

# Written Testimony to the Little Hoover Commission

## For the March 27, 2012, Commission Hearing

*By Michael F. Harris, Acting Chief Deputy Director, California State Parks*

The letter from your Executive Director asked State Parks to respond to several questions. Our responses follow below:

**Question 1:** What are the critical missions of the department? To what extent have they changed because of the long-term decline in General Fund contributions?

**Answer 1:** The mission of California State Parks is:

*To provide for the health, inspiration and education of the people of California by helping to preserve the state's extraordinary biological diversity, protecting its most valued natural and cultural resources, and creating opportunities for high-quality outdoor recreation.*

This mission can be split into two mutually supporting pieces. First, a statement of what we do (“...provide for the health, inspiration and education of the people of California...”) and, second, how we do it (preserve biological diversity, protect resources, and create recreation opportunities).

**What We Do:** State Parks provide for the health of Californians both directly (our System includes thousands of miles of trails and hundreds of miles of beach not to mention mountains, rocks, caves, and so on, all of which directly provide opportunities for Californians to get healthier through active exercise) and indirectly (there have been numerous studies worldwide which show a strong correlation between exposure to nature and improved individual health). The availability of parks contributes to reducing obesity, avoiding diabetes, and generally improving Californians’ health.

State Parks inspire Californians. Whether by contemplating an ocean vista, being awed by the majesty of an old-growth redwood forest, considering the accomplishments of those who have gone before us, challenging ourselves to hike, run, or ride harder or faster or further, or any of the other varied experiences available, parks serve as sources of inspiration for all Californians.

And State Parks exists to educate Californians. More than a million school children visit our parks every year, participate in formal educational programs and learn about the complexities of our natural resources and about our rich history. Beyond that, millions of Californians learn about our significant natural and cultural resources by visiting our parks, reading our signs and joining our tours.

**How We Do It:** Three key verbs drive the way we deliver our mission:

- First, “preserve”: Parks preserve California’s extraordinary biological diversity both for its intrinsic values and for its role in improving Californians’ health and inspiring and educating our citizens.
- Second “protect”: Californians cannot benefit from resources which do not exist or which are degraded by time and neglect. So State Parks works to protect our most significant natural and cultural resources so that future generations can count on benefitting from them.
- Third “create”: It takes active management to make the resources of the State Park System both available and attractive to visitors. So State Parks works hard to create high-quality recreational opportunities in our Parks. Development and protection of trails (including hiking, horseback riding, bicycling, and motorized trails), event planning and implementation, facility development and many other tasks all contribute to this effort.

**Effect of General Fund Reductions:** The long-term decline in General Fund’s share of support for State Parks has not, of itself, changed Parks’ mission. But the decline has made it harder to achieve that mission.

First, some facts: in 1979/80 the General Fund (GF) provided 91% of the budget for State Parks. For 2012/13, the GF is proposed to provide only 29%. (See the attached chart.) This 67 percent decline reflects a *de facto* policy shift toward making Parks more dependent on the revenues it earns itself.

This policy shift, in turn, means that State Parks has to spend more time and effort on ensuring it raises enough revenue to cover its costs. It also means that Parks is more vulnerable to revenue-affecting factors (like weather and natural disasters) over which it has no control.

**Question 2:** Are there parks in the system that lack statewide significance that can be realigned to another level of government? What are some of the policy and fiscal considerations involved in making such an assessment?

**Answer 2:** There are no park units within the State Park System which entirely lack statewide significance. There are, however, a small number of properties within the System which might be more appropriately operated by regional or local governments. State Parks has had somewhat mixed success, however, in transferring such properties to local agencies. Some examples follow below:

- **Malibu Bluffs:** As a result of a complicated land swap, State Parks ended up owning property atop the bluffs overlooking Malibu Lagoon. This property had little statewide significance but was most useful as a location for local ball fields. Parks, in conjunction with the City of Malibu, pursued special legislation allowing the sale of the bluff property (deed-restricted to park use) to the City. Malibu got locally-significant ball fields and Parks got funds used to improve and repair other units with greater statewide significance. Parks also eliminated the costs of

maintaining and operating the property. This was generally seen as a win-win for all parties.

- **It's Field, Santa Cruz:** It's Field was locally owned in Santa Cruz when a developer proposed its use for a conference center. Local residents objected and a local legislator intervened to induce State Parks to acquire the property. Parks promptly entered into an operating agreement with the City under which the City operated It's Field as an off-leash dog park for some 30 years. State law changed and, when the operating agreement finally came up for renewal, Parks was prohibited from allowing off-leash dogs on the site. (Several lawsuits were involved which clarified this prohibition.) The City refused to renew the operating agreement under that prohibition. Since the site had little or no statewide significance, Parks sought legislation allowing the sale of the site to the City. Despite the State's offer of very reasonable terms, to date the City has been unable to find the funds to purchase the site and State Parks has taken on operation and management of the site despite having no budget to do so. While Parks remains interested in selling the property, it appears that the City will not do so.
- **Cal-Citrus State Historic Park, Riverside:** State Parks believes that this park has relatively high statewide significance in that it tells the story of California's second gold-rush—the story of citrus production. Nonetheless, several local officials including a Legislator and a Mayor, believe that the park could be more successfully managed locally (perhaps including the development of a conference center on the grounds). This debate went on for quite a while until the local parks director reportedly opined that there was no way that his department could afford to operate the park.

**Fiscal and Policy Considerations:** Fiscal considerations in assessing the issue of potential transfers include whether the locals can afford the transfer and whether State Parks can afford it:

- The Santa Cruz and Riverside examples serve to highlight what may be the major obstacle to the transfer to local governments: those local agencies probably don't have the funds needed to either acquire or operate these properties.
- There are a number of units within the State Park System which might be attractive to local governments. Those units, however, are attractive because of their revenue potential and that potential makes them not only attractive but critical to the health of the System: as noted above, one effect of the GF reductions has been to make State Parks more dependent than ever on the revenues we earn ourselves. Given that reality, it is very hard to see the transfer of such units to local governments as either appropriate or desirable.

From a policy perspective, the key issue may be parks role in providing "public goods" versus private benefit. (Economists use lots of definitions for "public goods" including "goods and services with characteristics that make it impossible for them to be allocated

by private markets” and, more technically, a public good is a “good that is non-rivalrous and non-excludable. Non-rivalry means that consumption of the good by one individual does not reduce availability of the good for consumption by others; and non-excludability that no one can be effectively excluded from using the good”. A key distinction between public and private goods is that it is difficult or impossible to charge users proportionally for their consumption of a public good while the market can charge consumers of private goods a price proportional to their private benefits.) It seems apparent that part of what parks provide can appropriately be called “public goods”. This is particularly true of parks’ protection and preservation of resources for future generations. From a policy perspective, it is obviously appropriate to charge users (like campers) for the costs of their current uses. But what about future generations and non-visitors? How do we appropriately charge them for their benefits? The balance between public and private benefits from parks thus becomes a key policy issue in deciding who should operate the parks.

Policy considerations also involve, among other things, whether or not a given site’s statewide significance and resource values would be adequately protected by local control. Traditionally, areas have become state or national parks, in part, because the broader public perceived that local agencies, subject to local pressures, likely would not provide adequate protection in perpetuity.

**Question 3:** Is there a limit to the number of state parks that are attractive to non-state entities to manage and operate? What defines that limit?

**Answer 3:** Of course. The limiting factors depend on the entities involved. For local governments and private non-profits, the key limiting factor, as described above, is often the cost of acquiring and/or operating the park and whether or not the local government has the funds available to do so. For private, for-profit entities, the limiting factor is whether or not the park can be operated at a rate of return (i.e., profit) acceptable to investors. All of these factors depend, in turn, on the types and levels of service provided and on the capital needs of the facility.

- **Levels of Service:** Operating parks involves a lot more than simply collecting fees at the gate. Parks are like small cities and involve public safety services (police, fire, emergency medical response, etc.), public works (facilities and roads maintenance, water treatment, waste water treatment, electricity distribution, etc.), education, and other similar services. Operating parks also involves the long-term protection and preservation of both natural and cultural resources. The mix of these services to be provided by a given entity affects the costs of operation and the potential for profit. Of course, if an entity does not provide any of these services then either the state must continue to provide them (at some cost) or the public must do without the services. Parks’ has had much experience with entities offering to provide only the lowest cost services (like fee collection and restroom maintenance) while wishing to retain all the revenues collected. As Parks has become ever more dependent on earned revenues, these proposals become less and less attractive.

- **Capital Needs:** Long-term operation of parks also involves the need for capital investment both in maintaining facilities and in improving services. These longer-term investments rarely offer the potential for profit. As a result, in the past at least, few entities have been willing or able to commit to the necessary investment. Most state parks have infrastructure (roads, water plants, sewage plants, campgrounds, etc.) dating from the 1940's through the 1960's. Maintenance of that infrastructure is costly and frequently deferred. As a result, Parks' current backlog of infrastructure repairs now totals more than \$1.2 billion. This backlog further detracts from other entities' interest in operating parks.

**Question 4:** What steps has the department taken to move to a more revenue-based model? What other changes are necessary? Does the department have the right mix of skills to make this transition? What are the limits to such a model?

**Answer 4:** State Parks is pursuing a number of initiatives in response to the change in General Fund support cited above and illustrated in the attached chart. These initiatives include:

- **Costs and Revenue Management:** We're hiring a consultant to help us better understand and manage our operations costs. We'll achieve this by first developing business plans for each of our units which will identify our costs and our revenues at the park level. This information will then be used to improve the management of our parks and to identify opportunities to reduce costs and increase revenues.
- **Revenue Generation Incentives:** Currently, our Districts do not retain any additional revenue that they earn. Instead, the funds get deposited into the State Park and Recreation Fund (SPRF) and get allocated to all Districts. We're working on a system to allow Districts to retain some portion of earned revenues as a way of creating incentives for District Superintendents to pursue revenue generating projects (consistent with our Mission). This will likely include some kind of internal revolving fund as well as accountability measures like revenue targets, etc.
- **Building Capacity:** To make the revenue generation incentives as effective as possible, we need to build our staff's capacity for business analysis and development. We are considering a range of options in this area including business development officers assigned to Districts, centralized analytical support for the Districts, and changes in our management classes aimed at including business skills into our management ranks. We will work with the administration to bring appropriate proposals forward to the Legislature in the future.
- **Continuous Appropriation:** With the Department of Finance's approval, we've included a proposal in the pending Budget intended to ensure our ability to spend what we earn consistent with being an Enterprise department. This can

best be understood by example: currently, our appropriation from SPRF includes \$6 million for water/wastewater projects which we can only spend if we actually earn revenue to cover it. Often, we're not sure of whether we're going to earn those funds until rather late in the fiscal year (April, May or even June) which makes it very difficult, if not impossible, to spend the funds before our authority expires. The requested continuous appropriation would eliminate this problem.

Mission-consistent revenue generation is critical to State Park's ability to fulfill its mission into the future. But the added revenue is unlikely to be adequate to Parks' current or future needs. A preliminary study done by Bay Area Economics for the Blue Ribbon Commission on Fiscal Sustainability in 2005 found that Parks' revenue generating capacity was on the order of \$10 million annually. Even if this estimate is low, it is obvious that continued public support will be required if Parks is to satisfy its mission. Such continue public support is also consistent with the policy issue of public goods cited above.

