TAXPAYERS for COMMON SENSE

FACT SHEET

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# America's Federal Coal Program: Taxpayers are Losing to an Outdated System

For decades, the federal coal program has been hobbled by systemic flaws. Noncompetitive lease sales, outdated royalty rates, weak valuation practices, and inadequate bonding requirements have left taxpayers without a fair return on publicly owned coal and exposed to costly cleanup liabilities.


*Spring Creek Mine, Big Horn County, MT*

## The Leasing Process

The Bureau of Land Management (BLM), within the Department of the Interior (DOI), manages approximately 570 million acres of federal land containing the federal coal mineral estate. BLM auctions leases to private companies, which extract and sell the coal for profit. At the end of FY2023, 279 leases were in effect, covering 421,903 acres of federal land.[1]

In return for leasing federal lands for coal development, taxpayers receive revenue from competitive lease bids, a $3-per-acre rental fee on nonproducing leases, royalties based on the value of coal produced, and other minor fees. From FY2015 to FY2024, the program generated $5.8 billion for federal and state taxpayers,[2] with revenues split between the federal treasury and the state where the coal is mined.[3]

Throughout the leasing process, from limited competition and opaque valuations to reduced royalty rates and weak bonding requirements, taxpayers are consistently shortchanged and exposed to costly liabilities.

## Lease By Application Circumvents Competition

Under the Federal Coal Leasing Amendments Act of 1976, DOI is required to hold competitive lease sales for tracts of federal land classified for coal leasing. In practice, the department has sidestepped that mandate by relying on the Lease By Application (LBA) system.[4]

The LBA process starts when a company submits an application to BLM identifying a tract it wants to lease. The BLM reviews the application to determine whether the tract aligns with existing land use plans and is suitable for development.

If those criteria are met, BLM prepares either an Environmental Assessment or Environmental Impact Statement and solicits public comment. After completing the environmental review, the agency publishes a notice in the Federal Register announcing its intent to hold a lease sale. Before the sale, BLM estimates the tract's fair market value (FMV) and the amount of coal it contains. Companies then submit sealed bids, and in many cases the only bidder is the one that that nominated the parcel.

A federal coal lease has an initial term of 20 years and can be renewed in 10-year increments. A lease may be discontinued after 10 years if it has not produced commercial quantities of coal. The Mineral Leasing Act also allows the Secretary to expand an existing lease by up to 960 acres to avoid leaving small, isolated seams of "bypass" coal. These expansions follow their own application process and are not subject to competitive sales.

## Fair Market Value Calculations Are Opaque

In the LBA process, BLM's FMV estimate serves as the minimum acceptable bid. A sealed bid must be at least $100 per acre and meet or exceed that confidential FMV estimate to be accepted. Once a tract is sold, the winning bid becomes the FMV.

Developing accurate valuations is difficult and often contentious. BLM does not disclose the data or methodology used to determine FMV, and sealed bidding further obscures the process—conditions that can reduce revenue for taxpayers. Because final FMV figures are used as comparables for future tracts, low estimates can lock taxpayers into a cycle of chronically undervalued leases.

## Low and Reduced Royalty Rates Cost Taxpayers

BLM, through the Office of Natural Resources Revenue (ONRR), collects annual rental fees of at least $3 per acre on nonproducing leases and royalties based on the value of coal extracted from federal lands. Royalties are assessed either on a cents-per-ton basis or, more commonly, as an ad valorem percentage of the coal's value.

In 1979, BLM set the royalty rate at the statutory minimum of 12.5% for surface mining and 8% for underground mining. These rates remained unchanged until 2025, when Congress cut the maximum royalty rate to a maximum of 7% for both new and existing leases through September 30, 2034.

BLM also has broad discretion to reduce royalty rates and has exercised that authority often.[5] Between 1992 and 2013, the agency approved 30 separate royalty rate reductions, cutting total royalty payments by an estimated $294 million, according to Headwaters Economics.[6]

For decades, taxpayers have been shortchanged by coal royalty rates set well below market value—especially compared to rates for other federal energy resources, such as onshore and offshore oil and gas. The recent reduction in the surface-mined coal royalty rate will deepen those losses. In Wyoming, which produces most federal coal,[7] the state's official budget forecaster expects the change to cut Wyoming's share of federal mineral royalty revenue by about $50 million annually, with federal taxpayers losing roughly the same amount.[8]

## Captive Sales Risk Fraudulent Valuations

Royalty revenue depends on the value of coal when it's extracted and sold —its gross proceeds—minus allowable deductions such as washing and transportation. That valuation depends on how the coal is sold.

In captive sales, lessees must establish value by considering "[p]rice, time of execution, duration, market or markets served, terms, quality of coal, quantity, and such other factors as may be appropriate to reflect the value of the coal."[9] If ONRR determines that a lessee undervalued the coal, the company must pay the difference, plus interest.

*Spring Creek Mine, Big Horn County, MT*

Concerns have grown in recent years that coal companies are manipulating federal coal valuation through captive sales to reduce the royalties they owe. The prevalence of these transactions has amplified those worries. In Wyoming, the Energy Information Administration reported that 39% of coal produced in 2023 was sold through captive transactions.[10]

In 2016, ONRR issued a rule changing how coal sold in captive transactions would be valued for royalty purposes, requiring companies to use prices set between unrelated parties—the standard approach for establishing market value. The rule was later repealed, leaving the issue of federal coal valuation unresolved.

## Reclamation Bonding Falls Short

Coal lessees are required to clean up—reclaim— federal land once mining is complete. Under the Surface Mining Control and Reclamation Act (SMCRA), operators need a permit outlining their reclamation plan before mining can begin and must show they can cover the full reclamation costs by posting a bond. Once reclamation is complete, the bond is returned to the operator. If the operator forfeits it, the funds are used to pay for some or all of the cleanup.

Most states run their own surface reclamation programs under SMCRA. As of 2025, 24 states have "primacy," meaning they manage these programs themselves.[11] Washington is the only non-primacy state with active federal coal mining, regulated directly by the Office of Surface Mining Reclamation and Enforcement (OSMRE).[12] Bond amounts are determined on a case by case basis, based on the estimated cost of completing the approved reclamation plan as calculated by OSMRE or the state regulator.

The three major types of financial assurances are:

- **Surety bonds** —Backed by an independent, surety company.
- **Collateral bonds** — Financial guarantees such as cash, certificates of deposit, or letters of credit.
- **Self-bonds** — Allowing companies to use their own financial strength to guarantee cleanup costs. States with primacy may choose whether to allow self-bonding.

In 2017, OSMRE and state regulatory authorities reported that 76% of financial assurances ($7.8 billion) were surety bonds, while collateral bonds and self-bonds each accounted for 12% ($1.2 billion each).[13]

A wave of coal company bankruptcies exposed serious weaknesses in federal reclamation bonding, especially self-bonding. The Government Accountability Office found that OSMRE and state regulators struggle to determine whether an operator is financially healthy enough to qualify for self-bonding and to replace those bonds when conditions deteriorate.[14] Between July 2007 and June 2016, 22% of forfeited financial assurances fell short of covering reclamation costs, and the adequacy of another 26% is still unresolved.[15]

## Future of the Federal Coal Program

U.S. coal production has fallen by more than half since its 2008 peak, driven largely by the rise of fracking and lower natural gas prices. Production on federal lands—which accounts for roughly 43% of the national output[16]—has also declined, yet hundreds of millions of tons are still mined each year. From FY2015 to FY2024, federal lands produced 2.8 billion tons of coal, with 80% coming from Campbell County, Wyoming, and another 8% from the rest of the Powder River Basin.[17,18] Every acre leased under current, outdated terms continues to shortchange taxpayers.

Systemic flaws in the LBA process, coal valuation and royalty collection, and reclamation bonding requirements have prevented the federal coal program from delivering a fair return on taxpayer-owned coal resources for decades. Fixing each of these problems is essential to protect taxpayers' interests. We own these valuable natural resources, and we deserve a fair market return.

*Coal mine in the Powder River Basin*

[1] Bureau of Land Management (BLM), "National Coal Statistics," accessed October 29, 2025. https://www.blm.gov/programs/energy-and-minerals/coal/coal-data

[2] Office of Natural Resources Revenue (ONRR), "Query Data," accessed August 13, 2025. https://revenuedata.doi.gov/query-data/

[3] For coal leases outside of Alaska, Treasury pays approximately 50 percent of receipts to the State where the leased lands are located. For leases and mineral deposits in Alaska, Treasury pays 90 percent of the receipts to the State. Forty percent of the federal share goes into the Reclamation Fund that funds construction and maintenance and operation of water resource projects in most western states.

[4] The BLM issued coal leasing regulations in 1979 that provided for another competitive coal leasing processes, the regional leasing system, where the BLM selects tracts within a region for competitive sale. However, this has not been used since 1990, and all BLM coal leasing currently relies on LBA. Source: BLM, « Notice of Intent To Conduct a Review of the Federal Coal Leasing Program and To Seek Public Comment," August 20, 2021. https://www.federalregister.gov/documents/2021/08/20/2021-17827/notice-of-intent-to-conduct-a-review-of-the-federal-coal-leasing-program-and-to-seek-public-comment

[5] The Secretary may "waive, suspend, or reduce the rental [payment], or minimum royalty or reduce the royalty on an entire leasehold or on any tract or portion thereof ... whenever in his judgment it is necessary to do so in order to promote development, or whenever in his judgment the leases cannot be successfully operated under the terms provide therein." 30 U.S.C. §209.

[6] Headwaters Economics, "An Assessment of U.S. Federal Coal Royalties Current Royalty Structure, Effective Royalty Rates, and Reform Options." January 2015. http://headwaterseconomics.org/energy/coal-royalty-valuation.

[7] In 2023, 90 percent of federal coal was produced in Wyoming. Source: DOI, "Production by year," accessed August 13, 2025. https://revenuedata.doi.gov/downloads/production/

[8] Kevin Hibbard and Don Richards, "Consensus Revenue Estimating Group," July 29, 2025. http://eadiv.state.wy.us/creg/Revenue_Update_July2025.pdf

[9] 30 CFR §1206.257(c)(2)(i).

[10] Energy Information Administration (EIA), "Annual Coal Report 2023," "Table 8. Coal Disposition by State, 2023," October 2024. https://www.eia.gov/coal/annual/pdf/acr.pdf

[11] Office of Surface Mining Reclamation and Enforcement, "Regulating Active Coal Mines," accessed August 13, 2025. https://www.osmre.gov/programs/regulating-active-coal-mines

[12] Active federal coal mining as reported by ONRR, accessed August 13, 2025.

[13] Government Accountability Office, "Federal and State Agencies Face Challenges in Managing Billions in Financial Assurances," March 2028. https://www.gao.gov/assets/gao-18-305.pdf

[14] Ibid.

[15] Ibid.

[16] Average over the last 5 years, 2019-2024, per EIA and ONRR data.

[17] The Powder River Basin consists of the Montana counties of Big Horn, Custer, Powder River, Rosebud, and Treasure and the Wyoming counties of Campbell, Converse, Crook, Johnson, Natrona, Niobrara, Sheridan, and Weston.

[18] ONRR, "Production by year," accessed August 13, 2025. https://revenuedata.doi.gov/downloads/production/