STATEMENT OF LENA MCDOWALL, CHIEF FINANCIAL OFFICER, NATIONAL PARK SERVICE, DEPARTMENT OF THE INTERIOR, BEFORE THE SUBCOMMITTEE ON INTERIOR, HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, REGARDING MODERNIZING THE NATIONAL PARK SERVICE CONCESSION PROGRAM.

July 23, 2015

Madam Chairman and members of the Committee, thank you for the opportunity to appear before you today at this oversight hearing on modernizing the National Park Service (NPS) concession program. I am pleased to discuss how modernization of the program can enhance visitor experience and increase revenues to address deferred maintenance and needed capital improvements.

In 2016, the NPS will celebrate 100 years as the steward of the nation's most cherished national and cultural resources. The NPS is actively preparing for its second century of operations, and working hard to inspire the next generation of park stewards to experience and value their public lands. Our efforts will draw new visitors, especially millennials and young families, to experience the national parks; we are already seeing this growth, as 2014 visitation grew to 292 million, from 273 million in 2013. Concessions play a critical role in providing food, lodging and recreational services to those visitors.

Concessions in our national parks predate the formation of the National Park Service. Most of the large concessions operations in our Western parks were begun in the late 1800s by the large railroads or companies looking to serve the growing demands of travelers from the eastern United States. Today, concessioners provide a wide array of services across the National Park System from operating the iconic lodges to guiding climbers and hunters, and providing ferry transportation and children's educational programs. The NPS concessions program administers approximately 500 contracts in over 100 parks. These contracts, which range from under $100,000 to over $140 million in annual gross receipts, currently generate more than $1billion in annual gross revenue for concessioners.

The NPS Concessions program has been defined by two major laws – The Concessions Policy Act of 1965 (Public Law 89-249) and the National Park Service Concessions Management Improvement Act of 1998 (Public Law 105-391). The 1965 act provided certain protections for incumbent concessioners, including a preference in the renewal of their contracts, contract terms of up to 30 years, a right of compensation for real property improvements made by the concessioners (possessory interest or PI).

By the early 1990s, Congress began to recognize that the concession system required substantial reform. In many cases, visitor services were lacking in quality, facilities were not being well-maintained and prices were higher than they would be for comparable goods and services outside the park. Most observers attributed these problems to the fact that the system was designed to essentially provide a permanent contract to any concessioner that wished to continue operating. The desire to transform the concessions program into a more competitive, business-like

operation was the driving force behind passage of the National Park Service Concessions Management Improvement Act of 1998.

The Concessions Management Improvement Act repealed the preference in renewal provided by the 1965 law, providing instead a preference primarily for small concession operations and outfitters and guides, shortened the maximum contract term to 20 years, and replaced PI and its valuation formula with leasehold surrender interest (LSI) and a new valuation formula. The law also called upon the National Park Service to ensure reasonable prices for visitors, implement more contemporary business practices and ensure a fair return to the government in the form of franchise fees.

Over the last 14 years, the Commercial Services program has taken significant steps to meet those objectives and there have been many successes. The NPS greatly reduced the number of contracts operating under continuations or extensions (from nearly half the contract inventory in 2002 to about 17% today); significantly increased franchise fee revenue; reduced the amount of deferred maintenance related to concession facilities by requiring incoming concessions to cure existing deferred maintenance (generally within the first three years of the contract); and used new contract requirements to better maintain concession facilities at many parks.

Franchise fee revenues have grown by 12% annually since 2004, from $27.6 million in 2004 to $85.4 million in 2014. Concessioner gross receipts account for part of the increase in franchise fee revenues. Concessioner gross receipts have grown by 5% annually since 2004, from $804.8 million in 2004 to $1.3 billion in 2014. Increases in the franchise fee percentage in new contracts have also contributed to the increase in franchise fee revenue. The average franchise fee in 2004 was 3.2%, while the average franchise fee in 2014 was 6.9%. The average fee has increased as a result of more professional financial analysis by the NPS and outside consultants, better business opportunities for concessioners and higher offers from concessioners, as competition has inspired many prospective vendors to offer higher than the minimum required franchise fee.

The more professional prospectus development process and more competition for concession contracts have also resulted in significant benefits for visitors to national parks. A few highlights include:

- high quality new facilities at Yellowstone, Badlands, Kings Canyon and Hawai'i Volcanoes national parks;
- innovative fitness programs, equipment, workshops, and outreach to underserved communities at Gateway National Recreation Area;
- increased options for overnight accommodations by adding camper cabins which combine camping and lodging at John D. Rockefeller, Jr. Memorial Parkway and Lassen Volcanic National Parks;
- improved technical and safety training for guides;
- better variety of food and beverage offering and retail options, many featuring locally produced foods and regional handcrafted items;
- upgraded furnishings for many lodging and food and beverage operations; and

- frequent incorporation of park interpretive themes and messages (including historical, ecological, cultural, and environmental) throughout operations (e.g., décor, retail items, direct messages).

While we have made much progress since the implementation of the 1998 law, much work still remains. As the National Park Service enters its second century, we are exploring ideas to improve facilities, address evolving visitor needs and attract new audiences by providing a broader array of visitor services, and expand the number of companies interested in bidding on commercial service contracts. At the same time, within existing law, the National Park Service will continue to pursue ways to modernize and improve the program and is open to new ideas that would provide us with an opportunity to better meet our mission.

This concludes my testimony. I would be happy to answer any questions you might have.