City of Long Beach **Memorandum**
Working Together to Serve

Date:	June 11, 2024
To:	Mayor and Members of the City Council
CC:	Dawn McIntosh, City Attorney Douglas P. Haubert, City Prosecutor Tom Modica, City Manager April Walker, Assistant City Manager Bob Dowell, Director of Energy Resources
From:	Laura Doud, City Auditor
Subject:	Climate Transition Impact Review to Prepare for Long Beach's Transition from Fossil Fuel Production and Preserve Critical Infrastructure and City Services

In May 2023, the Long Beach City Council requested a comprehensive review of fiscal liabilities and economic impacts to the City of Long Beach (City) stemming from the State of California's (State's) anticipated transition away from crude oil and natural gas production. Please find attached the Review of Economic Impacts to the City of Long Beach Associated with California's Anticipated Transition Away from Crude Oil and Natural Gas Production conducted by Tom Walker of Evans & Walker, Consulting Petroleum Engineers ("consultant"), on behalf of the City Auditor's Office (Office).

The City derives revenue from oil and gas operations, with over 2,700 active and idle wells in the City from 14 oil operators and operations. This review sought to inventory these oil operators, quantify the current and forecasted City revenues from oil operations, estimate the asset retirement obligations (AROs) and estimate the impact of the loss of oil revenues on City services and programs. This memo summarizes the key findings of the consultant's 25-page report.

Declining Oil Production in the City

In October 2021, a staff report noted the City is significantly reducing its reliance on revenue from oil production due to natural oil production declines of six percent annually. This decline is expected to continue until about 2035, when it is projected that the oil field may generally cease production for economic reasons.

In addition to a decline in oil production and oil revenue, there are costs associated with abandoning oil wells to protect against environmental impacts. In December 2022, a staff report noted that the City projected contributions of $8.75M annually towards building an abandonment reserve, with an existing reserve of $70M and projected an additional $84M cost. This staff report included projections and forecasts on future oil revenue, however it did not include revenues from various taxes due to difficulties in isolating amounts specific to oil production.

The attached consultant report incorporates a comprehensive review and forecast of all oil revenue, including various tax revenues generated specifically from oil production.

California Senate Bill 1137

In September 2022, Governor Gavin Newsom signed California Senate Bill 1137 (SB1137) into law. SB1137 seeks to protect the public health of California's frontline communities by introducing a 3,200-feet distance between residences, schools, playgrounds, hospitals, and nursing homes from an oil and gas production well. This bill prohibits the issuance of well permits and the construction and operation of new oil production facilities within this health protection zone, and it also establishes strict engineering controls to be implemented by existing operations within the zone. SB1137 has been temporarily held pending a referendum vote in the November 2024 elections.

The impact of SB1137 is significant to the City as about half the wells in Long Beach are located within this health protection zone. According to the December 2022 staff report, SB1137 presents major fiscal challenges and will significantly reduce oil production and oil revenue even before the previously projected 2035 date, impacting the Tidelands Operating and Uplands Oil Funds, as well as the General Fund.

Review Methodology

The consultant utilized a methodology which incorporates a complete list of active oil wells in the City, oil production numbers for each well, oil and gas price, calculations for various taxes and assessments including the following:

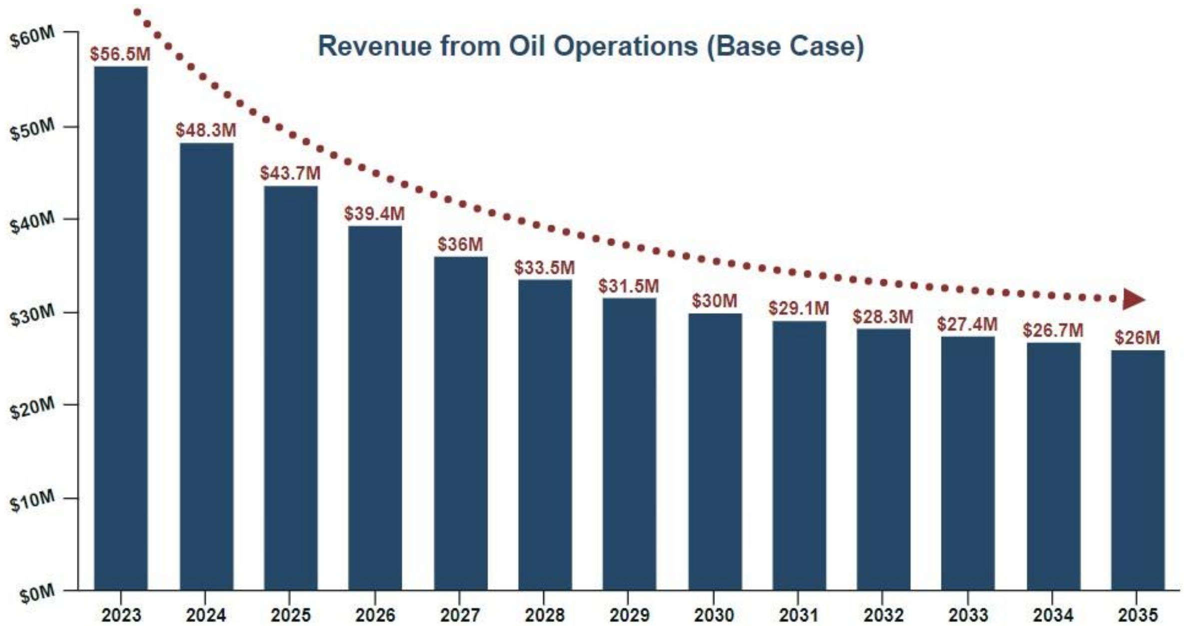
1. Mineral Interest Ownership: The City receives revenue related to oil production for wells operated on land that was transferred from the State to the City in the early 20th century.
2. Land and Pipeline Franchise Fees: Fees paid by oil operators for the surface rental of City property and the use of pipelines in oilfield properties.
3. Overhead: Charges incurred by City staff, which can be charged back to oil operators.
4. Taxes (User Utility, Proposition H (Prop H), Ad Valorem Property, General Purpose (Measure US, Sales)): Various taxes that are assessed on oil production (Prop H and Measure US), use of natural gas and electricity as part of the oil production process, property tax assessed on the fair market value of gas produced, and an additional sales tax for purchases by CRC, an independent oil operator.
5. Reclaimed Water Sales: Use of reclaimed water as injection water to mitigate subsidence.
6. Well Permit Fees: The City assesses a permit fee of $380 per year for the first well and $72 per year for each additional well.

The report forecasts future amounts utilizing data to determine the impact of SB1137 on existing oil production and operations in the City and provides a more accurate understanding of future AROs faced by the City and the State.

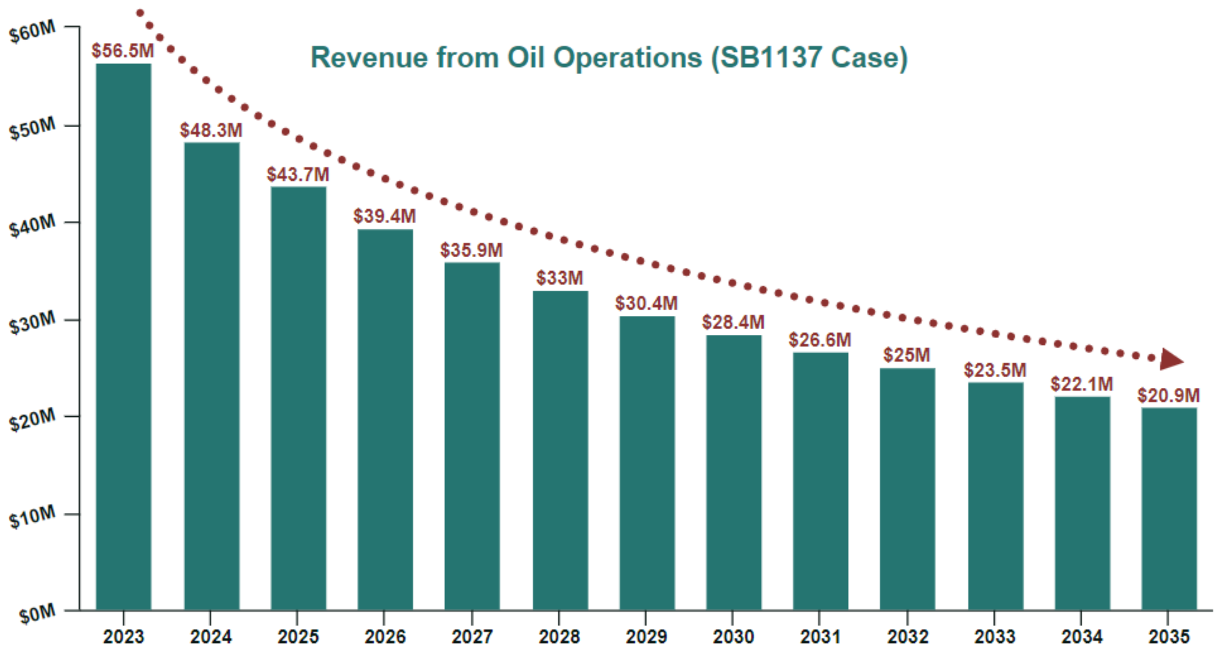
The City Faces a Projected $301M Total Decrease in Oil Revenue by 2035 Due to Production Decline and the Potential Passage of SB1137

In calendar year 2023 the total oil revenue generated was over $56M. The consultant's report forecasts a 54% decrease in revenue to $26M by 2035 due to oil production decline, and a 63% revenue decline to $21M by 2035 with the potential passage of SB1137. In total, the City's cumulative revenue decrease from declining oil production amounts to $279M from 2024 through 2035, increasing to $301M if SB1137 passes.

Forecasts Show a 54% to 63% Decline in Oil Revenue by 2035, with a Cumulative Revenue Decrease from $279M to $301M by 2035



Year	Base Case Using 2023 Baseline Revenue	
	Annual Deficit	Cumulative Revenue Deficit
2024	$ (8,266,911)	$ (8,266,911)
2025	$ (12,832,385)	$ (21,099,296)
2026	$ (17,176,866)	$ (38,276,162)
2027	$ (20,552,720)	$ (58,828,882)
2028	$ (23,026,769)	$ (81,855,651)
2029	$ (25,091,402)	$ (106,947,053)
2030	$ (26,510,496)	$ (133,457,549)
2031	$ (27,464,086)	$ (160,921,636)
2032	$ (28,244,923)	$ (189,166,559)
2033	$ (29,099,359)	$ (218,265,918)
2034	$ (29,867,100)	$ (248,133,018)
2035	$ (30,546,494)	**$ (278,679,512)**



Year	SB1137 Case Using 2023 Baseline Revenue			
	Annual Deficit		Cumulative Revenue Deficit	
2024	$	(8,269,280)	$	(8,269,280)
2025	$	(12,834,439)	$	(21,103,719)
2026	$	(17,178,647)	$	(38,282,366)
2027	$	(20,692,330)	$	(58,974,696)
2028	$	(23,532,248)	$	(82,506,944)
2029	$	(26,120,920)	$	(108,627,864)
2030	$	(28,190,813)	$	(136,818,678)
2031	$	(29,900,654)	$	(166,719,332)
2032	$	(31,500,210)	$	(198,219,542)
2033	$	(33,092,920)	$	(231,312,462)
2034	$	(34,467,859)	$	(265,780,321)
2035	$	(35,633,883)	**$**	**(301,414,204)**

The City is Projected to Sufficiently Cover Asset Retirement Obligations, While the State's Abandonment Reserve Contribution is Insufficient to Cover Its Share of Obligations

Accelerating the end of oil and gas operations in the City will also accelerate the need to plug and abandon the wells and facilities used in these operations. The City currently contributes $8.75M annually and may increase this contribution in years that the Wilmington oil price exceeds the price used to set the City budget. Maintaining this level of funding should build the City abandonment reserves sufficiently to cover City AROs by the end of 2035.

The State has the largest share of AROs associated with oil and gas operations in the City. The State is currently transferring 50% of their net oil operation revenue into their asset retirement reserve fund, capped at $2M monthly. Maintaining this level of funding will not build the State abandonment reserves sufficiently to cover State AROs by the end of 2035, with the State's portion of the abandonment costs projected to only be 50% funded. Even if the State were to increase their contribution to 100%, the projected reserve would only be 68% funded by 2035.

Impact on City Services, Programs and Projects

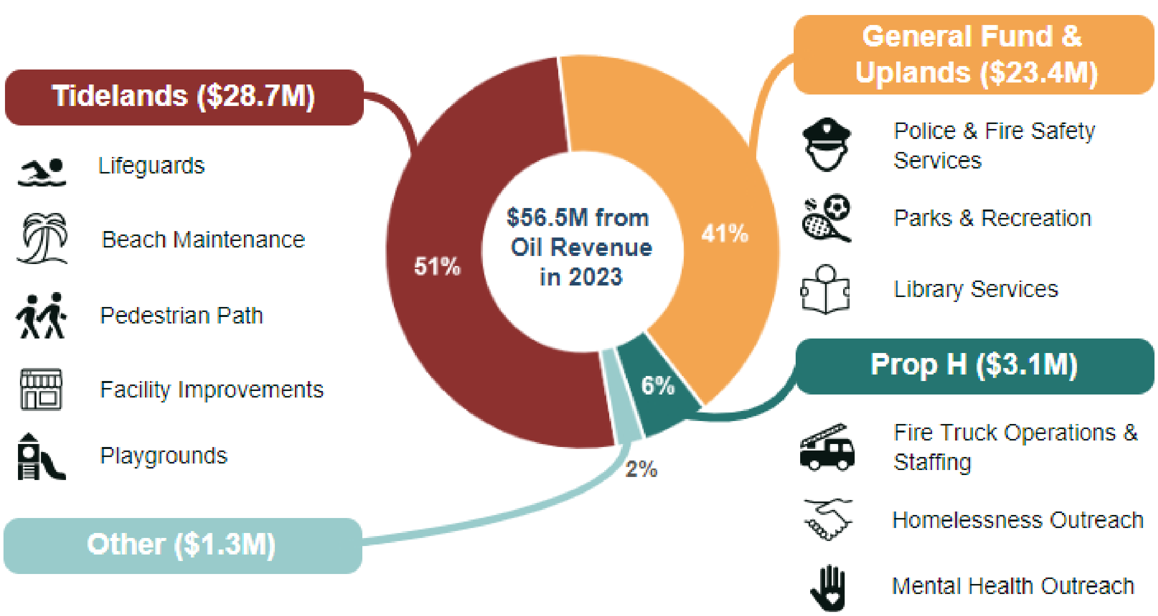
Oil revenue funds the following:

1. Tidelands (51% of annual oil revenue)
2. General Fund and Uplands (41% of annual oil revenue)
3. Prop H (6% of annual oil revenue)
4. Other (2% of annual oil revenue)

These funds are vital in safeguarding the environment, improving infrastructure, enhancing beaches, and keeping residents and visitors safe. Oil revenue has a long history of funding significant infrastructure improvements and vital safety services to Long Beach's waterfront in the Tidelands area. My Office's Harbor Initiative Impact Summary report highlights major projects and services funded by Tidelands funds including bluff improvements, a 3-mile shoreline walking path, ADA beach mobility mats, Colorado Lagoon restoration, playgrounds, sand berms, clearing storm debris, and year-round lifeguard beach patrol. Additionally, Prop H revenue helps fund public safety. My Office's Prop H impact report provides additional detail on public safety initiatives funded by this additional tax on oil production including homelessness outreach and assistance, mental health services, and life-saving fire operations.

The oil revenue is also crucial to General Fund operations, a significant portion of which directly funds public safety. The General Fund is used by the City for numerous operating expenses, from maintenance of trees and parks, to library services, and helping the City's homeless population.

Oil Revenue in 2023 Totaling $56.5M Helped Fund Essential City Services



Conclusion

With the declining trend in oil production, the City must develop and execute alternative strategies and opportunities over the next decade to bridge the anticipated $301M revenue shortfall. The City needs to plan accordingly as the revenue shortfall will significantly impact funding for capital projects, public safety operations, and all other essential City services that residents rely upon.

ATTACHMENTS