

POLITICS

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Post-Katrina promise of oil money leaves states shortchanged

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(Reuters) - In 2006, a year after hurricanes Katrina and Rita devastated New Orleans and the Gulf Coast, the U.S. government struck a deal to give states in the region a growing share of offshore drilling revenues to finance projects protecting them from future monster storms.

FILE PHOTO: An aerial view is seen of the town of Port Fourchon and its surrounding marshes in Louisiana, May 11, 2010. REUTERS/Rick Wilking/File Photo

But revenues have fallen short of forecasts by half, leaving Louisiana with a gap in financing for a \$50 billion plan for projects to raise levees, build flood gates, widen evacuation routes and protect its eroding coastline.

The shortfall, which federal officials blame on low oil prices, has forced the state to put off critical projects as Louisiana's congressional delegation pushes for another increase in its share of federal oil revenues.

The predicament shows how states hosting offshore drilling can get burned by the industry's boom-and-bust cycles, providing a cautionary tale for other states as the Trump administration proposes to expand offshore drilling in the Atlantic, Pacific and Arctic oceans.

Louisiana's underfinanced coastal projects also highlight the hefty cost of adapting to rising sea levels in a changing climate – a problem scientists blame on consumption of fossil fuels. Several coastal states including Florida, Massachusetts, California, and Washington have urged the administration to leave them out of its drilling plans, arguing the environmental costs outweigh the promised jobs and income.

The stakes are particularly high for Louisiana, which has lost about 2,000 square miles of land over the last century because of Mississippi River levees that block silt from reaching its swamps, the oil industry's carving of canals through the marshes, and sea level rise from climate change.

But other states and nations should take notice of Louisiana's ordeal, said U.S. Representative Garret Graves, a Republican who managed the state's coastal restoration efforts before joining Congress in 2014.

“What in Louisiana is a \$50 or \$70 billion problem, you are talking hundreds of billions and trillions of dollars around the United States and

around the world,” he said.

FAULTY PROJECTIONS

President George W. Bush signed the Gulf of Mexico Energy Security Act (GOMESA) into law in December of 2006, providing storm-battered Louisiana, Texas, Mississippi and Alabama a 37.5 percent share of federal oil-and-gas royalties from offshore drilling.

Previously, Gulf Coast states got 27 percent of revenues from federal leases within three miles of their seaward boundaries.

The changes followed national outrage over the administration’s botched emergency response to catastrophic flooding from the systematic failure of the federally constructed levee system in New Orleans.

Six months earlier, the chief of the U.S. Army Corps of Engineers admitted the agency had “missed something” in engineering the system, which collapsed at water levels lower than they were designed to withstand.

For the first ten years, the changes applied to only a fraction of offshore leases. But after that, in larger payouts starting last year, it applied to all offshore leases off the coasts of these states.

In 2013, the Department of Interior told Alabama, Mississippi, Louisiana and Texas that, under the second phase, they would have at least \$375 million to split between them annually through 2055.

But when the states’ first payment came in late last year, the payout totaled \$188 million.

“That has a huge impact on our planning efforts,” said Chip Kline, chair of the state’s Coastal Protection and Restoration Authority, which oversees its 50-year, \$50 billion coastal restoration plan.

Another GOMESA recipient, Alabama, has also felt the pinch. Its Republican governor, Kay Ivey, wrote a letter to then-Interior Secretary Ryan Zinke in March 2018 urging him to support states seeking more offshore revenues.

“Expanded and enhanced revenue sharing will allow states to more properly address the coastal impacts of offshore production,” she wrote.

FILE PHOTO: A drilling platform is seen near Breton Island, Louisiana May 3, 2010. REUTERS...

An official for the Texas General Land Office said the lower payouts had not impacted its programs because it had budgeted conservatively. Officials in Mississippi did not respond to requests for comment.

Department of Interior officials said the shortfall was due to a sharp drop in oil prices since 2013. It would not provide the underlying oil price or production estimates it used in its 2013 projections, saying they were supplied by the White House Office of Management and Budget (OMB) and were confidential.

OMB did not respond to a Reuters request for the data.

In an emailed statement, the Interior Department's Bureau of Ocean Energy Management said the bureau no longer provides long-term projections for state revenue from the program.

OUTSIZED IMPACT

The shortfall had an outsized impact on Louisiana, which receives almost half the GOMESA program's revenues because of its geographic proximity to the largest number of offshore wells. It received \$82 million in its first phase-two payout, compared to the \$177 million it had been counting on.

Among the shortfall's biggest impacts, Kline said, would be a delay in completing the state's massive "Morganza to the Gulf" hurricane protection project, a system of levees and floodgates to protect 150,000 coastal residents of Terrebonne and Lafourche parishes from a so-called 100-year storm, defined as having a 1 percent chance of hitting in any given year.

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Lafourche parish is a major seafood and oil industry hub that includes Port Fourchon, the land base for offshore oil and gas services companies. Terrebonne and Lafourche parishes could each lose about 40 percent of their land area in the next 50 years in the absence of effective coastal protection measures, according to state research.

The Morganza project has been in the works for more than a decade and is expected to cost about \$2 billion. Local communities have already agreed to tax increases twice to help fund the unfinished project.

“We’ve been piecemealing this,” said Reggie Dupre, executive director of the Terrebonne Levee and Conservation District.

The funding gap also forced state officials to cancel a plan to funnel 10 percent of offshore oil revenue to help finance road improvements along hurricane evacuation routes.

St. Bernard Parish, which was devastated by flooding after Hurricane Katrina, has its own \$1 billion coastal plan, with \$600 million in projects ready to move forward.

It received \$781,000 from the 2018 payments, according to John Lane, coastal manager for the parish.

“There just isn’t enough money coming in,” Lane said.

LEGISLATIVE PUSH

While Louisiana officials piece together funding for their projects from other sources, its legislators in Congress are fighting for changes to GOMESA, including increasing the percentage diverted to states from 37.5 percent to 50 percent.

One such bill, sponsored by Congressman Graves, passed a vote in the House Committee on Natural Resources late last year, before the new Congress was seated.

But the idea faces resistance from those who believe the revenues should be used on national instead of state priorities. Both President Donald Trump and President Barack Obama's administrations had proposed budgets eliminating or reducing GOMESA payments to finance federal programs instead, before being pushed back by Congress.

Graves says increasing the revenue share would be a smart move for an administration promoting more offshore drilling.

"Are you really going to treat (host states) poorly and not reward them, or not keep them happy and healthy so they can continue being productive?" Graves said.

Reporting by Nichola Groom; Editing by Richard Valdmanis and Brian Thevenot

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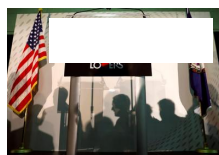
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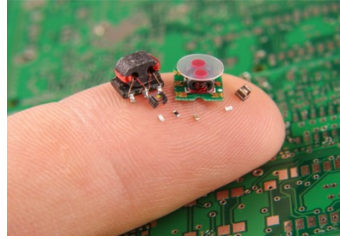
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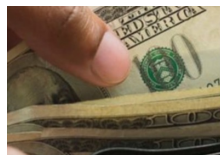


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