City of Long Beach

411 West Ocean Boulevard
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Legislation Details (With Text)

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Title: Recommendation to increase the current Oil Production Tax (OPT) from $0.15 per barrel to $0.40 per barrel with an annual adjustment based on the Consumer Price Index (CPI). (Citywide)

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Attachments: 1. 012307-R-28sr.pdf, 2. 012307-R-28Presentation

Date	Ver.	Action By	Action	Result
1/23/2007	1	City Council	approve recommendation	Pass

Recommendation to increase the current Oil Production Tax (OPT) from $0.15 per barrel to $0.40 per barrel with an annual adjustment based on the Consumer Price Index (CPI). (Citywide)

Over the course of the last two months, the Office of the City Auditor, in conjunction with the Office of the Mayor, the Office of Councilmember Gary DeLong, and the Department of Financial Management, has been reviewing and analyzing the current Oil Production Tax utilized by the City of Long Beach. The Oil Production Tax (OPT), created by City Ordinance No. C-6751 and currently codified at LBMC Section 3.80.221, mandates a set fee for "every person conducting, managing or carrying on the business of oil production from any well located in the City" at $0.15 per barrel. FY2006 oil production citywide was 14,882,817 barrels, generating a total revenue from the OPT tax of $2,232,423. The average price of oil in FY2006 was $67.28.

HISTORY OF PRODUCTION IN LONG BEACH:

In 1990 when the $0.15 OPT was passed, the average price of oil (using the West Texas Oil Index (WTI)) was $24.49. This equals approximately 0.006 cents for every dollar of oil on the WTI. Production, at the time the original ordinance was adopted, was higher than it is today. Since 1990, production in Long Beach has declined, as confirmed by the selected years of production set forth below:

Year	Total Production (bbl)
1990-1991	22,861,620
1992-1993	20,784,093
1995-1996	19,458,147
2000-2001	15,767,633
2004-2005	14,823,713

Concurrently, however, the price of oil during this same period of time has steadily grown.

Between 1990 and the present, the price of oil based on the WTI has fluctuated between $18.58 and $74.41. Utilizing the same ratio codified by the original ordinance (.006 per bbl on the WTI), and indexing that ratio to the fluctuation in oil prices, the OPT would have fluctuated concurrently between $0.11 and $0.46 in any given year within this time frame.

NEIGHBORING CITIES:

The City's current OPT rate is significantly lower than that of other neighboring cities, many of which use a rate tied to inflation or other industry indices. The weighted average (taking into account production volume) of neighboring cities is approximately $0.28 with the un-weighted average at $0.37.

In October of 2004, the Office of the City Auditor released a report with recommendations for increasing the OPT. Our office has reviewed this report and provided updates accordingly. Namely, our office has verified the OPT rates currently used by surrounding cities and we have confirmed that Long Beach in fact remains near the bottom of the list, while Signal Hill currently charges four times more per barrel than Long Beach does ($0.60 per barrel) with less annual production overall. 1 Likewise, other lower-producing cities such as Torrance, Montebello and Inglewood are nevertheless charging over $0.20 for their respective OPT fees.

RECOMMENDATIONS BY THE CITY AUDITOR:

In order to bring Long Beach in line with surrounding cities and in order to capture revenue from a competitive and fair OPT rate, we recommend that the current ordinance be changed to increase the OPT currently charged by the City of Long Beach. After reviewing and discussing these issues with the key stakeholders including oil producers and Long Beach constituents, and taking into account both the average of surrounding cities as well as the potential revenue that could have been generated using an index at the same ratio codified in the current ordinance, we recommend that the OPT be increased from $0.15 to $0.40 with an annual adjustment based on the CPI index. Given the volatile nature of the oil industry as well as the costs associated with production in the Tidelands area, we believe this fee is fair and equitable for both the residents of the City and the Oil producers. We would also recommend some "safety net" language be placed in the ordinance consistent with other City ordinances that would reduce the OPT in the event of a true emergency. We would defer to the City Attorney and the Department of Oil & Gas to develop appropriate language.

We believe such an increase would be consistent with surrounding cities and the amount of oil extracted within the city boundaries. Such an incremental adjustment is anticipated to raise an additional $4,000,000.00 in the General Fund annually.

We further recommend that the City Council consult with the City Attorney and the City Clerk regarding the issue of ballot timing and placement for purposes of any such increase.

Approve recommendation.

LAURA DOUD
City Auditor