FY 2008 Issue Brief – HED – Federal Mineral Lease Deductions

NUMBER USHE-15

SUMMARY

The federal fiscal year 2008 omnibus appropriations bill includes a rider that deducts two percent from amounts payable to states under the Mineral Leasing Act of 1920. In federal fiscal year 2007 (ended September 30, 2007) federal mineral lease payments to the State of Utah totaled $135.4 million. See below for more information on how this revenue is directed by the Utah Legislature. Assuming FY 2008 receipts are similar to FY 2007, the deduction of two percent will equate to a loss of approximately $3 million to Utah's budget.

DISCUSSION AND ANALYSIS

Page 266 of the federal FY 2008 omnibus bill states: "Notwithstanding the provisions of section 35(b) of the Mineral Leasing Act, as amended (30 USC 191(b)), the Secretary shall deduct 2 percent from the amount payable to each State in fiscal year 2008 and deposit the amount deducted to miscellaneous receipts of the Treasury."

The Mineral Leasing Act of 1920, as amended (30 U.S.C. 181 et seq.) governs leasing of public lands for development of coal, oil, gas and other hydrocarbons, sulphur, phosphate, potassium and sodium. Lease holders on federal land make royalty payments to the federal government for the development and production of the minerals. The disbursements represent the states' cumulative share of revenues collected from mineral production on federal lands located within their borders, and from federal offshore oil and gas tracts adjacent to their shores. The majority of onshore states like Utah receive 50 percent of the revenues while the other 50 percent goes to various funds of the U.S. Treasury, including the Reclamation Fund for water projects.

In Utah, the primary source of these royalties is the commercial production of fossil fuels on land held by the U.S. Forest Service and the Bureau of Land Management. Mineral lease payments have been returned to the state to help mitigate the local impact of energy and mineral developments on federal lands. High energy prices in recent years have led to high mineral lease payments to the state.

State law dictates how mineral lease receipts are distributed. Excluding receipts that come from lands in the Grand Staircase Escalante National Monument (GSENM), most receipts are distributed as shown in the table below. The table also indicates expected revenue losses as a result of the federal deduction. The largest impacts will occur in the Permanent Community Impact Fund and in UDOT Special Districts. These numbers are estimates – actual deductions will depend on actual collections, whether collections come from royalty or bonus payments, and whether receipts come from GSENM or other federal land.

Mineral Lease Payments - Estimated Impact of 2% Federal Deduction
See UCA 59-21-1 and 2

Estimated FY 2008 Receipts	$137,000,000
Two Percent Reduction	($2,740,000)

Estimated Impact on State Recipients

Recipient	Statutory Distribution	Prior Estimate FY08 Distrib	Deduction	New Estimate
Permanent Community Impact Fund	32.50%	$44,200,000	($884,000)	$43,316,000
Board of Education (Research)	2.25%	$3,060,000	($61,200)	$2,998,800
Utah Geological Survey	2.25%	$3,060,000	($61,200)	$2,998,800
USU Water Research Lab	2.25%	$3,060,000	($61,200)	$2,998,800
UDOT Special Districts	40.00%	$54,400,000	($1,088,000)	$53,312,000
DCED Special Districts	5.00%	$6,800,000	($136,000)	$6,664,000
$0.52/acre PILT for DWR, Parks, SITLA	$0.52/acre	$1,000,000	$0	$1,000,000
Remainder to Perm Comm Impact Fund	Remainder	$21,420,000	($448,400)	$20,971,600