



OIL LAWSUIT SETTLEMENT

City of Hermosa Beach

Oil Lawsuit Settlement



How Did We Get Here?

Why Did the City Settle the Lawsuit?

What are the Terms of the Settlement?

What are the Next Steps?

How Did We Get Here?



Hermosa has a Long Oil History

- **1932** Hermosa Beach voters enact a ban on all oil and gas operations in city limits.
- **1958** Shell Oil pays city \$500,000 to hold election seeking to strike down drilling ban—but loses election. \$500,000 used to build original pier.
- **1984** Hermosa Beach voters approve Propositions P and Q to allow oil drilling at two sites.
- **1986** City Council approves an initial lease for Macpherson Oil Co. (Macpherson) to drill for oil at the city maintenance yard at 6th and Valley.

City's Legal Fight Lasts 14 Years

- **1995** Hermosa Beach voters approve Proposition E to restore the city's oil-drilling ban.
- **1998** City Council votes to halt the oil-drilling project and Macpherson sues the city.
- **1999-2012** The complex case evolves through a series of appeals. Macpherson claims \$750 million in losses. City attempts, without success, to settle case.
- **2012** With a jury trial set for April, a unanimous City Council votes to approve a settlement agreement that ends the litigation and limits the City's liability to \$17.5 million.

Why Did the City Settle the Lawsuit?



Settlement Provides Financial Certainty

- The settlement limits City's financial exposure; avoids the risks attendant to a jury trial and the costs associated with inevitable appeals.
- City can plan for its future with greater certainty and without worry about the cost and risk of future litigation.
- Takes the decision out of the hands of a jury and gives it to the voters: Returns to residents the decision on whether to keep the oil drilling ban or change it to allow a new oil drilling project to go forward.

Settlement Limits City's Liability

- This was the first time an economic resolution was presented that the City Council found to be acceptable when balanced against the risk and costs of future litigation.
- There was also a risk that if the City had gone to trial and lost, a judgment beyond the City's means would not have been forgiven in bankruptcy.

What are the Terms of the Settlement?



Settlement Ends Macpherson Litigation

- After more than 14 years, all litigation is over.
- City's maximum financial exposure limited to \$17.5 million; Macpherson sought \$750 million.
- Third party, E & B Natural Resources Management Corp. (E & B), entered into the agreement and paid Macpherson \$30 million for its oil lease and conditional use permit.
- Election will be held— results will determine how much the City pays to E & B for settling the suit.

Settlement Gives Voters the Choice

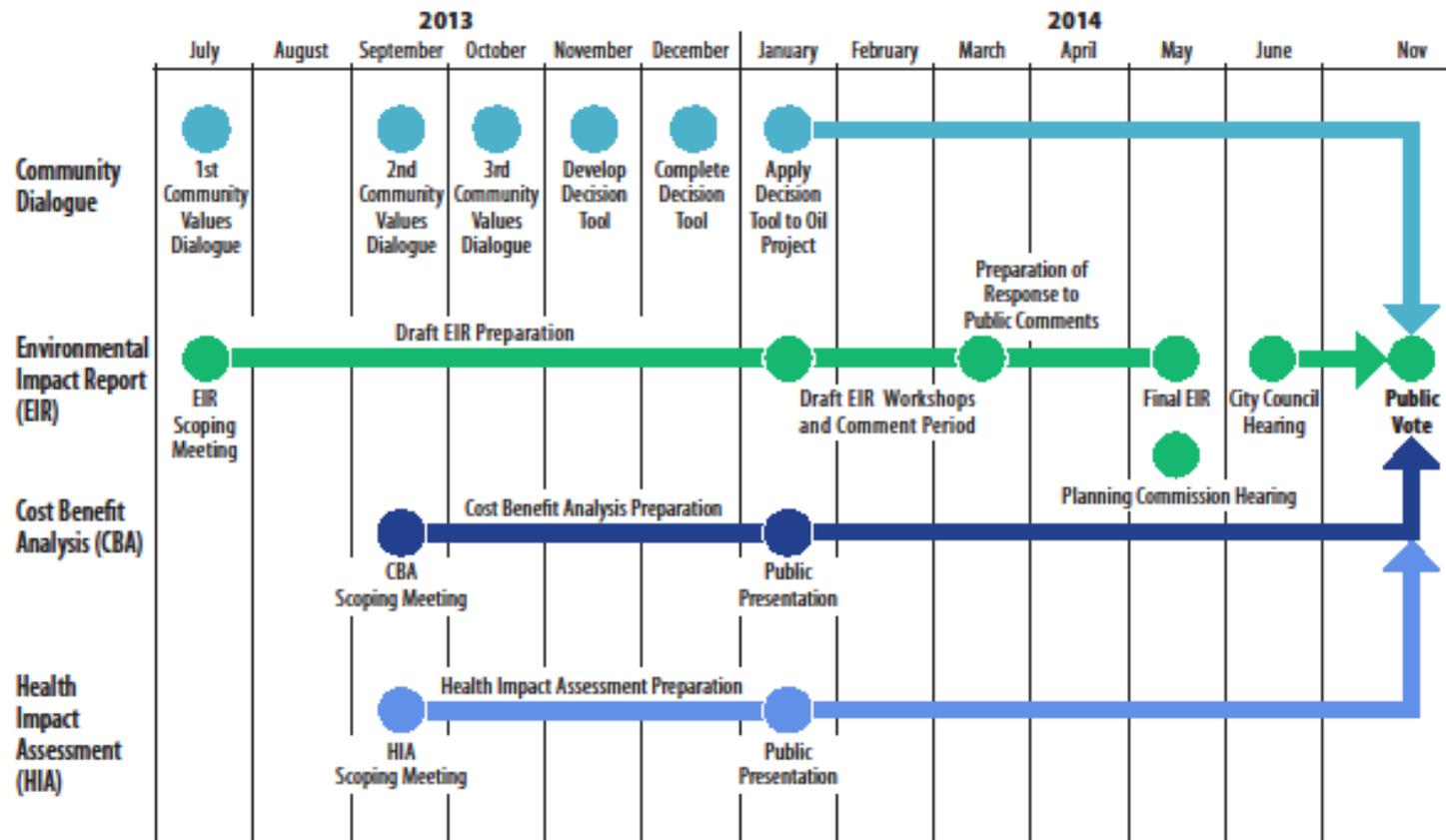
- Voters will decide whether or not to repeal drilling ban and allow “directional” drilling at the City’s maintenance yard to tap into oil reserves under City and offshore.
 - ▣ If the measure fails, the City would owe E & B \$17.5 million. City has \$6 million reserved
 - ▣ If the measure passes and drilling permits are issued, the City would owe E & B \$3.5 million. The amount would be paid from royalties, if oil is found. City and schools could receive additional revenues from royalties and property taxes, if oil is found.

NEXT STEPS



- Environmental Impact Report (EIR) Underway
- Additionally Assess Health Impacts
- Evaluate Economic Costs and Benefits
- Continue Community Dialogue – Quality of Life
- We will Present How that All Fits together

E & B OIL DEVELOPMENT PROJECT SCHEDULE OF PUBLIC EVENTS



The timing of individual events may change.

Tom's Observations

- Settlement and Drilling for Oil are two different things – It is Possible to be pro settlement & anti oil
- Council on a 5-0 Vote chose to limit the exposure and let the people decide – A Bird in the Hand
- Some will say we should have litigated to the end
- Mammoth Lakes Experience – Two in the Bush
 - ▣ \$43 Million Judgment; Settled for \$29.5M; \$48.5M P & I
- In the end, we will know what the liabilities and risks are and the community will be able to make the Choice.