OWNERSHIP AND GOVERNANCE - MANAGEMENT OPTIONS FOR PUBLIC FACILITIES

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Issues for Communities:

- Little or no precedent to guide management structure decision

The concept of a publicly owned cold storage in Alaska is, by and large, new territory. There are some precedents for managing public facilities (Sitka and some larger cooperative operations in the lower 48), but for small communities with no road connection (this describes most of rural Alaska) there is nothing like it. While this offers the advantage of a clean slate, it does not provide the collective wisdom that results from experience and from trial and error.

- Definition of public benefit differs widely by community

A key issue in shaping management decisions around a public cold storage is the community perception of what constitutes “public good”. For some communities, public
good may revolve exclusively around the harvesting sector and the ability of a public facility to improve their ex-vessel price. For other communities (especially those with high-volume processing operations) public good may be more closely aligned with the processing sector and the employment and secondary business activity that revolves around large-scale processing. Either way, management of a publicly owned facility must take into account the particular definition of benefit held by the community.

- Realistic assessment of seafood development potential

It is imperative that communities enter into the feasibility process with a clear idea of the realities of the seafood industry, from both a harvesting and processing perspective. Since cold storage operation is such a low-margin business, the community must have a realistic idea of its ability to support viable seafood businesses that will keep the facility up and running without creating a cash drain on municipal revenue.

Management Options:

It should be noted that in each of these management scenarios, it is assumed that access to the cold storage and its contents will be rigorously controlled. A public cold storage absolutely cannot be run like Uncle Mike’s freezer, where you walk in and grab what you need. There is a substantial body of food safety and security regulations dealing with commercial food storage facilities that must be followed. A cold storage must be run as a business, with rigorous inventory control and a high degree of professionalism. Users of the facility should expect to pay industry-standard handling and in-out charges and to plan their use of the facility around some semblance of normal business hours.

- Operation by Anchor Tenant

Generally, an anchor tenant will be an existing seafood processor who leases the majority of public cold storage space and will see to the daily management and operations of the
The anchor tenant would pay a structured lease fee that covers the majority of the facility cost.

- **Operation by City or Municipal Government Employees**

  Management by city or other municipal government employees has a set of advantages, but these come at the expense of higher staffing and operations cost.

- **Operation by Independent Private Entity or Cooperative (not anchor tenant)**

  While this scenario is somewhat unlikely, it is another one to consider. A private contractor might save the municipality some money on employee benefit packages and such, but it would be a rare operation that could create efficiencies through logistical synergy, without simultaneously serving as the anchor tenant.

**Operation by an Anchor Tenant:**

- **Known demand for cold-store space, steady revenue stream**

  Contracting with an anchor tenant to lease a specific amount of space provides a guaranteed revenue stream for the facility. Talking to potential anchor tenants in the planning stage is essential to building a cold storage of appropriate size and design.

- **Stability for processing employment, municipal revenues and utility usage**

  Public cold storage facilities have excellent potential to serve both the anchor tenant and the community that builds such a facility. The concept allows processors (existing or new) to expand their production or extend production seasons without having to bear the capital cost of building a cold storage. The community will likely see additional employment or at least stabilization of seafood processing employment and its associated economic activity, including tax revenue.
Cold storage and seafood processing facilities are large-scale users of public utilities. In most cases, the community infrastructure produces electricity and provides other utilities at fixed cost to the municipality. Additional usage of utilities can create economies of scale for infrastructure projects and generate additional revenue for municipalities.

Construction of a public cold storage will not resuscitate a dying seafood business, but it can be an important element in the capacity of a community to stabilize local seafood businesses and may provide additional opportunities for processing in the off-season using previously frozen product.

- Economy of scale generates advantages for small-scale users

Other users of the facility benefit from the efficiencies of a large-scale operation, without having to bear the capital and/or operations cost associated with a good-sized cold storage.

- Potential access conflicts between anchor tenant and other users

There is the very likely prospect that an anchor tenant could monopolize public cold storage space and that other members of the public may have a difficult time gaining access to the space. This has been a frequent complaint with Sitka’s public cold storage over the years.

On the one hand, a public cold storage will have been funded by the public and should be reasonably available for public use. However, the anchor tenants may find themselves in the position of having to assist their competitors, to the detriment of their own operations.

Again, the community must have a solid concept of exactly what the “public good” is and provide for that public good in contracting with an anchor tenant.
Operation by the City:

- Lowest potential for user conflict

Operation by city or municipal employees has the lowest potential for conflict between users. In theory, municipal employees should not have a vested interest in who is using the facility and to what extent.

- Cost issues with Government Management

Generally, the salary and benefits cost of municipal employees is substantially higher than for private-sector employees.

- Seasonal labor demand

Seasonality of demand for cold storage space and for product movements in and out of cold storage will be a cost problem for the municipal-employee model. Simply put, business will be slow during winter months and if the facility is to be staffed full time, the city would be paying for a lot of idle time, with very little revenue generated from product movement. This problem would be especially pronounced in regions which have a limited harvest season and/or limited variety of seafood products, such as Bristol Bay.

- Training and experience

Cold storage facilities must have competent staff, and the best place to find them is in the [private] seafood processing sector.

- Cost of acquiring equipment

An anchor tenant will almost certainly be an established seafood company that already has the equipment (forklift, pallet jacks, etc) needed to handle the daily operations of a
cold storage. The cost of the equipment is likely to be spread among a variety of activities, including but not limited to cold storage operations. In contrast, municipalities are unlikely to have the necessary equipment and would need to buy it. The equipment would not likely be used for other purposes, so the entire cost would accrue to cold storage operations.

**Operation by Independent Private Entities or Cooperatives:**

- **Private-sector efficiencies**

  Operation by an independent private entity or cooperative represents the middle ground in terms of staffing cost. Such entities typically do not have the cost burden of government employee benefit packages, but are less likely to have enough work to keep a full-time employee busy when they are not occupied with cold storage operations.

- **Fewer potential access conflicts**

  Operation by an independent private entity or cooperative is likely to result in less severe, but different user conflicts. An independent entity would theoretically be similar to municipal operations with respect to the lack of vested interest in who uses the cold storage and to what extent. Operation by a harvesting cooperative would likely generate more potential conflicts, particularly if the prospective user was a traditional processor that might be competing with the cooperative.

- **Potential for artificial competition with local processors**

  Cooperatives typically represent groups of harvesters that have, to some extent, elected to not do business with traditional seafood processors. If a public cold storage is built and managed for the benefit of a cooperative, and the cost to users is substantially less than the prevailing cost of cold storage in the private sector, this represents an unfair public
subsidy to one segment of the industry - artificial competition. Again, the obvious solution to this potential problem is a thorough examination of exactly what the community considers to be the “public good” with respect to management and user-cost of public cold storage.

- Potential difficulties with training and food safety requirements for workers

If the facility were to be operated by a harvest cooperative or some other cooperative, the most likely scenario is that the co-op members would supply the labor and staffing to run the facility. This creates potential problems with respect to the training, certification, insurability, and food security requirements of a cold storage business.

- Cost of acquiring equipment

Unless the independent operator is in a line of business that requires cold-storage or warehouse equipment, they are likely to experience the same cost dynamic of purchasing costly equipment for a somewhat specialized application.

Conclusions:

- There are no easy answers, but anchor tenant management looks best for communities with existing processors.

- Management structure should be a balance that reflects the community’s definition of public benefit.
- It is essential the project be based on the realities of today’s seafood business climate.