

Amend FGC Section 8051 Re: Commercial Landings Fees

- *Desired Outcome* – Expected to substantially raise revenue while not creating any new mandates or fee collection programs for DFG.
- *Methods* - Would utilize existing mechanisms to collect quarterly landings fees based on the pounds landed. Maintains the existing method of using a statutorily-established tax rate that does not sunset. Does not require new regulations to implement. No anticipated new costs to DFG other than minor costs associated with notification to payees of new fee rates.
- *Anticipated Revenue Increase* – While catches vary year-to-year, based on an average of recent landings (2008-2010), it is expected that \$9.8 million annually would come to DFG by increasing these fees. Over this same time period, the Department received approximately \$1.2 million in revenue from this source each year. Based on preliminary 2011 landings data, \$10.2 million would have been generated using the proposed fee schedule.
- *Utilizes a “Five-Tier System” Principled on the Ad Valorem Concept* – Fish species that yield a high price per pound should result in payment of higher fees than species that yield low prices per pound. Presently, most fisheries pay at a rate of less than one percent of the ex-vessel value of the fishery product. The proposal would utilize a five-tier system where fisheries that are the highest value per pound pay the highest tax rate. All fisheries would pay a higher rate than status quo under the proposal.
- *How Were the Five Tiers Proposed?* In 2011, there were 229 different species of fish landed commercially in California, as reported on landing receipts (see table). Tiers were developed examining recent trends in catch and value by species, species groups, at-sea fishery operations, species taken in the aggregate, enforcement considerations, and practical constraints. These are described in more detail below. The Department’s proposed tiers and tier rates can be easily modified after negotiation with industry or other representatives; they are meant as a starting point for discussion. Species or groups and/or rates can be easily moved, added, or modified with minor amendments to the statute. The attached table includes 2011 preliminary landings and value data by species for evaluation.
- *The Tier Approach Prevents Omissions* – What would happen if a species of fish were landed for which no fee rate was specified? While there were 229 unique species landed in 2011, the potential exists for other species to be landed in the future. Many species landed in past years were not landed in 2011. Having one or more “catch-all” categories ensures that every species of fish landed in California has an associated fee.

Tier 1 – Lobster, Spot Prawn and Abalone - \$1.00/lb

This list includes the species for which the highest price is paid per pound. Lobster averaged \$10.78 per pound in 2008, and \$17.28 in 2011. Spot prawn has averaged around \$11 per pound since 2008, with the 2011 average at \$11.69. Presently the Department receives \$0.0125 per pound for these species, amounting to DFG landings revenues of under \$10,000 annually. Both of these fisheries require considerable management, enforcement and administrative oversight by the Department, as there are complex restricted access permit programs for each, along with other fishery constraints. The Department is also embarking on a lobster fishery management plan development process.

For each of these fisheries, the Department has dedicated literally decades of ongoing work to ensure sustainable harvests and to provide economic stability for these fishery participants with permit programs that cut out competition. While there is no commercial abalone fishing authorized in California, in the event that a commercial fishery is established, it is reasonable to expect that the price paid per pound for this product would well exceed averages documented for lobster and spot prawn. Similarly, the Department has dedicated substantial resources to abalone management, enforcement, program administration, and studies such as those at San Miguel Island that could lead to development of possible future fisheries.

Tier 2 - Crab, halibut, sea cucumber, salmon and swordfish - \$0.15/lb

This tier includes several fisheries that yield high prices per pound ranging from \$0.86/lb at the lowest end to over \$6.00/lb at the highest end. Almost all fisheries that fall in this tier have considerable DFG management/enforcement/program administration costs, and include some of the biggest volume and highest value fisheries in the state (i.e., Dungeness Crab was valued at over \$50 million in 2011). Almost all have restricted access permit programs that come at significant cost to the Department to maintain.

Key point – the term “crab” proposed for use in the statute is a general term. There are several species of crab that are landed commercially in California (see table). Some yield higher prices than others. The grouping of “crab” is administratively easier to deal with when it comes to collecting fees than to establish separate fee rates for yellow rock crab, sheep crab, box crab, spider crab, Dungeness crab, Tanner crab, brown rock crab, and red rock crabs, all of which were landed in 2011. Using the general category of “crabs” also doesn’t require the Department to validate, for example, that red rock crabs are being correctly identified and enumerated separately from brown and yellow rock crab in order to ensure that the Department is receiving correct fee payments. Most importantly, if all crabs come with the same fee, it reduces incentive for misreporting in order to avoid higher payments that might come with one species compared with another.

Also note that “crabs” would include box crabs, which are landed in extremely low volume (289 lbs in 2011), but fishermen receive under \$1 per pound for these catches (\$0.86 on average). While a \$0.15 per-pound rate may seem an overly burdensome price to pay for these landings, it should be noted that in the case of box crab, these small-volume landings do not constitute a “fishery” – they are a species taken incidentally to other fishery activities.

For consistency with existing law and regulations, salmon and swordfish price would be based on the weight in the round; not dressed weight.

Tier 3 - All fish, Except as Otherwise Specified in Section 8051 - \$0.0725/lb

This is the default Tier that would encompass most species of fish landed commercially in California (see table). Generally speaking the price paid per pound of these species ranges from over \$5.00 per pound down to under \$0.50 per pound, but averages well over \$1.00 per pound. In California, the base state sales tax rate is 0.0725 percent on the dollar, which is utilized here. This catch-all tier is designed to cover the majority of species landed, and is modeled after the current statute which also has a catch-all tier. The proposed rate would increase the fee rate considerably, from \$0.0013 per pound.

Notably, there are some low-price non-target species that would be subject to a fairly high rate if included in this catch-all tier. However, generally speaking, these are bycatch species taken incidentally to a higher-price species (see table), and are small-volume. The one possible exception to this might be longspine thornyhead, of which over one million pounds were landed in 2011 at an average price of \$0.51. However, this species is distributed in deep offshore slope waters and is typically caught in the aggregate with sablefish and shortspine thornyheads, which are taken in even greater volume and the price paid for each of these species is over \$2.50 per pound.

Tier 4 – Herring, sea urchin, pink shrimp, bonito, smelts, soles, flounder, turbot, rays, skates, grenadiers and sanddabs - \$0.03/lb

These species are generally landed in high volume and are lower value per pound than Tier 3 fish. Many are trawl species that are taken in the aggregate, where there is a higher-price target species such as Petrale or Dover sole. Several of these species like urchin, pink shrimp and herring have required significant Department management/enforcement/administrative efforts over many years; each have restricted access permit programs. While the herring roe average price appears low for Tier 4 species at only \$0.13/pound for 2011, that amount does not include payment to fishermen for the proceeds for the sale of the roe at Japanese auctions that occur at a later date. Moreover, the

Department has a herring management program that involves dedicated permanent staff resources to monitor and assess this fishery, as well as other management, administrative and enforcement costs resulting from various permit and stamp programs. Herring regulatory and CEQA needs, and well as responding to advisory committee concerns have required fulltime dedicated staff, and yet revenues generated from herring landings are minimal.

Tier 5 - Anchovy, mackerel, sardines, squid and whiting - \$0.01/lb

These include the state's lowest value per-pound fisheries, but also many that occur in the highest overall volume. Market squid is included in this category, valued at over \$68 million in 2011, and consistently the state's most valuable fishery overall. Whiting is included in this category because although the price paid in 2011 was high (\$0.64 per pound) in past years the average price was approximately \$0.08/pound. The prior-year averages are more realistic as there was little or no targeted fishing for whiting in 2011 resulting from the new federal groundfish trawl rationalization program. Most of these Tier 5 species are commonly known as "wetfish" and are taken with round-haul gear. There are both state and federal restricted access permit programs and fishery management plans supported by the Department along with a number of other fishery management measures and rules, requiring considerable ongoing Department costs to implement, administer and enforce.