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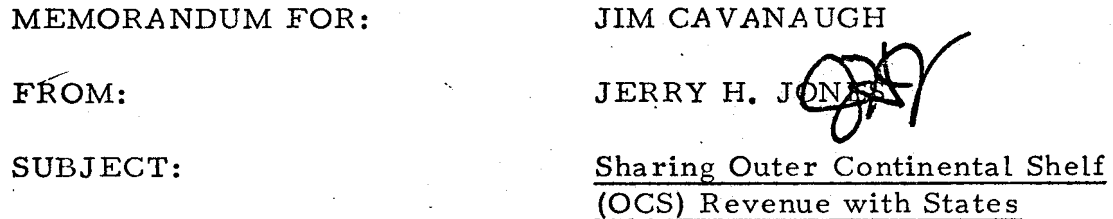
THE WHITE HOUSE

WASHINGTON

February 25, 1975

ADMINISTRATIVELY CONFIDENTIAL



MEMORANDUM FOR: JIM CAVANAUGH

FROM: JERRY H. JONES

SUBJECT: Sharing Outer Continental Shelf (OCS) Revenue with States

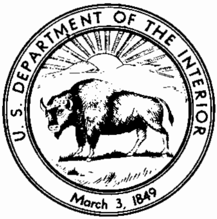
Your memorandum to the President of February 21 on the above subject has been reviewed and alternative 1 -- decide now to propose sharing of revenue -- was approved.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

THE PRESIDENT HAS SEEN



THE SECRETARY OF THE INTERIOR
WASHINGTON

February 24, 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF THE INTERIOR

SUBJECT: OCS REVENUE SHARING

Here is the information you requested regarding the Senate-passed bill of last year which included Senator Johnston's and Senator Hollings' amendment on OCS Revenue Sharing.

S. 3221 passed the Senate on September 18, 1974. An amendment worked out between Senator Johnston of Louisiana and Senator Hollings of South Carolina became section 26 of that bill.

Section 26 established a "Coastal State Fund" to be supported by 10 percent of the Federal revenues from the Outer Continental Shelf Lands Act or 40 cents per barrel of oil, whichever is greater. There was also an initial authorization for $100,000,000 to be appropriated. The Fund total could not exceed $200,000,000 in any one year.

The Secretary of the Interior would administer the Fund pursuant to regulations for grant eligibility promulgated by the Secretary of Commerce and he would coordinate with the program administered pursuant to the Coastal Zone Management Act. The Fund would provide 100 percent grants to impacted coastal States in proportion to the magnitude of OCS activity impact on such States.

The grants would be used to:

I. ameliorate adverse environmental effects and

II. control secondary social and economic impacts by the funding programs for

1. planning,

2. public facility construction,

3. public service, etc.

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THE PRESIDENT HAS SEEN....

ACTION

THE WHITE HOUSE

WASHINGTON

February 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH

SUBJECT: Sharing Outer Continental Shelf (OCS) Revenue with States

Secretary Morton's memorandum at Tab A proposes sharing a portion of OCS revenues with all states (with extra payments to coastal states) -- thus changing the current Administration position on this issue. Your advisers are divided as to the merits of this and other proposals for sharing OCS revenues.

This memorandum (a) reviews the current opposition to the Administration's accelerated OCS leasing program, (b) summarizes our current response to critics and opponents, (c) reviews the arguments for and against OCS revenue sharing proposals, and (d) presents for your decision the issues of whether and when there should be a change in position.

Current Situation

Issues Raised by Opposition. Briefly, the principal issues being raised by opponents of the Administration plans to accelerate OCS development involve (a) adequacy of government knowledge of the oil and gas resources being leased, (b) environmental impact, (c) liability for damages from spills, (d) fiscal burden of providing public facilities--roads, schools, hospitals, etc.--in onshore areas impacted by offshore development, (e) state and local government participation in the decision process, and (f) lack of development planning information that can be fit into local planning processes.

Response. The Administration's response has been that: (a) knowledge of the resources is adequate to assure a fair return to the government, (b) no decision to hold a lease sale in a particular area will be made until environmental studies are completed and acceptability of environmental risk determined, (c) a comprehensive oil spill liability bill will be proposed (about April 1, 1975),

(d) existing Federal programs can assist in mitigating local fiscal burden, (e) state and local governments and the public will be kept informed and have opportunity to comment on leasing plans, and (f) additional planning assistance for coastal states with potential offshore development is being provided through the coastal zone management grant program.

Confrontation. A decision by the Supreme Court favorable to the Federal government in the U.S. vs. Maine case involving ownership of the seabeds is expected in the spring. Other points of confrontation include (a) challenges during public hearings on Interior's draft impact statement and court suits under NEPA, (b) planned use of the Coastal Zone Management Act to force the Federal government to get coastal state approval of leasing plans, and (c) numerous bills which would require sharing of OCS revenue with coastal states, expand the Federal government role -- ranging from Federally funded exploratory drilling before leasing to a Federal oil and gas development corporation, and delay leasing until coastal zone planning is completed.

Current Position on Sharing of OCS Revenue. The Administration has opposed sharing OCS revenue with coastal states on grounds that (a) OCS resources belong to all the Nation and revenues should benefit all citizens, (b) OCS revenues shared with coastal states would have to be replaced in the Federal Treasury through additional taxes or result in greater deficits, and (c) onshore development from offshore activities will provide a tax base to permit raising revenue at the State or local level to finance public facilities. Following the news stories on February 7 that the Interior Department was reconsidering its opposition to sharing of OCS revenues, you approved reiteration of the Administration's position but asked for a reevaluation of the revenue sharing idea.

Principal Revenue Sharing Alternatives (including Rog Morton's)

All your advisers agree that, should you decide to propose revenue sharing, additional work is needed to select and develop the best approach. Three principal alternatives for sharing OCS revenues have emerged and there are others which need further analysis:

1. Share a portion of OCS revenues with those coastal states affected by OCS development. For example, a comprehensive OCS bill sponsored by Senator Jackson which passed the Senate last September called for deposit of 10% of Federal OCS revenues or 40¢ per barrel (whichever is greater) in a coastal state fund for use as grants for anticipated or actual economic, social and environmental impacts, including public facilities and services.

- Those favoring this alternative argue that it (a) links payments to potential need or impact, and (b) provides incentives for a State to look more favorably upon development off its coast.

- Arguments against it are that it (a) runs counter to the principle that OCS resources belong to all the Nation, (b) it is difficult to determine which states are or will be impacted so that sharing is fair, and (c) provides no incentive for inland states to support OCS leasing.

2. Earmark 37 1/2% of all OCS revenues for sharing with all States through General Revenue Sharing. (37 1/2% of revenues -- or about $50 million annually over the past five years -- is now given to states under current law. The same percentage applied to OCS revenues would involve several billion dollars.)

   - Principal arguments for this are that it (a) carries out the principle that OCS resources belong to all the Nation, (b) provides an incentive for all states to encourage OCS development, (c) provides a potential alternative to head off sharing only with coastal states, and (d) strengthens general revenue sharing, if revenues are significant.

   - Arguments against are that it (a) provides no special incentive to coastal states to reduce opposition to development off their coasts since all share, (b) complicates general revenue sharing if payments vary widely from year to year, (c) greatly exceeds needs related to energy development, and (d) probably does not reduce potential for litigation.

3. Provide a bonus of 5% of the value of all oil production (i.e., a royalty) to the coastal state through which the oil flows ashore, and then earmark the difference between this share and 37 1/2% of all OCS revenue for distribution to all states on a per capita basis. (Rog Morton's proposal)

   - Arguments made for this approach are that it (a) compensates for impact in coastal states, (b) provides a financial incentive for a coastal state to have oil come ashore in its state and locate refinery there, (c) reduces opposition to offshore development, (d) provides all states a visible incentive to favor OCS development, and (e) strengthens general revenue sharing if revenues are significant.

   - Arguments against it are that (a) variability in revenues could complicate general revenue sharing, (b) greatly exceeds needs related to energy development, and (c) probably does not reduce potential for litigation.

Issue: Do you wish to change your position on OCS revenue sharing?

The issue for your consideration is whether you want to propose at this time a change in current Administration position against sharing OCS revenue. Considerations bearing on this issue are:

1. Effectiveness in reducing opposition to OCS development. Those favoring some form of OCS revenue sharing believe that it would be a critical factor in reducing opposition to OCS development. It would (a) compensate for onshore public facility and service requirements and, (b) to the extent funding exceeds needs, provide an added incentive for supporting OCS development. Some opponents of OCS development -- principally at the state government level -- are calling for sharing revenues.

   Others argue that (a) sharing funds addresses only one of the five major issues raised by opponents of OCS development (noted on page 1), and (b) the added revenue may be attractive to state and some local elected officials but many who will litigate against leasing and development will not be influenced (e.g., those at local rather than state level and those concerned about environmental impact or changes in a locality's economic structure and way of life).

2. Relationship of funds to needs resulting from OCS development. The principal funding needs identified by those favoring new funding are (a) public facilities -- (e.g., schools, hospitals, roads) -- and services which must be provided before there is an expanded tax base, and (b) potential economic or environmental impact from a spill -- which the Administration would cover under its proposed liability statute. A survey now underway indicates that there may be short term "front end" money problems for rural areas should they experience OCS development impact, but that this should not be a serious problem in other areas. The survey also shows that the "front end" money problem may be more serious in sparsely populated areas in the Northern Great Plains and Southwest that are faced with coal or oil shale development.

   Those opposing sharing of OCS revenue point out that most any alternative would provide funds greatly exceeding needs relating to offshore development. A preliminary OMB analysis indicates a maximum short term "fiscal burden" of $200 million over ten years. Sharing OCS revenue would involve several billion dollars and would be a long term answer to a short term problem. Revenue sharing would provide funding far ahead of actual needs which would not occur for another 2-10 years.

3. Alternative sources of funds. Two principal sources are:

   a. Taxation of onshore facilities and operations. Generally, the expanded economic base resulting from onshore development -- which tends to be capital rather than employee intensive -- should provide revenue sources more than offsetting State and

local government costs. Two states (Texas and Louisiana) indicate that tax income has not exceeded costs but those states do not tax corporations (largely because of revenue from oil and gas development within the 3-mile limit).

b. Other Federal programs. Existing Federal programs should be adequate to meet most needs for Federal assistance; e.g., planning grants, rural development program loan guarantees, loans and grants. OMB points out that the 1976 budget includes 103 programs budgeted at $43 billion that can be applied toward meeting some energy induced impact. If state and existing Federal assistance leave a residual need, a new Federal response targeted to the specific need should be considered.

4. Federal budget impact. Opponents of earmarking OCS revenue for sharing point out that it would add to the Federal budget deficit and to the uncontrollable share of the budget. Others argue that the level of revenue expected from OCS leasing will not materialize unless some way is found to overcome opposition. Opponents also argue that a move to share OCS revenue now could result in a Congressional decision to require retroactive payments from OCS revenues collected since 1953 or encourage earmarking of other revenues.

5. Potential variability in OCS revenues. Interior estimates that bonuses paid when leases are sold and royalties paid when oil is produced will, together, result in Federal revenues in the range of $4 to $12 billion in each of the next five years -- if the previously announced schedule is maintained and there are not significant changes in emphasis on royalties vs. bonuses. Interior is considering the possibility of increasing royalties from the current 16 2/3% to 40% as a means to reduce front-end costs and encourage exploration. If this were done, bonus revenues would drop by 55% -- resulting in halving the total OCS revenues expected in near term years and increasing them in later years as oil is produced and royalties paid. OCS revenues have fluctuated widely over the past few years:

								Est.	
F.Y.	68	69	70	71	72	73	74	75	76
$B	1.0	0.4	0.2	1.1	0.3	4.0	6.7	2.7	8.0

Revenues are increasingly difficult to predict as much greater acreage is offered and leasing moves to areas that are less well known geologically. Variability in revenue available for sharing would make State and local planning difficult. However, variability could be reduced by an arrangement to deposit the earmarked share in a fund -- with payments to states set at a fixed annual level low enough to permit offsetting low and high revenue years.

6. Incentive for siting energy facilities. Those favoring sharing of revenues with states point out that formulas could be designed to provide a financial incentive for prompt siting of refineries and granting pipeline rights-of-way.

7. Potential for Congressional action. An important and potentially controlling consideration is the prospect for Congressional action to require sharing OCS revenue. The Senate Interior Committee will open hearings in mid-March on OCS bills, including Senator Jackson's comprehensive bill which passed the Senate last year by a vote of 64-23. The House Interior Committee has not yet scheduled hearings on the subject but is expected to do so shortly. The Congressional Relations staff believes the chances are better than even that the Congress will pass a bill this year requiring sharing of revenues -- at least with coastal states.

Alternatives, Recommendations and Decision:

____ Morton, Zarb, Simon, Seidman, Friedersdorf	1. Decide now to propose sharing of revenue. Begin concentrated effort to identify and develop the best alternative sharing approach (say by April 1). Seek to arrange some quid pro quo before signalling a change in position. (There would be high risk that the change in position will become known publicly.)
____ Lynn, Greenspan, Buchen, Cavanaugh	2. Maintain current position. Reiterate opposition to sharing of OCS revenues and act to communicate arguments against sharing. Indicate willingness to consider targeted assistance (including a new program) to meet actual needs for assistance that cannot be met reasonably from other sources. Consider proposing sharing of revenue only if it becomes clear that Congress will act to require sharing and a veto override appears likely or, in the longer run, a quid pro quo is identified that justifies sharing revenue. (OMB and Domestic Council staff work quietly with Interior and Treasury to identify and develop alternatives that might be proposed in this case.)

A

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Memorandum

To: The President

Subject: OCS Revenue Sharing

We have embarked upon an accelerated leasing program on the Outer Continental Shelf to open up frontier oil and gas prospects and provide a badly needed supplement to domestic onshore production. The policy poses a dilemma in that its benefits--increased availability of secure oil and gas supplies--would accrue to the entire nation while the potential costs of development--oil spills and onshore demands for land, public facilities and public services--would be faced by the coastal States off whose shores the drilling and production actually take place.

These States are understandably troubled by the prospect of accelerated OCS leasing and development. In response to these concerns, I propose the following actions:

-- maintain our commitment to enactment of the "Comprehensive Oil Pollution Liability and Compensation Act," currently being drafted by CEQ;

-- continue to provide funds through the Coastal Zone Management Act for planning to mitigate onshore impacts;

-- allocate 5 percent of the value of all OCS oil production to States on the basis of barrels of oil brought ashore;

-- allocate 37.5 percent of all OCS revenues (including the bonus revenues and the federal royalty which is currently 16.67 percent of all production), less the special coastal State allotment, to all the States on the basis of population and with no strings attached.

Danger of oil spills is one of the environmental risks associated with OCS development. The liability legislation addresses the problem in terms of consolidating the mechanism for assessing damage claims against polluters and promptly compensating injured parties.

Save Energy and You Serve America!

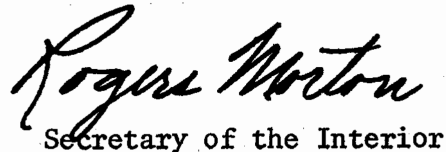
Funds provided under the Coastal Zone Management Act are available to all coastal States potentially affected by OCS development and are available early enough to facilitate necessary land use planning.

Sharing a portion of OCS revenues with all the States emphasizes the point that the rights to OCS oil and gas are a national asset and provides all States with a visible financial stake in prompt OCS development. The 37.5 percent figure has standing in that it is used for sharing revenues with the States from onshore leasing of mineral rights on Federal lands.

Sharing royalties with coastal States on the basis of barrels of OCS oil brought onshore focuses Federal assistance for onshore impacts at the time and place of their most likely occurrence.

All these actions, along with consultation with the States throughout the leasing and lease monitoring process, would provide a comprehensive response to the understandable concerns of the States. It is a balanced approach that builds from existing methods for dealing with the risk of oil spills and increased need for land use planning, recognizes the national character of OCS oil and gas resources, and provides for the potential onshore impacts that coastal States will face if we proceed with the accelerated leasing program.

I understand fully any misgivings you may have about taking actions that could further increase Federal deficits. However, the proposed efforts are an integral component of the overall task we face in getting the accelerated OCS leasing program going. Failure to respond to State concerns and gain their cooperation implies a postponement of Federal revenues and needed domestic energy supplies that far outstrips the cost of what I have proposed.



Secretary of the Interior