

Morro Bay Community Quota Fund/Rob Seitz, Fisherman

Rob and Tiffany Seitz and their company Southbay Wild have been a tenant at Morro Bay Landing for about two and a half years. They leased the 800 square foot shed in September of 2014 with the goal of using it to process part of their catch and market it directly to local restaurants, through the local farmer's markets and directly to consumers through internet sales. I was impressed by their plan to vertically integrate their business by not just selling at wholesale off the boat prices to Santa Monica Seafoods but to increase the net value of their catch by using some of their catch to capture higher sales prices by direct consumer sales.

This required them to make substantial investments in tenant improvements to the shed they leased from me and also in equipment to facilitate the filleting and freezing and storage of their catch. It required a substantial commitment by Rob and Tiffany to make sales contacts with local restaurants and to man their booths at the several farmer's markets that they sold through as well as to build their direct internet sales to individual customers.

While I was aware of their work with Morro Bay Community Quota Fund (the "Quota Fund") I wasn't knowledgeable about the deep commitment in time and investment that they made to participate in the development of the Quota Fund's corporate structure and in their participation in the Risk Pool in the form of the Central Coast Seafood Marketing Association (CCSMA).

About a year ago Rob and Tiffany said that they were ready to advance their commitment by entering into direct retail sales from the premises on the wharf. We talked with the City of Morro Bay's Planning Dept. and determined what was needed to seek the City's approval for retail sales from that location. They made application for an amendment to the Conditional Use Permit for my lease site. This entailed hiring an architect to put plans together and making an application to the City and an application to the Health Department at the County. After several months of effort this culminated in a Planning Commission hearing this past November where they received the unanimous approval of the Commission. I was impressed by the turn out of their customers, colleagues and community members to support them. They then applied to the Coastal Commission for a waiver allowing them to commence retail sales in the building and allowing them to make

some minor modifications to the exterior of the building. In the meantime, since another requirement of the City to allow the retail sales in that location was to install fire sprinklers in the building and under the wharf, in May of 2016 I hired an engineer to put together a set of fire sprinkler plans and when they had been completed submitted them to the City for plancheck. Finally in late November we were issued the permit and in December began the installation of the sprinklers. And the Coastal Commission just the other day approved their waiver.

I relate all of this to you because I want to emphasize the difficulty, expense and effort needed to move a project forward as simple as adding a retail component to the already approved fish processing and packaging use already underway on the premises. A similar effort was required when Rob and Tiffany first leased the building and wanted to start processing their own catch. They have put tremendous effort and expense into a business that is the epitome of the uses that the City and the populace of Morro Bay have emphasized that they want to encourage and preserve in Morro Bay. I'll cite the cacophony of support that Measure D, which was passed 35 years ago, still elicits when the subject is raised in connection with business activities in this area.

That is why I was completely taken aback this last week when Rob asked me to come down for a discussion where he and Tiffany told me that they had come to the conclusion that they could not continue under the burdens and uncertainty that their current arrangement with the Quota Fund and the Risk Pool were imposing on them. They had decided to pack it in and return to Astoria. There they intended to acquire a Pink Shrimp permit and begin working that fishery for a living. Their lease with me expires in September, even though it has several options for them to extend, and they asked if I could help them sublease the premises to mitigate their ongoing costs.

Very troubled for this sudden change in their plans I have spent the last couple of weeks interviewing Dwayne Oberhoff, Exec. Dir of the Quota Fund along with Board of Director members Eric Endersby, Jeramiah O'Brian, Andrea Lueker and the Secretary of the Quota Fund Chris Kubiak. I have tried to gain an idea of the Quota Fund and how it operates, its origins and its mission. I have found that the Quota Fund acquired its trawlers quota from the Nature Conservancy which acquired substantially more quota on the market when the quota system was established.

The Nature Conservancy's (TNC) intent was to preserve a portion of the overall quota for the use of smaller fishermen in smaller markets. The concern was that large fish processors were buying up large quantities of the available quotas and were concentrating those quotas and depriving smaller fishermen and the smaller communities along the West Coast of the ability to restore their use of their historic fisheries and related fishing businesses and infrastructure which had already been decimated by the institution of the quota system and restriction of fishing activities brought on by the new regime of regulations based on a so called crisis of overfishing on the West Coast. As a part of the TNC's program they divested themselves of portions of their quotas to various non profit organizations such as the Morro Bay Community Quota Fund to manage and use to encourage and develop the fishing industry in traditional fishing communities.

I realize that there is much detail and a lot of additional steps required to fully describe the origins of the Quota Fund and I don't mean to minimize the time effort and commitment made by a number of individuals to bring the quota Fund about. My intent here is simply to summarize what I understand to be its role in the community. Perhaps citing the Quota Fund's mission statement is appropriate at this point:

"Our Mission: To develop and enhance a financially and environmentally sustainable Morro Bay fishery, built upon local stewardship of ground fish resources and secured fishing rights anchored in the community."

In my discussion with Rob and Tiffany I learned that they had become frustrated with a number of aspects of their relationship with the Quota Fund. Truth be told, both the Quota Fund and the Seitz's were and are in the early stages of the development of the Quota Fund and its policies. Both were pioneering a unique method of management and leasing of the quota system put in place only recently. It seems to me that growing pains and disagreements are to be expected and some adjustment of the management methods should be anticipated by both the Quota Fund and its clients.

The difficulties that have been described to me by Rob and Tiffany involve the following:

1. Obligation to Participate in the Risk Pool
 - a. The need to form a co-op entity to participate in the pool

- i. Cost of maintaining the entity
 - 1. FTB Taxes \$800/year
 - 2. Accounting, tax return costs \$2,000/ year
 - 3. Directors insurance \$3,000/ year
 - b. Restriction on fishing areas
 - i. Fishermen in the other areas restricting Rob from areas that might encounter Canary Rockfish because they want to keep that part of the OFS for their use or at least not dilute it by his catch if he were to fish shallower areas. While the Morro Bay Community Quota Fund has only Cow Cod and Boccacio to put into the Risk Pool and no Canary Rockfish, the other members get the benefit of The MBC Quota Fund's contribution because they need particularly the Cow Cod, but then they restrict Rob's use of the Canary Rockfish quota that they contribute by not agreeing to open the shallow water areas in the Morro Bay area to his fishing where he would encounter Canary Rockfish. Those shallow water areas would be available except for his participation in the risk pool which requires him to seek the risk pool's agreement with his fishing plan.
 - c. Excessive additional work to document the TNA's success in the fishery
 - i. Development of Marketing of product plans and then change to a marketing of project plans which was primarily to bolster the TNC's reputation and did nothing to benefit Rob and Tiffany's business. But it did require lots of time and effort on their part.

2. The year to year uncertainty of having the quota and the OFS quota.

3. Lack a comprehensive plan and program of the Quota Fund for the client to acquire a permanent slice of quota for the Client.

As to the issues surrounding number 1 above, Rob initially asked the board to change their bylaws so that he was not required to participate in the risk pool and

so that the Quota Fund's Over Fished Species portion of their quota (OFS) was available for his and the Quota Fund's other clients use. He proposed this to the board in June and was told that they would take it into consideration and bring it back at their next meeting. Two months went by and a meeting had not been scheduled. Finally at the December 13th meeting of the board he amended his request asking that the Quota Fund provide him with the use of up to 200 lbs of their 607 lbs of Cow Cod quota without requiring him to go through the risk pool. If the Board felt that the rest of the MBC Quota Fund's OFS quota should still go into the risk pool then he had no objection. But he wanted not to have to be in the Risk Pool so that he could fish this area unhindered by having to seek the Risk Pool's approval for him to fish in the shallower water. That 200 lbs was so that he could be assured that he would have adequate quota to be able to fish for the entire year. He said that he felt confident that he could acquire any other species including the Canary Rockfish quota that he needed through the open market as he had done the previous year.

It needs to be understood that his participation in the risk pool not only entailed an onerous amount of work with the TNC in producing marketing plans that had no direct benefit to him or his business but were really public relation campaigns to benefit the TNC, and additional excessive expenses to operate and manage the Central Coast Seafood Marketing Association, an entity that he was required to form to participate in the risk pool, but it also put him at odds with the other fishermen involved in the risk pool. Rob is the only fisherman trawl fishing the Morro Bay area. The risk pool had set aside shallower areas of the relatively small Morro Bay fishing grounds where it was likely that Canary Rockfish would be encountered so as to preserve that portion of the quota for the use of the Fort Bragg and Half Moon Bay fishermen. In order for Rob to fish those areas he had to negotiate with those fishermen while, if he was not participating in the risk pool, he was otherwise free to fish those areas. Once he dropped out of the risk pool in May of last year he fished those areas and was able to acquire the quota needed to offset his catch of Canary Rockfish from the open market. This year Canary Rockfish quotas have doubled and they have come off the Over Fished Species list so they now become a target species. Since the Morro Bay Community Quota Fund has a more than adequate share of Cow Cod and that is all that Rob needs other than what he can buy on the open market, requiring him to participate in the risk

pool and to subject himself to yet more limitations on his fishing area by his competitors seems to make his business more difficult for little or no benefit to him or the Quota Fund. This is an area where it seems that both the Quota Fund's board of directors and their Clients can take experience and tweak their procedures to fit the reality on the ground.

In item number two above, one needs to remember that it is the Quota Fund's Clients, the fishermen who have personal capital in the form of their boats, equipment and in Rob's case his lease with me and the time, money and effort invested in his landside premises. In order to supply his business with product he is required to deal with a non profit corporation run by a board of directors that, while providing their time and expertise to the Quota Fund (thank you), nevertheless experience no financial loss or gain at the Quota Fund's success or failure. Rob and Tiffany do. It is the Client who is on the front line and who needs to have timely and concrete decisions so that he can plan his business activities. With a year to year lease of the quota that he needs to be in business and with no ownership in the Quota Fund's quota or any other quota he is completely dependent on the timely action by the Quota Fund Directors and Executive Director. His experience this year in asking for, what I see as a reasonable change to the Quota Funds procedures, left him guessing until into the new year as to whether he'd have adequate backing of the Quota Fund to continue in business in 2017. What I have heard from the Directors is that it is too complicated to amend their bylaws to accommodate Rob's requests. It's the Board that established their Bylaws to begin with and it is they who can amend them. A willingness to do so is all that's required. If it can't be done a little creative thinking or negotiation with the Risk Pool could easily result in the same outcome. For example, I doubt the other members of the Risk Pool would object to receiving the balance of the Quota Fund's OFS quota in exchange for allocating just the 200 lbs of Cow Cod to Rob if he agreed to go get his own need for Canary's off the open market. This isn't brain surgery. A willingness to think of alternative solutions is all that'

I think the Quota Fund, if they want to attract new Clients and whether or not Rob and Tiffany continue as Clients of the Quota Fund, needs to change their business plan in the following aspects:

1. Establish a longer term of lease of the quota for the fishermen. This would at least allow the Client to know that he has access to the quota from year to year and that another potential client won't be able to outbid him or for him to otherwise lose his share of the quota. This will allow the Client to plan his business for the following year with some certainty.
2. In order to accomplish its mission (quoted above) the Quota Fund must come up with a program to be able to assist the Client to come into ownership of quota. As it is now I have analogized the year to year lease of the quota as being similar to operating an apartment building. Come the end of the year the Client has built nothing of his own and has no new or additional tie to the community as he would if he was building ownership in his own quota. I don't see why the Quota Fund can't establish a program wherein they either sell a portion of the Quota Fund's quota to the Client in the form of a higher lease rate where the excess payments would serve to vest the Client's ownership over a 7 to 10 year period. That extra money could be set aside in a separate fund so that the Quota Fund would have the ability to buy it back should the Client cease fishing. The Quota Fund could also put conditions on the sale such that it could not be moved from Morro Bay and if it were to be resold the Quota Fund could have a first right of refusal to buy it. Also the Quota Fund should serve as a broker and/or financier for their Clients to be able to buy quota that becomes available in the open market. A service like that would serve to attract more Clients in that it would be an avenue that is not currently available to bring upcoming fishermen into the business with the prospect of having ownership in the fishery. I have to add here that last fall Rob had put in a bid on a quota of Chilli Pepper Rockfish that was being auctioned. He was knowingly outbid by the Executive Director of the Quota Fund in the Executive Director's role as a representative of another entity in Monterey. This was a disservice to the Quota Fund's Client and has provided Rob and Tiffany with less confidence in the Quota Fund's interest in their long term success.
3. The Board of Director's need to provide better and more timely direction to their staff and be willing to learn from the experiences of their Clients and adjust to the Client's needs where feasible. While the TNC provided a very good and noble service to our community as well as others on the West Coast in acquiring quota to be divested to the smaller traditional fishing

communities, this board needs to operate independently and with their own mission in mind. I have to say that I was taken aback in my initial conversation with Director Jeramiah O'Brian and Executive Director Dwayne Oberhoff when I asked them how many Clients the Quota Fund served. When I found that Rob and Tiffany were by far their primary Client with just Bill Blue who fished the quota only three months out of the year I asked how the fund was to go on if they lost the Seitzs? Their response was rather cavalier. They said they would make up the revenue by selling the quota fund elsewhere on the coast and they would make more money doing so. I asked doesn't that conflict with your mission? Aren't you a non-profit in business to benefit this community? The loss of the Seitzs, it seems to me, sets the mission of the Quota Fund back an incalculable amount. How are you ever going to attract new Clients when you have this example of failure to contend with?

In my discussions with the individual Directors I found their observations of the situation to be concerning. More than one pointed out that Rob had participated in the drafting of the Bylaws of the Quota Fund and therefore knew what he was getting into. Implying that if he couldn't live up to what was in effect a contract then that was too bad. That ignores the fact that everyone, the Clients and the Board, were pioneering a new way of doing business. There was and is a learning curve that needs to be accepted and adjusted to. By both the Client and the Board. It is the Client who is most personally affected and invested and on the front line of making the system work. The Board should give his advice and requests the most weight as they evaluate needed and proposed changes because he is the most directly knowledgeable and the most directly affected. Granted that the Executive Director is more educated and better skilled at interpreting the minutiae of the regulations and the operation of the Quota Fund, but he's not the soldier on point. He's not got his own capital and livelihood at risk. The Client does.

Another common theme was that Rob was getting a good deal on the lease rate for the quota. Well, beauty is in the eye of the beholder. All admitted that this is an expensive fishery. Rob points out that unlike the other fishermen out of the area that the Quota Fund would otherwise lease the quota to, he has a scarcity of the services he needs. He has to order equipment and parts from afar for which he

paid, just in the past year, over \$14,000 for shipping and delivery. He has to go to Ventura for a haul out. He has to get his nets from Washington. Fuel is at least \$1.00 a gallon more in Morro Bay than is any other port on the coast. So, yes, the quota will lease for more elsewhere, but is that the mission of this Quota Fund?

If it's such a great deal why don't you have any other local fishermen clamoring for the same deal?

Consider the impacts to other parts of the community that result from this failure. Rob unloaded 500,000 lbs of fish last year through Santa Monica Seafood's facilities. That's a significant portion of Santa Monica's business and it's a year round reliable portion of their business. Chris Battles estimates that he'll have to lay off two employees with the loss of Rob's business. The City of Morro Bay has done yeoman's work in trying to keep the waterfront a vibrant working waterfront. Measure D was passed to maintain the northern part of the bay as a viable place for fishermen to ply their trade. Rob and Tiffany have converted a portion of the wharf from a disused mechanics shed back into an offloading and fish processing facility. The first since the passage of Measure D 35 years ago. What will become of that now? Rob and Tiffany have been supplying 6 or 7 local restaurants with seafood, three different farmer's markets and a large and growing list of internet customers. They had planned on opening the business to retail customers next month. Any number of other businesses feel the impacts of their loss. Fuel and supplies. Rob's deck hands. Etc. Etc. The impacts ripple through the community.

An unbiased observer of this situation would come away with the view that Rob and Tiffany must be incredibly frustrated with the situation. They have invested five years and 100's of thousands of their own money into developing their business here. They've supported a number of community organizations from the Women's Commercial Fishing Association, all of the festivals and fairs in Morro Bay, homeless fish fries and other community events and charities. To throw up their hands and walk away from all that effort and expense must testify to the depth of the frustration. A few strongly worded and testy e-mails from Rob to the Executive Director are probably justified and worth overlooking to avoid the loss of the Seitzs and their contributions to the fishing and business community not to mention the community in general.

If your business plan is failing, you need to change your plan. It's as simple as that. If the Seitzs fail, the Quota Fund has failed. After all, given the history of failure with the Quota Fund's primary Client and the Quota Fund's current business plan it seems unlikely that another such Client will materialize to fulfill the Quota Fund's ostensible mission.

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