

Date: May 23, 2023

To: Members of the City Council

From: Mayor Rex Richardson
Councilmember Kristina Duggan (Chair of the Climate, Environment, and Coastal Protection Committee)
Councilmember Al Austin

Subject: Climate Transition Impact Audit to Prepare for Long Beach's Transition from Fossil Fuel Production and Preserve Critical Infrastructure and City Services

RECOMMENDATION:

Request the City Auditor to conduct a comprehensive audit on fiscal liabilities and economic impacts to the City of Long Beach stemming from California's transition away from crude oil and natural gas production to assist in the City's transition planning efforts, and refer findings to the Climate, Environment, and Coastal Protection Committee for input and discussion.

The findings should include an inventory of oil operators and oilfield service providers located in the City of Long Beach, City revenues sourced from these oil operators and oilfield service providers, an estimate of the asset retirement obligations (AROs) associated with the oil wells located in the City, information on the costs associated with City operated oil assets after cessation of production, and an estimate of the impact of the loss of oil revenues on City programs.

Discussion

Background

The Long Beach oil field has a long history dating back to 1921, when oil deposits were discovered in Signal Hill, followed by the discovery of the Wilmington Oil Field in 1932. The City of Long Beach was granted all property of the tidelands within its city limits by the State of California from 1911 through 1935. In 1939, the City created a petroleum division and drilled the first well under the tidelands, with the Long Beach Oil Development Company selected as the City's first oil contractor.

After a challenge to the City's rights to conduct oil operations, the California Supreme Court ruled that the conveyance of the tidelands by the State to the City included mineral interests. In 1951, Long Beach had over \$100 million in unspent oil revenue, leading to the authorization to spend one-half of those funds for public improvements throughout the City.

In 1961, the City explored the area east of the Harbor District and confirmed that the oil field was contiguous to the eastern City limits. The Petroleum Properties Administration

was created in 1962 to manage oil activities outside the Harbor district, and in 1965 a consortium of oil operators consisting of Texaco, Humble, Unocal, Mobile and Shell (THUMS) was selected as the City's oil operating contractor for the Long Beach Unit (LBU). Since 2014, California Resources Corporation (CRC) has been the field contractor for the operations of the LBU both offshore in the four oil islands and onshore within the Port of Long Beach boundaries.

To this day, millions of dollars of Tidelands revenues are used within the three-mile zone from the mean high tide line for public improvements, while millions of dollars of Uplands revenues are placed in the city's general fund for general use. Nearly \$12 million of existing General Fund city services are funded directly by revenues tied to the production of oil including services under the Fire Department, Police Department, Office of Youth Development, and the implementation of the City's Climate Action Plan. The City has also benefited from property, utility users, and sales tax revenue generated by oil production activity in its oil fields.

The Future

As we enter the 2030s and begin to plan for a more climate sustainable economy, oil production activities in Long Beach will gradually come to an end. It is clear that relying on fossil fuel production as a local revenue source to support core city services in perpetuity is not feasible, not only from a community health perspective, but also from a financial perspective.

As Long Beach prepares for its transition away from oil extraction activities and an evolving legislative environment at the state level, it will be imperative to understand fully the City's fiscal liabilities related to this transition. Developing a holistic accounting of the present and anticipated economic impacts of this transition will help better inform the public about the implications of this transition, and will identify the resources and supports that the City of Long Beach will need from outside agencies, particularly the State of California, to be able to successfully facilitate this transition.

Now is the time for the City of Long Beach to take its place as a global leader in curbing the effects of climate change and carbon-emissions by creating a climate sustainable economy. The City will need to part ways with the Long Beach of the past that relies heavily on the production of fossil fuels, and lay a foundation for its future as a thriving, sustainability-centered city. An in-depth analysis that helps us better understand and plan for the city's fiscal liabilities will be essential in guiding our steps to get there.

Such an analysis should include the following:

- List of oil operators active in the City and oilfield service providers officed in the City
- Recent and projected City revenues from the oil operators and oilfield service providers including revenues from: Tidelands operations, Uplands operations, royalties (from both public and private operators), oil barrel tax (including

Measure H and Measure US), property taxes (from both oil operators and oilfield service providers), utility users tax (from oil operators), and sale tax (from oilfield service providers).

- Projected asset retirement obligations (AROs) consisting of well and facility abandonment costs and environmental cleanup costs associated with oil operations in the City, including a breakdown of AROs of the City, the State of California, and the oil operators in the City. Information on funds set aside for AROs by the various entities will be included if available.
- Discussion of the AROs associated with orphan wells (wells for which there is no responsible, solvent operator to maintain, repair, or plug and abandon them) in the City.
- Discussion of the costs of maintaining post production retention wells and the THUMS drilling islands during the City's transition away from crude oil and natural gas production.
- List of programs funded by revenues from the oil operators and oilfield service providers, and anticipated fiscal impacts associated with the reduction then loss of these revenues on the programs.

The results of this audit will also be essential to informing the development of the City's Grow Long Beach Initiative, which is focused on advancing economic development strategies to promote the expansion of other revenue-generating growth sectors of the local economy that will replace the phasing-out of oil revenues.

This matter has been reviewed by Budget Manager Grace H. Yoon on May 12, 2023.

Fiscal Impact

This recommendation requests the City Auditor to conduct a comprehensive audit on fiscal liabilities and economic impacts to the City of Long Beach stemming from California's transition away from crude oil and natural gas production. The total cost of the audit is estimated at \$60,000 and will be funded by existing appropriation in the General Fund Group in the City Auditor's Department. The requested action is anticipated to require a minimal level of staff hours beyond the budgeted scope of duties and is expected to have a minimal impact on existing City Council priorities.

Suggested Action

Approve recommendation.

Respectfully submitted,



Mayor Rex Richardson
May 23, 2023