



# ***Recommendation To Revise Oil Production Tax Ordinance***

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# 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

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

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**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
<b>Long Beach</b>	<b>\$0.15</b>	<b>14,882,817</b>	<b>\$2,232,423</b>



# 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:*

*# of barrels produced x \$0.40*

# Recommendation for Action *(con't)*

## *Sample Equation*

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

*\*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*