BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	Planning & Development
Department No.:	053
For Agenda Of:	May 27, 2008
Placement:	Departmental
Estimated Tme:	60 minutes
Continued Item:	Yes
If Yes, date from:	May 13, 2008
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director	John Baker, Deputy CEO, Director of P&D, 568-2243
	Contact Info:	Doug Anthony, Deputy Director, Energy Division, 568-2046
SUBJECT:	**Crude Oil Production Tax**	

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Other Concurrence:
As to form: No

Recommended Actions: That the Board of Supervisors considers selecting a date for the placement of a local tax measure in accordance with the upcoming scheduled elections, and if approved, direct staff to return with a draft ordinance of the tax measure on or before July 1, 2008 for inclusion on the November 4, 2008 ballot..

Summary Text:

At a hearing on the subject on May 13, 2008, the Board of Supervisors asked for more information about the merits of soliciting voter approval of a local oil severance tax, and also directed staff to meet with several interested parties, as shown below. This letter summarizes the information that staff has compiled to date, as well as staff's meetings with various stakeholders. Staff will continue to research additional information and present it as it becomes available.

1. *How much money does the County currently collect from oil producers that would be subject to an oil severance tax, including property taxes, and inspection fees?*

   The County assessed local producers an estimated average of $0.98 per barrel of oil in 2006 in property tax and inspection fees. As illustrated in Table 1, this average cost reflects a range between $0.37 and $2.81. This cost does not reflect development-related or abandonment fees.

Table 1: Estimated Property Taxes and Inspection Fees Assessed Oil Producers											
Producer	Producing Wells in 2006	Oil/Condensate Production in 2006	Ave. barrels per well	2007 Assessed Value	2007 Est. Property @ 1.1%	Petroleum Office Fees*	Estimated Fire Dept Fees**	Energy Division Fees***	Tax Prorated per Barrel	Fees Prorated per Barrel	Total Tax & Fees per Barrel
1	45	69,663	1,548	3,344,040	36,784	6,370	8,068	-	0.53	0.21	0.74
2	103	577,017	5,602	63,033,800	693,372	20,111	6,036	-	1.20	0.05	1.25
3	0	0		11,700	129	35,126	12,072	-			
4	0	0		-	-	-		-			
5	109	298,696	2,740	28,745,630	316,202	34,398	18,108	5,014	1.06	0.18	1.23
7	4	3,249	812	288,730	3,176	910	1,006	-	0.98	0.59	1.57
8	23	49,262	2,142	2,250,370	24,754	2,366	1,006	-	0.50	0.07	0.57
9	225	510,247	2,268	22,800,410	250,805	88,452	42,252	-	0.49	0.26	0.75
10	0	0		-	-	-	-	-			
11	1	2,634	2,634	128,560	1,414	273	1,006	-	0.54	0.49	1.02
13	28	154,387	5,514	15,530,000	170,830	10,283	2,012	-	1.11	0.08	1.19
14	45	57,661	1,281	1,594,300	17,537	5,642	1,006	-	0.30	0.12	0.42
15	1	3,924	3,924	441,320	4,855	455	1,006	-	1.24	0.37	1.61
16	0	0		6,000	66	455	1,006	-			
17	27	18,558	687	46,200	508	3,549	3,018	-	0.03	0.35	0.38
18	0	0		-	-	1,911	-	-			
19	77	210,042	2,728	12,769,390	140,463	8,827	3,018	-	0.67	0.06	0.73
20	0	0		-	-	91	-	-			
21	1	876	876	91,100	1,002	455	1,006	-	1.14	1.67	2.81
22	23	1,110,911	48,300	36,697,422	403,672	3,458	2,012	-	0.36	0.00	0.37
Total	712	3,067,127	81,057	187,778,972	2,065,569	223,132	103,638				
Average									0.68	0.30	0.98

* Represents charges in 2006 using 2008 fee rate -- $91 annual inspection for each well and for each tank battery.

** Represents estimated charges in 2006, with a fee of $1,006 per tax battery (81 in 2006). Does not include fees charges by the department's Prevention Services Division - Hazardous Materials Unit, which vary depending on several factors.

*** Represents fees collected in 2006 for compliance on E&B's downstream gas plant. Does not include downstream refineries or marine terminals.

**** Does not include the Lompoc Oil and Gas Plant, which largely serves OCS production and handles a relatively small proportion of onshore gas.

2. *Should the local oil severance tax be placed on ballot for the November 4, 2008, general election?*

   Proposition 218 requires that a vote on a general tax be held at a general election for election of the legislative body requesting the tax. This November's general election would suffice. Consolidation of an oil severance tax on a general election ballot would cost between $50,000-to-$80,000, according to Elections.

3. *What affect might an oil severance tax have on property owners who lease land to oil producers?*

   There is likely no adverse financial impact to a property owner, who leases land to an oil producer, unless that property owner also owns the mineral rights. Mineral-right owners receive royalties, typically 1/6 or 1/8 the value of the hydrocarbons less costs of production and transport. In these cases, the mineral-right owner would likely pay 1/6 to 1/8 of any oil severance tax imposed. Staff is contacting additional property and mineral owners for more information.

4. *Comparisons of taxes, fees, etc. to other agencies.*

   Staff has only partially gathered this information at the time of docketing this letter, and will provide it when we have gathered it all.

5. *Can the County impose an oil severance tax on current producers only, and not to new production that may be approved in the future, so that future actions by County decision-makers are not influenced by tax revenues?*

   No. The County may not discriminate between current and new production in applying an oil severance tax.

The Board also directed staff to meet with interested parties. The following discussion summarizes those meetings. We are scheduled to meet with producers on Friday morning, May 23, 2008, and will summarize that meeting in our presentation on May 27.

1. *Comments from Environmental Coalition – meeting of May 15, 2008 (participants included representatives of the Environmental Defense Center, the League of Women Voters, Citizens Planning Association, Get Oil Out, Santa Barbara Channel Keeper, and the Community Environmental Council).*

- Some members of the group expressed concern that application of an oil severance tax to new production that would require future approval by County decision-makers would unduly incentivize those decision-makers to approve such projects, regardless of environmental impacts. Most members appeared to support a severance tax that did not apply to new production not yet approved by County decision-makers. One suggested applying it to all development that comes online within the next five years, and not applying to any new production approved after five years.
- Some members thought the oil severance tax should be earmarked for uses that ultimately reduce dependence on fossil fuels. Earmarks for alternative transportation, alternative energy, and implementation of Assembly Bill 32 were offered.
- Some members were interested to see how a severance tax would compare to other sources of revenue that the County receives from oil development; that is, property taxes, and CREF.

2. *Comments from Santa Barbara County Taxpayers Association representatives – meeting of May 16, 2008*

- This topic has not yet gone before the Taxpayers' Association Board, so thoughts expressed below are those of individuals.
- If County pursues an oil severance tax, it should treat it as a capital asset that can be monetized and converted into another asset; that is, what can be done with the tax to generate more revenue in the future. Consideration along this line should be given to asking how this tax might help County government to grow the local economy beyond the service sector. One suggested use offered was investment into public transportation (e.g., as a subsidy). Taxpayers' Association is unlikely to support an oil severance tax as general revenue.
- Taxpayers' Association might consider supporting an oil severance tax if it is packaged so it can withstand sound economic and fiscal policy tests, restricted to uses that bring a return on investment, and is approved by 2/3s of the voters. Within these parameters, it may be acceptable for the County to take a cut to help it resolve forthcoming fiscal needs while earmarking some for things such as alternative transportation, specific educational programs like those offered at Dos Pueblos High's Engineering Academy, and placing some of the revenues into an endowment to generate more revenue.
- Regarding the per-barrel amount of an oil severance tax, it was suggested that County identify its revenue needs and set the per-barrel tax accordingly.

3. *Comments from SEIU 620 representative – meeting of May 21, 2008*

- The representative of SEIU 620 recognizes that the County has a large number of needs, which will require funding.
- He expressed concern about seeking voter approval of an oil severance tax that is timed for a special election, or is structured as a special tax, because the required two-thirds approval of the electorate in these cases increases the risk of a failed ballot measure.
- Believes tax should be structured to address future services as well as designated projects.

4. *Some preliminary comments from California Independent Petroleum Association (CIPA) representative*

- Other states that charge up to $14/barrel severance tax are charged by states, not counties or cities. No county in California charges a severance tax on oil. Cities in California that exercise an oil production tax do not charge anything near $14/barrel. Other states that impose an oil severance tax have different and, sometimes complicated tax treatments, making a comparison difficult without details. Additionally, California imposes taxes or tax rates that other states may not.
- The NYMEX price of West Texas Intermediate heavily influences oil prices in Santa Barbara County, but the latter is not set by global markets. Local regulatory and market factors also influence local crude prices, including extent to which a producer hedges prices or is locked into a long-term contract at a price different than daily market price.
- Need to consult with mineral-right owners, as well as producers.
- Higher costs of production could dis-incentivize future oil production in County, which would reduce County revenues.

- Any consideration of an oil severance tax should not be for general-fund purposes and should not carry an annual adjustment for inflation. Any such tax should provide a reasonable floor representing a price of oil at which the tax is phased out should oil prices decline.

Fiscal and Facilities Impacts:

This item offers one option to enhance future County revenues by placing a severance tax on oil production in the County. The estimated cost to consolidate an oil severance tax on the ballot of a general election is estimated to be $50,000-to-$80,000. The County may not expend public funds campaigning for voter approval of an oil severance tax.