

TO THE COUNCIL OF THE
CITY OF LOS ANGELES

Your

BUDGET AND FINANCE

Committee

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT relative to placing on the March 2011 ballot, a measure to implement an oil extraction fee on all barrels of crude oil that are extracted within the City.

SUBMITS WITHOUT RECOMMENDATION the recommendations of the Motion (Hahn - Krekorian):

1. REQUEST the City Attorney, with the assistance of the City Administrative Officer (CAO), to prepare and present the documents necessary to place on the March 2011 municipal election ballot, or any other election feasible prior to that date, a measure to implement an oil extraction fee on all barrels of crude oil that are extracted within the City of Los Angeles.
2. DIRECT the CAO to evaluate the impact on the City budget of the above described proposed tax, and, if the voters approve such a tax, adjust revenue projections to reflect this new revenue source.

Fiscal Impact Statement: Neither the CAO nor the Chief Legislative Analyst has completed a financial analysis of this report.

Community Impact Statement: None submitted.

SUMMARY

At its meeting of October 25, 2010, the Budget and Finance Committee considered the Motion (Hahn – Krekorian) relative to placing on the March 2011 ballot, a measure to implement an oil extraction fee on all barrels of crude oil that are extracted within the City. According to the Motion, Californians have previously considered proposals to impose a levy on every barrel that drillers take out of the California ground. Both times, the proposals were unsuccessful. However, with the State's current financial situation, the oil extraction fee proposal is back on the table.

During the Committee discussion, a CAO representative presented an overview of various methods used by other cities to collect oil extraction fees and responded to related questions from Committee members. The Committee requested that the CAO provide additional information for the Committee report. Subsequent to the Committee meeting, the CAO provided the spreadsheet, attached to the Committee report, on Oil Extraction Tax Methods. The CAO also reports that one method is the Fixed Price Per Barrel. This is the most common method among southern California cities with an oil extraction tax. Current tax rates range from \$0.20 to \$0.60 per barrel. Examples are: Santa Fe Springs - \$0.20, Inglewood - \$0.22, Huntington Beach - \$0.31, Beverly Hills - \$0.34, Seal Beach - \$0.58 and Signal Hill - \$0.60. Long Beach received voter approval in May 2007 to raise its tax from \$0.15 to \$0.40 per barrel. If this method is used, an annual CPI adjustment should be included in the proposal.

The CAO further reports that a second method is as a Percentage of the Sale Price Per Barrel. This is the method used by Culver City; the rate is set at 1.8% of the selling price. Current prices are in the \$80 range, so this works out to around \$1.40 per barrel, much higher than the fixed rates charged by other cities. The October 2010 one-year forecast expects oil prices in the mid-\$90's.

A third method is as a Business Tax Category. Currently the City collects \$1 per \$1,000 gross sales for the wholesale price of oil. Based on estimated production of 2.9 million barrels and a rate of \$80 per barrel, current annual revenue is in the \$200,000 range. If the City sets the business tax rate to \$18 per \$1,000 in gross sales, the same level of revenue as the percentage method above is achieved. If the percentage method above is adopted, the City will still collect the business tax on wholesale oil sales.

After discussion and allowing for public comment, the Committee recommended submitting the matter without recommendation to Council. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
PARKS:	YES
SMITH:	YES
ROSENDAHL:	ABSENT
HUIZAR:	YES
KORETZ:	YES

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Attachment
08-0411-S1_rpt_bfc_10-26-10

Not Official Until Council Acts

Oil Extraction Tax Methods

Proposal	Rate	Revenue Per Million Barrels	Revenue @ estimated 2.9 million barrel production	Notes
Fixed Price per barrel Oil Extraction Tax. \$0.60 is the highest rate among local cities with a fixed per barrel extraction tax. We would have to set the rate to \$1.44 per barrel to give this method parity with the percentage of the price option.	\$1.44 per barrel	\$1,440,000	\$4,176,000	Needs annual cpi adjustment.
Percentage of the price per barrel Oil Extraction Tax, using the same percentage as Culver City. Current price of \$80.00 per barrel is assumed.	1.8% of the price per barrel sold	\$1,440,000	\$4,176,000	
Special Business Tax Category. This 1% rate is almost double the current highest business tax rate and is ten times higher than the wholesale tax rate currently used for oil sales.	\$18.00 per \$1,000 in gross sales	\$1,440,000	\$4,176,000	This is over three times the current highest business tax rate.