Committee on Natural Resources
Rob Bishop, Chairman
Hearing Memorandum

August 24, 2018

To: Members of the House Committee on Natural Resources

From: Majority Committee Staff – Ashley Nichols (x61879)
Subcommittee on Energy and Mineral Resources

Hearing: Full Committee field hearing titled, "Energy and Education: What's the Connection?"
August 29, 2018, at 2:00 PM; Union High School, Roosevelt, Utah

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The House Committee on Natural Resources will hold a field hearing titled "Energy and Education: What's the Connection?" on August 29, 2018, at 2:00 PM, in Roosevelt, Utah.

Policy Overview

- Our nation's schools are one of the most critical public services provided to our communities. Nevertheless, education facilities and resources remain underfunded in many parts of the country. For western States, funding these services is particularly challenging due to the tax-exempt status of federal lands within their borders.

- Many western States attempt to offset losses in private tax revenue with revenues generated through energy development on federal lands. States utilize their share of federal onshore mineral revenues to provide critical public services, including public K-12 education, as well as colleges and universities.

- Although energy production can provide a revenue stream to offset the lack of taxable lands, overly-burdensome federal leasing and regulatory requirements have discouraged greater development, resulting in lost revenue for the federal government and States and jeopardizing greater investment in education and other critical public services.

- The hearing will review these challenges and avenues to encourage greater development of federal lands and provide much needed resources for States and, in turn, education services.

Witnesses

Panel 1

Mr. Spencer Stokes
Utah State School Board

Mr. Jeff Hanke
Social Studies Teacher at Union High School

Ms. Annalee Birchell & Mr. Nathan Wallace
Students of Union High School

Panel 2

Mr. Luke Duncan
Ute Indian Tribe of the Uintah and Ouray Reservation

Mr. Brad Horrocks
Uintah County Commissioner

Mr. Ron Winterton
Duchesne County Commissioner

Ms. Kathleen Sgamma
Western Energy Alliance

Mr. Dave Ure
Utah School and Institutional Trust Lands Administration

Background

Our nation's teachers are entrusted with one of the most important tasks for our families and our communities: educating our children and preparing them for the future. However, many schools and teachers across the country struggle to meet the needs of our children due to limited resources, as highlighted by the recent teacher strikes in West Virginia, Kentucky, Oklahoma, Arizona and Colorado.[1]

While resources for public education are limited overall, educators in certain regions of the country find themselves struggling more than others to make ends meet in the classroom. Among other factors, the State where a school is located is often a major indicator in the amount of resources each student may receive. According to a Department of Education report released in January 2018, expenditures per pupil range from $6,751 in Utah to $20,744 in New York.[2]

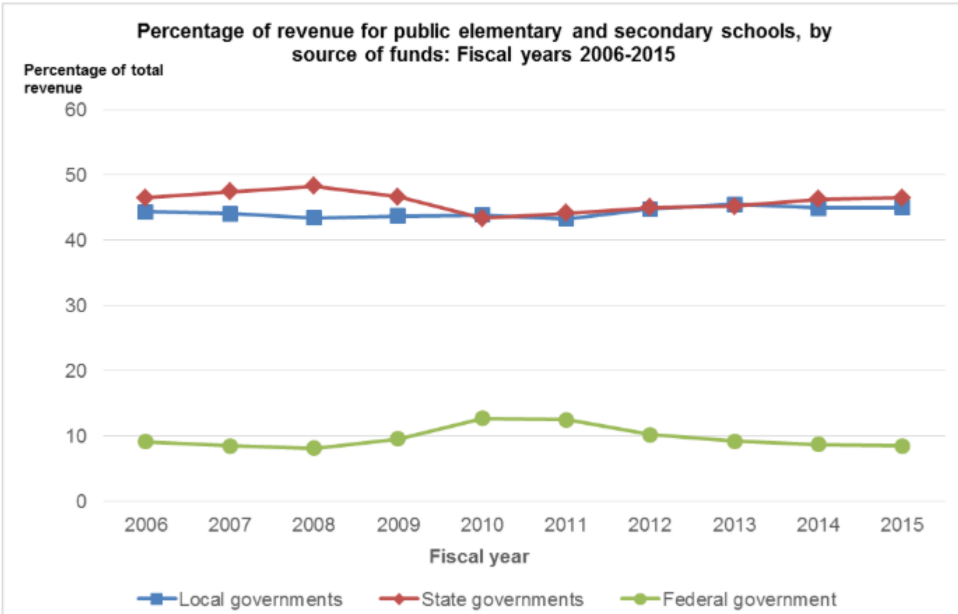
Although this disparity in available resources is attributable to multiple causes, one notable indicator is the difference in the amount of taxable land per State.[3] Given that the

[1] Frederick Hess, The Facts Behind the Teacher Strikes. Forbes. April 30, 2018. https://www.forbes.com/sites/frederickhess/2018/04/30/the-facts-behind-the-teacher-strikes/#7e5475a27639

[2] U.S. Department of Education, National Center for Education Statistics. Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2014–15 (Fiscal Year 2015) (2018). https://nces.ed.gov/pubs2018/2018301.pdf

[3] U.S. Department of Education, Office of Elementary and Secondary Education. About Impact Aid (updated March 21, 2017). https://www2.ed.gov/about/offices/list/oese/impactaid/whatisia.html?exp=7#a

average State receives approximately 90 percent of its school funding from State and local sources, States with large amounts of nontaxable federal land are at a decided financial disadvantage.[4] In fact, during the 2014-2015 school year, $664 billion in revenues were collected for elementary and secondary public schools nationwide.[5] Of this figure, only 8 percent came from federal sources, while 47 percent came from State sources and 45 percent from local sources.[6]



SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," fiscal years 2006 through 2015.

Because almost half of the land in the western United States is owned by the federal government, States in this part of the country have fewer State and local revenue sources to utilize for public education.[7] For instance, the federal government owns and manages 63 percent of the land in Utah and 80 percent of the land in Nevada, limiting revenue sources for schools in those States compared to others with more taxable private lands.[8]

Onshore Mineral Revenue Sharing Structure

[4] National Center of Education Statistics. Public School Revenue Sources. (2018). https://nces.ed.gov/programs/coe/indicator_cma.asp#f1
[5] In constant 2016-17 dollars.
[6] U.S. Department of Education, National Center for Education Statistics. Public School Revenue Sources (updated April 2018). https://nces.ed.gov/programs/coe/indicator_cma.asp#f1
[7] Carol Hardy Vincent, Federal Land Ownership: Overview and Data (CRS Report R42346)(Washington, D.C.: Congressional Research Service, 2014), p.1
[8] Carol Hardy Vincent et al, Federal Land Ownership: Overview and Data (2017). http://www.crs.gov/reports/pdf/R42346

To reconcile this disparity, many western States attempt to offset losses in private tax revenue with revenues generated through energy production on federal lands.[9] While all revenues are initially paid by energy producers to the federal government, a portion of these revenues are returned to the State, which in turn support a variety of services at the State level, including public education.

The Mineral Leasing Act (30 U.S.C. 181 et seq.) provides for the sharing of onshore mineral revenues between energy-producing States and the federal government. These revenues include payments from rentals, bonuses and royalties on various forms of energy production on federal public lands.[10] Specifically, revenues are generated by payments related to oil, gas, coal leasing, as well as the leasing of certain minerals, including phosphates, sulfur, sodium and potash.[11]

Under the Mineral Leasing Act, States receive a 50 percent share of the revenues resulting from the leasing and production of onshore mineral resources on federal land within their borders. However, in 2014, the Mineral Leasing Act was amended to authorize the Secretary of the Interior to charge a fee on the collection of these revenues, reducing the States' share to 49 percent.[12]

Within the Department of the Interior, the Office of Natural Resources Revenue (ONRR) manages onshore and offshore federal and Indian mineral revenues associated with the leasing and production of oil, natural gas, solid minerals and renewable energy resources. ONRR is responsible for the collection, verification, and disbursement of revenues under the Mineral Leasing Act.[13] Once ONRR collects and verifies these revenues, ONRR disperses the appropriate amounts to the States.[14]

The following chart shows the revenues received by each State with onshore energy production on federal lands within its borders in Fiscal Year 2017: [15]

State	**Onshore Mineral Revenue Disbursements**
Alabama	$382,865.12
Alaska	$11,184,061.95
Arizona	$10,045.97

[9] Marc Humphries, Mineral Royalties on Federal Lands: Issues for Congress (2015). http://www.crs.gov/reports/pdf/R43891
[10] Marc Humphries, Energy and Mineral Development on Federal Land (2015). http://www.crs.gov/Reports/IF10127?source=search&guid=ab1ee1f40564437797071c178c8fa2ad&index=
[11] Briefing by Marc Humphries, Specialist in Energy Policy, Congressional Research Service received by Energy and Mineral Resources Subcommittee Majority Staff on August 20, 2017.
[12] 30 U.S.C. 191.
[13] U.S. Department of Interior. Office of Natural Resources Revenue. Highlights. https://www.onrr.gov/about/pdfdocs/Fact%20Sheet_ONRR%20Highlights_July%202016.pdf
[14] U.S. Department of Interior. Office of Natural Resources Revenue. Natural Resources Revenue Data. https://revenuedata.doi.gov/explore/#federal-disbursements
[15] Natural Resources Disbursements FY2003-2017. Data provided by CRS. April 4, 2018.

Arkansas	$1,151,448.28
California	$33,592,367.91
Colorado	$92,039,200.62
Florida	$593,587.89
Idaho	$5,123,410.64
Illinois	$54,868.75
Indiana	$5,257.35
Kansas	$561,249.47
Kentucky	$185,904.48
Louisiana	$1,010,739.08
Michigan	$77,778.86
Minnesota	$11,649.47
Mississippi	$706,016.97
Missouri	$2,020,169.14
Montana	$24,033,546.22
Nebraska	$8,113.89
Nevada	$3,904,641.36
New Mexico	$455,085,343.29
North Dakota	$39,922,536.16
Ohio	$1,600,454.80
Oklahoma	$2,625,438.89
Oregon	$45,539.86
Pennsylvania	$23,914.02
South Dakota	$396,178.04
South Carolina	$775.06
Texas	$4,725,825.41
Utah	$73,496,260.76
Virginia	$28,181.89
Washington	$5,057.67
West Virginia	$108,373.09
Wyoming	$669,010,220.24

Onshore State Usage of Mineral Revenues

States that receive federal onshore mineral revenues allocate these resources for use within the State according to State law. Each year, States carefully budget these resources to improve local communities and provide critical public services. Specifically, the States use these revenues to mitigate the environmental impacts of mineral development, fund roads and other infrastructure projects,[16] and support public school systems and community colleges.[17]

[16] Marc Humphries, Mineral Royalties on Federal Lands: Issues for Congress (2015). http://www.crs.gov/reports/pdf/R43891
[17] The United States Extractive Industries Transparency Initiative. Explore Data, Wyoming. https://useiti.doi.gov/explore/WY/#disbursements (Accessed August 29, 2017).

For example, Wyoming allocates mineral revenues to local governments, school construction, the Wyoming Highway Fund, the University of Wyoming, community colleges, and county road construction, among other purposes.[18] Montana utilizes mineral revenues to support schools, local governments, the Montana University System, cultural projects, environmental quality activities and several other State and local activities.[19]

Additionally, many States that depend on these revenues to provide critical services have established permanent mineral trust funds to ensure resources for schools and other purposes. Colorado, for example, saves a portion of its mineral revenues in its Local Government Permanent Fund, Higher Education Maintenance and Reserve Fund, and School Trust Permanent Fund.[20] Similarly, Alaska distributes mineral revenues to its State General Fund, Alaska Permanent Fund, Constitutional Reserve Fund and Public School Trust Fund.[21]

Supporting Education through State Land Management

In addition to federal revenues, many western States also rely on the productive usage of State lands to support local schools and universities. For example, within Utah, 3.4 million acres of land, 6% of the State's acreage, are held in trust to support 12 State institutions, including the public school system, colleges and universities.[22] These lands are managed by the School and Institutional Trust Lands Administration (SITLA). In support of these institutions, SITLA works with the business community to generate revenue from energy production, real estate and other surface development activities, such as agriculture, forestry, grazing and recreation.[23]

Since 1994, Utah's trust lands have generated approximately $1.9 billion in revenue and the State's endowments for public schools, state hospitals, colleges and universities have grown to over $2.5 billion. Energy development activities including oil, gas, mining, solar, wind and biomass gasification are a critical source of revenue for the State's education-related endowments.[24]

Impact of Federal Regulatory Delays on Public Services and Education

In recent years, unnecessary delays resulting from duplicative and costly regulatory requirements have created uncertainty in the onshore oil and gas leasing process. These trends

[18] U.S. Department of Interior. Office of Natural Resources Revenue. Natural Resources Revenue Data. Wyoming. https://revenuedata.doi.gov/explore/WY/#revenue
[19] U.S. Department of Interior. Office of Natural Resources Revenue. Natural Resources Revenue Data. Montana. https://revenuedata.doi.gov/explore/MT/
[20] U.S. Department of Interior. Office of Natural Resources Revenue. Natural Resources Revenue Data. Colorado. https://revenuedata.doi.gov/explore/CO/
[21] U.S. Department of Interior. Office of Natural Resources Revenue. Natural Resources Revenue Data. Alaska. https://revenuedata.doi.gov/explore/AK/
[22] State of Utah School and Institutional Trust Lands Administration. What are Trust Lands? (Visited on August 21, 2018). https://trustlands.utah.gov/our-agency/what-are-trust-lands/
[23] State of Utah School and Institutional Trust Lands Administration. Use of Trust Lands. (Visited on August 21, 2018). https://trustlands.utah.gov/our-agency/what-are-trust-lands/
[24] State of Utah School and Institutional Trust Lands Administration. Use of Trust Lands. (Visited on August 21, 2018). https://trustlands.utah.gov/our-agency/what-are-trust-lands/

have discouraged responsible energy development on federal lands, and in turn, revenue production.

For instance, under the previous Administration, acreage of federal land leased for oil and gas production decreased by over 42 percent from 2008 to 2016.[25] At the end of Fiscal Year 2016, the Bureau of Land Management (BLM) managed a total of 40,143 onshore oil and gas leases covering only 27 million acres, the lowest number of leases since Fiscal Year 1988.[26] The large amount of land restricted from development, coupled with overly-burdensome leasing and regulatory requirements, has resulted in lost revenue for the federal government and, in turn, oil and gas producing States. In fact, a planned oil and gas operation in Utah that would have raised approximately $1 billion in State revenue was cancelled after years of planning due in part to delays in the federal environmental regulatory process.[27]

Another major source of energy revenues comes from coal production on federal lands which, like oil and gas, is regulated under the Mineral Leasing Act. Duplicative and onerous regulations on the industry have not only affected revenues to the federal government, but also the critical resources available in coal-producing States. A decrease in mineral revenue, and uncertainty about when those revenues might be received, jeopardizes the provision of public services, including education. As such, lost mineral revenues have implications far beyond the oil and gas industry in these States.

In addition, regulatory delays and leasing decisions at the federal level often impedes development of State and private lands as well. Due to the patchwork nature of federal, State and private land ownership in western States, energy developers must often seek to acquire parcels of federal, State and privately-owned land for a given oil and gas development project. If a federally-owned parcel is not available for lease due to land management restrictions or an operator cannot secure a federal permit in a timely manner, an operator may choose to forego development on adjacent parcels of State or privately-owned land. As a result, regulatory decisions at the federal level can easily jeopardize the State's ability to generate revenues for public education on non-federal lands, such as those managed by SITLA in Utah.

Under the current Administration, the Department of the Interior has been proactive in addressing potential burdens on onshore oil and gas development through a series of Secretarial actions. Such actions include rescinding the BLM Hydraulic Fracturing rule and suspending compliance with the BLM Waste Prevention, Production Subject to Royalties, and Resource Conservation Rule (also known as the venting and flaring rule) until the agency issues a revised rule.[28] The Department also issued Order No. 3354, intended to improve the federal onshore Oil

[25] Bureau of Land Management. Oil and Gas Statistics. https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/oil-and-gas-statistics (Accessed January 8, 2018).
[26] Bureau of Land Management. Oil and Gas Statistics. https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/oil-and-gas-statistics (Accessed January 8, 2018).
[27] E&E News. Energy Firm Cites NEPA Delays in Drilling Project Withdrawal. June 21, 2018. https://www.eenews.net/energywire/stories/1060085971/search?keyword=EOG
[28] Department of Interior. Final Report: Review of the Department of the Interior Actions that Potentially Burden Domestic Energy. October 24, 2017. https://www.doi.gov/sites/doi.gov/files/uploads/interior_energy_actions_report_final.pdf

and Gas Leasing Program and Federal Solid Mineral Leasing Program by improving the quarterly lease sale program and processing permitting applications more efficiently.[29]

While these actions will undoubtedly encourage energy production on our federal lands in the near term, alleviating existing burdens will require Congressional action to codify such reforms, further streamline the federal leasing process and eliminate inefficiencies. The Committee on Natural Resources has advanced several legislative proposals to streamline and improve the permitting and leasing process for oil, gas, mining and renewable energy production on federal land and to provide additional revenues from those activities for public education in communities across the country.[30]

Conclusion

Our nation's schools are one of the most critical public services provided to our communities. Nevertheless, education facilities and resources remain underfunded in many parts of the country. For western States, funding these services is particularly challenging due to the tax-exempt status of federal lands within their borders. Although energy revenues generated on both State and federal lands allow for a revenue stream to offset the lack of taxable acreage, onerous regulatory requirements and delays at the federal level create uncertainty for energy-producing States not only in terms of jobs and economic development, but also for the State budgeting process. Creating certainty in the federal leasing and permitting process through regulatory and legislative reform will encourage the responsible and timely development of our federal public lands and provide much needed resources for our States and, in turn, for our schools.

[29] The Secretary of the Interior. Order No. 3354. Subject: Supporting and Improving the Federal Onshore Oil and Gas Leasing Program and Federal Solid Mineral Leasing Program. https://www.doi.gov/sites/doi.gov/files/uploads/doi-so-3354.pdf

[30] For example, see H.R. 6107, H.R. 6088, H.R. 6087, and H.R. 6106 (115th Congress).