

AB 1604 (Nava)

Oil Industry Fair Share Act

Reason this Bill is Necessary

California, the third largest oil producing state in the nation, is the only major oil producing state that does not charge an oil severance tax. As a result of serious budget shortfalls over the last few years, the people of California have seen their children's classrooms become more crowded, the number of police and fire fighters reduced, care for the disabled and elderly cut, more children left without health insurance, community clinics closed, state parks threatened with closure, and numerous other cutbacks that affect all of us. While California's unemployment rate has risen to nearly 12%, oil companies continue to make billions in profits. Some oil investors have seen the state's economic downturn and budget shortfalls as an opportunity to take advantage of a desperate situation and push for more drilling off our coast. With all of the problems we face, it is time for oil companies to pay their fair share. We need to join all of the other major oil producing states and charge a severance tax so that all Californians can benefit from this finite natural resource.

This Bill

- Establishes a 10% severance tax on the gross value of every barrel of oil produced in the state;
- Prohibits oil companies from passing the tax on to consumers in the form of higher gas prices, higher diesel prices, or higher prices of other petroleum products;
- Exempts "stripper wells" if the price of a barrel goes below \$50.
- And deposits revenues from the severance tax into the state's General Fund.

Existing Law

- Current law allows for two fees for oil regulation and spill prevention and response. (Article 7 (commencing with Section 3400) of Chapter 1 of Division 3 of the Public Resources Code and Part 24 commencing with Section 46001 of Division 2 of the Revenue and Taxation Code.).
- Like most other states, California charges a property tax. With respect to oil in the ground, "proved reserves" are subject to property tax assessment by county assessors (Property Tax Rule 468) and/or the Board of Equalization.
- Just as in all other states, California law allows for royalty payment arrangements to be negotiated between land owners (including the state) and oil producers independent of property taxes or any other taxes including the severance tax that would be imposed by this bill.

The Facts

- California is the only major oil producing state that does not charge a severance tax. Alabama, Alaska, Arizona, Arkansas, Colorado, Idaho, Illinois, Indiana, Florida, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Wyoming, West Virginia, all charge oil severance taxes.
- California produces 215,700,000 barrels of oil from inland and state tideland wells making it the nations 3rd largest producer behind Alaska and Texas.
- Assuming current oil prices of \$70 a barrel, the severance tax will raise approximately \$1.5 billion dollars to be deposited in the General Fund.

Myth v. Fact

The oil industry has made several arguments against this proposal in order to mislead the public into opposing a severance tax.

Myth: An oil severance tax will increase the price consumers pay at the pump.

Fact: Oil is traded on a worldwide market. According to production statistics from the Energy Information Agency, California produces 0.7% of the world's oil production. A 10% tax on oil companies could not actually have an impact on the price refineries pay for oil. According to the California Energy Commission, our state gets the majority of its oil from foreign sources and Alaska. Consequently, it is unclear how the oil industry thinks that gas prices would increase as a result of a severance tax. Furthermore, this measure contains a "no pass through" provision that will prevent oil companies from increasing the cost of oil products. This bill also allows the state to investigate instances of possible "price gouging" by oil companies.

Myth: An oil severance tax will cause Californians to lose their jobs.

Fact: There is no evidence to suggest that the oil industry would lose any jobs. As an example, after Alaska increased their oil severance tax from 22.5% to 25% in 2007, the Alaska labor department reported in 2008 that direct oil employment increased to an all time high of 12,500 jobs. Similarly, in Arkansas, despite the state's severance tax on both oil and natural gas, an increase of 11,000 oil industry jobs is expected over the next 4 years.

Myth: The State already charges oil companies corporate tax and income tax, so this bill would double taxing the industry.

Fact: Oil producers would be able to deduct the severance tax from earned income, thus reducing their state income tax liability under the personal income tax and/or corporation tax.

Myth: The State already has some of the highest taxes on oil companies in the country.

Fact: California has very low taxes on oil compared to other states. Oil severance taxes range from 3.5% in New Mexico to 25% in Alaska. In Texas, for example, if you include all taxes including ad valorem and income/corporate taxes they pay \$14.32/barrel of oil in taxes. California oil companies pay \$4.22/barrel.

Other Considerations:

Local Property Tax Revenues: Local property taxes paid on oil reserves could decline under the measure relative to what they otherwise would have been, to the extent that the imposition of the severance tax reduces the value of oil reserves in the ground and its assessed property value for tax purposes. However, due to the volatility of oil prices as determined on the world market, it is unclear what the change in property values would be. Given that oil prices have ranged from over \$130/barrel to less than \$50/barrel over the last year a 10% severance tax will have far less impact on property tax than oil prices at the time of assessment.

How a Severance Tax Could Help

Here is one possible way in which oil revenues could be spent based on the proportional cuts to programs with the full reinstatement of cuts to State Parks and the Williamson Act from the 2009 budget.

Barrels of Oil	Gross Value of Barrel	Severance Tax	Revenues
215,700,000	\$70.00	10.0%	\$1,509,900,000

Major General Fund Programs	2008-09 Cuts	2009-10 Cuts	Total Cuts 08-10	How Oil Revenue could help:
K-14 Education	\$2,056,000,000	\$4,463,100,000	\$6,519,100,000	\$608,999,000
Higher Education	\$1,431,000,000	\$568,800,000	\$1,999,800,000	\$185,227,600
RDA Shift		\$1,700,000,000	\$1,700,000,000	\$155,539,500
Corrections and Rehabilitation		\$785,500,000	\$785,500,000	\$68,031,463
MediCal		\$1,381,800,000	\$1,381,800,000	\$124,341,500
SSI/SSP		\$108,200,000	\$108,200,000	\$10,116,330
CalWORKS		\$509,600,000	\$509,600,000	\$45,712,840
IHSS		\$263,500,000	\$263,500,000	\$22,674,017
Developmental Services		\$284,000,000	\$284,000,000	\$24,574,240
Mental Health		\$163,900,000	\$163,900,000	\$14,099,000
Healthy Families		\$178,600,000	\$178,600,000	\$16,608,900
CWS and Foster Care		\$120,600,000	\$120,600,000	\$10,569,300
Other HHS		\$361,600,000	\$361,600,000	\$31,217,800
Courts		\$168,600,000	\$168,600,000	\$15,099,000
Employee Compensation	\$62,500,000	\$783,600,000	\$846,100,000	\$75,514,800
State Parks		\$14,000,000	\$14,000,000	\$14,000,000
Williamson Act		\$27,800,000	\$27,800,000	\$27,800,000
Others	\$158,000,000	\$533,900,000	\$691,900,000	\$59,774,710
Totals	\$3,707,500	\$12,417,100,000	\$16,124,600,000	\$1,509,900,000

Support

American Federation of State, County, and Municipal Employees
 California Coastal Protection Network
 California Communities United Institute
 California Federation of Teachers
 California Labor Federation
 California PTA
 California Nurses Association

California School Employees Association
 California Teachers Association
 Citizens for the Preservation of Parks & Beaches
 Congress of California Seniors
 Environment California
 Faculty Association of California
 Community Colleges

Pelican Network
 The Planning and Conservation League
 Service Employees International Union
 Vote the Coast
 Wildcoast

Opposition

Agricultural Council of California
American GI Forum of California
Associated General Contractors
Black Business Association
California Black Chamber of
Commerce
California Business Properties
Association
California Business Roundtable
California Chamber of Commerce
California Farm Bureau Federation
California Hispanic Chamber of
Commerce
California Independent Oil
Marketers
California Independent Petroleum
Association

California League of Food
Processors
California Manufacturers and
Technology Association
California Metals Association
California's Retailers Association
California Service Station and
Repair Association
California Small Business Alliance
California Taxpayers Association
California Trucking Association
Carson Black Chamber of
Commerce
Chambers of Commerce Alliance,
Ventura and Santa Barbara Counties
Consumers First
Globe Iron Foundry
Greater Bakersfield Chamber of
Commerce

Howard Jarvis Taxpayers
Association
Independent Oil Producers' Agency
Industrial Environmental
Association
Kern County Taxpayers Association
Regional Black Chamber
San Diego County Taxpayers
Association
San Diego Urban Economic
Corporation
Small Business Action Committee
Thorock Metals Company
Valley Industry and Commerce
Association
Western States Petroleum
Association

For More Information

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