Roles for the Private Sector in State Parks Systems

A Policy Brief for the State of New Hampshire

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Prepared by:
Tracey A. Fung, William O'Neal, and Adam H. Sigelman

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Contact:
Nelson A. Rockefeller Center, 6082 Rockefeller Hall, Dartmouth College, Hanover, NH 03755
http://policyresearch.dartmouth.edu • Email: Policy.Research@Dartmouth.edu

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1. INTRODUCTION AND BACKGROUND

A current trend in the state parks systems of the United States is "privatization" of certain functions and services. Privatization, as defined by author and Director Emeritus of Florida State Parks, Ney C. Landrum, is the "transfer of responsibility for selected state park functions or activities from the state parks agency to a private party or entity by contract, lease, or other formal agreement."[1] Such practices have been employed by state park operations since 1866, but there has been a clear increase in their use during the past two decades.[2] This policy brief includes: 1) a description of privatization in the context of Landrum's definition, 2) a discussion of guidelines for determining the appropriateness of a privatization effort, 3) descriptions of private sector involvement in retail and custodial services provided by government agencies, and 4) a presentation of case studies that illustrate private sector involvement in other park systems.

1.1 Privatization by Delegation. Privatization of government functions can be achieved by a variety of methods that involve varying degrees of private sector participation.[3] With respect to parks management, most private sector involvement has been consistent with Landrum's definition, which illustrates a more general privatization technique that has been referred to as *delegation* – a process whereby government maintains responsibility for a function but uses the private sector as the service provider.[4] Throughout this document, the term *privatization* normally refers to the process of delegation and not to a more general process of "reducing the role of government or increasing the role of the private institutions of society in satisfying people's needs."[5] Complete privatization of parks management "raises the obvious question of whether these parks would retain the public-service orientation and sensitive resource management essential to the state park philosophy."[6] Consequently, the more general definition and the accompanying ideological implications are not the subject of this brief.

Four approaches to delegation are particularly notable in the context of park management:

- <u>Contract Delegation</u>: The government agency enters into a contract with a private entity that agrees to perform a function on behalf of the government.

- <u>Public-Private Competition</u>: This is a form of contract delegation in which the government agency opens bids for contracts to public employees in addition to the private sector. It is also known as "competitive sourcing."

- <u>Franchise Delegation</u>: The government agency grants a private entity the right to sell a service to the public. Franchise arrangements often involve a fee payment by the private entity. The leasing of public property for a commercial operation is an example of franchise delegation.

- <u>Public-Private Partnership</u>: The government and private entities co-finance projects that usually require substantial, long-term capital investment. The agreement generally provides an incentive to the private partner, such as long-term contract, lease, or franchise rights associated with the project output.

1.2 Purpose of Privatization. In a recent survey,[7] park administrators cited three principle reasons for instituting some form of privatization: 1) to increase (budgetary) economy, 2) to increase efficiency, and 3) to undertake a desirable project that was otherwise unfeasible. An analysis of state parks trends during the 1990s indicated that the operating budgets of state parks have not kept pace with inflation or population growth despite stable or increasing visitation and the addition of new programs or mandates.[8] During the late 1990s, state parks saw a marked increase in visitation and acreage but very little increase in funding. Additionally, many parks systems built in the first half of the 19th century have a strong need to upgrade old structures or build new ones. Between 1995 and 1998, state parks systems spent 17 percent more on capital improvements than in the previous five years, and this appears to be a continuing trend. States of all sizes, regional locations, and levels of development are struggling to become more self-sufficient while still providing core services to their residents.[9] Delegation to the private sector has been considered one means of addressing the resultant budgetary constraints and shortfalls because it is expected to lead to greater efficiency through competition. Other advantages of service delegation may include: the ability to distinguish between service provision and production; an improved focus on the core mission of the parks service; and the possibility of obtaining resources that are not available in the public sector. Each benefit is discussed in greater detail below.

In theory, delegation should lead to decreased cost and increased service quality by introducing competition among service providers. In the private sector, efficiency is promoted by the need to earn profits while providing a quality service at a competitive price.[10] By contrast, public sector services typically operate as protected monopolies, a circumstance that breeds inefficiency because there is little incentive for a monopoly to respond aggressively to consumer desires by expending greater effort, improving quality, or taking risks. Thus, the monopolistic structure of agency-run services is commonly the source of underperformance. The implication is that privatization should not be viewed as an attempt to distinguish between the relative efficiencies of private and public entities. Instead, *the goal of privatization should be to optimize service quality and efficiency by introducing competition among the various possible service providers*, including the public agency.[11] An important point is that simply creating a competitive system could be enough to spur efficiency increases in government agencies, especially under the Public-Private Competition model. For example, after the Office of Management and Budget (OMB) decided to open printing to competitive sourcing for the first time, the Government Printing Office (GPO) delivered a bid for printing the 2004 federal budget that was 24 percent lower than the previous year's cost.[12]

Delegation to the private sector also allows the need for a service to be decoupled from the actual production.[13] Public agencies engage in two decisions related to service delivery: First, the agency must decide *whether* it is responsible for ensuring that a particular service is available. If the agency has such responsibility, it must then decide *how* that service should be provided. Public agencies have traditionally opted to produce services themselves. However, there is the possibility that production needs can be met more adequately by the private sector, and investigation of this alternative enables agencies to function as service facilitators rather than vendors. Advocates of this idea suggest that public funds may then be viewed as investments that ensure appropriate analyses of the various production options. Practically, the separation of service provision from production allows parks administrators to focus on strategic planning and policy decisions rather than the operational "fire-fighting" that often accompanies service production. Furthermore, administrators should have a greater ability to evaluate objectively the performance of the service provider.[14] When inadequacies are discovered, implementing changes (e.g., changing providers at the end of a contract period) is likely to be easier if the service provider is an outside entity.

A related rationale for privatization is that it allows a government agency to focus on its core objectives.[15] Over time, the responsibilities of public agencies often grow beyond their original boundaries in response to public demand for more or better services. Generally, this incremental growth is not accompanied by a concurrent discussion of the capability or appropriateness of using public resources to address new desires. Use of the private sector in response to changes in citizen demand can allow public agencies to redistribute their (often limited) resources to functions that are more consistent with their core mission.

Lastly, privatization offers an opportunity to inject expertise and/or capital from the private sector into a public project.[16] Private companies can increase the speed of services, bring expertise to the table, or develop innovative ways to provide a higher-quality service.[17] This is particularly useful when the public agency lacks the resources to effectively implement a new undertaking. It may also be the case that the abilities of public agencies are limited by enabling legislation, mandates, or other regulations.[18] Private entities, which are not subject to such restrictions, are often able to be more innovative, flexible, and/or efficient. These characteristics can make private firms highly effective participants in public projects.

In his dissertation entitled *A National Survey Assessing the Success of Privatization Policies in State Park Agencies*, Charles H. Brewton[19] identifies a number of reasons for which the flexibility of private firms can save money. As opposed to state agencies, private firms can more easily do the following:

- Give less vacation time.
- Hire more part-time or lower-skilled workers.
- Hold managers responsible for equipment maintenance and worker performance.
- Give first-time managers the authority to hire, fire, reward, and discipline workers.
- Use incentive systems.
- Maker greater use of capital equipment.
- Hire younger workers with less seniority.
- Use more workers per supervisor.

1.3 Concerns Regarding Privatization. Criticisms of privatization primarily come in two varieties – ideological and practical. As stated above, the general ideology of privatization as a concept is not the subject of this brief. However, certain anti-privatization arguments may be particularly relevant to delegation in a parks system and are included here. In addition, the practical obstacles explained here may outweigh the potential benefits.

Ideological opposition to privatization in state parks is grounded in the conviction that the provision of all aspects of public parks systems is a core function of government. Critics suggest that the privatization of state parks operations may eventually lead to more substantial privatization of public lands.[20] A related concern is that "over-privatization" of parks management may result in "market forces" or private interests being given disproportionate influence over policy decisions. For example, former Kentucky Parks Commissioner George Ward strongly asserts that a careful balance must be struck between privatizing parks and maintaining them in public trust.[21] He warns that if the state parks system were to completely privatize:

> "The less-profitable or less-popular parks probably would be closed. It would be seen as bad business to keep them open. Yet they, too, are a part of the public trust. We keep them open because of their importance to the people who live and work nearby. They, too, deserve to share the commonwealth's environmental treasure and the recreational opportunities they afford."[22]

More relevant to the concept of privatization by delegation, however, is the fear that private sector involvement may lead to increasing commercialization that compromises the primary mission of the parks system.[23] According to New Hampshire statute, the first priority of the state parks system is "to protect and preserve unusual scenic, scientific, historical, recreational, and natural areas within the state."[24] Limited commercial operations (vending machines, general stores, gift shops, equipment rental, etc.) are often considered "visitor services" that do not detract from the parks mission. If private sector involvement leads to more elaborate endeavors (larger gift shops or restaurants, conspicuous advertising) for entirely commercial purposes, the parks mission may be threatened. Alternatively, private entities may cater to certain profitable users to the detriment of others, such as long-time or less wealthy customers.[25] Of course, the appropriate degree and type of commercialization is a distinctly subjective matter that must be determined by park managers and the public.

Practical concerns associated with delegation of parks operations include:

- *The lack of relevant models from other states:* Innovation and implementation of new management strategies carry inherent risks. Unfortunately, these risks cannot easily be minimized by following privatization models from other states due to significant diversity in the structure and function of the various state parks systems. In addition, different social, political, and economic patterns among the states suggest that experience in one state may not translate well to another.[26]

- *Loss of quality control or flexibility:* Certain positions in parks systems may require specific expertise or be multidisciplinary. (For example, maintenance employees may also act as member of firefighting or disaster response teams). Critics suggest that outsourcing responsibilities may result in losses of institution memory, control of performance quality, efficiency, and/or productivity.[27] A related concern is that loss of control by parks officials may lead to a loss of park identity or, in extreme cases, degradation of natural resources.[28]

- *Indirect transaction costs may be overwhelming or unaccounted for:* Initiating and sustaining private sector operations may impose burdens beyond any direct financial costs. Furthermore, the appropriate implementation steps may not be immediately apparent.[29] Government restrictions may make privatization difficult or inefficient, and the potential for corruption (e.g., kickbacks or bribes) may be introduced.[30] In a detailed analysis of privatization techniques, Savas[31] provides examples of indirect transaction costs for contract delegation, including: establishing contractual requirements, designing the bidding process, assuring the existence of a competitive market, defining and choosing the best bid, dealing effectively with affected employees, learning to work effectively with the contractor, monitoring and evaluating the performance of the contractor, and deciding whether to renew or terminate the contract upon expiration. Depending upon the scale, new employees may be required to undertake the oversight and implementation of a privatization program. Brewton's 2001 survey of state parks found that not all of them reported savings in their privatization efforts.[32]

- *Management Pitfalls:* A potentially successful privatization effort may be undermined by poor public sector management. Savas[33] outlined a series of management failures that would compromise the success of a privatization effort:

    1. The responsibilities of the private entity are not fully and explicitly defined; this failure often leads to misunderstandings or contract disputes.

    2. The value of the public asset is underestimated, enabling the private entity to unfairly profit at the expense of citizens.

    3. The bidding or procurement process is not truly competitive or is plagued by potential conflicts of interest; this undermines the primary motivator for privatization (i.e., to increase efficiency by introducing competition) and jeopardizes public opinion regarding use of the private sector. There is a particular danger that this situation will arise after the first round of contract delegation because the incumbent service provider is given a strong advantage if managers fail to ensure a consistently competitive bidding process.

4. There is not rigorous oversight of the service provider's performance; if this occurs, the agency may have abdicated responsibility for the *provision* of the service and compromised the quality of service production.

5. Poor performance by the service provider is not properly penalized; in this case, the agency fails to execute its responsibility for the *provision* of the service and therefore fails the citizenry.

6. Current employees are not adequately protected before delegation is carried out.

Proponents of private sector involvement contend that management failures are not problems that are inherent to a privatization effort and that they can be easily avoided or corrected. Furthermore, they argue that mismanagement of government-run services is also possible.[34]

2. ESTABLISHING THE APPROPRIATENESS OF PRIVATIZATION

In 1983, the federal Office of Management and Budget published general guidelines on how to privatize in-house commercial activities. These guidelines, revised in 2003, are available online at http://www.whitehouse.gov/OMB/circulars/a076/a76_rev2003.pdf. While the OMB published these guidelines for use by federal agencies, they should be directly applicable to state agencies. The federal government recommends allowing private bidding on most federal functions that are not considered "inherently governmental." The circular required each federal agency to designate an official to perform a cost comparison in all non-core areas. The objective was to find areas in which the private sector could provide a comparable service at a lower cost. It is important to note that the circular recommends in-house service providers also submit bids. As stated above, the mere threat of private competition can force in-house service providers to increase their efficiency and productivity. Examples of commercial activities considered non-core activities include: audiovisual products and services; automatic data processing; food services; industrial shops and services; maintenance, overhaul, repair, and testing; management support services; and office and administrative services.

The OMB suggests that government agencies judge the bids based on cost *and* quality of service. Often, private entities can lower costs and provide better services than in-house agencies. Providing a higher quality service can raise its value, which can lead to customer satisfaction or even increased revenue. For example, the 2002 Commercial Activities Panel found that when government agencies awarded bids based on best-value tradeoffs (as opposed to cost-only competitions), average annual savings almost tripled. These effects were less prevalent but still valid for routine services such as maintenance and cleaning.[35]

With regard to contract delegation, Savas[36] provides a list of circumstances that generally lead to success:

1. the more precisely a task or result can be specified in advance;
2. the more easily performance can be measured and evaluated;
3. the more competition there is among potential providers;
4. the less the activity is core to the agency's mission;
5. the more the demand for service varies over time;
6. the more easily private providers can hire employees with the needed skills than the government can;
7. the more private providers have greater economies of scale in providing the service.

Brewton[37] also identifies a number of characteristics that increase the success rate of privatization initiatives:

1. presence of a strong political leader and advocate;
2. existence of an appropriate organizational structure to assure implementation
3. execution of necessary legislative and resource changes
4. continual data analysis
5. existence of a detailed transition strategy
6. continual monitoring
7. frequent interaction between the state agency and the contractor

Likewise, Brewton[38] argues that the appeal of keeping services in-house increases:

1. the more the task is unknown and likely to change in nature;
2. the more difficult it is to measure the task's value;
3. the more difficult it is to switch agents during the task;
4. the more knowledge the state/agency has about the best means by which to accomplish the task.

As these analyses indicate, the potential transaction costs (see *Concerns Regarding Privatization* above) may outweigh the benefits of a privatization effort. It is most important that a government agency considers the circumstances carefully and performs a cost-benefit analysis before beginning any outsourcing process.

3. POTENTIAL ROLES FOR THE PRIVATE SECTOR IN New Hampshire STATE PARKS

3.1 Custodial. Government agencies on both the federal and state levels have generally succeeded in saving money by outsourcing custodial services. Like retail work, custodial work almost never has the distinction of a core activity, and many private corporations with knowledge and experience in custodial services exist. Experts estimate that custodial outsourcing yields 30% savings on average, making it one of the most profitable areas for outsourcing.[39]

There are numerous examples of government agencies that have successfully outsourced custodial services. Successful transfers occurred in Michigan schools and the Wisconsin Department of Agriculture. [40] The Government Accountability Office (GAO) found that the Postal Service could achieve significant savings by outsourcing custodial services in both big and small post offices. In particular, private contractors could lower wages and provide the same quality of service.[41] In some cases, however, state maintenance workers provide a cheaper alternative than private entities. Examples include the Florida Department of Juvenile Justice and the commonwealth of Virginia's roadside rest areas.[42] In these latter cases, the contractors claim that their higher fees are necessitated by the increased quality of the services they provide.

3.2 Retail. Private operation of retail establishments such as gift shops and food vendors is becoming more common across the country. Retail operations rarely fall under the rubric of a core government activity, and private corporations often have more experience in the business than do government agencies. These corporations can save money through reductions of purchasing and personnel costs or by funding capital improvements that lead to increased revenue.

An example illustrates how insufficient expertise can lead to the failure of a government agency to manage a retail center successfully: The Chief Administrative Office (CAO) audited the Congressional gift shop located in the Longworth House Office Building on Capitol Hill. The audit found that the gift shop was losing approximately $270,000 annually due to poor pricing policy, higher labor costs than those in the private sector, poor merchandise selection, and poor store location. The CAO report suggested looking into privatizing the gift shop, although the CAO ultimately decided to keep the store in-house.[43]

There are limited examples of state parks systems delegating retail operations. In 2001, the Tennessee legislature passed a bill that resulted in the outsourcing of inns, golf courses, restaurants, gift shops, and marinas that were formerly operated by the state parks. Experts estimated $10 million in subsequent savings to the state.[44] In 2002, New York signed a 20-year contract with Delaware North to operate a Niagara Falls visitor center with a gift shop, upscale restaurant, ice cream bar, specialty coffee shop, outdoor grill, and deli/pizzeria. Delaware North also invested $2.3 million to expand the restaurant and install floor to ceiling windows and an observation deck.[45] (The National Park Service signed a similar deal with a private entity to construct a new visitor's complex at Gettysburg).[46]

An interesting model of privatized retail operations is the arrangement between the National Park Service (NPS) and the nonprofit association Eastern National. Congress has authorized the NPS to interact with "cooperating associations," which are non-for-profit 501(c)(3) corporations organized under state law. As explained in the Department of Interior 1936 Annual Report, the purpose of cooperating associations is "to finance and promote the education and research programs in a park in ways not open to a Government operation."[47] As a cooperating association, Eastern National's primary function is as an educational institution, but it also acts as a business and a philanthropic organization. With respect to retail outlets, Eastern National sells informational and educational materials and products in approximately 260 stores at over 150 national parks or public trusts. The corporation is solely responsible for all aspects of retail management, including the hiring and training of employees, purchasing, inventory, and sales reporting. It is equally important that the net annual proceeds from Eastern National's sales are returned directly to the NPS in the form of a donation.[48]

The cooperating association model illustrates the fact that private delegation does not necessarily involve outsourcing to a for-profit entity. Eastern National describes one of its distinctions as follows:

> When we conduct business, the prevailing idea is to serve the National Park Service. *Service is the key*. As stewards of the national parks, our role is to help preserve and protect America's national parks. We manage all of the administrative functions associated with retail sales outlets, so our partners can devote their time and resources to managing the park. The net proceeds from our sales activities provide alternative forms of income to support educational and interpretive programs within those parks. Our contributions to the parks, in the form of donations, are necessary to ensure that future generations can enjoy the natural and cultural wonders within America's national parks.[49]

The annual revenue of Eastern National is approximately $28 million, and it is able to donate approximately $5.6 million per year to the NPS. Importantly, retail outlets at many smaller parks are not self-sufficient, but the profitable stores at larger parks support them. Currently, Eastern National operates approximately 85 stores that do not turn a profit, and the revenue-sharing encouraged by the "non-profit mentality" allows all of the outlets to provide similar levels of service.[50]

4. CASE STUDIES

While the privatization of some parks facilities and operations has been successful and profitable, the privatization of others has been problematic. States such as New York, Kentucky, and Georgia have either outsourced or entered into private partnerships for some park functions and operations. The Canadian Province of British Columbia completely privatized the operations of their parks system in 1992. Additionally, there are already some examples of such actions in New Hampshire. The states in this study were selected based on recent activity with the private sector, reports on privatization, and/or mention in scholarly articles. Research reveals that the process of privatization may include some initial financial risks and requires constant negotiation. However, many of the states that leased out park functions and operations to the private sector have been quite successful in generating increased revenue.

4.1 New Hampshire. In New Hampshire, an example of privatization is the case of Mount Sunapee ski area. In 1987, the Weymouth Commission was established by the State of New Hampshire to study carefully the financial status of Mount Sunapee. In 1992, the study culminated in several recommendations and the suggestion that if, after five years, the recommendations proved ineffective, "operation by an independent authority should be reconsidered."[51] Six years later, Okemo, a private company that also owns and operates Okemo Mountain Resort in Ludlow, Vermont, entered into a Lease and Operating Agreement with New Hampshire. As a result of this contract, there has been an increase in revenue and taxes – both local and state – paid to the state of New Hampshire. Between 1998 and 2005, a total of $2,892,492 in lease payments and $635,034 in taxes were paid to the New Hampshire Department of Resources and Economic Development (DRED).[52] Furthermore, the private company has generated enough revenue to provide donations to local communities and college scholarships for aspiring students from local areas.[53] Finally, Okemo provides new and better equipment for the mountain and spends money researching and implementing environmentally safe equipment that is economically feasible.[54]

4.2 New York. During the 1980s, the park system in New York City decided to open many of its programs to the private sector. As a result, many of the once unprofitable operations turned into lucrative revenue-generators. For instance, the parks' golf program was losing nearly $2 million per year before privatization.[55] Jack T. Linn, Assistant Commissioner and Senior Counselor of the New York City Department of Parks and Recreation, says that the golf courses were contracted out individually, and over a period of about ten years, the program started making nearly $2 million in revenue per year.[56] He notes, however, that "economic benefit and physical improvements can be seen immediately."[57] Such success has led to the leasing out of other operations in following years[58]:

- In the 1990s, the Wollman Skating Rink in Central Park made over $850,000 per year from a private concessionaire.

- The National Tennis Center in Flushing brought in over $1.15 million in revenue for the state.

- The annual concession for a marina in Queens generates over $150,000 per year.

- The New York Department of Parks and Recreation enlarged its annual concession and fee income from $5.5[59] million to $36 million between the years of 1979 and 1997.

In addition to the competitive bidding of programs and services, Linn also supported the continued establishment of public/private not-for-profit partnerships in the New York City Department of Parks and Recreation. These partnerships, such as the one with the New York Central Park Conservancy, are management agreements that allow the city to govern the overall policy, while the partners help provide the day-to-day management of the parks.[60] Linn says, "These organizations raise private funds for the parks, and they have a role in spending that money. The donors expect maintenance of effort…their donated money will be in addition to – not instead of – existing maintenance. Therefore, the city is much less likely to divert funds." The Conservancy currently provides more than 85 percent of Central Park's annual $23 million operating budget.[61] Linn notes, "Sometimes having a private partner can bring the best of both worlds. The private sector provides you with flexibility and some risk that the public sector will not take."[62]

4.3 Kentucky. Since 1996, the Kentucky State Parks system has been dealing with management problems within their parks. Specifically, the minutes of the November 13, 1996 meeting of the Capital Planning Advisory Board indicate that the state could not complete several construction projects and renovations due to insufficient funds. In response to these problems, the advisory board started encouraging private development at the state parks. For instance, the board initiated the development of a pool of state funds known as the "Facility Infrastructure Pool."[63] This pool

> "will be used as a contribution from the Commonwealth of Kentucky toward infrastructure costs for a major project – a lodge, a golf course or a camping area – constructed on state park property by the private sector. Other than the infrastructure contributions, the remaining investment in any such project will be the total responsibility of the private sector."[64]

Additionally, the minutes indicated that this infrastructure pool could be used in conjunction with the 1996 Kentucky Tourism Development Act, which provides tax incentives to private organizations that want to construct major tourism attractions.

These acts and funds have resulted in the proposal of public-private partnerships that involve an open dialogue between public and private institutions. According to Karen Armstrong-Cummings, a member of the Economic Development/State Government Committee Staff Legislative Research Commission, privatization has been a hot topic of debate during legislative discussions. She indicates that several projects are currently undergoing privatization, including park lodges, cottages, marinas, and a food facility. One such collaboration is the Green River partnership, in which a private developer would build a private lodge and surrounding cottages if the city and county funds a golf course nearby.[65] Such projects are still in the development process, and their outcomes are currently uncertain.[66]

Former Kentucky Parks Commissioner George Ward suggests that many changes involving the private sector have been quite successful. As an example, he points to the establishment of an on-line reservations system for lodges, cottages, and campgrounds provided by a private company called Vantis. This system is the same one used by many independent hotels to provide reservations. The arrangement has led to dramatic increases in both in-state and out-of-state reservations and has saved the Kentucky Parks System time and money.[67] In less than three weeks, "Kentucky reserved nearly 14,000 camping nights, which will bring in over $300,000," says Ward.[68]

Another successful example is the privatization of marinas in Kentucky. Many of Kentucky's larger marinas have been leased out for over 20 years and appear to be in good financial standing. Ward adds that private marine companies "tend to do a good job of expanding based on market conditions…they can make a move a lot faster than the state can move."[69] Ward cites the example of one marina for which the lease was opened for bidding in 2004. A private company won the bid and decided to re-build the entire marina, which it accomplished in only 90 days (the marina was re-opened for business in May 2005) within a budget of $4 million.[70] He adds that the state "would probably take about 90 days to get the proposal for the money needed together."[71]

Additionally, Ward mentions that a current partnership with PepsiCo seems promising. Originally, the deal was intended for Coca Cola Co., which promised $500,000 over a period of two to three years in exchange for advertising on park trucks, at park establishments, and during park events. PepsiCo learned of the deal and offered Kentucky a better package, giving Kentucky about $700,000 for the same contract. Ward says that the "marketing value of that package is very worthwhile, and we're excited to get that off the ground and see what happens."[72]

Kentucky has implemented several private initiatives with fruitful outcomes and promising futures. The parks system directors remain hopeful about other privatizing endeavors, and they have continued to pursue privatization and outsourcing in certain aspects of management.

4.4 British Columbia. British Columbia Parks has successfully transferred the day-to-day operations of its public parks to private companies. Over the past 20 years, BC has contracted out all visitor services at all of its campgrounds and day-use areas. Private contractors now provide facilities maintenance (garbage collection, fee collection, etc.), public safety, marketing, and promotion. The contractors retain user fees from reservations and day-use. BC Parks still pays for some capital improvements, research, ranger patrols, and other non-visitor services but plays no role in the actual management of the parks.[73]

Contracting out the day-to-day operations increased the total efficiency of the BC Parks. Since 1992, when BC Parks contracted out the remaining publicly run parks, experts estimate its savings averaged 20 percent per year.[74] Much of the savings is a result of bundling service contracts: Between 1988 and 2004, the number of facilities operators servicing the 205 parks was reduced by 85% to 22. Additionally, the contractors hired specialized labor (e.g. technicians) on an as-needed basis rather than following the government's practice of keeping specialized staff on payroll. Lastly, the contractors use local labor when possible, which is more cost-effective than the Vancouver-based labor that the provincial government formerly employed.[75]

The quality of service does not appear to have declined after the switch to private operation. Visitation has steadily increased. Contractors are required to supply patrons with comment forms that are sent directly to BC Parks. The patrons have also expressed their satisfaction with the condition of the parks. BC Parks administrators find the quality of the system satisfactory and mention the lack of flexibility in areas such as determining user fees as the only downside.[76]

According to Canadian parks specialist Sylvia LeRoy, other Canadian provinces such as Alberta, Ontario, and Newfoundland have also experienced success with similar measures. Alberta, for instance, encouraged private capital investments by extending operational leases from five to twenty years. With longer leases, contractors felt comfortable investing in long-term projects. Ontario increased its cost recovery on operating and capital spending by 35%. Newfoundland privatized 21 of its 34 parks, and private contractors have made capital improvements to increase revenues.[77]

4.5 Georgia. Georgia has experienced mixed success in its efforts toward privatization of parks and historic sites. The most successful ventures have been the contracting out of concessions at public pools and the operation of golf clubhouses. However, attempts to privatize the maintenance of golf courses and the operation of large conference lodges have failed. According to the parks bureau, private attempts to upgrade public facilities for use by a wealthier clientele failed due to lack of demand in what were primarily rural, poor areas of the state. The increase in user fees alienated the older, less wealthy clientele.[78]

On a more positive note, the state of Georgia outsourced the operation of Stone Mountain Park and large resort areas on Lake Lanier Islands.[79] Stone Mountain Park was leased to Silver Dollar City, a corporation that operates over 20 properties. The lease period is 50 years and is expected to raise $1 billion for the state.[80] In 1997, the state leased out a Lake Lanier Islands resort area to KSL Recreation Group for 50 years in a deal worth $340 million.[81] Before the privatization efforts at these parks, both were self-sustaining but failed to generate sufficient funding to finance their capital and maintenance needs.[82]

Finally, partnerships have also saved Georgia State Parks money. Georgia has a nonprofit group designed specifically to help the government provide quality services to the parks. This group, the Friends of Georgia State Parks and Historic Sites, raises money for specific projects and organizes volunteers to provide labor. Georgia also partners with private organizations, such as Georgia Power, which provides funding for projects and has donated large swaths of land to the bureau. Furthermore, certain private foundations have earmarked large sums of money for specific projects that meet the requirements of their mission. For example, Georgia has partnered with the Coke Foundation and the Woodruff Foundation on projects to construct museums and other learning centers. Additionally, the Georgia Heritage Foundation built and operated a craft center at Tallulah Gorge State Park.[83] These efforts by Georgia State Parks illustrate creative public-private partnerships that have effectively involved the private and non-profit sectors in the improvement of the state's park system.

4.6 South Dakota. South Dakota manages a total of 12 different concession contracts with private entities. While the state has had contacts for the past 50 years, it first codified the rules for them in 1990 and revised them in 2005. (In 2005, the state eliminated the preferential right of renewal clause. Before the revision, contractors who were up for renewal could match the offers of competing contractors. The state felt that this practice discouraged other bidders from entering in competition.) The biggest lease, which allows a private company to use state land at Custer State Park to operate four large resorts, brings in $600,000-$650,000 to the parks system annually. Custer State Park, which grosses $7-$8 million annually, offers services such as cabin and lodge rooms, restaurants, gift shops, general stores, stables, boat rentals, bike rentals, and chuck wagon cookouts. State law requires the parks division to reinvest all of the lease money back into Custer State Park.

Other smaller leases allow private operation of beach shops, restaurants, lodging areas, cabins, and marinas. For these, the state mostly receives flat rental fees (franchise fees) in return for the right to operate on public land. In some cases, the state also receives a percentage of the contractor's revenue. Most contracts last 10 years. Park officials believe that a 10-year contract balances the need to allow the lessee a reasonable time to make a profit and the ability of the department to make any necessary contract or vendor changes. Although no formal study exists, state officials estimate that these smaller leases bring in approximately $180,000 per year to the parks' general fund. South Dakota uses most of this extra money (as well as the money received from the Custer lease) to do needed repairs and maintenance. Al Nedbed, Program Specialist, reported a high quality of service provided by the private contractors and did not have any complaints concerning their privatization efforts. Importantly, they have made sure to periodically review the rules pertaining to their contractors to assure that the contractors comply with contemporary business and park standards.[84]

4.7 Vermont. The state of Vermont participates in franchise delegation by leasing public land to private ski companies. Leases "involve the transfer of some rights involving a property over very long terms" and must be approved by the Legislature.[85] Private-sector involvement of this type is not a recent development in Vermont: Stowe Mountain was first leased out in 1946; Jay, Killington, and Burke Mountains followed in the 1960s. Currently, the state receives approximately $2.5 million dollars annually from seven ski leases. The ski companies pay the state 5 percent of gross receipts from all lifts on state land; 2.5 percent of gross receipts from restaurants, sport shops and warming shelters constructed by the lessee; and 3 percent of gross receipts from the sale of food, beverages, souvenirs, and the sale, rent or repair of sporting equipment by the lessee in buildings owned by the state. (Only Stowe, Killington, and Jay have base lodges owned by the state.) The typical lease is contracted for 50 years.

Importantly, the state of Vermont is active in the affairs of the private ski companies in order to ensure that they do not encroach on the mission of the state park system. Although parks officials find it difficult to balance the mission and the desire to make money, they have a cordial working relationship with the ski companies. Each year, the state reviews the management and development plan submitted by the ski companies. When conflicts or issues arise, parks officials may visit the site, meet with industry representatives, or veto development plans in extreme cases.[86]

4.8 Summary. Although these case studies do not offer a unique formula for success, we can draw some conclusions from the analysis:

- In terms of outsourcing operations and maintenance at public campgrounds, we have found that other states have generally experienced success. The private sector has successfully lowered expenses in certain cases, but it has failed in situations in which it has attempted to increase revenues from user fees.
- Privatizing bigger “resort” areas has succeeded in raising revenue.
- Leasing out the operations of concessions—especially food concessions—has generally succeeded.
- Partnerships with foundations, friends groups, and non-profits help raise revenues, reduce labor costs, and increase capital investment.

5. CONCLUSION

Delegation – use of the private sector to provide a service – can take various forms, but the primary goal is almost always to optimize service quality and efficiency (decreasing cost) by introducing competition among the various possible service providers. Additional benefits may include: the ability to decouple the provision of a service from its production; the increased ability of parks administrators to focus on core agency functions; the opportunity to inject private expertise and/or capital into a public project. Concerns about privatization include: the possibility that increasing commercialization will threaten the parks mission; the few relevant models from other state parks; the potential fallout from loss of agency control, indirect transaction costs, and/or management failures. Delegation may generally be preferable when a function is not “inherently governmental,” but certain circumstances have a greater probability of success than others. In New Hampshire, two areas that may benefit from private delegation are retail and custodial operations. The cooperating association model exemplified by the National Parks Service-Eastern National relationship is notable as an example of delegation to a non-profit corporation. Finally, privatization efforts in other parks systems provide examples of both successes and failures. The case studies should simultaneously warn against poorly planned endeavors and promote interest in the potential roles for the private sector in New Hampshire state parks.

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