

GAO Highlights

Highlights of [GAO-14-140](#), a report to congressional requesters

Why GAO Did This Study

In fiscal year 2012, about 42 percent of the 1.05 billion tons of coal produced in the United States came from coal tracts leased under the federal coal leasing program. Interior's BLM is responsible for managing this program, including estimating the fair market value of the coal to be leased. GAO was asked to examine this program. (Representative Markey originally made this request as Ranking Member of the House Committee on Natural Resources. He is now a member of the United States Senate.) This report examines (1) the number of tracts leased, along with the trends in associated coal production and revenues generated since 1990; (2) BLM's implementation of the process to estimate fair market value for coal leases; (3) the extent to which BLM considers coal exports and domestic coal reserve estimates when estimating fair market value; and (4) the extent to which BLM communicates information on federal coal lease sales to the public. GAO analyzed data on coal leasing activity, examined regulations and case files for coal lease sales, and interviewed BLM and other officials.

What GAO Recommends

GAO recommends, among other things, that BLM require state offices to use more than one approach to estimate fair market value where practicable, develop a mechanism to ensure that reviews of appraisal reports take place, and take steps to release additional summary information on its websites, including past lease sales. Interior concurred with these recommendations.

View [GAO-14-140](#). For more information, contact Anne-Marie Fennell at (202) 512-3841 or fennella@gao.gov.

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COAL LEASING

BLM Could Enhance Appraisal Process, More Explicitly Consider Coal Exports, and Provide More Public Information

What GAO Found

Since January 1990, the Bureau of Land Management (BLM) has leased 107 coal tracts, and associated coal production and revenues have grown. Most lease sales have had a single bidder and were leased the first time offered. The amount of coal produced from federal leases and associated revenues have increased since 1990, although production has leveled off since 2002. Revenues from federal coal leases have generated about \$1 billion annually in recent years. Royalties paid when coal is sold and bonus bids paid for the right to mine a federal coal tract account for nearly all of these revenues.

BLM's guidance offers flexibility in how to estimate fair market value, and BLM state offices vary in the approaches they used to develop an estimate of fair market value. In estimating fair market value, some BLM state offices used both the comparable sales approach—where bonus bids received for past sales are used to value the tract being appraised—and the income approach—which uses estimates of the future net revenue streams from the sale of coal from the appraised tract. However, some offices relied solely on the comparable sales approach and may not be fully considering future market conditions as a result. In addition, GAO found that BLM did not consistently document the rationale for accepting bids that were initially below the fair market value presale estimate. Furthermore, some state offices were not following guidance for review of appraisal reports, and no independent review of these reports was taking place. Adequate review of the fair market value process is critical to ensure that its results are sound and key decisions are fully documented. In addition, BLM is not currently taking advantage of a potential independent third-party reviewer with appraisal expertise within the Department of the Interior (Interior), specifically, the Office of Valuation Services.

BLM considers exports to a limited extent when estimating fair market value and generally does not explicitly consider estimates of the amount of coal that can be mined economically, known as domestic reserve estimates. As a result, BLM may not be factoring specific export information into appraisals or may not be fully considering the export potential of a lease tract's coal as called for in agency guidance. The Wyoming and Montana BLM state offices considered exports, but they generally included only generic statements about exports in the reports they prepared. In the other seven states with leasing activity, exports were generally not considered during the appraisal process. According to BLM officials, domestic reserve estimates, which vary based on market conditions and the costs to extract the coal, are not considered due to their variable nature.

BLM generally provides limited information on federal coal lease sales to the public because of the sensitive and proprietary nature of some of this information. The Wyoming BLM state office posts information on its website, including information on past lease sales, but most state office websites provide only general information. BLM's guidance states that redacted public versions of its appraisal reports should be prepared, but no BLM state office has prepared such reports. BLM supplied redacted versions of fair market value documents in response to a recent public information request only after being advised to do so by Interior's Solicitor's office.