Decoupling and Public Lands: Ensuring the future of public lands while supporting communities who bear the burden of shifting fossil fuel markets

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Public lands are part of the American identity. We rely on these lands for the water that flows from their mountains, clean air filtered by their forests, and a meaningful connection to our natural world through abundant recreational opportunities.

Public lands also support the economies and budgets of communities around them. Leasing public lands for oil and natural gas drilling, timber harvests, and ski runs helps to pay for essential services and infrastructure in states and local governments, from public schools and roads to local search and rescue efforts. Fossil fuel payments in particular can be lucrative during booms but leave local budgets vulnerable to steep cuts when booms go bust. Reliance on fossil fuel revenue from public lands creates risks for governments, and they can suffer acute revenue losses and cuts to public safety, schools, roads, and other essential services when federal policy or markets change. Reliance on federal payments from public lands is sometimes used to argue against policies that might slow fossil fuel expansion. Efforts to sell public lands are justified, at least in part, by arguments that states or private owners would drill more and generate more revenue.

It is unacceptable to sell off public lands to protect state and local budgets when a viable and effective solution is readily available: Congress should establish a permanent fund to manage natural resource revenue so communities have the freedom to plan for their future. A permanent fund builds wealth in resource communities over time by decoupling annual budgets from the volatility of politics and markets. A permanent fund does not require continuing Congressional funding at taxpayer expense. And a permanent fund creates an opportunity to diversify and grow fossil fuel-reliant economies and keeps public lands in public hands.

Fossil fuels entrench government budgets

Extractive industries have captured public land management agencies historically and today. As of January 2025, 81 percent of all BLM-administered lands in the Western U.S. remain open to oil and gas leasing, according to our recent report. Yet, fossil fuel producers on public lands only pay about a third of the royalty rate of operators on productive state lands in Texas and New Mexico. Former fossil fuel executives are well represented in top-level political positions at the Department of the Interior. President Trump issued several Executive Orders mandating land management agencies offer public lands to fossil fuel companies and sweetened the deal with Orders to remove regulations and costs for companies operating on public lands.

States that contain fossil fuel leases on federal lands receive 50 percent of federal revenues from leasing and developing those resources (Alaska receives 90 percent). New Mexico alone received $8 billion in the last five years from oil leases in the Permian Basin. State and local governments also have come to rely on revenue from fossil fuels, the outcome of a series of policy choices explained later in this article. Taken together, the fossil fuel industry's political capture of public lands and direct payments entrench fossil fuel dollars in public budgets.

For example, in response to an energy crisis in the 1970s, Wyoming aggressively leased and subsidized coal development on public lands and became the leading coal producer nationally. More recently, cheaper natural gas and renewable energy have led to falling demand for coal and eroded its market share. This has created budget shortfalls for cities and counties in the state. In one town, "the pothole situation is so bad, entire streets will have to be reconstructed."[1]

Meanwhile, teachers discovered a prestigious award, funded by a coal company, was quietly cancelled when the money dried up, while headlines across the state raised alarms that the "decline in coal and energy put the future of Wyoming's school funding in serious doubt."[2] Of course, the link between fossil fuel production and school funding is no accident. Wyoming eagerly cuts other taxes and increases spending when fossil prices and production on public land boomed, encouraged by industry. The industry is quick to use a community's need for school funding to advocate against policies that limit or phase down fossil fuel production, even as it sets up these communities for a rug pull during a bust cycle.

These boom-and-bust cycles bring anxiety and uncertainty for communities. Declining local budgets and an inability to provide for basic public services and infrastructure are closely linked with poverty and slower economic growth. [3]

Tying extraction to public services doesn't work for communities

There are real and actionable solutions to creating a fiscal policy for public lands that protect against the uncertainty and volatility that have marked extractive economies, and that conserve public lands for generations to come.

At its core, the problem is treating non-renewable revenue from resource extraction as if it were stable and permanent. Doing so means state and local governments spend money from coal, oil, and natural gas as part of their annual budgets.

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[1] https://wyofile.com/coal-layoffs-leave-wyoming-community-grappling-with-good-bad-of-energy-transition
[2] https://wyofile.com/coal-corporate-giving-tumbles-just-as-communities-need-it-most/
[3] https://pmc.ncbi.nlm.nih.gov/articles/PMC2693168/

This allows state and local governments to cut other taxes—like income, sales, and property taxes—when natural resource prices boom. Anti-tax sentiment in the U.S. encourages these tradeoffs, and in some cases even requires tax cuts when resource revenue booms, but makes it nearly impossible to raise taxes to previous levels when resource markets bust. Path dependency, ossified by structural changes to state and local tax structures and spending decisions, creates powerful incentives for elected officials to lobby the Bureau of Land Management and National Forest Service to produce increasing amounts of timber, oil, gas, and coal to provide income for their states rather than try to raise local taxes.

This system means states with significant public fossil fuel resources can rely on production from public lands to create the revenue needed to fund vital services. In New Mexico, for example, revenue generated from national public lands leased for oil and gas production alone provides approximately $1,500 per person in tax equivalency benefits. In Wyoming, at the height of coal production, for every $3,000 in taxes paid, citizens received $30,000 in benefits. High payments from fossil fuel leases allowed states to keep other taxes low, which means they cannot fund key government services, education in particular, without fossil fuel revenues. Because of this dependency, states, with a push from the powerful fossil fuels industry, advocate to open more lands for fossil fuels development, remove barriers, including environmental protections or public comment, and deliver subsidies to industry through lower royalties, tax incentives, and direct funding for fossil fuel infrastructure and projects.

The solution to a transition starts with fiscal policy that centers communities

This current system was designed in the early 1900s around the idea that public lands would be conserved to provide sustainable and permanent resources to grow rural economies. Instead, communities have been set up for boom-and-bust extraction. Federal coal in the Powder River Basin in the 1980s and the advancement of horizontal drilling and fracking oil and gas technology in the early 2000s changed the economic relationship between public lands and rural communities around them.

This increasing federal revenue coincided with the conservative anti-tax movement and the automation of industry, leaving places even more dependent on remaining industries. When these industries bust, the impact is felt acutely in places like Montana and Appalachia, where communities struggle to pay for civic infrastructure like roads and schools. The people left behind have watched their main streets empty and their neighbors leave.

In these cases, communities that once relied on income from public lands can no longer rely on continued extraction or on Congress to spend money to replace annual payments, as witnessed by the difficulty in reauthorizing the Secure Rural Schools and Community Self-Determination

Act, which replaced declining timber payments to counties and schools. These are cautionary tales for states like New Mexico, currently receiving historically high payments from fossil fuel leasing.

To avoid this same fate, states reliant on fossil fuel revenue must decouple budgets from annual extraction and avoid falling back on unreliable bailouts from Congress. By decoupling, Tribes, states, counties, and local governments can sever the direct link between federal extractive fossil fuel payments and their annual budgets, removing the financial incentives for extraction from public lands while shaping what a fair and reliable payment system might look like for them.

A solution starts with the understanding that many people who work in extractive industries are deeply connected to the places they call home and want to keep their communities whole, especially after a transition from oil and gas. A real solution understands that home means lights burning in the high school gym during a regional rivalry, freshly plowed roads that allow safe passage to work, and an ambulance and hospital in your town to care for your aging parent after a crisis. A solution must center on keeping communities whole and give them the tools to build diversified economies of place.

To ensure communities don't have to choose between public lands, a healthy climate, and a healthy economy, a viable solution is to use oil and gas revenue from public lands to create a permanent fund. A permanent fund would generate stable and predictable revenue in perpetuity. A permanent fund would also make investment dollars available to communities through local lending institutions such as Community Development Financial Institutions (CDFIs), aligning stable and fair income with new resources to diversify and grow economies.

Versions of this model are already working in states like New Mexico, which saves oil and gas royalties from their state lands in a permanent fund that finances local public schools. Through careful planning and investing, the state is on track to keep its spending stable while needing no additional oil and gas money from state lands by 2039.

Conclusion

Public lands and waters are the places we learned to fish, to ski, and to stargaze. With sensible ways to manage revenue for fossil fuel-dependent communities, leasing can be phased out without harming state and local budgets. Without a permanent fund, declining production will have a direct impact on local, state, and Tribal governments, who have long relied on the revenue from extraction to pay for basic public services. The status quo in many rural communities is defended by believing that either kids can have an education or a healthy environment. That false dichotomy must come to an end.

Decoupling creates a framework for resilient economies around public lands, paid for through the hard work of communities producing the nation's energy and natural resources, and freeing them from the whims of faraway markets and politicians. Addressing this problem now by decoupling extraction from payments means the solution works without taxpayer subsidy, avoids any more communities facing fiscal crisis, and provides time for people to imagine a renewed potential for the places they call home.

By creating an economic offramp away from fossil fuel production that stabilizes payment to local governments, this solution is community-centered. For political leaders who want to keep public lands in public hands and conserve them for future generations, but are concerned about the fiscal impact on communities, this solution is politically programmatic. Congress should offer an opportunity for energy-producing states to thrive after oil and gas production inevitably ends.