

Keeping State & Local Parks Open



Using Public-Private Recreation Partnerships
Scottsdale Conference, November 2, 2011

Agenda

1:00-2:00 President's Welcome and Len Gilroy Keynote
Address (Sonora AB)

2:00-3:15 What are Recreation Public-Private Partnerships
(Salon 1)

- Definition and examples
- Advantages
- Dealing with the concerns

3:15-3:30 Break (Sonora Breezeway)

3:30-4:30 Bidding and Contracts (Salon 1)

4:30-5:00 Concession Economics (Salon 1)

5:00-5:30 Questions and Answers (Salon 1)

5:30-8:00 Joint Reception with the NFRA (Sonora Breezeway &
Sierra Loggia)

Typical State Parks Issues

- Only a few parks cover their operating costs with gate fees
 - Even this understates problem, as many operations costs are in HQ budget and aren't allocated to parks
 - The remainder must be made up with general funds, which are in great demand
- As budgets have declined, preventative and capital maintenance funds have fallen short of requirements, resulting in eroding infrastructure

Programs That Can Support Themselves With Fees Will Increasingly Be Asked to Do So

A measure of Fiscal Democracy shows there isn't much left, % of U.S. government revenue not already committed to mandatory programs

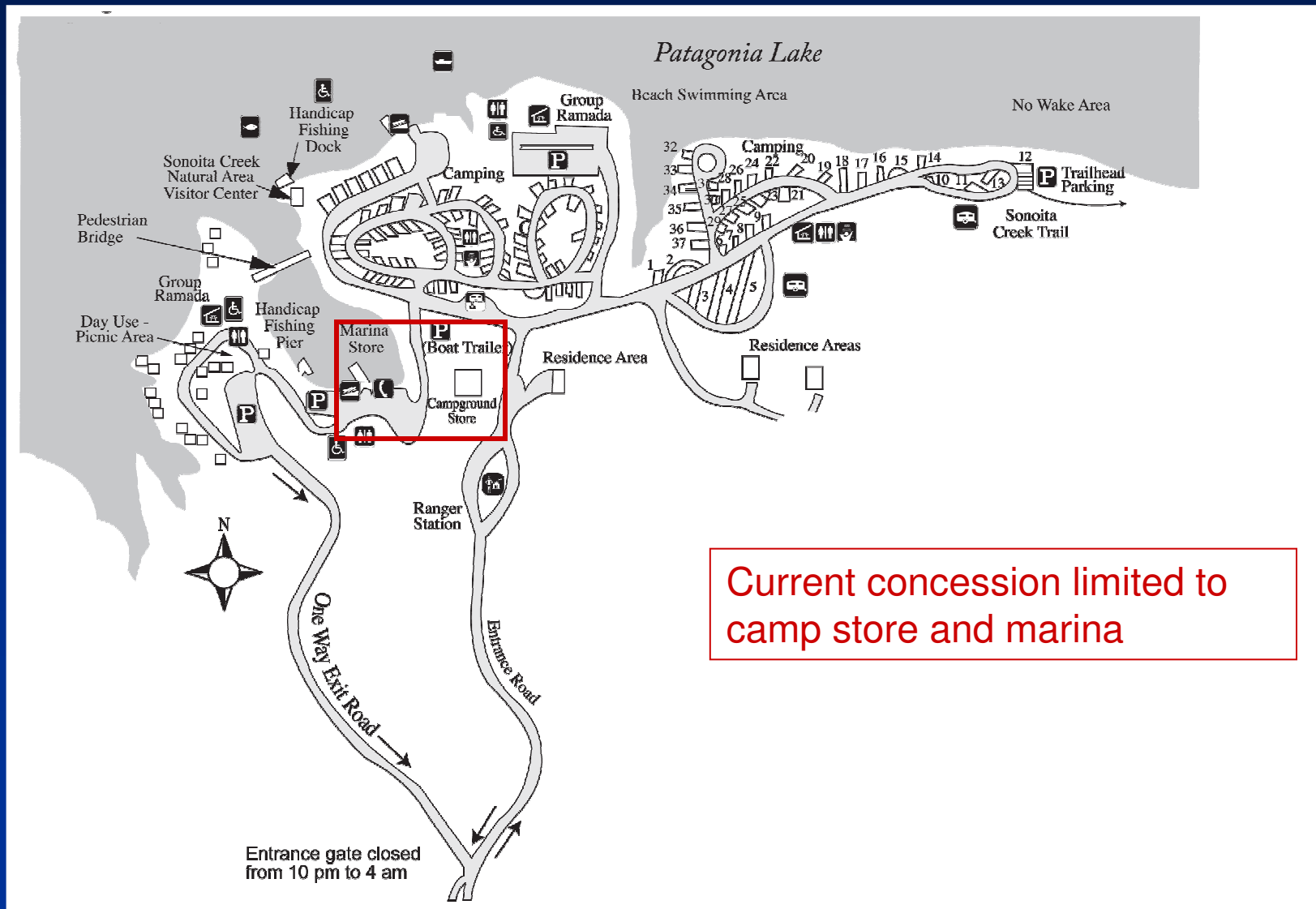


Source: CBO, J.P. Morgan Private Bank.

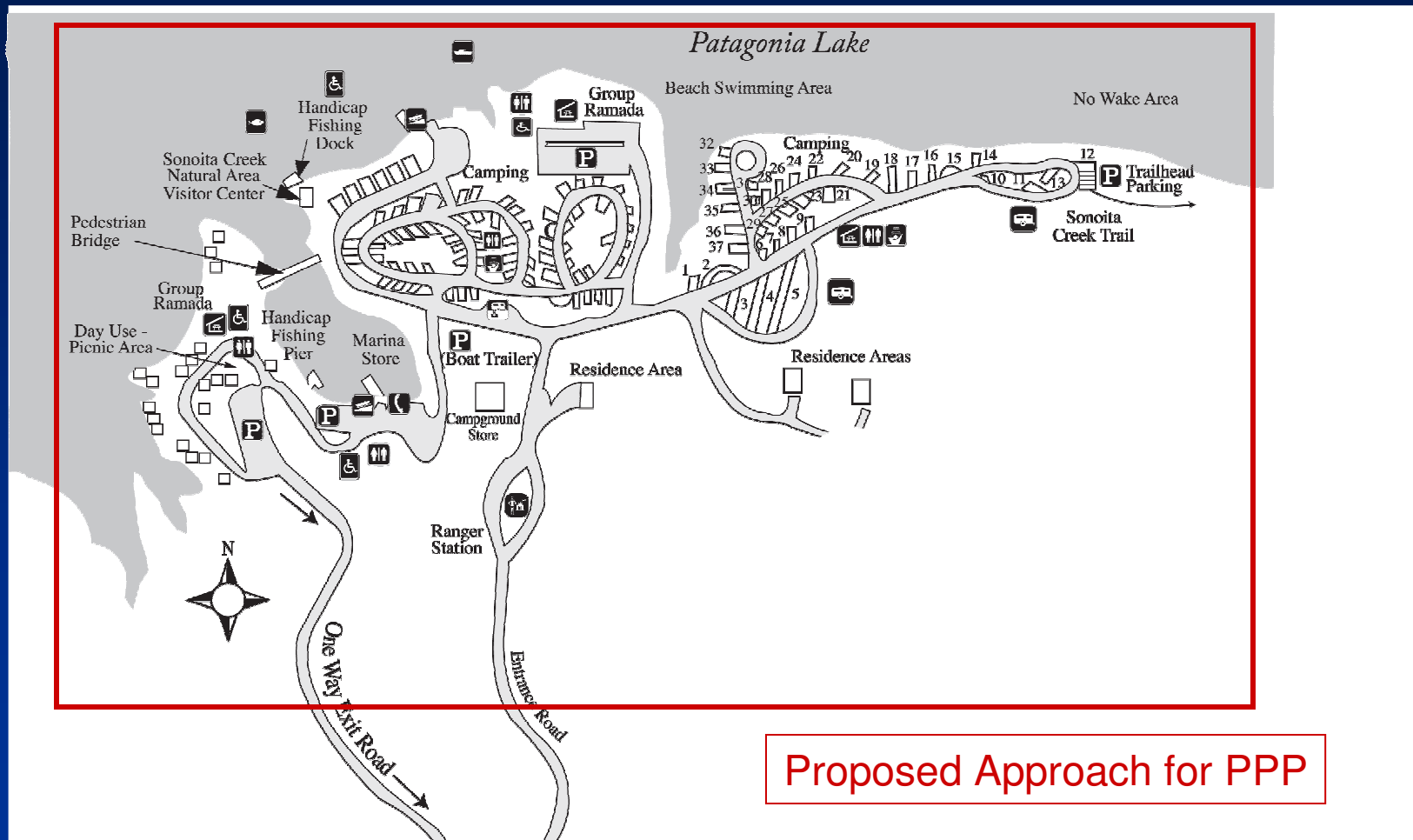
My Background

- President of Recreation Resource Management
- \$10 million annual fee revenue. 400+ employees (about the same number of visitors as Arizona State Parks). Over 150 locations in 11 states, **the vast majority of which are complete parks and campgrounds, not concession operations within a park.**
 - Complete parks or entire camping loops with US Forest Service, Tennessee Valley Authority, California State Parks, Lower Colorado River Authority and the United Water Conservation District
 - Concession stores and marinas for California State Parks, Arizona State Parks, Texas State Parks, and the National Park Service
- “But our parks are different!” Probably not. We operate in wilderness areas (where no machinery of any kind is allowed), in historic buildings, and even in parks plagued with gang and crime activity before we took over. We operate parks with as many as 10,000 visitors in a single day.

Many State Parks Currently Has Some Private Concessions, But These Are Narrow in Focus



We Are Discussing use of Private Companies to Manage Operations in the Entire Recreation Area



This approach is common in Federal (USFS, TVA, BLM) and local (counties, water and power districts) agencies

What's the Relationship Between Agency and Concessionaire?

Which statement is closest the relationship between the public agency and concessionaires?

1. Government to government contractor
2. Supervisor to contract service employees
3. Shopping mall landlord to individual store tenants
4. Agency to OHV permit holder

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Surprisingly, #3 comes the closest. Most recreation concession contracts are essentially a commercial lease, and are in many ways very similar to the leases stores sign in malls

How a Park Operations Partnership Works

- Agreements typically structured as a commercial lease with very detailed operating requirements and restrictions
- All operation expenses covered by gate fees – no subsidy from general revenue required
- In most cases, we can increase the net revenue to the public agency *and* earn a profit, due in large part due to lower-cost procurement, a well-honed and defined management process, and a lower cost and more flexible labor force
- Private management takes the park off the budget and removes it, forever, as a political football.
- Typical 30-50% cost savings

30-50% Savings Typical From Recreation PPP's Sources of Savings

- Lower labor costs via different labor model
 - Much lower hourly rate and benefits
 - Seasonal matching – even our park managers don't get paid when the park is closed
- Employees skills, interests, backgrounds better matched to the job at hand
- Refined, well-designed process
- Investment in technology
- Restructured law enforcement
 - Most state park law enforcement headcounts driven by employee incentives (valuable certifications, better benefits) rather than true demand

A Tale of Two Parks

- Red Rock SP (Arizona SP) and Crescent Moon Ranch Day Use Area (USFS, operated by private concessionaire) are right next to each other in Sedona
- Both are about the same size, facility mix, and visitation. Red Rock has more educational programs (e.g. guided hikes) while Crescent Moon is a bit more facility intensive (more bathrooms and ramadas).
- Red Rock charges \$10 per car, Crescent Moon charges \$9
- Red Rock had field operating expenses of \$395,000 vs. \$279,000 in gate fees, requiring an operating subsidy of about \$116,000
- In the same year, Crescent Moon had gate fees of \$305,000. Of that, the concessionaire paid \$54,900 in rent to the state and still earned an operating profit.

Public-Private Partnership



State Parks Role



Shared Role



Partner Role

Land Ownership

Strategy, Planning, Park Character, Facilities

Environmental Protection

Science, Rules-Making

Education

Mitigation / Compliance

Recreation

Oversight, Fee Approval

Operations, Staffing, Customer Service

Maintenance & Investment

Planning

Capital Investment

Routine Maintenance

Capital Maintenance Responsibilities Depends on Contract Length

State Parks Generally Have Two Sets of Activities

High Value / Strategic

- Land acquisition
- Planning
- Park facilities and character
- Environmental science and management
- Preservation
- Research
- Grant administration

Operational

- Bathroom cleaning
- Landscaping
- Painting
- Repairs and maintenance
- Fee collection
- Customer service

Partner Focus

Partnerships on the operational duties not only saves money, but enhances resources and focus for higher value activities

The Next Frontier – Park Improvement & Reconstruction

- The first thing public parks agencies cut when budgets are tight is maintenance
- Most state park agencies have millions of dollars of deferred maintenance
- Increasingly, park operations and concession contracts carry requirements for capital improvements

Example Projects Performed as the Cost of Getting the Operations Contract

- \$750,000 visitor center (Burney Falls)
- \$500,000 campground loop refurbishment and 24 new cabins (Burney Falls)
- \$100,000 docks replacement (Burney Falls)
- \$300,000 docks replacement (Lake Piru)
- \$250,000 bathroom replacement (Lake Piru)
- \$1,000,000 Campground rebuild including new store, contact center, gate house, site paving, and bathrooms (Honeycomb)

Example Private Investments in Public Parks



What About Non-Profits?

- Operating partners can be not-for-profits as well as for-profits
- Not-for-profits can often bring unique skills and passion (e.g. to historical sites and education)
- Not-for-profits can suffer from lapses in focus and financial resources

Addressing the Criticism

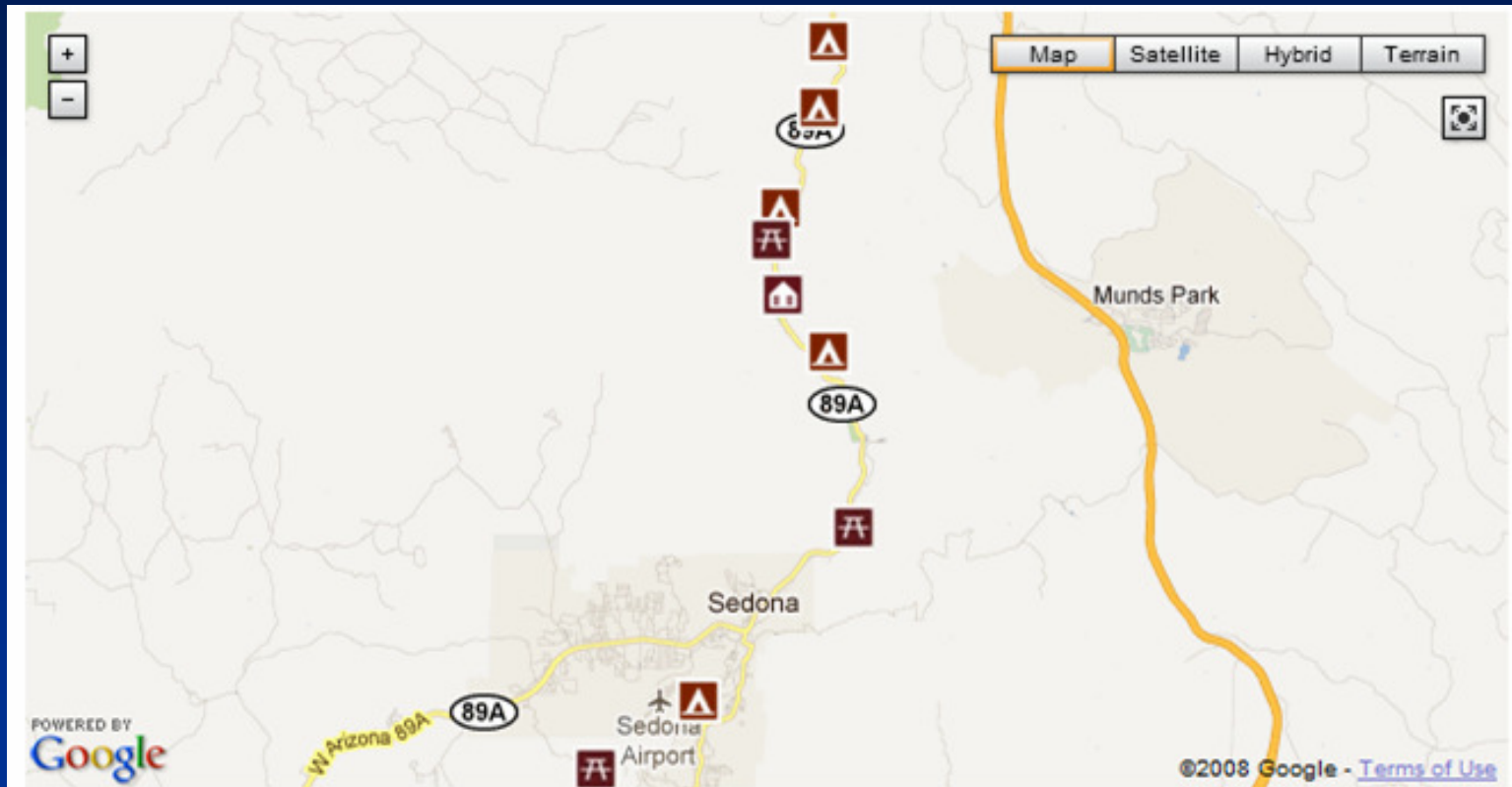
- There are certainly those who are skeptical about this model
 - In particular, they harbor fears of the public's loss of control over park character, access, fees, etc.
- There is no better way to address these fears than to visit a privately operated public park – over 1000 in western states alone

Critique 1: Cherry Picking

Private companies will simply take all the profitable high-revenue sites and leave the state with the money losers

- This is really a criticism of poor public agency contracting than the model itself
- Perhaps half of the 150 sites we run are small and lose money – but they are grouped with other sites so the whole package is attractive
- Example: Small campgrounds and parks are bundled with larger nearby parks.

Example Bundling – USFS Red Rock (Sedona) Concession



- These campgrounds, day use areas, stores, and visitor centers are grouped into a single contract
- Several pieces lose money (one has less than \$10,000 revenue a year) but as a whole they create a good business opportunity

Critique 2: Over-Development

Private companies will expand parking lots, put up billboards, build condos and put up a McDonalds in front of Old Faithful

- Of the over 30 contracts my company holds, not a single one allows us to construct or modify any facility without agency approval
- Concessionaires make money because people value the natural experience – why would they change this?
- Just go look at any concession-run park. For example, in the Sedona area, check out Slide Rock and Red Rocks State Parks vs Crescent Moon and Grasshopper Point and Cave Springs. There is no noticeable difference in level of development or facilities.

Critique 3: Increasing Fees

Private companies will just jack up fees to the public higher than would the public agency

- The opposite is true, which makes sense considering that lower costs of private operators can drive lower fees
- Fees to the public are typically part of bids, and all fee changes must be approved by the agency
- Public recreation serves the most price sensitive segment of the travel market
- Two examples:
 - State-run Slide Rock raised summer fees from \$10 to \$20. At neighboring sites, private concessionaire on USFS lands simultaneously lowered rates from \$10 to \$8-\$9.
 - California State Parks charge \$30 for primitive (no hookup) camping in most parks. We don't charge more than \$18 for any Forest Service campground we operate in California. State Parks asked us to raise our cabin rates to match their fee increases, and we refused

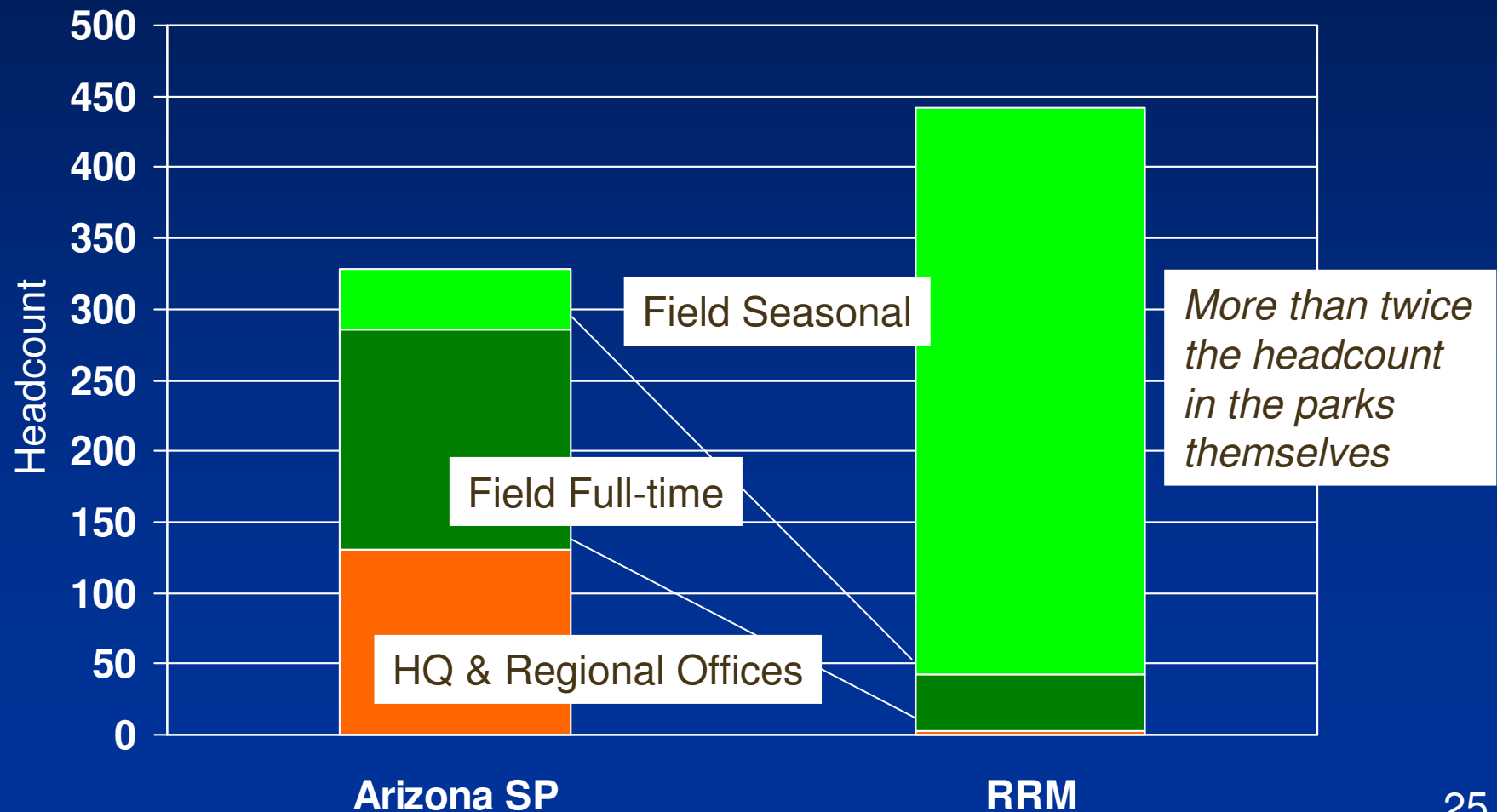
Critique 4: Quality

Private companies will just run the parks in the ground for profit

- This is easy to settle – just go visit some privately operated public parks in your area (call me and I can connect you with something near you)
- Three of the top 5 public campgrounds on the CampArizona 10-best list for 2009 were run by private concessionaires.
- The number 1 public campground in Arizona in an article by Sunset Magazine is by a private concessionaire (Cave Springs)
- Private incentives are well-aligned with the public's – if people don't want to come back to the park, they lose money
- Private operators often have more employees in each park (but a LOT fewer in headquarters)

Private Operators Have Lower Labor Costs, but More Feet on the Ground in Parks

Example: Arizona State Parks and RRM (a private park operator of public parks) have similar visitation and gate fee revenues, but different staffing models



Critique 5: Law Enforcement

State parks have large numbers of law enforcement officers that perform roles the private sector cannot

- Do not equate number of state park law enforcement people with demand. There are reasons why state park personnel might lobby for such a title irrespective of need (e.g. ability to carry a gun, higher LE pension)
- Typical law enforcement well under 1 FTE per park. Private companies tend to make deals with local sheriff's office
- Downside of Park LE officers – tend to handle customer service problems with law enforcement techniques (e.g. citations for non-payment of fees)

Partnership Challenges

- PPP's require a lot better understanding by both parties of the other's incentives
- For agencies, they must understand that the profit motive can be usefully harnessed, and does not by necessity lead to trashing treasured resources
- For private operators, they must be sensitive to community concerns that might be largely irrelevant if operating a private recreation site.

Agency Skills & Focus Must Shift

- Incentives and prestige based on great, well-maintained parks, not budget size and staff counts
- Hard to make good decisions about partner responsibilities without good internal cost data and a clear sense of each park's mission and desired character
- Skills shift from managing staff to managing contracts.