

# CHEVRON – EL SEGUNDO



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## 11. CHEVRON – EL SEGUNDO

### EXECUTIVE SUMMARY

The 2012 – 2013 Los Angeles County Civil Grand Jury (Grand Jury) investigated the revenues collected by the City of El Segundo (the City) from the oil and gas refinery owned by Chevron. The investigation was prompted by a concern that Chevron received favored tax status which resulted in the City not receiving revenues from Chevron's refinery comparable to other similarly situated cities within California, such as Torrance and Richmond. In addition to projected operating deficits, the Grand Jury investigated the historic and ongoing agreements and negotiations between the City and Chevron addressing a variety of tax revenues. During the course of the Grand Jury investigation, the City announced and approved an agreement with Chevron which the City has projected will lessen or eliminate the anticipated annual deficits for more than a decade. The Grand Jury recommends several actions that the City implement to plan adequately for a stable future fiscal environment and to increase public transparency of financial planning.

### RECOMMENDATIONS

**11.1 The City should form a citizen's committee** of residents to recommend to the City manager long term financial planning that insures continued fiscal stability. Given the fifteen year term of the proposed agreement with Chevron and the resulting apparent fiscal health of the City, waiting until the end of the current Chevron agreement to plan for future budget stability would not best serve the City.

**11.2 The City of El Segundo should conduct an annual audit** of Chevron's utility use in order to better pursue revenues at the conclusion of the current agreement. This audit should be part of the public record as opposed to the confidential audit performed by a contractor prior to the negotiation of the current Chevron agreement.

### METHODOLOGY

The Grand Jury relied upon public City and Chevron agreements and documents posted on the City's web site including previous ordinances and documents related to a 1994 negotiated agreement with Chevron for utility taxes. The posting of these documents resulted from previously filed third party Public Records Act requests. In addition, the Grand Jury attended meetings of the City Council beginning in September 2012 through January 2013 to hear direct public comments and council member deliberations related to the subject of this investigation. The Grand Jury interviewed several previous and current City employees and consultants regarding prior El Segundo - Chevron agreements and the genesis of the City's fiscal situation. The Grand Jury conducted one telephone interview with a resident of El Segundo who came forward to talk to the Grand Jury. Attempts were made to interview members of a firm that had prepared previous revenue analyses for the City, but these attempts were not successful.

## **BACKGROUND**

This investigation into the relationship between the City of El Segundo and Chevron regarding Chevron's refinery operations was prompted by newspaper articles concerning the current and potential future tax revenues generated by Chevron's oil and gas refining operations and the current and future fiscal health of the City. The newspaper articles also focused on personnel issues between the City and its former City Manager in light of these tax issues. That personnel matter is not the focus of this investigation and that issue remains unresolved as of this report.

### History of El Segundo

The Chevron El Segundo refinery was built in 1911 and was the second California refinery built by Chevron (then called Standard Oil) - hence the name "El Segundo" which means "The Second" in Spanish. El Segundo is located in the South Bay area of Los Angeles County. With its neighbors to the south, Manhattan Beach, Hermosa Beach, and Redondo Beach, the area is generally composed of a mixture of affluent coastal residential areas and government and defense-based industries which are major local employers. El Segundo reflects this mixed use with the addition of oil refining. The Chevron refinery is by volume the largest single refining operation on the West Coast, currently refining approximately 260,000 barrels of crude oil per day.<sup>1</sup>

### Demographics

The City of El Segundo, population 18,000 as of the 2010 United States Census, is a general law city incorporated in 1917. Initially, the City was primarily agricultural and industrial. North of the City, small airplane operations were carried out at Mines Field to accommodate the fledgling airline and travel businesses. World War II resulted in the City and neighboring areas becoming heavily developed with war-related defense industries, including airplane research and manufacturing. El Segundo also saw the establishment of an Air Force base within the City as well as the expansion of the airfield north of the City into Los Angeles Municipal Airport, now Los Angeles International Airport (LAX). Today, major national defense contractors and research industries operate within the City including Boeing, Northrop-Grumman, Raytheon, and Aerospace Corporation. Mattel Corporation is also located within the City and is a major employer. Chevron Corporation continues to operate its refinery. Its products include aviation fuel which is sold to airlines via a direct pipeline from the refinery to LAX. Chevron operates the pipeline pursuant to a long term lease agreement with the City.<sup>2</sup>

### The City's Budget and Revenues

El Segundo operates its own police and fire departments. A five member City Council governs the City. The City employs approximately 323 people in a variety of departments headed by a

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<sup>1</sup> Information from Wikipedia [http://en.wikipedia.org/wiki/El\\_Segundo,\\_California](http://en.wikipedia.org/wiki/El_Segundo,_California)

<sup>2</sup> Information from Wikipedia [http://en.wikipedia.org/wiki/El\\_Segundo,\\_California](http://en.wikipedia.org/wiki/El_Segundo,_California)

City Manager (El Segundo Comprehensive Annual Financial Report 2011). The City employs outside counsel as its City Attorney. The annual operating budget for the City is approximately \$52 Million (see Table 1). City policy provides for a 17 percent reserve fund within the annual budget and the City currently has an investment portfolio of approximately \$37 Million. In the City Council's September 4, 2012 budget discussion, the City Treasurer and the City Finance Director provided projections of the City revenues and expenditures through 2016 (see Table 2). The 2012 – 2013 City budget projected a structural deficit that was balanced through a variety of means. Projections through 2016 anticipated continuing structural deficits that would require the transfer of funds from investment reserves to the annual budgets unless the City Council took alternative steps. Senior city officials have indicated that the city has reduced expenses over the last few years by reductions in City staffing and by pay concessions from employees in a variety of departments.

Much of the general fund revenue for the City of El Segundo comes from a mix of property tax, sales tax, transient occupancy tax, user utilities tax (gas, water, electricity, telecommunications), and business license fees (Comprehensive Annual Financial Report 2011).

Table 1			
City of El Segundo Budget Revenues			
General Fund Reserves	FY 2011-2012 Adopted Budget	FY 2011-2012 Year End Estimate	FY 2012-2013 Preliminary Budget
Business License	\$10,049,700	\$10,100,000	\$10,306,800
Sales and Use Tax	\$8,650,000	\$7,428,500	\$6,620,000
Sales Tax in Lieu	\$2,736,800	\$2,773,600	\$1,948,900
Property Tax	\$6,162,500	\$5,882,675	\$6,000,000
Transient Occupancy Tax	\$4,207,500	\$4,650,000	\$5,100,000
Charges for Services	\$4,175,500	\$4,243,520	\$4,169,300
Electric Utility Tax	\$3,475,000	\$3,200,000	\$3,200,000
Franchise Tax	\$2,500,000	\$2,437,500	\$2,400,000
Cogeneration Electric	\$1,125,500	\$900,000	\$1,350,000
License and Permits	\$1,399,000	\$1,444,200	\$1,446,200
Gas Utility Tax	\$750,000	\$700,000	\$750,000
Interest on Investments/Rentals	\$985,000	\$325,000	\$240,000
Other Revenues	\$3,857,900	\$4,096,744	\$4,281,100
Total General Fund Revenues Net of Transfers	\$50,073,900	\$48,181,739	\$47,612,300
Transfers In	\$1,600,000	\$1,600,000	\$4,850,000
Total General Fund Revenues	\$51,673,900	\$49,781,739	\$52,192,300
Data from PowerPoint Presentation at El Segundo City Council Meeting December, 2012			

Table 2				
City of El Segundo General Operating Fund Annual Projections				
3-Year Forecast				
(in thousands)	2013	2014	2015	2016
Revenues	\$48,000	\$48,960	\$49,939	\$50,938
Expenditures	\$52,910	\$54,497	\$56,132	\$57,816
Variance	\$(4,910)	\$(5,537)	\$(6,193)	\$(6,878)
Data from PowerPoint Presentation at El Segundo City Council Meeting December, 2012				

The City website describes El Segundo as one of the most business friendly environments in Southern California and has some of the lowest business utility rates in the region. The history of the City indicates mixed success in raising revenues via changes in tax rates which require voter approval.

#### Recent El Segundo – Chevron Issues

In 2011, the then City Manager was directed to analyze revenues from Chevron as part of a review of the City fiscal process. The City Manager presented the results of his analysis in December 2011 with the recommendation that a ballot measure be drafted to increase revenues from oil refining businesses and chemical businesses within the City (El Segundo City Council meeting minutes December 20, 2011). The City council ultimately decided to pursue a negotiated agreement with Chevron rather than proceed through a ballot process (as reflected in the minutes from city council meetings in December 18, 2012). The results of the negotiation with Chevron were presented in the form of a draft agreement at the City Council meeting in January 2013. The Council directed that a variety of City ordinances be drafted for City Council approval to capture and finalize the agreement. On April 23, 2013 the El Segundo City Council approved the agreement which is expected to provide the City with an approximate increase to general fund revenues of \$134 Million over a period of fifteen years (City Council agenda for April 23, 2013).

The Grand Jury also reviewed a previous negotiated agreement with Chevron completed in 1994 that called for annual audits of Chevron's gas use. During the 1994 negotiations, a confidential audit of gas and other utility use by Chevron was performed by an independent contractor for the City of El Segundo. The audit provision in the agreement allowed for a reopening of the gas utility rates based upon future Chevron gas use. The present negotiated agreement also included a confidential audit by a contractor for the City of El Segundo. Discussions with current City officials indicated that no audits of Chevron's gas use had been done in the years between 1994 and the recent audit. The Grand Jury did not have access to the previous or recent audits.

## FINDINGS

### Grand Jury Concerns and Conclusions

The Grand Jury was initially concerned with the possibility of conflicts of interest in previous years and the ongoing relationship between Chevron and elected officials relative to the amount of revenues paid by Chevron to the City. Except for two isolated inconsequential instances of Chevron providing opportunities for City Council members to attend a Chevron 100<sup>th</sup> anniversary event (both declared on Form 700 filings), the Grand Jury could substantiate no evidence of any conflict of interest. Several people interviewed also indicated they could find no evidence of any improprieties occurring in City-Chevron negotiations.

The City of El Segundo does deserve recognition for managing its expenses in a fiscally conservative manner over the years. But like many cities in the last few years, it has had to both cut back on some services to residents and reduce staffing. The City has no long term debt and presently has a reserve fund and investment fund. The Grand Jury finds that the City Council members and City residents are reluctant to address revenue shortfalls and long term projected structural deficits through the ballot process. Instead, they apparently prefer a negotiation process with Chevron, one of its largest businesses and employers. The agreement approved by the City Council on April 23, 2013 addresses many of the revenue issues for the City for the next fifteen years.

Given the great uncertainty in projecting the regional and City economy and fiscal conditions fifteen years into the future, the Grand Jury concludes that the agreement with Chevron is likely the best probable outcome for the City at this time, especially given the City's lack of success at the ballot box when revenue measures have been presented to the voters for approval. The Grand Jury remains somewhat concerned that the City has fiscally "kicked the can down the road" for fifteen years with regard to more stable revenue sources. Further, in light of the above noted general attitude in the City regarding raising taxes, the suggestion that there appears to be a de facto special treatment of Chevron that imposes a disproportionate burden on other major employers in the City cannot be dismissed entirely and is perhaps deserving of analysis by the City.

The Grand Jury found that citizen participation in the budget process is minimal as reflected in the low public attendance at City Council meetings that the Grand Jury attended that focused on the City budget. The Grand Jury did not find active public outreach efforts by the City to inform citizens of budget issues beyond the required notification of agenda items of City Council meetings. Thus, the Grand Jury remains concerned that input of ideas into the long term budget planning strategies for the City are constrained given limited public attendance at the council meetings. Additional ideas and approaches to long term budget strategies could be improved by the City sponsoring additional opportunities for citizens groups with a focus on the budget.

The Grand Jury also finds that the City of El Segundo should conduct annual audits of Chevron's utility use as a basis for future budget planning processes for the City.

**Required Responses:**

Recommendation      Responding Agency

11.1, 11.2              City of El Segundo

