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:	P&D
Department No.:	053
For Agenda Of:	May 06, 2008
Placement:	Set Hearing
Estimated Tme:	60 mins. On May 13, 2008
Continued Item:	
If Yes, date from:	
Vote Required:	

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

County Counsel Concurrence
As to form: No

Auditor-Controller Concurrence
As to form: No

Other Concurrence: None

Recommended Actions:

That the Board of Supervisors:

A. Set a hearing for May 13, 2008 (60 minutes) to consider option for a Crude Oil Production Tax for the County of Santa Barbara.
B. Receive report on the option for the Crude Oil Production Tax.
C. Consider selecting a date for the placement of a local tax measure in accordance with the upcoming scheduled elections.

i. If approved, direct staff to draft a measure for inclusion of the November 4, 2008 ballot that will assess a dollar value per oil barrel crude oil production tax on oil extracted from sub-surface reservoirs underlying unincorporated lands of the County.

ii. If it is determined to place the measure on the November 4, 2008 ballot, direct staff to return to move forward with the local tax measure and elections timing and return on or by July 1, 2008 with the necessary ordinance to consolidate such ballot measure with the November 2008 election.

Summary Text: The purpose of this proposal is to present the considerations for approval and implementation of a Crude Oil Production Tax on extraction of crude oil within the unincorporated boundaries of the County, including State Tidelands for the County of Santa Barbara. The proposal examines factors relating to the following:

1) The implementation of the Crude Oil Production Tax
2) The Crude Oil Production Tax Rate and potential revenues
3) The presentation and timing of the ballot measure

Background:

1) **Implementation of the Oil Tax**

a. This tax would apply to all extraction of oil and gas located within the unincorporated boundaries of the County, including State Tidelands. This approach is similar to the current application of oil production taxes employed by five cities in California (City of Long Beach, City of Huntington Beach, City of Seal Beach, City of Signal Hill, and City of Beverly Hills) that assess an oil production tax. Those taxes are largely based on a fixed dollar value per barrel of oil produced within their respective jurisdictions, as shown below.

b. **Important factors to consider**:
   i. Adjustment for inflation provision to increase tax annually based on inflation. Choice of using Producers Price Index for domestically produced oil and gas, or the Wellhead Acquisition Price by First Purchase California or the Consumer Price Index.
   ii. Frequency of payment: Quarterly vs. Annually.
   iii. Fluctuation of Oil Prices: Eventually, the price of oil may decrease substantially once we no longer depend on oil as a primary source of fuel for motor vehicles. Although that time appears distant, some existing ordinances already include a threshold price at which their taxes are temporarily suspended.
   iv. Audits: Recommend including random producers' audit of records. This cost should be considered when calculating the percent of tax dedicated to administration (i.e., collection and audits).

2) **The Oil Tax Rate and Potential Revenue Enhancements**:

a. **Local Oil Production Taxes in California**: Five cities throughout the Los Angeles Basin assess a tax or annual license fee on crude oil production. No other oil producing local jurisdiction within California appears to assess a tax other than permit and inspection fees, such as we do.

Oil Tax Rate Assessed in 2007 by Local Jurisdictions

City	Tax/ Bbl*	Year Adopted/ Updated	Description
Beverly Hills	$0.365 $0.34	1996/ 2005	$3,650.75 for the first 10,000 barrels ($0.3651/bbls.), $0.34 /bbls. in excess of 10,000 barrels within the city.
Huntington Beach	$0.31	1971/1978	In additional to an annual $100 per well base tax.
Long Beach	$0.40	1990/2007	
Seal Beach	$0.5485	unknown/2004	In addition to an annual $150 per well base tax.
Signal Hill	$0.595	1960/1983	In additional to an annual $100 per well base tax.

b. **Santa Barbara County Oil Production**: The California Department of Conservation, Division of Oil, Gas and Geothermal Resources reported oil and condensate production in Santa Barbara County at 3,109,866 barrels for 2006 (2007 figures are not yet available). This figure is slightly inflated for our purposes because it includes condensate (i.e., natural gas liquids recovered as a byproduct of oil and gas production); however, it is a close approximation.

c. **Sample Situation**: The Tranquillon Ridge field is projected to contain 180-250 million barrels of crude oil. Not all may be recoverable at this time; assume it yields 100 million barrels. Then assume we start our oil tax rate at $1.20/barrel, with annual adjustments based on the Producer Price Index for domestic petroleum at an estimated annual rate of 9.26% (rate from 2006 to 2007) for the next ten years.

Oil Tax Rate at $1.20/bbl
with Annual Adjustments based
on Producer Price Index (PPI)
at an Annual Rate of 9.26%
(rate from 2006 to 2007) for the next 10 years.

YEAR	PRODUCTION (Barrels)	TAX RATE	TAX REVENUE
1	10,000,000	$1.20	$12,000,000
2	10,000,000	$1.311120	$13,111,200
3	10,000,000	$1.432530	$14,325,297
4	10,000,000	$1.565182	$15,651,820
5	10,000,000	$1.710118	$17,101,178
6	10,000,000	$1.868475	$18,684,747
7	10,000,000	$2.041495	$20,414,955
8	10,000,000	$2.230538	$22,305,380
9	10,000,000	$2.437086	$24,370,858
10	10,000,000	$2.662760	$26,627,599
Total	**100,000,000**		**$184,593,034**

B. **Presentation and timing of the ballot measure**:

Consideration of an early ballot measure ((November 4, 2008)

Advantages	*Disadvantages*
Beat a statewide/nationwide effort, particularly if they are preemptive	Risk competing with Measure A renewal
Hear from larger voter turnout	Risk of being seen as adding fuel to rapidly increasing price of gasoline while we're potentially on the cusp of economic recession with growing unemployment
Begin collecting tax in 2008	
Start early to cover as much oil production as possible, (finite resource)	
Option to try again	Next scheduled General Election – June-2010. Currently two district items who are currently considering moving to another election date.

The following schedule would apply, should there be a desire to proceed with placing the oil tax measure on the November 2008 ballot.

Schedule for placing oil–tax measure on the November 2008 ballot

EVENT	DEADLINE
Exact wording of measure and request for approval of the Board of Supervisors for consolidation with the election	7/5/08
Impartial Analysis prepared by legal counsel	7/30/08
Publication by County Clerk, Recorder and Assessor of date for submission of direct arguments for and against the measure	7/22/08
Written direct arguments for and against the measure	7/30/08
Written rebuttal arguments by authors of direct arguments	8/11/08
Period of public examination of proposed measure, analysis and arguments	8/21/08
Completion of submission of ballot/sample ballot order to printer by Elections	8/22/08

Narrative: This item seeks to enhance future County revenues by placing a tax on oil production.

Authored by: Doug Anthony, Deputy Director, Energy Division, Planning & Development

cc: County Counsel/Treasurer – Tax Collector/Elections