NOAA FISHERIES

IFQ Program Cost Recovery for Fishing Year 2019

Sustainable Fisheries

January 2020

Cost Recovery

Section 304(d)(2)(A) of the Magnuson–Stevens Fishery Conservation and Management Act (MSA), enacted in late 1996, obligates the National Marine Fisheries Service (NMFS) to recover the actual costs of management, data collection, and enforcement of the Individual Fisheries Quota (IFQ) Program for the Fixed-Gear Commercial Fisheries for Pacific halibut and sablefish in waters in and off Alaska. The law provides that the fee be paid by IFQ fishermen and that the fee shall be based on the ex-vessel value of fish landed under the IFQ Program. The MSA limits the fee liability for IFQ fishermen to 3.0 percent of the annual ex-vessel value in dollars, goods, and services.

The funds collected from cost recovery are deposited in the Limited Access System Administrative Fund (LASAF). Funds in this account are available only to the Secretary of Commerce and must be spent on IFQ Program management, data collection, and enforcement. This report reviews the cost recovery requirements and responsibilities of fishery participants and of NMFS. It describes how the fee is determined, what contributed to IFQ Program costs, and compares cost recovery fees over time.

Requirements and Responsibilities

For IFQ Permit Holders

IFQ permit holders are responsible for fees owed for all landings recorded on their permit(s). This includes IFQ pounds from their own quota share (QS) and from QS that was leased from another QS holder. It also includes landings made by hired skippers. IFQ permit holders are also responsible for fees associated with halibut that were landed using their IFQ in the guided angler fish (GAF) program by persons who hold a Charter Halibut Permit issued by NMFS.

IFQ permit holders must pay their fee no later than January 31 of the year after the calendar year of their landings. There are two options for calculating the fee liability: permit holders may make their payment based upon NMFS' calculations, which are based on standard ex-vessel prices and values; or they can pay an amount based in whole or in part upon their own records of actual ex-vessel value from the sale of their IFQ halibut or sablefish. If they choose the second option, permit holders must be prepared to demonstrate, with written documentation, the actual value they received from their IFQ landings.

Penalties: Failure to pay may result in NMFS action against the permit holder's QS holdings and monetary charges, fines, and/or permit sanctions. If a permit holder fails to pay by January 31, their QS/IFQ automatically becomes nontransferable until the fee liability is satisfied. In addition, the permit holder is prohibited from receiving QS or IFQ by transfer. Before penalties are issued, NMFS Operations and Management Division (OMD) delivers a letter of Initial Administrative Determination (IAD) outlining the permit holder's right to an appeal.

For IFQ Registered Buyers

Registered Buyers acting as shoreside processors must report the monetary value and amount of purchased pounds of IFQ halibut and sablefish by species, month, and port. This information is used to calculate standard ex-vessel prices, and to estimate the overall ex-vessel value of the

fisheries. Reports are due to NMFS by October 15 each year and can be submitted on-line or on paper forms.

For NMFS

At the end of each IFQ Program fishing season, NMFS is responsible for these actions:

- ✓ compiling a list of all IFQ Program landings by species, month, and port or port group;
- ✓ using shoreside IFQ Registered Buyer data to calculate a set of standard ex-vessel prices for IFQ fish landed;
- ✓ applying the appropriate standard ex-vessel price to each landing, creating a standard ex-vessel value for the landing;
- ✓ summing the total standard ex-vessel values of all landings to derive the total ex-vessel value (total fishery value) of the year's IFQ fisheries;
- ✓ compiling all direct management, data collection, and enforcement costs (direct program costs) attributable to the IFQ Program;
- ✓ using direct program costs and total fishery value to calculate the annual fee percentage;
- ✓ applying the fee percentage to the standard ex-vessel value of a landing on an IFQ Program permit to determine the fee owed for each landing;
- ✓ summing the fees owed for all landings on all IFQ Program permits held by each permit holder. This final figure is the *annual fee* each permit holder owes; and
- ✓ mailing IFQ permit holders a summary that itemizes their landings and shows their calculated fee.

The 2019 IFQ Program Cost Recovery Fee Percentage

The 2019 IFQ fee percentage was 3.0 percent (84 FR 70153, December 12, 2019). Therefore, under cost recovery regulations, IFQ permit holders who used their permits to make landings of IFQ halibut or IFQ sablefish during the 2019 IFQ Program fishery, or who leased halibut IFQ that was landed as GAF during the 2019 charter halibut fishery, are obligated to pay 3.0 percent of the total ex-vessel value from the sale of their IFQ Program fish. The fee percentage is calculated from two sources:

- ➢ The total fishery value of the IFQ Program fisheries for 2019; and
- ➢ The direct program costs for the IFQ Program, as compiled from actual expenditures during Federal fiscal year (FY) 2019.

These sources are discussed below.

Total fishery Value of the IFQ Program Fisheries

As noted above, the total fishery value is determined from ex-vessel prices that are applied to the pounds of IFQ fish landed. To account for price variability, standard ex-vessel prices are weighted averages, calculated for each species, port of landing, and month. In 2019, the total ex-vessel value of the combined IFQ Program fisheries, based on standard ex-vessel prices, was $150,034,178. The halibut IFQ fishery accounted for $87,362,334 of the total, while the value of the sablefish IFQ fishery was $62,671,844.

Direct Program Costs for the IFQ Program

Direct program costs are expenses necessary to manage, collect data from, and enforce the IFQ Program. The costs considered are incremental: they would not have been incurred but for the IFQ Program. Cost recovery fees do not increase agency budgets or expenditures. The fee offsets funds that would otherwise have been appropriated, except International Pacific Halibut Commission (IPHC) and Alaska Department of Fish and Game (ADF&G) expenditures, for which there is no direct appropriation. No budgetary advantage is gained by inflating costs.

To determine annual costs, each October NMFS, IPHC, and ADF&G each calculate their direct program costs for the IFQ Program. NMFS Alaska Region separates costs by operating units, including NMFS Restricted Access Management (RAM), NMFS Information Services Division (ISD), NMFS Office of Law Enforcement Alaska Division (OLE), NMFS Sustainable Fisheries (SFD), NMFS Financial Service Division (FSD), NMFS Operations and Management Division (OMD), and NMFS Regional Administrator Office/Office of Administrative Appeals (RAO/Appeals).

Examples of the types of tasks that were included under the 2019 IFQ direct program costs are:

- analysis and rulemaking activities; in particular, regulations to authorize a fish-up provision for Community Quota Entities in Area 3A, changes to the medical and beneficiary provisions, and authorizing harvest of IFQ halibut in the BSAI using pot gear (SFD),
- maintenance of the electronic reporting systems, including the catch accounting system (ISD, ADF&G),
- programming, web design, and maintenance of online applications (ISD),
- issuance of approximately 2,600 annual IFQ permits, 200 registered buyer permits, and 1,300 hired master permits, which includes responding to questions about those permits (RAM),
- processing approximately 1,200 transfers of QS and/or IFQ. This includes medical transfers, transfers with right of survivorship, and Guided Angler Fish transfers. Processing transfers also includes responding to questions about the transfers (RAM),
- producing an annual transfer report (RAM),
- determining standard ex-vessel prices using value and volume reports submitted by IFQ Registered Buyers (RAM),
- fee determination and collection process (OMD),
- port sampling (IPHC), primarily personnel costs, but also includes travel and supplies
- processing North Pacific IFQ loan program applications (FSD)
- inspections, boardings, investigations, outreach and education, and compliance assistance by approximately 20 officers and 10 agents. Additionally, a staff of 6-8 data technicians are contracted annually for 7-day per week processing of required reports, such as Product Transfer, Prior Notice of Landing, IFQ Departure, IFQ Overage, and Vessel Activity Reports (OLE).

More details on particular cost components can be found below, on page 8.

Calculating the 2019 Fee Percentage

The annual fee percentage is calculated using the following formula:

[100 x (DPC/V)]

NMFS divides the direct program cost (DPC) by the total fishery value (V) of the IFQ Program fisheries, and then multiplies by 100 to calculate a percentage. The result is the *fee percentage*. The calculation of the 2019 fee percentage is as follows:

Table 1. Formula for calculating the 2019 fee percentage

Factor	Value	Activity
Direct Program Cost (DPC)	$ 4,488,393	DPC divide by V
Total Fishery Value (V)	$ 150,034,178	multiply by 100
=	3.0	yields
Fee percentage for 2019 IFQ Program *3.0 = percent*		

Summary of the Fee Percentages Over Time and Component Costs

Time Series of the Fee Percentage

Table 2 indicates the 2019 fee percentage is 3.0, which higher than the 2018 percentage and at the maximum allowable fee percentage. This resulted from a lower value in the IFQ fisheries in 2019. Direct program costs for FY 2019 were $4.49 million, which is a 1.8% decrease from FY 2018. The value of the combined IFQ fisheries decreased by $11.3 million (7%) from FY2018 to FY2019, which is primarily attributed to a decline in the price per pound of sablefish landings.

Table 2. IFQ Program cost recovery fee percentage
2000 through 2019

Year	Direct Program Costs	Combined IFQ Fisheries Value	Fee Percentage
2000	$ 3,474,111	$ 195,882,332	1.80%
2001	$ 3,430,357	$ 167,368,176	2.00%
2002	$ 3,513,827	$ 180,276,723	2.00%
2003	$ 3,407,118	$ 236,536,464	1.40%
2004	$ 3,326,607	$ 235,431,066	1.30%
2005	$ 3,743,630	$ 235,865,140	1.60%
2006	$ 2,789,047	$ 268,403,752	1.00%
2007	$ 2,739,602	$ 234,866,119	1.20%
2008	$ 3,468,590	$ 244,854,438	1.40%
2009	$ 4,302,026	$ 209,893,255	1.60%
2010	$ 5,203,411	$ 276,175,760	1.40%
2011	$ 5,065,748	$ 318,077,388	1.60%
2012	$ 4,896,232	$ 246,067,580	2.10%
2013	$ 4,920,803	$ 177,746,256	2.80%
2014	$ 4,530,572	$ 176,983,090	2.60%
2015	$ 5,593,603	$ 183,896,787	3.04%*
2016	$ 5,902,497	$ 189,455,394	3.12%*
2017	$ 4,659,869	$ 208,013,345	2.20%
2018	$ 4,573,407	$ 161,400,657	2.80%
2019	$ 4,488,393	$ 150,034,178	3.00%

*Actual fee liability percentage before the mandatory adjustment to the 3.0% maximum.

Components of Total Fishery Value

Figures 1 and 2 provide more detail on the individual components of values for the halibut and sablefish IFQ fisheries by illustrating harvests and ex-vessel prices over the most recent nine-year period. Standard ex-vessel prices that are indicated in the figures are weighted averages, taken across all ports over the entire season.

Halibut landings (Figure 1) decreased substantially from 2010 to 2014, but have since remained relatively flat, declining in 2018, and increasing slightly again in 2019. Annual average ex-vessel price was stable from 2014 to 2017, ranging from $6.32 to $6.67, but dropped significantly to $5.35 in 2018 and to $5.30 in 2019.

Figure 1. Total pounds landed of IFQ halibut and standard ex-vessel price per pound from 2010 to 2019.

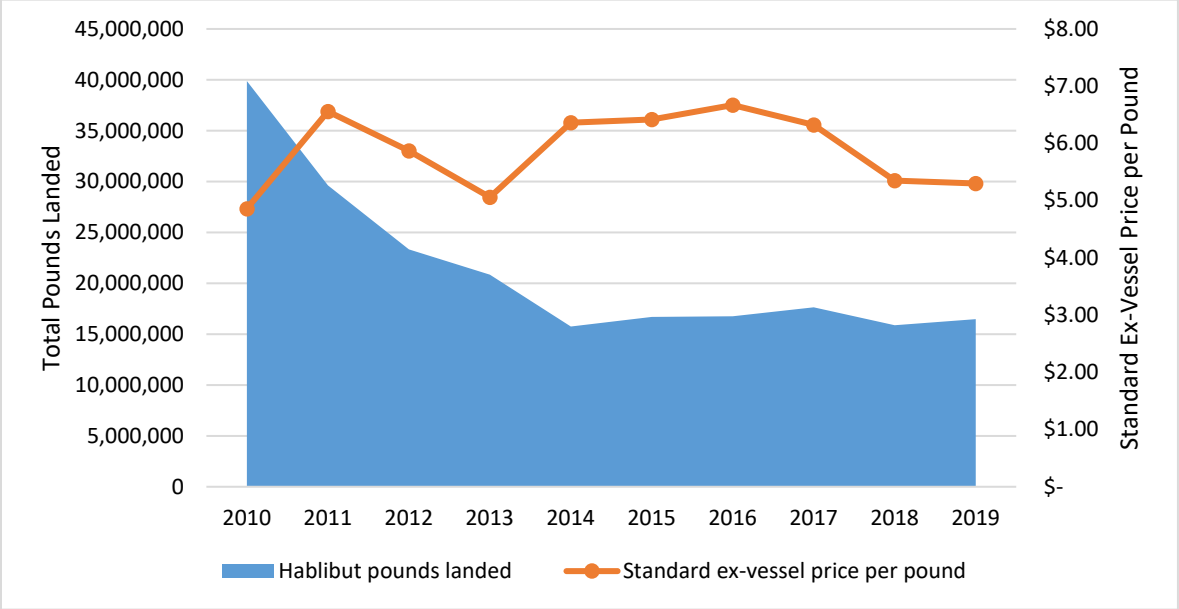
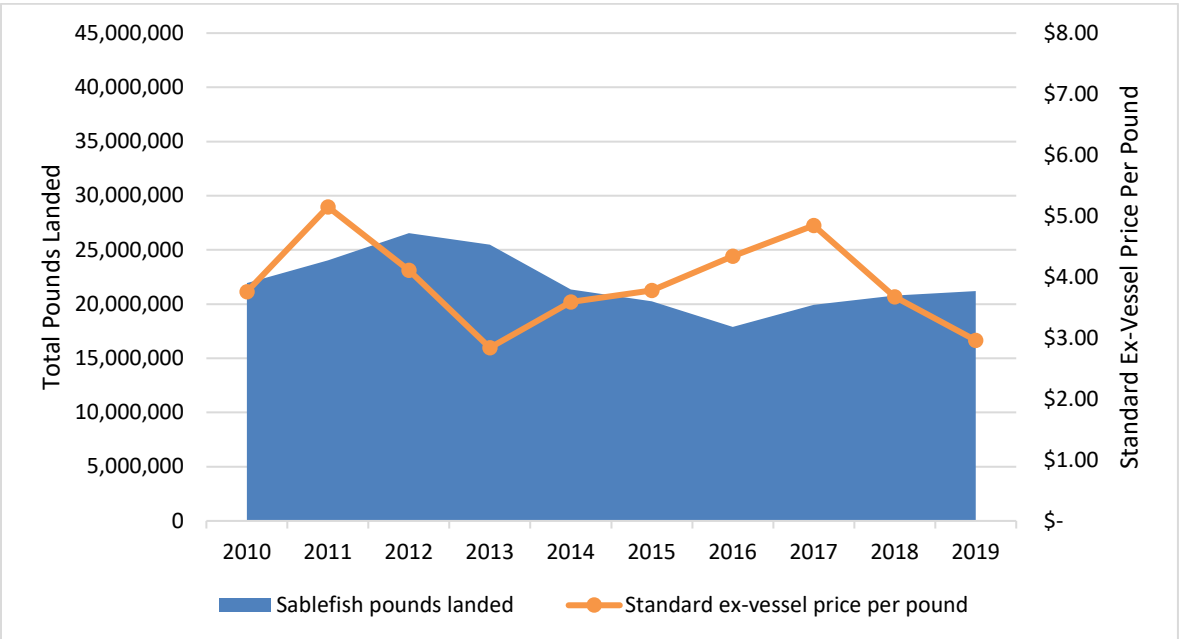


Figure 2. Total pounds landed of IFQ sablefish and standard ex-vessel price per pound from 2010 to 2019.



Sablefish landings (Figure 2) have continued to increase since 2016, with 21.2 million pounds landed in 2019. Standard ex-vessel prices for sablefish increased from 2013 to 2017, but declined to $2.96 in 2019.

Comparing 2018 to 2019, the decrease in the combined IFQ fishery value was due to lower prices for sablefish, as landing volumes both increased relative to 2018.

Details of Direct Program Costs

Table 3 provides more detail on the 2019 direct program costs for NMFS operating units and external partners by breaking out individual cost categories. The sum of direct personnel and personnel contracting costs account for approximately 94% of the total. Among operating units, OLE expenses accounted for roughly half of the program costs.

Table 3. Fiscal year 2019 IFQ Direct program costs by cost recovery component for NMFS operating units, IPHC, and ADF&G.

Cost Recovery Component	NMFS OMD	NMFS RAM	NMFS SFD	NMFS ISD	NMFS FSD	NMFS OLE	IPHC	ADFG	Total
Personnel Costs [a]	$76,300	$253,000	$33,500	$125,900	$140,052	$1,771,262	$384,317	$124,218	$2,908,549
Travel [b]	-	$800	$11,000	$2,700	-	-	$17,110	-	$31,610
Transportation [c]	-	-	-	-	-	-	$23,343	-	$23,343
Printing	$2,900	-	-	-	-	-	-	-	$2,900
Contracts/Training	-	$388,818	$382,298	$101,025	-	$412,872	$32,874	-	$1,317,887
Supplies	$500	$18,500	$100	$200	-	$2	$23,230	-	$42,532
Equipment	-	-	-	-	-	$824	-	-	$824
Rent/Utilities [d]	$7,700	$37,700	$9,700	$25,500	-	$69,048	$2,222	-	$151,870
Other	-	-	-	-	-	$8,879	-	-	$8,879
	$87,400	$698,818	$436,598	$255,325	$140,052	$2,262,887	$483,096	$124,218	$4,488,393

[a] Personnel includes costs of locality pay, benefits, and overhead.
[b] Travel includes per diem payments. IPHC uses a scalar to determine costs so IPHC travel expenses reflect costs derived by a separate cost formula.
[c] Transportation includes shipment of items.
[d] Rent/Utilities includes costs of space and utilities and shared common space and services.

OLE has high direct costs for the IFQ Program due to the high number of participants and regulatory complexity. OLE's primary cost is personnel for enforcement monitoring and investigations of the IFQ program due to the high number of participants (1100+ vessels), landings (5000+), and offload ports (34), as well as the duration of IFQ fisheries. Secondary cost is for the IFQ data clerk contract. Further, OLE is responsible for shoreside enforcement and provides after-hours surveillance.

The US Coast Guard (USCG) also refers labor costs to OLE for at-sea enforcement; when the USCG documents at sea violations, it refers the offence to OLE for final action. Additionally, the IFQ Program does not require the use of vessel monitoring systems when fishing for halibut, which contributes to higher enforcement costs. VMS would be a useful tool for OLE to assess fishing activity in IFQ regulatory areas.

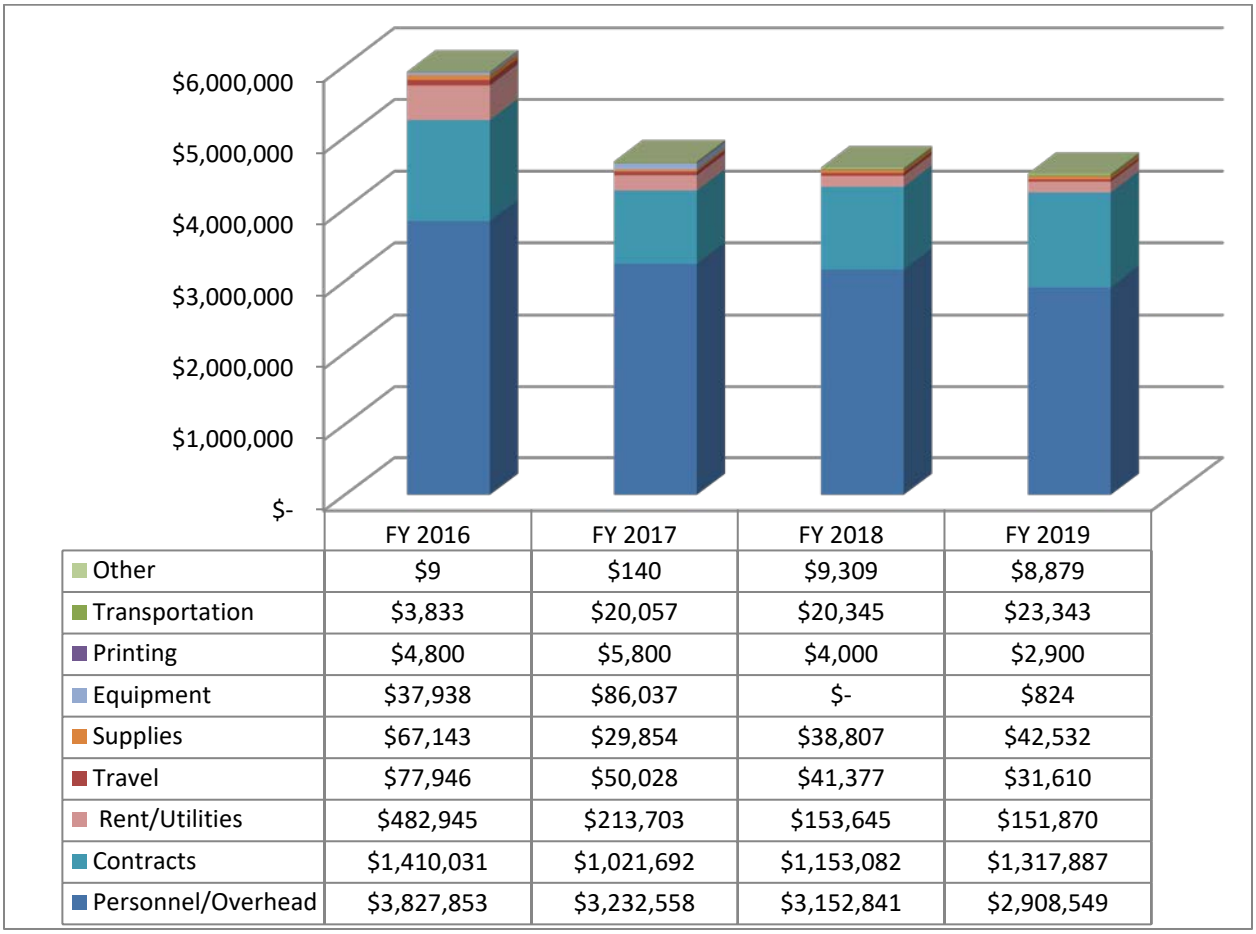
OLE employs a multifaceted strategy to maximize compliance in the IFQ fisheries. This strategy includes educational outreach, partnerships, patrols, inspections, and investigations. OLE spends thousands of hours annually providing marine resource users with compliance assistance, including staffing booths at organized events, daily contacts in communities, ports, harbors, and at-sea to ensure that the most current and accurate regulatory information is widely distributed and understood. OLE also spends thousands of hours annually conducting patrols to provide a visible deterrence, monitor fishing, detect violations, conduct compliance inspections, and provide compliance assistance. OLE personnel investigate reports or complaints of IFQ violations as well as regularly analyze IFQ data that may lead to investigations of abnormal activity and missing or questionable information.

An additional source of management costs for the IFQ Program are attributed to ISD. This relates to how costs associated with maintaining the electronic landings system (eLandings) are distributed to the IFQ program. Because eLandings is used for multiple fisheries, ISD has developed a formula for tracking the time spent by computer programmers to maintain the system. The formula includes weighting factors for the degree of complexity, amount of integration, time sensitivity, and workload for eLandings maintenance tasks, then it calculates the proportion of eLandings tasks that can be attributed to each fishery program. This formula is reevaluated every year.

In addition to also supporting a significant portion of contracts related to eLandings operation, SFD incurs administrative and regulatory development costs for the IFQ Program. For FY 2019, this included work on the CQE “Fish-Up” proposed rule and Amendment 118 to allow halibut retention in pot gear.

Figure 3 indicates the cost components for all NMFS units and external partners. This illustrates the costs for FY2019 relative to the preceding years. There was a slight drop in costs in FY 2019 primarily resulting from a reduction in personnel expenses.

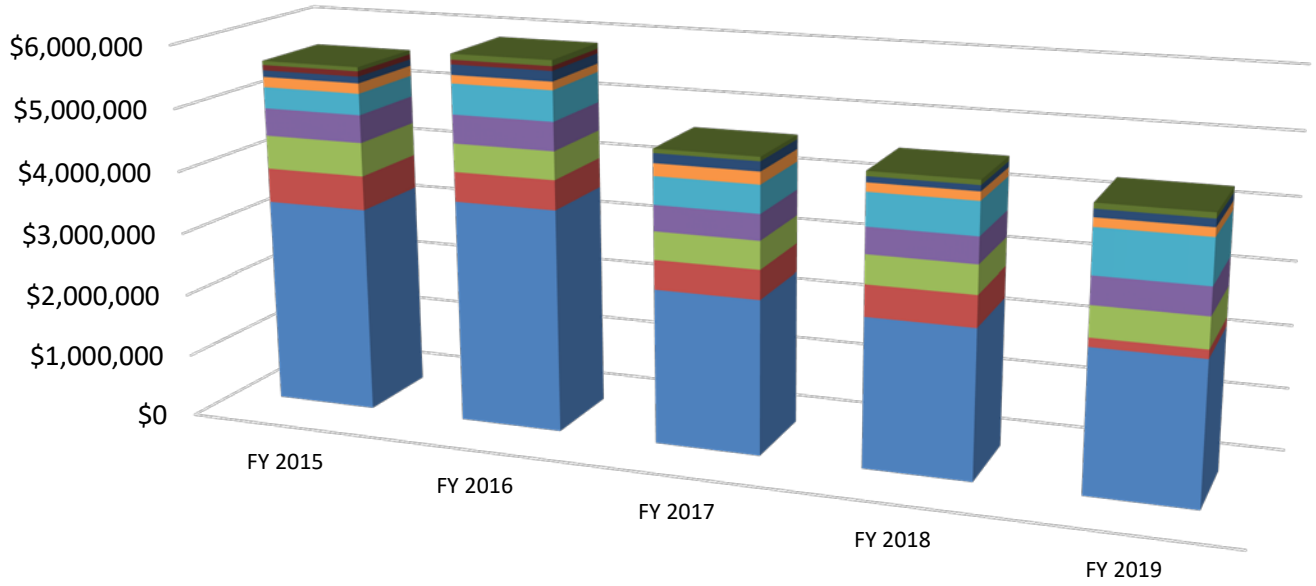
Figure 3. Direct Program Costs for FY 2016 through FY 2019.



	FY 2016	FY 2017	FY 2018	FY 2019
Other	$9	$140	$9,309	$8,879
Transportation	$3,833	$20,057	$20,345	$23,343
Printing	$4,800	$5,800	$4,000	$2,900
Equipment	$37,938	$86,037	$-	$824
Supplies	$67,143	$29,854	$38,807	$42,532
Travel	$77,946	$50,028	$41,377	$31,610
Rent/Utilities	$482,945	$213,703	$153,645	$151,870
Contracts	$1,410,031	$1,021,692	$1,153,082	$1,317,887
Personnel/Overhead	$3,827,853	$3,232,558	$3,152,841	$2,908,549

Figure 4 (next page) provides more detail on direct program costs, broken out by NMFS management unit and external partners. Costs incurred by the IPHC are primarily attributed to the extensive port sampling program. Nearly all the ADF&G costs are related to maintaining the eLandings catch accounting program. NMFS RAM division incurs significant personnel costs issuing the large number of IFQ permits and processing transfers of quota shares, including transfers related to medical leases and right of survivorship.

Figure 4. IFQ Direct program costs for NMFS operating units, IPHC, and ADF&G during fiscal years 2015 through 2019.



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
NMFS OMD	$65,270	$91,800	$68,000	$78,200	$87,400
NMFS RAO/Appeals	$85,468	$73,600	$0	$0	$0
ADF&G	$105,919	$162,784	$155,690	$92,395	$124,218
NMFS FSD	$165,139	$133,547	$198,559	$139,697	$140,052
NMFS RAM	$342,523	$487,283	$445,497	$523,592	$698,818
NMFS SFD	$445,830	$457,489	$412,345	$416,282	$436,598
IPHC	$539,832	$452,397	$447,551	$449,562	$483,096
NMFS ISD	$549,549	$475,676	$460,510	$498,382	$140,052
NMFS OLE	$3,294,075	$3,567,920	$2,471,718	$2,375,297	$2,262,887