FTI CONSULTING

California State Parks
Baseline Financial Assessment

November 30, 2013

Presented To: ParksForward

Limitations and Scope

Limitations of Report

The information contained herein has been prepared based upon financial and other data provided to FTI Consulting, Inc. ("FTI") from the management and staff of the Department of Parks and Recreation of the State of California ("DPR"), its contract staff and advisors, or from public sources. There is no assurance by anyone that this information is accurate or complete.

FTI has not subjected the information contained herein to an audit in accordance with generally accepted auditing or attestation standards or the Statement on Standards for Prospective Financial Information issued by the AICPA. Further, the work involved did not include a detailed review of any transactions, and cannot be expected to identify errors, irregularities or illegal acts, including fraud or defalcations that may exist. Accordingly, FTI cannot express an opinion or any other form of assurance on, and assumes no responsibility for, the accuracy or correctness of the historical information or the completeness and achievability of the projected financial data, information and assessments upon which the enclosed report (the "Report") is presented.

Use and Purpose of Advice and Reports

Any advice given or report issued by FTI is provided solely in connection with the scope of services described in the engagement letter (the "Engagement Letter"), dated August 28, 2013 between FTI and the Resources Legacy Fund ("RLF"). In no event shall FTI assume any responsibility to any third party to which any advice or report is disclosed or otherwise made available.

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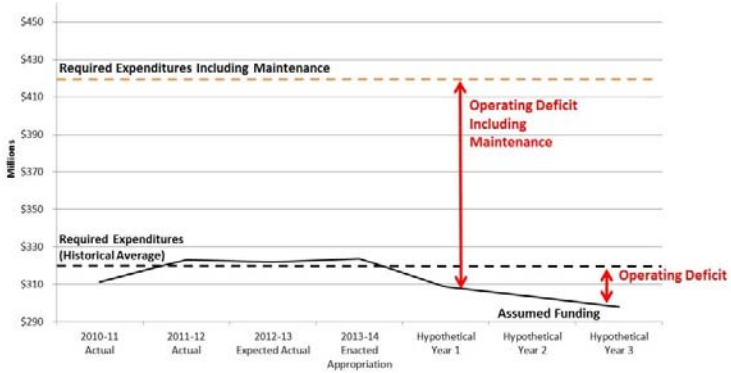
Introduction

- California State Parks is indeed at a crossroads. As the 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.
- To provide a framework for understanding the financial challenges facing the DPR, and potential solutions, we offer the chart shown to the right.
- Primary support for the DPR comes from the State Parks and Recreation Fund, or "SPRF", and the General Fund, which in total has averaged $239 million over the last four years. Other funds from voter-approved bond measures, special state funds and federal funds provide monies for specific projects in the state park system, and have averaged $76 million over the same time period.[1] Importantly, most of the current bond funding (excluding infrastructure), which has averaged approximately $28 million per year over the past four years, will be depleted within the decade, and these funds will no longer be available to support the DPR.

Introduction

- The depletion of bond funds alone potentially creates a major funding gap for operations in the next decade. As an illustrative example, if one assumes the following conditions, the near-term funding gap is estimated at approximately $22 million.
  - The General Fund, SPRF, and other continuing funding sources remain at their enacted appropriation amounts for FY 2013/14.
  - Bond funding declines to 25% of current levels (by Hypothetical Year 3).
  - Expenditures remain constant at recent average levels of $320 million.[1]
- Layer on top of this needed monies for annual and deferred maintenance, amounts which the DPR has estimated at $350 million per year and $1.1 billion, respectively, and the funding gap skyrockets. If one assumes even $40 million more for annual maintenance (in addition to current annual budgeted amounts of $10 million) and half of the estimated amount for deferred maintenance amortized over ten years, the annual funding gap, at well over $100 million, is truly alarming. This illustrative doesn't even take into account monies needed for capital projects.



[1] Excludes Off-Highway Vehicle ("OHV") Trust Fund and Harbors and Watercraft Revolving Fund.

Executive Summary

Overall Observations and Recommendations

Introduction

- FTI was engaged by the Parks Forward Commission to provide a baseline financial assessment to assist the DPR in addressing these financial challenges. Our views are based on our work over the last 12 weeks, most of it conducted on-site working directly with DPR personnel from many different divisions. Our areas of analysis, described in subsequent sections of our Report include:
  - Funding sources;
  - Expenditures (uses);
  - Park revenue and operating performance;
  - Infrastructure and maintenance spending;
  - Partnerships; and
  - Asset prioritization
- Based on our analysis, we believe that successfully meeting the financial challenges faced by California State Parks requires three key strategic areas of focus.
  1) Continue to grow revenue (and accelerate its growth).
  2) Understand and proactively manage costs, particularly park unit operating costs, and obtain an accurate assessment of and prioritize funding needs for deferred and annual maintenance and capital projects.
  3) Expand the use of partners who can work with DPR to help absorb costs/grow revenue at specific park units, and identify additional/replacement funding sources, including new bond funding and other sources of state and other public funding.
- The remainder of this Executive Summary describes our recommendations with respect to the three key strategic areas of focus and summarizes our analysis and understanding of the DPR.

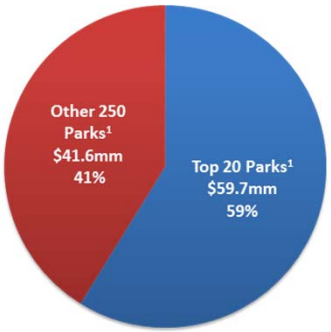
Executive Summary

Overall Observations and Recommendations

Strategic Areas of Focus

- *Strategic Focus Area 1: Continue to Grow DPR 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.
  - At the other end of the spectrum, about 39% of parks contribute no revenue to the DPR.[1]

FY 2012/13 Park Unit Revenue[2]



$101.3mm

Strategic Areas of Focus

- **Virtually all park revenue is associated with one or more 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 estimated 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.*

[1] This group of parks also includes those subject to third-party operating agreements whereby the operator generates and retains park revenue.
[2] Figures exclude Off-Highway Motor Vehicle Recreation ("OHMVR") parks, Folsom Lake State Recreation Area, and park revenue not explicitly attributed to a specific park. Additionally, park revenue generated and retained by DPR partners is excluded. Park revenue of $101.3 million is primarily generated by user fees and concessions from park units, 78% of which is comprised of camping and day use fees.

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Overall Observations and Recommendations

Strategic Areas of Focus

- *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. We encountered significant challenges in extracting basic expenditure data in an electronic format, by function and program area, and in reconciling it to the Governor's Budget. (We understand from the DPR that other state organizations face similar challenges.)
  - **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 actual costs to operate a park and assess what *should* be spent to operate a park, at defined service levels.** These tools also are critical for attracting partners and restoring credibility. Metrics for managing park unit costs could take into consideration factors such as:
    - Purpose (conserve natural resources, provide recreation, preserve cultural assets)
    - Activities which support purpose (maintain biological diversity, hiking, restore historic structure)
    - Location (major population center v. remote area)
    - Size (acres, building s.f.)
  - **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 in their use.

Strategic Areas of Focus

- **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.

- *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 nonprofits, public entities (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.
  - DPR would benefit from the development of a centralized database of partner contracts and more expertise in managing partnership relationships both at headquarters and locally.

Given the magnitude of the current and emerging funding gap (conservatively well in excess of $100 million annually, including unfunded maintenance), 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.

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Overall Observations and Recommendations

High-Priority Areas

- Five High-Priority Areas for Immediate Focus of the DPR

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. Such efforts are necessary in order to understand actual costs of operating each park and then to assess what should be spent to operate each at defined levels of service.
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***. The DPR also should establish coordinated management of such agreements.
5) ***Address data integrity and continuity issues across divisions*** with more robust accounting and financial reporting including developing better reporting of and monthly reconciliation of cash, reconciling with the Governor's Budget, pushing down accruals to appropriate reporting units (such as park units), improving availability and accessibility of electronic reports and historical data and other measures identified in the following pages. Improvements in data integrity are critical to implementing all the points discussed above and to restoring the credibility of and confidence in the DPR.

Executive Summary

Summary of Analysis and Understanding of DPR

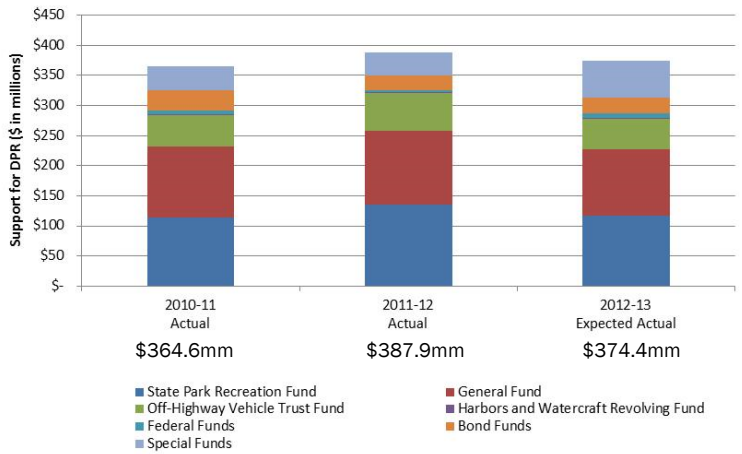
Funding Sources

- Major funding sources for the DPR are used to support the operations of the state park system. These include:
  - **State Parks and Recreation Fund ("SPRF").** The primary sources of revenue are park revenue and transfers from the Highway Users Tax Account and Motor Vehicle Fuel Account. Park revenue generated in a given fiscal year is transferred to the SPRF and available for DPR support funding.
  - **General Fund.** The major revenue sources for the General Fund are state taxes, including personal income tax, sales and use tax, and corporate income tax. Funding available from the General Fund declined sharply in the early 2000s, but has been somewhat more stable in recent years.
  - **Bonds.** In recent years, bond proceeds related to Propositions 84, 40, and 12 were used to fund special projects of the DPR and other state and local uses. These funding sources are limited and are expected to end once funds are exhausted, which is expected to occur within the next decade.
  - **Donations.** Donations from benefactors to the state park system are typically used for purposes specified by donors.
  - **Off-Highway Vehicle Trust Fund.** The Off-Highway Vehicle Trust Fund ("OHV Trust Fund") provides funding for programs related to trails and areas for use of off-highway motor vehicles.
  - **Other Funds.** The DPR also receives support from various special funds, including revenues from the state boating gas tax, federal highway dollars for trails, and various state revenue sources earmarked for natural resource habitat protection.

Funding Sources

- Support for the DPR (excluding infrastructure and local assistance) for FY 2010/11 – FY 2012/13.

DPR Support – Funding Sources ($ in millions):



Note: Infrastructure and local assistance are not included in the chart above.

Source: Funding Reports provided by DPR Administrative Services, Budget Section and Governor's Budgets. For comparison purposes, expected actual FY 2012/13 expenditures reported here are based on estimates provided by the DPR Administrative Services, Budget Section.

- **Governor's Budget Cycle**
  - The California budget cycle is iterative and quite long. The DPR typically needs to prepare its financial plan and submit budget proposals one year in advance to the Legislature and Governor.

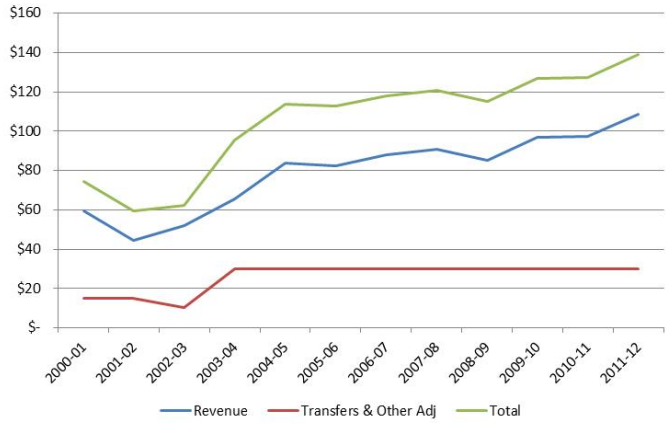
Executive Summary

Summary of Analysis and Understanding of DPR

Funding Sources

- The primary funding sources that provide support for general operations in the state park system are the SPRF and the General Fund.
- Historical expenditures from the SPRF appear to be directly correlated with the increase in park revenues over the past decade.

SPRF Revenue and Transfers/Other Adjustments: ($ in millions):

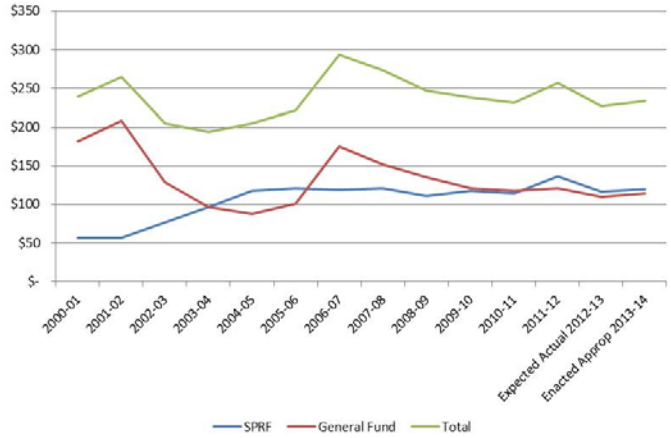


Source: Funding Reports provided by DPR Administrative Services, Budget Section and Governor's Budgets. For comparison purposes, expected actual FY 2012/13 expenditures reported here are based on estimates provided by the DPR Administrative Service, Budget Section..

Funding Sources

- Although actual funding from the General Fund decreased over the past 11 years from $182.0 million in FY 2000/01 to $121.2 million in FY 2011/12, it has been relatively flat since FY 2009/10.

SPRF and General Fund Allocation ($ in millions):



Source: Funding Reports provided by DPR Administrative Services, Budget Section and Governor's Budgets. For comparison purposes, expected actual FY 2012/13 expenditures reported here are based on estimates provided by the DPR Administrative Service, Budget Section. FY 2013/14 enacted appropriations are based on estimates provided by the DPR Administrative Service, Budget Section.

- The spike in the General Fund in FY 2006/07 was related to one-time funding of deferred maintenance. This increased funding was subsequent to a low funding year.

Executive Summary

Summary of Analysis and Understanding of DPR

Funding Sources

- **OHV Trust Fund.** The OHV Trust Fund is a well-funded, restricted-use fund, the revenue sources for which primarily consist of transfers from the Motor Vehicle Fuel Account (fuel taxes) and off-highway vehicle fees.
  - Fuel taxes transferred to the OHV Trust Fund are greater than those to the SPRF. In FY 2013/14, estimated transfers to the OHV Trust Fund were $61.2 million versus $26.7 million transferred to the SPRF. Historically, the amounts transferred to the OHV Trust Fund are based on a defined level of contribution from the Motor Vehicle Fuel Account subject to adjustment every five years, starting in FY 2013/14.
  - In recent years, the surplus within the OHV Trust Fund has been a source of funding for the General Fund, which has borrowed over $130 million since FY 2008/09. The expected fund balance at FY 2012/13 is approximately $59.1 million based on the FY 2013/14 Governor's Budget.

Funding Sources

- **Bond Funds**
  - Three major propositions (Propositions 84, 40, and 12) have provided special project and other funding for the DPR over the past several years. The original allocations available to the DPR under these propositions have largely been exhausted and amounts that remain have largely been committed for specific uses.

Proposition Funding Available for Future Appropriations (as of July 1, 2013)

	Proposition		
($ in thousands)	84	40	12
Original Allocation	$ 400,000	$ 225,000	$ 400,000
Expenditures	(315,634)	(222,114)	(366,688)
Available Funds	$ 84,366	$ 2,886	$ 33,312
Available Funds Commited	$ 65,729	$ 1,455	$ 33,312
Available Funds Not Commited	18,637	1,431	-
Total Available Funds	$ 84,366	$ 2,886	$ 33,312

Source: Proposition Reports dated as of July 1, 2013 provided by DPR Administrative Services, Budget Section. Figures include proposition funds to support the DPR and do not include local assistance.

- New funding sources would need to be identified to fill this pending funding shortfall to the extent such bond funds currently are used for personal services and operations.

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Summary of Analysis and Understanding of DPR

Funding Sources

- **Donations.** AB 1478 was signed by Governor Brown on September 25, 2012. It established a two-year moratorium on closing state parks and allocated $20.5 million of "found-money" from the SPRF towards preventing park closures.
  - Of the total, $10.0 million is available for matching contributions by donors for the 2012/13 and 2013/14 state fiscal years. These are one-time funds intended to help bridge the gap between the contributions of donors and partners and the amount of funding necessary to keep the parks open. This amount is reported in the Governor's Budget within the State Park Contingent Fund.
  - According to the DPR, the entire matching fund balance of $10.0 million has been committed as of November 2013.
  - Regarding the donors who have participated, there are no current commitments for state matching or donor funds beyond the current fiscal year.

Funding Sources

#	Donors	Unit	Match	% of Total
1	Friends of China Camp	China Camp SP, Tomales Bay SP, Olompali SP	$1,424,361	14%
2	County of Sonoma	Annadel SP	594,940	6%
3	Napa Co. Regional Parks & Open Space	Bothe-Napa & Bale Grist Mill SHP	537,870	5%
4	Buena Vista Water District	Tule Elk State Natural Preserve	525,000	5%
5	California State Railroad Museum Foundation	Railtown SHP	490,887	5%
6	Golden Gate National Park Conservancy	Taylor SP, Angel Island, Mt Tamalpais SP	475,000	5%
7	Beebe Neutzman Trust	Antelope Valley Indian Museum	425,000	4%
8	City of Colusa	Colusa-Sacramento River SRA	389,552	4%
9	Cuyamaca Rancho Interpretive Assn.	Palomar Mountain SP	384,002	4%
10	Mendocino Area Parks Assn.	Standish Hickey SRA	321,826	3%
11	South Yuba River Park Assn.	South Yuba River SP	297,624	3%
12	Coe Park Preservation Fund	Henry Coe SP	279,000	3%
13	Stewards of Coast & Redwoods	Austin Creek	256,446	3%
14	Sempervirens Fund	Castle Rock SP	250,000	3%
15	California State Parks Foundation	Los Encinos and Santa Susana Pass SP	171,000	2%
16	Ventura County, City of Oxnard, Peter Mullin	McGrath SB	150,000	1%
17	Governor's Mansion Foundation	Governor's Mansion SHP	135,750	1%
18	Point Cabrillo Lightkeepers Assn.	Point Cabrillo Light Station	115,294	1%
19	Weaverville Joss House Assn	Weaverville Joss House	112,648	1%
20	Ide Adobe Interpretive Association	William B. Ide Adobe SHP	110,180	1%
Top 20 Donors			**$7,446,380**	74%
Other Donors / Matching Funds			2,553,620	26%
Total Matching Donations			**$10,000,000**	100%

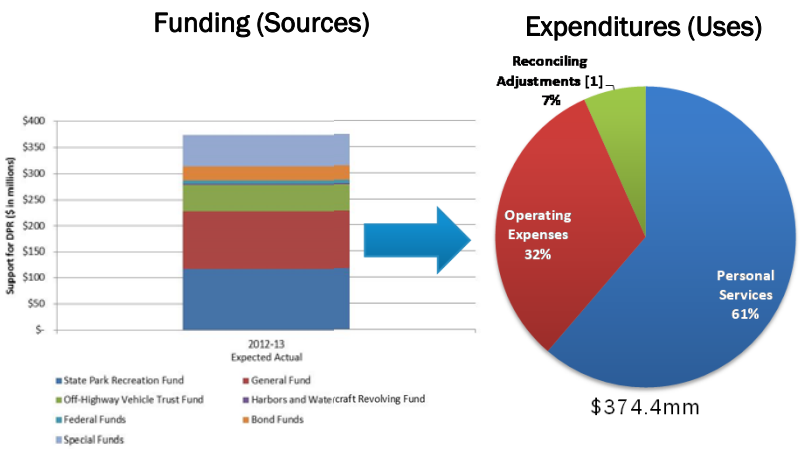
Source: AB 1478 Match Status provided by DPR Park Operations as of November 20, 2013.

Executive Summary

Summary of Analysis and Understanding of DPR

Expenditures (Uses)

- **Funding and expenditures for DPR Support in FY 2012/13**
  - Funding sources are primarily used for what the DPR terms "personal services" (which includes salaries, wages, and benefits) and operating expenses and equipment. Personal services is the most significant expense of the DPR, totaling 61% of expenditures in FY 2012/13.



[1] These are adjustments made by FTI to agree DPR Budget Section reports to the Governor's Budget. In FY 2012/13, the adjustment was $25.5 million, or 7%, of total expenditures.

Source: California State Parks, Budget Section. Homebase Budget and Expenditure Projections with Non-Homebase budget and YTD Expenditure Reports (FY 2009/10 – FY 2012/13).

Expenditures (Uses)

- FTI encountered significant difficulty in obtaining very basic expenditure information from the DPR which no doubt hampers the ability of management to effectively manage the performance of the organization.
  - Data integrity issues must be addressed so that data can be mined for useful management information going forward.
- Systems within the DPR are also in a state of transition, contributing to the uncertain environment.
  - The current accounting system (CALSTARS) has significant limitations and is being phased out and replaced with a new statewide accounting system, FI$Cal.
  - In the meantime, DPR has developed an in-house tool (FTS) to track expenditures at a more granular level than tracked real-time within CALSTARS and to develop park unit level data tracking.
  - It is unclear if FTS or other ad-hoc reporting tools will continue to be used or continue to be needed post-implementation of FI$Cal (slated for 2016).

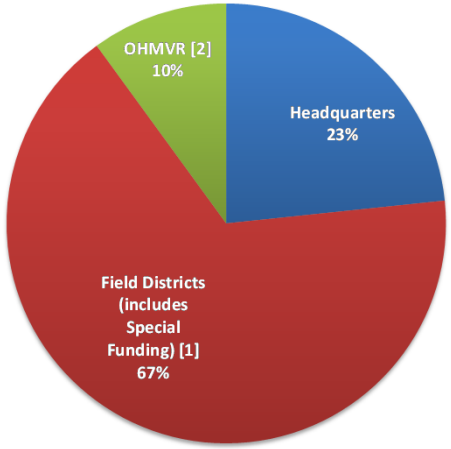
Executive Summary

Summary of Analysis and Understanding of DPR

Expenditures

- DPR Support FY 2012/13 (Personal Services)
  - A significant portion of the DPR's full and part-time employees are part of collective bargaining units. As a result, the DPR may have limited flexibility to adjust near-term staffing and compensation levels.

Personal Services



$229.2mm

[1] Special funding includes one-time expenditures at the district level for AB 1478 matching funds and other special projects. For presentation purposes, FTI included special funding as part of field district expenditures.

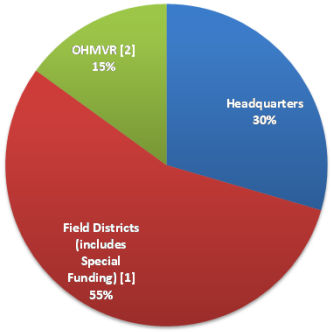
[2] OHMVR includes expenditures of $5.5 million for OHMVR Division Headquarters.

Source: California State Parks, Budget Section. Homebase Budget and Expenditure Projections with Non-Homebase budget and YTD Expenditure Reports (FY 2012/13).

Expenditures

- DPR Support FY 2012/13 (Operating Expenses and Equipment)

Operating Expenses



$119.8mm

[1] Special funding includes one-time expenditures at the district level for AB 1478 matching funds and other special projects. For presentation purposes, FTI included special funding as part of field district expenditures.

[2] OHMVR includes expenditures of $7.5 million for OHMVR Division Headquarters.

Source: California State Parks, Budget Section. Homebase Budget and Expenditure Projections with Non-Homebase budget and YTD Expenditure Reports (FY 2012/13).

Executive Summary

Summary of Analysis and Understanding of DPR

Expenditures

- **Headcount and Vacant Positions in FY 2011/12**

Organizational Unit	2011-12	% of Total
Headquarters (DPR) [2]	469	*22%*
Acquisition & Development Division [3]	124	*6%*
Off-Highway Motor Vehicle Division Headquarters [4]	29	*1%*
Office of Historic Preservation [5]	23	*1%*
Total Headquarters	**645**	*30%*
Field Divisions [6]	1,496	*70%*
Total Headquarters and Field	**2,141**	*100%*
Vacant Positions	407	
Total	**2,548**	

[1] Field includes regular/ongoing staff at the district level for both the Off-Highway Motor Vehicle Division and the Northern/Southern Field Divisions.

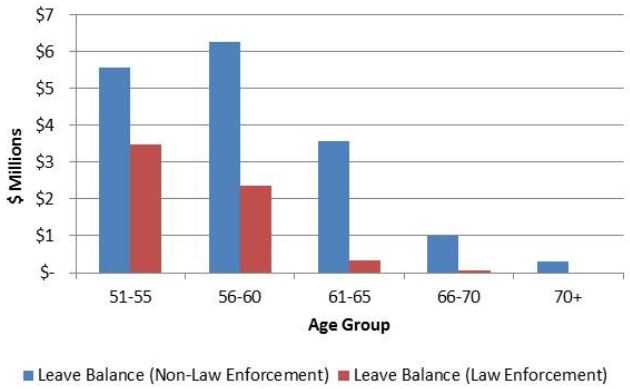
Source: Governor's Budgets - Salaries and Wages Supplement for FY 2007/08 – FY 2013/14. Vacancy Analysis and Authorized Position reconciliation 9-14-12.xlsx provided by Administrative Services, Budget Section.

- The DPR had 407 vacant positions as of FY 2011/12. According to the DPR, approximately 10% of vacant positions were funded, and the budget dollars tied to the vacant positions may have been used to fund operations.
  - Further investigation would be required to understand the extent to which these positions were actually funded, how monies were used to otherwise fund operations, and implications for future funding/budgeting decisions.
- Based on benchmarking data collected by FTI, the headcount % for headquarters (30% in FY 2011/12) appears high relative to other state park systems. However, we do not view this as conclusive and further research is required to confirm comparability of data and to adjust for California's uniqueness, size and diversity. The DPR also may want to consider benchmarking, with appropriate adjustments, to the National Park Service.

Expenditures

- **Leave Benefits.**
  - A large portion of the DPR workforce is at or near retirement age. This has important implications for future staffing requirements and increases cash needs as employees may cash out significant accrued vacation, holiday and leave balances upon retirement.
  - As of October 2013, the leave benefit liability for **non-law enforcement** employees over the age of 50 is $16.7 million and **law enforcement** employees over the age of 50 is $6.2 million.

$ Leave Balance Liability by Age Group Near Retirement



Source: MIRS Reports (October 2013) provided by Administrative Services (Personnel Services Section) on October 16, 2013.

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Summary of Analysis and Understanding of DPR

Park Operating Performance

- **Organization**: The 280 parks in the state park system are administered through an organizational structure that includes 25 districts and 67 sectors. There is a great deal of variation within districts (e.g., park size, type, urban vs. remote location, etc.)

District	# of Parks	# of Sectors	Acreage [1]
Santa Cruz District	29	3	63,415
Monterey District	23	4	108,255
North Coast Redwoods District	22	2	130,374
Angeles District	21	3	42,768
Diablo Vista District	19	2	49,679
Mendocino District	17	1	25,765
Sierra District	17	3	86,224
Central Valley District	14	3	54,806
Northern Buttes District	15	4	45,399
Channel Coast District	12	4	8,981
San Diego Coast District	12	3	11,251
Tehachapi District	11	3	45,021
Capital District	9	4	326
San Luis Obispo Coast District	10	2	17,052
Gold Fields District	8	4	67,965
Marin District	7	2	14,425
Orange Coast District	7	3	6,104
Colorado Desert District	6	3	642,195
Inland Empire District	6	3	37,014
Russian River District	6	1	26,092
Twin Cities District	3	3	8,081
Oceano Dunes District	2	2	4,458
Ocotillo Wells District	2	3	71,458
Hollister Hills District	1	1	6,624
Hungry Valley District	1	1	18,533
Total	**280**	**67**	**1,592,265**

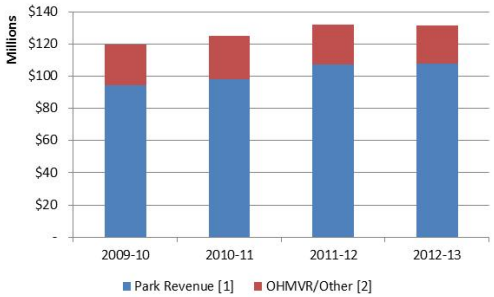
[1] Includes 272,918 acres of non-DPR owned land.

Source: FY 2011/12 Statistical Reports including updates from the DPR.

Park Operating Performance

- **Revenue**
  - Park revenue primarily consists of user fees, concessions and miscellaneous revenue. Total park revenue in FY 2012/13 totaled $107.9 million (see Notes below), which consisted of $91.8 million in user fees, $13.0 million in concessions, and $3.1 million in miscellaneous fees. Total park revenue grew at a CAGR of 3.5% from FY 2009/10 – FY 2012/13.
  - Other revenue sources in the state park system include OHMVR park revenue and registration fees. Revenues generated are transferred into the Off-Highway Vehicle Trust Fund and are solely used to fund off-highway parks and related projects. OHMVR annual park revenue (including Pismo SB) has ranged between $5.3 million to $7.5 million from FY 2009/10 – FY 2012/13. OHMVR registration fees were approximately $18.0 million per year during FY 2009/10 – FY 2012/13.

Park Revenue and OHMVR/ Other



[1] Includes user fees, concessions and miscellaneous revenue.

[2] Includes OHMVR park revenue, OHMVR registration fees, investment income and other fees.

Source: Revenue reports provided by DPR Park Operations. Park Revenue Reports for FY 2009/10 – FY 2011/12 and FY 2012/13 were received 9/13/13 and 9/10/13, respectively.

Notes: For the period FY 2009/10 – FY 2011/12, revenue for Folsom Lake State Recreation Area ("SRA") was reported in user fees. However, starting in FY 2012/13, revenue for Folsom Lake SRA is retained locally at the park unit, and not reported as park unit revenue, to offset the cost of operating and maintaining the park unit pursuant to an agreement with the Bureau of Reclamation dated January 24, 2012. Reported user fees for Folsom Lake SRA were approximately $2.6 million, $2.8 million and $3.4 million in FY 2009/10, FY 2010/11, and FY 2011/12, respectively.

In FY 2012/13, the DPR reported actual park revenue of $110.3 million compared to $107.9 million in this report. The park revenue reported by the DPR includes certain components, such as revenue generated at Pismo State Beach, investment income earned on SPRF balances, and other miscellaneous income which is excluded from the park revenue total in this report. Pismo State Beach revenue is reported in OHMVR park revenue and investment and miscellaneous income are reported in other income in the Park Unit Operating Performance section of this report.

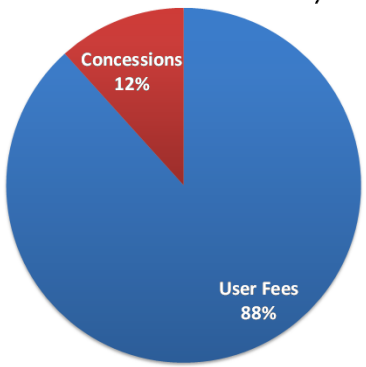
Executive Summary

Summary of Analysis and Understanding of DPR

Park Operating Performance

- Using FY 2012/13 data, FTI reviewed park unit revenue and cost data to assess characteristics of high revenue parks (and high cost recovery parks) to identify potential opportunities for revenue/performance enhancement across the park system.
- FY 2012/13 park unit revenue was $101.3 million (excluding approximately $6.6 million of park revenue not explicitly attributed to a specific park in that year).

Park Unit Revenue - FY 2012/13



$101.3mm

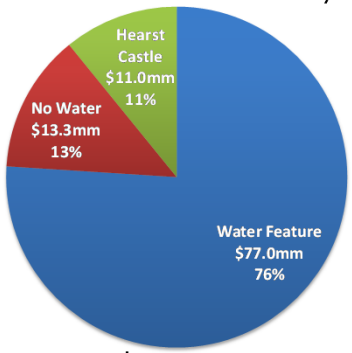
Source: Revenue reports for FY 2012/13 reports provided by DPR Park Operations.

- Key revenue components include:
  - User fees. Largest park revenue category (88% of park unit revenue), includes (i) day use fees (e.g., parking, museum entry fees/tours, Hearst Castle reservations), (ii) camping fees, (iii) pass sales, (iv) boating fees and (v) pay showers.
  - Concessions. Second largest park revenue category (12% of park unit revenue) and is mostly made up of rent collected from concessionaires, such as restaurants, lodging facilities, retail stores and snack bars.

Park Operating Performance

- Park Attributes
  - FTI's analysis suggests that a handful of park attributes account for significant percentages of park revenue. For example, parks with water features generated significantly more revenue than parks without a water feature. An exception to this is the sole State Historical Monument, Hearst Castle, which generates approximately 11% of total park unit revenue from user fees and concessions.

Park Unit Revenue Water Feature/
No Water Feature - FY 2012/13



$101.3mm

Source: Revenue reports for FY 2012/13 reports provided by DPR Park Operations.

Notes: For purposes of this analysis, FTI defined parks with water features to be any park with waterfront feet (lake, ocean, or river).

Revenue figures include user fees, concessions and miscellaneous revenue recorded at the districts. The figures exclude OHMVR parks, Folsom Lake State Recreation Area, and park revenue not explicitly attributed to a specific park.

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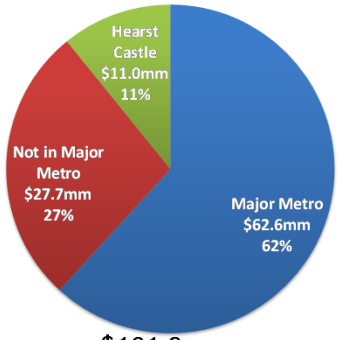
Executive Summary

Summary of Analysis and Understanding of DPR

Park Operating Performance

- Parks in major metropolitan areas accounted for a disproportionate share of revenue compared to parks in non-major metropolitan areas. Of the total $101.3 million in revenue, $62.6 million was earned by major metropolitan area parks while parks not in major metropolitan areas comprised $27.7 million (excluding Hearst Castle).

Park Unit Revenue Major Metropolitan Area/
Non-Major Metropolitan Area- FY 2012/13



$101.3mm

Source: Revenue reports for FY 2012/13 reports provided by DPR Park Operations.

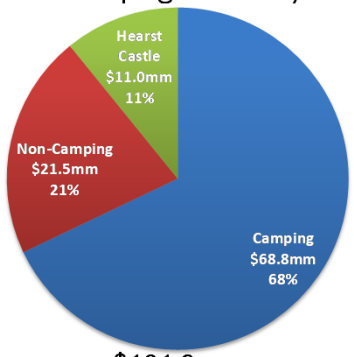
Notes: For purposes of this analysis, FTI defined parks in major metropolitan areas as parks in counties that comprise Consolidated Statistical Areas ("CSAs"), or MSAs with more than one million in population, as designated by the U.S. Office of Management and Budget. Of the 270 non-OHMVR parks, 153 were in major metropolitan areas (excluding Folsom Lake State Recreation Area).

Revenue figures include user fees, concessions and miscellaneous revenue recorded at the districts. The figures exclude OHMVR parks, Folsom Lake State Recreation Area, and park revenue not explicitly attributed to a specific park.

Park Operating Performance

- Parks with camping generated a disproportionate share of revenue compared to parks without camping. In FY 2012/13, parks with camping had $68.8 million in revenue compared to $32.5 million for non-camping parks (including Hearst Castle).

Park Unit Revenue Camping/
Non-Camping - FY 2012/13



$101.3mm

Source: Revenue reports for FY 2012/13 reports provided by DPR Park Operations.

Note: Revenue figures include user fees, concessions and miscellaneous revenue recorded at the districts. The figures exclude OHMVR parks, Folsom Lake State Recreation Area, and park revenue not explicitly attributed to a specific park.

Executive Summary

Summary of Analysis and Understanding of DPR

Park Operating Performance

- Additional analysis should be completed with respect to park attributes to identify additional revenue generation opportunities.
  - Of the 171 parks with water features, 98 of them currently do not have concession agreements.[1] Further analyses and investigation of existing (and potential) services, as well as pricing, may offer revenue expansion opportunities.
  - The DPR has recognized the revenue-generating capabilities of parks with campsites. Improving existing campsites (e.g., installation of utility hookups, repair or restoration, etc.) and increasing capacity with various formats for overnight lodging, and specifically at supply-constrained parks, could not only increase revenue but provide visitors with a higher level of service.
- 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.

[1] Excludes Folsom Lake State Recreation Area.

Executive Summary

Summary of Analysis and Understanding of DPR

Infrastructure and Maintenance

- Infrastructure and Maintenance
  - In addition to the often cited deferred maintenance backlog, other categories of infrastructure spending include annual maintenance and capital outlay projects (including a subset of projects that are expected to facilitate revenue generation).
  - Aggregate amounts by category (recognizing that these amounts can shift depending on the point-in-time reports are run) are:
    - Annual maintenance – approximately $350 million
    - Capital outlay – in excess of $1.8 billion
    - Deferred maintenance – in excess of $1.1 billion
  - FTI's analysis of annual and deferred maintenance categories revealed several data integrity issues that hamper confidence in the database. Specific examples include:
    - Multiple extracts from the deferred maintenance database contained incorrectly linked projects and project descriptions. A similar error was found in a sub-component of the database, which included cultural and interpretation projects.
    - The annual maintenance data for the North Coast Redwoods district were determined by DPR staff to be unreliable and were not used by FTI.
  - Further, while the current DPR facilities manager has taken steps to standardize the process for adding new projects to the database, there historically had been no meaningful oversight of this process. As a result, there is inconsistency in rigor applied to project cost estimation and the likelihood is high that project estimates were not updated when new managers took over responsibility for park units.
  - Finally, it appears to FTI that the field is not effectively using the current database as a tool for assessing spending priorities.

Infrastructure and Maintenance

- Annual Maintenance

($ in Thousands)

Facility		Total	% of Total
Buildings (includes historic structures and ships)	$	205,597	58.9%
Roads and Parking		33,742	9.7%
Grounds		27,473	7.9%
Structures (other than buildings and bridges)		25,406	7.3%
Systems (fuel, utility, etc.)		25,259	7.2%
Riding and Hiking Trails		22,809	6.5%
Natural Resources		8,481	2.4%
Interpretive Objects / Displays / Artifacts (Collections)		502	0.1%
Total	$	349,269	100.0%

Note: The initial data provided indicated that annual maintenance totaled $675.6 million, which included annual maintenance for the North Coast Redwoods District of $326.3 million. Facilities indicated that the data for the North Coast Redwoods District were not available. Appropriate estimates for annual maintenance for the North Coast Redwoods District could not be easily quantified and have been excluded. The DPR currently spends approximately $10 million per year on annual maintenance versus the needs identified above.

Source: Annual Maintenance Reports from Maximo received on 9/17/13 provided by DPR Facilities Division.

Executive Summary

Summary of Analysis and Understanding of DPR

Infrastructure and Maintenance

- **Capital Outlay**
  - Capital outlay consists of costs associated with the acquisition of land, the cost of planning and construction of new buildings or infrastructure, or modifications of existing buildings or infrastructure. In recent Governor's Budgets, Capital Outlay is referred to as Infrastructure.
  - Capital outlay projects of $1.8 billion include facilities ($1.5 billion), preservation/restoration associated with natural resources ($201.9 million), interpretation ($86.6 million), cultural ($20.9 million) and other programs ($27.5 million).
  - The top five districts with the highest capital outlay projects make up 45% of the total capital outlay balance.

($ in thousands)

District	Capital Outlay
San Diego Coast District	$ 286,857
Colorado Desert District	159,235
Sierra District	127,282
North Coast Redwoods District	127,236
Channel Coast District	122,864
Top 5 Districts	**823,474**
Remaining Northern Field Divisions	623,955
Remaining Southern Field Divisions	347,004
OHMVR	27,559
Other	21,326
Total	**$ 1,843,318**

Source: Capital Outlay Reports from Maximo received on 9/25/13 provided by the DPR Facilities Division.

Infrastructure and Maintenance

- **Deferred Maintenance**
  - Deferred maintenance of $1.1 billion includes facilities ($734.7 million), natural ($235.5 million), cultural ($134.9 million), and interpretation ($11.3 million) programs.
  - The top five districts with the highest deferred maintenance make up 45% of the deferred maintenance balance.

($ in thousands)

District	Deferred Maintenance
North Coast Redwoods District	$ 208,095
San Luis Obispo Coast District	89,203
Diablo Vista District	73,964
Central Valley District	69,845
Santa Cruz District	59,617
Top 5 Districts	**500,724**
Remaining Northern Field Divisions	317,261
Remaining Southern Field Divisions	259,330
OHMVR	2,610
Other	36,491
Total	**$ 1,116,416**

Source: Deferred Maintenance Reports from Maximo received on 9/27/13 provided by the DPR Facilities Division.

Executive Summary

Summary of Analysis and Understanding of DPR

Infrastructure and Maintenance

- Assessment of Data Accuracy
  - To sample the accuracy of the data currently entered into the deferred maintenance database, FTI performed analysis on the most significant cost component of the database (Facilities).
  - FTI reviewed the top 50 projects (in terms of estimated cost) and from this group, FTI Construction Solution experts selected five projects for review across several categories, including road repair, wastewater replacement and general construction.
    - FTI requested the specifications and documentation that supported the estimates for these five projects from DPR staff. See list of deferred maintenance sample selections to the right.
    - DPR staff could not locate support for two out of five projects (Bolsa Chica State Beach and Calaveras Big Trees State Park).
    - For the remaining three projects, the total initial estimated cost by DPR staff was $15.6 million, but the adjusted cost based on actual or current estimates is $6.2 million or ***only 40% of the estimated cost currently entered into the database***.
  - FTI's view is that the most effective way to remove uncertainty and gain both internal and external credibility around the true infrastructure and maintenance costs is to ***adopt a zero-based approach across all three databases (annual, deferred and capital outlay)***.
    - This database re-population effort in and of itself will expose the field's capital priorities as projects should not be approved for implementation if not entered in the new system.
    - External subject matter experts (e.g., engineering firms for facilities projects) should be part of the review/approval process for populating the database.

Infrastructure and Maintenance

Deferred Maintenance Sample Selection:

#	PID #	Unit	Estimated Cost	Adjusted Cost	Variance	% Variance
1	83600	HEARST SAN SIMEON STATE HISTORICAL MONUMENT	$ 8,500,000	$ 4,000,000	$ 4,500,000	113%
2	135730	PORTOLA REDWOODS STATE PARK	$ 4,055,920	$ 400,000	$ 3,655,920	914%
3	65700	HUMBOLDT REDWOODS STATE PARK	$ 3,000,000	$ 1,816,433	$ 1,183,567	65%
	Subtotal		$ 15,555,920	$ 6,216,433	$ 9,339,487	150%
4	159820	BOLSA CHICA STATE BEACH	$ 5,000,000	N/A	N/A	N/A
5	170170	CALAVERAS BIG TREES STATE PARK	$ 2,670,496	N/A	N/A	N/A

Source: Deferred Maintenance Reports from Maximo received on 9/27/13 received from Karl Knapp (DPR).

Executive Summary

Summary of Analysis and Understanding of DPR

Partnerships

- FTI evaluated five different partnership agreements, as well as one parking lot concessionaire agreement, with the goal of evaluating positive attributes, negative attributes and, where possible, the financial impact of these agreements. The partnerships selected involve a variety of relationships and park types and are summarized below.

Partnership	Organization	DPR Agreement	Park	Responsibilities	Comment
Valley of the Moon Natural History Association (VMNHA)	Nonprofit	Operating	Jack London State Historic Park	Operate park with exception of water system and cultural/natural program services	Dramatic revenue and attendance growth; higher level of service; successful fundraising; challenging relationship at the outset.
Anza-Borrego Foundation	Nonprofit	Cooperating Association	Anza-Borrego Desert State Park	Operate museum and visitor center; fund seasonal positions.	DPR retains control of park; foundation underwrites higher level of service.
East Bay Regional Park District	Special District	Operating	Robert W. Crown Memorial State Beach Lake Del Valle State Recreation Area McLaughlin Eastshore State Park Mount Diablo State Park	Operate and maintain park units. Operate and maintain Mamm property and Old Moraga Ranch Trail.	Partner operates the parks; seems good steward of the land; consider transfer to partner where possible. DPR operates park with assistance.
National Park Service (NPS)	Federal Agency	Interagency	Del Norte Coast Redwoods State Park Jedediah Smith Redwoods State Park Prairie Creek Redwoods State Park Redwood National Park	Cooperatively manage the state park lands within RNSP, including resource management.	Joint control with NPS; but NPS bears costs at 10/1 ratio; consider transfer to NPS if feasible.
American Land and Leisure	For Profit	Concession	Brannan Island State Recreation Area Turlock Lake State Recreation Area Woodson Bridge State Recreation Area	Operate parks with exception of water system and cultural/natural program services.	Partner expertise in camping vs. whole park management; park maintenance has been an issue at times; Partner cites difficulty working with DPR approval process; agreement requires additional "seasoning" to evaluate success.

- FTI recommends further expansion of partnership agreements by the DPR. Success stories like Valley of the Moon Natural History Association ("VMNHA") at Jack London State Historic Park, ***where revenue tripled and the operating deficit was cut in half***, are compelling and warrant consideration as models for future agreements despite initial relationship challenges.
- Various types of organizations continue to be appropriate as partners, including nonprofits, public entities (e.g., regional districts, National Park Service) and for-profits entities.
  - Nonprofits benefit from greater cultural similarities to the DPR (vs. for-profits), the ability to fundraise and the ability to rally community support for a park. Additionally, nonprofit agreements require revenue generated at a park to be re-invested in that park.
  - For-profits must be materially more efficient in revenue generation and/or cost reduction vs. nonprofit partners to offset the income they necessarily capture via their operating agreements. The DPR should consider larger, for-profit partners who potentially have greater buying power, management flexibility and access to capital to drive these efficiencies.
  - Expanded use of agreements with a variety of partners should be explored based on characteristics of particular parks, strengths and interests of candidate organizations and the needs of the DPR.

Source: Contracts from the Concessions, Reservations and Fees Division, Park Operations, and Interpretation and Education Division.

Executive Summary

Summary of Analysis and Understanding of DPR

Partnerships

- Partnerships
  - Historically, the DPR entered into agreements with a variety of partners to enhance services at the parks. These included agreements with cooperating associations that primarily provided interpretative and education services in the parks, largely for-profit concessionaires which primarily provided food services and various types of rentals, and nonprofits who donated capital for specific park improvements.
  - After the 2010 park financial crisis, DPR management reached out to current partners, as well as new ones, to assume additional services and/or manage park operations.
  - There is no central database of contracts or key partner relationships, making it very difficult to identify all partners. Concession Contracts, Cooperating Association Agreements, Operating Agreements, Donor Operating Agreements, Donor Agreements, etc. are managed by multiple groups within the DPR.
  - Further, within the DPR and park constituents, there are differences in naming conventions for types of contracts (e.g., what some will call a cooperating association agreement, others will call an operating agreement).

Partnerships

- As no central database existed, FTI compiled a list of DPR partnership agreements by working with various divisions and sections within the DPR. As of October 2013, the DPR had approximately 443 agreements characterized internally in the following categories:

Agreement Type	# of Agreements	% Total	Management Oversight
Concession	227	51%	Concessions, Reservations and Fees Division
Cooperating Association	87	20%	Interpretation and Education Division
Operating	59	13%	Park Operations Division
CSP Support Organization	9	2%	Administrative Services Division [1]
Interagency	6	2%	Administrative Services Division [1]
Other [2]	55	12%	Park Operations Division
Total	**443**	**100%**	

[1] Business Management Services Section.
[2] Other includes the following agreements: 46 Donor/Matching Fund, 5 Operating/Matching Fund, 3 Donor and 1 Joint Development.

Source: Reports from the Concessions, Reservations and Fees Division, Park Operations, and Interpretation and Education Division.

Executive Summary

Summary of Analysis and Understanding of DPR

Asset Prioritization

- In a resource-constrained environment, decisions ultimately must be made about spending on capital items and operations. Understanding the relative value of the units with respect to achieving the goals of the DPR is appropriate and can aid in ensuring that critical, high value assets are getting the attention needed.
- FTI has reviewed the work recently completed by the DPR Park Significance Criteria Team ("PSCT") to develop criteria for evaluating whether a unit should (continue to) be included in the system. Our objective was to review the criteria developed by DPR as a potential tool for guiding resource allocation decisions among park units.
  - The "Park Significance Criteria" proposed by the PSCT include four primary criteria for evaluating whether a park (either proposed or existing) has qualities that merit inclusion in the state park system and a set of secondary criteria that may be selected as additional measures to evaluate a park.
    - The primary criteria were developed based on the DPR's mission statement and include natural, cultural, recreational and educational values.
    - Secondary criteria were deemed to be optional. Examples of potential secondary criteria included geographic availability of parks, opportunities for partnerships and local economy benefits.
    - The PSCT suggested rating each park as "High", "Medium", "Low" or "Negligible" with respect to achieving each of the primary criteria and any selected secondary criteria. It also suggested that once a park was deemed to be significant and therefore appropriately included in the system, that its comparative degree of significance was immaterial.

Asset Prioritization

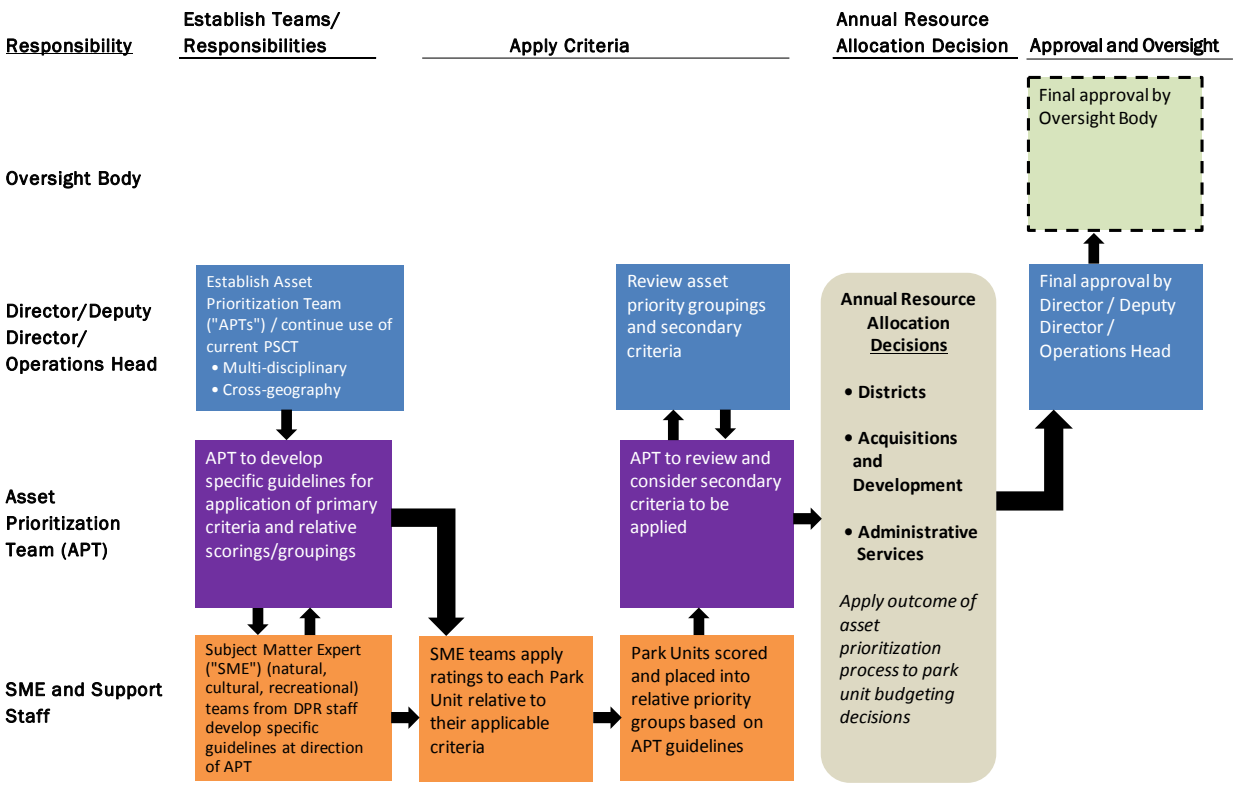
- FTI concurs with the PSCT that any primary "significance", or for our purposes "allocation", criteria be based on the DPR's mission statement.
- In addition to the primary criteria, the DPR should have some discretion in making decisions about resource allocation based on potential secondary criteria. Potential secondary criteria include:

Higher Priority	Lower Priority
Public health or safety concerns	Monies or in-kind resources available from outside source
Threat of irreparable harm or a significant increase in required future expenditures absent corrective action	Significant uncertainties about whether the DPR or another organization will have primary custodial responsibilities (i.e., with respect to Native American artifacts)
High revenue generated or potential for incremental revenue generation	
High cost-benefit (based on traditional investment decision measures such as IRR, net present value or "payback")	
Located in large population center	
Other appropriate social or environmental factors not addressed by primary criteria	

Executive Summary

Summary of Analysis and Understanding of DPR

Asset Prioritization



- Once each unit has been evaluated with respect to each primary criteria, an overall or total score or rating will need to be developed
  - Approaches: Could be subjective based on the ratings with respect to each criterion. Alternatively, can assign a score to each rating—say, 3 points for High, 2 points for Medium, 1 point for Low and 0 points for Negligible. Total "score" to be determined for each unit.
- Each unit can then be ranked, based on its overall (total) score and divided into groups based on relative rankings.
- An Illustrative process framework is provided to the left. Other process considerations include:
  - How often are Asset Prioritization Criteria and Rankings updated? *(Recommend no less frequently than once every five years.)*
  - What information is disseminated and to whom? *(Individual scores likely to be sensitive)*
  - At what point does oversight body have input/approval?

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