

MINUTE ITEM

This Calendar Item No. 36
was approved as Minute item
No. 36 by the State Lands
Commission by a vote of 2
to 0 at its 10-30-80
meeting.

MINUTE ITEM

10/80
Thompson

24. IMPACT ON STATE TIDELANDS OIL REVENUE OF PROPOSED YIELD TAX ON OIL AND GAS.

36. THIRD MODIFICATION OF THE 1980-81 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

Calendar Items 24 and 36 were considered together.

Mr. William F. Northrop, Executive Officer, stated the purpose of Calendar Item 36 was to augment the budget by almost \$8 million to pay under protest the Long Beach Unit mining rights taxes. The additional funds are required because of the very large increase in assessed value by the Los Angeles County Assessor. Item 24 is asking the Commission to endorse a severance or yield tax on oil and gas properties in lieu of the ad valorem tax and endorse the exemption of the State from that tax.

Commission-Alternate David Ackerman asked what the other major oil producing states are doing. Mr. Northrop stated that with the exception of Pennsylvania, all the other states have a severance tax. He explained that a severance tax is deductible from the Federal Windfall Profits Tax, but that an ad valorem tax is not. Therefore, California finds itself in a unique position of being the fourth largest oil producer in the United States with a tax on oil and gas which is not credited against the producer's Windfall Profits Tax. The Treasury Department assumes that all states have a severance tax and the tax laws have been based on giving credit to the producers on this taxation concept. Mr. Northrop further explained that using the ad valorem concept, the assessor has to estimate what the future revenue is going to be to determine the assessed value and tax. It therefore encourages oil companies who are subject to this tax to try and understate their reserves and assessors to overstate the future revenues.

Mr. W. M. Thompson noted a hearing was scheduled on this subject by a legislative committee on November 25, and they were asking the Commission if the staff should testify. The Commissioners agreed the staff should testify, but asked them to meet individually with them before the hearing so they could go over the testimony.

Upon motion duly made and carried, the resolution as presented in Calendar Item 36 was approved by a vote of 2-0.

Attachment: Calendar Item 36

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CALENDAR ITEM

36.

10/80
Thompson

THIRD MODIFICATION OF THE 1980-1981
PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET
LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

The City of Long Beach has requested Commission approval of the Third Modification of the 1980-1981 Plan of Development and Operations and Budget for the Long Beach Unit. This modification will augment the Budget by \$7,850,000 to provide additional funds for mining rights and personal property taxes levied by the County of Los Angeles. Including this augmentation, the total revised Budget will be \$156,248,000.

After approval of this modification, the total affected Budget Items will be as follows: (Thousand dollars)

	<u>Current Budget</u>	<u>This Modification</u>	<u>Adjusted Budget</u>
- PART III			
B. <u>ESTIMATED EXPENDITURES FOR EXPENSE</u>			
1. <u>UNIT TAXES AND LICENSES</u>			
a. <u>Personal Property Taxes</u>	\$ 1,200	\$ 50	\$ 1,250
b. <u>Mining Rights Taxes</u>	3,000	7,800	10,800
TOTAL BUDGET	\$148,398	\$7,850	\$156,248

The Commission staff has reviewed this request and determined that it is necessary so that the Long Beach Unit may make its tax payments on or before December 10, 1980.

The 1980-1981 Plan and Budget, as approved by the Commission in April 1980, provided funding for personal property taxes and mining rights taxes in the amount funded in the 1979-1980 budget year. It was anticipated that due to the Los Angeles County Assessor's interpretation of the Board of Equalization Rule 468, currently being tested in the courts, the assessed valuation and therefore the mining rights taxes might be higher for 1980-1981. The amount of increase was unknown

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at the time of budgeting, but it was expected that there would be sufficient funds to cover the first installment, and thus augmentation would not be required until the second tax installment due in April, 1981.

Upon receiving the Assessor's valuation for the Unit, it was found that the mining rights taxes would be in excess of three and one-half times the budgeted amount, and therefore additional funding would be necessary prior to payment of the first installment. Tax bills have not yet been received. Personal property taxes are expected to be about \$1,250,000, requiring an additional \$50,000, and mining rights taxes will be approximately \$10,800,000 or \$7,800,000 more than provided. This Third Modification would provide for a total budget augmentation of \$7,850,000 to cover these taxes for the 1980-1981 year.

The mining rights assessment is being appealed, as approved by the Commission in August 1980, however it will still be necessary to pay this year's tax bill in full, under protest. Currently, there are assessment appeals pending for the 1977-78, 1979-80 and 1980-81 years. It is not anticipated that these three appeals, which involve as much as 25 million dollars of disputed taxes, will be resolved before the end of 1981, because of the lengthy legal process.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE THIRD MODIFICATION OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1980 THROUGH JUNE 30, 1981.

Additionally, in accordance with PART IV, A.4.c. of the 1980-1981 Plan of Development and Operations and Budget for the Long Beach Unit, the following Plan Supplements for additional projects under \$100,000 have been approved by the Director, Department of Oil Properties, City of Long Beach and the Chief, Long Beach Operations, State Lands Commission and are hereby reported to the Commission and incorporated in the Plan.

Plan Supplement #1. Provide facilities at the J-6 site for storing and servicing drilling and production tools at an estimated cost of \$81,000.

Plan Supplement #2. Purchase and install automatic sand jetting systems for the two free water knockout vessels on each island at an estimated cost of \$96,000.

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Plan Supplement #3. Incur cost of appeal relative to the 1980 Los Angeles County assessment of mining rights at an estimated cost of \$50,000.

Funding for these projects has been provided by transfers of funds within the Budget. The Plan Supplement items are for information only and do not require action by the Commission.