



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-1

LAURAL. DOUD, CPA
City Auditor

March 8, 2022

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, 2021.

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 2021, the City received \$2,980,701 of Prop H revenues, an increase of \$161 or 0.01% from the prior year.
2. Prop H expenditures during FY 2021 totaled \$3,005,377. Expenditures were \$45,573 or 2% more compared to the prior year and were made for eligible costs as defined in the Municipal Code.
3. During FY 2021, the amount of unspent monies carried over decreased 13% from the prior fiscal year to \$175,776. 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 2022 is expected to remain the same.
4. In FY 2022, 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,

A handwritten signature in cursive script that reads "Laura L. Doud".

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 2021*



Independence you can rely on

January 2022

Laura L. Doud
City Auditor

Alvin Chu
Deputy City Auditor

Stephanie Harper
Senior Performance Auditor

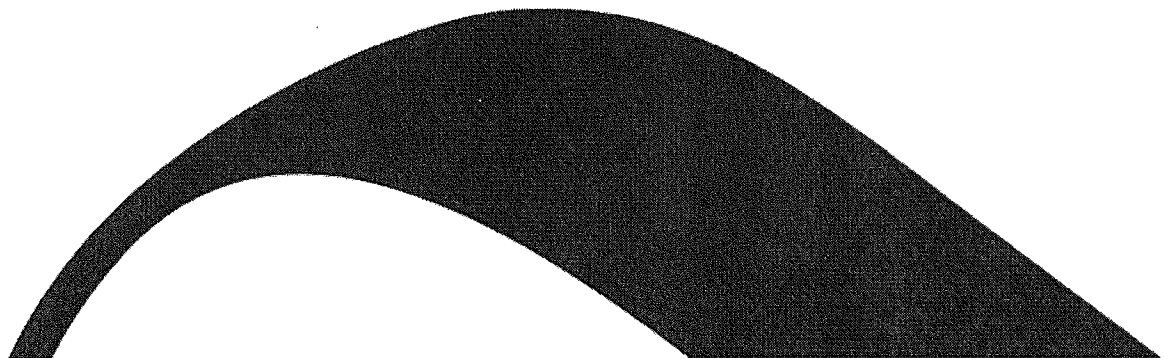


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Audit Results

Objective 1: Identify Prop H revenues received during FY 2021 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 2021 were substantively calculated properly based on oil producers' reports remitted to the City.

The City of Long Beach (City) received a total of \$2,980,701 of Proposition H (Prop H) oil tax revenue, including penalties and interest, during fiscal year (FY) 2021, as depicted in Table 1 below. This revenue remained essentially the same as the prior year, with an increase of \$161. The oil tax revenue received was based on FY 2021 production reports totaling 8,995,210 barrels of oil in FY 2021.

Table 1
Total Tax Revenues Received
FY 2021

Oil Tax Revenue	Penalties and Interest	Total
\$ 2,968,419	\$ 12,282	\$ 2,980,701

We tested 97% of the special tax revenues received in FY 2021 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 2021, 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 2021 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 2021 expenditures of Prop H funds complied with the approved uses set forth in the City's Municipal Code.

Prop H expenditures during FY 2021 totaled \$3,005,377 and were made for eligible costs as defined in the City's Municipal Code.

Police Department

In FY 2021, Prop H expenses for the Police Department totaled \$1,505,414. In FY 2021, \$1,499,278 (99.6% of department expenses), was spent on partially funding salaries and benefits for six Police Officers assigned to the Police Department's Mental Health Evaluation Teams. The remaining Prop H department expenses (0.4%) were spent on interfund service expenses.

We reviewed \$1,499,278 (99.6%) 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

The Fire Department's FY 2021 Prop H expenditures totaled \$1,499,963. Most of the expenditures, \$1,493,826 (99.6% of department expenditures), partially funded salaries and benefits for 12 positions to staff Fire Truck 17. The remaining Prop H department expenses (0.4%) were spent on interfund service expenses.

We reviewed \$1,493,826 (99.6%) 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, 2021 that were carried over into the current fiscal year, FY 2022.

Conclusion 3: The amount of unspent Prop H monies at the end of FY 2021 that were carried over into the current fiscal year is \$175,776.

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. 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 2021, the carryover amount decreased 13% from the prior fiscal year, from \$202,215 to \$175,776. This amount is within the allowed carryover range established by Financial Management's carryover policy. The projected carryover for FY 2022 is expected to be \$175,776, which is equal to FY 2021 carryover. See Table 2 below.

**Table 2
Prop H Funds Cash Flow
FY 2020-2022**

	Police	Fire	Total	FY % Change
FY 2020 Carryover	\$ 187,462	\$ 14,753	\$ 202,215	
FY 2021 Actual Revenue	\$ 1,492,556	\$ 1,488,146	\$ 2,980,702	
FY 2021 Actual Expenditures	\$ (1,505,414)	\$ (1,499,963)	\$ (3,005,377)	
Mark to market adjustment	\$ (1,763)	\$ -	\$ (1,763)	
FY 2021 Carryover	\$ 172,840	\$ 2,936	\$ 175,776	-13%
FY 2022 Budgeted Revenue	\$ 1,461,333	\$ 1,461,333	\$ 2,922,666	
FY 2022 Budgeted Expenditures	\$ (1,461,333)	\$ (1,461,333)	\$ (2,922,666)	
FY 2022 Projected Carryover	\$ 172,840	\$ 2,936	\$ 175,776	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 2022 comply with the approved uses set forth in the City's Municipal Code.

Anticipated Activities

In FY 2022, the Police Department plans to use all the budgeted Prop H funds (\$1,461,333) to help fund its Mental Health Evaluation Teams (Teams). Funding will cover a portion of the staffing costs for six Police Officers on the Teams. The Mental Health Evaluation 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 2022, the Fire Department intends to use all budgeted Prop H funds (\$1,461,333) to fund a portion of the staffing costs for 12 positions on Fire Truck 17: three Fire Captains, three Engineers and six 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 2022 Budgeted Revenues and Expenditures

For FY 2022, budgeted Prop H revenues and expenditures are \$2,922,666 and \$2,922,666 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 2007-2021

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

This special tax is in addition to the existing tax of 15 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.

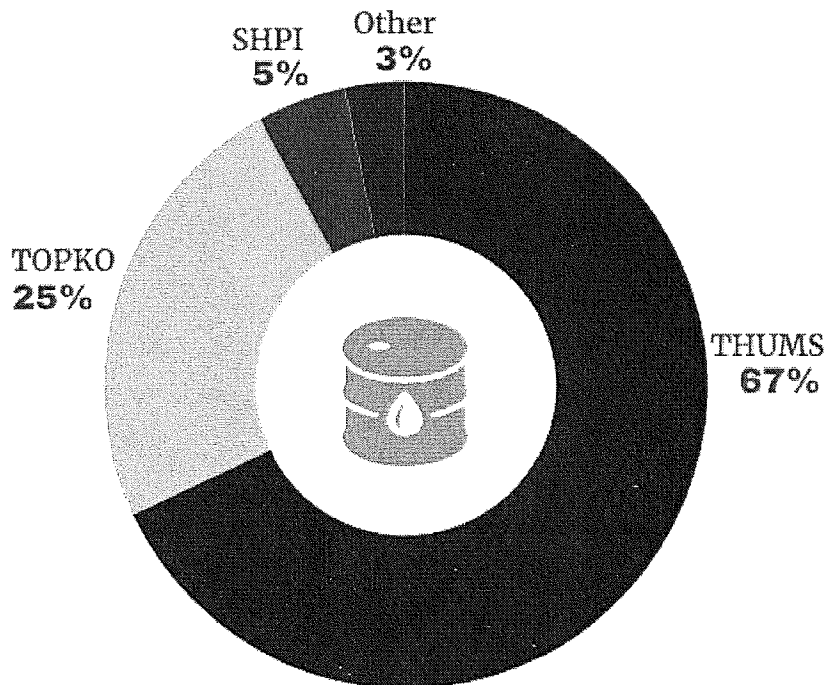
The special tax is due to the City on or before the last day of the calendar quarter. The payment is based on a production quarter, which ends one month earlier than the calendar quarter. For example, the special tax payment for the production quarter ending August 31, 2021 was due to the City on or before September 30, 2021.

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 fiscal year (FY) 2021, oil operators in Long Beach reported a total of 8,995,210 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 2021. As illustrated in Figure 1 below, these three oil operators accounted for approximately 97% of oil produced in FY 2021.

Figure 1
Percentage of Barrels Produced by Oil Producer
FY 2021

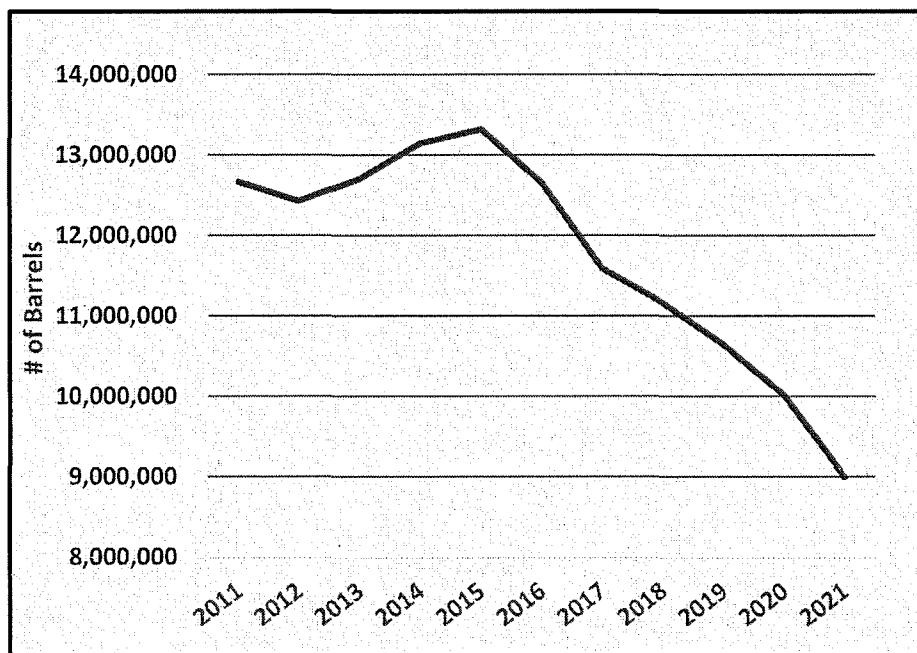


Most of the oil is produced in the Wilmington Oil Field. The Wilmington Oil Field was discovered in Long Beach in 1932 and is 13 miles long, extending from San Pedro to Seal Beach. The field is divided into two sections: West and East. TOPKO serves as the field contractor for the western section of the oil field, and THUMS serves as the field contractor for the eastern section. In FY 2021, THUMS produced 6,037,571 barrels of oil, while TOPKO produced 2,221,895 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 2021, SHPI produced a total of 438,025 barrels of oil in Long Beach.

Since the inception of Prop H through September 30, 2021, annual oil production in Long Beach has fluctuated. Production declined from FY 2011 to FY 2012, and then experienced a growth period from FY 2013 to FY 2015 but has declined by 32% since then. In FY 2021, there was a decline of 10% from the prior year. See Figure 2 below for additional details on the fluctuation in annual oil production.

Figure 2
Annual Oil Production
FY 2011-2021

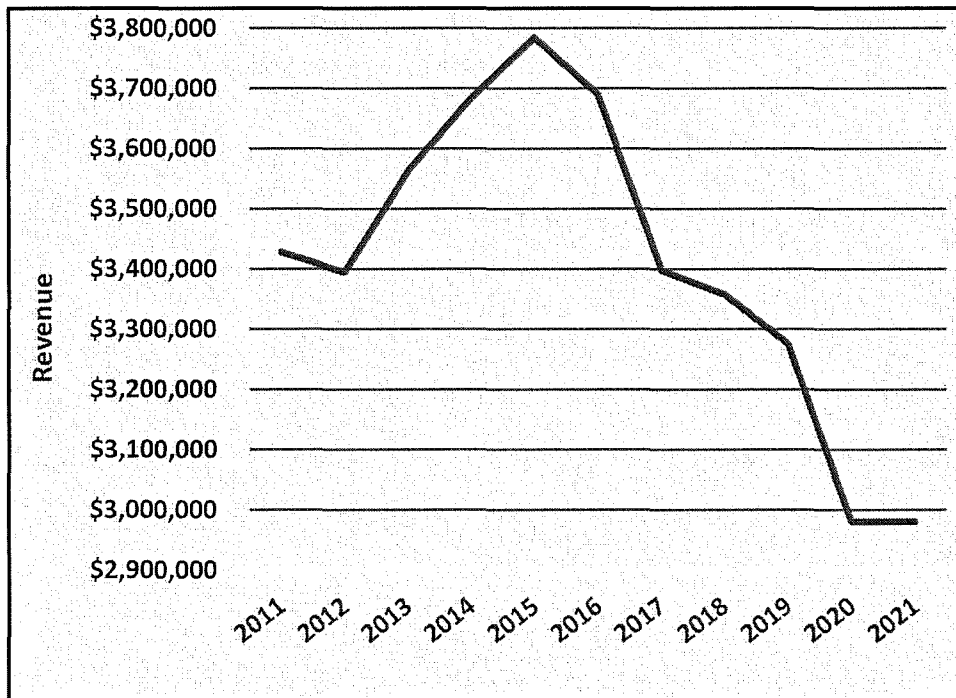


Prop H Revenues

Based on the level of production shown above, Prop H revenue received by the City shows the similar general fluctuations: decline from FY 2011 to FY 2012 and increase from FY 2013 to FY 2015, and a decline in revenue of 21% between FY 2015 and FY 2021. In FY 2021, while oil production decreased from the prior fiscal year, Prop H revenue was essentially the same. This

is because Prop H revenue was suspended for oil barrels produced in April 2020 as the monthly price of oil fell below the \$20.00 price per barrel threshold.¹ See Figure 3.

Figure 3
Prop H Annual Revenue
FY 2011-2021

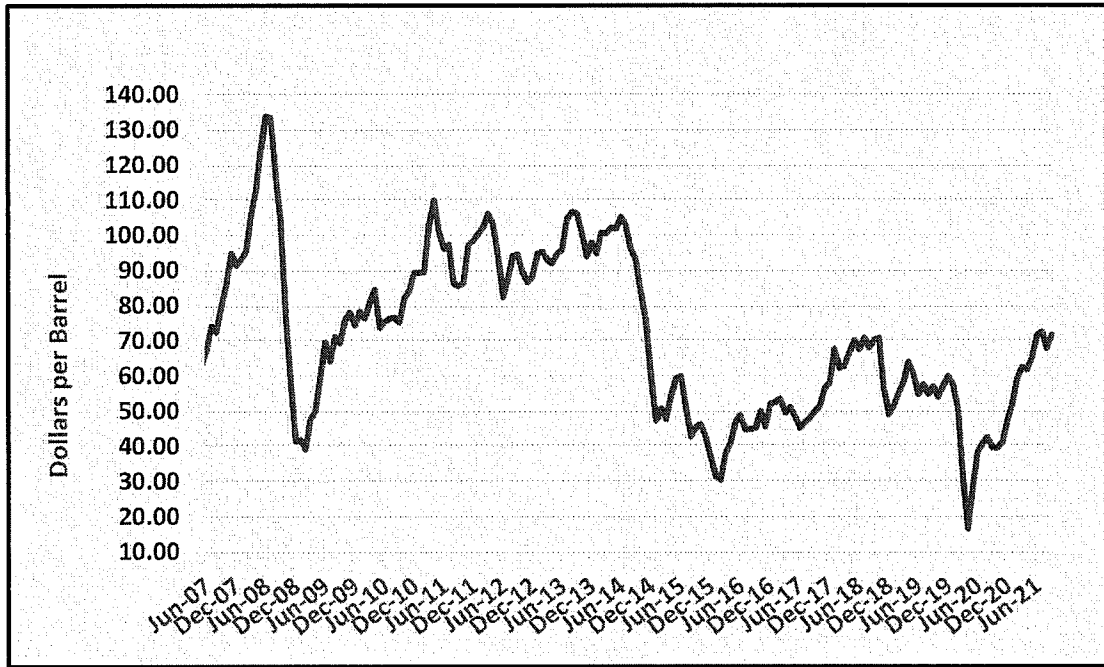


Price of Oil

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.

¹ Per the Municipal Code, Prop H revenue will be suspended for any month in which the average WTI oil index price is below \$20.00 per barrel. The average monthly price of oil in April 2020 was \$16.52.

Figure 4
Price of Oil
June 2007 – September 2021



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 2021 began with the average monthly oil price of \$39.53. The price increased steadily to a high of \$72.46 in July 2021, with a small decrease to end the Fiscal Year, September 2021, at \$71.56.

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 2021 and determine if funds remitted by the oil producers were properly calculated based on oil producers' reports remitted to the City;
2. Identify FY 2021 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, 2021 that were carried over into the current fiscal year, FY 2022; 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, 2020 through September 30, 2021. 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 2021.
- Identified the Prop H expenditures during FY 2021 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, 2021 that were carried over into the current fiscal year, FY 2022.
- 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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