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MURRIETA/WILDOMAR CHAMBER OF COMMERCE



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VCTA
Ventura County Taxpayers Association



CALIFORNIA HISPANIC CHAMBERS OF COMMERCE



January 8, 2020

The Honorable Bob Wieckowski
Senator, Senate District 10
State Capitol, Room 4085
Sacramento, CA 95814

RE: SENATE BILL 246: OIL SEVERANCE TAX - OPPOSE

Dear Senator Wieckowski,

The undersigned coalition (Coalition) represents thousands of businesses, which collectively employ tens of thousands of Californians, and respectfully writes in opposition to your Senate Bill 246 (SB 246), which would impose a severance tax on oil and natural gas production of 10% of the average price per barrel of oil or unit of gas. If enacted, SB 246 would make California the highest taxed oil producing state in the Country.

Studies clearly demonstrate that this tax will destroy tens of thousands of blue collar and union California jobs, burden consumers with higher fuel costs, and increase our dependence on imported oil, while also reducing revenues for certain local governments. More specifically, SB 246 will lead to:

Significant Loss of Local Revenue for Education and Public Safety

A significant portion of oil production tax revenues are allocated to local governments. California is one of the only states to base property taxes on the value of undeveloped oil reserves in the ground that are not in current production. SB 246 will result in significantly lower property tax revenues, which are earmarked by local governments for public schools and public safety. Analysis conducted by the non-partisan Legislative Analyst's Office on a similar oil severance tax measure concluded that the counties of Fresno, Kern, Los Angeles, and Ventura will be expected to see a loss in revenue attributable to a severance tax.¹ Other counties with significant production that will be adversely impacted include Santa Barbara and Monterey Counties.

Job Losses and Decline in Tax Revenue

While California does not currently impose an oil severance tax, there are a plethora of existing taxes, fees and assessments on oil and natural gas that producers are responsible for in California. Oil producers in California are responsible for about \$1.7 billion in taxes, fees and other revenues in 2018-19.² California oil producers are subject to one of the highest state corporate income tax rates in the United States. Oil companies are taxed at a state corporate tax rate of 8.84%, a rate that is substantially higher than other major oil and natural gas producing states such as Texas (0.7% rate) or New Mexico (4.8% rate). In addition, California is one of the only states to base property tax on the value of undeveloped oil reserves in the ground that are not in current production. This approach results in California oil producers paying property taxes on more of their business assets than anywhere else in the United States.

California's oil production industry supports an ethnically diverse workforce with an estimated 55,000 blue collar, high-wage paying jobs, including organized labor. Increasing the tax on oil production could result in major losses in investment-related income, employment, and output. In fact, studies show that a 10% severance tax can lead to 20,000 lost jobs and more than \$300 million annually in lost revenue by 2025.³

Increases Dependence on Foreign Crude Oil

SB 246 has the potential to reduce incentives to invest in California and thus making our state more reliant on imports of crude oil from foreign countries. According to an economic impact study by Capitol Matrix Consulting, the imposition of

¹ Senate Governance and Finance Committee analysis for SB 1017, 2014.

² Economic and Revenue Impacts of a Statewide Oil Production Ban in California: Executive Summary, Capitol Matrix Consulting, December, 2018.

³ "Impact of a Severance Tax on Oil Production and the California Economy"; Prepared for the California Foundation for Commerce and Education by Capitol Matrix Consulting; March 2014.

a 10% severance tax would result in at-least a 25% reduction in annual investment.⁴ While every barrel of oil produced in California is consumed in the state, nearly 70% is imported from mostly foreign sources to meet the state’s energy demands.⁵ Unlike other countries, California oil producers operate under the most stringent environmental regulations in the world. Increased imports to meet California’s energy needs will only lead to significantly higher transportation costs and an increase in greenhouse gasses and other emissions associated with bringing that oil into the state.

The potential impacts associated with SB 246 if enacted – loss of jobs, higher energy costs, reduced revenues and increased imports – simply cannot be justified. For these reasons, we **strongly oppose SB 246**.

Sincerely,

African American Farmers of California

Associated Builders & Contractors – Central California Chapter

Bakersfield Association of Realtors

California Apple Commission

California Blueberry Commission

California Business Roundtable

California Chamber of Commerce

California Delivery Association

California Fuels & Convenience Alliance

California Hispanic Chamber of Commerce

California Manufacturers and Technology Association

California Taxpayers Association

Californians for Affordable and Reliable Energy

Camarillo Chamber of Commerce

Central Valley Business Federation

Central Valley Latino Mayors and Electeds Officials Coalition

Chino Valley Chamber of Commerce

Coastal Energy Alliance

Commerce Alliance of Ventura and Santa Barbara Counties

Contra Costa Taxpayers Association

⁴ “Impact of a Severance Tax on Oil Production and the California Economy”; Prepared for the California Foundation for Commerce and Education by Capitol Matrix Consulting; March 2014.

⁵ Sources of Crude Oil Imports to California, 2017.” California Energy Commission.

https://www.energy.ca.gov/almanac/petroleum_data/statistics/2017_foreign_crude_sources.html

El Concilio Family Services

Fresno Chamber of Commerce

Fresno County Farm Bureau

Fontana Chamber of Commerce

Goleta Chamber of Commerce

Greater Bakersfield Chamber of Commerce

Greater Coachella Valley Chamber of Commerce

Greater Conejo Valley Chamber of Commerce

Greater Ontario Business Council

Harbor Association of Industry & Commerce

Hesperia Chamber of Commerce

Howard Jarvis Taxpayers Association

Inland Empire Economic Partnership

International Warehouse Logistics Association

Kern Citizens for Energy

Kern County Economic Development Corporation

Kern County Farm Bureau

Kern County Hispanic Chamber of Commerce

Kern County Taxpayers Association

Latin Business Association

Long Beach Area Chamber of Commerce

Los Angeles County Business Federation

Madera County Farm Bureau

Murrieta/Wildomar Chamber of Commerce

National Association of Royalty Owners – California

Nisei Farmers League

Olive Growers Council of California

Orange County Business Council

Orange County Hispanic Chamber of Commerce
Oxnard Chamber of Commerce
Rancho Cucamonga Chamber of Commerce
Redlands Chamber of Commerce
Regional Hispanic Chamber of Commerce
Santa Barbara Coalition of Labor, Agriculture & Business
Santa Barbara County Taxpayers Association
Santa Barbara Technology and Industry Association
Santa Maria Valley Chamber of Commerce
San Gabriel Valley Economic Partnership
South Bay Association of Chambers of Commerce
Torrance Area Chamber of Commerce
Tulare County Farm Bureau
Valley Industry and Commerce Association
Ventura Chamber of Commerce
Ventura County Economic Development Association
Ventura County Taxpayers Association
Victor Valley Chamber of Commerce

cc: The Honorable Mike McGuire, Chair, Senate Governance & Finance Committee
The Honorable John M.W. Moorlach, Vice-Chair, Senate Governance & Finance Committee
Members, Senate Governance & Finance Committee
Colin Grinnell, Staff Director, Senate Governance & Finance Committee
Scott Chavez, Republican Caucus Consultant