

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)

Objectives: Know Your Partner

- Introduce you to the economics of private campground concession operators
- Discuss the legal and business challenges faced by concessionaires
- Point out where agency rules and practices substantially affect concessionaire viability



Does your concessionaire sometimes freak out over issues you think are relatively small or trivial?

He or she may be crazy

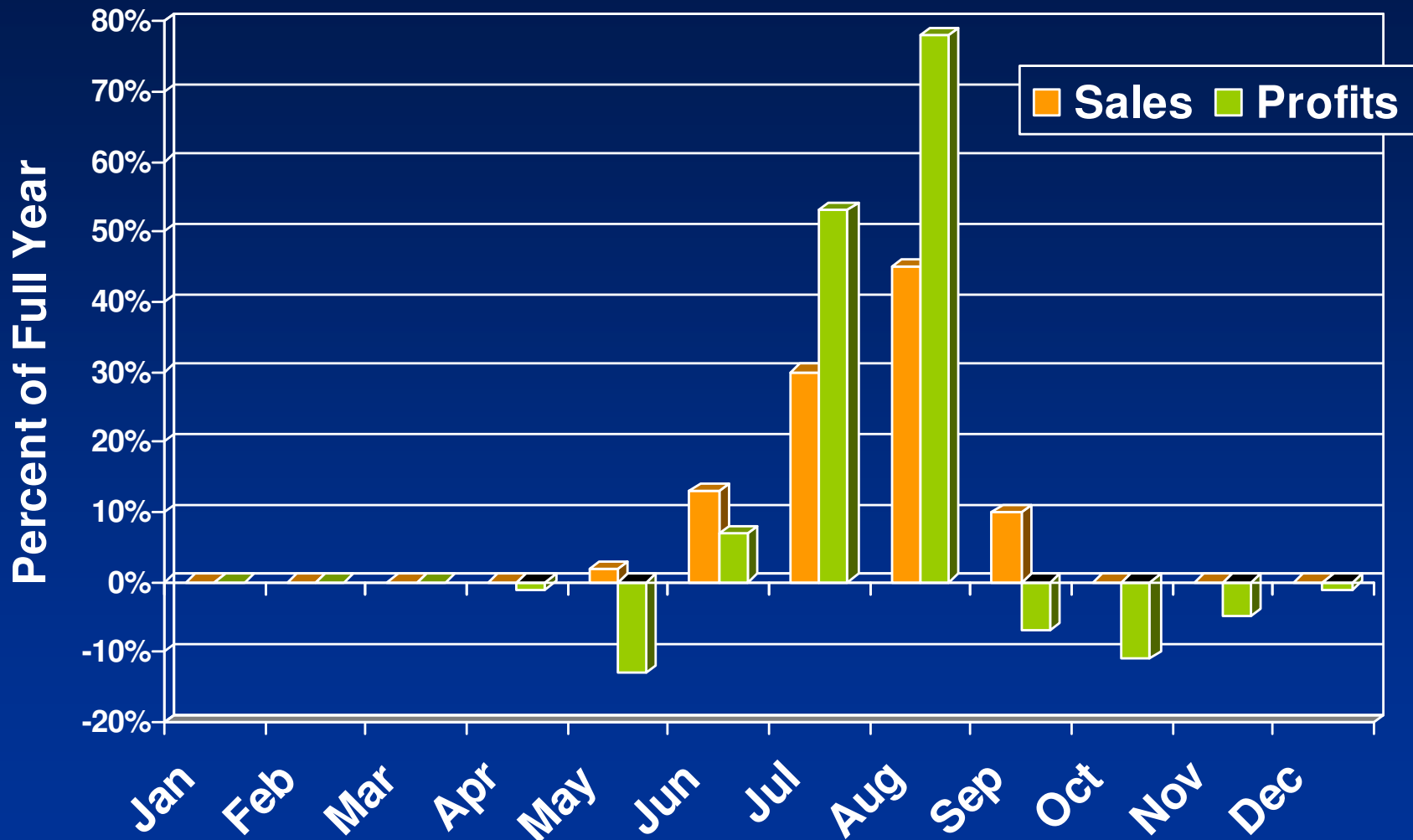
Or, there may be a very good reason...

Two Most Important Facts About Concessionaire Economics

1. Over 100% of concessionaire annual profits are often made in 8 weeks or less. The rest of the year loses money.
2. Concessionaires generally make single-digit profit margins, so small changes in costs or revenues can wipe out their income.

Campground Concession Revenue Profile

Seasonal Campground



Seasonal Concession: 131% of Annual Net Income in Just 8 Weeks

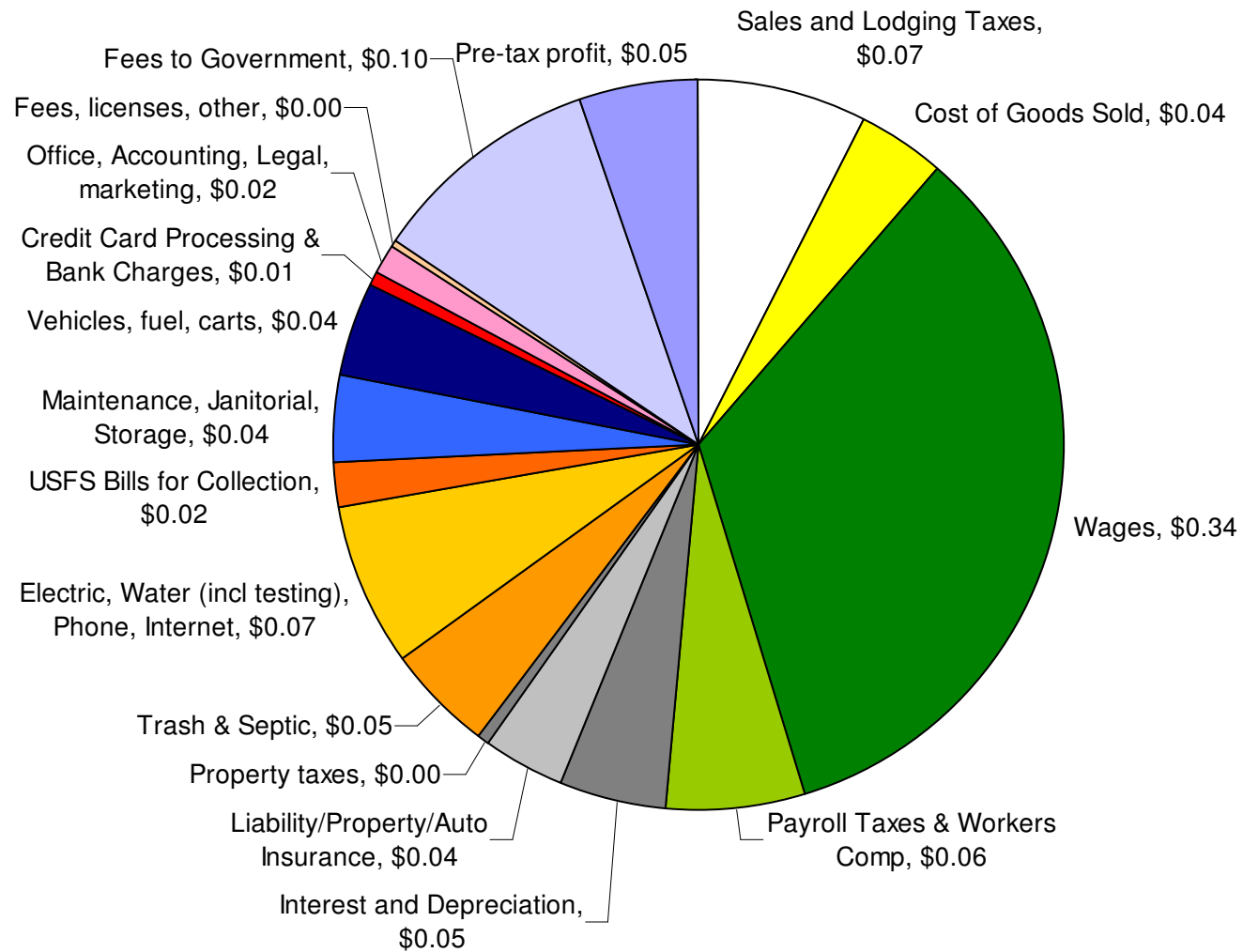
The Picture is Similar For An Year-Round Concession (Spring Break + Summer = 135% of Net Income)



Many year-round concessions are less profitable than seasonal ones

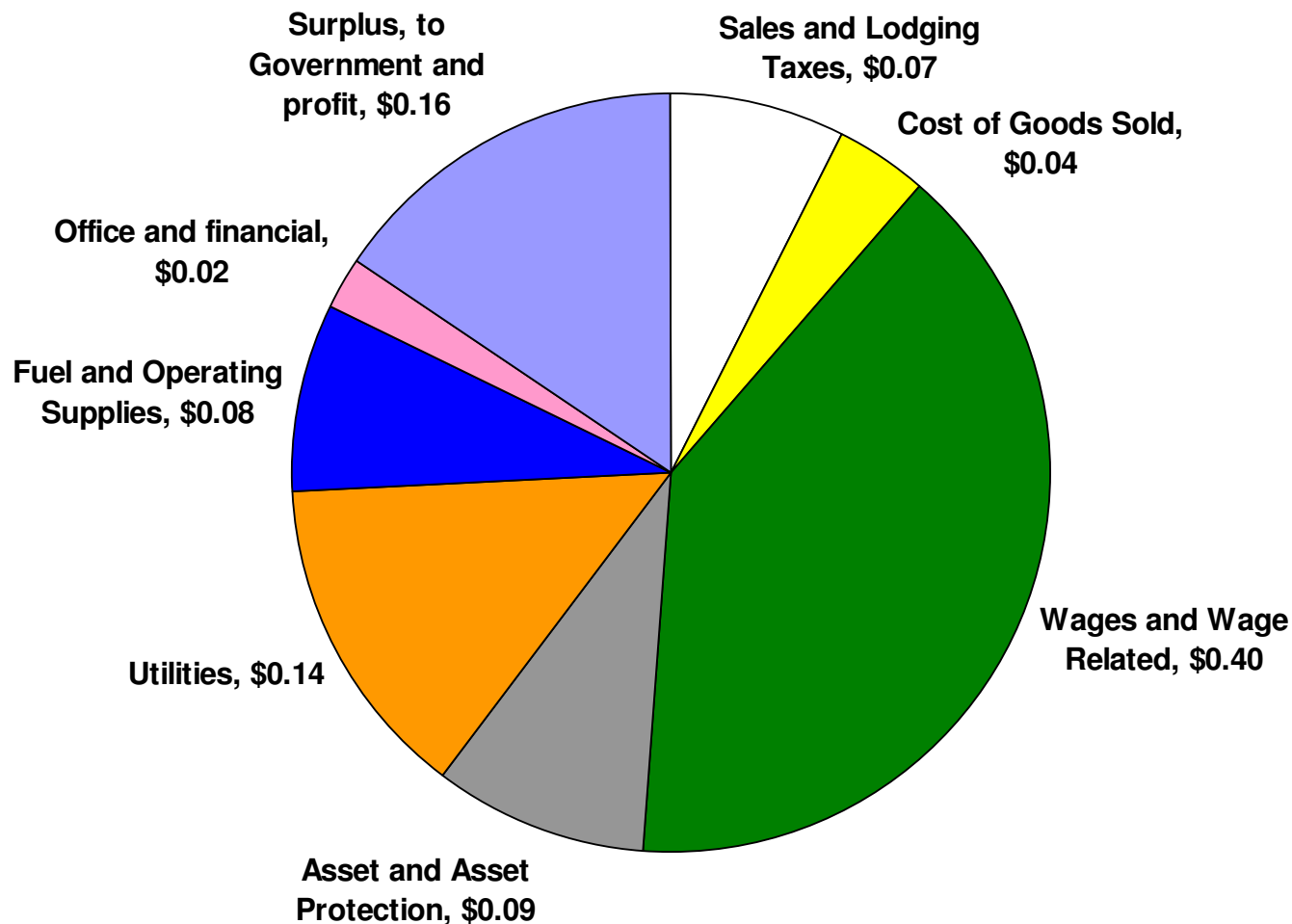
Dollar of Revenue Analysis

Where Does \$1 of Concessionaire Revenue Go?



Dollar of Revenue Analysis (Simplified)

Where Does \$1 of Concessionaire Revenue Go?



A Few Caveats

- These are just averages – costs can vary wildly by permit
- Costs are substantially affected by the mix of business – day use has a different profile than camping
- Costs also vary a lot by state

Sales and Lodging Taxes

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	<u>\$ 0.15</u>
Total Revenue	\$ 1.00

Discussion Topics

- MUST be collected by private concessionaires, even on Federal lands
- Not really a cost or even part of revenue, included here because taxes often embedded in camping fees
- Sales taxes typically 6-8%, sometimes apply to camping.
- Lodging taxes may or may not apply, and can run 8-13% or even more
- \$16 + 8% tax is \$16 fee plus \$1.28 tax for \$17.28 total
- \$16 including 8% tax is \$14.81 fee plus \$1.19 tax

Cost of Goods Sold

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	\$ 0.15
Total Revenue	\$ 1.00

Discussion Topics

- The COGS in a camping dollar depends on whether there are store sales, fire bans, etc.
- Typically 50-70% of the sales price for goods
- Firewood costs in particular vary a lot from forest to forest
- Fishing licenses have virtually zero margin
- Gasoline margins can be as low as a few cents

Wages & Wage Related Costs

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07	
Cost of Goods Sold	\$ 0.04	
Wages		\$ 0.34
Payroll Taxes & Workers Comp		\$ 0.06
Wages and Wage Related	\$ 0.40	
Asset and Asset Protection	\$ 0.09	
Utilities	\$ 0.14	
Fuel and Operating Supplies	\$ 0.08	
Office and financial	\$ 0.02	
Surplus	\$ 0.15	
Total Revenue	\$ 1.00	

Discussion Topics

- Private companies on public lands are subject to the Fair Labor Standards Act
 - Cannot use volunteer labor – minimum wage applies
 - May be able to credit value of site against minimum wage requirements, but complicated and varies by state
 - Service Contract Act generally does not apply, **but care must be taken (no non-fee areas)**
- Substantial labor burden beyond base wage
 - ~8% in FICA and Medicare
 - 1%-6% in state unemployment
 - 5%-15% in workers comp.
- New health care law (PPACA) could raise these costs 10-20% (add \$0.75-\$1.50 a night to camping rates)

Assets and Asset Protection

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Interest and Depreciation	\$ 0.05
Liability/Property/Auto Insurance	\$ 0.04
Property taxes	\$ 0.00
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	\$ 0.15
Total Revenue	\$ 1.00

Discussion Topics

- Asset depreciation and interest charges don't typically appear in Agency budgets, but they are important costs to us (vehicles, carts, tools, boats, etc)
- Liability insurance costs are sky-high.
- Property insurance often-misunderstood issue in permits
 - Covers damages for which we are responsible for our acts and omissions, not acts of god, for which most agencies are self-insured
 - Property insurance must insure specific listed assets with specific values – not blanket coverage

Assets and Asset Protection (continued)

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Interest and Depreciation	\$ 0.05
Liability/Property/Auto Insurance	\$ 0.04
Property taxes	<u>\$ 0.00</u>
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	<u>\$ 0.15</u>
Total Revenue	\$ 1.00

Discussion Topics

- We often pay property taxes on equipment and sometimes even on federal assets (via leasehold excise taxes). The agency really owes it to concessionaires to disclose the existence of a leasehold excise tax to bidders.

Utilities

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Asset and Asset Protection	\$ 0.09
Trash & Septic	\$ 0.05
Electric, Water (incl testing), Phone, Internet	\$ 0.07
Bills for shared services	<u>\$ 0.02</u>
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	<u>\$ 0.15</u>
Total Revenue	\$ 1.00

Discussion Topics

- Trash and septic are tremendously expensive and often rely on monopoly providers with high pricing
- Agency may bill concessionaire for their share of shared services (e.g. a shared sewage plant)
- The magnitude of this billing must be disclosed in the original Prospectus
- Responsibility for off-season utility bills usually rests with the agency

Fuel and Operating Supplies

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Maintenance, Janitorial, Storage	\$ 0.04
Vehicles, fuel, carts	<u>\$ 0.04</u>
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Surplus	<u>\$ 0.15</u>
Total Revenue	\$ 1.00

Discussion Topics

- Concessionaires make different choices on vehicles, carts and equipment – some companies provide them, some expect hosts to use their own.
- Fuel prices have risen substantially and are a growing cost

Office and Financial

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07	
Cost of Goods Sold	\$ 0.04	
Wages and Wage Related	\$ 0.40	
Asset and Asset Protection	\$ 0.09	
Utilities	\$ 0.14	
Fuel and Operating Supplies	\$ 0.08	
Charges		\$ 0.01
Office, Accounting, Legal, marketing		\$ 0.02
Fees, licenses, other		<u>\$ 0.00</u>
Office and financial	\$ 0.02	
Surplus	<u>\$ 0.15</u>	
Total Revenue	\$ 1.00	

Discussion Topics

- Credit card costs depend on how much volume via credit cards. A good rule of thumb is that possessing costs 3% of credit card revenues

Surplus to Government & Profit

Where Does a Camping Dollar Go?

Sales and Lodging Taxes	\$ 0.07
Cost of Goods Sold	\$ 0.04
Wages and Wage Related	\$ 0.40
Asset and Asset Protection	\$ 0.09
Utilities	\$ 0.14
Fuel and Operating Supplies	\$ 0.08
Office and financial	\$ 0.02
Fees to the government	\$ 0.10
Concessionaire profit	<u>\$ 0.05</u>
Surplus	<u>\$ 0.15</u>
Total Revenue	\$ 1.00

Discussion Topics

- When bidding, concessionaires are essentially proposing how they will split the surplus with the government
- In USFS concessions, the government almost always gets a larger part of the surplus than the concessionaire.
- Fee offset maintenance is a win-win for the agency and the concessionaire
 - Fees improve the park, rather than going back to the Treasury

Common Misconception

“I remember what our budget used to be when we ran this permit area, and based on your revenues you must be making a fortune!”

-- USFS Permit Administrator

How do we reconcile this common USFS belief about concessionaire profitability with the numbers I have been presenting?

You Must Make A Ton of Money!

Sample Concessionaire P&L

Sale / Revenue	\$ 1.00	
Sales and Lodging Taxes	\$ 0.07	
Cost of Goods Sold	\$ 0.04	
Wages		\$ 0.34
Payroll Taxes & Workers Comp		<u>\$ 0.06</u>
Wages and Wage Related	\$ 0.40	
Interest and Depreciation		\$ 0.05
Liability/Property/Auto Insurance		\$ 0.04
Property taxes		\$ 0.00
Asset and Asset Protection	\$ 0.09	
Trash & Septic		\$ 0.05
Electric, Water (incl testing), Phone, Internet		\$ 0.07
USFS Bills for Collection		<u>\$ 0.02</u>
Utilities	\$ 0.14	
Maintenance, Janitorial, Storage		\$ 0.04
Vehicles, fuel, carts		<u>\$ 0.04</u>
Fuel and Operating Supplies	\$ 0.08	
Credit Card Processing & Bank Charges		\$ 0.01
Office, Accounting, Legal, marketing		\$ 0.02
Fees, licenses, other		<u>\$ 0.00</u>
Office and financial	\$ 0.02	
Fees to government	<u>\$ 0.10</u>	
Concessionaire Profit	\$ 0.05	

Discussion Topics

- The USFS doesn't bear certain costs
 - \$0.07 Sales and Lodging Taxes
 - Local Property and Leasehold Excise Taxes
- The USFS doesn't include certain costs in their facility budgets
 - \$0.03 Workman's comp
 - \$0.09 Asset & Insurance
 - \$0.10 Fee to government
- Other costs may or may not show up on facility budgets
 - \$0.04 Vehicle maintenance
- So our \$0.05 profit looks, internal to the USFS, like \$0.35 - \$0.40
- It does not cost the USFS less, it is just accounted for differently

You Must Make A Ton of Money!

Sample USFS Budget

Sale / Revenue	\$ 1.00	
Sales and Lodging Taxes	\$ -	
Cost of Goods Sold	\$ 0.04	
Wages		\$ 0.34
Payroll Taxes & Workers Comp		<u>\$ 0.03</u>
Wages and Wage Related	\$ 0.37	
Interest and Depreciation		\$ -
Liability/Property/Auto Insurance		\$ -
Property taxes		\$ -
Asset and Asset Protection	\$ -	
Trash & Septic		\$ 0.05
Electric, Water (incl testing), Phone, Internet		\$ 0.07
USFS Bills for Collection		<u>\$ 0.02</u>
Utilities	\$ 0.14	
Maintenance, Janitorial, Storage		\$ 0.04
Vehicles, fuel, carts		<u>\$ 0.04</u>
Fuel and Operating Supplies	\$ 0.08	
Credit Card Processing & Bank Charges		\$ 0.01
Office, Accounting, Legal, marketing		\$ 0.02
Fees, licenses, other		<u>\$ 0.00</u>
Office and financial	\$ 0.02	
Fees to government	\$ -	
USFS Surplus	\$ 0.35	

Discussion Topics

- The USFS doesn't bear certain costs
 - \$0.07 Sales and Lodging Taxes
 - Local Property and Leasehold Excise Taxes
- The USFS doesn't include certain costs in their facility budgets
 - \$0.03 Workman's comp
 - \$0.09 Asset & Insurance
 - \$0.10 Fee to government
- Other costs may or may not show up on facility budgets
 - \$0.04 Vehicle maintenance
- So our \$0.05 profit looks, internal to the USFS, like \$0.35 - \$0.40
- It does not cost the USFS less, it is just accounted for differently

What It Takes to Wipe Out A Year's Profit

Assuming 8% pre-tax margin



- One week unexpected closure in the summer (assuming costs still incurred)
- \$1.00 minimum wage increase
- 8% of customers using some sort of free pass
- 4-6 week extension of dates required to be open in low-visitation shoulder seasons
- A doubling of insurance rates