

# Will lower fees drive more oil and gas leasing on public land?

Taxpayers' group found new royalty rates for extraction on federal land miss out on hundreds of millions in revenue

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Cattle graze on public lands, some of which is managed by the Bureau of Land Management, in Tooele County on Friday, April 19, 2024. | Kristin Murphy, Deseret News PURCHASE IMAGE

Last summer, the federal government took several steps with the reconciliation bill to generate revenue from public lands as part of its efforts to reduce the deficit.

In one provision, Congress expanded oil and gas leasing in the hopes of opening up more acres to natural resource production. In another, it reduced the royalty rates on oil and gas extraction from 16.67% to what they were under the first Trump administration at 12.5%.

Though it may seem counterintuitive to reduce rates to boost revenue, some stakeholders suggested the incentive was included in order to make leasing public lands more attractive to extraction companies. The logic goes that with lower overhead, more might seek out options on federal lands rather than private or state lands.

But even if it was a return to a norm from a few years ago, the reduction represents a big economic change.

Royalty rates are the largest revenue driver by a large margin for the government from public lands. In 2023, royalties generated more than \$8 billion, with things like lease rates and rents bringing in just a fraction in comparison.

It turns out, however, that lowering rates will not necessarily bring more revenue to America's coffers, according to a review of lands leased in 2025 by an independent budget watchdog.

“Leasing more public land for oil and gas development did not translate into better returns for taxpayers,” reads the report from Taxpayers for Common Sense, an independent budget watchdog, in its 2025 year in review: Federal Onshore Oil & Gas Leasing report.

“Leasing public lands at below-market royalty rates locks taxpayers into bad deals for decades to come.”

## **How do royalties work?**

Royalty rates are a fee paid to the federal government by energy companies that are producing or extracting natural resources from public lands. The rate is calculated as a percentage of the gross revenue — sales prior to expenses — that are generated from the sale of the extracted minerals.

If a company sells \$100 worth of gas, for example, it owes Uncle Sam \$12.50 off the top.

As the federal government generally owns those natural resources, private sector energy companies pay the royalty as a fee for the right to profit from public property. This is in addition to the lease rates and other expenses that are accrued as a part of doing that highly lucrative business.

At the state and private level of land ownership, those rates vary.

Wyoming charges the lowest rate, with a range between 5% to 16.67%. Meanwhile, most other western states charge several percentage points more than the federal government.

Utah charges 16.67%, which was the same federal rate in the Biden administration. North Dakota charges similarly, from 16.67% to 18.75%. Oklahoma's is also 18.75% and Colorado's slightly higher at 20%. Then, New Mexico — one of the highest-producing states — charges between 18.75% to 25% (with a lot of it going to fund education, with the state now offering free universal child care as a result).

Texas, which is the undisputed king of oil and gas production in the U.S., charges a minimum of 12.5% on state lands, but the much higher rate of 20% to 25% on public school lands.

Private land is a broader range and depends heavily on what's underground, but is somewhere between 12% to 25%.

## **What did the report find?**

Taxpayers for Common Sense is an independent budget watchdog that's existed since 1995. Its work spans across the federal budget and calls for transparency, accountability and ending wasteful spending.

It's important to note that it explicitly wants public lands to be used in a way that is financially beneficial for taxpayers.

“We are not opposed to oil and gas development on public lands. We just want to make sure that taxpayers are not leaving (money) on the table or locking our valuable public lands into nonproducing leases, which prevents other productive uses,” said Tyler Work, a policy analyst at Taxpayers for Common Sense.

“Specifically, oil and gas development on public lands, our major concerns are ensuring that taxpayers get a fair return from the resources that we own and taxpayers are protected from the costly long-term liabilities that can be associated with oil and gas development.”

In its review, however, one of the organization's top takeaways was that leasing more public land for oil and gas development did not automatically translate to wins for taxpayers.

“We have found that the 12.5% rate is far below market value,” Work said. “It’s simply not competitive, and it’s not giving taxpayers our fair return.”

## **Looking out for taxpayers**

Over 2025, almost 500,000 acres of land were offered up for oil and gas leasing. Taxpayers for Common Sense found that by the end of the year, 327,000 acres were leased through 22 different sales that spanned 11 states. Of those, 244,000 were sold at the 12.5% royalty rate.

“Using BLM data, we believe that those leases could produce \$12 billion worth of oil and gas over a fairly conservative 10-year lifetime. And that could cost taxpayers \$489 million in foregone royalties compared to what would be generated under a 16.67% royalty rate.”

Of those leased federal lands, the most was in Wyoming. Next was Utah, where over 100,000 acres of federal land was leased for oil and gas extraction last year.

Taxpayers for Common Sense calculates that at the current royalty rate, the federal government lost about \$264.9 million in revenue from Utah's acres. And 50% of that income is shared with the state.

As a result of the way the leases are currently structured, Utahns lost out on about \$132 million of oil and gas revenue.

## **What's happening in Utah?**

Work said that she was not surprised to see that the notion of the lower rates proving to be a greater incentive was not playing out.

Drawing on decades of leasing data, the group's research showed that parcels that had competitive sales were the same ones with existing robust oil and gas

development and the states with the most industry interest were the ones that have existing infrastructure. In those places, Work said, bidding on leases happens regardless of royalty rates.

“States with low development and low industry interest continue to hold auctions that attract few if any bidders and those resulting bids end up being low,” she said. “The royalty rate doesn’t make unattractive parcels more attractive and it doesn’t make attractive parcels less attractive.”

Still in Utah, there is a trend of increased lease interest. Last year was the largest federal land lease sale in the state since 2019. And the average bid was about \$843 per acre, which is the highest price the land in the state has garnered since 2011. It is still lower than the national average, but there is some momentum happening in the state.

At the current royalty rate, though, production would have to increase quite a bit to make up the difference in revenue, which is Work’s main point.

“Rolling back federal policies that are designed to ensure taxpayers get a fair return from the development of our publicly owned oil and gas resources does not create new demand,” she said. “It simply guarantees that there will be lower public returns where the demand already exists.”