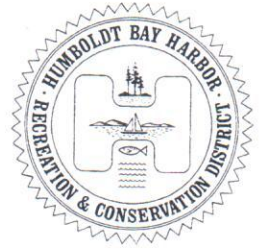


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**HUMBOLDT BAY  
HARBOR, RECREATION, AND CONSERVATION  
DISTRICT**

(707) 443-0801  
P.O. Box 1030  
Eureka, California 95502-1030



September 18, 2015

Judge J. Hinrichs  
Presiding Judge Humboldt County Grand Jury  
Superior Court of County of Humboldt  
825 Fifth Street  
Eureka, CA 95501-1153

RE: Responses to Grand Jury report dated June 19, 2015.  
Recommendations R2 and R4

Dear Honorable Judge Hinrichs,

The Humboldt Bay Harbor, Recreation and Conservation District submits the following responses to the Grand Jury's recommendations R2 and R4:

**R2- Humboldt County Grand Jury recommends that the Harbor District consider establishing a dedicated dredging reserve fund, accumulating money, ahead of need, with the goal of reducing the need to borrow and incur interest obligation when sponsoring future harbor dredging to augment the declining surcharge fund. (F3) As cost share sponsor, the Harbor District borrowed \$4 million as its share of the total \$17 million cost of the initial deepening of the harbor in 2001. The Army Corps of Engineers is obligated to annually maintain the harbor depth of 48 feet, subject to available funding. Any improvement or modernization of the bay may require the Harbor District to again be the cost share sponsor.**

Harbor District's response to R2. The Harbor Improvement Surcharge (HIS) was adopted in 1997 under the provisions of General Tariff No. 1 in order to defray a portion of the local share of the cost incurred for the Harbor Deepening Project completed in 2001. Any vessel using the entrance bar and Federal channels with a draft greater than 20 feet pays \$10/ft. draft charge and .15/ton loaded cargo. Domestic wood chips and fuel barges are exempt from the draft charge as most draft less than 20 feet. From 2001 through 2014, HIS has generated \$1,300,000 in total revenues averaging \$85,000/year. During that same period, the Harbor District's Harbor Deepening Loan (HDL) debt service paid \$3 million or \$230,000/year. From 2000 through 2008, ship traffic averaged 24 vessels per year; from 2009 through 2014, average vessel traffic was only 5 per year. This significant drop was attributed to the closing of the pulp mills and a competitive log export market in Oregon and Washington.

Currently the HDL balance is \$2 million with an annual debt service of \$195,000. In order to accumulate a reserve fund for future dredging, the annual debt service must be paid in total with the HIS for all cargo vessel traffic. Since 2001 the Harbor District has paid out of its general fund account, \$100,000-\$150,000 to cover annual revenue shortfalls from the HIS. As cargo vessel traffic increases and loan balance decreases, HIS should fully cover HDL debt service with any excess to be placed in a reserve fund. The Harbor District's cash position has suffered from the Deepening Project, in order to reverse that trend and start the process of creating a reserve fund for future dredge cost share, the Harbor District would propose the following recommendations to modify Tariff 1:

- 1) Lower the draft limits to 10 feet to start charging draft fees to cargo barges.
- 2) Increase the draft costs from \$10/ft. to \$20/ft. (+\$13,000)
- 3) Increase the loaded cargo tonnage from .15/ton to .30/ton (+\$85,000)
- 4) Eliminate the South Bay discounted rate. (+0) no shipping for over 10 years.
- 5) All excess to debt service funds be placed in reserve fund for future federal cost share.

The estimated HIS revenue increase from items 1-3 would be \$98,000 bringing the total revenues to \$183,000. Any volume increase (wood pellet export) would reach the coverage goal of \$195,000/yr. of HDL debt service. HandyMax chip ships carry approximately 45,000 tons, the ship's HIS costs would increase from \$6,750 to \$13,500 for tonnage plus \$350 in additional draft costs.

Recent increase in private Bar Pilot fees and tug costs has made local shippers less competitive. The Harbor District Commission will need to decide on whether or not to increase rates as higher costs could eliminate business completely leaving the Harbor District with the entire HDL costs to bear.

**R4- Humboldt County Grand Jury recommends the Harbor District continue to pursue new revenue and economic development as a high priority. (F4, F5) The Harbor District has been successful in generating new revenue streams and stabilizing finances. The Harbor District is pursuing new and increased revenue opportunities with expanded oyster operations, increase use of Redwood Terminal 2, and other potential projects.**

Harbor District's response to R4. The Harbor District has significant assets that have a variety of potential revenue sources. Development costs including environmental permitting and the public acceptance process can be expensive and timely, but are usually the first steps taken by the District. The Harbor District has eight cost centers of operation that have potential for new revenues which creates economic development opportunities:

#### **Woodley Island and Marina**

The Harbor District has spent the past several years lowering operation costs and creating future revenue streams for future dredging and float replacement. Potential new revenue sources identified under current allowed zoning includes a second restaurant, fish market, fuel dock, boat sales and dry stack boat storage. Currently the District is pursuing the second restaurant, fish market and fuel dock,

which could increase revenues by \$200,000/year and create 30 new jobs. Other areas of interest not currently zoned for Woodley Island are a recreational vehicle park and hotel, which have been opposed by local fishermen as a potential impact to their operation.

### **Tideland Leasing**

The Harbor District is a tideland trustee managing hundreds of acres around the bay. For decades the District's main revenue source from tideland leases was from the major dock owners around the bay. As those industries closed and the District purchased the docks, revenues significantly dropped to historic low levels. Recent oyster industry expansion and the District's pre-permitting project have increased revenues, but permitting additional oyster leased property will be expensive and difficult. This month the District completed an extensive review and appraisal of oyster ground lease rates concluding the value of intertidal sites. From this review and future lease renewals, revenues should double on existing leased sites along with an estimated \$250,000 increase for new permitted sites. All new oyster expansion activity over the next 10 years in Humboldt Bay should create between 75-100 jobs.

### **Redwood Terminal 1**

The Harbor District purchased Redwood Terminal 1 (RT1) from Simpson Timber in 2004. Since that time a lot of conceptual planning has occurred, but no real activity other than some crab pot storage in one of the buildings. In 2013, the Samoa Industrial Waterfront Transportation Access Plan was completed. The Plan identified access and space limitations to the site for large scale shipping opportunities. With RT1's close proximity to Woodley Island Marina and the Eureka Waterfront, the facility creates an opportunity to support the commercial fishing and oyster industry. Recently, the Harbor District has reestablished power to the buildings, repaired the dock, installed a dock hoist, installed a bay water delivery system and built an aquaponics greenhouse system. Commercial fishermen are using the facility for gear storage, offloading product, bait storage, processing, packaging Hag Fish and live seafood storage using bay water. Revenues have doubled and five jobs have been created. As the oyster pre-permitting is completed, new oyster farming companies have shown interest in the site to support their operations. The aquaponics greenhouse has been successful, but not commercially viable because of the size. Currently Humboldt State University is operating the system to determine the scalability of the operation for commercial success.

### **Redwood Terminal 2**

The Harbor District purchased Redwood Terminal 2 (RT2) dock from Louisiana Pacific in 2004. To support dock operation and protect Humboldt Bay from a catastrophic environmental spill, the District purchased 72 acres and all assets of the former Evergreen Pulp from Freshwater Tissue for \$1 dollar in 2013. With a \$1.15 million loan from Coast Seafood and \$750,000 District cash, the District leveraged \$8.5 million from EPA to clean up the site for redevelopment. Currently the District generates from three tenants \$200,000/yr. and is in the final negotiation stages with a wood pellet mill exporter for a lease that will generate over \$400,000/yr. In addition, the dockage, wharfage and service and facility charges for loading ships at RT2 will increase total revenues from the wood pellet operations to over

\$750,000/yr. These four tenants alone will create over 40 jobs along with part-time longshore jobs loading ships.

One of the most significant assets at RT2 is the 1.5 mile ocean outfall pipe. Currently there is a single user pumping 120,000 gallons/day of hot water to the ocean at a lease revenue of \$82,000/yr. The pipe was designed for 30 million gallons/day with a huge Biological Oxygen Demand loading capability. The District and County have recently received a grant and hired an engineering firm to evaluate the discharge of municipal grey water from the City of Eureka, Fairhaven and Samoa as an alternative to bay discharge and drain fields. This use and associated fees could generate hundreds of thousands per year for the District.

### **Dredging Operation**

The Harbor District and the City of Eureka have cooperated every 7-9 years to combine funds to dredge the marinas and docks. In 2007, the District and City spent \$3.2 million, including over \$600,000 to mobilize the dredge equipment from Oregon. In 2014, the Harbor District received from PG&E the ownership of King Salmon Fisherman's Channel and \$2 million. In return, the District will dredge Fisherman's Channel and PG&E will pay for all permit costs. After an extensive request for proposal process and vessel inspections, the District purchased a dredge for \$950,000. The District has been doing upgrades to the main engine and other improvements to be ready to dredge in 2016. The dredge will be available for all public and private dock owners with specific dredge sediment disposal sites located around the bay. Dredging will be done annually with smaller volumes that match participant's budgets. The District will charge fees for the use of the dredge and disposal of sediment for beneficial reuse. Annually dredging 40,000- 50,000 cubic yards could generate approximately \$500,000 in revenues; but depending on cost of operation and final disposal locations, those revenues could increase or decrease.

### **Fields Landing Boat Yard**

The Fields Landing Boat Yard facility is a significant asset for the region. With 150-ton lifting capability, the facility can handle 95% of the vessels in the region. Since 2012, the District has improved the facility by hiring a full time manager, expanding operational footprint, installation of a waste water treatment system and selling maintenance supplies to "self-service" boat owners. Number of annual vessel haul outs and revenues have increased and has attracted a steel boat fabricator to lease part of the facility. The new tenant will increase revenues by over \$50,000/year and add six new jobs. Future expansion includes installation of a lower dock helping to attract a full time marine mechanic, dry stack boat storage, fueling facility and boat ramp.

### **Shelter Cove**

The Harbor District has provided services at Shelter Cove since the 1970's. The original need was to help solve a fish waste problem at the Cove by installing a fish cleaning station. The need expanded to beach road and boat launch improvements, bank stabilization and rebuilding of the breakwater. Participation at Shelter Cove has been expensive without any revenue sources. Currently the District is negotiating

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with the property owner and Resort Improvement District to either take over the operation or identify revenue sources to offset costs. Revenue sources such as tractor launch services, fish market, marina sales and freezing bait have potential opportunities that have not been capitalized by private business.

### **Conservation Grants**

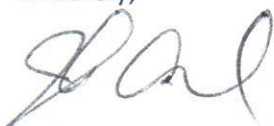
The Harbor District is a unique Port Authority through its tideland trustee authority and as a lead agency for CEQA. Granting agencies such as California Coastal Conservancy, State of California Natural Resources Agency, California Department of Fish and Wildlife and other environmental organizations such as Coastal Eco Systems along with the Wiyot Tribe have granted funds to the District for important projects. In the past several years, the District has not been able to capitalize on new available programs due to a lack of qualified staff. Recent hiring has improved that situation along with providing CEQA services to private companies for development around the bay. Future grant and CEQA opportunities should generate significant revenues to the District and perpetuate the hiring of new staff to manage these projects.

### **Conclusion**

Future revenues, job creation and economic development have great potential. In the next five years, Harbor District revenues should double and create more than 100 jobs for the region. Now that the District owns and controls a significant marine terminal, the next steps would be to design, permit, finance and construct a new public docking facility that has open access to all shippers. A good public docking facility will help stimulate industrial development from the ability to be competitive in the maritime industry.

If you have any questions or need further information, please do not hesitate to contact me at (707) 443-0801 or at [jcrider@humboldtby.org](mailto:jcrider@humboldtby.org).

Sincerely,



Jack Crider  
Executive Director

C: Sam (Sara) Giannandrea, Foreperson ✓