Legislative Budget and Finance Committee

A Performance Audit of the PA Fish and Boat Commission

Report Comments by Stephen Fickes, Project Manager
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Good morning. It is a pleasure to be here this morning to discuss the results of our study of the Pennsylvania Fish and Boat Commission. As you know, Act 159 of 2004, requires the Committee to conduct periodic performance audits of the Commission on a three year cycle. This mandate began in 2007, and our current audit--which I will outline for you today--is the fifth audit we have completed under this statutory mandate.

Our current audit had five objectives. First, we reviewed the PFBC's fiscal condition by analyzing fund balances and revenues and expenditures within the Fish Fund and Boat Fund. Second, we reviewed fishing license sales trends over a nearly 100 year period. Third, we reviewed the operational capacity of the Bureau of Hatcheries, and we looked closely at the Cooperative Nursery Program within that Bureau. Fourth, we looked at the operational capacity of the Commission's Bureau of Law Enforcement. Finally, we followed up on recommendations made in our prior report, which was released in 2016.

With respect to the Commission's fiscal condition, we found that as of June 30, 2018, the Commission held reserves of $75.5 million in the Fish Fund and $33.9 million in the Boat Fund for a total agency reserve of $109.4 million. The agency was able to generate these reserves because in fiscal year 2014-15, it instituted a fiscal management policy known as the "Spending Reallocation Plan" or SRP. Under the SRP, the Commission spent no more than it received in revenues. While this plan successfully allowed the Commission to "live within its means," it came at the expense of not filling vacant positions and deferring operational expenses. For example, since our last report, the Commission has reduced its total complement by 12 percent.

On the revenue side of the equation, we found that both the Fish Fund and the Boat Fund had relatively flat revenues. For the Fish Fund, total revenues over the three-year period, July 1, 2015 through June 30, 2018, decreased by 3.2 percent. And, for the Boat Fund, while total revenues grew by 7.4 percent, that growth was largely the result of augmentations from federal sources and from refunds the Boat Fund receives from the Oil Company Franchise Tax. For both funds, revenue from licenses and fees is the primary revenue-generator—and for the Fish Fund—this category saw a 1.5 percent decrease over the past three years. The Boat Fund witnessed just a 1.8 percent increase in revenue from licenses and fees.

With respect to expenditures, we found that as a result of the SRP, the Commission successfully kept expenses below its revenues. Total expenditures from the Fish Fund over the three year period grew by just 0.3 percent—while expenditures from the Boat

Fund decreased by 0.3 percent. Because of the distinct and separate purposes of the Fish Fund and Boat Fund—the Commission must allocate its expenses between the funds. We reviewed these costs allocations and found that the Bureau of Hatcheries and the Bureau of Law Enforcement account for more than 50 percent of total agency spending. The Bureau of Hatcheries is entirely funded from the Fish Fund, and subsequently, it is the largest organizational cost segment to the Fish Fund. The Boat Fund's largest organizational cost segment was the Bureau of Law Enforcement.

While the agency's present fiscal condition is secure, that may not be the case going forward, especially for the Fish Fund. Specifically, because revenues are flat and expenses are continuing to rise—at some point soon—additional revenue will be needed. Further, considering that existing license fees have not been raised in 13 years, a discussion about a license fee increase is likely in the near future.

We were concerned about this possibility, so we looked further at historical trends in license sales <u>after</u> fees were increased. Specifically, we wanted to know—does raising the fee on resident licenses then impact license sales? To answer that question, we obtained licensing sales data for the period 1922 through December 2018. We focused primarily on resident sales because this category is the "bread and butter" of the Fish Fund. Our analysis showed that increasing resident fees does impact license sales—and especially so in the initial year after the fee increase takes effect. Stated differently, after the resident fee was increased, Pennsylvania resident anglers did not purchase as many licenses as they did in the year prior to the increase. This trend was apparent in seven of the nine measurable license fee increases, and sometimes by double-digit declines in sales. Fortunately for the Commission, this purchasing trend also reversed itself, because the data showed that with the exception of one period from 1957 to 1963, sales ultimately recovered and grew through the life of the fee period. At least that was the case until recently.

More recently, we found a significant potential problem—declining resident sales. Our review found that the peak year for resident sales was 1990, and since that time, sales have been on the decline—in fact, between 1990 and 2018, there has been a nearly 40 percent decline in resident license sales. This condition is potentially dangerous to the Fish Fund—because unlike previous fee increases, where sales initially declined, but then later rebounded to make up for the loss—we are less optimistic that resident sales will make up for the initial expected loss. As a result, the Commission faces a "catch 22" situation: On the one hand, fees will likely need to be raised on license holders to meet future agency service commitments—however, on the other hand—raising license fees, at least on resident licenses, could also erode license sales, which in turn, will only further aggravate the Fish Fund's revenue problem "down the road."

But all is not bleak with respect to license sales. For example, we found that some nonresident license sales categories have been steady or have even grown over the last decade. For example, general nonresident license sales have increased by 3.4 percent, and specialty 7-day tourist license sales have also increased by 4 percent. Additionally, sales of a specialty 3-day tourist license were relatively steady with a 0.6 percent sales decrease.

With these trends in mind, our report presents three options for the General Assembly to consider. Specifically, we suggest that before resident license fees are increased, fees for nonresident licenses should be increased, and some nonresident license categories should be abolished as a way of streamlining purchase options and thereby increasing sales of the traditional nonresident license. While we do not entirely discount the need for a resident license fee increase, we think these nonresident license options should be evaluated first. To that end, we also believe allowing the Commission greater autonomy to set its fees, with appropriate oversight, would allow the Commission to more quickly implement and evaluate licensing options and more quickly respond to any negative sales trends. The end result should be less churn in year-to-year license sales.

Moving on to the Bureau of Hatcheries, we conducted a brief operational review of the Bureau and found that over the three-year period, nearly 140 million fish—of varying species and sizes—were propagated and stocked. Most of the Bureau's activity is related to trout propagation, which involves raising fish to a larger size, and subsequently releasing the fish for season-specific angling opportunities. On average, about 3.2 million trout are raised and stocked each year. We also looked at the Cooperative Nursery Program—a program run by the Commission which gives fingerling fish to various sponsor groups. We found that the Commission was adequately supervising these sponsors to ensure that healthy fish were being raised and released.

The Bureau of Hatcheries is an expensive bureau, and as I mentioned earlier, it is entirely funded by the Fish Fund. Knowing that the Fish Fund will need additional revenue to meet future service level expectations, and further, knowing that sales are declining, a logical question to ask is, "why not raise and stock less fish?" We considered that question and found two compelling arguments for sustaining existing service levels. First, the Commonwealth has already made a long term commitment, through the Growing Greener II Act, to improve the Commission's hatcheries. As such, we believe it would be unwise to invest in these facilities and then not use these facilities at full capacity, within existing federal and state permits. Further, we believe producing and stocking fewer fish would be viewed as an "indirect" license fee increase. In other words, if less fish are stocked—anglers would see less "return on investment" for their license dollars and may decide to give up fishing and not purchase a license. This outcome could have even more disastrous impacts to license sales, as well as to other supporting businesses, than a measured fee increase would have.

With respect to our review of the Bureau of Law Enforcement, we found that this bureau has been especially hard-hit by the SRP, as no new training classes for waterways conservation officers have been held since 2016. As a result, there are currently 20 vacancies, and as many as 40 vacancies are expected within the next three years. Fortunately, these vacancies will be offset by a new cadet class, which is expected to begin on July 1, 2019. However, training for these cadets takes approximately one year; thus, the cadets will be unavailable to join the ranks until next year. Given the need for additional WCOs, we recommend the Commission hire cadets who have already completed municipal police officer training, known as Act 120 training. We believe hiring cadets with this training already completed could save as much as six months of training time, thereby allowing the officers to focus more on their conservation training and enter the workforce faster.

Finally, we reviewed the status of recommendations made in our 2016 report. We made four recommendations in that report, and we found that the Commission did act on those recommendations. We agreed with the Commission's implementation on two of those recommendations, and we partially agreed with two other recommendations. The Commission indicates that under its new leadership it will begin a year-long process to prepare a new strategic plan that will be transparent, measurable, and realistic—and further that will incorporate the recommendations made in our previous reports.

In closing, we extend thanks to the numerous stakeholders who responded to our inquiries about the Commission's performance. We also, in particular, thank the Commission staff, who provided us with outstanding cooperation throughout the course of our audit. Finally, I would like to give a special thanks to Shanika Mitchell-Saint Jean and Anna Amsbaugh, who were the analysts on this study.