



CITY OF SIGNAL HILL

2175 Cherry Avenue ♦ Signal Hill, CA 90755-3799

August 10, 2021

AGENDA ITEM

**TO: HONORABLE MAYOR
AND MEMBERS OF THE CITY COUNCIL**

**FROM: COLLEEN T. DOAN
COMMUNITY DEVELOPMENT DIRECTOR**

**SUBJECT: PUBLIC HEARING – TWO-YEAR EXTENSION OF CONDITIONAL USE
PERMIT 97-03 FOR SEVEN CONSOLIDATED DRILL SITES OWNED
AND OPERATED BY SIGNAL HILL PETROLEUM, INC.**

Summary:

Signal Hill Petroleum, Inc. (SHP) has a Conditional Use Permit (CUP) for seven consolidated drill sites. The CUP allows oil and gas production at the seven sites, as well as storage, processing, and transport of products. SHP has agreed to a two-year extension to allow them to continue their oil production activities uninterrupted, while preparations for a long-term extension continue.

Recommendation:

Approve a two-year extension of Conditional Use Permit 97-03, for seven existing oil and gas drilling sites allowing oil and gas production at the seven sites, by adopting Resolution No. 2021-08-xxxx entitled:

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIGNAL HILL, CALIFORNIA, APPROVING A TWO-YEAR EXTENSION OF CONDITIONAL USE PERMIT 97-03, FOR SEVEN EXISTING OIL AND GAS DRILLING SITES WITH OIL AND GAS STORAGE, PROCESSING, TRANSPORT OPERATIONS, AND A GAS TURBINE FACILITY, WITH AN EXPIRATION DATE OF JULY 30, 2023

Fiscal Impact:

SHP contributes approximately \$550,000 annually to the City's general fund in business franchise taxes, annual oil well permits, and oil barrel taxes. A portion of these revenues offset the City's costs of the Oil Field Services Program and annual facility inspections.

Strategic Plan Objective:

Objective No. 3.2: Develop a comprehensive strategy for Signal Hill Petroleum's continued legacy oil field activity and operations throughout the City while making use of underutilized properties for economic development to expand the City's revenue base.

Background:

History of the Drill Sites CUPs

In the 1970s and 1980s there were three major oil companies and several smaller, independent oil companies operating in Signal Hill. At that time, the seven drill sites were operated by ARCO, Shell, and Texaco, with each site having a separate CUP. Starting in 1984, SHP began acquiring the interests of the major operators and eventually became the owner/operator of all seven drill sites and the majority oil operator in the City.

Adoption of the Oil Code

In 1990, the City adopted a comprehensive Oil Code (Title 16 of the Signal Hill Municipal Code) in order to regulate oil field operations. Relevant provisions of the Oil Code include:

- New oil wells must be located within an approved drill site (the seven subject drill sites are the only sites currently approved);
- New drill sites are prohibited in residential zoning districts but allowed in commercial or industrial zoning districts subject to approval of a CUP;
- No drill site shall have a minimum dimension of less than 200' in any direction unless approved by the Director;
- Drill sites shall be enclosed with a chain link fence with slats, or solid masonry wall, eight feet high; and
- A border of landscaping shall be installed along the periphery of the drill site to provide adequate screening of all facilities.

The drill site concept was intended to be mutually beneficial to both SHP and the City:

- SHP would benefit from the opportunity to drill new wells using directional drilling;
- The City would benefit from increased oil revenues; and
- SHP and the City would both benefit from enhanced opportunities related to the abandonment of wells outside of the drill sites and the corresponding viability of additional development. It is important to note that in 1990 the expected life of the

oil field was estimated to be 25 years; therefore, the drill sites concept was intended to address the slowing of oil recovery and the eventual end of life of the field. It was anticipated that as the oil supply was depleted, wells outside of the drill sites would become obsolete and would be abandoned. The expected benefit to the City resulting from this process was that additional property would become available for new development.

SHP's Consolidated Drill Sites CUP (1998 – 2003)

On June 16, 1998, the City Council approved CUP 97-03 and an associated Mitigated Negative Declaration (MND). The CUP allowed SHP to continue their drill site operations for five years. This was the first time that the seven drill sites were consolidated under one CUP (Attachment A).

The CUP included:

- 18 conditions, with an annual review;
- A term of five years; and
- A MND with 14 mitigation measures.

The action established an initial term for the CUP until June 16, 2003.

Amendment and Long-Term Extension (2003 – 2012)

On October 1, 2002, the CUP was amended to include the new gas turbine power plant, which was subsequently constructed at Drill Site Two, at E. 29th Street and Orange Avenue. The new plant would provide a reliable and more efficient power source for oil field operations and reduce the need to purchase power from the major power producers. The approval:

- Extended the term for 10 years;
- Added five new conditions related to the power plant; and
- Added one additional mitigation measure to the MND to monitor and mitigate the noise level of the plant.

Expectations regarding the life of the field and the concept of consolidated drill sites remained the same.

The action extended the term of the CUP to October 1, 2012.

First Short-Term Extension (2012 – 2013)

In 2012, SHP conducted a geophysical survey to image and map subsurface geology in the field. SHP reported to City staff that the life of the oil field was likely longer than originally estimated.

With the CUP set to expire in October 2012, staff initiated an extensive public outreach and education effort to familiarize decision makers and the public with the drill site operations.

On September 4, 2012, after a series of public workshops, facility tours open to the public, and Planning Commission review, the City Council unanimously approved a one-year extension of the CUP (Attachment B). The one-year term was envisioned to allow the City time to complete independent technical water quality and petroleum studies regarding oil field operations.

The action extended the term of the CUP to September 4, 2013.

Second Short-Term Extension (2013 – 2014)

Staff continued to work with SHP and City consultants to analyze relevant data. The time to analyze the data was much greater than initially expected and as such a second extension was necessary.

On August 20, 2013, after a facility tour open to the public and Planning Commission review, the City Council unanimously approved a six-month extension of the CUP.

The action extended the term of the CUP to February 20, 2014.

Third Short-Term Extension (2014 – 2014)

On February 4, 2014, after Planning Commission review, the City Council unanimously approved a ten-month extension of the CUP to allow for the completion of the required technical studies.

The action extended the term of the CUP to December 31, 2014.

Fourth Short-Term Extension (2014 – 2017)

In November 2014, SHP and the City agreed that a 30-month extension would allow time to prepare a comprehensive development agreement intended to allow development of multiple properties as well as a combined environmental document that analyzed both the development agreement and a long-term extension of the CUP.

On December 2, 2014, after Planning Commission review, the City Council unanimously approved a 30-month extension.

The action extended the term of the CUP to June 30, 2017.

Oil Code Amendment

On June 2, 2015, following completion of multi-year technical studies and upon recommendation by the Planning Commission, the City Council unanimously adopted an

amendment to the Oil Code establishing regulations to allow development on properties with abandoned oil wells.

Collaborative Development Model (CDM) 1.0

One of the main goals of the original CUP was to promote future development opportunities. With the City's recognition of the extended life of the oil field, it became clear a collaborative partnership with SHP would deliver more strategic, higher quality projects benefiting both organizations. The initial effort focused on two sites:

- The Central Business District (CBD) site adjacent to Mother's Market; and
- The vacant parcel south of Target.

The City at the time was focused on economic development opportunities. This effort was intended to serve as a template for a comprehensive development agreement for development of multiple properties and potentially additional, strategically positioned drill sites, as well as site clean-up priorities.

SHP chose to focus on the CBD site first. The City's General Plan Land Use Element envisioned the area to be a mixed-use development with specialty commercial and high density residential. The initial effort resulted in SHP developing a conceptual plan that was brought to one community meeting.

Fifth Short-Term Extension (2017 – 2018)

On June 13, 2017, after Planning Commission review, the City Council unanimously approved a one-year extension to support the collaborative development efforts.

The action extended the term of the CUP to June 30, 2018.

Sixth Short-Term Extension (2018 – 2019)

On June 12, 2018, after a facility tour open to the public and Planning Commission review, the City Council unanimously approved a one-year extension with the intent of completion of the CBD Environmental Impact Report to further collaborative development efforts.

The action extended the term of the CUP to June 30, 2019.

Seventh Short-Term Extension (2019 – 2020)

On June 11, 2019, after Planning Commission review, the City Council unanimously approved a one-year extension. At the time, the Council directed staff and SHP to make significant progress on collaborative development efforts during the one-year term.

The action extended the term of the CUP to June 30, 2020.

Collaborative Development Model (CDM) 2.0

Since CDM 1.0, the development landscape has shifted based on a number of external factors, including real estate, retail, and housing trends. In 2020, market interest shifted away from traditional retail to an increased demand in the industrial and housing categories. These economic realities are also reflected in the legislative landscape and the City's requirement to prepare its 6th Cycle Housing Element Update.

As part of a reboot, the City Council established a sub-committee of two Council members to focus on identifying housing sites and making progress on long-range planning for economic development. The sub-committee identified the following desirable characteristics for housing sites:

- Centrally located near shopping and civic amenities;
- Maximize trails, open space, and public art;
- Incorporate high-quality design and place-making; and
- Celebrate views.

SHP is the primary landowner in Signal Hill and has developed many residential projects in the City and is interested in future residential development opportunities given the strong residential market.

SHP is also interested in economic development opportunities and has recently partnered with Target to remodel the store, add retail/restaurant pads and a self-storage facility (Gateway Center North). The project retained a large sales-tax producer and included additional community benefit fees generated by the self-storage facility. The economic benefit of the ongoing fees, the long-term retention of Target, and the creation of a commercial center capable of generating additional jobs for local residents and increased sales tax was a win for all.

SHP is pursuing a second project, an industrial building at the former driving range located at 2550 Orange Avenue. The project is currently in the preliminary planning review stage.

On May 14, 2020, SHP requested an eighth extension and reiterated their desire for a long-term extension. Given the progress being made on the collaborative long-range planning efforts for both housing and economic development sites, the City and SHP agreed to postpone a short-term extension to focus on furthering negotiations on long-range economic development and selection of housing sites (Attachment C).

Analysis:

Eighth Short-Term Extension (2020 – 2022)

Over the last two years, staff has worked diligently with SHP to advance the stated goals of CDM 2.0. Based on the progress to date and additional time needed to complete negotiations to incorporate relevant sites, staff is recommending an extension from the

original June 30, 2020, deadline. During the extension, staff will complete the Housing Element update and associated re-zonings and environmental document (already in progress). A long-term CUP will also require a CEQA document, which is anticipated to be completed in two years, as shown below:

- Year-One:
 - The City will circulate a Request for Proposals for an on-call CEQA consultant whose duties will include conducting an environmental analysis for a long-term drill sites CUP extension;
 - A scope of work for the CEQA analysis will be prepared; and
- Year-Two:
 - The CEQA consultant will prepare a comprehensive CEQA analysis document to accompany the long-term extension.

The Planning Commission is recommending a two-year extension of the CUP with a new term through July 30, 2023, while allowing continuation of current oil operations. The City and SHP will continue to make progress on a long-term roadmap for joint economic and residential development.

Reviewed:

Sharon del Rosario

Approved:

Hannah Shin-Heydorn

Attachments