

THE PUBLIC INTEREST, PRIVATE CAPITAL,  
AND OUTDOOR RECREATION

By

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Across the world the newly affluent, the newly leisured, are trooping in swelling numbers, searching for ways to spend their money and their time. Higher personal incomes, longer vacations, the tremendous changes in time and cost of a trip have combined to make this possible. How their time and money resources will be spent is of increasing economic and social concern. On the economic side, many U. S. cities, counties and states, like a number of developing countries around the world, have finally realized there are only so many places the General Motors of the industrial world can build plants, and are turning to the tourist to offset their particular balance of payments problems -- and an offset of impressive proportions it is indeed to the successful area, whether it be Florida, the Black Hills, Athens, or Kenya. In the Ninth Federal Reserve District alone (Montana, North Dakota, South Dakota, Minnesota, Northern Wisconsin, Upper Peninsula of Michigan), estimates of annual tourist revenue are in excess of one and one-half billion dollars. Not overlooked either is the long-run economic importance of the public familiarity with an area through tourism that would otherwise remain obscure. Satisfied visitors do return, and sometimes to stay. This applies to new countries as forcefully as it does to those parts of the U. S. struggling to shift from an agricultural base to an industrial one.

Accompanying these economic concerns is an equally compelling social one by governments, public agencies, and churches. Generally accepted now is the proposition that exposure to his own national culture, let alone different cultures, increases in some degree the quality of life for even the most insensitive of tourists by an osmotic process he cannot shut off. The enhancement of this quality is the concern of the church -- and, in a larger sense, it is inseparable from the desire of churches everywhere to play an active role in the enrichment of man's leisure time. For example, from the beginning years ago of the originally one-man section of the National Council of Churches, the "Student Ministry in National Parks," came last year's multi-faceted "Task Force on Religion and Leisure" of the Council. In April of this year a World Conference on "The Spiritual Values of Tourism" was convened in Rome, jointly sponsored by the Vatican and the Italian Government. If these two meetings accomplished less than the more impatient churchmen and laymen might have wished, the sessions at least were seminal sources of enthusiasm and concern for a more active involvement of the church in the tourism field. (If this article wobbles back and forth between "tourists," "visitors," "outdoor recreation," and "tourism," it reflects no more than the lack of agreement among the public and private agencies involved. The lexicon of the industry is as confused as the policies.)

Our governments have a social concern because it takes a sense of identification with a geographic area to make it a viable political entity. Price of tradition and an awareness of a common heritage instilled with museums, parks, and related cultural activities can be remarkable homogenizers. Our preoccupation with national parks, historic sites, local pageants, has

contributed significantly to our pride of country. And our success is not unique. Witness the extraordinary melding of Mayan, Spanish, and post-revolution traditions in Mexico, and its political success, in one of the most advanced - and successful - park and museum programs in the world.

While recognition has come slowly, of immediate political importance is the escape value recreational areas can provide, if they are relatively close and accessible to the enormous concentrations of population in and around megalopolis. For in these great city complexes, people live in increasing congestion and discomfort, which is bad in itself, albeit an inevitability, given the limited economic resources and rate of in-migration.

National awareness in our time of the importance of outdoor recreation dates from the publication in 1962 of the reports of the Outdoor Recreation Resources Review Commission, which sharpened the focus and gave a sense of urgency to the subject. Not overlooked in these reports was the role of private capital, which was the subject of Study Report 12, "Paying for Recreation Facilities." With this report came respectability to an industry that traditionally had been an illegitimate poor relation in our economy. Private capital usually has some role to play, whether the concern of the agency involved is economic or social. Or at least its potential role is a matter of increasing public inquiry -- and this is true whether the area is one within the U. S. or overseas. Until the ORRRC studies came along, though, the inquiries were usually parochial ones within a particular agency. And there are no less than twenty-six federal agencies involved in some degree with outdoor recreation.

The inquiries are not directed solely to encouraging private capital to public lands, for much of the more desirable land areas are in private hands. In our own country, for all the tremendous acreages owned by federal and state governments, the matching of public land and population centers is usually in inverse proportions. Those who believe in the social necessity of green areas reasonably accessible for frequent use by the residents of megalopolis are starting much too late to capture public lands for the already existing high density population centers. Much of the development has to be on private land, because too often there are no alternatives. These are round figures only, but out of the 1904 million acres comprising the continental U. S., 1376 million acres are in private hands, 186 million acres in national forests and grasslands, and the balance of 342 million acres is in national parks, wildlife refuges, Bureau of Land Management lands, state and county parks, and other public ownership.

An unexpected assist, though, is coming from the USDA and its Congressionally inspired concern for the economic and social problems of rural America. Changes in the structure of American agriculture, which hardly need recital, are causing small landowners to look for other land uses. And Congress is becoming aware that outdoor recreation facilities may help solve some of their problems.

To those unfamiliar with the enormous range of the activities of the USDA, the involvement of the agency in outdoor recreation as an end in itself may come as a shock. But it is an appropriate one for a land use agency. "Recreation is a product of rural lands and waters, of forests and fields, just as are crops or livestock. If these private and public resources are to

be used in ways that will supply America's needs for outdoor recreation, the USDA must give increased attention and effort toward expanding outdoor recreation as a major program." ("The USDA's Role in Outdoor Recreation -- A Review of Research Needs.")

In several of the food and agriculture acts of recent years, Congress has referred in various ways to the importance of "developing and protecting recreation facilities." For the most part, the approach has been to open new channels of financing for the private entrepreneur. The Farmers Home Administration, the Small Business Administration, the Office of Economic Opportunity, and the Economic Development Administration all have credit programs designed for some part of the outdoor recreation industry. (For a longer run-down of available financing channels, a look at "Developing and Financing Private Outdoor Recreation in the Upper Midwest" might be useful. Published by the Upper Midwest Research and Development Council, Minneapolis, Minnesota 55406.) These efforts to assist in the financing of outdoor recreation facilities on private lands are hardly more than started. A number of bills will be before both houses this year to help the private landowner finance an outdoor recreation facility. On April 27, 1967, Senator Gaylord Nelson (Wisconsin) in introducing his proposal to amend the Consolidated Farmers Home Administration Act for this purpose, said: "The lack of adequate financing for recreational enterprises is the most serious blocking realization of the economic development potentials of many rural areas, and of helping to meet the sky-rocketing need of urban residents for more adequate and more satisfactory outdoor recreation facilities."

The proposed legislation, either in Congress or talked about, generally

has an announced economic objective of which the statement of purpose of HR 9067, introduced by Congressman Wright Patman, is illustrative -- "to more fully and effectively use the human and natural resources of rural America." Implicit, though, is the broad social concern of the U. S. government with the development of outdoor recreation resources for an urban nation. "The concentration of people in urban centers is resulting in acute national problems of overcrowding. The countryside can contribute to the alleviation of these national problems. Among other required actions a vigorous program of outdoor recreation development on rural lands is called for." (U. S. Secretary of Agriculture Orville L. Freeman, April 27, 1967.)

Both direct loans and participation loans are being considered. To encourage the provider of equity capital, and to furnish an additional assist to the entrepreneur who has to borrow money, an increased investment credit, and a rapid amortization program are also being talked about.

What success these proposals presently under discussion will have in the existing legislative climate is certainly speculative. But there can be little doubt of the increasing pressure for some type of program, and the eventual passage of a measure expanding assistance to the private owner in financing outdoor recreation facilities. The yearning for new industrial payrolls still moves many state and local chambers of commerce. But there are signs the tourist is beginning to be recognized as a boost to local economies -- a boost happily free of many of the accompanying pressures -- on utility and school systems, to mention just two -- and a lot easier to cultivate.

Unanswered so far are the human ecological problems changing land use

can create. The relationship of our recreational land use to another; the preservation of "recreation and aesthetic values including historical and archaeological values"; building and operating quality codes (non-existent or obsolete in many rural counties); impact on the biological environment; patterns for coordination of recreation development on a multi-county or even regional basis; provision for public utility services from garbage to electricity -- the list is horrendous. Many of these will require modification in local or state infra-structures, and will hardly come easily. For remember, we are dealing with private land holdings.

With a long and distinguished record of assistance to the private sector through the research facilities of land grant colleges, and the county agent information system, the USDA is probably the logical agency to start this exploration of the collateral problems of recreation developments on private land, of which the financing of private facilities is only one facet -- an exceedingly important one, but only a part of the total solution. In fact, it can be argued that to provide easier public financing for new facilities before patterns of solution have been developed for the other problems, might result in massive headaches for the next generation confronted with a whole series of rural recreation slums.

And how about private capital on public lands? Here the issue is not quite as squarely joined. Many of these areas, because of their location, have less population pressure and only limited possibilities of intensive day use. Further, they frequently have special scenic or historical values, each with its own band of passionate and articulate supporters who see any private - or public, for that matter - investment in facilities as an intrusion on the basic values of the area. These groups, sometimes lumped disrespectfully

together by their critics as those "birds and bees people," have been the bulwark of American conservation, and the terror of the legislator bent on economic development at any price. What few excesses they may have committed, when viewed particularly from the point of anguish of a frustrated local economic development group, are way offset by the preservation of the national public interest. But sometimes the dialog among the various groups does become what Laurens Vander Post refers to as the dialog of the deaf.

To narrow this inquiry, let us assume the decision has been made that certain basic support services on the public land will enhance the tourist's enjoyment of the area. Food and housing facilities, camping supplies, and automobile services are relatively noncontroversial, per se, if any services at all are to be provided. Curios and souvenirs may be regarded of lower priority by some, as are such area-related specialized recreational services as boots, saddle horses, funiculars, and ski tows. But let us assume that by some presently non-existent yardstick, some of these services may also be required. "Non-existent" is used advisedly. Appropriateness of these services is an ad hoc decision based on geographic location, regional desires and tastes, overall financial requirements of the operators -- even occasionally criteria of optimum land use.

If the public interest is involved, why such a fuss about private capital? Why not have direct investment and operation by public agencies? To some who have been exasperated by the frequent points of abrasion almost always present when public interest and the entrepreneur get tangled up together, this may at times seem a solution. And a final solution it may be for some areas. But certainly not where private lands are involved and either the owner does not wish to sell or condemnation is not possible. Even on public

lands there is a general feeling that private investment and operation is preferable. The Bureau of the Budget has stated: "The types of facilities and services involved are typically provided by private enterprise in our economy, and it would be contrary to general Federal policy to have the Federal Government directly engage in such operations when private enterprise is willing to do so on reasonable terms." ("Study of Concessions on Federal Lands Available for Public Recreation," p. 30. Underlining supplied in the original text.)

Four reasons are advanced by the Bureau for private operations:

"(1) The Government has been relieved of the need to appropriate at least \$260 to \$290 million of Federal funds for equivalent facilities and it may be relieved of the need to provide funds for the estimated \$350 million worth of similar facilities which it is estimated will be required in the next ten years; (2) the Government receives payments from concessioners in the form of income taxes each year; (3) the Government receives approximately \$2,400,000 each year in fees and payments from concessioners as a result of contract arrangements; and (4) the Government is relieved of an enormous responsibility for operations suitable for private enterprise."

Statutory authority for private operation is to be found in the acts affecting various agencies. Given the preference, why all the fuss? First off, the size of the future investment required to meet public demands for just four of the federal agencies involved - and there are others - is estimated at nearly \$400,000,000, or about \$150,000,000 more than the present value of the private investment administered by these same agencies. To this would have to be added probably a multiple to pick up requirements of state agencies and the proposed program envisioned by the Department of Agriculture for assistance on private rural lands. These are huge numbers, and would merit a close look for that reason alone.

Still, if the opportunity is all that great, why not let normal market forces supply the funds? Well, it isn't all that great. The history of the outdoor recreation entrepreneur has not been that good. Perhaps the best numbers are those compiled by the National Park Service from its concessioners' operations, for this is not an industry with a statistical base generally. Seventy percent of the concessions reporting to federal agencies had less than \$50,000 in total assets -- and with a minimum investment per motel room of \$5,000 generally used as a rule of thumb, this isn't much of a platform to start from. Admittedly, some of these do not involve rooming facilities, but other tourist services are now in scale, whether they be stools in a coffee shop, or a ski tow. Twenty percent of the NPS concessioners lost money in 1964, which was an excellent domestic travel year, with averages for the group of about 4.4% earned on sales, and about 2% on present value.

This does not mean there are no successful operators, but these are in areas with high levels of visitation where size and experience have enabled a few to build a capital base, and more importantly, management teams of proven quality. With these prime ingredients, they have been able to tap regional or national capital markets for their requirements.

In the main, though, the average venturer into outdoor recreation has little going for him. In most parts of the U. S., the capital resources available to him are not only meagre, but he has to combat an industry history that generally has prejudiced the local bank against it. As Senator Nelson said, "Most recreational industry potentials are located in rural areas, where banks are usually small and other sources of credit non-existent." With a poor history, the statutory limitations on loan limits and real estate, and other

more profitable and conventional places to put his depositors' money, the banker is hardly to be blamed.

"Conventional" is a key word. The would-be concessioner on public land has an almost impossible financing problem, because of the unwillingness of most investors or institutional lenders to expose themselves to the unfamiliar and often nominally repugnant provisions in most land use contracts.

Then, too, the concessioner must be knowledgeable about the business. There is a critical shortage of entrepreneurial talent in the whole outdoor recreation industry. Enthusiasm and lack of alternative land uses are never substitutes for feasibility studies and financial analyses which demonstrate a reasonable possibility of investment return and repayment capacity.

The function of private investment is to make a profit, for this is the fuel of the engine. An accepted truism in most contexts, but when private investment and public lands or credit get mixed up together in outdoor recreation, the questions of how much, how soon, and from what services, can become sticky indeed. Even if the objective is solely economic development of a depressed rural area, success of the entrepreneur cannot be separated from the success of the whole program. This success can expose public administrators and entrepreneurs alike to charges of give-aways and discrimination.

But it is in the area of private development on public land that the dialectics become most heated. The search for a viable policy within which concessioners can construct and operate visitor services in federal areas involves a continuous process of reconciliation of objectives that, at times, seem quite incompatible. These objectives are polarized around two basic

motivations. One is the concessioner's desire for a return on his investment; a return at least as attractive as that he can reasonably expect from the alternative places to put his money. The other is the public administrator's desire to meet broad social targets, either directly related to the special historical or scenic factors of the specific area as part of the national culture, or as part of an economic development design for the area.

A few examples of how these operate will illustrate the point.

(a) Location -- The concessioner wants his facility as close to the visitor attraction as possible, arguing that ease and convenience of use are public requirements. The public administrator prefers to have it wholly subordinate to the objective of the visitation -- i.e., the scenic wonder or the historic site -- arguing that no matter how tastefully executed, the tourist facility is an intrusive influence.

(b) Scope of investment -- The concessioner, usually faced with substantially higher construction costs because of the special environmental conditions where these areas are located, places a low order of priority on non-revenue space or purely aesthetic objectives. Confronted with the broad social requirements of interpretation of the area, good taste, and a conflicting array of building codes, the public administrator sometimes starts from a point of no return -- in either the negotiation or investment sense. Just one of these -- good taste -- is a subject when applied to facilities in public areas can produce the heat and predictability of eruption of Old Faithful Geyser.

(c) Rate structure -- Operating cost structures, the desire to maximize profits, the construction cost/revenue rate ratio, are at frequent odds with

the public's objective of a service and a rate for everyone.

(d) Monopoly vs. competition -- Because of the necessity of close control of the operator by the public administrator, and the nature of the areas usually involved, the monopoly or exclusive operating franchise is usually preferred. This has both political - or public - implications, as well as practical - or operating - ones. As a substitute for the role of competition in maintaining price and service relationships, the public administrator has to intervene in the concessioner's operation, frequently to their mutual irritation and frustration.

(e) Ownership -- Public interest and national significance are usually paramount in the creation of the special status of the area. This usually means retention of government ownership of the fee title and limitations on transferability. Yet to secure external financing, whether from creditor or equity sources, the entrepreneur has to own something representing the investment. Public interest requires a limited term and a mechanism for prompt termination of the operation; private interest requires an orderly process of settlement and an assurance of value return.

The list of matters to be dealt with could be continued, but these are representative. Designing an appropriate public policy for all agencies to deal with these problems is now a matter of presidential concern. An attempt has been made by Congress to legislate a policy of sorts for one agency, at least, the National Park Service. It is far from ideal. In its defense, it must be remembered that this legislation is substantially the framework administratively determined years ago, rather than a de novo approach to the

problem. The agency, in turn, has worked out over the years a modus vivendi with individual concessioners in its areas on an ad hoc basis tailored to the political and business realities of the particular situation -- which, even though a strict critic might argue has done violence to the "policy", nevertheless has made private investment possible.

This does not pretend to be a comprehensive list of the elements of a viable policy, but it includes most of the obvious assumptions:

1) The public interest in these areas is paramount. Only goods and services essential to the visitor while in the area should be provided. Curios, food, lodging, general merchandise, transportation, and automobile support services may or may not be necessary, but they are never ends in themselves.

2) The quantity of visitor services is subordinate to the national objectives of the area. They should be furnished on a regulated basis to assure quality as well as appropriate quantity limits. This means a limited, usually exclusive, operating privilege precisely similar to any other public utility.

3) Services which fall into the rough classification of visitor support can best be provided by the private sector. The expectation of a profit is an effective spur to a concessioner. Though it may offend those political taxonomists who would have a well ordered and compartmented world, there is a net public good in the tension between the public and private sectors of concession operation. It keeps each side on its toes.

4) To attract private investment, stability of the operating environment is a necessity. The concessioner, and more particularly his backers, want assurance the ground rules understood at the outset preferably will be left unchanged during the life of the investment -- or if change is required, the change will not be unilaterally imposed. This is the sine qua non.

5) There must be a mechanism for settlement of disputes. Starting with the assumption that the public interest is paramount, the final operating decision must be the public administrator's, but the concessioner must have a means assured him to get out with a minimum of hardship if he does not agree. In the public interest this transfer must be quickly accomplished to avoid disruption of service. In practice, this probably requires that either (a) the government buys the property interest on an agreed upon formula, which disposes of the dissident concessioner as a preliminary to the securing of a new one; or (b) the old concessioner continues with his original contract under the new conditions, or with a satisfactory hold-harmless provision, until a successor concessioner can be found.

6) A careful definition of the property rights of the concessioner is essential. One such definition is the "possessory interest" of a national park concessioner. The principal criticism of this is its novelty. Bankers and institutional lenders confronted with the term for the first time are personally intrigued and professionally restrained. Terms that have to be explained by lawyers for the borrower to a loan officer present a whole host of problems to him in his explanations to loan committees; problems he would just as soon do without. Some form of guaranty can do much to ease the problem of definition. If the take-out in the event of a failure is at least as prompt

as that specified in the U. S. Maritime Act, let us say, then the institutional lender does not have to concern himself with the definition of the property right of the borrower.

7) If the venture as programmed does not meet the tests of a profitable investment, the project should be reexamined for its public purpose. If the public interest requires such a facility at that location, and the rate structure existing in the general area does not permit an increase to a level which will return a profit, then the public administrator has two choices: he can build the entire facility and lease it to a concessioner, or he can build all of the public space and so much of the balance as might be necessary to bring the project into economic balance. Preferably the government, if it builds at all in the private sector, should build an entire function, rather than have one split -- for example, all of the food facilities, or all of the housing facilities. Another possibility which has not been mentioned as an alternative would be to permit the concessioner to go ahead in the face of an assured uneconomic venture, and hope for the best. However, balanced against the dubious advantage of having the facility built on any basis is the certain political repercussion of a major failure in a publicly administered area. Additional credit resources are not the answer in these cases, for unless the concessioner can have a reasonable expectation of profitability with equity money, the obligation to repay a loan hardly adds anything, except grease on the skids of insolvency.

8) Rates should be determined by those charged for comparable facilities in the area. They cannot be fixed by reference to costs plus a reasonable profit, because this limits the public interest in construction and location. It is

these latter factors that cause a disproportionate imbalance in construction and operating costs. The approach to maintain a satisfactory rate structure should be through construction and operating assistance. Through franchise fees, audit procedure, and regulation generally, the investment return to the operator can be maintained within reasonable limits. Franchise fees should not be viewed as a government revenue objective, and should be geared to risk, investment, and profitability.

9) The term of the contract should be established by reference to the scope of the investment and the nature of the professional expertise required. For example, a substantial investment in buildings and permanent equipment requires a longer period of time for amortization than one primarily in current assets, such as inventory. Less recognized often, but just as important, is the knowledge and skill of a particular management team put together for the purposes of the development. However, it is nearly always necessary to settle for terms less than the lives of the major properties. There are two ways of handling this: give the existing concessioner a preferential right to a renewal of his contract on terms equivalent to those offered by the highest bidder; or provide for a determinable option price for the equity of the concessioner at the expiration of the contract, so that all bidders start on the same basis.

10) The valuation of the concessioner's investment for purposes of termination, cancellation, retirement, or any other circumstance, should be on the basis of appraisal. The objective should be to place the investor in the same position he would have been in if he had made an alternative investment somewhere else, which means simply he would be taking his chances on the

condition of the economy, price levels, and the economic usefulness of his properties, when the time came to dispose of his investment.

At what point are we now? The President has requested (April 21, 1967) "each department and agency granting recreation concession contracts to review their present policies, organization, and procedures with respect to concession activities . . . and report through the President's Council on Recreation and Natural Beauty and the Director of the Bureau of the Budget, within six months on the progress . . ."

This directive emphasizes the importance of a coordinated approach urged in the earlier referred to report of the Bureau of the Budget. "A central policy level focus is necessary if Federal agency policies related to concessioner contracts are to remain in harmony, and the President's Council on Recreation and Natural Beauty, with the support of the Bureau of Outdoor Recreation, is the appropriate focal point for such efforts."

Although not specifically covered in the President's directive nor in the Bureau of the Budget report, the financing of recreation facilities on private land as part of rural lands development should certainly be included. As mentioned, legislation is already being proposed to cover this gap, and should be brought within the purview of the same review process. Unfortunately no room has been provided yet for formal participation in the discussions by representatives of the private industry proposed to be helped. This is an industry which is specialized and complex in its business parameters. It would seem quite elemental not only to solicit views from within the industry and its related private service components, but to deeply involve them in the process

before programs are frozen in federal legislation or overall government policies.

To summarize then:

1 - Public interest and private capital can be and should be joined in outdoor recreation.

2 - Federal agencies should be forced to coordinate their policies through an appropriate central agency, and the proliferation of ad hoc piecemeal programs stopped.

3 - Flexibility in the programs will be a necessity. Direct credit extension is not the whole answer for every area. Secondary credit through guaranty programs and capital assistance by direct public construction and ownership will have their places. The kind and amount of assistance must be fitted to the operator's requirements. But if a direct loan program is included in the total approach, as it should be, keep it within existing agencies like the Farmers Home Administration or the Small Business Administration, where a certain talent and experience has been accumulated.

4 - There is no reason to forget the usual financing imperatives simply because it is a good cause. Competent management of these developing areas is in as short supply as capital -- and cannot be as easily increased.

5 - The kind of equity granted to the concessioner; a clear definition of the roles of the parties; devices for the settlement of differences; an equitable schedule of franchise fees; terms of loans and franchises; a competitive pattern for operating franchises at least at the outset; these

are the principal points of uncertainty in the murky area between agencies and concessioners, which must be clearly and simply stated if the institutional lender or investor is ever to accept the franchise contract as security.

6 - In the search for ways to expand outdoor recreation facilities by public assistance to private investment, the public interest is the determinant. Whichever of the two objectives -- social or economic -- is the prime mover for the particular development must be kept uppermost. They have different price tags. The private investor and the public administrator must know in advance each objective requires certain compromises with the ideal world, and not cry "Uncle!" when, half-way through, he finds the price higher than he wants to pay.