

**March 13, 2018**

***Trends,  
Patterns,  
&  
Issues...***

***In NPS Prospectuses***

- Length and fee
- Visitation and services
- Investments for improvements
- Deferred maintenance
- Competitive financial barriers
- Unaddressed issues
- Long-term evolution

# Length

*In 47 prospectuses since Jan 2016*

- Contracts still are 10 years.
- *When a concession's operating plan is stable, NPS is not releasing contracts longer than 10 yrs.*
- 3 prospectuses since 2016 increased more than 10:

	<u>Large \$ Improvements</u>	<u>First prospectus failed</u>
GOGA001 (15 yrs)	√	
LAKE007 (15 yrs)	√	√
EVER001 (20 yrs)	√	√

# Minimum Fee

*In 24 prospectuses since Jan 2017*

- Fee increases in almost half of prospectuses.
- Fee can decrease! ... when original prospectus fails.  
*7 out of 8 fee decreases since 1/2017 occurred when a prospectus failed and had to be re-released.*
- Fee increases sometimes do not follow the logic of “it takes investments into account:”

	<u>Fee Increase</u>	<u>Large Investment</u>
GOGA001	10 points higher	Over 1 yr. estm. Gross
NACE006	4 points higher	Over 50% of 1 yr Gross

# ***Fee Issues***

- NPS is not soliciting feedback before prospectuses.
- The NPS fee planning algorithm may not be good.
- The NPS fee planning algorithm is not transparent.
- NPS judgment of commercial business may be poor.
- Does limited competition prevent fee increases?

# Visitation and Services – Reasons to work as partners

*In 24 prospectuses since Jan 2017*

- NPS reduced services in 5 prospectuses – 4 of which were in locations with capacity limits.

*The concessions often are NPS's mechanism for accomplishing capacity limits.*

- NPS increased services in 9 prospectuses  
*and*
- NPS scored “marketing,” “promotion,” or inclusiveness in the Selection Factors of 10 prospectuses

*The concessions often are NPS's mechanism for outreach for new Parks, new services and broader spectra of visitors.*

# How Improvements are NOT funded

*In 24 prospectuses since Jan 2016*

- NPS permitted new LSI outright in only 1 prospectus – only after a failed one:

EVER001 prospectus to resume lodging services at Flamingo

	<u>Length</u>	<u>Fee</u>	<u>Large \$ Investment</u>	<u>New LSI?</u>
Original release:	10 yrs	2.9%	\$5.4M CFIP	No
Re-release:	20 yrs	1.0%	\$5.4M CFIP	Yes

- No prospectus since April 2016 has had any Initial LSI.

# How Improvements are funded

*In 24 prospectuses since Jan 2017*

The bottom-line of NPS's investment "policy":

- NPS may avoid Initial LSI by buying out LSI before a prospectus, when feasible.
- NPS may avoid concessioner investments by making those investments itself, before a prospectus or early in a contract. (5 prospectuses)
- NPS may avoid new smaller LSI by requiring improvements but prohibiting LSI (2 prospectuses)  
or  
by allowing LSI to be incurred at the concessioner's choice at bid time (2 prospectuses)
- NPS may avoid new larger LSI by lengthening contracts and requiring investments to be fully amortized by the end of the contract (2 prospectuses).



# How Deferred Maintenance is being reduced

*In 47 prospectuses since Jan 2016*

- Prospectuses with substantial initial deferred maintenance require the deferred maintenance backlog to be cured in the first 1, 2, or 3 years, with or without using (new) maintenance reserves.

*This requirement is a form of initial investment, and can be a substantial barrier in bidding. (E.g., \$465K on NACE006, \$854K on LAKE007, are large compared to annual gross.)*

- *Recent prospectuses with maintenance reserve requirements state that no deferred maintenance backlog can persist at the end of the contract, even if maintenance reserves are insufficient.*

*Taken together, these approaches theoretically would eliminate all concession deferred maintenance in approx. 10 years – but probably are untenable on contracts with the largest backlogs.*

# ***How the Investment Policies add up...***

To a bidder, the following are all similar financial barriers:

- Initial carried-forward LSI,
- Initial CFIPs requiring full amortization over a contract, and
- Curing Deferred Maintenance backlog in the first years of a contract.

*All of these approaches have the same natural effect: only larger bidders with strong balance sheets can finance these contracts.*

*NPS prohibiting new LSI in order to “increase competition” has just led to other prospectus approaches with the same barriers.*

# ***What prospectuses are NOT showing***

Prospectuses in the past 2 years have NOT included:

- Provisions for rewarding outstanding performance evaluations.
- Higher scoring for bidders with better previous periodic evaluations.
- Signs of incorporating suggestions from potential bidders.
- Specific mechanisms for an operating concessioner to propose net new services to NPS for possible inclusion in the contract mid-term.

# *Long-term view*

Prospectuses in the past 15 years have evolved:

- Selection Factors no longer score general operating approaches, and prospectuses no longer look for “a good \_\_\_\_\_ service concessioner.”
- Selection Factors include more scoring for specific changes the Park or NPS want to accomplish, and prospectuses are looking for a concessioner who will solve those specific problems.

Prospectuses now can look more like a solicitation for a builder or a solicitation for specific environmental engineering – while asking much less about how the concessioner plans to run the basic concession.