

Date June 16, 2020

To: HONORABLE MAYOR AND CITY COUNCIL

From: Councilwoman Mary Zendejas, First District
Councilmember Jeannine Pearce, Second District
Councilmember Roberto Uranga, Seventh District
Councilmember Rex Richardson, Ninth District

Subject: Protecting the Public Interests of the City of Long Beach in preparation for the California Resources Corporation Potential Bankruptcy

DIRECTION:

- Request a report back in 14 days from the City Manager, Financial Management, Energy Resources Departments on the City's plans to manage CRC's potential bankruptcy filing.
- Report back in 14 days from the Financial Management on the unfunded liabilities if the field contractor dissolves and potential impacts to Tidelands and Upland funded projects and initiatives.
- Report back in 14 days from the Financial Management on oil revenues to the City's individual funds, revenues, and reserves for the last three fiscal years.
- Report back in 14 days from the Financial Management on Inventory public expenditures from oil revenue in the Tidelands zone, such as bluff restoration, lifeguard staffing, Long Beach aquarium, and other such items to generate a listing of items at risk.
- Report back in 14 days from Energy Resources Departments on an inventory of the offshore THUMS oil islands and Tidelands onshore infrastructure and facilities.

BACKGROUND:

California Resources Corporation (NYSE: CRC) is a publicly traded independent oil and natural gas production company that only operates in California. They are the largest oil and natural gas producer in the state based on a gross-operated basis, with a combination of more than 4,000 employees and contractors. CRC produces oil and gas in four geologic basins across the state: San Joaquin, Los Angeles, Ventura and Sacramento. CRC also operates 53 active gas fields regulated by CalGEM and produces about 85% of the natural gas in the Sacramento Region. CRC is the designated field operator for the four (4) THUMS oil islands in the Long Beach Harbor jointly operated with the City of Long Beach on behalf of the State Lands Commission. CRC operates in the state under seven (7) holding companies under the California Resources Production Corporation; California Resources Elk Hills, LLC; California Resources Long Beach, Inc.; Tidelands Oil Production Co.; THUMS Long Beach Co.; Vintage Production California LLC; and Occidental Petroleum Corporation names. CRC

also has a joint venture, Elk Hills Power LLC, which operates two power plants in Elk Hills and Wilmington, CA.

When CRC was spun off from Occidental Petroleum in 2014 it was required to borrow \$6 billion in debt to close the transaction. Over the past six years that debt has only been reduced by 17% to \$5 billion which has negatively impact their balance sheet. Debt and other liabilities become risky for a business when it cannot easily fulfill their debt obligations, either with free cash flow or by raising capital at a competitive price. CRC is considered a risky investment and has a higher likelihood of bankruptcy in a recession or sustained low oil price economic environment.

CRC Bankruptcy Media Statements:

On March 9, 2020 was the single largest global oil price drop in 29 years due to the economic slowdown related to Coronavirus global pandemic. Oil prices were down 24-34% that day depending on the national or international price measurement per Bloomberg Media Source: <https://www.bloomberg.com/news/articles/2020-03-08/oil-in-freefall-after-saudis-slash-prices-in-all-out-crude-war>

On March 9, 2020 California Resources Corporation announced it is reducing its \$35 million capital investment for 2020 due to recent changes in the commodity market to a level that maintains the mechanical integrity of its facilities to operate them in a safe and environmentally responsible manner. CRC has effectively ceased investment in its internally funded field development and growth projects until the company sees a higher degree of market clarity. The company was already on pace to invest less than \$35 million of internally funded capital in the first quarter, that has now been put on halt.

Todd Stevens, President and CEO of CRC, noted, "In response to the effects on global demand from the Coronavirus and proposed global supply increases, we are immediately reducing our capital investment to a level that maintains our operations in a safe and responsible manner. We have experienced this type of price drop previously and will implement our low-price playbook, just as we did in 2016. CRC plans to exercise strong financial discipline to aid liquidity. We plan to continue building our economically viable drilling inventory and designing the Elk Hills carbon capture and sequestration project and other ongoing sustainability projects. We believe these events are transitory in nature and have high confidence in the revenue generating potential of our low-decline assets."

Source: <https://finance.yahoo.com/news/california-resources-corporation-reduces-capital-003300318.html>

March 27, 2020 Multiple Media Reports of California Resources Corporation potential bankruptcy – Bloomberg Media first reported that CRC had a failed bond swap transaction while attempting to restructure it's \$5 billion corporate debt leading them to considering filing for bankruptcy. CRC is a publicly traded independent oil and natural gas production company whose stock fell 48% in the last week. CRC put out a statement late that Friday evening



claiming it has significant operating flexibility and is focusing on controlling what it can control, including reducing its capital program and operating costs. Los Angeles Times article, "California Resources Corp. is said to consider bankruptcy as debt mounts amid oil war." Source: <https://www.latimes.com/business/story/2020-03-27/california-resources-debt>

Monday, May 11th CRC announced that it was adding a "going concern" warning to its risk factors in its amended SEC 8K filing, which was a clear signal to the market and shareholders of their dire financial situation. Given the impact the COVID-19 pandemic has had on crude oil prices they also announced reduced work hours for nearly all office employees and were shutting in the equivalent of 5,000 barrels a day of oil production. CRC Stock Price dropped 32% the next day. The company disclosed it is unable to meet the deadline to file its quarterly report with the Securities and Exchange Commission (utilizing a COVID-19 extension option).

On May 11, 2020 the Wall Street Journal also reported that CRC was in talks with lenders for a financing package of up to \$600 million to carry the oil and gas company through a planned bankruptcy proceeding. The talks are still fluid and the amount of the bankruptcy loan could range between \$500 million to \$600 million. Source: <https://www.wsj.com/articles/california-resources-in-talks-for-up-to-600-million-bankruptcy-loan-11589396313?mod=searchresults&page=1&pos=1>

On June 8, 2022 Market Watch reported, "California Resources could file for bankruptcy this weekend", CRC said in an 8-K filing that it entered into forbearance agreements with most of its lenders, who have agreed not to exercise "remedies" under the credit agreements. The WSJ report said, citing people familiar with the matter, the company has until Sunday to get an extension from its creditors; without the extension, the company will file for bankruptcy on June 14, 2020. Source: <https://www.marketwatch.com/story/california-resources-could-file-for-bankruptcy-this-weekend--wsj-2020-06-08>

City of Long Beach Energy Resources and THUMS Oil Islands:

In 1961, with subsidence under control, the City explored the area east of the Harbor District with eight core holes and confirmed that the oil field was contiguous to the eastern City limits. In 1962, Long Beach voters approved a referendum for offshore development and the Petroleum Properties Administration was created to manage oil activities outside the Harbor district.

In 1964, Chapter 138 was enacted by the State legislature, which further reduced tidelands revenue to the City with a decreasing schedule from \$9 million per year to one million per year. It also defined the duties and responsibilities of the City and the State Lands Commission (SLC) for the exploration and operations of the eastern portion of the Wilmington Field, to be known as the Long Beach Unit (LBU).



Also in 1964, the City Charter was amended, transferring authority over oil production and all subsidence control operations to the City Council and City Manager, acting through the newly created Department of Oil Properties (DOP).

In 1965, THUMS, a consortium of oil companies consisting of Texaco, Humble, Union, Mobil, and Shell, was selected as the City's oil operating contractor for the LBU. The contract would run for 35 years and enable the City, as trustee for the State, to retain approximately 96% of the net profits attributable to the tidelands. Since 1989, there have been a number of contractor, Unit Operator, and ownership changes in the oil field. Since 2014, California Resource Company 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.

Due to the urgency of this item, no review by the department of Financial Management was possible.

STATEMENT OF URGENCY:

As stated above, this bankruptcy can happen as soon as this weekend (June 13, 2020). As such, it is in the best interest of the City to hear this matter at the next, earliest Council Meeting, June 16, 2020.

FISCAL IMPACTS:

As the primary operator in the Wilmington oil field, the City of Long Beach through its Oil Properties Bureau maximizes oil revenue for the State of California, the City of Long Beach, and Mineral Rights Owners. Oil operations have generated over \$450 million for the City and over \$4.25 billion for the State.

The City receives revenue from the oil operations through a barrel tax and within two funds. Tidelands Fund, which supports operations and capital projects along beach areas through proceeds from oil revenues. Uplands Oil Fund, which is non-Tidelands Fund oil revenue used to fund operations and capital. The Upland and Tidelands funds support many of the Long Beach Coastline, including the Cherry Beach Lifeguards, Long Beach Fire Department Marine Services, Long Beach Aquarium, restorations of Bluff Park along on Ocean Blvd, Belmont Pool, and the Naples Island Permanent Seawalls Repairs.

The city's fiscal year 2020 budget also included nearly \$1.5 million in oil production tax and more than \$8.8 million in transfers from upland oil for the General Fund.





City of Long Beach Memorandum
Working Together to Serve

REQUEST TO ADD AGENDA ITEM

Date: June 12, 2020

To: Monique De La Garza, City Clerk

From: Mary Zendejas, Councilwoman, First District

Subject: Request to Add Agenda Item to Council Agenda of June 16, 2020

Pursuant to Municipal Code Section 2.03.070 [B], the City Councilmembers signing below request that the attached agenda item (due in the City Clerk Department by Friday, 12:00 Noon) be placed on the City Council agenda via the supplemental agenda.

The agenda title/recommendation for this item reads as follows:

Protecting the Public Interests of the City of Long Beach in preparation for the California Resources Corporation Potential Bankruptcy

Council District	Authorizing Councilmember	Signed by
2	Jeannine Pearce	
7	Roberto Uranga	
9	Rex Richardson	

Attachment: Staff Report dated June 16, 2020