

Council Fiscal Status and Outlook

Overview

This paper builds off the prior one – as well as information provided to the Budget Committee in 2022 and 2023 – and sets the stage for more detailed discussions by the Pacific Fishery Management Council (Pacific Council or Council) Committee-of-the-Whole (COTW). The financial information provided here is important for understanding the gravity of any refinement to Council priorities or operations that may be necessary to ensure medium- and long-term fiscal health of the Council. The information provided here assumes that the reader has generally followed Council budget discussions over the last two years and therefore a high level of financial diagnostic information is not provided.

Several fishery management Councils have begun operating in a deficit condition in the last year or two, with deficits being supported by delayed spending accounts. One Council is making plans to reduce the number of Council meetings per year from five to four in order to align operations with finances. The Pacific Council has been focusing on trimming internal expenditures, leaning on more remote meetings, and delaying the pace of staff hiring/backfilling while the financial outlook becomes clearer.

Council appropriations have increased at a rate of zero percent to three percent per year in recent years, and at the time of drafting this paper the assumption is that 2024 base funding levels will be flat relative to 2023. Against this backdrop is recent inflation levels which are far higher than the U.S. has experienced in decades. Federal pay levels will increase over five percent in 2024 compared to 2023, per diem rates have increased, airfares have increased, and the cost of supplies and services continues to increase. Many of these cost increases were outlined in the [September 2023 report](#) of the Executive Director (ED) to the Budget Committee. The rate at which these expenses have been increasing is outpacing the rate at which baseline funding tends to increase. While the cost increases have been offset through greater internal controls, use of remote meetings, and other factors, the Council finds itself at a point where greater consideration of priorities and operations – and how to adjust them – will likely be needed to maintain fiscal health.

Historical Expenditures

Council spending has increased in recent years. This has been largely due to inflationary pressures, an expansion of Council activities, the simultaneous increase in expenses of several cost categories, and other factors. Many Councils saw reduced expenses during the COVID pandemic due to halt of in-person meetings and associated travel. While the Pacific Council also experienced financial relief during the COVID pandemic, much of the savings that occurred from reduced travel was re-channeled to other cost categories--contracts in particular. Additional detail regarding changes in cost categories over time were provided in [prior reports](#) to the Budget Committee.

The figure below illustrates Council expenses over time. Of note is the change from 2018 to 2023 which illustrates an increase of roughly \$1 million over 6 years. This reflects an increase of over 20 percent during that time period, or an average annual increase of roughly four percent. As indicated in earlier ED reports to the Budget Committee, the underpinning inflationary pressures that have partially driven this increase were present in 2022 and 2023, and expenses increased accordingly. However, inflation is not the only driver of cost increases. During the COVID

lockdown period, savings due to the lack of travel were re-channeled to other cost categories. Expenses in these other categories have come down somewhat over the last couple of years, but all of them remain higher than in pre-COVID years. This, combined with inflation, has led to the Council’s current financial condition.

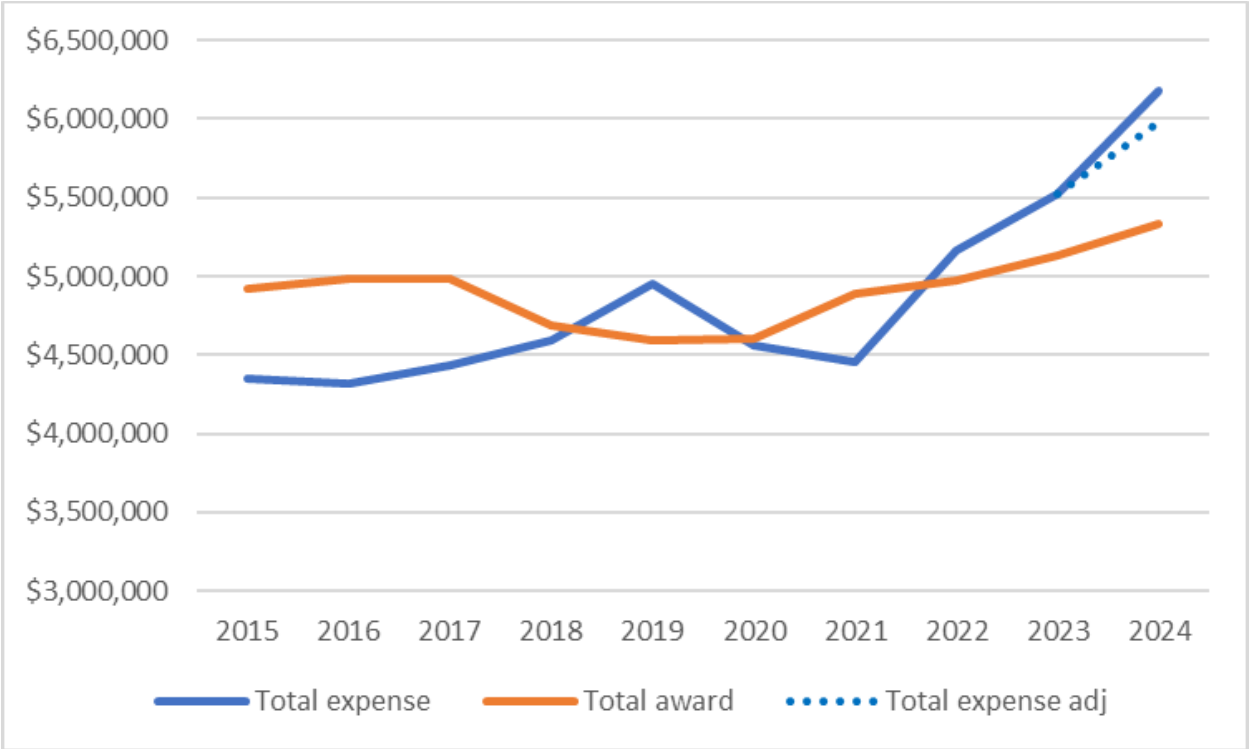


Figure 1 Council expenses versus income over time (2024 expenses includes budget amounts and forecasts)

Current Fiscal Status

As of January 2024, the Pacific Council finds itself in reasonably good financial condition. The Council is scheduled to operate in a budget deficit condition in 2024, however this is being offset by a delayed spending account balance of over \$2.5 million. Current projections based on the Council’s provisional budget indicate a 2024 drawdown of roughly \$500,000 to \$700,000. The following figure outlines the forecast for the Council’s delayed spending account through the end of 2024. A range is provided for 2024 which reflects two assumptions: A) the entire 2024 budget is spent, and B) 96 percent of the budget is spent. In either case, the rate of drawdown is expected to accelerate in 2024 compared to 2023.

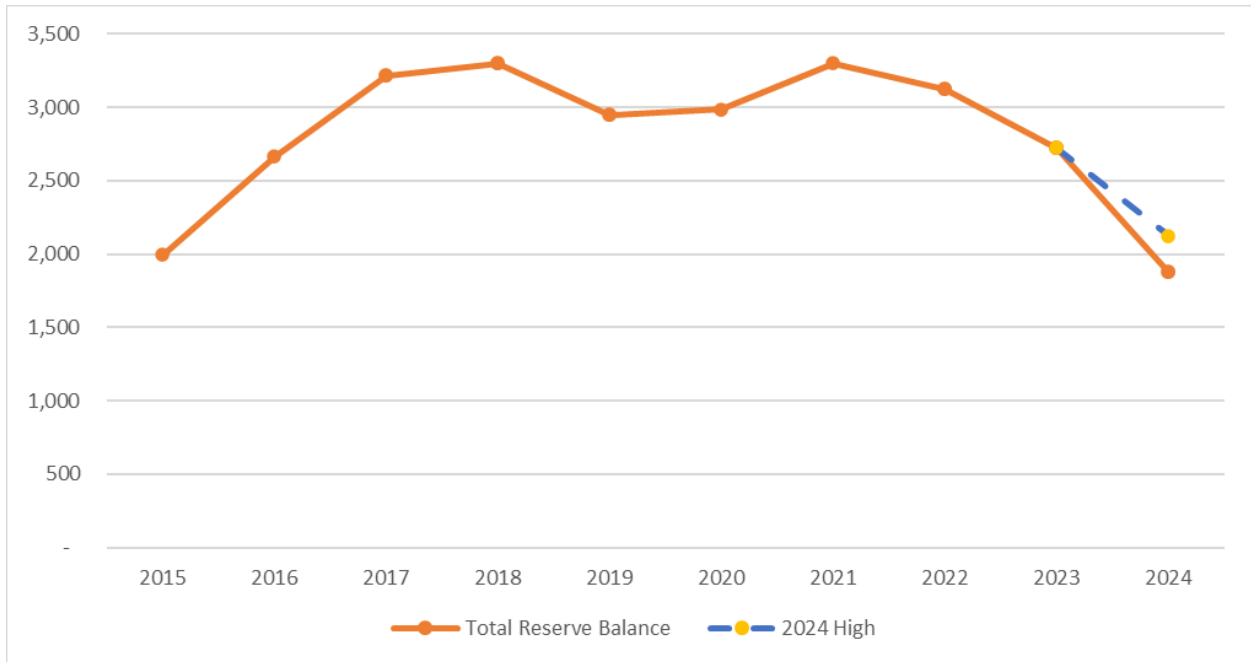


Figure 2 Pacific Council delayed spending account balance and forecast through 2024

Expenses by Category

Council expenses are apportioned by several different categories. Across these categories, staff expenses are the largest portion, making up less than 50 percent of expenditures. This is followed by travel expenses, liaison contracts, supplies and services, Council member compensation, other contracts, and Advisory body (AB) compensation.

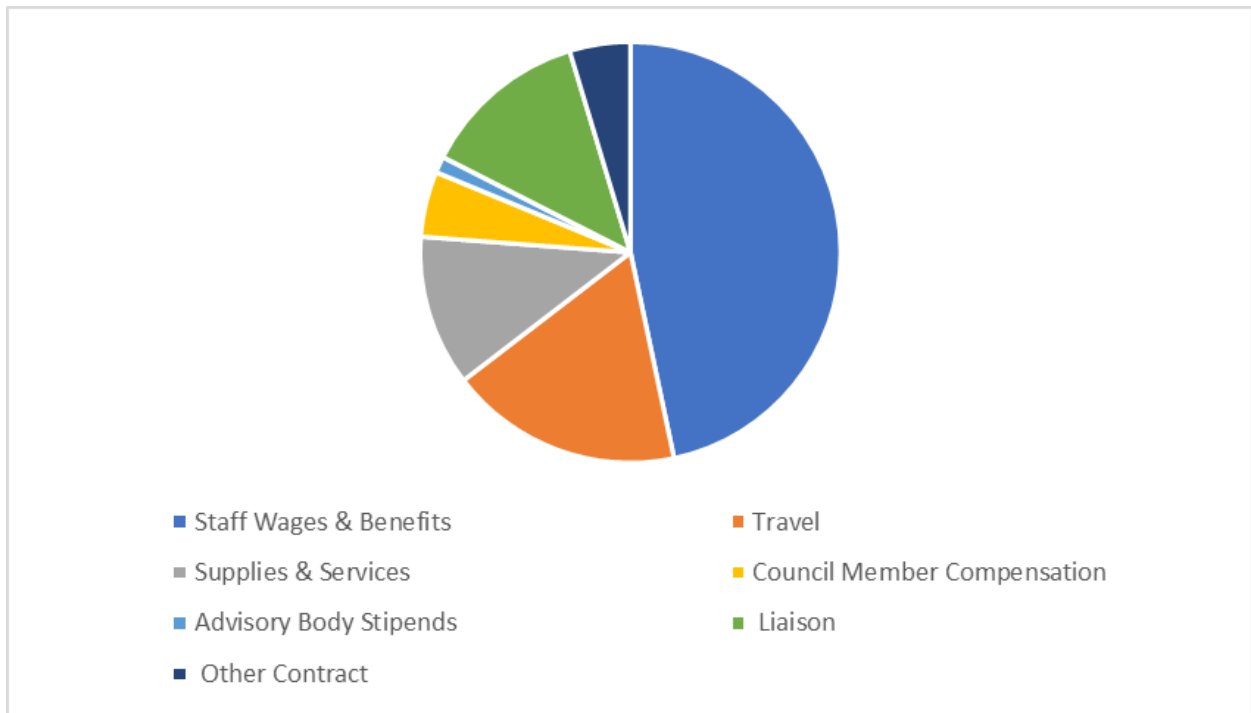


Figure 3 Apportionment of Council expenses by category

Fiscal Outlook

The fiscal outlook for the Council is, of course, dependent upon future funding levels and future inflationary pressures. These are not known, and the prospect of Inflation Reduction Act (IRA) funding further complicates these forecasts. However, based on several reasonable assumptions, a forecast regarding the Council's delayed spending account can be made. Drawing down the delayed spending account may necessitate dramatic adjustments to Council priorities and operations if those adjustments are made suddenly. That is, if the delayed spending account is fully drawn down, the Council would need to make adjustments to align income and expenditures and these may be minor or substantial depending on the degree to which budgets need to be adjusted at that time.

The table below outlines three scenarios that indicate when the Council's delayed spending account may be fully drawn. This assumes that the Council can continue to hold a delayed spending account past the end of our current grant period. The three scenarios can be described as:

- Forecasts based on historic changes in income and expenses.
- Forecasts based on historic changes in income and expenses, plus assumptions regarding the amount of income brought in by IRA projects (this represents the staff's best estimate).
- Forecasts based on a continuation of relatively high inflation, funding levels that are flat, and a minimal amount of IRA funding.

	Year and Budget Assumption		
Date at which delayed spending account reaches zero	EOY 2026	EOY 2028 (current best estimate)	Middle 2026
Forecast assumptions	Historic income and expense patterns	Historic income and expense plus IRA funding	High inflation, flat funding, minimal IRA

Summary

In summary, the Council is currently in a reasonably healthy financial position, but the outlook is expected to deteriorate if changes are not made to Council priorities or operations. The prospect of IRA funding will tend to improve this outlook through the next few years, but expectations for this funding and how it will help the Council's financial situation should be tempered. Depending on what comes to pass, the Council's delayed spending account may become depleted sometime within the next two to five years, with staff's current best estimate being late 2028. This assumes the Council receives \$2.5 million to support IRA projects.

PFMC
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