

## MORRO BAY COMMUNITY QUOTA FUND



*Photo Credit: Ryan Wassum*

**Contact: Rick Algert, MBCQF, 805-225-2619  
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# 1. Executive Summary

## ***Purpose of the Morro Bay Community Quota Fund***

The City of Morro Bay (CMB) has led a project to create the *Morro Bay Community Quota Fund* (MBCQF), a public benefit non-profit corporation intended to permanently secure West Coast Trawl sector fishing privileges historically associated with the Central Coast. The long-term goal of the CQF is to create a financially stable and environmentally sustainable Morro Bay groundfish fishery, built upon local stewardship of ground fish resources and secured fishing rights anchored permanently in the community



*Photo Credit: Lisa Wise Consulting*

The fishing privileges the MBCQF will hold are in the form of Quota Shares (QS) and vessel permits for the trawl sector of the west coast groundfish fishery. These will be acquired and leased out to fishermen (in the form of annual quota pound (QP) allocations), to support the local economy, improve environmental and financial performance in smaller boat fisheries and preserve the Morro Bay working waterfront infrastructure and culture. Fishermen using MBCQF Quota will have to comply with terms of Trawl permit (100% human observers etc.) and participate in an Overfished Species (OFS) risk pool.

The catalyst for creation of the MBCQF concept was to prevent historic trawl fishing activity in Morro Bay from consolidating into larger fishing vessels in other areas with larger market power than Morro Bay. Consolidation of historic trawl fisheries is an expected outcome of the new West Coast Trawl Individual Transferable Quota (ITQ) Program unless steps are taken by smaller boat communities. Morro Bay has a unique opportunity

to do this because The Nature Conservancy (TNC) purchased 6 Morro Bay based West Coast trawl permits around 2005, prior to this fishery being converted to an Individual Quota allocation system, and is a willing seller to the MBCQF in an attempt to secure social, economic and conservation gains for the community and the fishery. The MBCQF also anticipates raising funds/grants to acquire other Trawl ITQ quota shares to augment the TNC QS that will be made available.

## 2. Background and Context of the CQF creation

### **Decline of the groundfish fishery**

Morro Bay has a long history as a fishing community. It has had a large abalone industry in the past, significant sardine landings in the 1950's, and Albacore tuna through the 1970s, periodic Salmon and Swordfish landings throughout, but groundfish has always been the mainstay, supporting a year-round robust fishing industry and culture in Morro Bay.

Over the last three decades, the West Coast ground fish fishery came to rely on bottom trawling as its primary means to catch fish. Millions of pounds were landed annually in Morro bay until the 1990's, when a sharp decline began. Overreliance and over-capitalization in trawling had contributed to regulatory constraints, which, in turn, led to a drastic decline in local fishery landings, revenue and jobs. In 2001 the fishery was declared a disaster. The City of Morro Bay, like the City of Monterey, has a long history of supporting commercial fishing, both in policy and financially in lower cost facilities on City

owned land. Despite this support both communities saw a continual decline in landings, participants, and the related businesses and services, until in 2004, the last groundfish buyer in Morro Bay notified local trawlers that they no longer intended to buy groundfish in Morro Bay full time. In 2005, Morro Bay's last remaining fuel dock in the harbor threatened to cease operations due to the lack of fuel sales with the reduced activity.

### **Transition to Quota Shares.**

In response to the groundfish disaster, fishery managers started planning for a new "Catch Share" management structure that allocates "quota" to individual fishery participants. The Nature Conservancy (TNC) played an important role in the transition period. In 2004-05 TNC bought six limited entry trawl permits that were based in the Morro bay area and four Morro Bay trawl fishing vessels from fishermen in their own buyout program. In return central coast trawl fishermen worked cooperatively on a plan to create trawl essential fish Habitat designations on 3.8 million acres of ocean in the Central Coast.



*Photo Credit: Marlyse Battistella*

City of Morro Bay representatives were at first alarmed at the development - although the City had consistently supported fishing uses, it had never attended a Pacific Fisheries Management Council (PFMC) meeting and was unaware of the pending regulatory changes in the Trawl sector. The potential loss of landings from the trawl permits that were purchased if they were to relocate or be made inactive would be devastating to what was left of the marine dependent infrastructure in Morro Bay. Over time, the City has developed an excellent working relationship with TNC as the permits have been put to use locally and the city has learned more about TNCs goals and the regulatory process.

While the West Coast Trawl Sector ITQ program may ultimately improve fishery economics, conservation and safety, it is also likely to result in consolidation of the fishery as market economics drive transferrable quota to large-scale fishing operations in larger ports. Local fishery stakeholders realize that without a plan, this could lead to a permanent loss of traditional ground fish access in smaller scale fishing ports such as Morro Bay and Monterey. Without the groundfish fishery, Morro Bay cannot maintain critical fishing infrastructure. Anchoring the available historic fishing privileges in the community is therefore a key concern of the City.

### **3. Operating Structure of the CQF**

The MBCQF is a state chartered public benefit corporation with federal 501(c) (3) status (pending). It will be comprised of the following:

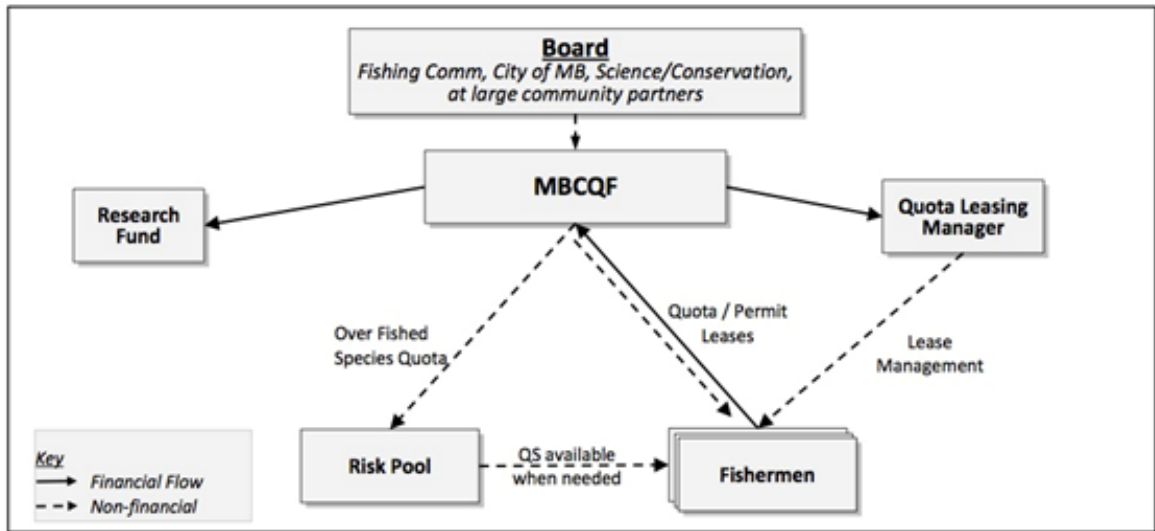
**Board:** The MBCQF will operate with a 7 person broadly based board of directors consisting of 2 members of the fishing community, 2 members from science and conservation, 1 member representing public agencies and 2 at members at large.

**Staff:** The MBCQF will have one part time employee during start up mode, to supervise the quota pound lease management contract, coordinate necessary board activities, execute fund business activities (insurance, tax documents, AP and payroll etc.) This employee will also maintain outreach and informational programs.

**Quota Share Leasing Manager:** The MBCQF will engage an experienced quota leasing manager under a professional services contract to execute leases and insure performance with environmental, financial and operational terms of the leases. The MBCQF will partner with other Quota Share holders in this management contract such as The Nature Conservancy, Central Coast Seafood Marketing Assn. and the City of Monterey Quota Fund (currently under development).

**City of Morro Bay Linkage:** The CMB has facilitated this project to date, will initially provide a representative on the board (City Manager Andrea Lueker will be the public agency member) and support the organization. During the startup phase, CMB will donate office space and some clerical assistance. The MBCQF will operate independently of the CMB.

**Operating Structure:**



**Operating Objectives**

The MBCQF will aim to:

1. Establish its financial viability to ensure repayment of an anticipated \$250,000 loan obligation for initial acquisition of TNC QS and permits.
2. Grow the portfolio of fishing privileges available for the community, to generate greater income and public benefit.
3. Develop dynamic leadership in the fund employee(s) which will support and allow accomplishment of the MBCQF goals.

**4. The Startup Context for the CQF**

The context in which the MBCQF has been formed includes several important elements and current issues:

### **Moratorium on Quota Sales**

There is a current moratorium on the sale of quota share, imposed by the PFMC. This moratorium has been set to end on January 1st, 2014, though there is a possibility that the PFMC will push back this date. Unfortunately, this action is beyond the control of the MBCQF or others, but sets a key date around which acquisition becomes possible, and hence MBCQF operations can begin. Negotiations for potential QS acquisition/sale to be effective 1-1-2014 are currently underway in many areas.

### **Quota Divestment Requirements and Dates**

All entities, including TNC, are currently required to divest any quota holdings that are over the control caps for individual species, by January 1, 2016. Given that TNC is a large quota share holder, this puts a strict deadline on TNC to find suitable buyers and close sales agreements between 1/1/2014 and 1/1/2016.



*Photo Credit: Trudy O'Brien*

### **Risk Pool Discussions**

An Overfished Species (OFS) risk pool has been formed between several Central Coast communities, to share quota of overfished species, a collaboration seen as a key risk mitigation mechanism. Members of the MBCQF have been in discussion with the Risk Pool, and expect to be fully participating at the time of the MBCQF launch.

### **Regional Fishing Association (RFA)**

Discussions have been held on the need for and advantages of a regional approach to addressing many issues, and the benefit which a Regional/Community Fisheries Association could bring to each community. This involves optimizing quota

use and leasing, as well as sharing costs, for lease management and other administrative tasks. However this umbrella group will not have been formed when the MBCQF begins its operations, so these benefits will not yet be available to the MBCQF.

### **Research Fund**

Discussion has begun on the need for and benefits of a research fund, to be supported by surplus MBCQF lease revenues. Like the Regional Fisheries association and risk pool, this makes sense at a regional level, but may not yet be operational when the MBCQF is formed.

The leadership of the MBCQF recognizes that the combination of the above elements creates both a unique opportunity and a challenge for the MBCQF. The start up of the MBCQF must occur within a limited window, driven by the requirement for TNC to divest its holdings. At the same time, other important elements of a functioning regional market will not be in place by the time the MBCQF is launched, such as the Regional Fishing Association and Research Fund. This poses additional burden on the MBCQF, from a financial as well as operational perspective. It also offers the opportunity for Morro Bay to take a leadership role in how these complementary entities are created, and assure they serve to support the MBCQF mission.

## 5. Objectives of the CQF

As stated above, the long-term goal of the CQF is to create a financially stable and environmentally sustainable Morro Bay fishery, built upon local stewardship of ground fish resources and secured fishing rights anchored in the community. To do this, the MBCQF will focus on:

**Primary objectives.** These are necessary for the CQF and Morro Bay Port to remain viable.

**Secondary objectives.** These are desired by the CQF, and will be sought based on the funds that are available after the primary objectives have been met. The reasoning is that if either of the primary objectives cannot be met, the CQF and the commercial fishing elements of the port will be greatly diminished, making subsequent objectives irrelevant.

PRIMARY OBJECTIVES	ACTIVITIES
I. Establish the CQF as a financially viable community quota fund.	1. Acquire fishing privileges to hold for the Morro Bay community 2. Lease quota, generating revenues to: - Repay debt obligations - Cover operational expenses
II. Support the local, small boat groundfish industry, to ensure a viable port in Morro Bay.	3. Provide lease discounts to small boat, groundfish fishermen, allowing them to operate.
SECONDARY OBJECTIVES	ACTIVITIES
III. Create viable opportunities for new entrants	4. Provide incentive, through lease discounts, to help new entrants in the fishery.
IV. Improve local inputs into science and management	5. Build local decision-making for local resource-use. 6. Support a research fund focused on local and regional stocks
V. Incentivize innovation in fishing practices and marketing, to achieve resiliency in volatile markets.	7. Use leases to incentivize a broad portfolio of species and gears 8. Contribute quota to the regional Risk Pool
VI. Build local stakeholder leadership in fishery management	9. Form a Community Fishing Association, creating links with other fishing communities 10. Inform local stakeholders

## Activities of the CQF

The CQF's will seek to accomplish its objectives with the following activities:

### ***Activities for Primary Objectives:***

These are necessary activities for the CQF to remain viable as an entity, and for the Morro Bay port, upon which the CQF's revenues are based, to remain an economically viable port.

- 1. Acquire fishing privileges to hold for Morro Bay.** The priority goal of the MBCQF is to secure historic fishing activity in the community. It will do this by buying quota shares and permits that are necessary to support local, family owned fishing businesses, many of which are multi generational, as well as the existing port infrastructure businesses (fuel, fishing unloading and ice services, marine maintenance and fabrication services, local marine supplies etc). The majority of Quota will be purchased from the TNC holdings of permits and quota acquired during the catch share transition. In the longer term, The MBCQF may also acquire additional quota from other entities or fishermen, limited by law to "Control Caps" for each species in the trawl sector.



*Photo Credit: Morro Bay Commercial Fishermen's Organization*

- 2. Establish revenues from quota leases, to cover debt and expenses.** The MBCQF will make the permits and quota shares it owns available to fishermen through Quota Pound leases. Revenues from these leases will be the source of income to cover debt service and operational expenses. The operational strategy for the MBCQF is not to directly manage individual QP lease, but to, under triple bottom line criteria established in the MBCQF bylaws, turn those duties over to professional independent management entity. The MBCQF anticipates working with other QS holding partners in one annual QP management contract to achieve overall cost saving and to insure continuity and alignment with larger goals.
- 3. Provide lease discounts to small boat, groundfish fishermen.** Since the Port and community of Morro Bay depend on a minimum number of boats and local landings to ensure an economically viable port infrastructure, the CQF's mission must prioritize lease discounts to the small boat fishermen who can meet the qualifications for operating in the Trawl Sector ITQ fishery and land groundfish in Morro Bay

### ***Activities for Secondary Objectives.***

The following activities will be sought by the CQF based on the amount of surplus funds available, after debt service payments, operational expenses and small boat discounts have been paid. The amounts are expected to be small at first, but grow as the amount of quota which the CQF is able to lease out is increased. The priorities among the following activities will need to be established by the Board. The order in which they are listed below does not reflect any priority or funding need.

4. **Attract the next generation of "New Entrants" into the Fishery.** The scarcity of a next generation of fishermen creates a major problem for West coast fishing communities, and for fishermen who often have their life savings (retirement) tied up in their businesses. This problem can lead to reduced US seafood production and coastal employment in many areas and frustrate the growing consumer desire for fresh local seafood. The MBCQF will strive to maintain at least one "new entrant" lease each year which will have special terms to facilitate the individual needs of the new entrants. This may be financial considerations in the lease, but can also mean more flexible payments scenarios, credits for investment in gear/equipment or many other strategies. The goal is to support new entrants while they build the business and acquire capital/fishing privileges of their own. A special opportunity will exist for new entrants who are willing to access underutilized trawl species with other types of gear, or even experimental gear. These species had very low utilization rates (by definition) in 2011 due to drop in actual trawl operations and changes some traditional trawlers made in their depth or time of fishing to reduce OFS landings, and these particular species are difficult to catch outside of the RCA in economic quantities using standard fixed gear and marketing inputs. We do think there is opportunity to access these healthy but underutilized stocks with innovation and would lease out QP in these species at very low rates to incentivize the fishery.
5. **Strengthen local decision-making input into local resource use.** A secondary but important priority for the MBCQF is to improve the link between local knowledge and local resource use, through supporting improved local science and regulatory processes input. Participant fishermen (lessees) will create fishing plans that comply with special operational conditions including participating in E-catch real time reporting and on the ground OFS management strategies, some level of bottom up spatial management to avoid gear conflicts and reduce negative habitat impacts.
6. **Create and support a Research Fund with a focus on regional stocks and improvement opportunities.** The MBCQF is committed to creation of a Research fund, and contributing a percentage of its surplus annual lease revenues to this fund. This will be a groundbreaking opportunity fund locally targeted marine science projects collaboratively with fishermen and scientists. Creation of this program will be at the direction of the board of the MBCQF and will be lead by Dr Dean Wendt, who has now successfully managed local cooperative research programs for over five years. Dr. Wendt and the board will implement research fund projects through an independent research group or groups TBD. Examples of current Research Fund priorities are improved regional stock assessment information (as opposed to west coast wide, which is currently the model at NMFS); projects that can help identify spawning aggregations or OFS hotspots and gear improvement research.
7. **Incentivize a broad portfolio of species and gears, for economic and environmental resilience.** Although the Morro Bay community has historically been heavily reliant on trawling, and has at different times had a narrow focus on certain species, the MBCQF will intentionally hold a wide range of species in its portfolio, to incentivize the use of different gear types and harvesting of underutilized species. This is good for fish stocks and the marine environment, and is key to the long-term economic resiliency of the fishery. This will necessarily imply that not all quota which the MBCQF holds at any one time will be fully leased out or utilized. The portfolio and strategy are discussed in more detail below.



8. **Contribute quota to the Risk Pool, supporting it and the overall west coast trawl program.** Successful management of quota shares of "Over-Fished Species" (OFS) is a critical element of the new catch share management system. As described earlier, each historic permit/participant in the Trawl Sector originally received QS allocation based on landings in a window period, including very small amounts of OFS. In the new IQ system if an individual trawler lands even a small amount of one of the Overfished species in excess of his QS of that species, it can close his business for the rest of the year. To manage that risk, fishermen are working to establish risk pools where they share the OFS quota. The MBCQF will acquire some of the OFS quota shares associated with the 6 Morro Bay permits and will transfer that OFS QP to the Morro Bay/Fort Bragg risk pool annually, even though the Morro Bay area is expected to be low OFS harvesters. In this way the MBCQF will contribute to the success of the Risk Pool and west coast trawl fishery.

9. **Form a Regional Fishing Association.** The MBCQF expects to form a partnership with The Nature Conservancy, the City of Monterey Quota Fund (under development) and industry groups such as The Central Coastal Seafood marketing Association (CCSMA). This Partnership is conceptually the basis for a Community or Regional Fishing Association, a potentially powerful long term tool for stabilizing Central Coast fishery and achieving industry and community goals. This work would include linking with other fishing communities such as Pillar Point harbor, Fort Bragg and potentially Santa Barbara.

10. **Inform the community and support fisheries-related management.** Over time, the intent is for the MBCQF to develop its capacity and maintain an active and robust outreach and informational program, providing input to the media & regulatory process to further regional management and local stewardship of fishery resources. MBCQF will begin by maintaining a web site for basic information and current issues for the public.

[www.morrobaycommunityquotafund.org](http://www.morrobaycommunityquotafund.org)

With the ultimate goal of helping create a better performing regional management model, the MBCQF will work cooperatively with other interested parties to assist in mutually beneficial projects and regulatory improvements. The creation of the CQF will allow an institutional capacity (the MBCQF board and employees) to help inform the process of change and build resilient fishing businesses managed with good regional science.



*Photo Credit: Green Fish Communications*