The original documents are located in Box C12, folder "Presidential Handwriting, 2/7/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

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ACTION

THE WHITE HOUSE

WASHINGTON

February 7, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM CAVANAUGH C

SUBJECT: SHARING OCS REVENUE

Over the past few days, the story has broken that Interior Department is studying options for sharing with coastal states the revenue that now comes exclusively to the Federal Government from Outer Continental Shelf leasing.

Unless dealt with decisively, this story could serve as encouragement to coastal states to both (a) step up their drive for legislation to require sharing OCS revenue, and (b) work hard to block leasing until sharing of revenue is agreed to by the Administration.

This memorandum (a) recommends that you approve reiteration of a firm position against coastal state revenue sharing and (b) outlines a possible alternative approach to the problem that may warrant consideration.

Response to the story

Atlantic coastal states in particular have been seeking a share of OCS revenues. The idea of sharing OCS revenue has been considered twice by the Energy Resources Council and rejected. However, recognizing that the issue will keep coming up, Rog Morton asked his people to study three options for providing assistance to coastal states which might reduce their opposition to the leasing program, including (a) OCS revenue sharing, (b) a trust fund with revenue from OCS leasing and appropriations, and (c) increased planning grant assistance through the Coastal Zone Program (administered by NOAA). Existence of the study was revealed by an Interior employee in Alaska and it was described in detail in Friday's Post.

We believe it is important to avoid any added encouragement to coastal states to hold up leasing plans and therefore recommend forceful reiteration of the Administration position on OCS revenue along the following lines. This has been discussed with Interior and has Rog Morton's full support.

Under the current law, revenues from OCS lease sales and royalties go to the Federal Treasry. This is based on the fundamental principal that the OCS is a national resource owned by all the people of the Nation and the revenue should, therefore, accrue to the benefit of all the Nation's citizens. This policy has prevailed throughout the more than 20 years successful OCS development off the Gulf Coast. In addition:

- If part of the OCS revenue were given to coastal states, that Federal revenue would have to be replaced by taxes.
- Shoreside development that does occur as the result of OCS development <u>increases</u> the State and local tax base and therefore has a <u>beneficial</u> rather than detrimental economic impact.
- The Federal government has already increased planning assistance to the coastal states and will be working closely with the states to help assure orderly preparations for any onshore development.

For these reasons the Administration has taken the position that existing law should not be changed.

Secretary Morton has asked his staff to take another look at the question, but the Secretary has not recommended any change in position. If he does change his mind, he would submit a recommendation for your decision.

<u>A possible alternative to Coastal State Sharing</u>

There is a possible alternative approach to the problem that we believe warrants further consideration. It could provide an excellent way for you to rebut the drive for sharing OCS revenue with coastal states. Briefly this proposal is to earmark a share (say 50%) of all OCS revenue for General Revenue Sharing.

This approach has a number of advantages. For example, (a) it coincides with the principle that OCS resources belong to all the Nation, (b) it provides a clear incentive for non-coastal states to join in a fight against sharing revenues only with coastal states, and (c) if revenues hold up, it could be a sizeable addition to general revenue sharing.

Possible arguments against it include the fact that estimating accurately future OCS revenues is very difficult and wide year to year fluctuations would cause difficult state and local planning and adjustment problems. The estimate for FY '76 OCS revenues is $8 billion. This includes $700 million from royalties, which can be estimated quite firmly. The balance is from bonuses which are difficult to estimate accurately. Bonuses can fluctuate widely because they depend upon the number of lease sales held and the level of bonus bids. Bonus revenues are becoming more difficult to predict as more and more acres are offered and leasing moves into frontier areas which are not as well known geologically as areas leased previously. Interior's OCS revenue estimates beyond FY '76 range from $4 to $12 billion.

In addition, there may be tax, legal and other problems that have not yet been identified and evaluated.

If the proposal is of initial interest, we will arrange for a prompt assessment in cooperation with Interior, Treasury and OMB, and present you the assessment for your further consideration.

Recommendation

I recommend that you approve reiteration of a strong Administration position against sharing OCS revenue with coastal states.

Approve MRF. Disapprove__________

If the proposal on earmarking is of interest to you I recommend that you direct a prompt assessment of it for your further consideration.

Approve MRF. Disapprove__________