

# Fixing the Oil Production Fee

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# Fixing the Oil Production Fee: Problems with Current Fees

Current oil production fee is split into two components:

- .15 cents a barrel established in late 1990's which goes into the General Fund
- .25 cents a barrel established in 2007 under Prop H which is divided between Fire and Police
- The .15 cents a barrel rate **never increases**
- The .25 cents increases based upon the Consumer Price Index

# Fixing the Oil Production Fee: Problems with Current Fees

- City of Signal Hill's oil production fee increases based upon the Petroleum Price Index (PPI)
- In 2006, City of Signal Hill's oil production fee was .60 cents a barrel
- Today, City of Signal Hill's oil production fee is .80 cents a barrel due to use of PPI and not CPI
- City of Long Beach lost \$1.9 million** on this oil production fee for using the CPI instead of the PPI according to a recent management memo

# Fixing the Oil Production Fee: Problems with Current Fees

City Auditor Laura Doud points out in her audit that:

*“Since the inception of Prop H through September 20, 2010, quarterly oil production in Long Beach has decreased significantly, thereby reducing the amount of special oil tax revenues to the City.”*

- The decrease in production is largely due to the fact many wells are producing less and less oil – particularly in the Wilmington field
- However, oil operators in Long Beach reported a total of 13,098,851 barrels of oil produced in 2010

# Fixing the Oil Production Fee: Problems with Current Fees

- Long Beach set its oil production fees based upon a \$24.49 a barrel price
- This amounted to \$.006 cents for every dollar on the price of oil
- Today, the posted price of Long Beach crude oil is:  
**Midway Sunset \$96.90 a barrel**
- This amounts to \$.004 cents for every dollar

# Fixing the Oil Production Fee: Problems with Current Fees

- Long Beach set its oil production fees based upon a \$24.49 a barrel price
- This amounted to \$.006 cents for every dollar on the price of oil
- Today, the posted price of Long Beach crude oil is:  
**Midway Sunset \$96.90 a barrel**
- This amounts to **only \$.004 cents for every dollar**

# Fixing the Oil Production Fee: The Price of Crude

- Price of crude oil is set by commodities trading
- Crude is refined into a number of products depending upon API gravity
- **Long Beach Wilmington Oil has an API of 17**
- Oil refineries post daily the price they pay per barrel
- City Auditor Doud reports that the City has been hit with much higher costs for asphalt (made from our crude oil) thereby reducing the number of streets that can be paved

# Fixing the Oil Production Fee: The Price of Crude

- **Increasing the oil production fee DOES NOT impact the consumer at the pump**
- The oil production fee is paid before refining
- The refineries will only pay the oil producer the posted price – the fees are not passed along



# Fixing the Oil Production Fee: The Price of Crude

- While the **City of Long Beach predicts a \$26 million dollar deficit** -- collecting only .40 cents on each barrel of oil taken the major oil companies posted huge profits in the 1<sup>st</sup> quarter of 2012
- **Long Beach's largest oil producer Oxy Petroleum generated a net profit of \$1.56 billion in the first quarter of this year**
- That compared to the 2011 results of \$1.55 billion

# Fixing the Oil Production Fee: November Opportunity

- The City is required to bear the costs of a city wide election in November 2012 because of two citizen initiatives:
  - **Living Wage requirement for hotels**
  - **Moving Long Beach elections from April and June to June and November**
- Placing an additional item on the ballot in November would require minimal additional costs
- Waiting until 2014 means the City will continue to lose revenue

# Fixing the Oil Production Fee: Proposed Ballot Item #1

- Offer the voters an opportunity to **fix the oil production fee** so that the City recovers maximum amount of revenue
- **Combine the two oil production fees**
- Set new rate at \$1.00 a barrel or 2% of posted price at time oil is sold by producer – which ever of the two is greater
- Eliminate inflation factor as new formula reflects volatility of market and protects the residents from revenue loss

# Fixing the Oil Production Fee: Proposed Ballot Item #1

• **Establish a citizen oversight committee** headed by City Auditor and comprised of one citizen appointed by the Mayor and each Councilmember to ensure revenues received will be utilized in the following manner:

- **25 % Police Services**
- **25% Fire Services**
- **15% Recreation Services**
- **10% Library Service**
- **25% Infrastructure/Street Repair**

# Fixing the Oil Production Fee: Proposed Ballot Item #2

• **Establish a citizen oversight committee** headed by City Auditor and comprised of one citizen appointed by the Mayor and each Councilmember to ensure revenues received will be utilized in the following manner:

- **35% Police Services**
- **35% Fire Services**
- **30% Infrastructure/Street Repair**

# Fixing the Oil Production Fee: Example of Possible Revenue

• Oil priced at \$86.00 a barrel with production in range of 12 million barrels:

- **\$ 1 a barrel = \$12 million dollars (compared to .40 cents a barrel = \$4.8 million)**
- **2% of posted price - \$86 - x 12 million barrels= \$20.6 million**

# Fixing the Oil Production Fee: Example of Possible Revenue

- Oil priced at \$45.00 a barrel with production in range of 9 million barrels:
  - **\$ 1 a barrel = \$9 million dollars (compared to .40 cents a barrel = \$3.6 million)**
  - **2% of posted price - \$45 - x 12 million barrels= \$8.1 million**

# Fixing the Oil Production Fee: What This Could Mean

Per City Auditor – City received \$3,379,541 under Prop H for 13,098,851 barrels

- Police Services received: \$1.6 million
- Fire Services received: \$1.6 million



# Fixing the Oil Production Fee: What This Could Mean

## @ .25 a barrel

Per City Auditor – City received  
\$3,379,541 under Prop H for  
13,098,851 barrels

- Police received **\$1.6 million**
- Fire received **\$1.6 million**

## @ \$1 a barrel or 2% of posted price

\$1 barrel x 13 million barrels = \$13  
million

- Police would receive: \$3.2 m
- Fire would receive: \$3.2 m
- Libraries would receive: \$1.3 m
- Recreation would receive: \$1.9 m
- Streets would receive: \$3.2 m

## @ 2% of posted price = \$22 million

- Police = \$5.5 m
- Fire = \$5.5 m
- Libraries = \$2.2 m
- Recreation = \$3.3 m
- Streets: \$5.5 m

# Fixing the Oil Production Fee: Is A Winner for Everyone!

- Fixes a problem that has resulted in the City not receiving appropriate level of revenue
- Sets in place a citizen oversight committee to ensure revenues spent appropriately
- **Increases revenue for important key services without raising any taxes on residents**