City of Long Beach

411 West Ocean Boulevard
Long Beach, CA 90802

Legislation Details (With Text)

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Title:	Recommendation to, by motion of the City Council, request City Attorney to draft a ballot measure that includes alternative 1 or alternative 2 in the discussion.		
Sponsors:	COUNCILWOMAN GERRIE SCHIPSKE, FIFTH DISTRICT, COUNCILWOMAN RAE GABELICH, EIGHTH DISTRICT, COUNCILMEMBER STEVEN NEAL, NINTH DISTRICT		
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Date	Ver.	Action By	Action	Result
7/3/2012	1	City Council	withdrawn	

Recommendation to, by motion of the City Council, request City Attorney to draft a ballot measure that includes alternative 1 or alternative 2 in the discussion.

The City currently has two separate oil production fees. The oil production fee was originally enacted by the City Council in 1990. A 0.15 cents per barrel rate was set based upon a $24.49 a barrel price. This amounts to $.006 cents for every dollar of oil on the WTI.

There was no inflation factor included in the oil production fee so that it remains to this day as 0.15 cents per barrel despite the posted price of oil being $86.00 a barrel. The 0.15 cents per barrel on the current posted price of oil at $86.00 = $.001 cents for every dollar of oil on the WTI.

The revenues from the 0.15 cents per barrel rate go into the City General Fund.

In 2007, voters approved a second oil production fee. Proposition H placed a .25 cents per barrel fee and added an inflation factor based upon the Consumer Price Index.

The revenues from the .25 cents per barrel fee may only be used for: police officers and firefighters, and related costs including, but not limited to, equipment, facilities and training, all intended to ensure responses to public safety needs, natural and man-made disasters and possible acts of terrorism.

The City Auditor has noted in recent audits that oil production (amount of barrels) has and continues to be reduced, thereby bringing less and less revenue to the City with a per barrel fee.

Price of Crude Oil:
The price of crude oil is set by commodities trading based upon a number of factors: demand, supply and type of crude. The price has been historically volatile - particularly as the international oil companies manipulate production supplies.

Crude is refined into a number of products depending upon its "API Gravity" - which compares it weight in relation to water. The lower the number the heavier the oil. The value of crude is determined by two major commodity markets: WTI - West Texas Intermediate and Brent Blend - international. The price paid by the consumer at the pump is largely determined by the Brent/international rates. Oil refineries post daily the price they will pay per barrel which serves as a benchmark for the oil commodity. Each barrel of oil produces approximately 44 gallons.

Oil extracted from Long Beach is priced by multiplying the gravity adjustment factor by the difference in gravity (Wilmington oil is roughly 17 API versus the Midway Sunset gravity of 13), multiply that by 10, and add that to the Midway Sunset price. So the math in this instance would be .0425 (gravity adjustment factor) times 4 (17 - 13 API) times 10 plus $93.70 to equal $95.40 a barrel (on June 14, 2012).

Shortfalls of Current Oil Production Fees:

- The City utilized an inflation factor on only one of the oil production fees so that the Consumer Price Index (CPI) is only applied to .25 cents and not the entire .40 cents assessed.
- The inflation factor utilized - CPI - does not adequately reflect the true inflation of the price of crude oil.
- The Producer Price Index (PPI) accurately reflects the inflation of a commodity such as crude oil. In fact, the City Auditor has reported that due to the PPI increases in crude oil, that the City has been hit with much higher costs for asphalt (made from this crude oil) thereby reducing the number streets that can be paved.
- A recent memo from the City Manager indicates that had the City utilized the PPI instead of the CPI that the City would have realized an additional $1.9 million from Prop H.
- This is borne out from the facts that Signal Hill in 2007 was placing a per barrel fee on oil production at .60 cents a barrel with a PPI inflation factor.
- Today, Signal Hill is collecting @.83 cents a barrel; while Long Beach is collecting .28 cents a barrel (or a total of .43 cents with both fees).
- A fee based upon per barrel <u>decreases</u> as production decreases in spite of dramatic <u>increases</u> in the price paid to the oil producer:
- In FY 2006, oil production was @ 15 million barrels with oil at @ $60.00 a barrel.
- In FY 2011, oil production was @ 13 million barrels with oil at @ $80.00 a barrel.

Proposed Changes in Oil Production Fee:

- Alternate # 1 : Place on the November 2012 ballot a proposition which:
- Combines the two fees together.
- Set the new rate at $1.00 a barrel or 2% of the posted price at the time the oil is sold - which ever the is the greater of the two.
- Eliminate an inflation factor as the new formula will adequately reflect the changes in both production and price.
- Establish a citizen oversight committee headed by the City Auditor and comprised of one citizen appointed by the Mayor and each member of the City Council, to ensure that the revenues received from the oil production tax will be utilized in the following manner:
    - 25% Police Services
    - 25% Fire Services
    - 15% Recreation Services
    - 10% Library Services
    - 25% Infrastructure/Street Repair
- Alternate #2: Place on the November 2012 ballot a proposition which:

- Combines the two fees together.
- Set the new rate at $1.00 a barrel or 2% of the posted price at the time the oil is sold - which ever the is the greater of the two.
- Eliminate an inflation factor as the new formula will adequately reflect the changes in both production and price.
- Establish a citizen oversight committee headed by the City Auditor and comprised of one citizen appointed by the Mayor and each member of the City Council, to ensure that the revenues received from the oil production tax will be utilized in the following manner:
- 35% Police Services
- 35% Fire Services
- 30% Infrastructure/Street Repair

Reasons for Ballot Measure:

- There is already another item on the ballot in November 2012 which therefore significantly reduces the costs to place this item on the ballot.
- The production fee appropriately compensates the City of Long Beach.
- The production fee formula fluctuates with production and/or price and stabilizes revenues for the City from this source.
- The current fee formula (two separate fees based upon per barrel) will continue to result in less and less revenue from oil production even though the price remains high.
- As the price of crude oil increases, the costs of asphalt made from the very oil we have allowed extracted have increased making it difficult for the city to pay for street repair.
- The production fee does not impact the price of gasoline at the pump.
- The fee is assessed on the producer - not the refiner - and is based upon the posted price paid by the refiner to the producer. The fee cannot get passed along to the consumer.
- On oil priced at $86.00 with production in the range of 12 million barrels the resulting oil production tax is: with $1 a barrel = $12 million dollars; with 2% of 12 million x $86 dollars = $20.6 million dollars.
- On oil priced at a low of $45 a barrel with production in the range of 9 million barrels, the resulting oil production tax is: with $1 a barrel = $9 million dollars; with 2% of 9 million x $45 = $8.1 million.

Approve recommendation.

COUNCILWOMAN GERRIE SCHIPSKE
FIFTH DISTRICT

COUNCILWOMAN RAE GABELICH
EIGHTH DISTRICT

COUNCILMEMBER STEVEN NEAL
NINTH DISTRICT