

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

Economic Implications of Commercial Limit Options

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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) | Est. \$23.1 Million +/- |
| | 14,580 (90% usage) | 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.

Data from the 2017 University of Montana Institute for Tourism & Recreation Institute highlight that outfitting in Madison County is a significantly greater driver of the economy than in Montana as a whole. In Madison County, outfitting was 36.3% of total nonresident spending compared to 9.9% for Montana as a whole. Nonresident spending also generated 22.7% of the jobs in Madison County.

Possible Economics of River Use Permit Transferability

Flexible and convenient transferability of allocated trips (“Trips”) authorized under the Madison River Use Permit system (“RUP”), 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 river service providers on the Madison River. Experience with limits on the BH2 permit system (which created skewed permit costs) suggests an open, market-based transferability system will help to maximize the utilization of the authorized RUP Trips that will support the local economies, allow entry of new SRP holders onto the Madison at a reasonable cost, and facilitate the normal fluctuations among outfitters’ annual usage.

Creation of the RUP system, with a limit on outfitting Trips, but flexible transferability of allocated Trips among SRP holders in a fluid, market-based system, will recognize some economic value for SRP holders. Assuming the “Best of 2019/2020” SRP reporting were to become the annual cap (approximately 16,200 trips), what is the value potentially recognized through the RUP system and what might the value/cost of either a temporary transfer or a permanent purchase of an allocated Trip become?

Types of Transferability.

1. Permanent Transfer/Sale of RUP allocated Trips. This could be a transfer/sale of 100% of a RUP holder’s allocated Trips or a portion of the 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 transfers could be short-term (i.e., applicable just to the current calendar year) or longer term to cover a number of calendar year allocations of Trips.

Assumptions for Valuation Estimates.

The assumption for a fluid, market-based transferable RUP allocated Trip system is that a willing buyer and willing seller (or transferee/transferor) examine their respective business models and reach a mutually agreed upon value. An efficient market also needs a workable system for connecting SRP holders and recording any transfers for regulatory oversight purposes. We assume the value of an individual RUP Trip would be within a range determined by the profit potential that respective buying and selling parties anticipate an outfitting Trip generates.

Sample Outfitting Revenues and Costs for guided fishing 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 \$150 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 RUP 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/sale. Estimated market value as a multiple of the temporary one-year rate, 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 allocated trips under the RUP system with market transferability 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.