



Why the Mariculture Loan Fund Needs Long Terms and Interest Deferrals

The mariculture revolving loan fund contained in HB 121 and SB 67 provides delays of accrual of interest on loans and terms of up to 20 years. These provisions are critical if the loan fund is to succeed in helping spur the creation of sustainable jobs in economically distressed coastal communities.

Starting any new small business in rural Alaska is not easy. High operating expenses, difficult and costly logistics, shallow labor pool, lack of investment capital, weather and other factors combine to create difficult challenges for even the most skilled business operator.

When the business has to invest \$150,000 or more in equipment and infrastructure, negotiate reams of red tape from three different agencies, and cover three to six years of operating expenses before its first sale (depending on species being farmed), the challenges can be overwhelming, particularly for an owner/operator who has to forego a salary through the revenue-less period.

Here's the bare minimum of expenses a new oyster farmer leasing three acres with a caretaker floathome must cover before a modest flow of product begins:

<u>Equipment and Infrastructure</u>	\$125,000-200,000
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Processing facility, caretaker floathouse, rafts, trays, service vessel or raft, sorter/tumbler, boom arm, generators, pump, skiff/motor

<u>Fees/Regulatory Compliance Costs</u>	\$11,400
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DNR lease fees per year \$1,575 x 4 years = \$6,300

DNR security bond = \$2,500

DEC water quality tests = \$500

DEC water quality certification compliance = \$1,000

Lease application fees = \$100

Public notice for application = \$1,000

<u>Operating Costs</u>	\$82,000
Spat (seed oysters) $\$35/1,000 \times 400,000 \times 4 \text{ yrs} = \$56,000$	
Fuel $\$150/\text{month} \times 48 \text{ months} = \$7,200$	
Groceries $\$350/\text{month} \times 48 = \$16,800$	
Product packaging (boxes, liners, gel ice etc) = \$2,000	

<u>Labor</u>	\$75,600
By year two some seasonal help will be required.	
By year three the farmer would need full-time help.	
\$120/day $\times 30 = \$3,600$	
\$120 $\times 200 = \$24,000 \times 3 = \$72,000$	

While a farm might be able to make its first sales after as little as 2-3 years, it takes 4-5 years to move a full crop of oysters through an Alaska oyster farm. Since a farm should plant a new crop of spat each year, revenues should be relatively steady beyond that point. However, the owner/operator will need to start drawing a salary by then.

There are a number of strategies that can reduce these expenses, the most notable is by operating within a cooperative where a number of farmers can share infrastructure and equipment. Most notable would be processing facilities and caretaker floathomes, and equipments such as tumbler/sorters, boom arms, and generators. In addition, co-ops can receive volume discounts and reduced freight rates by purchasing materials, fuel and equipment in bulk.

If the farm is located close enough to the owner/operator's home, a caretaker floathome would not be needed, and many rural residents already have vessels. And, as many small business operators have found, it helps to have a working spouse who can cover living expenses.

After viewing these expenses, one might wonder why anyone would choose to start such a business. For many residents of rural coastal communities there are very few options than don't involve joining the outmigration of neighbors from their failing villages.

Shellfish farming also fits the lifestyles of rural coastal communities and provides the opportunities to create environmentally friendly businesses that can still be here 200 years from now. Making it past the enormous start-up costs is the key. Governor Parnell's proposed loan programs can make the difference for these new small businesses.