



Strategy for the Decline in the Price of Oil

The Tidelands Capital Budget and 5-Year Capital Plan

Presentation Outline

- ▶ Background on oil prices
- ▶ Impact on Uplands Oil Fund and General Fund
- ▶ Impact on Tidelands Operating Budget
- ▶ Impact on Tidelands Capital Budget and 5-Year Capital Plan
- ▶ Updated strategy for the Tidelands Capital Budget and 5-Year Capital Plan
- ▶ Next Steps

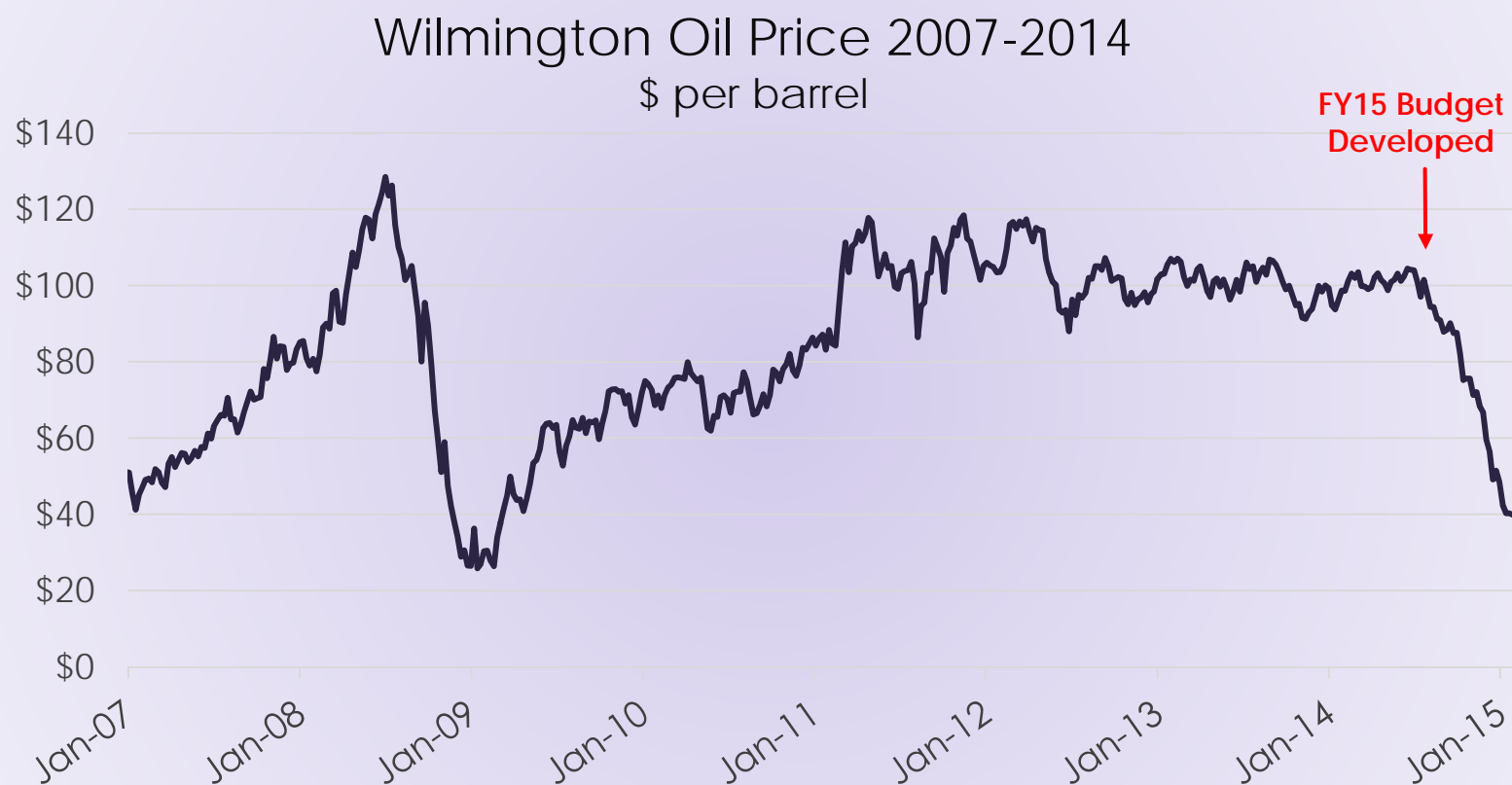


Oil Prices Declined After the FY15 Budget was Developed

- ▶ Oil was at about \$100 per barrel for three years
- ▶ In August 2014 prices began declining; oil is currently at about \$40 a barrel
- ▶ Price decline is caused by basic economics - supply exceeds demand



The Price of Long Beach Oil



Operating and Capital Budgets Based on Different Oil Prices

- ▶ Operating budgets assume oil is at \$70 a barrel; Tidelands capital plan assumes \$100 a barrel
- ▶ The assumption of \$70 for the operating budgets allowed the price to drop 30 percent or more before there was a potential operating budget shortfall
- ▶ The assumption of \$100 for the Tidelands Capital budget allowed planning for the allocation of oil funds to projects if oil remained at what had been a relatively constant price

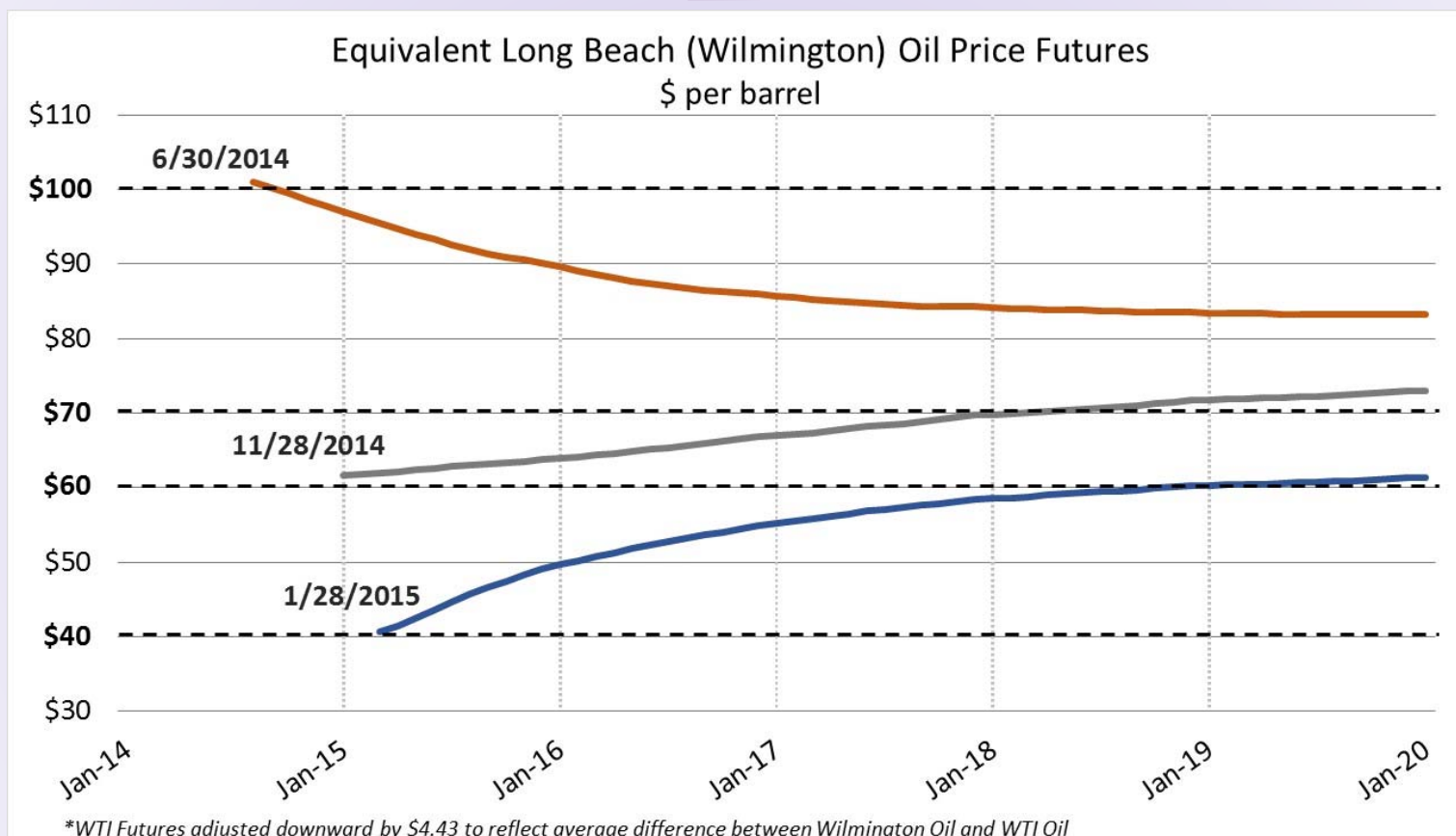


Current Projection Assumes \$60 to \$70 Oil

- ▶ Projection based on market at the end of November 2014: \$60 for FY 15 - FY 16, and \$70 for FY 17 – FY 19
- ▶ Any long-term projection of oil revenue is problematic; the future price of oil is unpredictable
- ▶ No indication of a return to \$100 oil, but history indicates the price could rise (or fall) at any time
- ▶ The current \$40 price of oil requires an updated projection. It will be updated in the first quarter of 2015



5-Year Futures Market View of Future Oil Prices



Uplands Oil Fund Revenue

- ▶ Uplands Oil Fund revenue is budgeted at \$70 per barrel. Revenue above \$70 is budgeted the next year for one-time expenditures
- ▶ The Uplands Oil Fund has two sources of revenue:
 - ▶ Revenue from the sale of Uplands oil
 - ▶ Revenue from a contractual fee assessed on oil production and exploration costs
- ▶ Uplands oil revenues will be adversely impacted by several million dollars from both a lower price of oil, lower oil production costs, and from less investment in exploration



Uplands Oil Revenue Supports the General Fund (GF)

- ▶ The Uplands Oil Fund supports (GF) operations with \$17 million a year; this occurs by way of a transfer of the \$70 oil revenue (4.4% of GF)
- ▶ This transfer that supports general City services will likely be reduced for the foreseeable future
- ▶ In addition, there may not be any one-time revenue available from Uplands oil
- ▶ During the first quarter of 2015, staff will be updating Uplands oil revenue projections along with development of potential budget adjustment strategies
- ▶ The GF oil barrel tax (including Prop H) will likely also be impacted (currently about \$6 million a year)



Tidelands Oil Revenue Impacted by Three Factors

- ▶ Tidelands oil revenue is impacted by: 1) the price of oil, 2) the amount of oil produced, and 3) by the cost of production and exploration
- ▶ Both production costs and investment in oil exploration are being reduced
- ▶ Lower production and investment costs will somewhat temper the revenue loss due to a lower price of oil, but will have adverse longer-term impacts on revenue
- ▶ For the current market, \$70 oil may generate less revenue than previously assumed



Tidelands Operating Budget May Have a Deficit

- ▶ All Tidelands oil revenues will be needed to support operations
- ▶ Even with all oil revenue to operations, Tidelands Operations may still have a revenue shortfall of \$1 million to \$2 million in FY 15
- ▶ Revenue shortfalls appear likely for future years
- ▶ An updated projection will be done during the first quarter of 2015, along with development of potential budget adjustment strategies



Tidelands Capital Funds are Still Available

- ▶ No new capital monies are expected until market changes – but that will likely happen at some point
- ▶ A total of about \$95 million in existing funds could be assigned to capital projects as the City Council determines
 - ▶ \$22 million in unassigned funds available
 - ▶ \$73 million previously assigned to existing projects, either incomplete or not under construction
- ▶ Available capital funding will be updated in the first quarter of 2015



Approved Projects Exceed Current Funding

- ▶ \$232 million in projects budgeted or in the 5-Year Capital Plan that are incomplete or construction not started - amount exceeds the \$95 million available
 - ▶ Remaining phases of the Alamitos Bay Marina Rebuild
 - ▶ Remaining phases of the Seawalls
 - ▶ Belmont Beach and Aquatics Center
 - ▶ Seaside Way Bridge
 - ▶ Belmont Pier
 - ▶ Pine Avenue Public Dock
 - ▶ Concession stands
 - ▶ Many other smaller projects



Strategy for Tidelands Capital Budget and Plan

- ▶ For City Council's consideration, staff will prioritize incomplete and unconstructed projects based on prioritization criteria
- ▶ Based on prioritization, projects are funded using unassigned funds and potential reassignment of previously assigned funds
- ▶ New oil revenues, when received, are also assigned to projects based upon the prioritization
- ▶ Projects will proceed when funding matches the estimated current project cost
- ▶ The priority list and revenue projections will be reviewed during the annual budget process



Proposed Prioritization Criteria

1. Public health and safety
2. Number of California residents impacted
3. Urgency
4. Poor condition/need
5. Contribution to Quality of Life
6. Revenue generation and operating costs
7. Ability to attract additional funding
8. Lack of alternative funding sources
9. Capital cost

The overall diversity and balance of projects will also be considered



Next Steps

- ▶ Comments/direction from the City Council
- ▶ Development by staff of proposed Tidelands prioritized capital projects list for consideration by the City Council during the first quarter of 2015
- ▶ Update projections for Tidelands capital and operating budgets and Uplands Oil Fund budget during first quarter of 2015
- ▶ Update in March on overall budget status, three-year outlook, and FY 16 budget strategy

