

## **Ventura Port District Financial Viability Review**

### **Summary**

The Ventura Port District (District) has had a difficult financial history, filing for bankruptcy in the early 1990s and subsequently emerging from bankruptcy with a court approved business plan in the late 1990s. In view of the District's troubled financial past, the 2007-2008 Ventura County Grand Jury (Grand Jury) opened an investigation to assess District current and future financial viability.

Based on the District's most recent audit reports (FY2005-2006 & FY2006-2007), the Grand Jury found that District revenues have continued to increase as a result of stable marina occupancy rates, positive Harbor Village (Village) business activity and expiration of the legislation that diverted a majority of the District's property tax revenue to the State during FY2004-2005 & FY2005-2006. Equally important, operating expenditures as well as capital dredging expenditures have remained within budget, and federally funded harbor entrance dredging and breakwater maintenance services have continued since inception in 1983, without interruption.

The Grand Jury concluded the District's financial position should be further improved by the end of FY2007-2008 and the improvement trend will continue into the near future, albeit only marginally, provided federal dredging and breakwater services/appropriations continue and the economy remains relatively stable. The Grand Jury further concluded that development of vacant District Parcels 15, 16, & 18 in the center of the harbor, as well as other facility modernization and expansion capital projects, are key components in the long term financial viability of the District.

In anticipation of a continuing improved financial position at the end of FY2007-2008, the Grand Jury recommends the District continue to pursue re-funding its existing Certificates of Participation (COP) debt. The Grand Jury further recommends the management and staff of the District, the City of Ventura, and the California Coastal Commission cooperate to make development of District Parcels 15, 16, & 18 a reality as soon as possible. Finally, the Grand Jury recommends that all entities involved work together to process future capital project applications in a timely manner in view of the benefits to be derived by the District, the City, and the general public.

### **Background**

Voters of the City of Ventura formed the Ventura Port District in April 1952 to acquire, construct, and operate a commercial and recreational boat harbor within the City of Ventura. Upon its formation, the District acquired title to lands that now comprise Ventura Harbor (Harbor). Although the District was formed in 1952, the Harbor was not actually developed and operational until mid-1963 after funding was provided by a voter-approved general obligation bond issue in

early 1962 (\$4,750,000), and the District received State Boating & Waterway loans and property tax revenues.

During the 1960s, several improvements including a fuel dock, boat repair yard, restaurant, yacht club, and a marine supply store were completed. Additionally, a mobile home park was constructed on land leased from the District. In 1969, flooding of the Santa Clara River caused major damage to most of these improvements and to the Harbor itself. Although the Army Corps of Engineers (ACE) repaired all the damage to the Harbor improvements and to the Harbor itself, further development was delayed for several years. The California Coastal Act of 1976 also delayed development until 1981. The Coastal Act required the California Coastal Commission's approval of the Ventura Harbor Segment of the City of Ventura's Local Coastal Program.

During the 1980s, the majority of the Harbor was developed. In 1984, the developer of the Harbor's key Village retail and commercial project declared bankruptcy and faulted the District for the Village's failure. This resulted in the District declaring bankruptcy and filing for Chapter Nine protection. A key element in the District's recovery from bankruptcy was issuance of \$15 million in COP debt to acquire the Village complex from its bankrupt developer and incorporation of the Village into District operations under District control.

In 2001, consultant Williams-Kuebelbeck & Associates (WK&A) conducted an assessment of the District's progress, after five years of working to comply with a bankruptcy recovery business plan (Business Plan) prepared for the District by WK&A in 1997. In summary, the consultant concluded that the District had achieved a major financial turnaround; however, the development of Parcels 15, 16, & 18 continued to be of vital importance to the District's long-term financial viability. [Ref-02]

## **Methodology**

The Grand Jury interviewed District management and finance staff, the Ventura County Assessor, and received property tax information provided by staff of the Ventura County Auditor-Controller's office. Additionally, various documents including the District's Master Plan, District audits, budgets and the unaudited June 2007 monthly financial statement, the County LAFCo Municipal Service Review (MSR) of the District, consultant analyses/studies, the California Harbors and Navigation Code, and relevant newspaper articles were reviewed. Financial schedules based on these sources, particularly audits, budgets, and current year revenues/expenditures were prepared to forecast the District's financial condition as of the end of FY2007-2008.

## **Findings**

### General

**F-01.** The District is an Independent Special District governed by a five member Board of Port Commissioners, serving fixed terms, who are

appointed by the Mayor of the City of Ventura and confirmed by the full City Council. [Ref-03]

- F-02.** The District is an Enterprise District that operates similar to a private business in that it is predominately self-supporting from operational revenues although it receives some property tax revenue and periodic grant funds. [Ref-01]
- F-03.** The District's geographic area, assessed valuation, and population are contained within the City of Ventura; District boundaries encompass the City. The District's current property holdings consist of 274 acres: 152 acres of land and 122 acres of water.
- F-04.** The District receives a pro-rata share of the Ventura County general tax levy because a levy was in place when Proposition 13 was added to the State Constitution in 1978. Budgeted FY2007-2008 property tax revenues are approximately 12% of total budgeted revenues. [Ref-03, Ref-08]

#### Federal Involvement

- F-05.** Under Public Law 909-483, the ACE is responsible for Ventura Harbor entrance and sand trap dredging, as well as necessary offshore breakwater repairs. ACE has funded and performed entrance/sand trap dredging and breakwater maintenance services since 1983. [Ref-03]
- F-06.** ACE funding is contingent on annual federal budget appropriations. [Ref-03]
- F-07.** As a consequence of a lawsuit and subsequent judgment known as the "Ellison Judgment", the District is required to keep the channel from the ocean to the Harbor and the Ventura Keys area open and free of shoaling. The judgment also requires the District to maintain a \$3 million reserve fund, currently fully funded, for potential maintenance and/or sand trap bypassing costs. [Ref-01]
- F-08.** According to the Ventura County Local Agency Formation Commission (LAFCo) October 2007 MSR, ". . . termination of federal entrance and sand trap dredging would have a significant financial impact on the Port District's financial viability." [Ref-01]

#### Bankruptcy/Recovery

- F-09.** The Ventura Port District Public Facilities Corporation was formed in 1992 as a non-profit benefit entity for the purpose of issuing COP debt to purchase bankrupt developer-owned Village improvements located on land leased from the District. [Ref-01]
- F-10.** The District filed for Chapter Nine bankruptcy protection in August 1993 as a consequence of losing a breach of contract lawsuit. Subsequently, the District was a Chapter Nine debtor until 1998 when the Bankruptcy Court approved a Business Plan that resulted in the sale of \$15 million in COP debt. [Ref-02, Ref-03]

- F-11.** The August 2001 Belknap Study noted, “. . . major threats to the City of Ventura’s economic condition include obsolescence of the Village shopping area, which would require the Port District to make large capital improvements beyond the District’s capability.” [Ref-03]
- F-12.** The District gained ownership of Village leasehold improvements in the late 1990s as a result of retiring Village related debt through the issuance of COP. Significant savings were achieved by consolidating Village operations into District operations. [Ref-02]
- F-13.** The COP issued by the District in 1998, along with State Boating and Waterways loans, brought the District’s long term debt (principal only) to approximately \$19.2 million, roughly four times the District’s FY 2001-2002 annual budget. [Ref-02]
- F-14.** The court approved Business Plan provided actions required to achieve and maintain a level of financial viability, provide for maximum payment of creditor debt, and carry out the District’s public purposes. [Ref-02]
- F-15.** An October 2001 report on the financial viability of the District further noted, “. . . without additional revenue producing improvements, a deteriorating financial condition was likely because of expenses growing at a higher rate than revenues and, current reserves would eventually be usurped, debt coverage ratios would decline and an inability to properly maintain existing facilities would likely occur.” [Ref-02]
- F-16.** Adoption of most of the Business Plan recommendations by the summer of 2001 resulted in a major improvement in District financial viability. After payment of debt service, a net surplus of \$700,000 was realized for FY2000-2001. Addition of this net surplus to the District’s prior year’s reserves increased total reserves to approximately \$5 million at the end of FY2000-2001. [Ref-02]
- F-17.** The August 2001 Belknap Study predicted that District debt service would consume around 20% of the District’s annual revenue until the year 2028. [Ref-03]

#### Port District Parcels 15, 16 & 18

- F-18.** According to the District’s 2001 financial viability assessment report, the one major recommendation made in the Business Plan remaining unimplemented as of 2001, was the leasing and development of District Parcels 15, 16, & 18. As noted in this report, “. . . the development of these parcels is considered the most important change necessary to insure financial viability of the Harbor” and “. . . the timely implementation (development) of Parcels 15, 16, & 18 should be the most important strategy for the District to implement.” [Ref-02]
- F-19.** According to the Belknap Study, “. . . the Port District’s future is highly reliant upon future development of Harbor Parcels 15, 16, & 18 and a continuing favorable economy as it relates to tourism and fishing.” [Ref-03]

- F-20.** Development of the District's key remaining open space areas (Parcels 15, 16, & 18) has been delayed more than three years as a consequence of:
- a City suggestion to significantly modify original project plans to accommodate a more open "urban plan" concept
  - California Coastal Commission administration/staff changes and resulting requests for up-dated/additional information
- F-21.** California Coastal Commission approval of revised Parcels 15, 16, & 18 plans is anticipated by January 2009.
- F-22.** The anticipated developer of District Parcels 15, 16, & 18 (Sondermann Ring Partners) has committed to pay the City of Ventura \$3.25 million to help build a new Port Area (District Parcels 1-20 within District property boundaries) (Port) fire station to improve current emergency response times. [Ref-04]

### Operations/Finance

- F-23.** A preponderance of District revenues are derived from marina lease payments and tenant rent in the Village. Historically, 10-15% of District revenues are attributable to a pro-rata share of property taxes received by the District, interest earnings on invested funds, and periodic intergovernmental grants. [Ref-01]
- F-24.** Currently, all four of the District's marinas are 90-95% occupied compared to late 1990's and early 2000's occupancy in the low to mid 70% range. [Ref-02, Ref-03]
- F-25.** As District marina leases have been re-negotiated, dredging in lessee water areas has become a lessee responsibility. Currently, the District is responsible for dredging only the Ventura West Marina.
- F-26.** The District's FY2006-2007 budgeted net income was \$324,100 and was subsequently modified to \$490,518. According to the District's unaudited June 2007 financial statement the actual net income totaled \$846,112. [Ref-05]
- F-27.** District property tax revenues for FY2006-2007 totaled \$916,229, an increase of \$631,775 and \$693,594 over FY2004-2005 & FY2005-2006 respectively, when a majority of the District's property tax revenues were diverted to the State "Education Revenue Augmentation Fund" (ERAF) to aid with State budget/finance problems. [Ref-06]
- F-28.** Despite current housing market declines and resulting lowered property assessments, a rise in the overall FY2007-2008 property tax base is anticipated because of new developments, continuing home sales, and annual 2% Proposition 13 increases, which result in higher assessment values. [Ref-07]

- F-29.** District property tax revenues for FY2007-2008 are budgeted at \$925,000. Actual Property Tax apportionments through May 2008 total \$958,000. [Ref-09]
- F-30.** District FY2006-2007 interest earnings totaled \$433,926. Based on anticipated lower interest rates and lower interest earnings investment balances, budgeted FY2007-2008 interest revenues were reduced to \$320,000. Actual interest earnings through March 2008 total \$351,000. [Ref-06, Ref-08, Ref-09]
- F-31.** Harbor Village FY2006-2007 rent revenues decreased approximately \$23,000 as a consequence of losing two restaurant tenants. Fiscal Year 2007-2008 Village rents, however, are anticipated to be significantly improved with the addition of a new restaurant tenant and other positive tenant lease adjustments. [Ref-05, Ref-10]
- F-32.** The District's FY2005-2006 Capital Improvement Plan (CIP) budget was \$2,425,000 and \$2,221,189 was expended. The District's FY2006-2007 CIP budget was \$837,000 and \$188,576 was expended. The District's adopted FY2007-2008 CIP budget is \$2,111,000 and District management projects total current year CIP expenditures will be approximately \$900,000. [Ref-06, Ref-08, Ref-10]
- F-33.** According to District management, it is not financially realistic for the District to acquire large marinas in the Ventura Harbor; however, it is potentially feasible to acquire and operate a small marina.
- F-34.** In recent years, District management explored re-funding the District's existing COP debt with a larger debt issue to lower its existing interest rate and to generate additional capital funds for marina acquisition and capital projects. The re-funding was not pursued as a consequence of the District not qualifying for a satisfactory bond rating and because potential lenders wanted the District to have additional sources of revenue. [Ref-04]

#### Ventura Port District-City of Ventura Nexus

- F-35.** According to the 2001 Belknap Study, "From a business standpoint, the Harbor and the overall City of Ventura economy are interwoven." [Ref-03]
- F-36.** The Executive Summary of the LAFCo MSR of the District states, ". . . in terms of government structure, the Port District and the City of Ventura should continually look for opportunities for efficiencies gained through active collaboration." [Ref-01]
- F-37.** Subsequent to presentation of the 2001 Belknap Study, the City of Ventura and the District entered into a joint service agreement to combine City firefighters with Harbor Patrol Officers on the District's fireboat. The agreement provides for use of the District's fire boat to provide fire fighting services for the Port, the Ventura Keys, the Pierpont water areas, and the Ventura Pier. [Ref-01]

- F-38.** At a joint 2007 meeting with the Board of Port Commissioners, the Ventura City Council reaffirmed its support of the District and its economic goals.
- F-39.** In a January 2007 *Ventura County Star* newspaper article, a Ventura City Councilman stated, "I view this project (the development of Port District Parcels 15, 16, & 18) as absolutely vital to the economic interests of the city and the financial integrity of the harbor." [Ref-04]

## Conclusions

- C-01.** The Grand Jury concurs with the LAFCo MSR finding that continued participation of the federal government through its ACE, in the provision of District dredging and breakwater/jetty repair services, is critical to the financial stability/viability of the District. (F-05 through F-08)
- C-02.** Based on District property tax apportionment of \$958,000 through May 2008, current year property tax revenues will likely increase to approximately \$960,000 or 12% of projected FY2007-2008 revenues. (F-28, F-29) [Att-01, Att-02]
- C-03.** Based on Port District interest earnings of \$351,000 through March 2008, current year interest earnings project to approximately \$438,000. (F-30) [Att-01]
- C-04.** Based on projected revenues/expenditures, and resulting net assets and cash/cash equivalents as of the end of FY2007-2008, the District appears to be financially stable. Future stability is dependent on multiple factors including:
- marina occupancy levels
  - successful Harbor Village commercial operations
  - continuing federal government dredging and breakwater maintenance services
  - no repeat diversion of District property tax revenues
  - successful development of District Parcels 15, 16, & 18
- (F-05 through F-08, F-18 through F-21, F-23 through F-25, F-27 through F-31) [Att-01, Att-02]
- C-05.** Based on projected District revenues and expenditures through June 2008, it is likely that the District's FY2007-2008 budgeted year-end Surplus/Change in Fixed Assets of \$801,515 will be exceeded by approximately \$356,500 resulting in a corresponding increase in budgeted Ending Net Assets from \$12.87 million to approximately \$13.22 million. (F-29 through F-32) [Att-01]
- C-06.** Based on projected operating and non-operating cash flows, as well as projected capital and related expenditures as of June 2008, it is likely that the District's budgeted negative cash flow of \$1,006,485 will be positive by approximately \$561,000. This results in a corresponding

\$1.57 million increase over the District’s budgeted year-end \$3.59 million Projected Unrestricted Cash Balance to approximately \$5.16 million. (F-24, F-28 through F-32) [Att-03]

- C-07.** Based on the FY2007-2008 District budget and year-end projections, FY2007-2008 debt service will consume approximately 14% of current year total annual revenue versus, “. . . around 20% until the year 2028,” as anticipated in the 2001 Belknap Study. (F-17) [Att-01]
- C-08.** Successful development and operation of the District represent a “win-win” opportunity in that both the District and the City of Ventura are benefited financially as well as operationally. In particular, the development of District Parcels 15, 16, & 18 should result in the District becoming an increasingly important economic engine for the City of Ventura. (F-18, F-19, F-35, F-38, F-39)

**Recommendations**

- R-01.** The Grand Jury recommends that the District revisit re-funding its existing COP debt issue in view of its continuing improved financial position. (C-02 through C-07)
- R-02.** The Grand Jury recommends that both the City and the District take advantage of every opportunity to facilitate port economic development, particularly the development of District Parcels 15, 16, & 18, and the up-grading/improvement of older District properties. (C-08)
- R-03.** The Grand Jury recommends that the California Coastal Commission complete its review and processing of the District’s application to develop District Parcels 15, 16, & 18 as quickly as possible. (C-08)

**Responses**

Responses Required:

- Board of Port Commissioners, Ventura Port District (R-01, R-02)
- City Council, City of Ventura (R-02)

Responses Requested:

- California Coastal Commission (R-03)

**References**

- Ref-01 LAFCo Municipal Service Review, Ventura Port District, October 2007
- Ref-02 Ventura Harbor Financial Viability Assessment, Williams-Kuebelbeck & Associates, Inc., October 17, 2001
- Ref-03 Ventura Port District Study, “A Service Coordination Consolidation Analysis,” Andrew S. Belknap, August 2001

- Ref-04 *Ventura County Star* newspaper article, "Zoning Changes OK'd at Ventura Harbor," January 24, 2007
- Ref-05 Ventura Port District Financial Statement (unaudited), month of June 2007
- Ref-06 Ventura Port District Financial Statements, (audited), FY2004-2005, FY2005-2006 and FY2006-2007
- Ref-07 *Los Angeles Times* newspaper article, "Housing Slump is Cutting Tax Bills," March 28, 2008
- Ref-08 Ventura Port District Budget, FY2007-2008
- Ref-09 Ventura Port District Finance Department
- Ref-10 Ventura Port District Administration

### **Attachments**

- Att-01 Statement of Revenues/Expenses and Changes in Net Assets
- Att-02 Comparative Cash Flow Statement
- Att-03 Reconciliation of Net Income to Net Cash Flow

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**Attachment-01**  
**Statement of Revenues/Expenses and Changes in Net Assets**

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**Statement of  
Revenues/Expenses and Changes in Net Assets**

	Actual 2005-2006	Actual 2006-2007	Budget 2007-2008	Grand Jury* Projected 2007-2008
Operating Revenues	\$6,029,295	\$6,269,670	\$6,509,450	\$6,583,000
Operating Expenditures (1)(3)	(5,495,374)	(5,256,290)	(5,850,035)	(5,720,000)
Net Operating Income	<u>533,921</u>	<u>1,013,380</u>	<u>659,415</u>	<u>863,000</u>
Non-Operating Revenues (2)	1,240,480	1,376,585	1,283,500	1,436,500 (5)
Non-Operating Expenditures	(354)	0	0	0
Net Non-Operating Income	<u>1,240,126</u>	<u>1,376,585</u>	<u>1,283,500</u>	<u>1,436,500</u>
Pre-Debt Income	1,774,047	2,389,965	1,942,915	2,299,500
Debt Svc. (Incl Issue Cost)	(1,112,419)	(1,145,874)	(1,141,400)	(1,141,400)
Surplus/Chng in Net Assets	661,628	1,244,091 (4)	801,515	1,158,100
Net Assets, Beginning	10,160,602	10,822,230	12,066,321	12,066,321
Net Assets, Ending	10,822,230	12,066,321 (4)	12,867,836	13,224,421

(1) Includes depreciation and dredge related expense; not Capital dredge costs/budget.

(2) Includes extraordinary \$656,880 intergovernmental revenue in FY 2005-06 and return of property taxes in FY's 2006-07 and 2007-08.

(3) Includes \$768,840 and \$184,740 dredge expense in FY's 2005-06 and 2006-07 respectively and \$395,000 budgeted dredge operating expense in FY 2007-08 . Does not include FY 2007-08 budgeted Capital dredge cost (\$205,000).

(4) Due primarily to reduced dredge expense (\$584,000) and increased prop. tax revenue (\$639,650).

(5) Includes Property Taxes (\$960,000), Interest (\$438,000), & Intergovernmental/Other (\$38,500).

\*Grand Jury projections are based on financial documents provided by the District, and discussion with District finance staff.

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**Attachment-02**  
**Comparative Cash Flow Statement**

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## Comparative Cash Flow Statement

	Actual 2006-2007	Grand Jury* Projected 2007-2008
Net Cash Flows from Operating Activities	\$1,908,101	\$2,000,000 (1)
Cash Flows from Non-Capital Related Fin. Activities		
Taxes	917,303	960,000 (2)
Intergovernmental/Other	23,430	10,000
Harbor Dredging	(184,740)	(395,000) (3)
Misc.	0	28,500
Net Cash From by Non-Capital & Related Finl. Activities	<u>755,993</u>	<u>603,500</u>
Cash Flows from Cap. & Related Finl. Activities		
Acq. & Constr of Cap. Assets	(188,576)	(900,000) (4)
Payments - Long Term Debt	(378,417)	(367,000)
Interest & Bond Issue Costs	(1,145,874)	(1,141,400)
Net Cash Used by Cap. & Related Finl. Activities	<u>(1,712,867)</u>	<u>(2,408,400)</u>
Cash from Investing Activities		
Interest Received	407,744	409,000 (5)
Net Increase(Decrease) in cash/equivalents	1,358,971	604,100
Cash & Cash Equivalents - Beginning	8,516,413	9,875,384
Cash & Cash Equivalents - Ending	9,875,384	10,479,484

(1) 4.8% increase over 2007 actual based on slight 2007 increase over 2006 (3.6%)

(2) Auditor estimate \$990,000; District budget \$925,000

(3) Per operating expense budget "Dredge Related Expense"

(4) District projection

(5) Projected interest earnings not including year end accrual. Projection is based on actual FY 2006-07 amounts

\*Grand Jury projections are based on financial documents provided by the District, and discussion with District staff.

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**Attachment-03**

**Reconciliation of Net Income to Net Cash Flow**

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**Reconciliation of Net Income to Net Cash Flow**

	Actual 6/30/2006	Est/Actual 6/30/2007	Budget 2007-2008	Grand Jury* Projected 2007-2008
Cashflows from Operatintg and Non-Operating Income (Loss)	697,338	934,353	801,515	1,158,100
<b>Adjustments to Reconcile Net Income to Net Cash:</b>				
Add back Depreciation	607,479	665,000	670,000	670,000
Add Proceeds from DBAW-VHV Marina	1,500,000	0	0	0
Subtract Principle payments on loans	294,500	379,600	367,000	367,000
Subtract Capital Acquisitions	2,186,000	360,000	2,111,000	900,000
<b>Project Change in Cash Flow</b>	<u>324,317</u>	<u>859,753</u>	<u>(1,006,485)</u>	<u>561,100</u>
<b>Projected Unrestricted Cash Balance 6/30/07</b>			<b>4,600,000</b>	<b>4,600,000</b>
<b>Projected Unrestricted Cash Balance 6/30/08</b>			<b>3,593,515</b>	<b>5,161,100</b>

\*Grand Jury projections are based on financial documents provided by the District, and discussion with District staff.

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