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January 6, 2020

Governor Mike Dunleavy  
Office of the Governor  
P.O. Box 110001  
Juneau, AK 99811-0001

RE: Fee Increases for Shellfish in Draft Budget

Dear Governor Dunleavy,

Two Alaska Shellfish Grower Association board members, Jim Aguiar with Eagle Shellfish and John Kaiser with Rocky Bay Oyster Co, met with you last spring to discuss our mission to grow the shellfish industry in Alaska. One vitally important point they hoped to convey was the **critical necessity of the state to support PSP testing.**

Alaska has the potential to develop a great shellfish industry, but the lab fees proposed in the recently released draft budget will **effectively destroy the industry within two years.**

A few key points to consider regarding PSP testing (detailed information attached below):

- Total gross sales from shellfish farming is \$1.6m from 30 farms in 2018. The budgetary goal to shift \$700k to growers would mean a fee of 40% of industry gross, that does not compute.
- The profit margin in farming is already low, even fees at a fraction of what is proposed will drive emerging farms out of business and make this industry less attractive to future farmers and investors.
- Public health is a state's responsibility, and in other states, the state bears most, if not all, of the burden of toxin testing.
- The proposed fees will, in fact, decrease the revenue to DEC over time because farmers will either go out of business or find other ways to reduce the number of tests annually.

I understand these are very difficult times in Juneau, but these uncertainties in government annually threaten healthy small businesses who work extremely hard to build a solid economically diversified future for Alaska.

The state should focus on processing new applications faster to grow the industry before considering whether the existing fees collected from growers should be increased. The state's lack of understanding and support sends a mixed message to anyone considering investing in Alaska's mariculture future. It does not support your motto, "Alaska is open for business." I implore you to grasp the vital necessity to support PSP testing in order to grow the shellfish industry.

Sincerely,

A handwritten signature in black ink that reads "Margo Reveil". The signature is written in a cursive, flowing style.

Margo Reveil, President  
Alaska Shellfish Growers Association

CC: ASGA Board of Directors

Rep. Dan Ortiz

Liz Harpold

Rep. Jonathan Kreiss-Tomkins

Reid Harris

Sen. Bert Stedman

Pete Ecklund

Dave Scott

Sen. Gary Stevens

Rep. Louise Stutes

Sen. Click Bishop

Sen. Tom Begich

Sen. Peter Micciche

Julie Decker, Alaska Fisheries Development Foundation

Kate Sullivan, SARDF

Jason W. Brune, Commissioner DEC

## Key Information in Support of State Funded PSP Testing

**Data** – the size of the shellfish industry compared to the state costs indicates a small industry with steady growth and incredible growth potential. While the cost has been high for the state to support a shellfish program, the investment is starting to pay off. Farms are beginning to see their way to viability and are investing heavily back in their farms. Agency data shows:

- 2018 gross aquatic lease sales reported \$1.6m
- 2018 aquatic farm lease fees paid to state \$77k (5% of industry gross)
- ADEC shellfish program costs spiked in 2018, despite a reduction in # permits/samples processed.:

Year	Oyster PSP samples processed	% sampling decrease from prev year	FSS & EHL total cost of shellfish program	Cost increase from prev year
FY2019	373	-7%	\$ 942,620	2%
FY2018	399	-15%	\$ 921,170	20%
FY2017	472		\$ 764,889	

- Grower cost to prep/ship PSP and water sample: \$100-\$600ea. (~\$140,000 over 8% of industry gross)
- 60 farm site leases with approximately 30 reporting production in 2018
- 95% of production is oysters (average \$53k gross per farm)
- ~400 tests on oysters annually, with an additional ~200 on geoduck
- 45 applications for leases and amendments to leases in the past 3 years
- ~15% of **gross** shellfish sales currently spent on annual testing, leases and other fees.

**Testing** – Testing requires gathering oyster and water samples, shucking and preparing the shellfish, shipping water and meat samples, and lab fees for testing. The state used to perform all water quality monitoring, gathering, shipping and testing with growers gathering and sampling for PSP tests. Today however, all water and meat sampling and monitoring activity has shifted 100% to growers – at a cost of up to \$600/test. The DEC only funds the actual lab test. Since growers lease their farm sites from the state, the state, as landlord, should bear some responsibility for assuring that water quality and toxin levels are safe for the aquaculture activities the state has approved in these leases.

**Economies of scale** – The new lab required a significant state investment. It was intended to support more than just PSP testing, but state cuts and increased fees have reduced the quantity and types of tests performed. Potential economies of scale are lost to our state and to our industry. Shifting 100% of lab testing to growers places a burden on farmers to effectively subsidize a state lab that is not be producing tests at full capacity. The state still needs a certain

number of FDA certified staff to perform the state's food safety testing functions – with or without the financial support of the shellfish industry.

**Shrinking pool** – State monitoring and testing used to include recreational and subsistence harvest activity, but currently the state does zero monitoring outside commercial growers. Except for commercial growers, Alaska's 34,000 miles of coastline is officially closed to shellfish harvesting, with toxic incidents occurring nearly every year in non-commercial harvests. Southeast Alaska Tribal Ocean Research (SEATOR) is now providing toxin testing support to SE Alaska communities and beyond, and federally funded Harmful Algal Bloom (HAB) research groups like Kachemak Bay National Estuarine Research Reserve now send their samples to SEATOR for testing, further reducing the demand for the DEC lab testing. Still, testing of commercial harvests are the only FDA approved toxin level indicator in many local communities.

**Private lab options** – The DEC is federally mandated to approve a testing lab. That requires a state shellfish authority approved inspector to periodically visit and certify that lab. SEATOR now provides testing, but it is not state or federally approved for commercial testing. During previous government shutdown threats, the industry looked at other state labs for assistance, but none were willing to add to their own workload. And while they might be willing in emergency circumstances, Alaska testing would get lowest priority, and even those labs would need to be approved by a State of Alaska inspector. Again, commercial growers are the only FDA approved source of toxin testing, and these activities act as a bellwether to nearby communities in their recreational harvesting activities.

**Fees** – Growers already pay permit fees to the DEC as well as lease fees to the DNR, and application fees for new leases recently increased 10x. Before implementing more fees, the state must take into consideration the existing costs to startup and operate in a highly regulated industry. An individual testing fee model would in the short term have the unintended consequence of pushing medium size growers to harvest larger quantities less frequently, and to harvest in dangerous winter and shoulder seasons when PSP testing requirements are lower. Small growers could not afford any fees and would stop farming altogether. According to the Southeast Alaska Regional Dive Fisheries Association (SARDFA), it would be the end of the geoduck dive industry, removing ~200 geoduck tests from the estimates. Overall, increased fees would mean fewer tests each year. DEC projections of testing as a revenue source would not be realized. If the number of tests drops at all the DEC has said that the per test fee would have to increase again to meet future budget projections quickly eliminating the shellfish industry altogether.

**Ocean chemistry** – Changes to ocean chemistry mean emerging HABS of concern, including ASP and DSP, not common in Alaska, but likely to become so if trends south of us continue to migrate north. The State should be responsible for supporting systems that increase health and safety of citizens by testing for toxins more frequently, with or without a commercial shellfish industry.

**Local economies harmed** – Every oyster sold at \$1 wholesale, fetches \$3 or more on a local restaurant menu, primarily from outside tourist dollars. A large majority of oysters grown in Alaska are sold in Alaska, however a much larger majority of oysters eaten in Alaska are brought in from outside. With more than 90% of Alaska's food imported, state legislators should support

a budget that invests in federally and state mandated infrastructure for lab testing and farm inspections to build in-state food security.

**TAKE AWAY MESSAGE** – State and federal governments have invested millions of dollars to grow the mariculture industry. State and federal staff have supported the idea of mariculture development and worked to:

- develop economic assessments about optimal farm size
- study and recommend farm siting locations
- offer sample business plans posted on Seagrant websites
- award grants for demonstration projects to produce new (untried) species
- consider grants to create training programs to expand the industry workforce
- issue loans and grants to support hatcheries

...and yet the state repeatedly and annually questions spending on the single most important aspect to support existing growers and keep the commercial shellfish industry viable and safe for human consumption: **PSP testing**. This must change!