

FOR IMMEDIATE RELEASE

24 JUNE 2009

CONTACT: John Kartch
Patrick Gleason
202-785-0266

CA Budget Fact of the Day: *Severance Tax Hike Will Wreak Havoc on Calif. Economy*

A severance tax on every barrel of oil produced in California was floated earlier this year and has returned as a topic of debate in Sacramento once again as the state seeks to rectify a \$24 billion plus deficit. However, there is a myriad of reasons why Golden State lawmakers should reject any severance tax proposal:

- A severance tax will cause Golden State residents to face higher utility bills and gas prices and, even worse, a higher cost of living in general. Make no mistake, the burden of a severance tax hike will be borne by all California residents and reduce jobs. An additional tax on in-state oil production would adversely affect workers and retirees, most of whom have a stake in energy companies through a 401K, mutual fund, or other investment vehicle.
- California's fiscal challenges are due, in large part, to reliance on volatile and unpredictable revenue sources such as high income earners. A severance tax will only exacerbate this problem. It is no secret that the price of oil is incredibly volatile; varying up to 30% a year. Imposition of a severance tax will only increase state revenue instability.
- Oil production is already taxed more heavily in California than nearly anywhere else. Energy companies operating in California already pay some of the highest corporate, property, and sales tax rates in the nation. Tacking on a draconian severance tax will only make the state a less attractive place for energy companies to locate, invest, and create jobs.
- Imposing an additional state tax on oil production will serve as a disincentive on in-state oil production and increase the Golden State's reliance on foreign imports. Studies show that imposition of a 9.9% severance tax will decrease in-state oil production by an upwards of over 2.4 million barrels over the next 30 years. It should come as no surprise that this decreased output would be accompanied by the loss of approximately 10,000 high paying jobs.
- Rather than place a disincentive on in-state energy production. California lawmakers should instead utilize the state's untapped petroleum reserves. Such action would simultaneously help address the current deficit without socking it to taxpayers yet again and create high paying jobs in the process.
- There are at least 9 billion barrels of oil off California's coast. At least 1 billion barrels are located in waters that are solely controlled by the state. The natural resources found in state controlled waters alone could immediately generate \$5 billion for the state through securitization. What's more, these reserves can be tapped in an environmentally sensitive way with slant drilling, which requires no new rigs.
- Californians worked 204 days last year, well over half the year, just paying for the cost of their government. If new and higher taxes were the answer then California would be in great fiscal shape, but that is not the case.

ATR urges California officials to reject the severance tax and chart a different course of action. California lawmakers need to promote, not put a disincentive on, utilization of the state's abundant resources. Such an approach will generate much needed revenue for the state and create jobs in the process.

Americans for Tax Reform is a non-partisan coalition of taxpayers and taxpayer groups who oppose all tax increases. For more information or to arrange an interview please contact John Kartch at (202) 785-0266 or by email at jkartch@atr.org