the value of oil and gas rather than on the Federal royalty income itself is intended to prevent the level of royalties from becoming a political issue, and retain needed flexibility in financial terms for leases

- the base for figuring the 5 percent payments could be limited, if desired, to "new oil" only, or to production above the level of a base period, say 1974

Program Effects

Favorable:

- the 5 percent production share adds to the front-end program of Option I a continuing source of funds for the effects of bringing OCS oil ashore

- making payments dependent on taking oil ashore would give the States an increased stake in OCS development off their shores, while it still targets payments on the areas which would feel impacts

Unfavorable:

- like Option I, this Option is subject to the objection that revenues from a National resource would be distributed only to selected States

- outlays under this Option would be substantially greater than under Option I

Budget Outlays

This Option would add to the costs of Option I an amount equal to 5 percent of the value of oil produced, or between $240 million and $834 million per year over the years 1975 to 1985. The total amount shared would reach $1112 million per year by the end of the period

Option III: Coastal State Production Shares plus Nationally Shared Revenues

Description

This Option would combine the 5 percent Coastal State production shares of Option II with an additional sharing of Federal OCS revenues with all States.

- the additional National sharing would be 37 1/2 percent of all Federal OCS revenues minus the 5 percent Coastal State production share. Thus, total revenues shared in the two parts of the program would amount to 37 1/2 percent of all Federal OCS revenues, the same proportion that is now shared with States in onshore leasing programs

- the National shares could be distributed among States on a per capita basis, or by the General Revenue Sharing formula. The per capita basis emphasizes the idea that OCS reserves belong to all citizens, while the General Revenue Sharing formula makes use of an existing method for distributing Federal funds to States, although that method could itself become a source of controversy in the future

Program Effects

Favorable:

- this Option would extend a direct financial stake in OCS leasing and production to inland as well as Coastal States

- it would provide some front-end money to Coastal States through their National share, which would become available to them well before the 5 percent payments started as oil was brought onshore

- shared revenues would be of maximum value to States since they would not be tied to any particular use and could be applied as States saw fit

- the Option would feature a set of sharing formulas which, once established, would be relatively easy to administer

Unfavorable:

- it would use a substantial amount of Federal funds, perhaps more than strictly necessary to encourage prompt OCS development

- it would not recognize any special front-end money needs of OCS-affected Coastal States, but would give them only the same National share as other States until their 5 percent production share became available

- it would not require that money shared with Coastal States be used by them to ameliorate impacts, which could work against the Federal interest in smooth development both on and offshore and might not satisfy the impact concerns of some particular groups who could still delay leasing

- it would result in a variable, and to a degree, unpredictable flow of funds to States, since OCS bonus revenues fluctuate considerably from sale to sale, though by averaging over more than one year this problem can be eliminated

Budget Outlays

This Option would distribute 37 1/2 percent of all Federal OCS revenues to States, or between $530 million and $2717 million per year over the period 1975 to 1985. The 5 percent Coastal production share of this total would be $240 million to $834 million per year. The remainder to be distributed among all States would amount to between $106 million and $2344 million per year.

Option IV: Coastal State Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid

Description

This Option combines the 5 percent production shares and the 37 1/2 percent nationally shared revenues of Option III with a program of impact aid like that in Option I but available to all States to meet the front-end costs of energy development, both off and onshore.

- the total amount paid out would equal 37 1/2 percent of OCS revenues, as in Option III, but this sum would be divided three ways: 5 percent of the value of the oil to Coastal States, up to $500 million (or a like amount) for a nationwide impact grant fund, and the remainder of the 37 1/2 percent for National per capita or General Revenue Sharing distribution

- front-end grants would be available to all States on a project or formula basis for all types of energy-related impacts

- grants could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- this Option has the advantages of Option III, plus the beneficial effects of impact-related front-end money for all States

- it would treat all energy-related impacts consistently, without singling out OCS impacts for special consideration

- it would use OCS revenues, which are substantial, to ameliorate energy impacts inland where needs may also be significant

- it permits taking advantage of the good features of both project assistance and no-strings-attached revenue sharing

- it addresses expressed concerns of Western States about front-end energy development costs, and encourages them to undertake energy developments of National interest

Unfavorable:

- the timing of the flow of OCS revenues into the nationwide impact aid fund would bear no necessary relationship to the demands on that fund from inland energy development activities

- the impact aid fund would have the same administrative problems as the fund in Option I, but on a larger, nationwide scale

- combining all three elements in one proposal may make it too complex to be appealing

Budget Outlays

The total amount to be shared with States would be identical to Option III. The only difference would be that some percent of Federal revenues, perhaps up to a ceiling such as $500 million per year, would be earmarked for States experiencing energy development impacts. An impact fund of 10 percent of Federal revenue up to $500 million per year would leave between $0 and $1844 million per year for nationally shared revenues.

Table 1

PROJECTIONS OF OCS PRODUCTION, VALUE AND FEDERAL REVENUES

Year	Oil Production (millions of barrels)	Value of Oil Production (millions of dollars)	Federal Revenues (millions of dollars)		
			Bonus	Royalty (16-2/3%)	Total
1975	447	$ 4,792	$6,000	799	$6,799
1976	476	5,103	6,000	851	6,851
1977	506	5,424	6,000	904	6,904
1978	601	6,443	6,000	1,074	7,074
1979	696	7,461	6,000	1,244	7,244
1980	791	8,480	-	1,413	1,413
1981	944	10,120	-	1,687	1,687
1982	1,097	11,760	-	1,960	1,960
1983	1,250	13,400	-	2,234	2,234
1984	1,403	15,040	-	2,507	2,507
1985	1,557	16,691	-	2,782	2,782

Assumptions:

1. Production at levels corresponding to Project Independence Report.

2. Oil priced at $8 per barrel and gas priced at $0.70 per thousand cubic feet, giving a total value 1.34 times the value of oil production.

3. 16-2/3 percent royalty collected on all production from Federal OCS lands.

Table 2

SUMMARY OF PAYMENTS TO STATES UNDER FOUR OPTIONS
(millions of dollars)

	Option I	Option II			Option III			Option IV			
Year	Coastal State Impact Aid	Coastal State Impact Aid	Production Shares	Total	Production Shares	National Shares	Total	Production Shares	Nationwide Energy Impact Aid	National Shares	Total
1975	680	680	240	920	240	2310	2550	240	500	1810	2550
1976	685	685	255	940	255	2314	2569	255	500	1814	2569
1977	690	690	271	961	271	2318	2589	271	500	1818	2589
1978	707	707	322	1029	322	2331	2653	322	500	1831	2653
1979	724	724	373	1097	373	2344	2717	373	500	1844	2717
1980	141	141	424	565	424	106	530	424	106	--	530
1981	169	169	506	675	506	127	633	506	127	--	633
1982	196	196	588	784	588	147	735	588	147	--	735
1983	223	223	670	893	670	168	838	670	168	--	838
1984	251	251	752	1003	752	188	940	752	188	--	940
1985	278	278	834	1112	834	209	1043	834	209	--	1043

Definition of options:

Option I -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.

Option II -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.
-- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.

Option III -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed.

Option IV -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- Nationwide Energy Impact Aid equal to 10% of OCS revenues not to exceed $500 million per year.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed and less 10% of OCS revenues not to exceed $500 million per year (no negative payments to States).

Table 3

SUMMARY OF STATES' AND FEDERAL SHARES UNDER FOUR OPTIONS
(millions of dollars)

Year	Total Federal OCS Revenues	OPTION I States' Share	OPTION I Federal Share	OPTION II States' Share	OPTION II Federal Share	OPTIONS III & IV States' Share	OPTIONS III & IV Federal Share
1975	6799	680	6119	920	5879	2550	4249
1976	6851	685	6166	940	5911	2569	4282
1977	6904	690	6214	961	5943	2589	4315
1978	7074	707	6367	1029	6045	2653	4421
1979	7244	724	6520	1097	6147	2717	4527
1980	1413	141	1272	565	848	530	883
1981	1687	169	1518	675	1012	633	1054
1982	1960	196	1764	784	1176	735	1225
1983	2234	223	2011	893	1341	838	1396
1984	2507	251	2256	1003	1504	940	1567
1985	2782	278	2504	1112	1607	1043	1739

Table 4

REGIONAL DISTRIBUTION OF
PRODUCTION SHARE
(millions of dollars)

Total OCS Production

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	224	215	9	0	0
1975	240	226	14	0	0
1976	255	235	20	0	0
1977	271	247	24	0	0
1978	325	267	48	0	10
1979	373	287	67	0	19
1980	419	305	89	0	25
1981	505	334	116	15	40
1982	589	359	147	24	59
1983	670	382	174	40	74
1984	752	406	203	53	90
1985	844	434	234	67	109

OCS Production Above 1974 Levels Only

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	0	0	0	0	0
1975	16	11	5	0	0
1976	31	20	11	0	0
1977	47	32	15	0	0
1978	101	52	39	0	10
1979	149	72	58	0	19
1980	195	90	80	0	25
1981	281	119	107	15	40
1982	365	144	138	24	59
1983	446	167	165	40	74
1984	528	191	194	53	90
1985	620	219	225	67	109

Table 5

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Alabama	1.686	39.058	1.601	37.084
Alaska	0.157	3.642	0.144	3.332
Arizona	0.981	22.713	1.020	23.634
Arkansas	0.971	22.481	1.039	24.063
California	9.817	227.361	10.355	239.833
Colorado	1.161	26.896	1.084	25.099
Connecticut	1.466	33.948	1.346	31.176
Delaware	0.274	6.357	0.302	6.997
D.C.	0.355	8.233	0.422	9.772
Florida	3.659	84.738	3.134	72.587
Georgia	2.281	52.820	2.087	48.336
Hawaii	0.396	9.182	0.437	10.115
Idaho	0.367	8.498	0.395	9.157
Illinois	5.354	124.005	5.079	117.632
Indiana	2.533	58.670	2.033	47.090
Iowa	1.384	32.050	1.324	30.666
Kansas	1.086	25.152	0.922	21.350
Kentucky	1.593	36.884	1.627	37.680
Louisiana	1.794	41.541	2.166	50.157
Maine	0.490	11.345	0.634	14.685
Maryland	1.939	44.918	1.987	46.013
Massachusetts	2.772	64.210	3.256	75.420
Michigan	4.310	99.813	4.203	97.337
Minnesota	1.857	43.009	2.096	48.535
Mississippi	1.087	25.174	1.470	34.045
Missouri	2.267	52.500	1.923	44.538

Table 5
(continued)

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Montana	0.344	7.957	0.369	8.535
Nebraska	0.735	17.018	0.668	15.464
Nevada	0.261	6.048	0.231	5.353
New Hampshire	0.377	8.730	0.315	7.291
New Jersey	3.508	81.239	3.133	72.549
New Mexico	0.527	12.206	0.628	14.537
New York	8.704	201.580	11.340	262.641
North Carolina	2.513	58.195	2.432	56.318
North Dakota	0.305	7.063	0.306	7.083
Ohio	5.114	118.432	4.082	94.542
Oklahoma	1.269	29.390	1.106	25.609
Oregon	1.060	24.556	1.052	24.357
Pennsylvania	5.672	131.355	5.321	123.233
Rhode Island	0.464	10.738	0.433	10.032
South Carolina	1.299	30.085	1.407	32.587
South Dakota	0.326	7.560	0.400	9.255
Tennessee	1.966	45.536	1.861	43.093
Texas	5.620	130.164	4.853	112.403
Utah	0.551	12.769	0.590	13.664
Vermont	0.221	5.121	0.309	7.145
Virginia	2.293	53.096	2.015	46.663
Washington	1.634	37.844	1.458	33.764
West Virginia	0.855	19.799	0.905	20.966
Wisconsin	2.177	50.425	2.545	58.934
Wyoming	0.168	3.896	0.158	3.656

F.G. OCS Revenue Sharing

Many Not Rule litigation / Ford - Nixon to Cong. [illegible] ?

DRAFT OPTION PAPER

Sharing Outer Continental Shelf Revenues with States

Developing oil and gas reserves on the Outer Continental Shelf (OCS) will provide benefits to the United States which substantially exceed the costs of development, including social and environmental costs. Just as accelerated development was an appropriate response to the greatly increased world price of oil, so delay in development will be very costly to a U.S. continuing to rely on high-priced, uncertain imports.

However, coastal state concerns about OCS development could become a source of delay. States are concerned about:

- environmental damages, including possible oil spills
- esthetic impacts
- economic effects, including possible disorderly development, injury to existing industry, and the burden of providing new public services.

To meet these concerns, the ~~Federal Government~~ Administration has already proposed increased planning money for the Coastal Zone Management Act and is ~~considering~~ committed to submit a Comprehensive Oil Spill Liability bill.

It has, however, up to now opposed providing coastal states with a share of OCS revenues on the grounds that -

- OCS resources belong to all the Nation, and their revenues should benefit all citizens

- sharing OCS revenues with coastal states would reduce federal revenues and require compensating adjustment elsewhere in the federal budget
- onshore development induced by offshore activities will eventually provide state and local governments with an increased tax base to finance necessary public facilities
- states rights to revenues from offshore minerals leasing were settled by the Submerged Lands Act which gave states complete jurisdiction over the first three miles of seabed, but nothing beyond

However, there are reasons for reconsidering this position.

- there may be a valid need for federal assistance now that frontier OCS areas will be opened; for example, "front-end" money to help state and local governments begin developing public facilities before OCS developments provide an increased tax base on which to finance such expenditures
- shared revenues could give coastal states ~~officials~~ a financial stake in prompt OCS development and would be consistent with onshore precedent where the Mineral Leasing Act gives affected states 37 1/2 percent of federal leasing revenues.
- the three-mile state jurisdiction is of little revenue value to states in frontier areas such as the Atlantic Coast, where oil and gas reserves are all located farther offshore
- congressional action on shared revenues is possible regardless of the Administration position.

There are three general approaches to establishing shared revenues:

- ameliorate impact with project grants -- tie revenues to specific uses which will minimize or underwrite costs faced by states as a result of OCS activity.
- compensate for impacts with no-strings money -- provide revenues which are sufficient to keep coastal states from being worse off on balance as a result of OCS activity, and distribute these revenues among states in a manner approximating expected impacts, but leave to the states the decision as to how to use the money.
- provide a stake in development through shared revenues -- distribute revenues which exceed the expected impacts coastal states face. Possibly extend shared revenues to inland states so that they also have a direct stake in OCS development.

These three approaches can be grouped into four distinct options, as follows:

Option I: Coastal State Impact Aid

Description

This option is similar to a proposal introduced recently by Senator Jackson (S. 521):

- 10 percent of Federal OCS revenues, perhaps with an annual upper limit, would fund grants to coastal states to ameliorate negative impacts of OCS development.
- funds would be made available soon enough for "front-end" costs, not delayed until actual offshore production starts
- states could apply for grants for only a five (perhaps 10) year period, so that the program would phase out after genuine impact aid was no longer needed
- grants could be distributed either by formula based on general indices of impacts, or by project after a showing of specific impacts, or both
- grants could either require state matching or, as in S. 521, provide full funding.

Program Effects

Favorable:

- the option would focus on ameliorating impacts of OCS development, and reduce them as a barrier to accelerated leasing in frontier areas
- the amount and use of grant funds would be tied directly to impacts

Maybe no

- budget outlays would be modest by comparison with the other options considered.

Unfavorable:

- mere amelioration of impacts might be insufficient to lead coastal states to accept OCS development
- the grants might be opposed on grounds that OCS revenues are a National asset and should not be dispersed only to coastal states
- clear identification and measurment of impacts for purposes of awarding grants would be administratively difficult
- the impact rationale focuses assistance efficiently on future impacts but makes no allowance for past impacts which may seem inequitable to states where OCS leasing has already occurred.

Budget Effects

Impact aid for coastal states equal to 10 percent of federal revenues would range between $144 million and $727 million per year between 1975 and 1985, based on current production estimates. An annual ceiling lower than these amounts, for example the $200 million ceiling for 1975 and 1976 proposed by Senator Jackson in S. 521, is an option. Revenue distribution by state would depend on the project eligibility rules or the distribution formula adopted, but would closely approximate the distribution of actual impacts. More detailed projections of the budget effects under this option are provided in the attachment.

Option II: Coastal impact aid and production shares

7

Description

In addition to the impact grants of option I, this option includes payment to coastal States of 5 percent of the value of OCS oil and gas which is brought on shore within their boundaries.

- The 5 percent share of the value of oil and gas would be approximately equal to 37-1/2 percent of the minimum allowable OCS royalty; setting 5 percent as the share would therefore prevent the payment to the State from exceeding the share of royalty income normally paid to States for onshore minerals.
- Basing the payment on the value of oil and gas rather than on the Federal royalty income itself will help prevent the level of royalties from becoming a political issue.
- If desired, the 5 percent payment could be split between the State bringing the oil on shore and the State refining the oil, either by a Federal allocation formula or by permitting States to reach agreements on a split among themselves.
- The base for figuring the 5 percent payments could be limited, if desired, to "new oil" only, or to production above the level of a base period, say 1974.

Program Effects

Favorable:

- The production share 5 percent payment adds to the front-end program of Option I a continuing source of funds for longer-term effects.
- Making payments dependent on taking oil ashore would give the States an increased stake in OCS development off their shores, while it still targets payments on the areas which would feel impacts.

Unfavorable:

- Like Option I, this option is subject to the objection that revenues from a National resource would be distributed to only selected States.
- Outlays under this option would be substantially greater than under Option I.

Budget Effects

This option would add to the costs of Option I an amount equal to 5 percent of the value of oil produced, or between $224 million and $844 million per year over the years 1975 to 1985. The total amount shared during this period would reach about $1128 million per year at the highest. More detailed projections of the budget effects under this option are provided in the attachment.

Option III: Coastal Production Shares plus Nationally Shared Revenues

Description

This option would combine the 5 percent coastal production shares of Option II with an additional sharing of federal OCS revenues with all states.

- the additional national sharing would be 37 1/2 percent of all federal OCS revenues minus the 5 percent coastal production share. Thus, total revenues shared in the two parts of the program together would amount to 37 1/2 percent of all federal OCS revenues, the same proportion that is now shared with states in onshore leasing programs.
- the national shares could be distributed among states on a per capita basis, or by the General Revenue Sharing formula. The per capita basis emphasizes the idea that OCS reserves are owned by all citizens, while the General Revenue Sharing formula makes use of an existing method for distributing federal funds to states. which also takes account

Program Effects

Favorable:

- this option would extend a direct financial stake in OCS leasing and production to inland as well as coastal states
- it would provide some front-end money to coastal states through their national share which would become available to them well before the 5 percent payments would start as oil was brought onshore

- it would feature a set of sharing formulae which, once established, would be relatively easy to administer.

Unfavorable:

- it would take a substantial amount of federal revenues, perhaps more than necessary to encourage prompt OCS development
- it would not recognize any special front-end money needs of OCS-affected coastal states, but would give them only the same national share as other states until their 5 percent production share became available
- it would not require that money shared with coastal states be used by them to ameliorate impacts which would allow states flexibility in deciding how to use funds but might not satisfy the impact concerns of some particular groups
- it would result in a variable, and to a degree, unpredictable flow of funds to states, since OCS bonus revenues fluctuate considerably from sale to sale
- distributing national shares by the General Revenue Sharing formula might reduce the debate over an appropriate distribution formula by using an existing mechanism, but could embroil the OCS sharing program in an unrelated controversy over the merits of General Revenue Sharing.

Fund w/bonus

Budget Effects

This option would distribute 37 1/2 percent of all federal OCS revenues to states, or between $890 million and $2,707 million per year over the period

1975 to 1985. The 5 percent coastal production share of this total would be $224 million to $ 844 million per year. The remainder to be distributed among all states would amount to between $117 million and $2,353 million per year. More detailed projections of the budget effects under this option are provided in the attachment.

Option IV: Coastal Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid

Description

This option combines the 5 percent production shares and the 37 1/2 percent nationally shared revenues of Option III with a program of impact aid like that in Option I but available to all states to meet the front-end costs of energy development, both off and onshore.

- the total amount paid out would equal 37 1/2 percent of OCS revenues, as in Option III, but this sum would be divided three ways: 5 percent of the value of the oil to coastal states, $500 million (or a like amount) for a nationwide impact grant fund, and the remainder of the 37 1/2 percent for national per capita distribution
- front-end grants would be available to all states on a project or formula basis for all types of energy-related impacts

Program Effects

Favorable:

- this option has the advantages of Option III, plus the beneficial effects of impact-related front-end money for all states
- it would treat all energy-related impacts consistently, without singling out OCS impacts for special consideration
- it would use OCS revenues, which are substantial, to ameliorate energy impacts inland where needs may also be significant but

state revenues from federal leasing are either smaller or non-existent

- it permits taking advantage of the good features of both project assistance and no-strings-attached revenue sharing
- it addresses expressed concerns of Western States about front-end energy development costs.

Unfavorable:

- the timing of the flow of OCS revenues into the nationwide impact aid fund would bear no necessary relationship to the demands on that fund from inland energy development activities
- the impact aid fund would have the same administrative problems as the fund in Option I, but on a larger, nationwide scale
- combining all three elements in one proposal may make it too complex to be appealing.

Budget Effects

The total amount to be shared with states would be identical to Option III. The only difference would be that some percent of federal revenues, perhaps up to a ceiling such as $500 million per year, would be earmarked for states experiencing energy development impacts. An impact fund of 10 percent of federal revenue up to $500 million per year would leave between $ 0 and $1,853 million per year for nationally shared revenues. More detailed projections of the budget effects under this option are provided in the attachment.

Attachment

The following tables present estimated revenue payments to states for each of the options discussed in the text. For each option, four alternative revenue streams are projected based on the following assumptions regarding royalties and revenue computation:

1. 16 2/3 percent royalty on both pre-1975 and post-1975 leases; revenue sharing applies to new and old production; new production is defined as production in excess of 1974 levels. This case is labelled "16 2/3/16 2/3; N + O."

2. 16 2/3 percent royalty on both pre-1975 and post-1975 leases; revenue sharing applies to new oil only. Labelled "16 2/3/16 2/3; N."

3. 16 2/3 percent royalty on pre-1975 leases, 40 percent royalty on post-1975 leases; revenue sharing applies to new and old oil. Labelled "16 2/3/40; N + O."

4. 16 2/3 percent royalty on pre-1975 leases, 40 percent royalty on post-1975 leases; revenue sharing applies to new oil only. Labelled 16 2/3/40; N."

The dollar amounts reported in the text pertain to the "16 2/3/16 2/3; N + O" alternative. Each of the revenue streams also includes the state share of bonus payments. Bonus payments are estimated at $6 billion per year, 1975-1979, with 16 2/3 percent royalty; and \$2.7 billion per year, 1975-1979, with 40 percent royalty. Oil and gas prices of \$8/bbl and 70¢/MCF are used to estimate royalty revenues, except in Alaska where gas is assumed to have no value at the wellhead due to high transportation costs.

Table 1 shows projections of the payments into the Coastal State Impact Aid (Option I) Fund computed at 10 percent of OCS lease revenues under each of the four alternative assumptions described above. Payments into the Fund could be limited by a ceiling such as $200 million per year.

Table 1

Option I
Coastal State Impact Aid

Payments in Millions of Dollars

Year	16 2/3/16 2/3; N +O	16 2/3/16 2/3; N	16 2/3/40; N+O	16 2/3/40; N
1975	682	605	685	609
1979	727	651	779	702
1980	144	68	216	140
1985	284	208	580	504

Table 2 shows the funds to be shared with coastal states under Option II which includes both coastal state impact aid and production shares. Part A repeats the payment schedules from Table 1 for 10 percent of the revenues of OCS leases. Part B shows the projected additional payments to states corresponding to 5 percent of the value of oil brought onshore in each region. These additional payments have been computed for New and Old Oil together and for New Oil. Part C shows the total payments to the coastal states that would result from adding the 16 2/3/16 2/3; N + O share at 10 percent to the 5 percent share of the value of New and Old Oil.

Table 2

Option II
Coastal Impact Aid and Production Shares

Part A: 10 Percent of OCS Lease Revenues

Payments in Millions of Dollars

Year	16 2/3/16 2/3; N + O	16 2/3/16 2/3; N	16 2/3/40; N+O	16 2/3/40; N
1975	682	605	685	609
1979	727	651	779	702
1980	144	68	216	140
1985	284	208	580	504

(Table 2 continued)

Part B: 5 Percent of the Value of Oil Landed

Payments in Millions of Dollars

New and Old Oil

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
1975	215	9	0	0	224
1979	287	67	0	19	354
1980	305	89	0	25	773
1985	434	234	67	109	844

New Oil Only

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
1975	15	1	0	0	16
1979	72	60	0	19	151
1980	92	80	0	28	200
1985	214	226	67	104	611

Part C: Total Payments to Coastal States

16 2/3/16 2/3; N + O

Year	Payments in Millions of Dollars
1975	906
1979	1,081
1980	917
1985	1,128

Table 3 shows the projected payments to all states that would result under Option III, Coastal Production Shares plus Nationally Shared Revenues.

Part A provides the estimated payments to coastal states at 5 percent of the value of oil landed. Part B shows the estimated revenues to be shared by all states computed at 37 1/2 percent of the OCS lease revenues less the 5 percent shown in Part A. Part C shows the total payments to all states equal to 37 1/2 percent of OCS revenues from New and Old Oil.

Part D and Part E show the distribution by state of the shared revenues (from the 16 2/3/16 2/3; N + O alternative) The distribution in Part D follows the current General Revenue Sharing formula whereas the distribution in Part E is proportional to current population.

Table 3

Option III
Coastal Production Shares plus Nationally Shared Revenues

Payments to Coastal States in Millions of Dollars

Part A: 5 Percent of the Value of Oil Landed

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
		New and Old Oil			
1975	215	9	0	0	224
1979	287	67	0	19	354
1980	305	89	0	25	773
1985	434	234	67	109	844
		New Oil Only			
1975	15	1	0	0	16
1979	72	60	0	19	151
1980	92	80	0	28	200
1985	214	226	67	104	611

(Table 3 continued)

Part B: Payments Shared by all States in Millions of Dollars
37.5 Percent of OCS Revenues less 5 Percent of the Value of Oil Landed

Year	16 2/3/16 2/3; N + O	16 2/3/16 2/3; N	16 2/3/40; N+O	16 2/3/40; N
1975	2,316	2,254	1,080	1,019
1979	2,353	2,291	1,296	1,235
1980	117	55	386	324
1985	229	167	1,340	1,221

Part C: Total Payments to States in Million of Dollars
37.5 Percent of OCS Revenues

Year	16 2/3/16 2/3; N + O
1975	2,540
1979	2,707
1980	890
1985	1,073

Part D: Distribution of Revenue Shared by all States, 1975
General Revenue Sharing Formula

(under development)

Part E: Distribution of Revenue Shared by all States, 1975
Population

(under development)

Table 4 presents projections of payments to states that would result under Option IV, Coastal Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid.

Part A displays the payments to coastal states of 5 percent of the value of oil landed. Part B shows the funds to be shared among all states. These are computed as 37 1/2 percent of OCS revenues less 5 percent of the value of oil landed and less 10 percent of OCS revenues (not to exceed $500 million). The 10 percent of OCS revenues is the fund to be available to all states impacted by energy development. The total payments to all states equal 37 1/2 percent of OCS revenues as shown in Table 3, Part C.

Table 4

Option IV

Coastal Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid
(in millions of dollars)

Part A:

Year	Gulf of Mexico	Pacific	Alaska	Atlantic	Total
		New and Old Oil			
1975	215	9	0	0	224
1979	287	67	0	19	354
1980	305	89	0	25	773
1985	434	234	67	109	844
		New Oil Only			
1975	15	1	0	0	16
1979	72	60	0	19	151
1980	92	80	0	28	200
1985	214	226	67	104	611

(Table 4 continued)

Part B: Nationally Shared Revenues (in millions of dollars)

Year	16 2/3/16 2/3;N + O	16 2/3/16 2/3; N	16 2/3/40; N + O	16 2/3/40; N
1975	1,816	1,754	580	519
1979	1,853	1,791	796	735
1980	0	0	170	184
1985	0	0	840	721