

## VENTURA PORT DISTRICT

### BACKGROUND

The financial difficulties facing the Ventura Port District (District) and its attempt to alleviate them, initiated this inquiry.

We were interested in the District's organizational composition, its relationship to the City of Ventura, its harbor operations, financial condition, and the business plan adopted by the District's Board of Port Commissioners (Board) and submitted to the U. S. Bankruptcy Court (Court) for its subsequent action.

### INQUIRY

The Grand Jury interviewed District officials, analyzed information on the harbor, including historical data on past dredging operations, FY94/95 and FY95/96 audits of financial records, a copy of the Ventura Harbor Business Plan Final Report, and attended a joint public session between the Ventura City Council and the District Board.

### FINDINGS

- The District was formed in April 1952 as an independent district, operating under Sections 6200 et seq. of the California Harbors and Navigation Code. The purpose for its formation was to acquire, construct, and operate a small craft harbor known as Ventura Harbor (Harbor).
- The District is governed by a five member Board of Port Commissioners appointed by the Ventura City Council, and they serve four year terms. They, in turn, appoint a general manager to implement policies. The City of Ventura has no jurisdiction over the Harbor's normal administrative and operational activities.
- In May 1996 the city council appointed three port commissioners, and the Board then hired a new general manager.
- The District purchased the Harbor land in 1958 with a low interest loan from the State of California.
- In 1962 voters approved a \$4.75 million General Obligation Bond issue for Harbor construction, with operations commencing in June 1963. That same year Congress approved Public Law 90-483 which designated the Harbor a federally authorized project.
- Heavy rainfall in 1969 caused the Santa Clara River to flood, destroying the Harbor. With federal emergency funds, the Harbor was rebuilt in 1970.
- Financial accounts are organized into four separate funds. The Enterprise account is used for public operations; the Bond Debt service fund is used for the repayment of principal and interest on the general obligation bond issue.
- The Dredging fund was established due to a court ruling in 1979 requiring the District to set aside \$3M for inner harbor access dredging, favoring the Ventura Keys Homeowners. Historically, the U.S. Army Corps of Engineers has dredged the entrance channel at no cost to the District.

- The Harbor Improvement Fund is used for capital improvements with the District applying for project monies from federal and state agencies to offset the costs.
- Ocean Services Corporation (OSC) defaulted on its sublease purchase payment to Bank of America in 1987, which resulted in the formation of the nonprofit Public Facilities Corporation (PFC) as the new leasee. That was required by Merchants Bank, in Kansas City, to obtain an \$8.5M loan, pledging the lease as security.
- The \$8.5M loan was used to settle Bank of America's lawsuit against OSC. In November 1992 the Merchants Bank loan was taken over by the Federal Deposit Insurance Corporation (FDIC).
- PFC leases and operates the Harbor Village from the District and makes partial debt service payments on the \$8.5M loan. All ground lease and tenant rents collected by PFC are assigned to the FDIC until the debt is retired. In addition, the District has agreed to forego rent receipts from PFC due to insufficient cash flow after debt service. At the end of FY95/96 the loan balance was at \$8.4M.
- The District formed the Public Improvement Corporation (PIC) in 1993 to purchase from Great Western Bank the ground sublease, leasehold improvements, tenant accounts receivable, and security deposits for \$950,000, plus closing costs. At the end of FY95/96 the loan balance was at \$761,275.
- Total operating revenue in FY95/96, including PFC and PIC, was \$3.9M, and operating expenses were \$3.8M. Nonoperating revenue, including property taxes, was \$1M, and nonoperating expenses were \$1.4M, leaving a net operating loss of \$300,000.
- There are several lawsuits pending against the District which have exacerbated its financial problems. The largest litigant is Ventura Group Ventures (VGV), who assumed OCSs claims, and has received a \$15.6M judgement, not including interest. More than 10% of the District's operating budget goes to legal fees.
- To protect itself from creditors while developing a plan of debt adjustment, in August 1993 the District filed for Chapter 9 bankruptcy protection. The court later ordered that it develop and file a debt adjustment plan, also known as the Business Plan, by January 31, 1997. On April 2, 1997, an initial hearing was held by the Bankruptcy Court to determine adequacy of the Bankruptcy Plan. Since the outlines of a consensual settlement was mentioned in that Court hearing, further consideration was postponed to mid-July 1997 to enable discussions between the District and VGV, its largest creditor. To advance understanding and the support of the City, the District and the Ventura City Council held a joint public hearing to review, discuss, and receive public comments on the plan, which was subsequently filed with the court.

## CONCLUSIONS

1. The debt adjustment plan necessitates full cooperation of creditors, the Ventura Keys homeowners, and the City of Ventura if the District is to alleviate its financial dilemma.
2. Dredging the harbor's entrance channel and inner basins, particularly during periods of stormy weather conditions, constitutes a major annual liability to the District.

- 3. Litigation expense incurred over the last two years is a significant portion of the District's budget.
- 4. Taxpayers within the District's boundaries have contributed substantial tax revenues to support operations.

**RECOMMENDATIONS**

- 1. The District must continue to actively pursue federal funding to offset the annual dredging cost of the entrance channel.
- 2. The District must develop and implement an aggressive public relations and marketing plan with the City of Ventura, tenants, and the Visitor's Bureau to gain greater exposure in the regional and national arena to increase economic activity.
- 3. The District should make every effort to alleviate the taxpayers' subsidization of the harbor.

**RESPONSE REQUIRED**

Board of Port Commissioners  
General Manager