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Considerations Regarding 365-Day Fishing Licenses

Prepared for the California Sportfishing League



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ASSOCIATES

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About Southwick Associates

Southwick Associates is a market research, statistics, and economics firm, specializing in the hunting, shooting, sportfishing, and outdoor recreation markets. For more than 25 years, Southwick Associates has delivered comprehensive insights that have advanced strategic decisions across the entire outdoor community; from resource agencies, industry associations and non-profit organizations, to utilities, outdoor manufacturers and businesses. We find solutions to problems others cannot solve.

Southwick Associates has extensively researched state fishing and hunting licenses. We were the first to access state license databases to determine “churn” or license renewal rates, greatly expanding states’ understanding of the license buying process and improving state license marketing and sales efforts. We have also assisted states in developing license marketing strategies and tactics by quantifying key customer segments, buying trends and preferences. We have also worked for numerous states to identify new suites of licenses that customers would prefer over current choices and the potential revenue effects. Since 1999, we have worked with over 40 states to statistically determine if their current licenses are over- or under-priced and which price points would provide the greatest revenues. These studies also reveal the factors that drive license sales (weather, pricing, substitute license option, economic factors, etc.) and the degree of influence each factor has on overall license sales. We also assisted states in the early days of adopting electronic license sales. Altogether, no other firm has as much in-depth experience assessing state fishing and hunting licenses as Southwick Associates.

Executive Summary

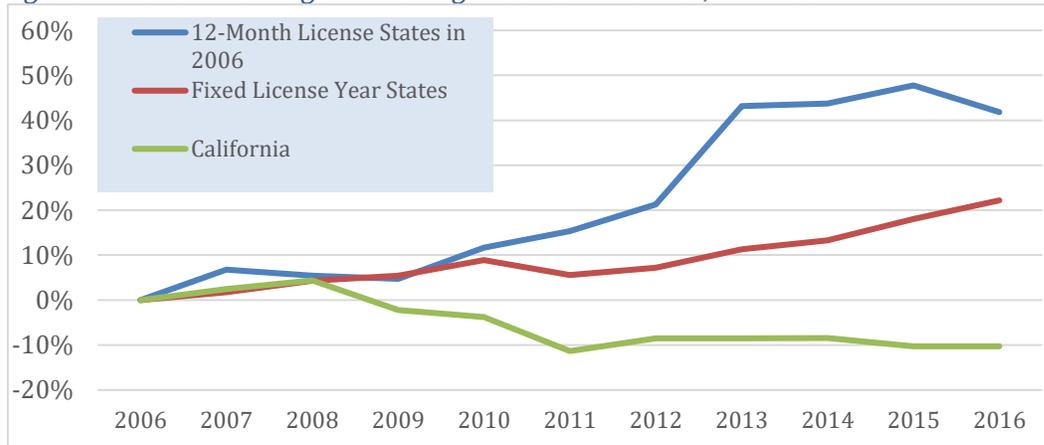
Currently, all annual California fishing licenses expire on December 31st regardless of the date when purchased. Two bills under consideration (SB 518 and AB 986) would require the California Department of Fish and Wildlife (DFW) to offer licenses that expire 12 months from the date of purchase. These bills, along with other recommendations offered below, will help improve California's current license revenue situation.

Considering California's declining license sales and revenue situation, current fisheries management efforts are not economically sustainable. To maintain adequate conservation funding, some level of changes are needed to the State's license structure, pricing and/or marketing approaches. Key considerations and recommendations include:

1. Today, there are 1 million fewer anglers than there were in 1985. Yet, despite annual price increases, the DFW's total license revenues have not kept up with inflation, with price hikes aggravating the decline in participation. The current revenue situation does not appear to be sustainable. Significant changes will be needed to enhance revenues, ranging from re-assessing current prices, working with consumers to identify new types of licenses customers would prefer and initiating marketing efforts to boost license sales and renewal rates.
2. The new 12-month license will not regain lost license customers and revenue but could help reverse the decline. Florida was the first state to switch to a 12-month license starting 1991. Today, there are 14 states with a 12-month license.
3. Its more than prices or term of licenses that determine if sales increase or decrease. Many factors combine to determine the direction of license sales such as weather, access issues, cultural interest in the outdoors, and more. However, states that have a 12-month license since 2006 have seen revenues grow faster than other states (Fig. 1).

(continued)

Figure 1: Percent Change in Fishing License Revenues, 2006 to 2016



4. For states with a 12-month license, a greater percentage of license sales are of higher-priced annual licenses versus short-term licenses. This results from basic economics, and would be expected in California, too.
5. Several states now provide license auto-renewal options that further boost revenues and reduce the lag time between a customer's expiration date and their next purchase.
6. Many states are seeing significant success in boosting revenues through active efforts to recruit, retain and re-engage (R3) anglers. Simple reminders aimed at current and prospective anglers to plan fishing trips, to renew licenses and to take a friend or family member fishing are just a few of the many marketing efforts that need to be engaged. We understand California is currently developing an R3 program and highly encourage this effort be implemented as best as possible.
7. California is strongly cautioned against raising license prices without first assessing the impacts on participation and revenues. Licenses may already be over-priced and lower prices may actually boost revenues for some licenses. Eliminating the forced inflation-based price hikes in favor of a statistical assessment that determines optimal prices based on California's actual license sales drivers and consumer demand will help boost revenues.

Background

Currently, California's fishing licenses all expire on December 31. The price is the same regardless, whether its bought in January or in November when it is only valid for one more month. Senate Bill 518, authored by Senator Tom Berryhill, would require the California Department of Fish and Wildlife (DFW) to offer a license valid for 12 months from the date of purchase in addition to the current calendar-year license. Among other provisions, SB 518 would price the 12-month license 30% higher (\$62.86) than the price of the calendar-year license (\$48.34). However, the price in the following years would then drop, matching the calendar-year license if the buyer opts for automatic renewals. Assembly Member James Gallagher has introduced similar legislation, Assembly Bill 986, which is similarly priced, but does not include the auto-renewal function. It does however offer discounted licenses to California veterans.

What Are Other States Doing?

Fixed-expiration licenses have historically been more common, but more are offering 12-month licenses. Prior to 2000, only three states offered a 12-month license (AR, FL, NC). From 2006 to 2008, four more states adopted a 12-month license (GA, MS, UT, VA). During 2014 and 2015, another four switched to 12-month licenses (AZ, NY, MD, SC). This year, two more states have switched (KS, NV). Texas currently offers both a 12-month and fixed-expiration annual fishing license, as is being considered by California. In total, fourteen states currently offer 12-month licenses.

California's License Sales Situation

Data Source:

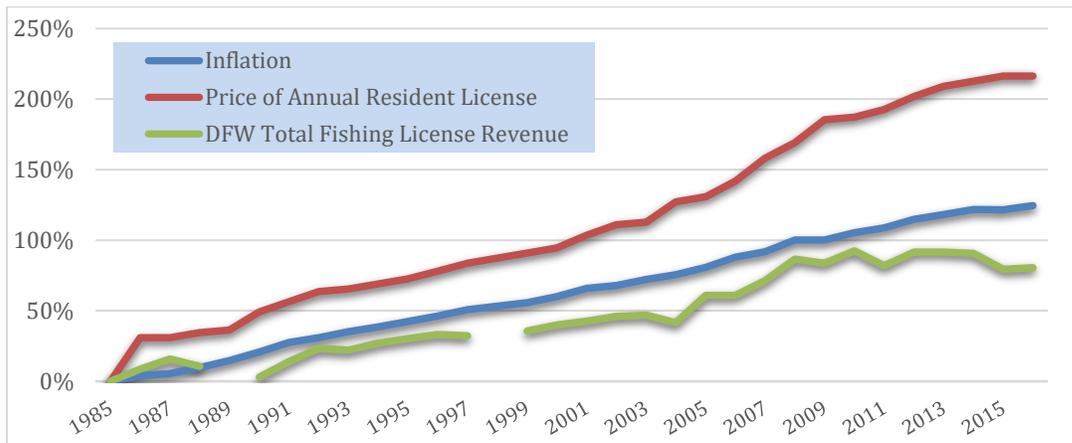
For our analysis, we relied on the certified numbers of anglers and license revenue that the states report to the US Fish and Wildlife Service each year. This source provides figures that are measured consistently year over year and from state to state. The latest available data is for 2016.

Since 1985, California's certified licensed anglers declined from 2.6 million to 1.6 million anglers in 2016. This 39% reduction means California has lost more than 1 million anglers over the last 31 years. Simultaneously, across the U.S. the number of anglers was virtually unchanged (-0.1%). Only one other state (Nevada) experienced a greater decline than California. Moreover, California's decline has been fairly steady and persistent. California minimized the financial pain by increasing license prices almost every year. But, as with most consumer goods and services, people's willingness to buy a fishing license is affected by price.

Many factors affect license sales, but license prices are a major factor. When the price of a license increases, fewer people will purchase one. Since 1986, the price of California's resident annual fishing license has increased 216% which is 41% faster than inflation. This can be

attributed to California statute that requires the price of fishing licenses to increase automatically in line with the Price Deflator Index, regardless of market factors. Based on previous Southwick Associates’ research, this forced price change fails to recognize other market conditions and sales drivers, as explained later in the “*The Danger of Increasing License Prices*” section, and can exacerbate sales declines. Even with the forced price increases, DFW’s revenue still did not keep pace with inflation, with revenues growing at a rate 20% lower than inflation since 1985 (Figure 2). Clearly, these current trends are not sustainable for California’s anglers or the DFW’s finances.

*Figure 2. California’s Resident Annual License Price, Revenue and Inflation Trends**



* The breaks in the green line represent missing or uncertain data for these specific years.

Caution When Comparing to Other States

The California DFW reviewed the experience of states who switched to 12-month licenses. Their findings, and our own analysis, show mixed results in terms of the number of licensed anglers in the years immediately after making the switch. Several states did experience a drop in the number of anglers in the first year after the switch: MS, NY and NC saw a 1%-4% reduction while GA experienced a 34% drop. Three of those states saw a rebound in the second or third years. Six states saw an immediate first-year increase in anglers ranging from 1% to 25%.

Comparing the experience of 12-month licenses in other states can be misleading. Many different factors drive license sales.

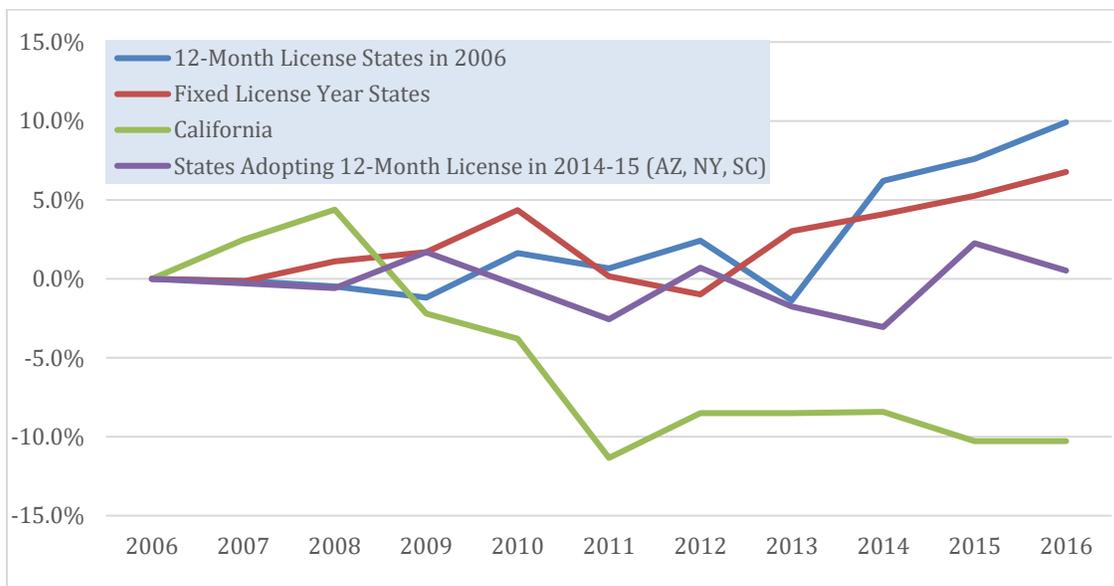
However, there are important considerations being missed in these comparisons. Six states made the switch more than ten years ago, with FL and NC making the change over twenty years ago. Moreover, states have adopted 12-month licenses at different points in time when other very different external factors were also impacting sales. Finally, states often make the switch along with

other licensing changes that make it difficult to understand if their new 12-month license drive sales up or down.

In any year, it is common for license sales to vary significantly from state to state. Over the past five years, changes in states' license sales have ranged from -18.5% (Nevada) to +47% (Georgia). Comparing one state's experience to others can be misleading. Most states who have recently implemented 365-day licenses are generally more urbanized. Statistical modeling would be needed to determine the effects of the 365-day license versus economic, population, cultural, urbanization, licensing price changes and other factors that also impact license sales. Attributing any state's overall license trends to one, specific factor is not advisable.

We also strongly suggest that California reviews license sales trends in more recent terms. From 2011 to 2016, fishing license sales nationally increased 6.5% while in the preceding 5-year period (2006 to 2011) sales declined -0.6%. Factors such as a healthier economy, improved license marketing techniques and a greater interest in fishing among some segments of the public are likely driving recent increases. Of the five states offering a 12-month license since 2011, license sales have increased 14% compared to an 11% increase across states not offering a 12-month license. This does not mean moving to a 12-month license will immediately drive California's license sales upward, but it might ease the pressure on the State's long-term sales declines. Recognizing many factors combine to determine the direction of the State's license sales trends, the degree to which these factors are present in California will determine sales rates. Other states' experience will have very minimal impact on California's future license sales.

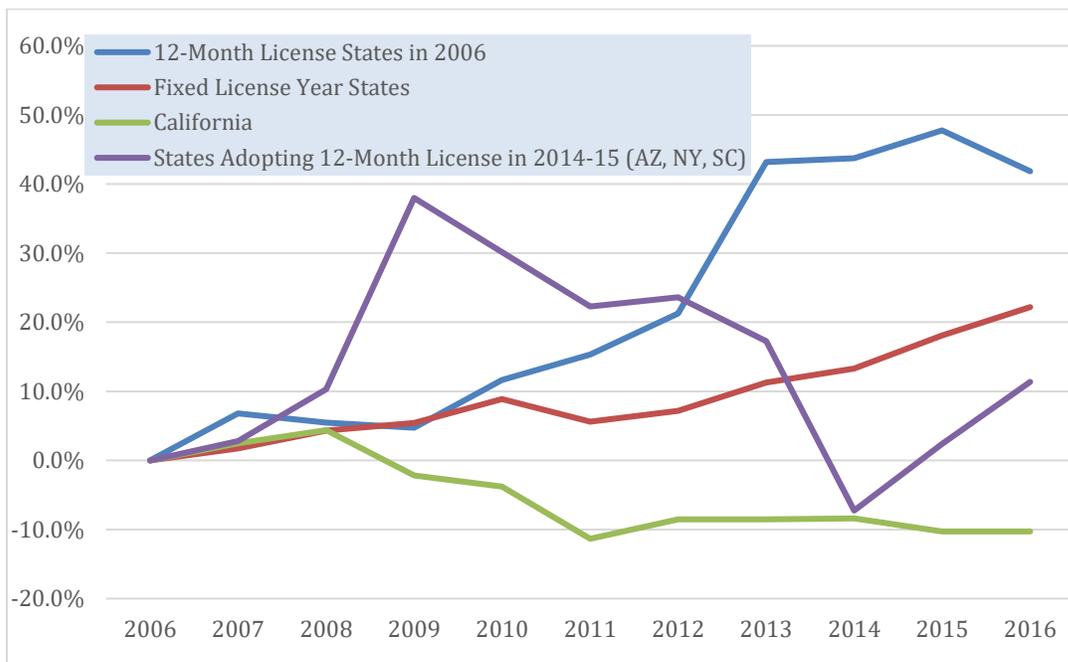
Figure 3. Percent Change in Licensed Anglers, 2006 to 2016



The Focus Should Be On Revenues

While the number of anglers is certainly important, the license crisis is more about revenues. When anglers can only buy a fixed-expiration license, those buying late in the season may opt to buy a lower-cost, short-term license rather than an annual license with only a few weeks or months left in the season. The state receives less revenue. With 12-month licenses, customers purchasing late in the year are more willing to buy the more expensive annual license with the assurance that it will be valid for a full year and not just several weeks. The 12-month license provides a better value. An increase in the average revenue per license sold means more total revenue for the DFW. While we recognize that many factors besides the term of a license combine to drive sales, Figure 4 shows recent revenue trends across states offering different types of licenses.

Figure 4. License Revenue Trends, 2006 to 2016



Countering Renewal Issues with Auto-Renewals

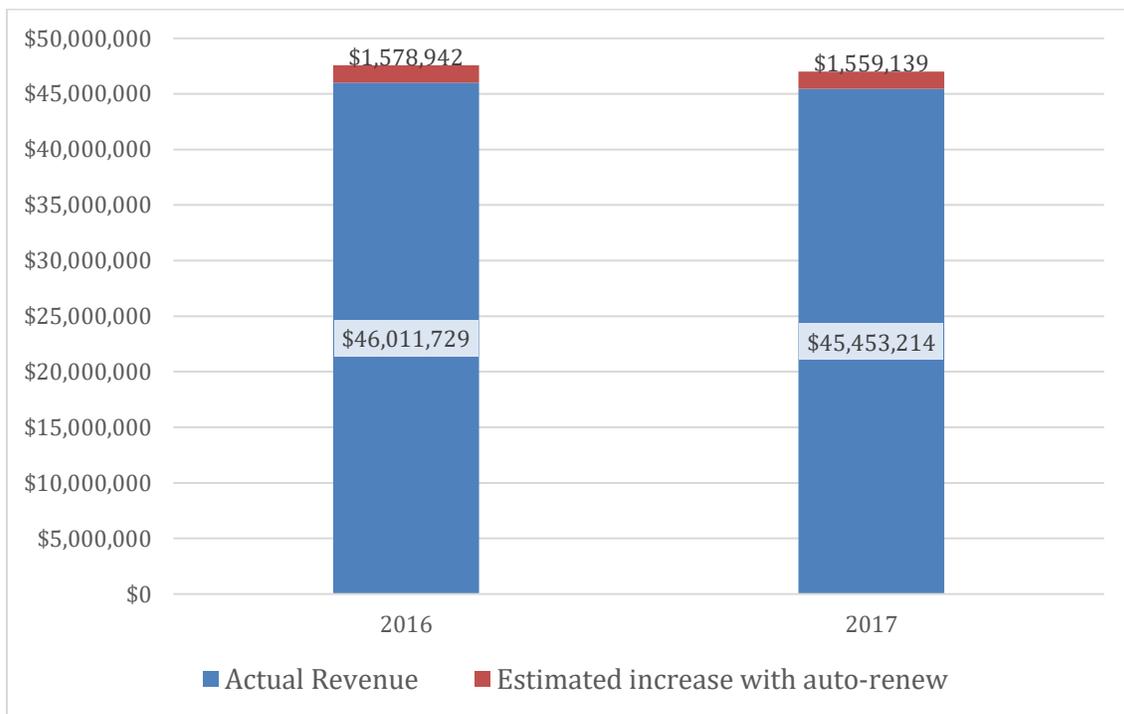
Plenty of research shows that people do not immediately renew their licenses once they expire. There is typically a lag, whether a state's licenses all expire on the same day, or one year after the date of purchase. To help counter this lag and boost revenues, Florida was the first state to adopt an auto-renewal option. Beginning in October, 2015, when buying a license, customers can elect to have their annual license automatically renewed upon expiration. On behalf of Florida, Southwick Associates evaluated the revenue effect from this new service. During the 20-month period following the introduction of the auto-renew option, Florida saw 70,000 more license sales that would not have occurred without the auto-renew option. This produced an

estimated \$1.6 million of revenue. Moreover, Florida reports that renewal rates and revenues substantially increased from the first to the second year of the option, and additional growth can be reasonably expected as public awareness increases.

If California adopted an auto-renew option at the same time as Florida and shared the same experience, we estimate the State would have generated almost \$1.6 million in additional revenue in the first year alone. By the end of 2017, the DFW budget would have been greater by more than \$3.1 million (Figure 5). This conservative estimate does not account for the growth rate in the number of customers who select the auto-renew option each year as experienced in Florida. With continued growth, the auto-renew option can help to offset the perceived risk associated with switching to a 12-month license, contribute to the California Fish and Game Preservation Fund, and help minimize the agency’s structural deficit now and in future years.

Beginning in January of 2018, both Nevada and Arkansas switched to a 12-month license with an auto-renew option. Auto-renew options are also available in Georgia, Virginia and Tennessee, with others considering this new feature.

Figure 5. Fishing License Revenue Estimates for California From an Auto-Renew Option



The Danger of Increasing License Prices

Over the past three decades, California has experienced a sharper decline in license sales than all other states except Nevada. Because a variety of factors drive license sales, identifying the relative impact of the different factors (license prices,

demographics, regulations, climate, etc.) requires careful statistical analysis. However, based on Southwick Associates' extensive experience analyzing license price effects in more than 40 states, we can advise that any price increase will almost certainly depress license sales. In some cases, when prices are too high, lowering prices can attract enough new customers to actually increase gross revenues. The practice of changing license prices to match inflation trends may only be causing already over-priced licenses to move further away from their optimal price point, further reducing revenues. Any new prices should be carefully analyzed using statistical processes that consider current levels of customer demand, previous consumer reactions to price hikes and the many factors such as weather, population trends and others that combined to determine actual license sales.