

# PORT OF OAKLAND

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## ***Despite Its Overall Financial Success, Recent Events May Hamper Expansion Plans That Would Likely Benefit the Port and the Public***

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### ***Audit Highlights . . .***

***Our review of the Port of Oakland's (Port) financial statements for the past 10 years and its past and future capital improvement projects revealed that:***

- Overall, the Port effectively managed its assets, and its \$1.7 billion capital improvement program should benefit the public and allow it to remain competitive.***
  - Its maritime and aviation divisions have prospered, and their expansion plans are based on reasonable estimates of future revenues and expenditures.***
  - Certain recent events may hamper the aviation division's plans to improve the airport.***
  - The real estate division consistently operated at a deficit due to unsuccessful business ventures, inaction in controlling operating costs, and the Port's decision to lease certain properties at below-market rates.***
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Overall, the Port of Oakland (Port) effectively managed its assets over the last 10 fiscal years (1990–91 through 1999–2000) and its \$1.7 billion capital improvement program should benefit the public and allow the Port to remain financially competitive in the future. We found that two of the Port's three revenue generating divisions—maritime and aviation—performed well during the past decade, while the third—real estate—has shown consistent losses. The real estate division's losses were due to some unsuccessful business undertakings, its inability to control its high operating costs, and the Port's decision to lease certain real estate division holdings to public and nonprofit entities at below-market rates.

The Port is also in the middle of planning and implementing large capital expansion plans for both its maritime and aviation divisions. Our review of the Port's March 2000 feasibility study found that projections of the maritime and aviation divisions' future revenues and expenses are reasonable and that their respective expansion plans should provide a number of public benefits. However, events have occurred since the March 2000 feasibility study that may significantly affect the aviation division's plans for improving the airport. For instance, the aviation division had to revise its expansion plan to curb costs when updated construction cost projections proved higher than expected. In addition, an appellate court decision will require the Port to develop a supplemental environmental impact report that will result in added time and expense. Finally, the terrorist attacks of September 11, 2001, could result in costly changes to airport security.

**Finding: The real estate division's consistent losses have been due to costly public services, high operational expenses, and some ill-fated business decisions.**

Despite two studies and an action plan adopted by the Board of Port Commissioners (board), the real estate division has taken few steps to alleviate the financial drain it has had on the Port's overall operations. From fiscal year 1990–91 through 1999–2000 the real estate division lost between \$4.3 million and \$12.4 million, for an average annual loss of \$7.5 million. These losses appear to result from at least three different factors. The first is a conscious decision by the Port to have the real estate division enter a number of lease agreements at rates significantly below fair market value. The second relates to the high operational costs associated with properties located in and around Jack London Square, costs that the real estate division failed to reduce. The third cause seems to be some ill-fated decisions the division made in pursuing certain business deals.

We recommended that, to reduce the effect of its losses on the Port's overall operations, the real estate division should take the following actions:

- Complete the action plan to improve revenues and reduce operating costs that was approved by the board in 1999.
- Examine the feasibility of increasing below-market lease rates to at least cover its operational costs without harming the Port's relationships with the community and the other municipalities.
- Continue to look for ways to increase revenues and decrease costs associated with managing its assets.

***Port Action: Partial corrective action taken.***

The Port reports that it is currently working towards implementing two of the items listed in its 1999 action plan. In December 2001 the board approved a transaction to transfer four Port buildings within Jack London Square and the corresponding operations to a third party in March 2002. Now that the board has approved the Jack London Square transaction, the Port is focusing on completing and releasing a Request for Proposal on its Marina portfolio of properties.

Further, the Port reports that it is currently analyzing the below-market leases for strategic options and cost/benefit savings and expects that the board will review this study within six months (July 2002). Finally, the Port stated that it is continuing to look for ways to increase revenues and decrease costs relating to its real estate division.

