

COASTAL CONSERVANCY

Staff Recommendation

November 9, 2006

TRANSITIONING SAN LUIS OBISPO COUNTY HARBORS AND COMMERCIAL FISHERIES TO A SUSTAINABLE FUTURE

File No. 06-095

Project Manager: Timothy Duff

RECOMMENDED ACTION: Authorize disbursement of up to \$130,000 to the City of Morro Bay to 1) prepare a business plan, 2) develop and implement a marketing plan, and 3) build and conduct sea trials of innovative low impact fishing gear to support the commercial fishing industry and revitalize the harbors of the Morro Bay and Port San Luis, San Luis Obispo County.

LOCATION: Morro Bay and Port San Luis Harbors and offshore ocean fisheries, San Luis Obispo County.

PROGRAM CATEGORY: Integrated Coastal and Marine Resources Protection, Urban Waterfront Restoration.

EXHIBITS

Exhibit 1: Project Location

Exhibit 2: Letters of Support

RESOLUTION AND FINDINGS:

Staff recommends that the State Coastal Conservancy adopt the following resolution pursuant to Sections 31220 and 31300 *et seq.* of the Public Resources Code:

“The State Coastal Conservancy hereby authorizes disbursement of an amount not to exceed one hundred thirty thousand dollars (\$130,000) to the City of Morro Bay to 1) prepare a business plan, 2) develop and implement a marketing plan, and 3) build and conduct sea trials of innovative low impact fishing gear, in order to support the commercial fishing industry and revitalize the harbors of the Morro Bay and Port San Luis Harbors, as described in the accompanying staff recommendation. Prior to disbursement of Conservancy funds, the City shall submit for the review and written approval of the Executive Officer of the Conservancy a detailed work program, schedule, and budget; and the names and qualifications of any contractors to be employed in carrying out the project.”

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Staff further recommends that the Conservancy adopt the following findings:

“Based on the accompanying staff report and attached exhibits, the State Coastal Conservancy hereby finds that:

1. The proposed project is consistent with Chapters 5.5 and 7 of Division 21 of the Public Resources Code (Section 31220, 31300-31316).
 2. The proposed project is consistent with the Project Selection Criteria and Guidelines adopted by the Conservancy on January 24, 2001.”
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PROJECT SUMMARY:

For the past several years the commercial fishing industry in San Luis Obispo County, and the harbors in Morro Bay and Port San Luis that have traditionally provided the industry with essential support facilities and services, have been extremely hard hit economically as a result of dramatic changes in government regulations and market forces. Increased competition from abroad and new regulations at home, including no-trawl fishing zones in the region that today total nearly 4 million acres, together with the forthcoming creation of marine protected areas in the central coast, have combined to threaten the future viability of the region’s fishing industry. In response, the Morro Bay and Port San Luis harbor departments, and the commercial fishermen that rely on their waterfronts, have requested Coastal Conservancy funding to assist their efforts to transition the industry to a more financially and environmentally sustainable future.

The proposed project would provide immediate assistance to local fishermen seeking to test new and innovative low impact fishing gear that, if successful, would enable them to once again target high value groundfish that have been severely restricted for the past several years due to concerns with the impacts of trawling on sea floor habitats and with bycatch (the incidental catch of unwanted species). If successful, this effort would serve to build consensus support for a federal and state gear-switching agreement, and thereby enable local fishermen to secure from the state and federal governments permits to allow trawlers to switch their catch history to more selective gear types and modified low-impact trawling gear. This in turn would enable The Nature Conservancy to lease the permits it has purchased from trawlers in the region back to local fishermen who agree to fish more selectively and with less impact on groundfish habitats. The end result would be more fishing boats back in the water operating under strict guidelines catching high value fish in a more sustainable manner with less impact on fishery populations and their habitats.

In addition, a new marketing campaign would be launched in early 2007 to promote locally-caught fish to high-value markets with a focus on environmentally-friendly fishing methods. Such an effort would be consistent with the state’s goal to transition the industry from high volume/low value fisheries to higher value/low volume fisheries. The marketing plan would identify larger consumer markets by assessing trends in seafood demand, such as projected increased demand from Chinese and U.S. markets. Improving access to these markets through

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aggressive marketing and public relations is seen as critical, especially in the short term. A market and trend analysis would also investigate the potential for value-added processing, niche markets, and the presence of potential markets for regional seafood products in the central coast, and in Los Angeles and San Francisco. Identifying a demand in larger markets could trigger a need in San Luis Obispo County for new fish-cutting services and facilities, dry storage, freezer/refrigeration space, and improved truck access to local waterfronts.

In addition to the near-term gear testing and marketing actions summarized above, the successful revitalization of the Morro Bay and Port San Luis waterfronts will require a long range plan to secure future investments in infrastructure improvements. To position the San Luis Obispo County commercial fishing industry for future funding from sources such as the state's proposed Sustainable Fisheries Fund as well as loans from private nonprofit and commercial sources, a local seafood business plan would be prepared to identify suitable fisheries to target and associated demand for processing facilities. The plan would confirm appropriate fishing gear changes that would be needed, and evaluate prospects for agreements with seafood brokers and buyers. Business operations would thus be based on realistic assessment of assets and sound planning rather than opportunistic sales of whatever fish is landed. Increased revenue from high value/low impact fish landings would trigger additional investments in harbor infrastructure improvements that would help to revitalize the county's two harbors and their waterfront businesses.

The California Ocean Protection Act (COPA) recommends state funding to foster sustainable fisheries, including the development of more selective fishing gear, promotion of value-added wild fisheries to offset economic losses attributable to reduced fishing opportunities, and the creation of revolving loan programs for the purpose of implementing sustainable fishery projects. The State Ocean Protection Council (OPC) Five-Year Strategic Plan recommends that funding be directed to support market-based approaches to fishery management and to fishing activities that provide new economic opportunities that can be conducted in a sustainable manner. In addition, at its October 2006 meeting the OPC adopted a resolution calling for state funding for innovative approaches to sustainable fisheries management, including expansion of direct-to-consumer seafood markets, local fishing harbor revitalization, funding mechanisms such as the California Fisheries Fund, quota systems and limited entry programs, vessel and permit buybacks, and other projects.

The City of Morro Bay Harbor Department is well positioned to carry out this proposal. Leadership from the City's harbor director, working together with leaders of the region's commercial fishing fleet and with The Nature Conservancy and Environmental Defense, has resulted in a consensus to move forward to implement the project's innovative business planning, marketing, and testing of new fishing gear described above.

Site Description: The Morro Bay and Port San Luis Harbors provide the only commercial fishing industry access along the central coast between Monterey and Santa Barbara. Both "working waterfronts" have historically provided essential onshore commercial fishing support facilities to resident commercial fishing fleets, and both offer important public access and visitor-serving services to area residents and visitors. The area's offshore ocean fisheries have historically provided abundant supplies of groundfish to sustain the local trawl boat fishing

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fleets, but in recent years a depletion of these fish stocks, increased regulation, and other factors have contributed to the demise of industry and the waterfronts that have supported them.

Project History: Working collaboratively with The Nature Conservancy (TNC), Environmental Defense (ED), and the ports of Morro Bay and San Luis, trawl fishermen in the region helped design extensive no-trawl zones to protect important underwater habitats offshore, totaling 3.8 million acres. To reduce adverse economic impacts to the fishermen, TNC entered into agreements to purchase several of the trawl vessels and permits that operate out of Morro Bay and Port San Luis. Several policy initiatives aimed at easing the transition from trawling to lower-impact fishing have been pursued including: (1) a proposal to the Pacific Fishery Management Council (PFMC) to allow TNC’s conversion of harvest rights associated with the trawl permits they have acquired to different, lower impact gear types such as hook and line and traps for harvesting by San Luis Obispo area fishermen; (2) an exempted fishing permit application (to the state and PFMC) that would reward fishermen who can demonstrate lower-impact fishing; (3) a proposal to the PFMC and the state to create a Central California Stewardship Area to facilitate co-management of fisheries; and (4) a proposal to the PFMC to allow coastal communities to compete for shares of the total allowable groundfish catch when the federal fishery transitions to Individual Fishing Quota (“IFQ”) management. These shares could then be used to increase landings to the winning communities, and/or to attract joint ventures between local fishermen and seafood processors.

Both Morro Bay and Port San Luis have invested significant public funds to subsidize their working waterfronts and commercial fishing operations. Morro Bay has been leasing dock space and equipment to the Morro Bay Commercial Fisherman’s Organization for \$1/year and, with funding support from the Coastal Conservancy, is currently installing a new industrial ice maker to serve the commercial fishing fleet. Port San Luis has been developing plans, applying for permits and has obtained over \$2.5 million in state grant funds (including \$500,000 in Coastal Conservancy funds) to construct new waterfront access facilities to be completed in 2008. In addition, financial contributions have been made by TNC to offset lost revenues resulting from its trawl buyout program, along with pro bono development of new markets and publicity by both ED and TNC.

In October of 2005, the Coastal Conservancy approved a recommendation from the OPC to fund the first phase of business planning needed to establish a statewide Sustainable Fisheries Revolving Loan Fund.

PROJECT FINANCING:

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| Coastal Conservancy | \$100,000 |
| Ocean Protection Council | 30,000 |
| Other sources | <u>180,000*</u> |
| Total Project Cost | \$310,000 |

The expected source of Conservancy funds for this project are two FY 2006/07 appropriations to

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the Conservancy from the Environmental License Plate Fund. Under Public Resources Code Section 21190, these funds may generally be used for preservation and restoration of natural areas and fish and wildlife habitat and for protection of threatened and endangered animals. Consistent with that requirement, the proposed project will serve to promote sustainable practices that will reduce impacts on and preserve and restore marine habitat and the severely depleted fish and food animals within the marine environment. A portion of these funds were appropriated to the Conservancy with the specific understanding that they would be used, as proposed here, for priority ocean protection activities in connection with the Ocean Protection Council, including grants for the development of studies and plans needed for the protection and restoration of ocean resources. The remaining Conservancy funds would be derived from the California Beach and Coastal Enhancement Account in the Environmental License Plate Fund, which can be used for coastal resource restoration and enhancement and other projects under Division 21 of the Public Resources Code.

*Includes a contribution from The Nature Conservancy of \$50,000 per year for three years to help keep the harbors operating during the transition from trawl fisheries to other fisheries; plus in-kind staff support from the City of Morro Bay and Port San Luis Harbors, and from Environmental Defense.

CONSISTENCY WITH CONSERVANCY'S ENABLING LEGISLATION:

This project would be undertaken pursuant to Chapter 5.5 (Section 31220) of Division 21 of the Public Resources Code which allows the Conservancy to carry out projects that protect and/or restore marine habitat and promote integrated coastal and marine resources protection. Under Section 31220 of the Public Resources Code, the Conservancy may undertake projects that meet any of the objectives specified in subsection (b) of that section. Consistent with Section 31220(b)(7), the proposed project will serve as a necessary step to reduce the impact of population and economic pressures on coastal and marine resources, by promoting a transition to fishing practices that have lesser impact on the marine environment and furthering the transition to more sustainable fishing practices. Consistent with Section 31220(b)(10), it also provides for projects and activities consistent with the Ocean Protection Act, Division 26.5 of the Public Resources Code. As required by Section 31220(c), the project will include an evaluation component. The City of Morro Bay will be required to prepare and submit a project-end report with proposed recommendations derived from the business planning and marketing work. The City will also be required to prepare and submit a report documenting the outcomes of the fish gear testing, including an evaluation of the gear's performance and recommendations for future actions to make such gear widely available and approved for use.

This project would also be undertaken pursuant to Chapter 7 (Sections 31300-31315) regarding the restoration of urban waterfronts. Section 31300 states that California's urban waterfronts are in need of restoration in order to be the vital economic and cultural component of the community they once were, and that the encouragement of planned private sector development in these areas is a benefit to the citizens of the state, as well as the local citizenry in affected urban waterfront areas. The proposed project would facilitate the revitalization of central coast waterfronts through business planning, marketing and gear testing in support of the region's commercial fishing industry which relies on the vital fishing support facilities that the Morro Bay and Port

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San Luis Harbors have historically provided. Section 31307 authorizes the Conservancy to award grants to public agencies and nonprofit organizations for the restoration of urban coastal waterfront areas. The proposed grant to the City of Morro Bay to enhance the economic vitality of the area's fisheries and waterfront harbor facilities is consistent with this section. The proposed project is also consistent with Section 31316, which authorizes the Conservancy to undertake projects and award grants for activities that are compatible with the preservation, restoration, or enhancement of ocean, coastal or watershed resources within urban coastal watershed areas.

**CONSISTENCY WITH CONSERVANCY'S
STRATEGIC PLAN GOAL(S) & OBJECTIVE(S):**

Consistent with Strategic Plan Goal 3, Objective B, which calls for improvements in the economic stability of the commercial fishing industry and increased vitality of coastal dependent industry through resolution of conflicts, the proposed project will support commercial fishing, ports, harbors, and other coastal dependent uses."

Consistent with Strategic Plan Goal 6, Objective B, the proposed project will benefit coastal marine resources through activities that will promote a transition to more sustainable fisheries practices.

**CONSISTENCY WITH CONSERVANCY'S
PROJECT SELECTION CRITERIA & GUIDELINES:**

The proposed project is consistent with the Conservancy's Project Selection Criteria and Guidelines adopted January 24, 2001, in the following respects:

Required Criteria

1. **Promotion of the Conservancy's statutory programs and purposes:** See the "Consistency with Conservancy's Enabling Legislation" section above.
2. **Consistency with purposes of the funding source:** See the "Project Financing" section above.
3. **Support of the public:** The project is supported by State Assembly member Sam Blakeslee, Senator Abel Maldonado, the Morro Bay and Port San Luis Harbors Departments, and non-governmental organizations, including fishermen associations. Letters of support are attached as Exhibit 3.
4. **Location:** San Luis Obispo County coast within the coastal zone and offshore areas, and directly related to protection and restoration of coastal and marine habitat, and revitalization of urban waterfronts.
5. **Need:** Coastal Conservancy funds are needed to match funds from the Ocean Protection Council. Without Coastal Conservancy support, critical elements of the project would not be funded.

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6. **Greater-than-local interest:** The citizens of California and commercial fishermen throughout the central coast will benefit from this project through promotion of more sustainable fishing practices and the positive effect that will have on California coastal fisheries. The project will be used as a model for replication in other fisheries statewide, including methods for business planning, marketing, and testing of innovative fishing gear.

Additional Criteria

7. **Urgency:** The region's primary fishery, groundfish, has been under increasing federal regulation with strict quotas since the early 1990's. Together with the impacts of the new no-trawl zones in the region totaling 3.8 million acres, and the forthcoming creation of a network of marine protected areas in the project region, the Morro Bay and Port San Luis commercial fishing industries urgently need assistance in order to transition to more financially and environmentally sustainable fishing practices.
8. **Resolution of more than one issue:** The proposed project would help resolve multiple issues related to the transition of the commercial fishing industry to more financially and environmentally sustainable fishing practices, including complex socioeconomic, environmental and political issues surrounding the state's attempts to resolve a myriad of marine user conflicts.
9. **Innovation:** The proposed project would provide funds to design, build and conduct sea trials of innovative low impact fishing gear to improve access to sustainable species while reducing habitat and bycatch impacts. Funds would also support innovative approaches to marketing fish caught using sustainable methods, and for creative financial planning strategies to help transition the industry to a more sustainable future using loans from the public and private sector.
10. **Readiness:** The City of Morro Bay, together with its project partners at the Port San Luis Harbor, Environmental Defense, and TNC, have developed a work plan and identified the consultants needed to successfully carry out the project beginning this fall/winter.
11. **Leverage:** See the "Project Financing" section above.
12. **Conflict resolution:** Fishermen and local waterfront communities have traditionally relied upon a thriving commercial fishing industry for their livelihood. Recent changes in the regulation of the industry, including no-trawl zones and creation of marine protected areas, have had a devastating impact on fishermen, their families, and the economies of Morro Bay and Port San Luis. The conflict between past fishing practices that have led to depletions of some populations, and the widely-recognized need to protect and restore these fisheries and their habitats for future generations, would begin to be addressed through this project. Conflicts between past trawl fishing practices and their adverse impacts on marine habitats would begin to be resolved by developing innovative new ways to fish that do not harm bottom habitats and reduce bycatch. Marketing fish caught using sustainable methods, and pursuing creative financial approaches to help transition the industry to a more sustainable future would help to resolve current conflicts between the fishing community and the efforts

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of government agencies and conservation groups to conserve and enhance ocean resources.

- 14. Realization of prior Conservancy goals:** “See “Project History” above.”
- 15. Return to Conservancy:** See the “Project Financing” section above.
- 16. Cooperation:** This project would entail the cooperation of fishermen, environmental/conservation groups, and local, state and federal agencies.

CONSISTENCY WITH LOCAL WATERSHED MANAGEMENT PLAN/STATE WATER QUALITY CONTROL PLAN:

The purpose of local coastal watershed management plans is to prevent water quality degradation and to protect the beneficial uses of coastal waters. Water quality control plans adopted by the State Water Resources Control Board are designed to focus resources on key issues, promote the use of sound science, and promulgate cooperative, collaborative efforts in coastal areas to protect and enhance coastal waters. As a project that includes coastal waters of California, the proposed activities will promote more sustainable use of coastal resources and fisheries. For the same reasons, the proposed project is also consistent with the policies of the 2001 California Ocean Plan that states “the beneficial uses of the ocean waters of the State that shall be protected include...water contact and non-contact recreation; aesthetic enjoyment; commercial and sport fishing; ...preservation and enhancement of designated Areas of Special Biological Significance (ASBS); rare and endangered species; marine habitat; (and) fish migration.”

COMPLIANCE WITH CEQA: The proposed project is categorically exempt from review under the California Environmental Quality Act (CEQA), pursuant to 14 Cal. Code of Regulations, Section 15301 because it consists of the operation or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use beyond that currently existing, and pursuant to 14 Cal. Code of Regulations, Section 15306 in that it involves data collection, research, experimental management and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. Staff will file a Notice of Exemption upon approval of the project.