

CITY OF NEWPORT BEACH

TIDE & SUBMERGED LANDS ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2023



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CITY OF NEWPORT BEACH
Tide & Submerged Lands Annual Financial Report
Year Ended June 30, 2023

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CITY OF NEWPORT BEACH

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March 27, 2024

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 2022-23 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.

This report reflects Tidelands fund balances, that when aggregated, agree to amounts presented in the audited, Fiscal Year 2022-23 Annual Comprehensive Financial Report (ACFR) for the City of Newport Beach, CA, which includes the Tidelands – Operating Fund and Tidelands – Harbor Capital Fund as major fund types, subject to audit.

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 ACFR, which can be viewed on our website, at: www.newportbeachca.gov/ACFR.

A handwritten signature in blue ink that reads "Jason Al-Imam".

Jason Al-Imam
Finance Director/Treasurer

CITY OF NEWPORT BEACH

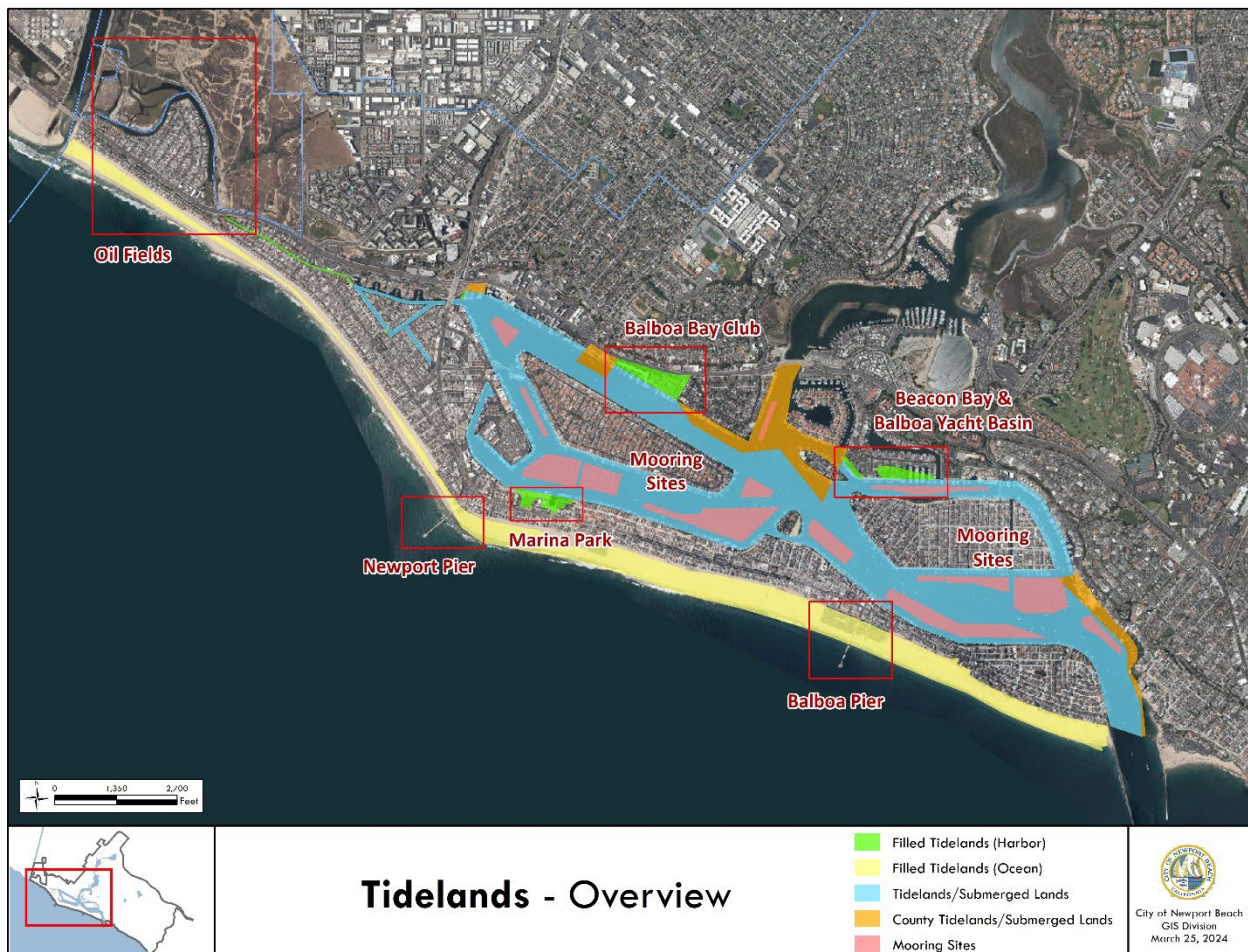
Tide and Submerged Lands Annual Financial Report for the Year Ending June 30, 2023

Overview

The City of Newport Beach manages and administers the Tidelands on behalf of all the people of California and is subject to specific legislative grants. The Tidelands within the city's boundaries are owned by the State of California and overseen by the California State Lands Commission (SLC). Some of the lands are administered by the County of Orange, but still are owned by the State.

The City, as a trustee, is required to submit an annual financial report to the SLC. This report enables us to highlight information on the City's financial administration of the Tidelands in more detail than the City's Annual Comprehensive Financial Report (ACFR). This report only presents information on the financial position of the Tide and Submerged Land Funds and does not address the financial position of the City of Newport Beach, CA as a whole. The City's audited ACFR, can be obtained at: www.newportbeachca.gov/acfr.

The City's 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 the City's ocean beaches and land covered by the Pacific Ocean from the shoreline to three (3) miles out to sea. Additionally, some areas within the Tidelands were filled in and developed long ago, and these are known as filled Tidelands. The portion of State Tidelands administered by the City is illustrated on the map below:



Guiding Legislation

The granted Tidelands must be used for purposes consistent with the public trust. Legislation known as the Beacon Bay Bill, adopted in 1978 and subsequently amended multiple times, is the guiding document that outlines how the City is to use and manage Tidelands, as well as how the City accounts for revenues and expenditures generated within Tidelands. According to the Bill, Tidelands can only be used 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.

Additionally, the Public Trust Doctrine and the California Constitution advise the City. The Public Trust Doctrine says that:

...The Legislature has the power to delegate the management responsibility of tidelands and submerged lands to local governments. When it does so, these lands are known as granted lands, and the grantees that manage them must ensure that they are used in ways that are consistent with the public trust and with any other conditions the Legislature imposes...

The State Constitution (Article XVI, Section 6) says that:

...The Legislature shall have no power ...to make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever...

Accounting for Tidelands Revenues and Expenditures

Funds are used by the City as a means to track and control resources intended for specific purposes. The Tide and Submerged Land Funds are utilized to control and manage resources intended for purposes described in the Beacon Bay Bill.

At this time, the City uses a two-fund approach to track and control resources intended for Tidelands accounting purposes.

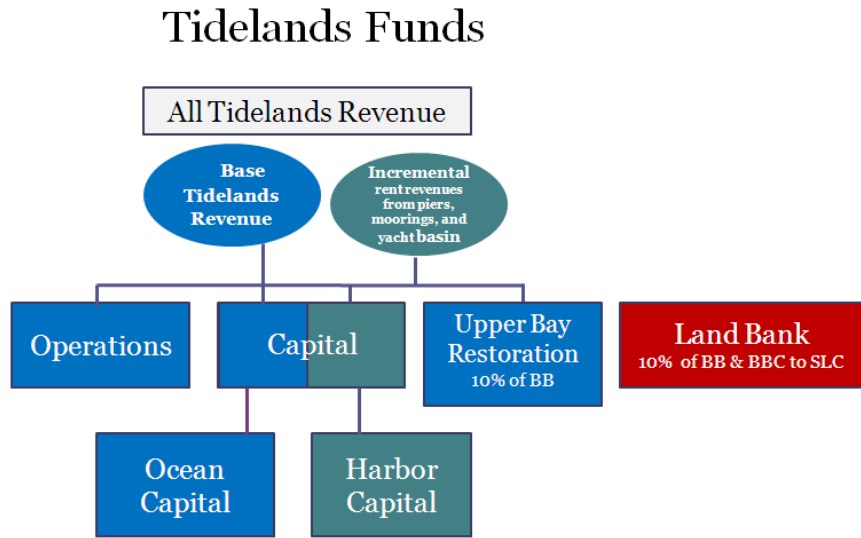
Tide and Submerged Land - Operating Fund

The Tide and Submerged Land – Operating Fund (Operating Fund) is used to account for revenues related to the operation of the Tidelands under City jurisdiction, including beaches and marinas, and the related expenditures. Revenues from Tidelands operations include, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil. Resources intended for the Upper Bay Restoration are also accounted for in this fund in a separate reserve account.

Tide and Submerged Land - Harbor Capital Fund

With the adoption of new permit and the adjustment of lease templates and adjusted commercial and noncommercial Tidelands rent to fair market value in the years immediately subsequent to 2010, the City Council asked the State Lands Commission for permission to create a Tide and Submerged Land – Harbor Capital Fund (Harbor Capital Fund). This allows for the sequestration of incremental increases from Tidelands rent adjustments solely to finance critical in-Harbor capital improvements, like seawall repair, dredging, piers, and important amenities.

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 Harbor Capital Funds.



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

In 2011, the City Council formed the Tidelands Management Committee, a committee of three (3) Council members plus seven (7) citizen advisors, that would meet in public to make recommendations to the City Council on the prioritization and implementation of large infrastructure needs of the harbor through the publicly available Tidelands Capital Plan. In 2017, the Council dissolved the Tidelands Management Committee and shifted its duties to the Harbor Commission. The City now manages the operations of the Tidelands. Similar to several other “master plans”, the City annually plans for the replacement, timing and means of financing critical infrastructure through the Harbor and Beaches Master Plan.

Advances and the General Fund Subsidy

Beginning in FY 2008-09, the City had an opportunity to complete a long-awaited maintenance dredging project within Lower Newport Bay, and a similar opportunity arose to remove sediments not suitable for ocean disposal that sat at the bottom of the Rhine Channel. The timing was critical, as much of the sediment within the Harbor and the Rhine needed a special repository – and that repository was in fill areas at the Port of Long Beach as the Port embarked on a major terminal expansion. To take advantage of the Port’s space for sediment not suitable for ocean disposal (where the sediment would be buried and encased in a support structure and secured), the City Council advanced a loan from the General Fund to the Harbor Capital Fund of \$9.7 million.

In addition, City Council approved another \$6.1 million in loan advances to the Harbor Capital Fund to cover the cost of developing the 23-space visitor-serving marina at the Marina Park project on the Peninsula. These advances are non-interest bearing and are to be paid back to the General Fund from incremental revenue increases generated from certain leases, mooring rents, and commercial and residential pier rents. The balance of advance due to the General Fund as of June 30, 2023 is \$6.9 million. Please see Note (4) of the Notes to the Financial Statements for the repayment schedule.

Historically, the Operating Fund does not generate sufficient revenue to cover the full cost of operations – in large part because of the public safety costs (lifeguarding, EMS response, and police services) associated with the ocean beaches. This is still the case in FY 2022-23. Due to the ongoing gap between

revenues and expenditures, the City’s General Fund transfers money to subsidize the operations of the Operating Fund, on an annual basis. As Tidelands revenues and expenditures fluctuate year to year, the General Fund subsidy also fluctuates. For FY 2022-23, the General Fund transferred \$11.5 million to subsidize the Operating Fund. Additionally, the City has committed to setting aside resources in the Harbor Capital Fund for in-Harbor capital improvements. In FY 2022-23, the General Fund transferred \$4.6 million to the Harbor Capital Fund.

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.

Why aren't property taxes and other taxes allocated to the Tidelands trust?

Very simply, the property owner or trustee of the property is not the intended recipient of the tax. For example, all revenue from property taxes is intended for local governments, not the property owner or trustee of the property. Regardless of who owns or operates the Tidelands property, the 1% property tax is distributed to local jurisdictions in accordance with Senate Bill 154 passed in 1978 and amended thereafter. This distribution formula includes counties, cities, special districts but does not include the property owner or trustee of the property.

Revenue from all sources total \$20.7 million for FY 2022-23. The allocation of revenue 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 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.

As noted, the City has committed to using revenues generated by certain incremental increases in rental rates for leases, moorings, and piers over designated base years to support Harbor related capital improvements in the Harbor Capital Fund. This incremental increase consisted of \$2.6 million from Balboa Bay Club; \$1.1 million from on-shore, off-shore, guest, and transfer moorings; \$941,786 in increased revenues from Balboa Yacht Basin rentals of slips, apartments, and garages; \$909,023 from commercial piers; and \$160,445 from residential piers.

The table to the right shows the top Tidelands Funds revenue producers for FY 2022-23.

Property income is the primary source in revenue attributable to both Tidelands Funds. Combined Tidelands property income is \$20.1 million, and is made up of \$10.7 million from leases, \$4.1 million from parking lots, \$3.3 million from rents for moorings, residential and commercial piers, \$1.3 million from the sale of oil, and \$720,010 from other property income. For more details on revenue, please refer to the Statement of Revenues, Expenditures, and Changes in Fund Balance on page 11.

Top Tidelands Revenue Producers			
Top Tidelands Revenue Producers	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total
Balboa Bay Club	\$ 3,011,162	\$ 2,623,738	\$ 5,634,900
Balboa Pier Parking Lot	2,176,057	-	2,176,057
Oceanfront/Other Parking Meters	1,875,636	-	1,875,636
Beacon Bay Residences	1,788,754	-	1,788,754
Balboa Yacht Basin	746,282	941,786	1,688,068
Other Leases	1,358,100	214,376	1,572,476
Commercial Piers	394,535	909,023	1,303,558
Petroleum Royalties	1,287,532	-	1,287,532
Offshore Moorings	620,650	566,842	1,187,492
Other Property Income	720,010	-	720,010
Other Moorings	-	407,009	407,009
Investments-Related	29,970	367,756	397,726
Residential Piers	118,000	160,445	278,445
Other Revenue	165,602	12,415	178,017
Onshore Moorings	69,546	95,896	165,442
Total	\$ 14,361,836	\$ 6,299,286	\$ 20,661,122

Parking revenue of \$4.1 million is made up of \$2.2 million from the Balboa Parking Lot, \$1.2 million from the Ocean Front Lot, and \$626,456 from a combination of smaller lots.

Lease revenue of \$10.7 million consists of the following:

- 1) \$5.6 million from the Balboa Bay Club lease
Per the amendment to the ground lease in FY 2014 with the Balboa Bay Club and the State Lands statute, revenues from the Balboa Bay Club are split – 95% to the Operating Fund and 5% to the State Lands Commission’s Land Bank fund. Starting in FY 2019, they were modified – 90% to the Operating Fund and 10% to the State Lands Commission’s Land Bank fund.
- 2) \$1.8 million from Beacon Bay residential leases
Tidelands-related Beacon Bay lease revenues are split – 80% to the Operating Fund, 10% restricted within the Operating Fund for Upper Newport Bay Restoration, and 10% deposited in the Land Bank fund held and administered by the State Lands Commission. Some of the Beacon Bay residences are actually on uplands, and lease revenue from these properties goes to the General Fund.
- 3) \$1.7 million from Balboa Yacht Basin leases for slips, apartments, garages, offices, 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.
- 4) The remaining \$1.6 million is derived from a variety of smaller leases.

Newport Beach is home to approximately 4,300 boats, 1,200 moorings, 1,200 residential piers, and 1,900 commercial slips and ties, resulting in \$3.3 million in revenue from rentals, including \$1.8 million in revenue from off-shore, on-shore, guest, and transfer moorings, \$1.3 million from commercial piers, and \$278,445 from residential piers.

The City received \$1.3 million in revenues from the sale of oil. During FY 2022-23, 16,877 barrels of oil were produced from 12 working wells located in West Newport. The City has set aside \$840,000 in the Operating Fund for future improvements to these oil wells, but as of the date of this report, no determination has been made to proceed with these improvements.

Additional revenue sources include:

- 1) \$85,244 from licenses, permits, and fees derived from pier transfer fees, live aboard permits, dredging permit application fees, and marine activities permits.
- 2) \$27,057 in charges for services from harbor appeals, impound release fees, and waitlist fees.
- 3) \$52,101 from fines and forfeitures for administrative fines, abandoned vessels, and delinquencies.
- 4) \$726,162 from investment income offset by a \$328,436 net decrease in fair value of investments, resulting in a net increase of \$397,726 in investment-related revenues. The fair value decreases are usually unrealized as the City normally holds investments to maturity and receives the full par value at the time of maturity.

Expenditures

Generally, the Beacon Bay Bill permits the City to expend 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. Total Tidelands expenditures for FY 2022-23 was \$18.2 million plus an additional transfer out from the Operating Fund to the General Fund of \$18.4 million, which is related to allocated costs. The City’s expenditure approach is reviewed regularly between City staff and SLC staff.

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 six (6) types of expenditures charged directly to the Tidelands Funds: 1) Harbor Operations division operating costs of \$2.2 million; 2) Public Works - Utilities division operating costs of \$1.4 million; 3) General Government operating costs of \$432,505; 4) Tidelands

Management division operating costs of \$471,231; 5) Community Development operating costs of \$12,784; and 6) capital projects directly benefitting or located within the Tidelands of \$13.7 million.

Allocated Costs represent Citywide expenditures that support the management and operation of the Tidelands and are accounted for in the General Fund. Starting in FY 2022-23, to reduce complexity and improve transparency, the full amount of allocated costs was presented in the General Fund and a corresponding transfer from the Operating Fund into the General Fund was recorded to offset the allocated costs in the General Fund. Two categories of allocated costs are processed annually through the Indirect Cost Allocation Plan (CAP) to determine the appropriate share attributable to the Tidelands: Citywide Overhead (Indirect) and Allocated Direct Services.

Citywide Overhead (Indirect) represents traditional indirect support service common to all departments and funds Citywide and incorporates the following central services accounted for in the General Fund: general government services from City Council, City Clerk, and general miscellaneous divisions; management and administration from City Manager, City Attorney, Human Resources, and Finance organizations; and support services for Public Works facilities maintenance and depreciation-based building use.

Allocated Direct Services represents services directly received by or benefiting the public users of and public spaces within the Tidelands. This includes public safety services accounted for in the General Fund from Police Department patrol and traffic operations and Fire Department operations, emergency medical services, and marine safety. This also includes public facilities and services accounted for in the General Fund from Public Works Department maintenance of public spaces and Finance Department management of parking operations.

As shown on the table below, in FY 2022-23, the total allocated costs via the CAP amounted to \$18.4 million. Of these total allocated costs attributable to Tidelands, \$1.4 million is categorized as Citywide Overhead (Indirect) and \$17.0 million represents the Allocated Direct Services. This means that out of the total allocated costs attributable to Tidelands, 7.6% is classic indirect overhead, while 92.4% represents public services in Tidelands areas.

Summary of Allocated Costs to Tide and Submerged Land - Operating Fund	
FY 2022-23	
CITYWIDE OVERHEAD:	
General Government Attributed to Harbor Department	\$ 58,339
Management and Administration Attributed to Harbor Department	\$ 635,800
Support Services Attributed to Harbor Department	\$ 551,850
Overhead Attributed to Other Departments Directly Budgeted to Tidelands	\$ 143,043
Subtotal: Citywide Overhead Attributable to Tide and Submerged Land - Operating Fund	\$ 1,389,032
ALLOCATED DIRECT SERVICES:	
Public Safety Attributed to Tidelands	
Police	\$ 3,190,449
Fire - Operations and Emergency Medical Services	\$ 2,328,816
Fire - Marine Safety Services	\$ 7,226,303
Public Facilities and Services Attributed to Tidelands	
Finance - Parking Operations	\$ 743,004
Public Works - Maintenance Services	\$ 3,502,666
Subtotal: Allocated Direct Services Attributable to Tide and Submerged Land - Operating Fund	\$ 16,991,239
Grand Total: Allocated Costs via Indirect Cost Allocation Plan	\$ 18,380,271

The City's Indirect Cost Allocation Plan is developed and executed by ClearSource, an outside cost allocation expert under the management of the City's Finance Department. The methodology used by the CAP to determine allocable costs to the Operating Fund is the same analysis used to determine comparable cost allocations to other City funds, which are similarly assessed an interfund charge to reimburse the General Fund for service. Thus, the analytical decisions within the CAP are applicable to and consistent across all departments, divisions, and funds in the City's entire organization and accounting structure.

The CAP is a detailed analysis consistent with industry standards. First, allocable cost centers within the City's accounting structure are identified, understanding the service mission of each cost center and relevance to the service mission of other City departments. Next, a combination of data recorded in City systems and analysis of staff time breaks down allocable cost centers into broad functions of service provided Citywide. Then, individual expenditures in each cost center are analyzed for appropriateness for allocation and assigned to each function of service, creating an allocable cost pool. Finally, an allocation basis is assigned to each allocable cost pool and distributed Citywide in a series of steps, resulting in each department's proportionate share of the allocated function, depending on its share of the chosen allocation basis. Allocation bases driving this proportional outcome draw on a combination of data in City systems, additional use of staff time estimation, and common industry practices relevant to the function being allocated.

The City regularly reports its expenditure information, including the indirect cost allocation, to the State Lands Commission for review and approval to ensure the City is meeting all the obligations of the Beacon Bay Bill; using Tidelands Funds only for Tidelands purposes.

Conclusion

The City endeavors to manage and administer Tidelands in accordance with the appropriate legislation while working with the California State Lands Commission to ensure Newport Harbor continues to be a prosperous and effective harbor. It is always fair to re-evaluate both Tidelands revenue sources and expenditure purposes on a regular basis, and the City does so with the City Council, the community, and the State Lands Commission. Changes to the allocations, if consistent with the Trust and related legislation, should be viewed both on their merits and how they might impact City operations, services, and other funds.

Comprehensive financial detail on City of Newport Beach Tidelands can be found in the financial statements that follow.

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Balance Sheet
June 30, 2023

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Assets			
Cash and investments	\$ 5,907,076	\$ 37,536,116	\$ 43,443,192
Receivables:			
Accounts (net of allowance)	1,181,864	-	1,181,864
Interest	37,474	114,936	152,410
Lease Receivables (note 2)	183,793,881	-	183,793,881
Public-private partnership receivable (note 3)	853,723	-	853,723
Total assets	\$ 191,774,018	\$ 37,651,052	\$ 229,425,070
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,187,543	\$ 509,582	\$ 1,697,125
Accrued payroll	53,305	-	53,305
Deposits payable	215,767	-	215,767
Unearned Revenue	757,105	-	757,105
Advance from other funds (note 4)	-	6,926,659	6,926,659
Total liabilities	2,213,720	7,436,241	9,649,961
Deferred Inflows of Resources:			
Deferred amount from leases (note 2)	182,599,258	-	182,599,258
Deferred amount from public-private partnerships (note 3)	853,723	-	853,723
Total deferred inflows of resources	183,452,981	-	183,452,981
Fund balances:			
Restricted:			
Upper Newport Bay restoration	1,479,188	-	1,479,188
Other	3,788,129	30,214,811	34,002,940
Committed:			
Oil and gas	840,000	-	840,000
Total fund balances	6,107,317	30,214,811	36,322,128
Total liabilities, deferred inflows of resources, and fund balances	\$ 191,774,018	\$ 37,651,052	\$ 229,425,070

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2023

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Revenues:			
Licenses, permits, and fees	\$ 85,244	\$ -	\$ 85,244
Charges for services	27,057	-	27,057
Fines and forfeitures	52,101	-	52,101
Investment income	108,738	617,424	726,162
Net decrease in fair value of investments	(78,768)	(249,668)	(328,436)
Property Income			
Parking			
Balboa Lot	2,176,057	-	2,176,057
Other parking	1,875,636	-	1,875,636
Total Parking	4,051,693	-	4,051,693
Leases			
Balboa Yacht Basin Slips (net of increment)	653,171	893,523	1,546,694
Balboa Yacht Basin Garages (net of increment)	35,344	42,109	77,453
Balboa Yacht Basin Apartments (net of increment)	30,456	6,154	36,610
Balboa Yacht Basin Offices	18,304	-	18,304
Balboa Yacht Basin Electricity	9,007	-	9,007
Balboa Bay Club	3,011,162	2,623,738	5,634,900
Beacon Bay	1,788,754	-	1,788,754
Other Leases	1,358,100	214,376	1,572,476
Total Leases	6,904,298	3,779,900	10,684,198
Rent			
Moorings Off-Shore (net of increment)	620,650	566,842	1,187,492
Moorings On-Shore (net of increment)	69,546	95,896	165,442
Moorings Guest (net of increment)	-	353,354	353,354
Moorings Transfers (net of increment)	-	53,655	53,655
Residential Piers Rent (net of increment)	118,000	160,445	278,445
Commercial Piers Rent (net of increment)			
Large Com Marina Rent	248,441	589,833	838,274
Medium Com Marina Rent	-	90,671	90,671
Small Com Marina Rent	46,852	107,137	153,989
Vessel Charter Bus Rent	26,023	29,570	55,593
Vessel Rental Facility Rent	18,993	33,518	52,511
HOA NONMEM <13,000 sqf	5,693	15,869	21,562
HOA NONMEM 13K-30K sqf	6,927	8,639	15,566
Yacht Club Guest Slip Rent	13,471	2,170	15,641
Restaurant Rent	7,095	1,969	9,064
Shipyard Rent	6,559	11,182	17,741
Other Rent - Bldg over Tld	5,325	6,562	11,887
Fuel Dock - Base/Plus Rent	4,710	6,123	10,833
Sport Fishing Charter Rent	4,446	5,780	10,226
Total Commercial Piers Rent	394,535	909,023	1,303,558
Total Rent	1,202,731	2,139,215	3,341,946
Sale of Oil	1,287,532	-	1,287,532
Other	720,010	-	720,010
Total property income	14,166,264	5,919,115	20,085,379
Donations			
Other	-	12,415	12,415
Other	1,200	-	1,200
Total Revenues	\$ 14,361,836	\$ 6,299,286	\$ 20,661,122

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2023

Continued

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Expenditures:			
General government:			
General government - Direct	\$ 432,505	\$ -	\$ 432,505
Total General government	<u>432,505</u>	<u>-</u>	<u>432,505</u>
Public works:			
Public works - Utilities - Direct	1,418,540	-	1,418,540
Public works - Tidelands management - Direct	471,231	-	471,231
Total Public works	<u>1,889,771</u>	<u>-</u>	<u>1,889,771</u>
Community development:			
Community development - Direct	12,784	-	12,784
Total Community development	<u>12,784</u>	<u>-</u>	<u>12,784</u>
Community services:			
Harbor operations - Direct	2,198,993	-	2,198,993
Total Community services	<u>2,198,993</u>	<u>-</u>	<u>2,198,993</u>
Capital improvement projects: - All are Direct			
Abandoned Watercraft Grant	14,589	-	14,589
American Legion Bulkhead	411	1,125,763	1,126,174
Arches Storm Drain Diversion	-	1,160	1,160
Balboa Island Seawall Assessment	-	67,379	67,379
Beach and Bay Sand Management	595,852	-	595,852
Eelgrass Survey	150,000	-	150,000
Harbor Dredging/Planning	-	10,558,218	10,558,218
Harbor Piers Rehabilitation	2,734	157,351	160,085
Newport Bay Water Wheel	57,001	-	57,001
Newport Pier Platform and Piles	5,500	-	5,500
Ocean Piers Inspection & Maintenance	-	15,815	15,815
Oil Well 5 Rehabilitation	249,867	-	249,867
Oil Well 12 Rehabilitation	81,946	-	81,946
Oil Well 15 Rehabilitation	41,943	-	41,943
Surfside Sunset Coastal Sand Replenishment	194,397	-	194,397
Tide Valve Replacement Program	-	270,723	270,723
TMDL Compliance/Water Quality Imp	39,824	22,538	62,362
Total Capital improvement projects	<u>1,434,064</u>	<u>12,218,947</u>	<u>13,653,011</u>
Total Expenditures	<u>\$ 5,968,117</u>	<u>\$ 12,218,947</u>	<u>\$ 18,187,064</u>
Other financing sources (uses):			
Transfers in	11,546,069	4,600,000	16,146,069
Transfers out	(18,380,271)	-	(18,380,271)
Total other financing sources (uses)	<u>(6,834,202)</u>	<u>4,600,000</u>	<u>(2,234,202)</u>
Net change in fund balances	1,559,517	(1,319,661)	239,856
Fund balance, beginning	<u>4,547,800</u>	<u>31,534,472</u>	<u>36,082,272</u>
Fund balance, ending	<u>\$ 6,107,317</u>	<u>\$ 30,214,811</u>	<u>\$ 36,322,128</u>

See accompanying notes to basic financial statements

NOTES TO THE FINANCIAL STATEMENTS

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 current 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, deferred outflows of resources, current financial liabilities, and deferred inflows of resources is otherwise known as fund balance. Fund balance is similar to net working capital in the private sector, a measure of the entity's ability to finance activities in the near term.

Tidelands are accounted for in two (2) 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 Tidelands 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 leases, piers, 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 measurable 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 Funds.

2) Leases

In FY 2021-22, the City implemented GASB Statement No. 87 – “Leases”, effective for periods beginning after June 15, 2021. This statement changed the calculation and presentation of lease related amounts in the City's financial statements.

Lease liabilities and receivables are estimated present values of future lease payments. Estimating present values involves various related estimates, including lease terms and interest rates. The estimated lease term is the time period that the lease is noncancelable, plus extension and termination time periods if based on the lease agreement it is reasonable that the extensions will be exercised and the terminations will not be exercised. When a lease's implicit interest rate is not known, estimates are made of either the City's incremental borrowing rate or the rate the City may charge a lessee. Non-lease components of lease agreements have been treated as separate non-lease agreements when practicable and are excluded from the City's estimated lease liabilities and receivables. Leases that do not meet the Governmental Accounting Standards Board's definition of a lease liability or receivable (e.g. short-term leases, etc.) also are excluded from the City's estimated lease liabilities and receivables.

Lease agreements that meet the requirements of GASB 87 for which the City is lessor are disclosed as lease receivables on the City's financial statements. GASB 87 excludes certain inflows (e.g. certain variable payments, etc.) from the measurement of lease receivables. For the fiscal year ending

June 30, 2023, both Tidelands Funds accounted for the succeeding amounts associated with GASB 87. Variable payments related to the lease receivables that were excluded from the measurement of the lease receivables amounted to \$4,701,780. Lease inflows, including inflows excluded from GASB 87, are included on the City's financial statements as property income. Lease inflows for interest revenue from amortization of the GASB 87 lease receivables totaled \$2,622,004. Lease inflows for lease revenue from amortization of the related GASB 87 deferred inflows of resources from leases was \$8,042,290. Lease receivables on June 30, 2023 were \$183,793,881.

3) Public-Private Partnership

In FY 2022-23, the City implemented GASB Statement No. 94 – “*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*”, effective for periods beginning after June 15, 2022. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements.

The City's public-private partnership receivable is an estimated present value of future payments from the operator to the City. The estimated public-private partnership term is the time period that the operator's right to use the underlying public-private partnership asset is noncancelable, plus extension and termination time periods if based on the public-private partnership arrangement it is reasonable that the extensions will be exercised, and the terminations will not be exercised. When the public-private partnership arrangement's implicit interest rate is not known, an estimate is made of the rate the City may charge an operator. Non-public-private partnership components of public-private partnership arrangements have been treated as separate arrangements when practicable and are excluded from the City's estimated receivable. Arrangements that do not meet the Governmental Accounting Standards Board's definition of a public-private partnership (e.g. leases that do not require the operator to improve the City's existing assets, etc.) are also excluded from the City's estimated receivable

Agreements that meet the requirements of GASB 94 for which the City is transferor are disclosed as public-private partnerships (PPP) receivables on the City's financial statements. The City's PPP receivable is related to the facilities for the Balboa Island Ferry, Inc. (operator). GASB 94 excludes certain inflows (e.g. certain variable payments, etc.) from the measurement of PPP receivables. Payments from the operator to the City include variable payments, because the operator pays the City the greater of a minimum base amount or a specified percentage of the operator's gross receipts. For the fiscal year ending June 30, 2023, the City recognized \$1,815 of payments related to PPP receivables that were excluded from the measurement of the PPP receivables. A discount rate of 1.50% was applied to the measurement of the PPP receivable. The PPP agreement leases facilities to the operator for the continued operation of a ferry between Balboa Island and Balboa Peninsula. The City retains the right to inspect the property any time without notice to the operator. PPP receivables on June 30, 2023 were \$853,723.

4) Advances

Advances from the General Fund to the Harbor Capital Fund are primarily for the purpose of funding expenditures for dredging, seawall repairs and maintenance, and other high impact projects within the City's Tidelands, specifically within, or benefitting the Newport Harbor. Over the years, the General Fund has advanced \$15.8 million to the Harbor Capital Fund. The balance of advance due to the General Fund as of June 30, 2023 is \$6.9 million.

	<u>Advance from</u>	<u>Advance to</u>
General Fund	\$ 6,926,659	\$ -
Tide and Submerged Land - Harbor Capital Fund	-	6,926,659
Total	<u>\$ 6,926,659</u>	<u>\$ 6,926,659</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. Below is the repayment schedule:

Harbor Capital Fund Advance - Repayment Terms (Zero Interest Advance)			
	Advance #1 Dredging Projects	Advance #2 Marina Park Project	Total
Fiscal Year	Repayment	Repayment	Repayment
2024	750,000	500,000	1,250,000
2025	750,000	500,000	1,250,000
2026	750,000	500,000	1,250,000
2027	750,000	500,000	1,250,000
2028	426,659	500,000	926,659
2029	-	500,000	500,000
2030	-	500,000	500,000
Total	\$ 3,426,659	\$ 3,500,000	\$ 6,926,659

5) Revenue

In some instances, governmental accounting standards permit revenues in governmental funds to be reported net of certain costs. Accordingly, parking meter revenues and other property income are reported net of credit card service costs, refunds, rebates, and bad debt.



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