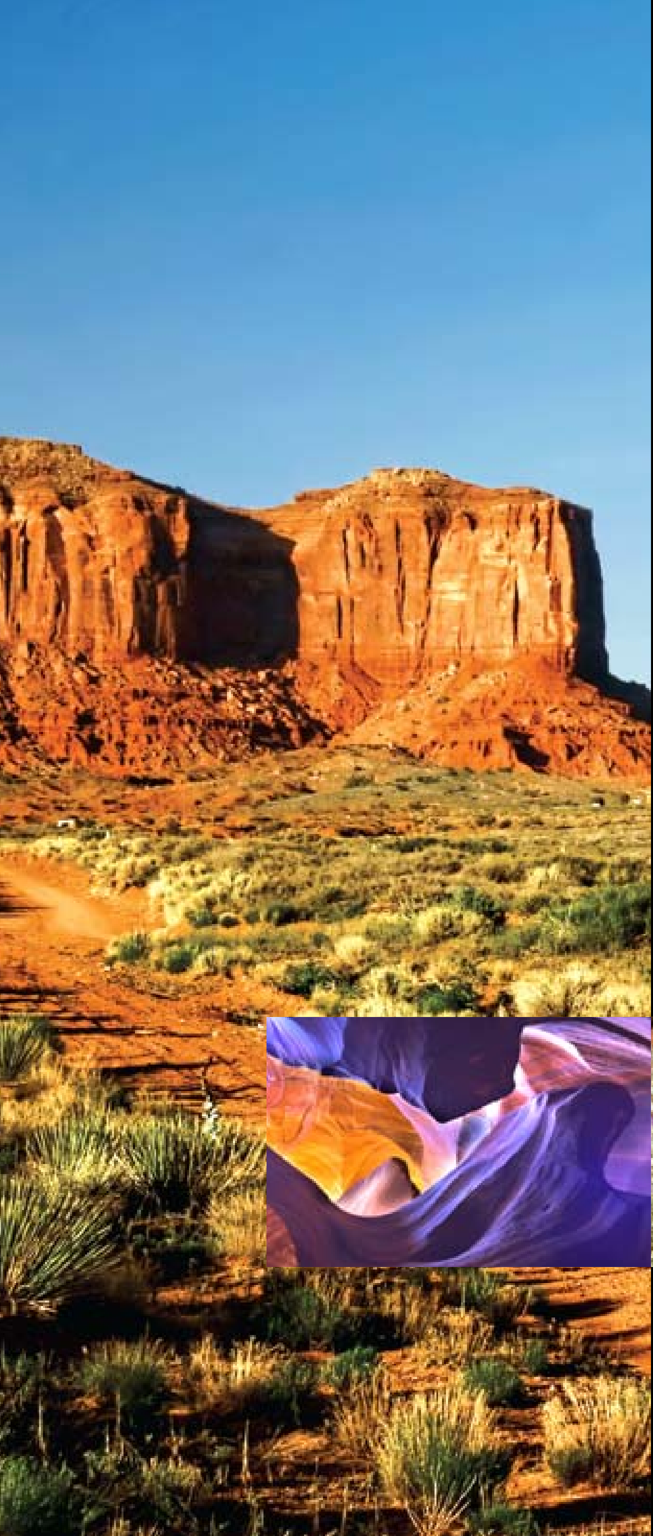
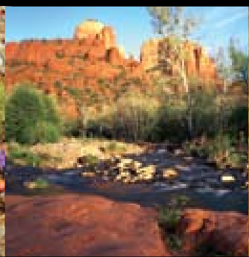
PERC Case Studies



Funding Parks:

Political versus Private Choices


By Holly L. Fretwell

Edited by Laura Huggins

> "Throughout their existence, our nation's state parks have been challenged to serve a growing public while preserving each state's natural and cultural heritage. That challenge has been intensified in recent years due to shrinking general fund support."
>
> —Leal & Fretwell (1997)

State park systems that rely on tax dollars provided through state general funds ride a budget roller coaster. When state budgets are tight, park allocations wane and lead to threats of park closures or reduced services. When state budgets expand, so do park systems' addiction to tax dollars. Adjustments to overcome budget shortfalls could be made to sustain parks in the future and maintain more stable funding. Unfortunately, such adjustments are not often undertaken.

This case study explains the trouble with public park management and the status quo of politically-determined funding. It then offers private management of public parks as an alternative to help park managers become better stewards and keep parks open.

BACKGROUND

State parks cover nearly 14 million acres across the United States and receive more than 700 million visits each year—more than twice as many visits as the National Park Service (NPS) but on less than 20 percent of the acreage.

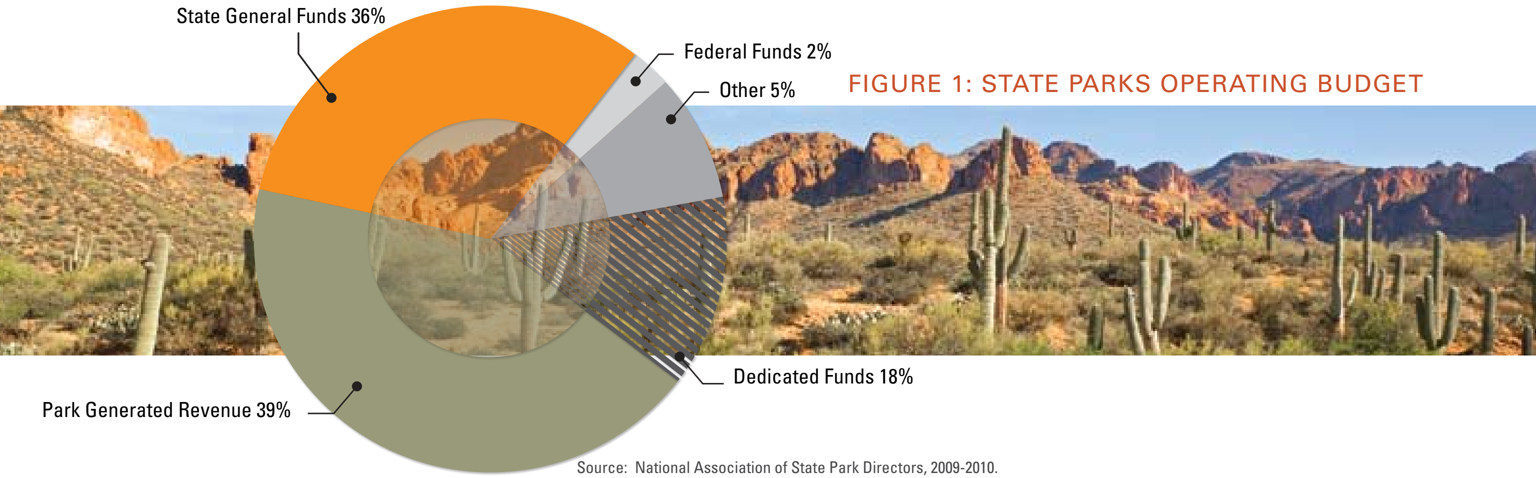
State parks are diverse and serve a variety of purposes. There are recreational parks for hiking, skiing, sightseeing, and family gatherings. Some parks provide wildlife habitat and protect watersheds. Others preserve cultural and historic sites.

Similar to the NPS, most state park systems are funded primarily by government appropriations and user fees. While national parks are dependent on congressional appropriations for more than 85 percent of expenditures, only about 36 percent of the average state park system is funded by state general funds. The remainder is from park fees and special funds dedicated for park use.

Park funding is a lower priority than many other state-funded projects such as schools and hospitals. Hence, when state budgets are tight, park budgets are quick to hit the chopping block. The 2007–08 financial crisis, for example, brought many states to their knees as tax revenues declined and welfare expenditures increased. Shrinking budgets mean service cuts and often the threat of park closures; nine states proposed park closures between 2009 and 2011.

While closures can temporarily help state agencies address budget

FIGURE 1: STATE PARKS OPERATING BUDGET



Source: National Association of State Park Directors, 2009-2010.

shortfalls, the threat of closure is often a political ploy used to maintain or increase park funding. In 2011, the Florida Parks Department threatened to close 53 state parks to satisfy budget cuts. Soon after the announcement, governor Rick Scott declared that there would be no cuts to park appropriations. Known as the "Washington Monument Strategy," the threat of closing a popular park can create citizen uproar, which motivates politicians to enhance park appropriations or retain previous funding levels.

During the latest budgetary crisis some states reanalyzed alternative methods of funding and managing state park systems. In 2010, Arizona commissioned park efficiency studies and New Jersey created a park privatization task force. Utah commissioned a privatization policy board in 2009 and a park performance audit in 2011.

It is not necessary for park budgets to be threatened during state fiscal crises. Nor do state agencies need to recreate the wheel for more stable park funding. There are several examples of private firms operating public facilities that are not subject to the same political appropriations process. A focus on

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the Arizona state park system helps clarify a few of the important issues and proposed alternatives for state parks nationwide.

ARIZONA STATE PARKS

More than half of Arizona is owned and managed by a public agency. It is home to 22 national parks and 32 state parks, totaling nearly 3 million acres.

Historically, about half of the funding for Arizona State Parks (ASP) has come from the state general fund with the remainder provided by a handful of dedicated funds and park revenues.

In 2000, general funds covered 46 percent of the park system. General funds, however, are sporadic and follow the trend of the state budget. In 2010, appropriations for park operations were cut to zero (MIPP 2009, 24). Park operations were to be funded from park-generated revenues and various dedicated funds— revenues collected from special taxes, registration fees, or lotteries that are committed for park system expenditure. Although seemingly less subject to political disruption, even dedicated funds are often raided when state budgets are tight. A portion of ASP dedicated funds that were earmarked for acquisition and development have been siphoned into operations to help cover funding shortfalls (GTF 2009, 10–11). The legislature also “swept” cash out of park dedicated funds and into other state appropriations (MIPP 2009, 12).

Sweeping funds away from park operations has left parks poorly maintained. Deferred maintenance needs are more than $200 million in Arizona. Drinking and wastewater systems in the parks are not up to code and the structural integrity of some buildings is in question (GTF 2009, 4).

“Arizona Parks are crumbling before our eyes," according to the parks task force. "The entire system is on the verge of collapse.” (GTF 2009, 4).

Several studies have been commissioned to improve the stewardship of Arizona’s state parks. Recommendations include fundraising mechanisms, such as increasing dedicated funds, taxes, and general fund support (MIPP 2009) as well as creating a “quasi-government entity” to manage parks (PROS 2010).

Another option, sometimes referred to as park privatization, is private leasing—contracting for operational activities without ownership transfer. More than a traditional concession, where a single shop or activity is run by the private sector, a lease can entail private management of a full park or unit.

There are numerous private leases on public lands demonstrating the potential benefits. Over the past 50 years, the Forest Service has leased campgrounds. In fact, nearly half of all Forest Service campgrounds are managed by private entrepreneurs. Most campers are unaware of leases because,

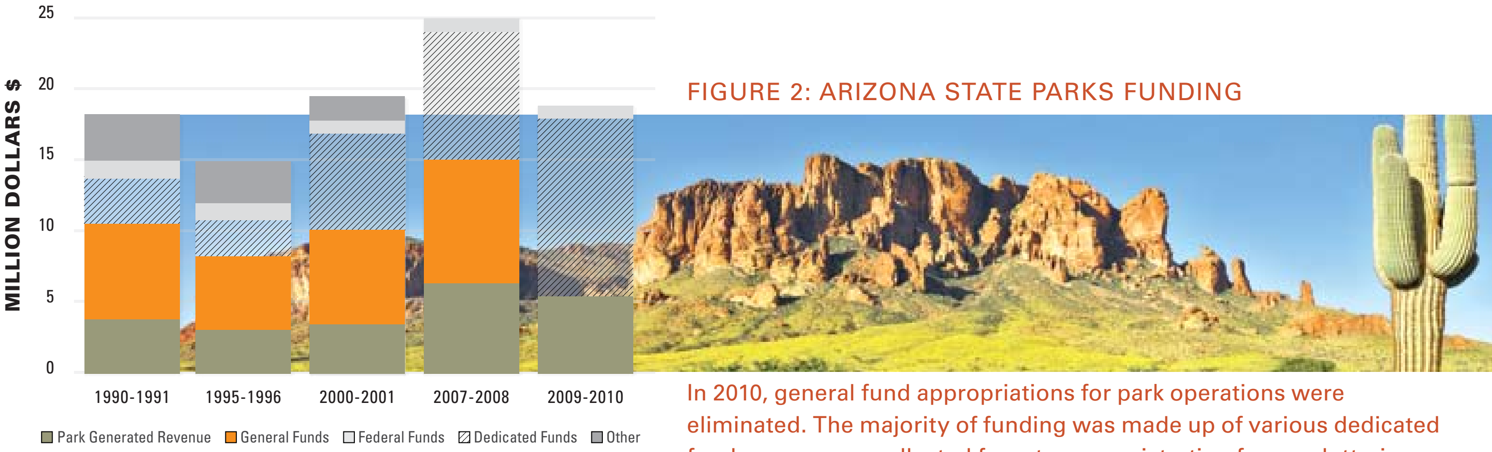

FIGURE 2: ARIZONA STATE PARKS FUNDING

In 2010, general fund appropriations for park operations were eliminated. The majority of funding was made up of various dedicated funds—revenues collected from taxes, registration fees, or lotteries.

unlike a KOA with swimming pools and laundromats, the wild and scenic amenities remain protected. Many of these sites were once a drain on agency funds, but are now generating revenue.

While many private enterprises compete for public land leases, a closer inspection of one outfit can help explain the basic contract and dispel a few myths.

A CLOSER LOOK

Recreation Resource Management (RRM), founded in 1988, is the largest private park management operation in the United States. RRM leases the rights to run state and federal recreation sites. The company manages more than 175 recreation units in 12 states, including 35 recreation sites in Arizona.

Under private leases, the public agency maintains control and ownership of the unit and defines the goals of park management. The lease contract describes the parameters that must be met to align private management with the agency goals and its site objectives. The agency authorizes any changes in fees, facilities, or operations policies and sets the terms of the lease length and cancellation policy. The private lessee is then responsible for operational tasks, such as visitor services, fee collection, maintenance, cleaning, and some infrastructure management.

Typically, the lessee pays an annual lease, or rental fee, in addition to a percentage of the total fees earned. The user fee is often the same as was previously charged by the public agency. Rents paid to the public agency by RRM are usually greater than net revenues earned prior to the contract (RRM 2011). Additionally, RRM expenditures are lower due to increased efficiencies and lower labor costs. Private

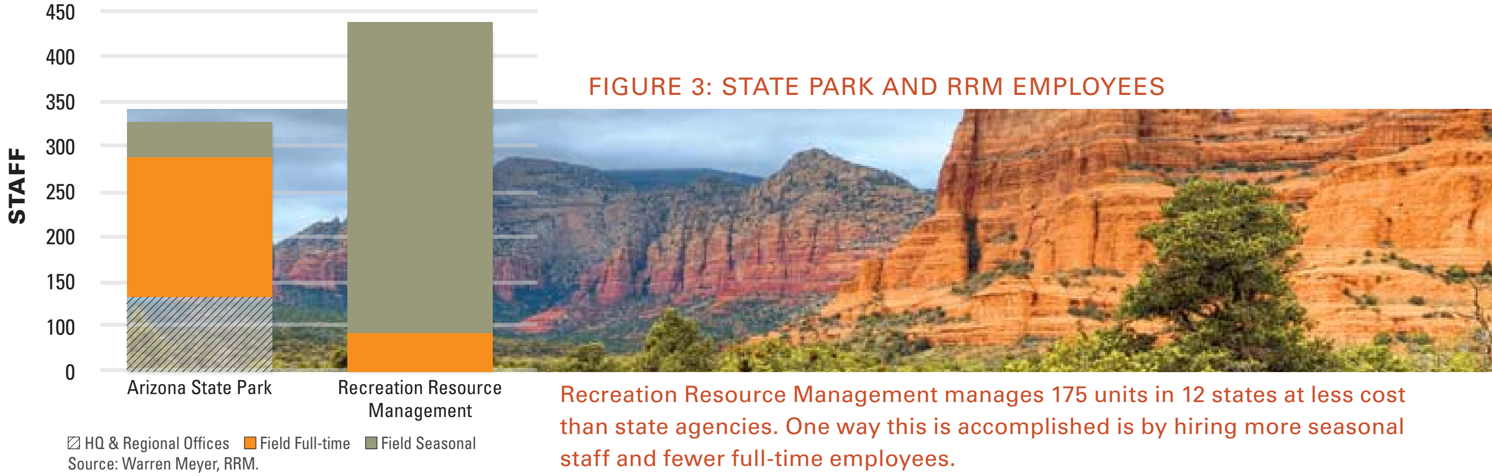

FIGURE 3: STATE PARK AND RRM EMPLOYEES

Recreation Resource Management manages 175 units in 12 states at less cost than state agencies. One way this is accomplished is by hiring more seasonal staff and fewer full-time employees.

entrepreneurs can take advantage of a more flexible labor force than the government bureaucracy.

Under agency directive, RRM has invested in maintaining and replacing infrastructure to enhance the visitor experience. New composting toilets, showers, and visitor center renovations on Forest Service lease sites are just a few recent examples. In the past four years, RRM has invested more than $3 million in capital maintenance and restoration and more than $2 million in new facilities and replacements.

Rents received by the public agency are also used to cover capital expenses. The Forest Service, for example, reinvests all revenues earned from leases into the district where they were generated.

General visitor comments are positive, as RRM and other private park managers must respond to visitors for revenues. RRM campgrounds have made the list of the top 100 family campgrounds with active.com for the past decade. They have also been on the top ten list at camparizona.com. Without visitors, private park managers would be out of business; public agency personnel, on the other hand, can turn to political appropriations.

Although ASP threatened to close 13 parks in 2010 and RRM proposed to lease six of those parks, ASP declined the opportunity. The Arizona parks studies commissioned that year anticipated “cherry picking”—when private firms lease only profitable parks. The fear is that taking the profitable parks off the state’s books will lead to increased government expenditures for those parks with little profit potential. The lessee often takes money-losing parks, however, and turns them into revenue generators. The lessee pays the management expenses and collects revenues, reducing government expenditures, then pays the government a portion of the proceeds. The public agency nets a positive return.

An alternative to cherry picking is to bundle profitable and non-profitable units into a contract. RRM already leases several recreation site bundles on Forest Service land in Arizona, where it provides a net positive return to government agencies. On the 35 Forest Service sites in Arizona that RRM leases, it is estimated that only seven would generate a positive return alone.

Recreation Resource Management has proposed to lease all Arizona state parks except Kartchner Caverns. Kartchner is the biggest revenue generator in the system and therefore less beneficial to the state for private leasing. RRM estimates that it could save ASP $6.65 million annually under the lease proposal, which would reduce the needed ASP appropriations by one-third, with no park closures (RRM 2011).

The trepidation of ASP is ill-founded and based on misunderstanding. Parks provide constituents with visible benefits that can assist bureaucrats in enhancing agency budgets, but enacting the Washing-

Kartchner Caverns is the biggest revenue generator in the system and therefore less beneficial to the state for private leasing.

ton Monument strategy requiring parks to run on state coffers is myopic.

Private management of public parks provides a multitude of benefits to the public (see box below).

BENEFITS OF PRIVATE MANAGEMENT

- Government expenditures are reduced and there is no subsidy for park operation.
- Government revenues are increased with a fixed rental payment in addition to a percent of revenues earned.
- Motivated by profit, the private manager is driven to produce a high-quality experience at the lowest cost.
- Services are often increased to attract more visits and repeat customers.

Perhaps the greatest benefit of allowing private management of public parks is the incentive for consistent, quality stewardship. The private manager must be customer-service based; the visitor is the first line of accountability. By contrast, the public administrator can, and sometimes must, bow instead to politics, subjecting parks not only to budget fluctuations but also to political whims.

As president of RRM, Warren Meyer (2011), stated in a 2011 press release, “The objective is to form a partnership combining the public oversight and unique environmental knowledge of the state parks agency with the efficiency and customer service of a private company that can clean and maintain the parks without the need for a taxpayer subsidy. In doing so, we can help achieve financial sustainability for the public parks system.”

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