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FACT SHEET

OFFSHORE OIL REVENUE: A BAD DEAL FOR VIRGINIA

Offshore oil and gas drilling is an inherently dirty, dangerous business. It carries with it the risk of massive oil spills like the BP Deepwater Horizon catastrophe in 2010 in the Gulf of Mexico, along with more frequent smaller spills and air and water pollution. All of this would threaten the $2.7 billion of annual economic activity in Virginia generated by industries that rely on clean beaches and a healthy ocean.[1] That's why Virginians strongly oppose the Trump administration's plan to open up federal waters off their coast to offshore drilling.[2]

An oil and gas industry facility in Southern Louisiana

Still, some argue that drilling off Virginia's coast would be worth it if the state reaped a share of federal revenues from offshore oil and gas leasing and production. But revenue sharing is a bad deal for Virginia. The potential rewards would not outweigh the economic, social, and environmental costs of drilling. And revenue sharing comes with its own downsides, creating perverse incentives that would tie the state's economy to an unstable source of funds, boom-and-bust cycles, and an industry that contributes to climate change.

OFFSHORE DRILLING PROLONGS OUR DEPENDENCE ON FOSSIL FUELS

The sea level is rising faster in Virginia than anywhere on the East Coast, and "the governor is committed to ensuring that Virginia is a leader in developing solutions to prevent the worst impacts of a warming climate and changing ocean chemistry, and doing more to reduce carbon pollution."[3] Offshore drilling, and the revenue sharing that would incentivize it, are in direct conflict with the state's environmental goals and the protection of its coastal communities and natural resources.

At a moment when we urgently need to reduce our dependence on fossil fuels to avert the worst impacts of climate change, it would be counterproductive to expand offshore drilling.[4] Every time we sink a new drill into the ocean floor, it locks in decades of future fossil fuel use.[5] This is because offshore drilling is a venture with high capital costs. Operations are expensive to set up, and it routinely take a decade or more to bring oil to market, let alone to recoup costs. As a result, companies will look to squeeze every last drop of oil and gas out of offshore wells, beyond the time by which science says we need to transition away from fossil fuels in order to prevent the worst effects of climate change.[6] We need to decrease our dependence on oil and gas, not extend it.

OFFSHORE DRILLING CAN DISRUPT COMMUNITIES

Introducing resource extraction can bring serious, adverse impacts to local communities, harming their social, economic, and fiscal health. An increase in petroleum industry activity in Louisiana communities, for example, has generally been accompanied by higher rates of suicide and homicide, lower

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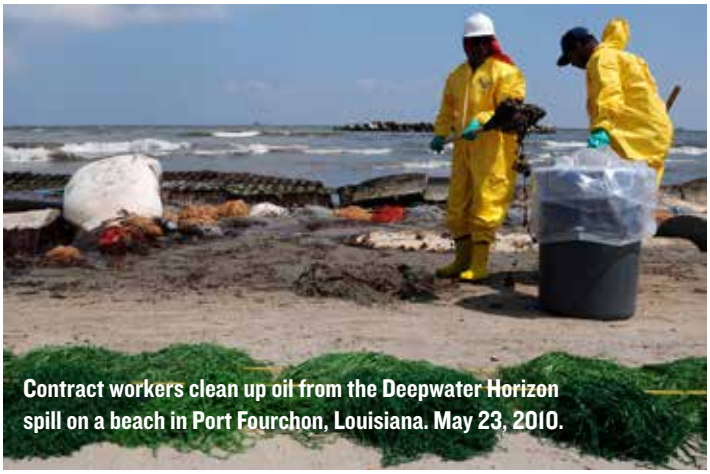

Contract workers clean up oil from the Deepwater Horizon spill on a beach in Port Fourchon, Louisiana. May 23, 2010.

percentages of high school graduates enrolling in college, and a higher cost of living, according to the Minerals Management Service (the precursor to the Bureau of Ocean Energy Management).[7] Those factors counter any temporary improvements in community economic health and high school–level educational attainment.

Port Fourchon, Louisiana, one of the main localities servicing the Gulf of Mexico's oil and gas industries, offers a cautionary tale. The local government experienced a boost in revenues during the oil boom of the 1970s and '80s. But those revenues did not cover new costs incurred as a result of the offshore oil and gas development, including the upkeep of roads that were more heavily traveled and expansion of the municipal water system to accommodate the accompanying growth of the town.[8] The oil boom strained local law enforcement as well.[9]

Other areas in the U.S., including regions within Pennsylvania and North Dakota, have experienced similar socioeconomic setbacks from other types of extractive activities.[10] Research into the long-term economic impact of boom-and-bust cycles associated with extractive industries has found that, after the full cycle has been completed, towns are often left worse off than they would have been in the absence of the oil and gas industry.[11] Virginia's elected representatives must consider this kind of potential fallout when thinking about the real costs of oil drilling.

REVENUE SHARING CREATES FISCAL TRAPS

Past experience in other states shows that reliance on a volatile revenue source, like oil, makes it very difficult to manage finances effectively. In states whose budgets depend largely on resource extraction, such as Louisiana and Alaska, the volatility of oil and gas revenue has created budget traps and unrealistic financial expectations, undermining effective management.

Louisiana, for example, is constitutionally required to devote its share of revenue from offshore drilling in federal waters to coastal restoration efforts.[12] The state needs to remediate massive land loss—approximately 16 square miles per year—caused in part by channels the oil industry has cut through its coastal wetlands.[13,14] Louisiana's coastal restoration plan has budgeted $50 billion over 50 years starting in 2018, and planners anticipated that offshore oil revenue would contribute $140 million per year.[15] However, the first year's disbursement to the state agency responsible for executing the restoration plan, in April 2018, was less than half of that.[16] That discrepancy is setting coastal restoration efforts back, impeding the implementation of projects.[17]

Alaska is another good example of revenue sharing's fiscal pitfalls. The state receives huge sums from oil and gas development (mostly onshore), enough to fund a substantial majority of the state's operating costs. In boom times, all was good. But as Alaskan production slowed and, in 2014, oil prices plunged, the state's budget was upended.[18,19] As a result, the education budget remained flat for three years, forcing some school districts to consider shortening the academic year and many others to cut spending on supplies, and threatening all state funding for smaller schools in rural areas, where one-third of all Alaskans reside.[20,21,22] Food assistance programs have faced increased demand due to the state's economic recession, and funding for these programs hasn't kept pace with the demand.[23,24]

WINDS OF CHANGE: A BETTER OPTION

In sharp contrast, offshore wind would provide a reliable stream of revenue to Virginia and other coastal states without the environmental hazards and other downsides of offshore drilling. The 2018 Virginia Energy Plan recommends developing the full 2,000 megawatts of offshore wind potential in the Virginia Wind Energy Area by 2028.[25] Meeting that goal would support nearly 25,000 jobs in the construction phase and provide an infusion of $107.2 million to Virginia's state and local coffers. It would bring 900 long-term jobs for maintenance and operations, which would provide about $5.7 million in state and local taxes annually.[26] Investing in clean energy is a sensible and promising alternative to offshore oil drilling.

CONCLUSION

Virginia's elected representatives should reject offshore oil and gas leasing. The promise of sharing some federal revenue is outweighed by the environmental, social, and economic costs oil and gas drilling would bring to the state. Virginia should look instead to the promising future of renewable, clean sources of energy.

ENDNOTES

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