



## MEMORANDUM

To: Bruce Twomley, Chair  
Ben Brown, Commissioner

Date: August, 2016

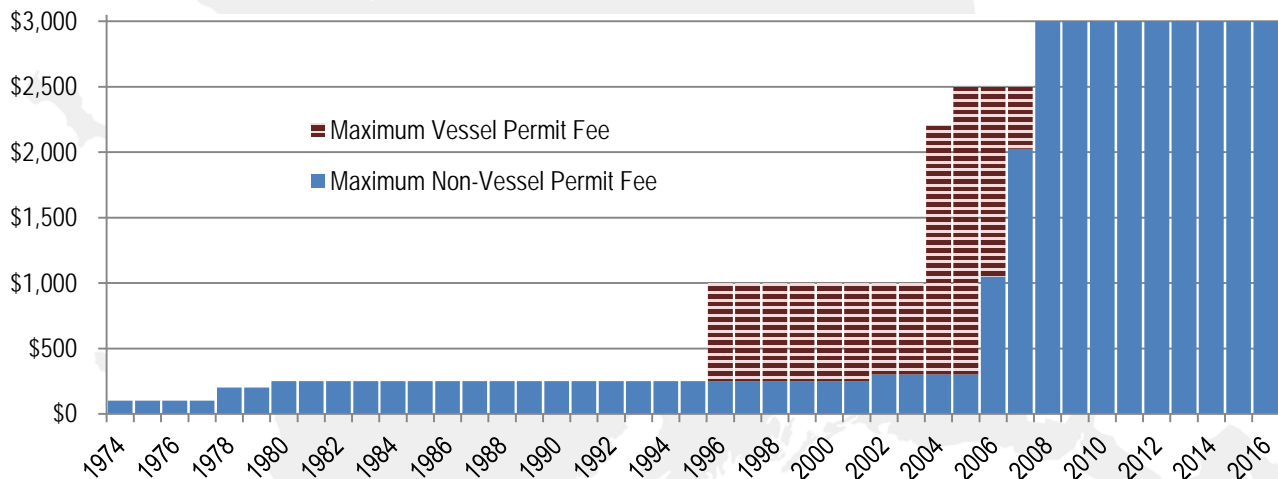
Subject: Permit Fee Ceiling Increase

From: Marcus Gho, Economist

This memorandum was created to describe the opportunity cost of having a \$3,000 fee ceiling. This fee ceiling for 2017 decreases the expected fee revenue for 2017 from \$8.3 million to \$6.1 million, which is a loss of approximately \$2.2 million in fee revenue to the state.

Fees are established to reasonably reflect the different rates of economic return for the fisheries. All of the fisheries in the \$3,000 fee class are for interim-use permits. Interim-use permit fees are based on 4/10 of 1% of average gross earnings over the most recent three years of fishing,<sup>1</sup> and may not be more than \$3,000.<sup>2</sup>

Figure 1. Maximum Resident Fee Assessed CFEC Permit Holders



Historically, the fee cap has increased multiple times. From 1974 to 1977, the highest resident fee was \$100. For the years 1978 and 1979 it was \$200. Between 1980 and 2001 the maximum fee was \$250. Between 2002 and 2005 the maximum resident fee was \$300. In 2006 the legislature changed AS 16.43.160 so as to increase the permit fee ceiling to \$3,000. CFEC implemented the permit fee ceiling by increments to reduce the impact to fishermen: the 2006 maximum fee was raised \$1,050; then \$2,025 in 2007; and finally increased to \$3,000 in 2008 where it currently is as of now. Note that vessel permit fees are different than vessel license fees. Starting in 1996 vessel permit fees for the

<sup>1</sup> See 20 AAC 05.245 (a) (2).

<sup>2</sup> See AS 16.43.160 (c) and 20 AAC 05.245 (a) (4).

Bering Sea hair crab fishery were under moratorium, and during that time they were \$1,000. With the advent of vessel limited entry permits in 2004, they were raised to \$2,200, then \$2,500 in 2005, before the \$3,000 ceiling was set in 2008.

For permit year 2017, I estimate that 485 permits will be renewed only at the highest fee category (fee class 40; \$3,000) due to the fee ceiling. The number of estimated permits is based on a three-year weighted average number of permit renewals. Table 1 indicates the estimated number of permits in each calculated fee class based on average earnings, and indicates the percent of average earnings these hypothetical fee class permit holders currently pay. Because of the imposed fee ceiling, these permit holders currently pay a lower rate than the typical fee; all other approximately 4,500 interim-use permit holders pay 4/10 of 1% of average earnings for their permits.

**Table 1. Estimated Highest Fee Classes Without Ceiling**

Calculated Fee Class	Calculated Fee	Estimated Permits	% of Avg. Earnings 4/10 of 1% (typical)	With Fee Ceiling	Calculated Fee Class	Calculated Fee	Estimated Permits	% of Avg. Earnings 4/10 of 1% (typical)	With Fee Ceiling
188	\$14,100	125	0.40%	0.09%	58	\$4,350	8	0.40%	0.28%
155	\$11,625	6.6	0.40%	0.10%	56	\$4,200	5	0.40%	0.28%
83	\$6,225	93	0.40%	0.19%	55	\$4,125	3.2	0.40%	0.29%
82	\$6,150	100.2	0.40%	0.19%	53	\$3,975	2	0.40%	0.30%
75	\$5,625	2	0.40%	0.21%	52	\$3,900	2.4	0.40%	0.34%
62	\$4,650	63.6	0.40%	0.26%	49	\$3,675	69	0.40%	0.32%
61	\$4,575	1	0.40%	0.26%	44	\$3,300	4	0.40%	0.37%

- Number of estimated permits is based on a three-year weighted average number of permit renewals.

Table 2 describes the changes in fees and revenues for each fee class that are affected by the maximum fee. These permits currently pay only a portion (21.3% - 90.9%) of what they otherwise would pay due to the fee ceiling, as found in the Table 2.

**Table 2. Foregone Revenue of Fee Class 40 by Calculated Fee Class**

Calculated Fee Class	Estimated Permits	Calculated Fee	Fee Class 40	Difference in Fee	Current Proportion Paid	Current Revenue	Foregone in Revenue
188	125	\$14,100	\$3,000	\$11,100	21.3%	\$375,000	\$1,387,500
155	6.6	\$11,625	\$3,000	\$8,625	25.8%	\$19,800	\$56,925
83	93	\$6,225	\$3,000	\$3,225	48.2%	\$279,000	\$299,925
82	100.2	\$6,150	\$3,000	\$3,150	48.8%	\$300,600	\$315,630
75	2	\$5,625	\$3,000	\$2,625	53.3%	\$6,000	\$5,250
62	63.6	\$4,650	\$3,000	\$1,650	64.5%	\$190,800	\$104,940
61	1	\$4,575	\$3,000	\$1,575	65.6%	\$3,000	\$1,575
58	8	\$4,350	\$3,000	\$1,350	69.0%	\$24,000	\$10,800
56	5	\$4,200	\$3,000	\$1,200	71.4%	\$15,000	\$6,000
55	3.2	\$4,125	\$3,000	\$1,125	72.7%	\$9,600	\$3,600
53	2	\$3,975	\$3,000	\$975	75.5%	\$6,000	\$1,950
52	2.4	\$3,900	\$3,000	\$900	76.9%	\$7,200	\$2,160
49	66	\$3,675	\$3,000	\$675	81.6%	\$198,000	\$44,550
49	3	\$3,675	\$3,000	\$675	81.6%	\$9,000	\$2,025
44	4	\$3,300	\$3,000	\$300	90.9%	\$12,000	\$1,200

- Number of estimated permits is based on a three-year weighted average number of permit renewals.

Each one of these fee classes has a lower fee as a result of the fee ceiling. The largest amount of foregone revenue is from fee class 188, where permit fees would otherwise be \$14,100 with a net loss of \$1,387,500 to the State.

The current estimated 2017 permit revenue is \$6,060,408. Calculated permit revenue without the imposition of a fee ceiling would have been \$8,304,438. Because of the fee ceiling, there is a calculated permit revenue loss of \$2,244,030. The majority (61.8%) of this foregone revenue comes from the highest fee class.

Table 3 displays all the permit types that are in fee class 40 that otherwise would have been in a higher fee class in the absence of a fee ceiling. The largest number of permits among these permit types are from the M7IB permits (Statewide Miscellaneous Finfish Otter trawl permits), which are also in the highest calculated fee class. Estimated permit counts for all permit types are not included in this memorandum due to reasons of confidentiality.<sup>3</sup>

**Table 3. Fee Class 40 Permit Types Affected by the Fee Ceiling**

Permit Type	Description
<i>K91O</i>	KING POT GE 60 DUTCH HARBOR
<i>K91OG</i>	KING POT GE 60 ALEUT ACDC
<i>K91T</i>	KING POT GE 60 BB
<i>K91TD</i>	KING POT GE 60 BB CVRF
<i>M6AB</i>	MISC FIN LL GE 90 STW
<i>M7GG</i>	MISC FIN OTTER 60 - LT 90 GOA
<i>M7HB</i>	MISC FIN OTTER 90 - 125 STW
<i>M7HG</i>	MISC FIN OTTER 90 - 125 GOA
<i>M7IB</i>	MISC FIN OTTER GT 125 STW
<i>T91Q</i>	TANNER POT GE 60 BER SEA
<i>T91QB</i>	TANNR POT GE 60 BER SEA BBEDC
<i>T91QC</i>	TANNR POT GE 60 BER SEA CBSFA
<i>T91QD</i>	TANNR POT GE 60 BER SEA CVRF
<i>T91QE</i>	TANNR POT GE 60 BER SEA NSEDC
<i>W2AFW</i>	SCALLOPS DREDGE GT 80 FED WTR

Table 4 includes rates of both estimated permit renewals and foregone revenue by Alaska residents and nonresidents.

**Table 4. Alaska Resident vs. Nonresident of Highest Fee Class Permits**

	Alaska Resident	Nonresident
<i>Estimated Permit Renewals</i>	17.3%	82.7%
<i>Estimated Foregone Revenue</i>	10.2%	89.8%

Note that the estimate of foregone revenue from nonresidents is a higher percentage than the estimate of nonresident permit renewals. This is because there is a higher proportion of nonresident permits in the higher fee classes.

---

<sup>3</sup> See AS 16.05.815.