

November 30, 2013

RE: FTI Report

**To the Parks Forward Commission:**

In support of the efforts of the Parks Forward Commission, FTI was engaged to provide a baseline financial assessment of California State Parks. Our views are based on our work over the last 12 weeks at the California Department of Parks and Recreation (“DPR”), most of it conducted on-site working directly with DPR personnel from many different divisions. Our areas of analysis, described more fully in the accompanying report, include:

- 1) Funding sources;
- 2) Expenditures (uses);
- 3) Park operating performance;
- 4) Infrastructure and maintenance spending;
- 5) Partnerships; and
- 6) Asset prioritization

California State Parks is indeed at a crossroads. As custodian of one of the country’s largest and most diverse state park systems, the DPR is presented with considerable opportunity as it faces critical financial challenges. The challenges are significant: funding from voter-authorized bond measures is ending, sustained support from the state’s General Fund remains uncertain, amounts needed for deferred maintenance are staggering, and the DPR struggles with antiquated information and financial reporting systems all while it continues to work to restore public confidence and credibility.

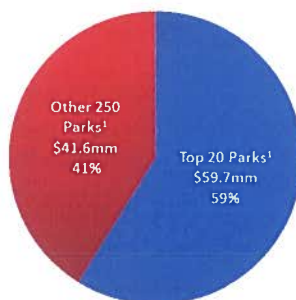
Based on our analysis, and under the direction of its new leadership, we see substantial opportunities for enhancing financial sustainability by continuing to increase revenue, better managing (and possibly reducing) costs and partnering on a broader basis with stakeholders and supportive outside private and public organizations.

We believe that successfully meeting these challenges requires three key strategic areas of focus.

***Strategic Focus Area 1: Continue to Grow Revenue***

- **The DPR has an opportunity to continue to grow its revenue, potentially at higher rates than it has achieved in the past.** Important steps in this process are to create an electronic database of the portfolio, mine the significant data that exist to identify and understand attributes of parks with high revenue generating potential and develop initiatives to grow revenue at those parks with the greatest potential.
- **A large share of park revenue is generated by a relatively small number of parks.** The top 20 parks, primarily state beaches, contribute almost 60% of park revenue and fewer than 15% of parks generate 75% of all park revenue. Initial attention could be focused on growing revenue in these parks; however, we see opportunities to grow revenue system-wide.

## FY 2012/13 Park Unit Revenue<sup>1</sup>



\$101.3mm

- **Virtually all park revenue is associated with one of four attributes: water features, camping, a location in a major metropolitan area or Hearst Castle.**
  - Parks with water features (particularly state beaches) generate 76% of revenue (171 parks).
  - Parks with camping account for 68% of park revenue (111 parks).
  - Parks in major metropolitan areas account for 62% of park revenue (153 parks).
  - Parks with water features and/or with camping and/or located in a major metropolitan area, together with Hearst Castle (which, alone, generates 11% of revenue) account for 99% of all park unit revenue (246 parks).
- **Although some parks generate a significant amount of revenue (e.g., Hearst Castle), most are able to cover only a portion of their direct park operating expenses and *none of their costs for special projects, headquarters or deferred maintenance*.** State Beaches with camping represents the only group of parks which generates revenue that meaningfully exceeds estimated park operating costs.
- **Opportunities exist to promote a culture within the DPR more focused on cost recovery.** DPR staff has expressed concerns about park-generated revenues reducing future General Fund appropriations. Legislative changes to ensure some threshold level of funding from the General Fund (or other sources) should be considered which would help foster a more entrepreneurial environment by delinking revenue generation from General Fund appropriations levels. Revenue generating measures should be explored while being mindful of possible tradeoffs associated with providing wide-spread access to parks.

### ***Strategic Focus Area 2: Understand and proactively manage costs***

- **Opportunity exists to improve cost tracking and reporting** and to make data accessible to divisions in electronic formats with consistent information.
- **The DPR should expand its process for tracking park unit expenditures by developing true baseline measures and benchmarking tools.** This will enable the DPR to determine its actual costs to operate a park and then assess what *should* be spent to operate a park, at defined service levels. These tools also are critical for attracting partners and restoring credibility.
- **The DPR should regularly develop reports, with supporting detail, that show which of its costs are discretionary and those over which flexibility is limited and why.** This will necessarily serve as a starting point for any discussion of the practical aspects of cost reduction, particularly in the short-term. From the data we were able to compile, we found that almost 80% of "Homebase" expenditures (i.e., those for day-to-day operations of the DPR) are for wages and salaries, a significant share of which is subject to collective bargaining agreements. "Non-Homebase" expenditures (used for special projects) are from bond and other funds and are largely restricted.

<sup>1</sup> Figures exclude Off-Highway Motor Vehicle Recreation parks, Folsom Lake State Recreation Area, and park revenue not explicitly attributed to a specific park. Additionally, park revenue generated and retained by third-party operators is not included.

- **The DPR should adopt a zero-based approach to its infrastructure and maintenance databases.** Our testing of the amounts reported for deferred maintenance in the DPR's database (its Maximo system), currently estimated at \$1.1 billion, revealed considerable deficiencies, and we encountered significant internal and external debate as to whether the amounts in the system were "understated" or "overstated". We also found data integrity issues with the annual maintenance and capital outlay databases. The DPR should also develop and prioritize a list of key projects based on a systematic application of asset prioritization criteria, a framework for which we describe in the accompanying report.

***Strategic Focus Area 3: Fully embrace partnership opportunities***

- **FTI recommends further expansion of partnership agreements.** Success stories like Valley of the Moon Natural History Association at Jack London State Historic Park *where revenue tripled and the operating deficit was cut in half* are compelling and merit consideration as models for the future.
- **Various types of organizations continue to be appropriate as partners,** including non-profit, public (e.g., regional districts, National Park Service) and for-profit entities. Expanded use of agreements with a variety of partners should be explored based on characteristics of particular parks, the strengths and interests of candidate organizations and the needs of the DPR.

*Given the magnitude of the current and emerging funding gap (conservatively, well in excess of \$100 million annually, including unfunded maintenance as discussed in the accompanying report), a variety of solutions is required to address the needs of the DPR that necessarily will need to include some form of public financial support if the DPR is to continue to fulfill its mission.*

In support of the three strategic focus areas discussed above, we've identified five high-priority areas for immediate focus of the DPR as follows:

- 1) ***Complete and refine analysis of park unit costs,*** including developing electronic reporting and access to underlying data; formulating appropriate metrics to facilitate benchmarking and refining ongoing data collection to incorporate these metrics and necessary supporting information.
- 2) ***Zero-base budget the infrastructure and maintenance databases*** and create a revised process for entering and maintaining projects and estimated costs; external subject matter experts should be part of the process for developing new cost estimates.
- 3) ***Develop an electronic database of park unit attributes*** with linkages to other financial and departmental reporting systems which will facilitate data mining for purposes of formulating revenue enhancement strategies.
- 4) ***Develop and maintain a repository of agreements with outside parties and proactively identify candidate organizations for potential partnering arrangements.***
- 5) ***Address data integrity and continuity issues across divisions.*** Improvements in data integrity are critical to implementing all the points discussed above and to restoring the credibility of and confidence in the DPR.

We appreciate the opportunity to assist the Parks Forward Commission in its important efforts.

Sincerely,

**FTI CONSULTING**

  
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