

## State Perspectives on Offshore Energy Revenue Sharing

### *Witnesses*

**The Honorable Doug Domenech**

Secretary of Natural Resources, Commonwealth of Virginia

**The Honorable Garret Graves**

Chairman, Coastal Protection and Restoration Authority, Office of the Governor, State of Louisiana

**Ryan Alexander**

President, Taxpayers for Common Sense

### *Committee Members Present*

Doc Hastings (R-WA), Chairman

Edward Markey (D-MA), Ranking Member

Rush Holt (D-NJ)

Rob Wittman (R-VA)

Bill Johnson (R-OH)

Grace Napolitano (D-CA)

Doug Lamborn (R-CO)

Raul Grijalva (D-AZ)

Raul Labrador (R-ID)

Scott Tipton (R-CO)

John Fleming (R-LA)

Jeff Duncan (R-SC)

Ben Ray Lujan (D-NM)

Jeff Landry (R-LA)

Louie Gohmert (R-TX)

The House Committee on Natural Resources held a hearing on July 27, 2011 to examine state interests in offshore energy development revenues. In fiscal year 2008, \$18 billion in revenue was generated from offshore energy production in federal waters. Under the Gulf of Mexico Energy Security Act of 2006 (GOMESA, 43 USC 1331), 50 percent of revenues obtained by certain leases in federal waters in the Gulf of Mexico go to the federal government, 12.5 percent go to the Land and Water Conservation Fund, and 37.5 percent go to Gulf coast states. However, states outside of the Gulf of Mexico only receive shared revenues from energy development within three to six miles from their coastlines. All energy and mineral production royalties are collected by the Office of Natural Resources Revenue (ONRR) within the Department of the Interior (DOI).

Chairman Doc Hastings (R-WA) said in his opening statement that the committee will be crafting a bill on offshore revenue sharing after the August recess. He emphasized that revenue sharing will increase American energy production which will lead to an increase in jobs and revenue and to a stronger economy. He concluded that a revenue sharing proposal should be fair to all states who have a stake in the costs and risks of offshore energy production.

In Ranking Member Edward Markey's (D-MA) opening statement, he highlighted his concerns with GOMESA which will give \$150 billion in royalties over the next 60 years to the Gulf of Mexico. Markey has introduced a bill, the Gulf Coast Oil and Gas Royalty Giveaway Repeal and Deficit Reduction Act (H.R. 2673), that would recover an estimated \$150 billion in the coming

decades by sending revenue generated from offshore oil drilling in federal waters back to the federal government instead of to selected states. Markey stated that GOMESA was a big mistake and Hastings' future legislation would be a "big mistake [given] the fiscal crisis we are in right now."

Doug Domenech said in his testimony that the governor of Virginia, Bob McDonnell, hopes to make Virginia the "energy capital of the east coast" with every intention of reducing the nation's dependency on foreign oil and expanding alternative fuel options. He stated that Virginia believes that royalties from oil and gas development should be shared with all coastal states. He added that shared revenues from offshore production will allow states to be better prepared to mitigate potential risks and impacts.

In his testimony, Garret Graves stated Louisiana's support for revenue sharing but pressed for a system more akin to onshore revenue sharing where states receive 50 percent of production royalties. Graves told the committee that production activities in the Gulf of Mexico region have benefited the U.S. Treasury from \$5 to \$14 billion annually though in 2010, Louisiana received only \$222,000 while the Treasury received over \$5 billion in production revenues. Graves encouraged the committee to enact "responsible revenue sharing legislation" that would allow coastal states hosting energy production to mitigate potential harmful impacts from energy production and make investments in protecting coastal resources.

Ryan Alexander stated Taxpayers for Common Sense's opposition to any legislation that would alter the existing federal-state revenue sharing. She said that draining billions of dollars in revenue from the treasury is "downright foolish." She emphasized the fact that federal waters are managed and protected by federal agencies through federal taxpayer's dollars, so the sale of the resources should be returned to the federal treasury. She concluded that if the production and sale is within federal waters the states should not get the revenue. States should only receive revenue from royalties within state waters and the state-to-federal transition waters.

Hastings asked Domenech how revenue sharing would help Virginia proceed with its potential lease sale. Virginia was approved to lease offshore tracts about 50 miles from the coast to oil and gas developers in 2010 but the process was put on hold by the Obama Administration in the aftermath of the BP Deepwater Horizon oil spill until 2017. Domenech answered that shared revenues would allow Virginia to implement safety infrastructure and that if Virginia were given the flexibility, the state would use the funds for green energy research, enhance the roadway infrastructure, and protect the coast with the resources necessary to respond to a potential spill. Domenech commented that 5,000 to 15,000 jobs would be created if Virginia was allowed to develop offshore energy and a majority of the funds from revenue sharing would stay along the coast.

Markey asked questions relating to the safety recommendations outlined in the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling report. Graves answered that there are appropriate safety recommendations made in the report but as a whole, all of the safety recommendations should not be implemented. Markey countered that the safety recommendations do need to be established. Markey asked Alexander if she would be supportive of ending federal money "give-aways." She said that revenue from federal waters should go back to the federal taxpayers.

Bill Johnson (R-OH) asked Alexander if Congress should repeal onshore revenue sharing. Alexander said that onshore is different than offshore energy because onshore energy on federal land is within the states boundaries. Alexander opposed wind, tidal, and solar revenue sharing when the development is in federal waters because the revenue from federal waters should be going back to the federal taxpayer. In response to Alexander's testimony, Johnson stated that, "This is the administration of no. No to putting America back to work, no to tapping into American's natural resources, no to establishing a national energy policy."

Doug Lamborn (R-CO) asked if states that have shorelines adjacent to offshore drilling should be considered for revenue sharing. Alexander stated if there were an oil spill in Virginia, other states like Delaware, New Jersey, and North Carolina may have an impact but the impact would be more diffused. She added that states will have a disproportionate impact and the states would get disproportionate federal assistance.

Raul Grijalva (D-AZ) asked why it is important for revenues to remain the way they are and what would occur to our federal waters if changes were made. Alexander responded that the areas that will be significantly impacted as consequences of a disaster in federal waters are hard to predict. She said the impacted states would get significant funds in disaster assistance but there should be government accountability on disaster assistance response. She concluded that revenue sharing will not improve federal disaster

assistance.

Jeff Landry (R-LA) stated that “revenue sharing protects the environment.” He proclaimed that is it unfair for other states in the country to be receiving 50 percent of oil and gas royalties for their onshore drilling when offshore drilling states do not receive any. Alexander reiterated that the states do get money when there is development within the three miles of the border and the transitional areas but once the drilling is in federal waters the money should be going to the federal taxpayer.

Written testimonies from the witnesses, a documented webcast, and other information can be found on the committee web page.

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