CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 29, 2007

H.R. 2262
Hardrock Mining and Reclamation Act of 2007

As ordered reported by the House Committee on Natural Resources on October 23, 2007

SUMMARY

H.R. 2262 would reform programs related to mining hardrock minerals, such as gold, copper, and uranium, on federal land. CBO estimates that implementing the bill would increase discretionary spending by $16 million in 2008 and $267 million over the 2008-2012 period, assuming appropriation of the necessary amounts. We also estimate that enacting H.R. 2262 would reduce direct spending by $10 million in 2008, $206 million over the 2008-2012 period, and $382 million over the 2008-2017 period. Finally, we estimate that the bill would have no impact on revenues in 2008, but would increase them by $160 million over the 2009-2012 period, and $310 million over the 2009-2017 period.

H.R. 2262 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 2262 contains private-sector mandates, as defined in UMRA, that would affect certain holders or operators of mining claims on public land. The bill would impose a royalty on the production of hardrock minerals from those claims. The bill also would require persons paying royalties to comply with certain administrative procedures. CBO estimates that the cost of those mandates would fall below the annual threshold established in UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that H.R. 2262 will be enacted early in 2008. The estimated budgetary impact of H.R. 2262 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 2262

	By Fiscal Year, in Millions of Dollars						
	2008	2009	2010	2011	2012	2008-2012	2008-2017
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	25	151	94	88	83	441	n.a.
Estimated Outlays	16	46	52	69	84	267	n.a.
CHANGES IN DIRECT SPENDING							
Estimated Budget Authority	-10	-55	-51	-47	-43	-206	-382
Estimated Outlays	-10	-55	-51	-47	-43	-206	-382
CHANGES IN REVENUES							
Estimated Revenues	0	70	30	30	30	160	310

Note: n.a. = not available.

BASIS OF ESTIMATE

H.R. 2262 would reform programs related to mining hardrock minerals on federal land. The bill would establish a new regulatory framework for administering permits to develop hardrock minerals. Key features of that framework would require miners to seek additional permits to explore for and develop mineral resources and meet certain standards related to reclamation of mined lands. The bill also would reauthorize and increase certain mining-related fees and impose a royalty on gross income from hardrock mining on federal land. Under current law, hardrock miners pay no royalties to the federal government. Under the bill, income from hardrock mining fees and royalties would be available, subject to appropriation, to support reclamation programs and to provide assistance to certain state, local, and tribal governments. Finally, H.R. 2262 would modify procedures related to administrative and judicial review of mining activities, withdraw certain federal land from such activities, and establish procedures to allow local governments to petition for further withdrawals of federal land within their jurisdiction.

CBO estimates that implementing the bill would increase spending subject to appropriation, offsetting receipts (a credit against direct spending), and revenues. Effects of provisions estimated to have significant budgetary effects are described in the following sections.

Spending Subject to Appropriation

H.R. 2262 would authorize the appropriation of federal proceeds (including fees and royalties) from hardrock mining to restore public land where mining has occurred and to provide assistance to certain state, local, and tribal governments. (Estimates of such proceeds, which would affect direct spending and revenues, are described later in this estimate.) The bill also would make several changes to mining permits and the review of those permits that CBO expects would significantly increase federal costs to administer programs related to hardrock mining on federal land. In total, CBO estimates that implementing the legislation would increase discretionary spending by $16 million in 2008 and $267 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

Spending of Proceeds from Hardrock Mining. As discussed in more detail in the following sections, H.R. 2262 would increase federal proceeds from hardrock mining. The bill also would establish the Locatable Minerals Fund, into which such proceeds would be deposited along with certain other mining-related fees and charges. Subject to appropriation, the bill would authorize the Secretary of the Interior to spend two-thirds of amounts in the proposed fund, including interest, to restore public land where mining has occurred. The bill would authorize appropriations of the remaining one-third of such funds for financial assistance to state, local, and tribal governments with federal mining lands within their jurisdictions.

Based on information from the Department of the Interior (DOI) and industry experts, CBO estimates that deposits to the proposed fund, including intragovernmental transfers of interest credited to unspent balances in the fund, would total $25 million in 2008 and $441 million over the 2008-2012 period. Assuming appropriation of the necessary amounts, we estimate that resulting spending would total $3 million in 2008 and $252 million over the 2008-2012 period. That estimate is based on historical spending patterns for similar activities.

Administrative Costs. Based on information from DOI regarding the department's costs to administer hardrock mining activities under current law, CBO estimates that implementing H.R. 2262 would increase the department's costs by about $15 million annually starting in 2008, particularly for costs related to new permitting requirements established under the bill.

H.R. 2262 would authorize the Secretary of the Interior to charge fees to offset those increased administrative costs. CBO expects, however, that it would take about one year for DOI to begin to collect such fees; therefore, we estimate that increased costs incurred during 2008 would not be offset, and we estimate that the agency would require additional net appropriations of $15 million to administer hardrock mining programs in that year. Starting in 2009, however, we estimate that DOI would collect fees sufficient to fully offset additional administrative costs incurred under H.R. 2262, requiring no further net appropriations beyond 2008. As a result, we estimate that administering proposed changes to hardrock mining programs under H.R. 2262 would increase net discretionary spending by $13 million in 2008 and $15 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

Direct Spending and Revenues

CBO estimates that enacting H.R. 2262 would increase offsetting receipts from certain fees, thereby reducing direct spending. We also estimate that the bill would increase revenues by imposing a royalty on income generated from mining for hardrock minerals on federal land. Direct spending and revenue effects are presented in Table 2 and described in the following sections.

TABLE 2. ESTIMATED DIRECT SPENDING AND REVENUE EFFECTS UNDER H.R. 2262

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	-10	-55	-51	-47	-43	-40	-37	-35	-33	-31	-206	-382
Estimated Outlays	-10	-55	-51	-47	-43	-40	-37	-35	-33	-31	-206	-382
CHANGES IN REVENUES												
Estimated Revenues	0	70	30	30	30	30	30	30	30	30	160	310

Offsetting Receipts from Location and Maintenance Fees. Under current law, hardrock miners pay certain fees to the Bureau of Land Management (BLM): a one-time location fee of $30 when recording a hardrock claim and annual maintenance fees of $125 per claim. According to BLM, location and maintenance fees—which are scheduled to expire after 2008—totaled roughly $50 million in 2007. Those fees are currently recorded in the budget as offsets to federal spending.

H.R. 2262 would permanently reauthorize location and maintenance fees. The bill also would increase those fees, respectively, to $50 and $150 per claim. Based on information from BLM about anticipated trends in the number of hardrock claims located and maintained each year, CBO estimates that the proposed higher fees would generate additional offsetting receipts totaling $10 million in 2008, $206 million over the 2009-2012 period, and $382 million over the 2009-2017 period. (As discussed previously, under H.R. 2262, those amounts would be deposited in the Locatable Minerals Fund, and any spending would be subject to appropriation.)

Revenues from Royalties. Under current law, hardrock miners do not pay royalties to the federal government. H.R. 2262 would establish a royalty on future production of hardrock minerals. In general, the royalty rate on production from existing claims would be 4 percent of gross income; the rate for new claims established pursuant to H.R. 2262 would be 8 percent.

Budgetary Treatment of Royalties. CBO believes that imposing royalties on miners with existing claims is an exercise of the government's sovereign power to levy compulsory fees. Governmental receipts from such fees are recorded in the budget as revenues. Royalties generated from new claims, however, would be considered voluntary, resulting from business-like transactions, and would be recorded in the budget as offsetting receipts.

Royalties from Existing Claims. CBO expects that, under H.R. 2262, royalties from existing claims would generate new revenues. Although general data on the value of hardrock minerals produced throughout the United States are available, estimates of the portion attributable to federal land—and gross income to firms with federal mining claims—are uncertain, particularly because companies are not currently required to report data related to production from federal land. However, based on information from BLM, the U.S. Geological Survey, and industry experts, CBO estimates that total income subject to the proposed royalty would average roughly $1 billion a year, with most of that income earned by gold producers. We further estimate that increased revenues under H.R. 2262, net of reductions to income and payroll taxes, would total $160 million over the 2009-2012 period and $310 million over the 2009-2017 period. Under H.R. 2262, royalties due on minerals produced during the first 12 months following enactment of the bill could be deferred until after that 12-month period; therefore, we anticipate that no royalties would be paid in 2008.

Royalties from New Claims. According to BLM and industry experts, after locating a mining claim, it typically takes at least 10 years to explore, develop, and produce commercial quantities of minerals that would generate federal royalties. Therefore, CBO expects that any new claims established over the 2008-2017 period are unlikely to generate any significant federal royalties until after 2017.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2262 contains no intergovernmental mandates as defined in UMRA. The bill would authorize assistance for planning, construction, and maintenance of public facilities and public services to state, local, and tribal governments in areas that have been affected by mineral activities.

It also would allow those governments to file petitions that would lead to limiting or ending mining activities on specific tracts of federal land. Petitions would have to outline specific resources and values that the jurisdiction intends to protect by limiting mining activities, including watersheds and drinking water supplies, wildlife habitats, cultural or historic resources, scenic areas, and, in the case of Indian tribes, religious and cultural values. Such petitions would have to be approved by the Secretary unless, within 180 days, the Secretary publishes findings that identify why complying with the petition would be contrary to the national interest.

Finally, the bill would authorize cooperative agreements between the federal government and states for implementing and enforcing mining regulations, particularly in cases where mineral activities would affect lands where federal and state jurisdiction overlap.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2262 contains private-sector mandates, as defined in UMRA, that would affect certain holders or operators of mining claims on public land. The bill would impose a royalty on the production of hardrock minerals from mining claims that are on the date of enactment (1) subject to an operations permit and (2) producing hardrock minerals in commercial quantities. The royalty would be set at 4 percent of gross income from mining. Based on information from BLM, USGS, and industry experts, CBO estimates that the cost of that mandate would total about $200 million over the 2008-2012 period. In addition, the bill would require persons paying royalties to comply with certain administrative procedures. The cost of complying with the procedures would be minimal. Consequently, the aggregate cost to the private sector of the mandates in the bill would fall below the annual threshold established in UMRA ($131 million in 2007, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Costs: Megan Carroll and Tyler Kruzich
Impact on State, Local, and Tribal Governments: Leo Lex
Impact on the Private Sector: Amy Petz

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis