



**NOAA**  
**FISHERIES**

# NMFS Cost Recovery

## IFQ Halibut/Sablefish

2017

Sustainable  
Fisheries  
January 2018



## **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 percent of the annual ex-vessel value in dollars, goods, and services.

Cost recovery funds 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 IFQ Program costs were paid for by the fee, 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) or 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 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:

- ✓ compiles a list of all IFQ Program landings by species, month, and port or port group;
- ✓ uses shoreside IFQ 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 the landing;
- ✓ sums 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;
- ✓ compiles all direct management, data collection, and enforcement costs (direct program costs) attributable to the IFQ Program;
- ✓ uses direct program costs and total fishery value to calculate the annual fee percentage;
- ✓ applies 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;
- ✓ sums 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
- ✓ mails IFQ permit holders a summary that itemizes their landings and shows their calculated fee.

### **The 2017 IFQ Program Cost Recovery Fee Percentage**

The 2017 IFQ fee percentage was 2.2 percent (82 FR 60379; December 20, 2017). Therefore, under cost recovery regulations, IFQ permit holders who used their permits to make landings of IFQ halibut or IFQ sablefish during the 2017 IFQ Program fishery, or who leased halibut IFQ that was landed as GAF during the 2017 charter halibut fishery, are obligated to pay 2.2 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 2017; and

- The direct program costs for the IFQ Program, as compiled from actual expenditures during Federal fiscal year (FY) 2017.

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 2017, the total ex-vessel value of the combined IFQ Program fisheries, based on standard ex-vessel prices, was \$208,013,345. The halibut IFQ fishery accounted for \$111,507,001 of the total, while the value of the sablefish IFQ fishery was \$96,506,344.

### *Direct Program Costs for the IFQ Program*

Direct program costs that are necessary to manage, collect data from, and enforce the IFQ Program. The costs are incremental: they would not have been incurred except 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 the 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, in October NMFS, IPHC, and ADF&G each calculate their direct program costs for the IFQ Program. NMFS separates costs by operating units, including NMFS Restricted Access Management (RAM), NMFS Information Services Division (ISD), NMFS Office of Law Enforcement (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 2017 IFQ direct program costs are:

- analysis and rulemaking activities; in particular, regulations to authorize longline pot gear in the Gulf of Alaska sablefish IFQ fishery, and analysis of potential revisions to IFQ program rules, including medical lease and right of survivorship provisions.
- maintenance of the electronic reporting systems, including the catch accounting system (ISD, ADF&G),
- programming and web design for online applications (ISD),
- issuance of IFQ and hired master permits, responding to questions about permits (RAM),
- transfers of QS and IFQ, responding to questions about transfers (RAM),
- annual transfer report (RAM),
- determine standard ex-vessel prices using value and volume reports submitted by IFQ Registered Buyers (RAM),
- fee determination and collection process (OMD),
- port sampling (IPHC),
- processing North Pacific IFQ loan program applications (FSD)
- inspections, boardings, investigations, outreach and education, and compliance assistance (OLE)

### *Calculating the 2017 Fee Percentage*

The annual fee percentage is calculated using the following formula:

$$[100 \times (DPC/V)]$$

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 components used to calculate the 2017 fee percentage are as follows:

Table 1. Formula for calculating the 2017 fee percentage

Factor	Value	Activity
Direct Program Costs (DPC)	\$4,659,869	divide by V
Total Fishery Value (V)	\$208,013,345	multiply by 100
=	2.2	round to nearest 0.1 percent

*Rate for 2017 IFQ Program = 2.2 percent*

*Summary of the Components of the Fee Percentages*

**Time Series of the Fee Percentage**

Table 2 indicates the 2017 2.2 percent fee liability is lower than the percentages of the previous four years. This is a result of a higher value in the IFQ fisheries, combined with lower direct program costs. Direct program costs for FY 2017 were \$4.6 million, which is a \$1.2 million (21%) decrease from FY 2016. Correspondingly, the value of the combined IFQ fisheries increased by \$18.6 million (10%) from FY2016 to FY2017, which is attributed to a rise in the ex-vessel value of sablefish landings.

Table 2. IFQ Program cost recovery fee percentage 2000 through 2017.

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%

Table 2. IFQ Program cost recovery fee percentage 2000 through 2017.

Year	Direct Program Costs	Combined IFQ Fisheries Value	Fee Percentage
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%

\*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 eight-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) have decreased substantially over the time series, and have remained relatively flat over the 2014-2017 period. Annual average ex-vessel prices over the most recent four years have also remained relatively stable, ranging from \$6.32 to \$6.67.

Ex-vessel prices for sablefish dropped to \$2.84 in 2013, but have risen each year since, reaching \$4.84 in 2017. Harvests have remained relatively stable, ranging from a low of 17.9 million pounds in 2016 to 26.5 million pounds in 2012.

Comparing 2016 to 2017, the increase in the combined IFQ fishery value was due to the sablefish component, where both harvests and ex-vessel prices increased.

Figure 1. Total pounds landed of IFQ halibut and standard ex-vessel price per pound from 2010 to 2017.

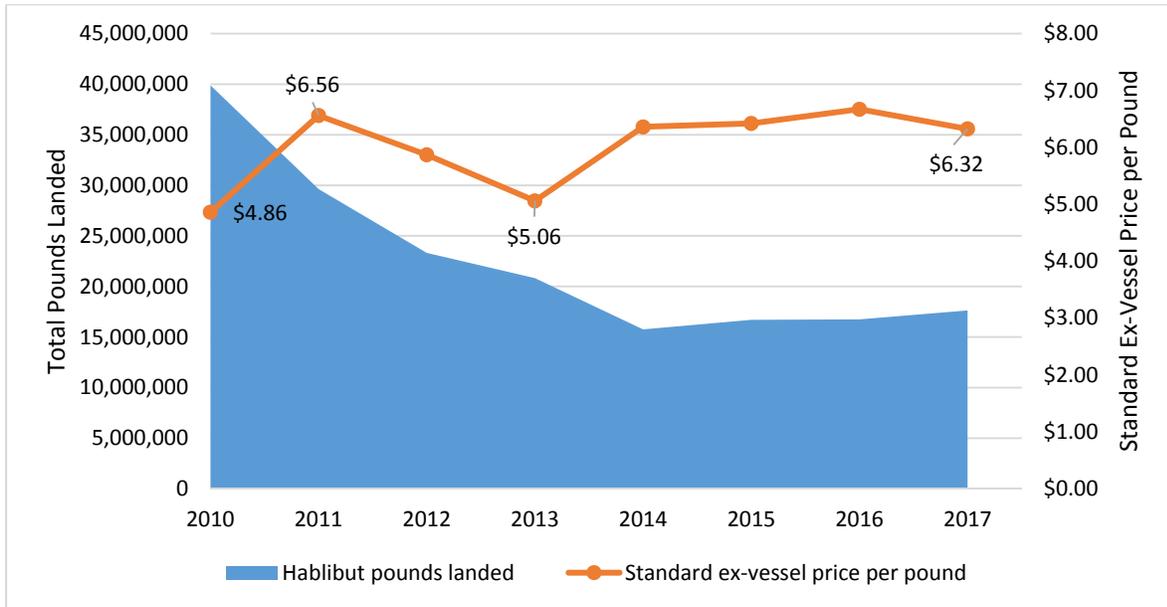
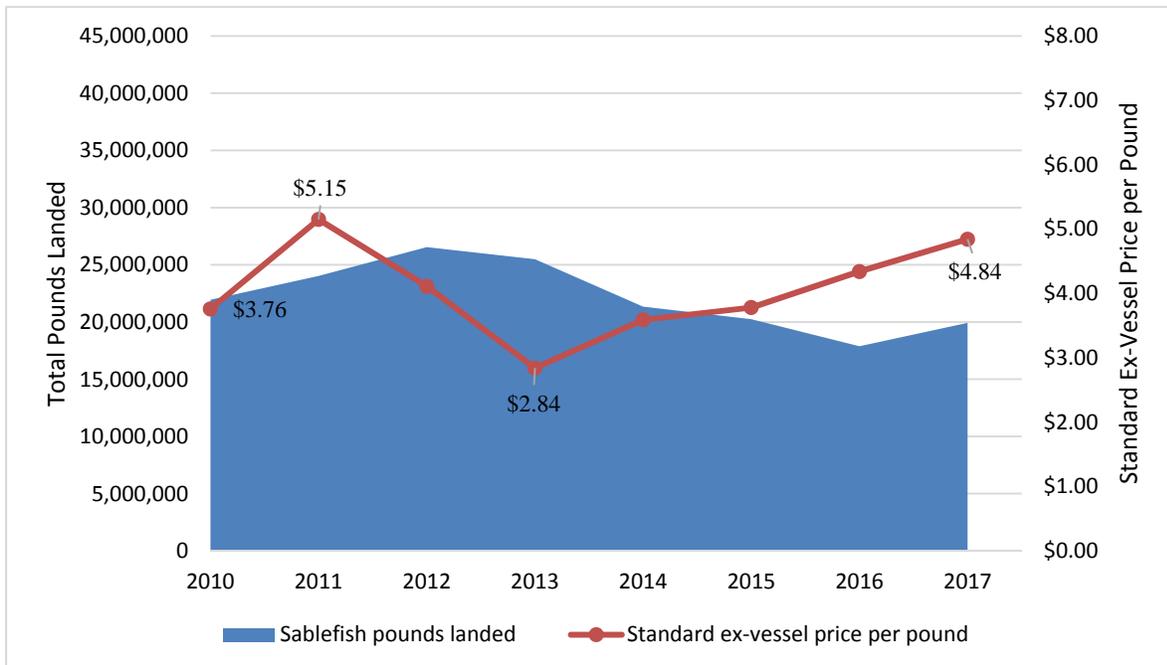


Figure 2. Total pounds landed of IFQ sablefish and standard ex-vessel price per pound from 2010 to 2017.



## Details of Direct Program Costs

Table 3 provides more detail on the 2017 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 90% of the total. Among operating units, OLE expenses accounted for roughly half of the program costs. OLE has higher direct program costs for the IFQ Program than for other limited access privilege programs. This is largely due to the higher numbers of participating persons and vessels, combined with the regulatory construct of the IFQ program, which is generally more detailed and requires more resources to manage and enforce.

Table 3. Fiscal year 2017 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 <sup>a</sup>	\$ 55,900	\$ 316,800	\$ 119,300	\$ 247,100	\$ 198,559	\$ 1,780,176	\$ 365,769	\$ 148,954	\$ 3,232,558
Travel <sup>b</sup>	\$ 600	-	\$ 16,600	\$ 1,700	-	\$ 7,355	\$ 22,584	\$ 1,189	\$ 50,028
Transportation <sup>c</sup>	-	-	-	-	-	-	\$ 20,057	-	\$ 20,057
Printing	\$ 3,400	\$ 800	\$ 1,600	-	-	-	-	-	\$ 5,800
Contracts/Training	-	\$ 86,697	\$ 262,445	\$ 167,310	-	\$ 467,835	\$ 31,859	\$ 5,546	\$ 1,021,692
Supplies	\$ 1,200	\$ 5,400	-	\$ 14,000	-	\$ 6,147	\$ 3,107	-	\$ 29,854
Equipment	-	-	-	-	-	\$ 86,037	-	-	\$ 86,037
Rent/Utilities <sup>d</sup>	\$ 6,900	\$ 35,800	\$ 12,400	\$ 30,400	-	\$ 124,028	\$ 4,175	-	\$ 213,703
Other	-	-	-	-	-	\$ 140	-	-	\$ 140
<b>Total</b>	<b>\$ 68,000</b>	<b>\$ 445,497</b>	<b>\$ 412,345</b>	<b>\$ 460,510</b>	<b>\$ 198,559</b>	<b>\$ 2,471,718</b>	<b>\$ 447,551</b>	<b>\$ 155,690</b>	<b>\$ 4,659,869</b>

<sup>a</sup> Personnel includes costs of locality pay, benefits, and overhead.

<sup>b</sup> Travel includes per diem payments. IPHC uses a scalar to determine costs so IPHC travel expenses reflect costs derived by a separate cost formula.

<sup>c</sup> Transportation includes shipment of items.

<sup>d</sup> Rent/Utilities includes costs of space and utilities and shared common space and services.

Figure 3 indicates the amount of specific cost components for all NMFS units and external partners for each of the four most recent fiscal years. The figures help illustrate the decrease in costs for FY2017 relative to the other years. As expected, the drop came mainly from personnel and contracting costs, however rent and utilities, which is highly correlated with the number of personnel, also dropped significantly as well. Although transportation costs rose significantly in 2017, this was likely due to differences in coding from the travel category.

Figure 3. Direct Program Costs for FY 2014 through FY 2017.

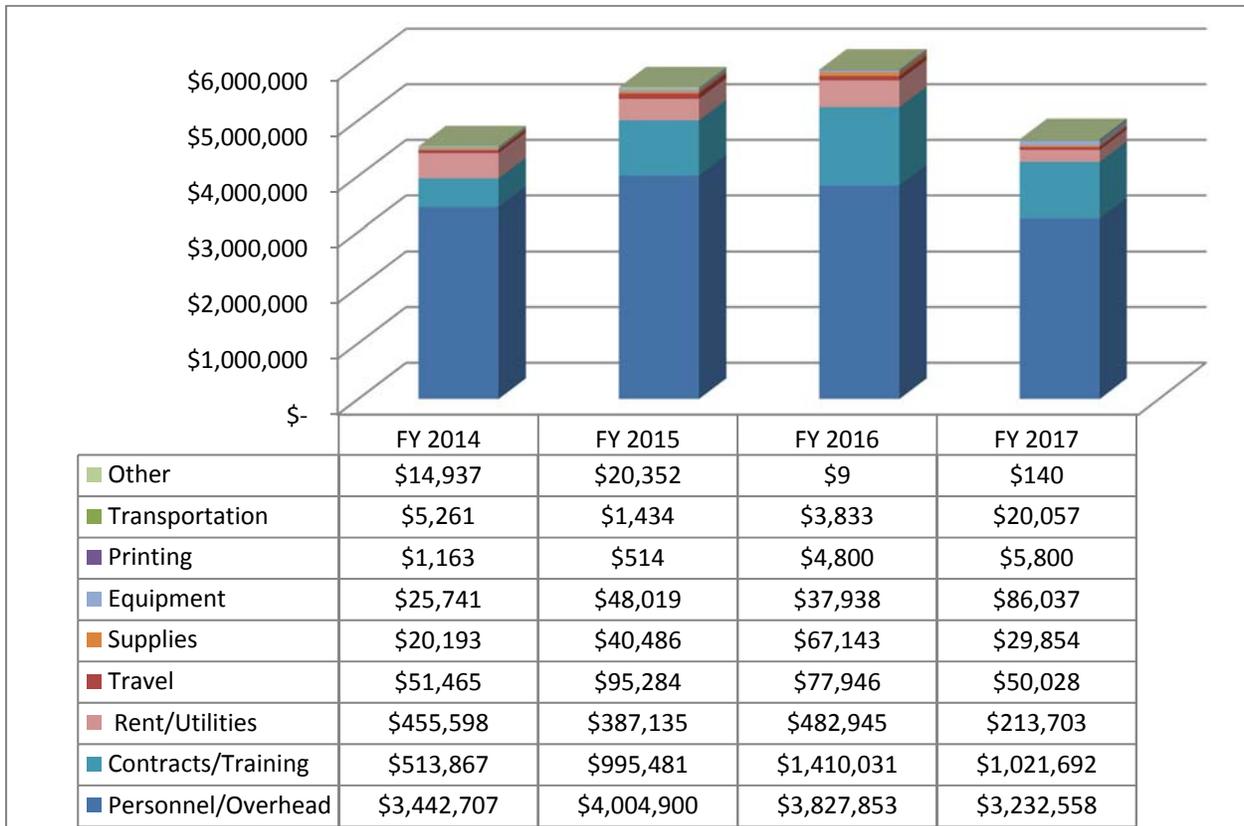


Figure 4 (next page) provides more detail on direct program costs, broken out by NMFS management unit and external partners. As noted above, costs incurred by the IPHC are primarily attributed to the port sampling program. Nearly all the ADF&G costs are related to maintaining the eLandings catch accounting program. NMFS RAM division incurs significant personnel costs issuing IFQ permits and processing the 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 2014 through 2017.

