References


Partnering: The Complementary Assets of Businesses and Park and Recreation Agencies

John L. Crompton

Executive Summary: Establishing partnerships with commercial entities is of growing importance to park and recreation agencies. The successful pursuit and cementation of such relationships is dependent upon an understanding of the contributions that both parties can contribute to a partnership. The intent of these arrangements is to combine the strengths and assets of each party, to produce selected facilities or services more efficiently than if either party produced them independently.

A park and recreation agency has four major assets it can contribute to a partnership. First, it is likely to have substantial land holdings, some of which could potentially be leased. Second, it has access to low cost capital because government bonds are tax exempt. Third, the public sector has the authority to substantially reduce the property tax payments of commercial enterprises by offering them tax abatements. Finally, governments have the ability to expedite permit and zoning applications, which can accelerate the development process and substantially reduce costs incurred on development loans.

The commercial sector has five types of assets that it could contribute to a partnership. In contrast to a park and recreation agency, businesses can raise capital quickly to respond to market opportunities. The only requirement is that they demonstrate to directors, investors and bankers that the venue is likely to generate a satisfactory return on investment. A second asset is the availability of specialist management expertise in some aspects of the ecletic park and recreation field that may complement the expertise of agency managers. The labor intensive nature of park and recreation services, makes the cost of personnel a major element in the cost of service delivery, and in some contexts businesses may be able to operate with reduced labor costs. A fourth asset is the greater agility of businesses which are not inhibited by the bureaucratic procedures to which many agency managers have to adhere. This permits greater adaptability to changes in scale of service. Finally, partnering with businesses may enable agencies to shift liability risks to their private sector partners.

Potential barriers to cooperation between agencies and commercial entities are addressed. These focus on different value systems, organizational milieu and levels of budget flexibility, and the issue of control. Frustration with these differences often coalesces into negative stereotypes. It is suggested that these are frequently false, and reasons for their evolvement are offered.

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Collaboration refers to the process of (1) two or more stakeholders; (2) pooling appreciations and/or tangible resources; (3) to solve a set of problems which neither can or will do alone (Clements, 1989). The collaborators share mutual aspirations and a commitment to work with others over time. Collaborations between the public and private sectors are almost endemic in the case of proposed major business developments. Private developers invariably seek assistance from public entities before bringing projects to fruition. This is especially characteristic in footloose industries which many communities are trying to attract. These companies are in a strong position to negotiate assistance and incentives from public entities that will complement and reduce their development costs, because jurisdictions seek the jobs and taxbase such businesses will bring. This paper reviews the complementary assets which park and recreation agencies and businesses could potentially pool in collaborations to produce opportunities that neither sector could do alone.

In the past, governments were active investors in the private economy, routinely using their assets to seed new businesses. For example, the federal government gave 9.3% of all land in the continental United States to the railroads as an inducement to build a transcontinental system (Osborne & Gaebler, year). Similarly, park and recreation agencies have assets which they can use as incentives to stimulate investment by the commercial sector that otherwise might not be forthcoming. These agency assets can be used to “prime the pump” and leverage commercial investment by encouraging businesses to enter partnerships. Relatively small contributions of public resources may constitute sufficient enticement for businesses to form partnerships with an agency. If the proposed commercial venture is economically viable without any assistance from the public sector, then the incentives would not be used.

The commercial sector also has access to assets that it could contribute to a partnership arrangement with an agency. They are strengths which a park and recreation agency may not possess. If an agency can harness them through a partnership, then it may enable the range of service opportunities made available to citizens to be extended, or efficiencies to be introduced into the production of existing services. The assets of entities in the two sectors often are complementary. Thus, joining together in partnership may enable them to combine their strengths so selected services and facilities could be produced more efficiently than could be achieved if either entity produced them independently.

This paper discusses the assets that each sector may possess. It concludes by reviewing some of the challenges that must be surmounted if organizations from the two sectors are to cooperate on ventures.

Agency Pump Priming Resources

It is likely that many commercial enterprises considering operating in a jurisdiction will seek pump-priming contributions from the public agency. These assets are the tangible foundations an agency possesses upon which it can build partnerships with businesses. They consist of a substantial land bank, the ability to access low-cost development capital, the capacity to convey tax incentives, and control of permit applications.

Land Bank

One of the most valuable assets a public agency possesses is the land it owns. It is common to find a substantial portion of a community’s existing open space under the jurisdiction of a park and recreation agency. Often, this inventory includes not only the largest tracts of potentially developable property, but also some of the most attractive parcels with respect to location, access, and commercial value. The agency may be prepared to offer some park land, or use of an existing facility to a commercial organization under a nominal lease arrangement (for example, one dollar a year) in order to encourage development of an amenity that the public agency lacks the resources to develop on its own. Without this incentive, the high cost of land would make the project economically unfeasible for a commercial organization.

Before considering arrangements of this type, there should be a careful review of local and state enabling legislation to ensure the agency has the authority and powers to proceed in this way. In a few cases, passage of new legislation at the state level may be required to create the necessary authority. In addition, each piece of land considered for use in this way, should be reviewed to ensure it is free of restraints and covenants imposed when the land was obtained that may prevent such use. This is especially important if the parkland was purchased with federal funds, which often prohibit any change of use.

In order to attract private investment funds, it is likely that an agency will be required to offer a long-lease on the land of 15-20 years to allow the developer sufficient time to obtain a reasonable return on the investment. Normally these leases provide optional renewal clauses allowing continued private operation for one or two additional five-year permits, after which time the entire facility becomes the property of the public agency.

Development of the Joe Robbie Stadium (subsequently renamed the Pro Player Stadium) in Miami provides an example of how land can be used to prime the pump.

- The $90-million, 73,000-seat open air stadium on the northern edge of Dade County was financed almost entirely by Joe Robbie, owner of the Miami Dolphins. The financial feasibility of the project and, therefore, a key incentive for Robbie’s investment, was greatly enhanced by Dade County leasing the Dolphins the 100-acre parcel of land on which the stadium was built for 99 years at $1.00 per year. Freed from site acquisition costs, which would have run into the millions, the owner of the Dolphins was able to apply all of the revenues raised through the successful reselling of luxury suites and club seats as security on a 30-year, revenue bond issue (Howard & Crompton, 1995).
The benefits realized by the Miami area as a result of Dade County government’s modest economic stimulus have been considerable. The Stadium has been the site of major events such as the Superbowl and World Cup Soccer games that have injected many millions of new dollars into the local economy.

**Low Cost Capital**

A park and recreation agency is able to borrow money at a lower interest rate than is a commercial organization. If the public organization can make this relatively inexpensive money available to a business enterprise, this can constitute a substantial financial incentive. For example, a reduction of 3% in the annual rate of borrowing from a commercial lender compared to the interest payable on municipal bonds, may mean a reduction of $100,000 a year or more in annual debt payments on a $3-million loan. In effect, the public agency replaces the bank as the lender. By using this capacity, a local agency may be able to transform a nonfeasible project into a viable venture.

**Figure 1: The Yield Required on a Taxable Investment Equal to the Yield on a Tax-Exempt Investment for Four Different Tax Rates**

<table>
<thead>
<tr>
<th>Tax-exempt yields</th>
<th>Taxable yield equivalents</th>
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<tbody>
<tr>
<td>28%</td>
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<td>2.00%</td>
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The reason that local and state governments can borrow money at lower interest rates is that most municipal bonds, unlike corporate bonds, are tax exempt. The interest paid to bond holders is free from all federal income taxes, and usually from those in the state in which they are issued if the state has an income tax. This results in substantial tax advantages for those in the highest income brackets. Thus, Figure 1 indicates that an investor whose marginal tax rate is 39.6% (that is the rate on the last dollar earned) should be as willing to purchase a municipal bond offering 5.00% interest as to purchase a corporate bond offering 8.28%. Taking away the 39.6% federal income tax that would have to be paid on the 8.28% return would leave a taxable yield to the bond investor of 5.0%. Figure 1 illustrates that the higher a bond holder’s tax rate, the more attractive tax-exempt bonds become.

The tax-exempt provision allows governments to offer their bonds more cheaply than private firms can, while providing investors equivalent after-tax returns on their investment. In effect, this means that state and local public facilities funded by bonds receive a federal subsidy, since the interest income is exempt from federal income taxes. Although the cost of borrowing differs widely, depending on the fiscal strength of a public agency and its credit rating, that cost invariably will be lower than the cost of borrowing from a commercial organization.

In the past, the most common way of facilitating commercial access to public sector capital was for the two parties to sign an agreement under which the public agency built a facility with its capital to specifications set by the commercial operator, and then leased it to the operator at a price that enabled bond repayments to be met. This principle was adopted some years ago by the city of Arlington, Texas.

- The city of Arlington, Texas passed a $7 million bond issue to construct Seven Seas Marine Theme Park. The city agreed with Great Southwest Corporation which owned and operated the nearby Six Flags Over Texas theme park, that Great Southwest would advise on the initial design and subsequently lease and operate the marine park. Great Southwest guaranteed the city a minimum of $700,000 per year, which was sufficient to cover all bond repayments. Unfortunately, for reasons essentially outside its control Great Southwest was forced to withdraw from the project after construction had commenced, leaving the city of Arlington to manage the park. Nevertheless, the feasibility of the principle involved was clearly demonstrated.

Leaseback arrangements of this type offered the lessee at least four important advantages:

- The lessee was freed from providing capital financing for the development.
- The rental was tax deductible as an operating cost.
- The rental amount was reduced because of the government owner’s ability to finance the development with tax exempt bonds.
- The lessee did not have to pay property taxes on the development because it was municipally owned.

The magnitude of savings to businesses from these types of arrangements on large scale projects, such as construction of a new baseball stadium for a professional franchise, could be very high. "A $225 million stadium built today and financed 100 percent with tax-exempt bonds might receive a lifetime federal tax subsidy as high as $75 million, 34 percent of construction costs" (Zimmerman, 1996). The "lifetime federal subsidy"
represents the amount foregone by the federal treasury by allowing the business to benefit from tax-exempt bonds, rather than having to finance the venture with non-exempt bonds.

However, the ability to enter into these kinds of arrangements using these “private purpose” tax-exempt bonds has been substantially curtailed by tax reforms. These reforms stated that bonds will not generally be recognized as being tax-exempt by the Internal Revenue Service, if more than 10 percent of the bond proceeds are used directly or indirectly for private business. This stipulation means that these types of leaseback arrangements are now relatively rare. More frequently, governments now use their low cost capital to assist commercial entities by directly funding part of their project. This approach to pump priming a project may be in the form of money or with in-kind resources. Often these resources are used to assist a project by developing infrastructure for it, which reduces development expenses associated with such elements as roads, sewers, water and utilities:

- The Walt Disney Company announced it planned to develop a 3,000 acre resort on farmland in Prince William County, 35 miles southwest of Washington, D.C. The site was six miles from Manassas National Battlefield Park and its central focus was a 100 acre park themed on American history. The park would contain such features as virtual reality battles, and a Lewis and Clark raft ride. It was projected to attract an average of 30,000 visitors a day. In addition, the development was to have almost 2 million square feet of office and shops, over 2,000 houses, a 200 acre golf course, and 1,340 hotel rooms.

Disney believed it would generate 6.3 million visitors a year and could bring substantial economic benefits to the area. Construction of it was projected to create 19,000 jobs, while its operation would result in 2,700 permanent jobs and it was projected that $36 million a year would accrue in tax revenues for the State. Thus, Disney approached the Virginia legislature and persuaded them to contribute $158 million of state funds to the project in infrastructure support, worker training, and other incentives. Without this support, Disney indicated the project would not proceed. However, soon after this approval was secured, its plan was abandoned because Disney was concerned that negative national publicity was damaging the company’s image (Squires, 1994).

Tax Incentives

The ability of the public sector to substantially reduce the property tax payments of commercial enterprises can be a powerful inducement to encouraging their participation in a partnership. These incentives most commonly take the form of tax abatements. A tax abatement is an agreement between a public jurisdiction and a commercial operator that the jurisdiction will forego at least some of the property taxes on a proposed new development for a given period of time. This incentive is used either as a competitive strategy to encourage a business to locate in a community rather than to go elsewhere, or, more commonly in the context of parks and recreation, to encourage development of a facility which would not be viable if it was to pay property taxes in full.

The terms of a tax abatement are negotiable and may range from a waiver of some proportion of taxes for a short period while the business builds up its clientele, to abolution of all property taxes for an extended period of time. Abatement programs exist in almost all of the states. Typically, if a community has a policy to grant abatements, then they are awarded whenever they are requested and routinely constitute part of a community’s incentive package in negotiations with commercial enterprises. The length of time period varies according to state enabling legislation. For example, the norm in New York is 10 years, while in Ohio it is 20 years. The conceptual rationale for tax abatements is that the overall long-term economic benefits created by the park and recreation project, justify the tax relief extended to the commercial developer:

- New York City arranged a tax abatement for a vertical tennis club—10 courts stacked two to a floor—which was constructed at 333 East 60th Street. The tax abatement was granted because the City believed the project would create jobs and strengthen its economy. Normal property taxes would have been $243,000 a year. Under the terms of the tax abatement arrangement, the developer paid only half that amount the first year and then five percentage points more each year until the full tax level was reached in 10 years. The tennis courts, together with a health spa, a tennis boutique, a restaurant and a cabaret which were housed on the ground and basement floors of the building were expected to create 225 new jobs. The company which operated the facility had been approached eight times to manage a tennis club in New York, but had found the proposals unacceptable until the tax abatement arrangement was proposed. This narrowed the risks of the venture by bringing down the costs (Stone, 1977).

Although the use of tax abatements is widespread, some jurisdictions have discontinued them for three reasons. First, most businesses taking advantage of them were already located within the jurisdiction and were receiving them when they moved to a new site or expanded at their existing site. Thus, the tax revenue was being forgone, but any benefits that accrued from job creation probably would have occurred without the incentives. Second, they were perceived as discriminating unfairly against established businesses in the community. Consider the following example:

- A new $3 million health and fitness club is granted a tax abatement for 10 years which means it does not have to pay the property taxes of $50,000 a year for which it would normally be liable. Similar clubs which have been operating in the city for many years, pay property taxes. The new facility is able to offer its services at a lower price than the long-established clubs threatening their survival, because its costs of operation are substantially lower since it pays no property taxes.

Third, businesses receive full city services even though they pay no property taxes, so their share of the taxes is unfairly shifted to existing taxpayers who subsidize them.
Control Over Permit Processes

Nowhere is the adage “Time is money” more relevant than with respect to development projects. Invariably, one of the most challenging and often time-consuming aspects of the development process is meeting the various preconstruction permit requirements.

The ability to expedite permit applications has become increasingly important. The impact of government legislation and regulations is felt by the private sector from the initial planning of a project through to its development and operation phases. The development of a park and recreation facility by a private company is subject to myriad regulations and requirements administered by a great number of government agencies. The complexity of the situation for a large project is illustrated in Figure 2. This shows the steps that would have confronted the San Francisco professional baseball franchise if it had proceeded with a proposal to build a new baseball stadium in the China Basin which it investigated in the 1990s. The site was owned by two public agencies, the State of California and the San Francisco Port Commission. The author who developed this chart concluded, “It is simply inconceivable that the Giants could have a new ballpark without the City managing the process” (p. 17) (Agostini, Quigley, & Smolensky, 1996):

- Imagine a private firm setting out to build a ballpark in China Basin on its own. Starting in the upper left hand corner, Figure 2 describes the steps with which the firm would be confronted in simply acquiring a site. Initially, a tract of land, large by any measure, would have to be assembled. As the exhibit indicates, once a site has been selected, elected government officials would be required to act. The colossal height of a coliseum would require a zoning variance by the Zoning Board, by the Board of Supervisors, or by an initiative. Because stadiums are controversial, local politicians prefer an initiative which provides for approval by the voters through a referendum. So site assembly would probably involve a referendum.

If the ballot measure were approved, as Figure 2 indicates, a host of further approvals from the city would be required to meet environmental remediation and traffic mitigation requirements, culminating once again with a vote of the Board of Supervisors.

If that hurdle were passed, Figure 2 illustrates what would have to happen next—if this very large site were to be acquired. Many agencies would have to sign off, and once again the Board of Supervisors would have to give its assent. Getting environmental, safety and traffic approvals, as well as the acquisition of the state land would definitely be easier if an organ of government, say the Port of San Francisco, were the applying agency. Government agencies have credibility before other public agencies—and probably before the press and public, too—that private firms do not have. It is hard to imagine a private firm working through the 28 steps indicated in Figure 2 without the prior agreement of the Mayor and a majority of the Board of Supervisors (Agostini et al., 1996).
These kinds of challenges exist even for smaller projects which, at first glance, seem relatively simple to expedite:

- The Indianapolis Parks and Recreation Department wanted to build a 120 slip marina in Eagle Lake Park which is a large park located on a reservoir. The marina was not economically viable, so it was packaged with a restaurant whose potential profitability made the whole project feasible and proposals were solicited. A 25 year lease was awarded to a local restaurant owner for an annual amount that was equal to 15% of the property’s appraised value. In the first year the city received $106,000. However, completion of the development was delayed by the permitting process, and the operator had to pay interest on his financing for an entire year with no revenue accruing as a result. The following permits were required:
  - Indianapolis Parks and Recreation Department; finalizing the contracted lease agreement;
  - Indianapolis Mayor’s Office; reviewing the arrangement to ensure it was in the public’s interest;
  - City Department of Public Works, with whom all infrastructure improvements to the site had to be negotiated;
  - Corps of Engineers, which had to approve all marina structures and flows into its reservoir;
  - Federal Aviation Authority who operated a nearby airport and with whom the cost of bringing water out to the site from their pipe system had to be negotiated;
  - National Park Service, because the park had been acquired with matching funds from the Federal Land and Water Conservation Fund. Before parts of it could be leased to a private operator, a similar sized site (10 acres) had to be acquired by the City in close proximity and dedicated as parkland in mitigation. Neither the city nor the restaurant owner had the funds to do this, so the city had to acquire a donation to meet this requirement.

Obtaining all the necessary permits and permissions to proceed, frequently is a frustrating process that discourages many developers. A public jurisdiction is likely to be able to assist in expediting this process. The public agency working from “within” the government system, can push much more effectively for rapid permit approval than can private firms operating “outside” the structure of government.

**Commercial Sector Assets**

The commercial sector has five types of assets that it could contribute to a partnership with a park and recreation agency. There are many instances where these assets will not be needed because the agency is able to provide the services itself. However, there are other contexts in which harnessing them may enable a nonfeasible service to become feasible, or an existing service to be delivered more efficiently, effectively or equitably. These assets are: ability to raise capital, specialist management expertise, reduced labor costs, adaptability to scale of service, and reduced liability risks.

**Ability to Raise Capital**

Most park and recreation agencies have a list of desired capital improvement projects which far exceeds their available funding resources. The only way some of these projects will ever come to fruition is if private funding is forthcoming. Further, an agency usually has to engage in an extended process of soliciting public input, acquiring support of legislators, and gaining approval of residents in a referendum, before it can obtain capital resources. This lengthy procedure makes it difficult to respond in a timely fashion to unanticipated opportunities that may arise in the marketplace. In contrast to these agency limitations, a business can raise capital quickly, provided it can demonstrate to directors, investors and bankers that the venture is likely to generate a satisfactory return on investment.

There are many opportunities for commercial investments in park and recreation facilities which would improve the existing amenities for visitors and reduce an agency’s cost of operating them. Campgrounds in state and federal parks are an example. The users of these parks often travel in expensive recreation vehicles or mobile homes and prefer the comforts of readily available water, electricity, sewer and cable television hook-ups to the inconveniences of “roughing it.” Many of these campers are also equipped with boats, mountain bikes, dune buggies, ATCs and other sophisticated equipment and they desire to be in facilities where they can obtain fuel, repairs, supplies and other services. Ancillary amenities, such as gas stations, restaurants, convenience stores and boat storage, sometimes are not available close to a park, because in remote areas they are only viable if developed in association with campgrounds which are large and attractive enough to support a threshold amount of visitation. If selected camping areas in state and federal parks were leased to commercial entities experienced in operating campgrounds, it could result in an injection of capital to upgrade the facilities and provide these additional amenities which state and federal agencies lack the resources to provide:

- Angel Island State Park near San Francisco, was the biggest money loser in the California State Park system, bringing in only $350,000 to offset an operating cost of $900,000. The State Park system awarded a 15 year lease contract to operate concessions there to Angel Island Company, a subsidiary of California Parks Company, which operated concessions in 15 state and federal parks in northern California. The company immediately invested $500,000 in upgrading facilities to encourage greater visitation. The range of concessions was expanded to include motorized tours in open-air trams, improvements in food service which included an application for permission to serve beer and wine, and mountain bike rentals. In its first year of operation, the company doubled the former operator’s gross revenues. Other services being considered were bed-and-breakfast lodging,
overnight tent/cabins, small conference center and historical attractions at the islands Civil War vintage Camp Reynolds (Carlsen, 1994).

Capital improvements of this nature could not be funded by the State Park agency, but their availability resulted in increased revenues from the concession for the State, leading to a reduced operating subsidy for the park, and an enhanced experience for many visitors.

Specialist Management Expertise

Commercial entities sometimes bring a different specialist managerial perspective to service provision. Traditionally, park and recreation agencies have provided services designed to offer opportunities for self-development, self-expression, self-improvement, character development, or social interaction. However, the recreation preferences of many individuals incline toward escapism, fantasy, or role playing. These preferences are reflected in the popularity of computer games, virtual reality simulation, television, spectator sports, theme parks, urban entertainment centers, and other recreation opportunities which are generally commercially supplied. The commercial sector has considerable expertise in developing and operating facilities which offer these kinds of benefits. Participation in partnerships with them in projects with this type of entertainment orientation may help park and recreation agencies provide an enhanced set of services desired by their residents.

The specialist expertise of commercial enterprises in managing arenas, stadiums, convention centers and similar major centers may usefully complement that of agency managers, especially in situations where there is extensive involvement in food, beverages, souvenirs, or other retailing. In these types of operations, public agency managers are often constrained by a plethora of red tape, rules and regulations which restrict their ability to operate such services efficiently and effectively.

Often, commercial companies that specialize in a particular service area can lower operating costs because of superior purchasing power with suppliers, especially if they operate a network of similar facilities. For example, a company managing several arenas is likely to be more successful at attracting top entertainment talent than an agency manager responsible for only one facility. A large company may also have an array of marketing skills, cost controls, and other systems which have proven effective at similar facilities, whereas an agency manager of a single facility may have "to reinvent the wheel." An experienced park and recreation agency manager in charge of food and beverages highlighted the importance of such systems:

I am not for one moment suggesting that people who work in food and beverage are one iota more dishonest than anyone else in this imperfect world. But these staff, and anyone who comes into contact with them in the course of their work, from delivery drivers to the customers, are dealing in cash, food and drinks. I can't think of three more temptingly tradeable or consumable commodities handled together!

It is for very good reasons that the best commercial vendors spend an enormous amount of time and money establishing effective and efficient control systems. When these are well monitored they ensure a tight grip on the business. I have looked at food and beverage operations where a 10% royalty from a good contractor would have far exceeded a presumed 30% profit from "our own people" for reasons of control alone (Urquhart, 1986).

There is a long tradition of businesses providing concession services in public parks, especially in the areas of food, beverages and accommodation. These are not core elements of a park and recreation agency's mandate, but they are important auxiliary support services for visitors. Agencies' bureaucratic processes and accounting procedures make it difficult for them to manage these types of commercial trading operations efficiently, and the specialized expertise needed for their management is often not available within agencies. In the past, many agencies were satisfied to see concessionaires providing services for visitors and regarded any revenues accruing to the agency as a secondary concern. That has changed and the revenue potential of concession agreements has become a primary emphasis. The magnitude of the change was illustrated by the new concession contract negotiated by the National Park Service for Yosemite National Park in the mid-1990s:

- For 30 years the old concessionaire paid 75 cents of every $100 in gross sales to the government. The new concessionaire, Delaware North Co., agreed to pay $20 of every $100 of gross sales. Delaware North had to buy out the old concessionaire, the Yosemite Park & Curry Co. for $61 million, in compensation for decades of construction and repairs. It also agreed to spend an estimated $16 million to clean up 28 leaking underground gasoline and oil tank sites in the park. From the new agreement, approximately $4 million a year went to major improvements in the park.

Even in the case of facilities that park and recreation agencies have traditionally managed, there are likely to be situations where agencies do not have personnel with the necessary training, experience, and/or equipment to effectively operate specialized facilities such as ice rinks, indoor tennis centers, arenas, golf courses, and ski areas. In small communities, the problem may be particularly acute. For example, they may find it difficult to hire, train and supervise lifeguards if they operate only a single outdoor pool in the summer months. In these situations, partnering with an established private firm to draw upon its depth of technical expertise has obvious advantages.

A large business with specialist expertise in a given service area may be better able to attract good managers to be responsible for the service than some public agencies. Such an organization can offer that manager a career path with promotion to larger facilities and more responsibility, whereas a park and recreation agency frequently can offer promotion only to a relatively restricted level unless other duties outside the area of expertise are included. Further, the organization will have other trained managers with
new ideas to replace the current manager when he or she resigns or is promoted, whereas an agency will have to invest effort and resources in recruiting from outside or promote an assistant who may not be as able.

**Reduced Labor Costs**

The labor-intensive nature of park and recreation services makes the cost of personnel a major element in the cost of service delivery. The bargaining agreements negotiated by public employee unions, the longevity of many agency personnel, and the protection they are afforded by civil service regulations, frequently means that personnel costs are substantially higher than those paid by businesses. For example, when Indianapolis contracted out its 12 golf courses, the contractors hired staff at an average of $7 an hour, whereas the city's average cost for the same positions was $18 an hour plus an incremental amount per hour for overtime when employees worked more than 40 hours a week.

In situations where agency and business wage rates are similar, agencies typically pay 30-35% in fringe benefits to employees for such things as health insurance, retirement, sick leave and maternity leave. Many businesses, in contrast, are not required to maintain such a high level of overhead. Federal and state laws may require commercial operators to pay Social Security and payroll taxes, but not employee medical or pension benefits. As a result, payroll overhead costs for private firms average around 12%-15%. The approximately 20% overhead savings advantage enjoyed by many businesses allows them to provide the same level of service much more economically than a public park and recreation agency. In addition, their exemption from civil service requirements provides them with greater flexibility in determining level of pay, fringe-benefit payments, and the mix of full and part-time personnel.

Even in situations where businesses pay their employees as much as public agencies both in salary and fringe benefits, businesses are able to save in labor costs. One empirical study reported that these savings emerged because businesses:

- used less labor
- had about 5% less absenteeism
- made managers responsible for equipment as well as labor
- used younger workers (who tend to cost less)
- used more part-time labor
- terminated more employees (which is probably why there was less absenteeism)
- used more capital equipment (which may be why less labor was needed) (Stevens, 1984).

The following example illustrates how one park and recreation agency overcame a difficult staffing cost problem by taking advantage of the flexibility afforded a private business:

- A publicly-managed golf course in Alameda County, California, operated on a 13-hour summer schedule, opening at 6:00 a.m. and closing at 7:00 p.m. All maintenance activities were performed by public employees of a regional park and recreation authority. Early in the decade, employees formed a bargaining unit affiliated with the American Federation of State, County and Municipal Employees (AFSCME), a public employee labor union. The labor contract established between AFSCME and the park authority stipulated a standard workday of 8 hours for full-time employees. Compliance with the contract required the park authority to commit two separate, 8-hour shifts of maintenance and operations personnel to the golf course. The park and recreation authority estimated that under this agreement, staffing costs at the golf course would increase as much as 21%.

Faced with an intractable situation, the agency made the decision to contract out the operation of the golf course to a specialized management firm. An advertisement placed in the *Wall Street Journal* produced several legitimate bidders. A long-term lease (five years with four five-year renewable options) was awarded to a private firm with a successful track record in operating and maintaining golf courses. The agreement called for the management company to provide over $600,000 in capital improvements over the first five years of the lease. By applying a more flexible personnel schedule to accommodate actual work demands and, at the same time, not being obligated to pay as high an overhead (e.g., retirement, vacation, and hospitalization benefits), the park authority estimated the private firm reduced labor expenses at the golf course by as much as 50%. The end result was that the golfing public benefited from an enhanced resource. At the same time, the park authority freed approximately $400,000 a year in public monies previously committed to paying golf course personnel, to apply to other service areas of concern (Howard & Crompton, 1995).

**Adaptability to Scale of Service**

The commercial sector is often better equipped to deliver services that require large numbers of part-time employees for short time periods. The bureaucratic procedures required of agencies to hire and pay part-time employees is sometimes lengthy, cumbersome and onerous, whereas it is generally easy for businesses to do this. Thus, it may be efficient for an agency to partner with them for producing special events or highly seasonal services.

Partnerships with a commercial entity are also likely to be beneficial in situations where an agency cannot take advantage of economies of scale. A business serving multiple organizations is likely to be able to purchase state-of-the-art equipment and materials at a lower price than a single park and recreation agency, and is likely to be able to use them more efficiently because it services a larger number of units. An agency may not be able to justify purchasing equipment that will sit idle for much of the year. Equipment for conveying workers to the tops of tall trees for tree trimming or for maintaining tall structures may be illustrations of this, as are the economies of scale available to large companies like American Golf Corporation. Each year American Golf Corporation may purchase 4,000 golf carts for the 250 golf courses it operates and this volume enables the company to negotiate a substantially lower purchase price per cart than is available to
any park and recreation agency. This scenario is repeated for its purchase of all other types of golf course maintenance equipment, and clothing and supplies sold in pro shops.

A related advantage which sometimes accrues to large commercial companies is that they may be able to take advantage of federal business tax laws which may permit rapid depreciation of new equipment and offer investment tax credits for its purchase. These types of regulations make it advantageous for companies to acquire new equipment and this translates into greater operating efficiency. (Although conversely, it should be noted that unlike public agencies they are required to pay sales tax on equipment).

**Reduced Liability Risks**

An increasingly attractive incentive for park and recreation agencies to enter working partnerships with private organizations is that such a collaboration can substantially reduce their liability risks. Most liability suits arise from careless or reckless acts (negligence) that result in unintentional harm to an injured party. The decline in the doctrine of sovereign immunity, which historically prohibited units of government from being sued, has resulted in park and recreation agencies being more vulnerable to negligence claims. There are now examples of liability awards ranging up to several million dollars having been paid by park and recreation agencies. The increased threat of such catastrophic claims has necessitated that agencies purchase expensive insurance premiums.

A key question, then, for agency managers is how can they minimize the possibility of a financially catastrophic claim being made against their agency. Because liability insurance premiums are based largely on the estimated degree of risk facing an agency, any actions that it can take to reduce level of exposure to risk should lead to reduced premium costs. Park and recreation agencies have found privatization to be an effective strategy for minimizing their liability risks and, therefore, the costs associated with insurance protection. Increasingly, agencies are structuring partnership agreements so as to transfer as much of the risk and responsibility for liability to the commercial or private operator. Typically, the transfer of liability risk is conferred in the lease agreement establishing a partnership. The following sample is drawn from an actual lease agreement established between a municipality and a commercial operator for the maintenance and operation of a recreation complex:

**Claims.** The contractor shall hold harmless the City and all of its agents, employees and officers from any and all damages or claims of any kind or nature, that may be made or may arise directly or indirectly from the performance of duties by the Contractor, its agents and employees, including but not limited to any claims which may arise either directly or indirectly from the use of any equipment or tools which the city may lease or sell to the Contractor. The Contractor shall appear and defend any action or suit instituted against the City arising in any manner out of the acts or omissions defined herein above. The Contractor's duty to indemnify hereunder shall include all costs or expenses arising out of all claims specified herein, including all court, and/or arbitration costs, filing fees, and attorney's fees and costs of settlement.

The excerpt identifies two provisions key to effective transfer of liability risks. The first element establishes that the park and recreation agency will be "held harmless" in the event of a negligence claim. The intent is to release the agency from all liability risks. However, while crucial, the hold harmless clause alone may not provide ironclad protection. A standard provision is to add an "indemnification" clause, which stipulates that if the hold harmless agreement is not completely adequate—for example, if the park and recreation agency is found liable of "contributory negligence"—any damages owed by the agency would be paid by the commercial operator. Thus, responsibility and costs related to liability concerns are borne exclusively by the private contractor.

**Potential Barriers To Cooperation**

Agencies are mandated to serve the whole community, especially its most disadvantaged members. Hence, their traditional value systems are concerned with social outcomes and benefits which are relatively intangible and difficult to measure. In contrast, the value systems of business organizations focus on the tangible, easily measured outcomes of financial return on investment and their mandate is to maximize return to their stockholders. Clearly, there is inherent potential for frustration, friction and conflict between those working in these two different value systems.

Tensions are heightened by the different environmental milieus in which the two sectors operate. Public agencies are constrained by bureaucratic procedures, which are necessary to ensure accountability for their expenditure of public funds. Thus, while a business may want to proceed with a project immediately, a park and recreation agency may be required to engage in an extensive planning process involving wide public participation, lengthy legislative approval procedures, extended budgetary hearings, and frequent consultation with elected officials. These checks and balances necessitated by accountability, cause delays and may cause potential business partners who do not understand how government works to perceive a park and recreation agency as lacking commitment to the project, being slow moving, or being indecisive. In contrast, the survival of commercial organizations is predicated on their ability to be flexible and respond quickly to opportunities that arise in the marketplace.

The lack of flexibility in park and recreation agencies is reflected in their budgetary procedures. Typically, operating budgets are fixed before the start of the fiscal year and there is little latitude for them to take advantage of unforeseen opportunities that may arise. A business can probably borrow funds quickly for a promising investment, but an agency interested in partnering with it may have to wait a long time for resources to be authorized by legislative authority or bond referendum. If more than one public agency is involved in a partnership, the problem is compounded
because city, county, state and federal agencies may all have different fiscal years and budget planning cycles.

These distinctive differences between the two sectors often lead to the formation of negative stereotypical attitudes which impede the development of partnerships. In the author's experience, popular perceptions of government inefficiency and private sector efficiency are both grossly exaggerated. Media opportunities and media actions have helped build the view that public and private organizations represent opposite poles of the efficiency continuum.

There is a segment of the population, including some managers in the commercial sector, who perceive park and recreation agencies as being wasteful, unresponsive, tradition-bound, incompetent and inefficient bureaucracies, staffed by people who have “never had to meet a payroll” and who sometimes seek to frustrate the legitimate goals of business. Much of this perception is derived from public agencies being required to operate openly and to give the media full access to all their actions. Freedom of information acts and “government-in-the sunlight” laws are deliberately written to guarantee public and media access to whatever is done by the officials who act in the public's name. They are designed to ensure that the actions of public agencies are fully accountable to their taxpayer bosses.

In contrast, private organizations, for the most part are entitled to keep their decision processes and actions confidential. Hence, media focus all their investigative reporting efforts on public organizations, because the rights of privacy that prevail in the private sector preclude public access. It has been suggested that, “if the affairs of private corporations were equally accessible to public view, the media would expose private inefficiency with the same vigor they now devote to public waste” (Sundquist 1984, p. 304). However, even if equal accessibility was available, two reasons make it unlikely that the media would shift their investigative focus to the private sector. First, the financial consequences of inefficiencies in private organizations adversely impact only the shareholders of those entities, not all residents in the community. Thus, the moral imperative is not as strong. Second: the media are themselves part of the fraternity of private enterprises, so while prominent media spokesmen have repeatedly and explicitly declared it their responsibility to take an adversary posture toward agencies and officials of government, none has expressed a comparable sense of obligation to expose the shortcomings of private enterprises (Sunquist 1984, p. 306).

In some segments of the population, and among some park and recreation managers, commercial enterprises are viewed with distrust and suspicion. They are regarded as exploitive, overly concerned with private gain, and devoid of sensitivity to social issues and community well-being. Creation of a climate conducive to facilitating partnerships with businesses requires park and recreation personnel to abandon any remaining vestiges of self-image that portray themselves as the “good guy” protector of the public good working against the “bad guy” forces of the commercial sector.

Indeed, in some communities the “bad guy” is widely perceived to be government, and an agency's decision to involve businesses in direct partnerships may be designed to reposition the agency more favorably in the eyes of decision makers and to build public support.

In agencies where negative stereotypes of the commercial sector do not exist, managers may still be reluctant to enter into partnerships with them:

Agency officials often feel that they are on the front lines, encumbered by bureaucracy, politics, the press, and insufficient resources. It is difficult to take risks in such an environment, whether real or perceived. Working cooperatively with private sector organizations is a risk outside of normal government operations (Bendick, 1993, p.164).

Much of the perceived risk is associated with giving up control. If a park and recreation agency commits to seeking partnerships, then an inherent corollary of that commitment is a willingness to compromise the degree of control it can exercise over the service delivered. Businesses have to demonstrate to investors and bankers that they have sufficient control to operate the venture successfully, before they can acquire the capital necessary to develop it.

A key factor in control is the length of a contract or lease. When the length is short—say less than five years—control is largely retained because the arrangement is periodically evaluated to ensure it remains in the public interest. Long leases mean surrendering control of a public resource for 10, or more frequently, 25 to 30 years. Such long leases are needed when the commercial sector invests substantially in capital assets in order for developers to have time to successfully amortize all their capital improvements and secure an acceptable return on their investment. At the same time, a long term lease provides the agency with evidence of the operator's long term commitment to the project.

To succeed, partnerships with the commercial sector require mutual respect which may not come easily. A park and recreation agency's reputation for fairness, thoroughness, competence and professionalism is likely to be of central importance to gaining the confidence of the business community. Building trust, so both sides appreciate the value systems and objectives which guide the other's actions, is likely to take time and require considerable skill and vision. Understanding and reconciling the different philosophies can occur only through communication and liaison. The best way to foster this is through the development of institutional forums, whereby both sides come together to engage in active listening, describe the constraints and opportunities associated with their services, and discuss how they might join together to extend them.

Partnerships with businesses are often dependent on park and recreation managers who will “go out on a limb,” “bend the rules,” or “push the envelope” to expand their vision beyond the traditional. They will only commit to partnerships if they believe the chemistry and level of trust with their prospective partners is strong. Key phrases from park and recreation managers engaged in successful partnerships include: “The group dynam-
ics are right," "We complemented each other," "There was a willingness to give up turf and a give and take." One manager noted, "You can’t get too bound up in our regulations. That’s one way to turn off the private sector fast" (Sellin & Chavez, 1994). Trust and confidence between the partners is likely to grow as interaction progresses, because the organizations become more familiar with one another, and they are able to demonstrate reliability and commitment to each other. As trust levels increase, problems with delays caused by bureaucratic procedures tend to dissipate, because agency officials perceive there to be less risk in “bending the rules.”

Concluding Comments

In times of a perceived crisis, procedures and ways of doing things that seem entrenched tend to be reviewed and revised, creating more flexibility and opportunity. A perceived crisis helps senior managers to win support for partnerships with business organizations and to move their personnel beyond “turf” concerns about control, conflicting interests and contrasting cultures. It makes moot any arguments from reluctant personnel that the agency could have done it as well, or better, alone. However, as one manager who is widely experienced in developing partnerships observed, financial necessity alone does not ensure that successful partnerships will ensue:

Partnerships can fail because the parties become too eager to close a deal before they have squared their visions (Why are we building a new facility?) and missions (Once we build it, what are we going to stand for?). Some people partner just because of financial reasons, but that is not the only reason to do it. The real reason is that you want to solve a community problem and create a better quality of life, and you want to find a partner who can complement your strengths and improve on your weaknesses—and everybody has both (Cohen, 1996, p.33).

There must be complementarity and reciprocity in a partnership arrangement so all partners benefit from the collaboration and cooperation. Three types of benefits may accrue from a partnership in addition to financial considerations. First, there may be efficiencies involving removal of service duplication or use of complementary assets and strengths to jointly deliver services. Second, a partnership may enhance stability because future continuation of a service may be more probable when a commitment is made to it by multiple parties. Third, a partnership may confer enhanced organizational legitimacy on one or more of the partners. For example, in communities where there is widespread resentment to government, linking with a nonprofit or commercial organization may improve a park and recreation agency’s reputation and image. Conversely, in other contexts where some of the actions of businesses have aroused adverse citizen reaction, their linkage with a park and recreation agency may serve to alleviate it.

The success of partnerships is dependent upon how the parties work together, but each partner also has to ensure that its own organization’s objectives are met in the arrangement. Each entity’s negotiators are responsible for meeting the expectations held by their stakeholders about the outcome. Since the cooperating parties may have different outcome objectives, this frequently causes friction in partnership negotiations. A consequence is that partnerships often take longer than anticipated to come to fruition. The likelihood of acceptable compromise positions being agreed is likely to depend on: (1) the extent to which there is mutual trust and understanding; and (2) the effectiveness of communication. There are no generalizable formulae for forging partnerships since personalities, local conditions, state and local enabling laws, community values and other factors vary widely. However, the two elements of mutual trust and effective communication appear to be common guiding principles which underlie successful partnerships.

References


Programs That Work

Sprinkle Some Challenge Activities Into Your Adult Beginning Swim Programs

Barbara Schlatter

Learning to swim is something many people do as children. Learning to swim as an adult; however, is often a more complex and challenging task. This is because adults who never learned to swim as children may have had a negative experience in or around an aquatic environment. Other reasons cited why adults didn’t learn to swim as children include the lack of resources, opportunities and time. Reasons why adults want to learn to swim are primarily for fitness, to accompany others (often children) to an aquatic environment, for social contact or for rehabilitative purposes. The best environment for adult learning is one that promotes trust, a sense of accomplishment and self-worth (American Red Cross Water Safety Instructor’s Manual, 1996).

For these reasons, teaching adults to swim is a complex, yet exciting task. The purpose of this paper is to illustrate how the Challenge By Choice approach (Rohnke, 1986) can enhance instructional programs for adult beginning swimmers. The popularity of such challenge programs for enhancing self-worth and a sense of accomplishment is well-documented (McDonald & Howe, 1989; Roland, Summers, & Friedman, 1987; and Schoel, Prouty, & Radcliffe, 1988). Although this paper is based on the author’s experiences of teaching adults to swim at the university level, this program approach is equally suitable for community and municipal recreation settings. Moreover, although the program is based on the American Red Cross Learn-To-Swim Program, it is assumed that readers can compare and adapt their own swim programs with the one presented in this paper.

The Situation

The overall objective of the American Red Cross (ARC) Learn-to-Swim program is to teach people to swim and to be safe in, and around an aquatic environment. The program is based on seven levels of swimming: Level I—Water Exploration, Level II—Primary Skills, Level III—Stroke Readiness, Level IV—Stroke Development, Level V—Stroke Refinement, Level VI—Skill Proficiency and Level VII—Advanced Skills. For the intents and purposes of this paper, only Levels I through IV will be considered.