CITY OF LONG BEACH

Facilitating an Equitable and Sustainable Transition from Local Oil Production

As Long Beach transitions from local oil extraction, we need the State's support and partnership to responsibly abandon wells, fill significant revenue and service gaps, and support impacted workers.

Background

The Wilmington Oil Field, situated beneath the City of Long Beach (City), is one of the nation's largest oil reservoirs. The "Tidelands" area is the offshore portion of the oil field that extends three miles out into the ocean from the shoreline. The "Uplands" area represents the onshore portion of the oil field that includes the beach and the land extending into the City proper, which encompasses residential neighborhoods and commercial zones.

In 1911, the State of California (State) granted the City control over its Tidelands, including the mineral interests. Following the discovery of the Wilmington Oil Field in 1932, the City initiated oil development and extraction operations, notably constructing the offshore oil islands in the mid-1960s. The State receives a substantial portion of the revenues generated by the City's oil and gas production activities that would otherwise go to the City as grantee of the lands, with these profits now primarily going into the State's General Fund.

The City has a distinct role in the Wilmington Oil Field, acting both as trustee of these lands for the State and as the Unit Operator managing oil operations, setting it apart from other California cities. Various State statutes, unit agreements, operating agreements, and contractor agreements dictate the City's responsibilities.

Revenue

The City generates significant revenue from oil and gas operations, benefitting from three main sources: a barrel tax supporting various City functions such as public health services, youth programming, and climate adaptation strategies; revenue from the sale of produced oil benefitting both the Tidelands area and the City's General Fund; and a fee on oil production costs that benefits the General Fund. Existing agreements with the State limit the use of oil and gas revenues for public improvements within the defined Tidelands area, while other oil and gas revenues are directed to the City's General Fund for general use, including funding for public safety personnel like firefighters, police officers, and lifeguards—all of which may be impacted by a decrease in oil production.

Oil revenues in Long Beach fluctuate each year due to volatile oil pricing. The City's operations in the Wilmington Oil Field and in smaller oil fields throughout Long Beach are significant, with over 2,400 active and idle wells. Despite most net oil revenue going to the State, which can be upwards of $200 million per year, Long Beach received over $41 million total in FY 23 from various oil operations, with $27 million estimated for FY 24.

Abandonment Liability

When oil operations in the Wilmington Oil Field cease, oil wells and facilities must be appropriately decommissioned, remediated, and abandoned to maintain environmental standards required by law. The cost to abandon these wells will primarily be paid for by the State, City, and smaller property owners, with the abandonment liability for each party apportioned based on their established shares of the oil revenues. The total abandonment costs associated with ending oil operations in the Wilmington Oil Field are a substantial financial liability for all parties, estimated at an aggregate of **$1.36 billion**.

Each year the City sets aside funds from its oil production revenues into a reserve to eventually pay for its share of the abandonment liability, which is estimated at $154 million. The City intends to have its share of that abandonment liability fully funded by 2035, which is ten years before the 2045 deadline to phase out oil and gas extraction in California originally directed by Governor Newsom. To date, the City has saved $98 million of its total estimated liability and must set aside an additional **$81 million** to fully fund its share of this liability.

Currently, the State reserves $5 million per month from state oil revenues in an Oil Trust Fund, following the passage of SB 1425 (Gonzalez), to cover its share of the liability. The remaining State liability shortfall is estimated at **$700 million**. At this rate of monthly savings, the State's estimated shortfall will be fully met around the year 2050—five years after the Governor's original goal to end oil production by 2045.

California's Clean Energy Transition

As the state continues its energy transition, the City will experience an immediate and substantial loss of oil revenues, presenting many fiscal challenges for the City's efforts to fund oil well abandonment and general services that Long Beach residents depend on. This will require substantial cuts to critical City services like lifeguards, coastal preservation, youth programs, and public infrastructure. It will also mean the loss of 600 good-paying local jobs on the oil islands, with no existing plan to help transition these displaced workers into an equivalent job opportunity. Under SB 1137, Tidelands and Uplands annual revenue losses of more than $15 million are expected by 2029, resulting in insufficient revenue to support current operating expenses, required debt service on municipal bonds, and the City's abandonment liability. The City's General Fund will have to plug that liability gap as soon as the next five years. Similarly, the State will need to pay for its remaining oil abandonment liability, upwards of $700 million, out of State General Fund taxpayer dollars rather than from oil production revenues.

Priorities for a Sustainable, Just, and Equitable Transition from Long Beach Oil Operations

Priority 1: Support the Climate Transition Using Oil Fund Interest

The City seeks to reinstate the previous arrangement between the State and the City, whereby the City transfers the State's abandonment liability sum every month to an account managed by the City. The City would use the interest earned on that account to help Long Beach transition to non-oil uses, and fund public health, climate adaptation, and other programs that help address the critical needs of local residents. Alternatively, the state could direct the interest earned from the state-managed Oil Trust Fund where its savings for oil abandonment liability are currently stored back to the City of Long Beach, allowing the state to continue managing the account while supporting the City's climate transition efforts.

Priority 2: Reinvest State Oil Funds Back into Long Beach Communities Most Impacted by Oil Production

The City requests the State to commit $20 million annually from its oil production revenues that currently go to the State General Fund (only about 10 percent of total state oil profits) to establish a Climate Transition and Remediation Fund for Long Beach to fund public health, youth services, workforce programs for impacted workers, and climate-related programs that help mitigate the long-term impacts of oil production activities.

Priority 3: Restore Equitable Funding and Stability for the Tidelands

The State receives a substantial portion of the revenues generated by the City's oil and gas production activities that would otherwise go to the City as a grantee of the Tidelands. Under the existing operating agreements and revenue formula specific to LBU Tract 1 Incremental, the City receives just 8.5 percent of oil revenue for trust purposes, while the State claims 42.5 percent as "surplus" (this revenue share formula was last set in 1991 under a drastically different economic and oil policy landscape). Since 2004, nearly $6 billion has gone to the State under this outdated formula, even as local trust obligations for the City to maintain these public lands on behalf of the state have grown.

The current revenue spilt has not been updated to reflect rising costs or declining oil production. If left unaddressed, this will require substantial cuts to critical City services like lifeguards, coastal preservation, youth programs, and public infrastructure, and force the city into a position where it is incapable of meeting its obligations as a trustee to care for these public lands as required by state law and operating agreements. By revising this existing revenue share agreement through state legislation, Long Beach will be better positioned to meet its public trust obligations to the state, while protecting critical services for residents.

Priority 4: Prioritize Orphaned Well Funding to Long Beach and Workforce Development Opportunities

Currently, the State has invested a mere $200 million in one-time funds to plug orphaned or idle wells, enough to remediate only 1,800 out of the 5,000+ orphaned wells across California with no responsible solvent operator. Without funding for proper abandonment of orphaned wells, hundreds of parcels that could be redeveloped for housing, services, business, and more will sit dormant due to a lack of resources to properly abandon the wells. The City proposes expanding funding for this program to adequately address the need in Long Beach and statewide, and provide a direct allocation to cover the abandonment liability of the nearly 6,000 local owners in Long Beach who will need assistance in the capping of the wells.

Priority 5: Expedited Coastal Commission and State Lands Review for Climate and Economic Transition Plans

The City proposes developing legislation that would expedite the Coastal Commission and State Lands Commission review process for jurisdictions that file a "climate and economic transition plan" that these bodies would review and jointly approve within one year. Any projects consistent with the approved climate and economic transition plan that would help local jurisdictions move away from their reliance on oil revenues and operations would be exempt from further CEQA review and from the need for subsequent coastal development permits beyond the initial plan review. This would incentivize cities to pursue projects that support the State's sustainability goals and its transition from oil production and revenue dependency.