



Staff Report Finance Committee

TO: San Mateo County Harbor Board Finance Committee
FROM: James B. Pruett, General Manager
DATE: September 10, 2025
SUBJECT: Pelagic Hospitality Group Revised Rent Reduction Request

Issue:

Pelagic Hospitality Group is requesting a reduction in the base lease payment.

Action Requested:

Receive presentation from Pelagic Hospitality Group, discuss and consider making a recommendation to the Board of Harbor Commissioners, if any.

Policy Implications:

California Constitution art XVI § 6: Prohibition against the gift of public funds.

Fiscal Impact:

If the request by Pelagic is approved, the District would be supplementing the Pelagic lease by \$6,000 monthly. (\$72,000 annually)

Pelagic Request:

Reduce the current base lease payment of \$20,500 to \$14,500 per month. (See attached.)

To make a public presentation with the proposed rent reduction, specifically “We [Pelagic] would like to make this proposal in a public forum either at your [District] next regularly scheduled meeting or at a special meeting.....”

Background:

On or about July 12, 2023, the Pelagic Restaurant Group, now known as the Pelagic Hospitality Group (Pelagic), assumed the leases for Ketch Café, Ketch Joanne Restaurant and Bar, and Order at the Corner. On November 10, 2023, Pelagic entered a new lease with the San Mateo County Harbor District for the spaces previously occupied by Ketch Café, Ketch Joanne Restaurant and Bar, and Order at the Corner.

2024 Request:

In early 2024, Pelagic requested rent relief based on delayed openings caused by extensive permitting delays. Staff developed the attached staff report dated March 20, 2024 in response to Pelagic’s request. (See attached). Prior to finalizing the staff report, the draft report was provided to Pelagic for their review and comment. On March

4, 2024, Pelagic accepted the staff report and agreed with the recommendations. (See attached).

Pelagic's 2024 Request:

Pelagic requested the following reduced rent payments be accepted as full payments for the applicable months:

Date	Request
November 2023	\$0
December 2023	\$6,600
January 2024	\$7,350
February 2024	\$10,000
March 2024	Est. \$12,500
Totals	\$36,450

The November 10, 2023, lease provided for a scaled lease payment as Pelagic worked to open each parcel. That scale provided by the Lease is as follows:

Date	Base Rent
Commencement Date Through October 31, 2023*:	\$7,372.37
November 1, 2023, through December 31, 2023:	\$9,449.92
January 1, 2024, through June 30, 2024:	\$14,000.00
July 1, 2024, through June 30, 2025	\$17,500.00
July 1, 2025, through June 30, 2026:	\$20,500.00

*Given the effective date of the Lease is November 10, 2023, the "Commencement Date through October 31" of \$7,372.37 is not applicable.

Summary of the 2024 Request:

The difference between Pelagic's request and the amount due per the lease:

Date	Request	Req. by Lease	Difference
Dec. 2023	\$6,600	\$9,449.92	\$2,849.92
Jan. 2024	\$7,350	\$14,000	\$6,650.00
Feb. 2024	\$10,000	\$14,000	\$4000.00
Mar. 2024	Est. \$12,500	\$14,000	\$1,500.00
Totals	\$36,450	\$51,449.92	\$14,999.92

At the March 20, 2024, Board of Harbor Commissioner's meeting, the Board passed the following motion:

"Approve rent relief in the amount not to exceed a total of \$15,000 and permit Pelagic Hospitality Group to pay \$6,600 for December 2023, \$7,350 for January 2024, \$10,000 for February 2024, and \$12,500 for March 2024 as total rent due."

The approval was based in part and in consideration of the \$600,000 Pelagic invested into the property and the construction delays in completing the ADA restrooms, avoiding any violation of California Constitution art XVI § 6: Prohibition against the gift of public funds.

August 2025 Request:

On August 12, 2025, Pelagic made several requests as outlined in an email dated August 12, 2025, with a subject line of "Pelagic Hospitality Group Rent Reduction Request," including a reduction in rent. (See attached). On August 20th, 2025 the Board met in closed session to discuss lease payment. Following that closed session, the General Manager was not provided with the authority to renegotiate the lease payment. This was documented to Pelagic in the attached response dated August 24, 2025.

On September 2, 2025, Pelagic issued a revised request for rent reduction and that they [Pelagic] be able to make their request at a public meeting. (See attached). In the revised request Pelagic has requested:

1. Reduce the monthly base rent payment to \$14,500 from \$20,500.
2. A public retraction of the Pillar Point Retail Center Project.

Rent Structure: (from the November 2023 lease)

Base Rent. On the first day of each calendar month beginning on the Commencement Date through October 31, 2023, Tenant shall pay a monthly base rent of \$7,372.37. Beginning November 01, 2023, through December 31, 2023, Tenant shall pay a monthly base rent of \$9,449.92, and beginning January 1, 2024, through June 30, 2024, Tenant shall pay a monthly base rent of \$14,000.00. Beginning on July 1, 2024, through June 30, 2025, Tenant shall pay a monthly base rent of \$17,500.00. Beginning on July 1, 2025 through June 30, 2026, Tenant shall pay a monthly base rent of \$20,500.00. Beginning July 1, 2026, and each subsequent year, Base Rent shall increase by the greater of 3% or the percentage increase in the Consumer Price Index, All Urban Consumers ("CPI-U") for San Francisco-Oakland-Hayward, during the twelve month period ending with the most recent month that has been published by the U.S. Department of Labor, Bureau of Labor Statistics. Landlord shall notify Tenant of the adjusted Rent Amount, but Tenant shall continue paying rent at the non-adjusted rate until such notice is delivered, at which point Tenant shall pay the amount of the unpaid adjustments since the adjustment date within ten (10) days after the notice is given.

Percentage Rent. On March 31, June 30, September 30 and December 31 of each year, Tenant shall determine the Percentage Rent for each of the preceding three calendar months as follows:

- (i) Percentage Rent shall be the total of:
 - a. Five percent (5%) of gross receipts on food and drinks for each month unless earned through private events, use of the commissary kitchen, bulk or transfer sales, goods sold through the fish market to include unprepared

seafood/raw filets, live or cooked/cleaned crabs, or other seafood and shellfish, or customer supplied seafood for preparation (cleaning, fillet, cooking) which shall be assessed a separate percentage rent as detailed below:

b. Three percent (3%) of gross receipts gained through private events, and use of commissary kitchen, and

c. Two and one-half percent (2.5%) on:

i. Bulk and transfer sales

ii. Unprepared seafood/raw filets, live or cooked/cleaned crabs, or other shellfish sold through the fish market,

iii. Customer supplied seafood for preparation (cleaning, fillet, cooking).

(ii) Notwithstanding the foregoing, Percentage Rent shall not be payable on (1) employee meals; (2) sales and use taxes and surcharges, provided that such taxes and surcharges are added to the selling price, separately stated and collected from customers; (3) tips, (5) delivery fees, (6) gift certificates, (7) complimentary meals, (8) discounts and returns, (9) and (10) sales of fixtures, trade fixtures or personal property.

(iii) Tenant shall pay to Landlord the positive difference for each month determined by the total of all Percentage Rent amounts (calculated pursuant to paragraph c.(i) above) less the Base Rent amount (paid pursuant to paragraph 7b. above) for each calendar month (the "True Up Amount"). The True up Amount for each calendar month is due on the immediately following April 24 (for months January, February and March), July 24 (for months April, May, and June), October 24 (for months July, August, and September), and January 24 (for months October, November and December), respectively.

d. Rent Adjustment for New Tenant Operations. Notwithstanding anything to the contrary in this Section 7, Rent shall be adjusted as follows until December 31, 2023:

(i) Tenant shall owe no Base Rent for the month of September 2023; provided, however, that in the event Tenant provides operations on any of Parcel 1, 2, or 3, then Tenant will owe Base Rent based on the square footage as a portion of the total Base Rent listed in Section 7(b) for the Parcel in operation.

(ii) For the months of October 2023 and November 2023, Tenant shall owe Base Rent for Parcel 1, based on the square footage as a portion of the total Base Rent listed in Section 7(b), provided, however, that in the event Tenant provides operations on any of the two other parcels, then Tenant will owe Base Rent based on the square footage of the parcels in operation as a portion of the total Base Rent listed in Section 7(b).

(iii) For the month of December 2023, Tenant shall owe Base Rent for two parcels based on the square footage of the parcels in operation as a

portion of the total Base Rent listed in Section 7(b), provided, however, that in the event Tenant provides operations on all three parcels, then Tenant will owe Base Rent in the amount detailed on Section 7 (b).

Premises/Price per square foot (sq ft):

The November 10, 2023, lease included the spaces previously occupied by Ketch Joanne Restaurant and Bar, Ketch Café, and Order at the Corner, occupying a total of 4,428 sq ft.

In addition, the November 10, 2023, lease also included the exclusive use of the external sidewalk area encompassing 2,090 sq ft, and a new restroom area consisting of 219 sq ft. for a total leased space of 6,737 sq ft. Based on a lease payment of \$20,500, the cost per sq ft is \$36.51. Less than the \$40-\$45 per sq ft for the average restaurant in the Bay Area and the CA coast” quoted by Pelagic in their August 12, 2025, email. (See attached).

As a comparison, under the previous tenant’s lease (FY2018/2019), the lease price per sq ft was \$42.48 (Base/Percentage rent of \$15,675 per month/4,428 sq ft.)

Reported Income: In CY2024, Pelagic reported receipts of \$3,207,116. This included \$148,671 in what was categorized as a “Harbor Fee”. Also included is a negative \$207,111 categorized as discounts and comp meals/drinks. The lease payment for CY2024 was \$174,850, representing 5.45% of receipts.

In the first two quarters of CY2025 (January 1, 2025, through June 30th, 2025), Pelagic reported receipts as \$1,598,409, including the discretionary Harbor Fee of \$69,849. Again, the above number also included a negative \$73,564 categorized as discounts and comp meals/drinks. The lease payment for the two quarters of CY2025 was \$105,000, representing 6.6% of receipts.

Effective July 1, 2025, the base lease payment was increased to \$20,500. Assuming no growth in income, the lease payment represents 7.7 of receipts.

Harbor Fee: The Harbor Fee **is not** a District mandated fee/requirement. It is a discretionary 5% charge Pelagic adds to each receipt and is advertised as supporting Pillar Point Harbor Search and Rescue. In CY2024, Pelagic collected \$148,671 in Harbor Fees, representing 85% of their lease payment. In the first six months of CY2025, Pelagic collected \$69,849 in Harbor Fees, representing 67% of the lease payment for the same period.

California Constitution art XVI § 6:

Pelagic has agreed to and signed the November 10, 2023, lease which requires a certain lease payment. To lower that lease payment, the District would give up promised funds. This would be considered a gift of public funds. California Constitution art XVI § 6 prohibits the gift of public funds.

California Constitution art XVI § 6:

“The Legislature shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State, or of any county, city and county, city, township or other political corporation or subdivision of the State now existing, or that may be hereafter established, in aid of or to any person, association, or corporation, whether municipal or otherwise, or to pledge the credit thereof, in any manner whatever, for the payment of the liabilities of any individual, association, municipal or other corporation whatever; nor shall it have power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever...”

To avoid gift of fund issues, the District would require some consideration in exchange for the reduced rent, i.e. increased percentage rent, elimination of the discretionary Harbor Fee, consideration of the funds invested in improving the facility, a clause prohibiting negative or disparaging remarks concerning the District, its Commissioners, employees, a promise to operate for more days or hours, a requirement to obtain prior written consent from the District before offering any free or discounted meals or drinks, or a promise to prepare a marketing and operations plan to achieve \$x in gross receipts per month and present such plan to the District before a specified date.”

Pillar Point Retail Center:

Pelagic has inferred that because the District initiated a project that would result in a new retail center at Pillar Point Harbor, and the demolition of the current retail spaces, this has in some way negatively affected their business. Because of this, they have asked the district to formally retract any statement or plans that would result in the demolition of the current retail spaces.

District, in the FY2025/2026 Budget and Capital Improvement Plan removed the Pillar Point Retail Center Project based on budgetary considerations and requests made by current tenants, including Pelagic.

There are no plans to demolish the current retail center.

Attachments:

- 1) Email from Dave Westendorf Sr., “Pelagic Hospitality Group Rent Reduction Request” dated August 12, 2025.
- 2) Email from Dave Westendorf Sr., “Revised Rent Reduction Request” dated September 2, 2025.
- 3) Letter to Pelagic from District dated August 24, 2025.
- 4) November 10, 2023, Lease between the District and Pelagic.
- 5) March 20, 2024, Pelagic Rent Relief Staff Report.
- 6) Email from David Westendorf, “Re: Rent Relief” dated March 4, 2024.