LOUISIANA COAST WETLANDS LOSSES
Are federal Outer Continental Shelf activities responsible?

APPENDIX A
ECONOMIC ANALYSIS

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prepared for

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SCOPE QUESTIONS FOR ECONOMIC ANALYSIS REPORT

3 To what extent does the $285 million in Title I funds to be paid to Louisiana each year under CARA ($4.3 billion projected over the 15 year life of CARA) relate to wetlands losses suffered by Louisiana from OCS oil and gas activities?

4 Confirm the claims made that Louisiana has received no share of the OCS activities that take place off their shores and that they have received no compensation for the damages that have occurred because of these activities.

BACKGROUND

Louisiana's coastal wetlands are disappearing at a dramatically high rate, ranging between 25 (Dunbar et al 1992) and 35 (Barras et al 1994) square miles per year largely due to levees and upstream dams and soil conservation practices which have reduced the sediment load that offsets natural subsidence. Other factors are construction of navigation channels, dredged canals, and raised canal banks which have modified the movement of freshwater, suspended sediment and saltwater through the system, making the coastal ecosystem more susceptible to saltwater intrusion.

Wetlands are of tremendous value to the nation and to the state of Louisiana:

> Natural wetland functions that produce benefits to coastal populations include: buffering storm impacts; storing and conveying floodwater; absorbing nutrients, sediment and contaminants; maintaining high biological productivity and biodiversity; and serving as a nursery ground for fish and habitat for wildlife, as well as the base for ecosystem food webs (Smith 1993). In terms of natural services, biologic productivity and infrastructural investments, the value of Louisiana's coastal wetlands exceeds $100 billion (Louisiana Coastal Wetlands Conservation and Restoration Task Force [LCWCRTF] 1993). Many coastal populations, especially those in Louisiana, rely on these functions for their very livelihood and continued existence. www.lacoast.gov/Programs/Cwppra/Reports/EvaluationReport1997/4.htm

To answer the questions posed by ALRA, we need to look at:

1. The estimated cost to restore Louisiana's wetlands,
2. OCS's share of responsibility for the erosion of these wetlands,
3. OCS's contributions to the state of Louisiana, if any,
4. OCS's share of wetland restoration costs, amount contributed to date, and shortfall, if any.

1) Cost to Restore Louisiana Coastal Wetlands

< First Restoration Plan (1993) ($1 - 3 billion)

The Coastal Wetlands Planning, Protection and Restoration Act (Public Law 101-646, Title III-CWPPRA), also known as the Breaux Act, was authorized by Congress and signed into law by President George Bush in 1990 to address wetlands loss nationally with a primary focus on coastal Louisiana's serious wetland loss challenges.

As of January 1997, in its first Louisiana Restoration Plan Evaluation, the CWPPRA stated:

> **The projects presented in the Restoration Plan involve an estimated total investment of only $1 billion to $3 billion over the next 20 years to sustain this valuable system.** www.lacoast.gov/Programs/Cwppra/Reports/EvaluationReport1997/4.htm

Originally, the federal government would pay 75% and the state 25% of the cost. Currently those percentages have been revised so that the state pays 15% of the cost:

> WaterMarks newsletter interview: Governor Mike Foster (Summer 1997 issue)
> Q: The Breaux Bill requires Louisiana to match a portion of the federal dollars. In the past the state has had trouble coming up with its share, which meant a reduction of federal funding. Will this continue to be a problem?
>
> Gov. Foster - Devoting state dollars to the coastal restoration and protection program is a priority. However, we look to reducing our federal match now that the completed Coastal Wetlands Conservation Plan is headed for approval by the Environmental Protection Agency, decreasing Louisiana's match for future projects from 25 percent to 15 percent. That's a significant reduction and is an important part of our long-term funding strategy.
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> At the same time, it certainly doesn't free us from future funding challenges. I'm fully committed to following through on the plans and projects that have been developed, and that's going to take money. But with our future at stake, what we can least afford is to do too little too late.

> "Although all of the United State coastline falls under this [Breaux] act, the state of Louisiana, facing disastrous wetlands loss, receives 70 percent of its total funding." ("Saving Wetlands" by Lawrence Wells, Spirit Magazine, July 2000)

< Caernarvon and Davis Pond Freshwater Diversions ($132 million)

In addition to the Breaux Act are the Caernarvon and Davis Pond Freshwater Diversion projects authorized by the Flood Control Act of 1965 and modified by the Water Resources Development Acts of 1974, 1986 and 1996.

The Davis Pond Freshwater Diversion will imitate historic spring floods, providing a controlled flow of fresh water and nutrients from the Mississippi River into a target area in the Barataria Bay estuary. The total estimated cost of the project is $106 million, with the federal government paying 75% ($79.5 million) and the state paying 25% ($26.5 million). The project is expected to provide average annual benefits of $15 million for fish and wildlife, plus $300,000 for recreation. http://www.mvn.usace.army.mil/pao/dpond/davispond.htm

The Caernarvon Freshwater Diversion diverts fresh water and its accompanying nutrients and sediments from the Mississippi River to coastal bays and marshes in Breton Sound for fish and wildlife enhancement. The project will enhance marsh conditions, thereby improving the fish and wildlife resources of the area. The total average annual benefits include $8,706,000 for fish and wildlife and $449,000 for recreation, totaling $9,155,000 at a cost of $26.1 million. The federal share was 75% ($19.6 million) of the costs and the State of Louisiana's share was 25% ($6.5 million).
http://www.lacoast.gov/Programs/Caernarvon/Index.htm

< Second Restoration Plan: Coast 2050 (1998) ($14 billion)

Since 1991, Breaux Act funding to Louisiana has amounted to about $40 million a year. However, there is still a large disparity between the trends of loss and the present restoration program. Federal and state officials overseeing the effort now estimate that an additional $14 billion in funding will be needed to fully implement what it terms the "Coast 2050 strategy" to restore a collapsing coastal ecosystem.

- Breaux Act projects from Priority Lists 1-7 are projected to stop 14% of the loss over 20 years.
- Caernarvon and Davis Pond Freshwater Diversions are projected to stop 9% of the basin wide loss over 20 years. http://www.lacoast.gov/Overview/2050FAQ.htm

> "If recent loss rates continue into the future, even taking into account current restoration efforts, then by 2050 coastal Louisiana will lose more than 630,000 additional acres of coast marshes, swamps, and islands. . . . Along with the loss of acreage goes the loss of the various functions and values associated with the wetlands: commercial harvests of fisheries, furbearers and alligators; recreational fishing and hunting, and ecotourism; habitats for threatened and endangered species; water quality improvement; navigation corridors and port facilities; flood control, including buffering hurricane storm surges; and the intangible value of land settled centuries ago and passed down through generation. The public use value of this loss

> is estimated to be in excess of $37 billion by 2050, but the losses associated with cultures and heritage are immeasurable." http://coast2050.nwrc.gov/report.pdf

< Roll-up of all Restoration Programs ($15 billion)

Combining the cost of the Breaux Act (20 years x $40 million per year = $.8 billion), the Caernarvon and Davis Pond Freshwater Diversions ($.106 + $.026 = $.132 billion), and the additional amount needed for the Coast 2050 Strategy, the total cost to eliminate Louisiana coastal wetlands erosion would be about $15 billion. The funding source for the additional $14 billion for the Coast 2050 Strategy has not been identified, but Louisiana DNR Secretary Jack Caldwell says:

> "We will be preparing ready-to-go projects so that we can take advantage of potential funding sources such as the Water Resources Development Act and possibly CARA monies (offshore oil and gas royalty revenues) if current federal legislation passes this year." http://www.lacoast.gov/WhatsNew/NewsFlash/02182000.htm

The cost of Coast 2050 prorated over 50 years would be $280 million a year. Coincidentally or not, Louisiana's share of HR701 (CARA) Title I - Impact Assistance and Coastal Conservation monies turns out to be $285 million per year. Because CARA has a sunset clause ending it September 30, 2015, dependence on funding from CARA may, as some fear, necessitate some form of continued entitlement once this program is in place.

Others are also looking to the federal government to sponsor the Coast 2050 program and are eyeing oil and gas revenues as a funding source:

WaterMarks (Spring 1999) Interview with Woody Crews, Member of the Jefferson Parish Marine Fisheries Advisory Board

> "There is a very real decision that has to be made about whether south Louisiana is going to survive. If it is, the cost is going to be considerable. **I know that the first cost estimates were roughly $14 billion projected over the next 20 – 35 years. Can we spend it? In a flash. The problem is that the return on investment may not come for a very long time, and that of course will generate controversy.**

> "We've been doing projects with a chunk of money from Program A and a chunk from Program B and a chunk from Program C. We need a Coast 2050 program that funds the entirety. Louisiana must provide some of the funding, but we're not a rich state. **Much of the damage has come from the oil and gas industry and from the navigational waterways, and a lot of people all around the nation have benefitted from these. So I believe it's a national responsibility to help restore the damage."**

KREIG COMMENT: Most of this Oil & Gas industry damage Crews is referring to was caused by on-shore activity on private and state lands, not federal OCS activities.

2) OCS's share of responsibility for the erosion of Louisiana's wetlands

"OCS-caused direct wetlands loses in the Louisiana coastal plain are likely to comprise only 10 to 15 percent of all wetlands losses to date." (See Kreig main report)

3) Benefits to Louisiana of OCS production

The Outer Continental Shelf (OCS) is the federal portion of the continental shelf, extending outward from three nautical miles offshore to the 200-mile territorial limit. Offshore lands within three nautical miles belongs to the state (except for western Florida and Texas where state lands extend to the 9 nautical-mile line). Responding to increasing interest in developing OCS oil and natural gas resources, Congress enacted the 1953 Outer Continental Shelf Lands Act (OCSLA).

In the 1978 amendment to OCSLA, 8(g) lands were defined as submerged acreage extending seaward 3-nautical miles offshore from the state-federal demarcation line (for Louisiana, this would be the zone lying between 3 and 6 nautical miles offshore). Section 8(g) provided for "the fair and equable sharing" of revenues derived from any of the zone's hydrocarbon resources with the states bordering the state-federal demarcation line, beginning with 1979. Monies were held in escrow until the term "fair and equitable" was set at 27% for the life of production in 8(g) zones nationwide. Monies held in escrow were distributed in 1986-1987.

From 1986 through Fiscal Year (FY) 1999, MMS has distributed $867 million in OCSLA section 8(g) amendment funds to Louisiana from Federal Offshore lands. The amount for FY 1999 was $15.3 million. These revenues may be spent by the state on state-determined priorities without Federal interference or controls.

Other monies distributed to the State of Louisiana from OCS funds since 1968 are approximately:

- $60 million for Land and Water Conservation Fund State Grants
- $95.8 million for Land and Water Conservation Fund Federal acquisitions
- $11.3 million for Historic Preservation Fund Grants

Other positive/beneficial economic impacts identified by the Minerals Management Service (MMS) of OCS production on the state of Louisiana:

- MMS has about 600 employees and contract personnel living in Louisiana.

- An estimated 35,500 jobs directly depend on the offshore program--most of these are in Louisiana. As of 1992, the average annual salary for these jobs was $52,580.
- These wages generate about $149 million per year in state and local tax revenues.
- Producers also pay substantial sums of money to vendors in the Gulf of Mexico coastal area. This creates indirect employment for an estimated 68,200 workers, many of whom are located in Louisiana. These workers further support state and local tax revenues.

Thus, although OCS activities impose costs in Louisiana for roads, schools, and other support for the activities, workers, and families, the activities also provide substantial offsetting benefits. http://www.mms.bov/ooc/newweb/congressionalaffairs/louis.htm

> A study conducted by the Louisiana Mid-Continent Oil and Gas Association shows that offshore oil and gas operations in the Gulf of Mexico have an annual $3 billion positive impact on Louisiana's economy. More than $500 million of this impact is in the form of salaries and wages paid to offshore workers. The remainder, more than $2.4 billion, results from the business the offshore industry does with onshore vendors located in Louisiana, which provides the goods and services needed by the offshore industry.
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> Specific items determined by the Mid-Continent study include:
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> - More than 13,380 producing company jobs exist as a direct result of oil and gas activities in the outer continental shelf (OCS) of the Gulf of Mexico.
> - 10,800 of those employees are Louisiana residents.
> - The estimated payroll is $583 million or an average of $52,580 per employee.
> - More than $4.16 billion was paid by producing companies to vendors and contractors in support of OCS activities, with more than $2.4 billion of that amount or 58 percent spent in Louisiana.
> - More than 6,617 unique vendors and contractors were identified by the study.
> - More than half of the vendors, 3,819 are based in Louisiana and are found in 166 different communities.
> - Statewide, the vendors account for 4.3 percent of all Louisiana business establishments.
> - Louisiana vendors employ an estimated 55,376 persons.
> - Approximately 45 percent of the Louisiana vendors derive more than half of their income from OCS activities in the Gulf of Mexico. http://www.lmoga.com/gulf.htm

In summary, in addition to an annual $3 billion positive impact on Louisiana's economy and $167 million in LWCF and historic preservation funds, OCS revenues have already provided the state of Louisiana with $867 million in 8(g) revenue sharing which was established in part to offset adverse OCS impacts on the state.

4) OCS's share of wetland restoration costs

Assuming that OCS impact funds paid for only that portion of prevention and reparation cost for which it is responsible, what would that figure be?

Assuming that OCS activities contribute 10-15% of all erosion of Louisiana's wetlands, and assuming that the $15 billion determined by Coast 2050 ($14 billion in addition to Breaux and the Caernarvon and Davis Pond Freshwater Diversions) is the appropriate figure to restore Louisiana's wetlands, the following table shows the range of costs which OCS revenues should bear. Subtracting out what MMS has already paid Louisiana to offset OCS impacts of $.9 billion in 8(g) revenue sharing, plus estimated future 8(g) revenues of $.6 billion over the next 50 years, would yield either the excess impacts paid by the MMS or the amount which OCS would still be responsible:

% responsible	x	$15 billion	=	OCS Obligation	-	Past & Future 8(g)	=	(Excess)/Due
10%	x	$15 billion	=	$1.5 billion	-	$1.5 billion	=	$0.0 billion
15%	x	$15 billion	=	$2.3 billion	-	$1.5 billion	=	$0.8 billion

At 10% responsibility, the current OCS revenue sharing takes care of the obligation. At 15% responsibility, OCS revenues would only be liable for an additional $0.8 billion or 5% of the total cost of Coast 2050. That would be $16 million annually over the course of 50 years.

But in reality, to the taxpayer, a dollar is a dollar irrespective of what pot it is in. Since OCS revenues go into the General Fund and Breaux monies and federal funding for the Caernarvon and Davis Pond Freshwater Diversions come out of the General Fund, it could be argued that Louisiana has also received OCS revenues of $.3 billion under the Breaux Act and $.1 billion for the diversions and can expect to receive an additional $.4 billion under Breaux, completely compensating Louisiana for its share of the cost of wetlands restoration, even at the 15% OCS obligation level.

In contrast, under HR701 Title 1, Louisiana would receive $285 million per year of OCS revenues, or $4.3 billion over 15 years.

Conclusion:

Under S25, Senators Landrieu and Murkowski seek to extend the existing 27% revenue sharing in the first 3 miles of Federal waters as "OCS Impact Assistance" monies. The House version, HR 701 has set aside a flat amount of $1 billion per year for coastal impacts. Under either version, only half of these monies would be divided between the six states actually affected by OCS production (Alabama, California, Florida, Louisiana, Mississippi, and Texas). The other half would be distributed to 30 states, (in the Senate version, also as "OCS Impact Assistance"), based on population and miles of coastline, including the coast of the Great Lakes. None of the dollar amounts distributed are based upon need.

As described by Robert Nelson in The Washington Times, “The pattern of funding defies any rational understanding. New York State would get $40 million per year while Maine with a long and ecologically sensitive coastline would get $15 million.
http://www.cei.org/UpdateReader.asp?ID=1019

If Louisiana’s wetlands are at great peril and their destruction is judged to be of harm to our nation, then the case for a federal role in helping Louisiana can be made. But to give away $1 billion a year in “OCS Impact” moneys to states that are not suffering such losses is questionable. It would be better to not tie this money to the OCS revenues and just make a special targeted appropriation for Louisiana alone. If Louisiana’s wetlands are a national priority, there should be no need to give away $0.720 billion annually in Title I monies to other states to remedy a serious problem occurring in one state. CARA lacks any sense of equity.

3 To what extent does the $285 million in Title I funds to be paid to Louisiana each year under CARA ($4.3 billion projected over the 15 year life of CARA) relate to wetlands losses suffered by Louisiana from OCS oil and gas activities?

ANSWER: The OCS’s remaining potential obligation of the cost to restore the wetlands after taking into account past and future 8(g) revenue payments to the state is none to, at most, $16 million per year. $285 million a year would then be overpaying for such damage by a factor of 18 times or more.

4 Confirm the claims made that Louisiana has received no share of the OCS activities that take place off their shores and that they have received no compensation for the damages that have occurred because of these activities.

ANSWER: These claims are false. In addition to enjoying an annual $3 billion positive impact on the economy from offshore oil and gas operations in the Gulf of Mexico, Louisiana has directly received $900 million in OCS 8(g) revenues since 1986, $15 million in 1999.