

**ANALYSIS OF FEES FOR
FISH OFF-LOADING, WHOLESALE PURCHASE, & RETAIL SALES**

PILLAR POINT HARBOR

**PILLAR POINT SEAFOOD, MORNING STAR FISHERIES,
AND THREE CAPTAINS SEA PRODUCTS LEASES**

Presented to

San Mateo County Harbor District

By

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I. INTRODUCTION AND BACKGROUND INFORMATION

A. Study Purpose and Objective

The San Mateo County Harbor District (SMCHD) engaged Dornbusch Associates (Dornbusch) to analyze fees that SMCHD levies on lessees who engage in fish off-loading, wholesale purchase, and retail sales at Pillar Point Harbor. The three lessees are Pillar Point Seafood, Morning Star Fisheries, and Three Captains Sea Products. Dornbusch compared fees at Pillar Point to fees in place at other harbors in Northern California, including Monterey, Moss Landing, Santa Cruz, San Francisco, Spud Point (Bodega Bay), and Noyo (Fort Bragg).

Although the methodology of this report involves a comparability study and an analysis of fees as a percentage of lessees' revenues, another way to approach the problem would be to focus on SMCHD's needs for the fees generated by the lessees. SMCHD might require a certain minimum amount of fees to cover debt service or to fund projected capital improvements that would benefit the lessees (such as improvements to the pier, roadway, or building exterior, etc.)

Note that the San Mateo County Harbor District has fewer options for generating fee revenue as compared to larger ports, especially in Monterey and San Francisco, which earn fees not only from slip rentals but also from large numbers of restaurants and retail operations. Therefore, SMCHD relies to a relatively greater extent on fees from these lessees. Nevertheless, the total rents and fees generated by these three contracts represent only around 8% of Pillar Point Harbor's overall operating revenue of \$2.1 million for 2013-2014, according to SMCHD's final budget. The majority of operating revenue at Pillar Point (around 70%) comes from berth fees and another 10% comes from other rents and leases at the harbor.

Pillar Point is in a relatively high cost area for construction as compared to other marinas in the comparable set, which might justify slightly higher fees than comparables. For example, the weighted average construction cost index is 115.2 for Half Moon Bay-San Mateo and 108.9 for Monterey-Salinas in 2014. This suggests that it is approximately 6% more costly to complete construction and capital improvement projects at Pillar Point than it would be at Monterey Harbor.

These differences were taken into consideration when developing the recommendations at the end of this report.

B. Overview of Key Lease Parameters

The current leases for off-loading, wholesale purchase and retail sales went into effect in March 2013 and have an initial term of 5 years, with two 5-year renewal options. The approximate square footage of each lessee's space in the building on Johnson Pier, including upper and

lower levels, is 1,250 square feet. Lessees also have designated storage spaces on another area of the pier as well as apron space along the pier where their hoists are located. Lessees and off-loaded fish are accessed by buyers and their refrigerated trucks by the pier rather than onshore.

Minimum Base Rent was initially set at \$2,500 per month under the new leases. (Note: initial base rent under the previous 30-year leases had been set at \$2,000, but had increased to \$2,140 over time.) In addition to Minimum Base Rent, there are fees for Wholesale Fish Purchase, Fish Off-Loading, and Retail Fish Sales.

For Wholesale Fish Purchase, fees are \$10 per ton for wetfish and 1 cent per pound (\$20 per ton) for finfish and shellfish.

For Fish Off-Loading, fees are similarly \$10 per ton for wetfish and 1 cent per pound (\$20 per ton) for finfish and shellfish.

For Retail Fish Sales, the fee is 5% of gross receipts.

Note that fees are in addition to Base Rent under the new leases. Under the previous leases, fees only applied after the percentage fee exceeded Base Rent. As an example, if there were a 5% fee on retail revenue of \$50,000, the total rent and fees paid under the previous contracts would be \$2,500 (because the \$2,500 percentage fee exceeded base rent). Under the new contracts, the total fee would be the fee on retail revenue (\$2,500) PLUS the base rent of \$2,500, for a total of \$5,000. So in this example, total rent + fees would be doubled under the new contracts as compared to the previous contracts.

Payments of fees are due monthly under the new contracts, as compared to quarterly under the previous contracts. Lessees noted in interviews that they found this increased frequency burdensome.

II. FEES FOR FISH OFF-LOADING

A. Summary of Fees Paid Since April 2013

For Fish Off-Loading, fees are \$10 per ton for wetfish and \$0.01 per pound (\$20 per ton) for finfish and shellfish. The following table presents off-loading fees paid to SMCHD since April 2013. Note that these fees have not been audited, and their calculation relies on lessee's data.

Table 1. Off-Loading Fees Paid from April 2013 to March 2014

Month	Morning Star	Pillar Point Seafood	Three Captains	Total Off-Loading Fees
April 2013		\$187.13		\$187.13
May	\$165.37	\$1,529.30		\$1,694.67
June	\$35.21	\$968.95		\$1,004.16
July		\$7,091.81		\$7,091.81
August	\$134.86	\$8,979.81	\$19,825.03	\$28,939.70
September	\$60.87	\$8,729.97	\$24.84	\$8,815.68
October	\$40.04	\$375.92	\$41.62	\$457.58
November		\$7,962.70	\$302.71	\$8,265.41
December		\$1,589.69		\$1,589.69
January 2014		\$185.00		\$185.00
February		\$7.79	\$236.35	\$244.14
March	\$40.62	\$213.56	\$212.10	\$466.28
12 Month Total	\$476.97	\$37,821.63	\$20,642.65	\$58,941.25
Monthly Average	\$39.75	\$3,151.80	\$1,587.90	\$4,533.94

As the table shows, the three lessees paid a total of almost \$59,000 in off-loading fees over the 12-month period, or an average of approximately \$4,500 per month. Pillar Point Seafood had the most off-loading business, accounting for around 64% of the total fees paid by the three lessees. Three Captains accounted for 35% and Morning Star fisheries the remaining 1%. Monthly fees for off-loading were over \$3,100 for Pillar Point Seafood, almost \$1,600 for Three Captains, and \$40 for Morning Star.

Most of the individual monthly figures in the table reflect fees paid on finfish and shellfish, with the exception of the large August 2013 figure for Three Captains, which primarily represents a large landing of squid/wetfish (1,963 tons at \$10/ton = \$19,630 of that month's fee) and the July, August, and September 2013 figures for Pillar Point Seafood (around \$21,500 of the \$23,000 in fees paid by Pillar Point Seafood during those three months were for squid/wetfish, representing around 2,150 tons). Total wetfish off-loading by the lessees was therefore approximately 4,000 tons over the period.

NOTE: according to Dave Mallory (owner of Morning Star), Morning Star and Three Captains had an agreement to share off-loading responsibilities for the large amount of squid that shows up as part of the \$19,825.03 fee for Three Captains in August 2013. Although Three Captains

booked the revenue and the entire fee to SMCHD, it passed through a portion to Morning Star according to their agreement. All appropriate fees were paid to SMCHD, but we report this in order to note that Morning Star is also more affected by the off-loading fees than the figures in the table would suggest.

So, of the \$59,000 in total fees paid, approximately \$40,000 was for wetfish and the remaining \$19,000 for finfish and shellfish. On average, Morning Star off-loaded two tons (4,000 pounds) of finfish and shellfish per month, Pillar Point Seafood off-loaded 54.3 tons (108,500 pounds) of finfish and shellfish per month, and Three Captains off-loaded 3.4 tons (6,800 pounds) of finfish and shellfish per month. Total finfish and shellfish off-loading was around 60 tons per month or 720 tons (1,440,000 pounds) over the 12-month period.

Table 2. Breakdown of Monthly Fees by Type of Fish

Type	Morning Star	Pillar Point Seafood	Three Captains
Wetfish	\$0	\$2,066.80	\$1,652.08
Finfish and Shellfish	\$39.75	\$1,085.00	\$68.14
Total Monthly Average	\$39.75	\$3,151.80	\$1,720.22
12 Month Total	\$476.97	\$37,821.63	\$20,642.65

The table shows that fees on wetfish accounted for approximately two-thirds of Pillar Point Seafood’s total off-loading fees and 96% of Three Captains’ total off-loading fees.

B. Average Prices that Lessees Charge to Fishermen for Off-Loading

Mike McHenry of Pillar Point Seafood reported that he typically charges fishermen 25 cents per pound to offload salmon and 17 cents per pound to offload crab. The 1 cent fee levied by SMCHD for off-loading these finfish/shellfish species represents 4% of revenue received for salmon (\$0.01 fee/\$0.25 revenue per pound) and approximately 6% of revenue received for crab (\$0.01/\$0.17). For groundfish such as sole, cod, sand dabs, halibut, and rockfish, fishermen are typically charged 5 cents per pound, so the 1 cent per pound fee represents 20% of revenue received (\$0.01/\$0.05). However, these groundfish species represent a very small amount of overall landings.

For wetfish (primarily squid), McHenry reported that he charges fishermen \$30 per ton to off-load. The \$10 per ton fee levied by SMCHD represents 33.3% of the revenue received for off-loading squid. For off-loading 100 tons, the lessee would receive \$3,000 and would then pay \$1,000 in fees to SMCHD. This fee for wetfish offloading represents a very high share of revenue and has a direct impact on lessee profits.

Dave Mallory reported that Morning Star and Three Captains charged \$35 per ton to off-load squid. The \$10 per ton fee represents 28.6% of the of the revenue received.

The following table summarizes fees as a percentage of revenue for SMCHD lessees.

Table 3. Off-Loading Fees as a Percentage of Off-Loading Revenue

Species	Revenue	Fee	Fee as % of Revenue
Salmon	25 cents/lb	1 cent/lb	4%
Crab	17 cents/lb	1 cent/lb	6%
Groundfish	5 cents/lb	1 cent/lb	20%
Wetfish (squid)	\$30-\$35/ton	\$10/ton	28-33%

The table illustrates the relatively high fee levied for off-loading wetfish. Again, although the fee on groundfish also appears high, groundfish represents a very small share of overall off-loading revenue.

In our experience analyzing leases and concessions contracts for local, state, and national agencies, a 10% fee would be high for businesses associated with food processing, handling or retailing. Something in the 5% range or slightly lower would be more in line with industry comparables.

C. Comparable Off-Loading Prices and Fees

The City of Monterey currently charges \$1.78 per ton (less than 1/10th of 1 cent per pound) wharfage, regardless of species (same fee for wetfish and finfish/shellfish) to lessees who off-load fish on Municipal Wharf II. The fee increases slightly each year based on an inflation factor but has not had a major adjustment based on comparables since current leases went into effect several years ago.

The City of Monterey’s 2013 *Fishing Community Sustainability Plan*, which considered harbors throughout Northern and Southern California, included a recommendation to increase wharfage to \$5 per ton for wetfish and higher fees for finfish and shellfish depending on species.

According to Steve Scheiblauber (Harbormaster) and Rick Marvin (Property Manager), Monterey is also currently conducting other analyses in preparation for lease renewals that will be occurring in coming years. Recommendations that emerge from these analyses may be incorporated into future lease terms.

At Spud Point (Bodega Bay), the Harbor has its own hoist and charges fishermen directly. According to Noah Wagner, Marina Supervisor, resident fishing boats (permanent berth holders) are charged 8 cents/lb for crab, 10 cents/lb for salmon and 5 cents/lb for all other species. For residents, the first 125 pounds of fish or 300 pounds of crab are free. For non-resident boats, the Harbor charges 15 cents/lb for crab, 20 cents/lb for salmon and 10 cents/lb for all other species. There is a \$15 minimum fee for non-residents. Outside buyers that come in and off-load fish with their own equipment pay the same fees to the Harbor for poundage. They must also pay \$250 for a six-month permit to buy fish.

Spud Point also has one lessee that provides off-loading services that pays a base rent of \$2,500 per month for warehouse space and 4 cents per pound wharfage (only if the fee exceeds minimum base rent, so the fee would only kick in after 62,500 pounds are off-loaded in one month).

Santa Cruz Harbor does not charge wharfage and resident boats can use a public hoist for free to off-load their own catch. However, they have a designated off-loader/buyer (H&H Fresh Fish Company) that is permitted to charge fishermen between 10 and 15 cents per pound for off-loading finfish (according to Hans Haveman at H&H, most of the wetfish business at Santa Cruz is handled by a couple of boats that off-load their own catch). Outside boats may use the public hoist to off-load but must pay the resident off-loader/buyer the same fee (10-15 cents per pound for finfish).

San Francisco, Noyo (Fort Bragg) and Moss Landing do not charge wharfage. At Moss Landing, most of the off-loading is handled by Bay Fresh Seafoods, which charges 25 cents per pound to fishermen for off-loading different species of finfish and shellfish. Bay Fresh also has a squid pump and typically charges \$25 per ton for off-loading squid, according to owner Roger Whitney.

The following table summarizes off-loading fees at harbors in Northern California.

Table 4. Off-Loading Fees

Location	Fees
Pillar Point	\$10/ton wetfish, 1 cent/pound finfish, shellfish
Monterey (current)	\$1.78/ton (< 0.1 cent/pound) all species
Monterey (recommended in 2013 report)	\$5/ton wetfish, higher for finfish, shellfish
Spud Point	4 cents/pound finfish, shellfish (only if exceeds base)

Off-loading fees are currently higher at Pillar Point than they are at Monterey. However, a recent report for Monterey recommended an increase in wharfage to \$5/ton for wetfish and higher fees for finfish and shellfish at that harbor (up to 1% of ex-vessel value in some cases, which would roughly correspond to 5 cents/pound or \$100/ton for many species). Other analyses underway at Monterey may also impact the terms of future leases there.

The following table summarizes what fishermen pay to have their catch off-loaded at Northern California harbors (what fishermen are charged for off-loading, as opposed to fees that harbor authorities collect).

Table 5. Off-Loading Costs for Fishermen

Location	Off-Loading Costs, Finfish and Shellfish	Off-Loading Costs, Wetfish
Pillar Point	25 cents/lb salmon, 17 cents/lb crab	\$30-35/ton
Monterey	15-30 cents/lb	\$25-\$30/ton
Moss Landing	25 cents/lb salmon, 25 cents/lb crab	\$25/ton
Santa Cruz	10-15 cents/lb	Fishermen use public hoist
San Francisco	20-30 cents/lb	
Spud Point (Bodega Bay)	5-10 cents/lb resident, 10-20 cents/lb non-resident	

The table shows that off-loading prices that Pillar Point lessees charge to fishermen are generally in line or slightly higher with prices at other harbors in Northern California. This suggests that some of the costs are being passed through to fishermen. However, off-loaders at Pillar Point face higher fees than off-loaders in other locations.

III. FEES FOR WHOLESALE FISH PURCHASE AND RETAIL FISH SALES

A. Summary of Fees Paid Since April 2013

The current leases specify that lessees pay fees of \$10 per ton of wetfish purchased and 1 cent per pound per ton of finfish or shellfish purchased wholesale. Additionally, SMCHD requires lessees to pay 5% of gross receipts on retail fish sales to the general public.

The following table presents total wholesale purchase fees and average monthly fees paid by Morning Star and Three Captains from April 2013 to March 2014. Pillar Point Seafood does not purchase fish or engage in retail sales.

Table 6. Fees Paid for Wholesale Fish Purchase

Lessee	Morning Star	Three Captains	TOTAL
Total Fees Apr. 13-Mar. 14	\$4,761.77	\$5,686.11	\$10,447.88
Average Monthly Fees	\$396.81	\$473.84	\$870.66

Morning Star paid an average of around \$400 per month in fees and Three Captains paid an average of less than \$500 per month in fees on wholesale fish purchases.

The following table presents total Retail Fish Sales fees and average monthly fees paid by Morning Star and Three Captains from April 2013 to March 2014. Pillar Point Seafood does not purchase fish or engage in retail sales.

Table 7. Fees Paid for Retail Fish Sales

Lessee	Morning Star	Three Captains	TOTAL
Total Fees Apr. 13-Mar. 14	\$1,226.19	\$10,852.89	\$12,079.08
Average Monthly Fees	\$102.18	\$904.41	\$1,006.59

Morning Star paid an average of around \$100 per month in fees and Three Captains paid an average of \$900 per month in fees on retail fish sales. Based on these figures, which equal 5% of gross revenue, retail fish sales totaled \$24,524 for Morning Star and \$217,058 for Three Captains over the period.

B. Average Wholesale and Retail Prices and Comparable Fees

Average wholesale prices for salmon are typically in the \$4 to \$6 range, but due to scarcity and fishing area closures they have approached \$8 this year. Wholesale prices for halibut and other finfish are currently in the \$4 to \$6 range. Wholesale prices for most fish species typically represent around one half of the retail price (in other words, the retail mark-up represents 50% of the retail sales price). This is another way of saying that the gross margin on fish sales is around 50%. A 5% fee on retail sales revenue represents a 10% fee on this gross margin, which in our experience is reasonable but slightly high. For example, one pound of halibut purchased

wholesale for \$4 might sell retail for \$8. The 5% fee on the \$8 retail sale would be 40 cents. This represents 10% of the \$4 gross profit that the seller earned on the sale.

Monterey currently imposes a fee of 2% on retail sales for fish markets. This fee will likely be reconsidered with other lease terms when leases are renewed at Monterey over the next few years. There are no fees imposed by harbor authorities on retail fish sales at Santa Cruz, Moss Landing, or Fort Bragg. At Bodega Bay, there are sales to the public directly off boats and sellers are charged a flat \$15 per day fee to sell.

Although we do not judge the current 5% fee on retail sales to be overly burdensome for lessees, a slight reduction (to 2.5% or 3%) would put the fee more in line with fees charged at Monterey.

IV. SUMMARY OF TOTAL RENT AND FEES PAID

The previous sections discussed Base Rent, Off-Loading Fees, and Wholesale Purchase and Retail Sales Fees separately. In this section, we present a monthly and annual summary of total fees paid. The following table presents average monthly rent and fees paid by category for each of the three lessees over the April 2013-March 2014 period.

Table 8. Average Monthly Rent and Fees Paid from April 2013 to March 2014

Fee Type	Morning Star	Pillar Point Seafood	Three Captains	Total
Monthly Fees				
Off-Loading Wetfish	\$0	\$2,066.80	\$1,652.08	\$3,718.88
Off-Loading Finfish	\$39.75	\$1,085.00	\$68.14	\$1,192.89
Wholesale Purchase	\$396.81	\$0	\$473.84	\$870.65
Retail Sales	\$102.18	\$0	\$904.41	\$1,006.59
Total Monthly Fees	\$538.74	\$3,151.80	\$3,098.47	\$6,789.01
Monthly Base Rent	\$2,500.00	\$2,500.00	\$2,500.00	\$7,500.00
Monthly Rent + Fees	\$3,038.74	\$5,651.80	\$5,598.47	\$14,289.01

Under the previous leases, the lessees were paying \$2,140 in Minimum Base Rent, and percentage fees on sales rarely exceeded minimum base rent. **Total average monthly Rent + Fees paid over the 2013-2014 period represented a 42% increase (above the \$2,140 base rent) for Morning Star, 164% increase for Pillar Point Seafood and 162% for Three Captains. In other words, Pillar Point Seafood and Three Captains are now paying over 2.5 times the rent and fees they were previously paying.** (And, since Morning Star actually incurred more fees due to its squid off-loading agreement with Three Captains, Morning Star's actual monthly fees are effectively higher than the table shows—while Three Captains are effectively slightly lower). The following table presents annual totals for each of these categories.

Table 9. Annual Rent and Fees Paid from April 2013 to March 2014

Fee Type	Morning Star	Pillar Point Seafood	Three Captains	Total
Annual Fees				
Off-Loading Wetfish	\$0	\$24,802	\$19,825	\$44,627
Off-Loading Finfish	\$477	\$13,020	\$818	\$14,315
Wholesale Purchase	\$4,762	\$0	\$5,686	\$10,448
Retail Sales	\$1,226	\$0	\$10,853	\$12,079
Total Annual Fees	\$6,465	\$37,822	\$37,182	\$81,468
Annual Base Rent	\$30,000	\$30,000	\$30,000	\$90,000
Annual Rent + Fees	\$36,465	\$67,822	\$67,182	\$171,468

As shown in the table, SMCHD collected \$90,000 in base rent and \$81,468 in fees over the period, for a total of \$171,468.

V. KEY FINDINGS AND RECOMMENDATIONS

The following bullet points list the key findings of this report:

- Lessees were paying minimum base rents of \$2,140 per month under the previous leases prior to March 2013. The \$2,500 monthly rent specified in the first year under the current leases represented a 16.8% increase, and base rent has increased by another 3% to \$2,575 in the second year of the contracts. While significant, the 16.8% increase represented a bit of a “catch-up” as rents had not been increased by inflation indexes on a regular basis during the previous lease term.
- Fees levied on off-loading finfish and shellfish (1 cent/pound) represent approximately 4% of off-loading revenue for salmon and 6% for crab. In our experience analyzing leases and contracts for public agencies, these fees on finfish and shellfish off-loading are reasonable.
- Fees levied on off-loading wetfish (\$10/ton) represent approximately 28-33% of off-loading revenue for squid (\$30-35/ton). This 28-33% range is very high and has a significant impact on lessees’ profit margins.
- Pillar Point Seafood paid \$38,000 in off-loading fees and Three Captains paid \$21,000 in off-loading fees over the 12-month period April 2013-March 2014.
- The 5% fee on retail fish sales is within a reasonable range, although slightly higher than the fee on retail fish sales at Monterey.
- Total average monthly Rent + Fees paid over the 2013-2014 period represented a 42% increase (above \$2,140) for Morning Star, 164% increase for Pillar Point Seafood and 162% for Three Captains. In other words, Pillar Point Seafood and Three Captains are now paying over 2.5 times the rent and fees they were previously paying.

Based on these findings, we recommend a significant reduction in the fee charged for off-loading wetfish, and a possible reduction in fees on retail fish sales. We present two possible alternative scenarios for reducing fees below and discuss the impacts to fees paid by lessess and fee revenue received by SMCHD.

Alternative Scenario 1: Reduce Off-Loading Fee on Wetfish to \$3/ton

Reducing the Off-Loading Fee on wetfish to \$3/ton would set that fee to approximately 10% of the revenue generated by the service (the average price for off-loading wetfish is \$30/ton), which would be less burdensome than the current fee of \$10/ton (33% of the average price for off-loading).

If the Off-Loading Fee on wetfish were reduced to \$3/ton but Base Rent and all other fees remained the same, Pillar Point Seafood's fees would be reduced by around \$17,400 and Three Captains' fees would be reduced by around \$13,900. SMCHD would collect \$31,300 less in total fees for the year, which represents around 18% of total Rent and Fees collected between April 2013 and March 2014.

Under the previous contracts, SMCHD collected total annual Base Rent of around \$77,000 (\$2,140/month x 12 months x 3 lessees). Even with the \$31,000 reduction in fees under this scenario, SMCHD would collect around \$140,000 in annual rent and fees (\$171,000-\$31,000).

Alternative Scenario 2: Reduce Fees by 50%

Reducing the Off-Loading Fee for wetfish from \$10 to \$5/ton would put Pillar Point in line with the recommendation made in the 2013 *Fishing Community Sustainability Plan for Monterey*. Reducing the fee on retail sales from 5% to 2.5% would put Pillar Point more in line with the percentage charged to fish markets on Monterey's Municipal Wharf II.

If Base Rent remained the same but fees were reduced by 50% across the board (to \$5/ton for off-loading and purchasing wetfish, one-half cent per pound for off-loading and purchasing finfish, and 2.5% on retail fish sales, Morning Star's annual fees would be reduced by over \$3,200, Pillar Point Seafood's fees would be reduced by around \$18,900, and Three Captains' fees would be reduced by around \$18,600. SMCHD would have collected \$40,700 less in total fees for the past year, which represents around 24% of total Rent and Fees collected between April 2013 and March 2014. SMCHD would still collect a total of \$130,000 in annual rent and fees.