

Madison River Working Group

Opportunities for New Entry for River Service Providers Providing Guided Trips

June 1, 2022

Providing opportunities for new river service providers to operate commercial trips on a river when use is limited is a challenge. Our goal on the Madison River is to develop a realistic pathway for new entrants under a commercial use plan that caps the number of guided trips.

Objectives:

1. Provide realistic new entry pathways for river service providers to operate on the Madison River.
2. Ensure that new entry remains possible while the aggregate number of commercially guided trips remains capped.
3. Ensure that existing service providers may continue to operate at their recent historic use so long as they maintain a minimum threshold of use.
4. Ensure that mechanisms are in place to allow unused trip capacity to transfer to new entrants as well as smaller operators attempting to expand.

Obstacles to New Entry in Existing Commercial Use Plans

Several other rivers in Montana have set limitations on commercial use including the Bighole, Beaverhead, West Fork of the Bitterroot, and Smith Rivers. New entry and incremental growth has become very difficult on these rivers for several reasons.

1. **Moratoriums on new permits** – most commercial use permit systems in Montana where limitations on use are present implement a moratorium on new permits. The permit then becomes the required “ticket to entry”. The only option for a new entrant is to purchase another business so that they are issued their own permit when the seller relinquishes theirs – often at a significant valuation beyond the actual operations of the selling outfitter. Often no businesses with a permit are for sale, and if they are the entry cost is significant. This system is similar to the “liquor license” model.
2. **Minimal performance requirements** – Businesses ebb and flow and many decline in use over time. Many permit systems with allocated trips in Montana have minimal requirements for maintaining historic levels of operation. When these businesses decline in use they are not required to forfeit use capacities to other providers unless they discontinue operations completely.
3. **Inability to transfer use capacity in small increments** – Most existing commercial use permits in Montana require a service provider to sell their operations in their entirety in order for allocated trips to transfer. So operators declining in use have no mechanism to transfer use to another outfitter. This lack of fluid transfer of use capacity is a barrier for new entrants.

Recommendations to improve new entry on the Madison River

1. **Avoid moratorium on permittees** – any qualified outfitter or service provider should be able to receive a use permit. This strips away artificial valuation of a “limited entry permit” and avoids the “liquor license” effect.

2. **Require existing outfitters to forfeit unused capacity of allocated trips to be re-allocated to new entrants** with a “use it or lose it” requirement– when service providers operation’s decline significantly from their historic use. Their capacity should be reset, and those allocated trips should be made available to new entrants. This pressure will encourage existing providers to transfer unused trips and will also strip away speculative valuation of “trips” by adding risk to operators and avoiding a “property right” effect.
3. **Allow ease of transferability of trip allocation** – Providers need to easily transfer their use capacity to other providers. This includes a partial transfer of their use. Transfers may be permanent or temporary. By increasing the fluidity of transferred trip capacity new entrants will have a more realistic pathway to operate on the Madison River.

Here is a summary of how the Commercial Management recommendations being proposed by the Madison River Work Group have addressed Opportunity for New Outfitter Entry:

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

Summary of Opportunities for New River Service Providers

June 1, 2022

One of the goals for the Madison River Commercial Management Plan is to provide the opportunity for new river service providers (a.k.a. “outfitters”) to operate on the Madison River and for existing providers to transfer all or portions of their permitted trip allowances as business conditions change. Several provisions of the Commercial Management Plan knit together to address this opportunity for entry goal and are summarized below:

1. **No limitation on granting new Special River Permits (“SRP’s)** for qualified river service providers under the existing FWP/BLM 2007 Cooperative Management Agreement. The SRP grants access to the FWP & BLM Fishing Access Sites, requires reporting of trips, and is the fee collection mechanism. The current cost of an SRP is \$110.
2. The new Montana River Use Permit (“RUP”) is the Montana regulatory permit system for allocating commercial use days and – under new Montana law - is **intended to be transferable in whole or in part among qualified SRP holders**. (See Sections 2 and 8 of the Commercial Management proposal dated June 1, 2022.) Transfers could be on a one-time annual transfer or a permanent sale, for the specified number of allocated days agreed upon between the parties (up to the maximum allocated to the transferor).
3. Based on the financial operating costs and revenues for various fishing outfitters holding varying numbers of trips, our analysis suggests that the expected transaction cost for an allocated RUP day may be in the following ranges:
 - a. Short-term (one-time) annual transfer. Range of \$50 to \$150 per RUP day.

- b. Permanent transfer. Range of \$500 to \$1,500 per RUP day.

Actual market transactions may vary from these estimates and may be based on the financial expectations of each party. The goal is that new river service providers could begin to offer services on the Madison River at a reasonable up-front cost or investment by beginning with short-term leases or small acquisitions of RUP days. (See Economic Implications of Commercial Limit Options dated April 26, 2022 accompanying the Commercial Management proposals.)

Please also refer to Outfitter and Guide Estimated Income and Expenditures for a Day Float Trip, this provides an opportunity to understand how outfitters of various types make a net profit as compared to a guide working as a contractor, all of which would have potential interest in acquiring allocated commercial days to grow their outfitting business.

4. The **“Use It or Lose It” requirements** for the RUP and the potential forfeiture of un-used days may create an additional pool of RUP days that can be accessed by new outfitters. (See Section 9 of the Commercial Management proposal.)
5. Finally, the recommended **Adaptive Management** Reviews should be a vehicle for periodic review and fine-tuning of the “opportunity for entry” for new river service providers. (See Section 10 (g) of the Commercial Management proposal.)

Outfitter and Guide Estimated Income and Expenditures for a Day Float Trip

6/1/22

<p>**the majority of outfitters do 100 trips or less/year ** many outfitters also consistently work as guides</p>	<p>Outfitter –Shop/Lodge/Multi-Boat</p>	<p>Outfitter – Small Outfitter ** outfitter is generally the guide/some marketing/some multi-boat days</p>	<p>Outfitter – Single Boat ** outfitter is the guide (difficult to generate more than 20 trips/year on only word of mouth/zero marketing).</p>	<p>Guide</p>
<p>INCOME</p>	<p>Float Trip (2 anglers)</p>	<p>\$625 (\$600-\$650/float trip)</p>	<p>\$625 (\$600-\$650/float trip)</p>	<p>\$400-450 (\$425)</p>
<p>Tip</p>	<p>N/A</p>	<p>\$100 (\$50-\$200)</p>	<p>\$100 (\$50-\$200)</p>	<p>\$100 (\$50-\$200)</p>
<p>TOTAL:</p>	<p>\$625</p>	<p>\$725</p>	<p>\$725</p>	<p>\$525</p>
<p>PER TRIP EXPENSES</p>	<p>Guide Fee</p>	<p>n/a</p>	<p>n/a</p>	<p>n/a</p>
<p>Shuttle Service</p>	<p>\$425</p>	<p>n/a</p>	<p>\$40</p>	<p>\$40</p>
<p>Lunch/Beverages</p>	<p>Some outfitters may pay this for guides, but then fee lower</p>	<p>\$36-48 (\$42)</p>	<p>\$36-48 (\$42)</p>	<p>\$36-48 (\$42)</p>
<p>Mileage (gas/vehicle @ \$.585/mile)</p>	<p>N/A</p>	<p>\$23.4-\$93.6 (\$58)</p>	<p>\$23.4-\$93.6 (\$58)</p>	<p>\$23.4-\$93.6 (\$58)</p>
<p>Flies and tackle (most guides provide)</p>	<p>N/A</p>	<p>\$20-\$50 (\$30)</p>	<p>\$20-\$50 (\$30)</p>	<p>\$20-\$50 (\$30)</p>
<p>SRP 3% Fee</p>	<p>\$19 (\$18-20)</p>	<p>\$19 (\$18-20)</p>	<p>\$19 (\$18-20)</p>	<p>n/a</p>
<p>Credit Card Fees (2.5%)</p>	<p>\$16</p>	<p>\$16</p>	<p>\$16</p>	<p>n/a</p>
<p>Total Per Trip Expenditures:</p>	<p>\$460</p>	<p>\$205</p>	<p>\$205</p>	<p>\$170</p>
<p>Gross Profit:</p>	<p>\$165</p>	<p>\$520</p>	<p>\$520</p>	<p>\$355</p>
<p>Estimated annual expenses/trip</p>	<p>\$100-\$300</p>	<p>\$177</p>	<p>\$77</p>	<p>\$55</p>
<p>Per Trip Net Profit: <i>Varies per outfitter or guide as annual costs and average number trips vary from outfitter to outfitter and guides – see estimates on next page</i></p>	<p>\$0-\$65</p>	<p>\$343</p>	<p>\$443</p>	<p>\$300</p>

ANNUAL COSTS Guides/Small Use Outfitters	Small Outfitter w/some outfitting	Single Boat Outfitter	Guide
Outfitter License Renewal	\$210 ** Initial one-time fee: \$1800	\$210 ** Initial one-time fee: \$1800	n/a
Guide License Renewal	n/a	n/a	\$50 *Initial one-time fee: \$125
Insurance	\$350	\$350	\$350
SRP Permit	\$110	\$110	n/a
Independent Contractor Exemption Certificate	\$62.50	\$62.50	\$62.50
Administrative (office time, correspondence costs, quickbooks, accounting fees, etc)	\$1000-\$3000 (\$2000)	\$1000-\$3000 (\$2000)	n/a
Limited Marketing (pay per click, website, shows, etc), sometimes booking agent fee, etc	\$5000-\$15,000 (\$10,000)	n/a	n/a
Gear (loaner rods, tackle bags, foul weather gear, waders, broken rod repairs, etc)	\$1000	\$1000	\$1000
Boat/Trailer (annual depreciation)	\$2000	\$2000	\$2000
Commercial Auto Insurance	\$1500-\$2500 (\$2000)	\$1500-\$2500 (\$2000)	\$1500-\$2500 (\$2000)
Annual Total	\$17,732.50	\$7,732.50	\$5,462.50
Per Trip Total (avg 100 trips/season)	\$177	\$77	\$55

Annual Costs for Fly Shops and Lodges

The majority of guided trips that occur on the Madison River are booked through outfitters that are associated with either Fly Shops, Local hotels and Fishing Lodges. Significant additional fixed costs are associated with these businesses including office staff, real estate (owned or leased), higher insurance costs, significant marketing costs (websites, signage, print advertising, web advertising), office management costs, etc. For some businesses the guide trip becomes a "loss leader". Fixed costs will vary per business but often range from \$100-\$300 per trip.