

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 831 (Third Edition)

SHORT TITLE: Coastal Recreational Fishing License / Fund

SPONSOR(S): Reps. Gibson and McComas

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES					
Marine Resources Restoration Fund License Revenue	\$3,383,133	\$9,666,096	\$9,666,096	\$9,666,096	\$9,666,096
DMF Agency Receipts (RCGL fee change)	(5,587)	(11,174)	(11,174)	(11,174)	(11,174)
EXPENDITURES (General Fund)					
Wildlife Res. Comm.	500,000	-	-	-	-
DMF System Development and Administration	2,085,160	1,272,208	1,283,206	1,294,754	1,306,877
DMF Enforcement	842,200	454,950	472,950	491,850	511,695
Total Cost	3,427,360	1,727,158	1,756,156	1,786,604	1,818,572
TOTAL REQUIRED APPROPRIATION**	\$3,427,360	\$760,548	\$789,546	\$819,994	\$851,962
POSITIONS: (cumulative)	13.2	16.0	16.0	16.0	16.0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Environment and Natural Resources, Division of Marine Fisheries; Wildlife Resources Commission					
EFFECTIVE DATE: March 1, 2004. Section 8, 11, 12 and 13 are effective when the act becomes law.					
<i>**FY03-04 includes an appropriation for start-up funds to plan, implement, and begin enforcement of the program before revenues are realized. Then revenues generated from the licensing program will be able to recover approximately \$338,000 in administrative costs in the first year. The bill has a cap specifying no more than 10% of the funds can be credited to the Marine Resources Restoration Fund to be used for administration. The allowance will not be sufficient to cover total costs of the program. See page 10 of this note for details.</i>					

BILL SUMMARY: The bill establishes general provisions governing a Coastal Recreational Fishing License (CRFL) and sets out a fee structure for the sale of these licenses. License fee exemptions are granted for certain classes of individuals. Information collected about applicants is confidential and is not subject to the public records law. It creates a Marine Resources Restoration Fund in the Department of the Environment and Natural Resources (DENR) to hold the proceeds from the sale of CRFL's, and provides for the allocation of the proceeds. The bill also recodifies the Recreational Commercial Gear License (RCGL) without substantive changes.

ASSUMPTIONS AND METHODOLOGY:

Revenues: The amount of revenue raised by the CRFL depends on two factors: the number of licenses sold and the type of license sold. At this time, there is no precise count of the number of recreational anglers in North Carolina. The best estimate available is based on an annual Marine Recreational Fishery Statistics Survey compiled by the Division of Marine Fisheries. The surveys include direct interviews with approximately 20,000 anglers at various public access points along the North Carolina coast, as well as telephone interviews with 20,000 additional, randomly selected persons.

Information obtained through the surveys is used to estimate the total number of marine or coastal anglers in North Carolina, the total number of coastal fishing trips annually and the mode of fishing (i.e. from a man-made structure, beach or bank, charter/head boat or private boats). The following two tables summarize the results of the annual survey over the last six years:

Table 1: Estimated Number of Marine Recreational Anglers in NC, 1997-2002

	Coastal Residents	Non-Coastal	Out-of State	Total Anglers
1997	329,909	166,104	859,110	1,355,123
1998	312,246	143,355	635,197	1,090,798
1999	324,091	164,398	804,561	1,293,051
2000	392,131	215,815	1,203,779	1,811,725
2001	448,272	248,311	1,281,925	1,978,508
2002	409,601	224,744	1,120,938	1,755,283
6 Year Average	377,268	199,325	1,009,280	1,547,415
Percentage of Total	24%	12%	64%	

Table 2: Estimated Marine Recreational Fishing Trips in NC, 1997-2002

	Beach/Bank	Charter Boats	Man-Made	Private Boats	Total
1997	1,772,884	295,820	1,252,716	1,570,089	4,891,509
1998	1,446,621	241,001	1,135,830	1,638,009	4,461,461
1999	1,459,571	221,369	1,013,535	1,860,564	4,555,039
2000	2,136,284	183,219	1,665,748	2,105,734	6,090,985
2001	2,409,723	197,710	1,809,738	2,142,621	6,559,792
2002	1,973,242	181,073	1,396,937	2,011,633	5,562,885
6 Year Average	1,885,088	204,874	1,404,358	1,951,712	5,353,612
Percentage of Total	34%	4%	26%	36%	

Based on the six-year average number of estimated marine anglers (Table 1), there are 1,547,415 potential licensees. However, the bill provides for a number of general exemptions and individual licenses at no charge, reducing the number of potential anglers subject to the Coastal Recreational Fishing License fees. Table 3 outlines the adjustments necessary to estimate the number of anglers who may be required to purchase a license.

Table 3: Calculation of Adjusted Total Number of Anglers

Total Number of Anglers, 6 year average:		1,547,415
General Exemptions, No Charge Licenses, Attrition		
1. Standard/Retired Standard Commercial Fishing License (SCFL/RSCFL count for FY2002. FY2003 sales are expected to be similar.)	7,307	
2. Wildlife Resources Commission – (Lifetime Resident Comprehensive Fishing License and Lifetime Sportsman Combination License holders minus infant license holders; assume 90% are coastal anglers)	102,015	
	109,322	
Less SCFL/RSCFL, WRC Lifetime		109,322
Subtotal		1,438,093
3. Permanently Handicapped/Disabled, Disabled Veteran, Legally Blind, Attrition (Based on WRC disabled and blind licenses; assume 3% of anglers subtotal to capture persons eligible for no charge licenses and possible attrition)	43,143	
4. Persons < 16 Years of Age (2002 North Carolina Marine Recreational Fishery Statistics Survey indicates 7.07% of NC coastal anglers are under the age of 16; assume 7% of anglers subtotal will fall under this exemption)	100,666	
5. Persons Fishing from Public Bridges (Marine Fisheries estimates only 3 or 4 major bridges from which anglers recreationally fish. Currently a permit or license is not required to fish from public bridges; no impact is expected.)	0	
Less Other General Exemptions, No Charge Licenses, Attrition		143,809
Adjusted Total Number of Anglers		1,294,284

According to the Division of Marine Fisheries, applying the percentages associated with each type of fishing trip (Table 2) to the adjusted total number of anglers (Table 3) provides a rough estimate of the number of anglers engaging in that particular mode of fishing. Table 4 provides a breakdown of total anglers by type of fishing trip.

Table 4: Estimated Marine Recreational Anglers by Type of Fishing Trip

	Beach/Bank	Charter Boats	Man-Made	Private Boats	Total
Adjusted for no charge licenses, general exemptions and attrition	448,003	48,690	333,754	463,836	1,294,284

The estimated revenue from the sale of the Coastal Recreational Fishing Licenses as outlined in the bill follows:

Table 6: Estimated Revenue Generated by Coastal Recreational Fishing License

License Type	License Fee	Estimated Sales	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Annual/Standard CRFL (40%)	\$10.00**	512,536	\$1,793,877	\$5,125,362	\$5,125,362	\$5,125,362	\$5,125,362
10 Day CRFL (60%)	5.00	768,805	1,345,407	3,844,021	3,844,021	3,844,021	3,844,021
		1,281,341					
Lifetime CRFL							
< 18 years of age	150.00	4,271	177,010	640,670	640,670	640,670	640,670
18 to 62 years of age	200.00	3,365	185,950	673,027	673,027	673,027	673,027
≥ 62 years of age	exempt	5,307	0	0	0	0	0
		12,943					
Gross Revenue from CRFL Receipts			\$3,599,078	\$10,283,080	\$10,283,080	\$10,283,080	\$10,283,080
Less License Agent Fee (6%)			(\$215,945)	(\$616,985)	(\$616,985)	(\$616,985)	(\$616,985)
Net Revenue from CRFL Receipts -- Credited to the Marine Resources Restoration Fund			\$3,383,133	\$9,666,096	\$9,666,096	\$9,666,096	\$9,666,096

** Note: The legislation allows for North Carolina to charge out-of-state residents a fee equal to the amount a North Carolina resident would have to pay for a Standard coastal recreational fishing license in that state. Some states charge more, while other states charge less, than the \$10 fee identified in the legislation. It cannot be determined how much additional revenue will be generated by charging some applicants higher fees than identified in the legislation, nor how other state fees will change over time. **Fees generated from out-of-state residents purchasing Annual/Standard CRFLs would result in revenues higher than shown in Table 6 above.**

The revenue estimate is based on the following assumptions:

1. License sales are assumed to begin January 1, 2004, two months prior to the CRFL effective date of March 1, 2004. Consequently, license revenue for the last six months of the 2003-04 fiscal year is estimated to be 35% of the annual amount to align with current Marine Fisheries license sales in January - June. Even though the total number of anglers varies from year, the average has remained stable at approximately 1.4 million anglers since 1993. Consequently, no growth is assumed in projecting future revenues.
2. Lifetime licenses are assumed to be 1% of total sales. The sale of lifetime licenses sold to people under age 70 accounted for 1.23% of total Wildlife Resources Commission (WRC) license sales in recent years. The sale of lifetime CRFLs is anticipated to account for a lower percentage of total sales than Wildlife's experience, because HB 831 exempts persons holding a WRC lifetime license from the CRFL requirement, but does not exempt persons who hold a lifetime CRFL from the WRC freshwater license requirement. Consequently, lifetime anglers who fish in both fresh and salt water are likely to purchase the WRC license.

However, the lifetime CRFL is cheaper than the WRC lifetime license so it is assumed that a small percentage of coastal anglers will purchase the cheaper license.

3. The distribution of lifetime CRFL sales among the various age groups is based on the sale of WRC lifetime licenses to similar age groups.

Age Distributions	Percent of total lifetime sales
< 18 years of age	33%
18 to 62 years of age	26%
≥ 62 years of age	41%

4. The distribution of license sales is based on the following assumptions: 1) 90% of the ten-day licenses will be sold to out-of-state anglers and 10 % sold to NC residents, and 2) 90% of the standard or annual licenses will be sold to NC residents and 10 % sold to out-of-state anglers (from whom the additional revenues discussed in the note above may be realized.)

Other Revenue Issues

House Bill 831 also changes the amount of the fee to be retained by authorized license agents from the sale of Recreational Commercial Gear License (RCGL). Currently, agents are authorized to charge \$1.00 in addition to the NC resident license fee of \$35.00. The Division of Marine Fisheries retains the entire \$35.00 license fee. The bill changes this practice to reimburse the agent six percent (6%) of the \$35.00 license fee or \$2.10 per license sold, thereby reducing the amount of revenue going to the Division. In 2002, agents sold a total of 5,321 RCGLs. Assuming that roughly the same number of licenses will be sold in subsequent years, **the Division will lose \$11,174 in RCGL revenues annually.** Losses for the last six months of FY 2003-04 are estimated to be one-half of the annual amount.

Expenditures:

Wildlife Resources Commission

The Division of Marine Fisheries would like to take advantage of the automated licensing system operated by the Wildlife Resources Commission and the large network of WRC license agents to sell CRFLs. The WRC currently has an online license sales option available to customers only; however, a new WRC Internet sales system is scheduled to be released next year, and this medium will process *all* customer and agent license sales at that time.

The new Internet-based system can handle the required changes for the CRFLs with more flexibility than the current system. To accommodate the additional license types, the Wildlife system will require some modification and upgrades. The WRC estimates the cost for software modification, system upgrades to accommodate additional license agents and increased volume, training costs, and point of sale computer equipment provided to any new agent selling the CRFLs to be approximately \$500,000. Funds are needed in the 2003-04 fiscal year to ensure that the system is complete and operational prior to March 1, 2004, when the CRFL goes into effect.

Division of Marine Fisheries

Administration: Integration of the Marine Fisheries licensing system with the Wildlife licensing system will also require upfront General Fund expenditures for system development. The

Division estimates that \$1 Million will be required in the 2003-04 fiscal year for additional hardware, software development and related information technology expenses. Funds are needed in the 2003-04 fiscal year to ensure that the system is complete and operational prior to March 1, 2004, when the CRFL goes into effect.

The Division also anticipates requiring additional staff and operating support to administer the CRFL program. An administrative officer will oversee management of the license program and will serve as the primary contact with the WRC. A computer programmer will be responsible for system maintenance, quality control and data transfer. An accounting clerk will be responsible for tracking license sales, deposits and auditing sales records. Three processing assistants will issue licenses in-person and by phone, handle questions concerning license requirements and regulations, and data entry in the Morehead and Columbia offices. Operating support for the 2003-04 fiscal year is reduced proportional to effective starting dates.

In addition, the Division will pay a per transaction fee to the Wildlife Resources Commission to cover the Commission's costs for online support, training, technical support, hardware maintenance, and communication charges associated with the transfer of data to and from agents. The actual transaction fee will be negotiated between DMF and WRC based on expected volume of license sales, technical specifications, and types of licenses sold online (see Technical Considerations #2.)

The WRC estimates the transaction fee per CRFL sold would be \$2.00 for licenses sold by licensed agents. Fiscal Research projects this fee can be reduced for transactions occurring through the online sales option due to the equipment and technology used for bulk online transactions. In order to estimate a possible online fee amount, data were gathered on industry online transaction costs and comparable WRC transaction costs occurring online today. For direct customer sales via the Internet, the WRC pays an online transaction fee of 2% of the total cost of the transaction (i.e. \$0.20 for a \$10 license) for credit card processing. There is also a \$0.41 ITS processing fee associated with each transaction that goes through the Common Payment Service. Fulfillment costs will also be calculated into the transaction fee, but because the new license processing will change, no exact estimate is available yet. This note assumes fulfillment costs of \$0.20 per license sold for license stock and processing time. The table below shows the online transaction costs associated with the CRFL.

Table 7: Online Transaction Fees Associated with CRFL Sales

	Annual	10-Day	Lifetime (<18 yrs)	Lifetime (18-62 yrs)	Lifetime (≥62 yrs)
Total Proposed CRFLs	512,536	768,804	4,271	3,365	5,307
Proposed Fee Amount	\$10	\$5	\$150	\$200	exempt
2% Credit Card Fee	\$0.20	\$0.10	\$3.00	\$4.00	\$0
Subtotal:	\$102,507	\$76,880	\$12,813	\$13,461	\$0
\$0.41 ITS Fee	\$210,140	\$315,210	\$1,751	\$1,380	\$0
\$0.20 Fulfillment Cost	\$102,507	\$153,761	\$854	\$673	\$0
Totals	\$415,154	\$545,851	\$15,419	\$15,513	\$0
Total Transaction Fees	\$991,937				
Total CRFLs	1,288,977 (total less ≥62 yrs old exemption)				
Average Fee / CRFL	\$0.77				

The number of agent in-person sales vs. online sales will depend on the timing of the system modifications and how quickly CRFLs can be sold only via the Internet. The WRC is experiencing some movement toward its current Internet sales option with 10% of license sales occurring online. Once the new Internet system is in place, 100% of license sales will occur online, whether via an agent or direct customer sales. The table above projects transaction fees at 100% online sales. Administrative costs for fiscal year 2003-04 are estimated differently due to limited sales time and a mix of online and agent sales.

The administration estimate is based on the following assumptions:

1. All CRFL license types (annual, 10-day, and lifetime) will eventually be sold via the online Internet sales option.
2. Licensed agents will sell approximately 90% of all licenses sold in fiscal year 2003-04 at a \$2.00 per license transaction rate.
3. The remaining 10% of licenses sold in fiscal year 2003-04 are estimated to be online sales at a \$0.77 per license transaction rate.
4. Transaction costs for the last six months of FY 2003-04 are estimated to be 35% of the annual amount to align with typical license sales from January to June.
5. All licenses sold in future fiscal years are estimated to be online sales at a \$0.77 per license transaction rate.

6. For the purposes of this analysis, the administrative officer and computer programmer positions are assumed to be effective August 1, 2003, to allow for program and system preparation. The remaining four positions are assumed to be effective September 1, 2003, or six months prior to the effective date of the licenses to allow for recruitment and training.

The total estimated budget for Marine Fisheries to administer the Coastal Recreational Fishing License requirements is outlined in the following table:

Table 8: Division of Marine Fisheries, Budget Requirements for Administration

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Administrative Personnel					
Administrative Officer II	36,892	42,217	44,328	46,544	48,870
Applications Analyst Programmer II	58,175	66,573	69,901	73,396	77,065
Accounting Clerk IV	22,080	27,795	29,185	30,644	32,176
Processing Assistant IV (3 FTEs)	66,240	83,386	87,555	91,933	96,529
Total Salaries and Benefits	183,387	219,971	230,969	242,517	254,640
<i>Positions</i>	<i>5.2</i>	<i>6.0</i>	<i>6.0</i>	<i>6.0</i>	<i>6.0</i>
Operating Expenses for Admin.	47,000	21,000	21,000	21,000	21,000
Computer Expenses	1,008,000	39,300	39,300	39,300	39,300
Transaction Fee Paid to WRC	846,773	991,937	991,937	991,937	991,937
Total Requirements	\$2,085,160	\$1,272,208	\$1,283,206	\$1,294,754	\$1,306,877

Enforcement: HB 831 makes it unlawful for any person to engage in recreational fishing without first holding a Coastal Recreational Fishing License. The Division of Marine Fisheries' Marine Patrol Section has the duty of enforcing all laws relating to conservation of marine and estuarine resources (G.S. 113-8). According to DMF, a total of 6,336 hours was spent checking recreational fishermen for catch and size limits in the year 2000. Based on the current workforce of 43 marine patrol officers, 6,336 hours equates to less than ten percent of their patrol time. With the implementation of the recreational saltwater fishing license, the Division anticipates placing more emphasis on recreational fishing.

To adequately enforce the estimated CRFL's projected to be sold, the Division estimates that it will need 10 additional marine patrol officers. These additional officers in combination with existing staff will allow the Division to check between 16 and 32 percent of the license holders on an annual basis. This assumes a work year of 230 days and an average of five to ten checks per hour per officer or 40 to 80 license checks per day per officer. [230 days x 40 to 80 license checks per day = 9,200 to 18,400 license checks per new officer x 10 FTEs = 92,000 to 184,000 license checks annually plus existing staff time of 6,336 hours or approximately 792 days x 40 to 80 license checks per day = 31,680 to 63,360 license checks annually with existing staff time for a total of 123,680 to 247,360 licenses checked annually.]

Each marine patrol officer currently employed by the Division is assigned a motor vehicle and marine patrol boat for duty. Based on this practice, each of the 10 new positions will require a motor vehicle, leased from motor pool at approximately \$4,800 per year, and a marine patrol boat at approximately \$45,000 per boat. Marine patrol boats are currently replaced every 5 to 6 years.

For the purposes of this analysis, the marine patrol officers are assumed to be effective September 1, 2003, or six months prior to the effective date of the licenses to allow for recruitment and training. Operating support for the 2003-04 fiscal year is reduced proportionally.

The total estimated budget for Marine Fisheries to enforce the Coastal Recreational Fishing License requirements is outlined in the following table:

Table 9: Division of Marine Fisheries, Budget Requirements for Enforcement

	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Enforcement Personnel					
Marine Enforcement Officer I (10 FTEs)	285,950	359,950	377,950	396,850	416,695
Operating Expenses for Enforcement	556,250	95,000	95,000	95,000	95,000
Total Requirements	\$842,200	\$454,950	\$472,950	\$491,850	\$511,695
<i>Positions</i>	<i>8.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>

Board of Trustees – Marine Resources Restoration Fund

The bill provides for a Board of Trustees to oversee the disbursement of moneys from the Fund. Membership, terms, and meeting frequency are specified in the bill. The bill allows the use of Fund revenues to pay per diem, travel and subsistence expenses for Trustees. No exact estimate of expenses is available; however, there will not be a General Fund impact.

Appropriations

HB 831 authorizes up to 10% of the funds credited to the Marine Resources Restoration Fund to be used for administrative costs. Based on the revenue projections outlined on page 5 (Table 6), the allowance will not cover the required administrative expenditures beginning with the 2003-04 fiscal year. Administrative costs would be covered by a transfer of 56% of the net revenues in the Fund in fiscal year 2003-04 and approximately a 12-15% transfer of the Fund revenues in subsequent years. The first year is significantly higher due to the start-up costs associated with establishing the CRFL program. *Funds would need to be initially loaned or appropriated to establish the licensing effort before revenues would be realized and transferred to the program's administrative requirements.*

Assuming DENR authorizes the maximum 10% for administration in each fiscal year, the General Fund allocations will be as follows:

Table 10: Appropriation Required/Remaining for License Implementation

		FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
1	Total Administrative Requirements	\$2,085,160	\$1,272,208	\$1,283,206	\$1,294,754	\$1,306,877
2	10% Admin Allowance, Fund Transfer	(338,313)	(966,610)	(966,610)	(966,610)	(966,610)
3	Appropriation for Admin	1,746,847	305,598	316,597	328,145	340,267
4	Total Enforcement Requirements	842,200	454,950	472,950	491,850	511,695
5	Wildlife Resources Commission Start-up	500,000	-	-	-	-
5	Total Appropriation Required	\$3,089,047*	\$760,548	\$789,547	\$819,995	\$851,962

*The initial first-year appropriation amount will be **\$3,427,360** because costs will be incurred before revenues will be realized. (FY 03-04 line 2 will be required up-front to implement the program but may be repaid after revenues are generated.)

SOURCES OF DATA: Department of Environment and Natural Resources, Division of Marine Fisheries; Wildlife Resources Commission

TECHNICAL CONSIDERATIONS:

1) The provisions of the Coastal Recreational Fishing License become effective March 1, 2004. In order to give the public time to purchase a license prior to the license requirement becoming effective, this analysis assumed that license sales would begin January 1, 2004, two months prior to the March 1 effective date. However, the bill is silent as to the date that license sales can begin.

2) The Division of Marine Fisheries and Wildlife Resources Commission expenditures associated with the implementation of the Coastal Recreational Fishing License may change once planning and technical specifications are further detailed. The Information Resource Management Commission (IRMC) must approve the business case and technical interfaces between the systems prior to funds being expended. The business case analysis will assist with cost estimates. Specifically, the programming and computer equipment costs may change once project specifications are mapped more thoroughly. As the project progresses from planning into implementation phases, the estimated transaction costs of \$2 per license sold by an agent and \$0.77 per license sold online may be changed due to the further development of the online licensing process.

3) The legislation authorizes up to 95% of the Marine Resources Restoration Fund balance to be allocated towards specific functions. The legislation is unclear as to how the excess funds are to be administered or held, although it could be assumed the Board of Trustees expenses are paid from the remaining 5%.

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