Introduction

The Gulf of Mexico Energy Security Act (GOMESA), enacted in 2006, presents a significant opportunity for the State of Mississippi to plan, develop, and implement a comprehensive, long-term, and sustainable ecological, physical, and economic restoration, and resiliency program benefitting the Mississippi Gulf Coast and the Gulf of Mexico. In addition to expanding oil and gas leasing activities in the Gulf, a substantial portion of royalties, lease payments, and bonus bids (once largely dedicated to the Federal Treasury) will be shared with the states of Mississippi, Louisiana, Alabama, and Texas. While Phase I of GOMESA (Fiscal Years 2006-2016) provided relatively marginal revenues to the State and its eligible coastal counties, it is anticipated that Phase II of GOMESA (beginning in Fiscal Year 2017) will generate substantially larger revenues on an annual basis for decades to come. Due to this influx of substantial GOMESA financial resources, it is wise that the State begin to develop and implement a plan and structure for their utilization – to ensure optimization of benefits, regulatory compliance, and sound financial management and oversight. This document focuses on Phase II of GOMESA revenue sharing.

This document – the Mississippi GOMESA Phase II Program Framework ("The Framework") – represents a preliminary blueprint for comprehensive development and implementation of ecological, physical, and economic restoration and enhancement activities, projects, programs, and endowments through the creation of the Mississippi GOMESA Phase II Program ("The Program") and may ultimately lead to the development of a Mississippi Gulf Coast Plan. This Framework **does not focus on individual projects**, rather it is a blueprint that includes conceptual ideals along with Program objectives, the identification of potential participants and stakeholders, and a planning horizon for the overall long-term program.

Background/History

In 2006, Congress passed the Gulf of Mexico Energy Security Act (GOMESA) which, after years of offshore drilling moratoria, opened new exploration options for energy development. GOMESA established **permanent** Federal revenue sharing from oil and natural gas leasing and production on the Gulf of Mexico Federal Outer Continental Shelf with the states of Alabama, Mississippi, Louisiana, and Texas. The GOMESA statute provided for two phases of revenue sharing: Phase I and Phase II. Phase I began immediately upon passage of the law in fiscal year 2007 and ended at the end of fiscal year 2016. While GOMESA Phase I only allowed for new exploration in a relatively small portion of the Gulf of Mexico, called Area 181, the area is energy-rich and is estimated to contain 3.4 trillion cubic feet of natural gas and 530 million barrels of oil (BOEM, April 2016). Phase II began in fiscal year 2017 and extends the area included in revenue sharing to the Western Planning Area and the Central Planning Area, as well as Area 181, seen in Figure 2. For the first 40 years of GOMESA Phase II revenue sharing, the maximum amount available for sharing between states is $375 Million per year, after which (Fiscal Year 2056) there will be no maximum sharing amount.

The revenues are primarily dependent upon the prices of crude oil and natural gas. Revenue sharing allocation for each state is formula based on the inverse distance between each lease site and the State's coastline. All revenue-sharing eligible tracts are weighted equally. In order to perform revenue sharing, the minimum distance between each State's coastline to the geographic center of the applicable leased tract is calculated. The sum of the State's inverse minimum distance from all applicable leased tracts is divided by the sum of the inverse minimum distances from all applicable leased tracts across all four Gulf Producing States. That result is then multiplied by the amount of qualified Outer Continental Shelf revenues to be shared.

Under Phase II, 50% of qualified outer continental shelf revenues, consisting of bonus bid, rental, and royalty revenues, will be shared with the gulf producing states (37.5% of the total) and the Land and Water Conservation Fund (LWCF) (12.5%). The revenue to be shared is on applicable leases sold since the passage of GOMESA on December 7, 2006. Each gulf producing state will receive a minimum of 10% of the revenues. Additionally, 20% of each states' revenue is to be distributed to the State's associated coastal political subdivisions – for the State of Mississippi these subdivisions are the three coastal counties. The division of the revenue occurs on the federal level. Figure 4 shows a graphical representation of expected Phase II GOMESA revenue sharing percentages, calculated by the Bureau of Ocean Energy Management (BOEM) (April 2016 – Appendix II).

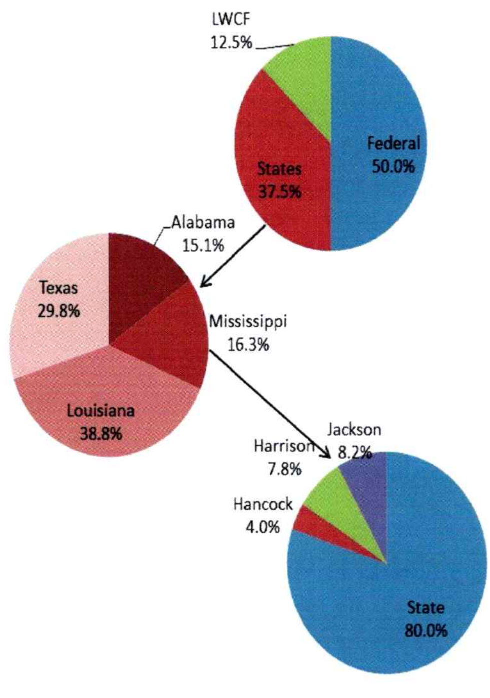

Figure 4: Expected GOMESA Phase II Revenue Sharing Breakdown

Executive Summary

Background

The signing into law of the unprecedented Gulf of Mexico Energy Security Act (GOMESA, P.L. 109-432) in December 2006 created an opportunity for the State of Mississippi in terms of its potential magnitude and significance. This landmark legislation enables Mississippi and its neighbor offshore energy-producing states – Alabama, Louisiana, and Texas – to share in royalties from revenues generated through federal oil and gas leases on the Outer Continental Shelf (OCS), royalties that prior to GOMESA's enactment were deposited in their entirety into the Federal Treasury.

The intent of GOMESA's revenue-sharing provision is to provide resources to the coastal states to offset the potentially harmful effects of energy production within - and adjacent to - the Gulf of Mexico, such as coastal erosion, habitat degradation, and natural resources depletion. To achieve this intent, GOMESA provides that revenues be expended for the following primary purposes:

1. Projects and activities for the purposes of coastal protection, including conservation, coastal restoration, hurricane protection, and infrastructure directly affected by coastal wetland losses;
2. Mitigation of damage to fish, wildlife, or natural resources;
3. Implementation of a Federally approved marine, coastal, or comprehensive conservation management plan;
4. Mitigation of the impact of OCS activities through the funding of onshore infrastructure projects; and
5. Planning assistance and administrative needs not to exceed 3 percent of the amounts received.

Under GOMESA, qualified OCS revenues are allocated as shown in Figure 1.

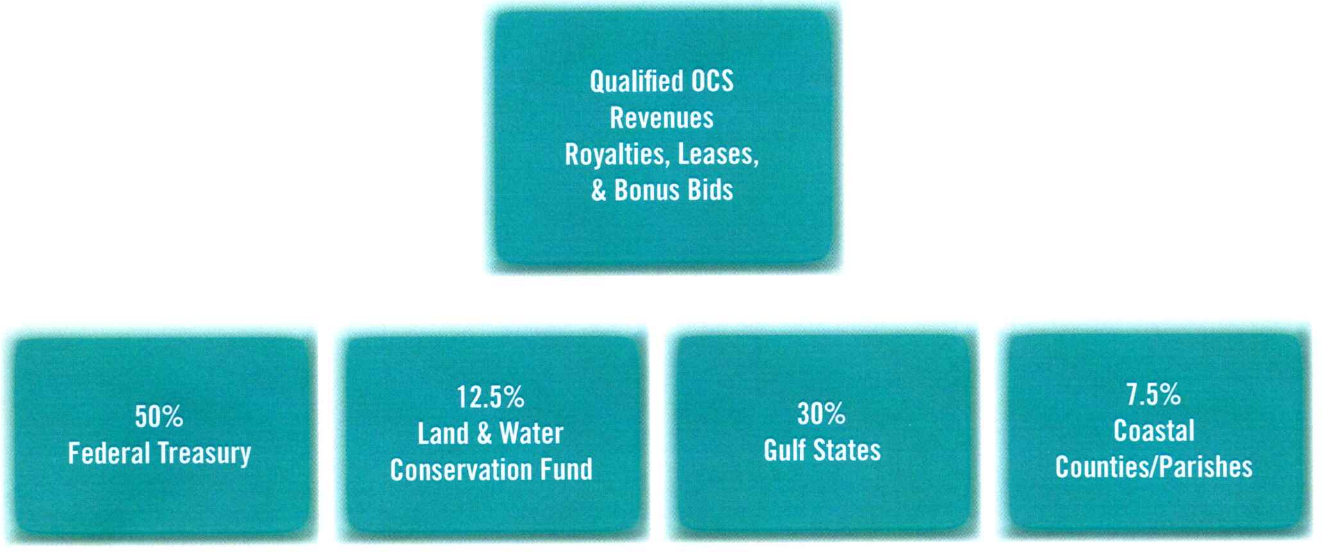

Figure 1: Distribution of OCS revenues under GOMESA.