Opinion: California can’t tax itself to prosperity

By George Runner

Last year California voters approved two tax increases aimed at bringing billions more dollars into state coffers. But that hasn’t stopped revenue-hungry lawmakers in the Legislature from seeking further tax hikes. It’s almost as if they think we can tax ourselves into prosperity.

A recent example of this type of confused thinking is the oil severance tax. Like a bad penny, this tired old idea keeps turning up at the Capitol year after year, despite being rejected by voters in 2006.


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A severance tax is simply a fancy name for taxing something when it comes out of the ground—in this case, oil. Proponents of the tax argue that California is giving oil companies a free ride. In her release announcing Senate Bill 241, Sen. Noreen Evans claims – falsely – that “California is the largest—and only—oil producing state in the nation that does not tax its vast oil resources.”

The truth is California already has a statewide severance tax that funds state oil and gas regulators. We also tax oil companies in many other ways. These taxes includes property taxes assessed on oil in the ground, local extraction taxes, plus California’s sky-high sales and corporate taxes.

A 2008 study by José Luis Alberro and William Hamm found that “the tax burden California imposes on oil companies is average when compared to the tax burden imposed by other oil producing states.”

According to the study’s authors, a 9.9 percent severance tax would make California’s tax burden far higher than these other states, reduce oil production, increase our reliance on foreign oil, raise gas prices and eliminate nearly 10,000 California jobs.

Clearly, taxing oil won’t create prosperity for our state.

There is a path to greater prosperity that would create more jobs, lower gas prices and economic growth with no new taxes. But to take this path, we’ll need more domestic oil production, not less.

A recent study by USC explored the impact of using advanced oil-extraction technologies to access California’s vast oil reserves.

The study’s authors project that developing these oil reserves could add up to 2.8 million new jobs to California’s economy, bolster the state’s economic growth up to 14.3 percent and increase personal incomes by up to 10%. State and local government revenue could grow by as much as $24.6 billion – without a tax increase.

California’s oil reserves are located in the Monterey Shale Formation, much of which lies beneath California’s Central Valley. According to the U.S. Department of Energy, the formation holds more than 15 billion barrels of oil—about two thirds of the nation’s shale oil reserves.

Hydraulic fracturing for oil, a practice that has been widely used and carefully regulated by states since the 1940s, has been increasingly used by the industry. Through advances in "fracking" technology, including the use of concrete barriers to ensure that the upward-moving oil remains contained within the well, California is well-positioned to safely and wisely access what is literally a new untapped resource.

California's unemployment rate of 9.6 percent is tied with Mississippi and Nevada as the highest in the nation. In contrast, oil-producing North Dakota boasts the nation's lowest unemployment rate of just 3.3 percent.

California's Central Valley, where double digit unemployment rates still linger, would benefit most from a California oil boom. Of course, any new oil production must be done safely and in an environmentally responsible manner.

But we won't ever reach economic prosperity if we block it from happening. The quickest way to do that is by enacting an oil severance tax. Let's keep energy jobs in our state by stopping the severance tax. It's the least we can do for our current energy industry workers and the many more who may soon join them.

George Runner represents more than 9 million Californians as a taxpayer advocate and elected member of the State Board of Equalization.