
CITY OF PORT LAVACA

DATE: 7.02.2021
TO: PORT COMMISSION CC: J. RUDELLAT
FROM: JODY WEAVER, INTERIM CITY MANAGER
SUBJECT: MILLER SEAFOOD LEASE NEGOTIATIONS

As I mentioned in my update report on June 10, Miller's Seafood was unable to utilize Dock 5, 6, and 12 for most of 2020 and the up until a couple months ago, due to the demolition of the dock and reconstruction.

We have collected the following information for consideration:

- Seadrift: They do collect a 30 cent per sack tariff on oysters, but I have confirmed with the City of Seadrift that Millers' lease is based upon a \$14/LF annual rate (\$1.17/LF monthly) and it hasn't changed in at least 8 years.
- Palacios: dock rental rate is between \$2.50 - \$3.00/LF depending upon the dock location, condition etc., which would be generally equivalent to our rates. They do not charge a tariff.
- Aransas Navigation District: Their dock rentals are based upon an appraised value and Keith Barrett (Harbor Master) said they believe it is too much trouble to keep up with the dollars that are generated with a seafood tariff and look to their dock rentals for income.

I have had several conversations with Curtis Miller regarding a new lease agreement. As we all know the future of the oyster and seafood industry in general has been on a downward trend for some time. Unfortunately, with the unknown affects that the planned channel dredging project may bring, at least in the short term, I don't see this trend significantly improving over the next few years.

I want us to consider that there is value in having activity at City Harbor. Without activity or any boats, the harbor and the waterfront look abandoned and uninviting to tourists. We have had discussions also that there is value in having a local business presence in the Harbor. To help us truly take advantage of Miller's presence and activity in the harbor with respect to our tourism, people that are considering a trip to Port Lavaca to enjoy our seaside atmosphere need to know Miller's is here and what they have to offer. Thus, I see value in Miller's (and other tenants that add to the seaside atmosphere) to advertise in the Calhoun County Visitor's Guide. This Guide is used to attract out of town visitors to Port Lavaca. They are distributed at 12 Visitors Center throughout Texas as well as local and regional hotels, banks, hospital etc. They are also included in Visitor Packets given out at the Chamber of Commerce. The cost for a half page ad in both the Fall and Summer Guides is about \$1,000 annually. With the requirement to place an approved half page ad in each Guide through out the term of the lease, I think that can offset some actual cash payment to the City. Below are 3 options for a new lease which involve this advertising dollar concept.

Note: Curtis Miller would like to have the potential of a 4 year lease with this document, but if the recommendation is to limit it to 3, he will be OK with that.

I am proposing to continue to use the Municipal Cost Index. I've come to understand that the MCI incorporates the construction cost index, the consumer price index AND the Production Price Index. Although there is no index specifically for the oyster industry, and the PPI can be argued that it might better reflect the seafood industry over time, I see that there can be quite a lot of volatility in this index from year to year.

Option 0: The City maintains the 30 cents per sack tariff
1 yr lease; payment remains unchanged at \$2311.50 for Year 1
w/ 2 or 3 ea. 1-year options, each with an increase equal to the Municipal Cost Index (MCI) for the previous October

Option 1: The City reduces the oyster tariffs to 15 cents (*Because of the concern that we are charging above market since our rent seems in line with Palacios who does not charge a tariff and our tariff's are in line with Seadrift who chares much less for dock rent, I've had discussions with Mr. Miller who has stated he would think 15 cents is fair.*)

- 1 yr lease; payment will remain unchanged at \$2311.50 for Year 1
- Miller's places a half page ad in the Fall and Summer Calhoun County Visitor's Guide ea. year (approx. \$1000/yr)
- w/ 2 or 3 ea. 1-year options, each with an increase equal to the Municipal Cost Index (MCI) for the previous October.

Option 2: The City places a freeze on all seafood tariffs *(It is my recommendation to eliminate seafood tariffs, or at least place a freeze on them for the life of this lease. The tariffs do not generate enough revenue to justify the time and effort involved in collecting, verifying, recording and just keeping up with the payments. We collected a total of \$5,188 last year in oyster tariffs. As mentioned above, the Aransas Navigation District does not collect seafood tariffs for this very reason. I'd rather see an increase in the monthly rent, which is a known steady figure that can more easily be used in budgeting and simpler for the tenant as well).*

- 1 year lease; payment increases to \$2,400.00 for Year 1

This dollar amount matches generally with what I had calculated as today's dollars of the lease of docks 3,4,5,6,12 based upon the original agreed upon price in 2009 using the PPI. We would propose no initial increase above this \$2400 again because Mr. Miller was unable to use the dock for approximately a year.

- Miller's places a half-page ad in the Fall and Summer Calhoun County Visitor's Guide ea. year (approx. \$1,000/yr)
- w/ 2 or 3 ea. 1- year options, each with an increase equal to the MCI for the previous October

Option 3: The City places a freeze on all seafood tariffs

- Miller's agrees to a 2-year lease; \$2,400 for Years 1 and 2

With the uncertainty of the local oyster industry, Curtis will agree to a 1 year lease with single year options, but if he will commit to two (2) years initially, then I propose that we would agree not to impose a MCI increase on the second year.

- Miller's places a half-page ad in the Fall and Summer Calhoun County Visitor's Guide ea. Year (approx. \$1,000/yr)
- w/2 ea. 1-year options, each with an increase equal to the PPI for the previous October

Note: Curtis Miller is removing one freezer and working to move the other on to the dock area he is leasing.

Using a MCI of 2.5% and the 2021 oyster sack number, I have attached a spreadsheet which compares projected revenue with these options of a 4 year period. FYI the MCI for October 2020 is 1.08%

Recommendation: For the simplicity and the guarantee of revenue from a two year commitment, I would recommend Option 3, but would also support Option 2.

MILLERS SEAFOOD NEW LEASE OPTION COMPARISONS

Estimated MCI	Monthly lease payments	Annual lease payments	Tariffs (estimate)	Advertising dollars	Cash income	Cash income + advertising dollars
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Option 0						
30 cents						
1	2.50%	\$ 2,311.50	\$ 27,738.00	\$ 2,700.00	\$ 30,438.00	
2	2.50%	\$ 2,369.29	\$ 28,431.45	\$ 2,700.00	\$ 31,131.45	
3	2.50%	\$ 2,428.52	\$ 29,142.24	\$ 2,700.00	\$ 31,842.24	
4	2.50%	\$ 2,489.23	\$ 29,870.79	\$ 2,700.00	\$ 32,570.79	
						\$ 125,982.48

Option 1						
15 cents						
1	2.50%	\$ 2,311.50	\$ 27,738.00	\$ 1,350.00	\$ 30,088.00	
2	2.50%	\$ 2,369.29	\$ 28,431.45	\$ 1,350.00	\$ 30,781.45	
3	2.50%	\$ 2,428.52	\$ 29,142.24	\$ 1,350.00	\$ 31,492.24	
4	2.50%	\$ 2,489.23	\$ 29,870.79	\$ 1,350.00	\$ 32,220.79	
						\$ 120,582.48

Option 2						
freeze						
1	2.50%	\$ 2,400.00	\$ 28,800.00	\$ 1,000.00	\$ 29,800.00	
2	2.50%	\$ 2,460.00	\$ 29,520.00	\$ 1,000.00	\$ 30,520.00	
3	2.50%	\$ 2,521.50	\$ 30,258.00	\$ 1,000.00	\$ 31,258.00	
4	2.50%	\$ 2,584.54	\$ 31,014.45	\$ 1,000.00	\$ 32,014.45	
						\$ 119,592.45

Option 3						
freeze						
1+2	2.50%	\$ 2,400.00	\$ 57,600.00	\$ 2,000.00	\$ 59,600.00	
3	2.50%	\$ 2,460.00	\$ 29,520.00	\$ 1,000.00	\$ 30,520.00	
4	2.50%	\$ 2,521.50	\$ 30,258.00	\$ 1,000.00	\$ 31,258.00	
						\$ 117,378.00
						\$ 121,378.00