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

1. **Bill Number:** SB6011

   House of Origin X Introduced ___ Substitute ___ Engrossed

   Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Wagner

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

4. **Title:** **Offshore Energy Revenue Fund.**

5. **Summary:** Creates the Offshore Energy Revenue Fund in the state treasury and directs that any royalties and other moneys paid by the federal government as a result of the development of offshore energy resources be deposited in the Fund. The moneys transferred to the Fund are allocated as follows: (i) 40 percent to the Transportation Trust Fund; (ii) 40 percent to fund the implementation of the Secretary of Natural Resources' plan to clean up the Chesapeake Bay and other impaired waters; (iii) 10 percent to the Renewable Electricity Production Grant Fund or other energy efficiency incentives as may be provided in the general appropriations act; and (iv) 10 percent to the Virginia Coastal Energy Research Consortium or other energy research initiatives at state institutions of higher education as may be provided in the general appropriations act.

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. The potential costs of 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 Natural Resources
Secretary of Commerce and Trade