

From: Johanna Thomas [mailto:jothomas@environmentaldefense.org]
Sent: Tuesday, May 31, 2005 11:26 AM
To: Brian Baird; Leah Akins; Tim Corrigan (tcorrigan@scc.ca.gov)
Subject: Proposal for funding the development of a Fisheries Revolving Loan Fund
Importance: High

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We submit this proposal in the hope that it can be considered under the "pilot projects" section of the agenda at the June 10 meeting of the Ocean Protection Council.

Please contact Rod Fujita or Johanna Thomas at Environmental Defense (510) 658-8008 if you need additional information.

Thank you,

Johanna Thomas

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**Development of the California Sustainable Fisheries Revolving Loan Fund
Proposal to Environmental Defense**

Total Project Cost: \$164,400

May 26, 2005

We appreciate the opportunity to provide this proposal to Environmental Defense to develop the concept of a Fisheries Revolving Loan Program that would operate in California. We believe the process of establishing the fisheries revolving loan program needs to be as much about strategy, politics, and local understanding as the mechanics of how to build and operate a loan fund. Taking a fairly surgical, strategic approach, will initially require more time and patience but will ultimately result in a fund that has the ability to grow and have lasting impact. That said, the mechanics of the fund (marketing, operations, portfolio management, return expectations, risk tolerance, etc), need to be kept in mind throughout the process in order to stay grounded in reality.

We look forward to working as a partner with Environmental Defense in its capacity as manager of this project, and understand Environmental Defense's roles and responsibilities to be as follows:

- 1.) Provide overall project management, including fiscal responsibility and reporting
- 2.) Provide perspective and guidance on the program criteria and goals for recovery of California fisheries and related marine resources
- 3.) Contribute expertise on California fisheries and introduction to stakeholders
- 4.) Contribute policy expertise

The following are the proposed strategy, timelines, and description of activities and deliverables, and finally cost estimates for the job.

PROPOSED STRATEGY AND TIMELINE

Stage	Description	Product	Duration
Concept	Analysis of stakeholder interests, expectations, outcomes and opportunities for collaborations	Concept Paper	2 months
Planning	Governance, markets, products, operations, organizational items, outcomes, management, and financial performance	Business Plan	4 months
Capitalization	Grant and investment commitments to finance five year start up period	Offering Document	9-12 months

Implementation	Financial closings, staffing, marketing, operating systems, risk management systems, reporting protocols	Operating Entity	3-6 months
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The following are costs and activities for carrying out this strategy in the given timeframes above. These costs do not include travel costs, which we would estimate at roughly an additional \$10,000.

Stage One – Concept Paper (Cost: \$7,000)

We would work closely with Environmental Defense to write the initial loan fund concept paper. The primary Enterprise staff involved would be Mike Dickerson, Deputy Director and John Berdes, Executive Director. We would also involve members of our Community Seafood Initiative team in an advisory role as needed. The scope of work would include:

- Research and Analysis: You provide us with any additional information we should be digesting that will bring us up to speed prior to starting rewrite. This includes reports and other relevant documents.
- Interviews: We would meet one-on-one with key constituencies and funders in order to gain a true understanding of competing expectations and opportunities for addressing multiple agendas through capital products.
- Concept Development: Will require some discussions between us. Most efficient is probably a face-to face meeting and carve out the bulk of a day to meet and brainstorm concept. You could either come to Ilwaco or we come to you.
- Draft Document: Rewrite concept paper based on results of interviews, research and discussions. Will include broad thinking of options, pros and cons of various options, and recommended next steps. You review and we refine as needed.
- Presentation: We would present final concept to you, Ocean Protection Council staff and council members, Resources Agency, Coastal Conservancy, and others at your discretion.

Stage Two – Business Planning (\$70,000)

Activities would include:

- Establish Initial Broad Objectives and Impacts: Confirm the elements of the concept paper and make sure all involved parties in basic agreement.
- Research, Reconnaissance, and Analysis: Collect and analyze all available relevant information specific to California fisheries (effort, landings, value, markets, infrastructure, etc). Enter into discussions with key players (our initial thinking is this should be somewhat of a “stealth” process rather than a big, broad public process). Key players include: State and other relevant agencies; Ports and other relevant local agencies; Industry (advocacy groups, fisherman, processors, off-loaders, markets); Environmental groups and relevant science-based

- institutions; and, other special interests. The purpose of these activities is to define *strategic* opportunities that inform the business planning process going forward.
- Refine Objectives: Upon completing reconnaissance, refine initial objectives and land on specific targets and desired impacts. Reconnect with key parties and get consensus for moving forward.
 - Model: Develop model that will best meet objectives. Includes: Structure; Governance; Management; Operations: Products; Expected Portfolio Profile; and Risk Tolerance.
 - Financial Forecasts: Develop financial projections for operating costs and portfolio performance.
 - Capitalization Strategy: Develop an initial and long-term capitalization plan.
 - Implementation Plan and Timeline: Develop the critical path for implementation and associated timeline.
 - Risk Analysis: Perform a risk analysis on overall plan and develop appropriate mitigation strategies.

Stage Three – Capitalization (\$50,000)

Based on the business plan, an “offering” would be developed for different kinds of capital necessary to implement the plan:

- ❑ Operating Subsidies: The business plan will forecast increasing levels of internally financed operations fueled by return on investment. Substantial amounts of “working capital” subsidy will be required to launch the effort and sustain it until scaled investment can provide returns to cover the cost of operations.
- ❑ Capital Grants: Public and private grants, unencumbered by severe “restrictions”, will be necessary to fund the capital “footings” that attract leveraged dollars. In GAAP parlance, “unrestricted fund balance” (or “net worth”) on the balance sheet will increase program income and rationalize non-grant investments.
- ❑ Top Tier Leverage: Fund scale will demand borrowings. The cost of these borrowings (positively influenced by mission and leverage ratios) will have a significant impact on the fund’s ability to self-finance its operations over time. Top tier borrowings will be unsecured and general recourse.
- ❑ Subordinate Leverage: We believe it will be necessary to seek investments of a subordinate (or higher risk) nature from foundations and other concerned private parties.

Approach and timing will obviously be dependent on results of business plan. In a perfect world, we estimate you’re looking at a minimum of nine months to get initial capital assembled to move forward with start-up. We would hope that some of this activity could actually occur during the business planning process.

Stage Four – Implementation (Estimated Cost: Unknown)

We would be available to aid the implementation team to translate our recommendations into action. The extent and nature of this work is too speculative at this point. It is also highly dependent on precisely who is doing the translation from plan to action. We recommend that once we complete Stages 1-3, we develop a complementary proposal for implementation. Suffice to say that our approach to this kind of work is all about making things real, not theoretical. The answers will not be words on paper, but instead deals on the street that are well crafted, well managed, and recovered per plan and agreement with the investee.

BUDGET SUMMARY

Stage	Description	Cost
One	Concept Paper	\$7,000
Two	Business Planning	\$70,000
Three	Capitalization	\$50,000
Travel		\$10,000
Project Management @20%		\$27,400
TOTAL		\$164,400

CONCLUSION

Please do not hesitate to contact us with any questions or if we can help with more details in this proposal. We applaud your efforts and stand ready to help in a capacity that makes sense to all.