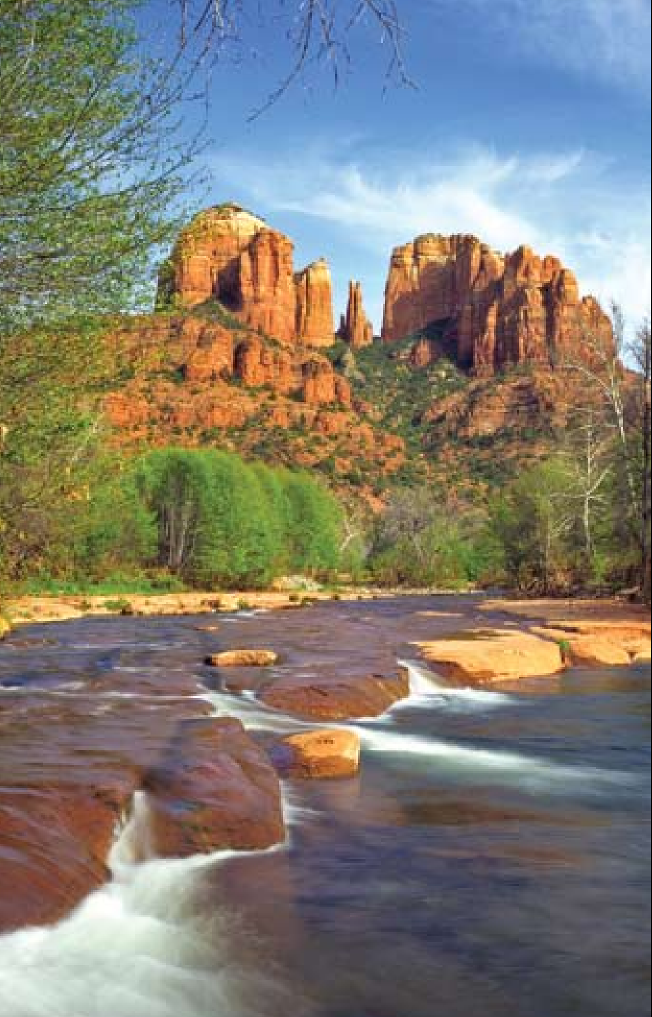

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A Tale of Two Parks

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In 2010, Arizona announced it would have to close Red Rock State Park near Sedona due to budget shortfalls. Despite collecting nearly $300,000 a year in admissions fees, the park needed hundreds of thousands of dollars of additional tax money to meet its operating costs—money the state did not have. The park also had a growing maintenance backlog, as years of budget shortfalls forced park staff to skip critical repairs.

Next door, the U.S. Forest Service owns Crescent Moon Ranch, a nearly identical public park with similar facilities, visitation, and revenues. The fee revenue at this park, however, not only keeps the park fully maintained, it supports a visitor center down the road and adds more than $60,000 to the local Forest Service recreation budget—all without requiring tax money to operate.

WHY THE DIFFERENCE?

Thirty years ago, the Forest Service adopted a radically different model for operating its public recreation areas. The agency partners with private companies that substantially reduce its costs while providing more accountability for customer service.

People are often surprised at how expensive it can be to operate a public park. It's just a piece of open land, right? But public parks require a tremendous amount of labor for tasks such as cleaning bathrooms, picking up trash, and mowing the lawn. Everything from buildings to trails to barbeque grills requires constant maintenance under the onslaught of heavy use in a popular area. Beyond the labor costs, utility bills must be paid, insurance must be purchased, and equipment such as trucks must be bought and maintained.

Public agencies can quickly become overwhelmed, particularly by labor costs, which can make up more than 80 percent of their expenses. A key problem is that the skill set of their labor force is often poorly matched with the majority of the work in the park. Parks agencies tend to hire full-time outdoor education and environmental science majors. Although bright and highly motivated by a love of nature, they are not always a good fit—both in cost and disposition—for seasonal work such as bathroom cleaning and landscaping. Many parks agencies exacerbate the problem by requiring employees to obtain a law enforcement certification, which substantially increases their pay and benefits but does little to improve customer safety or satisfaction.

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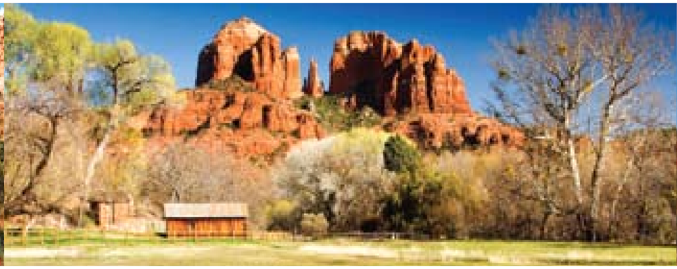
As a result, even when public agencies charge entry fees (Arizona State Parks charge $10 per vehicle for most of its parks), these fees typically cover only about half of their operating costs. The rest must be made up from state general funds—funds that are increasingly in short supply. As state governments take on bigger and more expensive tasks, such as providing health care, money for parks is often squeezed.

The Forest Service faced these same budget problems sooner than most agencies. Traditionally, much of its recreation program was paid for by timber fees and mining royalties. As environmental and other economic pressures began reducing this income source, the Forest Service was faced with a choice, either close campgrounds and recreation areas or find a cheaper way to operate them.

The seeds of an answer already existed. For decades, the Forest Service, like the National Park Service and other agencies, used private concessionaires to provide customer amenities such as lodges or boat rentals in public recreation areas. The Forest Service decided to take this one step further and experiment with private management groups operating entire units on a concession basis.

It took years of experimentation and growth in the private concessionaire industry for the program to reach its goals. Today, more than 1,000 campgrounds and recreation areas are operated by private companies under the supervision of the Forest Service. All of these parks remain open and well-maintained without the need for tax money.

Under whole-park private concessionaire arrangements, the Forest Service retains ownership of the recreation area and maintains strict control of its character, facilities, and services. The concessionaire leases the facilities and operates them for profit, using


Red Rock State Park has a growing maintenance backlog, as years of budget shortfalls forced park staff to skip critical repairs.

the gate fees at the park (and no public subsidies) to pay expenses. These operations must conform to an extensive set of operating restrictions and requirements set by the Forest Service, conformance to which is established through frequent inspections and a customer comment system. The Forest Service has a strong ethic against overdevelopment of these natural areas, and no changes to them may be made by the concessionaire without its approval.

Private companies in this system are generally able to operate much more efficiently than the public agency, primarily by better matching people and salaries to the jobs at hand. Whereas a public agency such as the Forest Service has a myriad of responsibilities (including recreation, forestry, minerals, wildlife management, etc.), the private company can focus narrowly on recreation management and visitor service. Concessionaire revenues depend entirely on serving customers well, as customer visits are their only source of revenue.

Crescent Moon Ranch and Red Rock State Park provide an opportunity to evaluate this partnership model. Both areas are of similar size and have paved roads, entrance stations, multiple bathroom buildings, trails, and picnic structures. Red Rock has a small museum, while the revenues at Crescent Moon support a nearby visitor center. In short, both units should have roughly the same operating costs. In reality, the state-operated Red Rock Park costs more than twice as much to operate.

GOVERNMENT ACCOUNTING

When a private company runs a park or campground, they use accounting systems that assign both revenues and expenses to that operation to produce a profit and loss statement. At any one

Arizona State Parks are funded by various sources, each of which has their own restrictions and earmarks.

point in time, the private company knows if revenues are fully covering expenses.

Government accounting systems work differently. Agencies such as Arizona State Parks are funded by various sources, each of which has their own restrictions and earmarks. Their accounting systems are set up to ensure that they are not overspending the balance of each fund, and perhaps more importantly, that each fund is being used for the proper type of expenditure. As a result, many park agencies only assign a portion of relevant costs to individual parks. In Arizona State Parks, park-level wages and utility expenses are allocated to the parks, but employee benefits expenses are not. Human resources, information technology, legal, and other support services are charged to headquarters and not to individual parks.

In addition, some expenses do not show up on government budgets. Most private firms, for example, are self-insured. A private park operations company spends about 6 to 10 percent of all revenues on liability insurance, but public agencies simply wait until they lose lawsuits and pay the loss with a special act of the legislature. These very real liability costs never hit the parks' numbers. Other expenses such as capital costs for trucks and tractors are also covered by an entirely separate government budgeting process.

When comparing public and privately operated parks, it is difficult to determine exactly what annual costs a public agency incurs operating a given park. One can reach reasonable estimates, however, by allocating regional and headquarter's costs to parks based on their size, visitation, and number of employees. In 2010, based on data supplied by the agency, the cost to Arizona State Parks for operating Red Rock is estimated in

Private companies have kept public parks open, well-maintained, and generated a return for taxpayers.

FIGURE 1: RED ROCK STATE PARK OPERATING COST (2010)

Gate revenue		$281,000
Expenses		
Direct	370,943	
Regional office	24,062	
Subtotal		$395,005
Park deficit		($114,005)
Allocated headquarter costs		$120,000
Estimated total deficit (including headquarters)		($234,005)

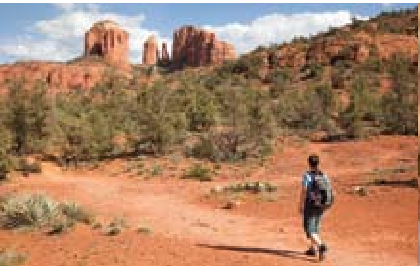
figure 1. Despite nearly $300,000 in gate revenue, the taxpayers of Arizona still needed to contribute between $114,000 and $234,000 a year to keep this park open.

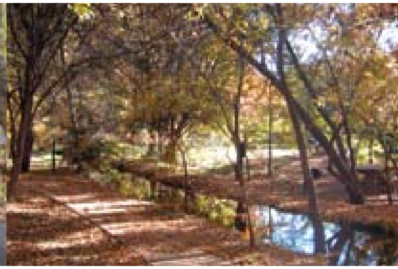
A CLOSER LOOK AT CRESCENT MOON

Compare the Red Rock scenario to the Forest Service's Crescent Moon Ranch. The comparison in figure 2 accounts for the revenues and expenses of the Crescent Moon Ranch from the Forest Service's perspective. Recall that the Forest Service no longer directly receives the gate fee revenue; those fees are assigned to the concessionaire via its contract with the agency. Instead, the Forest Service's revenues consist solely of the concession fees promised in the contract (in this case 18 percent of gate revenue). The agency also assigns park expenses to the concessionaire (see figure 2):

Crescent Moon remains fully maintained and earns a return for the Forest Service. By law, most of the net revenue collected by the agency is returned to the recreation area in the form of facility improvements such as Americans with Disabilities Act modifications.

These savings are more than sufficient to keep parks open in states considering park closures. Moreover, this public-private model



Public agencies are not keeping up with their regular maintenance responsibilities, resulting in large deferred maintenance liabilities.

offers several other advantages over a pure-public staffing model:

- Public agencies are not keeping up with their regular maintenance responsibilities, resulting in large deferred maintenance liabilities. In 2010, for example, the *Sacramento Bee* estimated that California State Parks had a $1.3 billion maintenance backlog. Private operators, with their lower costs and more flexible funding and budgeting processes, are able (in fact, are required by contract) to keep up with preventative and capital maintenance.
- Because private operating costs are lower, often private managers can charge less. Crescent Moon Ranch, for example, charges $9 per vehicle

FIGURE 2: CRESCENT MOON RANCH REVENUES & EXPENSES (2010)

Concession fees		$54,873	(18% of concessionaire's gate revenue)
Expenses			
Park operating costs	0		(borne by concessionaire)
Concessionaire oversight	10,000		(estimated as fraction of full-time employee)
Subtotal		$10,000	
Net revenue		$ 44,873	

compared to $10 charged at Arizona State Parks. In California, the state parks agency charges $30 a night for a no-hookup campsite but still needs hundreds of millions of dollars in tax money to keep the parks operating. In the same state, often right next door to state parks, private operators in the national forest charge $16 to $22 a night for a similar campsite and are still able to pay millions of dollars to the Forest Service for the concession rights.

- With lower costs, more flexible workforces, and small headquarter costs, private operators typically put more employees on the ground in the parks than do most public agencies. In addition, private employees often live on-site (in their own RV), providing 24-hour customer support and security.

OPTIMISM FOR PUBLIC RECREATION

Over the past five years, throughout the Great Recession, public agencies closed dozens of parks and threatened to close hundreds more. Lovers of parks have despaired for public recreation, but there is good reason to remain upbeat. Where they are allowed to operate, private companies have kept public parks open, well-maintained, and generated a return for taxpayers.

Many fear the loss of their treasured parks to excessive private development. "Won't private operators just build a McDonald's in front of Old Faithful?" is a popular question. But such an outcome is impossible under the terms of the contract between the public agency and the private concessionaire. The partnership combines the oversight and protection of natural resources by the public agency with the operating efficiency and customer service of private companies, keeping public parks open and cared for into the next century.

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