COUNTY OF SANTA BARBARA
PLANNING AND DEVELOPMENT

TO:	County Planning Commission
FROM:	Matt Young, Planner
DATE:	June 9, 2016
RE:	Pacific Coast Energy Company (PCEC) Orcutt Hill Resource Enhancement Plan Project Case Nos. 13PPP-00000-00001, 14EIR-00000-00001 APN 113-020-018

During the initial project hearing on May 11, 2016, the Planning Commission directed staff to return on June 29, 2016 and provide the following:

1. Additional information related to the economic benefits of the project, specifically increased property tax to the County, in support of the Statement of Overriding Considerations.

2. Information on the combined "Careaga and California Tiger Salamander (CTS) Exclusion Alternative", and a condition to implement this alternative.

In addition to this direction to staff, the Planning Commission also requested the following:

3. That PCEC provide information to support statements made by the applicant on the record that Lompoc yerba santa is thriving on Orcutt Hill and grows primarily in areas of disturbance.

4. That the Assessor's office send a representative to the June 29, 2016 hearing to address questions related to tax assessments.

1. Economic Benefits of the Project

The Planning Commission requested that staff work with the County Assessor's office to develop hypothetical tax assessment valuations for the proposed project, the Careaga Exclusion Alternative, and the Careaga and CTS Exclusion Alternative.

Assessor's office staff sent a statement to clarify its responsibilities and approach to assessments, included as Attachment A.

The Assessor's staff has also stated that they are unable to provide estimates of future tax revenues.

Based on information obtained from the Assessor's office, PCEC has paid annual taxes between approximately \$2.7 million and \$4.7 million between 2012 and 2015 for its oil and gas operations on Orcutt Hill. While the Assessor's office cannot reliably develop an estimate of the future annual property tax revenue generated by this project, property tax would be expected to increase with increased production, holding all other potential variables constant.

For informational purposes, the Assessor's office gave a presentation to the Board of Supervisors in 2012 that detailed the methods for conducting oil and gas tax assessments. This presentation is included as Attachment B.

2. Careaga and CTS Exclusion Alternative

The Planning Commission directed staff to provide an alternative to Condition of Approval No. 41 in the April 20, 2016 Staff report, to implement the Careaga and CTS Exclusion Alternative. The Careaga and CTS Exclusion Alternative is described in detail in Section 5 of the proposed Final EIR (14EIR-00000-00001). A map showing the Careaga and CTS exclusion Zones is included as Attachment C.

The Careaga and CTS Exclusion Alternative would prohibit new wells within the Careaga tar zone and limit surface activities to areas outside of the 2,200-foot CTS dispersal buffer from known and potential breeding ponds. This alternative would consolidate proposed Pods 8, 10, 11 and 12 into Pod 9 while leaving Pods 13, 14 and 15 the same as the proposed Project. Adding the CTS buffer limitation to the Careaga Exclusion Alternative would somewhat reduce the potential for CTS impacts by keeping all surface activities out of the area of greatest CTS activity, thereby lessening the severity of the CTS-related Class I impact. However, impacts to CTS habitat would remain significant and unavoidable. The limitation of wells to non-Careaga tar zone areas and non-CTS dispersal zone areas would achieve some of the objectives of the proposed Project, since some well drilling could still take place, but would most likely produce approximately 40 percent less crude oil. The following Condition No. 41a would replace Condition No. 41 at the Planning Commission's discretion to implement the Careaga and CTS Exclusion Alternative. Changes from Condition No. 41 are shown in underline.

41a.) Careaga and CTS Exclusion. This condition prohibits the Owner/Permittee from drilling wells through or underneath the Careaga Tar Zone, and prohibits surface activities within a 2,200-foot buffer around known and potential CTS ponds. The Owner/Permittee shall drill no wells, including "replacement wells", in areas overlying the Careaga Tar Zone or within the 2,200-foot CTS buffer as depicted on Attachment H (Careaga Tar Zone Map) to the Staff Report dated April 20, 2016. Also, the Owner/Permittee shall not directionally drill wells to down-hole locations directly underlying the Careaga Tar Zone. **Plan Requirements/Timing:** The Owner/Permittee shall submit drilling plans for all wells showing both the surface and bottom-hole locations to P&D for review and approval prior to issuance of Zoning Clearance. P&D staff, in coordination with DOGGR, shall ensure that project plans depict all proposed well locations outside of the Careaga Tar Zone and outside the 2,200-foot CTS buffer. **Monitoring:** While well drilling and completion processes are underway, DOGGR staff shall verify compliance with this condition through review of Owner/Permittee well drilling records and other appropriate information. If well drilling is determined to be in conflict with this condition, DOGGR shall consult P&D staff, who shall be responsible for enforcement.

3. Lompoc yerba santa

At the May 11, 2016, PCEC representatives stated on the record that Lompoc yerba santa thrives on Orcutt Hill, particularly in areas of disturbance. The Planning Commission requested additional details to support these claims. Staff anticipates that PCEC will provide additional information to the Planning Commission to satisfy this request.

4. Assessor's Office Staff Attendance

Staff contacted the Assessor's office and conveyed the Planning Commission's request for attendance at the June 29, 2016 hearing. The Assessor's office declined to attend the hearing.

5. Staff Recommendation

Staff continues to concur with the EIR that the Careaga Exclusion Alternative is the environmentally preferred alternative. Compared to the Careaga Exclusion Alternative, the combined Careaga and CTS Exclusion Alternative adds only marginal benefits to CTS by limiting surface activities within the 2,200 foot CTS buffer. Impacts to CTS Habitat would remain significant and unavoidable. The combined alternative, would limit drilling locations and oil production to a level that may not meet PCEC's project objectives. A detailed summary of why the Careaga Exclusion Alternative is the Environmentally Superior Alternative may be found in Section 5.3 of the proposed Final EIR. For this reason, staff reiterates our original recommendation that the Planning Commission:

1. Make the Findings for Approval of the project specified in Attachment A to the April 20, 2016 staff report, including CEQA findings.

2. Adopt the Environmental Impact Report 14EIR-00000-00001, included as Attachment 1 to the April 20, 2016 staff report.

3. Approve the modified project (Case No. 13PPP-00000-00001), subject to the conditions included as Attachment B to the April 20, 2016 staff report and as amended in the staff memoranda dated May 6 and May 9, 2016.

Alternatively, refer back to staff if the County Planning Commission takes other than the staff-recommended actions for appropriate findings and conditions.

Attachments

Attachment A: Statement from the Assessor's Office
Attachment B: Oil and Gas Assessment Presentation
Attachment C: Careaga and CTS Exclusion Map

Statement from the Assessor's Office

The assessor's primary responsibility is to annually determine the proper taxable value for each property so the owner is assured of paying the correct amount of property tax for the support of local government. The county assessor must annually assess all taxable property in the county, except for state-assessed property, to the person, business, or legal entity owning, claiming, possessing, or controlling the property on January 1 (lien date). The duties of the county assessor are to discover all assessable property, to inventory and list all taxable property, to value the property, and to enroll the property on the local assessment roll.

Under Proposition 13, properties are reassessed to current market value only upon a change in ownership or completion of new construction (called the base year value). These values are determined based on current market conditions.

Oil & Gas assessments are typically determined by the income approach. When calculating the value a discounted cash flow is used based on the market conditions as of each lien date. Since oil and gas properties are a depleting resource, an adjustment is made annually to account for the change in value. The assessor relies on the operator to report the depletion of oil, the amount of reserves remaining, the expense to operate the facility and any capital expenses that are projected for the coming years. Another key factor for oil assessments is the current oil price. Based on the information needed to determine an appropriate value, the assessor does not predict future values based on data that is not known.

Oil, Gas, & Property Tax
An Overview

August 14, 2012

Santa Barbara County

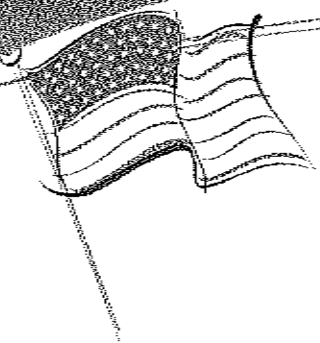
Assessor

&

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.

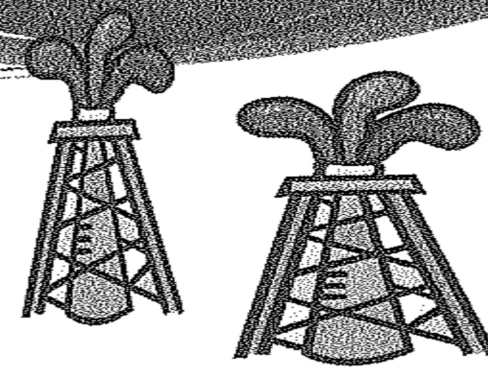
- County assessors are governed by substantive and procedural law derived from constitutional provisions, implemented by statutes, regulations and local county ordinances.

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.

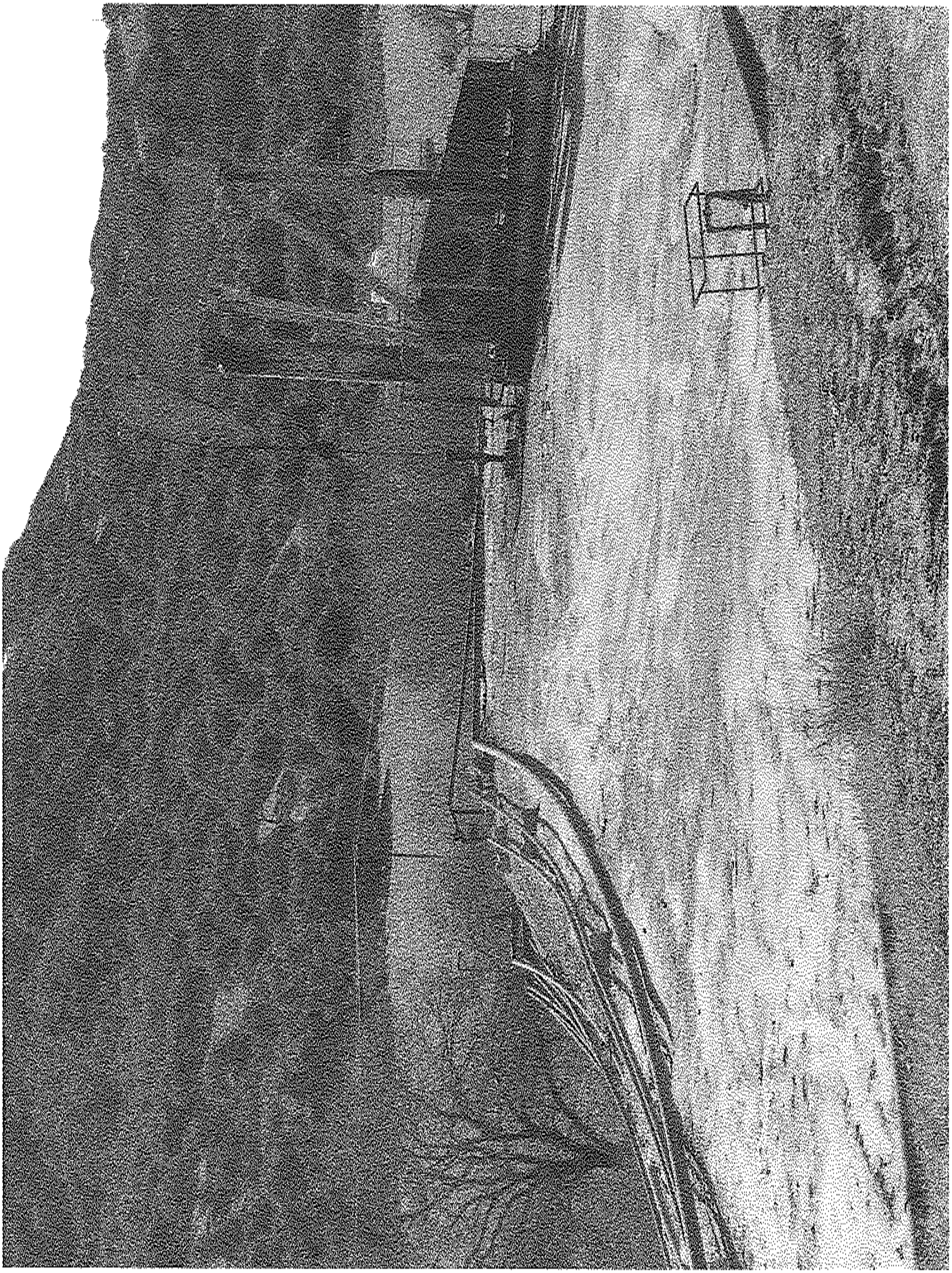
(CA Constitution, Article XIII § 1 & Article XIIIA, § 2, R&T Code §§ 110 and 110.5: *Knoff v. City of San Francisco* (1969) 1 Cal.4th 1105, 1119: and *Mackay v San Francisco* (1886) 1113 Cal.392. 393 & 401.)

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)

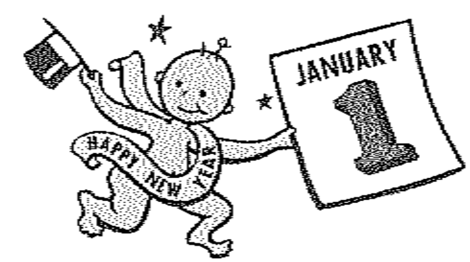


Each Year – January 1 Lien Date

- 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
2002-2003	879 Million
2012-2013	1.225 Billion

Total Roll Value	
Fiscal Year	Total Roll Value
2002-2003	35.04 Billion
2012-2013	59.37 Billion

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.

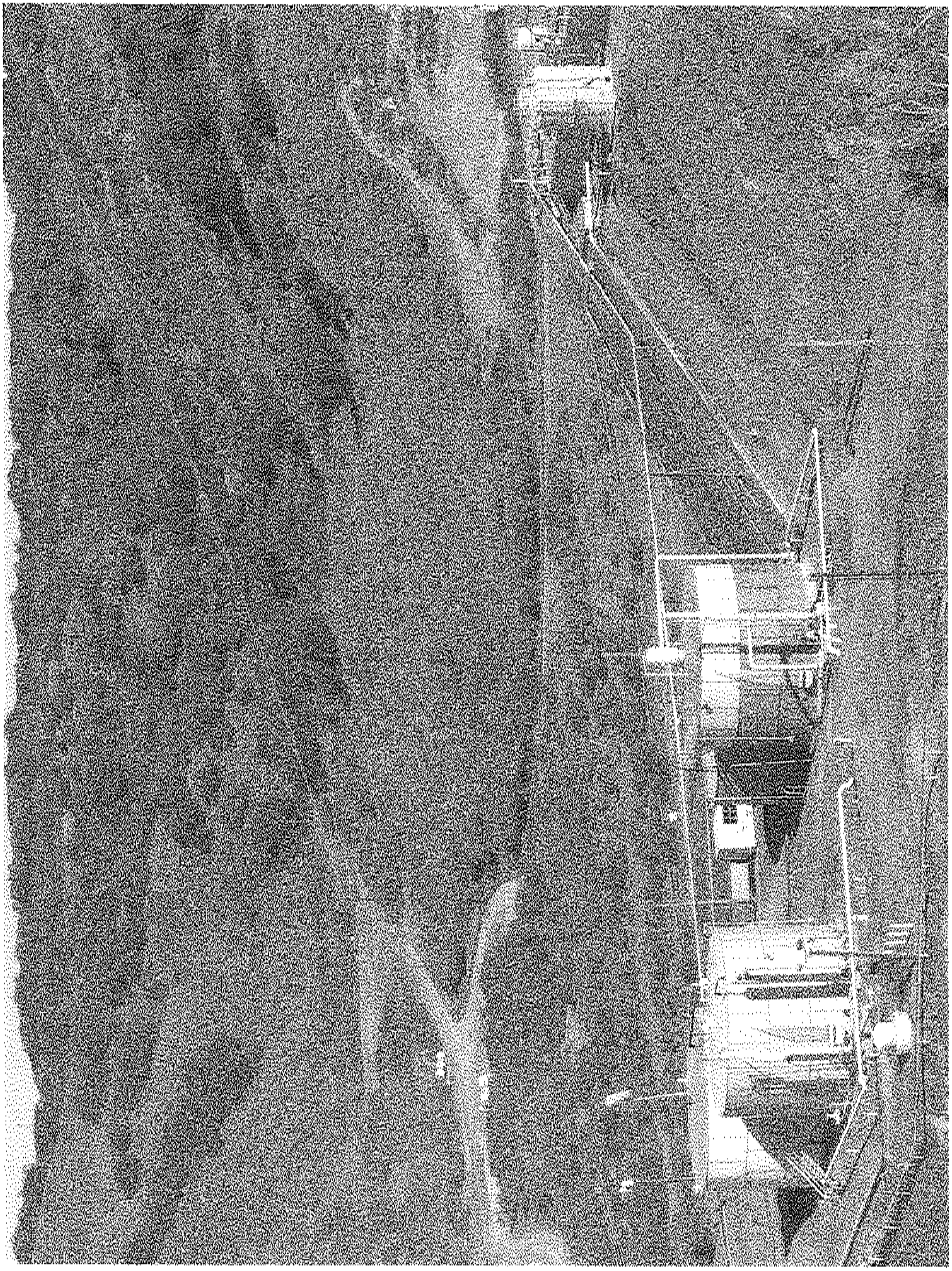
- **DOGGR & Assessors-** Assessors use the DOGGR website to check reported production and keep track of new operators, well development and new leases.

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

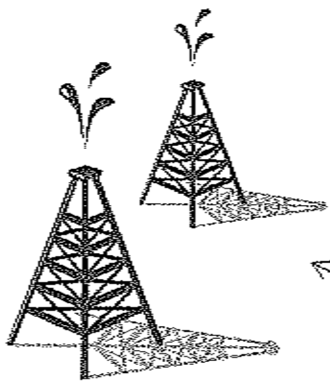
3. The assessor subtracts the portion attributed to the land and improvements.

4. The remainder is the current value of taxable reserves – commonly known as the **Petroleum Interest.** (Rule 468(c)(4)(B).)

then……

Annual Review

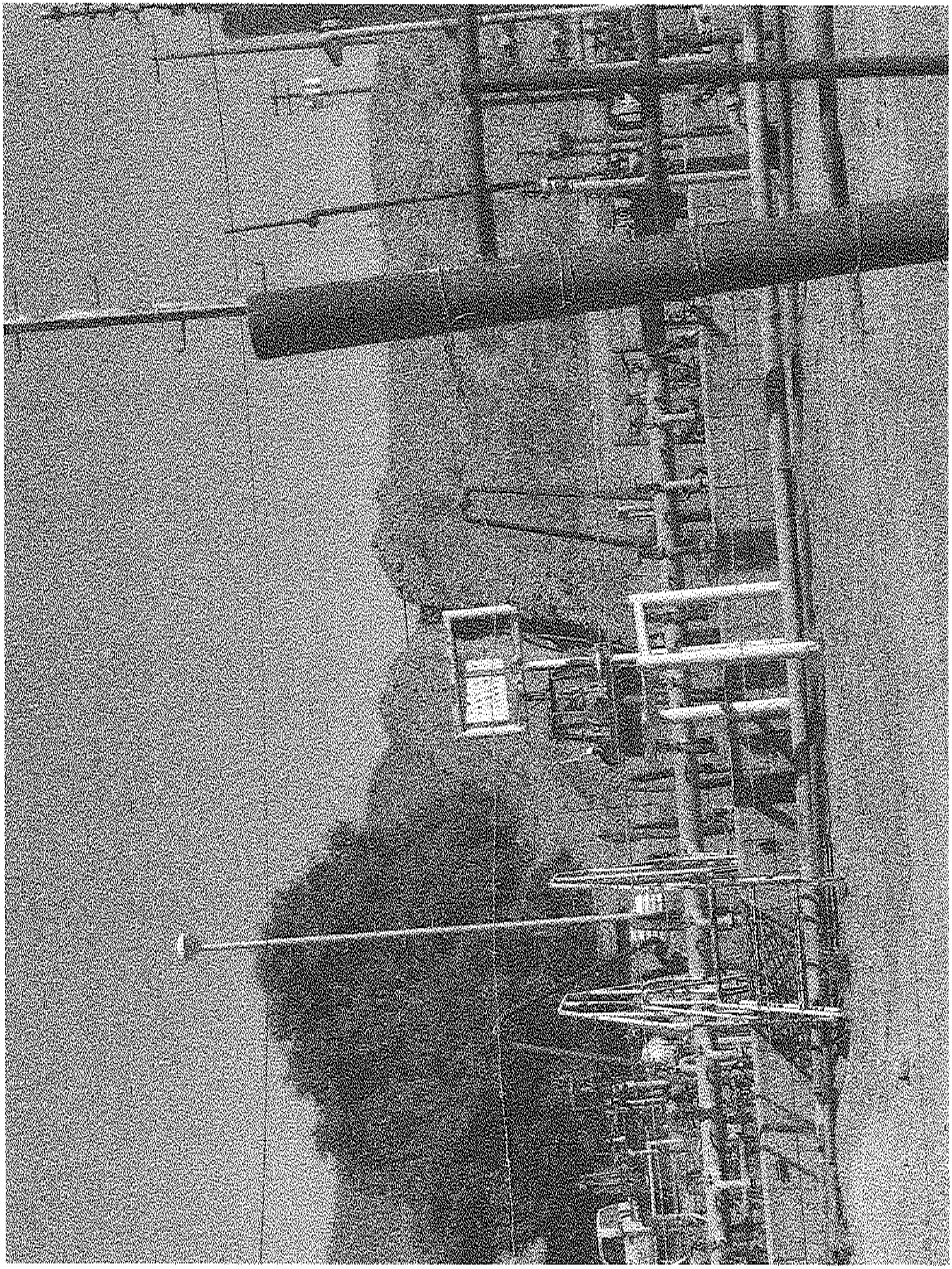
Each year, the Assessor adjusts the value for the Petroleum Interest by:



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

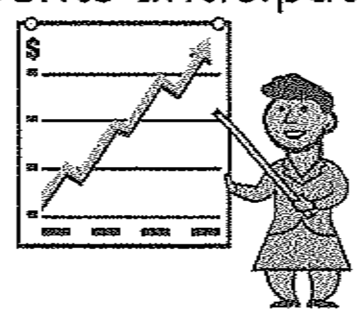
- Although petroleum properties differ in important ways from other real property, they lend themselves to appraisal utilizing traditionally recognized approaches to value (cost, income and market). *(Assessor Handbook 566, pg 5-1.)*

- 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.



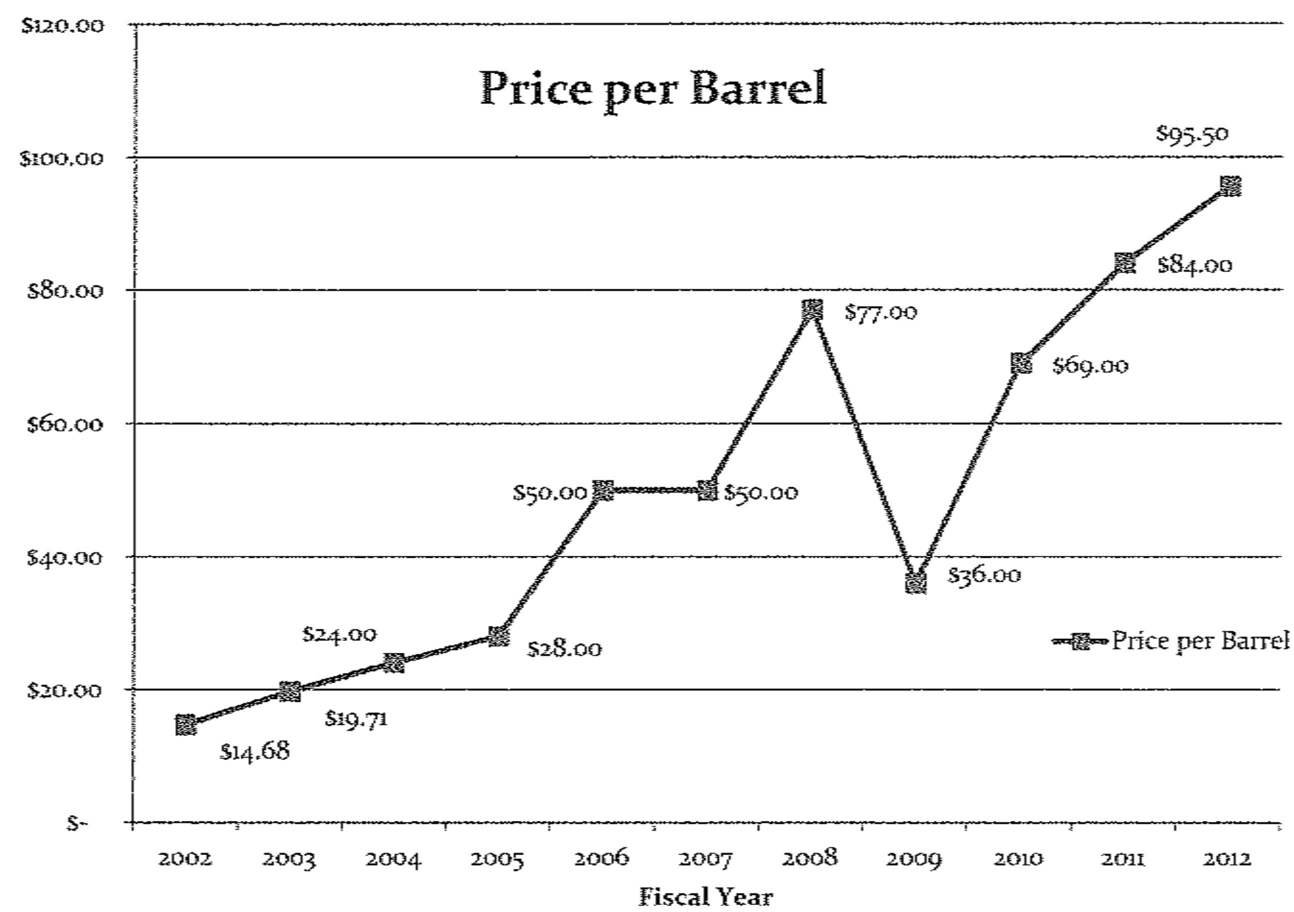
Since Oil & Gas Property Interest Require Specialized Appraisal Techniques…

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.

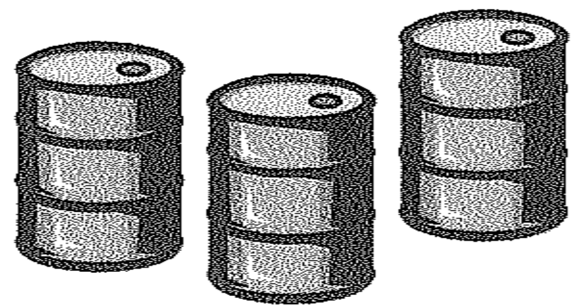
Midway-Sunset Posted Oil Price per Barrel – 13 Degree

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.4th 1016, 1027.)

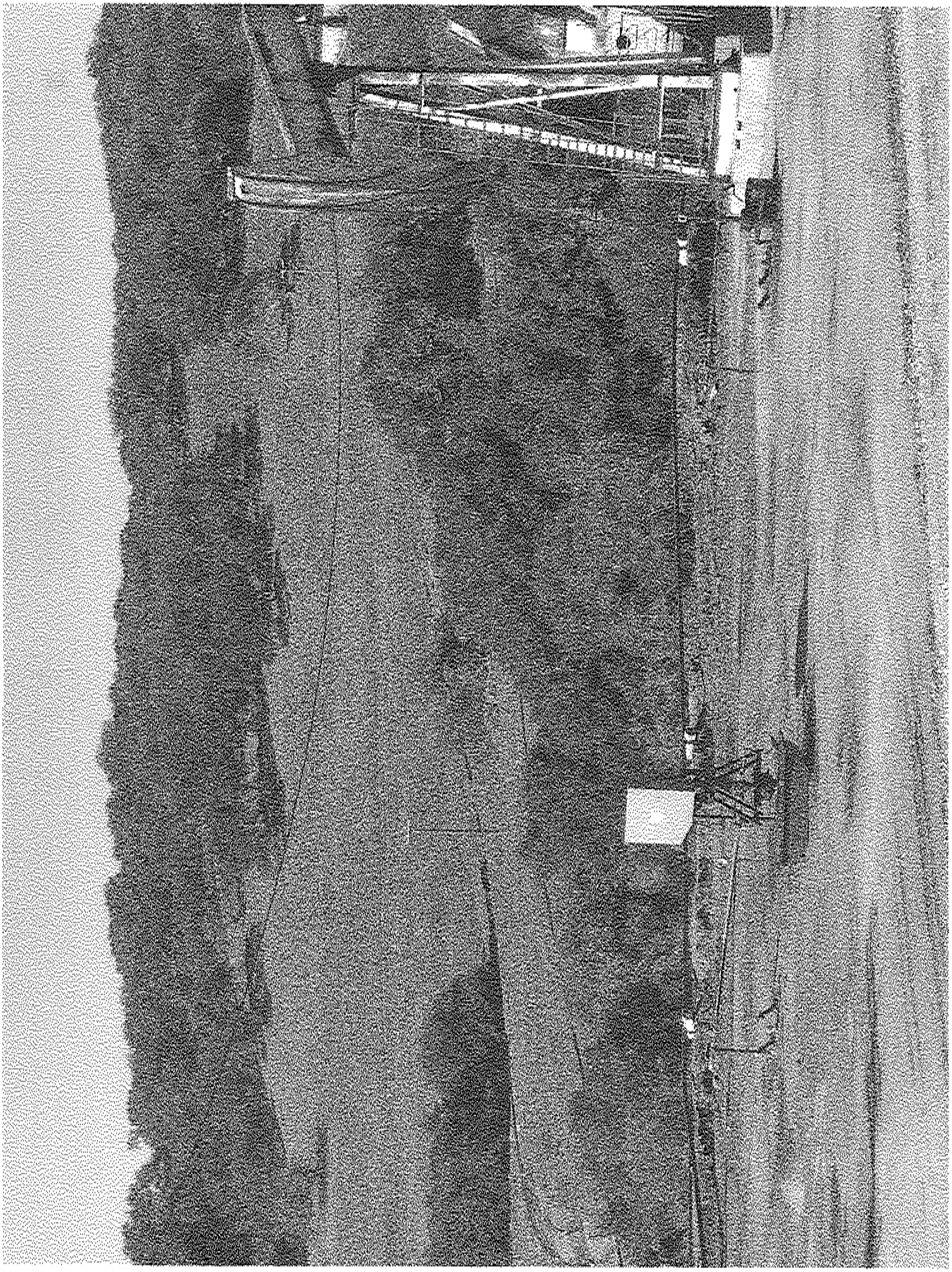


Definition of Proved Reserves

- 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).

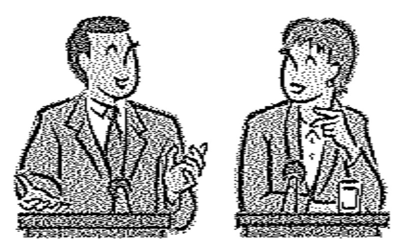
  "Proved reserves" has a totally different meaning"
  in Rule 468 as compared to the SPE and SEC definitions."
  (*Maples v. Kern County AAB* (2002) 103 Cal.App.4th 172, 194.)

- 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

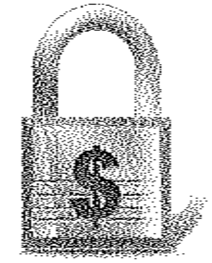
    $ 4 Million Dollars

Appeal Dollars at Risk - Detail

Fiscal Year 2009/10	**Assessed Values**
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%

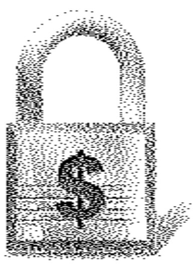
Grand Total Assessed at Risk: $ 402,421,557 @ tax rate of 1%

Current Impounds by Auditor



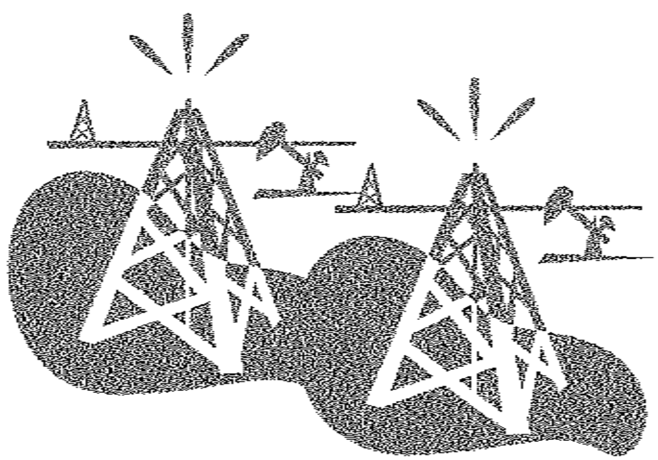
Current Impounds are for BreitBurn Energy Co Appeals Only.

- 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:

Joseph E. Holland, Clerk, Recorder & Assessor
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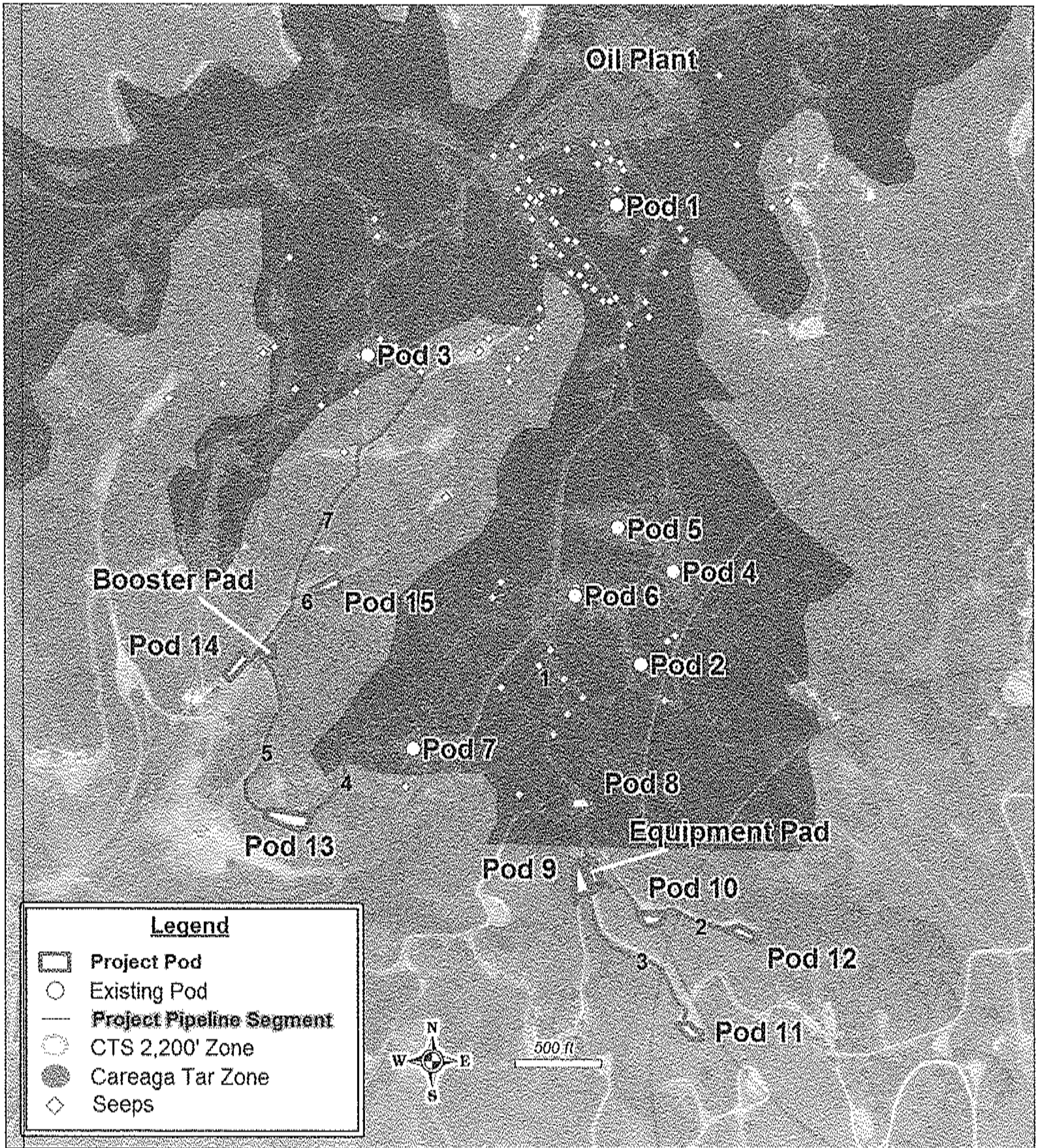
for

Santa Barbara County Board of Supervisors
August 14, 2012



Oil Plant
Pod 1
Pod 3
Pod 5
Pod 4
Pod 6
Pod 2
Booster Pad
Pod 15
Pod 14
Pod 7
Pod 8
Pod 13
Equipment Pad
Pod 9
Pod 10
Pod 12
Pod 11
1
2
3
4
5
6
7
Legend
Project Pod
Existing Pod
Project Pipeline Segment
CTS 2,200' Zone
Careaga Tar Zone
Seeps
N
S
E
W
500 ft