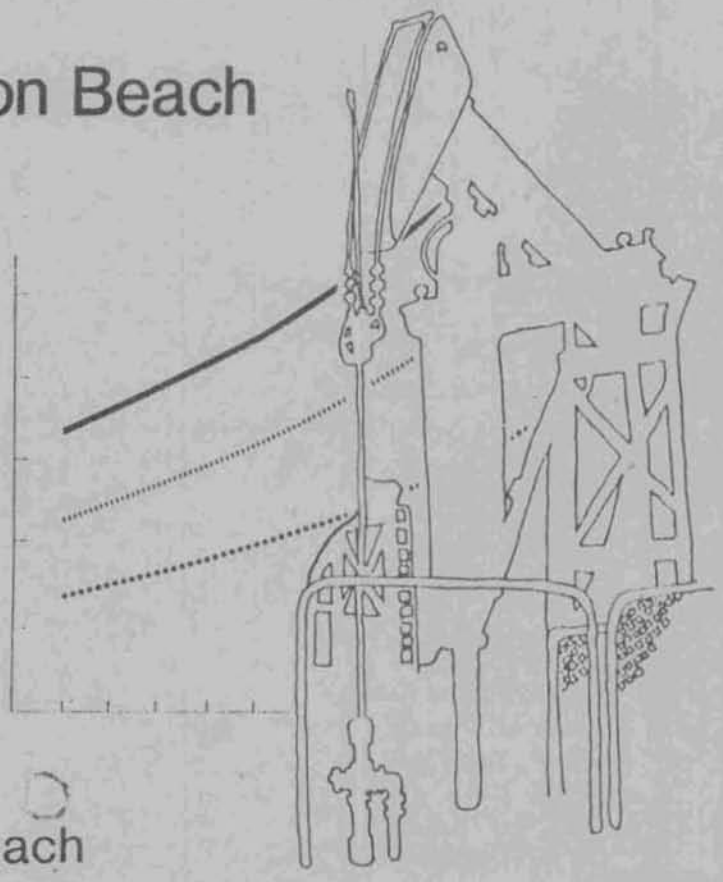
Huntington Beach Energy Series

Report #2

Fiscal Impact of Oil Operations in Huntington Beach



City of Huntington Beach

Department of Development Services

Planning Division

March, 1981

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HUNTINGTON BEACH ENERGY SERIES

REPORT #2

FISCAL IMPACTS OF OIL OPERATIONS IN HUNTINGTON BEACH

CITY OF HUNTINGTON BEACH
DEPARTMENT OF DEVELOPMENT SERVICES
JAMES W. PALIN, DIRECTOR

MARCH, 1981

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Foreword

This is another in a series of discussion papers on energy-related issues prepared by the Planning Division of the City of Huntington Beach. Huntington Beach is a center for many energy-related activities including onshore and offshore oil production, an electricity-generating power plant, and increasingly, solar and conservation technologies. The purpose of these reports is to help the City to accommodate the continued production of so vital a resource as energy while at the same time mitigating as much as possible any adverse impacts on the community that such activities might incur. Other reports in this series include the following:

#1	Preserving Surface Access to Underground Oil Reserves in Developed Areas
#3	Oil Spill Contingency Planning in Huntington Beach
#4	Enhanced Oil Recovery Technology
#5	Solar and Conservation Policies at the Local Level

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Definitions

This report necessarily discusses some technical aspects of the oil industry and of fiscal impact analysis. Consequently, some terms are used which may not be familiar to the reader. The following definitions section was prepared to help clarify the meaning of some of these terms. To ease reference, all words defined in this section are italicized the first time they appear in the report's text.

Enhanced Recovery: Any production method which is used to recover more oil from a petroleum reservoir than could be obtained by natural reservoir energy or simple pumping. Includes water flood, steam flood and other techniques involving injection of fluids into the reservoir to recover additional oil.

Expenditures: Monies spent by the City to provide goods and services to the landowners, residents, workers and visitors of the City.

Fiscal Impacts: In this report refers to revenues received and expenditures incurred by the City as a result of particular land uses or activities occurring in Huntington Beach.

Net Revenues: The revenues remaining and available to the City after total expenditures are subtracted from total revenues.

Opportunity Cost: Costs associated with choosing one option over other ones when that choice precludes the alternatives. By making that choice, benefits that might have resulted from the precluded alternatives are lost.

Primary Production: Oil driven up through wells by natural pressure in the formation or by pumping units, without injecting water or other fluids to help force the oil to the surface.

Recycling: In this context, refers to the redevelopment of the surface area of an oil field for uses such as housing or commerce.

Revenues: The monies or income the City receives; sources include taxes, fees, rents and franchises.

Scenarios: In this report, refers to a set of events or conditions possible in the future; a future possibility.

Unitization: The process of forming a "unit"; a unit is an entity composed of several oil operators which work a common oil pool in order to share equipment and mineral interests to produce the reservoir as a single party. When the interests in the pool are fragmented, units are essential for the use of most enhanced recovery methods which can best be applied on a coordinated, non-competitive basis.

Waterflood: An enhanced recovery program through which water is injected into a reservoir in order to force more oil from the pores in the rock.

Water Injection: Another term for "waterflood".

1.0 Introduction

Numerous energy-related facilities occupy significant land area in the City of Huntington Beach, especially in and near the coastal zone. These facilities include onshore and offshore oil production operations, a tanker unloading terminal, a power plant, pipelines, and electricity and natural gas distribution systems. All of these have fiscal impacts on the City.

In this report, *fiscal impacts* refer to the revenues the City receives and the expenditures it incurs as a result of particular land uses. *Revenues* are the funds generated for the City through various taxes and fees (for example, property taxes, production taxes and license fees) paid by the owners and users of land in the City. *Expenditures* are the monies spent by the City to provide services for these land uses (for example, fire and police protection).

The principal purpose of this study is to estimate the fiscal impacts of energy-related facilities and especially of oil production operations. The report focuses on oil operations because they occupy a great deal of very valuable land in Huntington Beach. In addition, the City faces important decisions regarding land use as the oil in the field continues to be depleted and pressure increases to abandon parts of the field and to redevelop the surface. Fiscal impacts are important factors in determining the best use of the land and the City's policy toward continued oil operations.

The City's other major energy facilities--the power plant and marine terminal--are, practically speaking, permanent facilities which will continue to serve regional and state interests. City actions are not likely to significantly encourage or discourage continued operations of these facilities. Thus, they do not present significant land use options to the City at this time.

This study has been carried out in conjunction with the development of a City-wide computer model which assesses the fiscal impacts of various land uses. While the City-wide model may be useful for analyzing most activities, it does not take into account certain peculiarities of oil operations.

For example, oil revenues are more closely related to the amount of oil produced by the wells than the acreage they occupy. The City-wide model, however, is largely based on developed acres, and generally does not relate changing revenues to changing production levels. Thus, a better way of computing the impacts of oil operations has been developed as part of this study. (See Appendix A).

The following section discusses the revenues and expenditures related to oil operations in Huntington Beach for fiscal year 1979-80.

Section 3.0 projects the fiscal impacts of continuing oil operations through 1990 under four different *scenarios*. Special attention is given to the Townlot/ Downtown and Garfield/ Goldenwest areas where the status of oil operations is likely to change.

Finally, Section 4.0 discusses issues besides fiscal impacts which are also important for making decisions about land uses in the City.

2.0 Current City Revenues and Expenditures Related to Oil Operations in Huntington Beach

Table 2.1 summarizes the revenues and expenditures attributable to oil production in Huntington Beach for fiscal year 1979-80. Oil activities generated ***net revenues*** (revenues exceeded costs) of approximately $800,000 for the year.

TABLE 2.1

City Revenues and Expenditures Related to Oil Operations for Fiscal Year 1979-80

Revenues		Expenditures	
Property Taxes	$ 382,068	General Government and Administration	$203,340
Oil Production and Business License Fees	1,076,996	Public Works	135,465
Royalties and Easements	120,000	Police Department	
Inspection Fees	73,000	Directly Assignable	14,360
Wastewater Permits	9,660	Not Directly Assignable	150,903
Drilling/Redrilling Permits	6,500	Fire Department	
Pipeline Franchises	4,253	Directly Assignable	28,309
		Oil Inspector	45,800
		Special Equipment and Personnel	210,000
		Not Directly Assignable	82,816
TOTAL REVENUES	$1,672,477	TOTAL EXPENDITURES	$ 870,993

$1,672,477 (Total Revenues) - $870,933 (Total Expenditures) = +$801,484 (Net Revenue).

Refer to Section 2.2 and 2.3 for discussion and calculation of these figures.

The following sections explain how these expenditures and revenues were estimated.

2.1 Expenditures

Local governments provide a wide range of vital public goods and services. In 1979-80, for example, the City of Huntington Beach spent over $30 million to provide businesses, industry, residents and visitors of Huntington Beach with fire and police protection, streets, sewers, garbage disposal, animal control, building inspections, consumer protection, and many other important services. This section discusses the City's expenditures related to oil operations.

Directly Assignable Expenditures: A key problem in this kind of fiscal analysis is determining what portion of the total City budget should be attributed to different land uses. In only a few cases is it relatively easy to measure the amount of public services provided directly to certain kinds of land uses. The principal examples of these directly assignable costs are those related to police and fire calls. The City keeps records of the number of such calls and also notes, among other data, the land uses located on the site of each call. We then assume that the proportion of calls generated by each land use category is a reasonable estimate of the proportion of the City's costs in responding to all calls that should be attributed to each land use type.

Table 2.2 shows the distribution of Fire Department calls by land use type. It indicates that only .6 percent of all calls were related to oil operations. The total City expenditures on the budget items related to Fire Department emergency calls were $4,718,248 in 1979. Those items are Fire Control (account number 302)* and Medical Aid Paramedic (304). Considering the discussion above, oil uses then should be assigned .6 percent of the total, or $28,309.

TABLE 2.2

Distribution of Fire Department Calls by Type of Land (Calendar Year 1978).

Type of Land Use	# of Calls (1)	% of Total
Residential	2,937	34.5
Streets & Highways	537	6.3
Industrial	269	3.2
City Beach & Pier	257	3.0
Commercial	240	2.8
Oil	51	.6
City Parks	126	1.5
Miscellaneous	520	6.1
Other Unassigned (2)	3,588	42.0
TOTALS	8,525	100.0%

(1) Includes all fire, emergency/ medical assistance, and non-fire and non-emergency/medical incidents.

(2) These are emergency/medical incidents that could not be assigned to a particular land use.

Source: City of Huntington Beach Fire Department and Planning Staff.

* Paranthesis indicates the account numbers in the City budget for these items.

Table 2.3 shows the distribution of Police Department calls among land uses in the City. Note that oil operations are not broken out into a separate category; they are included in the "industrial" group. All industries accounted for only .2 percent of police calls. Because there are other industries in Huntington Beach besides oil, the share of the expense of these services attributed to oil facilities must be some fraction of .2 percent. For the purposes of this analysis, however, the full .2 percent is assigned to oil activities to ensure that their share is not underestimated.

TABLE 2.3

Distribution of Police Department Calls by Type of Land Use (Calendar Year 1978).

	# of Calls	% of Total
Streets & Highways	29,386	40.2
Residential	23,917	32.7
Commercial	13,457	18.4
City Beach & Pier	908	1.2
City Parks	446	.5
State Beach	129	.3
Industrial (including oil)	125	.2
Miscellaneous	4,717	6.5
TOTALS	73,085	100.0%

Source: City of Huntington Beach Police Department and Planning Staff.

The following budget items were considered related to the costs of responding to criminal activity: Crime Analysis (330), Vice and Organized Crime (328), Investigative (329), Scientific Investigation (331), Patrol (332), Traffic (335) and Aero (337). The City expended $7,190,105 to provide these services in 1979-80. Oil's share, .2 percent of the total, is $14,360.

A very large proportion of fire and police calls are included under "streets and highways," "miscellaneous" or "unassigned" categories. Expenditures in these categories cannot be assigned to specific land uses directly. This is true for most other City expenditures as well. These will be discussed again below.

Another group of City expenditures which can be reasonably assumed to be directly related to oil operations are the costs of the City's oil inspection and regulation activities. The City Oil Inspector, who works in the Fire Department, enforces the City Oil Code, inspects every well annually, responds to oil-related emergencies and performs other duties related to oil operations. The Fire Department estimates that oil inspection costs (including inspector's salary and overtime, benefits, car, uniforms and office support) were approximately $45,800 in 1979-80.

Finally, because there is a potential petroleum fire hazard associated with the oil production facilities, pipelines and tank farms in Huntington Beach, the Fire Department has an engine company that is specially trained and equipped to handle oil fires. If not for its oil field responsibility, the Fire Department would not maintain this company. Therefore, the cost of this protection, estimated at $210,000 for 1979-80, is added to City expenditures on oil activities.[1]

Not Directly Assignable Expenditures: Most expenditures cannot be directly assigned to particular land uses. Many of these represent the City's "overhead" or the cost of having services available, should they be needed. Economist George Patterson helps clarify this point:

> ". . .the basic purpose of a fire department is protection, which is available to all whether or not they actually have a fire. It is not logical to assume that a fire department is paid only when it is fighting a fire."[2]

Thus, while expenditures on fighting fires can be reasonably attributed to different users, the costs of having the equipment and personnel ready to fight any fire are not, but are borne by all members of the community.

The City has developed an expenditure model as part of the preparation of this report for estimating the "fair share" of these costs that can be reasonably attributed to different kinds of land uses. A detailed discussion of this model and of alternatives that were examined by the City for this study is included in Appendix A. A brief summary of the model and its assumptions follows:

The model takes into account several factors in assigning the appropriate share of City expenditures to different land uses, including the amount of acreage in the City each land use type occupies and the intensity of use on that acreage (that is, the number of residences, businesses or oil facilities per acre). The assumption utilized in the model is that more intensively developed areas tend to require more services (and, thus, more expenditures) per acre then less densely developed areas. This approach, called the "Weighted Average Model", estimates that oil operations can account for about 2.3 percent of the City's budget (for items which cannot be directly traced to specific land uses). See Table 2.4.

TABLE 2.4

Distribution of Costs
Using Weighted Average Model

	% of Acreage in City	% of Total Expenditures Assigned by Model
Residential	65%	87.3%
Commercial	9%	5.2%
Industrial	6%	2.3%
Oil	3%	2.3%
Vacant	17%	2.9%
Total	100%	100.0%

In 1979-80, expenditures on budget items which cannot be directly traced to specific land uses totaled $24,982,308.* Oil's share of this, 2.3 percent, equals $572,523. Table 2.5 lists all the budget items included in this analysis.

2.2 Revenues

Oil operations generate significant revenues for the City from a number of sources, including the following:

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* Library, Parks & Recreation, and Harbors and Beaches are not included in the analysis because these three groups of services are attributed primarily to residential uses and are not considered in the calculations of expenditures attributable to oil operations. Water Department expenditures and revenues from water sales are also excluded, because oil activities consume relatively small quantities of water and the estimated revenues are not important to this analysis.

BUDGET ITEMS FOR "UNASSIGNED" EXPENDURES

General Government and Administration

(100) City Council
(101) Non-departmental
(102) Civic Promotions
(109) City Administrator
(110) Internal Auditor
(111) Budget and Research
(112) Council Support
(113) Public Information
(114 Economic Development
(115) Civil Defense
(116) Data Processing
(117) Purchasing
(118) Central Services
(119) Word Processing
(120) Chashier
(121) Risk Management
(122) Animal License
(130) City Attorney
(140) City Clerk
(141) Elections
(160) Personnel
(170) Finance
(171) Accounting
(172) Business License

(230) Development Services Adm.
(231) Current Planning
(232) Advance Planning
(233) Land Use
(234) Plan Reveiw

Pubilc Works

(410) Administration
(412) Surveying
(415) Traffic Engineering
(420) Maintenance Administration
(430) Mechanical Maintenance
(462) Vehicle Repair
(560) Sewer Maintenance
(561) (591) Sewer Pump Station
(431) Mechanical Fabrication
(433) Pool Car Maintenance
(453) Special Repairs
(450, 460, 470, 480, 482, 487, 489, 490) Building Maintenance

Police Department *

(320) Administration
(321) General Support
(322) Personnel
(323) Public Affairs
(324) Records
(325) Training
(326) Research
(333) Communication

Fire Department *

(300) Administration
(301) Fire Prevention
(304) Joint Powers
(485) Fire Station

* Also includes percent of "assignable" items attributed to "streets and highways", "Miscellaneous" and "unassigned". Refer to Tables 2.2 and 2.3.

Summary for 1979-80 Unassigned Expenditures

General Government	$8,840,880
Public Works	5,889,762
Police	6,560,980
Fire	3,600,868
Total	$24,892,308

TABLE 2.5

1) property taxes (including tax on surface areas, mineral rights and improvements), 2) business license and oil production license fees, 3) inspection fees, 4) pipeline franchises, 5) wastewater permit fees, 6) drilling/redrilling permit fees and 7) royalties and easements.[3]

Property Tax: The City's property tax revenues are primarily dependent on three key variables, 1) the assessment or valuation of property in the City, 2) the tax rate applied to those valuations or assessments, and 3) the percentage of the total property taxes collected in Huntington Beach which actually go to the City.

Proposition 13 "rolled-back" property valuations to 1975 levels and limits re-assessment to two percent per year. However, if a property is sold, it is re-assessed at that time at its selling price. Generally, because of the two percent annual limit, valuations do not keep pace with inflation. The frequency at which properties "turn-over" (are sold), and thus are re-assessed, greatly affects how closely the overall valuation for properties can keep pace with inflation.[4]

Proposition 13 generally limits property tax rates to one percent of market value. Voters in any tax rate area can approve additional taxes beyond this base rate. Table 2.6 below shows the distribution of oil holdings among tax rate areas, the rates for each area and the tax collected by the county.

Many jurisdictions other than the City (such as the school districts) are also funded by property taxes. Thus, only a fraction of the total property taxes collected in Huntington Beach actually go to the City. The share of the property taxes which went to the City was 20.7 percent in 1979-80.

The most difficult problem in estimating the City's property tax revenues related to oil is determining how much surface area of an oil field or oil parcel is considered in use for oil production, and how much could reasonably be considered vacant and available for other uses. In many cases, a parcel is so densely populated with wells and tanks that the entire area can be considered oil production land. In other instances, however, open spaces between wells are large enough to permit development of other uses. For example, it would be unreasonable to think of a ten-acre parcel with three oil wells on it as devoted entirely to oil. Vacant portions of such a parcel could be developed for other uses. This has happened in areas throughout the City.

In order to accurately estimate the surface area of the City used for oil activities, the characteristics of the oil fields and parcels in the City were analyzed to determine if the land around the wells and tanks could be developed for other uses. Those areas which could be considered available for other uses were counted as vacant land. The remaining portions of oil fields and parcels were counted as oil areas. Through this process, staff estimated that about 472 acres are actually used for oil production in Huntington Beach. The estimated assessed value of this surface area for 1979-80 is $4,901,666 (See Table 2.6).

Besides the surface land, property taxes are also assessed on mineral rights, secured improvements, and unsecured improvements. The assessments on each of these in 1979-80 were the following: $23,788,080 for mineral rights; $9,227,480 for secured improvements; and $701,160 for unsecured improvements.

The City receives a 20.7 percent share of the total property taxes on oil operations in Huntington Beach collected by the County, which amounted to $382,068 for 1979-80.[5]

Business License and Oil Production License Fees: The oil production fee is a fee charged for each barrel of oil produced. It is linked to the

Assessed Value of Oil Properties in Huntington Beach, 1979-80

Tax Rate Area	Land *	Mineral Rights	Secured Improvements	Unsecured Improvements	Total	Tax Rate	Tax Collected
001	4,255,667	20,653,010	8,974,280	457,970	34,340,927	4.7767%	1,640,363
007	13,742	66,690	1,940	207,360	289,732	4.8309%	13,997
010	47,053	228,350	13,270	9,450	298,123	4.8426%	14,437
013 & 014	585,204	2,840,030	237,990	26,380	3,689,604	4.7884%	176,673
Totals	4,901,666	23,788,080	9,227,480	701,160	38,618,386		1,845,740

* Land surface was distributed among tax rate areas in the same proportions as mineral rights.

Source: Orange County Assessor's Office.

TABLE 2.6

consumer price index, and, thus, increases as the cost of living rises. The oil production license fee rates for 1979-80 were 11.05¢/barrel for "non-stripper" wells (wells that produce more than ten barrels per day) and 8.84¢/barrel for "stripper" wells (wells that produce less than 10 barrels per day). Each oil operator also pays an annual $100 business license fee per well.

The oil production fee is paid quarterly, and the operator may deduct up to $25 per quarter as reimbursement for the license fee. In other words, the first $25 of the quarterly oil production fee is paid in advance, in the form of a business license fee. The total revenue collected from this source was $1,076,996 for 1979-80.[6]

Oil Well Inspection Fee: Each oil well is inspected annually for compliance with the Huntington Beach Oil Code. The oil inspector must approve each well before a business license is issued. There is a $50 inspection fee per well. Total revenue from oil well inspections was $73,000 for 1979-80.

Wastewater Permits: Every well that uses the City's wastewater system must pay an annual $30 wastewater fee. There are 322 wells using the system. Total revenues were $9,660 for 1979-80.[7]

Drilling/Redrilling Permits: In order to drill or redrill an oil well, an operator must secure a permit from the oil inspector. There is a $500 fee for each permit approved. In 1979-80, 13 drilling/redrilling permits were issued, generating a revenue of $6,500.[8]

Pipeline Franchises: Oil companies that have pipelines in Huntington Beach pay franchise taxes whose rates are established by contracts with the City. The term of the contracts vary from franchise to franchise. Revenues from this source were $4,253 for 1979-80 for pipelines directly related to oil production in Huntington Beach.[9]

(Some pipelines are not related to oil production here - that is, even if there were no oil production in Huntington Beach these pipelines would continue to be used. They are used for transporting crude oil delivered by tanker or for carrying gas or refined products.)

Royalties and Easements: As a result of legislation in the 1930's, the City receives royalty payments from the sale of oil produced on offshore lease Public Resources Code 392. The royalty is approximately .25 percent of those sales, and therefore, contingent on oil prices and the amount produced - two variables that are very difficult to predict. In 1979-80, the City received $120,000 from this source.[10]

2.3 Conclusion

The analysis for 1979-80 indicates that oil production contributes significant revenues to the City, totaling approximately $1.67 million. Approximately two-thirds of these revenues come from the oil production fee (per barrel) which is tied directly to production. This fee also increases annually with an index of the inflation rate; thus, this revenue source can keep pace to a significant degree with rising expenditure levels.

The estimated City expenditures related to oil production for 1979-80 were approximately $.87 million. Three departments--fire, police and public works--account for about two-thirds of these; expenditures by all other departments combined for the remaining one third of the total.

Clearly, oil production activities currently generate net revenues to the City. The next section analyzes how this fiscal situation might change in the future, considering variables such as changing production levels, inflation, and pressures to redevelop the oil fields to new uses.

using the City-wide Fiscal Impact Model and the City's General Plan, which helps define the future growth pattern and mix of uses in the City. These total annual expenditure estimates were used to calculate oil's share of City expenditures which are not directly assignable.

A ten percent inflation rate is also assumed.[11]

In summary, the following assumptions have been made for the analysis in Sections 3.2 - 3.5:

- Proposition 13 controls on tax rates and property assessments will apply.
- The City's share of the property tax will remain 20.7 percent.
- Rates on drilling permits and other fees will not change.
- Total City expenditures are estimated using the City-wide Fiscal Model and the General Plan.
- Level of City services stays constant.
- Inflation will average ten percent per year.

3.3 Analysis of Scenarios

In all of the following scenarios, expenditures are calculated two ways. The first method uses the "Weighted Average Model" developed in Appendix A because it is probably the most accurate and reasonable of the available models for calculating oil-related expenditures. Expenditures are also predicted based on the City-wide Model because it is the technique used in many previous analyses and it gives the highest cost estimates of all the models analyzed in Appendix A. Both models were used to plot expenditure curves in all of the figures in this section; thus, each figure shows two expenditure lines. Perhaps the best way to interpret these graphs is to view the Weighted Average Model's expenditure line as our best estimate of what City expenditures will actually be, and the City-wide Model's expenditure line as an estimate of the probable maximum or upper limit of actual expenditures.

Scenario 1 - Oil Revenues and Expenditures, 1980-1990: Oil Operations Remain Relatively Unchanged.

In this scenario, the current number of wells (1460) remains through 1990. The area devoted to oil stays at 472 acres and overall production is constant.

Revenues derived from the oil production fees and royalties rise 10 percent per year which is the assumed inflation rate. Property tax revenues rise at only two percent per year due to Proposition 13 limitations. All other revenues remain the same, assuming that the same number of permits is issued each year, and that fee rates do not change. Overall, revenues increase, but not as fast as expenditures.

Figure 3.1a shows oil revenues and expenditures for 1980-90. Under Scenario 1, oil operations are a net revenue generator for the City under the assumed conditions primarily because the oil production fee, which makes up two-thirds of the revenue, is tied to the Consumer Price Index; therefore, this portion of the revenues keeps pace with inflation.

Figure 3.1b shows the same scenario in "constant (1979) dollars," that is, the revenues and expenditures are adjusted for inflation. This figure shows more clearly that net revenues (reflected in the distance between the revenue line and the expenditure lines) decrease over time. This is because one-third of the revenues generated by oil are not indexed to the inflation rate. In other words, total revenues simply do not keep up with inflation. Despite this decline, oil operations would continue to contribute net revenues throughout the decade.

APPENDIX B

Revenues From Other Energy Facilities

Although this report focuses on oil operations, there are other energy facilities in the City and coastal zone. These include a Gulf Oil Company tank farm and affiliated pipeline franchises; a Chevron USA tank farm; a Southern California Edison Company power plant, tank farm and pipeline and utility franchises; and other pipeline and utility franchises. These facilities are likely to remain in Huntington Beach for some time.

Because of their permanent nature, a fiscal analysis of these operations is much less relevant than a similar analysis of the "less permanent" oil operations. It is important to note, however, that the City derives significant revenues from these facilities. These revenues figures are presented below.

The revenues for 1979-80 are as follows.

Gulf Tank Farm:

Property Tax	$ 6,690
Pipeline Franchise	6,047
TOTAL	$ 12,737

Chevron Tank Farm:

Property Tax	$ 4,281
TOTAL	$ 4,281

Edison Plant and Tank Farm:

Property Tax	$364,263
Pipeline Franchise	4,362
Utility Franchise	198,131
TOTAL	$566,756

Southern California Gas:

Utility Franchise	$529,642
TOTAL	$529,642

Other Pipeline Franchises:

Pacific Lighting	$ 12,540
Standard Gas	$ 108
TOTAL	$ 12,648

Total revenues to the City from these facilities is $1,126,064 for 1979-80.

Pipeline and utility franchise tax rates are set by contracts between the City and the various companies. The major factors that affect pipeline rates are size and length of pipe, and the yearly flow through the pipe. Utility rates are based on gross sales of the product carried by the franchise (e.g. gas, electricity).