CITY OF
LONG BEACH

Memorandum

Date: August 6, 2024

To: Thomas B. Modica, City Manager

From: Kevin Riper, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **Update on Oil-Related General Fund Revenue (and Business License Tax Burden)**

During City Council discussion on June 11, 2024, of the staff research on potential General Fund revenue measures (agenda item #30), questions arose about the projected dollar impact of SB 1137 on the City of Long Beach's (City) oil-related revenue and the City's planned six-year transition away from relying on oil-related revenue for structural support of the General Fund. There was also a question about the City's business license tax burden compared with surrounding cities. This memo addresses the two topics in turn.

Update on Oil-Related General Fund Revenue

The City Auditor's comprehensive analysis of California's anticipated transition away from crude oil and natural gas production – released on June 11, 2024, and presented at the July 16, 2024, City Council meeting – describes "a projected $301 million total decrease in oil revenue by 2035 due to production decline and the potential passage of SB 1137." (The subsequent revelation that SB 1137 will not appear on the Statewide ballot in November means that the law takes effect immediately.)

Through 2030, the City Auditor's analysis projects a total decrease in all oil-related revenue of $137 million. The cumulative projected decline is compared with the base year of 2023, when oil prices averaged almost $80 per barrel. By contrast, the City Council's Budgetary and Financial Policy No. 11 directs that "Oil revenue will be budgeted at a per barrel price likely to be lower than the average price, based on historical variability." That price is $55 per barrel, which is lower than the future oil price assumed in the City Auditor's analysis.

Thus, both the long-term General Fund shortfall projection presented to the City Council at a Study Session on March 19, 2024, and the updated projection in the Proposed FY 25 Budget already incorporated the full effect of SB 1137 (and of recent CalGEM regulatory actions) on General Fund revenues from oil production.

SB 1137 going into effect immediately underscores the fiscal importance of the City weaning the General Fund away from oil-related revenue by 2030, rather than by the original target of 2035. Once again, both the March 19, 2024, General Fund shortfall projection and the updated projection in the FY 25 Proposed Budget already assume this, via the following mechanism.

Historically, the Financial Management Department budgeted oil-related revenue in the General Fund – mostly from Uplands Oil production, and from the oil barrel production tax (Measure US) – as structural, recurring every year.

Beginning with the March 19, 2024, General Fund shortfall presentation, and continuing with the Proposed FY 25 Budget, increasing amounts of revenue from Uplands Oil production (net of scheduled set-asides for oil-well abandonment costs) and from the oil barrel production tax are being budgeted as one-time revenue, uncertain of recurring every year. As actual revenue from oil production happens to develop during a given fiscal year going forward, the "unexpected" oil-related revenue can be directed to one-time programmatic investments in municipal infrastructure, rather than to ongoing, structural General Fund costs as it was in the past.

The year-by-year total dollar amounts of oil-related revenue no longer being budgeted and forecasted in the General Fund as structural are:

FY 25	$1.25 million
FY 26	$2.5 million
FY 27	$3.75 million
FY 28	$8.16 million
FY 29	$12.67 million
FY 30	$17.21 million

The Energy Resources Department and the Financial Management Department are highly confident that oil-related revenue from Uplands Oil production and Measure US will, in fact, continue to flow into the General Fund during the next six years, and thus be available for one-time capital improvements. (One reason is that the March and August 2024 revenue forecasts assume immediate implementation of CalGEM regulatory restrictions on production, but in the event, those may end up being phased in over as long as five years.) As there is expected to be additional oil funding that could be available for infrastructure, other funding like Measure A may be available in the future to assist with supporting operating public safety costs, which is an eligible use of Measure A. That will be reviewed on an annual basis. In the FY 25 budget, an additional $1 million of Measure A is being used for ongoing public safety support and maintenance, which offsets the impact of the first year of oil transitioning out of the General Fund.

City of Long Beach Business License Tax vs. Surrounding Cities' Business License Tax

Since different cities have different business license tax structures (flat fee, per-employee, percentage of gross receipts, combinations thereof, etc.), the following table shows neighboring cities' business license tax for three typical businesses: a grocery store, a restaurant, and a light-manufacturing facility.

	Grocery store	Restaurant	Light manufacturing
Long Beach – current	$1,476	$1,097	$ 673
[Long Beach – if doubled	*2,952*	*2,194*	*1,346]*
Los Angeles	------------------ Gross Receipts-based	----------------------	
Carson	3,708	2,348	824
Compton	------------------ Gross Receipts-based	----------------------	
Paramount	360	348	292
Cerritos	1,799	359	350
Hawaiian Gardens	----------------------- Combination	----------------------------	
Cypress	------------------ Gross Receipts-based	----------------------	
Signal Hill	216	150	80
Seal Beach	----------------------- Combination	----------------------------	
Huntington Beach	456	390	285

Technical Note: "Grocery store" assumes 90 employees & 90,000 sq. ft. "Restaurant" assumes 57 employees & 7,600 sq. ft. "Light manufacturing" assumes 20 employees & 18,000 sq. ft. Tax rates from late 2023.

Three of the 10 neighboring cities, including Los Angeles, generally assess business license tax as a percentage of gross receipts, as do all five California cities with populations most similar to Long Beach: Fresno, Sacramento, Oakland, Bakersfield, and Anaheim.

Without knowing the gross receipts of a particular business, it is not possible to estimate those cities' business license tax burdens. Breakeven analysis, however, can shed some light. For example, Los Angeles assesses a business license tax on grocery stores of $1.27 per $1,000 of gross receipts. A grocery store in Los Angeles would pay the exact same business license tax as in the Long Beach example above – $1,476 – only if its annual gross receipts were as low as $1,162,205 ($3,184 per day). This is unlikely in the extreme. A national rule-of-thumb for annual grocery store sales is $500/sq. ft. In that case, a 90,000 square foot grocery store would generate $45,000,000 of gross receipts, and would pay to Los Angeles a business license tax of $57,150, compared with only $1,476 to Long Beach.

For a restaurant in Los Angeles, the business license tax rate is also $1.27 per $1,000 of gross receipts. A restaurant in Los Angeles would pay the exact same business license tax as in the Long Beach example above -- $1,097 – if its annual gross receipts were $863,779 ($2,366 per day). A rule-of-thumb for annual restaurant sales is $150 to $200/sq. ft. In that case, a 7,600 square foot restaurant would generate $1,140,000 to $1,520,000 of gross receipts, and would pay to Los Angeles a business license tax of $1,448 to $1,930, compared with $1,097 to Long Beach.

If you have any questions, please contact me at (562) 570-6427.

CC: DAWN MCINTOSH, CITY ATTORNEY
DOUGLAS P. HAUBERT, CITY PROSECUTOR
LAURA L. DOUD, CITY AUDITOR
APRIL WALKER, ASSISTANT CITY MANAGER
TERESA CHANDLER, DEPUTY CITY MANAGER
MEREDITH REYNOLDS, DEPUTY CITY MANAGER
GRACE YOON, DEPUTY CITY MANAGER
TYLER BONANNO-CURLEY, DEPUTY CITY MANAGER
KEVIN LEE, CHIEF PUBLIC AFFAIRS OFFICER
MONIQUE DE LA GARZA, CITY CLERK
DEPARTMENT HEADS