Department of Planning and Budget
2009 Fiscal Impact Statement

1. **Bill Number:** HB1633

   House of Origin X Introduced ___ Substitute ___ Engrossed

   Second House ___ In Committee ___ Substitute ___ Enrolled

2. **Patron:** Saxman

3. **Committee:** Committee on Appropriations

4. **Title:** **Offshore drilling; apportions royalties that State receives to certain funds and programs.**

5. **Summary:** This bill apportions any royalties that the Commonwealth might receive from offshore drilling for natural gas and oil among the Transportation Trust Fund, Renewable Electricity Production Grant Fund, the Virginia Coastal Energy Research Consortium, and programs developed by the Secretary of Natural Resources to clean up the Chesapeake Bay.

6. **Fiscal Impact Estimates:** Indeterminate, see Item 8.

7. **Budget Amendment Necessary:** No.

8. **Fiscal Implications:** This bill apportions any royalties received by the Commonwealth from offshore drilling for natural gas or oil to various funds, for various purposes. While this bill does not directly generate or expend any resources, it does imply that these resources will be received.

   According to the Department of Mines, Minerals and Energy (DMME), the following actions on a federal level would need to align for Virginia to receive royalties from offshore drilling:

   (i) The former moratorium on drilling in coastal areas that Congress allowed to expire on September 30, 2008, would have to remain inactive; it is unsure whether this moratorium will be reinstated during the 111th Congress.

   (ii) The Presidential withdrawal of offshore areas along the Atlantic Coast that President Bush cancelled in July of 2008 would have to remain inactive; it is unsure what action President Obama will take.

   (iii) Federal authority would have to be granted to allow states to share revenue from offshore drilling (other than for the Gulf of Mexico and Alaska, there has not been any federal authority granted for revenue sharing for offshore drilling); it is unclear whether revenue-sharing for states on the Atlantic coast will be allowed by the 111th Congress.

(iv) Virginia has remained in the federal Minerals Management Service's (MMS) 2007-2012 offshore oil and gas leasing plan, and would have to be a part of future leasing plans.

(v) Companies would have to respond with interest to the November 13, 2008, Call for Information and Interest/Nominations and Notice of Intent to Prepare an Environmental Impact Statement issued by MMS to gather information to use for planning and analysis for a potential lease sale in Virginia. Results from solicitation of interest are not expected to be published by the MMS until mid-spring of 2009. However, DMME reports an awareness of an underlying current of interest from oil companies in opening up in Virginia for this purpose.

In summary, several barriers to offshore drilling remain in place, with uncertain futures heading into the 111th Congress.

In addition to these remaining barriers, there are other uncertain factors to consider as to if, and when, any revenue could come to Virginia from offshore drilling. These uncertainties include: (1) the amount of gas and oil that exist off the Atlantic coast, (2) the worth of any oil or gas deposits, and (3) should revenue sharing come to the Atlantic coast, the question as to how much will be allowed, and how that portion will be shared with neighboring Atlantic states. Further insight into each of these uncertainties is explored, below:

(1) Of the area of Virginia's coast proposed for the lease sale for which the MMS has issued a call for information, MMS estimates that 130 million barrels of oil and 1.14 trillion cubic feet of gas (Tcf) could exist in the drillable 2.9 million acre zone that covers water depths ranging from 100 feet to over 10,000 feet. However, the MMS acknowledges that these estimates were generated based on old data, as the last oil and gas drilling activity offshore the Atlantic coast took place in the late 1970s and early 1980s. Therefore, while these are the best estimates there are, both DMME and MMS emphasize their high degree of uncertainty.

(2) The price of oil has ranged drastically recently, from $145/bbl in the summer of 2008, to the current price of $36/bbl. Natural gas prices have followed a similarly drastic path, ranging from $13/thousand cubic feet in the summer of 2008 to $6/thousand cubic feet now. It is unknown what the market values will be for these commodities if there are any recoveries from the Atlantic in future years.

(3) DMME reports that, based on the MMS predication of economically recoverable resources in the area, it is possible to estimate the level of revenues to the federal government, but not to Virginia, as it is unsure what percentage of revenue sharing, if any, might be authorized for states. Currently there is no revenue sharing for the Atlantic coast, but in the Gulf of Mexico, 37.5 percent of revenue generated from new leases since 2006 is shared with all coastal states, based on a formula taking into account the distance of individual revenue-generating leases from each eligible state.

Assuming that all barriers to drilling are removed, and applying rough estimates for these three uncertain factors, it is possible to calculate rough estimations of possible future revenue.

While it is difficult to accurately predict the price of energy in the distant future, considering the steady upward trend in the price of oil and natural gas over the previous 10 years, DMME suggests a future average price of $90.0/barrel of oil and $9.5/thousand cubic feet of natural gas. Utilizing these price estimates, and applying the MMS estimate of the presence of 130.0 million barrels of oil and 1.14 Tcf of natural gas off of the Atlantic coast, the potential value of oil existing off the Atlantic coast is $11.7 billion, and of natural gas, $10.83 billion, for an estimated total of $22.53 billion.

From this rough estimated total, the federal government could collect royalties, which DMME reports is typically one-sixth of the value of production for offshore leases. Assuming the federal government does grant revenue-sharing for Atlantic coastal states, and that it does so at a level similar to that of the Gulf Coast States, all Atlantic coastal states would share 37.5 percent of the federal government's one-sixth royalty collection. Assuming the MMS data is accurate in its estimation that these drilled resources are in closest proximity to Virginia, Virginia may receive a higher share of the shared portion of the federal government's one-sixth share. For projection purposes, DMME roughly estimates that Virginia could receive 80 percent of 37.5 percent share of revenue collected, or 29.6 percent of the total royalty.

At 29.6 percent of the total royalty, according to the above assumptions, it is possible that Virginia could receive a total of **$1.13 billion** in revenue. Spread out over the lifetime of production, estimated at 20 to 30 years, if all these assumptions are accurate, this could mean a revenue of **$37.7 million to $56.5 million a year** for the life of production.

Upon collection of these revenues, this bill specifies that deposit of these revenues such that (i) 40 percent is to be appropriated to the Transportation Trust Fund, administered by the Department of Transportation, (ii) 40 percent is to be appropriated exclusively for the purpose of funding the implementation of a plan, developed by the Secretary of Natural Resources, for the clean-up of the Chesapeake Bay and other Virginia waters designated as impaired by the U.S. Environmental Protection Agency, (iii) 10 percent is to be appropriated to the Renewable Electricity Production Grant Fund, currently unfunded and administered by DMME, and (iv) 10 percent is to be appropriated to the Virginia Coastal Energy Research Consortium, located at Old Dominion University.

9. **Specific Agency or Political Subdivisions Affected:** Department of Mines, Minerals and Energy, Secretary of Natural Resources, Department of Transportation, Virginia Coastal Energy Research Consortium (Old Dominion University).

10. **Technical Amendment Necessary:** It is assumed that the 40 percent of funding allotted to the Secretary of Natural Resources for the clean up of the Chesapeake Bay would be allocated directly into the general fund within the Office of the Secretary of Natural

Resources. A suggested amendment would be to establish a fund within the Office of the Secretary of Natural Resources specifically for the collection and management of these funds.

11. Other Comments: None.

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cc: Secretary of Commerce and Trade
Secretary of Finance