



CONCESSIONS MANAGEMENT ADVISORY BOARD

ANNUAL REPORT TO CONGRESS

November 2001

REPORT OF THE CONCESSIONS MANAGEMENT

ADVISORY BOARD **2001**

BACKGROUND

The Concessions Management Advisory Board was established by the National Park Omnibus Management Act of 1998 (Public Law 105-391) dated November 13, 1998. Advisory Board members were appointed by the Secretary of the Interior on November 8, 1999. A list of Advisory Board Members is attached to this report at Attachment No. 1, a copy of the pertinent section of the law establishing the Board is attached at Attachment No. 2, and a copy of the Board's charter is attached at Attachment No. 3.

Pursuant to the above law, the Advisory Board is directed to provide an annual report on its activities to the Committee on Resources of the United States House of Representatives and to the Committee on Energy and Natural Resources of the United States Senate. Our first annual report was submitted on November 8, 2000. This report summarizes the Board's activities and presents its recommendations for its second year of operation.

During this past year, the Board held three meetings, each of which was conducted under the Federal Advisory Committee Act that requires open, public meetings and testimony. Participants included representatives from the National Park Service (NPS), the concessioner community, the General Accounting Office (GAO), and the private sector.

The first meeting was held on February 21-22, 2001, in Washington, DC. Issues presented and discussed included: (a) PricewaterhouseCoopers' (PWC) organizational analysis of the NPS Concession Program; (b) the NPS rate approval process; (c) park superintendent accountability; and (d) formulation of a handcraft work plan. Minutes of that meeting are found at Attachment No. 4.

The second meeting was held on May 30-31, at Grand Canyon, Arizona. Issues presented and discussed included: (a) Native American handcraft terminology, authentication, and selling challenges; (b) NPS' draft action plan based upon the PWC organizational analysis; (c) discussion of a Non-Appropriated Fund Instrumentality (NAFI); and (d) franchise fees. Minutes of that meeting are found at Attachment No. 5.

The third meeting was held on October 31 – November 1, 2001, at Pisgah Inn, Blue Ridge Parkway, Asheville, North Carolina. Issues presented and discussed included: (a) Non-Appropriated Fund Instrumentality

(NAFI) research finding of the study conducted at Yellowstone National Park; (b) local/regional handcrafts issues; (c) a rate approval program update; and (d) a report on recommendations made in the FY 2000 Advisory Board report to Congress. Minutes of that meeting are found at Attachment No. 6.

RECOMMENDATIONS

The Board is submitting the following recommendations for consideration and implementation:

1. Contract Review and Strategy

a. Institute strategy developed by PricewaterhouseCoopers (PWC) for rollover of concessioner contracts.

PWC has recommended an effective renewal process for concessioner contracts that defines the NPS duties and fiduciary responsibilities in evaluating, negotiating, and administering these contracts. This strategy should be implemented as developed to insure contracts protect NPS interests, provide quality services to park visitors, and produce fair and balanced returns to both the NPS and the concessioner.

b. Contract expertise to assist the NPS to professionally and effectively negotiate and administer concessioner contracts.

PWC has completed a review of the NPS's 30 largest-value contracts that must be rolled over in the new two to three years. Findings of the review clearly suggest that the NPS lacks adequate business expertise and staffing to deal with the massive contract renewal process and the necessary heightened contract oversight once contracts are awarded. A need exists for increased business acumen and fiduciary oversight. The NPS will require ongoing asset management support and assistance to provide this expertise and oversight. We strongly recommend that the NPS retain competent consultants to provide this assistance.

c. Implement the recently adopted two-tiered authority/responsibility levels to evaluate, write, and execute contracts.

Assigning authority and responsibility of smaller contracts (under \$3 million) to Park Superintendent/Regional Director and of large contracts (\$3 million and over) to corporate NPS is a major improvement. This division permits local decision-making for the majority of contracts that are more organic to the parks and which enjoy a preferential right of

renewal and directs NPS corporate expertise and resources (in-house and out-sourced) to focus on the more complex, high-revenue contracts.

2. National Park Service Associate Director for Partnerships and Business Practices

Establish the position of National Park Service Associate Director for Partnerships and Business Practices with duties, responsibilities, and reporting as outlined in attached the job description and job qualifications (Attachment No. 7). It is essential that the position be filled by an individual with proven and significant hospitality-oriented private-sector asset management and financial management expertise and experience. This recommendation replaces our recommendation in last year's report for the establishment of a NPS Chief Financial Officer position.

It is essential that the NPS increase its expertise in private-sector asset management and financial management administration and supervision in order to upgrade its ability to carry out its fiscal and program responsibilities and to deal effectively and on an equal footing with its concessioners. At present, the concessions management function is folded into the many and diverse responsibilities of the Associate Director for Park Operations and Education. This position is overloaded with responsibilities and does not require the expertise and experience necessary for the asset managing concessions. The position's job description and job qualifications are attached at Tab No. 7.

3. Non-Appropriated Fund Instrumentality (NAFI)

Establish a Non-Appropriated Fund Instrumentality (NAFI) as recommended in last year's report, and initiate a three-year pilot program at a regional level utilizing concession, fee-demo, and other non-appropriated monies.

We very strongly recommend the establishment of a NAFI. NAFIs are used by other federal agencies that include Department of Defense, US Department of Agriculture, Department of Veterans Affairs, National Aeronautics and Space Administration, and the US Merchant Marine Academy.

Key components/advantages of NAFIs versus the traditional Federal funding framework include: organizational and fiscal entity with fiduciary role; legal status as an Instrumentality of the U.S; maintains control and custody of funds (does not use the Department of the Treasury to hold

and disburse funds); uses standard financial accounting methods (GAAP); has separate contracting authority; operating procedures are defined by parent agency; debt may be used as a financing instrument; revenues may be invested in government-backed securities; and appropriated funds can be administered by a NAFI.

Financial benefits include: the lower cost of capital provided by NAFIs which lowers minimum returns and yields higher margins and higher returns to the government; and the use of debt which allows the NPS to capitalize on the time value of money, accomplish more projects with available fund levels, and build up cash reserves for lending purposes.

Non-quantitative benefits of the NAFI framework include: increased credibility through use of industry standard accounting procedures; high degrees of speed and flexibility so that parks can more easily operate under seasonal and location constraints; more flexibility in contracting; and the opportunity to leverage existing knowledge and networks at other Federal agencies using NAFIs (i.e. access existing procurement contracts at DOD to get better pricing on some goods and services).

We and PriceWaterhouseCoopers have done extensive research into NAFIs. We urge the NPS to establish a NAFI and test it as a pilot project in Yellowstone and/or the Intermountain Region.

4. Handcraft Issues

a. Evaluate concessioner financial incentive structures that promote sale of Indian, Hawaiian, Alaskan, Samoan and local/regional handcrafts.

Many, but not all, concessioners state that the existing franchise fee exemption is an inadequate incentive to stock, promote, and sell handcrafts. Analyze alternative financial incentive structures to determine if a more appropriate incentive exists.

b. Use the Indian Arts and Crafts Board definitions of Indian Tribe and Indian handcrafts.

The existing Indian Arts and Crafts Board definitions are the best existing available. NPS use of these will provide consistency with established and recognized standards.

c. Require accurate product labeling and tagging. Put the burden of proof on concessioners to provide accurate product labeling, tagging and certificates of authenticity. Conduct a random inspection annually.

Labeling and tagging is often misleading and creates confusion among park visitors and frustration among artisans.

d. Use the Office of Hawaiian Affairs (OHA) to define Native Hawaiian arts and crafts and to administer certification of authenticity program.

The OHA is the most-qualified entity to provide definitions and to administer certifications of authenticity.

e. Encourage concessioners to stock and promote local/regional handcraft products and to utilize local/regional craft guilds for locating, selecting, labeling, and promoting handcraft products. Use gift shop mission statements to promote the sale of local/regional handcrafts.

Local/regional handcrafts assist in defining the uniqueness of the park, its environment, and its local people with their traditions and should be offered and promoted to further the educational goals of the park. Park Superintendents and Regional Directors should determine “local” and “regional” since these definitions can vary significantly from park to park.

f. Continue the franchise fee exemption for products of local/regional handcraft artisans.

The franchise fee exemption for local/regional handcraft is apparently included in old contracts but not in new contracts. Amend contracts that specifically delete this exemption.

5. Rate Approval Processes

a. Conduct review of rate approval and evaluation standards.

Review necessary to determine relationships between asset classifications and rate approvals, determine best practices for rate approval, and develop standards and rate approval recommendations.

b. Encourage Expansion of the Core Menu Pricing concept for restaurant operations.

Concessioner and NPS feedback on restaurant operations using the Core Menu Pricing concept on a test basis has been very positive for both the concessioner and for park guests. The NPS should encourage expansion of the concept to other restaurant and food service operations.

Guidelines recently published are bureaucratic and overly-involved; our objective is to create a simplistic, fast-moving, flexible process that allows for the concessioner and the Park Superintendent to define the core menu items and set only the core-menu-item prices. Prices of all non-core-menu-items will be determined by the concessioner and will float at what the market will bear.

c. Develop Core Menu Pricing concept for retail, gift shop, and lodging operations, pilot concept in a small representative sample of each, and evaluate results after one year.

There appears to be no reason why the Core Menu Pricing concept would not be appropriate and work in other types of operations if judiciously applied. Assessment period for pilot projects should provide opportunity to evaluate concept for possible adjustments to pilots and/or expansion to other facilities.

6. Other Major Issues

a. Establish strong Park Superintendent accountability for concession management.

This recommendation was made in our last report. The decision to move responsibility and authority of larger concession contracts to NPS corporate and to focus Park Superintendent responsibility and authority on smaller contracts is a step in the right direction. Park Superintendents should still be required to complete training in concession management and contracting issues.

b. Aggressively implement training programs recently developed for hospitality certification at Northern Arizona University and for contract certification with the Army.

These programs offer systematic training in reasonable depth to improve skills. Enroll concessions collateral duty personnel in the hospitality certification as soon as full-time Concessions Specialists cycle through courses.

c. Establish Circuit Rider position(s) to replace/supplement existing concession collateral duty personnel.

This recommendation was made in our last report. We reiterate its importance. These positions should be recruited from outside the NPS, and individuals should possess strong business acumen and related skills. We recommend three positions.