

**Madison River Work Group
Commercial Management Sub-Group**

Economic Implications of Commercial Limit Options

April 6, 2022

General Economic Impacts of Commercial Outfitting Activities and Limits:

Commercial guided outfitting on the Madison River is a significant driver of economic activity for the Madison River valley communities of Ennis and West Yellowstone, together with Bozeman, Big Sky and Belgrade. With most guided flyfishing guests coming from outside Montana (80-90%), their spending supports outfitters, guides, retail shops, lodging and dining facilities, shuttle operators, and numerous other businesses dependent upon tourism activities.

In the 2020 Environmental Assessment prepared by FWP for the proposed Madison River Recreation Management Rules, FWP estimated that *“Residents spend on average \$90.93 dollars per day on angling trip related expenditures while fishing on rivers/streams in Montana; nonresidents spend on average \$704.59 dollars per day on angling trip related expenditures while fishing on rivers/streams in Montana (in May 2020 dollars).”* Adjusting to 2022 costs, it may be appropriate to use an estimate of \$750/day/angler for direct spending by nonresident anglers working with an outfitter on the Madison River. Since most guided float fishing involves two anglers/boat/guide, the estimated average direct expenditure per guided trip may be approximately \$1,500/day for nonresidents. For residents the daily expenditures may be estimated at approximately \$750/day/trip (includes outfitter fee, guide tip and some miscellaneous expenses).

Annual Direct Expenditures for Outfitter Madison River trips:

<u>Year</u>	<u>Outfitter Trips</u>	<u>Direct Expenditures</u> (assumes 90% nonresidents)
2019	14,014	Est. \$20 Million +/-
2020	13,219	Est. \$18.9 Million +/-
2021	Prelim: 18,200	Est. \$25.9 Million +/-
2022	Best of 2019/2020 limits 16,200 (100% usage) 14,580 (90% usage)	Est. \$23.1 Million +/- Est. \$20.8 Million +/-

The total economic impact from outfitted fishing trip expenditures would be greater than the above numbers indicate if indirect spending throughout the local communities generated by this foundational business activity is calculated.

Possible Economics of River Use Permit Transferability

Flexible and convenient transferability of allocated trips (“Trips”), on a temporary or permanent basis, in whole or on a daily Trip basis, is a critical element of an effective and efficient limitation for commercial river service provider usage on the Madison River.

There have been unintended consequences on other river permit systems in Montana that have created excessive permit valuations, barriers to use, and barriers to new entry:

- 1) Placing a moratorium on permit holders often generates a large artificial value associated with the permit. Often the permits allow the potential for operating a large number of trips and results in a valuation of a permit being much higher than the existing operations of a business.
- 2) Lack of fluidity in transferring rationed allocated use days inhibits new entry and the ability of other service providers to access trips that another provider is not operating.
- 3) Permittees are often have minimal requirements on their use when renewing permits. Some permittees have declined significantly in operations but they still hold access to allocated trips that other providers cannot use to deliver services to the general public.

Efforts should be made when rationing commercial trips on the Madison to avoid problems experienced with other river allocation systems:

- 1) No moratorium on permits to minimize barriers for new entrants and strip away artificial valuation of a permit
- 2) Require providers to continue to operate above a minimum threshold to retain their access to historic allocation of trips or risk forfeiture. This helps reduce value of individual allocated trips when transferred
- 3) Allow and encourage partial transfers, both temporary and permanent which helps to:
 - a. Ensure total use of guided trips does not fall significantly below historic levels to help maintain a vibrant economy
 - b. Allow for a more realistic entry and growth pathway for new service providers

Supporting a commercial use recreation plan that requires river service providers to maintain minimum use levels while also allowing for the fluid transferability of Trips will help to support local economies, help new outfitters and river service providers to gain access to the Madison at a reasonable cost will help existing providers to more easily manage fluctuating business patterns from year to year.

Types of Transferability.

1. Permanent Transfer of allocated Trips. This could be a transfer/sale of any part of a river service provider’s allocated Trips, possibly as part of a sale of a business or just in light of changing business plans.
2. Temporary transfer of allocated Trips. This could be a calendar year or mid-year transfer of all or a portion of a RUP holder’s allocated Trips to another Madison River SRP holder to use. Such leases could be short-term (i.e., applicable just to the calendar year of the lease) or longer term to cover a number of calendar year allocations of Trips.

Assumptions for Valuation Estimates.

Since there will not be a moratorium on Madison River SRPs, it is not expected that any artificial value will be placed on the permit itself (currently renewed at \$110 per year). This is in contrast to other river permits where access is restricted by placing a moratorium on permits. The assumption on the Madison River is that any value associated with permits would thus correlate to the individual allocated Trip. We assume the value of an individual Trip would be within a range determined by the profit potential that both parties engaging in a transfer would anticipate that the allocated Trip generates.

Sample Outfitting Revenues and Costs for guided fishing trips (which make up the majority of Trips).

For 2022 most Madison River fly shops are advertising daily Madison River float trips (2 anglers) for \$600 to \$650. An average fishing outfitter's costs include guide fees (\$350-400), shuttle service (\$40), lunches and beverages for guests (\$30-40), SRP 3% fees (\$18-20), credit card fees (\$15-20), and overhead costs for marketing, administration, insurance, shop costs, and sales personnel. Many outfitters also cover the cost of guest flies and terminal tackle gear. Although it probably varies widely, larger outfitters using independent contractor guides may hope to generate a "profit" of \$50 to \$200 per trip.

The "profit" analysis may be different for Single Boat Outfitters (an outfitter who also is personally the guide). Most guided angler pairs also "tip" the guide in the range of an additional \$100-150/day. This may add to the overall Single Boat Outfitter revenue expectations, and overhead costs may differ from larger outfitters and fly shops or lodges.

Profit expectations may also differ if there are Off Peak Season discounts offered to get customers when the weather conditions may be more challenging or fishing is competing with other ventures (e.g. Spring and late Fall outings).

Range of Estimated Values for allocated Trips.

1. Temporary one year transfer. Estimated market values may be in a range from \$50 to \$150 per allocated Trip.
2. Permanent transfer. Estimated market value as a multiple of the temporary one year transfer, ranging from \$500 to \$1,500 per Trip allocation.
3. If there is a Peak Season limit on the total allocated Trips, then there may be a higher value for Peak Season Trip allocations versus Off-Peak Season Trip allocations.
4. This analysis implies an overall value of the aggregate of allocated Trips could total from \$8.1 million to \$24.3 million, with a mid-range of approximately \$16.2 million.
5. A significant portion of the value that could become associated with allocated Trips and their transferability may already exist in various components of a SRP holder's business. SRP holders have intangible value for client lists, relationships with booking agents, guides, fly shops, lodging facilities, and historical operating records associated with their operations on the Madison River.