

# OIL PRODUCTION TAX FOLLOW-UP



# OIL PRODUCTION TAX OPPORTUNITIES

- ✘ Local control of tax revenues
- ✘ Already voter-approved in cities
- ✘ Positive market timing – price & volume
- ✘ Production is increasing
- ✘ Approximately \$1.8 - 3.3M in new revenue
- ✘ Multiple options for tax structures



# OIL PRODUCTION TAX CONSTRAINTS

- ✘ “Right to produce” and equipment already taxed
- ✘ Impacts to production and jobs possible
- ✘ Other “revenue” measures likely on ballots
- ✘ Board member and measure required on ballot





# IMPACTS OF TAX TYPES ON INDUSTRY

- ✘ Federal and State Income Tax
- ✘ Santa Barbara County Taxes and Fees
  - + Land, Assessed Mineral Value and Improvements
  - + Inspection Fees



# 2010 OIL PRODUCTION DATA

Producing wells	Oil Produced	Average per well	Assessed Property Value	Property Tax Paid	Fees Paid
935	3,407,854	3,645	\$ 667,279,043	\$ 8,007,349	\$318,000

The County currently assess local oil producers \$ 2.44 per barrel of oil produced through property taxes and inspection fees.

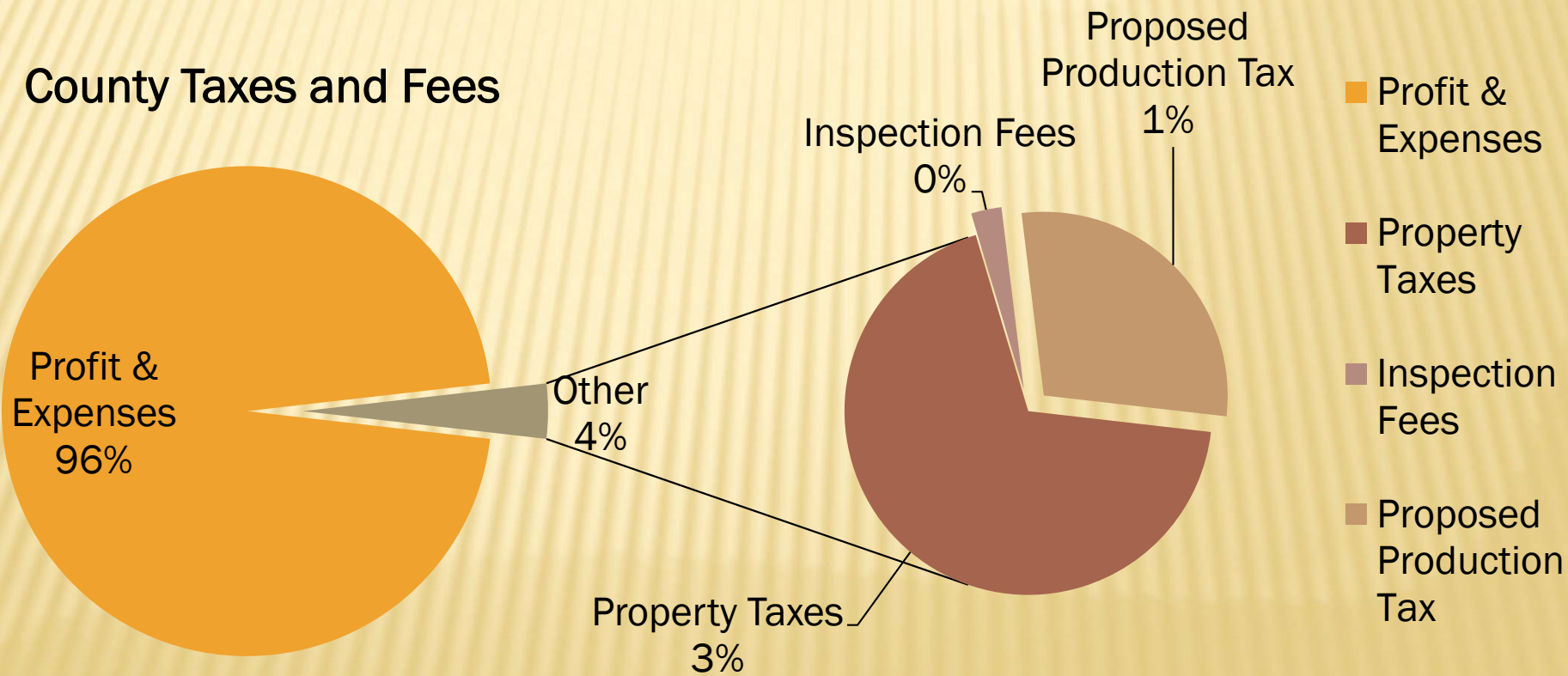
This is 2.6% of the value of a \$95 barrel of oil



# 2010 REVENUE, TAXES AND FEES

- ✘ 3,407,854 barrels produced onshore in SBC
- ✘ \$323,746,130 oil industry revenue @ \$95 bbl

## County Taxes and Fees







# ECONOMIC IMPACT ANALYSIS

- ✘ Impact to industry jobs in Santa Barbara County
  - + Using economic modeling from Governor's proposal in 2008 with proposed 9.9% production tax rate
  - + Loss of 1 job (Center for Labor, UC Berkley)
  - + Loss of 23 jobs (LECG, LLC.)
- ✘ Impact on production
  - + North Dakota- Production up 2x since 2009
- ✘ Impact on pump price
  - + Estimated at ½ cent per tank in 2008



# TAX METHODOLOGIES

- ✘ Volume
  - + Benefits
  - + Constraints
- ✘ Well head
  - + Benefits
  - + Constraints





# VOLUME-BASED TAX METHODOLOGY

## ✘ Scenario One

+ Tax per barrel =	\$0.60
+ # of barrels delivered =	3,407,854
+ Total taxes collected =	\$ 2,044,712

## ✘ Scenario Two

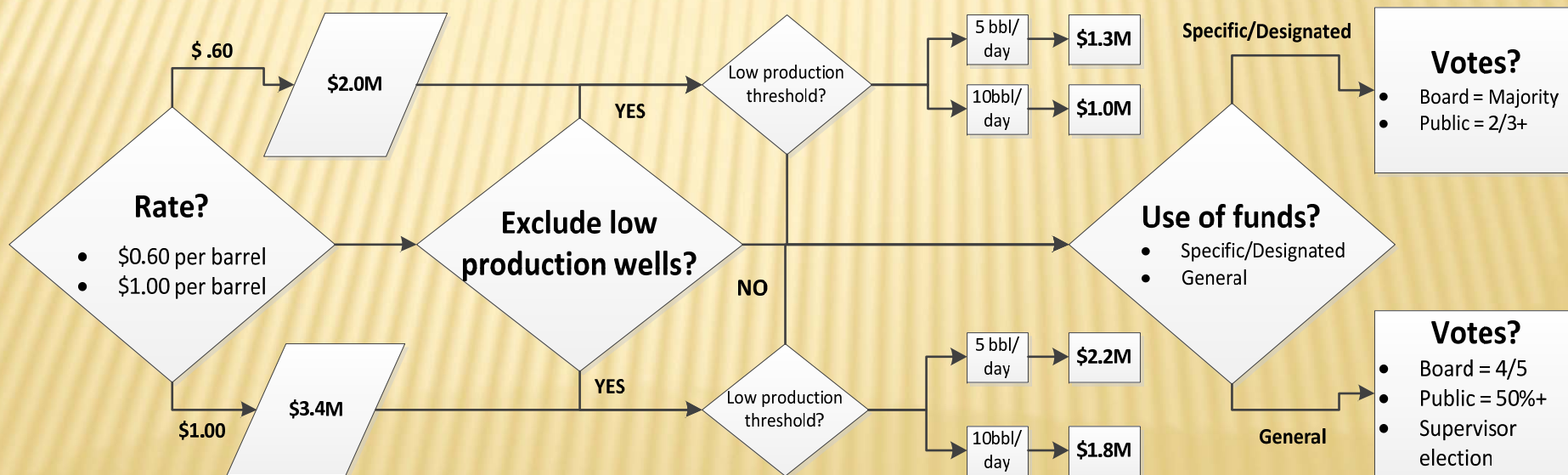
+ Tax per barrel =	\$1.00
+ # of barrels delivered =	3,407,854
+ Total taxes collected =	\$ 3,407,854



# VOLUME BASED TAX OPTIONS

- ✘ Rate
- ✘ Excluding low volume wells & threshold
- ✘ Dynamic rates (increase/decrease) & benchmark

## Example:





# WELL HEAD TAX METHODOLOGY

## ✘ Scenario One – current producing wells

+ Price per well head =	\$3,750
+ # of well heads =	935
+ Total taxes collected =	\$3,506,250

## ✘ Scenario Two

+ Price per well head =	\$5,000
+ # of well heads =	935
+ Total taxes collected =	\$4,675,000





# COST TO PLACE MEASURE ON THE BALLOT

- ✘ Staff Preparation to date
  - + Hours = 180
  - + Other expenses = \$0
- ✘ Ballot Costs
  - + County Counsel = 100 hours
  - + Clerk, Recorder, Assessor - Elections = \$62K-108K



# UPDATED TIMELINE

- ✘ Board approval of specific options by March 20<sup>th</sup>
- ✘ Drafting of ballot proposal until June 30<sup>th</sup>
- ✘ Primary election – June 5<sup>th</sup>
- ✘ Latest docketing deadline – July 5<sup>th</sup>
- ✘ Latest Board meeting for approval – July 17<sup>th</sup>



# RECOMMENDED ACTIONS

- ✘ Receive the follow-up crude oil production tax staff report on the impact to property tax revenue, tax application methodology options, economic analysis on price and jobs, estimates of staff time and cost estimates for getting such a tax measure on the ballot, and
- ✘ Provide staff with direction on how to proceed