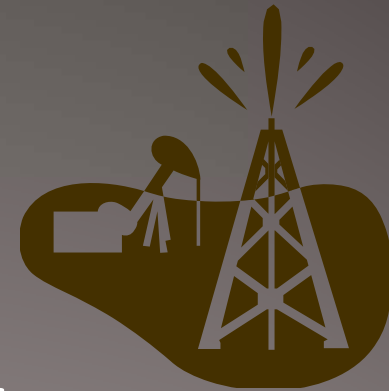


# Oil, Gas, & Property Tax An Overview

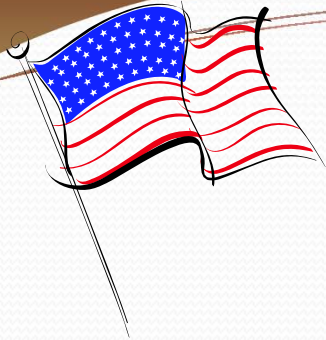
August 14, 2012



**Santa Barbara County**  
**Assessor**  
**&**  
**County Counsel**

## What We'll Discuss....

- Taxing Authorities
- What Happens Each Year - The Role of the Assessor
- County Statistics
  - Taxable Value of Oil & Gas Parcels.
  - DOGGR, Operators, Oil Fields & Production
- Guidelines for Assessors
- The Valuation Process & Methodology – Proposition 13
- Common Contested Issues
- Appeal Process- Tax Dollars at Risk. Auditor Impounds.
- Recent Activity in Santa Barbara County
- Q & A



## Property Tax Law State of California

- The framework of the property tax assessment process is found in the California Constitution and the Revenue & Taxation Code.
- County assessors are governed by substantive and procedural law derived from constitutional provisions, implemented by statutes, regulations and local county ordinances.



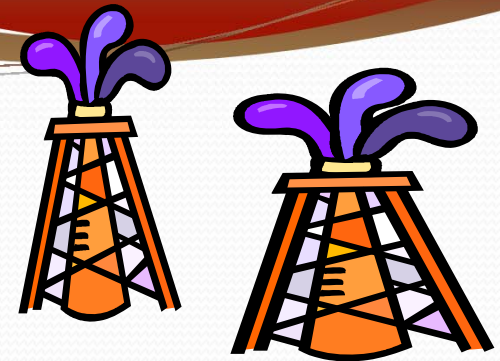
# CALIFORNIA CONSTITUTION



All property must be taxed based on its *'full cash value.'* This mandate is not optional or discretionary. Neither the Legislature nor the courts have the power to exempt any property from full taxation unless authorized to do so by the Constitution.

(CA Constitution, Article XIII § 1 & Article XIII A, § 2, R&T Code §§ 110 and 110.5: *Knoff v. City of San Francisco* (1969) 1 Cal.4<sup>th</sup> 1105, 1119: and *Mackay v San Francisco* (1886) 113 Cal.392. 393 & 401.)

Among the governing rules and laws.....



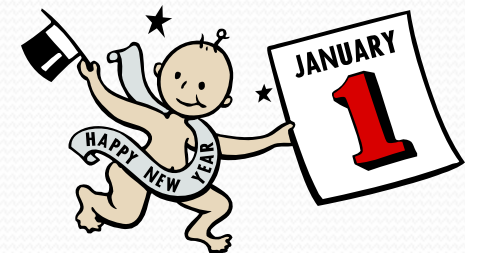
The right to remove petroleum and natural gas from the earth (mineral rights) is a taxable real property interest. (Property Tax Rule 468.)

“Mineral rights “ on the tax roll include right to enter in or upon the land for the exploration, development and production of minerals including oil, gas, and other hydrocarbons. (Revenue & Taxation Code Section 607.5)



## Each Year – January 1 Lien Date

- Each year, county assessors are required to review each mineral assessment to determine the fair market value and the appropriate taxable value.
- The new assessment must reflect changes in reserves, development, economics and technology.
- The final roll value is the lower of the market value or the adjusted base year value.



## Santa Barbara County Taxable Values 2002 & 2012

Fiscal Year	Oil & Gas Properties Total Assessed Value
<b>2002-2003</b>	<b>879 Million</b>
<b>2012-2013</b>	<b>1.225 Billion</b>

Total Roll Value	
Fiscal Year	Total Roll Value
<b>2002-2003</b>	<b>35.04 Billion</b>
<b>2012-2013</b>	<b>59.37 Billion</b>





## DOGGR

- **What is DOGGR?** - Division of Oil, Gas, & Geothermal Resources within the Department of Conservation, State of California. DOGGR oversees the construction, operation and closure of oil, gas, and geothermal wells.
- **DOGGR & Assessors-** Assessors use the DOGGR website to check reported production and keep track of new operators, well development and new leases.



## Oil Fields and Operators

**What is an Operator?** The entity exploring, developing and/or producing the mineral rights.

**No. of Operators in SB County:** There are approximately 20 operators currently listed on DOGGR website with active leases, such as Venoco Inc, Vaquero Energy, Greka, E&B, and Pacific Coast Energy Co. LP (*formerly BreitBurn*).

**No. of Oil Fields in SB County:** Per DOGGR, there are approx 22 known oil fields in SB County, of which approx 13 are active.



## DOGGR- PRODUCTION DATA BY FIELD - 2001 AND 2011

Field Name	2001 Barrels	2011 Barrels	2001 to 2011
Barham Ranch	135,304	71,775	-47.0%
Careaga Canyon	2,787	9,719	248.7%
Casmalia	210,666	177,703	-15.6%
Cat Canyon	547,324	503,419	-8.0%
South Cuyama	312,656	227,933	-27.1%
Elwood (offshore)	1,188,559	797,937	-32.9%
Jesus Maria	-	-	0.0%
Lompoc	94,643	239,509	153.1%
Los Alamos	-	-	0.0%
Orcutt	608,296	1,141,369	87.6%
Russell Ranch	23,876	57,509	140.9%
SMV	339,339	206,562	-39.1%
Zaca	245,994	192,845	-21.6%
Onshore	2,520,885	2,828,343	12.2%
Offshore	1,188,559	797,937	-32.9%

## Application of The Law

### Assessor Handbook 566 & Property Tax Rule 468

- **To enhance the uniformity** in the assessment of oil and gas properties located within the State, the California State Board of Equalization (SBE) published the “Assessment of Petroleum Properties” handbook.
- The handbook was originally developed in 1966 with input from industry representatives, assessors from petroleum producing counties, and petroleum experts. The handbook is periodically updated by the SBE.
- Oil and gas property interests are unique and require the application of specialized appraisal techniques. (Property Tax Rule 468 (c).)

# The Valuation Process & Proposition 13

## Mineral Rights Assessments are Subject to Proposition 13

1. When a property changes ownership, the assessor must determine the New Base Year Value. The purchase price presumption applies. (*Maples v. Kern County AAB* (2002) 103 Cal.App.4th 172, 186; *California Minerals v. County of Kern* (2007) 152 Cal.App.4th 1016, 1027.)
2. The assessor determines the “total unit market value” of the property and “the volume of reserves using current market data.” (Rule 468(c)(4)(A).)

## Valuation & Proposition 13, cont'd

3. The assessor subtracts the portion attributed to the land and improvements.
4. The remainder is the current value of taxable reserves – commonly known as the **Petroleum Interest**. (Rule 468(c)(4)(B).)

then.....



# Annual Review

Each year, the Assessor adjusts the value for the Petroleum Interest by:



Increasing the value based on addition of reserves by discovery, construction of improvements, or changes in economic conditions. (Rule 468 (c).)

and



Reducing the value of the interest based on depletion and changes in economic conditions. (Rule 468 (c).)





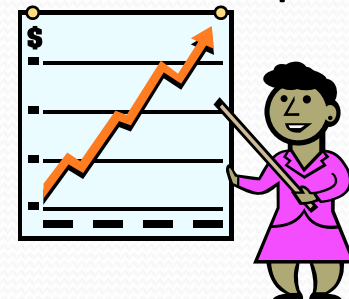
## Valuation Methodologies

- Although petroleum properties differ in important ways from other real property, they lend themselves to appraisal utilizing traditionally recognized approaches to value ( cost, income and market). (*Assessor Handbook 566, pg 5-1.*)
- For most petroleum properties, the income approach to value is used. The appraiser prepares an appropriately supported discounted cash flow analysis to determine fair market value. (*Assessor Handbook 566, pg 8-1.*)

# Components of a Discounted Cash Flow

Discounted Cash Flow - A widely used method of converting future anticipated income into a present value estimate.

- Revenue - A forecast of future oil and gas production and the resulting revenue stream .
- Expenses - Expense related to and necessary for the operation of the property and investment in the property, during the holding period.
- Discount Rate- Used to convert cash flow into present value by discounting. Discount rate represents anticipated investor return and risk.





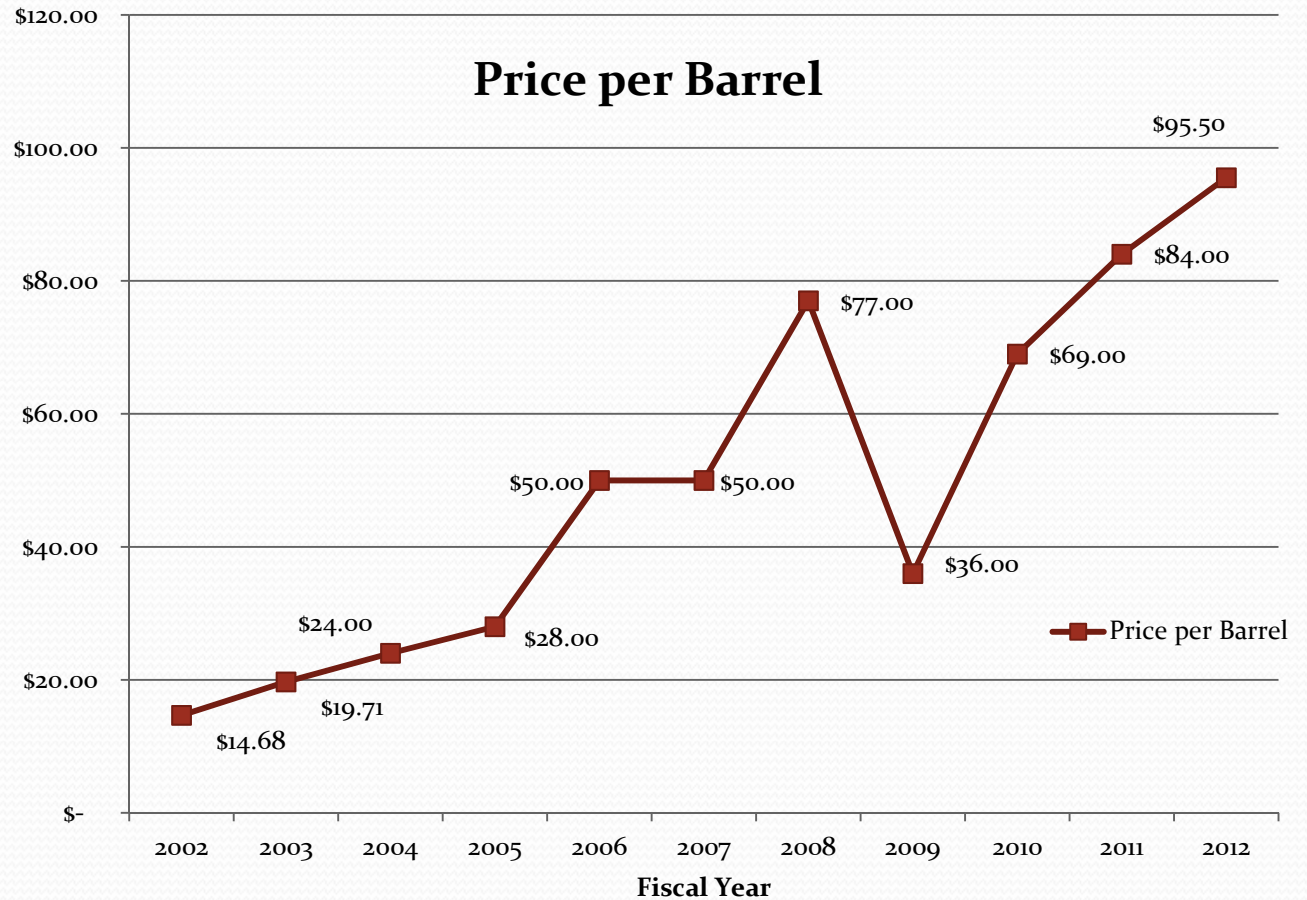
## Since Oil & Gas Property Interest Require Specialized Appraisal Techniques...

*Assessors rely on other resources such as....*

- Consultation with petroleum engineers and petroleum geologists.
- Receipt and review of data from the property operator .
- California Assessor's Association's Petroleum Standards Advisory Committee (PSAC) – To encourage consistency among assessors, the committee meets annually with industry representatives to establish state-wide recommendations for oil/gas pricing and price differentials.

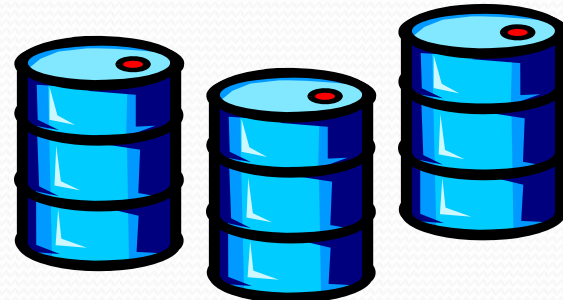
# Midway-Sunset Posted Oil Price per Barrel – 13 Degree

PSAC Parameters Midway-Sunset Oil Price 13 Degree	
Fiscal Year	Price per Barrel
2002	\$ 14.68
2003	\$ 19.71
2004	\$ 24.00
2005	\$ 28.00
2006	\$ 50.00
2007	\$ 50.00
2008	\$ 77.00
2009	\$ 36.00
2010	\$ 69.00
2011	\$ 84.00
2012	\$ 95.50



## Reserves

- The most important part of any petroleum property appraisal is the reserve estimate and the forecast of how those reserves will be produced. (*Assessor Handbook 566, page 8-1*)
- Under Rule 468, assessors must determine the value of all reserves, including expected “probable” and “possible” reserves because they are considered by knowledgeable and informed persons engaged in the operation and buying or selling of such properties. (*Maples v. Kern County AAB* (2002) 103 Cal.App.4th 172, 186; *California Minerals v. County of Kern* (2007) 152 Cal.App.4<sup>th</sup> 1016, 1027.)



## Definition of Proved Reserves

- The definition of “Proved Reserves” for Rule 468, is not the same as the definitions used by the Society of Petroleum Engineers (SPE) and the Security and Exchange Commission (SEC).

“Proved reserves” has a totally different meaning”  
in Rule 468 as compared to the SPE and SEC definitions.”

(*Maples v. Kern County AAB* (2002) 103 Cal.App.4<sup>th</sup> 172, 194.)

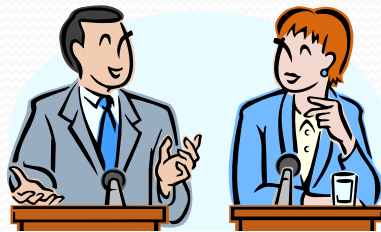
- Proved Reserves under Rule 468 include reserves recoverable under present and expected conditions.
- Proved Reserves under the SPE and SEC definitions only include reserves recoverable under current or existing conditions.





## Assessors and Taxpayers Common Contested Issues

- ❖ Securing all relevant information needed to accurately assess taxable petroleum interests.
- ❖ Determining whether a particular interest is taxable.
- ❖ Determining the proper Base Value for the property.
- ❖ Determining the Market Value of the property.
- ❖ Analyzing how economic conditions impact assessed value.



## The Appeal Process



- Taxpayer Files Application for Changed Assessment.
- Complex Case Procedures Apply if Appraisal Unit is \$30M or greater. (SB County Resolution # 02-0228.)
- 3 Member Assessment Appeals Board (AAB) Hears Case.
- AAB Decisions May Be Appealed to Superior Court
  - Taxpayer May File Claim for Refund.
  - Assessor May File Writ of Mandate.

# The Appeal Process

- 3 - 4 Year Time Frame to Resolve Complex Case Before AAB.
  - As of FY 2011 – Petroleum Appeals

Contested Assessed Value

\$ 402 Million Dollars @ tax rate of 1%

Tax Dollars At Risk

\$ 4 Million Dollars



# Appeal Dollars at Risk - Detail



## **Fiscal Year 2009/10**

	<b><u>Assessed Values</u></b>
Total Roll Value	\$ 243,616,800
Applicant's Opinion of Value	111,750,180

- 2009 Assessed Value at Risk \$ 131,866,620 @ tax rate of 1%

## **Fiscal Year 2010/11**

Total Roll Value	\$ 275,394,400
Applicant's Opinion of Value	137,697,200

- 2010 Assessed Value at Risk \$ 137,697,200 @ tax rate of 1%

## **Fiscal Year 2011/12**

Total Roll Value	\$ 265,715,485
Applicant's Opinion of Value	132,857,748

- 2011 Assessed Value at Risk \$ 132,857,737 @ tax rate of 1%

**Grand Total Assessed at Risk: \$ 402,421,557 @ tax rate of 1%**

## Current Impounds by Auditor



Current Impounds are for BreitBurn Energy Co Appeals Only.

➤ Total Impound - \$ 2.1 Million

❖ From FY 2009-10 Escapes - Approx \$ 700 K

❖ From FY 10-11 and 11-12 - Approx \$1. 400 K



## Recent Activity in Our County

- **New Leases:** Over **200 documents** were recorded in 2011 transferring leasehold mineral rights interests in **over 20,000 acres.**



- 
- **Sales:** In the past two years, there have been approximately **4 significant, verified purchases of petroleum interests.**

The Assessor is currently attempting to gather information on approximately **4 additional transactions.** One estimated transaction was announced in the press at **\$72 million for a 25% Working Interest.**



- **New Development:**

Per County Planning & Development, over **40 proposed projects** in the last three years.

These projects include the **revitalization, exploration, and/or expansion** in over 10 of the onshore oil fields. Some of the larger projects are in the Cat Canyon, Orcutt, and Santa Maria Valley oil Fields.







## Prepared & Presented by:

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Santa Barbara County Board of Supervisors  
August 14, 2012