



# AGENDA STAFF REPORT

DATE: July 23, 2018

TO: Honorable Mayor and City Council

THRU: Jill R. Ingram, City Manager

FROM: Victoria L. Beatley, Director of Finance/City Treasurer

SUBJECT: **Oil Revenue Recovery Professional Services Agreement**

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## **SUMMARY OF REQUEST:**

That the City Council approve Resolution 6844 authorizing the City Manager to execute the professional services agreement with Greg Kirste dba Municipal Petroleum Analysts for potential oil and gas revenue recovery services and reject all other proposals.

## **BACKGROUND AND ANALYSIS:**

In February 2017, City staff sent out a Request for Qualifications (RFQ) to multiple consultants to conduct an audit of oil revenue generated within City limits. The City received one response from Millennium Consulting, LLC.

On March 27, 2017, the City held a Study Session at which Ken Ramos and Jerry Twomey of Millennium Consulting presented their insight and approach to the oil revenue recovery opportunities for the City. At that Study Session, the City Council directed staff to cast a wider net and solicit additional proposal responses.

Based upon the recommendation of some residents, staff sent the RFQ to two additional consulting firms. Only one response was received, from CCG International, in May 2017. The response from CCG International was evaluated by staff as well. Since May 2017, there has been no additional work done on this project.

In October 2017, the City Council received an unsolicited proposal from Municipal Petroleum Analysts (MPA) in response to the City's Strategic Plan objective regarding oil revenue recovery. Based upon the work done previously by MPA and the associated recovery of revenue, and the references, qualifications, work experience and cost, staff recommends the selection of MPA and the rejection of all other proposals.

This item was on the City Council agenda for June 11, 2018 at which various motions were made and ultimately failed. At the June 25, 2018 City Council meeting, Councilmember Moore requested that this item be re-agendized for consideration and the agreement modified to exclude any impact to Crimson Pipeline from the consultant's scope of work, which would avoid any conflict thereby allowing him to participate in consideration of the item.

In preparation for reconsideration, the following information was requested of Mr. Kirste by Councilmembers:

1. Clarify estimate of the \$13 Million in oil revenue that is due to Seal Beach.
2. Specify the estimate of past due delinquent revenue that could potentially be collected immediately by the City.
3. Provide an estimate of the annual revenue that would be expected to follow from these sources (aggregate estimates with no mention of company names are fine).

Mr. Kirste confirmed that the \$13 million estimate represents the total potential revenue (one-time plus recurring) that's been identified so far by MPA's independent work. This preliminary estimate is a cumulative amount stemming from a handful of sources using MPA's large collection of documentation, modeling, and detailed analysis. Each individual revenue's statutory amount, type, timing, legal matters, and the applicable laws, rules, regulations, and ordinances underlie MPA's estimates. Once MPA completes its work, estimates of one-time and recurring revenues can be confirmed and then owed revenues can be collected.

Additionally, attached are two presentations of previous work performed by Mr. Kirste.

### **STRATEGIC PLAN:**

The goals of evaluating and recovering oil revenue and recommending to Council options for new revenue sources have been goals in the Strategic Plan since 2017.

### **ENVIRONMENTAL IMPACT:**

There is no environmental impact related to this item.

### **LEGAL ANALYSIS:**

The City Attorney has reviewed the attachments and all have been approved as to form.

**FINANCIAL IMPACT:**

As has been discussed at length, there is no guarantee that this contract will generate new revenue, but the City's cost is contingent on the receipt of new revenue. The total financial impact is yet to be determined and is based upon the successful completion of contingent fee work by MPA, since the compensation to MPA would be 15% of actual net revenue collected by the City over a limited period of time. The City will not pay MPA any fees or compensation for the revenue recovery work unless funds are received by the City. The agreement does provide for hourly compensation for additional services at the specific request of the City, but no expenditure for additional tasks, as described in the scope of work, will begin until sufficient revenue has been received to cover the cost of the work, if those tasks are ordered at all. In the event that the work brings in substantial revenue, which is expected, the loan from the Swimming Pool Designated Fund will be repaid first.

**RECOMMENDATION:**

That the City Council approve Resolution 6844 authorizing the City Manager to execute the professional services agreement with Greg Kirste dba Municipal Petroleum Analysts for oil revenue recovery services, and to reject all other proposals.

SUBMITTED BY:

Victoria L. Beatley

Victoria L. Beatley, Director of Finance/City Treasurer

NOTED AND APPROVED:

Jill R. Ingram

Jill R. Ingram, City Manager

**ATTACHMENTS:**

- A. Professional Services Agreement – Municipal Petroleum Analysts
- B. Resolution 6844
- C. Oil and Gas Tax Analysis and Oil Revenue Analysis