

# California Small Fisheries Business Technical Assistance Toolkit



Photos © David Hills



# Table of Contents

Introduction	2
TA Topic 1: Fishery Stock and Ecosystem Status Assessment	3
TA Topic 2: Fishery Management, Regulations, and Permits	5
TA Topic 3: Markets, Marketing, and Buyers	9
TA Topic 4: Major Costs: Vessel, Equipment, and Fuel	13
TA Topic 5: Employees, Business Partners, and Business Types	17
TA Topic 6: Insurance	22
TA Topic 7: Business Planning and Financial Management	25
TA Topic 8: Succession Planning and Exit Strategy	35
TA Topic 9: Triple Bottom Line Sustainability: Environmental, Social, and Economic	38
Appendix A: Summary Borrower Checklist	41
Appendix B: Port and Harbor Regulations	45
Acknowledgments	46
About California FarmLink and the Monterey Bay Fisheries Trust	47

© 2021 California FarmLink and Monterey Bay Fisheries Trust

**Cover Photos** - Clockwise from top left: Walter Deyerle (F/V Sea Harvest IV), Calder Deyerle (F/V Sea Harvest II), Joleen Lambert (F/V Pioneer), David Toriumi (F/V Grinder)

# Introduction

Financing the California commercial fishing industry is complex for both borrowers and lenders. As part of the Monterey Bay Fisheries Trust (MBFT) and California FarmLink's (CFL) efforts to support local small fisheries businesses and grow lender expertise, this fisheries lending Technical Assistance (TA) strategy guide and toolkit provides a foundation for how fisheries lenders can structure and offer TA services for fisheries businesses and potential borrowers.

Several valuable resources exist to support fisheries business planning and management. This document synthesizes many of them, with the goal of building an internal repository of information for California FarmLink and fisheries lenders to provide TA, along with insights as to how lenders may develop expertise, fill gaps in services where they exist, and create new value for lenders and borrowers.

The document is structured by TA topic. Each section includes a review of the topic, relevant information and questions for borrowers, perspective and questions for lenders, and gaps in information or services that may remain. At the end of the document, a borrower checklist is provided.

California fisheries businesses operate in a challenging, dynamic, and evolving environment. For a detailed review of the environmental, economic, and regulatory factors that affect fisheries businesses and lending considerations, see the [industry lending analysis](#) completed for CFL in fall of 2019. Key takeaways include:

- Fluctuating landing volumes due to ecological volatility and regulatory actions may restrict season length
- Consolidation and specialization of large-scale fishing operations is occurring partially due to market-based quota management systems and economies of scale
- "Greying of the fleet"; few young entrants are starting new operations due to a number of factors including industry challenges, high startup costs, and lack of financing options for small fisheries

With these challenges in mind, the following TA topics and resources are intended to help borrowers and lenders anticipate the issues and questions that will be central to their business success.

*Note: This is a working document that will be updated and adapted as new information becomes available. This version is as-of May 30, 2021.*

# TA Topic 1: Fishery Stock & Ecosystem Status Assessment

Perhaps the most fundamental question in a fisher's business plan is what species of catch will be harvested and what fisheries will be utilized. This structures subsequent questions regarding business models, equipment and vessels, and regulatory requirements. For California fishers, commercial fisheries and their respective species include:

## – West Coast Groundfish

- Rockfish: including (but not limited to) widow, yellowtail, canary, and vermilion rockfish; bocaccio, chilipepper, cowcod, yelloweye, thornyheads, and Pacific ocean perch.
- Flatfish: 12 species including petrale sole, Dover sole, starry flounder, arrowtooth flounder, and Pacific sanddab.
- Roundfish: The six species are lingcod, cabezon, kelp greenling, Pacific cod, Pacific whiting (hake), and sablefish.
- Sharks and skates: The six species are leopard shark, soupfin shark, spiny dogfish, big skate, California skate, and longnose skate.
- Other species: These include ratfish, finescale codling, and Pacific rattail grenadier
- Additional Resources:
  - [IFQ Species Balances](#)
  - [Compliance Guides](#)

## – West Coast Salmon and Steelhead

- Chinook Salmon, Chum Salmon, Coho Salmon, Sockeye Salmon, Pink Salmon, Steelhead Trout
- Additional Resources:
  - [CA Department of Fish and Wildlife Commercial Salmon Regulations](#)
  - [Salmon Fishery Management Listserve](#)

## – Highly Migratory Species

- Swordfish, Common Thresher Shark, Shortfin Mako Shark, Blue Shark, Yellowfin Tuna, Skipjack Tuna, Bigeye Tuna, Bluefin Tuna, Striped Marlin, Dorado (dolphinfish), and North Pacific Albacore

## – Coastal Pelagic Species

- Pacific Sardine, Pacific Mackerel, Northern Anchovy, California Market Squid, Jack Mackerel

## – California Nearshore

- Rockfish (Black-and-yellow, Gopher, Kelp, Grass, Treefish, Calico, Olive, China, Copper, Quillback, Brown, Blue, Black), as well as Monkeyface Prickleback,

California Sheephead, California Scorpionfish, Cabezon, Rock Greenling, and Kelp Greenling

- **Invertebrates:**
  - Dungeness Crab, Rock Crab, Abalone, Sea Urchin, Spiny Lobster and an emerging fishery for box crab, spot prawn, pink shrimp.
- **Other:**
  - California Halibut, Pacific Halibut, White Sea Bass, Hagfish, Sea Cucumber, Sea Urchin, Kellet's Whelk

Each fishery involves complex structures, laws and regulations, and permits, which are discussed in more detail below. However, one important question, regardless of which fishery is being targeted, is the status of its species populations, and the ways that these status characteristics intersect with regulations and fishery management plans. NOAA publishes regular [Fishery Stock Assessments](#) which provide valuable information regarding factors that may affect the availability and profitability of a fishing business, such as a fish stock's abundance, reproduction rate, mortality, and environmental factors. Current and historical stock assessment and fishery evaluations for each fishery are available here:

- [West Coast Groundfish Stock Assessments and Fishery Evaluation](#)
- [Salmon and Steelhead Stock Assessments and Fishery Evaluation](#)
- [Highly Migratory Species Stock Assessment and Fishery Evaluation](#)
- [Coastal Pelagic Stock Assessment and Fishery Evaluation](#)
- [California Nearshore Groundfish Stock Assessment](#)

As explored in further detail below, stock assessments must be considered with a **systemic understanding** of the fishery's environmental trends, management plans, and regulations. For example, in addition to current stock status, Dungeness crab fishers must also contend with long-term changes in ocean temperature threatening hypoxia and domoic acid, as well as regulatory closures due to risk of whale entanglement with crab pot lines. Similarly, in the West Coast groundfish trawl fishery, fishers have sometimes been unable to target stocks that are abundant because the target stocks coexist with stocks that were depleted or overfished (called "constraining species"). These additional considerations should inform how you consider the status of your fishery, stocks, and ecosystem.

### **Section 1 Questions for Borrowers:**

- What do recent stock assessment and fishery evaluations suggest about the population status of the fishery and species you are targeting?*
- How might current or foreseeable environmental trends affect your stock?*
- Are there constraining species or bycatch in your fishery? What trends are they showing?*
- How would your business be affected by increases or decreases in your target stocks or constraining species? What would you do?*

## TA Topic 2: Fishery Management, Regulations, and Permits

Commercial fishing is regulated by multiple overlapping enforcement bodies and management plans. The authority to manage federal fisheries in the United States falls under the Secretary of Commerce via the Magnuson-Stevens Fishery Conservation and Management Act. NOAA Fisheries is the federal agency with delegated authority from the Secretary of Commerce to oversee fishing activities in federal waters. Federal fisheries are generally defined as fishing activities that take place in the U.S. Exclusive Economic Zone (EEZ, between 3 and 200 nautical miles from the coastline). Generally, individual states retain management authority over fishing activities within three nautical miles of their coasts.

In California, fisheries are subject to their respective **Fishery Management Plans (FMPs)**. As California Sea Grant [writes](#), “as mandated by federal and state policy, CDFW, CFGC, PFMC, and NMFS staff create and update FMPs for species (e.g., white seabass) or species group (e.g., groundfish) with input from scientists, fishery managers and stakeholders. While the state and federal processes differ somewhat from one another, both involve the analysis of biological, environmental, economic and social factors affecting the fishery, with development and modification (as needed) of management alternatives and regulations.” These management plans are amended over time to incorporate new science, conservation, and business practices, so they are susceptible to change. Some important current FMPs may include:

- [Pacific Coast Groundfish Fishery Management Plan](#)
- [Pacific Fishery Management Council Plan for Salmon](#)
- [Pacific Fishery Management Council Plan for Highly Migratory Species](#)
- [Pacific Fishery Management Council Plan for Coastal Pelagic Species](#)
- [California Nearshore Fishery Management Plan](#)
- [Pacific Herring Fishery Management Plan](#)
- [Market Squid Fishery Management Plan](#)
- [White Sea Bass Fishery Management Plan](#)
- [Abalone Recovery and Management Plan](#)
- [California Spiny Lobster Fishery Management Plan](#)

Each management plan contains a complex arrangement of structures and regulations which govern commercial fishing activity. Additionally, of important use for fishers are the National Marine Fisheries Service’s **annual regulation updates**. These annual updates implement the authority prescribed in the management plans and set annual rules for whether and how much species may be landed under specific equipment, geographic areas, and conditions, alongside numerous other considerations. Some fishery regulations include:

- [Salmon and Steelhead Regulation](#)

- [Groundfish biennial harvest specifications and management measures](#)
- [Coastal Pelagic Species Annual Regulations](#)
- [California Commercial Fishing Regulations](#)
  - [California Nearshore Invertebrates Regulations](#)
  - [California Nearshore Groundfish Regulations](#)
  - [California Salmon Regulations](#)
- [Tri-State Dungeness Crab Committee Regulations](#)
- [Pacific Herring Regulations](#)
- [International Pacific Halibut Fishery Regulations](#)

Additionally, all commercial fishing vessels are subject to the following general provisions:

- [US Federal Code for Commercial Fishing Vessels](#)
- [2020 California Commercial Fishing Regulations](#)

Some **basic universal regulations** include:

- Commercial fishers leaving from or landing in any port in California are subject to commercial fishing laws and regulations even if the fishing activity occurs beyond three miles from shore. California laws and regulations also apply to licensed California fishers fishing within 200 miles of the California coast even if the trip began or ended outside of California, and all fishers fishing within three miles of the California coast or within three miles of an offshore island.
- Any person who takes fish or assists in the taking of fish for commercial purposes must have a valid [commercial fishing license](#) (FGC §7850).
- Any vessel used to take fish for commercial purposes must be registered with the Department (FGC §7881).
- Commercial fishing vessels that operate beyond 3 nautical miles from the territorial sea baseline are required to obtain a [dockside exam](#) from the Coast Guard.
- To be eligible to serve as a charter fishing vessel, operators will need a [Commercial Boat Registration](#), [Commercial Passenger Fishing Vessel License](#), and [Merchant Mariner Credential](#) (captain's license).

It is essential that business owners understand the management plans, regulations, and general provisions relevant to their business operations in detail. Failure to do so may jeopardize their business and incur significant penalties. Some **common features** of different fishery management plans and regulations include:

- **Limited Entry Permits:** restrict the total number of vessels that can participate in a fishery.
- **Individual Fishing Quota:** allocates total pounds that can be landed.
- **First Receiver Licenses:** buyers may be required to hold in order to off-load catch from vessels.

- **Catch Monitors:** NOAA Fisheries Observers may be required aboard vessels during fishing operations or landings.
- **Endorsements:** businesses may be required to carry specific endorsements for certain gear, vessel sizes, species, and other operations.
- **E-tix:** [system](#) used to catalogue landings and submitted within 24 hours of returning to port.
- **Vessel Monitoring Systems:** units approved by the NOAA Office of Law Enforcement.
- **Vessel Documentation:** 46 U.S.C. 12102(a) requires all vessels greater than 5 net tons to be documented with the U.S. Coast Guard.
- **Marine Protected Areas (MPAs):** MPAs are named, discrete geographic marine or estuarine areas designed to protect or conserve marine life and habitat, where fishing and harvesting may be prohibited. [Maps and more information here.](#)
- **Groundfish Closed Areas (GACs):** GACs are closures intended to either minimize the bycatch of overfished groundfish species or to protect groundfish habitat. Many of the closures are season and gear-specific. [Federal GACs](#) include Rockfish Conservation Areas, Block Area Closures, Essential Fish Habitat Conservation Areas, Cowcod Conservation Areas, Cordell Banks Closed Area, Farallon Islands Closed Areas, Yelloweye Rockfish Conservation Areas, and Deep-sea Ecosystem Conservation Areas. On a state level, California has [an additional set](#) of conservation areas.

Obtaining the necessary **permits (and/or quota** for ITQ/IFQ fisheries) can be a particularly challenging part of starting a new fishing enterprise. NOAA provides a useful [starting point](#) for commercial fisheries permits. In some cases (such as the West Coast Groundfish Trawl fishery), the limited total volume of permits and quota means new vessels cannot enter the fishery without leasing or purchasing quota and permits from other permit/quota holders . In some cases, permits and quota can be one of the largest expenses a business owner may face. It is vital to get a clear understanding of the **availability** and **costs** of the permits and quota a business will require.

Sometimes, permits and quota may be leased or purchased on exchanges such as [PermitMaster.com](#), [Jefferson State Trading](#), or [DockStreetBrokers.com](#). Examining the listings on these services are a good way to survey general permit availability and costs. Additionally, community organizations like the [Monterey Bay Fisheries Trust](#), [Fort Bragg Groundfish Conservation Trust](#), [Half Moon Bay Commercial Fisheries Trust](#), and [Morro Bay Community Quota Fund](#) operate quota banks, in which quota is temporarily leased to fishers in order to make it more accessible and affordable for small businesses.

**Special Regulatory Actions** may pose additional obstacles to operating a fishing business as planned. For example, over the past few years, several special regulatory actions have taken place in the California Dungeness Crab fishery due to the presence of domoic acid in crabs as a



result of abnormally warm waters, as well whale entanglements in crab pot lines. The resultant regulatory actions have shortened the crab fishing season considerably, thus cutting off expected revenue for fishers. Although it is impossible to fully anticipate these events, certain climatological and political trends appear increasingly clear. As the effects of **climate change** and government regulations continue to disrupt the industry, it is important for fisheries businesses to consider and plan for potential impacts.

## **Portfolio Fishing: Building Resilience into Commercial Fishing**

One response some fishers are taking in response to these increasing regulatory closures is a shift towards **portfolio fishing**, in which operations prepare to target multiple species and fisheries so that if one species or fishery becomes unexpectedly unavailable or unprofitable, the business can quickly shift to another to maintain revenues. The capacity to do this is dependent on having the right vessel, permits and gear, discussed in detail below in the “Equipment” and “Financial Management” sections. However, it is important to note here in the context of regulations that for many small and medium size businesses currently caught between being unable to access the economies of scale of large operations on one hand, and getting unexpectedly shut out of smaller scale operations like Dungeness crab due to regulations and closures on the other, diversified portfolio fishing may be a risk-reducing best practice.

### **Section 2 Questions for Borrowers:**

- Which fishery management plan(s) will/could your business be subject to? What kind of management practices are entailed?*
- What kinds of regulations govern your business? What is new this year? What trends do you see?*
- What special regulatory actions have recently occurred, and what might be foreseeable?*
- Are there public working groups (eg: Dungeness crab Task Force) or hearings you can attend to gain insight into the management processes and up and coming changes to regulations?*
- What permits do you hold? Will you need additional permits? Are they available? What do they cost? How will you obtain them?*
- What quota limits will you be subject to? Can you acquire additional quotas? Are they available? What do they cost? How will you obtain them?*
- What additional entitlements, licenses, or local port permits do you need?*
- Considering your current permits and gear, how could you diversify towards portfolio fishing? What additional permits, quotas, entitlements, or licenses would you need?*

## TA Topic 3: Markets, Marketing, and Buyers

Successful business planning requires a clear picture of the market environment and customers that the business will sell to. There are numerous combinations of sales models a business may utilize which will determine what, where, and how a fishing business may market their catch. At a high level, these models may be simplified into two primary categories: indirect marketing, and direct marketing.

**Indirect marketing** entails selling unprocessed catch to processors. Indirect marketing may involve lengthy supply chains (processors, wholesalers, distributors, retailers, consumers, etc.), which makes gaining a clear sense of the market significantly more complex. Additionally, changes in logistics technology, fuel prices, and even international exchange rates can impact supply and demand in the system, with ripple effects reaching individual fishers. [Marketing Associations](#) are set up to support fishers being able to discuss pricing with legal exemptions to antitrust laws. Establishing relationships with first receiver processors as well as others throughout the supply chain may help business owners gain access to useful information about the market. Additionally, trade publications such as [National Fisherman](#), [Pacific Fishing](#), and [Commercial Fisheries News](#), [Saving Seafood](#), and [Fishing Communities Coalition](#), provide updates and analysis regarding market forces and trends.

In response to the challenges of indirect marketing for small scale fishing businesses (international competition, trade wars, and unfavorable economies of scale), many fishers are increasingly taking part in direct marketing. **Direct marketing** broadly means selling catch at least one step closer in the supply chain to the final consumer in order to improve profitability. Direct marketing may entail cutting out (or becoming) the middleman by performing functions such as processing, boxing, delivering, or shipping catch. Direct marketing may include value-adding processes like smoking, preserving, or grinding catch into finished products. Direct marketing can also include selling processed or unprocessed catch directly to consumers through avenues such as dockside sales, farmers markets, direct-to-restaurant sales, direct-to-institution (schools, hospitals, etc.) sales, or Community Supported Fisheries (CSF) programs, similar to farm CSAs.

It is important to consider that while direct marketing may offer significant potential **advantages** such as increased growth, marketing opportunities, dependency on buyers/processors, and profitability, it may also include **challenges** such as requiring committing more time, resources, capital, and labor to operations that might otherwise go to fishing. Additionally, direct marketing models commonly prioritize quality over quantity via shorter, lower-volume trips that yield fresher and tastier catch. Links to traditional v. direct marketing **financial models** are included in the “Financial Management” section later on in this document.

Several valuable comprehensive resources exist for fishers interested in direct marketing, including Alaska Sea Grant [Fishermen's Direct Marketing Manual](#), and the University of California Santa Barbara [Market Your Catch](#) programs. Businesses interested in pursuing direct marketing strategies should pursue them in detail. Some highlights from the Fishermen's Direct Marketing Manual include:

- **Do market research and understand your potential customers.** When possible, talk to prospective buyers and consumers in person.
- **Define a target consumer population, both geographically and demographically.** Develop a list of products in seasonal demand in your target population.
- **Locate buyers who are your philosophical allies.** Seek customers who understand the limitations of a small operator and are willing to work with you, and at the same time to pay more for premium quality fish.
- **Differentiate your product from the competition.** Why should a potential customer buy from you rather than from someone else—better quality, a better price, superior service?
- **Maintain a relationship with your current processor,** who may be willing to help you or at least take you back if things don't work out. You may be able to avoid burning bridges by continuing to deliver part of your catch to your processors, so long as they don't think you're high-grading.
- **Diversify your markets.** Try not to send all of your product to a single buyer or market area. Develop markets in several broad regions. As prices in one market area begin to decline because of oversupply, promote your products in the next.
- **Prepare to change the way you fish.** You may have to sacrifice volume to meet the needs of your customers. You may have to shift the species or change your timing for catching them to optimize quality and meet buyer demands. Your objective is not to fill your boat, it's to meet your customers' needs.
- **Separate the fishing and marketing functions.** It is difficult to run catching and sales operations at the same time. Many rely on a spouse, partner or employee to do the marketing, or they use a broker or sales agent. Some have formed small marketing cooperatives to ensure enough volume to support hiring a marketing person.
- **Take good care of your catch at every step of the process.** Quality cannot be overemphasized. No one can improve your fish, so it's up to you to sustain the quality it had when it came out of the water. Bled and chilled is virtually assumed.
- **Establish communication.** Buyers want you in regular communication with them, and they want to be able to reach you if need be. Provide cell or satellite phone numbers as well as fax and email. Some buyers will want to talk to you daily while you are fishing; if yours are expecting to hear from you, be sure to call or be available to take their call.

These tips can help with not just managing the business, but they are also central to maintaining the positive **customer relationships** necessary to be successful. As a direct marketer, you are a significant piece of your brand. Additional marketing tips include:

- **Create a compelling brand and story** (who you are and why you do what you do) that is reflected in every part of your public facing communications and presence.
- **Consider traditional marketing strategies** such as signs, flyers, and paid advertising.
- **Consider internet marketing and social media** marketing strategies such as giveaways and frequent posting of appealing photos and videos of your operations and products.
- **Use your network** and take advantage of guerilla marketing opportunities you may have to spread word of mouth through friends and family.
- **Participate in local community** institutions and events, non-profit promotion opportunities (your work is something to be celebrated), and general networking.

Note: depending on the market model a fishing business utilizes, various additional annual licenses may be required. These include licenses for importing, receiving, processing, retailing, wholesaling, and more. Details and registration are available [here](#) through the CDFW.

One final point on marketing is the importance and delicate balance of fishers **maintaining a diversity of options of who to sell to**, and not having to rely on a single buyer that controls the market. Some big processors exert significant influence on markets and the prices. In other cases, fishers may have an allegiance or informal arrangement with a particular buyer, who may not want a fisher to sell to other buyers or sales channels. Managing these relationships can be a challenging part of marketing.

### **Section 3 Questions for Borrowers:**

- To whom, where, when, and how will you sell your catch?*
- What state permits or licenses will you need to purchase (insofar as they relate to sales channels)?*
- Do you have a particular arrangement or agreement with your primary buyer that limits your ability to diversify your markets or engage in direct marketing?*
- If you are pursuing an indirect model, who are your local processors and distributors?*
- What do you know about the current market for your catch and products?*
- If you are pursuing a direct model, what combination of sales opportunities can you pursue?*
- What nearby communities with high seafood demand may buy your catch and products?*
- What local restaurants, seafood markets, and individual buyers might be interested? How will you collect contact information for prospective customers and how will you notify them when local seafood is available?*
- Where are the nearest farmers markets? What kinds of value-added products could you create?*

- ❑ *What operational changes might be involved if you are converting to direct marketing?*
- ❑ *What is your business' brand? What is the story you are telling?*
- ❑ *What relationships can help you kickstart or promote your business?*
- ❑ *What traditional marketing opportunities would you consider?*
- ❑ *Are you a regular user of social media and familiar with social media marketing? If not, who do you know who could help?*

## TA Topic 4: Major Costs: Vessel, Equipment, and Fuel

### Buying a Vessel: Things to Consider

Choosing a vessel might be one of the most important decisions a fisher will make. Not only is a vessel a foundational piece of equipment used to operate the business, but it is also often the single most expensive investment. It is essential that fishers and lenders evaluate every element of a vessel and how its characteristics will affect operations, business strategy, and financing. Several principles recommended by Pacific Marine Expo's [10 Steps from Deckhand to Boat Owner](#) which are important to consider include:

- Operational: How does the vessel fit the intended day to day operations?
- Equipment compatibility: does the vessel already have core pieces of equipment necessary to fish for the species you will be targeting (rod holders, hydraulics, etc.)? If not, can the vessel correctly mount the proper equipment, and store it while not in use?
- Fuel Capacity: does the vessel have sufficient fuel capacity to cover the distance to and from the fishery? How might additional weight of equipment, crew, and catch affect fuel capacity?
- Storage space: Does the vessel have sufficient storage capacity to bring back enough catch including ice and refrigeration? Would the storage allow for multi-day trips, if desired?
- Washdown systems: Does the vessel have a washdown system for rinsing equipment or the deck while at sea?
- Comfort: How comfortable will the vessel be for captain and crew? Does it have a shade covering, rest areas, bathrooms, etc?
- Versatility: Can the vessel accommodate multiple purposes, such as being used for portfolio fishing, or as a charter?
- Permits and Quota: What permits and quota does the vessel come with? What kind of a 'deal' does this represent to the buyer?

The question of **vessel value** is also very important: what short, medium, and long term value does the vessel represent? It's probably a good idea to beware of "good deals." Considering the significant value a vessel represents in an individual's financial planning (retirement), why would the seller let go of a vessel at a less-than-market price? What components are in need of repair, or are known to have problems that might become a long-term headache? Be sure to get a full history of the vessel, including all inspections, incidents, work, etc. Even if a buyer is set on a particular vessel, shopping around and collecting data about current prices can provide valuable information for negotiating. One additional way to address this challenge is to 'go with what you know.' Every vessel has its differences and quirks. It is always worthwhile to seek expert insight on the value of a vessel. However, choosing a vessel that the buyer has familiarity with can shortcut some of the learning curve and potential oversights involved in the process.

**Timing the market** can also be a major advantage. Numerous factors can influence the price of a new or used vessel. New or expiring regulations, ecosystem and stock status, new technologies, local or international competition, or even a major storm can all impact the supply and demand for vessels, which will in turn affect the price. To the extent possible, try to time a vessel purchase when these conditions are in the buyer's favor.

Several factors will also have important impacts on the **financing terms of the vessel purchase**. The age of the vessel will usually affect the terms of the loan. "10 Steps" offers an insightful quote from Rob Horne at Farm Credit East: "If it's an older boat... even if it's a fiberglass boat, we'd typically do a five-to-seven year term on the repayment," says Horne. "If it's newer... I'd do seven-to-ten years on the term. A brand new construction, I'd do 15 years." Because newer vessels are anticipated to hold their value longer, this reduces the risk to the lender and allows the lender to spread out the recoupment of their investment over a longer period of time (meaning smaller monthly payments). In summary, these vessel characteristics can translate into meaningful differences in the monthly payment a fisher will have to make.

Buyers and lenders should also consider the **potential effects of future regulation** around emissions and fuel efficiency of vessel engines. As of the publication of this document, the CA Air Resources Board is proposing regulations to reduce emissions from diesel engines on commercial boats - engines from 1987 or earlier may have to upgrade to a Tier II engine by 12/30/2030; engines from 1988-1997 by 12/31/31; and engines from 1998 and later by 12/31/32 (proposed amendment to 93118.5, title 17, chapter 1, subchapter 7.5, California Code of Regulations). Though these anticipated regulations may change, tracking legislation such as this provides a potential window into future costs associated with a vessel.

## **Other Costs to Consider**

**Equipment** is the next major cost (and investment) for any fishing business. In "10 Steps" the Alaska Division of Economic Development notes, "The most common mistake we see with new fishing businesses is not anticipating the time and startup costs involved with a new vessel or entering a new fishery. Planning is crucial." In order to estimate these costs, fishers can consider their costs in the following equipment categories:

- **Fishing gear:** There are numerous different types of fishing gear and rig setups, each with its own specific uses, combinations, and costs. For a high level overview of gear types, see this resource provided by the [Marine Stewardship Council gear types](#). For more detailed descriptions specifically pertaining to fixed gear types in California, Oregon, Washington, and Alaska, [NOAA offers a fixed gear guide](#) (2011). Gear might also include: beepers and tracking buoys, buoys, blocks and rollers, cable, chafe gear, crimping tools, crimps and sleeves, cutters, deep water reels, descending devices, dye,

fish-finding gear, harpoons, hy-flyers, hooks, knives, landing gear, light sticks, longline snaps, longline spools & accessories, mammal 'pingers', monofilament line, rigging supplies, saws, sea turtle release gear, snaps, strobes, swivels, and other tools.

- A note on fishing gear: because it can be expensive, and because it is usually not insurable, it may be prudent to obtain financing agreements such as a line of credit in case it is lost or broken. Affordable used gear may be obtainable in some cases through local fishers or brokers.
- Personal gear: Equipment and gear worn by captain and crew. May include aprons, bibs, boots, gloves, sleeves, and rain gear.
- Navigation and electronics: Prices range, with different products and services from providers such as [Englund Marine](#) and [Furuno](#).
- Safety gear: Important not only for obvious safety purposes, but also because the Coast Guard can order a vessel to return to its shore if they find an "especially hazardous condition," such as insufficient personal flotation devices, immersion suits, survival crafts, distress communication equipment, firefighting equipment, or navigation lights. [Fishsafewest.info](#) provides a helpful checklist of the safety equipment vessels require. A Coast Guard Safety exam is mandatory for any vessel traveling more than 3 miles from shore.

Aside from costs, equipment selection may entail additional considerations such as bycatch, habitat impact, and marine mammal entanglement. Habitat impact is discussed in greater detail below in the Sustainability section. In terms of marine mammal entanglement, NOAA Fisheries has assembled a [variety of resources](#) describing the issue, its impact on equipment and fishers, and best practices for avoiding entanglement. Policy and equipment responses to this issue such as ropless traps are currently under development and may change the equipment landscape significantly in the future.

In terms of variable costs, one of the largest expenses vessels may face is **fuel**. Alaska Sea Grant offers valuable research and analysis of fuel costs in commercial fishing vessels and provides detailed information in publications such as their [Vessel Energy Audit](#). The audit provides detailed guidance on optimizing engine fuel efficiency, propulsion efficiency (optimizing power/propeller/hull sizes), maintenance cost factors, onboard generators, hydraulics, refrigeration, and electronics. The audit's high level recommendations for vessel operators include:

- **Slow down**. Audit results illustrate that an 11% decrease in speed reduces fuel consumption by 43%, and a 25% decrease in speed by as much as 75%.
- Install a **fuel-flow meter** and use it. If wired to the GPS it can indicate gallons per mile rather than per hour. Simple arithmetic will get the same result over a measured distance but not minute-by-minute. A flow meter helps the operator adjust speed to optimize fuel efficiency in real time.



- **“Right-sizing”** main engines. Bigger is not better; the correct size is most efficient. When doing a new-build or re-power select engines only powerful enough to do the job efficiently.
- If lights, pumps, refrigeration compressors, or other high demand electrical units are required at dockside, use **lower-cost shore power** rather than run an onboard diesel generator.
- When replacing pumps, motors, etc., select premium **efficiency models**. A rule of thumb is that if a motor is used 2,000 hours per year or more it pays to upgrade to premium efficiency.
- When buying compressors, fans, or circulating pumps, select premium efficiency rated models.
- Heat domestic water and living spaces with **waste engine heat** via a cooling circuit water heater and a Red Dot-type space heater installed on the engine’s cooling circuit.
- Operating factors such as comfort, safety, need to beat weather or get to markets quickly, and more **may outweigh fuel considerations**, but vessel operators should be aware and make conscious choices.

#### **Section 4 Questions for Borrowers:**

- How will the vessel’s features affect your day to day operations? How can you best match vessel capacity with target species permits?*
  - Topics to consider include: equipment compatibility and storage, fuel capacity and efficiency, catch storage / livewell, washdown systems, crew comfort, vessel and equipment versatility / repurposability, and inclusion of required permits and quota.*
- What kind of short term and long term value do the vessel and attached permits represent? How will it hold its value?*
- If a vessel is a ‘good deal’ - why?*
- What factors are affecting the vessel market (and your type of vessel) at this moment, and what can you foresee in the near future? Can you time the market?*
- How will the characteristics of your vessel affect your financing? Could choosing an older or newer vessel trigger loan terms that make more sense for your long-term business model and your business plan?*
- What equipment and gear do you need? Have you listed out all your anticipated fishing gear, personal gear, communications gear, navigation gear, and safety gear?*
- Can you obtain a line of credit in case you need to replace gear that gets lost or broken?*
- Are there any strategic decisions or adjustments you can make to your vessel, gear, or day to day operations that can maximize your fuel efficiency?*
- What would your estimated fuel cost savings be if you could reduce your average hull speed by 10%?*

## TA Topic 5: Employees, Business Partners, and Business Types

Managing a fishing vessel's employees and business partners can be both a tricky and rewarding part of running a business. No matter how good your business plan, stock status, vessel, or equipment might be, interpersonal relationships, events, and behaviors on deck and in the office can make or break a business. Business owners can set themselves up for success by using a few of the following best practices.

### Crew Agreements for Successful Teams

Having a crew agreement can be a strong foundation for a successful team. Crew agreements can help protect business owners, crew members, and in some cases may even be required by insurance. Trawl.org provides a great [sample crew contract](#). Oregon State University's [Commercial Fishing Crew Agreements Overview](#) offers the following principles to be included in a strong crew agreement.

1. **Purpose of Agreement:** Include the crew member name, vessel owner name, and name of vessel.
2. **Terms:** Describe the terms of employment including the starting and ending dates.
3. **Payment:** Detail how the crew will get paid; % of gross catch, % of net catch after expenses, retro pay, season preparation, bonuses.
4. **Cost Sharing:** Assign responsibility for costs between crew and owner such as travel expenses, gear, groceries, ice, fuel, unloading catch.
5. **Employment / Medical History:** Determine if the crew has the experience and health for the expected work.
6. **Work / Termination Conditions:** Outline what work tasks you expect the crew member to perform and what conditions would result in termination of the agreement.
7. **Safety and Survival:** Get your crew member thinking about safety. Ensure they know the vessel equipment, ancillary gear, life saving and survival gear, fire and safety systems and have inspected the vessel for safety and sea worthiness.
8. **Drugs:** Outlines your vessel's policy of drug and/or alcohol use both on and off the vessel; provides details on drug testing if applicable.
9. **Signatures:** Sign and date. If both parties do not sign and date, it is not an enforceable agreement.
10. **End of Voyage Statement:** Fill out at either the end of the season or upon termination of the agreement. States the reason for termination, the date, and is signed by Captain and Crew.

## Employees v. Contractors

The question of whether a crewmember or worker should be considered an employee vs. an independent contractor depends on several technical factors. The State of California Employment Development Department provides a helpful [information sheet](#) overviewing the factors involved in making the determination. The determination is important for taxes and insurance. Business owners should consult a tax advisor for guidance.

## Business Structures

Due to the economics and nature of the industry, many fishing businesses will have **business partners** to help share costs, labor, and responsibilities. The structure of the partnership will have significant impacts on the operations of the business, the way taxes are paid, legal rights and liabilities of partners, and more. The U.S. SBA offers a business startup guide that includes an overview of possible [incorporation types](#) which you and your partners may consider. Additionally, Alaska Sea Grant provides a [40-minute podcast](#) discussing incorporation types for fishers.

Below are descriptions of each type of incorporation. However, primarily, most commercial fishers incorporate as sole proprietorships, LLCs, and S-corps. The Alaska Fishermen's Network provides [sample descriptions and scenarios](#) of incorporation including relevant tax benefits.

A **sole proprietorship** is easy to form and gives you complete control of your business. You're automatically considered to be a sole proprietorship if you do business activities but don't register as any other kind of business. Sole proprietorships do not produce a separate business entity. This means your business assets and liabilities are not separate from your personal assets and liabilities. You can be held personally liable for the debts and obligations of the business and no handshake agreements-such as for profit sharing-with other fishermen or "partners" would be considered legally binding. Sole proprietors are still able to get a trade name. It can also be hard to raise money because you can't sell stock, and banks are hesitant to lend to sole proprietorships. Sole proprietorships can be a good choice for low-risk businesses and owners who want to test their business idea before forming a more formal business.

**Partnerships** are the simplest structure for two or more people to own a business together. There are two common kinds of partnerships: limited partnerships (LP) and limited liability partnerships (LLP). **Limited partnerships** have only one general partner with unlimited liability, and all other partners have limited liability. The partners with limited liability also tend to have limited control over the company, which is documented in a partnership agreement. Profits are passed through to personal tax returns, and the general partner — the partner without limited liability — must also pay self-employment taxes. **Limited liability partnerships** are similar to limited partnerships, but give limited liability to every owner. An LLP protects each partner from

debts against the partnership, and they won't be responsible for the actions of other partners. In either case, partnerships can be a good choice for businesses with multiple owners, professional groups, and groups who want to test their business idea before forming a more formal business.

A **limited liability company** (LLC) lets you take advantage of the benefits of both the corporation and partnership business structures. LLCs protect you from personal liability in most instances, and your personal assets — like your vehicle, house, and savings accounts — won't be at risk in case your LLC faces bankruptcy or lawsuits. Being an LLC protects your personal assets and separates them from business assets. Profits and losses can get passed through to your personal income without facing corporate taxes. However, members of an LLC are considered self-employed and must pay self-employment tax contributions towards Medicare and Social Security. LLCs can have a limited life in many states. When a member joins or leaves an LLC, some states may require the LLC to be dissolved and re-formed with new membership — unless there's already an agreement in place within the LLC for buying, selling, and transferring ownership. LLCs can be a good choice for medium- or higher-risk businesses, owners with significant personal assets they want to be protected, and owners who want to pay a lower tax rate than they would with a corporation.

A **corporation**, sometimes called a C corp, is a legal entity that's separate from its owners. Corporations can make a profit, be taxed, and can be held legally liable. Corporations offer the strongest protection to its owners from personal liability, but the cost to form a corporation is higher than other structures. Corporations also require more extensive record-keeping, operational processes, and reporting.

Unlike sole proprietors, partnerships, and LLCs, corporations pay income tax on their profits. In some cases, corporate profits are taxed twice — first, when the company makes a profit, and again when dividends are paid to shareholders on their personal tax returns. Corporations have a completely independent life separate from its shareholders. If a shareholder leaves the company or sells his or her shares, the C corp can continue doing business relatively undisturbed. Corporations have an advantage when it comes to raising capital because they can raise funds through the sale of stock, which can also be a benefit in attracting employees. Corporations can be a good choice for medium- or higher-risk businesses, businesses that need to raise money, and businesses that plan to "go public" or eventually be sold.

An **S corporation**, sometimes called an S corp, is a special type of corporation that's designed to avoid the double taxation drawback of regular C corps. S corps allow profits, and some losses, to be passed through directly to owners' personal income without ever being subject to corporate tax rates. Not all states tax S corps equally, but most recognize them the same way the federal government does and taxes the shareholders accordingly. Some states tax S corps on profits above a specified limit and other states don't recognize the S corp election at all,

simply treating the business as a C corp. S corps must file with the IRS to get S corp status, a different process from registering with their state. There are special limits on S corps. S corps can't have more than 100 shareholders, and all shareholders must be U.S. citizens. You'll still have to follow strict filing and operational processes of a C corp. S corps also have an independent life, just like C corps. If a shareholder leaves the company or sells his or her shares, the S corp can continue doing business relatively undisturbed. S corps can be a good choice for a business that would otherwise be a C corp, but meet the criteria to file as an S corp.

A **benefit corporation**, sometimes called a B corp, is a for-profit corporation recognized by a majority of U.S. states. B corps are different from C corps in purpose, accountability, and transparency, but aren't different in how they're taxed. B corps are driven by both mission and profit. Shareholders hold the company accountable to produce some sort of public benefit in addition to a financial profit. Some states require B corps to submit annual benefit reports that demonstrate their contribution to the public good. There are several third-party B corp certification services, but none are required for a company to be legally considered a B corp in a state where the legal status is available. B Corps can be a good choice for businesses with the same structure and goals as a C Corp, but with an explicit purpose to benefit the public, and the potential to enhance their brand, reputation, and revenue through their B Corp status.

A **cooperative** is a business or organization owned by and operated for the benefit of those using its services. Profits and earnings generated by the cooperative are distributed among the members, also known as user-owners. Typically, an elected board of directors and officers run the cooperative while regular members have voting power to control the direction of the cooperative. Members can become part of the cooperative by purchasing shares, though the amount of shares they hold does not affect the weight of their vote The [San Francisco Community Fishing Association](#) is currently the only fishing cooperative in California.

Even before choosing an incorporation type, a signed Partnership Agreement can help outline many of the practical considerations of a partnership. Topics may include:

- Clearly defined roles and responsibilities
- Detailed catalogue of inputs and investments by partners
- Clearly defined cost and profit sharing
- Procedures for managing addition of new partners, withdrawal of existing partners, or disbandment of partnership.
- Procedures for managing disagreements, arbitration, injury, death,

Lastly, it may be useful to consider a **broad definition** of "partner." Even though they are not your business's actual ownership partners in the manner described above, lenders, insurers, legal services, marketers, and accountants are invaluable partners in that they are **invested in seeing your business succeed, and bring important resources, knowledge, and skills to the table**. Business owners should be sure to develop positive working relationships with these

“partners,” and lean on their expertise and ability to support the business wherever possible. In particular, lenders may have programs to provide **business technical assistance** to borrowers, covering everything from incorporation, to business projections, to tax assistance.

**Section 5 Questions for Borrowers:**

- ❑ *Do you have a comprehensive crew agreement?*
- ❑ *What business type do you have or will you choose? Why? How does it or will it affect your operations, liability, taxes, and responsibilities?*
- ❑ *Will you pay your crew members as employees or independent contractors? How will this affect your liability and tax responsibilities?*
- ❑ *Do you have business partners? Have you written and signed an agreement covering capital invested, operating responsibilities, liabilities, taxes, profit-sharing, and asset ownership?*
- ❑ *How can you work with your lender, insurer, etc. as additional partners in helping your business succeed? Who are your biggest allies?*

## TA Topic 6: Insurance

While there are no universal requirements that commercial fishing vessels or individuals carry insurance, it may be a wise investment for fishers under certain circumstances. Business owners should consider the **risks** inherent to their operations, the **probability** of adverse events, and the potential **consequences** if the events were to happen. Insurance risks can be considered as follows:

- **Asset Risk:** includes loss of or damage to fishing vessels, equipment, and gear and aquaculture installations, as a result of natural or man-made disasters.
- **Production and management risk:** loss of catch, production failure and fish disease.
- **Market risk:** changes in the prices of outputs and inputs, as well as increases in interest rates.
- **Personal and health risk:** accidents at sea causing illness, injury, or death to personnel and crew.

Due to the high costs of insurance for fishers, business owners may want to carefully consider coverage options. However, if the fisher is seeking financing, it is highly likely that the lender will require certain types of coverage to protect their investment (and if they don't, it may be a red flag that the lender is not adequately familiar with the industry). Additionally, some harbors may require certain forms of insurance for permanent or temporary slippage. Insurance for commercial fisheries is governed under the **Jones Act**, which makes it different from other types of industry insurance markets. **Types of insurance policies** for fishing businesses outlined in Alaska Sea Grant's [Getting the Most Value When Buying Fishing Vessel Insurance](#) include:

- **Hull and Machinery:** covers repair or replacement of the vessel, including engine, deck machinery, and attached equipment in the case of a sinking, grounding, fire, collision, theft, or certain other kinds of loss. Policies normally pay for replacement of engines, propeller shafts, or other equipment that breaks down if the cause is "latent defect" and *not* normal wear and tear. It is possible to get additional skiff and machinery and net and gear coverage on some policies. Generally, hull and machinery policies should cover 100% of the estimated total value of the vessel and equipment, so that in a worst-case-scenario total loss, the owner can realistically get back on their feet. Alaska Sea Grant estimates the annual premium as 1.5–3.5% of the vessel survey value.
- **Protection and Indemnity:** covers the owner's responsibility for personal injury to the vessel's own crewmen (but not owner) and damage to other vessels and equipment, and to facilities, caused by the insured vessel. The most common (and potentially expensive) P&I claims are for crew injuries, which courts generally interpret in favor of the crewmember. Typical small fishing vessel P&I policies are written for \$250k-500k, and have relatively low premiums. However, under the Jones Act, Protection and

Indemnity coverage may not apply under certain land-based circumstances (such as selling or processing on land) and therefore owners may want to consider augmenting their coverage with a **workers compensation** policy for these circumstances. Consult an insurance advisor for expert clarification.

- **Pollution and Wreck Removal:** cover lower probability (but high consequence) risks such as fines for pollution (up to \$1m) and wreck removal (if a wreck is deemed to constitute a hazard).
- **Breach of Warranty:** coverage specifically to protect a lender from losses incurred in a situation *not* covered by the Hull and Machinery policy due to the vessel operating outside of the purposes, geographic areas, or fisheries it is insured for.
- **Moorage:** covers the vessel and equipment while moored or in storage from risks like collisions, fires, oil/fuel spills, and vandalism.
- **Key Person Life Insurance:** a life insurance policy that a company purchases on the life of an owner or another individual considered critical to the business to ensure that if the person dies, the business' debts can be covered. The company is the beneficiary of the policy and pays the premiums.
- **Workers Compensation and Disability Insurance for Key Person:** Similar to Key Person Life Insurance, business owners may consider seeking workers compensation or disability policies to cover themselves in case of injury.

A fisher's **cost** and **ability** to obtain a policy may be affected by several factors, including:

- Years of experience
- Age of vessel
- Size of vessel
- Material of vessel (wood, steel, fiberglass, etc.)
- Fishery or fisheries participating in
- History of accidents

General best practices for **getting the best value** for insurance include:

- Choose the highest deductible affordable (and that the lender will allow).
- Select the longest moorage/non-fishing days possible, without limiting your money-making options. Additional operating days can be added if new opportunities arise.
- Same with geographical limits—don't pay for coverage outside the normal fishing area unless necessary. Additional range can be added later if needed.
- Shop around - prices may vary significantly between providers.
- Anticipate annual increases in insurance premiums and factor that in.

Acquiring insurance will likely require a fisher to have their vessel **surveyed**. This may require a vessel to be hauled out, meaning additional costs and coordination with a boat yard. On the



low-end, a survey may cost \$20/ft. However, there is no standard cost estimate or guarantee that the vessel can be insured or insured at an affordable rate. In some cases, current insurance providers are opting out of new policies and many are not renewing existing policies, making obtaining coverage a challenge. Insurance is available by individual policies or by participating in an **insurance pool**. Examples of insurance pools on the West Coast include the United Trollers Fund, United Reserve Fund, and United Fishermen's Fund.

General **cost reduction tips** for insurance related expenses include:

- Use of crew contracts (described in 'Crew' section above)
- Clearly display policies and procedures on the vessel including emergency procedures, inspection schedule, and incident report forms.
- Conduct regular training and drills to demonstrate record of safety (in case of future litigation), impart a safety consciousness in the crew, and practice essential skills.
- Consider voluntary Coast Guard safety inspections to identify potential safety equipment deficiencies, and establish a record of responsible vessel management.
- Address incidents immediately, thoroughly, and compassionately. This can help salvage working relationships, impart a sense of care, and reduce the risk of litigation.

### **Section 6 Questions for Borrowers:**

- What are the greatest risks associated with your business? What are their probabilities? What are their consequences?*
- What Types of Insurance do you have? What does it cost you?*
- What types of insurance do your peers maintain? What does it cost them?*
- What types of coverage does your lender require?*
- What types of coverage does your local harbor require?*
- What types of coverage do your customers require?*
- What insurance providers might be available to you? Private insurers? Local insurance pools?*
- How will the characteristics of your personal history and your past and current business operations affect your ability to obtain insurance and the ultimate cost? What actions can you take to establish a track record that will lower your costs?*

## TA Topic 7: Business Planning and Financial Management

Being able to track the way you spend and earn, optimize your operations, and make strategic decisions about your business gives you both a significant advantage in running a successful, profitable business, and also a strong head start towards being able to obtain favorable financing.

### Record Keeping

Good management begins with good record keeping. Business owners will need to maintain two kinds of records: production and sales records (to track operational details), and bookkeeping system and accounting records (for financial and tax details). In order to accurately track costs and revenues and project future earnings, you'll need to know the precise costs, quantities, dates, and rates of all your transactions and operations. Fortunately, for California fish businesses, one major category of record keeping, catch volume, species, and sales, is well managed under the **E-Tix** record keeping system mandated by the CDFW.

All fish caught under the authority of a commercial fishing license, even for personal use, must be landed and documented on an electronic fish ticket and submitted to E-Tix. Commercial fishers must locate a licensed fish business willing to land their catch or they must possess a Fisherman's Retail License to report their commercial fish landings through the E-Tix portal. Businesses cannot purchase a commercial fishing license or register a commercial fishing vessel for the first time without contacting LRBCOMM@wildlife.ca.gov or (916) 928-5822 to establish a commercial fishing customer account. CDFW provides a [quick-start guide](#) to help fish businesses get started with E-Tix.

E-Tix records catch and sales information that is highly useful for recordkeeping and future business projections. Items include:

- Date of the receipt (sale)
- Common name of the fish species received
- Weight of the species
- Number of individual fish
- Type of gear used
- Condition of the fish
- Use of the fish
- Price paid
- Port of landing

In addition to the categories of information stored in E-Tix, business owners must track many other components of the business' operations and finances. Popular **accounting software** like QuickBooks makes it relatively easy to record basic transactions, expenses, revenues, and set

up annual taxes. Fishery specific management software like [iNECTA](#) or [Wisefish](#) may also be useful for some operations, though more expensive. A detailed list of potential data to track is provided below. However, it is important to note that there are many categories of fisheries-specific information that business owners should keep record of that traditional accounting software may not automatically cover. For example, items like 'hours fished' or 'quota utilized' may not fit into your bookkeeping records, but are valuable data to store in your production and sales records to analyze operations for future projections. In general, the more information you can record for your production and sales records, the better.

The following items can serve as a starting point for tracking operational details, revenues, and costs. The next section describes how these items fit into financial statements and budgeting.

## Costs and Revenues

**Revenues:** In general, revenues are based on a simple formula: weight sold \* sales price per pound = revenue. However, "price per pound" will vary significantly depending on numerous factors. A bookkeeping system will generally aggregate sales into different types of accounts (eg: product, customer, etc. ). However, it is helpful to record and differentiate sales according to numerous factors, to accurately identify where profits are coming from. Your bookkeeping software may or may not allow you to capture all of this information. Therefore, operators may want to also track more detailed information in their production and sales records. Some of these variables that may affect revenue include:

- **Buyer:** dockside, processor, farmers market, restaurants, etc. can all be charged different prices. Additionally, personal relationships might affect prices charged.
- **Volume:** Larger volume purchases may incur a discount.
- **Size:** depending on the species, buyers will have different prices for different sized fish.
- **Condition:** freshness may be a major factor in the price a seller can command - shorter trips may result in the ability to charge higher prices (more on this below).
- **Processing:** processing catch before selling it almost always adds value to the product, resulting in a higher sales price. This may range from gilling and gutting to more involved activities such as fileting, smoking, or canning. As processing becomes more involved, sales prices can quickly rise.
- **Seasonal demand:** Timing can play a role in determining prices. Having catch available at times when general supply may be lower compared to demand, such as early in the season, late in the season, or around holidays or events, can all allow businesses to charge higher prices.

**Costs:** There are numerous costs associated with running a fishing business, and each operation will have different costs depending on factors like location, scale, species, and business strategy. For accounting purposes described below, it is helpful to separate costs into

two major categories. The below items are offered as examples, but be sure to consult your tax professional to ensure items are categorized correctly.

- **Operating Costs**: money spent directly related to producing revenues, usually variable according to specific units in relationship to the amount of operating activity. Depending on the type of operations a business pursues, operating costs may differ significantly. In general, businesses may encounter two main types of operating costs:

- Trip Costs:

- Bait (per pound)
- Ice (per ton)
- Fuel (per gallon)
- Groceries (per person, per day)
- Oil and filters (per operating hour)
- Vessel monitoring system fees (per month)
- Unloader (per hour)
- Quota lease (per pound, per species)
- Observer (per trip or per day)
- Observer travel (per mile)
- Landing taxes (fixed %)
- Crew shares (agreed upon % of gross or net revenues)
- Crew wages (per hour or day)

- Marketing/Selling Costs:

- Transportation (per mile)
- Refrigeration (per volume, per hour)
- Processing, smoking, fileting, canning, etc. (per volume)
- Packing (per volume)
- Shipping (per volume)
- Farmers market booth fees (per day)
- Sales employees labor (per hour or day)
- Paid advertising

- **Fixed Costs**: money spent on general business overhead, typically on an annual basis, usually not related to how much operating activity or trips the business undertakes.

Annual costs / non-operating / overhead costs may include:

- Fishing:

- Vessels, gear and equipment along with maintenance and repairs
- Slip / mooring fees
- Drydock / vessel storage
- Safety equipment and training
- New fishing gear
- Gear storage

- Annual fishing permits and licenses
- Transient vessel fees
- Potential fines
- Administrative:
  - Loan payments (interest portion only)
  - Insurance
  - Bookkeeper
  - Office equipment
  - Association fees
  - Tax preparation fees
  - Annual business permits and licenses
- Sales:
  - Processing equipment and repairs
  - Packing equipment and repairs
  - Transportation vehicles, equipment, and repairs
  - Sales equipment (tables, chairs, tents, banners, credit-card machine)
  - Annual sales permits and licenses

## Financial Statements

For businesses whose bookkeeping uses the double entry accounting method, financial statements are the next building block for financial management. There are three key types of financial statements that can be used to evaluate a businesses past performance, current financial status, and future outlook:

- **Balance Sheet:** Balance sheets show an owner’s net worth in a business at a given point in time. A balance sheet measures the assets (what is owned) against the liabilities (what is owed). The difference between the two is the net worth, or equity. Balance sheets separate assets and liabilities as “current” or “long-term.” Current accounts are realized within a year. This helps determine if there is enough cash on hand to pay upcoming bills. Long-term assets are fixed assets, like equipment and vessels, or fishing permits and quota. Long-term debts are often remaining loan principal balances due beyond the next year. For an example of a fisheries balance sheet, see page 6 of Alaska Sea Grant’s [The Business of Fishing](#).
- **Income Statement:** Income statements (sometimes referred to as “profit and loss” or “P&L” statements) take revenues and subtract costs to show an operation’s profits for a given period of time. Income statements usually break out items in several key sections:
  - Revenue: money earned from normal business activity, generally called sales or revenue.

- Operating Costs: money spent directly related to producing revenues, usually variable in relationship to the amount of operating activity. In a fishing business, these expenses include fuel, bait, ice, crew share, and more (detailed list above).
- Non-Operating Costs: money spent on general business overhead such as vessel insurance, permit fees, vessel maintenance, office rental, marketing and selling costs, and more. These are usually fixed costs, meaning that they do not change in relation to the amount of operating activity.
- Interest expense, income tax, and asset depreciation: expenses deducted after operating and fixed expenses. An income statement does more than show profitability. It helps identify excessive expenses such as ever-increasing interest charges. Income statements can also determine production break-even points by comparing revenues to operating costs.
- See an example on page 6 of Alaska Sea Grant's [The Business of Fishing](#).
- **Cash Flow Statement**: Cash flow statements determine a business's current cash position by determining where cash came from and where it went. Cash flows, usually prepared monthly, detail all the uses and sources of cash from operating, investing, and financing activities. Statements can be prepared under two different methods, direct or indirect (detailed explanation [here](#)). Cash flow statements are not used to manage monthly cash flow and are often not required. For businesses who do choose to use them, cash flow statements usually contain three sections:
  - Cash flow from operations: eliminates all the noncash account transactions like accounts receivable and depreciation, leaving just the net cash effect.
  - Cash flow from investment activities: changes in cash from buying or selling "investments" like permits, vessels, stocks, or mutual funds.
  - Cash flow from financing activities: cash increases or decreases from financing related activities like taking out loans, partners contributing capital, paying monthly interest on loans, or buying partners out of the business.
  - See an example on page 9 of Alaska Sea Grant's [The Business of Fishing](#).

With good records, accurate financial statements, and a double-entry bookkeeping system, a business owner can proceed to creating **business projections**. As opposed to historical (backwards looking) financial statements, projections can be used for estimating the future profitability and operational considerations of a business, such as how much cash on hand a business might have in any given month. Projections are not a part of accounting software, and can be done instead in programs like Excel. For an **established business** with a demonstrated history of fishing and good records of their business revenues and costs, creating forward-looking projections may be a relatively easy task based on averages of past data plus any new foreseeable changes. For a fisher starting out a **new business**, revenues and costs will need to be estimated based on the best available information such as the species catch and

sales figures obtainable from comparable operations with similar vessel size, permit and quota allocation, equipment, geographic range, and sales channels. Additional sources of information to input into projections may include prices from websites like [Dock Street Brokers](#), conversations with community organizations and nonprofits, and technical assistance from lenders who may have collected data for loan underwriting.

## Putting it All Together: Financial Planning 101

On a high level, a year's worth of business projections can be produced following a few simple formulas. Let's start at the beginning, and break it down piece by piece:

$$\begin{aligned} & (+) \text{ Annual revenues} \\ & \quad \underline{(-) \text{ Annual costs}} \\ & = \text{ Annual profits} \end{aligned}$$

While technically correct, the above is not particularly helpful or descriptive. Recall the two categories of costs described above, and the fact that many costs and revenues are seasonal. An improvement would be:

$$\begin{aligned} & (+) \text{ Seasonal revenues} \\ & (-) \text{ Seasonal operating costs} \\ & \quad \underline{(-) \text{ Seasonal fixed costs}} \\ & = \text{ Seasonal profits} \end{aligned}$$

Better! But still missing important details that will impact the business (and that lenders will need to see). For example, if you fish multiple fisheries throughout the year, how do these costs and revenues break down? To take it a step further, assuming you fish 2 fisheries per year (A&B):

$$\begin{aligned} & (+) \text{ Seasonal revenues from Fishery A} \\ & (-) \text{ Seasonal operating costs from Fishery A} \\ & \quad (+) \text{ Seasonal revenues from Fishery B} \\ & (-) \text{ Seasonal operating costs from Fishery B} \\ & \quad (-) \text{ Seasonal fixed costs from Fishery A} \\ & \quad \underline{(-) \text{ Seasonal fixed costs from Fishery B}} \\ & = \text{ Annual profits} \end{aligned}$$

This is getting closer, but more information about the revenues and costs of each fishery would be helpful. An example for Fishery A (that could be inserted into the above formula to replace the 'simple' revenues and operating costs for Fishery A) might be:

$$\begin{aligned} & \mathbf{(+)} \text{ Seasonal revenues from Fishery A} \\ & (+) \text{ Average lbs catch per trip for } \underline{\text{species 1}} * \text{ sales price per lb for species 1 to } \underline{\text{distributor}} * \text{ avg \% of species} \\ & \quad \text{1 volume sold to distributor} * \text{ trips per season} \end{aligned}$$

- (+) Average lbs catch per trip for species 1 \* sales price per lb for species 1 to farmers market\* avg % of species 1 volume sold to farmers market \* trips per season
  - (+) Average lbs catch per trip for species 2 \* sales price per lb for species 1 to distributor \* avg % of species 2 volume sold to distributor \* trips per season
  - (+) Average lbs catch per trip for species 2 \* sales price per lb for species 1 to farmers market\* avg % of species 2 volume sold to farmers market \* trips per season
- Etc...

For example, revenues may look like the following:

	Lbs / trip	Trips / yr	% sold to farmers market	% sold to distributor	Price / lb	Revenues
Species #1 <u>distributor</u> sales-->	300	20	n/a	35%	\$2.00	\$4,200
Species #1 <u>farmers market</u> sales-->	300	20	65%	n/a	\$6.00	\$23,400

### (-) Seasonal operating costs from Fishery A

#### Trip Operating Costs

- (-) Average fuel costs per trip for trip type 1 \* type 1 trips per season
  - (-) Average fuel costs per trip for trip type 2 \* type 2 trips per season
  - (-) Average grocery costs per trip for trip type 1 \* type 1 trips per season
  - (-) Average grocery costs per trip for trip type 2 \* type 2 trips per season
  - (-) Average crew labor hours costs per trip for trip type 1 \* type 1 trips per season
  - (-) Average crew labor hours costs per trip for trip type 2 \* type 2 trips per season
- etc...

#### Sales Operating Costs

- (-) Average processing costs per volume for species 1 \* avg species 1 volume per trip \* trips per season
- (-) Average processing costs per volume for species 2 \* avg species 2 volume per trip \* trips per season
- (-) Average shipping costs per volume for species 1 \* avg species 1 volume per trip \* trips per season
- (-) Average shipping costs per volume for species 2 \* avg species 2 volume per trip \* trips per season



- (-) Average total farmers market (booth, ice, labor, etc.) costs per day \* farmers market days per season
- (-) Average fuel costs per delivery to buyer 1 \* buyer 1 deliveries per season
- (-) Average fuel costs per delivery to buyer 2 \* buyer 2 deliveries per season
- etc...

This may quickly begin to seem like an overwhelming amount of information and calculations, but notice that many of the items are based on a few of the **same pieces of underlying information** like price per pound, pounds per trip, and trips per season. Setting up projection models in software like Excel can make things much easier as well, with the ability to 'reference' a single cell that contains this information multiple times. Additionally, organizations including Alaska Sea Grant's FishBiz program have built [sample budgets and models](#) for fisheries to help project their costs, revenues, and overall profitability.

Once a budget and projections are built, business owners can examine the outcomes and ask strategic questions about how to optimize profitability and manage cash flow. **Strategic questions** might include:

- If one type of trip is clearly more profitable, is it possible to shift operations towards more of those trips?
- If one sales channel is less profitable, what other sales channels might be available?
- If you only fish one season and have cash flow problems the rest of the year, should you add a different species and season to help manage cash flow?
- If you only sell fresh, should you consider freezing to extend the period of time over which you can recognize income?

This ability to ask critical questions about business strategy is the goal and power of financial analysis, and should not be overlooked. It is also a great opportunity to **bring in outside partners or advisors** like an accountant, lender, or family friend with financial expertise to help set up spreadsheets, ask questions about the data, and pitch new ideas based on your records, financials, and projections.

## **Best Practices for Financial Management and Profitability**

Finally, valuable analysis has been performed on the business models and financials of small and mid sized fishing businesses, which combined with firsthand accounts of fishers, helps identify several best practices for financial management and maximizing profitability. They include:

- **Assume ecosystem volatility:** Fishery stocks rise and fall due to both natural ecosystem cycles, and potentially increasingly due to climate change. Build projections with this volatility in mind. One way to do this is through analysis of CDFW [historical landings data](#) - how much have landings volumes fluctuated over the years?

- **Prepare for shortened seasons:** Regulatory intervention may lead to late starts or early closures of fisheries due to stock health, human safety concerns like domoic acid in Dungeness crab, or environmental interests such as mammal entanglements.
- **Build ‘what if’ scenario analyses:** what would happen to your model if the volume of a fishery or species is cut off?
- **Diversify and overlap:** Small and mid sized fishers are increasingly turning to diversified portfolio fishing as a risk-reduction strategy, so that if one fishery is closed or not profitable, the fisher can switch to another. A [2013 study](#) published in the National Academy of Sciences journal found that sufficient diversification can substantially reduce the variability of fishing income, with transitioning from a single fishery strategy to a 50-25-25 split in revenues reduces the expected variation of gross revenues between 24% and 65%. The ability to do this is dependent on having the right permits, vessel, and equipment that can be utilized or repurposed for the new fishery. Preparing for portfolio fishing may require additional capital for upfront fixed costs, but with sufficient financial analysis and evidence, lenders may be supportive, and this may be a wise investment from a management perspective. Consider preparing multiple projections under different diversification scenarios, accounting for changes in revenues, costs, and additional interest payment expenses due to larger loans.
- **Consider direct marketing:** As economies of scale have increasingly favored large and mega sized operations to sell catch into traditional supply chains, it has become challenging for smaller operations to remain profitable. One response for small and mid sized fishers may be a shift towards direct marketing (described in the marketing section earlier in this document). Direct marketing may focus on a range of buyers beyond traditional brokers and distributors (restaurants, farmers markets, CSFs, etc.), a range of products with some degree of processing or value addition (smoked, filetted, etc.), and generally favors business models with shorter trip lengths resulting in fresher, higher quality catch. Alaska Sea Grant offers an [analysis](#) of the differences in profitability with direct v. indirect marketing. Consider preparing multiple projections under different direct marketing scenarios, incorporating the associated revenues and costs entailed.
- **Get favorable loan terms:** Fisheries loans, especially to small or new fisheries businesses, should be structured to reflect the realities of the business. For example, most business loans are repaid on a fixed monthly basis using an amortization schedule. However, as the Alaska based [Local Fish Fund](#) writes, “this presents substantial risk to entry-level businesses as their allowable catch can vary dramatically based on seasonal catch abundance.” Lenders like the LFF can structure loans where payments are based not on a fixed number, but rather as a percentage of catch revenues. Lenders should understand the industry may offer these terms, and borrowers should feel free to advocate for them. Additionally, borrowers may wish to

seek the lowest available interest rates and longest repayment schedules on their loans (dependent on market conditions, lender programs, and borrower characteristics), including refinancing loans at lower interest rates when possible.

- **Get tax advice:** Online resources like the IRS [fishing tax center](#) or CPA Advisor's [commercial fishing tax tips](#) are a good free starting point for taxes. Additionally, a tax preparer with experience in fisheries can provide highly valuable personalized advice. First, tax experts can help determine how much money a business should set aside for tax payments in advance to avoid getting stuck with a larger than expected tax bill. Second, tax experts can advise business owners on how to schedule purchases of equipment, gear, and permits in accordance with tax years so that they can be expensed (written off against revenues) and reduce the annual tax burden. Lastly, while it's understandable that business owners may want to show losses to reduce taxes, lender will need to see that their business is profitable.
- **Consider utilizing the Capital Construction Fund:** [The Capital Construction Fund Program](#) allows fishing businesses to construct, reconstruct, or, under limited circumstances, acquire fishing vessels with before-tax dollars. Businesses with a U.S.-built vessel of at least 2 tons may place up to 100% of taxable income, proceeds from sale or disposition of vessels, and earnings from investments into a CCF account. Although doing this has future tax implications for the business' ability to claim depreciation, it is usually a net benefit to the business and allows for faster accumulation of funds for vessel work.

### **Section 7 Questions for Borrowers:**

- If this isn't your area of expertise or interest, who might be able to support you?*
- What record keeping tools and systems can you use to track your business?*
- How do you currently manage your records?*
- Have you aggregated your records in any digital format?*
- Have you filed taxes for your fishing business before?*
- What are your revenues (by fishery, species, gear type, trip type, and buyer)?*
- What are your variable trip costs (by fishery, species, gear type, and trip type)?*
- What are your variable selling costs (by processing method, channel, and buyer)?*
- What are your fixed costs (segmented by fishing, administrative, and selling)?*
- For any information you don't personally have, where can you find estimates?*
- Have you built a business projection of your expected future revenues and costs?*
- Have you reviewed your projections with any partners or advisors?*
- How do your projections account for potential ecosystem changes?*
- How do your projections account for regulatory closures or changes?*
- How do personal and household expenses impact your ability to make loan payments?*
- Have you built projections to consider a diversified business model?*

- Have you built projections to consider a direct marketing business model?*
- Have you discussed diversification or direct marketing with your lender?*
- What are the terms of your loan? Could they be improved?*
- Have you compared available loan interest rates?*
- Have you compared available loan repayment terms (eg: as a % of catch revenue)?*
- Have you met with a tax advisor? What can you write off or plan around?*

## TA Topic 8: Succession Planning and Exit Strategy

Planning for retirement can be an exciting, bittersweet, and complicated process for anyone. For fishers, the complexity is compounded by the big questions and tasks that arise having to do with the succession of their business and assets. How much are the business, vessel, and permits worth, considering physical depreciation, inflation in prices, local supply, and demand? Who will be able to purchase the business and assets, and are they the type of buyer that you want? Can you support keeping the fishing business, permits, and quota in your local community? Do you have family successors? What are the tax implications? Will you have enough for retirement? All these questions and more are front of mind for fishers retiring or transferring their business, as well as new entrants or fishers seeking to acquire vessels, permits, or equipment from fishers approaching retirement. Fortunately, several resources exist to guide you through this process.

Alaska Sea Grant's [How to Make a Directed Transfer of your Fishing Business](#) outlines the key steps and timeline for fishers seeking to transfer their business. Business owners at this stage should review the document in detail. 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
- 4. Directed transfer strategies**
  - a. Using a trial period
  - b. Gradual transfer of business responsibilities
  - c. Gradual transfer/sale of assets
  - d. Lease to own agreements
  - e. Form a corporation or partnership for transition (see incorporation types section)
    - i. This can address some of the 'ownership' challenges involved in transferring permits and insurance

- f. Utilize written communication for clarity and record-keeping
- 5. 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
- 6. 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
  - f. Consider equitable benefits if multiple heirs
- 7. 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](#)
- 8. Financial help for the buyer**
- a. Parental financing
  - b. Banks and lenders
- 9. Drafting a Transfer Plan**
- a. Whom to involve
  - b. What to include
  - c. When to write

In addition to these topics, it is important for business owners to consider **traditional retirement and savings plans like 401ks and IRAs**. The IRS provides a useful simple overview of [small business retirement savings plans](#), with information about eligibility, contributions, and key advantages of each plan type. In some instances, commercial fishers may be uniquely predisposed towards choosing a one-participant 401k, or a “solo 401k,” which allows fishers to save up to 25% of annual income, plus up to \$19,000 in addition, as pre-tax dollars. Fishermen over 50 years old may add an additional \$6,000. Business owners should consult a financial advisor to determine what makes the most sense for them.

One final issue that comes up with retirement planning is the question of selling vs. leasing quota. In the West Coast Groundfish fishery and other catch share programs, retiring fishers may sometimes choose to keep their quotas (or pass on their quotas to spouses or inheritors) to generate income via leasing the quota out to active fishers. Though this may be convenient for the individual, it can be challenging for the community; when **non-fishers hold the rights to fish, active fishers are often forced to pay high lease fees to gain fisheries access**. It also limits opportunities for newer fishermen to acquire their own quota. Alternatively, retiring fishermen can gain economic stability while also supporting the fishing community's well-being by selling quota to active fishermen and then investing proceeds into other income-generating assets.

### **Section 8 Questions for Borrowers:**

*If you are a **current owner** approaching retirement:*

- Do you have plans for retirement and succession?*
- How important is it to have a hand in shaping the legacy of your business?*
- Have you identified potential successors?*
- Have you talked with a lender, lawyer, accountant, or other advisors?*
- What directed transfer strategies might make sense for you?*
- How can you minimize risk during the transition?*
- What inheritance and tax considerations do you need to consider?*
- Will you have a hand in helping the buyer obtain financing?*

*If you are a **potential buyer** seeking to succeed a retiring fisher:*

- How might your experience, expertise, and relationships help you identify a retiring fisher whom it makes sense to approach about succession?*
- How can partnering with a retiring owner help create new value for both of you in a way that may ultimately lower your total costs? For example, can you agree to operate in the community, fishery, geography, or markets that the owner wants to see served? Can a gradual transition of ownership actually help out the owner, and help you get a better price?*
- What kinds of transfer strategies or tools would you be most likely to pursue? For example, lease to own, forming a partnership, outright purchases, etc.*

## TA Topic 9: Triple Bottom Line Sustainability: Environmental, Social, and Economic

Sustainability is a big word with numerous meanings and connotations, usually boiling down to the idea that something is sustainable if it **allows current generations to meet their needs without endangering the ability of future generations to do the same**. For fisheries, sustainability is at the heart of the industry's past, present, and future. Stocks have depleted, management plans and regulations have reshaped the industry, and ecosystem dynamics affected by natural cycles and human activities will determine the future.

Beyond following government prescribed management plans and regulations, fishers can think about sustainability as **both an environmental and human issue** that may impact their business, operations, and strategy in several material ways:

- **Efficiency savings:** Certain environmentally friendly choices can often provide some of the 'low-hanging-fruit' of sustainability in that they offer simple actions with both clear environmental impact and financial savings. For example, upgrading to LED bulbs or a more fuel efficient motor will reduce energy consumption and emissions while also saving money on electricity and fuel. The California [Carl Moyer program](#) provides grant funding to marine vessels to encourage the upgrading or purchase of cleaner engines, equipment, and emission reduction technologies in an effort to rapidly reduce air pollution. Some additional gear upgrades, while not focused on sustainability, may lower vessel fuel use and costs by virtue of being significantly lighter. Lenders may be especially supportive of financing these types of actions to meet their own sustainability goals.
- **Lawsuit risk reduction:** Sustainability may often be synonymous with legal risk reduction. For example, avoiding pollution, not exceeding quota, avoiding Marine Mammal Protection Act violations, and preventing crew injuries are beneficial for human and environmental health and sustainability, and simultaneously obvious goals for avoiding lawsuits and fines. This framing of sustainability can be very useful for managing risk throughout the business.
- **Marketing and branding:** Sustainability sells, no doubt about it. Companies and brands of all types are increasingly turning to marketing their products and services as "sustainable" in response to widespread consumer demand for products that have positive environmental and social impacts (and help consumers feel good about where they spend their dollars). Fisheries may find sustainability-motivated customers particularly in the direct marketing sector, from restaurants who want to celebrate your sustainable seafood on their menu, to farmers market customers looking for local catch. Fishermen can build this type of marketing and branding material themselves, as well as



utilize existing certification systems like the Monterey Bay Aquarium's [Seafood Watch](#) Program, Marine Stewardship Council [Blue Label](#), or [Fair Trade](#).

- **Economic justice:** Taking care of the individuals that work in a fishery by providing them with a good income and job satisfaction is an important part of sustainability in several ways: First, in order to run your business sustainably, you will likely need happy high-functioning employees who do their jobs well. Frequent turnover due to low employee satisfaction requires training, time, and resources that will take away from profitability. Second, there is the question of community economic sustainability, meaning the ability of a fishing community to sustain its way of life. As entering the industry becomes increasingly expensive and difficult, how can you support the sustainability of your fishing community by structuring your business, partnerships, and finances to support passing on operations and assets to the next generation?
- **Financing options:** Lastly, it is noteworthy that explicitly pursuing sustainability goals may open up new access to funding and financing from nonprofits, government organizations, and lenders who are working to incentivize sustainability in fisheries. For example, the Marine Stewardship Council offers [annual grants](#) to both MSC certified sustainable fisheries and improving fisheries, and lenders like California FarmLink emphasize loans to sustainable businesses.

### **Section 9 Questions for Borrowers:**

- How do you see sustainability coming up in your industry and community?*
- What are the upgrades or investments you could make for direct efficiency savings?*
- What are the liability risks associated with your business that sustainability-oriented actions could reduce? How could you pursue these actions?*
- How can you market the sustainable practices you are already doing?*
- Where are the sustainability-oriented customers you can serve?*
- What additional steps could you take that would help you market and sell your product?*
- How economically sustainable is your business for your employees? What can you do to reduce turnover to maximize your stability and profits?*
- How economically sustainable is fishing for your local community? How can you support the sustainability of your fishing community by structuring your business, partnerships, and finances to support passing on operations and assets to the next generation?*

## Appendix A: Summary Borrower Checklist

When applying for a loan, your lender will want to learn **the details of your business**, operations, and financials in order to understand how you will generate sufficient profit to repay the loan, as well as the overall impact of the loan on your business. The questions entailed may be direct requests for information about your landing history, vessel size, fuel costs, or anticipated price per pound. Additionally, your lender will want to understand **how you think about your business**, your strategy to succeed within the industry, how you respond to challenges like closures or regulation, and your plans for the future.

The following questions are a summary of the questions raised throughout the TA Toolkit document. Not every question needs to be answered directly; they are simply intended to provide borrowers, lenders, and technical assistance providers with a framework for discussing the various topics involved in a successful fisheries business and a successful loan.

### ***Fishery Stock and Ecosystem Health Assessment***

- What do recent stock assessment and fishery evaluations suggest about the population health of the fishery and species you are targeting?*
- How might current or foreseeable environmental trends affect your stock?*
- Are there constraining species or bycatch in your fishery? What trends are they showing?*
- How would your business be affected by increases or decreases in your target stocks or constraining species? What would you do?*

### ***Fishery Management, Regulations, and Permits***

- Which fishery management plan(s) will/could your business be subject to? What kind of management practices are entailed?*
- What kinds of regulations govern your business? What is new this year? What trends do you see?*
- What special regulatory actions have recently occurred, and what might be foreseeable?*
- Are there public working groups (eg: Dungeness crab Task Force) or hearings you can attend to gain insight into the management processes and up and coming changes to regulations?*
- What permits do you hold? Will you need additional permits? Are they available? What do they cost? How will you obtain them?*
- What quota limits will you be subject to? Can you acquire additional quotas? Are they available? What do they cost? How will you obtain them?*
- What additional entitlements, licenses, or local port permits do you need?*
- Considering your current permits and gear, how could you diversify towards portfolio fishing? What additional permits, quotas, entitlements, or licenses would you need?*

## **Markets, Marketing, and Customer Assessment**

- To whom, where, when, and how will you sell your catch?*
- What state permits or licenses will you need to purchase (insofar as they relate to sales channels)?*
- Do you have a particular arrangement or agreement with your primary buyer that limits your ability to diversify your markets or engage in direct marketing?*
- If you are pursuing an indirect model, who are your local processors and distributors?*
- What do you know about the current market for your catch and products?*
- If you are pursuing a direct model, what combination of sales opportunities can you pursue?*
- What nearby communities with high seafood demand may buy your catch and products?*
- What local restaurants, seafood markets, and individual buyers might be interested? How will you collect contact information for prospective customers and how will you notify them when local seafood is available?*
- Where are the nearest farmers markets? What kinds of value-added products could you create?*
- What operational changes might be involved if you are converting to direct marketing?*
- What is your business' brand? What is the story you are telling?*
- What relationships can help you kickstart or promote your business?*
- What traditional marketing opportunities would you consider?*
- Are you a regular user of social media and familiar with social media marketing? If not, who do you know who could help?*

## **Major Costs: Vessel, Equipment, and Fuel**

- How will the vessel's features affect your day to day operations? How can you best match vessel capacity with target species permits?*
  - Topics to consider include: equipment compatibility and storage, fuel capacity and efficiency, catch storage / livewell, washdown systems, crew comfort, vessel and equipment versatility / repurposability, and inclusion of required permits and quota.*
- What kind of short term and long term value do the vessel and attached permits represent? How will it hold its value?*
- If a vessel is a 'good deal' - why?*
- What factors are affecting the vessel market (and your type of vessel) at this moment, and what can you foresee in the near future? Can you time the market?*
- How will the characteristics of your vessel affect your financing? Could choosing an older or newer vessel trigger loan terms that make more sense for your long-term business model and your business plan?*
- What equipment and gear do you need? Have you listed out all your anticipated fishing gear, personal gear, communications gear, navigation gear, and safety gear?*
- Can you obtain a line of credit in case you need to replace gear that gets lost or broken?*

- Are there any strategic decisions or adjustments you can make to your vessel, gear, or day to day operations that can maximize your fuel efficiency?*
- What would your estimated fuel cost savings be if you could reduce your average hull speed by 10%?*

### **Employees, Business Partners, and Business Types**

- Do you have a comprehensive crew agreement?*
- What business type do you have or will you choose? Why? How does it or will it affect your operations, liability, taxes, and responsibilities?*
- Will you pay your crew members as employees or independent contractors? How will this affect your liability and tax responsibilities?*
- Do you have business partners? Have you written and signed an agreement covering capital invested, operating responsibilities, liabilities, taxes, profit-sharing, and asset ownership?*
- How can you work with your lender, insurer, etc. as additional partners in helping your business succeed? Who are your biggest allies?*

### **Insurance**

- What are the greatest risks associated with your business? What are their probabilities? What are their consequences?*
- What Types of Insurance do you have? What does it cost you?*
- What types of insurance do your peers maintain? What does it cost them?*
- What types of coverage does your lender require?*
- What types of coverage does your local harbor require?*
- What types of coverage do your customers require?*
- What insurance providers might be available to you? Private insurers? Local insurance pools?*
- How will the characteristics of your personal history and your past and current business operations affect your ability to obtain insurance and the ultimate cost? What actions can you take to establish a track record that will lower your costs?*

### **Business Planning and Financial Management**

- If this isn't your area of expertise or interest, who might be able to support you?*
- What record keeping tools and systems can you use to track your business?*
- How do you currently manage your records?*
- Have you aggregated your records in any digital format?*
- Have you filed taxes for your fishing business before?*
- What are your revenues (by fishery, species, gear type, trip type, and buyer)?*
- What are your variable trip costs (by fishery, species, gear type, and trip type)?*
- What are your variable selling costs (by processing method, channel, and buyer)?*
- What are your fixed costs (segmented by fishing, administrative, and selling)?*
- For any information you don't personally have, where can you find estimates?*

- Have you built a business projection of your expected future revenues and costs?*
- Have you reviewed your projections with any partners or advisors?*
- How do your projections account for potential ecosystem changes?*
- How do your projections account for regulatory closures or changes?*
- How do personal and household expenses impact your ability to make loan payments?*
- Have you built projections to consider a diversified business model?*
- Have you built projections to consider a direct marketing business model?*
- Have you discussed diversification or direct marketing with your lender?*
- What are the terms of your loan? Could they be improved?*
- Have you compared available loan interest rates?*
- Have you compared available loan repayment terms (eg: as a % of catch revenue)?*
- Have you met with a tax advisor? What can you write off or plan around?*

### **Succession Planning and Exit Strategy**

*If you are a **current owner** approaching retirement:*

- Do you have plans for retirement and succession?*
- How important is it to have a hand in shaping the legacy of your business?*
- Have you identified potential successors?*
- Have you talked with a lender, lawyer, accountant, or other advisors?*
- What directed transfer strategies might make sense for you?*
- How can you minimize risk during the transition?*
- What inheritance and tax considerations do you need to consider?*
- Will you have a hand in helping the buyer obtain financing?*

*If you are a **potential buyer** seeking to succeed a retiring fisher:*

- How might your experience, expertise, and relationships help you identify a retiring fisher whom it makes sense to approach about succession?*
- How can partnering with a retiring owner help create new value for both of you in a way that may ultimately lower your total costs? For example, can you agree to operate in the community, fishery, geography, or markets that the owner wants to see served? Can a gradual transition of ownership actually help out the owner, and help you get a better price?*
- What kinds of transfer strategies or tools would you be most likely to pursue? For example, lease to own, forming a partnership, outright purchases, etc.*

### **Triple Bottom Line Sustainability: Environmental, Social, and Economic**

- How do you see sustainability coming up in your industry and community?*
- What are the upgrades or investments you could make for direct efficiency savings?*
- What are the liability risks associated with your business that sustainability-oriented actions could reduce? How could you pursue these actions?*
- How can you market the sustainable practices you are already doing?*
- Where are the sustainability-oriented customers you can serve?*

- ❑ *What additional steps could you take that would help you market and sell your product?*
- ❑ *How economically sustainable is your business for your employees? What can you do to reduce turnover to maximize your stability and profits?*
- ❑ *How economically sustainable is fishing for your local community? How can you support the sustainability of your fishing community by structuring your business, partnerships, and finances to support passing on operations and assets to the next generation?*

## Appendix B: Port and Harbor Regulations

The following **ports, harbors, and marinas** often have additional regulations governing mooring (but not governing fishing) and require specific permits.

Eureka Area: ([Crescent City](#), [Eureka](#), [Trinidad](#), [Shelter Cove](#), [Humboldt Bay](#))

Fort Bragg Area: ([Fort Bragg](#), [Point Arena](#))

Bodega Bay Area: ([Bodega Bay](#), [Bolinis](#), [Tomaes Bay](#))

San Francisco Area: ([San Francisco](#), [Princeton / Half-Moon Bay](#), [Vallejo](#), [Berkely](#), [Sausalito](#), [Alameda](#), [Emeryville](#), [South San Francisco](#), [Richmond](#))

Monterey Area: ([City of Monterey Harbor and Marina](#), [Moss Landing](#), [Santa Cruz Harbor](#))

Morro Bay Area: ([Morro Bay](#), [Avila / Port San Luis](#))

Santa Barbara Area: ([Santa Barbara Harbor](#), [Ventura](#), [Oxnard](#), [Port Hueneme](#))

Los Angeles Area: ([Dana Point](#), [Newport Beach](#), [Redondo Beach](#), [Marina Del Rey](#), [Long Beach](#), [Avalon](#), [Huntington Beach](#), [Hermosa Beach](#), [Los Angeles / San Pedro](#))

San Diego Area: ([San Diego](#), [Oceanside](#), [Point Loma](#))

## Acknowledgments

California FarmLink and Monterey Bay Fisheries Trust are deeply grateful to the following individuals and organizations for their generous support in helping to develop this document through interviews, recommendations, and editing.

Earl Bennett: Program Leader, NOAA Fisheries Finance Program

Cory-James Clouse: Fisheries Loans Manager, Northwest Farm Credit Services

Mike Conroy: Executive Director., Pacific Coast Federation of Fishermen's Association

Hugh Cowperthwaite: Fisheries and Aquaculture Program Director, CEI

Carrie Culver: Extension Specialist, California Sea Grant

Kate Danaher: Managing Director, Oceans and Seafood, S2G Ventures

Poppy Davis: Agriculture and Fisheries Business and Policy Consultant

Angee Doer: Extension Specialist, Oregon Sea Grant

Phoebe Higgins: Director of Markets, Environmental Policy Center

Scott Houghtaling: Loan Specialist, NOAA Fisheries Finance Program

Don Marshall: Half Moon Bay Fisherman, F/V Northern Light and F/V Capricci

Ben Martens: Executive Director, Maine Coast Fishermen's Association

Dick Ogg: Bodega Bay Fisherman, F/V Karen Jeanne

Cody Reed: Santa Cruz Fisherman, F/V Ruth Anne II

Nate Schaffran: Co-Director of Lending, Community Vision

Theresa Sinicrope Talley: Coastal Specialist, California Sea Grant

David Toriumi: Moss Landing/Santa Cruz Fisherman, F/V Salt n Season

Stephanie Webb: PhD Candidate (Fisheries Ecology & Economics), UCSC

This report was made possible thanks to funding support through the Fisheries Improvement Strategy program of Resources Legacy Fund.



# **About California FarmLink and the Monterey Bay Fisheries Trust**

## **California FarmLink**

Established in 1999, California FarmLink is a certified Community Development Financial Institution (CDFI), historically focused on sustainable and organic agriculture as well as economic and environmental resilience. Recognizing the common industry dynamics and challenges facing small and beginning farmers and small and beginning fishers, FarmLink is developing a fisheries business technical assistance and lending program, with the goal of making direct loans to fisheries businesses in the near future. 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](http://www.californiafarmlink.org) to learn more.

## **Monterey Bay Fisheries Trust**

Since 2014, the Monterey Bay Fisheries Trust (MBFT) has been working to ensure that Monterey Bay's coastal communities benefit from active, working waterfronts and local, sustainable seafood for generations to come. Originally formed to protect historical access to West Coast groundfish fishing rights, MBFT has since expanded our reach to increase consumer awareness about local seafood, promote stakeholder engagement in fisheries conservation and management, strengthen local seafood businesses, and provide local seafood to families in need. In an effort to strengthen local seafood businesses, we aim to expand the network of organizations that support the commercial fleet through technical assistance and loans. Learn more at [www.montereybayfisheritrust.org](http://www.montereybayfisheritrust.org).



Photos © David Hills

