



# Arizona State Park Privatization and Efficiency Plan

Arizona State Parks Foundation

## Executive Summary

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***“A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”***

Wayne Gretzky – Hockey Hall of Famer

***“The work of today is the history of tomorrow, and we are its makers.”***

Juliette Gordon Low – Founder of Girl Scouts of America

***“Setting a goal is not the main thing. It is deciding how you will go about achieving it and staying with that plan.”***

Tom Landry, Head Coach – Dallas Cowboys (1960-1988)

## Executive Summary

Arizona remains a frontier state. Today Arizona is on the front line of a struggle that is occurring all over the United States among citizens and taxpayers, elected officials, governmental agencies, and the ideals behind what constitutes the core functions of government - public services paid for and provided for the public good. This is the challenge where the expectations of citizens and law makers often outpace the available resources to meet the demands of all constituencies. State parks have become one of the critical battlegrounds of this debate.

***Privatization – the act of turning previously government-provided services over to the private sector to manage for the state***

The paramount issue is that the State of Arizona is going through a period of severe financial turmoil. The financial scarcity of State funding has cast a spotlight on the debate between what are appropriate government functions, and where government has grown beyond what is necessary and affordable. This project team does not take a philosophical perspective on this question in this report. **The primary intent of this plan is to craft a**

**reasonable, realistic, and tactical approach for the state park system to maintain its viability while attending to the financial needs of the State and the political issue of appropriately sized government.**

It is also an important distinction to note that the pressures for privatization of state parks come from the financial challenges of the state versus a failure of state parks as a public service. State parks in Arizona, as well as around the United States, continue to provide a public service that is treasured as both a statewide and local asset. **In Arizona state parks play a pivotal role in the economic vitality of rural communities, protecting the integrity of naturally and culturally significant resources for current and future generations, as a tourism asset for the state, and contribute to the quality of life for residents.**

The push to privatize aspects of state parks makes sense in current times because of the nature of services provided. So many services at state parks are attractive to privatization because of user-pay circumstances, opportunities for community fundraising, or both. Many other functions of government do not lend themselves to these alternative funding options.

As a point of clarification for the readers of this report, private sector means commercial as well as non-profit entities. Non-profit organizations are also viable private sector partners as demonstrated by the recent efforts of the City of Phoenix to attract non-profit entities to support keeping public parks open.

### Guidelines of the State Park Privatization and Efficiency Plan

The guidelines of this plan are to balance and achieve the following key objectives:

1. Preserve the legacy and vision of the Arizona State Park System for current and future generations of Arizona residents and visitors.
2. Maintain equitable access to the recreational opportunities made available to Arizona residents and visitors via Arizona State Parks.
3. Protect the integrity and quality of the significant natural, historic, cultural, and recreational resources of Arizona that are within the state park system.
4. Reduce the financial dependence of the Arizona State Park System on the State of Arizona, and streamline the Arizona State Parks System by involving the private sector and other partners to support operational and capital demands.
5. Explore the creation of a quasi-governmental agency to maximize the potential of privatization and partnerships, as well as to incorporate a more business-like model for state park operations.

## System-wide Recommendations

### PROTECT STATE ASSETS

One of the unintended consequences of privatization is the loss of control the public sector has over the future quality of sites, assets, and infrastructure. Many worry that solely placing the control of Arizona State Parks in the hands of private, for profit enterprises risks the loss of site and capital integrity as businesses would be forced to starve state parks of the necessary reinvestment in order to achieve their financial objectives. **While the State does not have to maintain the same involvement with daily operation of state parks as it has in the past, the State of Arizona must retain control over the quality of the management of these naturally and historically significant sites, and how \$150 million of State of Arizona facility and infrastructure assets are maintained into the future.**

### OPERATE THE STATE PARK SYSTEM IN A BUSINESS-LIKE MANNER

It appears that the greatest recent efforts to operate Arizona State Parks in a more business-like manner are in large part, a reaction to the reduction or elimination of traditional operational funding resources. For example, revised operating schedules of parks that are more attuned to visitation patterns seem to be a reactive measure to reduced operational funds, versus a proactive strategy for improving the financial performance of parks that have “peak and valley” type visitation. **In some cases, borrowing best practices from the private sector may be more effective for managing Arizona State Parks than turning the operations over to a private operator.**

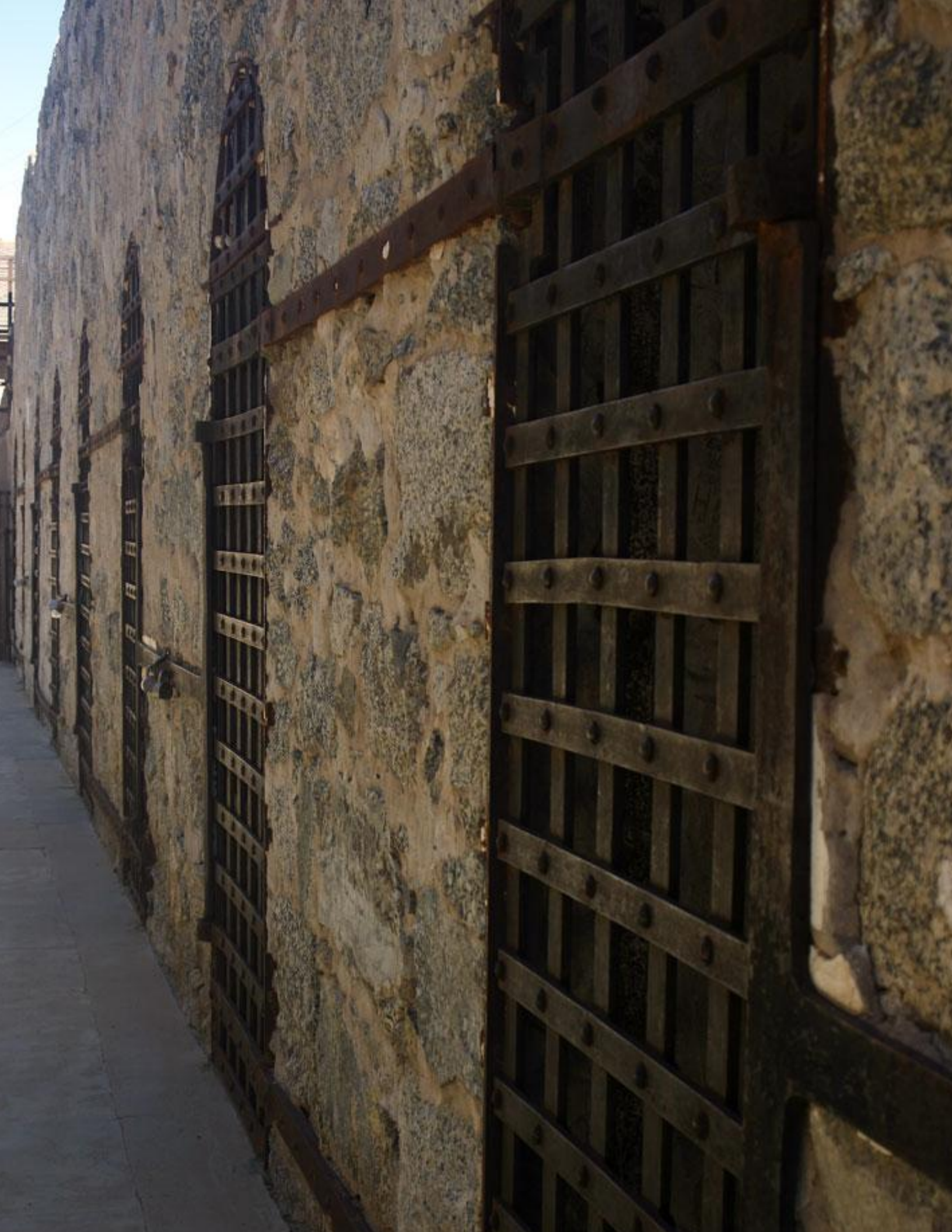
*Efficiency – skillfulness in avoiding wasted time and effort*

**To demonstrate the effectiveness of recent measures at Arizona State Parks, the field operational costs of state parks in FY 2010 cumulatively were only \$326,765 in excess of earned revenues as a result of reduced staffing and operating schedules, five parks being closed, five parks being operated by a partner, and \$500,000 in operational support from local governments and non-profit organizations.** This is compared to a \$1,741,233 over revenues in FY 2009, and a \$2,300,024 in FY 2008.<sup>1</sup> These statistics indicate that the financial efficiencies pursued as a reaction to reduced funding were effective for cutting costs, but the current *modus operandi* is not sustainable.

The following recommendations can improve the financial performance of Arizona State Parks:

1. **Continue with reduced operational schedules as a standard operating procedure for selected parks and selected park amenities, including converting some parks to seasonal schedules only, while effectively communicating these schedules with the public.**
2. **Work to establish a more flexible personnel system that will allow for improved flexibility of adjusting operations for business and market reasons.**
3. **Continue to transition park management to a regional approach where appropriate – teams oversee aspects of park management for multiple sites and seasonal demands.**
4. **Manage workload among personnel by reducing functions and levels of service, versus attempting to maintain traditional functions and levels of service with reduced resources.**
5. **Utilize alternative providers for key functions or whole park management where efficiencies and net cost avoidance can be gained, and where a total cost of service assessment and business plan has been performed by the potential providers.**

<sup>1</sup> These financial performance measures were provided by Arizona State Parks in the Actual Costs / Revenues per Visitor reports for FY 2007 – FY 2010.



The greatest challenge to the State of Arizona in considering the appropriate opportunities for alternative providers in partnership with Arizona State Parks is the reality that most operators will be interested in the parks and functions that generate the greatest earned revenues. The State would potentially be giving up earned revenues that are significant enough to support other responsibilities in the system in exchange for keeping functions that are the most costly. This could potentially result in an increase in the net funding requirements of Arizona State Parks, and no gains for reducing costs to the State.

**OUTSOURCE WHERE IT MAKES SENSE**

There are certain functions of the Arizona State Park System, as well as potential new opportunities that are better suited for the private sector or other public providers to either manage or pursue, or to share the responsibilities with state parks. It is critical to evaluate these functions and opportunities against criteria that is aligned with the financial and service objectives of alternative providers. The distinction of common financial and service objectives by types of operators is further detailed in the table below.

<b>Alternative Provider</b>	<b>Financial Objectives</b>	<b>Service Objectives</b>
<b>Other public entities (city, county, etc.)</b>	<b>50% - 100% recovery of operational expenses with earned revenues; remaining operational and capital funds provided by public financial support<sup>2</sup></b>	<b>Ongoing economic impact, recreational opportunities in the community, tourism attractions, educational experiences, healthy lifestyles</b>
<b>Private, non-profit entities</b>	<b>100% recovery of operational expenses through earned revenues; capital reserves can be maintained from earned revenues and outside sources</b>	<b>Ongoing economic impact, recreational opportunities in the community, tourism attractions, educational experiences, healthy lifestyles</b>
<b>Private, for-profit entities</b>	<b>6%-20% profit from operations<sup>3</sup>; capital reserves can be maintained from earned revenues, investments, and credit</b>	<b>Exceptional experiences that enable improved marketability, customer retention, and new markets to be developed</b>

<sup>2</sup> The experience of the consulting team working since 1995 in the parks and recreation industry is that most public providers of parks and recreation facilities and services seek between 50% - 100% recovery of operational expenses through earned revenues. While there are exceptions to this finding, current economic times have pushed many public agencies to seek higher cost recovery levels than previously pursued.

<sup>3</sup> Private, for-profit operators in partnership with public park and recreation agencies typically strive for a profit margin from operations of 6% to 25% of annual operational expenses. It is unusual to be able to produce a profit margin that exceeds this on the whole, albeit margins in certain types of functions (i.e. retail) can be higher. As a rule, if a private operator is seeking margins above 25% of annual operational expenses for most of the service-based functions (i.e. camping, rentals, etc.) then either the pricing is often too high and exclusionary, or the personnel of the operators are poorly trained, inexperienced, and inadequately resourced. This observation is based on the professional experience of the consulting team as public park system managers and in having completed over 700 park and recreation planning projects in 46 U.S. States since 1995.

### Public Partners

Public-public partnerships also can be very successful for supporting park operations. This typically involves a partnership agreement between the State and another public jurisdiction. **The key to a successful public-public partnership is when the other public partner has the local interest, political will, and financial resources to support the functions they commit to.** The land and facilities usually remain a State asset, while partial or whole operations are managed by another governmental entity.

Current examples of this in the Arizona State Parks System are detailed in the table below.

Arizona State Parks Operated by State Employees With Local Partner Financial Support	Arizona State Parks Operated Completely by Local Partner without State Employees
Alamo Lake State Park	Boyce Thompson Arboretum State Park
Fort Verde State Historic Park	Tombstone Courthouse State Historic Park
Lost Dutchman State Park	Tubac Presidio State Historic Park
Lyman Lake State Park	Yuma Territorial Prison State Historic Park
Picacho Peak State Park	Yuma Quartermaster Depot State Historic Park
Red Rock State Park	* All of these agreements except for Boyce Thompson Arboretum State Park are short term and may not continue beyond a few years.
Riordan Mansion State Historic Park	
Roper Lake State Park	
Tonto Natural Bridge State Park	
Jerome State Historic Park	

Other forms of public-public partnerships involve contracts with local governmental or public entities to perform routine maintenance tasks and other specified services. This form of partnership relieves the State of the direct and indirect costs of personnel, materials and supplies, capital equipment, and often results in some cost-avoidance by the State.

### Non-profit Partners

**Partnerships with private, non-profit entities are very successful and often do not come with the public perceptions that parks have been “turned over” to private enterprise.** Among the greatest benefits of working with non-profit partners is their ability to attract donations and grants to support their operations, to recruit and retain volunteers, and their innate tendency to reinvest in sites and capital assets more often than for-profit operators. A major difference between a non-profit partner and a for-profit partner is the independent approach that the organizations take for attracting capital funds and operating dollars from outside sources. For-profit businesses predominantly do this in the form of investors or debtors that expect their money back plus a margin of return or interest. Non-profit organizations do this in the form of donations, contributions, and/or memberships that most often do not involve the expectation of any direct financial return.

There are numerous examples of successful public-private partnerships involving non-profit organizations as the private entity responsible for all or part of a park’s operations. More notable examples of this from around the United States are:

- Hermann Park – Houston, Texas
- Central Park – New York, New York
- Golden Gate National Recreation Area – San Francisco, California
- Piedmont Park – Atlanta, Georgia
- Georgia State Parks – Stone Mountain
- Cuyahoga Valley National Recreation Area – Cleveland, Ohio



*For-profit Partners*

It is unrealistic to expect that for-profit operators will be interested in performing functions within the state park system that do not produce earned revenues to support their associated costs or where the costs prevent the ability of the operator to earn a reasonable profit margin on the whole. There are numerous current examples of public-private partnerships that work exceptionally well because each of the partner’s expectations and responsibilities are aligned with their objectives. For-profit operators are often willing to take on more responsibilities that are inherently costly if there are sufficient revenues overall to account for these expenses and still allow for a reasonable profit to be earned.

***Partnership – a cooperative relationship between parties who agree to share responsibility for achieving some specific goal***

One should not prejudge for-profit operators working in the parks and recreation field regarding their motives for sustainable business practices. With the exception of large, destination or amusement parks, there are few public parks that have the capacity to earn revenues that are large enough to make profits that are above 25% of operational expenses. Where these opportunities do exist at public parks, it usually involves substantial infrastructure such as lodges, marinas, or golf courses that also require significant reinvestment

every five to 10 years in order to maintain the quality of the asset and viability of the business. **The cases where most for-profit operators fail at public parks is when there is insufficient visitation to support a viable business, there are inadequate revenue generating opportunities present at the site(s), or there are unique characteristics of the site(s) that inhibit the sustainability of a viable business.**

The willingness of private sector involvement in park functions is often circumstantial based on the operating environment unique to each park. Private sector operators are most commonly interested in visitor services as these frequently have revenues associated with them, and typically rely on the public sector to manage the core functions of the site. The matrix below distinguished the common state park functions that are often preferred and not preferred by private operators, some of which exist in Arizona and some that do not. A more thorough evaluation of each of these park functions is provided later in the report.



### DEVELOP A QUASI-GOVERNMENTAL AGENCY

There are many different forms of quasi-governmental agencies – legal entities created to undertake activities on behalf of an owner government that may be more commercial in nature than traditional governmental functions. In 2003, voters in Maricopa County approved a referendum to create a special health care district to operate its hospital and health care system. Members of the Board of Directors are elected by districts. A recently developed quasi-governmental agency in Arizona is the Arizona Commerce Authority established in June 2010. These organizations are typically supported by those who value that the “proper objective in governmental management is to maximize performance and results.”<sup>4</sup>

Quasi-governmental agencies can be bound by the same obligations and expected transparencies of a public agency for conducting its operations and daily business, but typically also features private sector practices and flexibility that allow the organization to produce financial outcomes beyond the means of a typical public entity. **The best solution for privatization of Arizona State Parks is to transition the current agency to a quasi-governmental entity accountable to the State of Arizona for purposes of managing state parks, promoting rural economic development, and developing financially beneficial partnerships.** This would not prevent the further development of private sector partnerships or partnerships with other public entities for management of Arizona State Parks and some of its functions, and would most likely enable these partnerships to flourish under a more sustainable management structure. **While future funding mechanisms for the quasi-governmental agency can be determined at a later time, it is critical that the current agency funding be held harmless through the transition.**

### MAINTAIN THE ECONOMIC IMPACT TO RURAL ARIZONA

In February 2009, the Arizona Hospitality Research and Resource Center of Northern Arizona University (AHRRC-NAU) completed an economic impact study for the Arizona State Parks Board. This study evaluated the economic impact of 27 state parks based upon data collected from visitor intercept surveys conducted by Arizona State Parks in 2001 and 2006.<sup>5</sup> The 2009 study utilized data collected in 2006, predating most of the dramatic economic downturns experienced in Arizona and other parts of the United States. **Visitation has changed in 2009 and 2010 from earlier years as a result of the economic recession and changes in the operations and accessibility of state parks.** In fact, visitation at state parks has dropped 3.8% from 2,298,155 in FY 2007, to 2,210,953 in FY 2010. Coupled with the average reduction in visitor spending during the same time period<sup>6</sup> and the economic conditions in the state and nation, the total economic impact of state parks has seen some significant losses.

**Arizona State Parks play a vital role in the economic vitality of numerous small and local communities around the state.** Based on the analysis performed and reported in this report, the economic impact of state parks has been reduced by 16%. **This loss of economic activity in the State of Arizona totaling \$43,686,034 attributed to a loss in visitation to state parks from 2007 to 2010 and reduced visitor spending.** This fact reinforces the value of the State’s investment in state parks as a public service with multiple benefits – recreational, social, and economic. The continuation of the state park system is clearly critical to the overall health of Arizona communities for many reasons.

<sup>4</sup> Kosar, K. (2008). *The Quasi-Government: Hybrid Organizations with both Governmental and Private Sector Legal Characteristics*. Washington, DC: Congressional Research Service.

<sup>5</sup> Arizona Hospitality Research and Resource Center (2009). *The economic impact of Arizona State Parks*. Flagstaff, AZ: Northern Arizona University.

<sup>6</sup> Dean Runyan Associates (2010). *Arizona travel impacts 1998-2009p*. Portland: OR.

