MONTEREY BAY FISHERIES TRUST

California Commercial Fisheries Succession Planning

Strategies to Support Resilient Communities

5/31/2022

Prepared by
Noah Strouse, Loan Officer & Strategic Initiatives Manager
California FarmLink

Updated 4/3/2024

Reviewed by
Poppy Brittingham, Nicole Sarto, Mike Conroy, Sherry Flumerfelt, and Melissa Mahoney

This report was made possible thanks to funding support from:

Here for Good
Community Foundation for Monterey County

Table of Contents

Context and Need for Succession Planning

California commercial fisheries participants need tools and strategies to facilitate the transfer of business assets from one generation to the next. California's commercial fisheries include state fisheries and federal fisheries operating in state waters, with some key differences between how fishing operations function under these two categories. Among California fisheries there has been a universally noted "graying of the fleet." The average age of fishers is increasing, few young people are entering the industry, and even fewer are becoming business owners. This shift can be partially attributed to factors outside the fishing industry; however, major changes in the management and economics of California fisheries have made it significantly more expensive to enter the industry and harder to succeed as a small business. With fewer new entrants willing or able to take on the challenges of starting a small fishing business, those wishing to sell or retire are sometimes hard-pressed to find a willing buyer to purchase their businesses and assets, or a financial institution adept at valuing fishing assets. This challenge affects the financial stability of retiring fishers, the future viability of small-scale, family-oriented fisheries, and the overall economic health of working oceanfront communities.

The purpose of this report is to identify succession planning tools and strategies that could structure mutually beneficial fishing asset transfers for buyers, sellers, and working oceanfront communities. The report first reviews some succession planning basics to outline what a hypothetical succession planning process might look like. It then explores the central problem of the price/value mismatch in fishing assets. This is compared to similar challenges in California agriculture, housing, and other industries to examine how existing tools and strategies could be implemented in California fisheries. We highlight distinctions between tools and strategies that apply to state permits versus federal permits, especially around the topics of leasing (federal) and pseudo leasing (state). We also discuss fishing quota, which primarily refers to the Pacific Groundfish trawl fishery, which operates under an Individual Fishing Quota (IFQ), or catch share, system.

General Succession Planning Resources

Planning for retirement can be an exciting, bittersweet, and complicated process for anyone. For fishers, the complexity is compounded by big questions, like the ones listed below, and tasks that arise with the succession of their business and assets.

- How much are the business, vessel, fishing gear, and permits worth, considering depreciation and age, inflation in prices, current market conditions, comparable supply of similar assets, and local demand for those assets?
- Who will be able to purchase the business and assets, and are they the desired type of buyer?
- Is there a way to keep the boats, permits, and quota in the local community?
- Are there family successors?
- What are the tax implications for selling?
- Will there be enough for retirement?

All these questions and more are front of mind for fishers retiring or transferring their business and new entrants or fishers seeking to acquire vessels, permits, or equipment from fishers approaching retirement. Fortunately, several resources and programs exist to guide fishers and small businesses through this process. It is noteworthy that these resources are primarily targeted at current business owners, which, while half the equation, do not necessarily serve aspiring business owners in the same way.

Transfer Steps and Timeline

Alaska Sea Grant's "Looking Ahead" page outlines several key steps and a timeline for fishers seeking to transfer their business. Highlights and topics include:

1. Determining if a directed transfer is right for you
    a. Your financial security
    b. The health of your business
    c. Your willingness to let it go
2. Determining the right buyer
    a. Your trust and relationship with the buyer
    b. The buyer's financial position
    c. The buyer's commitment to the business
    d. The buyer's experience
3. Knowledge and documents for planning
    a. Business financial statements

    b. Retirement planning documents
    c. Buyer financial statements
    d. Estimate of total transfer costs
    e. Utilize written communication for clarity and record-keeping
4. Gifting fishing assets
    a. Gift taxes (paid by donor, regulated by IRS, applicable after gifting $15k/year)
    b. Gifting permits or quota (transferability varies)
    c. Gifting vessels or equipment
    d. Forgiving payments on contracts for deeds
5. Managing risk
    a. Use bank assistance in financing
    b. Use insurance (life, disability, etc.) during transfer process
    c. Create a written and signed transfer plan
    d. Create a purchase option document
    e. Pass on knowledge, skills, and business relationships to buyer
6. Major tax considerations
    a. Tax basis of assets purchased, inherited, and received as gift
    b. Spreading income from asset sales across multiple tax years
        i. Installment payments
        ii. Income averaging
    c. Tax-free exchange using IRS section 1031 (like-kind exchange)
    d. Capital construction funds
7. Drafting a Transfer Plan
    a. Whom to involve
    b. What to include
    c. When to write

Planning Courses

Additionally, **California FarmLink** offers succession planning courses like FarmLink's year-long Regenerator program. Though designed for farmers (yet to include fishers as of this paper), much of the course covers material that is relevant and applicable to fishers. FarmLink's Regenerator course leads retiring producers with identified successors (related or not) through a 12-month course to generate plans that support transition to the next generation. Topics include:

1. Communication, intention setting, and team-building
2. Business valuation, structure, and transition of management
3. Retirement, estate, and tax planning
4. Conservation and natural resource protection strategies
5. Creative approaches and financing strategies for land and business transfers
6. The essential components of a good succession plan, strategies and creative tools to reach goals, and a plan that's ready to launch.

California FarmLink's intention is to build producers' resilience by facilitating plans that will sustain food producers' businesses into the next generation. In addition to the Regenerator course, FarmLink also offers a free publicly available Succession Guidebook for farmers (highly applicable to fishers as well) on its website.

More generally, the U.S. Small Business Administration provides numerous free online resources to guide small businesses through succession planning. These cover conceptual basics but lack much of the industry-specific nuance that complicates fisheries succession planning.

While the above-mentioned guides and programs provide valuable information and tools for succession planning, succession planning for fishers is often plagued by a significant problem: **retiring fishers' preferred buyers often can't afford to purchase their assets at market rates, nor is traditional financing readily available for fishing industry assets.** The next section dives into why this is the case and how we may learn from other industries with similar challenges.

The Price-Value Challenge of Fishing Permits and Quota

The key assets of a fishing business are vessels, gear, permits and quota, which enable fishing access to one or more fisheries, and usually represent the highest costs for an individual or business venture. Each asset plays a role in a fisher's ability to access certain marine resources, and oftentimes they can be bought or sold together.

An established quota provides a share of the fish catch or fishing effort allowed in a fishery to an individual fisher. Fishing quota is usually specific to a fish species as part of a fish stock – a distinct population of a species. An annual allocation of quota pounds is the amount of fish a participant is allowed to catch each year, usually defined in terms of total weight, and is often calculated as a percentage of the quota based on a participant's quota shares and varies according to quota changes over time. Quota shares are the percentage of the sector's catch limit to which the holder of quota shares has access to harvest. This percentage is used to calculate the annual allocation, and it is not affected by changes in the catch limit over time.

Permits are often tied to the size of the vessel. For example, in the Pacific groundfish trawl sector, there are endorsement lengths associated with each permit. The trawl permits can be assigned to different vessels as needed as long as the new vessel has a Length Overall (LOA) that does not exceed five feet of the endorsed length. For example, a 50-foot vessel can be registered to any trawl permit with an endorsed length of 45 feet or bigger.

The diversity of permits in California means that quotas are dependent on permit type. The federally-managed West Coast Groundfish Fishery operating off the states of Washington, Oregon and California is an Individual Fishing Quota (IFQ) Program that allows the leasing of quota pounds and permits. State-run fisheries, like the California Dungeness crab fishery, have Limited Entry Permits (LEPs) that do not allow for leasing fishing quota, and thus the price-value of the permits is more a function of the income potential of the fishery at the time of sale. However, for reasons explained below, the majority of this document will focus on the sale or transfer of fishing assets (i.e., permits and individual fishing quota) for fisheries succession planning.

The central challenge of fisheries succession planning is that for certain fishing business assets, primarily LEPs and IFQ, the price at which the assets are listed for purchase

sometimes exceeds the supposed value of the assets. This could mean that it may be difficult to generate enough income from the assets in a short enough time frame to justify their purchase. The severity of the price-value problem varies across fishing business assets according to numerous variables; however, the common theme is that it presents major barriers to small and beginning fishers in launching new businesses and obtaining financing for asset purchases. Fortunately, there exist several strategies for addressing this problem. In order to understand how certain succession planning tools can alleviate this challenge, it is necessary to first understand how we got here.

Brief History of Fisheries Management in California

Beyond historical indigenous fishing practices that incorporated sustainable management strategies, prior to 1977, California fisheries were relatively unrestricted for US commercial fishing. Unrestricted fishing can lead to a depletion or overharvesting of resources, in which individuals seeking to maximize their own short-term self-interest unintentionally cause the collapse of a common resource. In response to the mounting evidence of environmental and economic threats from overfishing, numerous policy responses and management systems have developed over time.

In 1972, the Marine Mammal Protection Act (MMPA) was signed into law. The MMPA includes a general moratorium on the taking and importing of marine mammals, which is subject to a number of exemptions, in order to prevent marine mammal species and population stocks from diminishing as a result of human activities. In 1973, the Endangered Species Act was established to protect endangered species. In 1976, the federal Magnuson-Stevens Fishery Conservation and Management Act (MSA) laid the groundwork for federal fisheries management.

In the late 1970s and 1980s, California implemented its first restrictions on fisheries access in an attempt to protect the environmental and economic value of the fishing industry. Over the next two decades, restricted access programs grew in scope and regularity, culminating in California's passage of the Marine Life Management Act (MLMA) of 1998 and the California Fish and Game Commission's adoption of a comprehensive restricted access policy in 1999.

One **key feature of many of these management programs was the initial distribution of fishing permits and quotas**. Based on demonstrated historical commercial fishing

activity, access rights such as LEPs and IFQ were granted to fishers free of charge. The intention was to allow for a relatively smooth transition to the new management system without excessive disruption to the industry as it existed at the time. In a restricted access system, a limited pool of fishing permits or quotas exist in a marketplace where they can usually be bought and sold amongst operators. However, this combination of the free initial distribution and the creation of a marketplace for fishing permits (LEPs) and fishing quota (ITQ/IFQ) has unintentionally contributed to the problem we face today.

The Capital Gains Tax Burden

In tax-speak, the free distribution of access rights established a "cost basis" for the assets of $0. Under current federal tax law, the sales of business assets are subject to **capital gains taxes**, calculated based on the appreciation of the asset from its cost basis to its final sales price. This means that fishing access rights have appreciated from $0 to whatever their market value might be today. For many LEPs and IFQs, this is a significant appreciation, thus leading to a significant capital gains tax burden. For example, if a California Dungeness crab LEP has appreciated from $0 to $100,000, and the capital gains tax rate upon its sale is 20%, then the capital gains tax burden that the seller must pay is $20,000. To deal with this anticipated tax burden, the $20k may be "priced in" to the ultimate price a seller may seek, meaning they sell the permit for $120k rather than $100k. So while the initial free distribution may have benefited fishers at the time, it appears to have kicked the can down the road and passed on the cost to the next generation of fishers seeking to buy in.

One way business owners may seek to circumvent the capital gains tax burden is through **inheritance**. When business assets are passed down to inheritors, the asset's cost basis is reset at the value established at the time of inheritance. This is known as the "step-up in basis." For example, if a permit was granted to a fisher for $0, is worth $100k upon his death, is inherited by his daughter, and then sold for $101k under a 20% capital gains tax rate, the taxable "gain" for the daughter is only $1000 (so at 20%, tax burden of $200) *not a taxable gain of* $101k (which at 20% would incur a tax burden of $20,200). This significantly incentivizes fishers wanting to maximize the benefit to their inheritors to not sell certain fishing permits or quota, but rather hold them until the fisher passes away and their assets are passed to inheritors. This incentive may create periods of time in which some fishing assets are simply "shelved," contributing to supply shortages, and driving the price up on available permits or quota.

During this “shelving” period, or even after inheritance, certain fishing assets may also be **leased** out by owners to other active fishers. Though this is not necessarily a bad thing, and in some circumstances may be beneficial to the liquidity of fishing assets (discussed later), the act of holding fishing assets as a tool to generate income from leasing (rather than selling them to a willing buyer) can sometimes contribute to supply shortages for active fishers who want to purchase the permits or quota, thus driving the price up, or forcing fishers into paying a premium for leasing.

The Net Present Value of Fishing Permits

On top of the capital gains tax burden challenge, the basic unpredictable nature of the fishing industry can create disconnects between the price and value of fishing permits. In accounting terms, the value of an asset is often measured using the language of “**Net Present Value**” (NPV), meaning the total value of all future cash flows the asset may generate, minus the cost of purchase. For example, if a permit will allow a fisher to earn $100 a year for 5 years ($500), and the purchase price is $400, then the NPV of the permit is roughly $100 (overly simplified, but this is generally the idea). If the NPV of an asset is greater than 0, then you have a profitable investment. If less than 0, then you probably want to stay away. The larger the NPV, the better the investment looks. However, it is important to note that this example is an oversimplified approach to estimating value based on income generation because it does not factor in the long-term investment value of the permit, nor does it consider the inherent resale value of the permit itself or the collective value of the fishery. For example, the spot prawn fishery has an extremely limited number of permits (~20), with only 3 active in Monterey. Due to their scarcity, and thus low competition for shrimp, each permit was considered highly valuable until 2023, when the value of permits declined along with the shrimp populations. When fishery species have such variable population trends, the higher risk passed onto the buyer can result in high variation in permit pricing.

How do you determine the NPV when your projected cash flows are highly variable? Though future fishing landings and revenues can be estimated based on recent years and long-term averages, the accuracy of these projections for many fisheries is far from guaranteed. Climate change, regulation, and shortened seasons have introduced new, highly volatile variables to the equation, making it more difficult to project fishing revenues accurately. Costs of fuel, fluctuations in international exchange rates, and infrastructural challenges with shipping and cold storage also contribute to challenges with revenue

predictions. In addition, interest in offshore renewable energy and aquaculture and California's commitment to the 30x30 conservation goals has resulted in increasing demands for marine space that could impact fishing opportunities in the future. Though fishing has always been somewhat unpredictable, it is now harder than ever to be confident that the price paid for a permit or quota share reflects its actual value.

Several methodologies for valuing fishing assets have been developed and utilized across different fisheries, including **comparable methods**, **ex-vessel revenue methods**, and **lease revenue methods**.

Comparable Methods

Permit and quota valuations may be established by analyzing the market prices for comparable assets. Sellers may look at recent sales to understand how market conditions are reflected in sales prices and then list their assets for sale at a similar price point (or on the low end if the seller is seeking a quick sale). Once a permit is sold in a California LEP, the sale price is quickly known within the fleet. Trading platforms such as Dock Street Brokers and Jefferson State Trading offer visibility into the perceived value of quota and permit prices, as listed by current owners. Jefferson State Trading offers users access to a vast repository of historical sales data pertaining to West Coast Groundfish IFQ and permits. However, there are several potential shortcomings in this method: historical prices may not reflect current market dynamics; herd-mentality may trend towards overpricing; limited data points may skew averages or have been significantly mispriced; and a seller's specific situation may justify a departure from comps (e.g., they posses the only permit X or Y in a geographic area). While comps can be useful, and are often what are used for permit pricing, they should be carefully considered for relevance.

Ex-Vessel Revenue Methods

There are two methods that can be used to calculate ex-vessel revenue: the **multiplier method** and the **discounted cash method,** both described below:

1. **Multiplier Method:** This method calculates the value of fishing quotas or permits by multiplying average revenues for the given right by a *multiplication factor*, representing the estimated value of owning the right long-term rather than for one year or one season. Multiplication factors have been experimented with in the Alaska and West Coast IFQ fisheries, with wide-ranging estimates from "1" to "20" depending on the fishery, species, and numerous other factors. There are different

equations for calculating the multiplier method for quotas versus permits. For permits, the equation is more effective for those that are allotted the same (California spiny lobster) than those that are tiered (Dungeness crab) or have a gross tonnage endorsement (squid or sardine). Though this method utilizes highly subjective judgment calls for determining the multiplier, it is often used in the industry, thus worth understanding.

For Quota:

$$Quota\ Pounds \times Avg\ Quota\ Pounds\ Utilization\ Rate \times Avg\ Ex\ Vessel\ Value\ per\ lb \times Multiplication\ Factor$$

For Permits:

$$Avg\ Ex\ Vessel\ Value\ for\ permit \times Multiplication\ Factor$$

2. **<u>Discounted Cash Flow Method</u>:** This method estimates the value of the rights using a more traditional NPV calculation based on total expected cash flows multiplied by a *discount rate*. The discount rate here represents two things: (1) the time value of money (the fact that $100 today is worth more than the promise of $100 in a year from now); and (2) the unpredictability of future cash flows via the unpredictability of fisheries ecology and management. The discount rate significantly impacts the NPV calculation, yet like the multiplier method, is highly subjective depending on the fishery's expected volatility, ranging from 10-40% across different fisheries.

For Quota:

$$\frac{(Quota\ Pounds \times Average\ Quota\ Pounds\ Utilization\ Rate \times Average\ Ex\ Vessel\ Value\ per\ lb\ per\ year \times Total\ Years)}{(1 + Discount\ Rate)^{Total\ Years}}$$

For Permits:

$$\frac{Average\ Ex\ Vessel\ Value\ for\ permit\ per\ year \times Total\ Years}{(1 + Discount\ Rate)^{Total\ Years}}$$

Lease Revenue Methods

For fishers participating in the federal groundfish IFQ fishery in California, there is an established lease market where valuations can be calculated based on projected lease revenues. Both the multiplier method and the discounted cash flow method can be utilized in essentially the same ways, except that rather than plugging in projected ex-vessel revenues, projected lease revenues are inserted instead. While lease revenues should, in theory, be based on the expected fishing revenues that leased permits or quota would generate, in reality, lease rates may be more closely based on the highest rate the lessor thinks they can get away with.

1. **Multiplier Method**

For Quota:

$$Quota\ Pounds \times Avg\ Quota\ Pounds\ Utilization\ Rate \times Avg\ Lease\ Revenue\ per\ lb \times Multiplication\ Factor$$

For Permits:

$$Avg\ Lease\ Revenue\ for\ permit \times Multiplication\ Factor$$

2. **Discounted Cash Flow Method**

For Quota:

$$\frac{(Quota\ Pounds \times Average\ Quota\ Pounds\ Utilization\ Rate \times Average\ Lease\ Revenue\ per\ lb\ per\ year \times Total\ Years)}{(1 + Discount\ Rate)^{Total\ Years}}$$

For Permits:

$$\frac{Average\ Lease\ Revenue\ for\ permit\ per\ year \times Total\ Years}{(1 + Discount\ Rate)^{Total\ Years}}$$

The Speculative Investment Value of Fishing Assets

One additional element of the price-value problem is the fact that for certain fishing assets, a portion of the price may be derived from the hope that the asset will appreciate in value over time. This hope may be based on historical trends demonstrating the same, or general investment thinking that assets with limited supply will inevitably appreciate as demand grows and technology enables more efficient use of the asset. This speculative investment value may not necessarily be accurate. In fact, many fishing access rights have depreciated or fluctuated over time as their NPV has become measurably impaired. However, for certain fisheries, the speculative investment value of permits or quota may somewhat contribute to the price, making their purchase less affordable for fishers without access to sufficient capital.

The Personal Value of Fishing Access Rights

One final component worth mentioning is the highly emotional personal value that fishing permits or quota may represent for many fishers. Though difficult to quantify, it is noteworthy that some retiring fishers may be resistant to selling their assets for what they see as “low” prices. This may be because they believe the fishery has just had a run of bad luck depressing prices, thus the value is higher than the market says, because they believe that they can get a higher price if they just wait for the “right” buyer, or that they are frustrated or unwilling to acknowledge that what they thought was an “investment” has actually depreciated in value. For whatever the rationale, this emotional component can significantly impact the price that a seller seeks.

However, the emotional value of these assets can also be an important source of motivation for sellers to work proactively with buyers to structure a sale in a way that supports the next generation of fishers. Rather than simply sell their assets to the highest bidder who may not share the seller’s values, or who could take them out of the community, retiring fishers may sometimes be willing to go with a lower sales price or alternative sales structure to keep the assets in their local community and in service of local small businesses and fishers.

Tools for Accessing Mispriced Assets

The price-value problem is not limited to fisheries assets, and numerous tools and strategies have been developed in other industries to facilitate their transfers.

One of the best comparable examples for strategies to access assets subject to the price-value problem is **land access in farming**. Within farming, land is a fundamental business asset that suffers from a price-value mismatch. Particularly in geographies with high demand and low supply, land is often priced extremely high, frequently beyond the value that can clearly be derived from its agricultural production. This is largely due to the speculative investment value of land, just like the speculative investment value of permits. Investors see land as a long term appreciating investment, thus are willing to pay higher prices up front with the expectation that they will be able to sell for a profit down the line. It is difficult to farm without access to land, yet many farmers simply cannot afford to purchase the land they need to operate their businesses.

Fortunately, several tools and strategies have been developed to address the challenges with land access for farming, many with clear parallel applications for fishing access for fisheries. It is noteworthy that, in many ways, the ecosystem of strategies and infrastructure to support small farmers is more robust than that for fisheries. The small farm space has developed programs for financing, training, and business technical assistance. The below sections review these strategies and potential next steps for development and implementation.

Tool 1: Leasing

One simple solution for accessing assets that cannot be purchased outright is to rent or lease them. Though leasing is more of a *temporary* rather than *permanent* transfer, it provides important short-term access opportunities and creates foundations for other permanent transfer strategies. While leasing is allowed for the West Coast federal Groundfish IFQ permits, state-run fisheries prohibit outright leasing. However, as this section explains later, there are ways for fishers who own state permits to achieve a similar outcome without explicitly leasing.

In farming, leasing the major access asset (land) is very common. It is a vital pathway for many small and beginning farmers to start and grow their businesses without requiring significant upfront investment capital. For hundreds of years, land leases have been a well-established and legally proven method for granting farmers access to the fundamental assets they need to run their farm businesses.

However, leasing as an access strategy also comes with certain challenges, as well-represented in farm leases. Land access is only guaranteed for the term of the lease, which provides some uncertainty for the business' ability to plan and make long-term investments for the future. Additionally, leases are often complex documents with terms and nuances that may be difficult to track without legal resources or assistance, containing important provisions regarding utilities, use restrictions, access rights, and payment structures. Fortunately, there are organizations such as Farm Commons dedicated to legal education and support for leases and land access. California FarmLink's Growing on Solid Ground guide to land tenure offers further tools and structures for organizing and crafting lease agreements. In addition, FarmLink and TomKat Ranch Educational Foundation have recently released a Guide to Regenerative Grazing Leases, with a fair amount of information that is highly relevant to fisheries leases. **Educating business owners about their legal rights and strategies for leasing is a powerful tool that should be developed further in the fishing industry.**

Lease Basics

Leases should include the following components, at minimum:

- Description of leased property
- Beginning and end date
- The amount or structure of rent (fixed monthly rate, use-days, % of revenues, etc.)

- Due date of monthly payments and penalties for late payments
- Use conditions, date ranges, indemnification, and insurance
- Responsibilities and costs for maintaining the vessel and equipment
- Responsible party for annual property tax payments
- Ownership of any improvements at end of lease period
- Processes for communication, dispute resolution, and termination

Leasing in Fisheries

Leasing access rights in fisheries is far more complicated. Unlike farming, where essentially anyone can lease and farm a piece of land, fishers cannot simply lease a piece of ocean. Instead, fisheries quotas and permits are usually specified by season, place, depth, equipment, and other conditions, and are subject to a complex set of management systems that govern who, how, and when access can be made. Some are leasable, some are not, and some only under certain conditions.

In general, variables that may impact the leaseability of fishing permits or quota include:

- Exclusivity to a certain vessel
- Exclusivity to a certain individual
- Exclusivity to a certain individual while aboard a certain vessel
- Exclusivity to vessels with specific length, tonnage, and documentation/registrations
- Exclusivity to individuals with specific citizenship, licenses, and track records

Appendix A includes a chart outlining most permits and quota for California fishers under state and federal management. Key takeaways are identified in the following paragraphs.

Leasing Federal Permits

In California, federally-managed groundfish IFQ permits and quotas are leasable, and greater infrastructure exists for facilitating these leases via quota banks such as the Monterey Bay Fisheries Trust. Federally-managed fisheries often require greater economies of scale to be successful, and strict costly regulations, such as the requirement in the West Coast Groundfish Trawl fishery that federal observers be aboard at all times. So while federal permits and quotas may be leasable, they are sometimes not a great fit for beginning fishers due to the significant capital requirements for vessel and crew to operate at a profitable scale.

West Coast Groundfish Trawl Limited Entry and West Coast Groundfish Trawl IFQ are fisheries in which permits are held by an owner but can be formally leased directly to another fisher.

Leasing State Permits

For the most part, regulations prohibit the leasing of California's state-managed limited entry permits. The intention of this is to limit permit ownership to operators rather than non-fishers or investors who might treat permit leasing as a business enterprise. Though this intention is understandable, unfortunately, it removes opportunities for young and beginning fishers to lease their way into the industry via California permits, or at least through formal pathways with enshrined legal protections. Further discussion of making California permits leasable would need to occur at the Pacific Fishery Management Council.

Nonetheless, there are still some opportunities for leasing certain fishing assets, or de facto leasing permits, that may provide economically viable paths to profitability and wealth-building for young and beginning fishers.[1]

Fisheries in which permits are attached to a vessel, though not leasable on their own (they cannot be removed from the vessel), can be de facto leased by leasing the vessel to which the permit is attached. Permits for coastal pelagics (e.g., northern anchovy, pacific sardine, mackerels, and market squid) and highly migratory species (e.g., billfish, tunas, sharks) are attached to a vessel and may be de facto leasable through this approach. However, it is important to note that while it is possible to de facto lease permits from highly migratory species, many fishers may prefer to purchase them outright at $50 for two years of open access.

Fisheries in which permits are held by the vessel owner and attached to a vessel, but do not require that the owner is on board during use (e.g., California salmon troll, halibut bottom trawl, Dungeness crab), similarly may be de facto leased by leasing the vessel.

[1] *Please note that the following is not legal advice. If you have any questions regarding the legality of these arrangements, please carefully review the regulations and contact CDFW or regulation experts.*

Tool 2: Lease-Plus

In some instances, it may be possible to structure lease arrangements in ways that support the lessee becoming the eventual owner of the asset, whether that is the federal permit and quota itself or the vessel with state permits attached. Rather than simply making lease payments that disappear into the owner's pockets, lease-plus arrangements can be structured with various terms that help build wealth (and potentially equity) for the lessee and advance their journey towards ownership. For example, a lease may provide the lessee with the **option to purchase *or* right of first refusal to purchase** the asset at the end of the lease term or whenever the asset is listed for sale.

Alternatively, a portion of lease payments made during the given period may be applied as **equity credit towards the purchase of the asset**. This can provide a significant financial benefit to the lessee-turned-buyer by allowing them to build equity in the asset before committing to the purchase (contract types with important differences are mentioned below). Additionally, the lease payments are often tax-deductible for the lessee, which can help support growing fishing businesses.

These contracts may take several forms with important differences, including several major risks. Parties interested in pursuing these options should contact an attorney or legal support services like Farm Commons for assistance. Important questions central to these arrangements center around the contract type and terms.

Contract Types

- ***Lease with Option to Purchase vs. Lease with Requirement to Purchase:*** Some contracts will give you the option to purchase at a future date, whereas some will require you to purchase, with potentially significant consequences such as financial liability or legal action if you are not able to fulfill this requirement.
- ***Lease to Own:*** A contract can be structured to gradually transfer ownership through monthly or other periodic lease payments. However, this structure may involve above-market lease rates which may not necessarily benefit the buyer. Instead, it is often preferable to utilize a *Lease with Option to Purchase* contract to maintain a lower lease rate, which may allow the buyer to build up cash for the down payment.

Contract Terms

- ***Purchase price**:* what you'll pay for the assets (including vessel, permit, and gear) when you close at some future date
- ***Conditions for potential purchase price changes***: fishing assets may appreciate and depreciate significantly - how can this be accounted for in contracts?
- ***Terms and dates***: the number of months the contract will be in force – in other words, how much time you have to complete the purchase (typically one to three years) and the timeline for any potential decisions, agreements, and closing.
- ***Option fee**:* an upfront payment that becomes part of your down payment if you complete the purchase (typically 1% of the purchase price)
- ***Lease credit**:* the exact portion of lease payments made under the agreement which will be applied to the ultimate purchase if applicable, including potential additional above-market rent (in housing, typically a 10–15% increase over market rent)
- ***Detailed list of included equipment and gear**:* itemized list of exactly what would be included in the ultimate purchase

Tool 3: Alternative Financing Structures

As discussed previously, the problem with transferring fishing rights is not simply that they are expensive, but that they may sometimes be fundamentally mispriced. This mispricing creates challenges to traditional financing strategies and requires alternative structures and thinking. Below is a brief overview of why traditional financing structures may not always work, followed by some suggested alternative structures.

Challenges with Traditional Financing Structures

Whereas traditional small business financing seeks to provide owners with the loan capital they need to start or grow their businesses in exchange for interest payments, this model only works if the business can generate enough profit to cover its obligations and then make payments to the lender. The key to this recipe is the amount of loan capital required and the cost of the capital for the business.

For example, consider a hypothetical situation in which a fisher seeks to purchase a Dungeness crab permit. The fisher has $10,000 of their own money to invest, but permits range from $50,000 - $60,000. In scenario 1, the permit is being sold by a current fisherman for $50,000. In scenario 2, the permit is being sold by a retiring fisherman, who knows the market rate is $50,000, but due to the 20% capital gains tax, he will have to pay ($10,000) upon the sale (or any of the other reasons for mispricing listed in Section 2), he is selling the permit for $60,000. The terms of the loans are the same, and in either case, the borrower projects a net income of $11,000.

Table 1. Two scenarios for a fisherman trying to purchase a Dungeness crab permit with a barely-affordable or unaffordable traditional loan.

	Scenario 1: Traditional Loan. Barely Affordable	Scenario 2: Traditional Loan. Unaffordable
Seller	Younger Fisher, Upgrading	Older Fisher, Retiring
Seller Received Permit via Grandfathering	No	Yes
Capital Gains Tax Burden Factored Into Price	$0	$10,000
Permit Cost	$50,000	$60,000
Loan Required	$40,000	$50,000
Interest Rate	6%	6%
Term	5 years	5 years
Annual Loan Payment	$9,288	$11,604
Borrower's Annual Cash Available for Payments	$11,000	$11,000
Debt Service Coverage Ratio	1.18	0.95
Free Cash Flow	$1,712	-$604
Project Loan to Value	80.0%	83.3%

For our purposes here, the primary impact of the price difference is that in Scenario 2, the new entrant fisher needs to make $2,316 *more* per year to cover the Annual Loan Payments, and he simply can't afford it. This extra payment stretches him beyond the cash he will have available for payments, and lands his debt service coverage ratio (a key figure for lenders) below 1.0, signaling he will not be able to cover payments. The fundamental challenge is not that the fisher can't get access to financing but rather that **standard financing won't help this borrower,** largely because the permit's price and value are misaligned via the retiring fisher's "pricing in" of the capital gains tax burden.

So, if the assets needed for new entrants to launch their businesses are both too expensive to purchase outright, and not affordable under standard financing terms, the question becomes: **how can alternative financing structures make the transaction affordable?**

Developmental Lending

Developmental Lending is a term that encompasses a variety of strategies that lenders may utilize to make financially viable loan structures to businesses that do not meet commercial lending standards or cash flow requirements. These are atypical structures as they generally increase a lender's risk and reduce a lender's returns. While these structures may not be available at commercial banks, they are occasionally offered by Community Development Financial Institutions (CDFIs) that serve California fisheries, such as California FarmLink, Craft3, or the Alaska Local Fish Fund. Below, we discuss three developmental lending structures: 0% interest rate lending, interest-only periods, and payments as percent of revenues. Because every business and transaction is different, these options may not always be available. However, it is worth exploring them with amenable lenders to identify whether they may offer creative, viable pathways to ownership in instances where traditional financing fails to pencil out.

Table 2. Three developmental lending structures and their impacts as they pertain to the unaffordable Scenario 2 from Table 1.

	Scenario 2: Traditional Loan. Unaffordable	**Scenario 3: 0% Interest Rate Lending**	**Scenario 4: Interest-Only with Balloon**	**Scenario 5: 75% of Revenues**
Seller	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring
Seller Received Permit via Grandfathering	Yes	Yes	Yes	Yes
Capital Gains Tax Burden Factored Into Price	$10,000	$10,000	$10,000	$10,000
Permit Cost	$60,000	$60,000	$60,000	$60,000
Loan Required	$50,000	$50,000	$50,000	$50,000
Interest Rate	6%	0%	6%	6%
Term	5 years	5 years	5 yrs Interest Only + Balloon	Estimate: 7 yrs
Annual Loan Payment	$11,604	$10,000	$3,000	Avg: $8,250
Borrower's Annual Cash Available for Payments	$11,000	$11,000	$11,000	Avg: $11,000
Debt Service Coverage Ratio	0.95	1.10	3.67	Avg: 1.33
Free Cash Flow	-$604	$1,000	$8,000	Avg: $2,750
Project Loan to Value	83.3%	83.3%	83.3%	83.3%

Scenario 3: 0% Interest Rate Lending

This rare structure offers the borrower free or nearly free capital. Mission-driven lenders may offer this structure to support the borrower by helping them build equity and wealth while maintaining a predictable principal repayment schedule. A one-time loan fee may provide lenders with a small amount of revenue for the deal, but otherwise, this structure offers minimal financial incentive to the lender. That being said, some CDFIs, such as California FarmLink, or organizations like Slow Money, do offer limited 0% loans for low-income or low-wealth borrowers who may not otherwise be able to receive financing. In these cases, the lenders are usually motivated by a social return on investment (social, economic, or environmental factors resulting from the loan aligned with their mission). This term stretches the concept of a "loan" and may be more accurately considered an equity-like investment.

Scenario 4: Interest-Only Periods

This more common structure sets periods (typically the initial period) in which the borrower makes interest-only payments (no principal). This interest-only period may range from as short as a few months, to as long as the entire term of the loan with a balloon payment at the end of the loan term (as featured in the example). This structure minimizes initial payments for the borrower, allowing them to build up equity and cash in the start-up phase of a business or project, yet also maintains typical interest revenue for the lender. There is moderate risk to the lender during this interest-only period, as the lender's principal is still fully outstanding and not being paid down. CDFIs such as California FarmLink and Akiptan offer extended interest-only structures to eligible businesses.

Scenario 5: Payments as Percent of Revenues

This structure bases borrower payments on a predetermined % of ex-vessel revenues, allowing for equitable risk-sharing between the borrower and lender. This structure is highly flexible and can feature a floor (no payments until a certain threshold of income is reached) or ceiling (no payments after a certain threshold of payments has already been made), as well as other variables such as tiered percentages as revenue changes. In agricultural lending, this structure is often utilized via an arrangement with a producer's primary buyer(s) to send a percent of the fees from their purchases directly to the lender (bypassing the borrower), and is called an **Assignment of Proceeds**. These structures may benefit borrowers (and lenders to borrowers) who experience highly variable revenues or very concentrated cash flow cycles, allowing repayment to follow the reality of ecosystems and business models, rather than a square-peg-round-hole arrangement. This structure

can maintain interest revenue for lenders on outstanding principal balance. Lenders such as the Alaska Local Fish Fund have developed loans utilizing this structure.

Seller and Joint Financing

Another option for more affordable financing for fishing asset purchases may come from the sellers themselves. In some circumstances, retiring fishers may be willing to provide financing for the transaction as a way to support the buyer's gradual entry into ownership. However, the crux of this tool is that sellers must be in a position where they do not need the full cash for their assets up front. This may be a rare occurrence, as many fishers consider their vessels and permits to be part of their retirement planning. **However, there may also be useful tax advantages for sellers made available by financing the sales themselves via limiting the amount of gains they receive in one tax year.** For example (numbers are purely hypothetical), a retiring fisher with $80k net income (22% tax bracket) could either (A) sell a $100k asset in full which would bump their net income to $180k, thus triggering the 32% tax bracket, or (B) finance the sale to receive gradual repayment over multiple tax years which would allow them to remain in the 22% bracket and receive the repayment income across future years at potentially an even lower tax bracket. Additionally, through self-financing, sellers can earn additional interest revenue (though ideally at a lower rate than would a commercial lender) to further support their retirement income. Fishers should consult their tax advisors for more information.

In some cases, sellers may be able to engage in **joint financing**, in which the seller cooperates with a commercial lender to each finance a different portion of the sale. This joint financing may allow for significant flexibility for the buyer. For example, both the seller and the lender could set different terms, interest rates, etc. for their portion of the loan. In combination, this could benefit the buyer, allowing them to receive better combined terms than they might have otherwise. However, there are also legal complexities to these arrangements such as processes in the event of defaults, or defining which parties have first position on collateral in the case of liquidation. The Alaska Commercial Fish and Agriculture Bank CFAB has developed a trial joint financing program on which future research may focus. As shown in Table 3 below, a joint financing arrangement provides for a weighted average interest rate that is lower than a standard bank loan. The reduced interest payments in this example make a small but notable difference in the borrower's overall cash flow.

Table 3. Benefits of a joint seller financing arrangement as compared to the unaffordable traditional loan scenario 2 from Table 1.

	Scenario 2: Traditional Loan. Unaffordable	Scenario 6: Joint Seller Financing
Seller	Older Fisher, Retiring	Older Fisher, Retiring
Seller Received Permit via Grandfathering?	Yes	Yes
Capital Gains Tax Burden Factored Into Price	$10,000	$10,000
Permit Cost	$60,000	$60,000
Loan Required	$50,000	$30,000 Seller $20,000 Bank
Interest Rate	6%	2% Seller; 6% Bank (3.6% Wtd Avg)
Term	5 years	5 years
Annual Loan Payment	$11,604	$10,932
Borrower's Annual Cash Available for Payments	$11,000	$11,000
Debt Service Coverage Ratio	0.95	1.01
Free Cash Flow	-$604	$68
Project Loan to Value	83.3%	NA

Integrated Capital

Integrated capital refers to resourcing a business with a "stack" or combination of capital types intended to provide greater support and viability than one form of capital alone. For small fishing businesses, this may include a combination of equity investment, debt, grants, and business education or technical assistance. In addition to (and in combination with) the various loan structures described above, the following resources can help a fisher's business model pencil out in unique ways.

Grants

Grants represent money transferred to a business owner that typically does not need to be repaid (with the rare exception of recoverable grants). Grants can be tremendously impactful in a fisher launching or growing their business by bringing down the cost they will need to pay for certain assets or investments to the extent that can make something that is typically unaffordable (and unfinanceable) newly financially viable. Grants may be provided

from a wide variety of sources and programs. Some that may be pertinent to small fishers includes:

- USDA Value Added Producer Grants
- USDA Farm to School Grant Program
- USDA Farmers Market Promotion Program
- USDA Local Food Promotion Program
- NOAA Fisheries Grants
- NOAA Saltonstall-Kennedy Grants
- Marine Stewardship Council Grants
- Santa Monica Seafood Responsible Sourcing Program Grants

Table 4. Modeling the impact that a hypothetical $15k grant might have on the loan required for the fisherman in Scenario 2. The grant makes the project viable where it previously was not.

	Scenario 2: Traditional Loan. Unaffordable	**Scenario 7: 10% $15k Grant Capital**
Seller	Older Fisher, Retiring	Older Fisher, Retiring
Seller Received Permit via Grandfathering?	Yes	Yes
Capital Gains Tax Burden Factored Into Price	$10,000	$10,000
Permit Cost	$60,000	$60,000
Loan Required	$50,000	$35,000
Interest Rate	6%	6%
Term	5 years	5 years
Annual Loan Payment	$11,604	$8,112
Borrower's Annual Cash Available for Payments	$11,000	$11,000
Debt Service Coverage Ratio	0.95	1.36
Free Cash Flow	-$604	$2,888
Project Loan to Value	83.3%	58.3%

Equity Investments

Equity investments refer to the purchase of partial ownership in a business by an outside party, generally to earn returns via the businesses' growth and appreciation in value of the ownership stake, along with other potential payment structures such as a fixed percent of profits. Equity investments may be suitable for businesses in an early stage in their growth

that do not yet generate sufficient cash flow to make debt payments but will be able to return value through other pathways in the future once they achieve a profitable scale. Equity investments represent a significant degree of trust by the investor. They can provide a unique pathway to capitalizing a business in the short term without burdening it with debt payment obligations, thus allowing a business to more quickly grow to a profitable scale.

Technical Assistance

Business technical assistance may be considered another form of "capital" which may be integrated into a business' funding structure for the purpose of improving efficiencies, revenue generation, and risk reduction. As discussed in more detail in Section 5 of this document, business technical assistance programs also may benefit the recipient by building trust and relationships with a lender to support enhanced terms down the line.

Partnership Structures

Another tool that may be considered is that the buyer and seller may create a partnership for the purpose of gradually transferring ownership of the business from the retiring fisher to the new owner. Partnerships can provide opportunities for mentorship, shared revenue generation, and legal tools for transitioning ownership. Though the word "partnership" is commonly used loosely, it is important to understand the specific legal structures available, and their respective strengths, and weaknesses.

At a high level, a Limited Liability Company (LLC) may provide small fishers with the greatest combination of flexibility and liability protection. LLC operating agreements can be set up to maximize the goals of the transfer, such as allowing the partners to create sweat-equity ownership to the new buyer, structuring profit-taking to equitably distribute income, and allowing for relatively easy updating of the agreement to reflect gradual transition of ownership over a period of time (e.g., can be revisited each year).

Table 5. Legal structures for partnerships with highlights pertinent to fishers.

	General Partnership	LLC	S-Corp
Ease of Formation & Operations	Formation paperwork (Partnership Agreement) is not required, but highly recommended	Requires some formation paperwork and minimal ongoing administrative duties	Requires greater formation paperwork and ongoing administrative duties
Ownership Restrictions	None	None	Owners must be U.S. citizens or residents
Sweat Equity Ownership	Allowed - governed by agreement	Allowed - governed by agreement	Not Allowed
Liability	Partners have unlimited liability for actions and debts of their partners and the business	Limited	Limited
Profits & Losses	Partners directly responsible according to ownership % or agreement.	Partners directly responsible according to ownership % or agreement. Requires careful separation of business and personal accounting.	Corp is solely responsible
Tax Responsibility	Pass-through (partners pay individually according to ownership % or agreement)	Pass-through (partners pay individually according to ownership % or agreement)	Pass-through (partners pay individually according to ownership % or agreement)
Profit Reinvesting	Not Allowed	Not Allowed	Allowed
Tax Deductions for Business Expenses	Allowed	Allowed	Allowed
Capital Construction Fund Tax Benefit	Allowed - requires 75% of ownership to be held by U.S. citizens.	Allowed - requires 75% of ownership to be held by U.S. citizens.	Allowed - requires 75% of ownership to be held by U.S. citizens.
Transferring Ownership	Allowed - governed by agreement	Allowed - governed by agreement	Allowed - ownership shares can be sold with some restrictions.

Tool 4: Price-Value Alignment Strategies

An alternative approach for thinking about how to support transfers of fisheries assets, which may not be affordable or financeable under normal circumstances, is to attempt to "fix" the price-value misalignment. While it is unlikely that the *seller* will simply reduce the price they seek out of goodwill, there may be other ways of achieving the same ultimate objective of lowering the price and burden to the *buyer*.

Rights Held in Community Trusts

"Community quota funds" or "fisheries trusts" are legal entities formed to acquire, hold, and manage fishing permits and quota, for the public benefit, in a community or region. In California, several such organizations were established in response to the development of the West Coast Groundfish Trawl Catch Share program. These organizations acquired permits and quota shares to protect local access to this fishery, with the intention of leasing them at affordable rates to local fishers and supporting the local economy. California currently has five operating fisheries trusts: Monterey Bay Fisheries Trust, Half Moon Bay Commercial Fisheries Trust, Fort Bragg Groundfish Conservation Trust, Commercial Fishermen of Santa Barbara, and Morro Bay Community Quota Fund.

While California's fisheries trusts have succeeded in maintaining access to the West Coast Groundfish fishery, the fishery itself has evolved into an increasingly difficult fishery for small and beginning operators to participate in due to high fixed operating costs such as required onboard federal observers. Currently, California fisheries trusts only hold and lease West Coast Groundfish Trawl Catch Share Program permits and quotas. However, there may be opportunities in the future for fisheries trusts to expand their mandate into additional fisheries, which may be a better fit for supporting small local operators. Because state-managed fisheries permits are not designed for officially sanctioned leasing, this may require complex changes and legislative action. Yet, with the right political support and thoughtful financing to ensure affordable lease rates, this could be a topic worth pursuing. The California Fish and Game Commission's Coastal Fishing Communities Project has identified this concept as a proposed Staff Recommendation (#6) to be evaluated.

One important note on the topic of fisheries trusts is that, unlike community land trusts which provide low-moderate income home buyers/lessees with the ability to **build equity** in the home via predetermined growth formulas, fisheries trusts as they currently operate do not necessarily provide fishers the same opportunity to build equity through ownership.

However, it is possible that some form of the same principle could be adapted into fisheries trusts. For example, instead of 100% of the fisher's lease payments becoming revenues for the trust, 10% could be parceled out by the trust to be placed into an investment vehicle (e.g., an index fund, a community real estate project, etc.). When the fisher's lease or relationship with the trust ends, their investment (presumably grown) would be returned to them, thus emulating the equity-building impact of a community land trust.

Conservation Easements

Conservation easements are another tool utilized in agriculture that may offer a useful model for fisheries price-value alignment. In farmland conservation easements, certain development rights attached to a piece of farmland property can be voluntarily sold by a property owner to permanently protect the property from future development that would damage its ecological value or remove the land from agricultural production. The "buyer" of these rights is often a land trust, non-profit, or other public entity that holds the development rights in perpetuity to protect the land in accordance with their mission. The financial impact of this transaction is to compensate the landowner for the value of the development rights while also lowering the future sales price of the land. With the development rights removed, the land is worth less. This reduction in saleable price subsequently makes the land more affordable for future generations of farmers.

A similar structure might be considered for fishing permits or quota, whereby a specific component of the asset might be removed to be sold to a trust or public entity with the intention of both (1) protecting an ecological resource while also (2) lowering the price of the right to make it more affordable for future buyers without financially harming the current owner. Examples of conservation easements include partial Dungeness crab permit buybacks, depth-restriction easements, and seasonal restriction easements (see Appendix C for more details).

Tool 5: Business Management & Apprenticeship Programs

Lastly, there is an important role that business management programs and apprenticeship programs may play in fisheries asset transfers. These programs provide early-stage fishers with opportunities to build business management expertise in ways that may benefit their credit-worthiness and business relationships, and provide experienced fishers with a pipeline of potential employees and successors. A few example programs and their benefits for succession planning include:

California Sea Grant's Apprenticeship Program offers young people entering the fisheries industry a viable pathway to employment and expertise through a holistic training program including industry dynamics, marine science, fisheries management, business management, boats, and gear, and paid employment opportunities aboard working vessels. Captains sign up for the program to host apprentices with the intention that these apprentices may become employees if they prove effective. This training and relationship building is a vital first step for a young fisher and may benefit them down the line when they are ready to launch their own operation.

As previously mentioned, California FarmLink's Resilerator and Regenerator programs offer fishers invaluable training in business management and succession/transition planning respectively. Graduates of these programs are not only well equipped to manage and transition businesses but also receive discounts on future financing from FarmLink.

Additionally, Local Catch Network's Scale Your Local Catch program is a nationwide, producer-centered business accelerator developed to strengthen local and regional seafood systems by addressing challenges associated with direct marketing and by building the knowledge, skills, and networks needed for direct marketing seafood businesses to scale up their operations and increase their capacity and viability for long-term resilience. Like FarmLink's Resilerator program, Scale your Local Catch focuses on business management skills key to success.

In 2020, Congress passed the Young Fishermen's Development Act to establish a Young Fishermen's Development Grant Program to provide training, education, outreach, and technical assistance initiatives for young fishermen related to (1) seamanship, navigation, electronics, and safety; (2) vessel and engine care, maintenance, and repair; and (3) sustainable fishing practices. In the beginning of 2022, NOAA's National Sea Grant Office received $2 million of annual federal funding for its operation. They will be able to support

2-5 projects at a time, with funding reaching up to $400,000 total per project for 1-2 years. This program has potential to provide meaningful educational and training experiences that will support the next generation of operators.

Finally, alternative workforce training is an option for those who are looking to transition but are not wanting to retire. Staying engaged in the blue food economy does not only have to be through fishing, and institutional marine knowledge can be highly valued in other positions. NOAA has focused on improving training resources in the last two years.

Conclusion

The challenge of succession planning for small fishing businesses in California is complex and a significant impediment for retiring fishers, new entrants, and the economic health of working waterfront communities. Appropriate strategies and solutions to support fishers will vary significantly based on fishery, business model, financial status of the parties, and many additional nuanced variables. Further research is needed to model the identified tools with real data from fishing operations in a variety of fisheries, business models, and boat/gear types. Fishers should be centered in this research process and inform how strategies might be tested and explored in real-time.

In the short term, we hope that this research has identified a useful framework for thinking about the challenges of succession planning for small fisheries and potential pathways toward a more inclusive and resilient industry.

Appendix A: California State and Federal Permits and Quota Transferability

Created with the support of Jamie O'Neil and Dock Street Brokers

State-Managed Fisheries Permits

Fishery	Management	Permit / Quota	Limited Entry?	Estimated Price Range (as of 2022)	Permit Holder	Primary Transfer Conditions	Can be Leased?	# Permits (2023)
California Spiny Lobster	California Fish and Game Commission	Lobster Permit	Y	$100k - $140k	Individual Fisherman	To holder of CA Commercial Fishing License	No	192
Sea Urchin	California Fish and Game Commission	Sea Urchin Dive Permit	Y	?	Individual Fisherman	None	No	217
Sea Cucumber	California Fish and Game Commission	Sea Cucumber Dive Permit	Y	$18k - $20k	Individual Fisherman	Original permittee has had a sea cucumber permit for any 4 years and landed at least 100 lbs. Recipient has a CA commercial fishing license.	No	74
Sea Cucumber	California Fish and Game Commission	Sea Cucumber Trawl Permit	Y	?	Individual Fisherman	Original permittee has had a sea cucumber permit for any 4 years and landed at least 100 lbs. Recipient has a CA commercial fishing license.	No	12
Rock Crab	California Fish and Game Commission	Rock Crab Permit	Y	$20k - $25k	Individual Fisherman	Recipient must have a CA commercial fishing license.	No	111
General Gil/Trammel Net	California Fish and Game Commission	Nearshore Gil/Trammel Net Permit	Y	$0	Individual Fisherman on Board Vessel	Individual receiving permit must have previous experience working gill or trammel nets and pass a proficiency test administered by the Department	No	91
Nearshore Finfish	California Fish and Game Commission	Nearshore Trap Endorsement N,NC,S	Y	$30k - $40k (depending on region)	Individual Fisherman w/ Nearshore permit	To holder of CA Commercial Fishing License	No	49

Nearshore Finfish	California Fish and Game Commission	Nearshore Permit: North (N) Region	Y	$20k - $25k	Individual Fisherman on Board Vessel	To holder of CA Commercial Fishing License	No	17
Nearshore Finfish	California Fish and Game Commission	Nearshore Permit: North Central (NC) Region	Y	$50k - $65k	Individual Fisherman on Board Vessel	To holder of CA Commercial Fishing License	No	19
Nearshore Finfish	California Fish and Game Commission	Nearshore Permit: South Central (SC) Region	Y	$65k - $75k	Individual Fisherman on Board Vessel	To holder of CA Commercial Fishing License	No	5
Nearshore Finfish	California Fish and Game Commission	Nearshore Permit: South (S) Region	Y	$100k - $110k	Individual Fisherman on Board Vessel	To holder of CA Commercial Fishing License	No	38
Deeper Nearshore Finfish	California Fish and Game Commission	Deeper Nearshore Permit	Y	$30k - $50k (currently $45k - $50k)	Individual Fisherman on Board Vessel	To holder of CA Commercial Fishing License	No	185
Market Squid	California Fish and Game Commission	Market Squid Vessel Permit	Y	Variable, depends on tonnage.	Vessel	Receiving vessel must have gross tonnage equal to or greater than original vessel + 10%	No	67
Market Squid	California Fish and Game Commission	Market Squid Brail Permit	Y	Variable, depends on tonnage.	Vessel	Equal or less than permit's gross tonnage endorsement (+10%)	No	47
Market Squid	California Fish and Game Commission	Market Squid Light Permit	Y	$275k (most recent sale, limited activity)	Vessel	No tonnage or length endorsements	No	26
California Salmon Vessel Permit	California Fish and Game Commission	California Salmon Permit	Y	$8k - $30k (Depending on size)	Vessel Owner	Equal or lesser "Fishing Potential", determined by [Length x Beam x Depth] according to USCG documentation or a marine survey	Kind of...	951
California Halibut	California Fish and Game Commission	California Halibut Bottom Trawl Permit	Y	$40k - $90k (Depending on size, L x B x D)	Vessel Owner	Equal or lesser "Capacity", determined by [Length x Beam x Depth] according to USCG documentation or a marine survey	No	39
Dungeness Crab	California Fish and Game Commission (Member of Tri-state; follows their protocols)	Dungeness Crab Permit	Y	Variable, depending on tier and length	Vessel Owner	Transferable to replacement vessels (no longer ownership restrictions), but is restricted by length.	No	519

Spot Prawn	California Fish and Game Commission	Spot Prawn Permit	Y	$500k - $600k (Last one is rumored to have sold for around $700k)	Vessel Owner	Owner may transfer permit to another vessel they own or to recipient that owns a vessel qualified for the fishery.	Not really	22
Pink Shrimp	California Fish and Game Commission	Northern Pink Shrimp	Y	Unknown. Very limited activity.	Vessel Owner	May be transferred to a replacement vessel, so long as no greater than 5ft longer than the original size endorsement of the permit	No	34
Herring	California Fish and Game Commission	Herring Permit	Y		Vessel Owner and Stamp Qualifying Vessel	Individual receiving permit has 20 or more Herring points	No	29

Federally-Managed Fisheries

Fishery	Management	Permit / Quota	Limited Entry?	Estimated Price Range (as of 2022)	Permit Holder	Primary Use Reqs	Primary Transfer Conditions	Can be Leased?
West Coast Groundfish Trawl	NMFS / Pacific Fishery Management Council	West Coast Groundfish Permit	Y	$40k - $100k+ (Depending on length, not including permits with mothership whiting)	Individual or Corp		Transferee must be eligible to own a documented vessel (US Citizen)	Yes
West Coast Groundfish Fixed Gear	NMFS / Pacific Fishery Management Council	West Coast Groundfish Permit	Y	Variable, see below	Individual or Corp		Transferee must be eligible to own a documented vessel (US Citizen)	
West Coast Groundfish Fixed Gear	NMFS / Pacific Fishery Management Council	Unendorsed (Not sablefish endorsed)	Y	$90k - $115k (Depending on length)	Individual or Corp		Transferee must be eligible to own a documented vessel (US Citizen)	Yes
West Coast Groundfish Fixed Gear	NMFS / Pacific Fishery Management Council	Tier-3 (+15,234 lbs of N. Sablefish)	Y	$150k - $170k (depending on length)	Individual	Owner on board req.	Transferee must be eligible to own a documented vessel (US Citizen)	No
West Coast Groundfish Fixed Gear	NMFS / Pacific Fishery Management Council	Tier-2 (+26,659 lbs of N. Sablefish)	Y	$295k - $320k (depending on length)	Individual	Owner on board req.	Transferee must be eligible to own a documented vessel (US Citizen)	No

West Coast Groundfish Fixed Gear	NMFS / Pacific Fishery Management Council	Tier-1 (+58,649 lbs of N. Sablefish)	Y	Very hard to say, rarely change hands.	Individual	Owner on board req.	Transferee must be eligible to own a documented vessel (US Citizen)	No
Coastal Pelagic Species	NMFS / Pacific Fishery Management Council	Coastal Pelagic Permit	Y	Limited data, often transfers with squid permits	Vessel		Receiving vessel must have gross tonnage equal to or greater than original vessel + 10%	No
West Coast Groundfish Trawl	NMFS / Pacific Fishery Management Council	Individual Fishing Quota Shares/Pounds	Y	Varies	Individual or Corp		Recipient must have valid Quota Share Account (requires application, but any US Citizen can own)	Yes
West Coast Groundfish Open Access	NMFS / Pacific Fishery Management Council	None	N		NA		NA	NA
Highly Migratory Species - Deep Set Buoy Gear (Swordfish, Thresher Shark)	NMFS	Limited Entry HMS Deep Set Buoy Gear Permit[2]	Y	Limited Entry Permits issued in for the first time in 2023 cost $101 (50 permits issued)	Individual or Corp	Vessel must have HMS permit with DSBG endorsement	One-time transfer permitted to a family member only upon the death of the permit owner. Once per year vessel transfer is allowed.	No

[2] This is distinct from the general HMS permit with a deep-set buoy gear (DSBG) endorsement. Gear endorsements for DSBG are required under the existing federal general HMS permit regulations to fish with DSBG in Federal waters south of a line extending seaward of the Oregon/Washington border (i.e., off of the States of California and Oregon). In contrast, the LE DSBG permit allows permit holders to fish with DSBG in Federal waters inside the Southern California Bight (SCB). More information available from NOAA Fisheries.

Appendix B: Alternative Financing Structures Summary Table

	Scenario 1: Traditional Loan. Barely Affordable	Scenario 2: Traditional Loan. Unaffordable	Scenario 3: 0% Interest Rate Lending	Scenario 4: Interest-Only with Balloon	Scenario 5: 75% of Revenues	Scenario 6: Joint Seller Financing	Scenario 7: 10% $15k Grant Capital	Scenario 8: 10% Pot Easement (300 pots to 270)
Seller	Younger Fisher, Upgrading	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring	Older Fisher, Retiring
Seller Received Permit via Grandfathering	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Capital Gains Tax Burden Factored into Price	$0	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Permit Cost	$50,000	$60,000	$60,000	$60,000	$60,000	$60,000	$60,000	$54,000
Loan Required	$40,000	$50,000	$50,000	$50,000	$50,000	$30,000 Seller $20,000 Bank	$35,000	$46,000
Interest Rate	6%	6%	0%	6%	6%	2% Seller 6% Bank (3.6% Wtd Avg)	6%	6%
Term	5 years	5 years	5 years	5 yrs Interest Only + Balloon	Estimate: 7 yrs	5 years	5 years	5 years
Annual Loan Payment	$9,288	$11,604	$10,000	$3,000	Avg: $8,250	$10,932	$8,112	$10,668
Borrower's Annual Cash Available for Payments	$11,000	$11,000	$11,000	$11,000	Avg: $11,000	$11,000	$11,000	$11,000
Debt Service Coverage Ratio	1.18	0.95	1.10	3.67	Avg: 1.33	1.01	1.36	1.03
Free Cash Flow	$1,712	-$604	$1,000	$8,000	Avg: $2,750	$68	$2,888	$332
Project Loan to Value	80.0%	83.3%	83.3%	83.3%	83.3%	NA	58.3%	85.2%

Appendix C: Conservation Easements

Partial Dungeness Crab Permit Buyback

In light of climate-change-induced alterations to Humpback whale migration patterns which have led to increased entanglements with Dungeness crab pot lines, one potential solution is to simply have fewer traps in the water. An easement-like approach might be for an entity to purchase the rights to a fixed percentage of pots out of each Permit Tier, only out of the larger permits, or potentially just out of a single permit. In theory, this could reduce the saleable price of permits as they would have a lower projected NPV, potentially making ownership more affordable for future generations. Buyback price calculations, industry impacts, and potential unintended consequences would require extensive analysis.

Table 6. Current California Dungeness Crab permits and pots in the water compared to total pot reduction impact from a hypothetical partial 10% buyback of pots from each tier.

	As of 2022 Season[3]			Hypothetical 10% Pot Reduction	
Permit Tier	**Pots per Permit**	**Total Permits**	**Total Pots**	**Pots per Permit**	**Total Pots**
Tier 1	500	58	29,000	450	26,100
Tier 2	450	53	23,850	405	21,465
Tier 3	400	57	22,800	360	20,520
Tier 4	350	56	19,600	315	17,640
Tier 5	300	57	17,100	270	15,390
Tier 6	250	165	41,250	225	37,125
Tier 7	175	110	19,250	158	17,325
TOTAL		**556**	**172,850**		**155,565**

Alternatively, as a one-off easement or partial buyback, what might the impact of this mean for the sales price and financeability of the permit for a new buyer? In Table 7 below, a hypothetical reduction of 10% of pots on a 300-pot permit translates into a 10% sales price reduction. As compared to the original scenario used throughout this paper, such a price reduction would reduce monthly payments to allow the borrower to cover debt service on the loan. This scenario assumes the borrower's annual net income available for debt

[3] 2022 Season Figures Courtesy of Dock Street Brokers

payments remains the same, which, while possible as many crabbers don't actually use every pot at once, is potentially incorrect.

Table 7. Scenario outlining a hypothetical reduction of 10% of Dungeness crab pots on a 300-pot permit, compared to the original scenario of an unaffordable loan from Table 1.

	Scenario 2: Traditional Loan. Unaffordable	**Scenario 8: 10% Pot Easement (300 pots to 270)**
Seller	Older Fisher, Retiring	Older Fisher, Retiring
Seller Received Permit via Grandfathering?	Yes	Yes
Capital Gains Tax Burden Factored Into Price	$10,000	$10,000
Permit Cost	$60,000	$54,000
Loan Required	$50,000	$46,000
Interest Rate	6%	6%
Term	5 years	5 years
Annual Loan Payment	$11,604	$10,668
Borrower's Annual Cash Available for Payments	$11,000	$11,000
Debt Service Coverage Ratio	0.95	1.03
Free Cash Flow	-$604	$332

1. **Depth-Restrictions Easement**: To protect vulnerable breeding stocks, a depth restriction easement might be placed on certain permits (eg: nearshore rockfish). The current permit owners could be compensated, the permit would be decreased, and the permit would become more affordable for the next buyer.

2. **Seasonal Restrictions Easement**: Similarly, certain permits (perhaps fisheries that operate year-round, or perhaps fisheries with a more limited season) might be considered as opportunities to sell their access rights during a limited portion of the season. The current permit owners could be compensated, the permit would be decreased, and the permit would become more affordable for the next buyer.

Acknowledgements

Community Foundation for Monterey County

The Community Foundation for Monterey County makes grants to create healthy, safe, vibrant communities in Monterey County and beyond. A design studio for philanthropy, the CFMC works with individuals, families and businesses to design customized giving plans to make an impact now and in the future. CFMC's strategic plan embraces a countywide vision of Healthy, Safe and Vibrant Communities. This work was supported by their Community Impact Grants, which address critical issues and opportunities that advance this vision through children and youth development, health and human services, arts and historical preservation, community development, and natural resource preservation. Learn more at www.cfmco.org.

Monterey Bay Fisheries Trust

The Monterey Bay Fisheries Trust (MBFT) is a 501(c)(3) nonprofit with a mission to advance the social, economic, and environmental sustainability of Monterey Bay fisheries. Originally formed to protect historical access to West Coast groundfish fishing rights, MBFT has since expanded its reach to increase consumer awareness about local seafood, promote stakeholder engagement in fisheries conservation and management, strengthen seafood businesses, and provide local seafood to families in need. MBFT is working to expand the network of organizations that support the commercial fleet, which resulted in our close partnership with California FarmLink. Learn more at www.montereybayfisheriestrust.org.

California FarmLink

Established in 1999, California FarmLink is a certified Community Development Financial Institution (CDFI) dedicated to investing in the prosperity of California farmers, ranchers, and fishers. In 2021, FarmLink became the administrator of the Ocean Protection Council's California Fisheries Fund loan program. FarmLink now provides loans, technical assistance, and business education to family-scale fisheries businesses up and down the coast. FarmLink works across California, with a focus on serving communities of color and beginning and sustainable operators. FarmLink partners with training programs, impact investors, public agencies and other nonprofits, weaving an ecosystem of support for next-generation farmers and fishers. Please visit us at www.californiafarmlink.org to learn more.