



## Legislation Text

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**File #:** 20-0687, **Version:** 1

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Recommendation to adopt resolution Calling for the Placement of a General Tax Measure on the Ballot of the November 3, 2020 General Municipal Election for submission to the qualified voters of the City of Long Beach an ordinance amending Long Beach Municipal Code section 3.80.221, to increase the rate of the general purpose Oil Barrel Production Tax (Barrel Tax) from 15 cents per barrel to 30 cents per barrel, with annual CPI adjustments and suspension limits to the general tax;

Pursuant to your request of July 7, 2020, this office, in consultation with the Departments of Financial Management and Energy Resources, has prepared and now submits the above-described Resolutions for your consideration.

1) Resolution Calling for the Placement of a General Tax Measure on the Ballot of the November 3, 2020 General Municipal Election: This Resolution presents a ballot question for submission to the qualified voters of the City of Long Beach relating to an ordinance amending Long Beach Municipal Code section 3.80.221, increasing the rate of the general purpose Oil Barrel Production (Barrel) Tax by 15 cents from 15 cents per barrel to 30 cents per barrel.

At the July 7, 2020 City Council meeting, the Council directed the City Manager and the City Attorney's office to explore the possibility of an increase to City's general Barrel Tax as a means of providing additional general fund revenue. As part of that exploration, City Council also directed that staff engage stakeholders including the State Lands Commission and local oil producers.

**Current Barrel Tax Structure:** The City currently has a two-part Barrel Tax structure: a flat 15 cent per oil Barrel Tax (the general tax) and a 33 cent per oil barrel tax (the special tax, Proposition H for Public Safety approved in 2007) that is adjusted annually according to the Consumer Price Index (CPI) on June 1. The total Barrel Tax for the City is currently at 48 cents per barrel of oil produced. For comparison, Signal Hill's Barrel Tax is currently 60 cents per barrel and the tax rate is adjusted annually based on the Producers' Price Index (PPI) for crude petroleum, a more volatile index. Signal Hill expects the rate to be reduced to 45 cents per barrel retroactive to July 1.

**Stakeholders:** As directed by the City Council, staff met with stakeholders who had an interest in a possible oil Barrel Tax increase. Staff discussed the potential increase to the City's Barrel Tax with California Resources Corporation (CRC). They are by far the largest corporate stakeholder and operate the City and State oil fields. CRC would pay the largest share of the Barrel Tax collected by the City. CRC does not support the oil Barrel Tax increase because it

will be a further burden to them trying to recover from the serious financial situation they face as a result of the recent low oil price environment. Other than the CRC, the State and the City, there are no major operators. Most (94%), but not all of the City's Barrel Tax revenue is from oil fields operated by CRC. Due to the complex contracts with the oil owners for Tidelands and Uplands oil fields, CRC pays about 41 % of the Barrel Tax, the State pays 360/0, and the City pays about 11 %. Together this accounts for about 880/0 of the City's revenue from Barrel Taxes. The only other taxpayer at more than 1 % is Signal Hill Petroleum, which pays 3% of the Barrel Tax. Attachment A provides a list of the Long Beach oil producers and their share of the City's oil barrel tax.

Staff also met with the other local oil producers. The local oil producers were not supportive of the proposed tax but did not express a desire to actively oppose it. The California Independent Petroleum Association (CIPA) suggested that the City consider a tax that included oil imports. (Staff is researching the feasibility of such a tax).

Staff also met with the State Lands Commission (SLC). In setting a proposed general Barrel Tax increase, staff was cautioned by initial conversations with the SLC. The SLC reiterated their concerns that a tax increase is inconsistent with the City's responsibilities as a trustee based on a potential claim that it diverts money from the State's trust and inconsistent with the City's responsibilities as an operator, if the Barrel Tax places a burden on the existing operations and drives down production.

Included as Attachment F is a brief transmittal memo from Bob Dowell, the Director of Energy Resources summarizing stakeholder engagement, along with the letters from SLC, a slide presentation from the CIPA expressing concerns about the proposed tax and suggesting an alternative tax, and notes from the oil producers meeting.

In order to minimize the concerns expressed, one course of action is to set a total Barrel Tax rate that is competitive in the market. A Barrel Tax increase of 12 to 15 cents per barrel can be competitive with the market, depending on what indices other cities use. A 12 to 15 cent increase would place the total Long Beach tax in line with recent Signal Hill oil Barrel Tax rates, so that Long Beach would not stand out in terms of tax rate. Also, by using the more stable consumer price index (CPI) the tax will be relatively consistent. Some of the rates are periodically index adjusted. Signal Hill is one of the cities along with Long Beach that makes periodic adjustments and Signal Hills rates are shown for several different time periods as they vary significantly over time.

It is recommended that the attached proposed ballot measure be approved for placement on the ballot, increasing the current general Barrel Tax by 15 cents, from 15 cents per barrel to 30 cents per barrel, with annual adjustments according to CPI on June 1. When combined with the special purpose tax the total tax would increase from 48 cents to 63 cents per barrel. A 15 cent tax increase would generate an estimated \$1.6 million in the first year. The new tax would take effect on January 1, 2021, or the earliest first of the month thereafter as permitted by law. Further, the new 15 cent oil Barrel Tax will be suspended in any month if realized oil

prices are at or below \$20 per barrel.

Attachment B shows cities with an oil Barrel Tax and their rates as most recently provided by them including Long Beach's current rate and the proposed rate.

Proposition 218 generally requires new and increased general taxes and extension of general taxes to be voted on at a general election at which members of the City Council are elected (November 2020). A general tax measure such as this requires approval by a simple majority vote. Revenue derived from the increase, if approved, would be placed in the City's general fund. However, the City Council may consider adopting at a future meeting a non-binding resolution of spending priorities.

2) Resolution Providing for the Filing of Primary and Rebuttal Arguments and Setting the Rules for the Filing of Written Arguments: Consistent with the California Elections Code and the Long Beach Municipal Code, this Resolution sets forth rules and timelines for primary and rebuttal argument writers relating to the Barrel

Tax measure to be submitted to Long Beach voters at the November 3, 2020 General Municipal Election.

3) Resolution Requesting the Board of Supervisors of the County of Los Angeles to Consolidate a General Municipal Election: Consistent with California Elections Code section 10403, this Resolution requests Los Angeles County to consolidate the November 3, 2020 General Municipal Election with the Statewide general election to be held on that date, and to provide any necessary elections services.

This matter was reviewed by Deputy City Attorney Amy Webber on July 22, 2020 and Finance Director John Gross on July 22, 2020.

City Council action is requested on July 29, 2020, in order to have sufficient time to bring back a resolution for an oil Barrel Tax increase ballot question to be placed on the November 2020 ballot, no later than August 4, 2020.

The addition of this ballot question to the November 2020 ballot is estimated to cost \$1.1 million to be funded from City reserves, most likely from the unfunded liability reserve. The oil Barrel Tax currently generates about \$1 million per 10 cents of tax and the proceeds would be placed in the General Fund for general purposes. A 15 cent per barrel increase in the tax would generate about an additional \$1.6 million a year, subject to the escalator clause and subject to the normal reduction in oil production each year (8% to 100/0) and subject to potential production spikes and resets due to the addition of new wells if oil prices increased high enough to support the drilling of new wells. Annually, Tidelands Fund oil revenues would be reduced by about \$135,000 and Uplands Fund oil revenue by about \$25,000. The total net revenue increase to the City (all funds) would be about \$1.3 million per year. It is not clear as to whether this increase to the oil barrel tax would impact oil production volumes or oil

exploration in Tidelands or other areas. It could be that a 15 cent tax increase per barrel alone has no significant impact. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

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CHARLES PARKIN  
CITY ATTORNEY

BY:  
AMY R. WEBBER  
DEPUTY CITY ATTORNEY

BOB DOWELL  
DIRECTOR OF ENERGY RESOURCES

JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA  
CITY MANAGER