



## **CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT**

Agenda Item No. 5E  
January 13, 2022

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
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**SUBJECT: TIDELANDS FUND BUDGET PRESENTATION OPTIONS**

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### **SUMMARY:**

The City of Newport Beach manages and administers the Tidelands on behalf of the people of California through legislative grants administered by the State Lands Commission. The City, as trustee, is required to account for the revenues generated from these lands and the related expenditures independently from the City's General Fund. This is accomplished through segregation of the related revenues and expenditures into the City's Tidelands Operating and Capital Funds. Some of the largest expenditures within the Tidelands Operating Fund are allocated costs from the General Fund for Police, Fire, Lifeguard, and other services performed by the City for the benefit of the Tidelands. These allocated costs have been historically presented within the City's budget and financial statements in two different formats. Staff are recommending a change to bring the budget presentation format in line with the financial statement presentation format in an effort to reduce complexity and increase transparency related to the City's financial information.

### **RECOMMENDED ACTION:**

Concur with staff's recommended changes to the budget presentation format of the Tidelands Operating Fund cost allocations from the General Fund, which will be incorporated into the Fiscal Year 2022-23 City budget.

### **DISCUSSION:**

Over the past year, Finance Department staff have evaluated the City's budget and financial statements with a focus on simplification of format, presentation, and structure as well as alignment with best practices. A significant item identified during this review is

the presentation of the cost allocations from the General Fund to the Tidelands Operating Fund within the City's budget document. Currently, the presentation of this information is inconsistent with the presentation of the same information in the City's financial statements. Staff believe that this historical presentation difference originated from a past sensitivity to highlighting the fact that the Tidelands Operating Fund does not generate sufficient revenues to offset its full costs, including the cost allocations from the General Fund. However, the revenues generated are more than sufficient to fully offset the direct costs accounted for within the Tidelands Operating Fund.

The allocated costs currently amount to approximately \$16 million per year, and include the following components:

<b>Allocated Cost</b>	<b>Amount</b>
Lifeguard Services	\$ 6,500,000
Police Services	3,500,000
Fire Operations	2,300,000
Street Maintenance	2,200,000
Parking Management	700,000
Facilities Maintenance	400,000
Other	400,000
<b>Total</b>	<b>\$ 16,000,000</b>

While the expenditure budget for the Tidelands Operating Fund varies from year to year, additional expenses including salaries and benefits, contract services, and oil and gas well operations typically amount to around \$2.6 million, bringing the total budget for the Tidelands Operating Fund, in this example, to \$18.6 million.

Revenues generated from the Tidelands that are allocated to the Tidelands Operating Fund are less, at approximately \$12.0 million. This results in a deficit of revenues versus expenditures (including allocated costs from the General Fund) of approximately \$6.6 million.

The presentation format currently utilized in the City's budget document nets the \$6.6 million deficit against the \$16.0 million amount of the identified cost allocations and reflects a transfer to the General Fund from the Tidelands Operating Fund of \$9.4 million. In the City's financial statements, a cost allocation from the General Fund to the Tidelands Fund equal to the full \$16.0 million of allocated costs is shown, along with an offsetting reduction of \$6.6 million to cover the deficit.

While these two presentation formats are different, the net impact on the fund balance of the two funds is the same. However, as a result of the presentation differences, budget to actual data is confusing to analyze without explanation. In an effort to reduce complexity and improve transparency, staff are, therefore, recommending that both the City's budget and financial statements present the full amount of the cost allocations as a transfer into the General Fund and the amount required to cover the deficit as a transfer

out of the General Fund so that budget to actual comparison is in sync and does not require explanation. The impact of the change on the General Fund budget is illustrated below.

	<b>Current Budget</b>	<b>Revised Budget</b>
Operating Revenues	\$ 234,000,000	\$ 234,000,000
Transfers In – Tidelands	9,400,000	16,000,000
Transfers In – Other Funds	2,600,000	2,600,000
<b>Total Sources</b>	<b>\$ 246,000,000</b>	<b>\$ 252,600,000</b>
	<b>Current Budget</b>	<b>Revised Budget</b>
Operating Expenditures	226,000,000	226,000,000
Transfers Out – Tidelands (Subsidy)	---	6,600,000
Transfers Out – Other Funds	20,000,000	20,000,000
<b>Total Uses</b>	<b>\$ 246,000,000</b>	<b>\$ 252,600,000</b>

As a result of this change, both the revenue and expenditure budget for the City's General Fund will increase by the amount of the subsidy provided to the Tidelands Operating Fund, which in this example is \$6.6 million. The change will have no impact on the actual net amount of funds moving between the General Fund and the Tidelands Operating Fund each year.

Prepared and Submitted by:

/s/ Scott Catlett

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