National Park Service Concession Program

Report to Congress

An Analysis of the Concession Program and an Assessment
of Concession Contract Competitiveness and Program Administration
as a Result of Enactment of Public Law 105-391

October 18, 2006

Preface

On November 13, 1998, Congress enacted Public Law 105-391. Title IV of this Act is known as the "National Park Service Concessions Management Improvement Act of 1998." In order to assess the effectiveness of this Act, and the role of the NPS in implementing it, Section 405(f) requires that:

> Not later than seven years after the date of enactment of this Act, the Secretary [of the Interior] shall submit a report to the Committee of Energy and Natural Resources of the Senate and the Committee on Resources of the House of Representatives a report containing a complete analysis of the concession program as well as:
>
> 1. an assessment of competition in the solicitation of prospectuses, fair and/or increased return to the Government, and improvement of concession facilities and infrastructure; and
> 2. an assessment of any problems with the management and administration of the Concession Program that are a direct result of the implementation of the provisions of this title.

This report provides that information.

Executive Summary

Congress enacted the "National Park Service Concessions Management Improvement Act of 1998" (Title IV of Public Law 105-391) on November 13, 1998. The 1998 Act established a number of new requirements and policies regarding the National Park Service (NPS) Concession Program. As discussed in its legislative history, the 1998 Act was intended by Congress to update NPS concessions management statutory requirements and policies established by the Concessions Policy Act of 1965 (Public Law 89-249) to reflect current circumstances, particularly with respect to enhancing competition for concession contracts and implementing contemporary business practices in the management of NPS concessions.

The NPS considers that the actions and initiatives the agency has taken in response to the 1998 Act have provided and will continue to provide significant improvements to its Concession Program.

In particular, these actions and initiatives demonstrate the commitment of the Concession Program to update its management practices to reflect more closely private industry norms. They also demonstrate the commitment of the NPS to achieve the Congressional objective of providing quality visitor services at reasonable rates (in cooperation with the private business community) in a manner that will leave park area resources and values unimpaired for enjoyment by future generations.

The following report describes the actions of the NPS and the results to date. In response to the passage of the 1998 Act, the NPS has:

- Established a Concessions Management Advisory Board
- Adopted new concession contracting regulations and standard language contracts
- Reduced the backlog of expired concession contracts from 478 in December 2000 to an estimated 95 by the end of 2006
- Documented and entered approximately 4,500 concession structures into facility monitoring databases
- Completed building condition assessments of 68 percent of concession facilities (estimated by the end of 2006)
- Increased competition for NPS concession contracts
- Doubled NPS franchise fee revenue from $14.5 million in 1999 to $29.6 million in 2005
- Increased "professionalization" of NPS concessions management personnel by emphasizing private sector business background and training
- Established a comprehensive environmental management program to promote environmental awareness and advance sound environmental strategies for all NPS concessioners

Details on these accomplishments and additional implementation activities are provided within this report.

Table of Contents

Table of Exhibits

Correction notice: Exhibit 3 on page 4 was updated on April 9, 2007. The gross revenue and franchise fees numbers for each region were misaligned in prior printings of this report.

Note on Reporting Years

This report relies on the most recent and comprehensive data maintained by the National Park Service. In some instances—as in the summary of current contracts presented in Exhibit 7 and Exhibit 8—data is available and considered “current” in 2006. For financial data, on the other hand—as in the gross revenue and franchise fee numbers of Exhibit 3 and Exhibit 4—“current” data is based on concessioner-submitted reports of activities in 2004 and is not available until the end of their corresponding fiscal years. Final reports of each concessioner’s operations for 2004 are provided to the NPS during the course of the year in 2005. As the consolidation and reconciliation process for that data takes up to 18 months, comprehensive financial data for this report to Congress is provided for 2004 operations. Where available and appropriate, estimates have been provided for 2005 concessioner activities—such as the estimates for total gross receipts identified in Exhibit 1. This data for this report is considered current as of October 2006.

Introduction

When deliberating over the proposed legislation that resulted in the Concessions Management Improvement Act of 1998 (the "1998 Act"), Congress determined that certain incentives in the Concessions Policy Act of 1965 (the "1965 Act") designed to encourage concessioners to invest in NPS visitor facilities were "no longer necessary in light of contemporary park visitation levels and enhanced accessibility to remote areas" (Senate Report 105-202). Preferential right to contract renewal for incumbent concessioners and a right to compensation (possessory interest) for concessioners' real property improvements were eliminated or modified by the 1998 Act. These changes, among others, were intended to "foster appropriate competition in the award of national park concession contracts" (Senate Report 105-202 and House Report 105-767).

Notwithstanding this new approach in the 1998 Act to the "business" of concessions management, Congress renewed its previous philosophy that the "fundamental policies" regarding concessions activities in units of the national park system are that:

1. Visitor enjoyment of the national parks will be provided for in a manner that will leave park resources and values unimpaired for enjoyment of future generations;
2. Visitor accommodations, facilities, and services should be provided within park units only under carefully controlled safeguards against unregulated and indiscriminate use;
3. Development of public accommodations, facilities, and services within such units is to be limited to locations consistent to the highest practicable degree with the preservation and conservation of the park area's resources and values; and
4. Development of visitor accommodations, facilities, and services in units of the National Park System shall be limited to those accommodations, facilities, and services that are necessary and appropriate for public use and enjoyment of the park unit area, and are consistent to the highest practicable degree with the preservation and conservation of the unit's resources and values.

In reaffirming these visitor services policies, the 1998 Act also called for government to provide a new process for increased competition of concession business opportunities. The 1998 Act also mandated that the government charge franchise fees commensurate with the probable value of the privileges granted by contracts, but that "consideration of revenue to the United States shall be subordinate to the objectives of protecting and preserving park areas and of providing necessary and appropriate services for visitors at reasonable rates" (Section 407 of the 1998 Act).

This report provides an assessment of the competitiveness of concession contracts and an analysis of program administration as a result of enactment of the 1998 Act.

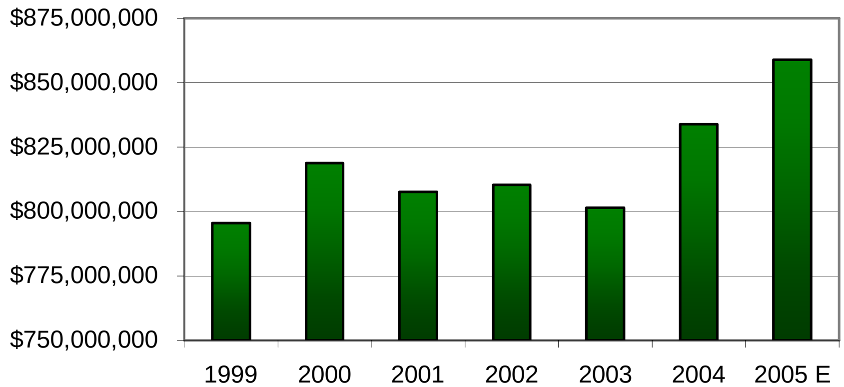
The Scope of the NPS Concession Program

The NPS Concession Program is most similar in business approach to that taken by private sector organizations that contract with third parties to operate company-owned assets on a day-to-day basis. In terms of revenue generation, the NPS Concession Program would rank in the top 200 hospitality companies in the United States. NPS concession operations have a profound personal and economic impact on park visitors, concessioners, and gateway communities. And though operations are contracted to third parties, the NPS, like the owners of such company-owned assets, is ultimately responsible for the guest experience and the maintenance of facilities.

The national parks host an average of 270 million visitors annually. NPS concessioners employ more than 23,000 people during the peak visitation periods to provide hospitality, transportation, maintenance, recreation, and related visitor services. Concession employees, in the operation of concession programs, also provide valuable interpretation, education, public health, and safety services for park visitors and support NPS efforts in resource protection. This seasonal hiring by concessioners equates to a virtual doubling of the workforce size of the entire NPS federal staff.

NPS concession contracts generated approximately $801 million in gross revenue in 2003, $834 million in 2004, and an estimated $859 million in 2005. The increase from 2003 to 2004 was due primarily to partial recovery of revenue at several large water-based concession operations (where decreasing water levels in 2003 adversely affected visitation) and an increase in revenue generated under several transportation contracts. Exhibit 1 illustrates historical concessioner gross revenue from 1999 to 2005. Despite a decline in 2003, concessioner gross revenue has increased by nearly $64 million since 1999.

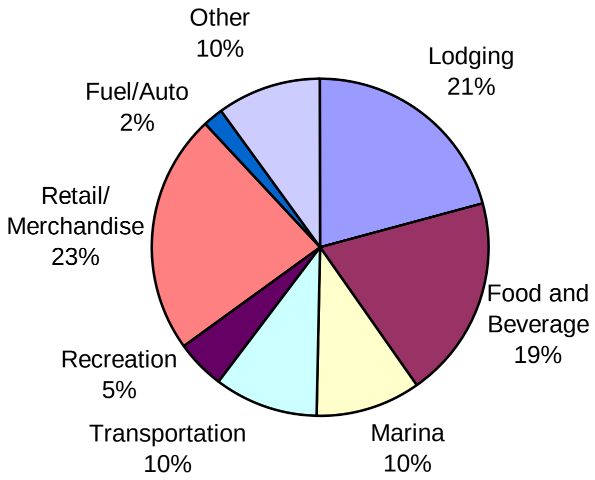
Exhibit 1 Annual Gross Revenues of All Concession Contracts



2005 data is estimated as not all concessioner financial data had been reported by the time of this report. For additional details on the timing of reporting and determination of reporting years used in this report, please see the note on page 3.

Concessioners in the national parks provide a variety of visitor services in eight general categories. Exhibit 2 presents a summary of total contract revenue by these categories. In managing concession contracts, it is important to note that a single contract can generate revenue in multiple categories.

Exhibit 2 Concession Contract Revenue by Visitor Service (2004)



Within the "other" category of revenue are revenues for items such as horse livery and stables, golf courses, ski facilities and any number of other sources which, individually, do not constitute a significant percentage of total gross revenues.

Concession contracts administered by the NPS are located in all regions of the national park system, as illustrated in Exhibit 3. The Intermountain Region administers nearly 40 percent of all concession contracts, the largest number of any region. The Intermountain Region accounted for more than 46 percent of the total concessioner gross revenue generated by NPS contracts. Although smaller in comparison to the Intermountain Region, the other regional concessions operations contain important visitor services to ensure a seamless experience throughout the national park system.

Exhibit 3 Concession Contracts by NPS Region (2004)

Region	# Parks with Contracts	# of Contracts	Gross Revenue	Franchise Fees
Alaska	7	100	$23,000,000	$2,500,000
Intermountain	33	243	$387,000,000	$8,400,000
Midwest	17	80	$27,000,000	$1,200,000
National Capital	6	13	$33,000,000	$1,200,000
Northeast	18	37	$74,000,000	$6,600,000
Pacific West	29	80	$250,000,000	$5,200,000
Southeast	18	63	$40,000,000	$1,600,000
TOTAL	**128**	**616**	**$834,000,000**	**$26,700,000**

The total number of concession contracts fluctuates due to the re-issuance, elimination, or addition of contracts throughout the year. As such, the total number of contracts may vary by exhibit. Similarly, franchise fees may vary by exhibit due to differences in reporting periods (concessioner fiscal year activities vs. government fiscal year receipts).

Note that for the Alaska Region, revenues and franchise fees for concession operated vessel services in Glacier Bay are not included due to the unique nature of these concessions and limitations in their financial reporting. Franchise fees for cruise ship services, which account for approximately 90 percent of the vessel services, are capped at $5 per passenger by Public Law 104-333. In 2004, the cruise ship concessioners at Glacier Bay paid $1.8 million in franchise fees.

In 2004, 53 concession operations individually grossed more than $3 million annually, generating approximately 81 percent of all gross revenues on NPS concession contracts. Exhibit 4 presents a breakdown of concession contract revenue by contract size.

Exhibit 4 Concession Contract Revenue Breakdown (2004)

Gross Revenue on Individual Contracts	# of Contracts	% of All Contracts	All Contracts Gross Revenue	% of Gross Revenue
$3 Million and Above	53	8.6%	$675,360,000	81.0%
$1 Million to $3 Million	44	7.1%	$83,334,000	10.0%
$500,000 to $1 Million	37	6.0%	$26,812,000	3.2%
All Other	485	78.4%	$48,494,000	5.8%
Total	**619**	**100.0%**	**$834,000,000**	**100.0%**

Revenue rounded to nearest thousand; totals may not add due to rounding. Percentages are expressed as a percent of all NPS concession contracts.

The total number of concession contracts fluctuates due to the re-issuance, elimination, or addition of contracts throughout the year. As such, the total number of contracts may vary by exhibit.

Overview of the Concession Program

Management of the NPS Concession Program is through its headquarters office in Washington, D.C. The national program is closely aligned with regions and parks in order to consistently implement laws and regulations, and provide administrative oversight and policy guidance. The Chief of the NPS Concession Program oversees eight staff in the Washington, D.C. office and nine staff in the Washington Concession Program–Denver office, located in Lakewood, Colorado. The Washington Concession Program–Denver performs several functions including concession contracting, concession operations, oversight and management, procurement, architectural and engineering services, construction management services, environmental management, and accounting and data management services.

On a program-wide basis, there are approximately 190 people working in concessions-related assignments, of which approximately 60 percent (110) are part time (collateral duty) employees. Of the collateral duty staff, many are park rangers who are assigned limited concessions responsibilities.

Outside of the Washington, D.C. headquarters office, regional concessions staff provide a variety of resources to park concessions staff and, in particular, support parks without full-time concessions specialists. Park units with concession programs employ dedicated staff responsible for day-to-day oversight of concessions. Park staff work under the supervision of park superintendents with assistance from the regional office. Park staff assist in concession planning and manage contract oversight responsibilities and activities such as evaluation of concession operations and rate approvals. The size of the concession staff varies depending on the park size, the complexity of the concession operation, and available resources within the park. Large parks with many or large concession operations typically have several full-time staff at parks, while smaller parks will sometimes have part-time (collateral-duty) NPS employees. As the complexity of concessions management has increased, staffing changes have made operational compliance and prospectus development more challenging. The Concession Program is in the process of developing a human capital strategy which analyzes current staffing demands and determines appropriate staffing levels throughout the NPS.

Private sector contractors and consultants assist NPS staff by providing technical and business expertise where needed. With the 1998 Act emphasizing the importance of using the private sector to provide this type of assistance, the NPS now uses contractors and consultants to assist with program functions. In addition, the Concession Program has collaborated, formally and informally, with other Government agencies. Exhibit 5 summarizes external resources used in managing the Concession Program.

Exhibit 5 NPS Concession Program External Resources

Name of Firm	Area of Support
PricewaterhouseCoopers LLP	Advisory, Prospectus Development
Distribution Information Technology	Asset Management
Prizim	Environmental Management
Booz Allen Hamilton	Prospectus Development
Economic Research Associates	Prospectus Development
Dornbusch Associates	Prospectus Development
Volpe Center	Transportation Management
United States Public Health Service	Public Health, Environmental Management
Environmental Protection Agency	Environmental Management

In 2003, the NPS awarded contracts to four professional service firms to assist in prospectus development activities. In 2004, the NPS Concession Program held a three-day orientation session for all professional service contractors in Washington, D.C. to assist them in gaining a better understanding of the prospectus development process. These firms have assisted the NPS in establishing a contract development framework which has resulted in the successful award of several complex, large-scale concession contracts. In 2005, each of the contractors received project assignments and they are currently involved in prospectus development at several parks. The enhanced relationships developed between the NPS and its contractors has provided the welcome collateral benefit of training NPS concessions staff in the areas of financial and investment analyses, which in turn has enhanced the skills of NPS concessions professionals.

Achievements of the Concession Program under the 1998 Act

The passage of the 1998 Act resulted in significant changes in the basic concession contracting process. The 1998 Act eliminated the preferential right of renewal of some concessioners and focused NPS concessions toward a new, more competitive, business-minded orientation. Since the passage of the 1998 Act, the NPS Concession Program has made significant achievements in the implementation of the Act's requirements. In particular, the NPS has developed new contracting regulations and standard language contracts and established the Concessions Management Advisory Board. The following paragraphs describe the achievements of the NPS to date.

Adoption of Regulations

Within two years of the enactment of the 1998 Act, the NPS adopted final implementing regulations, now found in 36 CFR Part 51. Key elements in Part 51 include:

- Solicitation, Selection and Award Procedures. Subparts C and D provide policies and procedures for the contract solicitation process, including prospectus content, issuance procedures, and evaluation criteria.
- Right of Preference. Subparts E and F address the right of preference to contract renewal for specified categories of concessioners.
- Leasehold Surrender Interest (LSI) and transition from Possessory Interest (PI). Subparts G and H describe the process by which LSI is created, credited and valued and how possessory interest is converted into LSI.
- Establishment of Concession Contract Provisions. Subpart I establishes provisions for the term of concession contracts, franchise fees, and special accounts (concessioner revenue set-asides).
- Assignment and Encumbrances of Concession Contracts. Subpart J addresses the assignment and encumbrance of concession contracts.

Development of New Standard Language Contracts

Standard language concession contracts assist in part in implementing the 1998 Act's requirements for more competitive contracts. As outlined in Exhibit 6, standardized contracts are provided for within three categories (as defined in 36 CFR Part 51).

Exhibit 6 Concession Contract Category Definitions

Category I Contract	Will be used in situations where the concessioner will be required or allowed to construct or install capital improvements on park area lands, thereby acquiring in certain conditions a Leasehold Surrender Interest.
Category II Contract	Will be used in situations where a concessioner will operate on assigned land or in an assigned concession facility, but will not be allowed to construct or install capital improvements.
Category III Contract	Will be used in situations where no land or buildings are assigned to the concessioner.

Category I contracts are distinguished from Category II and III contracts by the presence of LSI. Furthermore, Category I contracts are generally larger (in terms of revenue), more operationally diverse and complex, and more real property intensive than those in Categories II and III. In some cases, Category II contracts, most notably certain transportation contracts which are personal property intensive, may also generate high revenue but do not provide for LSI. The purpose of adopting a "simplified" Category III contract is to minimize the administrative burden imposed on smaller concessioners.

An additional improvement to NPS standard concession contracts since adopting Part 51 is the inclusion of specific transition management provisions for all new contracts. These provisions cover actions that must occur in order to deliver a seamless transition of services from one concessioner to another.

Establishment of the Concessions Management Advisory Board

Section 409 of the 1998 Act established the NPS Concessions Management Advisory Board. In that section, Congress stated the Advisory Board's purpose is "to advise the Secretary [of the Interior] and National Park Service on matters relating to management of concessions in the National Park System." The seven-person board includes professionals from a variety of backgrounds, including tourism, accounting, outfitting and guide operations, state park concessions, nonprofit conservation organizations, and traditional arts and crafts. The diverse backgrounds of the members of the Advisory Board have allowed the NPS Concession Program to involve internal and external stakeholders in major program activities.

Since its inception in 2000/2001, the Advisory Board has met several times a year in national park settings and Washington D.C. In its statutory capacity, the Advisory Board has made a number of formal recommendations to the Secretary of the Interior for improvement of the Concession Program. Implementation of those recommendations is highlighted throughout this report.

Advisory Board meetings typically include a presentation of contracting activity from each of the Regional Concession Chiefs, a presentation of issues from the NPS Director, presentations and discussion on topics as outlined by the Board's Chairman, and an open forum. Meeting attendees include Washington Concession Program personnel, Regional Concession Chiefs, park concessions staff, various concessioner representatives, and the National Park Hospitality Association.

Refinement of the Prospectus Development Process

One of the greatest challenges facing the NPS at the time the 1998 Act was passed was the need to reduce the backlog of expired concession contracts. In response to this need, the NPS has refined its prospectus development process. This new process integrates the market, financial, and real property information investment analyses taking into account the contractual obligations of contracts issued before the passage of the 1998 Act. For example, real property analysis, which comes in the form of condition assessments, identifies facility deficiencies and assists in estimating future repair and maintenance expense and contractual repair and maintenance reserve requirements. This information provides data for developing contractual terms that allow concessioners a reasonable opportunity for profit while ensuring that sufficient funds are set aside into contractual repair and replacement reserves and establishing an appropriate franchise fee payment to the NPS.

These changes mirror many private sector best practices for large hospitality real estate transactions. Many prospectus development steps have been reduced and/or simplified for smaller contracts. Overall, the new prospectus development process has led to contracts that generate a more appropriate return to the government while also addressing needed on-going capital requirements of the concession operation.

To communicate the new process with the concessions industry, the NPS conducted a number of training seminars, called *Doing Business in the National Parks*. The training, offered in conjunction with the National Park Hospitality Association and America Outdoors, briefed existing concessioners and others interested in doing business with the NPS on the new concession prospectus development process.

Reduction of the Contract Backlog

The NPS was initially challenged by the 1998 Act and its requirements to develop new supporting regulations and processes. The NPS has overcome those challenges and has made significant strides in retiring its inventory of expired contracts. According to a report issued by the Government Accountability Office, the NPS had a contract backlog of approximately 280 contracts in 1998, which increased to 478 contracts by the end of December 2000. As of December 2004, the NPS had reduced that backlog by 169 contracts. Exhibit 7 provides a summary of concession contracts as of December 2004, highlighting those contracts which are current and those which remained on the backlog.

Exhibit 7 Status of Contracts (December 2004)

Region	Current 1998 Act Contracts	Current 1965 Act Contracts	# Contracts on Backlog	Total # of Contracts
Alaska	41	1	58	100
Intermountain	157	6	80	243
Midwest	32	3	45	80
National Capital	0	5	8	13
Northeast	27	4	6	37
Pacific West	4	15	61	80
Southeast	10	2	51	63
Total	**271**	**36**	**309**	**616**

"1998 Act Contracts" are those which were issued after passage of the Concessions Management Improvement Act of 1998 (Public Law 105-391). "1965 Act Contracts" are those issued before passage of the 1998 Act.

"Contracts on Backlog" are those under extension or continuation which need to be reawarded. A contract is considered to be removed from the backlog upon the release of a prospectus for a new contract.

The total number of concession contracts fluctuates due to the re-issuance, elimination, or addition of contracts throughout the year. As such, the total number of contracts may vary by exhibit.

Since 2004, the NPS has increased the pace of its contracting efforts and reduced its inventory of expired or extended contracts by 51 percent (from 309 to 152 as of July 2006). Exhibit 8 summarizes this progress by region.

Exhibit 8 Backlog of Concession Contracts

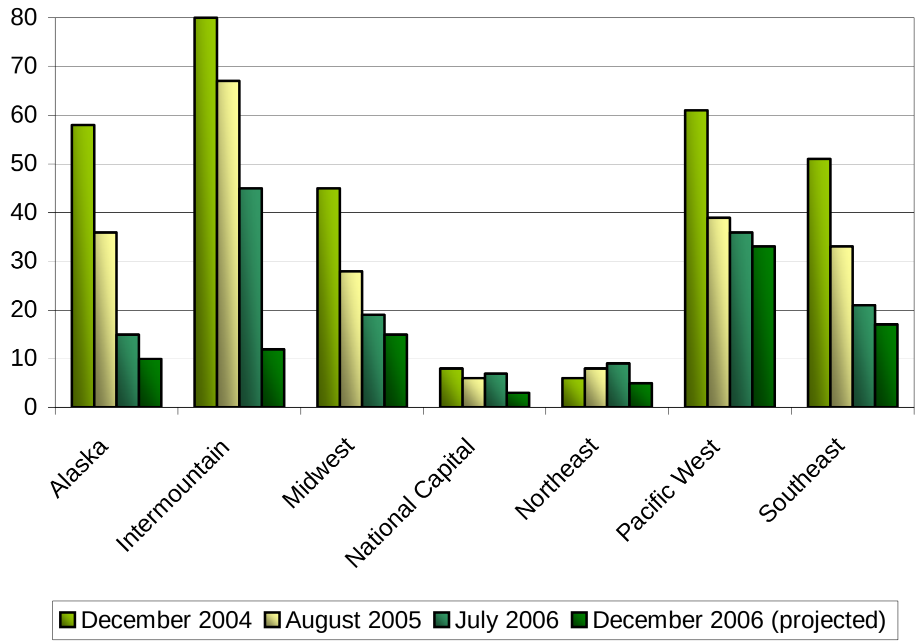
Region	December 2004	August 2005	July 2006	December 2006 (projected)
Alaska	58	36	15	10
Intermountain	80	67	45	12
Midwest	45	28	19	15
National Capital	8	6	7	3
Northeast	6	8	9	5
Pacific West	61	39	36	33
Southeast	51	33	21	17
Total	**309**	**217**	**152**	**95**

A contract is considered to be removed from the backlog upon the release of a prospectus for a new contract.

The total number of concession contracts fluctuates due to the re-issuance, elimination, or addition of contracts throughout the year. As such, the total number of contracts may vary by exhibit.

Looking ahead and taking into consideration the development of prospectuses currently underway or scheduled, the NPS estimates the contract backlog will be reduced to 95 by the end of December 2006. With their realization, these efforts will represent a 69 percent reduction in backlog in two years, with reductions in all seven regions. Exhibit 9 summarizes this backlog reduction by region.

Exhibit 9 Reduction of Concession Contract Backlog



2006 projection includes prospectuses with estimated release dates through December.

The total number of concession contracts fluctuates due to the re-issuance, elimination, or addition of contracts throughout the year. As such, the total number of contracts may vary by exhibit.

While progress on the backlog has been significant, many of the remaining contracts have complex issues that must be resolved prior to issuance. These include possessory interest valuation, changing park visitation patterns, and planning concerns.

Establishment of the Concessioner Review Program

The goal of the NPS Concessioner Review Program is to ensure concessioners are providing satisfactory visitor services and confirm NPS facilities are well managed and maintained. The Concessioner Review Program consists of three principle subparts: operational performance review; contract compliance; and rate approval. Operational performance review provides a systematic method for determining quality, safety, public health and environmental management of visitor services on a periodic and annual basis using established operating and maintenance standards. The contract compliance component requires an annual review of all concession contracts to identify, evaluate, and document concessioner compliance with their terms and conditions. The rate approval piece establishes processes and methods for review and approval of concessioner rates and ensures that rates charged to the public for concessioner-provided facilities and services are in accordance with applicable laws, regulations, and NPS policy guidance.

In 2002, the NPS established a Standards, Evaluations, and Rate Approval working group to facilitate review of the existing Concessioner Review and Rate Approval Program. The working group consists of NPS representatives and concessioners, assisted by external consultants and subject matter experts. The principal objective of this effort is to ensure that the Concessioner Review and Rate Approval Programs incorporate standards, processes, and methodologies that reflect industry best practices. The project initially focused on developing new operational and facility standards for the more complex visitor services (e.g. lodging, food and beverage, marinas, and retail). As a result of this focus, primary asset classifications were established based on private sector best practices applied to NPS facility and operational circumstances. Using these classifications, the NPS is developing standards that correspond to the different facility types and classifications (e.g. limited service food and beverage). The working group continues to develop additional operational and facility standards for other service classifications; review and update general standards (environmental, risk management and public health) applicable to all service types; review and update existing evaluation criteria and methodologies; and review and update rate approval methodologies and processes. Finalized guidelines are expected to be completed in 2008.

The "Professionalization" of Concessions Management Employees

Since the passage of the 1998 Act, the NPS has incorporated lessons-learned and best business practices to improve training programs for concessions management employees. Among other initiatives, the NPS is working with the Office of Personnel Management to develop a framework for NPS concessions personnel contract certification. The NPS has also collaborated with Northern Arizona University's Hotel and Restaurant Management Program to offer a two-year certification training curriculum for NPS concessions staff. Furthermore, the NPS is offering programs derived from a blend of internally developed curriculum in coordination with support from external organizations and third party consultants. These programs include classes on Category III contracts and Concessions Management Evaluation & Pricing Training.

In addition to training, the NPS Concession Program has improved its hiring and recruitment efforts. The NPS has recently hired (both at the national and regional levels) a number of individuals with MBA and similar professional degrees. The Concession Program is also cooperating with the Center for Park Management (a program of the National Park and Conservation Association) to provide summer internships for highly qualified graduate students with the expectation of recruitment for full-time employment after graduation.

Establishment of the Concessions Environmental Management Program

The NPS has made significant progress since the passage of the 1998 Act in improving the environmental management activities of national park concessioners. The NPS has established four main goals to advance environmental management by concessioners:

- Achieve and maintain environmental compliance as a minimum performance level for concessioners in national parks;
- Promote environmental management and advance sound environmental strategies for all concessioners in national parks;
- Increase NPS staff and concessioner awareness and knowledge of environmental topics and programs; and
- Lead by example and promulgate recognition of services that demonstrate environmental excellence.

To reach these goals, the NPS has emphasized communication and outreach mechanisms to ensure that NPS staff and concessioners are familiar with applicable environmental issues and initiatives. Since 2000, the NPS has published a bi-annual newsletter, titled *GreenLine Newsletter*, which communicates program goals and objectives, provides information on environmental compliance and best management practices, and highlights successful concessioner environmental programs. The NPS has also assembled a library of more than 320 resources and prepared numerous environmental guidance documents on topics ranging from hazardous waste to respiratory protection. These documents provide a detailed, plain-language discussion of how environmental topics apply specifically to businesses operating in national parks. In addition to posting this information to the Concession Program website, the NPS has developed an assistance compact disc which communicates program initiatives and resources on environmental regulations, policies, and best management practices. A technical assistance phone line has also been established to answer questions from concessioners and NPS staff on concessions environmental management. Environmental management and resource protection training is included as part of general concessions training programs.

The NPS has also developed service-specific guidance to assist concessioners in implementing contract requirements for a documented environmental management program. The guidance explains each of the required program elements and provides a sample management plan for reference. The NPS has been very active in partnering with others to ensure that its guidance is business-specific and comprehensive in addressing resource protection. NPS partners include the Public Health, Risk Management, Park Facility Maintenance, and Integrated Pest Management programs.

In 2003 the NPS signed a memorandum of understanding with the United States Environmental Protection Agency Small Business Division to promote environmental management system approaches that are good for both the environment and small businesses. The partnership draws upon the combined knowledge and experience in a unified and efficient non-enforcement approach that seeks to determine cost-effective environmental management practices and overall environmental performance improvements among park businesses and contractors. Various success stories of this program are being shared among the concessions community.

Concessioners operate under private-sector business models and have requirements and needs (i.e. they must be financially feasible) that differ from the management objectives of parks. To address the growing demand for environmental information for concession operations, the NPS has established a concessioner-specific environmental audit program as part of agency-wide audit efforts. The Concessions Environmental Audit System enables the NPS to consult directly with concessioners about their specific environmental management opportunities. Under the environmental audit system approach, one-on-one compliance assessment and education is provided during a site visit and reporting process. The audits provide concessioners a direct channel to talk to environmental professionals and identify strategies to improve operations both financially and environmentally. By September 2006 the Concession Program had conducted 191 environmental audits to identify and educate concessioners on environmental compliance issues and opportunities to adopt best management practices that make both business sense and enhance protection of park resources.

The Concessions Environmental Management Program received one of 11 prestigious Environmental Achievement Awards for 2004 from the Department of Interior. This national award recognized the program's achievements in increasing awareness and accountability in environmental regulatory compliance, best management practices, and environmental management systems for concessioners and park concession staff.

Establishment of Guidelines for Commercial Use Authorizations

In 2006, the NPS established interim guidelines for the management of commercial use authorizations. Commercial use authorizations are granted to private businesses to permit small scale commercial services in park areas under limited circumstances. The guidelines reflect the concerns and suggestions of a working group of interested stakeholders comprised of various NPS departments, outfitter and guide businesses, environmental organizations, Outward Bound, America Outdoors, the motor coach association, and other government agencies. The NPS is also in the process of developing regulations for the implementation of commercial use authorizations, which are expected to be adopted in 2007 after a public comment period.

Consultation with Concessioners and Other Stakeholders Regarding Program Development

The NPS is diligent and proactive in reaching out and engaging the concessions community and other stakeholders on issues relating to concessions management. The NPS interacts with organizations such as the National Park Hospitality Association, with key NPS officials frequently presenting at the Association's semi-annual meetings. This interaction has occurred through working groups dedicated to specific topics, including LSI, development of commercial use authorization procedures, and revised operating and facility standards. Consultation with concessioners is wide and not limited to large concessioners or concession organizations. Smaller concessioners, including holders of commercial use authorizations, provide valuable feedback on ways to improve visitor services at the park level. These consultations occur both on an informal basis and during public comment periods on park management issues (e.g., General Management Plans, Commercial Service Plans, and Development Concept Plans).

In addition to concessions community outreach, the NPS interacts on a regular basis with other governmental agencies and land management and recreation groups such as America Outdoors and the American Recreation Coalition. NPS officials frequently serve on committees and participate in roundtable discussions with these organizations.

Ongoing Initiatives

While the sections above outline significant achievements that the program has accomplished, the NPS continues with many other initiatives that will significantly improve program management.

Development of Contract Oversight Tools

As the backlog of expired concession contracts decreases, the program has recognized the need to focus on the oversight of concession contracts. For example, the NPS is developing several tools in order to be more prudent stewards of real property assets. The Concessions Data Management System will consolidate a variety of administrative data relating to the concession contracts into one central database. Beginning this year with its development, the system already provides users throughout the Concession Program access to real-time Concession contract data. Decentralized data entry and maintenance provides Regions and parks direct ownership and accountability of the contract data residing in the database. The system's flexible design provides the possibility for extensive system expansion. Current plans include an integrated management system which provides real-time access to annual financial reporting, possessory interest and leasehold surrender interest, and facility management data via a single user defined "dashboard." An integrated data management system provides NPS personnel access to up-to-date contract information which is critical for the management of the entire contract lifecycle.

Tracking of LSI

Tracking of leasehold surrender interest is an important component in the Implementation of the 1998 Act. The NPS is in the process of releasing a standardized tool to assist parks in tracking LSI values for contracts issued since 1998. This tool will enable accurate monitoring and estimates of LSI values during the terms of concession contracts.

Update and Automation of Annual Financial Report Data

All concession contracts require concessioners to submit an annual financial report. There are two report formats, with a standard form as well as an abbreviated version for smaller concession contracts (as measured in revenue). Historically, these reports were submitted manually to the park or region and then manually aggregated. This process focused primarily on data gathering and less on analysis and strategic thinking. In 2005, the NPS began an initiative to automate this process. With full implementation to occur in 2007, the automated system will allow for improved access to data, provide timely and accurate reporting, improve responses to external stakeholders, and enable more robust financial analyses.

Improvement in Reporting Requirements

Concessioner reported data is critical for effective management of the Concession Program. Most concession contracts issued under the 1965 Act contained limited NPS data reporting requirements. In many of the concession contracts issued since 1998, operating and maintenance plans are incorporated using industry-based reporting requirements that will allow the NPS to make more informed decisions regarding concession operations. Many operating plans require the concessioner to report operational data, such as lodging occupancy, campground occupancy, and average achieved rates on a regular basis. Maintenance plans now include additional maintenance activity reporting requirements as well.

The NPS has attempted to take into consideration additional burdens on concessioners of all sizes in developing these rigorous reporting requirements. In most cases, required reports mirror current industry standard reports. While improved reporting requirements will enhance the data available to the NPS, data management continues to remain a challenge. Tools like the Concessions Data Management System and improvements to the annual financial reporting process are major steps toward developing technology solutions that will provide a solid foundation for contract oversight and benefit concessioners through more efficient data input and reporting.

Update of Insurance Requirements

The NPS is in the process of re-evaluating the insurance requirements of concession contracts and related NPS policies to make sure that concession activities keep pace with industry standards. This evaluation has focused on issues such as the diverse nature of services offered within national parks and insurance issues associated with those services (i.e. lodging coverage requirements may be dramatically different than marina coverage requirements). Also of consideration is the varying size of concessioners, the financial impact that changes in coverage requirements may have, and accounting for environmental risks and liabilities associated with certain concession operations. The NPS expects to issue an Insurance Requirements Manual that will cover all aspects of insurance requirements applicable to concession contracts and commercial use authorizations.

An Assessment of Competition in the Solicitation of Prospectuses

Enhancing competition for contracts was a principal goal of Congress in passing the 1998 Act. In furtherance of this objective, the NPS has simplified its standard concession contract for smaller concessioners and included far more business and financial information in concession contract prospectuses.

There has been an increase in competition for concession contracts since the passage of the 1998 Act. However, much of the increased competition involves larger concession contracts because the 1998 Act eliminated only in part the right of preference that was provided to all existing satisfactory concessioners under the terms of the 1965 Act. Under the 1998 Act, there is no right of preference for concessioners with annual gross revenues in excess of $500,000 (except for outfitter and guide concessioners). However, under the 1998 Act, existing satisfactory concessioners with annual gross revenues under $500,000 (and all outfitter and guide concessioners) have a right of preference to a new contract authorizing continuation of the services and facilities (in effect, a right to meet the terms of any better proposal). An unintended consequence of the right of preference is that few competing proposals are being received for this category of contracts.

Under these rules, a right of preference applies to approximately 78 percent of existing concession contracts under the terms of the 1998 Act. In a recent sample of 247 concession contract solicitations to which a right of preference applied, 69 percent of the contracts were awarded to the incumbent concessioner. In looking at a sample of 17 solicitations for concession contracts with estimated revenues above $500,000 and to which a right of preference did not apply, there were 29 offers; the incumbent concessioner was awarded contract continuation in 53 percent of the contract solicitations. While this sample size is small, the number of proposals indicates that competition does exist for larger contracts.

These figures should be considered in light of the fact that prior to the passage of the 1998 Act, when all existing satisfactory concessioners enjoyed a right of preference under the 1965 Act, more than 90 percent of all incumbent concessioners were awarded renewals of their contracts.

Beyond the numbers of proposals received, however, increased competition for concession contracts has resulted in other benefits, including:

- Improvement in the quality of proposals. Offerors are willing to compete for concession opportunities, resulting in higher-quality proposals. For contracts with a large inventory of real property, concessioners have provided detailed proposals that address treatment of historical structures, deferred maintenance, and unique environmental management issues.
- Improvement in service and facility offerings from incumbent concessioners. In many cases where the incumbent was selected for contract award, additional services and or other benefits to the park area and visitors were proposed. For example, in the recently issued prospectus at Yellowstone National Park, the park was interested in developing a historical interpretive tour bus program throughout the park. The incumbent offered to restore some of the existing vehicles and provide tours.

An Assessment of Fair and/or Increased Revenue to the Government

Franchise fees provide the mechanism by which concession contracts return an appropriate revenue to the government. Section 407 of the 1998 Act describes concessioner franchise fees as:

> A concession contract shall provide for payment to the government of a franchise fee or such other monetary consideration as determined by the Secretary, upon consideration of the probable value to the concessioner of the privileges granted by the particular contract involved. Such probable value shall be based upon a reasonable opportunity for net profit in relation to capital invested and the obligations of the contract. Consideration of revenue to the United States shall be subordinate to the objectives of protecting and preserving park areas and of providing necessary and appropriate services for visitors at reasonable rates.

Exhibit 10 presents a summary of concessions revenue and franchise fees for 1999 to 2004. Franchise fee payments to the government have increased from approximately $14.5 million in 1999 to $26.7 million in 2004, and are estimated to increase to $29.6 million in 2005. While some of this increase is due to the increase in concessioner revenue, franchise fees as a percentage of concessioner gross revenues have increased from 1.8 percent to an estimated 3.4 percent over the past seven years.

Exhibit 10 Historic Franchise Fees

Fiscal Year	Gross Revenue	Revenue from Franchise Fees	Franchise Fee as % of Gross Revenue
1999	$795,000,000	$14,500,000	1.8%
2000	$819,000,000	$18,800,000	2.3%
2001	$808,000,000	$22,000,000	2.7%
2002	$810,000,000	$22,100,000	2.7%
2003	$801,000,000	$23,500,000	2.9%
2004	$834,000,000	$26,700,000	3.2%
2005 E	$859,000,000	$29,600,000	3.4%

The franchise fee payments presented here are based on a summation of concessioners' annual financial reports, not receipts of payment to the government. Actual budgetary reports by the Department of the Interior's budget office may differ slightly as budget office numbers represent the reported "collections", or cash received, during a particular government fiscal year, and not the actual reports of operations as submitted by the concessioners on an annual basis.

A comparison of 160 concession contracts issued since 1998 (smaller contracts, on average) shows that franchise fees increased in 82 of the 160 contracts, representing an increase from approximately 3.4 percent of revenue to 4.8 percent. The sample was based on a mix of concession contracts with similar fee structures to allow for a better comparison between 1965 Act contracts and 1998 Act contracts. In many examples, the percentage franchise fee increased by one or two percentage points, from 2 to 3 percent, to 3 to 4 percent. While this increase may not appear to be significant with respect to each contract, it is significant in the aggregate. Exhibit 11 illustrates a comparison of franchise fee changes.

Exhibit 11 Changes to Franchise Fee For Pre-1998 and Post-1998 Concession Contracts

Description	Count	%
Decrease in Franchise Fee	23	14%
No Change in Fee	56	35%
Increase in Franchise Fee	81	51%
Total	160	100%

Based on sample of 160 with percentage franchise fee structure in pre-1998 and post-1998 contracts.

Many recently issued prospectuses have resulted in dramatic increases in franchise fees, notably at Mount Rushmore National Memorial and Denali National Park. As many of these contracts were recently awarded, the impact of these increases in franchise fee payments has not fully been realized. By 2007, however, contracts issued after 1998 should have a significantly greater impact on government revenues.

Increases in franchise fees have not been limited to only large contracts. Exhibit 12 presents a sample of several smaller concession contracts and the changes in concessioners' franchise fees as a percentage of gross revenues from 1965 Act contracts to 1998 Act contracts.

Exhibit 12 Comparison of Franchise Fees

		Franchise Fees	
Park Name	Contract ID	Old Contract	New Contact
Cape Lookout National Seashore	CALO005	3.5%	6.0%
Hot Springs National Park	HOSP001	3.0%	10.0%
Yellowstone National Park	YELL118	3.0%	4.0%
Cape Cod National Seashore	CACO003	2.5%	14.0%
Ozark National Scenic Railways	OZAR002	2.5%	4.0%
Denali National Park	DENA005	2.0%	4.3%
Ozark National Scenic Riverways	OZAR010	2.0%	4.0%
Point Reyes National Seashore	PORE002	2.0%	4.0%
George Washington Memorial Parkway	GWMP003	1.0%	8.0%

In addition to increased franchise fees, several recently issued prospectuses and signed contracts have resulted in significant, non-monetary improvements, most notably in the areas of resource protection and higher quality visitor services. Exhibit 13 presents a summary of some of the resource protection and visitor service improvements brought forth through recently signed concession contracts.

Exhibit 13 Resource Protection and Visitor Service Improvements in Recently Executed Concession Contracts

Park	Contract ID	Description
Denali	DENA 001	Requirement for ISO 14001 certification for buses that meet California Air Resource Board standards, and use of low sulfur diesel fuel several years prior to nationwide standards
Acadia	ACAD010	Requirement for half of bus fleet to meet state energy requirements prior to state standards
Glacier Bay	Various Contracts	Offerors proposed to require wilderness first responder medical training as well as swift water rescue
Denali	Various Contracts	Guides offered to remove all human waste from 20,320' Mount McKinley using Clean Mountain Cans (developed by the NPS)
Rocky Mountain	ROMO001	Enhanced food, beverage and retail offerings to include interactive interpretation
Yellowstone	YELL077	Introduction of interpretive tours using historic yellow buses
Mount Rushmore	MORU001	Merchandise plan requirement to identify and emphasize natural resources, cultural resources, geology, and unique local area attributes

An Assessment of Improvements of Concession Facilities and Infrastructure

In addition to an assessment of increased returns to the government, Section 405(f) of the 1998 Act requires an assessment of improvements of concession facilities and infrastructure. This assessment focuses on three main initiatives:

- Asset management;
- Repair and maintenance reserves; and
- Concessioner funded improvements.

Each of these initiatives is described in detail below.

Asset Management

Since the passage of the 1998 Act, the NPS has undertaken three principal initiatives to improve the Concession Program's asset management capabilities. First, the NPS has integrated the ongoing concessions facility data entry into the NPS general Facility Management Software System (FMSS). By the end of 2005, the NPS completed the documentation of approximately 4,500 concession-managed assets in FMSS. Second, the NPS has begun a program to conduct condition assessments on concession-managed assets every five years. Between 2002 and 2005 approximately 48 percent of concession-managed assets had undergone a comprehensive condition assessment. By the end of 2006 the NPS expects to have completed assessments on 63 percent of all assets. Third, the NPS has been successful in developing Facility Condition Index targets. The index establishes a numeric value, or "score," representing a relative measure of a structure's replacement cost and deferred maintenance. A lower score is indicative of improved facility condition. The Facility Condition Index, when fully implemented, will enable the NPS to assess the current condition of all concession-managed assets.

Repair and Maintenance Reserves

Repair and maintenance reserve provisions have been included in many concession contracts issued since passage of the 1998 Act. The provisions require the concessioner to invest a percentage of its gross revenues into the repair and maintenance of concession assets. The provisions outline a process for establishment and oversight of projects to be funded with these revenues, with joint concessioner and NPS responsibilities. In 2005, total concessioner repair and maintenance reserves were estimated at $1.7 million. With award of several large concession contracts, this amount is expected to increase to nearly $10 million per year by 2008.

Concessioner Funded Improvements

Most of the larger concession contracts issued since the passage of the 1998 Act require concessioner funded improvements, known as Concessioner Facility Improvement Programs (which may be eligible for leasehold surrender interest as discussed below). These projects are typically identified during the prospectus development phase and address a variety of facility needs, including visitor service elements as well as deferred maintenance, life safety, and other deficiencies. Specific examples include:

- At Mount Rushmore National Memorial, the concessioner is to fund the reconfiguration of the food and beverage outlet, allowing for improved service and customer flow.
- At Yellowstone National Park, the concessioner is to fund the replacement of several cabin units. These units were in severe disrepair and were frequently unusable.
- At Grand Teton National Park, the concessioner is to cure approximately $1.5 million in deferred maintenance, plus improvements at campgrounds.

Similar investments are ongoing throughout the national park system.

An Assessment of Problems with the Management and Administration of the Concession Program that are a Direct Result of the Implementation of the 1998 Act

Section 405(f) of the 1998 Act requires that this report to the Congress include an assessment of problems with the management and administration of the NPS Concession Program that are a direct result of the implementation of the provisions of the 1998 Act.

The previous sections of this report describe in detail the challenges the NPS has had to address in its implementation of the 1998 Act. These challenges, however, for the most part, were not the "direct result" of the provisions of the 1998 Act, but, rather, represent challenges that were carried forward from the 1965 Act. In most respects, the provisions of the 1998 Act gave the NPS needed tools to assist in resolving these long-standing Concession Program challenges.

However, implementation of one element of the 1998 Act, the leasehold surrender interest concept, has been particularly difficult for two reasons:

1. The introduction of LSI as the basis for providing concessioners with appropriate compensation for real property improvements made to park lands requires the development of sophisticated regulatory and contractual provisions regarding real property investment matters in the context of very specific LSI legislative requirements; and
2. The adoption of LSI (replacing the similar PI concept established by the 1965 Act), requires the conversion of PI into LSI upon contract renewal, and, consequently, requires a difficult, expensive and time-consuming valuation determinations of existing PI.

The ambiguity of the conversion from PI to LSI and the resulting arbitrations, as discussed below, are fundamental problems for the NPS. Contrary to the intent of the 1998 Act, these uncertainties can create values that stymie competition and create non-competitive contracting situations. The NPS continues to work to address these problems within the framework of the 1998 Act. Additional considerations are discussed below.

Leasehold Surrender Interest

A particular challenge in implementing the 1998 Act lies with the crediting and depreciation of leasehold surrender interest. LSI is a right of compensation provided to NPS concessioners for capital improvements constructed on park area lands under the terms of an NPS concession contract. Due to the significant financial impact of decisions made regarding PI and LSI, Section 405 has proven to be one of the most challenging portions of the 1998 Act for NPS practitioners and concessioners.

Compensation is based on the amount equal to the initial construction cost of the capital improvement, increased or decreased by the Consumer Price Index from the date of constructing the improvement to the date of payment, less depreciation of the capital improvement as evidenced by its condition and prospective serviceability in comparison with a new unit of like kind. A “capital improvement” is a structure, fixture, or non-removable equipment. Where initial LSI under a concession contract is based on the carryover of PI interest in real property from a prior concession contract, the “construction cost” of the initial LSI is equal to the determined value of the PI established under the terms of the prior concession contact.

On the surface, it appears as though LSI valuation is more straightforward than its PI predecessor. However, after delving into the method by which LSI is valued, it is more complicated. For instance, there is interpretive confusion on the timing of Consumer Price Index increases and depreciation decreases, for which the statute does not provide a formula for calculation. This leaves the question of depreciation as a subject of much debate.

To implement the Act’s statutory provisions regarding LSI, the NPS in 2000 adopted LSI regulatory and standard language concession contract provisions. Concerns have been raised that these provisions are difficult to administer and do not provide sufficient certainty to the NPS or concessioners as to the potential value of LSI compensation during the term or at the expiration of concession contracts.

In response to these concerns, the NPS Director in 2003 requested that the Concessions Management Advisory Board review the implementation of LSI under the 1998 Act. The Advisory Board was tasked to recommend a means to simplify LSI management and ways to provide more certainty and transparency as to the value of LSI over the term of concession contracts. The Advisory Board created a working group to consider these issues in detail. The working group was composed of members of the Advisory Board, NPS concessioners, National Park Hospitality Association representatives, NPS officials, and the NPS corporate business advisor, Pricewaterhouse-Coopers.

In August 2005, the Advisory Board, based on the work of the working group, made final recommendations to the NPS Director as to how to improve LSI management and the definitions of the LSI provisions of NPS concession contracts. The recommendation included LSI crediting based on the “who pays” concept, as well as a detailed approach for asset/value allocation and depreciation. This new approach will require redrafting of the current regulations, but should not require statutory changes.

In particular, the Advisory Board’s recommendations call for: 1. the assignment of LSI based on the source of funds used to construct the related improvements; 2. allocation of LSI to the building and building component level of the related improvements; 3. a methodology for tracking the base value of LSI during the term of a concession contract; and 4. a methodology for tracking the depreciation of LSI over the term of a concession contract. These recommendations have evolved into draft regulations which the NPS expects to release for public comment. In addition, the NPS, as discussed further below, is in the process of developing the recommended tracking systems for LSI and related depreciation.

The NPS considers that implementation of these recommendations will significantly improve the management of LSI. However, the 1998 Act's statutory requirements for LSI dictate close oversight and accounting of all concessioner capital improvement expenditures and depreciation of these assets. Concession contracts that provide for LSI in improvements built by the concessioner are similar in many ways to the issuance of "cost plus" government construction contracts to the private sector. Cost plus contracts require extensive administrative accounting and verification procedures. A better LSI system would be to base LSI compensation on the concessioner's book value in its park area improvements as shown in its federal income tax returns. However, this simpler method of valuing LSI would require legislative changes.

Despite these initiatives, LSI will remain a barrier to effective program implementation due to its complex nature. Any new concessioner may find it difficult to fully comprehend how to calculate LSI as they consider bidding on concession contracts. This is especially true for large contracts with significant PI or LSI. Nonetheless, calculating LSI over the term of the contract will remain a challenge.

Possessory Interest

The 1998 Act requires that new concession contracts convert possessory interest into leasehold surrender interest. The mechanism for this conversion is for a 1998 Act concession contract to recognize the value of the PI that existed under the related prior concession contract as the "initial cost" (i.e. base cost) of the related improvements for LSI purposes.

In general, the value of PI compensation is defined as "an amount equal to the sound value [of the related improvement] determined upon the basis of reconstruction cost less depreciation evidenced by its condition and prospective serviceability in comparison with a new unit of like kind, but not to exceed fair market value." Under this definition, a PI valuation requires three separate but related determinations: 1. the "reconstruction" cost of the improvement; 2. the depreciation the improvement as of the time of valuation; and 3. the improvement's fair market value.

Establishing the value of PI upon issuance of a new contract is difficult, as the definition of possessory interest is subject to varying interpretations and the valuation process itself is expensive and time consuming. Prior to the 1998 Act, valuation of PI was rarely necessary because 1965 Act contracts were almost always renewed with the incumbent concessioner. However, based upon the language of the 1965 Act contracts, the value of PI is effectively subject to arbitration if a negotiated settlement cannot be reached with the concessioner that holds the PI. Historically, arbitrations have taken widely varying approaches to PI valuation and many have resulted in decisions in which PI values were determined to be considerably higher than NPS estimates.

In response to these circumstances, the NPS, with the assistance of outside experts and the Department of Justice, is refining procedures for the valuation of PI. In addition, the NPS now seeks to negotiate PI values with existing concessioners prior to contract expiration in order to provide more certainty in the contracting process and to avoid expensive, time-consuming, arbitration procedures.

Possessory interest dispute resolution remains a problem for some contracts. As 1965 Act contracts are replaced with 1998 Act contracts, disagreements develop over the value of PI. When negotiated or arbitrated values are significantly higher than anticipated and competition is limited, the benefits to the public and the NPS—both financially and programmatically—are significantly reduced. This is most notable in a situation were the value of possessory interest requires the NPS—in order to provide for the financial feasibility of the concession opportunity—to reduce franchise fees, Concession Facility Improvement Programs, and other contract benefits over a prolonged term, significantly in excess of the recommended limit of 10 years. In a worst case scenario, government funds may need to be used to pay some or all of the PI in order to lower the LSI in a new contract.

For the NPS, there appears no easy way over this barrier. As noted previously, the NPS has made progress in terms of negotiations and valuation methods; however, until a proven PI negotiation/arbitration strategy is developed and implemented, the difficulties for the NPS and its concessioners will continue.

Conclusion

The NPS believes that the actions and initiatives it has taken in response to the passage of the 1998 Act have appreciably improved its Concession Program. In particular, it demonstrates the commitment of the NPS to modernize its management practices and take advantage of the tools, analytical techniques, and business norms which prevail in private industry. They also demonstrate a commitment to achieve the Congressional objective of providing quality park area visitor services at reasonable rates, in cooperation with the private sector, in a manner that will leave park area resources and values unimpaired for enjoyment by future generations.

NATIONAL PARK SERVICE