



United States Department of the Interior

NATIONAL PARK SERVICE

1849 C Street, N.W.

Washington, D.C. 20240

IN REPLY REFER TO:

(2410)

JAN 26 2015

The Honorable Michael F. Bennet
United States Senate
Washington, D.C. 20510

Dear Senator Bennet:

Thank you for your letter of December 10, 2014, to the Secretary of the Interior requesting information on the concession contracts for visitor services at Grand Canyon National Park (Grand Canyon). The Secretary has asked that I respond to you on her behalf.

Visitor services on the South Rim of the Grand Canyon are provided primarily through two concession contracts. The larger contract (GRCA001) had the largest Leaseholder Surrender Interest (LSI) burden of any concession contract in the National Park Service (NPS or Service) at \$198 million. In comparison, the total estimated LSI and Possessory Interest (PI) obligation of the Service was approximately \$500 million at the end of 2014.

The Concessions Management Improvement Act of 1998 establishes a framework under which the NPS is to award concessions contracts through a competitive selection process. However, the LSI obligation on the Grand Canyon contract provided a substantial competitive advantage to an incumbent concessioner and a corresponding disincentive to other businesses that may be interested in bidding on the contract. Even with the maximum allowable term of 20 years, the original GRCA001 contract would not have been financially viable with such a large LSI burden.

The NPS routinely adds and subtracts services, and their associated facilities, when new concession contracts are formulated. In an attempt to mitigate the LSI burden on the GRCA001 opportunity, the NPS assigned a substantial portion of the assets and services from the current GRCA001 contract to the other new South Rim contract, GRCA003, which was not otherwise burdened by any LSI. In addition, the NPS also elected to further reduce the LSI by \$19 million using fees earned at the Grand Canyon. As a result, the LSI burden on the new GRCA001 contract was reduced by \$60 million dollars to \$138 million.

Despite this initial LSI reduction, the NPS did not receive any responsive offers during two separate business opportunities. The NPS, therefore, took the step of committing an additional \$81 million in accumulated franchise fees (for a total of \$100 million) to further reduce the LSI buy-in to \$57 million. The franchise fees committed to the purchase include a total of \$25 million (including \$10 million in entrance fees) from Grand Canyon, \$25 million from the national concession franchise fee account, and \$50 million in unobligated funds from the franchise fee accounts of 88 parks. Funds from park franchise fee accounts can only be lent to other parks for the purposes of reducing LSI or possessory interest, and Grand Canyon National

Park will repay these funds to the other parks over the term of the new concession contract (15 years) or sooner.

The 88 lending parks will operate without interruption or impact to projects funded by concession franchise fees in Fiscal Year 2015, and no long-term impacts are anticipated. Due to a combination of factors, the lending parks had carry-over balances in their franchise fee accounts that, when combined with expected annual revenues, were larger than what the parks required to fund planned projects.

Parks often do not spend all of what they earn during each fiscal year, primarily because the bulk of the revenue is earned in the last quarter of the fiscal year after year-end contracting deadlines have already passed. Some parks also save franchise fee funds over multiple years for larger, more expensive projects. The NPS does not anticipate any delays to those larger projects as sufficient franchise fee funds will be available in the years those projects are planned.

Recent events have also led to larger than usual franchise fee carry-over balances. Late appropriations have contributed to slower spending rates for no-year funds such as franchise fees. Additionally, staff shortages caused by sequestration and the disruption of the October 2013 Federal Government shutdown contributed to slower spending early in the 2014 fiscal year. Furthermore, when in operation, parks continue to earn franchise fees each month that are added to their accounts.

Your letter referenced the existing concessioner's concerns about the allocation of housing between Grand Canyon concessions contracts. The Service does not guarantee housing for concession employees. However, the NPS frequently assigns park housing, when available, to concessioners so they can provide employees with in-park housing. In the case of the Grand Canyon concession contracts, the NPS used an independent consultant to develop estimated staffing needs for the administration and operation of the services on the South Rim of the Grand Canyon. The NPS then allocated housing according to those staffing needs.

The NPS followed its standard processes and procedures throughout the development and solicitation of the business opportunity at Grand Canyon. The NPS also took extraordinary steps to ensure all parties had a fair opportunity to compete on equal footing for this very lucrative concession contract, which the NPS estimates will generate over \$1.27 billion in gross revenue over the 15-year contract term.

In order to ensure that visitor services are not disrupted, the Service executed the GRCA003 contract on December 22, 2014, and entered into a temporary contract effective January 1, 2015, with Xanterra South Rim, LLC for the services contained in GRCA001 (less those allocated to the new GRCA003 contract).

We would be happy to provide you with periodic updates as we move forward with the process of finding a concessioner who will provide the visitors to Grand Canyon National Park with the best possible services on terms that provide the best value to the American people.

Sincerely,

A handwritten signature in black ink, appearing to read "Lena McDowall". The signature is fluid and cursive, with a large initial "L" and "M".

Lena McDowall
Associate Director, Business Services



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IN REPLY REFER TO:
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The Honorable Cory Gardner
United States Senate
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Dear Senator Gardner:

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Visitor services on the South Rim of the Grand Canyon are provided primarily through two concession contracts. The larger contract (GRCA001) had the largest Leaseholder Surrender Interest (LSI) burden of any concession contract in the National Park Service (NPS or Service) at \$198 million. In comparison, the total estimated LSI and Possessory Interest (PI) obligation of the Service was approximately \$500 million at the end of 2014.

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The NPS routinely adds and subtracts services, and their associated facilities, when new concession contracts are formulated. In an attempt to mitigate the LSI burden on the GRCA001 opportunity, the NPS assigned a substantial portion of the assets and services from the current GRCA001 contract to the other new South Rim contract, GRCA003, which was not otherwise burdened by any LSI. In addition, the NPS also elected to further reduce the LSI by \$19 million using fees earned at the Grand Canyon. As a result, the LSI burden on the new GRCA001 contract was reduced by \$60 million dollars to \$138 million.

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Lena McDowall
Associate Director, Business Services