United States General Accounting Office

GAO

Report to the Honorable
Craig Thomas, U.S. Senate

February 1997

MINERALS MANAGEMENT

Costs for Onshore Minerals Leasing Programs in Three States

GAO/RCED-97-31

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-275497

February 27, 1997

The Honorable Craig Thomas
United States Senate

Dear Senator Thomas:

The development of federal onshore leasable minerals nationwide in fiscal year 1996 generated about $963 million, of which states received about half, or $481 million.[1] The federal government's appropriations for administering its onshore leasable minerals program in that same year were almost $114 million. States will pay the federal government about $22 million of this amount. The key agencies responsible for onshore mineral leasing are the Department of the Interior's Bureau of Land Management (BLM) and Minerals Management Service (MMS), and the Department of Agriculture's Forest Service.

Concerned about whether the costs borne by Wyoming, New Mexico, and California for managing federal minerals were comparable to these states' own programs, you asked us to (1) identify how much the three states paid to the federal government for managing minerals on federal lands within their boundaries, (2) identify the costs to the three states for their own minerals management programs, and (3) compare these federal and state program costs. This report also discusses the activities that are associated with the federal and state programs.

Results in Brief

In fiscal year 1996, Wyoming, New Mexico, and California received almost $358 million in revenues from federal onshore leasable minerals; they will pay almost $14.6 million in fiscal year 1997 for a portion of the federal government's fiscal year 1996 onshore mineral leasing program. Wyoming's share of the $14.6 million is $7.02 million, New Mexico's is $5.94 million, and California's is $1.65 million. These amounts were computed on the basis of allocations of the federal appropriations for all activities conducted by the Forest Service, the Bureau of Land Management, and the Minerals Management Service related to managing federal onshore leasable minerals.

Onshore mineral development on Wyoming's, New Mexico's, and California's state-owned land generated combined royalties, rents, and

[1]The $963 million is the portion of onshore leasable minerals revenue that is sharable with the states. Leasable minerals include oil and gas, coal, geothermal steam, sodium, trona, and potash.

bonuses of $148 million in fiscal year 1996.[2,3] The states' combined costs for managing onshore mineral development—which includes development on state and private lands—totaled about $19 million. Specifically, the costs for Wyoming's minerals management program were $2.4 million in fiscal year 1996, while New Mexico's were $7.2 million and California's costs were $9.9 million.

Because of differences between federal and state programs, the states' costs for these programs cannot be meaningfully compared. Federal decisions about mineral leasing must involve land-use planning and environmental analysis. The three states we reviewed do not have similar land-use planning processes. Furthermore, neither Wyoming nor New Mexico requires an environmental analysis similar to that performed by the federal government. According to California State Lands Commission officials, California laws require an environmental analysis and the protection of state lands. Other differences are state-specific and can be attributed to a program's size and regulatory scope and number of mineral operations managed. For example, California's oil and gas conservation agency devotes about 95 percent of its resources to managing mineral development on privately owned land and other lands not owned by the state or federal government.[4]

Background

Under the Mineral Leasing Act (30 U.S.C. 181 et seq., as amended) (MLA), revenues for federal onshore minerals, which include bonuses, rents, and royalties,[5] are distributed as follows: 50 percent to the state in which the production occurred, 10 percent to the general treasury, and 40 percent to the reclamation fund.[6,7] Lands leased under other laws have different distribution requirements. In fiscal year 1996, 41 states received a total of

[2]The federal fiscal year is from October through September, and the fiscal year for each of the three states is from July through June. However, because each covers a period of 12 months, we consider them equivalent in this report.

[3]In addition, Wyoming and New Mexico collected $206 million and $313 million, respectively, in severance taxes from mineral production on federal, state, and privately owned land within their boundaries in fiscal year 1996.

[4]California's Division of Oil, Gas, and Geothermal Resources regulates some aspects of the net-profit-sharing operations on lands granted to the City of Long Beach.

[5]On federal land, lessees pay bonuses to acquire tracts of land for lease. For nonproducing lands, lessees pay a rental of $1.50 to $2 per acre. For producing leases, lessees or lease operators pay royalties on the basis of a percentage of the value of the minerals produced.

[6]The reclamation fund is used for the construction of irrigation projects under the Reclamation Act of 1902.

[7]Under MLA, Alaska receives 90 percent of receipts and the remaining 10 percent is paid to the general treasury.

about $481 million in revenues from the development of federal onshore minerals. Wyoming, New Mexico, and California received about $206 million, $124 million, and $28 million, respectively.

Wyoming, New Mexico, and California also manage mineral development on private and state-owned lands. In these states, revenues from state-owned land are used to fund public educational institutions. Wyoming's bonus, rental, and royalty revenues from minerals on state-owned land in fiscal year 1996 were $29 million. In New Mexico, these revenues from minerals on state land were $115 million. California's revenues from state-owned minerals onshore were $3 million.

In 1991, with the passage of the Department of the Interior's appropriation bill, states receiving revenues from federal onshore minerals began paying a portion of the costs to administer the onshore minerals leasing laws—a practice known as "net receipts sharing." Net receipts sharing became permanent with the passage of the Omnibus Budget Reconciliation Act of 1993 (OBRA), which effectively requires that the federal government recover from the states about 25 percent of the prior year's federal appropriations allocated to minerals leasing activities. (See app. I for a detailed description of net receipts sharing.)

In general, managing federal and state minerals includes some level of resource planning and use authorization, compliance inspections, revenue collection, and auditing. Resource planning may include identifying areas with a potential for mineral resources; planning for future mineral development and how that development will affect other resources on the land (such as recreation, livestock grazing, and wildlife); and geophysical exploration by potential lessees. Use authorization includes lease issuance and the approval of post-leasing activities—including the drilling of oil and gas wells and the extraction of other mineral resources—and such associated activities as the construction of roads, facilities, pipelines, storage tanks, and modifications to operations. Once approved and under way, these operations may be inspected periodically to determine whether they comply with applicable laws, regulations, and lease terms. The revenues from mineral leasing and information about production are collected and may be audited.

States' Costs for Federal Minerals Management Activities

The federal government allocated $14.6 million of its appropriations for minerals management to Wyoming, New Mexico, and California for fiscal year 1996. This amount, which will be deducted from the states' 1997 revenue payments, was computed on the basis of allocations of the appropriations for all onshore leasable minerals management activities conducted by the Forest Service, BLM, and MMS—the three key agencies responsible for administering the federal onshore minerals leasing laws. Table 1 shows the fiscal year 1996 net receipts-sharing deductions for Wyoming, New Mexico, and California and the portions attributable to the Forest Service, BLM, and MMS.

Table 1: Net Receipts-Sharing Deductions for Wyoming, New Mexico, and California by Federal Agency, Fiscal Year 1996

Dollars in millions

State	Forest Service	BLM	MMS	Total[a]
Wyoming	$0.14	$4.87	$2.01	$7.02
New Mexico	0.06	3.27	2.61	5.94
California	0.11	1.01	0.54	1.65

[a]Totals may not add because of rounding.

The Forest Service manages mineral uses occurring in national forests, which includes determining whether forest areas are suitable for leasing, participating with BLM in making leasing decisions for forest land, and managing mineral operations on forest land. These activities are required under several federal laws, including (1) the National Forest Management Act of 1976, which prescribes forest planning processes; (2) the National Environmental Policy Act of 1969 (NEPA), which requires environmental analysis and documentation; and (3) the Federal Onshore Oil and Gas Leasing Reform Act of 1987, which authorized the Secretary of Agriculture to determine which Forest Service lands could be leased for mineral development and to specify the conditions placed on mineral leases.

Likewise, BLM manages surface uses and makes leasing decisions on BLM-managed land. BLM also issues leases and manages operations for oil, gas, coal, and other minerals (1) on lands with split ownership, namely where the minerals are federally owned but the surface is not, and (2) on certain lands managed by other federal agencies.[8] BLM is also responsible for performing inspections to verify the quantity of minerals produced on federal leases. In addition to MLA, major federal laws governing BLM's management of onshore minerals include (1) the Federal Land Policy

[8]BLM also has some supervisory authority over state and private wells in federally approved units and communitization agreements.

Management Act of 1976, which gave BLM general management responsibilities for public land, endorsed multiple-use management, and prescribed a planning process similar to the Forest Service's; (2) NEPA; (3) the Federal Onshore Oil and Gas Leasing Reform Act; (4) the Federal Coal Leasing Amendments Act of 1976; and (5) the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), which was enacted to ensure that the Secretary of the Interior properly accounts for all oil and gas from public lands.

MMS collects, audits, and disburses most mineral revenues from production on federal lands. In support of these functions, the agency maintains information on leases and royalty payers. MMS also collects and compares royalty and production information reported by payers and operators. Finally, MMS audits payments received from selected royalty payers. As with some of BLM's minerals management activities, MMS' functions stem from requirements in FOGRMA.

States' Costs for Their Own Minerals Management Activities

In fiscal year 1996, Wyoming's onshore minerals management program cost $2.0 million, New Mexico's cost $7.2 million, and California's cost $9.9 million. All three states lease state-owned land within their boundaries for minerals development. Each of the three states has a land office responsible for leasing and for collecting revenues from those leases. The states also have regulatory agencies that oversee mineral operations within their boundaries, including those on state and private land, and where applicable, on federal and other land.[9] Appendix II includes a more detailed description of the three states' mineral programs. Table 2 shows the costs for the states' minerals management programs.

[9]According to state officials, New Mexico's Oil Conservation Division regulates some aspects of mineral operations on Indian lands, and California regulates some aspects of net-profit-sharing leases on granted lands.

Table 2: Costs for Each State's Onshore Minerals Management Program by State Agency, Fiscal Year 1996

Dollars in millions

	State land office or commission		Regulatory agency		
State	Agency's name	Cost	Agency's name	Cost[a]	Total
Wyoming	State Land and Farm Loan Office[b]	$0.8	Oil and Gas Conservation Commission	$1.6	$2.4
New Mexico	State Land Office	3.0	Oil Conservation Division	4.2[c]	7.2
California	State Lands Commission	0.4	Division of Oil, Gas, and Geothermal Resources	9.5	9.9

[a]These agencies' costs are for their regulation of mineral development on all lands under their jurisdiction, including state and private lands. They may also oversee some aspects of mineral development on federal and other lands.

[b]The Wyoming State Land Office's costs include the Wyoming Department of Audit's cost for auditing state mineral leases.

[c]Includes $483,000 for New Mexico's gas-marketing program.

As land managers, the states' land offices serve some similar functions for state land as the Forest Service and BLM do for federal land. The states' land offices decide how state land will be used and issue leases for mineral development. As royalty managers, they perform most of the same functions as MMS does for federal royalties. They collect and account for mineral revenues, including bonuses, rents, and royalties, and audit these payments.

As BLM does for federal lands, the states' regulatory agencies review and approve drilling and extraction permits and operations; inspect operations for compliance with safety, environmental, and operational requirements; and verify and compile data on reported production on state-owned lands. The state regulatory agencies are also authorized to inspect operations for compliance with safety and environmental standards on private land within the state. The agencies are mandated by state laws to perform other minerals management activities on federal, state, private, and other lands. These activities include making spacing determinations, reviewing and approving discharge plans for oil fields, witnessing surface casing and well-plugging, and inspecting and permitting waste disposal for commercial facilities.

Costs for Federal and State Programs Cannot Be Meaningfully Compared

Because of differences between federal and state programs, the states' costs for these programs cannot be meaningfully compared. Current laws require the Forest Service and BLM to create land-use plans that evaluate alternative resource uses—including minerals—on federally managed lands. These plans must include public involvement and may be appealed to the agency or challenged in court. The three states we reviewed do not have similar land-use planning processes, and neither Wyoming nor New Mexico has similar requirements for environmental analysis to those for the federal land-managing agencies. In responding to a draft of this report, officials from California's State Lands Commission commented that the California Environmental Quality Act and other state laws require the protection of the environment, which includes developing environmental information and mitigation requirements; protecting significant environmental values on state lands; and balancing public needs in approving the uses of state lands. A New Mexico state official noted that mineral development in that state does not occur at the expense of archaeological or environmental concerns.

Federal law also requires certain royalty management activities that are different from state activities. For example, FOGRMA requires the Secretary of the Interior to have a strategy for inspecting oil and gas operations to ensure that all production is reported. This strategy includes inspections of equipment, specific measurement of oil and production, and site security procedures. In contrast, the states rely primarily upon comparisons of royalty and production reports to verify production amounts rather than on field inspections. (See app. II for more details on the states' activities.)

Other differences are state-specific. For example, federal land in Wyoming contains over twice as many producing coal leases than does state land. By law, BLM must perform an economic evaluation of coal for leasing but not for oil and gas leasing. The scope of the regulatory agencies' responsibilities also differs from that of the federal program, as these agencies regulate mineral development on state, private, and in some cases, federal and other land. In their response to a draft of this report, officials in California's Division of Oil, Gas, and Geothermal Resources commented that its regulatory scope is unique among the states, as about 95 percent of its workload involves administering laws and regulations on private and granted lands.

Agency Comments

We provided the Department of the Interior, the Forest Service, BLM, and MMS with a draft of this report. Wyoming's State Land and Farm Loan Office and Oil and Gas Conservation Commission, New Mexico's State Land Office and Oil Conservation Division, and California's State Lands Commission and Conservation Department's Division of Oil, Gas, and Geothermal Resources were also provided with a draft of this report.

In written comments, the Department of the Interior and MMS generally agreed with the contents of the report. (See app. IV.) BLM provided us with technical clarifications, which we have incorporated as appropriate, and also suggested that we include information on the states' mining regulatory agencies. However, we did not include this information because we focused on activities comparable to the federal leasable minerals program (for which net receipts sharing is computed), which does not include all mining-related activities. The Forest Service had no comments on the draft.

In written comments, Wyoming's Office of the Governor acknowledged that the federal and state mineral leasing programs are different, but disagreed with our position that the costs cannot be meaningfully compared. (See app. V.) The Governor's Office commented that a comparison could be made that includes an analysis of the similarities and differences in the programs. Our analysis shows that because of such differences in the programs as land-use planning, environmental, and production verification requirements, a cost comparison would not be meaningful.

The Governor's Office also requested that we expand our report to provide a breakdown of the federal program's direct and indirect costs by function. However, our report discusses the federal minerals management program from the perspective of net receipts sharing, which is based upon appropriations and not on actual program costs. Accordingly, we describe how the appropriations are allocated but do not provide actual costs; such a discussion would be outside the scope of this report. Furthermore, we believe that regardless of the level of cost detail provided, a comparison between federal costs and state costs would not be meaningful because of the differences in the programs. The Office of the Governor's comments included comments and technical clarifications from Wyoming's Oil and Gas Conservation Commission, State Land and Farm Loan Office, and Department of Audit, which we incorporated as appropriate.

In commenting on this report, New Mexico's Oil Conservation Division (for written comments, see app. VI) stated that the states' regulatory agencies are responsible for minerals management activities beyond the management of state-owned minerals. We adjusted the text of our report to clarify the role of the regulatory agencies in managing state, private, and where applicable, federal and other lands. Furthermore, the Oil Conservation Division commented that many of the net receipts-sharing costs are not justifiable; however, such an assessment was outside the scope of our review.

In written comments, California's State Lands Commission commented that the draft was generally a fair and accurate review of California's minerals management costs. (See app. VII.) However, Commission officials commented that our reporting of the Division of Oil, Gas, and Geothermal Resources' costs overstated the cost of managing state lands. We adjusted the text of our report to clarify that the regulatory agencies' scope of authority extends beyond state lands in all three states and that about 95 percent of California's Division of Oil, Gas, and Geothermal Resources' time is devoted to regulating the development of minerals on privately owned and other land. The Commission also commented that it is responsible for implementing the California Environmental Quality Act and is required to develop environmental information and mitigation requirements. Furthermore, it commented that state law requires the Commission to protect significant environmental values on state lands and to balance public needs in approving the uses of state lands. We incorporated this information into the text of this report. The Commission also commented that it has a program of inspections and other audit procedures to verify production amounts and royalty payments that is more extensive than we had described in the draft. We incorporated specific recommended changes into our discussion of California's minerals management program in appendix II. California's Division of Oil, Gas, and Geothermal Resources provided technical clarifications, which we also incorporated into the report as appropriate.

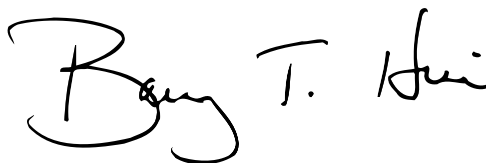
In conducting our review, we examined relevant reports and other documents prepared by the three federal agencies within the Departments of Agriculture and the Interior that are responsible for (1) managing federal onshore leasable minerals and (2) allocating their appropriations among the states for net receipts sharing. We interviewed program managers and budget officials from these organizations in Washington, D.C., and in regional, state, and local offices, as appropriate. We also

obtained cost data and estimates from officials in Wyoming, New Mexico, and California. We interviewed the officials responsible for compiling the cost data and discussed the functions of their agencies and how they compare with the federal program. We conducted our review from June through November 1996 in accordance with generally accepted government auditing standards. A full description of our objectives, scope, and methodology is included in appendix III.

As requested, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to appropriate congressional committees, federal agencies, state agencies, and other interested parties. We will also make copies available to others upon request.

Please call me at (202) 512-9775 if you or your staff have any questions about this report. Major contributors to this report are listed in appendix VIII.

Sincerely yours,



Barry T. Hill
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Abbreviations

BLM	Bureau of Land Management
EPA	Environmental Protection Agency
FOGRMA	Federal Oil and Gas Royalty Management Act of 1982
GAO	General Accounting Office
MLA	Mineral Leasing Act
MMS	Minerals Management Service
NEPA	National Environmental Policy Act of 1968
OBRA	Omnibus Budget Reconciliation Act of 1993
ONGARD	Oil and Natural Gas Administration and Revenue Database
RMP	Royalty Management Program

Net Receipts-Sharing Process

Under the Mineral Leasing Act (30 U.S.C. 181 et seq., as amended), states generally receive 50 percent of the revenues from federal onshore mineral leases, which include bonuses, rents, and royalties. Under the act, onshore federal mineral receipts are distributed as follows: 10 percent goes to the general treasury, 40 percent to the reclamation fund, and 50 percent to the state in which the production occurred.[10] Lands leased under other laws have different distribution requirements.

With the passage of the Department of the Interior's 1991 appropriation bill, the federal government began recovering a portion of the costs to administer the federal onshore minerals leasing laws from the revenues generated—a practice now known as "net receipts sharing." The 1993 Omnibus Budget Reconciliation Act (OBRA) made net receipts sharing permanent. The agencies whose appropriations are included in the net receipts-sharing calculations are the Department of the Interior's Bureau of Land Management (BLM) and Minerals Management Service (MMS) and the Department of Agriculture's Forest Service.

OBRA requires that 50 percent of the preceding fiscal year's appropriations to administer minerals leasing laws be deducted from the mineral revenues from federal lands before they are distributed among the states, the general treasury, and the reclamation fund. As a result, the states bear the cost associated with about 25 percent of the appropriations. To illustrate, if one year's appropriation were $100, OBRA requires that 50 percent of that appropriation, or $50, be recovered from the revenues in the following year. If the lands were leased under the Mineral Leasing Act, the $50 would be recovered as follows: $25 comes from the states receiving mineral revenues, $5 from the general treasury, and $20 from the reclamation fund.

Although MMS is responsible for deducting the amounts from each state's revenues, the deductions also include amounts for the Forest Service and BLM. The Forest Service and BLM compute and report their allocations to MMS, which then calculates the total amount to be deducted from each state's revenues. The following sections explain how the Forest Service, BLM, and MMS compute their allocations and how MMS combines the allocations of all three agencies to compute the actual deduction from state revenues for the management of the federal onshore minerals leasing program.

[10] Alaska receives 90 percent of the revenues, and the general treasury receives the remaining 10 percent.

Forest Service's Allocations

For its portion of the net receipts-sharing deduction, the Forest Service calculates and allocates the actual cost of its minerals management program. At the end of each fiscal year, the Forest Service identifies the amounts charged to the minerals management program for each forest and totals these amounts by state to determine each state's minerals management costs. The Forest Service's fiscal year 1996 leasable minerals management costs for Wyoming included those for the Bighorn, Shoshone, Bridger-Teton, and Medicine Bow National Forests. The Forest Service's leasable minerals costs for New Mexico included those for the Carson, Cibola, Gila, Lincoln, and Santa Fe National Forests. The Forest Service's costs for California included the Angeles, Eldorado, Inyo, Klamath, Lassen, Los Padres, Mendocino, Modoc, Stanislaus, and Tahoe National Forests.

The Forest Service adds a percentage to these direct costs for indirect expenses. In fiscal years 1995 and 1996, the Forest Service added 20 percent to the leasable minerals costs for program support and common services, including those provided by the regional and headquarters offices. For Wyoming, New Mexico, and California, the Forest Service's allocation for the fiscal year 1996 net receipts-sharing computation was about $552,000, $234,000, and $517,000 respectively.

BLM's Allocations

For its part of the net receipts-sharing process, BLM allocates its onshore minerals management appropriations to each state. Each BLM state office receives an energy and minerals budget, which includes all funds dedicated to the management of onshore oil, gas, geothermal, and other mineral resources on federally managed lands. From these amounts, BLM subtracts appropriated amounts not specifically related to federal onshore leasable minerals, such as costs to manage Indian minerals and other, nonleasable minerals.[11] To these state office budgets, BLM adds a factor for indirect expenses. In fiscal year 1996, BLM added 19 percent to the energy and minerals appropriations to cover the expense of general administration and information management. For Wyoming, New Mexico, and California, BLM's allocation for the net receipts-sharing computation was about $19 million, $13 million, and $5 million, respectively.

MMS' Allocations

To determine the share of its budget related to onshore activities, MMS begins with the budget for the Royalty Management Program (RMP), which is responsible for managing revenues from federal mineral leasing, both

[11]Salable and locatable minerals are nonleasable minerals on public domain land. These include sand and gravel and hard-rock minerals, such as gold and silver. All minerals occurring on acquired land are leasable.

onshore and offshore. Each RMP division identifies the amount of its budget that is related to managing onshore, offshore, and Indian revenues on the basis of workload factors. Then, RMP allocates the federal onshore amount to the states, again, on the basis of workload factors, such as the number of producing leases in the state as a percentage of the total number of federal onshore producing leases.[12] For Wyoming, New Mexico, and California, MMS's allocation for the net receipts-sharing computation was about $8 million, $10 million, and $3 million, respectively.

Final Calculation of Net Receipts-Sharing Deduction

After the Forest Service, BLM, and MMS have identified the amounts to be allocated for onshore leasable minerals management, MMS calculates the final deduction for each state as follows:

1. MMS divides the sum of the agencies' allocations in half as required by OBRA. The sum of the Forest Service's, BLM's, and MMS' allocations for fiscal year 1996 was almost $114 million. One-half of this amount was $57 million.

2. The resulting amount ($57 million) is allocated among the states on the basis of each state's proportion of total revenues for that fiscal year. For example, Wyoming received about 43 percent of the federal onshore leasable mineral revenues in fiscal year 1996. To compute the revenue-based allocation, MMS multiplied $57 million by 43 percent, which resulted in an allocation of about $24 million for Wyoming.

3. However, under OBRA, the allocation to each state cannot exceed one-half of the estimated amount that the agencies attributed to that state. For fiscal year 1996, the total amount that the agencies attributed to Wyoming was about $28 million, which is the sum of the Forest Service's, BLM's, and MMS' allocations to the state. One-half of the $28 million is about $14 million.

4. The lower amount is deducted according to each state's revenue-distribution formula in the following fiscal year. Because Wyoming receives one-half of the federal mineral receipts, it is charged one-half of this lower amount ($14 million). Thus, Wyoming's total deduction in fiscal year 1997 will be about $7 million.

[12]Until 1995, MMS used two methods to allocate its onshore minerals management appropriations to the states. In 1996, the agency began using one method to allocate its onshore budget, the method described in the text.

For all but two states—Wyoming and New Mexico—the allocation based upon each state's proportion of total revenues resulted in the lower deduction for fiscal year 1996. Table I.1 shows the fiscal year 1996 revenues and net receipts-sharing deductions (which will be deducted in fiscal year 1997) for the states.

Table I.1: Fiscal Year 1996 Revenues and Fiscal Year 1997 Deductions by State

State[a]	Fiscal year 1996 revenues[b]	Final deduction from fiscal year 1997 revenues
Alabama	$226,578	$11,157
Alaska	5,275,082	566,552
Arizona	23,239	1,376
Arkansas	979,132	55,052
California	27,853,825	1,649,917
Colorado	37,096,417	2,196,324
Florida	33,338	1,979
Idaho	2,320,336	136,705
Illinois	90,546	7,289
Indiana	104	3
Kansas	1,159,257	68,674
Kentucky	116,867	4,907
Louisiana	995,105	42,647
Michigan	762,624	42,265
Minnesota	6,714	199
Mississippi	574,300	18,789
Missouri	1,242,446	36,994
Montana	22,097,622	1,308,314
Nebraska	15,314	909
Nevada	6,320,589	374,210
New Mexico	124,115,117	5,944,818
N. Carolina	118	4
N. Dakota	2,561,441	151,900
Ohio	191,602	15,243
Oklahoma	1,864,532	113,057
Oregon	66,050	3,911
Pennsylvania	23,696	1,955
S. Carolina	255	11
S. Dakota	691,207	40,924
Tennessee	76	7
Texas	675,462	36,564

(continued)

State[a]	Fiscal year 1996 revenues[b]	Final deduction from fiscal year 1997 revenues
Utah	36,415,201	2,157,200
Virginia	98,871	7,828
Washington	496,157	29,376
W. Virginia	212,025	14,352
Wisconsin	930	28
Wyoming	205,960,840	7,016,230
Total	**$480,563,017**	**$22,057,670**

[a]Four states had $0 revenue and $0 deductions: Georgia, Maryland, New Hampshire, and New York.

[b]Numbers have been rounded.

Information on States' Mineral Programs: Wyoming, New Mexico, and California

Officials in Wyoming, New Mexico, and California described their minerals management programs and provided us with actual and estimated costs of operating these programs.

Wyoming

Wyoming receives revenues from the production of oil, gas, coal, and other minerals in the state. In fiscal year 1996,[13] Wyoming received $30 million from production on state lands and $206 million from federal royalties, rents, bonuses, and other revenues. Almost 4 million acres of state-owned land in Wyoming contain 816 producing mineral leases, compared with 5,632 producing leases on more than 27 million acres of Forest Service- and BLM-managed land.

Table II.1: Statistics on Mineral Revenues and Producing Leases in Wyoming for Fiscal Year 1996

Dollars in millions

Revenues and producing leases	Oil and gas		Coal		Other	
	State	Federal	State	Federal	State[a]	Federal[b]
Revenues	$21	$73	$4	$88	$5	$45[c]
Producing leases	761	5,587	16	35	39	10

[a]Other minerals on state land include bentonite, uranium, sodium, and sand and gravel.

[b]Other minerals on federal land include bentonite, carbon dioxide, sodium, sulfur, and trona.

[c]Includes rents, bonuses, minimum royalties, estimated royalties, and other revenues.

State Land and Farm Loan Office

Wyoming's State Land and Farm Loan Office's Mineral Leasing and Royalty Compliance Division issues leases on state lands for mineral development and collects, verifies, and processes royalty payments and payment information. The Division's activities are guided by the agency's mission of optimizing economic return from state lands in the interest of the state's schools and institutions. The Division's total costs for fiscal year 1996 were about $750,000.[14]

The Mineral Leasing Section's resource-planning activities do not include formal land-use planning activities similar to those required of federal agencies. Instead, they focus on compatibility of mineral operations with

[13]The federal fiscal year is from October 1 through September 30, and the fiscal year for each of the three states is from July 1 through June 30. However, because each covers a period of 12 months, we consider them equivalent in this report.

[14]For this and the other agencies discussed, this total includes direct and indirect costs for the agency. The costs given for the activities were provided to us as general estimates of direct costs and are not intended to total to the actual expenditures for the agencies.

other surface uses. State Land and Farm Loan Office officials estimate that direct costs for resource planning were about $29,000 in fiscal year 1996.

The Mineral Leasing Section issues leases for mineral development on state land. Although it has no formal procedure for environmental analysis, the Mineral Leasing Section may place restrictions on leases if necessary to protect the public, the environment, cultural or archaeological resources, or threatened and endangered species. Another agency, the Oil and Gas Conservation Commission, reviews and approves "applications for permit to drill" and other requests for permission to operate on state lands. However, the Mineral Leasing Section records these permits and monitors the status of operations on state land. The Section maintains information about lease assignments, transfers, and units and communitization agreements. The Section's estimated use authorization costs in fiscal year 1996 were just over $131,000.

State Land Office staff do not routinely perform compliance inspections, although the Office has budgeted to hire contractors for some site inspections. State Land Office staff may inspect a previously producing operation if it suddenly reports no production, and work with other state and federal officials to protect state lands from being drained. Costs for inspection-related activities in fiscal year 1996 were an estimated $44,000.

Mineral Leasing and Royalty Compliance Division staff maintain and verify data on leases, payers, and royalties. The staff receive and process royalty information, which includes volume and product value information for each well. They also receive, account for, and process royalty payments. Auditing is limited mainly to desk reviews of reported sales data, which include verification that information contained in royalty reports is supported by other source documents. These activities cost the State Land Office an estimated $415,000 in fiscal year 1996.

The State Land Office may also be involved in appeals to the Wyoming Board of Land Commissioners, coordination of settlements, and assessments of penalties, and it continually works to develop computer systems for royalty management. These along with administrative and other support activities make up the balance of the Division's costs for fiscal year 1996.

Wyoming Oil and Gas Conservation Commission

Wyoming's Oil and Gas Conservation Commission is the state's oil and gas regulatory agency. The Commission's activities include permitting

geophysical exploration; approving operators' requests to develop minerals on state, federal, and private leases; inspecting those leases for compliance with operating requirements; and collecting and maintaining production data for all wells in the state. The Commission also administers the Environmental Protection Agency's (EPA's) Underground Injection Control program. The Commission is funded through a mill levy tax on all oil and gas production in the state;[15] it also receives a grant from EPA. The Commission's reported costs for fiscal year 1996 were about $1.58 million.

The Commission's resource-planning activities include both limited land-use planning and permitting of geophysical exploration. Land-use planning focuses on the proximity of proposed oil and gas operations to sensitive areas, such as houses or water wells, and creeks, drainages, rivers, or wetlands. The Commission may require operators to line fluid pits, use a closed system to prevent contamination of these areas, or move the proposed operation. The Commission also works jointly with BLM to approve seismic exploration on state, federal, and private land. Commission officials estimate that these resource-planning activities cost about $175,000 in fiscal year 1996.

The Commission's use authorization activities include establishing minimum distances between oil and gas wells and reviewing and approving proposals to operate on state, federal, and private land. As part of its enforcement of Wyoming's oil and gas conservation laws, the Commission establishes well-spacing requirements that apply to all wells in the state.[16] The Commission also receives and reviews applications for permit to drill on all state and private lands in the state and reviews and approves units and communitization agreements. These use authorization activities cost an estimated $480,000 in fiscal year 1996.

The Commission's five inspection staff inspect oil and gas wells in response to environmental concerns or resource waste. The staff inspect such things as (1) blowout-preventer equipment, (2) general oil field conditions, (3) well-plugging operations, (4) dry holes on state and private lands to ensure that they are properly plugged, and (5) operations for compliance with surface requirements; they also respond to landowners' complaints. The Commission does not perform production accountability inspections in the same way that BLM does; inspectors do not usually strap tanks, gauge meters, or witness transfers of oil, unless they suspect that

[15]The mill levy tax is currently set at 7/10 of a mill per dollar of value.

[16]BLM accepts the state's spacing rules for federal leases.

theft has occurred. The Commission spent an estimated $436,000 on compliance inspections in fiscal year 1996.

The Commission receives data on production and wells for all wells in the state and maintains a database of the information that is available to Wyoming's Department of Revenue and the State Land and Farm Loan Office to assist in their audits of royalties and severance taxes. The Commission spent an estimated $218,000 on collecting, verifying, and maintaining information on production and wells in fiscal year 1996.

The Commission carries out EPA's Underground Injection Control program in Wyoming, and has primary responsibility for Class II (noncommercial) injection and enhanced recovery wells on all but Indian-owned lands. Wyoming has almost 6,500 injection wells, and the Commission inspects about 20 percent of the wells per year to make sure the casing is intact to prevent groundwater from being contaminated. The Commission also witnesses the plugging and abandonment of all wells and attends blowout-preventer tests. Its costs for the Underground Injection Control program were about $320,000 in fiscal year 1996.

Department of Audit

Wyoming's Department of Audit's Minerals Audit Division audits revenues from mineral development in the state, including royalties, severance tax, and conservation tax. The Division spends about 5 percent of its time and budget on revenues generated on state lands, and its direct costs for auditing leases on state lands in fiscal year 1996 were about $67,000.

New Mexico

New Mexico receives revenues from the production of oil, gas, coal, and other minerals in the state. In fiscal year 1996, the state received a total of $115 million in royalty, rent, and bonus revenues from production on state lands and $124 million in federal royalties, rents, bonuses, and other revenues. About 9.8 million acres of state-owned land in New Mexico contain 5,116 producing mineral leases, compared with 6,160 producing leases on more than 22 million acres of Forest Service- and BLM-managed land.

Table II.2: Statistics on Mineral Revenues and Producing Leases in New Mexico for Fiscal Year 1996

Dollars in millions

Revenues and producing leases	Oil and gas		Coal		Other	
	State	Federal	State	Federal	State[a]	Federal[b]
Revenues	$111	$95	$2	$11	$2	$18[c]
Producing leases	5,000	6,121	1	13	115	26

[a]Other minerals on state land include potash, geothermal resources, and sand and gravel.

[b]Other minerals on federal land include langbeinite, potash, and carbon dioxide.

[c]Includes rents, bonuses, minimum royalties, estimated royalties, and other revenues.

State Land Office

New Mexico's State Land Office is responsible for leasing state lands for mineral extraction and for collecting and distributing the royalties generated from the production of minerals. The Office's Oil, Gas, and Minerals Division identifies parcels to be leased, sets the lease terms, and holds lease sales. The Royalty Management Division collects and audits royalties paid for minerals from state lands. The State Land Office's estimated costs in fiscal year 1996 for managing the mineral program were just over $3 million.

The Oil, Gas, and Minerals Division performs resource-planning functions on state trust lands. The Division conducts very limited land-use planning, primarily considering the long-term plans for property that it wants to lease. New Mexico does not require land-use planning nor environmental planning, although the State Land Office determines if endangered species are present on state lands identified for leasing. The Division issues permits for seismic exploration. The State Land Office estimates that resource-planning activities cost $149,000 in fiscal year 1996.

Use authorization consists of holding monthly lease sales, reviewing and approving lease assignments and transfers, and reviewing development plans. The State Land Office monitors diligent development by verifying that drilling and production reports show that production is occurring on leases. The Office does not, however, perform physical inspections of sites for the purpose of verifying production quantities. The Office conducts environmental inspections if necessary—if, for example, a leak is reported. It estimates that use authorization and compliance activities cost $366,000 in fiscal year 1996.

The State Land Office's Oil, Gas, and Minerals Division maintains information on leases and agreements and information on payers. The Royalty Compliance Division processes royalty reports and payments, and collects and disburses revenues. The Royalty Compliance Division also compares information on royalties and production and identifies and resolves discrepancies. Oil and gas producers report and pay royalties to the Royalty Management Division monthly on the basis of the volume and price of oil or natural gas produced. The Division reviews the royalty data and evaluates whether the correct royalty was paid. The Division also audits royalty reports to verify that the reported value is correct. The State Land Office estimates that costs for these activities were about $847,000 in fiscal year 1996.

Other minerals management activities include the adjudication of appeals; coordination of settlements; litigation support; development of procedures and rules; and system development, implementation, and operation.

ONGARD System

New Mexico's Oil and Natural Gas Administration and Revenue Database (ONGARD) is a shared database that includes production, tax, transportation, and royalty information for all oil and gas wells in New Mexico. The database includes information on all state leases and the locations of all 45,000 active wells on federal, Indian, state, and private lands. State officials compare production and transportation reports from the system to verify production amounts reported to the state. According to state officials, this comparison is an important control to ensure that the state receives the correct royalty amounts. Development costs for ONGARD totaled $15 million to $20 million as of July 1996. State Land Office officials estimate that the costs for implementing and operating ONGARD in fiscal year 1996 were about $734,000.

Oil Conservation Division

New Mexico's Oil Conservation Division of the Department of Energy, Minerals, and Natural Resources is responsible for regulating oil, gas, carbon dioxide, and geothermal wells on state and private land and in some cases on federal and Indian land.[17] The Division establishes spacing for oil and gas wells in the state and reviews and approves operators' applications for permission to operate on state and private lands, inspects oil and gas operations, processes production information, and administers

[17]The Oil Conservation Division and the Bureau of Land Management often work together in the field, but New Mexico has not entered into a formal memorandum of agreement with the Bureau.

EPA's Underground Injection Control program. The Division's budget for fiscal year 1996 was about $4.2 million.[18]

The Division authorizes uses on state and private lands by reviewing and approving applications for permit to drill and other operator proposals. The Division approves drilling plans before operations can begin on state leases and may place conditions on its approval of drilling plans on all leases; for example, it requires operators to place nets over all fluid pits to keep birds from landing on the oil-soaked water. The Division also reviews and approves abandonment plans for all wells and other facilities. The Oil Conservation Division estimates its fiscal year 1996 costs for these use authorization activities at about $683,000.

The Oil Conservation Division requires drainage protection and inspects oil and gas operations to verify that operators are complying with their approved plans and with environmental requirements. The Division is not required by state law to conduct field inspections to verify mineral production quantities. The Division's fiscal year 1996 costs for drainage protection and operational and environmental inspections are estimated to be $819,000.

The Division collects monthly production disposition and well information for each well in the state and makes it available to the oil and gas industry and other state agencies through the ONGARD database; the State Land Office compares it with royalty reports, and the Taxation and Revenue Department compares it with severance tax reports. The Oil Conservation Division also receives volume reports from oil and gas transporters and compares the production amounts with the amounts reported as transported. The Division investigates and attempts to resolve discrepancies. We were not provided with a separate cost estimate for this function.

The Division administers EPA's Underground Injection Control program, in which it has primacy. The Division inspects wells into which water is being injected to ensure that water does not escape into other geologic formations, which could contaminate groundwater. A grant from EPA covers about 10 percent of the Division's costs to administer the program.

California

California receives revenues from the production of oil, gas, geothermal resources, and other minerals in the state. In fiscal year 1996, the state

[18]This includes $483,000 for gas marketing.

received about $3 million from onshore mineral production on state lands[19] and $28 million from onshore federal royalties, rents, bonuses, and other revenues. Onshore, California owns over 1.3 million acres of school lands and minerals; these lands contain 13 producing mineral leases,[20] compared with 358 producing leases on almost 38 million acres of Forest Service- and BLM-managed land.[21]

Table II.3: Statistics on Mineral Revenues and Producing Leases Onshore in California for Fiscal Year 1996

Dollars in millions

Revenues and producing leases	Oil and gas		Coal		Other	
	State	Federal	State	Federal	State[a]	Federal[b]
Revenues	$0[c]	$14	$0	$0	$3	$14[d]
Producing leases	1	334	0	0	12	24

[a]Other minerals on state land include geothermal resources (which generated about $3 million in revenues in fiscal year 1996), and hard-rock minerals, and sand and gravel (which generated about $70,000).

[b]Other minerals on federal land include geothermal resources, potash, sodium, and trona.

[c]California's onshore oil and gas generated about $20,000 in revenues in fiscal year 1996.

[d]Includes rents, bonuses, minimum royalties, estimated payments, and other revenues.

State Lands Commission

California's State Lands Commission is responsible for leasing revenue-generating lands and collecting revenues for the state and for protecting, preserving, and restoring the natural values of state lands, both onshore and offshore. The Commission evaluates resources on the land; leases state land for mineral development and permits and reviews plans for mineral development on that land; inspects to ensure compliance with laws, regulations, and lease terms; and collects and audits revenues that the mineral development generates. The Commission's onshore and offshore minerals management costs for fiscal year 1996 totaled about $6 million. The Commission attributes costs of about $390,000 to onshore minerals management.

[19]Total state revenues of $76 million include offshore and onshore production, including about $58 million from two net-profit-sharing operations administered by the City of Long Beach. California granted the city the mineral rights in trust but retained the right to receive 95 percent of the operations' profits.

[20]California has surface and mineral ownership of approximately 570,000 acres of school lands and retains the mineral rights to an additional 760,000 acres.

[21]We did not include federal offshore revenues nor producing leases because the management of the federal offshore program is separate from the onshore program, and none of the offshore management costs are included in net receipts-sharing deductions.

The State Lands Commission's resource-planning activities include economic evaluation, mineral and geologic work, and reservoir engineering. According to Commission officials, these activities implement planning and environmental requirements imposed by the California Environmental Quality Act and other state laws. The State Lands Commission estimates that its direct costs for onshore and offshore resource-planning activities were about $534,000 in fiscal year 1996.

The Commission leases state land for mineral development, both offshore and onshore. Although the Commission is currently issuing leases for navigable stream beds and river land, no offshore leases have been issued since 1968, when the California state legislature instituted a moratorium on offshore leasing because of an offshore oil spill that occurred near Santa Barbara. Despite the leasing moratorium, drilling continues on existing leases under environmental and management control by the Commission. The Commission's Mineral Resources Management Division reviews and approves drilling and other operation plans on state leases, onshore and offshore. The plans are required to provide for production-monitoring equipment and procedures for the documentation of royalty payments. For offshore development, the Division reviews oil-spill contingency plans. The estimated fiscal year 1996 costs for onshore and offshore use authorization activities were about $824,000.

The Commission monitors onshore and offshore operations to ensure diligent development and inspects for compliance with operational and environmental requirements. Because of the environmental sensitivity of operating offshore, the Commission inspects offshore operations at least annually. Inspections involve examining all meters, witnessing every shipment made, and sampling and verifying quality for pricing purposes. The costs for compliance inspections and oil-spill prevention activities both onshore and offshore were estimated to be $925,000 in fiscal year 1996.

The Commission maintains information on leases and royalty payers, and verifies royalty statements for value, volume, and quality. The Commission receives monthly reports from mineral operators showing production amounts and estimating royalties due. Commission staff compare this information with quality and pricing information and calculate the amount of royalty that should be paid. The Commission also receives and processes royalty payments, bills for late payments, and disburses royalties to the state general fund. Estimated costs for these activities onshore and offshore in fiscal year 1996 were about $313,000.

The Commission's minerals audits are conducted mainly for the Long Beach operations. The costs for these activities not related to the net-profit-sharing leases were estimated at $1,000 for fiscal year 1996. These and other activities, including appeals adjudication, litigation support, the development of rules, and system operations and development cost an estimated $271,000 in fiscal year 1996.

Division of Oil, Gas, and Geothermal Resources

The Department of Conservation's Division of Oil, Gas, and Geothermal Resources regulates oil, gas, and geothermal resources in California. The Division reviews and approves plans to develop minerals on state and private lands; inspects operations to protect public health and safety; collects and maintains production and well information; and has primary responsibility for administering EPA's Underground Injection Control program.[22] Officials estimate that 4 percent of the Division's time is devoted to state-owned land, 1 percent to federally managed land, and the remaining 95 percent to private and granted lands. The Division is funded through a uniform assessment on every barrel of oil and every 10,000 cubic feet of gas produced in California. The Division's onshore and offshore minerals management costs for fiscal year 1996 totaled about $10 million. The Division attributes about $9.5 million to onshore minerals management—regardless of land ownership.

Although the Division is not generally required to perform land-use planning, it reviews counties' decisions on oil, gas, and mineral exploration and development.[23] The Division is the state's main source for oil, gas, and geothermal reserve estimates and develops 5-year production forecasts and possible development scenarios. The Division also provides information on the condition of plugged and abandoned wells in areas where future land development will occur and reviews land-development plans for these areas to ensure that wells are properly plugged and abandoned. These resource-planning functions were estimated to cost $150,000 for both onshore and offshore activities in fiscal year 1996.

The Division reviews and approves drilling permits, enhanced recovery and rework proposals, and plugging and abandonment plans for all wells in the state. In approving drilling permits, Division staff review well placement so that wells do not drain resources from adjacent leases;

[22] California's Division of Oil, Gas, and Geothermal Resources has a memorandum of agreement with BLM and is drafting joint regulations with the State Lands Commission to eliminate duplicative permitting and inspection activities.

[23] Except for exploratory geothermal wells, according to Division officials.

operators are required to notify adjacent leaseholders of operations that may affect their leases. Use authorization activities onshore and offshore cost an estimated $2.3 million in fiscal year 1996.

Division staff perform field inspections for compliance with operating requirements and monitor leases to determine whether they are being developed diligently. Inspectors are present at blowout-preventer tests and examine the surface area of a lease to verify that the lease and facilities are in order, operations are fenced and signed, pits and sumps are screened to protect wildlife, and there are no leaks from tanks and pipelines. The Division does not normally perform on-site production verification inspections. Compliance inspections and related activities onshore and offshore were estimated to cost $4.5 million in fiscal year 1996.

The Division is the state's repository for well and operations information and receives production reports for all wells in the state monthly and annually. The Division compares annual production reports with monthly reports to check for inconsistencies in reported production. It provides estimates of reserve volumes to counties for their ad valorem tax estimates. The Division also conducts field audits by comparing companies' run tickets and other source documents with production reports provided to the agency. Production report processing, data resolution, and audit activities were estimated to cost $750,000 in fiscal year 1996. Other activities such as enforcement, appeals adjudication, and legal support, along with systems operations and development costs, are estimated at about $1.1 million in fiscal year 1996.

The Division also administers EPA's Underground Injection Control program. This includes the approval and inspection of all injection wells in the state, including those on federal land. The state receives an annual grant from EPA—about $453,000 in fiscal year 1996—which, according to Division officials, funds about 18 percent of the state's total cost of the program.

Objectives, Scope, and Methodology

In May 1996, we were asked to (1) identify how much Wyoming, New Mexico, and California paid to the federal government for managing minerals on federal lands within their boundaries, (2) identify the costs to the three states for their own minerals management programs, and (3) compare these federal and state program costs.

Two of the three states we were asked to include in this study—Wyoming and New Mexico—received the largest state revenue shares from federal mineral onshore leases in fiscal year 1996. The third state we were asked to include—California—provided geographic diversity because it is not in the Rocky Mountain area. California received the fifth largest share of revenues from federal onshore leases in fiscal year 1996.

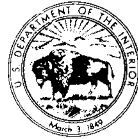
To determine the costs for the three states for federal minerals management, we obtained fiscal year 1996 net receipts-sharing data for the three federal agencies responsible for minerals management activities—the Department of Agriculture's Forest Service, and the Department of the Interior's MMS and BLM. We interviewed agency officials responsible for allocating the agencies' budgets for minerals activities to the states. We also interviewed Forest Service and BLM field staff to discuss the minerals management activities they perform. Specifically, we met with Forest Service officials in Regions 2, 3, and 5, and with BLM officials in the Wyoming, New Mexico, and California State Offices.

To determine the costs for the three states' minerals management programs, we requested and received cost estimates for fiscal year 1996 from the states' land and conservation offices. Specifically, in Wyoming, we obtained cost data from the Wyoming State Land and Farm Loan Office, the Wyoming Oil and Gas Conservation Commission, and the Wyoming Department of Audit's Mineral Audit Division. In New Mexico, we obtained data from the State Land Office and from the Oil Conservation Division of the Energy, Minerals, and Natural Resources Department. In California, we obtained data from the State Lands Commission and from the Division of Oil, Gas, and Geothermal Resources of the Department of Conservation. To obtain descriptions of functions associated with these costs, we interviewed officials at each of these offices.

Because of key differences in the federal and state programs, a comparison of the programs' costs would not be meaningful. To assess the differences between the federal and state programs, we reviewed legal and statistical information on each, including federal minerals legislation, state

conservation and land laws, and federal and state statistics on mineral activities in each of the three states.

Comments From the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

DEC 24 1996

Mr. Victor S. Rezendes
Director, Energy, Resources, and Science Issues
U.S. General Accounting Office
441 G Street, N.W., Room 2240
Washington, D.C. 20548

Dear Mr. Rezendes:

Secretary Bruce Babbitt of the Department of the Interior has asked me to respond to Barry Hill's letter of December 11 requesting the Department's comments on GAO's draft report "MINERALS MANAGEMENT -- Costs for Federal and State Minerals Leasing Programs in Three States" (GAO/RCED-97-31). This response includes comments from both the Minerals Management Service and the Bureau of Land Management.

In MMS' view, GAO has very effectively summarized the complex Federal and State royalty management activities into a highly readable product. The conclusions appear sound, and MMS' comments provided during the closing conference have been appropriately reflected in this version. The MMS appreciates the opportunity to formally comment on this draft report and can offer no further suggestions to improve its accuracy.

I'm sending BLM's comments as an enclosure with this letter.

If you have any questions, please contact Bettine Montgomery at (202) 208-3976 for MMS and Gwen Midgette at (202) 452-7739 for BLM.

Sincerely,

Piet deWitt

for Bob Armstrong
Assistant Secretary, Land and
Minerals Management

Enclosure

Comments From the Wyoming Office of the Governor

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

STATE OF WYOMING
OFFICE OF THE GOVERNOR

JIM GERINGER
GOVERNOR

STATE CAPITOL BUILDING
CHEYENNE, WY 82002

January 10, 1997

Mr. Barry T. Hill
Associate Director, Energy,
Resources, and Science Issues
General Accounting Office
Washington, D.C. 20548

Dear Mr. Hill:

Wyoming state officials have reviewed the General Accounting Office's (GAO) "Federal and State Onshore Minerals Management Costs and Functions" (GAO code 140002) draft report and offer the following comments.

The report concludes that "[B]ecause of fundamental differences between federal onshore minerals management and the States' programs, their costs cannot be meaningfully compared". We acknowledge that differences do exist between these programs, but I believe that these costs can be compared and can provide information which is useful to both the States and the federal government.

See comment 1.

Therefore, I would ask that the GAO expand this report to include a breakdown of the different categories of federal functions and their individual costs, both direct and indirect.

See comment 2.

For example, your report indicates that "the Forest Service added 20 percent to the leasable minerals costs for program support and common services, including those provided by the regional and headquarters offices". Yet, other than this broad statement, it does not even itemize the basis for the over half million dollars that are deducted from Wyoming's royalty share to cover these costs nor is there an individual accounting of these categories, either past or present. I also urge that the report compare them with what the States' costs for any similar function. Although the basis for these comparisons may not be identical, a narrative could be included analyzing both the similarities and differences.

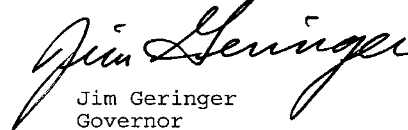
See comment 3.

INTERNET GOVERNOR@MISSC.STATE.WY.US • TELEPHONE (307) 777-7434 • FAX (307) 632-3909

Mr. Barry T. Hill
January 10, 1997
Page Two

I have also enclosed comments from my individual agencies which have reviewed your report. Should you need additional information, please feel free to contact me directly, or Paul Kruse in my Office of Federal Land Policy, telephone (307) 777-3697.

Best regards,



Jim Geringer
Governor

JG:PK:tpp

Attachments (3)

cc: Senator Craig Thomas
Senator Mike Enzi
Representative Barbara Cubin

The following are GAO's comments on the Wyoming Office of the Governor's comments enclosed in a letter dated January 10, 1997.

GAO's Comments

1. Wyoming's Office of the Governor acknowledged that the federal and state minerals leasing programs are different but disagreed with our position that the costs cannot be meaningfully compared. The Governor's Office commented that a comparison could be made that includes an analysis of the similarities and differences in the programs. However, our analysis shows that because of differences in the programs' land-use planning, environmental, and production verification requirements, as well as state-specific differences, a cost comparison would not be meaningful.

2. The Governor's Office requested that we expand our report to provide a breakdown of the federal program's direct and indirect costs by function. However, our report discusses the federal minerals management program from the perspective of net receipts sharing, which is based upon appropriations and not on the program's actual costs. Accordingly, we describe how the appropriations are allocated but do not provide actual cost breakdowns. To obtain such actual cost breakdowns would require a review of those costs, which is outside the scope of this report. Furthermore, we believe that regardless of the level of cost detail provided, a comparison between federal costs and state costs would not be meaningful because of the differences in the programs described in the report.

3. Wyoming's Office of the Governor commented that we do not itemize the basis for over $500,000 deducted from Wyoming's royalty share for the Forest Service. We adjusted the text of appendix I to clarify that the amount referred to in the Governor's Office's comments—$552,000—represents the Forest Service's allocation to Wyoming for its leasable minerals program, which is included in the net receipts-sharing computation and is not the final deduction. As shown in table 1 of the letter, approximately $140,000, which is about 25 percent of the allocation, will actually be deducted from Wyoming's federal minerals revenues for the Forest Service's fiscal year 1996 minerals management activities. As we described in appendix I, the basis for the Forest Service's allocations to the states is the amount charged to the minerals program for each forest; these amounts are totaled for each state to determine each state's minerals management costs. The Forest Service adds a percentage to these direct costs for indirect expenses which, in fiscal years 1995 and 1996, was 20 percent.

Comments From the New Mexico Oil Conservation Division

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

December 19, 1996

Mr. Barry T. Hill
Associate Director
Energy Resources and Science Issues
United States General Accounting Office
Washington, D.C. 20548

Re: ***New Mexico Oil Conservation Division Comments on a Draft Report Entitled, "Costs for Federal and State Minerals Leasing Programs in Three States"***

Dear Mr. Hill:

See comment 1.

Thank you for giving us the opportunity to comment on the captioned draft report. Although the report listed certain allocated costs from the Forest Service, BLM, and MMS to manage federal onshore leasable minerals, the report did not distinguish between minerals management and surface management and the costs associated with each. Since many of the federally mandated programs such as the National Environmental Policy Act of 1969 (NEPA) and the cost associated with those programs, would have to be performed even if minerals were not leased and/or production obtained, we feel that many of the costs allocated and subtracted from federal oil and gas royalties are not justifiable costs. The report did state more than once that because of the differences between federal and state programs cost allocation comparisons were not meaningful. The summary section listed responsibilities that were required under the federal programs and not under state programs. What the summary section failed to point out is that the state programs include many areas of oilfield responsibility which are not mandated under federal laws, such as: state wide spacing and proration rules, oil and gas field rules, hearing to exceptions to spacing and field rules, forced pooling hearings (hearings which allow operators to drill wells with less than 100% of the interest in the proration unit leased), discharge plans on oilfield facilities (permits which prevent fluid discharges into the environment), and the witnessing of cement jobs for surface casing and the plugging of all wells. New Mexico has an extensive waste management program involving inspection and permitting of commercial facilities which also handle oilfield waste from federal acreage.

See comment 2.

See comment 3.

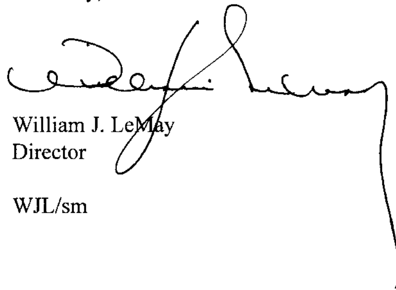
The captioned report leaves one with the impression that federally managed oil and gas programs are intrinsically more expensive than state programs because federal programs are more comprehensive, involving multiple use management. State programs on the other hand are far more comprehensive than the report shows them to be, including those items listed above. On the efficiency side of the equation, in New Mexico, the "revenue to management cost ratio" for federal oil and gas leases is 4 to 1 while this ratio for New Mexico state leases is 15 to 1. (Revenues from

Mr. Barry T. Hill
December 19, 1996
Page Two

federal producing oil and gas leases in New Mexico = $95. million divided by federally allocated costs of $23.6 million vs. revenues from state producing oil and gas leases = $111. million divided by state costs of $7.2 million). While it is recognized that only 1/4 of the federally allocated costs are subtracted from the state's 50% of the federal royalty stream, the total cost to administer the federal onshore oil and gas program in New Mexico is still $23.6 million.

We appreciate the opportunity to comment on the draft report and if you have any questions or need additional information, please feel free to contact me at the above address and telephone number.

Sincerely,



William J. LeMay
Director

WJL/sm

The following are GAO's comments on the New Mexico Oil Conservation Division's comments enclosed in a letter dated December 19, 1996.

GAO's Comments

1. New Mexico's Oil Conservation Division commented that we did not distinguish between minerals management and surface management and the costs associated with each and further commented that many of the costs allocated to the states are not justifiable. We did not distinguish between the costs for minerals management and surface management because our report does not address actual costs for the federal minerals management program; rather, it discusses how appropriations for federal onshore leasable minerals management are allocated among the states. We did not assess whether these costs were "justifiable" because such an assessment is outside the scope of this review.

2. The Division commented that the state programs include many responsibilities that are not mandated under federal laws, such as statewide spacing rules, oil and gas field rules (and exceptions to these rules), discharge plans, and the witnessing of oil-well casing and plugging operations. We revised our report to include additional information about all three states' minerals management activities.

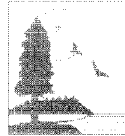
3. The Division stated that the report leaves one with the impression that federally managed oil and gas programs are intrinsically more expensive than state programs because federal programs are more comprehensive, involving multiple-use management. We did not analyze whether federal programs were "intrinsically more expensive" or less efficient than the states' programs and did not intend to leave this impression.

Comments From the California State Lands Commission

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

STATE OF CALIFORNIA — PETE WILSON, *Governor*

CALIFORNIA STATE LANDS COMMISSION
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202



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December 20, 1996

Mr. Barry T. Hill
Associate Director
Energy, Resources, and Science Issues
U.S. General Accounting Office
Washington D.C. 20548

RE: Draft Report—Costs for Federal and State Minerals Leasing Programs in Three States (GAO CODE 140002)

Dear Mr. Hill;

Thank you for the opportunity to review the draft report on onshore minerals leasing costs and activities prepared by the General Accounting Office. In general, we found the report to be a fair and accurate review of California's minerals management costs.

However, we would offer several suggested revisions (enclosed) to the draft report. These changes revise the estimates for California management costs. They also rectify the report's description of the implementation of the California Environmental Quality Act (CEQA), the environmental protection required by state law for minerals and oil development, and California's production auditing.

See comment 1.

With respect to the management costs, the report uses the entire $10 million annual budget for the Division of Oil, Gas and Geothermal Resources as part of the cost estimate for managing leases of state lands. However, as the draft report points out on page 35, only four percent of the division's activities are devoted to state-owned land. Thus the appropriate state lands management cost for the Division would be $400,000.

See comment 2.

Three legal requirements concerning the environment and land use planning affect the California State Lands Commission's review of state lands leases. First, the Commission is the CEQA-implementing agency for state lands leases and therefore must develop environmental information and mitigation requirements. Second, state law explicitly requires the Commission to protect significant environmental values on state lands. Third, the Public Trust Doctrine requires the Commission to balance public needs in approving uses of state lands. This means that the Commission will not approve development leases where there is a greater public need for

environmental, other commercial, or other use of state lands. Because of these three requirements, land use planning and environmental protection are as important as maximization of revenues in the commission's review of state lands leases.

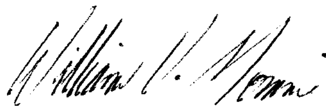
See comment 3.

Finally, the Commission has a program of inspections and other audit procedures to verify production amounts and royalty payments which is more extensive than that described in the draft report. In some areas these inspections are made on a weekly basis, in others the inspections occur monthly or annually.

We would be pleased to provide additional background on the statutes, regulations and procedures which are the basis of these suggested corrections.

We enjoyed working with Jennifer Duncan and Susan Iott on this report. Please let me know if we can be of further assistance on this or any other matter.

Sincerely yours,



William V. Morrison
Assistant Executive Officer

cc: Jennifer Duncan

Enclosures

The following are GAO's comments on the California State Lands Commission's comments enclosed in a letter dated December 20, 1996.

GAO's Comments

1. In written comments and in subsequent discussions, State Lands Commission officials commented that our reporting of the Division of Oil, Gas, and Geothermal Resources' costs overstated the cost of managing state lands. Commission officials suggested that we clarify that the regulatory agencies' costs are for managing all lands under its jurisdiction—not just state lands. We adjusted the text of our report to clarify that the regulatory agencies' scope of authority extends beyond state lands in all three states, stating specifically that about 95 percent of California's Division of Oil, Gas, and Geothermal Resources' time is devoted to regulating onshore mineral development on privately owned and other land.

2. In written comments and in subsequent discussions, Commission officials clarified California's legal requirements for environmental and land-use planning. They commented that the State Lands Commission is responsible for implementing the California Environmental Quality Act and is required to develop environmental information and mitigation requirements and to protect significant environmental values on state lands. We incorporated this information into the text of the report. In written comments, officials stated that the Commission is required to balance public needs in approving the uses of state lands, but in discussing the Commission's land-use-planning activities, officials agreed that the state land-use-planning processes differ from federal land-use planning.

3. Commission officials commented that the State Lands Commission has a program of inspections and other audit procedures to verify production amounts and royalty payments that is more extensive than our description in the draft. In their specific technical clarifications, they stated that operators are required to submit plans that provide for production-monitoring equipment and procedures for documenting royalty payments. We incorporated the Commission's specific recommended change into our discussion of California's minerals management program in appendix II. However, according to Division of Oil, Gas, and Geothermal Resources officials, Division inspectors do not perform production verification inspections because California does not have a severance tax. Because the Division of Oil, Gas, and Geothermal Resources performs the majority of the workload for California's onshore minerals management program, we did not adjust the text of the report to reflect the Commission's comment.

Major Contributors to This Report

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