# NMFS Cost Recovery

## IFQ Halibut/Sablefish




NOAA FISHERIES

Sustainable Fisheries

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## Cost Recovery

Section 304(d)(A) of the Magnuson–Stevens Fishery Conservation and Management Act (MSA), enacted in late 1996, obligates NMFS to recover the "actual costs of managing and enforcing" the IFQ Program. The law provides that the fee be paid by IFQ fishermen and premised on the ex-vessel value of fish landed under the program. The fee cannot exceed 3 percent of the annual ex-vessel value in dollars, goods, and services.

### *Use of Funds*

Receipts from the collection effort are deposited in two accounts. Twenty-five percent (25 percent) of the collections are deposited in the U.S. Treasury. They are available to Congress for annual appropriations to support the North Pacific (IFQ) Loan Program. The other 75 percent is 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 and enforcement.

### *Requirements and Responsibilities*

The program places responsibilities on two categories of participants: 1) IFQ Registered Buyers who are acting as shoreside processors, and 2) IFQ permitholders with landings of halibut or sablefish authorized by their permit.

### *For IFQ Registered Buyers*

Registered Buyers acting as shoreside processors must report the monetary value and amount of purchased pounds of halibut and sablefish by species, month, and port, information essential for calculating annual standard ex-vessel prices of IFQ fish. Reports are due at Restricted Access Management (RAM) by October 15 each year and can be submitted on the Internet or on paper forms.

### *For IFQ Permitholders*

IFQ permitholders are responsible for fees owed for all landings on their permit(s), regardless of whether their IFQ pounds were from their own QS or leased from another quota shareholder and regardless of whether a permitholder or hired skippers made the landings.

Permitholders must pay their fee liability by no later than January 31 of the year after the calendar year of the landings. There are two payment options:

Option 1: Permitholders may pay the amount billed, NMFS calculation of the annual fee owed, based on standard prices and values) or

Option 2: Permitholders may pay an amount based in whole or in part on actual ex-vessel value from the sale of their IFQ halibut or sablefish. If they choose this option, they must be prepared to demonstrate, with written documentation, how much money or other value they received for those IFQ landings.

### *NMFS Responsibilities*

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

- ✓ compiles a list of all IFQ landings by species, month, and port or port group;
- ✓ uses shoreside Registered Buyer data to calculate a set of standard ex-vessel prices for

IFQ fish landed;

- ✓ applies the appropriate standard ex-vessel price to each landing, creating a standard ex-vessel value for each landing;
- ✓ sums the total standard ex-vessel values of all landings to derive the total ex-value of the year's IFQ fishery;
- ✓ compiles all costs directly attributable to the IFQ fishery;
- ✓ uses direct program costs and total ex-vessel value to calculate the annual fee percentage; and
- ✓ applies the percentage to the standard ex-vessel values to determine the fee owed for each landing;
- ✓ sums the fees owed for all landings on all IFQ permits held by each person. This final figure is the *annual fee* owed by each permitholder, based on standard prices and values.
- ✓ mails IFQ permitholders a summary that itemizes their landings and shows their calculated fee liability. NMFS bases the fee liability on the sum of all payments of monetary (in dollars, goods, and services) worth to fishermen for landings of IFQ fish.

Penalties: Failure to pay on time results in NMFS action against the permit holder's QS holdings and additional monetary charges, fines, and/or permit sanctions. If a permitholder fails to pay by the January 31 due date, his/her QS/IFQ will become nontransferable until the fee liability is satisfied, and he or she may not receive QS or IFQ by transfer. The Office of Operations and Management (OMD) will issue an Initial Administrative Determination (IAD) to which the permitholder must respond within 30 days. If an account is unpaid for 30 days after the due date, administrative fees, interest, and penalties start to accrue.

If the account is not paid within the 30 days provided by the IAD, in addition to penalties, interest, and fees, the permitholder's IFQ permit account will be sanctioned and the permitholder will be unable to fish until the fee liability is satisfied. Additional fines may also apply.

### *Calculating the 2012 Fee*

The fee for 2012 was set at 2.1 percent. This figure derives from three sources:

- ➢ The total ex-vessel value of the halibut and sablefish fisheries;
- ➢ The total costs of managing and enforcing the IFQ Program (by actual expenditures during Federal fiscal year 2012):
- ➢ The balance in the Limited Access System Administrative Fund (last year's overpayment, if any). In 2011 the LASA Fund was under collected by $152,342. This brought the 2012 total cost to $5,048,574.

These sources are discussed below.

### *The 2012 IFQ Cost Recovery Fee Percentage*

NMFS announced that the 2012 IFQ fee percentage was set at 2.1. Under cost recovery regulations, IFQ permitholders who used their permits to record landings of halibut or sablefish during the 2012 IFQ fishery were obligated to pay 2.1 percent of the total ex-vessel value from the sale of their IFQ halibut and sablefish.

The fee percentage was premised on a total standard ex-vessel fishery value calculated at $246,067,580 and total program expenditures of $5,048,574.

### *Calculating the Fee Percentage*

The annual fee percentage is calculated using the following formula:

**[100 x (DPC)/V]**

This is not as complicated as it may seem. It simply means that the Direct Program Costs of management and enforcement (DPC), which now incorporate the LASAF Account Balance, multiplied times 100, is then divided by the fisheries Value (V). The result, rounded to the nearest 0.1 percent, is the *fee percentage*. Table 4 shows the 2011 fee percentage computation.

**Table 4 Detail of formula for calculating the 2012 fee percentage**

| Factor | Value | Activity |
|---|---|---|
| Cost (DPC) | 5,048,574 | times 100 |
| Fisheries Value (V) | 246,067,580 | divided by |
| = | 2.1 | rounded to nearest 0.1 percent yields |
| ***Rate for 2012 IFQ Season = 2.1 percent*** | | |

### *Cost Components of the IFQ Fee Program*

Within NMFS, the two highest cost components are NMFS Office of Law Enforcement (OLE) and Information Services Division (ISD), respectively. Between years, costs fluctuate due to changes within the programs, such as new contracts, required trainings, personnel changes, and purchases of equipment.

### *Ex-Vessel Value of the IFQ Fisheries*

Because the fee obligation is a percentage of the ex-vessel value of the IFQ fisheries, it has been necessary to calculate those values. Ex-vessel prices vary from port to port and with the time of year.

RAM used the Registered Buyer data to calculate the average ex-vessel value for each species, port, and month. Then the amount of IFQ products delivered to each port or port group, by month, was multiplied by this "standard value." The calculations show the total standard ex-vessel value of the two fisheries in 2012 as follows:

| | |
|---|---|
| **Halibut** | 136,986,844.00 |
| **Sablefish** | 109,080,736.00 |
| **Total** | $246,067,580.00 |

Note: NMFS combined ports with little price data with others into port groups and included these in the ex-vessel value calculations of the two fisheries.

The total standard ex-vessel value of the 2012 fisheries was 23% lower than the standard ex-vessel value of the 2011 fisheries. Although standard prices for halibut in most ports in 2012 were similar to 2011 standard prices, lower catch limits in 2012 in most management areas resulted in a 30% decline in the total standard ex-vessel value for the halibut fishery from 2011 to 2012. For sablefish, a decline in standard prices later in the season and farther west coupled with lower overall catch limit resulted in a 12% decline in the total standard ex-vessel value for the sablefish fishery from 2011 to 2012.

### *Costs of Management and Enforcement*

The other part of determining the fee is calculating costs associated with managing and enforcing the IFQ Program. Note these costs are incremental (that is, costs that would not have been incurred but for the IFQ Program). To arrive at these costs, in early September NMFS agency units and the International Pacific Halibut Commission (IPHC) each calculated their own IFQ-associated costs. Agency units included NMFS Restricted Access Management (RAM), NMFS Information Services Division (ISD), NMFS Office of Law Enforcement (OLE), NMFS Sustainable Fisheries (SF), NMFS Financial Service Division (FSD), NMFS Office of Operations and Management (OMD), NMFS Office of Administrative Appeals (OAA), and General Counsel Alaska (GCAK). Also included in the table is the Alaska Department of Fish and Game (ADF&G). Table 1 shows the costs by agency and operating unit, and Figure 1 is a comparison of those expenses (FY12) with those during Fiscal Year 2011 (FY11).

### *Conclusion*

During 2012, program expenditures ($4,896,232) decreased 3.35 percent compared with the 2011 total IFQ management and enforcement expenses ($5,065,748) for various reasons: personnel, transportation, contracts/training and supplies costs were generally lower throughout NMFS. Personnel costs were higher for many of the Agency units due to an increase in base pay resulting from the switch to Locality Pay from Cost Of Living Allowance. Personnel costs declined for OLE as the number of full time employees dropped from 23 to 19 persons. Increased personnel costs at ADF&G were directly related to Information Technology and Program Management functions within the ADF&G eLandings system. The 2012 OLE costs for travel increased while transportation costs decreased from 2011. IPHC travel costs per mile are higher but fewer flights to remote ports resulted in lower overall travel costs in 2012. Contract costs increased for SF while ISD contract costs decreased due to moving the IT (eLandings) support contract from ISD to SF. Supply costs declined 68 percent and equipment costs declined 95 percent from 2011 to 2012.

Despite the overall decrease in the Direct Program Costs of management and enforcement from 2011 to 2012, the reduction in total standard ex-vessel value for the halibut and sablefish fisheries from 2011 to 2012 resulted in an increase in the fee percentage, from 1.6% in 2011, to 2.1% in 2012.

This season Registered Buyers and members of the IFQ fleet complied well with fee program requirements. Each year the annual fee is calculated by relying directly on good reporting by Registered Buyers. IFQ fleet participation in 2012 remained strong, further strengthening the IFQ fee program.

Cost recovery fees do not increase agency budgets or expenditures. They simply offset funds that would otherwise have been appropriated, except the IPHC and ADF&G expenditures, for which there is no direct appropriation. No budgetary advantage is ever gained by inflating IFQ management and enforcement costs.

Although some costs are controlled by "economies of scale," other costs will decrease with the number of IFQ Program participants.

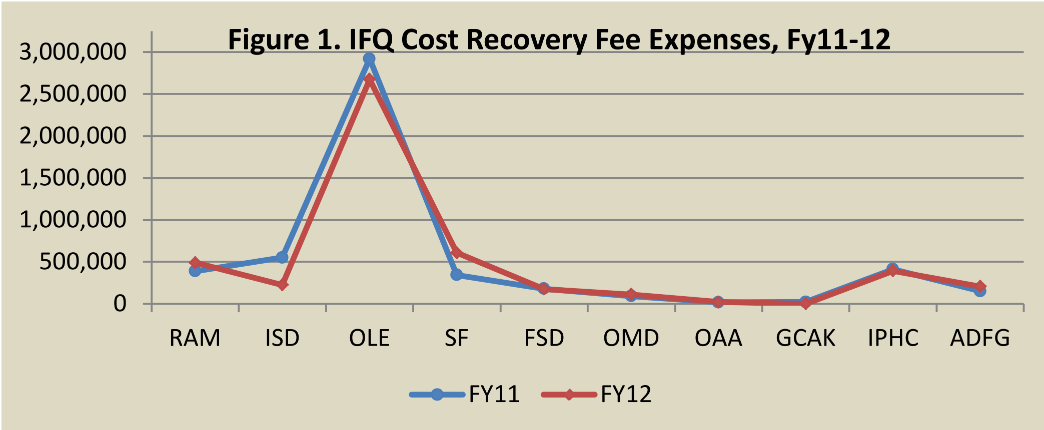


**Table 1 Fiscal Year 2012 Costs associated with management and enforcement of the IFQ Program**

| Cost Recovery | NMFS RAM | NMFS ISD | NMFS Law Enforcement | NMFS Sustainable Fisheries | NMFS Financial Services | NMFS OMD | NMFS OAA | General Counsel AK | IPHC | ADF&G | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel Costs[a] | 414,847 | 154,676 | 1,997,287 | 259,341 | 174,544 | 97,068 | 16,870 | 0 | 304,037 | 173,575 | 3,572,245 |
| Travel[b] | 877 | 3,839 | 165,400 | 15,512 | – | 475 | 2,656 | 0 | 20,362 | 3,455 | 212,576 |
| Transportation[c] | – | – | 2,100 | – | – | – | – | – | – | – | 2,100 |
| Printing | 782 | – | -- | – | – | 1,774 | – | – | – | – | 2,556 |
| Contracts/Training | 1,509 | 22,238 | 274,700 | 299,000 | – | 255 | – | – | 64,250 | 1,354 | 663,306 |
| Supplies | 6,216 | -- | 17,500 | -- | – | 259 | – | – | 3,013 | 1,094 | 28,082 |
| Equipment | -- | – | 600 | – | – | – | – | – | -- | – | 600 |
| Rent/Util/Overhead[d] | 64,723 | 13,962 | 235,800 | 24,650 | – | 9,749 | 1,426 | -- | – | – | 350,309 |
| Other[e] | – | 30,000 | – | 8,790 | – | – | – | – | 361 | 25,127 | 64,458 |
| ***Total*** | ***488,954*** | ***224,715*** | ***2,673,387*** | ***607,473*** | ***174,544*** | ***109,580*** | ***20,951*** | ***0*** | ***392,023*** | ***204,605*** | ***4,896,232*** |

[a] Personnel Costs include locality pay and all benefits.
[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/Overhead includes costs of space and utilities and shared common space and services.
[e] IPHC "other" expenses include costs related to vessel clearances and reimbursed communications costs. ADF&G's indirect costs are also included in "Other."