

OFFICE OF THE CITY AUDITOR
Long Beach, California

C-2

LAURA L. DOUD, CPA
City Audit

February 14, 2023

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Proposition H Audit Report for the fiscal year ending September 30, 2022.

DISCUSSION:

Pursuant to Long Beach Municipal Code Section 3.80.227, the Office of the City Auditor is charged with conducting an annual independent financial audit of Proposition H (Prop H) funds and providing a written report to the City Council.

The City Auditor conducts annual audits of Prop H funds to identify the following: the amount of special tax revenues collected during the fiscal year (FY), the amount of special tax revenue expended on eligible costs during the fiscal year, the amount of unspent monies that were carried over into the current fiscal year, and the status of any projects and programs funded by the special tax revenues.

We determined the following as a result of our audit:

1. During FY 2022, the City received \$2,879,394 of Prop H revenues, a decrease of \$101,307 or 3.40% from the prior year.
2. Prop H expenditures during FY 2022 totaled \$2,877,138. Expenditures were \$128,239 or 4.27% less compared to the prior year and were made for eligible costs as defined in the Municipal Code.
3. During FY 2022, the amount of unspent monies carried over decreased 3% from the prior fiscal year to \$171,213. This amount aligns with the reserve policy's established reserve range of \$150,000 to \$400,000 for the fund. The projected carryover by the end of FY 2023 is expected to remain the same.

4. In FY 2023, the Fire Department intends to use their Prop H resources to continue funding public safety positions. The Police Department will use its funds to support staffing of the Mental Health Evaluation Teams.

Detailed information regarding these results is included in the attached report.

In conclusion, we express our appreciation to employees of the Police Department, Fire Department, and the Department of Financial Management for providing their time, information, and cooperation during the audit process.

TIMING CONSIDERATIONS:

Action by the City Council is not time sensitive.

FISCAL IMPACT:

Approving this action would have no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



Laura L. Doud, CPA
CITY AUDITOR

attachment

Proposition H

Police and Fire Public Safety Oil Production Act

*Generated nearly \$3 million in additional
revenue for public safety in FY 2022*



Independence you can rely on

January 2023

Laura L. Doud
City Auditor

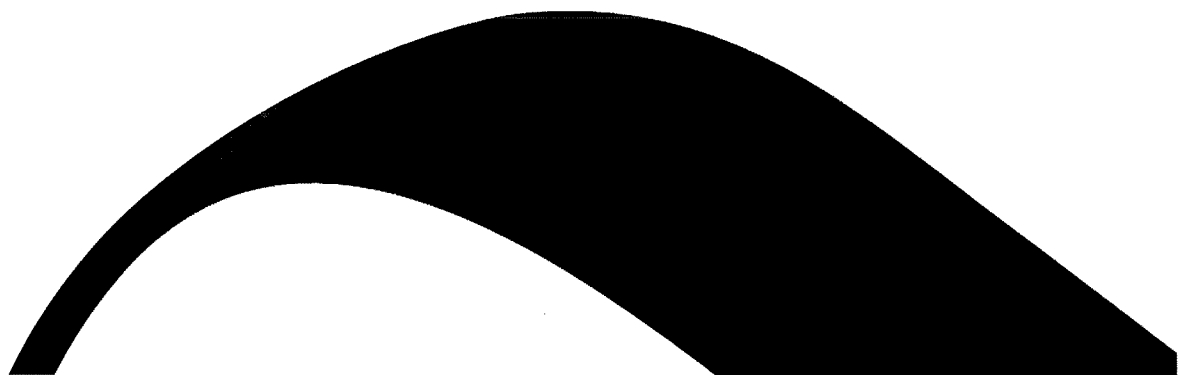


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Audit Results

Objective 1: Identify Prop H revenues received during FY 2022 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 2022 were substantively calculated properly based on oil producers' reports remitted to the City.

The City of Long Beach (City) received a total of \$2,879,394 of Proposition H (Prop H) oil tax revenue, including penalties and interest, during fiscal year (FY) 2022, as depicted in Table 1 below. This is a revenue decrease of 3% from the prior fiscal year. The oil tax revenue received was based on FY 2022 production reports totaling 8,609,253 barrels of oil in FY 2022.

Table 1
Total Tax Revenues Received
FY 2022

Oil Tax Revenue	Penalties and Interest	Total
\$ 2,870,773	\$ 8,621	\$ 2,879,394

We tested 96% of the special tax revenues received in FY 2022 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. Not all penalties were appropriately assessed on late payments, however, they are not a substantial portion of total revenue.

In FY 2022, 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 2022 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 2022 expenditures of Prop H funds complied with the approved uses set forth in the City's Municipal Code.

Prop H expenditures during FY 2022 totaled \$2,877,138 and were made for eligible costs as defined in the City's Municipal Code.

Police Department

In FY 2022, Prop H expenditures for the Police Department totaled \$1,438,569. In FY 2022, \$1,432,220 (99.6% of department expenditures), was spent on partially funding salaries and benefits for seven police officers assigned to the Police Department's Mental Health Evaluation Teams. The remaining Prop H balance of \$6,349 (0.4% of department expenditures) was spent on interfund service expenditures.

We reviewed \$1,432,220 (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 2022, Prop H expenditures for the Fire Department totaled \$1,438,569. In FY 2022, \$1,432,220 (99.6% of department expenditures), was spent on partially funded 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 \$6,349 (0.4% of department expenditures) was spent on interfund service expenditures.

We reviewed \$1,432,220 (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, 2022 that were carried over into the current fiscal year, FY 2023.

Conclusion 3: The amount of unspent Prop H monies at the end of FY 2022 that were carried over into the current fiscal year is \$171,213.

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. Financial Management has stated that this policy is used as a general guideline, and deviations from the policy are not necessarily causes for concern. In addition, they have stated that the Prop H Fund is part of a multi-fund and multi-year budgeting strategy; therefore, decisions regarding reserves are not made based on any one particular year.

During FY 2022, the carryover amount decreased 3% from the prior fiscal year, from \$175,776 to \$171,213. This amount is within the allowed carryover range established by Financial Management’s carryover policy. The projected carryover for FY 2023 is expected to be \$171,213, which is equal to the FY 2022 carryover. See Table 2 below.

Table 2
Prop H Funds Cash Flow
FY 2021-2023

	Police	Fire	Total	FY % Change
FY 2021 Carryover	\$ 172,840	\$ 2,935	\$ 175,776	
FY 2022 Actual Revenue	\$ 1,442,506	\$ 1,436,888	\$ 2,879,394	
FY 2022 Actual Expenditures	\$ (1,438,569)	\$ (1,438,569)	\$ (2,877,138)	
Mark to market adjustment	\$ (6,818)	\$ -	\$ (6,818)	
FY 2022 Carryover	\$ 169,959	\$ 1,254	\$ 171,213	-3%
FY 2023 Budgeted Revenue	\$ 1,346,685	\$ 1,346,685	\$ 2,693,369	
FY 2023 Budgeted Expenditures	\$ (1,346,685)	\$ (1,346,685)	\$ (2,693,369)	
FY 2023 Projected Carryover	\$ 169,959	\$ 1,254	\$ 171,213	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 2023 comply with the approved uses set forth in the City's Municipal Code.

Anticipated Activities

In FY 2023, the Police Department plans to use all the budgeted Prop H funds (\$1,346,685) to help fund its Mental Health Evaluation Teams (Teams). Funding will cover a portion of the staffing costs for seven police officers on the Teams. The Teams respond to calls for service that involve individuals who may require mental health services. The Teams partner with the Los Angeles County's Department of Mental Health when they respond to calls, allowing the Teams to offer access to mental health services in an efficient manner.

In FY 2023, the Fire Department intends to use all budgeted Prop H funds (\$1,346,685) to help fund a portion of the staffing costs for Fire Truck 17. There are three shifts (A, B, and C), and every day (365 days a year) Truck 17 is staffed with a fire captain, a fire engineer, and two firefighters.

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 2023 Budgeted Revenues and Expenditures

For FY 2023, budgeted Prop H revenues and expenditures are \$2,693,369 and \$2,693,369 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 special tax became effective on June 1, 2007, and has since been adjusted as follows:

Table 3
Prop H Tax Rates
FY 2007-2022

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	\$0.00	\$0.34

This special tax is in addition to the existing annual maximum business tax of 30 cents per barrel produced and 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.

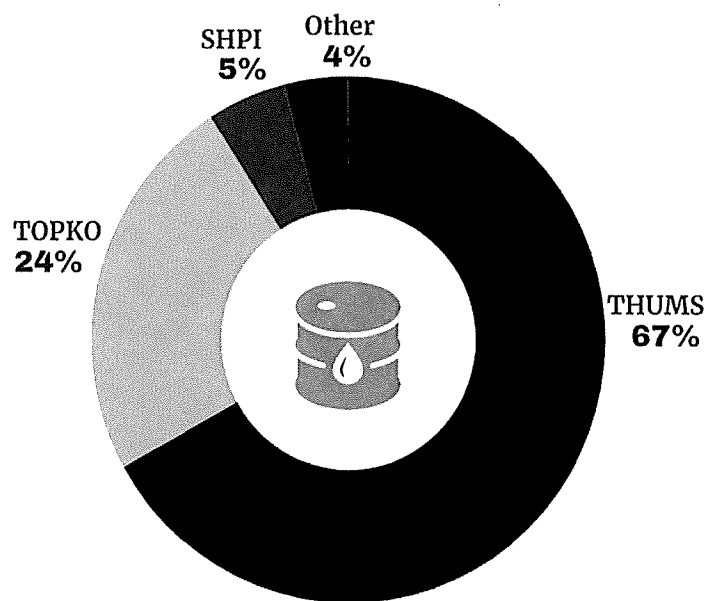
The special tax is due to the City on or before the last day of the calendar quarter. The payment is based on a production quarter, which ends one month earlier than the calendar quarter. For example, the special tax payment for the production quarter ending August 31, 2022 was due to the City on or before September 30, 2022.

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 2022, oil operators in Long Beach reported a total of 8,609,253 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 2022. As illustrated in Figure 1 below, these three oil operators accounted for approximately 96% of oil produced in FY 2022.

Figure 1
Percentage of Barrels Produced by Oil Producer
FY 2022

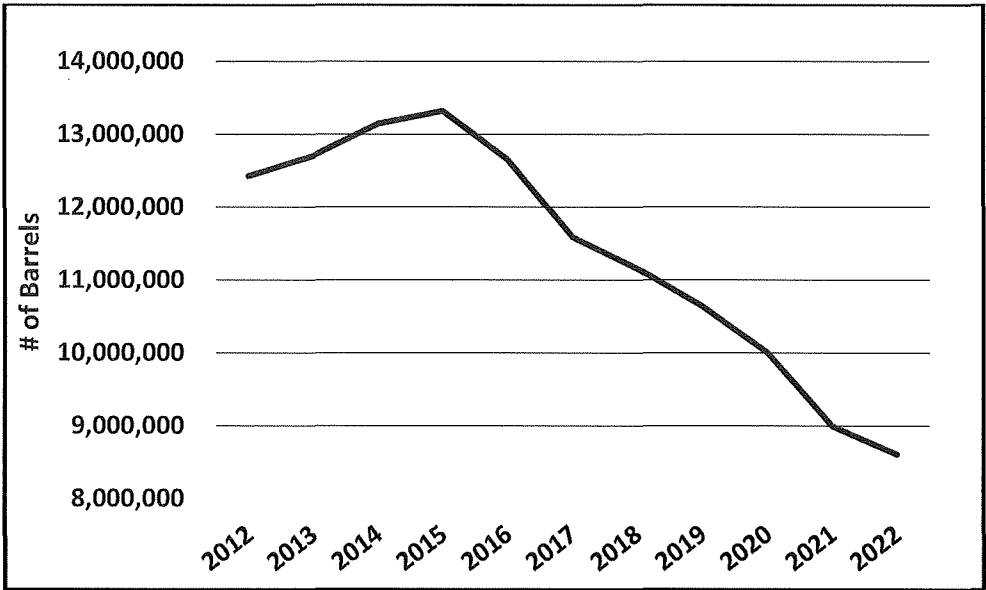


Most of the oil is produced in the Wilmington Oil Field. The Wilmington Oil Field was discovered in Long Beach in 1932 and is 13 miles long, extending from San Pedro to Seal Beach. The field is divided into two sections: West and East. TOPKO serves as the field contractor for the western section of the oil field, and THUMS serves as the field contractor for the eastern section. In FY 2022, THUMS produced 5,740,496 barrels of oil, while TOPKO produced 2,114,742 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 LBA-1, 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 2022, SHPI produced a total of 449,444 barrels of oil in Long Beach.

Since the inception of Prop H through September 30, 2022, annual oil production in Long Beach has fluctuated. Production experienced a growth period from FY 2013 to FY 2015 but has declined by 35% since then. In FY 2022, there was a decline of 4% from the prior year. See Figure 2 below for additional details on the fluctuation in annual oil production.

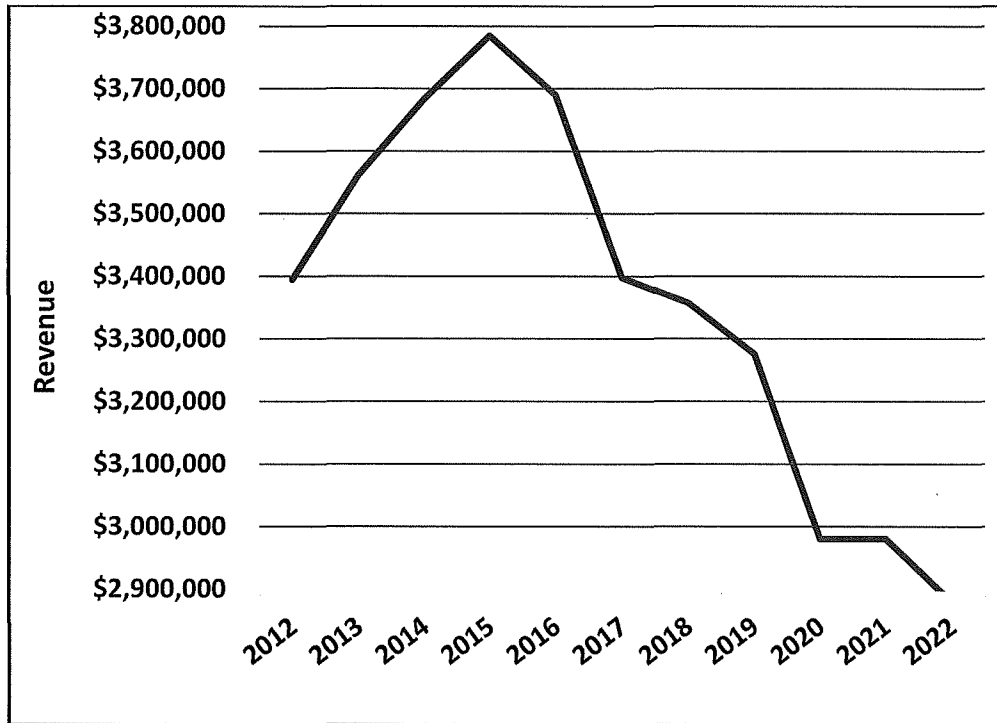
Figure 2
Annual Oil Production
FY 2012-2022



Prop H Revenues

Based on the level of production shown above, Prop H revenue received by the City shows the general fluctuations: increase from FY 2013 to FY 2015, and a decline in revenue of 24% between FY 2015 and FY 2022. In FY 2022, Prop H revenue declined by 3% from the revenue received the prior fiscal year. See Figure 3 on the next page.

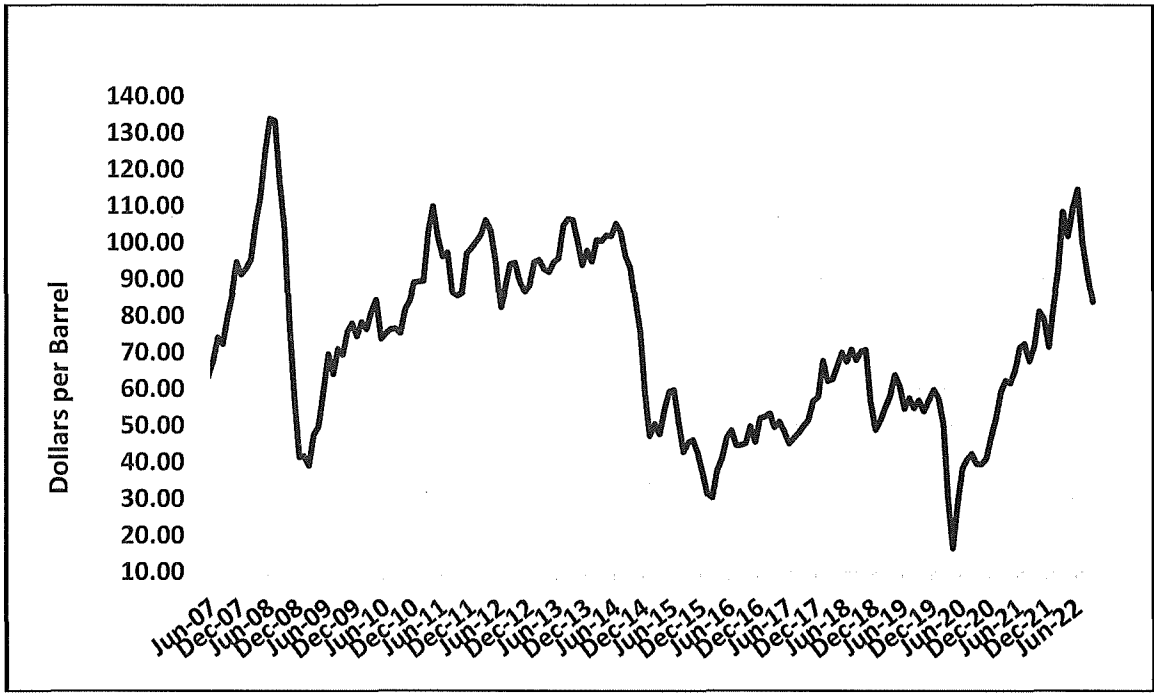
Figure 3
Prop H Annual Revenue
FY 2012-2022



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 2022



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 December 2019. FY 2022 began with the average monthly oil price of \$81.32. The price increased steadily to a high of \$114.59 in June 2022, with a decrease to end the Fiscal Year, September 2022, at \$83.87.

Objective, Scope & Methodology

Long Beach Municipal Code §3.80.227 requires annual independent financial audits 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 2022 and determine if funds remitted by the oil producers were properly calculated based on oil producers' reports remitted to the City;
2. Identify FY 2022 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, 2022 that were carried over into the current fiscal year, FY 2023; 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, 2021 through September 30, 2022. 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 96% of the reported oil production amounts with the oil producers for FY 2022.
- Identified the Prop H expenditures during FY 2022 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, 2022 that were carried over into the current fiscal year, FY 2023.
- 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.



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