

Appendix 2B

Economic Feasibility of Conversion to a Concession

This appendix amplifies the site-specific feasibility assessment in Appendix 2A.

The first part of this appendix addresses assessment of whether conversion to a concession would be cost effective for the Government. Appendix 2C contains a cost/benefit analysis form for evaluating whether conversion to a concession would be cost effective for the Government. Form 2C enumerates return and expense items associated with campground operation and maintenance. Enter on the form the data acquired during the preliminary phases of the site-specific feasibility assessment, to determine if a concession can reduce the total cost to the Government of operating the recreation site.

The second part of this appendix addresses assessment of whether the concession would be economically viable. Appendix 2D contains an income/expense worksheet to assist in making this assessment.

Government Return

More use fees may be collected under a concession, because there is more incentive to collect them (the concessionaire may keep them, other than what might be used to pay the permit fee, whereas under FS management all use fees must be returned to the Treasury) and because there may be increased staff presence at the site.

Compare average use fees collected under FS management with the expected permit fee (offset by any anticipated Government M&R) and the value of anticipated Government M&R that will be received by the FS under concession management.

Government Expenses

Compare the cost to the Government of FS management versus concessionaire management of the site. Consider the cost of overhead (such as the cost of office space, electricity, and computers) for both FS and concession operations. Include the cost of preparing and administering the permit when assessing costs associated with concessionaire management. Most concessionaires are responsible for utilities, materials, and supplies required for operating the site. Contact other units with a track record for concessions, and ask about their experience.

Total Expenses Versus Total Return

To justify conversion to a concession, total net return to the Government should be higher. Compare total net return under FS management with total net return under concessionaire management. If FS management yields a lower net return than concessionaire management, conversion to a concession will have a positive economic effect.

If FS management yields a higher net return than concessionaire management, conversion to a concession will have a negative economic effect. In the event of the latter outcome, reevaluate the scope of the concession, consider whether the return to the Government may be increased, or reconsider whether a concession is appropriate.

Economic Viability

FSM 2344.33 requires an economic-viability assessment before a decision is made to convert to a concession. This section addresses assessment of a planned concession's economic viability.

Concessionaires may have multiple ways of generating revenue. They often provide additional services, such as rentals and the sale of firewood, ice, and sundries, which can add revenue. Estimate the potential revenue from use fees and any additional services that the concessionaire is likely to provide. Assume that the income levels reflect the cost of goods sold and use fees collected. Do not include amounts collected to pay taxes, which are forwarded to the state tax commission.

Concessionaires may have a different cost structure from the FS. They may pay lower salaries to their employees, perform labor themselves, or be able to search for the best deals on supplies and materials. It may be helpful to consult current

concessionaires or other private-business people for estimates of expenses in the area.

Appendix 2D contains an income/expense worksheet for use in assessing the economic feasibility of a concession. As complexity is added to the offering, either by increasing the number of sites or service options, the analysis may become complicated. In that event, seek help from the Forest economist or another person trained in economic analysis. If income and revenue figures are uncertain, ask business people, including current concessionaires, for assistance in validating the estimates.

After estimating total anticipated income and expenses, determine the net income, exclusive of taxes and other liabilities. If total income exceeds total expenses, the concession is likely to be economically viable. If the concession is likely to be economically viable, proceed with development of a prospectus.

If total expenses exceed total revenues, the concession is not likely to be economically viable. Reevaluate income and expense criteria and the scope of the concession to determine whether modifications are appropriate, or reconsider whether a concession would be appropriate.