



Recommendation To Revise Oil Production Tax Ordinance

Laura L. Doud, City Auditor

January 23, 2007

Collaborative Effort

- *Working with Mayor Bob Foster, Councilmember Gary DeLong and appropriate stakeholders (including oil producers)*
- *Determination was made that Oil Production Tax (OPT) should be updated*
- *Discussions held to determine tax rate that is fair, equitable and appropriate for all parties*

History of Oil Production Tax in Long Beach

- *Oil Production Tax (OPT) was created by City Ordinance No. C-6751; currently codified at LBMC Section 3.80.221*
- *Mandates a set fee for “every person conducting, managing or carrying on the business of oil from any well located in the City at \$0.15 per barrel”*
- *This fee was set in 1990*

FY 2006 oil production was 14,882,817 barrels, generating \$2,232,423 in revenue to the City

Who Pays the Tax?

- *The Oil Production Tax (OPT) is a tax that is paid by the companies who are producing oil from the oil resources in the City of Long Beach*
- *This is **not** a tax paid by consumers*
- *Oil that is extracted in Long Beach is not high enough quality for gasoline – mostly “heavy sludge” used for industrial purposes*

History of Production

In 1990 when the \$0.15 OPT was passed, the average price of oil was \$24.50.*

- *Equals \$0.006 cents of every dollar of the price of oil*
- *Production was higher than it is currently*
- *Price per barrel remained roughly \$24.50*

History of Production *(con't)*

Annual Production Levels Since Ordinance was passed

<i>YEAR</i>	<i>BBL – TOTAL PRODUCTION</i>
1990 – 1991	22,861,620
1995 – 1996	19,458,147
2000 – 2001	15,767,633
2004 – 2005	14,823,713

OPT had a greater impact on operations at a time where production was higher and the price of oil, as compared to today's prices, was significantly lower

History of Production *(con't.)*

Between 1990 and 2006 the price of oil fluctuated from \$24.50 to \$78.00

- *Using the .006 index, the OPT during the same period would range from \$0.14 and \$0.47*
- *In FY 2006 the average price of oil was \$67.28*
- *Using the .006 index, the OPT for FY 2006 = \$0.40*

Long Beach – Comparison with Other Cities

Long Beach's OPT rate is significantly lower than that of neighboring cities

<u>City</u>	<u>Tax per Barrel</u>	<u>Estimated Production</u>	<u>Estimated Revenue</u>
Beverly Hills	\$0.34	193,000	\$ 65,620
Huntington Beach	\$0.31	935,000	\$ 291,720
Inglewood	\$0.22	3,100,000	\$ 682,000
Santa Fe Springs	\$0.20	935,000	\$ 187,000
Seal Beach	\$0.58	193,000	\$ 112,210
Signal Hill	\$0.60	540,000	\$ 327,240
Long Beach	\$0.15	14,882,817	\$2,232,423

Determining Appropriate Fee

- *Reviewed the OPT rates that neighboring oil production cities pay*
 - *Weighted average of surrounding cities = \$0.29*
 - *True or unweighted average = \$0.37*
 - *Historic range tied to .006 index = \$0.14 to \$0.47*
- *Acknowledged that cost of production in Tidelands area is greater than that of other cities*
- *Reviewed and discussed fee with stakeholders*

***\$0.40 determined to be fair and equitable OPT rate for
FY 2007***

Previous Attempts to Raise OPT

- *September 2004: Long Beach City Auditor released report recommending an increase in the OPT*
- *Specifically recommended appropriate measure be placed on April 2006 ballot*
- *Recommendation never implemented*

Recommendation for Action

- *Update 1990 ordinance to impose flat fee tax per barrel production at \$0.40*
- *Further rate adjustments to the OPT should be tied to the Consumer Price Index annually*
- *New formula:*
$$\# \text{ of barrels produced} \times \$0.40$$

Recommendation for Action *(con't)*

Sample Equation

# Barrels Produced Annually	x	\$0.040	
15,000,000*	x	\$0.40	=
Revenue to the General Fund:		\$6,000,000	
OPT Revenue FY 2006		\$2,232,423	
ESTIMATED OPT Revenue FY 2007		\$6,000,000*	
NET INCREASE IN REVENUE		\$3,767,577	

**indicates estimates only for sample equation purposes*

Recommendation for Action *(con't)*

- *Recommend that City Council consult with City Attorney regarding issues of ballot timing and placement for purposes of proposed change in ordinance*
- *Include “safety net” language in the ordinance that would reduce flat fee in event of an emergency*
- *Tie further OPT rate adjustments to Consumer Price Index annually*

City Auditor Commitment

*Work with Mayor Bob Foster,
Councilmember Gary DeLong and all
stakeholders in drafting proposed new
ordinances and implementing
recommendations as approved by City
Council*

Conclusion

- *Updating the OPT brings fairness and equity to this issue, resulting in appropriate revenue increase to city*
- *Increase would be consistent with surrounding cities*
- *Tax adjustment allows oil producers within the City to remain competitive*