Proposal for Private Operation of Selected Arizona State Parks

Pilot Project Proposal, December 2011
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Summary

We believe there is substantial opportunity to reduce the costs of nearly every park in the Arizona State Park (ASP) system via private operations, while maintaining or improving quality and customer service. It is a model that has been proven by federal and local recreation agencies at thousands of parks nationwide, including at least 35 in Arizona.

We suggest the State of Arizona pursue a pilot project of private operations management at several mid-size state parks. This proposal outlines the potential cost savings to the state from such a proposal.

Visitor Fees

On December 26, 2011, KVOA in Tucson reported that Arizona State Parks was consider substantial increases in visitor fees and camping rates to keep parks open. This is entirely unnecessary. We believe shifting to a lower cost operations model is a far better approach to keeping parks open than continually increasing fees to cover the costs of expensive and inefficient operations.

The following proposal assumes no fee increases and it may be possible in certain parks to actually roll back some visitor fees.

Review of the Private Operations Model

In a concession park operations contract, the private operator generally is paid solely by the gate fees and merchandise sales in the park. The private operator generally is not able to modify fees, service offerings, or facilities without state approval, and makes strict commitments on service quality. The private operator covers most all costs, from staffing to utitlities to insurance, the only exception being in shorter contracts where the state generally retains financial responsibility for major repairs. The concessionaire pays a bid / negotiated concession fee which is typically 5-15% of park revenues.

ASP Accounting Makes Park Cost Analysis Difficult

To understand the potential cost savings of private management of park operations, we need to understand exactly what it costs ASP right now to run parks. Unfortunately, government accounting systems are seldom set up for this sort of analysis, and ASP's is no exception.

Since a private operator would take over virtually all of the costs of a park (from labor to equipment purchases to utilities to liability insurance), we need to know these same costs for the state. In some cases ASP allocates relevant park operations costs to the individual parks, in some cases park operations costs are buried in a large headquarters number, and in some cases important park operations costs don't even show up on the ASP budgets!

The ASP accounting system does a fair job of allocating the following costs for each park

- Wages and some (but not all) benefits of park employees
- Contract maintenance expenses
- Utilities

A number of other park operations expenses are commingled in the HQ budget and are not allocated to the individual parks, but would certainly be reduced if park operations were outsourced. These include

- IT support
- HR support
- Some employee benefits charges

And finally, some expenses that certainly exist don't show up anywhere in the expense budgets because of the way government accounting and appropriations works

- Liability costs and/or insurance premiums (liability costs are handled with special acts of the legislature to pay individual settlements)
- Workers compensation costs and/or premiums
- Equipment and vehicle purchases and/or depreciation (these are in a separate capital budget)

<u>Estimate of Park Costs and Revenues</u>

Given the issues above, we have done the following to estimate total costs by park

- We have used numbers from 2009, as these are the most recent available to us. We would be willing to update this analysis if provided with more recent numbers
- We have not allocated any of the regional office budgets to the individual parks – these are assumed to remain as offices for concessionaire oversight
- We have allocated 70% of the $2,765,381 phoenix headquarters park budget to the individual parks
- We have allocated 50% of the $5,000,047 support functions divisions in the Phoenix headquarters to the individual parks (these include the training support, computer support, administrative services, and other agency support budget lines)
- The above two allocations total to $4.4 million. In a separate analysis, the Morrison estimated HQ costs dedicated to the parks as $4-$8 million, so we feel like we are in the right ballpark with this number.
- Allocations were made in proportion to the local park budgets.
- Revenues are solely gate fees and local merchandise sales, and exclude donations and concession fees.

Based on these assumptions and the 2009 ASP financials, we get the following park income statement (next page):

PARK	Park Expense in ASP Budget	HQ Allocation	Total	Revenues**	Gain/Loss w/o HQ	Gain/Loss w/ HQ
WESTERN REGION OFFICE	282,158	94,549	376,707		(282,158)	(376,707)
ALAMO LAKE	365,046	122,325	487,371	403,634	38,588	(83,737)
BUCKSKIN MOUNTAIN	728,266	244,038	972,304	512,670	(215,596)	(459,634)
CATTAIL COVE	491,542	164,713	656,255	405,646	(85,896)	(250,609)
LAKE HAVASU	815,015	273,107	1,088,122	834,687	19,672	(253,435)
YUMA PRISON	317,442	106,373	423,815	267,823	(49,619)	(155,992)
YUMA QMD	260,730	87,369	348,099	41,065	(219,665)	(307,034)
SUB WESTERN REGION	**3,260,199**	**1,092,474**	**4,352,673**	**2,465,524**		
NORTHERN REGION OFFICE	166,676	55,852	222,528		(166,676)	(222,528)
DEAD HORSE RANCH / VRG	560,986	187,983	748,970	635,591	74,605	(113,378)
Estimated VERDE RIVER GRNW	140,247	46,996	187,242	0	(140,247)	(187,242)
FORT VERDE	226,312	75,836	302,148	51,124	(175,188)	(251,023)
HOMOLOVI RUINS	323,271	108,326	431,597	52,848	(270,423)	(378,749)
JEROME	250,471	83,931	334,402	102,980	(147,491)	(231,423)
RED ROCK	370,943	124,301	495,244	278,628	(92,315)	(216,616)
RIORDAN MANSION	277,773	93,080	370,853	137,952	(139,821)	(232,902)
SLIDE ROCK	419,460	140,559	560,019	617,485	198,025	57,467
SUB NORTHERN REGION	**2,736,139**	**916,864**	**3,653,003**	**1,876,608**		
EASTERN REGION OFFICE	108,104	36,225	144,329		(108,104)	(144,329)
BOYCE THOMPSON	135,971	45,563	181,534	12,000	(123,971)	(169,534)
CATALINA	377,626	126,540	504,166	567,783	190,157	63,617
FOOL HOLLOW LAKE	479,382	160,638	640,020	412,652	(66,730)	(227,368)
LOST DUTCHMAN	288,781	96,769	385,550	288,025	(756)	(97,525)
LYMAN LAKE	357,599	119,829	477,428	151,605	(205,994)	(325,824)
MCFARLAND	152,141	50,982	203,123	700	(151,441)	(202,423)
ORACLE	271,402	90,945	362,347	24,040	(247,362)	(338,307)
TONTO NATURAL BRIDGE	309,150	103,594	412,744	211,711	(97,439)	(201,034)
SUB EASTERN REGION	**2,480,156**	**831,086**	**3,311,242**	**1,668,516**		
SOUTHERN REGION OFFICE	162,047	54,301	216,348		(162,047)	(216,348)
PATAGONIA LAKE	610,594	204,607	815,201	594,874	(15,721)	(220,327)
Estimated SONOITA	152,649	51,152	203,800	0	(152,649)	(203,800)
PICACHO PEAK	371,887	124,617	496,504	213,187	(158,700)	(283,317)
ROPER LAKE	453,589	151,995	605,584	284,627	(168,962)	(320,957)
SAN RAFAEL	176,617	59,183	235,800	0	(176,617)	(235,800)
TOMBSTONE COURTHOUSE	211,040	70,718	281,758	190,980	(20,060)	(90,779)
TUBAC PRESIDIO	192,846	64,622	257,468	37,872	(154,974)	(219,596)
SUB SOUTHERN REGION	**2,331,269**	**781,195**	**3,112,464**	**1,321,539**		
KARTCHNER CAVERNS	2,322,875	778,382	3,101,257	2,308,104	(14,771)	(793,153)
TOTAL ALL PARKS	**13,130,638**	**4,400,000**	**17,530,638**	**9,640,292**	**(3,490,346)**	**(7,890,346)**

All data from ASP 2009 financials

** Excludes concession fees paid and donations

*** VRG split from Dead Horse Ranch and Sonoita Creek split from Patagonia Lake based on 80/ 20 cost split

Cost Savings From Using Private Operators

We believe that Arizona State Parks should consider a pilot project to test private management of park operations. In selecting parks for this proposal, we have used the following criteria

- Exclude the largest, highest profile projects to reduce the pilot project's risk (e.g. Slide Rock, Lake Havasu, Kartchner Caverns)
- Exclude the smallest projects that offer little hope of being financially sustainable, even at a lower cost position (e.g. Oracle, McFarland). These parks could be operated successfully under private concession agreements, but would have to be grouped in contracts with larger parks.
- Give special preference to parks put on the closure list in 2010
- Give special preference to parks with large operating losses
- Focus on parks whose size and configuration match other public parks currently managed successfully by private operators
- Exclude museums and historical sites (these are more reasonably piloted with historical societies and non-profits)

As a result, we have chosen to focus on these parks (revenue and operating loss from the previous chart; estimated concession rent based on our experience in similar parks, actual final number may be higher or lower – numbers below are conservative).

	Gate Revenue	Operating Loss	Est. Concession Rent %	Est. Concession Rent $	Net Gain to State
Closed or on Past Closure Lists					
LYMAN LAKE**	151,605	(325,824)	2%	3,032	325,824
TONTO NATURAL BRIDGE**	211,711	(201,034)	4%	8,468	201,034
PICACHO PEAK**	213,187	(283,317)	4%	8,527	283,317
RED ROCK	278,628	(216,616)	8%	22,290	216,616
ROPER LAKE	284,627	(320,957)	8%	22,770	320,957
LOST DUTCHMAN	288,025	(97,525)	8%	23,042	97,525
ALAMO LAKE	403,634	(83,737)	10%	40,363	83,737
Other Mid-Size Parks					
CATTAIL COVE	405,646	(250,609)	10%	40,565	250,609
FOOL HOLLOW LAKE	412,652	(227,368)	10%	41,265	227,368
BUCKSKIN MOUNTAIN	512,670	(459,634)	10%	51,267	459,634
PATAGONIA LAKE	594,874	(220,327)	12%	71,385	220,328
Total	3,757,257	(2,686,948)		332,975	2,686,949

** May need to be grouped with another park to make financially feasible

As you can see, the total gain to the state from shifting these parks to private operations comes from two sources

- Elimination of operating losses (revenues less costs) for the parks. While the state gives up the gate revenues to the concessionaire, it also gets rid of even higher operations costs
- Concession payments or rents from the concessionaire

Proposal

As can be seen, for the 11 parks listed above, the average potential gain for the state is about a quarter of a million dollars per park per year from shifting to private operations management. Of course, some of this savings would be needed to offset increased contracting and oversight costs, but these almost certainly are just a small percentage of this number (the USFS requires less than 1 full time equivalent person to oversee million-dollar-plus concession contracts involving dozens of parks).

Our recommendations include:

- Arizona, as a pilot project, should create up to three pilot project contracts, each one with from 1 to 4 of the parks on this list. Based on the numbers above, each of these pilots could realize as much as a million dollars each in annual savings. In addition, of course, they would likely keep open a number of parks that are still threatened with closure, and help head off proposed use fee increases.
- Initial contract length should be relatively short, say 3-5 years, to reduce risk and allow for learning over time
- Arizona should tap the expertise of the USFS to create a contract and management template to ensure the public's interests in these parks is protected
- Given short initial contracts, Arizona will likely need to retain financial responsibility for some or all the major maintenance (e.g. roof replacement) and catch-up maintenance on deferred maintenance

Capital Improvements and Tackling Deferred Maintenance

The experience of other public agencies is that private companies can be a solution to infrastructure and deferred maintenance issues. However, asking companies to make major investments up front in these repairs is generally unrealistic on short term contracts, and Arizona should probably avoid longer contracts for the first round of this effort in order to allow for learning. The state's long term goal should be to offer longer contracts with capital investment requirements after the first round of contracts expire.

In the near term, we suggest the Arizona legislature consider dedicating a portion of the savings from this program to a capital improvement fund for the parks. We believe this will increase the public enthusiasm for this program.