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NATIONAL PARK SERVICE

Policies and Practices for Determining Concessioners' Building Use Fees

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Mr. Chairman and Members of the Subcommittee,

I am pleased to be here today to discuss our ongoing work regarding the fees that Park Service concessioners pay for the use of federally owned facilities. This is our third appearance before this Subcommittee in 14 months on issues raised concerning concession operations. At our first appearance, we told you that we had found a lack of complete data and inconsistent policies among the concession programs of the agencies responsible for managing federal recreation lands, including the Park Service.[1] Today, we bring to you a very similar message regarding the Park Service's management of building use fees.

Before I discuss the specifics of our ongoing work, I would like to take just a moment to highlight some of the principal concerns we have raised for several years in reports and testimonies on federal recreation and concessioner activities.

The federal government has spent billions of dollars to develop the nation's vast array of recreation resources. Within the Park Service alone, the present worth of the physical facilities and roads is estimated to total over $35 billion. Yet in March 1988, we reported a $1.9 billion cumulative shortfall in maintenance funding that had resulted in the deterioration of some assets which if not repaired or maintained, would be lost permanently. Despite yearly increases in both maintenance and construction appropriations, the Park Service reports that its priority repair work now totals $2.2 billion, of which $1.3 billion represents building and utility-related needs.

We have also raised concerns about the quality and types of services being provided to the public by concession operators, the fairness of the charges to the public for these services, the extent of the profits being made by the larger concession operators, and the appropriateness of the fees paid to the government by these concessioners. In reports issued in 1975, 1980, and 1985, we cited a lack of monitoring by the Park Service of its concessioners and noted that health and safety problems were prevalent in the national parks, concluded that possessory interest and the preferential right of contract renewal were not in the government's best interest, and determined that the concession fees paid to the government were too low.

The Department of the Interior has also raised concerns about federal recreation and concessioner activities. In 1986 and 1990, the Inspector General said that the Park Service needed to make improvements in how it (1) determines and establishes concession

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[1]See appendix I for pertinent GAO and Department of the Interior reports and testimonies.

fees, (2) implements internal controls over concession contracts, and (3) awards and renews concession contracts. Furthermore, in October 1991, the Park Service cosponsored a symposium that concluded that although the agency is widely respected by the public, it is beset by controversy, weakened morale, and declining effectiveness. Among other things, the symposium recommended that the Park Service obtain returns from concessioners that are consistent with the value of the resources in the individual parks.

Let me now turn to our ongoing work on building use fees. Our efforts focused on three main questions--how many concession agreements involve the use of federally owned facilities; what policies and practices exist for determining building use fees; and do the fees paid to the government represent a fair return for the use of these facilities.

In summary, we must again report to you that the Park Service is not effectively managing this program. A lack of policy guidance has led to inconsistent determinations of building use fees. Furthermore, a lack of complete and centralized data has left the Park Service in a quandary as to how many concession agreements contain the assignment of federally owned facilities, how many federally owned facilities are used by concessioners, and what other agreements have been reached concerning the repair, maintenance, and improvement of these facilities. As a result of this lack of data, the total compensation for the use of federally owned facilities is unknown.

PARK SERVICE BUILDING USE FEE DATA ARE INCOMPLETE

Park Service headquarters does not maintain complete and centralized data on concession agreements that include the use of federally owned facilities. As a result, we had to ask each of the 10 Park Service regional concession managers to provide a listing of the concession agreements that involve federally owned facilities used by concessioners and the fees assessed. From the data provided by the regional offices, we selected 31 agreements to review in depth. For each agreement, we attempted to identify the number and type of federally owned facilities, the fees assessed, and when and how the building use fees were determined. The selected agreements included 30 different park units and represented all 10 Park Service regions. (See app. II for a complete listing of the concession agreements we reviewed.)

Although we asked each regional concession manager to provide us with data on building use fees, we found that even the regional information was not complete. During our site visits to selected Park Service units we found additional agreements and/or facilities that were either unknown and/or not reported by the regional offices. Despite our efforts, we cannot assure you today that this information is complete. Based on the best available data that we were able to collect, we found that in 1990 there were about 150 agreements involving concessioners' use of about 1,400 federally owned facilities. Annual gross revenues of the concessioners operating under these agreements ranged from about $6,300 to $83 million. The type of federally owned facilities used by concessioners varied widely and included lodges, cabins, restaurants, maintenance and storage facilities, horse corrals, and fuel storage tanks. Cash fees paid to the Park Service by concessioners in 1990 for the use of these facilities ranged from $0 to about $65,400 and totaled about $1.2 million.

The Park Service also receives nonfee compensation from concessioners. For example, concession contracts may contain requirements that the concessioner perform very specific activities to repair, maintain, improve, or even construct federally owned facilities. In addition, some concession contracts have requirements that the concessioners set aside a percentage of their annual gross revenues to repair, maintain and improve federally owned facilities. In both cases, the value of the work performed is not centrally collected or maintained. Therefore, the total dollar value of this nonfee compensation is unknown.

PARK SERVICE BUILDING USE FEE POLICIES ARE LIMITED AND GENERALLY NOT FOLLOWED

Park Service policies for determining building use fees are not specific except to say that fees should be determined in accordance with acceptable industry practices. Industry practices generally call for appraisals. However, we found that appraisals were not obtained because Park Service field managers did not view them as useful or productive. In lieu of appraisals, field managers use a wide variety of methods to determine these fees.

Two sets of policy guidance--NPS-48, the primary Park Service guidance for concessions management, and a chapter on appraisals from the Park Service Land Acquisition Manual--address building use fee policies. The guidance in NPS-48 is not specific on how building use fees should be determined. This guidance states only that building use fees shall provide for a fair value return, to be determined in accordance with acceptable industry practices. The guidance further states that adjustments may be made to building use fees, taking into consideration certain judgmental factors, such as reasonable profit for the concessioner.

The second set of policy guidance, the Land Acquisition Manual, recommends methods for qualified appraisers to determine building use fees. In our ongoing work, we found that obtaining appraisals to determine building use fees is not viewed as useful or productive by Park Service field officials. Consequently, the policy is generally disregarded. Of the 31 agreements we reviewed, only 7 had building use fees that were based on appraisals.

Park Service field officials viewed appraisals as not particularly useful. Field officials viewed appraisals as expensive and cited examples of appraisals costing between $1,000 for a smaller, single facility to over $50,000 for larger, multiple facilities. In addition, Park Service officials told us that they did not obtain appraisals because appraisals often resulted in building use fees that, when combined with franchise fees and other forms of compensation, were higher than a concessioner could afford to pay.

For 12 of the remaining 24 agreements we reviewed, building use fees were established using a variety of different methods including 1) informal surveys of rental rates of nearby facilities; 2) negotiations with the concessioner by regional or headquarters Park Service officials based on the concessioner's ability to pay; and 3) formulas based on the estimated, depreciated value of the building. For the other 12 agreements we reviewed, Park Service officials did not know how the fee had been determined because it had been established as long as 20 or more years ago and had never been revised.

PARK SERVICE DOES NOT HAVE POLICIES FOR NONFEE "SET-ASIDE" ACCOUNTS

In some concession contracts, the concessioners are required to set aside a percentage of their revenues to repair, maintain, and improve the federally owned facilities they use. The Park Service has no servicewide policies on how to establish, administer or track these nonfee "set-aside" accounts. Set-aside accounts are either internal bookkeeping accounts maintained by the concessioner or external bank accounts in the concessioner's name and are generally based on a percentage of the concessioner's previous year's gross revenues. Eight of the 31 agreements that we reviewed had set-aside accounts. For six of these agreements, the account was established in lieu of a building use fee. For the remaining two agreements, the account was in addition to a building use fee.

The Park Service has no servicewide guidance on what types of repair, maintenance, or improvement expenditures are or should be paid for from these accounts. For example, of the eight agreements that had set-aside accounts, only four agreements had administrative guidelines outlining projects eligible for funding from these accounts. We found that funds from set-aside accounts were used for a variety of projects, ranging from routine maintenance to major capital improvements. For example, in one agreement, funds were used for projects such as reroofing a dining room, installing an air conditioner in a gift shop, and replacing key sets and door locks on motel units. Under another agreement, account funds were used for replacing wallpaper, caulking bathtubs, and replacing batteries in smoke alarms. Under a third agreement, account funds were used for repairing and cleaning up a failed water pipe that had caused the release of asbestos insulation throughout a federally owned facility.

The set-aside accounts in our sample were generally tracked differently. In one instance, the local park official responsible for tracking the set-aside accounts could not reconcile the concessioner's entries in the set-aside account. In another instance, the local park official did not know whether the set-aside account was an internal bookkeeping account maintained by the concessioner or an external bank account. Park Service headquarters officials acknowledged that without adequate policies and internal controls, the potential exists for mismanagement, misuse, or even abuse of these accounts.

FAIR RETURN CANNOT BE DETERMINED

You asked whether the government was receiving a fair return for the use of federally owned facilities used by concessioners. Unfortunately, we cannot answer this question. In order to begin to determine what constitutes a fair return, the Park Service needs to collect complete data on all forms of compensation including franchise fees, building use fees, the value of set-aside accounts, and other contractual agreements to repair, maintain, and improve federally owned facilities. Until the Park Service collects and maintains complete and centralized data on the various forms of compensation, the fair return question cannot be answered.

CONCLUSIONS

Fourteen months ago, when we first appeared before this Subcommittee, we reported that the Park Service's management of its concession program suffered from a lack of data and inconsistent policies and procedures. We made recommendations at that time that we believed Park Service needed to implement in order to bring consistency to the program. Management of building use fees is also hampered by the same limitations--incomplete data and limited policy guidance. Therefore, the recommendations we made earlier are pertinent to the management of building use fees. We are making some further specific recommendations as to how this program could be improved.

More importantly, today and in our previous reports and testimonies, we have reported that the lack of sound management systems and sufficient data has hampered the Park Service's decision-making processes. Given the vast maintenance and reconstruction backlog in the national parks, it is imperative that the Park Service have the information needed not only to confront this continuing deterioration but also to look forward to the challenges facing the nation's unique recreation resources. Determining whether the Park Service is receiving a fair return from concessioners is not just a sound management practice but an integral part of identifying alternatives to address the agency's needs for the future.

RECOMMENDATIONS

Specifically with regard building use fees, we recommend that the Secretary of the Interior direct the Director of the Park Service to develop complete and centralized data on (1) the number of concession agreements that involve the use of federally owned facilities, (2) the number of facilities used by concessioners, (3) the building use fee paid by the concessioner, and (4) the value of nonfee compensation from either set-aside accounts or contractual agreements.

We also recommend that the Secretary of the Interior direct the Director of the Park Service to develop specific policies, methodologies, and guidelines on how to (1) best determine building use fees and (2) establish, administer, and track set-aside accounts, as well as other contractual agreements for repairs, maintenance, and improvements to federally owned facilities used by concessioners.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions that you or other Members of the Subcommittee may have.

PERTINENT GAO AND DEPARTMENT OF THE INTERIOR REPORTS AND TESTIMONIES

U.S. GENERAL ACCOUNTING OFFICE

National Park Service: Status of Development at the Steamtown National Historic Site (GAO/T-RCED-92-6, Oct. 22, 1991).

Bureau of Reclamation: Land-Use Agreements With the City of Scottsdale, Arizona (GAO/T-RCED-91-74, July 11, 1991).

Bureau of Reclamation: Federal Interests Not Adequately Protected in Land-Use Agreements (GAO/RCED-91-174, July 11, 1991).

Federal Lands: Improvements Needed in Managing Concessioners (GAO/RCED-91-163, June 11, 1991).

Forest Service: Difficult Choices Face the Future of the Recreation Program (GAO/RCED-91-115, Apr. 15, 1991).

Recreation Concessioners Operating on Federal Lands (GAO/T-RCED-91-16, Mar. 21, 1991).

Changes Needed in the Forest Service's Recreation Program (GAO/T-RCED-91-10, Feb. 27, 1991).

Parks and Recreation: Resource Limitations Affect Condition of Forest Service Recreation Sites (GAO/RCED-91-48, Jan. 15, 1991).

National Forests: Special Recreation Areas Not Meeting Established Objectives (GAO/RCED-90-27, Feb. 5, 1990).

Management of Public Lands by the Bureau of Land Management and the U.S. Forest Service (GAO/T-RCED-90-24, Feb. 6, 1990).

Parks and Recreation: Maintenance and Reconstruction Backlog on National Forest Trails (GAO/RCED-89-182, Sep. 22, 1989).

Parks and Recreation: Problems With Fee System for Resorts Operating on Forest Service Lands (GAO/RCED-88-94, May 16, 1988).

Parks and Recreation: Interior Did Not Comply With Legal Requirements for the Outdoors Commission (GAO/RCED-88-65, Mar. 25, 1988).

Parks and Recreation: Park Service Managers Report Shortfalls in Maintenance Funding (GAO/RCED-88-91BR, Mar. 21, 1988).

Maintenance Needs of the National Park Service (GAO/T-RCED-88-27, Mar. 23, 1988).

Parks and Recreation: Limited Progress Made in Documenting and Mitigating Threats to the Parks (GAO/RCED-87-36, Feb. 9, 1987).

Parks and Recreation: Recreational Fee Authorizations, Prohibitions, and Limitations (GAO/RCED-86-149, May 8, 1986).

Corps of Engineers' and Bureau of Reclamation's Recreation and Construction Backlogs (GAO/RCED-84-54, Nov. 25, 1984).

The National Park Service Has Improved Facilities at 12 Park Service Areas (GAO/RCED-83-65, Dec. 17, 1983).

Information Regarding U.S. Army Corps of Engineer's Management of Recreation Areas (RCED-83-63, Dec. 15, 1983).

National Parks' Health and Safety Problems Given Priority: Cost Estimates and Safety Management Could Be Improved (RCED-83-59, Apr. 25, 1983).

Increasing Entrance Fees -- National Park Service (RCED-82-84, Aug. 4, 1982).

Facilities in Many National Parks and Forests Do Not Meet Health and Safety Standards (CED-80-115, Oct. 10, 1980).

Better Management of National Park Concessions Can Improve Services Provided to the Public (CED-80-102, July 31, 1980).

Concession Operations in the National Parks -- Improvements Needed in Administration (RED-76-1, July 21, 1975).

U.S. DEPARTMENT OF THE INTERIOR

Office of Inspector General. Followup Review of Concessions Management: National Park Service. Report No. 90-62, April 16, 1990.

National Park Service. Report of the Task Force on National Park Service Concessions. April 9, 1990.

Office of Inspector General. Audit of Concessions Management: National Park Service. March 31, 1986.

PARK SERVICE AGREEMENTS REVIEWED

CONCESSIONER	PARK UNIT	GROSS REVENUE	NUMBER OF FACILITIES	FRANCHISE FEE (NOMINAL)[a]	FRANCHISE FEE (PERCENT)	BUILDING USE FEE	SET-ASIDE FUND[b]
1 Yosemite Park & Curry Co.	Yosemite National Park	83,533,290	19	623,843	0.75%	19,271	N/A
2 AMFAC Hotels, Inc.	Grand Canyon National Park	55,344,528	1	1,373,959	2.70%	0	11,250
3 Circle Line/St.Liberty Ferry Inc.	Statute of Liberty National Monument	13,831,289	4	1,383,128	10.00%	3,300	N/A
4 Guest Services, Inc.	Sequoia National Park	10,926,790	391	78,353	0.75%	0*[c]	275,300
5 ARA Virginia Sky-Line Co.	Shenandoah National Park	9,162,649	10	255,737	3.00%	3,908	N/A
6 Glacier Park, Inc.	Glacier National Park	7,538,610	28	107,814	1.50%	4,250	527,700
7 Mountain Co., Inc.	Mount Rushmore National Memorial	6,261,234	3	224,706	4.00%	20,575	78,300
8 Tourmobile, Inc.	National Capital Parks	5,573,322	5	278,666	5.00%	7,500	N/A
9 Mount Vernon Inn	George Washington Memorial Parkway	4,325,632	1	173,025	4.00%	1,380	N/A
10 TW Recreation Service, Inc.	Zion National Park	4,097,339	24	99,694	2.50%	19,939	107,500
11 TW Recreation Service, Inc.	Bryce Canyon National Park	3,115,929	19	62,319	2.50%	15,580	88,700
12 Glacier Bay Lodge, Inc.	Glacier Bay National Park and Preserve	2,781,135	73	85,056	3.40%	5,000*	N/A
13 Cavern Supply Company	Carlsbad Caverns National Park	2,712,853	1	136,820	6.50%	7,600*	N/A
14 ARA Leisure Services, Inc.	Olympic National Park	2,589,022	17	38,744	1.50%	1,883	N/A
15 Acadia Corporation	Acadia National Park	2,557,649	5	57,017	2.50%	65,360	N/A
16 AMFAC Hotels, Inc.	Death Valley National Monument	2,303,911	18	35,139	1.60%	0	142,600
17 Best's Studio, Inc.	Yosemite National Park	1,970,700	6	49,665	5.00%	265	N/A
18 The Nilon Corporation, Inc.	Independence National Historical Park	1,441,788	1	28,836	2.00%	3,800	N/A
19 Fort Sumter Tours, Inc.	Fort Sumter National Monument	1,335,036	2	56,739	4.25%	930*	N/A
20 National Park Concessions Inc.	Isle Royale National Park	973,315	46	0	0.00%	0	14,600
21 Rainier Mountaineering, Inc.	Mount Rainier National Park	954,033	2	25,501	3.00%	1,550*	N/A
22 Libbey Medicine Health Ctr.	Hot Springs National Park	566,921	1	0	0.00%	18,000*	N/A
23 North Cascades Resorts, Inc.	Lake Chelan National Recreation Area	491,076	15	4,834	1.00%	3,096	N/A
24 Overton Beach Resort, Inc.	Lake Mead National Recreation Area	409,132	4	14,914	1.50%	9,321	N/A
25 Dudley Food & Beverage, Inc.	Gulf Islands National Seashore	376,556	4	7,573	2.00%	8,235*	N/A
26 Swan Tavern	Colonial National Historic Park	259,965	2	8,830	3.50%	7,800	N/A
27 Town of Truro	Cape Cod National Seashore	240,549	1	6,014	2.50%	335	N/A
28 Dune Climb Stand	Sleeping Bear Dunes National Lakeshore	173,295	1	3,413	2.00%	6,000	N/A
29 Springfield Parking, Inc.	Lincoln Home National Historic Site	93,555	1	9,163	10.00%	36,000	N/A
30 LeConte Lodge, Inc.	Big South Fork National Recreation Area	57,386	9	100	(flat)	0	N/A
31 American Youth Hostel, Inc.	Cuyahoga Valley National Recreation Area	15,511	7	0	0.00%	100	N/A

Source: Park Service data compiled by GAO.

[a]Stated values may not equal percentage calculations due to Park Service adjustments.

[b]Approximate value of 1990 contribution to set-aside account.

[c]Asterisk indicates the building use fee was based on an appraisal.

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