



CITY OF LONG BEACH

DEPARTMENT OF PARKS, RECREATION & MARINE

R-35

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May 15, 2007

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HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Tidelands Report, and authorize the City Manager to proceed with evaluation of financing alternatives, including bond financing and/or private/public partnerships to provide funds to complete the rebuild of the Alamitos Bay Marina, refurbish the Belmont Plaza Pool, provide funds sufficient to encourage a public/private partnership for a world-class, community-serving Long Beach Aquatics Center, refurbish the surface of the Belmont Veterans Memorial Pier, move the Bay Shore Avenue game courts to the Granada beach parking lot, rebuild the Leeway Sailing Center, and replace eight beach restrooms. (Citywide)

DISCUSSION

Tidelands History

"Tidelands" refers to Tidelands and Submerged Lands, which are the lands bordering the city that are below the mean high tide line, as the coast existed before human interference began reshaping the coast, generally dated to about 1880. The State of California claims as State property all property starting below the mean high tide line and extending for three miles. This area is known as Tidelands. Currently, the boundary line between Tidelands and Uplands (all property within the city other than Tidelands) is called the Chapter 138 line. That line generally runs along the beach about 10-20 feet seaward of the toe of the bluff. This is commonly defined as the first street from the waterfront.

In a legislative action in 1925, the State Legislature granted the Tidelands adjoining Long Beach to the City, to administer as the Trustee of the State. The Trust provisions allow the City to utilize the property for marine commerce, navigation, and fisheries. Later actions broadened the provisions to include marine recreation. The California State Lands Commission oversees the administration of the Trust for the State. The Trust provisions require that all money generated in the Tidelands must be spent in the Tidelands, in order to administer those lands. The City Charter divides the city's Tidelands area into the commercial port and non-port areas.

Tidelands Funds

In the mid part of the 1900s, there was a substantial amount of Tidelands revenue generated from oil extraction in the Tidelands area reverting to the City. The State Legislature recognized the financial windfall to Long Beach, and, in 1964, passed legislation that the oil profits could not be kept by the City as the Trustee, but must be forwarded to the State. The provisions of that legislation allowed a phase-in of the State's share over 25 years, until the City's share was reduced to \$1 million a year, which occurred in 1989. Before the State took the majority of the oil profits, the City utilized the funds for a variety of major waterfront projects, including the creation of the Alamitos Bay Marina, the construction of the Belmont Veterans Memorial Pier and Belmont Plaza Pool, the development of the Convention and Entertainment Center, and the purchase/development of the Queen Mary and surrounding area. The concept at the time was to use the funds for capital improvements that would later repay the fund with a positive revenue stream.

As indicated above, the City as a Trustee needed to account for Tidelands operations separately, in order to ensure that all revenue generated in the Tidelands stayed in the Tidelands. As a result, all revenues generated in and expenditures spent from the Tidelands are accounted for in separate Tidelands Funds, including separate funds utilized by Port operations. Operating revenues generated in the Tidelands include the revenues from waterfront commercial developments (including the Convention Center), marina operations, Rainbow Harbor operations, launch ramps, the Aquarium parking structure, beach parking fees and citations, seawall dock permit activities, and Belmont Plaza Pool operations. Operating expenses spent in the Tidelands include all costs associated with management, maintenance and security for these waterfront activities and assets. Debt service is also expended from the Tidelands Funds for debt incurred in developing the downtown marinas and Rainbow Harbor. Staff from the Departments of Parks, Recreation and Marine, Police, Fire, Community Development, Financial Management, and Public Works are involved in these activities to varying degrees.

There are a number of funds that compose the Tidelands Funds, but the three funds that include operating revenues and expenses under the control of the City Manager are the Marina Fund, the Rainbow Harbor Area Fund, and the Tidelands Operating Fund. The Marina Fund is used to account for all marina-related revenue and expenses associated with operating the City's marina operation. The Rainbow Harbor Area Fund is used to account for the operations in and around Rainbow Harbor. The Tidelands Operating Fund is used to account for all Tidelands operations other than the marinas, the Rainbow Harbor area and the Queen Mary lease operations.

Before the State curtailed the oil revenues, the Tidelands Funds were in a strong fiscal condition. By the late 1980s, as a result of the declining oil revenues, in combination with a softening marina market and general economy, the Tidelands Funds began incurring annual net operating losses. The City utilized available fund balances and curtailed capital spending to slow the problem, but it became so severe that in 1995, the

City Council began requesting an annual transfer from the Port of ten percent of its annual net revenues, as provided in the City Charter. The Harbor Commission has approved this request on an annual basis from that point forward.

The underlying problem with the Tidelands Funds is that, without a subsidy, beach and waterfront areas, with the exception of marina operations, do not generally generate an operating surplus. Currently, the operations in the Tidelands Operating Fund incur an annual operating deficit of about \$12 million, and the operation in the Rainbow Harbor Area incur an annual operating deficit of about \$7 million, for a combined Tidelands operating deficit of \$19 million.

The Harbor transfer has provided needed capital to close the budgetary gap in the Tidelands Funds since the mid-1990s. In addition, in the early 1990s, the oil operator in the Tidelands area developed a water injection process whereby water was introduced into the oil fields, which increased oil production. As part of the agreement to utilize this process, a new profit allocation was developed whereby the City receives an 8.5% share of the new oil production profits. In the early part of this decade, this revenue stream also provided new capital to close the budgetary gap. Unfortunately, with the Harbor transfer averaging about \$9 million and the oil transfer averaging about \$4 million, there was still a significant structural deficit in the Tidelands Funds. As a result, capital projects had been delayed to the point where the deferred capital project list in the Tidelands area totaled about \$58 million.

This situation began to change in 2003, as the oil transfer began to climb as a result of high oil prices. The transfer, that had been averaging \$2 million to \$4 million, climbed to \$7 million in 2003, \$9.2 million in 2004, \$13.1 million in 2005, and \$18.2 million in 2006. In addition, the Harbor revenues were increasing dramatically, to the point that the transfer in FY07 will be \$14.2 million, up from \$9.5 million in FY06. Together, these created a funding spike, which enabled us to spend \$3.9 million on Tidelands projects in FY06 and \$7.2 million in FY07. Those projects include the completion of Jack Nichol Park, dredging of the Catalina Landing Basin, repair of the Belmont Veterans Memorial Pier Plaza, nearly \$2.3 million in Naples seawall repairs, upgrade of the lifeguard telephone system, repairs to the Convention Center, replacement of a guest dock in Rainbow Harbor, and a number of smaller capital projects along the waterfront.

Current Capital Needs

Although the recent transfers from the Harbor Department and oil revenues have helped address the substantial deferred capital list, there are still a number of significant capital needs that must be addressed. As indicated above, the marina operation is part of the overall Tidelands operation. The Alamos Bay Marina (ABM) was built in the 1950s and 1960s using oil revenues, and the downtown marinas (Shoreline Marina and Rainbow Marina) were constructed in the 1980s using a revenue bond. The City embarked on a major rebuild of all the city's marinas in the late 1990s, utilizing loan funds from the California Department of Boating and Waterways (DBW). To date, ABM Basin 8 has

been built and the downtown marinas have been rebuilt using DBW loan funds totaling \$2.7 million and \$31.7 million, respectively. In addition, DBW has approved approximately \$21 million for the rebuild of ABM. Unfortunately, recent State raids on DBW's funds have severely curtailed the public marina loan program to the point that it would be unwise to rely on DBW loan funds for the remaining funding needs of the ABM rebuild. As it is estimated that the ABM rebuild will cost \$79 million.

The Belmont Plaza Pool has severe structural deficiencies, and an aquatics study has indicated that it will cost approximately \$23 million, depending on amenities, to retrofit the facility and refurbish the pools for recreational use. While addressing the needs and uses of the Belmont Plaza Pool, we have discussed the City's aquatics program in general, and see tremendous merit in building a world-class, community-serving Long Beach Aquatics Center in the downtown area. The Long Beach Aquatics Center, in the vicinity of the temporary venue used for the 2004 U.S. Olympic Trials, would serve the community overall while also hosting competitive swim events, and the Belmont Plaza Pool would be used for competitive diving events and recreational uses. The City would need to seek a private-sector partnership for the Long Beach Aquatics Center, given likely development and operating costs.

Finally, there are a number of smaller, important Tidelands projects that have not moved forward due to lack of funding, including the refurbishment of the surface of the Belmont Veteran's Memorial Pier, relocation of the Bay Shore game courts to the Granada beach parking lot, rebuild of the Leeway Sailing Center, and replacement of eight beach restrooms. In aggregate, these projects could cost as much as \$10 million.

A bond issue could provide the funds needed to complete the rebuild of ABM, refurbish the Belmont Plaza Pool, provide seed money for a public/private partnership for the Long Beach Aquatics Center, and complete the smaller capital projects described above. A 25-year financial evaluation was completed in the Tidelands Funds. The Marina Fund has the capacity to cover debt service for the ABM rebuild, in addition to the funds needed for the smaller projects mentioned above. The financial evaluation included the following assumptions for the marina operations:

- A 3% annual increase in operating expenses;
- A 5% annual increase in slip fees from FY09 until FY14; and
- A 3% annual increase in slip fees after FY14.

The remaining financing necessary to provide funds to refurbish the Belmont Plaza Pool, and possibly the construction of a Long Beach Aquatics Center in the downtown area, may be possible utilizing general Tidelands funds for debt services. The financial evaluation included the following assumptions for the non-marina Tidelands operations:

- A 2% increase in revenue and expenses;
- A continued annual capital project program that decreases to \$500,000 in FY11, but increases to an annual allocation of \$2.5 million beginning in FY17;

- An annual oil transfer of \$6 million beginning in FY09; and
- An annual Harbor transfer increasing by 5%.

TIMING CONSIDERATIONS

City Council action is requested on May 15, 2007, in order to proceed with a detailed evaluation, and subsequent development of a possible bond issue for the Tidelands projects.

FISCAL IMPACT

This recommendation will identify the possible feasibility of funding a number of large capital projects, viewed as necessary and fiscally feasible, for the Tidelands areas of the city. Further discussion with the City Council will ensue once the requested detailed evaluation is complete.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PHIL T. HESTER
Director of Parks, Recreation
and Marine

PTH:MAS:rb



MICHAEL KILLEBREW
Director of Financial Management

APPROVED:



GERALD R. MILLER
CITY MANAGER