

**City of Newport Beach CA
Tide and Submerged Lands
Annual Financial Report
For the Year Ended June 30, 2013**

December 31, 2013

TRANSMITTAL

Honorable Mayor, Members of the City Council, Residents of the City of Newport Beach, and Citizens of the State of California,

I am pleased to present the City of Newport Beach - Tide and Submerged Lands (Tidelands) fiscal year 2012-13 annual financial report. The Tidelands Report is a report for the residents of California, and provides a concise, easy to read document that enables us to highlight information on the City's administration of the Tidelands pursuant to grants from the State of California.

In order to meet the California State Lands Commission reporting deadline of October 1, 2013 a DRAFT report was submitted. This final fiscal year 2012-13 report updates the DRAFT report, to reflect final Tidelands funds balances, that when aggregated agree to amounts presented in the audited, fiscal year 2012-13 Comprehensive Annual Financial Report (CAFR) for the City of Newport Beach, CA which includes the Tidelands - Operating Fund and Tidelands - Harbor Capital Fund as major fund types.

This report only presents information on the financial condition of the Tidelands funds, and does not address the financial condition of the City of Newport Beach, CA as a whole. For more information on the financial condition of the City of Newport Beach, CA, please see the City's CAFR, which can be viewed on our website, at: www.NewportBeachCa.gov/CAFR.


Dan Matusiewicz
Finance Director

DISCUSSION AND ANALYSIS

Overview

The Tidelands within the City of Newport Beach are owned by the State of California and overseen by the California State Lands Commission. The City manages and administers the Tidelands illustrated in the map below, pursuant to grants from the State. These granted Tidelands consist primarily of the land bayward of the bulkhead, and portions of the bay beaches in the Lower Bay (Coastward of the Upper Bay Bridge). Newport Beach Tidelands also include large portions of our ocean beaches and land covered by the Pacific Ocean from the shoreline, three miles out to sea.

Additionally, some areas within the Tidelands have been filled in and developed, these are known as filled Tidelands.

The Tidelands depicted below, include illustrated boundary lines between the City's granted Tidelands, non-Tidelands, and Tidelands administered by other agencies. This boundary is complex and established based on an amalgamation of historical information. Our current boundary reflects median high tide lines based on historic surveys, as well as court adjudicated boundaries and negotiated settlements. However, there are still a few areas in Newport Harbor where the boundary is disputed. The City continues to seek resolution in these areas through negotiations with the State and other outside agencies.



Public Trust Administration

The granted Tidelands must be used for purposes consistent with a public trust. Legislation known as the Beacon Bay Bill, adopted in 1978 requires the City to use Tidelands for purposes in which there is a general statewide interest. These purposes are generally as follows:

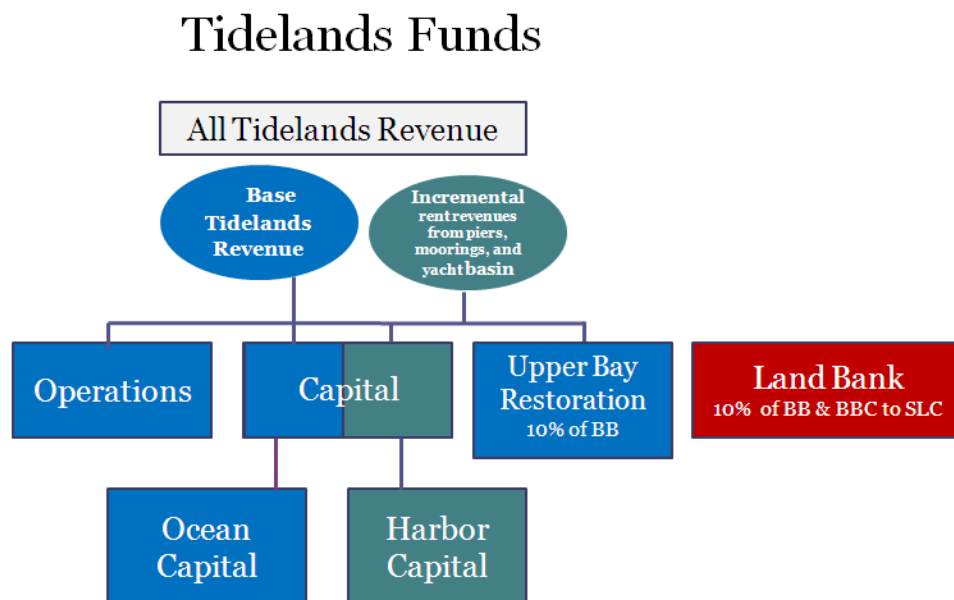
- Establishing, improving, and operating a public harbor.
- Establishing, maintaining, and operating wharves, docks, piers, slips, quays, ways, and streets, or utilities, to promote commerce, fishing, or navigation.
- Establishing, improving, and operating beaches, marinas, aquatic playgrounds, and similar recreational facilities open to the public.
- Preserving, maintaining, and enhancing Tidelands in their natural state for use in scientific study, open space, and wildlife habitat.

The City has the power to regulate the use of Tidelands through leases, permits, policies, and ordinances that are consistent with the trust and relevant legislation.

Fund Structure

Funds are accounting devices that the City uses to track and control resources intended for specific purposes. Fund financial statements provide detailed information about the Tidelands funds but not the City as a whole. These funds are utilized to control and manage resources intended for purposes described in the Beacon Bay Bill.

The following illustration identifies the structure of the City's Tidelands funds and the allocation of revenue between those funds. Additionally, the City has some discretion on the use of Tidelands revenues within the operating and capital funds.



BB and BBC represents Beacon Bay and Balboa Bay Club respectively.

Revenues

The Beacon Bay Bill requires the City to set up a separate Tidelands trust fund or funds, and mandates that the City deposit into these funds “all moneys received directly from, or indirectly attributable to...” the granted Tidelands in the City. This language is very broad and subject to interpretation. The City has determined that revenue from taxes, which are raised to support the general purposes of government are attributable to the taxing authority, therefore these revenues are not attributable directly or indirectly to the Tide and Submerged Lands.

Revenue sources attributable to the Tidelands funds are determined by geographic location within the Tidelands and include \$13.1 million of revenue. The allocation may be based on specific locations, or on a percentage located within the Tidelands. For instance, several leases are split between the General fund and the Tidelands Operating fund based on the location of specific rental units, or based on the percentage of units located within the Tidelands. Revenues attributable to the Tidelands are deposited and accounted for in the Tidelands funds, consistent with grant and trust requirements.

Additionally, the City has committed to using revenues generated by certain incremental increases in rental rates for moorings, piers, and leases over designated base years for Harbor related improvements. These revenues are placed in the Tidelands Harbor Capital fund. For the fiscal year ended June 30, 2013, \$925 thousand of revenue was re-classed from the Tidelands Operating fund to the Harbor Capital fund. This incremental increase consisted of \$209 thousand in increased revenues from Balboa Yacht Basin rentals of slips, apartments, and garages, \$686 thousand from onshore, offshore, and County managed guest moorings, and \$29 thousand from residential piers. Additionally, a transfer in of \$814 thousand was made during fiscal year 2012-13, which represented incremental increases in rental rates for fiscal years 2010-11 of \$235 thousand and 2011-12 of \$579 thousand.

Of the total \$13.1 million in revenue attributable to both Tidelands funds, property income is the primary source. Combined Tidelands property income is \$12.2 million, or 93% of projected fiscal year 2012-13 revenues, and is made up of \$5.6 million from leases, \$2.5 million from parking lots, \$2.3 million from the sale of oil, and \$1.8 million from rents for moorings, residential piers and commercial marina activities.

Lease revenue of \$5.6 million is made up as follows; 1) \$3 million from the Balboa Bay Club Lease. Revenues from the Balboa Bay Club are split, 90% to Tidelands operating fund and 10% to the State Lands Commission's Land Bank fund. 2) \$946 thousand from Balboa Yacht Basin leases for slips, apartments, garages, and electricity. Balboa Yacht Basin revenues are split 53% to the General fund and 47% to Tidelands based on the percentage of area in the Tidelands. 3) \$862 thousand from the Beacon Bay lease. Beacon Bay lease revenues are split 80% to the Tideland Operating fund, 10% restricted within the Tidelands Operating fund for Upper Newport Bay Restoration, and 10% deposited in the State Lands Commission's Land Bank fund. Allocation of the 80% between the Tidelands funds is at the City's discretion. 4) The remaining \$822 thousand is derived from a variety of smaller leases, and is net of estimated bad debt expense of \$3 thousand.

Parking revenue of \$2.5 million is made up of \$1.4 million from the Balboa Parking Lot, \$735 thousand from the Ocean front Lot, and \$405 thousand from a combination of the Balboa Metered Lot, A and B Street Lots, and 19th Street Lot, offset by \$68 thousand in credit card charges related to operation of the meters and lots within the Tidelands.

The City received \$2.3 million in revenues from the sale of oil. During fiscal year 2013, 24,487 barrels of oil were produced from 16 wells located in West Newport. The City has set aside a \$440 thousand commitment of fund balance in the Tideland's Operating fund for future abandonment of these oil wells.

Newport Beach is home to approximately 9,900 boats, 1,200 moorings, 2,300 commercial slips and side ties, and 870 residential piers, resulting in \$1.8 million in revenue from rentals, including \$1.4 million in revenue from off-shore, on-shore, and county managed guest moorings, \$147 thousand from residential piers, and \$232 thousand from commercial piers.

Additional revenue sources include; 1) licenses and permits of \$61 thousand, derived from pier transfer fees and live aboard permits, 2) \$172 thousand in charges for services, from marine preserve lecture fees, investigative fees, and harbor debris clean-up fees, as well as 3) \$2 thousand from fines and forfeitures for administrative fines, and abandoned vessels.

Fiscal year 2012-13 revenue also included investment losses of \$12 thousand.

Expenditures

Generally, the Beacon Bay Bill permits the City to use the revenues accruing from use of the Tidelands for the management, operation, and control of the lands and/or any improvements, betterments, or structures, as well as for any use that furthers the purposes of the trust.

Direct Costs are those activities, programs, or functions whose primary purpose wholly or substantially benefit the Tidelands. These expenditures are charged directly to the activity, program, or function that benefits from them. There are currently three types of expenditures charged directly to the Tidelands funds; 1) Harbor Resources division operating costs, that include salaries, National Pollutant Discharge Elimination System (NPDES) administration, U. S. Clean Water Act, total maximum daily load (TMDL) administration, and annual regional general permitting for small dock maintenance dredging within Lower Newport Bay, and a portion of Upper Newport Bay (RGP54 permit); 2) oil and gas generating activities; and 3) capital projects directly benefiting, or located within the Tidelands.

Indirect Costs are those City-wide costs for services that support a variety of City activities, programs, and functions and are centrally budgeted, examples include but are not limited to; 1) Public safety services provided City-wide, including Police, Fire, and Marine safety services; 2) Public Works services provided City-wide, such as infrastructure maintenance and municipal operations; 3) Community Services provided City-wide such as Parking; and 4) General government administrative services including City Council, City Manager, City Clerk, City Attorney, Finance, and Human Resources, which are provided to all City departments, activities, programs, and functions.

The City uses an outside contractor, currently MGT of America Inc. (MGT), to develop the indirect cost allocation plan that identifies and distributes these indirect costs to all operating activities, programs, and functions within the City's organizational structure. This allocation plan includes allocation of costs to the Tidelands Operating fund.

The cost allocation plan takes a detailed approach to analyzing the costs attributable to Tidelands Operations. MGT interviewed staff in each department and analyzed data within each central activity to determine: 1) what services are provided. 2) which departments receive benefits from these services, and 3) how to determine the amount of benefit received, or what is the best driver for allocating centrally budgeted services to programs or functions receiving the benefits. For example public works salaries and operating expenses may be allocated based on a time study of which programs or functions were worked on, Accounts Payable salaries and operating expenses may be allocated on the number of checks processed for a program or function, City Clerk salaries and operating expenses may be allocated based on the number of agenda items per program or function. There are many alternative drivers to choose from, and the City relies on MGT's expertise in selecting these drivers.

The drivers are used to allocated General government activities among the City's departments and divisions, then administrative costs within the departments and divisions are allocated to the various

activities, programs, and functions of the City using similar methodologies. Indirect costs are added to direct costs, to determine the full cost of each activity, program, and function.

Finally, a share of the full cost of activities, programs, and functions, that provide services to the Tidelands are allocated, using the best drivers and methodologies identified by MGT. For fiscal year 2012-13 total expenditures of \$18.6 million for both funds included indirect cost allocations to the Tidelands Operating fund totaling \$11.2 million, direct expenditures for Harbor Resources operations of \$1.7 million, direct expenditures for oil and gas producing operations of \$830 thousand, and direct expenditures for capital outlays of \$5 million for projects located within the Tidelands.

Indirect cost allocations to the Tidelands Operating fund of \$11.2 million were made up as follows:

Department	Costs Allocated to Tidelands
City Council	\$ 5,728
City Clerk	19,792
City Manager and PIO	92,021
Human Resources	9,362
City Attorney	72,380
Finance	75,481
Building Use	120,000
Parking Operations	639,338
Police	1,742,297
Fire	1,888,505
Marine Safety	3,754,292
Municipal Ops - General Services	2,378,800
Public Works	391,919
	<u>\$ 11,189,913</u>

Advances and the General Fund Subsidy

Beginning in fiscal year 2008-09 the City had an opportunity to undertake a large and complex maintenance dredging project, within Newport Bay for the first time in seventy years. In order to complete this project, City Council approved loans from the General fund to the Tidelands Harbor Capital fund. During fiscal year 2011-12 and 2012-13 much of the dredging was performed and the General fund made loan advances to the Tidelands Harbor Capital fund to cover the costs. These advances are non-interest bearing, and expected to be paid back to the General fund from incremental revenues allocated to the Harbor Capital fund. The repayment schedule has not been determined at this time. The balance of advance due to the general fund as of June 30, 2013 is \$9.7 million.

Historically, the Tidelands Operating fund does not generate sufficient revenue to cover the full cost of operations. This is still the case in fiscal year 2012-13. Due to the ongoing gap between revenues and expenditures, the City's General fund transfers money to subsidize the operations of the Tidelands Operating fund, on an annual basis. As Tidelands revenues and expenditures fluctuate year to year, the General fund subsidy also fluctuates. For fiscal year 2012-13 the general fund transferred \$4.4 million to subsidize the Tidelands Operating fund.

CITY OF NEWPORT BEACH
Tide and Submerged Lands Funds
Balance Sheet
June 30, 2013

Assets	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital
Cash and investments	\$ 2,004,480	\$ 1,095,076
Receivables:		
Accounts (net of allowance)	1,429,545	-
Intergovernmental receivables	-	601,413
Total assets	<u>\$ 3,434,025</u>	<u>\$ 1,696,489</u>
 Liabilities, Deferred Inflows and Fund Balances		
Liabilities:		
Accounts payable	\$ 782,577	\$ 229,838
Accrued payroll	19,190	-
Deposits payable	113,068	-
Advance from other funds (note 2)	-	9,676,659
Total Liabilities	<u>914,835</u>	<u>9,906,497</u>
 Deferred Inflows of Resources		
Unavailable revenue	-	601,413
Total deferred inflows of resources	<u>-</u>	<u>601,413</u>
 Fund balances (deficit):		
Nonspendable:	-	-
Restricted:		
Upper Newport Bay Restoration	324,635	-
Capital re-appropriations	1,295,000	-
Encumbrances	459,555	-
Committed:		
Oil and Gas	440,000	-
Assigned:	-	-
Unassigned:	-	(8,811,421)
Total Fund Balance (Deficit)	<u>2,519,190</u>	<u>(8,811,421)</u>
 Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,434,025</u>	<u>\$ 1,696,489</u>

See accompanying notes to the financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013

	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital
Revenues		
Licenses, permits and fees	\$ 60,923	\$ -
Charges for services	171,582	-
Fines and forfeitures	2,115	-
Investment income (loss)	(11,945)	-
Property income		
Parking		
Balboa lot	1,391,410	-
Other parking (note 3)	1,140,313	-
Total parking	2,531,723	-
Leases		
Balboa Yacht Basin slips	653,171	179,886
Balboa Yacht Basin garages	55,254	24,627
Balboa Yacht Basin apartments	10,546	4,718
Balboa Yacht Basin electricity	18,267	-
Balboa Bay Club	3,011,162	-
Beacon Bay	862,328	-
Other leases (note 3)	822,472	-
Total leases	5,433,200	209,231
Rent		
Moorings - off-shore	649,815	58,497
Moorings - on-shore	69,546	524,471
Moorings - guest	-	102,977
Residential piers rent	117,800	29,332
Commercial piers rent		
Large commercial marina rent	180,671	-
Small commercial marina rent	15,732	-
Vessel charter business rent	9,745	-
Vessel rental facility rent	7,874	-
Home Owner Association >15,000 sqf rent	644	-
HOA <15,000 sqf rent	-	-
Yacht club guest slip rent	4,144	-
Restaurant pier rent	3,039	-
Shipyard rent	2,512	-
Other rent - City Tidelands (Harbor Marina)	2,039	-
Other rent - buildings over Tidelands	1,979	-
Fuel dock - base/plus rent	1,804	-
Sport fishing charter rent	1,703	-
Total commercial piers rent	231,886	-
Total Rent	1,069,047	715,277
Sale of oil	2,274,409	-
Total property income	11,308,379	924,508
Other Income	131	643,081
Total revenues	11,531,185	1,567,589

See accompanying notes to the financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013

(continued)

Expenditures	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital
Current:		
General government:		
City council (cost allocation)	5,728	-
City clerk (cost allocation)	19,792	-
City attorney (cost allocation)	72,380	-
City manager (cost allocation)	92,021	-
Finance (cost allocation)	75,480	-
Human resources (cost allocation)	9,361	-
Building use (cost allocation)	120,000	-
Total general government	394,762	-
Public safety:		
Police (cost allocation)	1,742,297	-
Fire (cost allocation)	1,888,505	-
Marine safety (cost allocation)	3,754,292	-
Total public safety	7,385,094	-
Public works:		
MOD- General services (cost allocation)	2,378,800	-
Public works (cost allocation)	391,919	-
MOD - Utilities (direct)	829,528	-
Total public works	3,600,247	-
Community services:		
Harbor Resources (direct)	1,661,897	-
Parking Operations (cost allocation)	639,338	-
Total community services	2,301,235	-

See accompanying notes to the financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2013

(continued)

	<u>Tide and Submerged Land Operating</u>	<u>Tide and Submerged Land Harbor Capital</u>
Capital outlay (direct)		
BYB facilities improvement	58,850	-
Eel grass mitigation bank	8,037	-
19th St tidegate retrofit	91,522	-
Tidegate retrofit	147,655	-
Newport harbor dredging permit (RPG54)	156,613	-
Lower harbor dredging	-	4,112,052
Rhine channel dredging	-	124,531
Bulkhd repairs sealing and groin rehab	86,467	76,544
Balboa marina public parking	1,448	-
Eel grass mapping	21,579	-
Eel grass survey	26,163	-
Vessel waste pump out station	14,935	-
Bay beach sand mgmt	34,186	-
Total Capital Outlay	<u>647,455</u>	<u>4,313,127</u>
Total expenditures	<u>14,328,793</u>	<u>4,313,127</u>
Excess (deficiency) of revenues over expenditures	<u>(2,797,608)</u>	<u>(2,745,538)</u>
Other financing sources (uses)		
Transfers in	4,440,450	813,820
Transfers out	(813,820)	-
Total other financing sources (uses)	<u>3,626,630</u>	<u>813,820</u>
Net change in fund balances	829,022	(1,931,718)
Fund balances, beginning	<u>1,690,168</u>	<u>(6,879,703)</u>
Fund balances (deficit), ending	<u>\$ 2,519,190</u>	<u>\$ (8,811,421)</u>

See accompanying notes to the financial statements

NOTES

1. Basis of Accounting and Measurement Focus

The basic financial statements of the Newport Beach, CA Tide and Submerged Lands are comprised of fund financial statements, and notes to the financial statements.

The fund financial statements utilize the financial resources measurement focus and thus have a short-term focus measuring inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities otherwise known as fund balance (or net working capital in the private sector) is a measure of the Tidelands ability to finance activities in the near term.

Tidelands are accounted for in two Special Revenue funds. These Special Revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for the Tide and Submerged Lands. Fund descriptions are:

Tide and Submerged Land – Operating Fund is a Special Revenue fund used to account for revenues related to the operation of the City’s tidelands, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil.

Tide and Submerged Land – Harbor Capital Fund is used to account for incremental increases in revenue from certain property lease, pier, and mooring rentals that exceed Council designated base year revenue amounts, as well as other designated revenues and the related expenditures for capital projects, maintenance, and servicing of loan advances from the General fund.

These funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become measureable and available as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues in the Tidelands fund.

2. Advances

Advances from the General fund to the Tide and Submerged Land – Harbor Capital fund are primarily for the purpose of funding expenditures for dredging and other high impact projects within the City’s tidelands, specifically within, or benefitting the Newport Harbor.

	Advance from	Advance To
General Fund	\$9,676,659	\$ -
Tide and Submerged Land - Harbor Capital Fund	-	9,676,659
Total	<u>\$9,676,659</u>	<u>\$9,676,659</u>

The advances will be paid back to the General fund from incremental revenue increases generated from certain leases, mooring rents, and commercial and residential pier rents. A repayment schedule has not been determined at this time.

3. Revenue

In some instances, governmental accounting standards require or permit revenues in governmental funds to be reported net of certain costs. Accordingly, Other leases revenue of \$822,472 is reported net of \$3,226 of estimated uncollectible customer accounts, and Other parking revenues are reported net of \$68,214 of related credit card service costs.