

City To Plug Budget Shortfalls With Oil Revenue Boon

Mid-Year Budget Performance Report Shows Windfall Oil Profits From Uplands, Tidelands Fields

■ By **SEAN BELK**
Staff Writer

Mid-year estimates show the City of Long Beach has received far more oil revenue than budgeted and that money is being used as a much needed fix to a \$5.1 million shortfall caused by underperforming incomes in other city departments.

City Manager Pat West is proposing to modestly raise the city's price per barrel of oil, budgeted as a weighted average for the year, from \$45 per barrel to \$55, which is "prudent and supportable," according to a second quarter performance report for Fiscal Year 2011 through March 31. This allows the city to fill structural and one-time budget gaps in five city departments estimating revenues to be between two and eight percent under budget by year's end.

The report is being presented at the Long Beach City Council meeting tonight, June 7, and at the city council budget oversight committee meeting on June 8.

Although the actual price per barrel of crude oil hovers around \$100 per barrel, the report submitted by David Nakamoto, the city's interim director of financial management, said increasing the city's average any higher might cause budget reductions down the road if the price were to significantly drop, given the "historically high volatility of the oil commodity." The report states, in mid 2008, that's exactly what happened, when the city's oil prices dropped from a budgeted \$85 per barrel to \$25 within six months.

The city is expected to direct the windfall oil revenues from the Upland Oil Field this year to make up for \$3.3 million in structural revenue declines that have been a problem for "several years," and other one-time oil revenue shortfalls totaling \$1.8 million. City staff expects to end the year with a balanced budget, anticipating additional oil revenue funds of approximately \$10.5 million by the end of Fiscal Year 2011, according to the report.

Although the private sector appears to be slightly rebounding from the recession, "budgetary strains" are growing in the public sector, mainly due to overall economic impacts and increases in employee-related costs, according to the staff report. The city's General Fund is also reliant on sources that are hardest hit by the economic downturn, such as the real estate market and consumer spending.

The major decline was in secured property tax – the single largest revenue source for the city – which is down three percent after the state property tax take-away last year, in addition to low property valuations and foreclosures. The city also has experienced a year-over-year 10 percent decline in parking-related fees and citations as more people are not willing to pay for parking and are diligent in avoiding tickets in tough economic times. Other revenues coming in short this year include emergency ambulance fees and vehicle license fees.

On a good note, however, second quarter sales tax receipts, which reflects holiday sales activity last year, jumped 12.4 percent over 2010, coming in at roughly \$29.5 million. The majority of the increase came from Edison Materials and Supply, which generates the most sales tax for the city, along with a rise in construction, service stations and transportation, according to city staff.

Tidelands Oil Revenue Fund

While the lion's share of all revenues from oil fields in the city's tidelands area is transferred to the State of California, the city has so far deposited \$18 million in additional oil revenue into the city-controlled Tidelands Oil Revenue Fund (TORF).

This comes after the passage of Measure D last year, which shifted control of all oil revenue and operations within the harbor district from the Port of Long Beach's harbor department to the Long Beach Gas and Oil Department. The port had previously been receiving revenues from oil field contractor Tidelands Oil Production Company, known as TOPKO, but that revenue has now been diverted to the city, as of October 2010, according to port documents.

Running up to the citywide elections last November, city officials contended that the controversial ballot measure was simply to "clarify" in the city charter regarding control of oil revenue and the change wouldn't result in a windfall for the city.

However, an April 4 report by port staff stated that the loss of net oil revenue during the first quarter of 2011 contributed to a \$7.5 million year-over-year reduction to the port's net income. The port has predicted a total loss of \$40 million in oil revenue due to the transfer, by the end of its fiscal year. City staff, however, has indicated giving back \$3.4 million to the harbor department from the TORF.

The rest of the \$18 million in oil revenue from tidelands oil fields is expected to go to the Tidelands Operating Fund (TOF), which, under state law, can only be used on tidelands purposes, such as expenditures and improvements at the bluffs, beaches and city-owned property along the shore. City departments expected to benefit from the new income include: the parks, recreation and marine; public works; and citywide activities. The city is keeping a reserve fund of about \$2 million for Fiscal Year 2011.

According to the staff report, new oil revenues this year will go to: replace beach restrooms; repave parking lots and equipment at Alamitos Beach, Belmont Plaza Pool and the Marina Green; resurface and replace meters in the Junipero parking lot; stabilize the bluffs and create a new bluff path and stairwell at Bixby Park; design improvements to the Leeway Sailing and Aquatics Center; improvements to the Long Beach Convention & Entertainment Center and replace harbor area water lines. ■