Department of Planning and Budget
2014 Fiscal Impact Statement

1. **Bill Number:** SB25

House of Origin	☐	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☒	Enrolled

2. **Patron:** Reeves

3. **Committee:** Passed Both Houses

4. **Title:** Offshore natural gas & oil royalties; establishment of Va. Offshore Energy Emergency Response Fund.

5. **Summary:** Sets out the recipients, proportions, and payment order for the distribution of royalties received by the Commonwealth as a result of offshore natural gas and oil drilling and exploration. The bill establishes the Virginia Offshore Energy Emergency Response Fund and directs to it the first $50 million in royalties, requiring that additional royalties maintain the fund at $50 million if moneys are withdrawn from it. Any subsequent royalties paid would be deposited to the general fund. Currently, the Code provides that 70 percent of any revenues and royalties paid to the Commonwealth as a result of offshore natural gas and oil drilling shall be deposited to the Transportation Trust Fund, 20 percent of revenues are to be appropriated to the Virginia Costal Energy Research Consortium and 10 percent of revenues are to be appropriated to localities for improvements to infrastructure and transportation.

6. **Budget Amendment Necessary**: No.

7. **Fiscal Impact Estimates:** Final. See item 8, below.

8. **Fiscal Implications:** This bill establishes a framework for directing any potential future royalties that may be received as a result of offshore drilling for oil and natural gas. The fiscal impact of this bill on the Commonwealth is indeterminate. Currently, the federal government holds the right to lease lands off the coast of the U.S. in the Outer Continental Shelf (OCS) for offshore energy development. The U.S. Department of Interior (DOI) is the federal agency responsible for development in the OCS. DOI manages offshore energy development as part of a five-year leasing plan. Currently, DOI is implementing the 2012-2017 OCS five-year leasing plan. A lease site off the coast of Virginia was originally included as part of the 2007-2012 OCS five-year leasing plan, but that lease sale was cancelled in May 2010. There are no lease sales off the coast of Virginia included in the 2012-2017 OCS leasing plan. The Governor's Introduced Budget Bill (HB30/SB30) includes $250,000 in the first year to study offshore oil and gas development in Virginia, with the goal of presenting the study in Virginia's request to be included in the 2017-2022 OCS leasing plan.

Under the Outer Continental Shelf Lands Act (OCS Lands Act) revenue sharing program, Virginia would receive 27 percent of the revenue generated from offshore federal leases located within the first three miles from the state's seaward boundary. However, since no site off the coast of Virginia is currently included in the OCS leasing plan, it is not clear that any site included in the 2017-2022 OCS lease plan would fall within three miles of the coast. The previously cancelled lease site off of the coast of Virginia would have fallen outside of the three mile boundary. As a result, the amount of potential revenue to the Commonwealth is indeterminate.

The Department of Environmental Quality (DEQ) would be responsible for the Virginia Offshore Energy Emergency Response Fund. The first $50.0 million in royalties would be paid into this Fund while also requiring that additional royalties maintain the fund at $50.0 million if moneys are withdrawn from it. Payments from the fund would be used solely for the purposes of emergency preparation, emergency response, emergency environmental protection, or mitigation associated with a release of liquid hydrocarbons or associated fluids directly related to offshore energy exploration, development, production, or transmission. Once the balance of the Virginia Offshore Energy Emergency Response Fund is $50.0 million, all additional royalty payments would be deposited to the general fund.

9. **Specific Agency or Political Subdivisions Affected:** Department of Mines, Minerals, and Energy, Department of Environmental Quality, Port of Virginia, Department of Treasury, localities, Office of the Governor, Office of the Attorney General, Virginia Port Authority.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** None.