

MINERAL EXTRACTION FINANCIAL PLAN

SUBCOMMITTEE REPORT TO THE CITY COUNCIL
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Purpose of Subcommittee

- Now nearing the drilling of test wells
- If the wells are successful then it is prudent to plan how the proceeds should be handled
- Council wants –
 - all fiscally prudent steps in place
 - report on ways to assure long term benefit
 - ways to benefit current and future generations of Whittier citizens

Criteria For Managing Mineral Lease Revenues

- *Transparency* and *accountability* are key in deciding how to manage new revenues from extraction of City minerals.
- There must be benefits derived by current residents from income received, However ...
- If the funds are significant it is the responsibility of the City Council to protect and preserve them for the future.

Insuring Transparency and Accountability

- *Revenues should be preserved in a Trust/Endowment Fund that cannot be simply altered by a City Council action. The voters would also have to approve any major changes.*
- The fund should be aided by a special oversight commission of local residents expert in financial matters.
- All investment allocations would be made by a fund manager(s) within the policy guidelines recommended by the commission and approved by the City Council.

Insuring Transparency And Accountability (cont'd)

- All decisions on investments would be made in public by the oversight commission and the City Council
- The fund manager(s) would be selected through a public Request For Qualifications (RFQ) process.
 - This finance professional(s) would be compensated for his/her work, but
 - No staff member, City Council member, or commissioner would be compensated in any manner from the fund.

Benefits To Be Derived By Current Residents

- The subcommittee recommends that the income from the first test wells production be allocated directly to the City to restore services that have been diminished in recent years as a result of the economic downturn.
 - Dependent upon oil prices, this could amount to between \$4.5-\$5.0 million per year.
 - This income could start to be available to the City later in 2013.

Benefits to be Derived by Current Residents (continued)

- Additional revenues (if available) would be split between the City (25%) and the Trust/Endowment (75%) until the City receives a total of \$10.0 million per year.
 - This additional funding to the City would allow for service enhancements and/or capital investment in the City at the determination of the City Council.
- The City's share would grow by CPI but not to exceed 3% per year.

Benefits to be Derived by Current Residents (continued)

- At a point in the future where the Trust/Endowment is sufficiently funded, an additional allowance could be granted to the City for capital investment/infrastructure.
 - This point and this amount is yet to be determined.
 - However our ideas at this point would be that it would be a year to year approval. The Professional Fund manager and the Oversight Committee would have an analysis done to show that it would still allow the fund to be viable in the future. They would recommend an amount to the Trustees (City Council).

The City Council Needs to Protect the Funds Now, and into the Future

- It is the intent of the Trust/endowment to remain intact in perpetuity to benefit all residents – current and future.
- The subcommittee also recommends that the fund could be used, as required, to meet the needs of the City and its residents in the case of a catastrophe—specifically a declared State or Federal emergency directly impacting Whittier—up to 20% of the corpus could be used, depending on the actual balance in the fund.

Levels of Security to Insure that the Funds are Protected

- Have the City Council act to set the funds aside
- Have the City Council consider placing the funds in a Trust that is designated by legal experts to protect the funds to a maximum degree
- Have the action of the Council to establish a Trust endorsed by the electorate at an election

Managing the Trust

- The Trust would be managed to maintain the Corpus in perpetuity.
- The Oversight Commission and the Fund Manager(s) would advise the Trustees (City Council) -
 - On investments and performance of the investments
 - And to advise if the Corpus has grown large enough that it would be prudent to increase the City's share for infrastructure.

Next Steps

- Establish a timeline to have the security measures in place as soon as possible.
- Ask the City Council to review a trust document that has been drafted by independent outside legal advisors
- Place the trust before the City Council for action
- Ask the electorate to endorse the Trust/security measures designed to protect the funds .
 - To insure that this is in place as early as possible, a special election may be advisable.

Summary

- Subcommittee and staff comments