

CITY OF NEWPORT BEACH

TIDE & SUBMERGED LANDS ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2024



This page left blank intentionally.

CITY OF NEWPORT BEACH
Tide & Submerged Lands Annual Financial Report
Year Ended June 30, 2024

TABLE OF CONTENTS

Introduction

Table of Contents 1
Letter of Transmittal 2
Overview of Tide & Submerged Lands 3
Guiding Legislation 4
Accounting for Tidelands Revenues and Expenditures 4
Advances and the General Fund Subsidy 5
Revenues Discussion 6
Expenditures Discussion 7
Conclusion 9

Financial Statements

Balance Sheet 10
Statement of Revenues, Expenditures, and Changes in Fund Balance 11
Notes to the Financial Statements 13



January 30, 2025

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 2023-24 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 2023-24 Annual Comprehensive Financial Report (ACFR) for the City of Newport Beach, 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 as a whole. For more information on the financial condition of the City of Newport Beach, please see the City's ACFR, which can be viewed on our website at: www.newportbeachca.gov/ACFR.

Jason Al-Imam
Finance Director/Treasurer

CITY OF NEWPORT BEACH

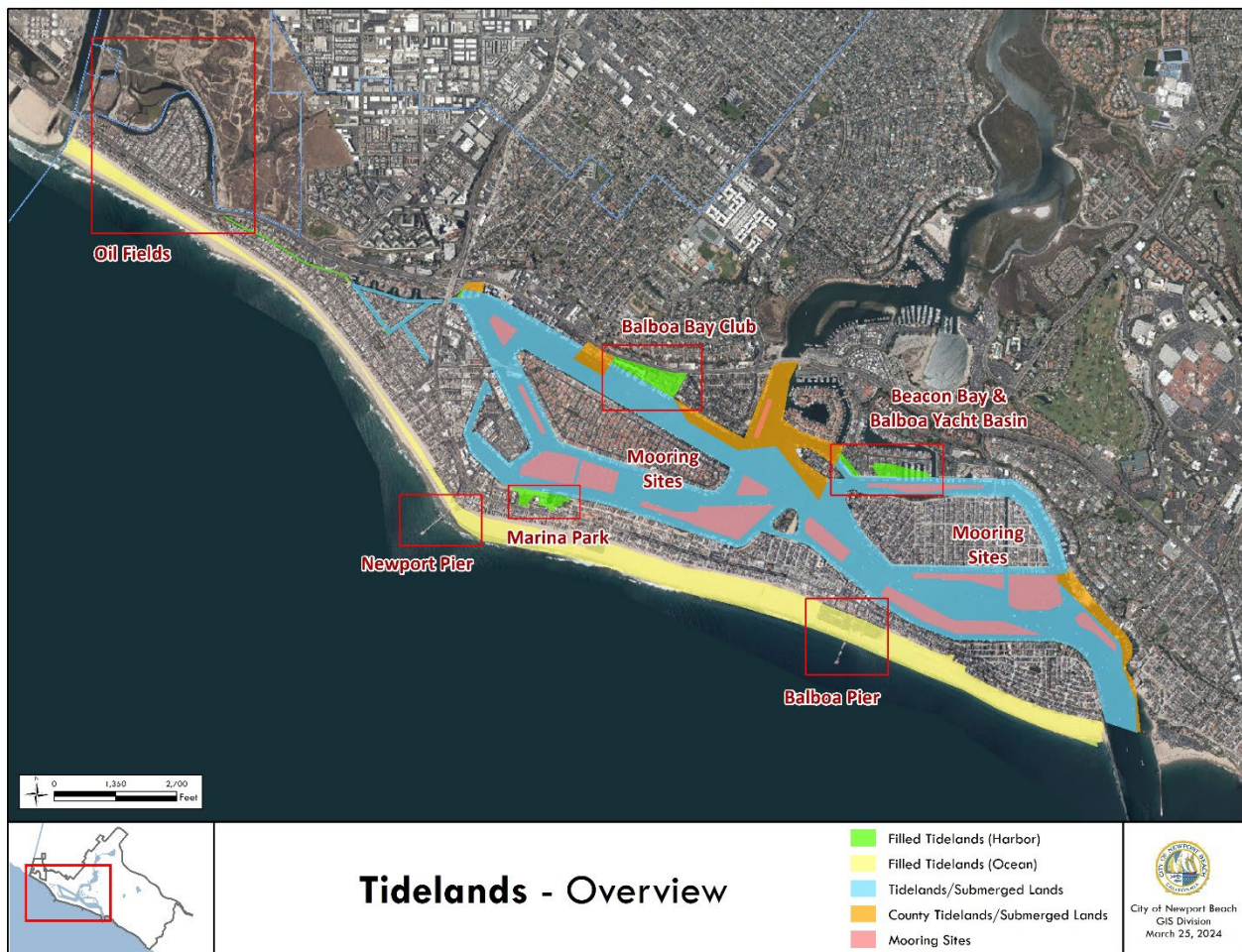
Tide and Submerged Lands Annual Financial Report for the Year Ending June 30, 2024

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 overall financial position of the City. 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

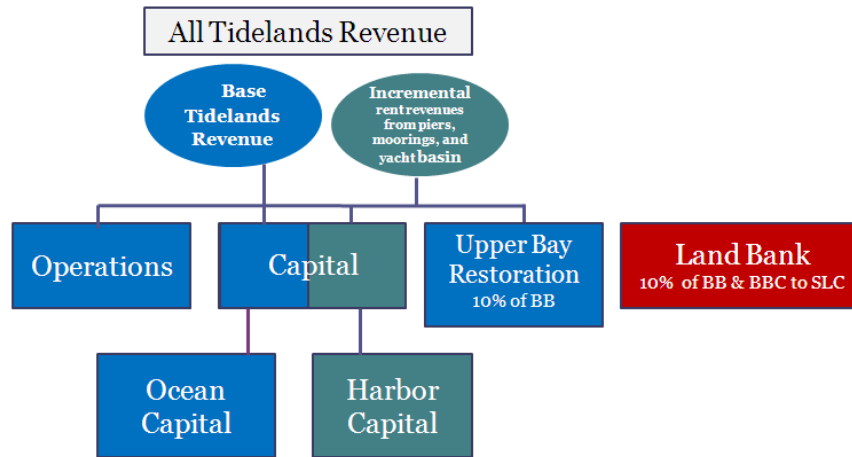
The Tide and Submerged Land – Operating Fund (Operating Fund) is used to account for revenues related to the operation of the Tidelands under City jurisdiction, including beaches and marinas, and the related expenditures. Revenues from Tidelands operations include, but is not limited to, rents from moorings, 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.

Tidelands 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, 2024 is \$5.7 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 2023-24. 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 2023-24, the General Fund transferred \$11.2 million to subsidize the Operating Fund. Additionally, the City’s Contributions Fund transferred \$82,345 to the Operating Fund for expense reimbursement related to a storm drain dry weather diversion capital project. The total amount transferred to the Operating Fund for FY 2023-24 is \$11.3 million. Furthermore, the City has committed to setting aside resources in the Harbor Capital Fund for in-Harbor capital improvements. In FY 2023-24, the General Fund transferred \$4.7 million to the Harbor Capital Fund.

Revenues

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.

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.

Revenue from all sources total \$24.5 million for FY 2023-24. 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 \$3.0 million from Balboa Bay Club; \$1.2 million from on-shore, off-shore, guest, and transfer

moorings; \$1.0 million in increased revenues from Balboa Yacht Basin rentals of slips, apartments, and garages; \$984,519 from commercial piers; \$164,562 from residential piers; and \$199,304 from other leases.

The table to the right shows the top Tidelands Funds revenue producers for FY 2023-24.

Property income is the primary source in revenue attributable to both Tidelands Funds. Combined Tidelands property income is \$21.9 million, and is made up of \$11.3 million from leases, \$5.0 million from parking lots, \$3.6 million from rents for moorings, residential and commercial piers, \$1.6 million from the sale of oil, and \$554,081 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	\$ 3,032,944	\$ 6,044,106
Balboa Pier Parking Lot	2,761,019	-	2,761,019
Investments-Related	272,203	2,099,782	2,371,985
Oceanfront/Other Parking Meters	2,220,893	-	2,220,893
Beacon Bay Residences	1,881,442	-	1,881,442
Balboa Yacht Basin	748,611	1,043,897	1,792,508
Petroleum Royalties	1,582,452	-	1,582,452
Other Leases	1,339,599	199,304	1,538,903
Commercial Piers	398,500	984,519	1,383,019
Offshore Moorings	623,171	614,024	1,237,195
Other Property Income	554,081	-	554,081
Other Moorings	-	484,126	484,126
Residential Piers	118,000	164,562	282,562
Other Revenue	193,362	-	193,362
Onshore Moorings	69,546	101,336	170,882
Intergovernmental	6,481	-	6,481
Total	\$ 15,780,522	\$ 8,724,494	\$ 24,505,016

Parking revenue of \$5.0 million is made up of \$2.8 million from the Balboa Parking Lot, \$1.4 million from the Ocean Front Lot, and \$779,809 from a combination of smaller lots.

Lease revenue of \$11.3 million consists of the following:

- 1) \$6.0 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) \$1.9 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) \$1.8 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 \$1.5 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 \$3.6 million in revenue from rentals, including \$1.9 million in revenue from off-shore, on-shore, guest, and transfer moorings, \$1.4 million from commercial piers, and \$282,562 from residential piers.

The City received \$1.6 million in revenues from the sale of oil. During FY 2023-24, 21,284 barrels of oil were produced from 13 working wells located in West Newport. The City has set aside \$1.1 million in the Operating Fund for future operations and improvements to the oil wells.

Additional revenue sources include:

- 1) \$6,481 in intergovernmental revenue derived from a grant which will cover the costs of light fixtures to be installed in Newport Harbor.
- 2) \$103,338 from licenses, permits, and fees derived from pier transfer fees, live aboard permits, dredging permit application fees, and marine activities permits.
- 3) \$38,081 in charges for services from harbor events, harbor appeals, plan checking fees, impound release fees, and waitlist fees.
- 4) \$37,902 from fines and forfeitures for administrative fines, abandoned vessels, and delinquencies.
- 5) \$1.5 million from investment income boosted by a \$867,454 net increase in fair value of investments, resulting in an increase of \$2.4 million in investment-related revenues. The fair value increases 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 2023-24 was \$5.8 million plus an additional transfer out from the Operating Fund to the General Fund of \$19.3 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 \$2.5 million; 2) Public Works - Utilities division operating costs of \$1.2 million; 3) General Government operating costs of \$516,156; 4) Tidelands Management division operating costs of \$305,984; 5) Community Development operating costs of \$20,637; and 6) capital projects directly benefitting or located within the Tidelands of \$1.3 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 2023-24, the total allocated costs via the CAP amounted to \$19.3 million. Of these total allocated costs attributable to Tidelands, \$1.4 million is categorized as Citywide Overhead (Indirect) and approximately \$17.9 million represents the Allocated Direct Services. This means that out of the total allocated costs attributable to Tidelands, 7.3% is classic indirect overhead, while 92.7% represents public services in Tidelands areas.

Summary of Allocated Costs to Tide and Submerged Land - Operating Fund FY 2023-24	
CITYWIDE OVERHEAD:	
General Government Attributed to Harbor Department	\$ 62,905
Management and Administration Attributed to Harbor Department	\$ 690,061
Support Services Attributed to Harbor Department	\$ 512,630
Overhead Attributed to Other Departments Directly Budgeted to Tide & Submerged Lands Fund	\$ 111,710
Subtotal: Citywide Overhead Attributable to Tide and Submerged Land - Operating Fund	\$ 1,377,306
ALLOCATED DIRECT SERVICES:	
Public Safety Attributed to Tidelands	
Police	\$ 3,349,004
Fire - Operations and Emergency Medical Services	\$ 2,510,360
Fire - Marine Safety Services	\$ 7,709,949
Public Facilities and Services Attributed to Tidelands	
Finance - Parking Operations	\$ 742,484
Public Works - Maintenance Services	\$ 3,644,305
Subtotal: Allocated Direct Services Attributable to Tide and Submerged Land - Operating Fund	\$ 17,956,102
Grand Total: Allocated Costs via Indirect Cost Allocation Plan	\$ 19,333,408

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, 2024

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Assets			
Cash and investments	\$ 7,057,434	\$ 48,689,151	\$ 55,746,585
Receivables:			
Accounts (net of allowance)	2,224,279	-	2,224,279
Interest	39,628	137,249	176,877
Lease Receivables (note 2)	189,149,589	-	189,149,589
Public-private partnership receivable (note 3)	714,546	-	714,546
Prepaid items	101,646	-	101,646
Total assets	\$ 199,287,122	\$ 48,826,400	\$ 248,113,522
 Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,305,980	\$ 42,395	\$ 1,348,375
Accrued payroll	62,414	-	62,414
Deposits payable	260,510	-	260,510
Unearned Revenue	980,433	-	980,433
Advance from other funds (note 4)	-	5,676,659	5,676,659
Total liabilities	2,609,337	5,719,054	8,328,391
Deferred Inflows of Resources:			
Deferred amount from leases (note 2)	187,410,062	-	187,410,062
Deferred amount from public-private partnerships (note 3)	720,001	-	720,001
Total deferred inflows of resources	188,130,063	-	188,130,063
 Fund balances:			
Nonspendable:			
Prepaid items	101,646	-	101,646
Restricted:			
Upper Newport Bay restoration	1,683,144	-	1,683,144
Other	5,710,272	43,107,346	48,817,618
Committed:			
Oil and gas	1,052,660	-	1,052,660
Total fund balances	8,547,722	43,107,346	51,655,068
Total liabilities, deferred inflows of resources, and fund balances	\$ 199,287,122	\$ 48,826,400	\$ 248,113,522

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, 2024

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Revenues:			
Intergovernmental	\$ 6,481	\$ -	\$ 6,481
Licenses, permits, and fees	103,338	-	103,338
Charges for services	38,081	-	38,081
Fines and forfeitures	37,902	-	37,902
Investment income	194,821	1,309,710	1,504,531
Net increase in fair value of investments	77,382	790,072	867,454
Property Income			
Parking			
Balboa Lot	2,761,019	-	2,761,019
Other parking	2,220,893	-	2,220,893
Total Parking	4,981,912	-	4,981,912
Leases			
Balboa Yacht Basin Slips (net of increment)	653,171	991,519	1,644,690
Balboa Yacht Basin Garages (net of increment)	35,344	44,987	80,331
Balboa Yacht Basin Apartments (net of increment)	30,456	7,391	37,847
Balboa Yacht Basin Offices	18,767	-	18,767
Balboa Yacht Basin Electricity	10,873	-	10,873
Balboa Bay Club	3,011,162	3,032,944	6,044,106
Beacon Bay	1,881,442	-	1,881,442
Other Leases	1,339,599	199,304	1,538,903
Total Leases	6,980,814	4,276,145	11,256,959
Rent			
Moorings Off-Shore (net of increment)	623,171	614,024	1,237,195
Moorings On-Shore (net of increment)	69,546	101,336	170,882
Moorings Guest (net of increment)	-	402,290	402,290
Moorings Transfers (net of increment)	-	81,836	81,836
Residential Piers Rent (net of increment)	118,000	164,562	282,562
Commercial Piers Rent (net of increment)			
Large Com Marina Rent	248,441	628,086	876,527
Medium Com Marina Rent	-	96,850	96,850
Small Com Marina Rent	47,662	110,966	158,628
Vessel Charter Bus Rent	22,833	22,649	49,482
Vessel Rental Facility Rent	20,560	42,448	63,008
HOA NONMEM <13,000 sqf	5,693	16,867	22,560
HOA NONMEM 13K-30K sqf	6,927	9,347	16,274
Yacht Club Guest Slip Rent	13,471	2,954	16,425
Restaurant Rent	7,873	3,222	11,095
Shipyard Rent	6,559	31,141	37,700
Other Rent - Bldg over Tid	5,325	7,112	12,437
Fuel Dock - Base/Plus Rent	4,710	6,624	11,334
Sport Fishing Charter Rent	4,446	6,253	10,699
Total Commercial Piers Rent	398,500	984,519	1,383,019
Total Rent	1,209,217	2,348,567	3,557,784
Sale of Oil	1,582,452	-	1,582,452
Other	554,081	-	554,081
Total property income	15,308,476	6,624,712	21,933,188
Other	14,041	-	14,041
Total Revenues	\$ 15,780,522	\$ 8,724,494	\$ 24,505,016

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, 2024

Continued

	Tide and Submerged Land - Operating	Tide and Submerged Land - Harbor Capital	Tide and Submerged Land Total Funds
Expenditures:			
General government:			
General government - Direct	\$ 516,156	\$ -	\$ 516,156
Total General government	<u>516,156</u>	<u>-</u>	<u>516,156</u>
Public works:			
Public works - Utilities - Direct	1,201,737	-	1,201,737
Public works - Tidelands management - Direct	305,984	-	305,984
Total Public works	<u>1,507,721</u>	<u>-</u>	<u>1,507,721</u>
Community development:			
Community development - Direct	20,637	-	20,637
Total Community development	<u>20,637</u>	<u>-</u>	<u>20,637</u>
Community services:			
Harbor operations - Direct	2,487,623	-	2,487,623
Total Community services	<u>2,487,623</u>	<u>-</u>	<u>2,487,623</u>
Capital improvement projects: - All are Direct			
Abandoned Watercraft Grant	10,686	-	10,686
American Legion Bulkhead	-	92,311	92,311
Balboa Island Seawall Assessment	-	7,621	7,621
Beach and Bay Sand Management	230,735	-	230,735
Big Canyon Restoration - PH2 Monitor	24,859	-	24,859
Harbor Bulkheads and Seawall Repair	10,025	24,720	34,745
Harbor Dredging/Planning	-	3,745	3,745
Harbor Maintenance/Minor Improv	138,273	60,391	198,664
Harbor Piers Rehabilitation	-	171,323	171,323
Newport Bay Water Wheel	35,715	-	35,715
Oil Well 12 Rehabilitation	168,054	-	168,054
Surfside Sunset Coastal Sand Replenishment	96,283	-	96,283
Tide Valve Replacement Program	-	186,002	186,002
TMDL Compliance/Water Quality Imp	12,298	846	13,144
Total Capital improvement projects	<u>726,928</u>	<u>546,959</u>	<u>1,273,887</u>
Total Expenditures	<u>\$ 5,259,065</u>	<u>\$ 546,959</u>	<u>\$ 5,806,024</u>
Other financing sources (uses):			
Transfers in	11,252,355	4,715,000	15,967,355
Transfers out	(19,333,407)	-	(19,333,407)
Total other financing sources (uses)	<u>(8,081,052)</u>	<u>4,715,000</u>	<u>(3,366,052)</u>
Net change in fund balances	2,440,405	12,892,535	15,332,940
Fund balance, beginning	<u>6,107,317</u>	<u>30,214,811</u>	<u>36,322,128</u>
Fund balance, ending	<u>\$ 8,547,722</u>	<u>\$ 43,107,346</u>	<u>\$ 51,655,068</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, 2024, 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 \$3.5 million. 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 \$1.8 million. Lease inflows for lease revenue from amortization of the related GASB 87 deferred inflows of resources from leases was \$5.2 million. Lease receivables on June 30, 2024 were \$189.1 million.

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, 2024, the City recognized \$7,629 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, 2024 were \$714,546.

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, 2024 is \$5.7 million.

	Advance from	Advance to
General Fund	\$ 5,676,659	\$ -
Tide and Submerged Land - Harbor Capital Fund	-	5,676,659
Total	<u>\$ 5,676,659</u>	<u>\$ 5,676,659</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. 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
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	\$ 2,676,659	\$ 3,000,000	\$ 5,676,659

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.



City of Newport Beach
100 Civic Center Drive
Newport Beach, CA 92660
(949) 644-3123
www.newportbeachca.gov/financialinfo