Department of Planning and Budget
2008 Special Session II
Fiscal Impact Statement

1. **Bill Number:** SB6005

House of Origin	X	Introduced	___	Substitute	___	Engrossed
Second House	___	In Committee	___	Substitute	___	Enrolled

2. **Patron:** Cuccinelli

3. **Committee:** Agriculture, Conservation and Natural Resources

4. **Title:** **Offshore natural gas and petroleum resources.**

5. **Summary:** Obligates the state to credit to the Transportation Trust Fund all royalty payments received from offshore oil and gas production. The bill also provides that the Commonwealth shall petition the federal government for authorization to conduct natural gas exploration and drilling activities in the coastal zone of the Commonwealth if the federal government authorizes such petition.

6. **Fiscal Impact Estimates are:** Indeterminate

7. **Budget Amendment Necessary:** No

8. **Fiscal Implications:** The amount and value of recoverable natural gas and oil off Virginia's coast is uncertain. Furthermore, to the extent that the Commonwealth would realize revenue from these resources, it would be many years before this revenue was received.

   It is not known how much recoverable oil and gas is off Virginia's cost. A 2006 report by the Secretary of Commerce and Trade pointed out that "There could be zero to over $10 billion in total value of natural gas in…Virginia's offshore administrative boundary area."

   The possible royalty value of those potential deposits is even more uncertain. Under federal law, states receive 27 percent of bonuses, rents, and royalties paid to the federal government for offshore leases. There have been proposals to increase this state share to fifty percent. The report of the Secretary of Commerce and Trade estimated that, if Virginia were to receive half of federal revenue from Virginia's Outer Continental Shelf, the total would be nearly $3 billion. However, this revenue would be spread out over thirty to fifty years and "would be unlikely to begin, if at all, until the year 2016 at the earliest."

   Currently, the Department of Mines, Minerals and Energy (DMME) anticipates that 2011 is the earliest there could be a fiscal impact as a result of this bill. DMME lists five requirements that must be fulfilled in order for any revenue to come to Virginia: (i) the Congressional moratorium on drilling in the coastal areas must be lifted, (ii) the Presidential withdrawal of offshore areas along the Atlantic Coast must be cancelled, (iii) federal authority must be given for states to share revenue from offshore drilling, (iv) Virginia must remain in the federal Minerals Management Service 2007-2012 offshore oil and gas leasing plan, a plan that currently has one lease sale proposed for the Mid-Atlantic in 2011, which will only occur if requirements i-iii are met, and (v) companies must be interested in, and bid for, this drilling opportunity.

The President has recently proposed lifting the moratoria, but several attempts to do so in Congress have failed. Based on the typical start-up time for drilling and production of an offshore well, DMME states that, if all five above conditions are met, it would still take approximately five to seven years after the lease sale in 2011 before any substantive revenue would result. DMME predicts that, should these contingencies take place, the amount of revenue resulting is indeterminate. Any costs associated with this bill are assumed to be negligible.

9. **Specific Agency or Political Subdivisions Affected:** Departments of Mines, Minerals and Energy, Transportation, Aviation, and Rail and Public Transportation, and the Port Authority.

10. **Technical Amendment Necessary:** No

11. **Other Comments:** Since 1982, Congress has enacted an annual moratorium on the granting of offshore oil or gas leases in most areas off the coast of the United States, including the mid-Atlantic. In 1990, President George H.W. Bush ordered the Department of the Interior not to conduct leasing or preleasing in the areas covered by the annual moratoria until the year 2000. In 1998, President Clinton extended the executive order to 2012.

    In 2006, Congress defeated HR 4761, the Deep Ocean Energy Resources Act of 2006. This bill, had it become law, would have allowed coastal states to opt-out of the Presidential moratorium as well as allow states to share in the revenues from offshore drilling.

    President George Bush recently urged Congress to end the moratorium. There are several bills pending in Congress that would allow states to opt-out of the moratoria.

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cc: Secretary of Transportation
Secretary of Commerce and Trade