

United States Department of the Interior  
NATIONAL PARK SERVICE  
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**TECHNICAL BULLETIN**

To: Regional Concession Chiefs  
From: Acting Chief, Commercial Services Program *William “Gordy” Kito*  
Subject: Core Rate Approval Method for Lodging and Other Operations

**Purpose**

This technical bulletin provides guidance on the application of the core rate approval method to existing and new contracts. This information augments that provided in the [2017 Rate Administration Guide](#) (Rate Guide).

**How to Use the Core Method**

The core menu method has been used successfully to price food and beverage since 2001. The expansion of this methodology to other services, such as lodging is new as of 2017. The core method is being made available to help simplify the rate administration process and enhance the use of market forces while meeting our legal obligations for rate administration. Using this method, the park decides which products or services are “core” to the operation and prices those products and services using the traditional comparability method. The non-core products or services are set by the concessioner based on what they believe the market will bear. The method can be applied at the start of the contract or during the contract as outlined below.

Although the Rate Guide lists the core method as a “preferred” method for several service types, the core method may not be appropriate in all circumstances. For example, operations with extremely high demand or operations located in an area with little or no competition may not be considered appropriate for the core room method, as the non-core rates would not be controlled by market forces. The Rate Guide provides guidance on applicable visitor service categories, facility and service options to be designated as core and non-core.

The superintendent is the authority for determining the appropriate rate method and whether the core method will be applied. However, to help ensure the core method is used appropriately, superintendents are encouraged to consult with the Regional Commercial Services Office as they consider their rate administration options.

Parks should follow the core method guideline, which states that two-thirds of the service offering is considered core and one-third, non-core. It should be noted that this is the reverse of the breakdown for food and beverage. Below are several lodging examples to help illustrate options and things to avoid.

**Core rooms at a single lodging operation.** The park may designate 33 of its 100-room lodge, as non-core to be market-priced. These might be “rooms with a view” or cabin units with additional amenities. The remaining 67 “standard” rooms would be the core rooms and priced using comparability.

- **Core rooms at multiple lodging operations.** The park may designate an entire lodge with 100 rooms “non-core,” while designating a property nearby with 200 rooms at the most requested level of service as “core.”

### **Core Method Effect on Rates**

There is no clear NPS or industry data that can predict the effect on rates using market demand versus the traditional comparability processes. NPS consultants have validated that visitors are willing to spend more for the same service at a “resort” versus non-resort lodge. The NPS rate comparability analysis requires that “similar locations” be considered when selecting comparables, which accounts for a good portion of this rate premium. However, even the best comparable may not have the unique location benefits afforded by an in-park concession operation. Therefore, it is reasonable to predict that non-core services price based on what the concessioner believes the market will bear could experience some rate increase over the comparability method-based rate.

### **Applying the Core Method at the Start of the Contract**

Prospectus development is an excellent time to consider the core rate approval method option. At this time the superintendent has access to regional, WASO, and hospitality consultant expertise to help understand how this rate method can be effectively applied and how it might impact rates, revenue, and franchise fees.

Concession laws entitle concessioners to a reasonable opportunity for profit. Allowing rates to increase above comparability to capture the benefit of the unique park location without any change in service level adds little or no expense to the concessioner and no added value to the visitor. As a result, it is prudent for the NPS, in meeting its obligation to the public, to receive an equitable portion of the benefit resulting from a rate increase. The prospectus development team can assist the park in conducting the franchise fee analysis to determine the franchise fee amount and structure (e.g., single or tiered franchise fee) for the new contract.

### **Applying the Core Method During the Contract**

Use of the core pricing method for an existing contract will result in an increase in profit for the concessioner above what was anticipated when the original franchise fee was calculated. As a result, it is reasonable to expect an equitable return to the NPS. Changing the franchise fee during the term of a contract is generally not possible because such a change is not considered extraordinary and unanticipated. In these situations, the superintendent should seek additional consideration from the concessioner in exchange for the larger profit expected as a result of the core pricing method. This could include having the concessioner make improvements to employee housing or other benefits if such actions will likely lead to improved customer service, provide additional amenities to guests, perform component renewal improvements that were not anticipated in the contract, or conducting fixture replacements or major updates to facilities for which Leasehold Surrender Interest is waived. The park and concessioner should work together to determine the potential revenue increase from changing to the core rate method and determine what considerations would be appropriate.

Superintendents should be careful to recognize that if the concessioner adds amenities or improves facilities as consideration, they should not then be raising rates even further to compensate for this added quality, thus creating an endless cycle of rate hikes.

### **Rate Caps**

Park superintendents may be uncomfortable allowing market demand to control rates even for a portion of their service offerings. As a result, superintendents may implement a rate cap to mitigate such concerns. Superintendents are encouraged to try to apply the core method without rate caps for the non-core offerings and simply monitor performance as outlined below to ensure there are not abuses. However, a superintendent may apply a rate cap if they determine one is warranted. Annual rate caps can also be instituted to phase in the rate increases over time. Once again, superintendents should speak to their regional offices about what makes sense.

### **Monitoring Rates**

Ideally, market demand should control rates for the non-core services. However, it is possible that a concessioner might increase rates on the non-core offerings higher than is reasonable and appropriate for the type and quality of services being offered. This may be reflected in negative visitor comments concerning quality or value, or through a park assessment of the average rate premium being charged over rate comparability. In these cases, the issue should be discussed with the concessioner with the expectation that the concessioner will reduce their rates or otherwise improve the quality or service levels. In the event that the concessioner is unwilling to take action to moderate rates or improve quality, the superintendent retains the authority to change the rate method for the service to another rate approval method, e.g., comparability.

In the event that the core method was considered during prosecutes development and the rate method is reverted to comparability or another method, it would be necessary to consider the implications of this revenue change to the concessioner's franchise fee. To account for such an occurrence, the contract may be structured to contain a tiered franchise fee; one to be applied when the core method is used and one applied if rates are approved based upon comparability.

### **Documenting the Core Method**

The park must document the rate methods used in the operating plan, as well as any conditions such as rate caps. Negotiated considerations must also be appropriately memorialized in the contract. Minor changes, such as providing additional guest room amenities, can be addressed through changes to the operating plan. Larger changes involving facilities may require updating the maintenance plan or even amending the contract. Parks should contact their region for additional guidance.

### **Distribution**

Please distribute this memorandum to park concessions managers in your region.

### **FEEDBACK AND QUESTIONS**

For further information, contact [Kurt Rausch](#), Contract Management Branch Chief, NPS Commercial Services Program at 202-513-7202 or [Lora Uhlman](#) at 303-987-6903.