

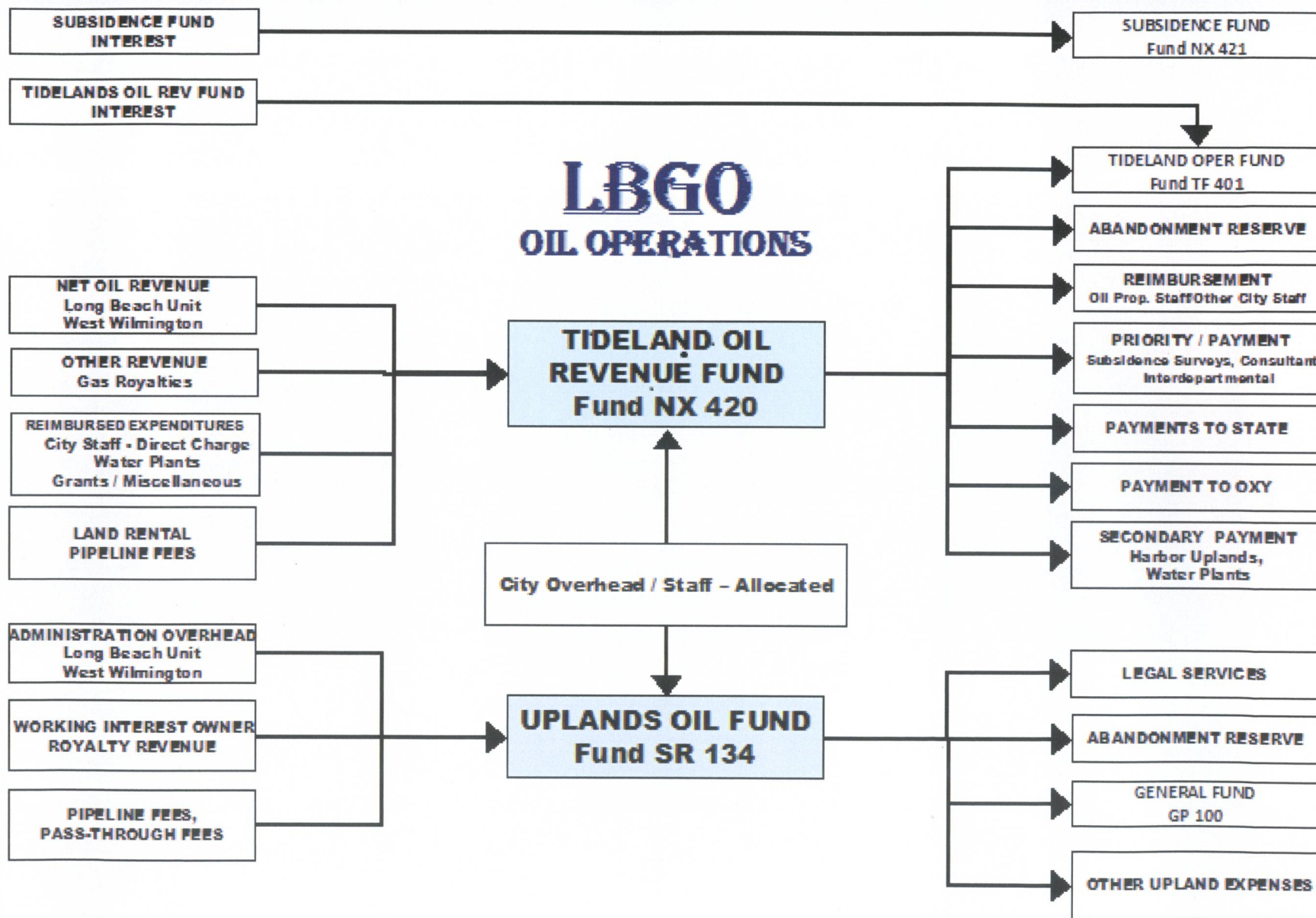


Uplands Oil Fund and Tidelands Oil Revenue Fund

August 9, 2011

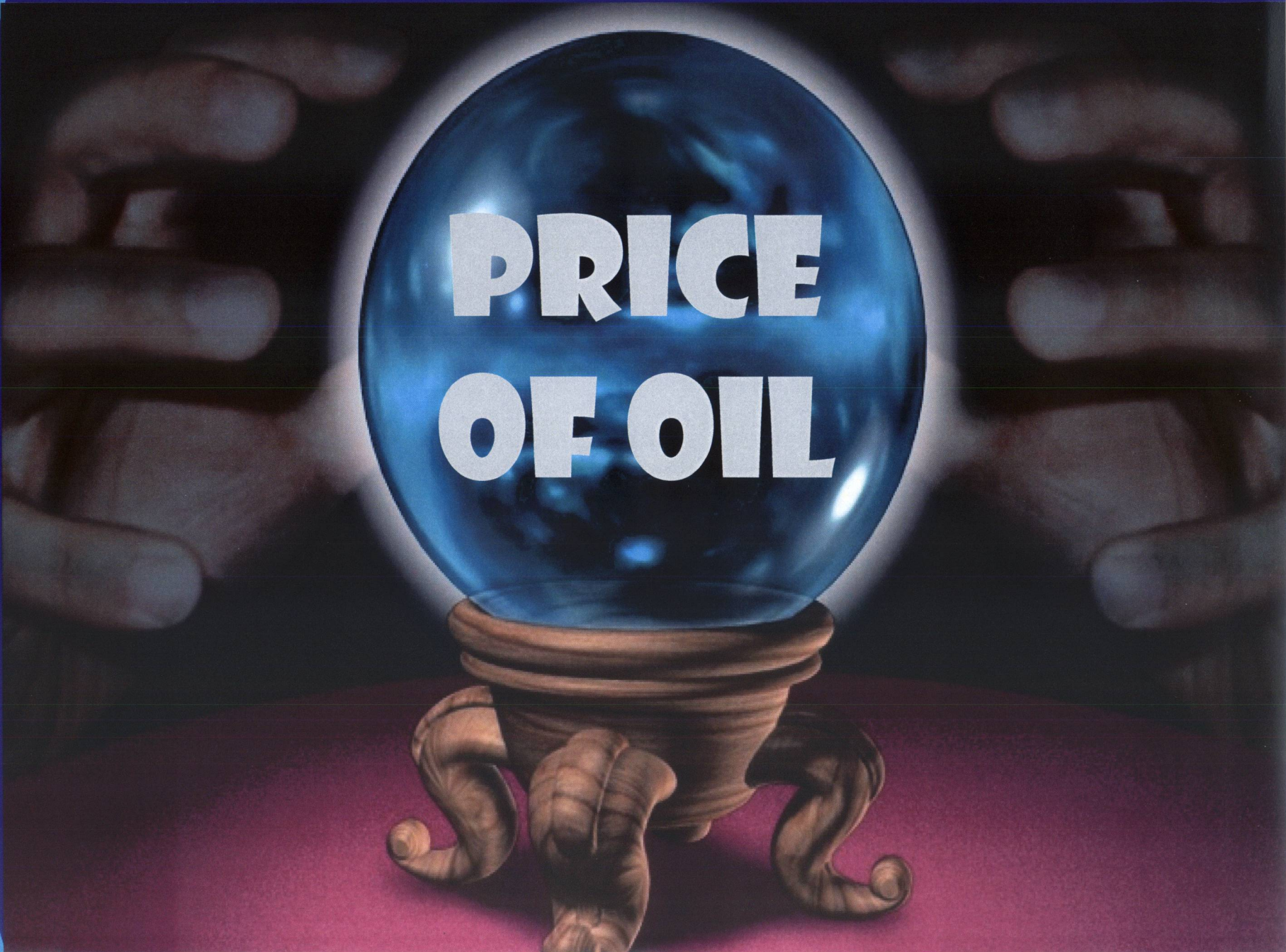


LBGO Oil Operations





Forecasting

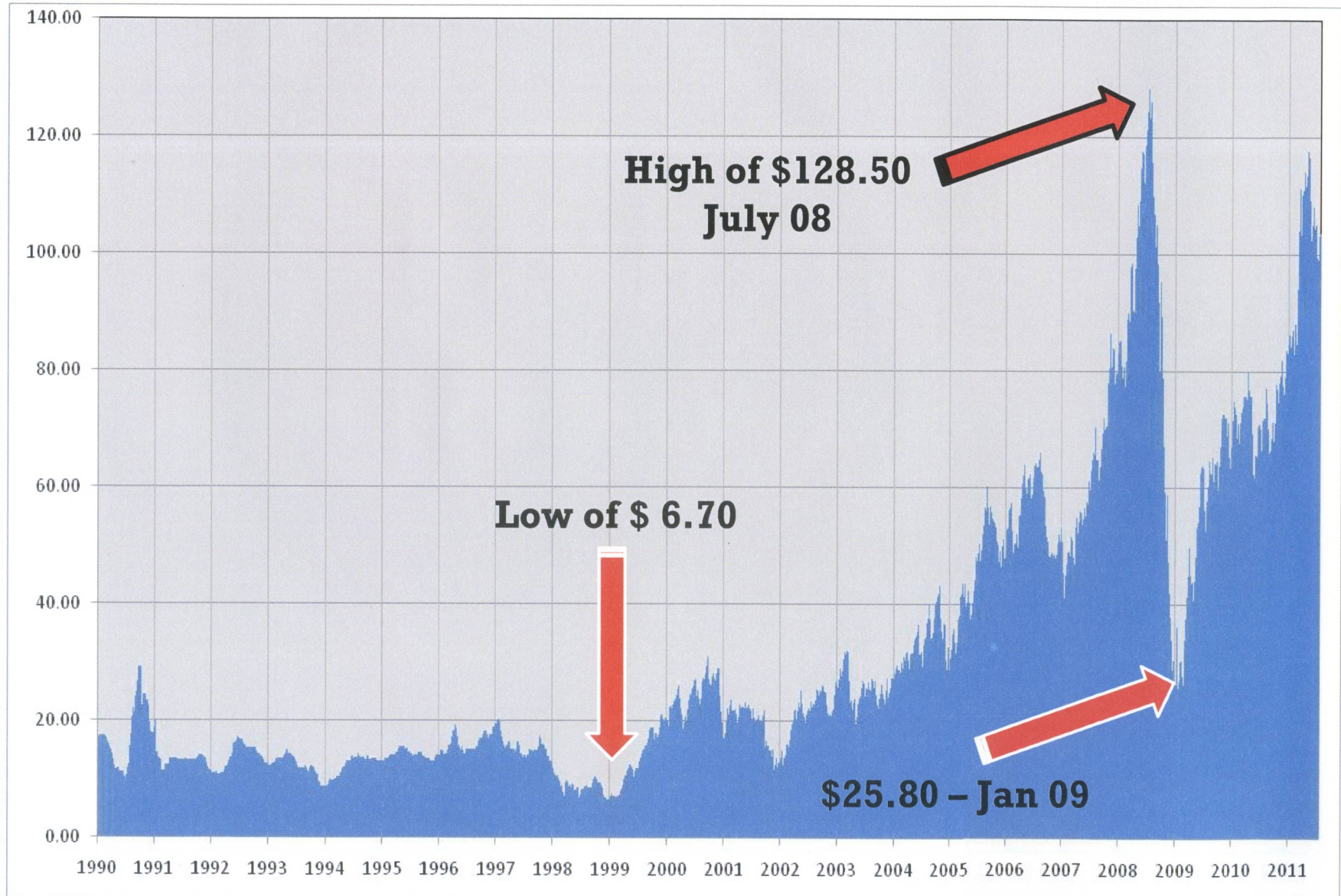


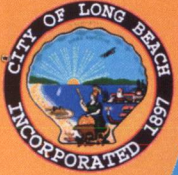
**PRICE
OF OIL**

A large, glowing blue crystal ball sits on a wooden stand with three ornate legs. The words "PRICE OF OIL" are written in large, white, bold letters across the center of the crystal ball. In the background, two hands are visible, one on each side, appearing to hold or focus on the crystal ball. The scene is set against a dark, moody background with a purple and blue color palette.



Barrel Price of Oil: 1990 to Present





Barrel Price of Oil: Budget vs Actual

<u>Year</u>	<u>Budget</u>	<u>Actual</u>
2002	\$ 17	\$ 19.00
2003	\$ 17	\$ 21.46
2004	\$ 20	\$ 31.00
2005	\$ 28	\$ 42.10
2006	\$ 40	\$ 56.13
2007	\$ 45	\$ 55.14
2008	\$ 45	\$ 95.74
2009	\$ 85	\$ 48.84
2010	\$ 40	\$ 70.99
2011	\$ 55	\$ 97.00 (ETC)



Oil Revenue Transfers to Tidelands Fund

<u>Budget</u>		<u>Actual</u>	
- 2002	\$ 2,000,000	- 2002	\$ 3,493,342
- 2003	\$ 4,883,000	- 2003	\$ 6,961,145
- 2004	\$ 3,219,780	- 2004	\$ 9,179,540
- 2005	\$ 5,984,613	- 2005	\$13,091,178
- 2006	\$ 7,555,019	- 2006	\$18,162,938
- 2007	\$12,253,375	- 2007	\$10,851,363
- 2008	\$ 7,482,355	- 2008	\$30,724,253
- 2009	\$18,988,438	- 2009	\$14,692,953
- 2010	\$ 3,914,925	- 2010	\$18,873,949
- 2011	\$25,370,000*	- 2011	\$64,441,991**(ETC)

*Mid year adjustment to \$55 a barrel

**Includes Measure D oil revenues



Oil Revenue Transfers to Uplands Oil Fund

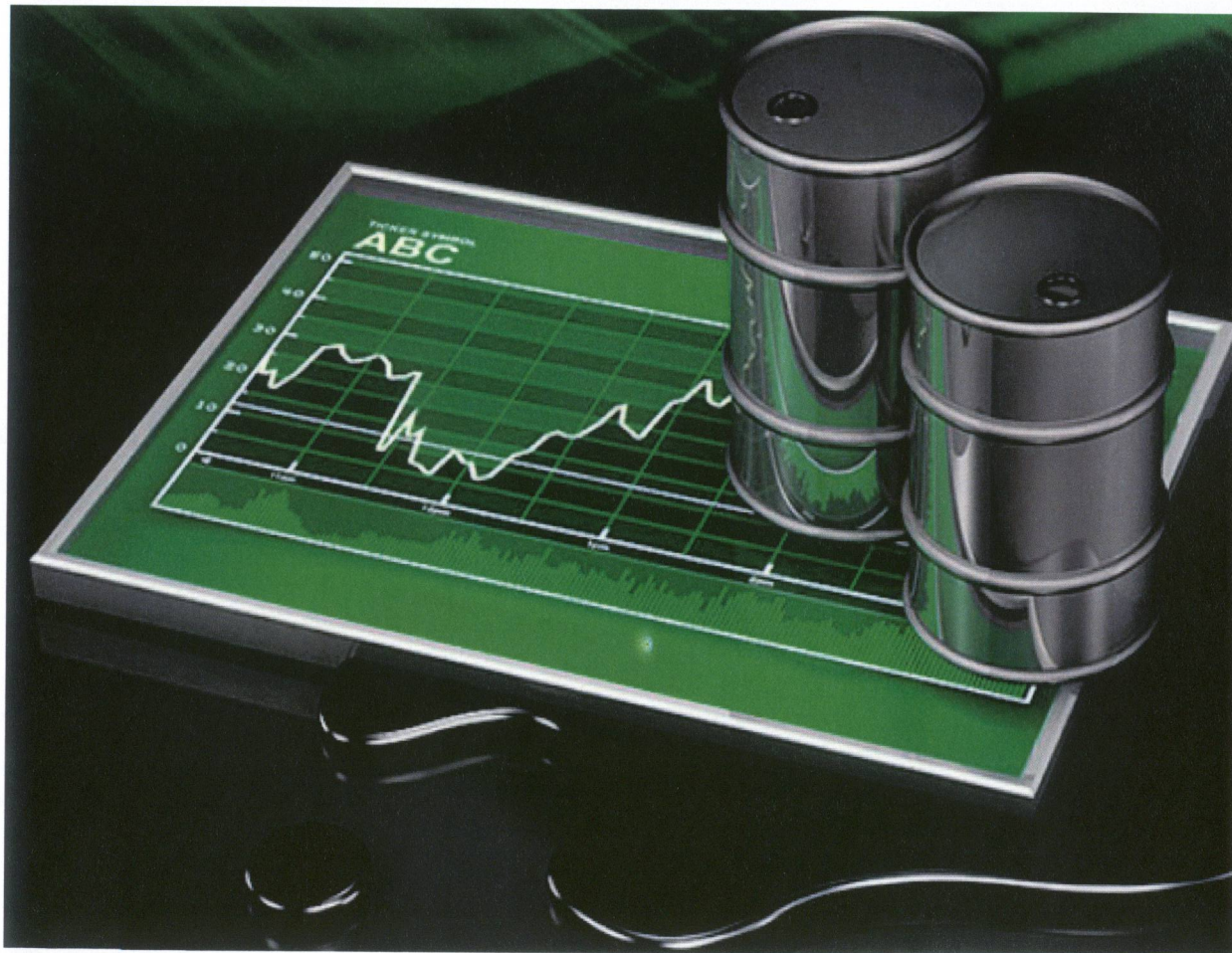
<u>Budgeted</u>		<u>Actual</u>	
- 2002	\$ 3,321,100	- 2002	\$ 3,321,100
- 2003	\$ 4,193,600	- 2003	\$ 6,999,452
- 2004	\$ 3,992,430	- 2004	\$ 7,567,988
- 2005	\$ 6,573,013	- 2005	\$ 8,623,073
- 2006	\$ 8,225,390	- 2006	\$13,318,704
- 2007	\$12,354,479	- 2007	\$14,303,554
- 2008	\$12,290,173	- 2008	\$21,524,522
- 2009	\$18,857,471	- 2009	\$12,571,195
- 2010	\$ 6,586,121	- 2010	\$13,593,144
- 2011	\$11,600,000 *	- 2011	\$21,500,000 (ETC)

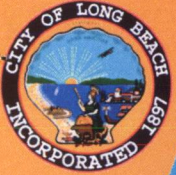
*Mid-year adjustment to \$55 a barrel



Use of Oil Revenue

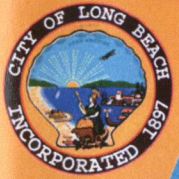
- The use of a price point to distinguish between “reliable” revenue for operations and uncertain, speculative revenue





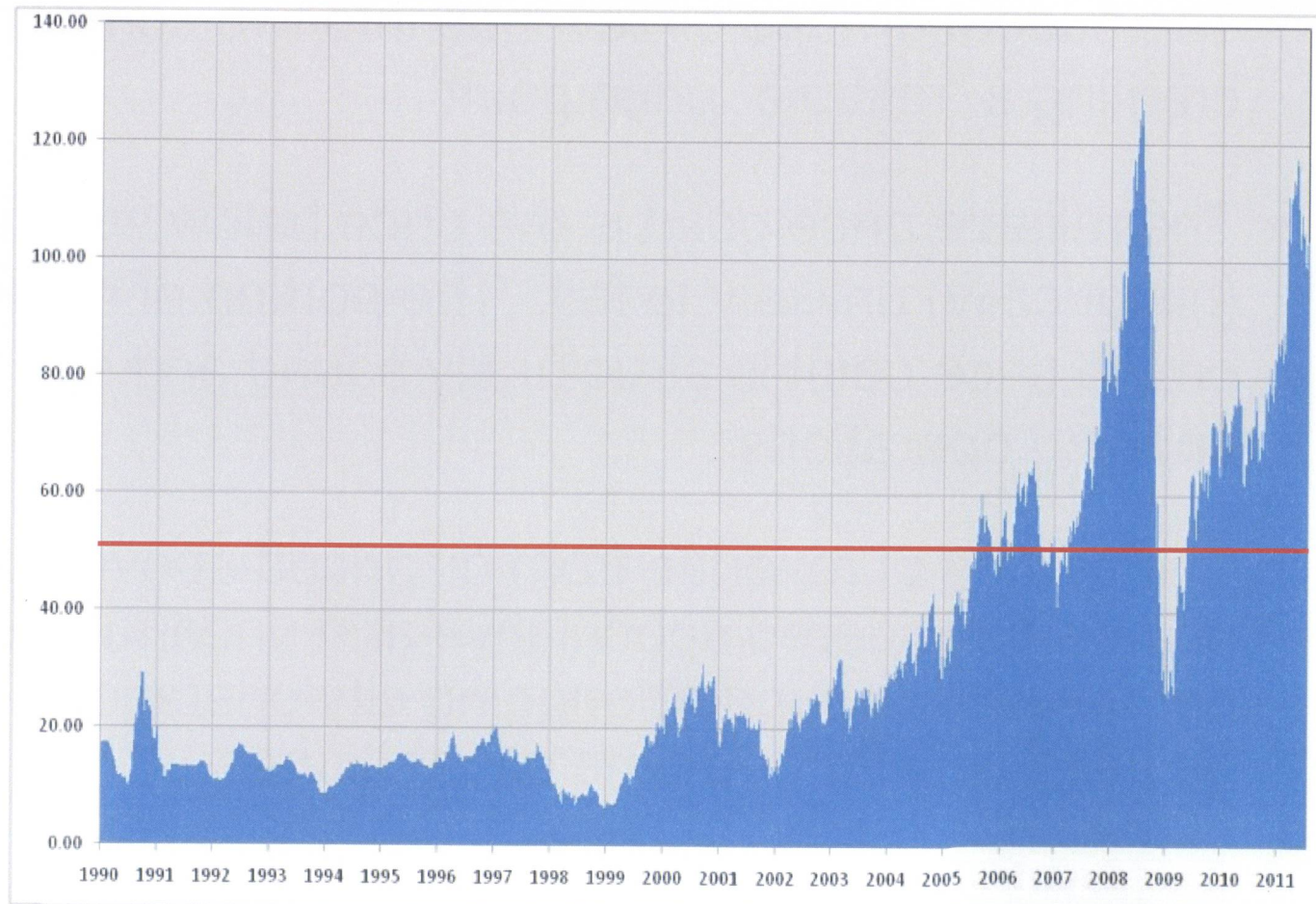
A Price Point Divides Oil Revenues

- The sale price of oil is historically volatile and unpredictable
- The budget divides oil revenue into two components by creating a “reliable” price point
- The reliable price point is the price below which oil is (historically) unlikely to fall. The portion of revenue based on the price point is structurally sound and can be used for ongoing operations
- The portion of revenue from oil priced above the price point is considered speculative and uncertain and should not be used to support ongoing city operations. It should be used only for one-time expenditures



\$55 Per Barrel Price Point

- The FY 12 price point in the budget is \$55
- Oil has been below this price point as recently as 2009, but world economy likely to support \$55





Use of \$55/barrel Revenue

- Uplands Oil Fund
 - Oil operating costs and overhead
 - Set aside for abandonment costs
 - Transfer to General Fund
- Tidelands Operating Fund
 - Tidelands operations
 - Set aside for abandonment costs
 - Measure D expenditures (capital - lots of needs)



Policy for Revenue Above \$55

- For one-time uses
- Budgeted by City Council after receipt of revenue and as a component of the following year's budgetary process
- Staff will come back after the close of this fiscal year with proposals for use of the funds
- Staff will also review the Tidelands Operating Fund at the same time



Anticipated Uses of Revenues Above \$55

- Uplands Oil Fund
 - Infrastructure (*including a courthouse tunnel*)
 - Technology and systems (*including financial systems*)
 - Other one-time uses (*including one-time tree trimming*)
 - Other reserves
 - Reserve for emergencies (major emergencies)
 - Operating reserve (for short-term issues, including economic problems and for one-time (expenditure) opportunities)
- Tidelands Operating Fund
 - For use in the Tidelands area
 - Any capital expenditures over \$100,000 submitted in advance to the State Lands Commission for their review and approval



Projected Net Revenue (\$ millions)

Price point = \$55 per barrel for FY11 and FY 12

Estimated FY 11 Proposed FY 12

Green = Price Point = Reliable
 Red = Above Price Point = Speculative

Reliable (at price point)

Uplands	\$11.60	\$12.90
Tidelands - LB Unit	\$14.50	\$14.50

Speculative (above price point)

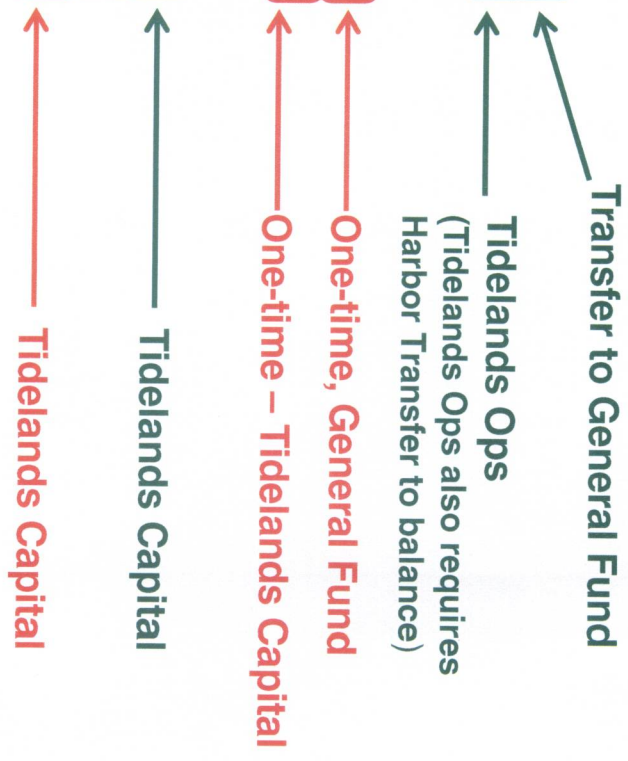
Uplands	\$9.90	\$0 to \$10
Tidelands - LB Unit	\$15.48	\$0 to \$15

Tidelands- Measure D Oil Revenue

Reliable	\$12.87	\$12.87
Lease payments	n/a	\$4.26
Speculative	\$21.59	\$0 to \$22

Totals (includes Reliable and Speculative)

Uplands	\$21.50	\$13 to \$23
Tidelands		
LB Unit	\$30.00	\$15 to \$30
Measure D	\$34.44	\$17 to \$39
Total Tidelands	\$64.44	\$32 to \$69





Conclusion

- Oil prices are volatile and uncertain
- Available transfers to Uplands Oil and Tidelands Operating Funds are based on many more factors than simply oil price
- Revenue at \$55 per barrel is reasonable to consider reliable
- Only “reliable” oil revenue should be used for operations
- Total revenue above \$55 per barrel will be known after end of fiscal year. Staff will return to City Council with proposals on the use of that money

