

# CITY OF NEWPORT BEACH

## **TIDE & SUBMERGED LANDS ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2014**





# CITY OF NEWPORT BEACH

## Tide and Submerged Lands Annual Financial Report for the Year Ending June 30, 2014

### Overview

The City of Newport Beach manages and administers the Tidelands on behalf of all of the people of California and 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 Comprehensive Annual Financial Report (CAFR). 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 CAFR, can be obtained at: [www.newportbeachca.gov/cafr](http://www.newportbeachca.gov/cafr).

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 our 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 include establishing, maintaining, improving and operating a public harbor, docks, piers, slips, beaches, marinas, etc. 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 us. 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 Tidelands 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.

### *Operating Fund*

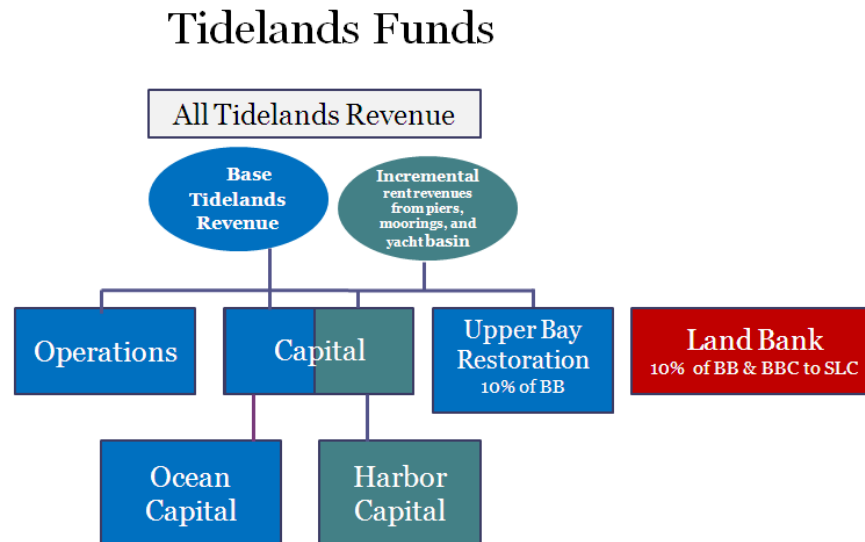
The Tidelands Operating fund is used to account for revenues related to the operation of the Tidelands under City jurisdiction, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil. Funds intended for the Upper Bay Restoration are also accounted for in this fund in a separate reserve account.

### *Harbor Capital Fund*

With the adoption of new permit and lease templates and adjusted commercial and noncommercial tidelands rent to fair market value in 2012, the City Council asked the State Lands Commission for permission to create a Harbor Capital Fund to sequester incremental increases from resulting tidelands

rent adjustments solely finance critical in-Harbor capital improvements, like dredging, marinas, and sea walls.

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.

Additionally, the City Council formed the Tidelands Management Committee, a committee of three Council members plus seven citizen advisors that meets 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.

Harbor dredging has been a major priority to restore the harbor to its optimal state for recreation, commerce, and nature.

#### **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 Tidelands 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, 2014 is \$15.8 million.

Project	Total Advance
Lower Bay Dredging	\$ 5,443,145
Rhine Channel Dredging	4,202,784
Linda Isle Dredging	30,730
Marina Park	6,132,900
Total	\$ 15,809,559

Please see the notes to the financial statement for the proposed repayment schedule.

Historically, the Tidelands Operating fund does not generate sufficient revenue to cover the full cost of operations. This is still the case in FY 2013-14. 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 FY 2013-14 the general fund transferred \$4.5 million to subsidize the Tidelands Operating fund.

**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 are 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.

### 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.

Revenue from all sources total \$15.7 million for FY 2013-14. 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 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.

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 \$25,000 in increased revenues from Balboa Yacht Basin rentals of slips, apartments, and garages, \$995,000 from onshore, offshore, and County-managed guest moorings, and \$59,000 from residential piers.



The table to the right shows the top 12 Tidelands Harbor Capital fund revenue producers for FY 2013-14.

Of the total \$15.7 million in revenue attributable to both Tidelands funds, property income is the primary source. Combined Tidelands property income is \$14.4 million, or 91% of FY 2013-14 revenues, and is made up of \$7.4 million from leases, \$2.6 million from parking lots, \$2.1 million from the sale of oil, and \$2.3 million from rents for moorings, residential piers and commercial marina activities.

Top Tidelands Revenue Producers			
Top Tidelands Revenue Producers	Tide and Submerged Land Operating	Tide and Submerged Land Capital	Tide and Submerged Land Total
Balboa Bay Resort	\$ 3,011,161	\$ 1,546,663	\$ 4,557,824
Petroleum Royalties	2,125,768	-	2,125,768
Balboa Pier Parking Lot	1,424,126	-	1,424,126
Beacon Bay Residences	953,919	-	953,919
Oceanfront Parking Meters	727,865	-	727,865
Balboa Yacht Basin Slips	653,171	216,939	870,110
Offshore Moorings	623,171	813,226	1,436,397
Commercial Piers	412,107	-	412,107
Balboa & 19th St. Parking	266,367	-	266,367
A & B Metered Parking	194,486	-	194,486
Residential Piers	117,800	58,650	176,450
Onshore Moorings	69,546	86,736	156,282
<b>Totals=</b>	<b>\$ 11,697,812</b>	<b>\$ 3,983,088</b>	<b>\$ 15,680,900</b>

Note: "Total" includes other Tidelands revenue besides the top revenue producers.

Lease revenue of \$7.4 million is made up as follows; 1) \$4.6 million from the Balboa Bay Club Lease, an increase of \$1.5 million over prior year due to an amendment to the ground lease with the Balboa Bay Club. Per the amendment and the State Lands statute, revenues from the Balboa Bay Club are split, 95% to Tidelands operating fund and 5% to the State Lands Commission's Land Bank fund, for the next five years, after which they will be modified 90% to Tidelands operating fund and 10% to the State Lands Commission's Land Bank fund; 2) \$986,000 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) \$954,000 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 Land Bank fund held and administered by the State Lands Commission. 4) The remaining \$870,000 is derived from a variety of smaller leases.

Parking revenue of \$2.6 million is made up of \$1.4 million from the Balboa Parking Lot, \$728,000 from the Ocean front Lot, \$194,000 from both A and B Street Lots, and \$266,000 from a combination of the Balboa Metered Lot and 19<sup>th</sup> Street Lot.

The City received \$2.1 million in revenues from the sale of oil. During FY 2013-14, 24,487 barrels of oil were produced from 16 wells located in West Newport. The City has set aside \$480,000 in the Tideland's 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.

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 \$2.3 million in revenue from rentals, including \$1.7 million in revenue from off-shore, on-shore, and county managed guest moorings, \$176,000 from residential piers, and \$412,000 from commercial piers.

Additional revenue sources include; 1) licenses and permits of \$41,000, derived from pier transfer fees and live aboard permits, 2) \$56,000 in charges for services from investigative fees, 3) \$516,000 from the US Army Corps of Engineers for the damages to a sewer main during dredging, 4) \$601,000 from Orange County Parks, 5) \$83,000 from interest income as well as 6) \$1,000 from fines and forfeitures for administrative fines, and abandoned vessels.

## 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 2013-14 totaled \$17.8 million. 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 three types of expenditures charged directly to the Tidelands funds; 1) Harbor Resources division operating costs of 1.5 million; 2) oil and gas generating activities of \$1.2 million; and 3) capital projects directly benefiting, or located within the Tidelands of \$3.8 million.

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 to Tidelands users, including Police, Fire, and Marine safety services of \$7.8 million; 2) Public Works services that protect or otherwise support the Tidelands, such as infrastructure maintenance and municipal operations of \$371,000 and \$2.1 million respectively; 3) Community Services (such as parking operations) of \$698,000; and 4) General government administrative services of \$397 million including City Council, City Clerk, City Attorney, City Manager, Finance, Human Resources, and building use which generally consists of the Tidelands' share of this overhead.

The City uses outside cost allocation experts, 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 functions or 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 allocate 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.

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**Why allocate Police and Fire/EMS costs to Tidelands?** A certain percentage of calls and responses for emergency medical and police services occur on the ocean beaches, which are tidelands. These departments' activities are higher because of beach going visitors. However, of the expenses discussed above for FY 2013-14, the expenses attributable to tidelands are only 4% and 6% of the Police Department's and Fire Department's (exclusive of lifeguarding) budgets respectively. Remember, too, that the City adds in ocean beach parking lot revenue and oceanfront parking meter revenue to the income side of the spreadsheet. Beach parking revenue alone offsets over 70% of the cost of Police and Fire/EMS services to the Tidelands.

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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 FY 2013-14 total expenditures of \$17.8 million for both funds included indirect cost allocations to the Tidelands Operating fund totaling \$11.3 million.

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 attempts to do 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 Funds**  
**Balance Sheet**  
**June 30, 2014**

	<b>Tide and Submerged Land Operating</b>	<b>Tide and Submerged Land Harbor Capital</b>	<b>Tide and Submerged Land Total</b>
<b>Assets</b>			
Cash and investments	\$ 3,598,785	\$ 8,389,198	\$ 11,987,983
Receivables:			
Accounts (net of allowance)	907,812	374,917	1,282,729
Intergovernmental receivables	-	20,490	20,490
Total assets	<u>\$ 4,506,597</u>	<u>\$ 8,784,605</u>	<u>13,291,202</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 741,160	\$ 542,630	\$ 1,283,790
Accrued payroll	21,298	-	21,298
Deposits payable	122,019	-	122,019
Advance from other funds (note 2)	-	15,809,559	15,809,559
Total Liabilities	<u>884,477</u>	<u>16,352,189</u>	<u>17,236,666</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	<u>112,400</u>	<u>374,917</u>	<u>487,317</u>
Total deferred inflows of resources	<u>112,400</u>	<u>374,917</u>	<u>487,317</u>
Fund balances (deficit):			
Restricted:			
Upper Newport Bay Restoration	430,626	-	430,626
Capital re-appropriations	2,013,027	-	2,013,027
Encumbrances	586,067	-	586,067
Committed:			
Oil and Gas	480,000	-	480,000
Unassigned:	<u>-</u>	<u>(7,942,501)</u>	<u>(7,942,501)</u>
Total Fund Balance (Deficit)	<u>3,509,720</u>	<u>(7,942,501)</u>	<u>(4,432,781)</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 4,506,597</u>	 <u>\$ 8,784,605</u>	 <u>\$ 13,291,202</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, 2014**

	<b>Tide and Submerged Land Operating</b>	<b>Tide and Submerged Land Harbor Capital</b>	<b>Tide and Submerged Land Total</b>
<b>Revenues</b>			
<b>Other</b>			
Intergovernmental	\$ -	\$ 516,133	\$ 516,133
Licenses, permits and fees	41,496	-	41,496
Charges for services	55,661	-	55,661
Fines and forfeitures	1,041	-	1,041
Investment income	62,896	2,302	65,198
Net increase in fair value of investments	11,990	5,413	17,403
Total Other	173,084	523,848	696,932
<b>Property income</b>			-
Parking			-
Balboa lot	1,424,126	-	1,424,126
Other parking (note 3)	1,188,718	-	1,188,718
Total Parking	2,612,844	-	2,612,844
<b>Leases</b>			
Balboa Yacht Basin slips	653,171	216,939	870,110
Balboa Yacht Basin garages	35,344	23,818	59,162
Balboa Yacht Basin apartments	30,456	10,501	40,957
Balboa Yacht Basin electricity	15,305	-	15,305
Balboa Bay Club	3,011,161	1,546,663	4,557,824
Beacon Bay	953,919	-	953,919
Other leases (note 3)	863,873	5,752	869,625
Total Leases	5,563,229	1,803,673	7,366,902
<b>Rent</b>			
Moorings - off-shore	623,171	813,226	1,436,397
Moorings - on-shore	69,546	86,736	156,282
Moorings - guest	-	95,542	95,542
Residential piers rent	117,800	58,650	176,450
Commercial piers rent			-
Large commercial marina rent	264,923	-	264,923
Small commercial marina rent	45,373	-	45,373
Vessel charter business rent	24,977	-	24,977
Vessel rental facility rent	18,378	-	18,378
HOA Members Only	9,685	-	9,685
Yacht club guest slip rent	14,337	-	14,337
Restaurant pier rent	7,825	-	7,825
Shipyard rent	8,757	-	8,757
Other rent - City Tidelands (Harbor Marina)	4,838	-	4,838
Other rent - Buildings over Tidelands	4,696	-	4,696
Fuel dock - Base/Plus rent	4,279	-	4,279
Sport Fishing Charter Rent	4,039	-	4,039
Total Commercial Piers rent	412,107	-	412,107
Total Rent	1,222,624	1,054,154	2,276,778
<b>Sale of oil</b>	2,125,768	-	2,125,768
Total Property Income	11,524,465	2,857,827	14,382,292
<b>Miscellaneous Income</b>	263	601,413	601,676
Total revenues	11,697,812	3,983,088	15,680,900

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, 2014**  
**(continued)**

	<b>Tide and Submerged Land Operating</b>	<b>Tide and Submerged Land Harbor Capital</b>	<b>Tide and Submerged Land Total</b>
<b>Expenditures</b>			
General government:			
City Council (cost allocation)	5,873	-	5,873
City Clerk (cost allocation)	19,770	-	19,770
See accompanying notes to the financial statements	72,542	-	72,542
City Manager (cost allocation)	98,163	-	98,163
Finance (cost allocation)	71,131	-	71,131
Human Resources (cost allocation)	9,361	-	9,361
Building Use (cost allocation)	120,000	-	120,000
Total General Government	396,840	-	396,840
Public safety:			
Police (cost allocation)	1,969,812	-	1,969,812
Fire (cost allocation)	1,947,497	-	1,947,497
Marine Safety (cost allocation)	3,895,069	-	3,895,069
Total Public Safety	7,812,378	-	7,812,378
Public works:			
MOD- General Services (cost allocation)	2,055,741	-	2,055,741
Public Works (cost allocation)	370,849	-	370,849
MOD - Utilities (direct)	1,163,123	-	1,163,123
Total Public Works	3,589,713	-	3,589,713
Community services:			
Harbor Resources (direct)	1,507,909	-	1,507,909
Parking Operations (cost allocation)	698,185	-	698,185
Total Community Services	2,206,094	-	2,206,094

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, 2014**  
**(continued)**

	<u>Tide and Submerged Land Operating</u>	<u>Tide and Submerged Land Harbor Capital</u>	<u>Tide and Submerged Land Total</u>
Capital improvement projects: - All are Direct			
Newport Harbor Dredging Permit (RPG54)	339,725	-	339,725
Marina Park	-	2,931,175	2,931,175
Lower Harbor Dredging	-	36,782	36,782
Ocean Pier Repair & Inspection	119,398	-	119,398
Bay Beach Sand Management	118,346	-	118,346
Rehab Doryman Fleet Facility	50,000		50,000
Balboa Marina Public Pier	36,939	-	36,939
Harbor Piers Maintenance	20,486	-	20,486
Eel Grass Mapping & Survey	17,677	-	17,677
Bulkhead Repairs	13,047	146,211	159,258
BYB Moorings Services	658	-	658
Total Capital Improvement projects	<u>716,276</u>	<u>3,114,168</u>	<u>3,830,444</u>
Total expenditures	<u>14,721,301</u>	<u>3,114,168</u>	<u>17,835,469</u>
Excess (deficiency) of revenues over expenditures	<u>(3,023,489)</u>	<u>868,920</u>	<u>(2,154,569)</u>
<b>Other financing sources</b>			
Transfers in	<u>4,532,086</u>	<u>-</u>	<u>4,532,086</u>
Total other financing sources	<u>4,532,086</u>	<u>-</u>	<u>4,532,086</u>
Net change in fund balances	1,508,597	868,920	2,377,517
Fund balances (deficits), beginning as restated (note 4)	<u>2,001,123</u>	<u>(8,811,421)</u>	<u>(6,810,298)</u>
Fund balances (deficit), ending	<u>\$ 3,509,720</u>	<u>\$ (7,942,501)</u>	<u>\$ (4,432,781)</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. 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 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.

	<u>Advance from</u>	<u>Advance To</u>
General Fund	\$15,809,559	\$ -
Tide and Submerged Land - Harbor Capital Fund	-	15,809,559
Total	<u>\$15,809,559</u>	<u>\$15,809,559</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 proposed repayment schedule:



**Harbor Capital Fund Advance - Proposed  
Repayment Terms  
(Zero Interest Advance)**

	<b>Advance #1 Dredging Projects</b>	<b>Advance #2 Marina Park Project</b>	<b>Total</b>
<b>Fiscal Year</b>	<b>Repayment</b>	<b>Repayment</b>	<b>Repayment</b>
2015	\$ 500,000	\$ -	\$ 500,000
2016	500,000	-	500,000
2017	750,000	132,900	882,900
2018	750,000	250,000	1,000,000
2019	750,000	250,000	1,000,000
2020	750,000	500,000	1,250,000
2021	750,000	500,000	1,250,000
2022	750,000	500,000	1,250,000
2023	750,000	500,000	1,250,000
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
<b>Total</b>	<b>\$ 9,676,659</b>	<b>\$ 6,132,900</b>	<b>\$ 15,809,559</b>

### 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 \$863,873 is reported net of \$1,851 of estimated uncollectible customer accounts, and parking meter revenues are reported net of \$99,794 of related credit card service costs.

### 4. Fund balance Restatement

During the current year it was discovered that rental property income accrued in the prior year was related to the 2013-14 fiscal year. The restatement affected the beginning fund balance of the Tide and Submerged Land- Operating Fund as follows:

Tide and and Submerged Land - Operating

Fund balance, as previously reported	\$2,519,190
Adjustment:	
To adjust prior year fund balance in conformity with GAAP	<u>(518,067)</u>
Fund balance, at July 1, 2013, as restated	<u>\$2,001,123</u>



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