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STATEMENT OF
F. KEVIN BOLAND, ASSOCIATE DIRECTOR
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BEFORE THE
SUBCOMMITTEE ON REGIONAL AND
COMMUNITY DEVELOPMENT
SENATE COMMITTEE ON ENVIRONMENT AND
PUBLIC WORKS
ON
FEDERAL ENERGY IMPACT ASSISTANCE

Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to provide input to your deliberations on S. 971, the Inland Energy Impact Assistance Act of 1979. Our testimony stems primarily from a report we issued in July 1977 on "Rocky Mountain Energy Resource Development: Status, Potential, and Socioeconomic Issues" (EMD-77-23). A summary of that report is attached to this statement.

I should emphasize that our report deals with socio-economic impacts resulting from energy development in the Rocky Mountain area, while the legislation you are considering today would provide for Federal assistance to mitigate energy impacts both in the Rocky Mountain and other affected areas of our Nation. Of course, the Rocky Mountain area is significant since it contains about 95 percent of the Nation's uranium, 90 percent of its oil shale, and 41 percent of its coal.

Rapid and extensive development of energy resources can have profound socioeconomic and environmental effects on an area. As energy resources are developed, new towns will be built and rapid population increases will occur in existing communities. The need for housing, public facilities, and services often arises before adequate local funding is available.

The towns of Rock Springs and Green River, Wyoming, and Craig and Hayden, Colorado, are vivid reminders of the dislocations and stresses created by rapid energy growth.

Numerous studies estimate widely varying per capita costs of facilities and services for individual communities experiencing rapid growth. One such figure in our report was derived by using (1) a high estimate of $4,892 in per capita costs and (2) a population increase of 600,000 in the six States where most of the Rocky Mountain energy development is likely to take place. That resulted in an estimate of $2.9 billion in 1975 dollars which might be required by 1985 for public facilities and services in the six-State area. This estimate did not consider growth associated with conversion, transportation, and utility industries which could increase the estimate; nor did it reflect later events which indicate a slower rate of development than the studies anticipated.

We also sought to determine the amount of State, Federal, and industry assistance available or being provided to local communities. Several States passed legislation intended to provide help to energy affected communities. In 1975, for example, Wyoming passed a comprehensive legislative package, establising two funds to be used to mitigate socioeconomic impacts. At that time the funds were expected to reach \$220 million by 1985. However, I understand one of the funds, totaling \$100 million, was recently declared unconstitutional by the State Supreme Court.

Montana established a coal severance tax which our study estimated could generate between \$241 million and \$1.1 billion by 1985. About 25 percent of the tax revenues would be allocated to a local impact fund and to the coal producing area. However, Montana has been enjoined from using monies collected under the coal severance tax because of a suit filed by Montana Power and Light Company.

North Dakota enacted a Coal Impact Program in 1975 which (1) established a temporary severance tax through 1979, (2) created a coal development fund, and (3) provided for a Coal

Impact Development Office to distribute funds. Thirty-five percent of the severance tax can be allocated to the Coal Impact Office. By April 1978, 120 projects had been funded, with impact grants approved totaling $2.8 million in fiscal year 1976 and $1.9 million in fiscal year 1977.

The Federal Government has provided and will continue to provide funds which could be used to offset the impacts of energy development. Many Federal programs provide grants, loans, Federal mineral lease royalties, or annual payments.

For example, our study showed that in fiscal year 1975, 70 energy-affected communities in six Rocky Mountain States received $39.2 million in direct Federal aid under various Federal programs, particularly those of the Farmers Home Administration and the Environmental Protection Agency.

Other indirect funding includes royalties and bonuses under the Mineral Leasing Act of 1920. These funds totaled over $90 million for fiscal year 1975 and approximately $111.6 million in fiscal year 1976 for the Rocky Mountain States. The Federal Coal Leasing Amendments Act of 1975 (P.L. 94-377), which amended the Mineral Leasing Act, both increased coal royalties by 150 percent and increased the percentage of such royalties returned to States on new mineral leases from 37.5 percent to 50 percent. The act calls for States to give priority in using the additional

12.5 percent to areas economically impacted by minerals leased under its provisions. This resulted in payment to the Rocky Mountain States of about $146 million in fiscal year 1977 and about $169 million in fiscal year 1978.

Additionally, in October 1976 the Congress enacted the Federal Land and Management Policy Act of 1976 (P.L. 94-579) which authorized loans to States and political subdivisions up to the anticipated mineral royalties for any prospective 10-year period to relieve the social or economic impact caused by development of mineral leases. Obviously, given the continuing increase in such royalties, the potential for such loans is substantial.

In addition to royalties for minerals development, the Local Government Funds Act (P.L. 94-565) provides for annual payments directly to local governments based on the amount of Federal land within their jurisdiction. Such payments to Rocky Mountain governments were $62.9 million in fiscal year 1977 and $59.0 million in fiscal year 1978.

While these programs already exist, unfortunately they are administered by agencies with little coordination and many are not designed to help small communities cope with rapid growth.

As for private industry, it has provided assistance in a few cases. For example, in Colstrip, Montana, and Gillette, Wyoming, energy developers planned and constructed homes.

Subsequent to our July 1977 report, the Congress enacted several additional measures to assist energy affected communities in the Rocky Mountain and other areas.

The Department of Energy Act of 1978 (P.L. 95-238) authorizes payments to atomic energy communities and establishes a revolving fund to be used in part to assist other communities impacted by alternative fuel demonstration facilities. Atomic energy communities payments totaled $10 million in fiscal year 1978. No funding was earmarked under this legislation for other communities in fiscal year 1979.

The Powerplant and Industrial Fuel Use Act of 1978 (P.L. 95-620) provides financial assistance to communities affected by increased coal and uranium production. The act authorizes grants of $60 million in fiscal year 1979 and $120 million in fiscal year 1980. In fiscal year 1979, $30 million is appropriated to the Department of Agriculture to provide this assistance.

Section 746 of the act requires an interagency committee, whose chairman shall be designated by the President, to issue an updated analysis by November 1979 of the socioeconomic impacts of expanded coal production and rapid energy development in general. This report is expected to provide current information on the level of assistance provided under this act and other impact assistance programs together with any recommendations for additional legislation it may consider appropriate. We understand, however, that no such committee has been set up to date.

As shown by the above discussion, considerable Federal assistance under various authorities is available to State and local governments. Further, some western States have acted on their own to alleviate some of the problems of energy development.

We concluded in our July 1977 report that the need for additional Federal assistance in the Rocky Mountain area had not been demonstrated at that point in time. Further, we concluded that increasing Federal programs to assist State governments may not help energy affected communities unless States take greater care to distribute funds to them. We also saw a need for better coordination among, and operation of, existing Federal assistance programs, and made appropriate recommendations to that effect.

Although we concluded in July 1977 that the need for additional Federal assistance had not been demonstrated, we did recommend that, if the Congress wished to further help Rocky Mountain communities, any additional assistance be contingent on the States doing three things:

--taking actions to meet a minimum level of assistance to communities affected by energy development;

--developing plans to systematically deal with the impacts; and

--clearly demonstrating in their plans that the assistance would actually be used to help energy affected communities.

In March 1978, the Department of Energy issued a report to the President on "Energy Impact Assistance." The report was prepared by the Energy Impact Assistance Steering Group, composed of State and local government and Indian tribal representatives and Federal officials from numerous departments and agencies. It noted that much of the new energy development between now and 1985 will occur in rural or isolated areas such as the West and Appalachia. It stated that, without some additional efforts to assist energy impacted communities in mitigating or avoiding negative impacts, adverse socioeconomic consequences could occur. Also, the report discussed four sets of policy options, ranging from minimal new efforts to undertaking major program reform and expenditure of substantial new Federal funds.

Subsequently, in May 1978, the President announced a 5-year program to help inland States, communities, and Indian tribes in planning for and mitigating the adverse effects of rapid growth due to energy resource development.

Legislation was introduced but not acted upon in the last Congress encompassing the President's program which would provide $150 million annually in grants to States and Indian tribes and up to $1.5 billion in loan guarantees.

If the Congress does conclude that further energy impact assistance is now needed, we believe that S. 971 as now drafted has some features consistent with the recommendations of our report and does address several other important areas. For example, it provides for:

--participation by interested parties at the Federal, State, local, and Indian tribe level in decisions on energy impact assistance;

--the development of detailed plans for alleviating impacts on an area-by-area basis. The detailed plans must contain specific proposals for implemention;

--a systematic approach for approving individual plans;

--early availability of funds for initial planning;

--Federal/State cost sharing for energy impact assistance with the States' share of the cost increasing from 12.5 percent in 1980 to 50 percent in 1984; and

--a focal point for the coordination of all Federal programs which provide energy impact assistance.

However, a recurring issue which the Congress faces in addressing Federal energy impact assistance legislation is that of demonstrated need.

We believe that the approach taken under Section 746 of the Powerplant and Industrial Fuel Use Act, requiring further interagency study of the socioeconomic impacts of expanding energy development, is appropriate. To help determine whether additional legislation is required, the Congress needs current information on the kinds of needs not currently being met by existing Federal and State assistance programs, the magnitude of the problem, and exactly where and to whom Federal monies should be targeted.

Moreover, we believe that any legislation enacted by the Congress should encourage States and individual communities to provide minimum levels of assistance. To this end, we believe that funds should generally be made available as loans or loan guarantees, and that grants be directed primarily toward financing the front-end planning needed to deal with energy impacts. This would (1) reduce Federal outlays and (2) avoid subsidizing, at the expense of all taxpayers those communities which will reap the long-term benefits of energy development.

After we have had the opportunity to examine this bill in more detail, we will provide further comments for the record.

Mr. Chairman, this concludes my prepared statement. We will be happy to respond to your questions.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

# ROCKY MOUNTAIN ENERGY RESOURCE DEVELOPMENT: STATUS, POTENTIAL, AND SOCIOECONOMIC ISSUES

## DIGEST

What should be the roles of the States, the Federal Government, and industry in providing assistance to Rocky Mountain communities affected by development of the region's vast sources of largely untapped energy?

Ninety-five percent of the Nation's uranium, 90 percent of its oil shale, and 41 percent of its coal lie in the relatively sparsely populated Rocky Mountain States--Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, the Dakotas, Utah, and Wyoming.

Rapid and extensive development of these resources may have profound socioeconomic and environmental effects on the area.

Rocky Mountain coal and uranium have the greatest potential for expanded development. Also, large deposits of gas may be locked in tight, low permeability formations in deep Rocky Mountain basins. Expanded large-scale development of the area's coal, uranium, and gas resources, however, depends on environmental, social, economic, and technological factors. Although oil will continue to be developed in the area, large new finds are not expected. Geothermal resources, oil shale, and tar sands also have some potential for development. (See pp. 9 to 25.)

As these resources are developed new towns would be built and some existing communities would double, triple, and quadruple their populations in a few years. This, in turn, would cause changes in social patterns and strain or deplete economic resources of some small communities.

The need for housing and basic public facilities and services, such as sewers, roads, utility lines, police, fire departments, parks, playgrounds, health care, and schools,

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often arises before adequate local funding is available. Most of these problems could be solved if communities knew the timing of development so that facilities and services could be planned and designed, and had funds available to begin providing them before the additional people arrive. (See p. 31.)

In 1975 the Federation of Rocky Mountain States estimated the population of the Rocky Mountain States to grow by 600,000 by 1985 due solely to the mining of coal, oil shale, and uranium. This estimate does not include growth associated with conversion, transportation, and utility industries nor does it reflect recent events such as the

--suspensions of oil shale leases,

--withdrawal of the sponsors for a major powerplant,

--refusal of the 94th Congress to pass various legislation authorizing large Federal subsidies for synthetic fuel and nuclear development, and

--continuing uncertainties over the economics and social desirability of synthetic fuel and nuclear power development.

These events indicate a slower pace of development than the recent studies anticipated. (See p. 39.)

Using this estimated population increase and the low and high estimates of per person costs of $3,121 and $4,892, GAO found that between $1.9 billion and $2.9 billion in 1975 dollars in public facilities and services might be required by 1985. (See p. 53.)

Several States have passed legislation intended to provide significant help to communities affected by the problems of Rocky Mountain energy growth. In 1975, for example, Wyoming passed a comprehensive legislative package, establishing two funds which eventually could total $220 million, to be used to mitigate socioeconomic impacts. (See pp. 40 and 41.)

Montana has established a coal severance tax which could generate as much as $1.1 billion between 1975 and 1985 from two large coal producing counties and will allocate about 25 percent of the taxes to a local impact fund and the coal generating area. (See pp. 42 and 43.)

In a few cases industry has provided financial and other assistance. (See pp. 50 and 51.)

Many fragmented Federal programs have provided and will continue to provide funds to energy-affected communities. In fiscal year 1975, the Federal Government contributed $39.2 million in grants and loans to directly aid 70 energy-affected communities in Colorado, the Dakotas, Montana, Utah, and Wyoming--the 6 States in which most Rocky Mountain energy development is likely.

These States also received $183.7 million in Federal mineral lease royalties and other indirect aid. At least $20 million of the $183.7 million and an indeterminable amount of the balance went to affected counties. (See pp. 44 to 47.)

These Federal programs are not specifically designed to help small communities cope with rapid population growth and are administered by a number of agencies with little coordination. Federal agencies are attempting through the Mountain Plains Federal Regional Council to coordinate Federal efforts to aid energy-affected communities. The Council, one of a number of Federal Regional Councils established by Executive order to assist State and local governments by coordinating Federal programs and operations, is composed of the principal regional officials of eight Federal agencies. It is responsible to the Under Secretaries Group for Regional Operations composed of Under Secretaries or similar officials from member agencies of the Council and other agencies and chaired by the Deputy Director, Office of Management and Budget. However, there is still no Federal office in the Rocky Mountain area where State and local officials can obtain advice on the availability of all Federal assistance programs and assistance in applying for such aid. (See pp. 49 and 50.)

In August 1976 the Federal Coal Leasing Amendments Act of 1975 (Public Law 94-377) increased the royalties returned to States from new mineral leases on Federal lands from 37.5 percent to 50 percent. The 12.5 percent increase consisted of royalties that had previously been paid into a Federal reclamation fund, the moneys from which could be used in all Western States for irrigation projects. In addition, the act increased the royalties on surface-mined coal from 5 cents per ton to not less than 12.5 percent of the selling price. In fiscal year 1976 mineral royalties paid directly to the Rocky Mountain States were about $107 million. As a result of this act and overall increases in mineral revenues, the Department of the Interior estimates royalties paid directly to the Rocky Mountain States will increase to about $179 million in fiscal year 1979. Since a considerable amount of this increase involves moneys that would have gone into a reclamation fund for projects in the Western States, the major effect of the act was to increase moneys from royalties which will be directly available to the States. These moneys could be used to mitigate the impacts of energy resource development.

The Federal Land Policy and Management Act of 1976 (Public Law 579), enacted in October 1976, enables the royalties to be used as the legislatures of the States direct, such as for planning, construction, and maintenance of public facilities, and provision of public services. The act also provided for loans to States and political subdivisions for the same purposes. Loans can be made up to the anticipated mineral royalties to be received by the recipients for any prospective 10-year period, which in the case of the Rocky Mountain States will likely be between $1.5 billion and $2 billion for the next 10 years. (See p. 48.)

Public Law 94-565, also enacted in October 1976, provided for annual payments to be made directly to local governments based on the amount of Federal lands within their jurisdiction. Interior estimated these annual payments to Rocky Mountain local governments at $69 million, or about $621 million from 1977 through 1985. (See p. 49.)

CONCLUSIONS

State and local governments should be primarily responsible for providing the necessary facilities and services, but the Federal Government and private industry should provide some assistance.

The States have various means available for raising and distributing money to needy communities without directly taxing their populations. These include levying severance taxes on extracted resources; creating a bonding authority to issue special revenue bonds; using discretionary Federal funds under existing programs and taking advantage of the increased moneys available in royalty payments and loans under the Federal Land Policy and Management Act of 1976, and in annual payments under Public Law 94-565. (See pp. 57 and 58.)

Rocky Mountain State and local governments should be primarily responsible for providing facilities and services prior to or concurrent with population increases for the following reasons.

--They receive economic benefit from energy development.

--Wyoming and Montana have shown that States can provide a far greater amount of assistance than at present without unduly burdening their taxpayers. In addition, considerable Federal funds in royalties, annual payments, loans, and grants are already available to the States for this purpose.

--Based on the traditional separation of powers and responsibilities, it is mainly a State responsibility to fund public facilities and services. The States have traditionally assumed this responsibility. This is not to say, however, that the Federal Government should not continue to provide some assistance and look for ways to make its existing programs more useful to the State and local governments.

--They can encourage or require greater industry participation through such actions as legislation permitting prepayment of corporate, sales, and use taxes, and by requiring industry performance bonds which would be forfeited if development would not occur due solely or principally to an industry decision. (See p. 54.)

It is not industry's responsibility to provide the facilities and services needed because of energy resource development. But industry does have a strong and continuing responsibility to communicate its plans to State and local governments, as soon as possible, and to establish and maintain a continuing liaison with these governments. Industry is also responsible for meeting other reasonable requirements imposed by States and local authorities. These could include posting performance bonds and industry guarantees of local debt incurred to build facilities needed because of energy resource development. (See p. 58.)

The Federal Government should continue to provide some assistance. Recently, as shown above, it has greatly increased its assistance and will likely provide in excess of $2 billion in royalties, annual payments, grants, and loans to Rocky Mountain States and communities between now and 1985. In addition, the Federal Land Policy and Management Act of 1976 provides for loans to States and communities up to their anticipated mineral royalties for any prospective 10-year period. The need for additional Federal assistance at this time has not been demonstrated. (See pp. 58 and 59.)

Increasing funding of present Federal programs to assist State governments may not help energy-affected communities unless States use discretion in distributing the funds to them. No effective mechanism exists to guarantee that the funds given to States will go to communities where impacts occur. There is no evidence that the Federal Government should interfere in the relations between State and local governments. However, GAO believes there should be some assurances that impacted communities will receive funds available to mitigate the socioeconomic impacts of energy resource development.

## RECOMMENDATIONS

The Under Secretaries Group for Regional Operations should:

--Take whatever action may be necessary to open and staff an office where State and local officials can obtain advice on the availability of Federal assistance programs and, if necessary, assistance in applying for such aid. This could be accomplished under the auspices of the Mountain Plains Regional Council provided that funds are appropriated for such an office or prior congressional approval is given for the use of funds appropriated to agencies that are members of the Council.

--Monitor and periodically evaluate the work of the office and the need for additional Federal assistance to Rocky Mountain State and local communities affected by energy development.

--Direct that any such office established by the Under Secretaries Group prepare an annual report to the President, in close coordination with the Federal Energy Administration, evaluating the need for additional Federal assistance. In the event that appropriations or congressional approval are not granted for such an office, the Under Secretaries Group should request the Federal Energy Administration, in cooperation with other responsible agencies, to prepare this type of report. (See pp. 59 and 60.)

## RECOMMENDATIONS TO THE CONGRESS

This report is intended to provide the Congress with information on the status, potential, and socioeconomic impacts of Rocky Mountain energy resource development. The report should aid in making national energy decisions and decisions on the need for additional Federal assistance for Rocky Mountain communities that will be affected by such development.

We believe that the need for additional Federal assistance at this time has not been demonstrated. If, however, the Congress does wish to further help Rocky Mountain communities, we recommend that any such assistance be contingent on the States taking actions to meet a minimum level of assistance to communities affected by energy development and on the States developing plans to systematically deal with the impacts. The States should be required to clearly demonstrate in these plans that the assistance would actually be used to help energy-affected communities. (See p. 60.)

## AGENCY COMMENTS

The views of the Office of Management and Budget, the Department of the Interior, the Federal Energy Administration, the Western Governors' Regional Energy Policy Office, and the Council on Environmental Quality vary greatly on the nature of the problems discussed in this report and what needs to be done.

In essence:

--The Office of Management and Budget and the Department of the Interior generally agreed with our conclusions, and the Western Governors' Regional Energy Policy Office disagreed with them.

--The Federal Energy Administration said that mitigating socioeconomic impacts of energy resource development would require cooperation and coordination among all Federal agencies, not a massive increase in Federal assistance.

--The Council on Environmental Quality believed that the report did not support our conclusion that the need for additional Federal assistance has not been demonstrated at this time.

We continue to believe that State and local governments should be primarily responsible for providing necessary facilities and services and that the need for additional Federal assistance at this time has not been demonstrated. (See pp. 65 to 72.)