



City Auditor

Oil Production Tax

City Auditor's Office Review

October 5, 2004



Background

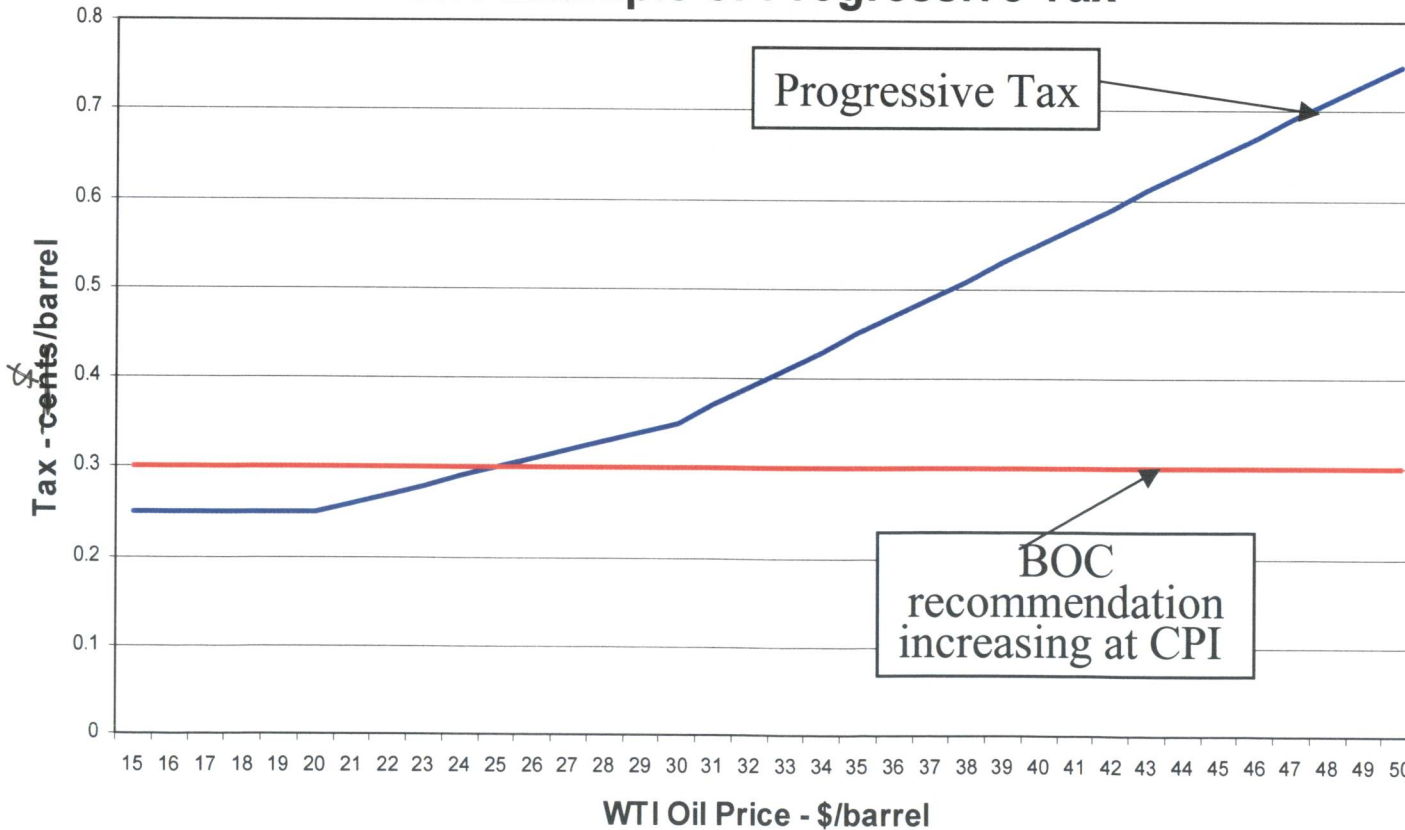
- Currently, oil production tax is 15¢/barrel.
- Tax was last increased in 1990 from 12¢/barrel (over 300 barrels/quarter)
- Prior increase was in 1986.
- BOC recommended increasing oil production tax to 30¢/barrel + CPI.
- In accordance with Proposition 218, the next opportunity to increase the tax is the April 2006 city-wide elections.
- Oil production tax applies to approximately 14.5 million barrels a year.
- Gas production is currently not taxed.



Recommendations

- We recommend a progressive tax, tied to the price of oil with a set floor.

One Example of Progressive Tax



Progressive Tax	
Price \$/bbl	Tax \$/bbl
15	0.25
20	0.26
25	0.31
30	0.37
35	0.47
40	0.57
45	0.67
50	0.77



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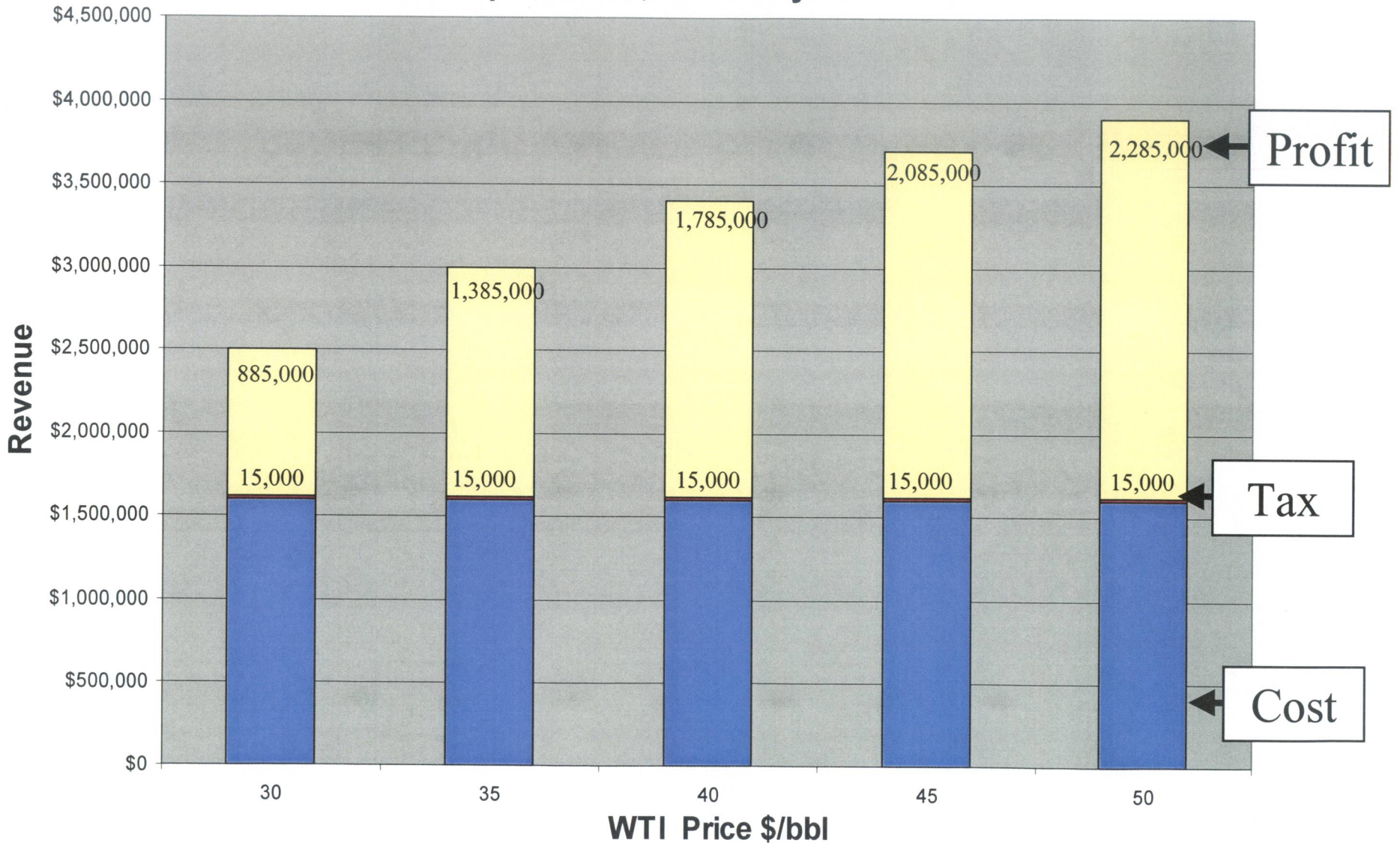
Recommendations (cont'd)

- We recommend having a tax structure that is easy to administer and monitor for compliance.
- We recommend taxing gas production.
- A special allowance may be made for stripper wells (producing less than 10 barrels/day).



Current Oil Production Tax

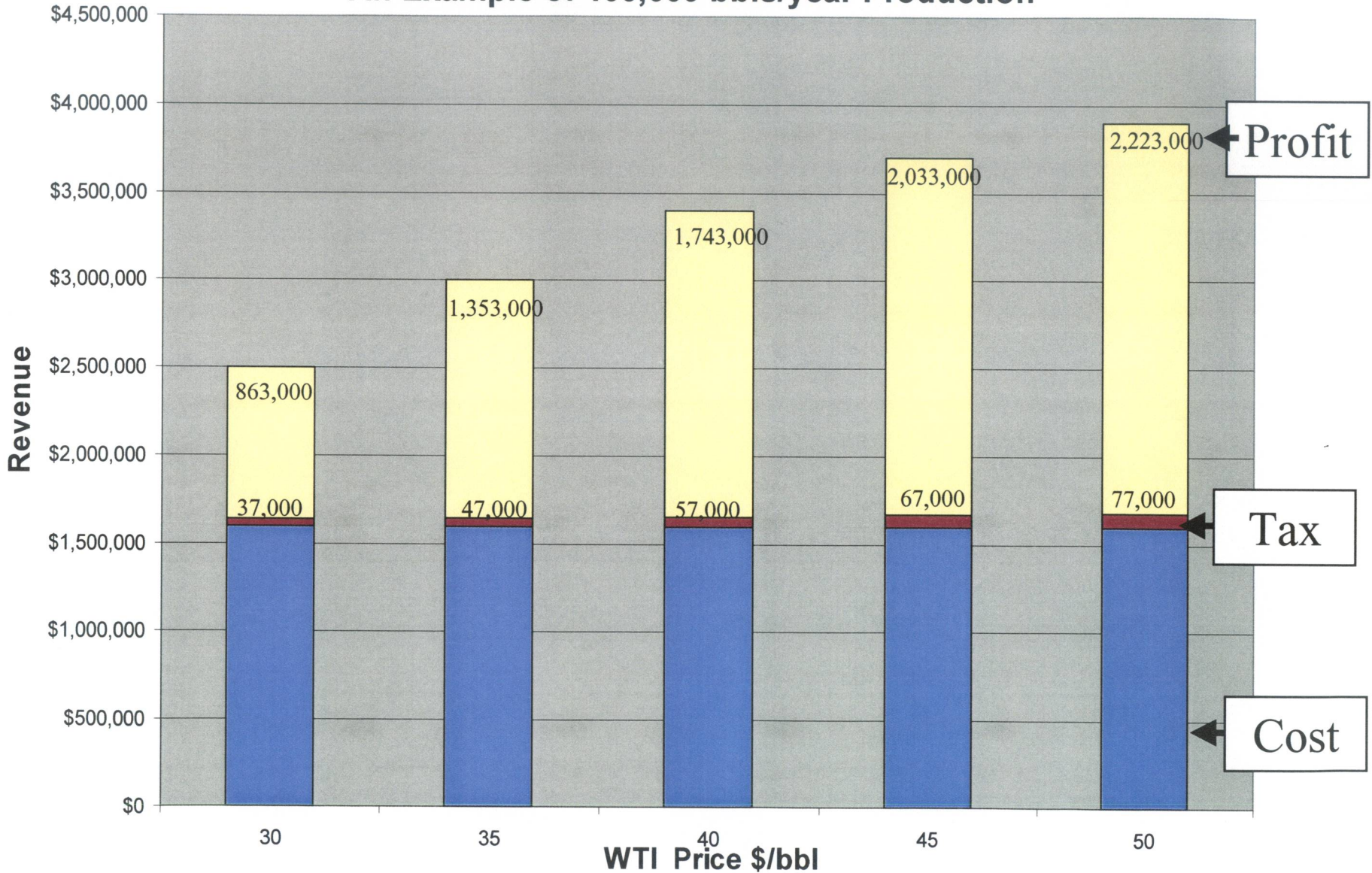
An Example of 100,000 bbls/year Production





Production Tax After Increase

An Example of 100,000 bbls/year Production





Conclusion

- The overriding concept is not to cause wells to idle but to share in any windfall profit during high oil prices environment.
- Raising this tax will not have a negative impact on consumers as oil prices are set by supply/demand market forces.