

Proposition H

Police and Fire Public Safety Oil Production Act

*Generated nearly \$3 million in additional
revenue for public safety in FY 2023*



Independence you can rely on

January 2024

Laura L. Doud
City Auditor



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Audit Results

Objective 1: Identify Prop H revenues received during FY 2023 and determine if funds remitted by the oil producers were properly calculated based on oil producers' reports remitted to the City.

Conclusion 1: Prop H revenues received during FY 2023 were substantively calculated properly based on oil producers' reports remitted to the City.

The City of Long Beach (City) received a total of \$2,955,025 of Proposition H (Prop H) oil tax revenue, including penalties and interest, during fiscal year (FY) 2023, as depicted in Table 1 below. This is a revenue increase of 3% from the prior fiscal year. The oil tax revenue received was based on FY 2023 production reports totaling 8,370,977 barrels of oil in FY 2023.

Table 1
Total Tax Revenues Received
FY 2023

Oil Tax Revenue		Penalties and Interest		Total	
\$	2,931,913	\$	23,112	\$	2,955,025

We tested 97% of the special tax revenues received in FY 2023 through confirmations with the top oil producers and determined that funds remitted by oil producers were substantively calculated properly based on the reports presented to the City.

In FY 2023, the special tax revenues and penalties received were substantively deposited correctly into Fund 2100, the Fire Public Safety Oil Production Tax Special Revenue Fund, and Fund 2150, the Police Public Safety Oil Production Tax Special Revenue Fund, as required by §3.80.225 of the Municipal Code. The revenues were divided equally between the funds.

Objective 2: Identify FY 2023 expenditures of Prop H funds and analyze whether such expenditures complied with the approved uses set forth in the Long Beach Municipal Code.

Conclusion 2: FY 2023 expenditures of Prop H funds complied with the approved uses set forth in the City's Municipal Code.

Prop H expenditures during FY 2023 totaled \$2,937,742 and were made for eligible costs as defined in the City's Municipal Code.

Police Department

In FY 2023, Prop H expenditures for the Police Department totaled \$1,471,779. In FY 2023, \$1,465,957 (99.6% of department expenditures) was spent on funding salaries and benefits for 14 police officers and a sergeant assigned to the Police Department's Quality of Life and Mental Health Evaluation Teams. The remaining Prop H balance of \$5,822 (0.4% of department expenditures) was spent on interfund service expenditures.

We reviewed \$1,465,957 (99.6% of department expenditures) of the Prop H Police Department expenditures and found that they complied with the approved uses as set forth in the City's Municipal Code.

Fire Department

In FY 2023, Prop H expenditures for the Fire Department totaled \$1,465,963. In FY 2023, \$1,460,141 (99.6% of department expenditures) was spent on funding salaries and benefits for Fire personnel assigned to Fire Truck 17. Truck 17 is staffed daily with a fire captain, a fire engineer, and two firefighters. The remaining Prop H balance of \$5,822 (0.4% of department expenditures) was spent on interfund service expenditures.

We reviewed \$1,460,141 (99.6% of department expenditures) of the Prop H Fire Department expenditures and found that they complied with the approved uses as set forth in the City's Municipal Code.

Objective 3: Determine the amount of unspent Prop H monies on deposit at September 30, 2023 that were carried over into the current fiscal year, FY 2024.

Conclusion 3: The amount of unspent Prop H monies at the end of FY 2023 that were carried over into the current fiscal year is \$189,288.

Financial Management has a Prop H Reserve Policy which establishes a range of \$150,000 to \$400,000 to be available should Prop H oil production revenues decline, or for any one-time needs. This Reserve Policy ensures that the funds are being spent timely and prevents the accumulation of excessive reserves.

During FY 2023, the carryover amount increased 11% from the prior fiscal year, from \$171,213 to \$189,288. This amount is within the allowed carryover range established by Financial Management's carryover policy. The projected carryover for FY 2024 is expected to be \$189,288, which is equal to the FY 2023 carryover. See Table 2 below.

Table 2
Prop H Funds Cash Flow
FY 2022-2024

	Police	Fire	Total	FY % Change
FY 2022 Carryover	\$ 169,959	\$ 1,254	\$ 171,213	
FY 2023 Actual Revenue	\$ 1,485,509	\$ 1,469,516	\$ 2,955,025	
FY 2023 Actual Expenditures	\$ (1,471,779)	\$ (1,465,963)	\$ (2,937,742)	
Mark to market adjustment	\$ 792	\$ -	\$ 792	
FY 2023 Carryover	\$ 184,481	\$ 4,807	\$ 189,288	11%
FY 2024 Budgeted Revenue	\$ 1,435,573	\$ 1,435,573	\$ 2,871,146	
FY 2024 Budgeted Expenditures	\$ (1,435,573)	\$ (1,435,573)	\$ (2,871,146)	
FY 2024 Projected Carryover	\$ 184,481	\$ 4,807	\$ 189,288	0%

Objective 4: Determine the status of any projects and programs funded by Prop H revenue and whether they comply with the approved uses set forth in the City's Municipal Code.

Conclusion 4: The anticipated projects and programs funded by Prop H revenue in FY 2024 comply with the approved uses set forth in the City's Municipal Code.

Anticipated Activities

In FY 2024, the Police Department plans to use all the budgeted Prop H funds (\$1,435,573) to help fund its Mental Health Evaluation Team (MET) and its Quality of Life (QOL) Team. Funding will cover a portion of the staffing costs for six police officers from the MET, eight police officers from the QOL Team, and one Sergeant. The MET responds to calls for service that involve individuals who may require mental health services. The MET partners with the Los Angeles County's Department of Mental Health when they respond to calls, allowing the team to offer access to mental health services in an efficient manner. The QOL Team performs homelessness outreach and response. QOL officers work to connect persons experiencing homelessness to supportive services such as community support groups, housing resources, transportation, and mental health services.

In FY 2024, the Fire Department intends to use all budgeted Prop H funds (\$1,435,573) to pay for emergency medical equipment used by the Firefighter Paramedic and Emergency Medical Technical staff. The equipment items include gurneys, cardiac monitors, chest compression items, and consumable emergency medical equipment.

The Departments' anticipated activities for Prop H funds, as described above, comply with the approved uses as set forth in the City's Municipal Code.

FY 2024 Budgeted Revenues and Expenditures

For FY 2024, budgeted Prop H revenues and expenditures are \$2,871,146 and \$2,871,146 respectively, as shown in Table 2 on the prior page.

Background

Proposition H

The citizens of Long Beach (City) approved Proposition H (Prop H), the Police and Fire Public Safety Oil Production Act, on May 1, 2007. Prop H amended the City's Municipal Code to assess an additional 25 cents per barrel special tax on oil producers in Long Beach, with the tax rate to be adjusted annually on June 1 based on the Consumer Price Index (CPI). The audit is an annual audit from October 1 through September 30 and the CPI rate adjustment is effective June 1, as such, the applicable tax rate is a blended rate for the year. The special tax became effective on June 1, 2007, and has since been adjusted as follows:

Table 3
Prop H Tax Rates
FY 2007-2023

Effective Date	Adjustment for CPI	Amount of Special Tax
June 1, 2007	-	\$0.25
June 1, 2008	\$0.01	\$0.26
June 1, 2009	\$0.01	\$0.27
June 1, 2010	\$0.00	\$0.27
June 1, 2011	\$0.00	\$0.27
June 1, 2012	\$0.01	\$0.28
June 1, 2013	\$0.00	\$0.28
June 1, 2014	\$0.00	\$0.28
June 1, 2015	\$0.01	\$0.29
June 1, 2016	\$0.00	\$0.29
June 1, 2017	\$0.01	\$0.30
June 1, 2018	\$0.00	\$0.30
June 1, 2019	\$0.02	\$0.32
June 1, 2020	\$0.01	\$0.33
June 1, 2021	\$0.00	\$0.33
June 1, 2022	\$0.01	\$0.34
June 1, 2023	\$0.03	\$0.37

This special tax is in addition to the existing annual maximum business tax of 30 cents per barrel produced, adjusted annually for CPI. This is a legally distinct tax to be used explicitly to fund public safety. Specifically, these tax proceeds may be used only for police officers, firefighters, and related costs, including but not limited to equipment, facilities, and training, to ensure responses to public safety needs.

The special tax is due to the City on or before the last day of the calendar quarter. The payment is based on a production quarter, which ends one month earlier than the calendar quarter.

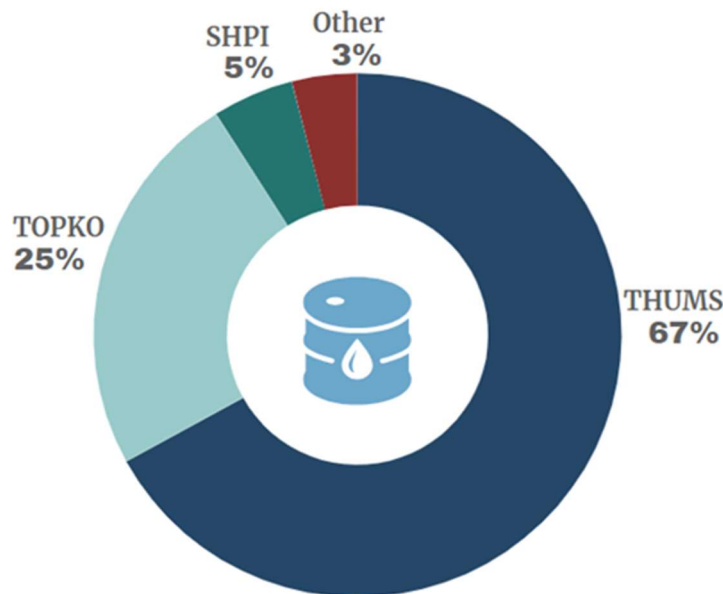
For example, the special tax payment for the production quarter ending August 31, 2023 was due to the City on or before September 30, 2023.

Failure to pay the tax results in a penalty of 25% of the total tax on the first day of the month following the close of the calendar quarter. If the tax remains unpaid for each month thereafter, an additional 10% penalty is assessed, up to a maximum of 100% of the tax amount.

Oil Producers

In FY 2023, oil operators in Long Beach reported a total of 8,370,977 barrels of oil produced. THUMS Long Beach Company (THUMS), Tidelands Oil Production Company (TOPKO) and Signal Hill Petroleum, Inc. (SHPI) were the City's top oil producers in FY 2023. As illustrated in Figure 1 below, these three oil operators accounted for approximately 97% of oil produced in FY 2023.

Figure 1
Percentage of Barrels Produced by Oil Producer
FY 2023

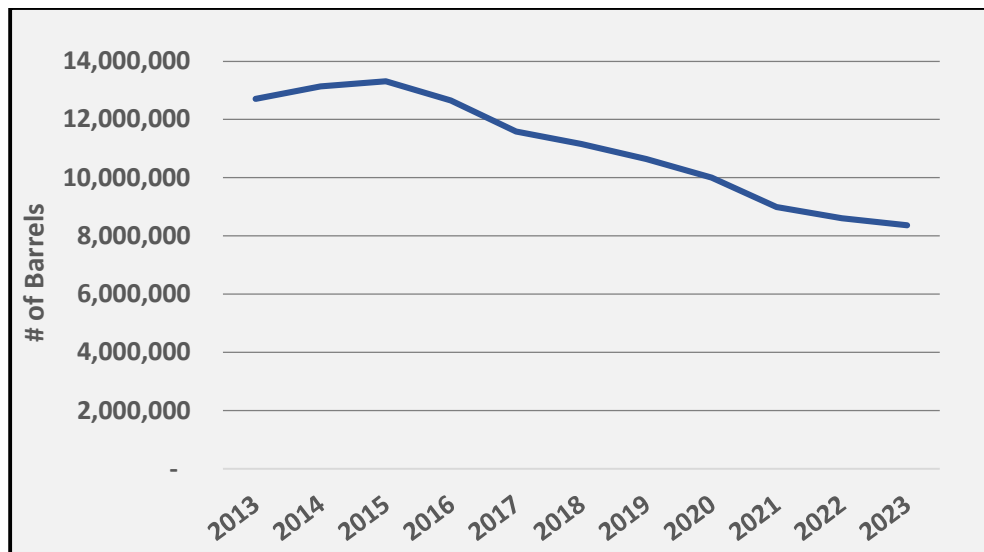


Most of the oil is produced in the Wilmington Oil Field. The Wilmington Oil Field was discovered in Long Beach in 1932 and is 13 miles long, extending from San Pedro to Seal Beach. The field is divided into two sections: West and East. TOPKO serves as the field contractor for the western section of the oil field, and THUMS serves as the field contractor for the eastern section. In FY 2023, THUMS produced 5,635,461 barrels of oil, while TOPKO produced 2,075,283 barrels of oil.

SHPI, the third largest oil producer in Long Beach, is the operator for the Signal Hill West Unit, Signal Hill East Unit, Signal Hill Bryant Lease, Signal Hill H&L Lease, Signal Hill B-302, Signal Hill Graner Lease Oil Fields, and for Well TC-1 on the Long Beach Oil Field. These oil fields are located in both Long Beach and Signal Hill. In FY 2023, SHPI produced a total of 387,630 barrels of oil in Long Beach.

Since the inception of Prop H through September 30, 2023, annual oil production in Long Beach has fluctuated. Production experienced a growth period from FY 2013 to FY 2015 but has declined by 37% since then. In FY 2023, there was a decline of 3% from the prior year. See Figure 2 below for additional details on the fluctuation in annual oil production.

Figure 2
Annual Oil Production
FY 2013-2023

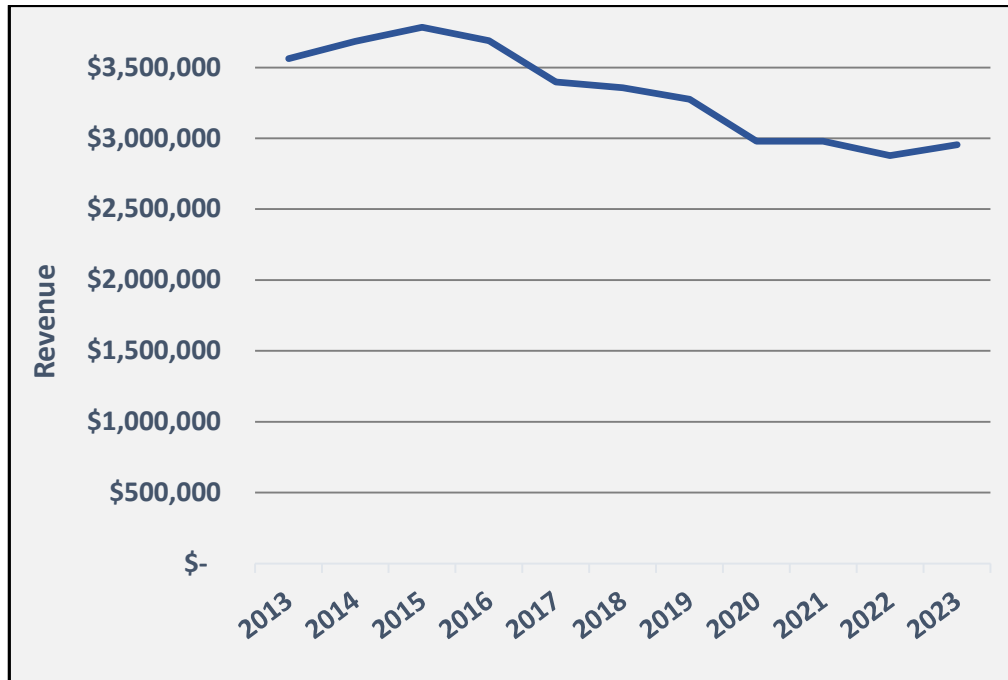


Prop H Revenues

Based on the level of production shown above, Prop H revenue received by the City shows similar general fluctuations: increase from FY 2013 to FY 2015, and a decline in revenue of 22% between

FY 2015 and FY 2023. In FY 2023, while oil production decreased from the prior fiscal year, Prop H revenue increased by 3%. This is because the City's barrel tax rate increased from FY 2022 to FY 2023 from 34 cents per barrel to 37 cents per barrel. See Figure 3 on the next page.

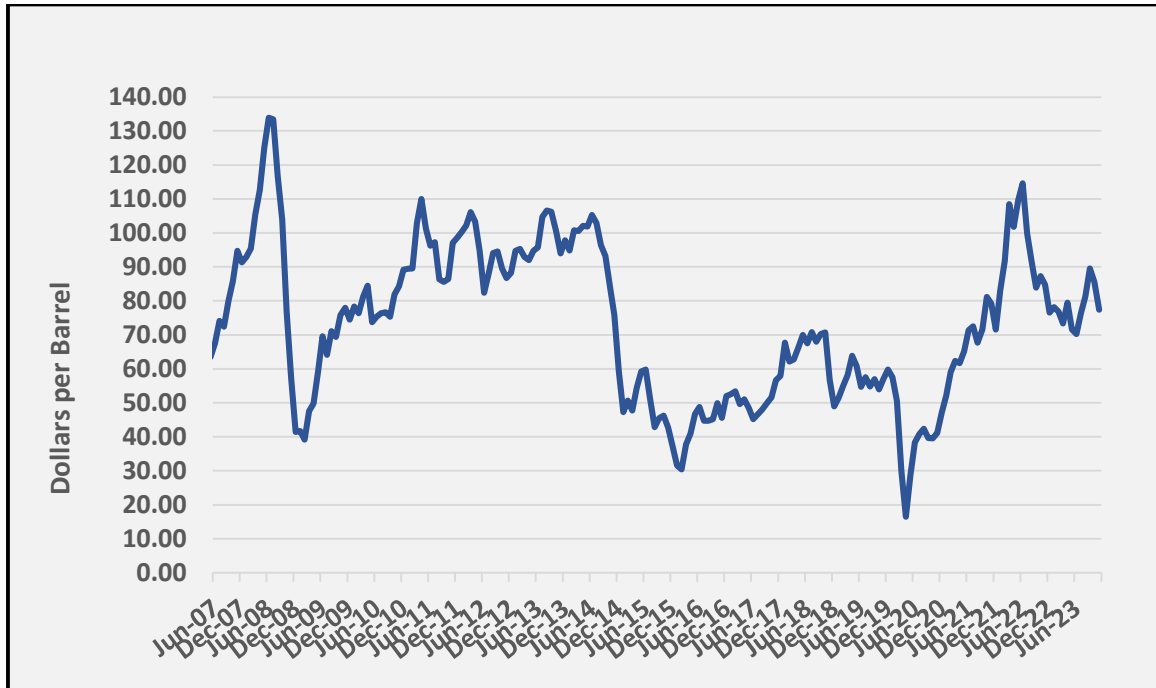
Figure 3
Prop H Annual Revenue
FY 2013-2023



Price of Oil

As shown in Figure 4 on the next page, when the special oil tax became effective in June 2007, the monthly average price of oil, based on the West Texas Intermediate (WTI) crude index, was steadily rising. In June 2008, the monthly WTI average reached a high of \$133.93 per barrel. The price of crude oil declined significantly shortly thereafter with the average monthly WTI price falling to \$39.15 per barrel in February 2009, but it increased steadily thereafter. For a four-year period, between October 2010 and September 2014, the WTI monthly average price was higher than \$80.00 per barrel, averaging \$95.81 per barrel.

Figure 4
Price of Oil
June 2007 – September 2023



However, the oil price began decreasing significantly after October 2014, reaching its previous low of \$30.39 average cost per barrel in February 2016. The average monthly WTI cost per barrel began to rise in March 2016 but began falling again in March 2020. FY 2023 began with the average monthly oil price of \$87.26. The price decreased to a low of \$70.23 in June 2023, with an increase to end the Fiscal Year, September 2023, at \$89.58.

Objective, Scope & Methodology

Long Beach Municipal Code §3.80.227 requires an annual independent financial audit of Prop H revenues and expenditures during each fiscal year. The four primary objectives of this audit were as follows:

1. Identify Prop H revenues received during FY 2023 and determine if funds remitted by the oil producers were properly calculated based on oil producers' reports remitted to the City;
2. Identify FY 2023 expenditures of Prop H funds and analyze whether such expenditures complied with the approved uses set forth in the Long Beach Municipal Code;
3. Determine the amount of unspent Prop H monies on deposit at September 30, 2023 that were carried over into the current fiscal year, FY 2024; and
4. Determine the status of any projects and programs funded by Prop H revenue.

The scope of our audit covers the period October 1, 2022 through September 30, 2023. We performed the following procedures during our audit:

- Obtained an understanding of internal controls surrounding the collection and recording of Prop H funds and calculated the annual change in the special tax rate based on the change in the annual average CPI.
- Obtained the Oil Production Taxes Schedule from the Financial Management Department and recalculated Prop H revenues, evaluated penalties assessed, and traced payments from checks to the City's financial system. Independently confirmed approximately 97% of the reported oil production amounts with the oil producers for FY 2023.
- Identified the Prop H expenditures during FY 2023 and determined whether the expenditures were in accordance with the City's Municipal Code and identified the amount of unspent Prop H monies on deposit at September 30, 2023 that were carried over into the current fiscal year, FY 2024.
- Identified the Police and Fire Departments' plans to use Prop H monies in the future and determined whether those plans are in accordance with §3.80.224 of the City's Municipal Code.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management Comments

The Police Department, Fire Department, and Department of Financial Management agreed with the information contained in the report and had no further comments.



Long Beach City Auditor's Office

411 W. Ocean Blvd., 8th Floor

Long Beach, CA 90802

Telephone: 562-570-6751

Fax: 562-570-6167

Email: Auditor@longbeach.gov

Website: CityAuditorLauraDoud.com

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