Economic Analysis of the Dornbusch Associates Report and the Bureau of Reclamation's "Alternative B" Plan for Lake Berryessa

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October 25, 2004

Prepared for:

Citizens to Protect Lake Berryessa

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Task Force 7 at Lake Berryessa

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I. Overview

In 2003 the United States Bureau of Reclamation (Reclamation) prepared a Draft Environmental Impact Statement (DEIS) as part of its Visitor Services Planning Effort for Lake Berryessa. In preparing the DEIS, Reclamation contracted Dornbusch Associates to perform a financial feasibility study of its preferred plan, Alternative B. This plan represents a drastic change in concessions at the lake, including completely removing all 1,300 long-term users who rent trailer[1] sites at the lake and account for nearly 40% of total concession revenues at the lake in trailer site rental fees alone. (Approximately $5 million of the $12.7 million in total revenue collectively realized by the lake's seven resorts comes from trailer site rental fees.[2]) We have been contracted by Citizens to Protect Lake Berryessa and Task Force 7 at Lake Berryessa to provide an outside opinion regarding the economic feasibility of Alternative B and, in particular, to respond to the Dornbusch study. We will also compare Reclamation's plan to the current plan in effect, the Reservoir Area Management Plan (RAMP) of 1992. In addition to this economic analysis, we will include a brief discussion of other public policy issues that should be considered in choosing an alternative management plan for Lake Berryessa.

It is not our intention to denigrate the work of Dornbusch Associates (hereafter, Dornbusch). On the contrary, we feel that they have done an admirable job, with the very limited data with which they had to work, of presenting Reclamation with what they believe are the necessary elements required to make Alternative B financially feasible. They have forthrightly expressed the assumptions underlying their analysis and have appropriately expressed cautions regarding their results. However, to use the Dornbusch study to justify proceeding with Alternative B would be irresponsible. An impartial reading of the study reveals that, even assuming very low costs of conversion, to make Alternative B economically feasible would require greatly increased public demand (in the face of significantly reduced facilities), a "white knight" concessionaire who would be willing to redevelop and operate all seven resort areas despite a great deal of financial risk, and probably a special alignment of the stars to make all of the relevant economic factors favorable. Because of this, Dornbusch cautiously recommends beginning with what it calls "Phase I" of Alternative B, which is a severely scaled-back version of the alternative, with facilities and services even lower than currently available. Thus, the economic feasibility analysis was conducted not of Alternative B as a whole, but merely a subset of the Preferred Alternative. The more ambitious parts of the Alternative, Phase II, would be undertaken only when economically justified (if ever).

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[1] As used throughout this paper, as well as in the Dornbusch report and U.S. Bureau of Reclamation documents, the term "trailer" refers to any structure used to house people that has been placed upon an authorized trailer site. The "trailers" that serve as vacation homes at Lake Berryessa vary by type, quality, and mobility and include many varieties of trailers, mobile homes, and pre-manufactured housing.

[2] Dornbusch Associates Economic Feasibility Report for the VSP (Dornbusch), October 15, 2003, p. 6. Available at the U.S. Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/dornbuschreport.pdf.

In light of this less-than-halfhearted endorsement of Alternative B by Dornbusch, it is not surprising that Reclamation makes exceedingly brief mention of the study in the DEIS. However, as this is the only economic rationale for Alternative B, the DEIS is useless without it. Therefore, this analysis will undertake to examine in more detail the assumptions and results contained in the Dornbusch study.

II. The Dornbusch Study

A. Assumptions

First, it must be noted that the Dornbusch study makes no attempt to justify Reclamation's Plan B in its entirety, recognizing that such an undertaking is impossible. Rather, Dornbusch analyzes a drastically reduced subset of Plan B, which it calls "Phase I," in order to provide at least some affirmation of the plan.[3] As shown in Exhibit 1, Phase I represents a significant reduction from the services currently available, let alone the more ambitious Phase II.

Obviously, it is possible to find some subset of services that can be justified economically. To give a *reductio ad absurdum* example, imagine a scenario where all present services are removed and the only new concession provided is a single portable retail store without electricity or water (Phase .01?). Using Dornbusch's estimate of $2,000 in rental cost per year, it would be very easy to project the $180 per day for five months that Dornbusch calculates would be needed to make such an operation "economically feasible." (We could even generously raise this amount to cover the inventory costs which have been ignored.) After all, with the large and affluent customer base in and near Napa County and the lack of competition (which were mentioned several times as assumptions in the study), it should be easy to generate that kind of revenue. Even before the lake was developed, hundreds of boats were using it.

Unfortunately for the economic analysis, Dornbusch's Phase I includes at least a little of each type of service currently provided on the lake. In order to provide any kind of economic justification for this alternative, Dornbusch was forced to construct an elaborate house of cards of assumptions and then to put the rosiest possible spin on the results. Even then, Dornbusch acknowledges in many instances that the numbers used are entirely speculative or simply unsupportable.

In this section, therefore, we will list some of the assumptions that have a direct impact on the results, as well as the important disclaimers made by Dornbusch.

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[3] Ibid., pp. 2, 7, 8.

Exhibit 1
Number of Units by Concession Type
Current Versus Phase I Proposal

Type of Concession	Current Units	Phase I Proposal	Percentage Change
Trailer	1300	0	-100%
Hotel/Motel	52	30	-42%
Cabins/Cottages	57	28	-51%
RV Sites	212	300	+42%
Tent Sites	448	250	-44%
Marina			
Boat Slips	1349	601	-55%
Launch ramps	7	7	0%
Houseboats	50	20	-60%
Other Rentals	75	36	-52%
Dry Storage	109	100	-8%
Restaurant	4	2	-50%
Snack Bar	2	2	0%
Store	10	3	-70%
Portable Store	0	4	NA
Water Ski Center	1	1	0%

1. General Assumptions

Dornbusch lists four general assumptions that affect their financial analysis (the first four in the list below). In subsequent sections of the report a number of other assumptions are mentioned. The most important of these general assumptions are listed below, along with any disclaimers made by Dornbusch and our reaction to the reasonableness of each.

1. **Single Concession Contract**: As opposed to the current mix of concessionaires at the different resorts, Dornbusch assumes that one concessionaire will renovate and operate all concessions at the lake.

Reaction: Here Dornbusch tacitly admits that the concessions proposed at many of the resorts would not be attractive to an investor. The hope is that by combining the more attractive elements of the plan with the less attractive, a concessionaire would be willing to take the risk of undertaking the overall mix. Dornbusch acknowledges that the purpose of this assumption is to help ensure the feasibility of the plan.[4] However, there is absolutely no evidence that any investor would be willing to undertake that considerable risk (especially after examining the financial justification for it in the same manner that we do here). Certainly it would be more convenient for Reclamation to deal with a single concessionaire rather than with several (probably more contentious) concessionaires as at present. However, wishing will not make it so. This is a crucial assumption in the analysis, and there is no basis for believing it.

2. **20-Year Contract**: The purpose of this assumption is to give some stability to a new investor, especially since there will be significant up-front costs.

Reaction: We see nothing wrong with a long-term contract, as long as it is acceptable to Reclamation, in order to give a potential investor some security. However, Reclamation should be aware of their own lack of flexibility under such a contract and the possibility that granting that much power to one concessionaire might come back to haunt it if relations with that concessionaire also become contentious. In fact, this is precisely how many of the disagreements with current concessionaires arose. Reclamation policies, particularly those concerning the existence of long-term trailer sites and the prevalence and nature of facilities for day users and short-term visitors, changed during the terms of the concessionaire contracts and led to the contentious relationship with the concessionaires and trailer owners that remains to this day.

[4] Ibid., pp. 8, 15.

3. **Discount Rate of 15%**: Dornbusch assumes throughout the analysis that an investor would be willing to accept a rate of return of 15% (*before interest, taxes, and depreciation*).

Reaction: Choosing a single number for an acceptable rate of return is a very uncertain undertaking. Dornbusch admits considering a higher rate of return because of the risk involved in the investment. (Generally, the greater the risk of the investment, the greater the expected profit must be in order to justify such an investment.) This is a crucial assumption in the economic analysis; other possible rates of return will be examined in the Sensitivity Analysis section to see the effects of this assumption.

4. **Reserve Account for Facility Improvement of 4% of Revenues**: To replace short-lived capital assets within the overall time horizon, Dornbusch proposes that the concessionaire set aside 4% of revenues.

Reaction: Obviously, the higher the percentage of revenue set aside for facility improvements, the higher the revenue required to generate a given rate of return. Here 4% seems a reasonable amount.

5. **Two Years of No Concession Activity for Conversion Period**: Since current concession contracts expire within a relatively short time period in 2008 and 2009, Dornbusch assumes that all of the concessions at the lake would be shut down for the next two years.[5]

Reaction: The two-year period seems a reasonable duration for the amount of development required under Phase I of Alternative B. However, the economic effects of such a shutdown, while mentioned briefly, are generally glossed over. For example, as noted in the DEIS, "In addition to the resorts, many other businesses in the Lake Berryessa area are likewise dependent on recreation visitors. These include convenience stores, gas stations, restaurants, snack bars, motels, boat storage facilities, beauty shops, real estate offices, and other businesses/employers."[6] While not significant compared to Napa County at large, which seemed to be the basis of comparison for such economic impacts in the Dornbusch report, the local economic impact of a two-year virtual shut down of the lake would be significant (not to mention the impact on the concessionaires and their employees who would have been put out of business).

In addition, such a shutdown would very probably result in a diminishing of the base demand for recreation at the lake, as people are forced to find other recreation outlets. Indeed, the DEIS expresses such a concern: "The expiration of existing contracts and the

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[5] Ibid., pp. 1, 53.

[6] U.S. Department of the Interior, Bureau of Reclamation, Mid-Pacific Region, *Draft Environmental Impact Statement for the Future Use and Operation of Lake Berryessa, Napa County, California* (DEIS), October 2003, p. 176. Available at the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/eis/draft/Draft_Lake%20Berryessa_10-03.pdf.

ensuing development of new facilities would be accompanied by a period of years where Lake Berryessa would be unable to fully realize its potential ability to serve the public, and this may be frustrating to potential users anxious to visit the area."[7] The DEIS further acknowledges that the removal of all the trailers around the lake will depress visitation, and thus demand, although it asserts that a gradual increase in day users will "***eventually***" off-set this reduction in visitation.[8] Winning these visitors back would not be a quick or easy undertaking, however, and such visitors may not be so "anxious" to revisit the area after enjoying years of suitable recreation elsewhere. Along with the reduction in concessions proposed in Phase I—even when completed—current demand levels may be very difficult to regain, let alone increase to levels necessary to justify Phase II.

6. **Only Phase I is Evaluated Economically**: Phase I is a subset of Plan B especially selected to make the investment by a concessionaire more feasible, while maintaining at least some of each of the current concessions.

Reaction: Since Dornbusch could not find any way to justify the entire scope of Plan B concessions, the only financial analysis given relates to Phase I. As the Dornbusch report notes, a previous financial evaluation of Alternative B conducted by Dornbusch in February 2003

> *indicated that Alternative B would not represent a viable business opportunity if the underlying concession contract(s) stipulated that the concessionaire(s) would have to fund all of the associated capital investment requirements. This conclusion was due in large part to the substantial amount of uncertainty in the future level and nature of visitor demand for concession services within the LBRA [Lake Berryessa Recreation Area].*[9]

While it is apparent that even this subset of Plan B is far from an attractive investment, more importantly, it falls well short of satisfying the public's demand for concessions at the lake. The report speaks glowingly of the large and affluent population base within a short distance of the lake, but what use is it to provide only a small selection of concessions to serve this population? Cavalierly chopping out over 40% of existing revenues by eliminating trailers and then drastically cutting back other services is no way to build demand for the lake. Also, the lack of a complete mix of concessions at four of the seven sites will further erode the demand at those sites. The chances of ever seeing the demand necessary to justify Phase II seem remote.

[7] Ibid., p. 213.
[8] Ibid., p. 184.
[9] Dornbusch, p. 7.

7. **Analysis is Based on 2003 Data and Information Provided by Reclamation**: Of necessity the current analysis is based on current data and whatever level of detail is provided by Reclamation.

Disclaimers: Dornbusch acknowledges that all the data will need to be updated as the time approaches for issuing a prospectus.[10] The Dornbusch analysis also acknowledged the lack of detail provided by Reclamation regarding exact specifications of concessions, necessary infrastructure upgrades, and historical concession operational information.[11] Regarding infrastructure upgrades, Dornbusch points out that only current facilities (roads, parking lots, electrical systems, water and wastewater systems, etc.) are slated to receive upgrades, while any new facilities (such as parking lots for new houseboat facilities) are omitted.[12] Also, since Phase I calls for very limited development at four of the current sites, there are no proposed infrastructure upgrades at all at three of these sites.[13] Dornbusch notes that these cost estimates provided by Reclamation are unrealistic.[14]

Reaction: The omission of proper infrastructure upgrades significantly affects the analysis. Even as presented, these upgrades represent a significant portion of the capital investment needed for Phase I ($5,721,000 out of $23,093,000,[15] or about 25%). The concerns voiced by Dornbusch and reluctance to rely on Reclamation cost estimates speak for themselves:

> *[W]e believe that the infrastructure upgrade costs provided by Reclamation (and that we were directed to incorporate directly into our analysis) will, at some stage, need to be reassessed, so that infrastructure costs correspond to the level of infrastructure that will actually be required to support Phase I concession operations rather than a simple upgrading of existing infrastructure. This disparity is of particular concern when evaluating certain components of Phase I that will clearly require additional infrastructure beyond that which is already in place. . . . Further, the infrastructure upgrade costs estimates provided by Reclamation that we adopted for our analysis do not account for any infrastructure-related expenses at three of the four LBRA sites where only limited development would be implemented under Phase I. The next concessionaire, however, may find that some upgrade of the infrastructure at these sites will be necessary to provide even the limited services that will be required.*[16]

Other numbers provided by Reclamation will also be examined when analyzing specific concession operations below.

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[10] Ibid., pp. 1, 3.
[11] Ibid., pp. 1, 3, 21, 22, 49.
[12] Ibid., p. 19.
[13] Ibid., p. 20.
[14] Ibid., pp. 19-20.
[15] Ibid., p. 18 (see Table 2).
[16] Ibid., p. 49.

8. **No Compensation to Outgoing Concessionaires for Their Improvements**: Any improvements made by the current concessionaires during their tenure will not be paid for; rather, these improvements will simply serve to reduce the capital cost of upgrades for the new concessionaire.

Reaction: This assumption may not be feasible because of fairness and legal issues. Section 5 (b) of Public Law 96-375, enacted October 3, 1980, provides for the treatment of disposition of permanent facilities erected by concessionaires at the end of the concessionaires' contracts as follows:

> *Notwithstanding any other laws to the contrary, all permanent facilities placed by the concessionaires in the seven resorts at Lake Berryessa shall be considered the property of the respective current concessionaires. Further, any permanent additions or modifications to these facilities shall remain the property of said concessionaires:* Provided, *That at the option of the Secretary of the Interior, the United States may require that the permanent facilities mentioned herein not be removed from the concession areas, and instead, pay fair value for the permanent facilities or, if a new concessionaire assumes operation of the concession, require that new concessionaire to pay fair value for the permanent facilities to the existing concessionaire.*[17]

Note that while the above statute provides that concessionaires may be prohibited from removing permanent facilities the government wishes to retain for future concessionaires, and that the existing concessionaire would be fairly compensated for his property in such a case, it is decidedly silent on the question of who might have to pay for the removal of facilities the Department of the Interior (and, by extension, the Bureau of Reclamation) deems unnecessary. If Alternative B were to be implemented, the number of facilities to be removed would be significant.

In recognition that the costs of the removal of such facilities would be a significant hurdle for potential future concessionaires to overcome (again, if Alternative B were to be implemented), Reclamation has, in recent years, interpreted Section 5 (b) of Public Law 96-375 in such a way as to pass all costs of removal on to the existing concessionaires. In April 2002 Reclamation established a new set of directives for the planning and management of its projects. The "Concessions Contracting" section describes Reclamation's position on the reimbursement of fixed assets constructed by concessionaires as follows:

> *Title to all capital investments will be held by the United States and not the concessionaire. Concessionaires do not automatically have a right to compensation from the United States in fixed asset improvements upon contract expiration or termination. However, at the option of Reclamation, and when appropriated funds are available, Reclamation*

[17] Public Law 96-375 (94 Stat. 1506), Sec. 5 (b). Available at the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/Rec%20Devel%20Act%20of%2019740001.pdf.

> *may purchase a concessionaires [sic] remaining assets that have not been amortized and the amount paid to the concessionaire will not exceed cost less depreciation. . . . Upon expiration, termination, or sale or transfer of a concession contract some fixed assets may not have been fully amortized. If Reclamation determines the fixed assets are still needed for the concession operation, the unamortized value must be purchased by the new concessionaire and based on the original cost less depreciation.*[18]

Thus, Reclamation asserts that if funds are available (and budgets for recreation management agencies are notoriously tight), Reclamation *may* decide to compensate outgoing concessionaires for improvements to permanent facilities—if it feels like it! Concessionaires would apparently be left to pay for the demolition and removal of all facilities not selected by Reclamation as desirable and in accordance with the Alternative B plan. At least Reclamation expressed a stronger commitment to compensate concessionaires for *remaining* facilities in a February 5, 2003, letter from Reclamation's Acting Park Manager, Stephen Rodgers, to the Rancho Monticello Resort owners, "We intend…to follow Public Law 96-375. . . . You will be compensated for any facilities that…remain if you are not the successor concessionaire following the expiration of your current authorization on June 15, 2008."[19] Finally, the DEIS, published October 2003, reiterates Reclamation's interpretation of Public Law 96-375:

> *Also of critical importance to existing concessionaires is PL 96-375, which establishes the requirements and stipulations for compensation due outgoing concessionaires for their property located at Lake Berryessa. The law states that concessionaires will be paid only for those facilities that Reclamation requires for use into the next contract term. Those that are not so identified would be demolished or removed at the owners' expense.*[20]

The DEIS continues, "Under the law, those facilities not designated for use in the next contract must be demolished and/or removed by the existing concessionaire *without compensation* from the government or incoming concessionaire."[21] [DEIS emphasis.] An objective reading of Section 5 (b) of Public Law 96-375, reprinted above, reveals that the law is not settled on the question of who bears the costs for the removal of facilities not designated for future use by Reclamation. In fact, this point is not even addressed, and may need to be settled through protracted lawsuits. At best, from Reclamation's viewpoint, the planned development for Phase I of Alternative B would have to be postponed for a potentially significant length of time (and Reclamation would have to decide what to do with the concession sites in the meantime); at worst, the courts may find that Reclamation (or succeeding concessionaires) would have to compensate existing

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[18] U.S. Department of the Interior, Bureau of Reclamation, Reclamation Manual, Directives and Standards, LND 04-01, "Concessions Management by Reclamation," April 29, 2002. Available at the Bureau of Reclamation Web site at http://www.usbr.gov/recman/lnd/lnd04-01.htm.

[19] Letter from Stephen Rodgers, U.S. Bureau of Reclamation Acting Park Manager, to Robert White, Rancho Monticello Resort concessionaire, dated February 5, 2003.

[20] DEIS, p. 200.

[21] Ibid., p. 201.

concessionaires for all systems, meaning that Reclamation or succeeding concessionaires would also have to pay for the removal of any undesirable facilities. Even assuming all other provisions of Alternative B's Phase I were financially feasible (a fanciful proposition indeed, as this paper intends to demonstrate), such a single act by the courts could add prohibitively high costs to the project, rendering it an economically unfeasible option for a potential concessionaire. In fact, Dornbusch listed the limited capital investment required of a future concessionaire under Alternative B—including Reclamation's interpretation of Public Law 96-375—as one of the main reasons it decided against its initial inclination to adopt a target rate of return greater than 15% for the purpose of its feasibility model calculations, which could have resulted in a prohibitively high feasibility threshold.

Even if the costs of facility removal can legally be shifted to existing concessionaires, as envisioned by Reclamation, such a policy would directly contradict the stated provision in Dornbusch's analysis to provide compensation for the *new* concessionaire for such improvements at the end of the new 20-year contract (Capital Investment Recovery, or CIR).[22] Such a disparity in contract terms leads us to conclude that Reclamation's interpretation of Public Law 96-375 concerning the reimbursement of *existing* concessionaires is merely a decision born out of convenience, not of sound management principles, and a tacit acknowledgement that only by unfairly shifting the facilities removal cost burden from future concessionaires to existing concessionaires may Alternative B be considered an economically viable plan (even given all its other unrealistic assumptions). If compensation were to be made to outgoing concessionaires, the effect on the economic analysis would be enormous.

9. **Demand Will Be Enhanced by Improved Quality of Concessions and General Appeal of the Lake**: Theoretically, removing the trailers and redoing other concessions will increase the appeal of the lake.

Disclaimer: Dornbusch notes that while Phase I provides the complete *range* of services currently offered, the *scale* of these services will be cut back significantly, resulting in "substantial uncertainty" regarding future visitor demand.[23]

Reaction: To say that significantly decreasing the amount of services, facilities, and accommodations offered at Lake Berryessa, even while purportedly improving the quality of services, would result merely in "substantial uncertainty" regarding visitor demand is to greatly underestimate the impact of such a reduction in services. It seems clear that if a sufficient quantity of services are not provided to meet the needs of lake visitors (and potential visitors), then people will not come to the lake. This means there will likely be a *decrease* in visitor demand as a result of the implementation of Phase I.

Perhaps Dornbusch is basing its "if you build it (better), they will come (and pay more for it)" assumption on the unmet, "latent" demand theory that has been in vogue within

[22] Dornbusch, p. 14.
[23] Ibid., pp. 2, 21.

Reclamation for a number of years. The theory is that there is a significant amount of pent-up demand among those who would like to visit the lake but are so disenchanted by the facilities offered by the concessionaires that they choose to stay home or visit other recreational sites. For example, the 1992 RAMP affirms, "As a result of those Preferred Actions that require master plans…and development of planning and design criteria for new and existing facilities, making the resorts even more desirable, resorts should experience increased use which will result in additional revenues."[24]

To be sure, no recreation area can be all things to all people (i.e., there will always be conflicts between those who prefer untouched natural surroundings and those who prefer numerous facilities, activities, and amenities). To suggest that conditions are so odious as to dissuade a significant portion of the population from coming to enjoy Lake Berryessa's natural surroundings which are, by all accounts, quite beautiful and inviting, however, is quite a different matter, one that must be supported with strong evidence. The DEIS offers evidence of such latent demand in the form of information available at the time the 1992 RAMP was put together:

> *A recreation-demand analysis was completed for the 1992 RAMP. That study concluded that extensive latent or unmet demand exists for freshwater recreation activities in the Lake Berryessa area. This conclusion was based on the fact that when a new opportunity for freshwater recreation opened in an overlapping market area in 1986 (i.e., at Lake Sonoma), Lake Berryessa continued to receive increased use over subsequent years. Another indicator of latent demand is the public response to a survey conducted by DPR [California Department of Parks and Recreation] in 1987 (Public Opinions and Attitudes on [Outdoor] Recreation in California). Participants in the survey said that there was a need for more short-term recreational facilities in the area – indicating that current facilities are not meeting the needs of the users.*[25]

The first assertion—that Lake Berryessa "continued to receive increased use over subsequent years" after Lake Sonoma opened for freshwater recreation in 1986—is patently false, as demonstrated by historic visitation data presented in the DEIS only a couple of pages prior to the latent demand claims. For example, while visitation in 1987 increased 13.8% over the previous year, it declined 17.4% in 1988, then rose 2.3% in 1989, and fell 13.2% in 1990.[26] In fact, the only other time the 1987 visitation numbers were equaled was in 1996.[27] As described in the DEIS, visitation to the lake is determined primarily by the economic climate, lake level, and other weather conditions, all of which may vary significantly from year to year.[28]

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[24] U.S. Department of the Interior, Bureau of Reclamation, *Environmental Impact Statement: Lake Berryessa Reservoir Area Management Plan* (RAMP), May 1992, p. xvi. Available on the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/92Ramp.pdf.
[25] DEIS, pp. 147-148.
[26] Ibid., p. 144.
[27] Ibid., p. 144. The data presented were for the years 1981 (when Reclamation first began collecting visitation data) through 2002.
[28] Ibid., pp. 143, 145.

The second claim is equally preposterous. The "evidence" of latent demand consists of a survey conducted by the California Department of Parks and Recreation. The 1987 survey, which has been conducted in similar fashion three times since, sought public opinion and recreation usage information from a random sample of individuals *from throughout the State of California*, not specifically from the Lake Berryessa area or surrounding areas, as the phrase "in the area" would lead one to believe. First of all, we must call into question whether a single survey conducted 17 years ago should even be considered relevant today, much less for planning as far as 25 years into the future. Furthermore, the "proof" of latent demand is, apparently, a relatively high percentage of responses that indicated that people would like to see more of certain kinds of recreational facilities. It does not appear, however, that any serious attempt was made to figure out just how much the respondents would be willing to pay for such additional facilities. This is a crucial point. When asked if one would like more of any type of goods or services, particularly if he does not have to pay for it (or can pass virtually all of the costs on to others through taxation), it should come as no surprise that the respondent answers in the affirmative. (Also, as Dornbusch observes, survey-based demand analysis "risks serious bias…[because] people do not necessarily do what they say they would do when posited a hypothetical change in opportunity."[29]) Thus, such responses certainly do not necessarily mean that an expansion of facilities is economically justified, particularly if the concessionaire is the one bearing the costs. By Reclamation's logic, Alternative B should include plans to build a Trump Tower or Taj Mahal-inspired resort, as these fine accommodations would surely entice even more visitors. Attracting these wealthy visitors (after all, concessionaires would be able to "access the nearby Napa Valley's relatively affluent visitor base"[30]) to such an expensive, high-class facility would also increase per capita spending. Unfortunately, there would not be enough of these wealthy patrons to cover the costs of construction, let alone ongoing maintenance, labor, etc., and the plan would not be feasible. Though less dramatic than the Taj Mahal example, the result is the same for Alternative B in its current form.

The unmet demand arguments described above are so weak that even Reclamation eventually is forced to concede that there is no latent demand for the facilities promised in Alternative B and the other action alternatives. As noted in the DEIS,

> *current conditions, such as limited short-term and overnight accommodations, could be—and likely are—a variable limiting the peaks in visitation, and therefore in dampening the average visitation over a period of years. If conditions were changed as the result of implementing one of the action alternatives, the visitation pattern observed to date could change as well. However, that change probably would not be significantly different from current projections [based on Alternative A, the status quo].*[31]

[29] Dornbusch, p. 13.
[30] Ibid., p. 12.
[31] DEIS, p. 158.

Pretending that current operations at the lake will continue as they are if Plan B is not enacted, and that therefore there will be only deterioration and no improvements, is a straw-man argument. Certainly there are less drastic ways to improve the appearance of the trailer concessions than to eliminate them. The end of a contract period is the perfect time to negotiate desired improvements (as will be discussed in greater detail later in the paper). Also, left to their own, concessionaires have an economic interest to maintain and to improve their facilities. In fact, in speaking with some of the concessionaires, we found them to be enthusiastic to make such improvements. These concessionaires additionally noted that Reclamation was equally responsible for dragging its feet in making improvements such as those called for in the 1992 RAMP. Of course, in the current atmosphere of uncertainty, where concessionaires face the prospect of being run out of business only a few years from now, there is no incentive for the concessionaires to make improvements for which Reclamation has insisted it will not compensate them.

2. Demand Projections

Dornbusch repeatedly makes disclaimers regarding the lack of demand data necessary to make a feasibility analysis.[32] Because of this it examines Plan B only on the cost side and then calculates what revenues would be necessary to make a reasonable return on the investment. According to Dornbusch, historical concession visitation data for the lake is insufficient to provide a reliable statistical analysis of visitor demand.[33] Given this, and the inadequacy of other potential approaches to estimating demand, as explained in Dornbusch,[34] it would be unreasonable to try to project demand figures for over 25 years into the future, especially with such radical changes to the concessions as proposed by Reclamation. However, Dornbusch does mention a couple of assumptions regarding demand that are inherent in Reclamation's proposal.

1. **The loss of business due to removing trailers might be made up by the trailer owners themselves returning as visitors or by others who are attracted to the new facilities.**

Disclaimer: Dornbusch acknowledges that it is not clear whether this would be true.[35]

Reaction: This is an extremely important point in trying to justify such a radical change as proposed by Reclamation. Certainly any use of the lake by former trailer owners would be drastically reduced, probably to the point of insignificance to the overall demand. As mentioned before, with the reduced concessions proposed in Phase I, it is likely that demand will *decrease* significantly. The hope that the lake's appearance will be so improved by eliminating trailers and by updating a few concessions that it will

[32] Dornbusch, p. 2-3, 12-14, 24, 25, 32, 33-34, 36, 38, 47, 48-49.
[33] Ibid., p. 13.
[34] Ibid., pp. 13-14.
[35] Ibid., p. 12.

attract a lot of new (and more affluent) visitors is highly dubious. Then, unless demand can somehow be raised, the more attractive concessions proposed in Phase II will never be built. It is quite probable, then, that enacting Phase I will result in a permanent decrease in use of the lake.

2. **Per capita spending of visitors would increase if Alternative B was implemented.**

Reaction: Acknowledging the probable decrease in the number of visitors to the lake, Dornbusch proposes the hope that each visitor will spend more than they would without the plan. In its analysis, Dornbusch asserts, "It is likely that the improvements in quality [proposed under Alternative B] will attract a clientele with more disposable income than the current concessions attract, and it is additionally possible that the new concessions will access the nearby Napa Valley's relatively affluent visitor base (which is not yet the case)" and, furthermore, that "it seems likely that per capita spending would increase in Alternative B over the current operations."[36] No evidence or justification is provided to support these "likely" results, however.

Consider also the equally baseless claim from the DEIS: "It is anticipated that many users would want to combine the quieter and more economical experience at Lake Berryessa with excursions to winery tours/tasting and other activities in the surrounding area."[37] Interviews with some concessionaires and local business owners revealed that they had already considered or explored certain tie-in promotions with Napa Valley wineries. The fact that these entrepreneurs have not already implemented such marketing plans, however, is evidence that the effort to capture some of this Napa Valley tourist market would be a losing one. The DEIS offers no evidence to the contrary to support its assertion.

Dornbusch's assumption is thus a nice hope, and it is possible that there may be a small positive change in per capita spending, but this is pure speculation, devoid of any supporting evidence.

3. Cost and Revenue Estimates

We have already noted in the General Assumptions section (General Assumption 7) that Dornbusch states that the required infrastructure upgrade cost in Phase I will be much higher than that provided by Reclamation to use in its analysis. Dornbusch also recommends that these upgrades be revisited much closer to the time of the project.[38] These cautions are repeated several times in their report, indicating the importance of this cost to the analysis. Dornbusch also points out that Reclamation's plans at this stage are

[36] Dornbusch, p. 12.
[37] DEIS, p. 44.
[38] Dornbusch, pp. 1-2, 49.

not detailed enough to identify all the factors that might affect revenues and costs.[39] Despite this admission, Dornbusch avers that the data are accurate enough for the purposes of their analysis (which they repeatedly refer to as only “conceptual”).[40] In addition to these caveats, Dornbusch does mention a few other general assumptions regarding costs and revenues.

1. **Capital costs and the economic lives of facilities were made by Kleinfelder, Inc., engineers hired by Reclamation**: Most of the existing structures were judged to have little or no economic life remaining at the time Plan B would be implemented. For the few structures judged to have longer useful lives, Kleinfelder did not provide any estimates of the costs necessary to upgrade them to meet Plan B requirements.[41]

Reaction: We believe that Kleinfelder seriously underestimates the useful life of the existing structures. Doing so makes it easier to justify not compensating the current concessionaires for their improvements to the properties (or depressing the value of any existing facilities that must be purchased by Reclamation or a succeeding concessionaire at the conclusion of the current concession contracts).

Dornbusch further assumes that the cost of compensating the current concessionaires for their structures plus the cost of upgrading these structures to meet Plan B requirements would approximately equal the cost of replacing the structures.[42] Obviously, there is no real basis for such a gross simplification.

Dornbusch states that construction costs come from both Kleinfelder and Marshall & Swift Estimation Service.[43] Since the cost calculations are not shown, we don’t know which figures came from which source or combination of sources. However, Dornbusch notes that the Marshall & Swift data are based on “fair-average construction quality.” It is not clear whether such a level of quality is appropriate; if not, construction costs will be seriously underestimated.

2. **The Capital Investment Recovery (CIR) paid to the concessionaire at the end of the contract depends on estimates of facilities’ economic lives.**

Disclaimer: Dornbusch cautions that estimates of the lives of infrastructure improvements are general estimates only because the costs were given only in aggregated form.[44]

[39] Ibid., pp. 1, 3, 21, 22, 49.
[40] Ibid., pp. 3, 21, 22, 47.
[41] Ibid., p. 19.
[42] Ibid., p. 19.
[43] Ibid., pp. 17-18.
[44] Ibid., p. 14 (footnote 9).

Reaction: Again we are not shown the calculations used, but Dornbusch acknowledges that here again there is a great deal of uncertainty in the cost estimates.

3. **Overall earnings (before interest, taxes, and depreciation, but including the capital reserve) will be 35% of gross receipts**: In looking at Phase I in the aggregate, Dornbusch estimates a total capital investment of about $23 million, based on Reclamation estimates. Therefore, the assumed 15% return will require $8.5 million in annual gross receipts if the proportion of earnings is 35%.

Disclaimer: Dornbusch characterizes the overall assumption of 35% earnings as "somewhat optimistic."[45]

Reaction: Subtracting the $5 million in revenues from trailer site rental fees from the $12.7 million in total revenue collectively realized by the seven resorts yields a difference of about $7.7 million in revenues from all other operations. If other concession revenues attributable to long-term site renters (such as a significant percentage of boat slip fees) are subtracted as well, we can see that even with the current level of concessions besides trailers, revenues will fall significantly short of the $8.5 million goal (which in turn is based on many optimistic assumptions!). With the reduction in services proposed in Phase I, revenues will certainly be nowhere near this goal.

It is interesting to note, though, that in later sections of the Dornbusch report, when concessions are broken down by type, the individual assumptions of earnings percentages result in a total required revenue of only $7.2 million, rather than $8.5 million. ***This disparity is never explained or even noted.*** Presumably, the individual estimates of earnings proportions are even more optimistic than the "somewhat optimistic" 35% overall estimate. (In fact, except for a few small types of concessions where the earnings proportion is not estimated, the overall weighted average of Dornbusch's estimates is about 45%!)

4. **Infrastructure upgrade costs are allocated to each site's various concessions proportional to their expected revenues**: Since details regarding exact infrastructure upgrades required at each site are not provided by Reclamation (and would need to be much higher than the total cost given, anyway, as noted earlier), Dornbusch was forced to somehow allocate these costs to the various concessions utilized in Phase I.

Disclaimer: Dornbusch acknowledges that infrastructure costs are not really proportional to revenues, but there was really no other basis to use.[46]

Reaction: Dornbusch downplays the inaccuracy of this approach by claiming that infrastructure costs are relatively low.[47] However, it was noted earlier that even

[45] Ibid., p. 20.
[46] Ibid., p. 22.
[47] Ibid., p. 22.

Reclamation's estimate of infrastructure costs represents about 25% of their total capital expenditure estimate (refer to "General Assumptions," #7). While the allocation of infrastructure costs has some effect on the viability of individual types of concessions, though, the overall effect (the 25% figure) is not affected by this assumption.

4. Assumptions for Specific Facilities

In analyzing specific types of concessions, in the absence of any demand forecasts, Dornbusch first estimates the percentage of operating cost to receipts. Then, working backwards from the estimated capital cost, it calculates the revenues needed to meet the desired 15% rate of return. Finally, by estimating the average revenue per customer, it determines the number of customers needed. The analysis concludes with a comment on the perceived reasonableness of attaining the desired number of customers. Since we are not shown the assumptions regarding the economic life of each type of facility (which affects the salvage value at the end of the 20-year contract (CIR) and in some cases the need for reinvestment within the 20-year period), we cannot replicate the Dornbusch calculations of the revenues needed to meet the 15% rate of return. Nor can we comment on the reasonableness of the operating cost percentages or average revenues per customer. However, even using the numbers given, there is plenty of room to question the recommendations.

In the listing below we summarize the assumptions made by Dornbusch regarding individual facilities and the results of these assumptions. We then comment on the reasonableness of these assumptions. Results are summarized in Exhibit 2.

1. **Hotel/Motel**: 62% operating costs, $95/night revenue -- need $465,000 revenue

Disclaimer: Dornbusch notes that a hotel would need a much larger proportion of the infrastructure improvements than is allocated here on the basis of proportion of revenue, making this type of investment less attractive than the results would indicate.[48]

Reaction: Even without realistic infrastructure costs, Dornbusch concludes that a 30-room hotel would need to generate 45% annual occupancy to provide the needed $465,000 in revenue. This is a higher occupancy than their own research suggests is reasonable (about 40%).[49] Also, it requires a 30-room hotel/motel to generate $465,000 per year when the current 52 motel rooms generate just $285,000. Despite all of this, Dornbusch concludes that a hotel/motel operation is economically feasible! It is forced to assume much higher usage and revenues on the basis of its hoped-for increase in well-heeled clientele due to the new facilities. This is pure (and very dubious) speculation. Dornbusch also cites the recent construction of three new hotels in Napa Valley as

[48] Ibid., p. 22 (see footnote 13).
[49] Ibid., p. 23.

evidence of new optimism in the tourism industry.[50] A less rosy view would be that this new competition could reduce demand for rooms at the lake!

2. **Cabins/Cottages**: 54% operating costs, $80/night revenue – need $255,000 revenue

Reaction: The required 31% occupancy rate necessary to generate $255,000 in revenue is well below Dornbusch's estimate of 40% for similar facilities, and indeed the current cabins at the lake generate more revenue per unit than would be required here. Cabins seem to be a profitable investment; the only question is why then would the Phase I proposal contain only 28 of them (a 51% reduction from the current number of such facilities)? When the market is trying to tell you something, we advocate listening.

3. **RV Sites**: 35% operating costs, $30/night revenue – need $894,000 revenue

Reaction: The occupancy rate would need to be 27% to generate the needed revenue, slightly higher than the current estimate of 25%. However, the net effect of Dornbusch's assumptions regarding fees and occupancy rates would be that the 300 RV sites proposed in Phase I would have to generate *twice as much revenue* per capita as the current 200 sites do. The current 200 sites generate an estimated $300,000 in revenue[51] ($1500 each), while the 300 proposed sites would need to generate $894,000 in revenue (about $3000 each). This seems to be quite optimistic.

4. **Tent Sites**: 25% operating costs, $14/night revenue – need $189,000 revenue

Reaction: The required 15% occupancy rate would seem easy to achieve, and the estimated fees seem modest. Therefore, while not generating a lot of revenue, tent sites seem to be a profitable investment. Group tent sites (not included in the above numbers) are estimated to be even more profitable.

Once again, however, this modestly profitable component is drastically scaled down from existing levels. While the DEIS boasts that under Alternative B "overnight users who do not have vacation sites at the resort would be beneficially impacted, as a greater number of campsites and a greater variety of lodging opportunities would replace the trailers,"[52] the number of campsites developed under Phase I would be 44% fewer than the existing number of campsites. In addition, available hotel/motel accommodations would decline by 42% and, as noted previously, cabins/cottages would decrease by 51% (see Exhibit 1). Thus, Reclamation's stated goal of providing more overnight accommodations for short-term visitors is directly violated by the Phase I proposal.

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[50] Ibid., p. 24.
[51] Ibid., p. 27.
[52] DEIS, p. 162.

5. ***Marinas***: 38% operating costs, \$10/day boat slip fee, \$10/day launch fee – need \$1,300,000 revenue

Disclaimers: Dornbusch notes the uncertainty in meeting the desired number of 32,850 boat launches, which seems "optimistically high" when compared to current concession operations (but probably not when including the public launch at Capell Cove).[53] Also, Dornbusch reports that current concession operators estimate that from 50% to 95% of their current boat slips are occupied by the trailer owners.[54] Thus, there is a lot of uncertainty regarding the demand for boat slips if trailers are removed. Also, Dornbusch is assuming a relatively high daily rate for the boat slips, based on a shift from long-term users to short-term users and the fact that greater rental fees may be obtained for shorter rental durations.[55]

Reaction: The required boat slip occupancy rate of 45% seems reasonable to achieve based on Dornbusch's estimates of typical rates almost twice that high. However, Phase I provides only 600 boat slips as compared to the 1,349 slips currently available. Even with a high occupancy rate, total revenues from boat slips will certainly decrease. This is probably the main area where the effect of removing trailer owners is seriously underestimated.

According to a 1998 study prepared for Reclamation on boating recreation at Lake Berryessa, 79% of marina/resort users were trailer owners (or, presumably, the guests of trailer owners)[56] The removal of all trailer sites could, thus, have a potentially significant impact on marina slip revenues if trailer owners do not maintain their slips. The loss of boat slip fees from trailer owners could easily amount to another \$750,000,[57] or 6% of total revenues (still not counting trailer owners' use of stores, restaurants, etc.). In addition, the boating survey revealed that the vast majority of marina/resort boaters (themselves mostly trailer owners, as noted above) tended to keep their boating activities confined to Lake Berryessa. (Only 27% of those surveyed named other lakes where they had boated.) By contrast, boat launch ramp users, who are comprised mostly of day users and short-term visitors, were much more mobile, with 81% of those surveyed using lakes or reservoirs other than Lake Berryessa.[58] In addition to replacing potentially significant lost revenue from marina slips due to the elimination of the trailers, then, revenues from boat launch ramps will likely be dramatically reduced as well, at least for a period of years following the Phase I ramp-up construction, due to the fact that boat launch ramp patrons are highly mobile and already demonstrate a tendency to seek boating recreation

[53] Dornbusch, p. 32.
[54] Ibid., p. 33.
[55] Ibid., pp. 30-31.
[56] William F. Jackson, George N. Wallace, James J. Vogel, and John P. Titre, *A Study of Boater Recreation on Lake Berryessa, California*, Prepared for U.S. Bureau of Reclamation, Mid-Pacific Region, (Colorado State University, College of Natural Resource, Department of Natural Resource Recreation and Tourism, Summer 1998), p. 12.
[57] As noted previously, trailer tenants account for between 50% and 95% of concession slip rentals. This calculation is based on the assumption that trailer tenants account for approximately 77% of slip rentals, a number reasonably within the estimates provided.
[58] Jackson, et al., pp. 12, 28.

at other lakes and reservoirs. This tendency will only be increased by the effective shut-down of the lake for two years. The restriction of some launch ramps, such as the one at Steele Park, to non-motorized use will likely drive away even more users, or else cause increased congestion at the remaining ramps available for motorized use, which may itself drive away users.

6. **Houseboats**: 60% operating costs, $1,000/day revenue – need $1,700,000 revenue

Reaction: Dornbusch estimates that an occupancy rate of 60% would be needed, as compared to its estimate of 68% for a typical operation.[59] The main concern here would be the need to store the houseboats off-site during the off-season. Dornbusch says that the costs of this storage are included in the 60% operating costs, but exactly what costs are included (physical moving costs, land costs, infrastructure, etc.)? In any case, the numbers used in the analysis are highly speculative, suggesting that there may be better uses for investor money (such as cabins).

7. **Other Boat Rentals**: 30% operating costs, $275/day revenue – need $543,000 revenue

Reaction: Dornbusch calculates a 17% occupancy rate necessary and feels that that would be achievable. As they mention, the number of boats purchased for rental could start out small and be increased in accordance with demand, which would reduce the risk involved.

8. **Dry Boat Storage**: $11,000/year operating costs, $80/month revenue – need $29,000 revenue

Reaction: The dry boat storage operation envisioned is a very small facility, with minimal costs and revenues. Dornbusch estimates that a facility for 100 boats would need 30% occupancy, which should be attainable. Again, such a facility could start small and grow with demand.

9. **Restaurant**: 85% operating costs, $12/person revenue – need $725,000 revenue

Reaction: Dornbusch acknowledges that restaurants are generally unprofitable or, at best, marginally profitable.[60] Its figures would require 83 customers per restaurant all year, generating $1,000 in revenue per day. Given that approximately 75% of lake visitation takes place between the Labor Day and Memorial Day weekends[61] (a season of approximately 100 days), however, and assuming that concession receipts for restaurant

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[59] Dornbusch, p. 35.
[60] Ibid., p. 40.
[61] DEIS, p. 141.

operations are roughly proportional to visitation (menu prices do not vary much from high season to off-season as hotel/motel rates do), Dornbusch analysis would require 227 customers per day per restaurant, generating $2,723 in average daily revenue, during the high season and 29 customers per day per restaurant, generating $342 in average daily revenue during the off-season. The current Steele Park restaurant generated about $250,000 in 2000, and Dornbusch says that comparable concessions ranged from $120,000 to $400,000. Looking either at the customer traffic required or at the likely total revenues, there would seem to be little chance for the two restaurants envisioned to be profitable. Dornbusch points out that, despite their unprofitability, restaurants are necessary concessions at a resort to complement the other concessions and attract customers. Its hope is that such unprofitable operations will be offset by profits in other areas, making the overall concession attractive to an investor. However, as seen in examining other types of concessions, there does not appear to be a lot of profit to spare in the mix of concessions envisioned in Phase I. The loss of revenue from trailer owners to offset these unprofitable concessions is crippling.

10. **Limited-Service Restaurant (Snack Bar)**: 81% operating costs, $6/person revenue – need $112,000 revenue

Reaction: The situation for snack bars is very similar to that of restaurants. An unsustainable number of customers would be needed (51 customers per day all year at each snack bar) to create the desired return. Breaking down this analysis for high season and off-season numbers as described above, the Dornbusch estimates would require each snack bar to realize 140 people per day, generating average daily revenues of $840, during the high season and 18 people per day, generating average daily revenue of $106, during the off-season. While Dornbusch correctly points out that short-term users of the lake would use more food services per capita than trailer owners (who often bring their own food), the fact remains that the total number of lake visitors would decrease significantly in Phase I, negating any per capita increase.

11**. Retail Store**

a. **Permanent Retail Space**: 85% operating costs – need $600,000 revenue
b. **Portable Retail Store**: 85% operating costs – need $108,000 revenue

Reaction: Dornbusch asserts, with no supporting evidence, that the necessary revenues would be achievable at each type of store. (In fact, in its discussion of the portable retail stores, Dornbusch admitted, "we were unable to find a similar operation on which to base expected revenues."[62]) Also, in both cases they have assumed ***no*** up-front inventory costs, based on the generosity of suppliers in supplying interest-free credit.[63] This assumption seems highly dubious; inventory costs are critical in such small-scale retail operations. Also, the portable stores are assumed to use no electricity or water, which would preclude them from selling cold drinks, ice, ice cream, dairy products, and cold

[62] Dornbusch, p. 45.
[63] Ibid., p. 44.

foods with their proposed snacks menu, for example, and makes them fairly useless. In any case, such stores represent rather small investments and revenues.

12. **Water Ski Operation**: $150/person revenue – need $132,000 revenue

Reaction: Dornbusch doesn't show the figures used to determine the desired $132,000 in annual revenue. It calculates that this amount of revenue would require an average of 68% utilization for six months (higher in mid-summer, lower at each end of the season). They conclude that profitability of such concessions is marginal. Again, the amounts of investment and revenue involved are rather small.

Exhibit 2
Economic Feasibility of Concession Types
(15% Rate of Return, 2003 Dollars)

Type of Concession	Capital Cost	Share of Infrastructure Cost	Total Capital Cost	Estimated Earnings Percentage	Necessary Revenue	Feasibility
Hotel/Motel	$1,199,000	$136,000	$1,335,000	38%	$465,000	Very unlikely
Cabins/ Cottages	$798,000	$75,000	$873,000	46%	$255,000	Very likely
RV Sites	$2,744,000	$2,089,000	$4,833,000	65%	$894,000	Questionable
Tent Sites	$757,000	$501,000	$1,258,000	75%	$210,000	Very likely
Marina	$5,385,000	$892,000	$6,277,000	62%	$1,311,000	Questionable
Houseboats	$4,000,000	$605,000	$4,605,000	40%	$1,701,000	Unlikely
Other Rentals	$896,000	$176,000	$1,072,000	70%	$542,000	Likely
Dry Storage	$12,000	$116,000	$128,000	NA	$29,000	Likely
Restaurant	$603,000	$455,000	$1,058,000	15%	$725,000	Very unlikely
Snack Bar	$241,000	$140,000	$381,000	19%	$224,000	Very unlikely
Store	$489,000	$324,000	$813,000	15%	$601,000	Very unlikely
Portable Store	$0	$177,000	$177,000	15%	$108,000	Very unlikely
Water Ski Center	$248,000	$39,000	$287,000	NA	$132,000	Questionable
Totals:	$17,372,000	$5,725,000	$23,097,000	Average 45%	$7,197,000	
Aggregate Analysis:			$23,093,000	35%	$8,500,000	
Disparity:					$1,303,000	

B. Sensitivity Analysis: Crunching the Numbers

In previous sections we have noted several major costs that could add significantly to the overall cost of the proposed conversion of facilities in Phase I. For example, no payments are provided by the new concessionaire to the current concessionaires for their improvements made to their sites over the years. If the new concessionaire does not need to compensate the current concessionaires, then will Reclamation? The amounts would surely run into the tens of millions of dollars.

Dornbusch is also very critical of the infrastructure costs that Reclamation wanted included in its analysis. The Dornbusch analysis includes only $5,721,000 of the total of about $27,300,000 which Kleinfelder estimates for demolition and improvements in infrastructure required for Alternative B. (Kleinfelder did not attempt to estimate the costs to replace or bring buildings up to code. The other $4,900,000 out of their total of $32,200,000 was for marina upgrades, which are included in Dornbusch's capital costs.[64]) Presumably, the $5,721,000 consists only of those improvements directly related to Phase I concessions in the four resort areas that are slated to have some development. Kleinfelder's estimates of the general costs of trailer removal ($9,800,000), retaining wall removal ($2,100,000), and demolition and removal of roadways ($3,500,000),[65] for a total of $15,400,000, are not included at all.

The effect of two years of lost use of lake facilities is another area that has not really been considered in the analysis. With total concession revenues now running at about $12,700,000, two years' lost revenues could represent a loss of close to $26,000,000 in economic activity at the lake (in today's dollars). Of course, this loss to current concessionaires, employees, suppliers, contractors, etc., may not be a serious concern to Reclamation. However, Reclamation itself would stand to lose nearly $750,000 in fees[66] from concessionaires over two years. Probably even more important than these losses, though, would be the potentially crippling effect on future demand at the lake.

Besides these rather direct effects on project costs, some of Dornbusch's assumptions involve some questionable numbers that have a great impact on the results. Unfortunately, the detail given in Dornbusch's report is not sufficient to examine very many of these. However, two major assumptions are analyzed below.

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[64] *Environmental Compliance and Facility Condition Assessment Report, Seven Concession Areas, Lake Berryessa, California*, A report prepared for the U.S. Department of the Interior, Bureau of Reclamation, by Kleinfelder, Inc., December 19, 2002, p. 11. Available on the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/Kleinfelder/KleinfelderReport.pdf.

[65] Ibid., p. 11.

[66] Reclamation may end up missing out on an even greater amount of concessionaire fees, as concessionaire revenues, upon which the fees are calculated, will likely have increased by the time the current concession contracts expire.

1. **Discount Rate**: After admitting that they first considered a higher discount rate, Dornbusch conducted their entire analysis using 15%. This choice has a significant effect on the results. The higher the discount rate chosen, the higher the future annual earnings will have to be to justify a given capital expenditure.

As an example, consider Dornbusch's initial analysis of the overall project that resulted in a total annual revenue of $8,500,000 required to provide a 15% return for the total capital investment of $23,093,000 (assuming an earnings percentage of 35% of total revenues). While we do not have enough detail to include the other numbers that went into this calculation, we can at least examine the effect of the chosen discount rate on the annual stream of earnings. The present value of annual earnings of $2,975,000 (35% of $8,500,000) for 20 years at a discount rate of 15% is $18,623,500 (counting earnings at the end of each year). At a higher discount rate of 20%, for example, the present value is only $14,488,250. While these calculations do not include a provision for inflation or the effect on other costs and revenues (future capital costs and CIR), the difference of over $4 million gives some indication of the reduction in discounted earnings, which would in turn require a similar reduction in capital outlays to achieve the 20% rate of return. Even a slight increase in the discount rate to 16% would reduce the present value of earnings by about $1 million. Thus, we see that the revenue requirements in Dornbusch's analysis are highly sensitive to changes in the chosen discount rate. Pulling a number out of a hat is just not good enough.

2. **Earnings Percentage of Revenues**: As mentioned in the example above, Dornbusch's overall analysis of Phase I assumed that earnings would be 35% of revenues (before considering interest, taxes, and depreciation), a number that Dornbusch characterized as optimistic. However, we have seen that when Dornbusch analyzed different types of concessions individually, they actually used an average of 45%! This resulted in a lower required annual revenue of about $7,200,000 (as compared to $8,500,000) for a 15% return. While this exact number is dependent on the particular mix of the various concession types, it illustrates the sensitivity of the resulting annual revenue required to the earnings percentage chosen. This difference of $1,300,000 in revenues each year represents a decrease of over 15%, a significant change in the results.

It might be simpler just to examine the effects of the earnings percentage on Dornbusch's overall analysis than to compare the overall analysis to the individual analyses. If we reduce the earnings percentage from 35% to 30%, for example, the reduction of 5% of $8,500,000 in revenues would result in a loss of $425,000 per year. The reduction in discounted earnings over 20 years would be $2,660,500, which would require a similar reduction in capital cost. If we keep the same capital cost, a 30% earnings percentage would require annual revenues of $9,916,667, almost a 17% increase. Even a 1% drop in earnings percentage to 34% would result in a loss of $85,000 per year, or $532,100 in total discounted earnings; to maintain the same capital cost would require annual revenues of $8,750,000 rather than $8,500,000.

Given the lack of detailed cost data to operate the various concessions, Dornbusch was forced to assume certain earnings percentages. Again, we see that the results of the analysis are very sensitive to these percentages, and it is a gross simplification to use such nebulous estimates. Dornbusch never even addresses the fact that their individual concessions' earnings percentages average much higher than their "optimistic" original estimate, resulting in a significantly different annual revenue requirement.

C. Conclusions

Dornbusch does the best it can to provide some support for Reclamation's Alternative B:

1. Severely limiting the scope of the changes (Phase I) to make the investment less risky, while simultaneously downplaying the serious drawbacks of this strategy, including the crippling effect on demand (and therefore revenues) and the failure to meet the needs of the public.

2. Assuming away or underestimating several very significant costs in the analysis, including infrastructure costs, demolition costs, compensation to outgoing concessionaires, and the effects of two years without any concessions.

3. Assuming very optimistic numbers that are crucial to the feasibility analysis, including a 15% rate of return, a 35% (or 45%!) percentage of earnings to revenues, and several other numbers relating to particular types of concessions.

4. Interpreting the results very optimistically, including usage rates that are sometimes well beyond current levels, let alone the reduced levels which will result from the drastic curtailment of concessions.

5. Assuming the existence of a single concessionaire willing to undertake such a risky investment (since its own analysis shows that many of the individual concessions would be very poor investments on their own).

Even assuming all of these things, Dornbusch is unable to make Alternative B (or even the "Phase I" subset of Alternative B) appear palatable. Any potential investor reading the report would surely run the other way. Alternative B as a whole is never really analyzed, and even if Reclamation is content with Dornbusch's recommended policy of gradualism, who is to say that Dornbusch's Phase I is the proper mix of concessions to start with? Finally, Dornbusch skirts the issue of the removal of 1,300 trailers and the corresponding loss of a major portion of total concession revenues. Surely it would have to agree that their presence can only enhance the future economic health of the lake, even if it is unable to bring itself to admit that their presence is absolutely crucial. For these reasons, we conclude that the Dornbusch report fails to demonstrate that Alternative B (or its subset, Phase I) is an economically feasible plan. We, furthermore, conclude that this failing is not due to any incompetence on the part of Dornbusch Associates; rather it is due to the unrealistic and ill-conceived nature of the plan itself, as currently depicted.

III. Related Issues

In addition to the discussion above of the specific assumptions made in the Dornbusch report, there are certain related issues we feel should be given greater attention. These issues are: (1) the importance of the trailer sites to the Lake Berryessa Recreational Area (LBRA) and the ability to accommodate both long-term and short-term recreation users, (2) the important role of contract management (specifically, resolving conflicts such as those experienced between concessionaires and Reclamation at Lake Berryessa through proper planning and management of concession contracts), and (3) recreation area management practices that have hindered progress at Lake Berryessa and management reforms that may improve conditions. While not directly addressed in Dornbusch (or, at least, not adequately, in the case of the trailers), these issues are crucial to the understanding of the current debate over Alternative B and to the current and future management of the LBRA.

A. Trailers

Rather than celebrating the ability to accommodate both long-term and short-term visitors to Lake Berryessa, Reclamation has adopted a curious mindset that the existence of long-term sites is somehow incompatible with outdoor recreation. As stated in the DEIS,

> *The present operations at Lake Berryessa relying on the year-round revenue from seven separate trailer villages display an incongruous mix of business when compared to hundreds of successful resorts and outdoor recreation support businesses throughout the country.*[67]

This is a ridiculous assertion on its face, seeing as the Forest Service has been offering long-term summer cabin leases since the early 1920s. The fact that the facilities—and even the business model—of Lake Berryessa do not precisely mirror that of other recreation areas does not make Lake Berryessa inherently better or worse than any other recreation site. Different recreation areas offer different resources and experiences and, left alone, businesses adapt to serve the interests of the general public. (This is how they make their money!)

The trailers located around Lake Berryessa have not always been considered to be the scourge that they are today. In fact, the current lake management plan (the 1992 RAMP) recognizes the value of maintaining long-term users at Lake Berryessa:

[67] DEIS, p. 5.

Long-term exclusive uses will be allowed in concession areas. Current long-term exclusive uses assist in supporting necessary services for the short-term users and low cost public access.[68]

In addition, the RAMP glowingly describes the importance of and services provided by the concessionaires, including the long-term trailer sites:

The resorts offer a variety of high convenience facilities in a total resort concept which fulfills most people's needs. Contributing over $10 million in investments, the concessionaires have established facilities such as camping and picnicking sites, travel trailer and mobile home parks, boat launching ramps, marina facilities, restaurants, food stores, and related support facilities for public use. Each resort offers a variety of marina services including moorage, gas service, boat rentals, etc. Limited boat repair services exist within the resorts and full marine repair services exist throughout the lake area. Houseboat rentals are currently only offered at Markley Cove Resort.[69]

While the 1992 RAMP does express concern about long-term sites located in the base floodplain (440 to 450 feet median sea level), removal of these units would only result in the displacement of about 200 trailers. The RAMP additionally calls for floodproofing and/or anchoring an additional 300 sites located between 450 and 455 feet median sea level and *possibly* converting up to 220 other long-term sites located in "desirable shoreline locations" to short-term sites.[70] The RAMP, furthermore, recommends that long-term users displaced by these policies should have the option to relocate to other areas of the resorts, space permitting.[71]

Long-term trailer tenants have acquired their sites through proper means and the sites themselves were not established illicitly or without the knowledge of the authorities managing the LBRA. Indeed, Reclamation has acknowledged the same:

[T]he direction as outlined in the DEIS action alternatives (B, C, and D) are not based upon the assumption that long-term trailer villages were never properly approved. We agree that the trailer villages and individual trailers were not put in illegally, covertly, or without the knowledge of Napa County and Reclamation. The DEIS does not indicate that trailer villages were established illegally.[72]

Given this, we disagree with the forced removal of sites that have been established through proper channels and that tenants legally occupy. We do, however, recognize

[68] RAMP, p. ix.
[69] Ibid., pp. 43-44.
[70] Ibid., p. xiv.
[71] Ibid., p. xvi.
[72] U.S. Department of the Interior, Bureau of Reclamation, Central California Area Office, Letter to Mr. Henry Howard ("Response to Citizen Comments – Lake Berryessa Visitor Services Plan"), dated August 16, 2004, Enclosure 2, p. 6.

Reclamation's right to prohibit additional trailer site development through future concession contracts. In addition, the floodproofing/anchoring regulation discussed in the RAMP does not seem unreasonable to us.

Contrast Reclamation's view of the trailers as described in the RAMP, that they are an important component of the recreation area because they "assist in supporting necessary services for the short-term users and low cost public access," to its more recent—and radical—view:

- "This alternative [B] would terminate exclusive-use, long-term trailer sites at Lake Berryessa. It also would require the existing permittees to remove all of the property from their assigned sites prior to the final day of the contract. . . . The expense for removal of all personal property, and in some instances rehabilitation of the site, would be the responsibility of the concessionaire, but presumably would ultimately be passed on to the individual permittee."[73]

- ". . . existing concessionaires would be responsible for seeing that existing long-term trailers and associated structures are removed, and in some cases they may also be financially responsible for naturalizing those disturbed areas. Finally, they would be required to sell some existing facilities to the incoming concessionaire, at prices set by pre-determined procedures, and those prices might not be acceptable to the seller."[74]

- "Exclusive use facilities are not authorized in new concession contracts. If existing concession contracts are amended, a new provision must be included that requires exclusive use to be phased out as soon as possible, before the contract expires. A mandatory timetable for this phase out must be included in the amended contract."[75]

There is no explanation for this change in opinion or how the long-term trailer sites went from necessary revenue source supporting the recreation opportunities of long-term and short-term users alike to bane of the LBRA. This is because there has been no significant economic shift at the LBRA during this time, only a policy shift. Reclamation has even admitted that its decision to call for the removal of the trailers ignored economic impacts (and realities) and was based entirely on political considerations:

> ***[R]evenue generation [from the trailer owners] is not an issue in the VSP [Visitor Services Plan] and DEIS in regard to trailer retention or departure. The key factor being addressed as regards exclusive long-***

[73] DEIS, p. 201.
[74] Ibid., p. 201.
[75] U.S. Department of the Interior, Bureau of Reclamation, Reclamation Manual, Directives and Standards, LND 04-01, "Concessions Management by Reclamation," April 29, 2002.

term trailers is the appropriate and best use of Federal property in the next term of concession contracts."[76] [Emphasis ours.]

One would think that a plan to alter economic arrangements at the lake *should* seriously consider the impact of removing a population that accounts for as much as 50% or 60% of total concessionaire revenues![77] Thus, we must conclude that the contracting of Dornbusch Associates was a vain attempt to provide some minor economic justification for Reclamation's policy goals, goals that are not realistic or justified given the economic realities in and around the LBRA.

B. Concession Contract Management

Most of the problems cited by Reclamation concerning the trailers could be resolved easily enough through proper concession contract management and enforcement. We have already offered as an example the floodproofing/anchoring regulation proposed in the 1992 RAMP. Other concerns are addressed below.

1. Appearance of the Trailers

One complaint offered about the trailers is that their appearance detracts from the natural beauty of the LBRA. As such, the 1992 RAMP directed, "Long-term uses will be designed to blend in more effectively with the natural environment."[78] We have toured the lake, viewing the entire western and southern shores where all seven resorts are located, from both the water and the roads surrounding the lake. While we believe descriptions of the "blight" caused by the trailers are exaggerated, we recognize Reclamation's interest in maintaining the appearance of the lake. Thus, we agree that the RAMP directive to blend trailers more effectively with the natural environment is a reasonable one. Specific regulations might, for example, require trailers to be painted natural colors to make them blend in more with the surrounding environment and camouflage them from the view of lake users, as has already been done at Steele Park. Such regulations should be well thought-out, not be overly petty or burdensome, and be spelled out clearly in the concessionaires' contracts, along with remedies for noncompliance.

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[76] U.S. Department of the Interior, Bureau of Reclamation, Central California Area Office, Letter to Mr. Henry Howard ("Response to Citizen Comments – Lake Berryessa Visitor Services Plan"), dated August 16, 2004, Enclosure 4, p. 5.
[77] In a discussion with the authors on August 25, 2004, Rancho Monticello resort concessionaire Robert White estimated that after including concession revenues other than trailer site rentals, trailer owners accounted for 50% to 60% of total concession revenues, depending upon the resort.
[78] RAMP, p. ix.

2. Health and Safety Concerns

A more serious charge against the concessionaires is that they present health and safety concerns, potentially resulting in harm to lake visitors. In the DEIS, Reclamation accuses the concessionaires of violating environmental and public health and safety laws, regulations, and codes.[79] If there are such serious health and safety concerns, Reclamation is certainly right to actively pursue remedies for the problems.

Reclamation's Concession Management Guidelines, described in the 2002 directive LND 04-01, offer a suitable solution to the problem. The guidelines describe the process of periodically rating the concessionaires' facilities to determine compliance with contract terms and applicable laws. The directive describes two different types of review, "local review" and "external review":

> *(a)* ***Local Review.*** *The local review will be conducted by the Reclamation office directly responsible for oversight of the concession. The local review will be conducted at least twice annually. One of the inspections must be conducted during the high use season. The combined reviews will determine the annual performance rating. The review will include, at a minimum, items listed in the Concessions Management Guidelines. The possible ratings are Satisfactory, Marginal, or Unsatisfactory. A copy of the completed review and rating will be sent to the regional office and the concessionaire and entered into the Recreation Use Data Report. The local Reclamation office will maintain all concession program management files and records.*
>
> *(b)* ***External Review.*** *The external review will be conducted and documented by a team of technical specialists who are not employees of the office directly responsible for oversight of the concessions. At a minimum, contracts with a term of 5 years or less will be reviewed once, midterm; contracts with a term exceeding 5 years will be reviewed every 5 years.*[80]

This review process is a good way to ensure that contract terms are being met and that health and safety concerns are quickly addressed.

Indeed, Reclamation has noted previous violations of wastewater regulations, for which the California Regional Water Quality Control Board issued Notices of Violation to a number of the resorts. Happily, efforts such as the closing of dry sites and the cleanup of sewer ponds were made to rectify the problems. By Reclamation's own account, these health and safety concerns have and are being satisfactorily remedied:

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[79] DEIS, p. 33.

[80] U.S. Department of the Interior, Bureau of Reclamation, Reclamation Manual, Directives and Standards, LND 04-01, "Concessions Management by Reclamation," April 29, 2002.

> *Reclamation is pleased to announce that due to the compliance and diligence of the concessionaires and the affected permittees, the cleanup has proceeded to such a degree that there is no longer a need for a separate information site on these issues. Reclamation thanks those involved for their understanding and conscientious efforts to help clean up Lake Berryessa.*[81]

This is just how the process should work. Discussions with concessionaires further reveal that they are quite open to making necessary improvements to their facilities (although they are certainly less inclined to invest large sums of money for less critical issues while facing the likelihood of eviction in the near future). The fact that health and safety concerns have been amicably and adequately resolved in the past through the cooperation of Reclamation and concessionaires begs the question of why the health and safety concerns cited in the DEIS as some of the reasons Alternative B should be adopted cannot be addressed similarly in the present and future.

The above success story notwithstanding, there remains the question of what should be done if a concessionaire refuses to comply with certain agreed upon standards. It has been said that the great weakness of Reclamation is its lack of authority. The 1992 RAMP confirms this criticism:

> *In 1975 Napa County returned management control of Lake Berryessa to Reclamation under the authority of Public Law 93-493. . . . Through this authority a series of policies were formulated to assist in the management of the lake. However, with no direct law enforcement authority, no formal rules and regulations (similar to the NPS title 36) were enacted. As a result, Reclamation is limited in its ability to effectively manage the lake surface and surrounding areas without assistance from other agencies.*[82]

The benefit of proper concession contract management, however, is that non-compliance may be resolved through the use (or mere threat of the use) of the legal system. Even if Reclamation does not have the financial resources to pursue legal action, the conducting of regular inspections will provide a record that can be passed on to other appropriate regulatory agencies with greater means. Thus, non-compliant concessionaires may be more easily held accountable for contract breaches.

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[81] Bureau of Reclamation Web site, Lake Berryessa Visitor Services Planning Effort, "Environmental Concerns," http://www.usbr.gov/mp/berryessa/.
[82] RAMP, p. 46.

3. Conclusions

The concession contract management deficiencies that pervade Reclamation are more than a matter of our own opinion and have not gone unnoticed even within the Department of the Interior. In May 2000, the Department's Office of the Inspector General issued an audit report that was highly critical of Reclamation's concession management and specifically singled out the poor management at Lake Berryessa. The report's conclusions are summarized below:

> *Overall, we concluded that BOR's [the Bureau of Reclamation's] newly adopted concession policies, directives, and standards will provide an adequate framework, when fully implemented, for managing its concessions operations and protecting the public with respect to its use of public lands. However, BOR had not effectively managed its existing concessions operations, primarily at the Canyon Ferry Reservoir and at Lake Berryessa, because of inadequate contract provisions, mainly in the areas of contract default and operation and maintenance plans, and because it had not enforced existing contract provisions in the areas of building improvements, health and safety inspections, and prices charged the public. Although BOR has acknowledged that concessions management is a priority, it has not developed procedures to fully implement the new policies, directives, and standards or taken sufficient actions or allocated sufficient resources to address known deficiencies in its concessions operations. As a result, long-standing health and safety deficiencies have not been corrected, and BOR land and water resources have been degraded. Furthermore, we concluded that BOR will continue to be hampered in its efforts to manage its concessions effectively because all of BOR's 21 concession contracts did not have one or more of the key provisions required by BOR's new policies, directives, and standards for concessions management.*[83]

The majority of the concerns voiced by Reclamation about the concessionaires and the trailers, including the most serious ones regarding health and safety issues may be resolved through good planning and vigilant contract management. Reclamation, as manager of the LBRA, has an interest in preserving the beauty of the lake and maintaining safe facilities for lake visitors. As such, Reclamation should implement performance-based contract reforms (i.e., institute concession contracts that require concessionaires to meet certain goals, such as facilities quality standards). By simply including provisions in concessionaires' contracts to clarify facility specifications and provide for periodic inspections, to be made by both Reclamation staff and outside specialists, the major concerns cited by Reclamation can be eradicated. As noted in the Department of the Interior's audit of Reclamation's concession contract management, the

[83] U.S. Department of the Interior, Office of the Inspector General, Audit Report, *Concessions Managed by the Bureau of Reclamation*, Report No. 00-I-376, May 2000, pp. 1-2. Available at the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs/OIG_audit_00-I-376.pdf.

existing framework for resolving the aforementioned problems is there, it just needs to be properly implemented. The coming expiration of the existing concessionaires' contracts provides a perfect opportunity to address issues of concern and include necessary contract provisions and specifications that have been overlooked in the past. Existing concessionaires and potential future concessionaires should have equal opportunity to negotiate contracts based on these terms.

C. Recreation Area Management

Reclamation's management of the LBRA is not without its shortcomings. Some of these shortcomings are within Reclamation's control and some are not. The following section will provide examples of both types of deficiencies and offer solutions that may improve the management of the LBRA and the enjoyment of the LBRA by the general public.

1. Reclamation's Ability to Manage the Lake Berryessa Recreation Area is Limited

a. Political Concerns

In addition to ineptitude in the area of concession contract management, Reclamation's management of the LBRA seems to be hampered by politically- or ideologically-driven goals and considerations, which should not be surprising given the inherent political incentives of any government agency. This seems to be the only reasonable explanation for Reclamation's policy shifts regarding trailers and the management of the seven resorts as they exist today, for they certainly are not driven by corresponding economic shifts.

According to directives issued in 2002, "Facilities and services must reflect the general public's needs rather than the desires of a particular individual or group."[84] Reclamation seems fond of interpreting and applying this principle to the detriment of the long-term trailer site owners and is far from evenhanded in applying the same notion to the interests of day users, short-term users, and influential special interest groups such as the Sierra Club. Indeed, not a single one of the action alternatives described in the DEIS allow the trailers to remain (although Alternative C would allow for the reintroduction of a "limited" number of trailers to less desirable sites after a lengthy period of construction). The trailer tenants are users of the lake as well and an important component of the LBRA, as Reclamation has itself previously acknowledged. Reclamation should make at least a minimal effort to recognize their rights to use and enjoy the lake as well.

[84] U.S. Department of the Interior, Bureau of Reclamation, Reclamation Manual, Directives and Standards, LND 04-01, "Concessions Management by Reclamation," April 29, 2002.

Reclamation certainly should not defer to every whim of the trailer owners, but neither should it exclude them when considering how best to balance the interests, and enhance the enjoyment of, all the lake's visitors. Given that the resorts, and accompanying trailer sites, account for only 15 miles of Lake Berryessa's 165 miles of shoreline[85] (approximately 9%), certainly there is room for both long-term and short-term users at the lake.

b. Lack of Facilities Improvements

Reclamation's chief accomplishments in providing facilities for day users are the Oak Shores and Smittle Creek day-use areas and the Capell Cove public launch ramp and parking area, which were projects mandated by Public Law 93-493 in 1974.[86] All three projects were planned and constructed between the mid-1970s and late 1980s.

Under Alternative B, Reclamation proposes to provide the following facilities enhancements:

- Upgrade the Visitor Center/Museum
- Retrofit its structures to comply with accessibility standards
- Improve two highway turnouts and provide additional parking
- Develop a new network of hiking trails.[87]

These improvements will prove rather costly. Some of them have been on the back burner since the 1992 RAMP. Even the DEIS admits, "several of the actions proposed by the RAMP are not yet fully implemented. These actions include developing trails, rehabilitating facilities for special-needs populations and implementing water surface zoning and use restrictions."[88] As noted previously, even if an investor could be found that would undertake Alternative B as currently conceived, concessionaire revenues and the resulting fees paid to Reclamation would be nowhere near current levels for a number of years, even under the most optimistic of circumstances. How does Reclamation propose to pay for these improvements? If it has not developed the 50-mile trail system envisioned in the 1992 RAMP in the twelve years since that document was approved, for example, how realistic is it to expect Reclamation to develop the *150*-mile trail system called for under Alternative B?

Reclamation has plenty of pending and backlogged projects to worry about. It should focus on making these improvements before considering an ambitious wish list of additional enhancements.

[85] Bureau of Reclamation Web site, Lake Berryessa Visitor Services Planning Effort, "Lake Berryessa Facts," http://www.usbr.gov/mp/berryessa/.
[86] DEIS, p. 75.
[87] Ibid., p. 8.
[88] Ibid., p. 85.

2. The Importance of User Fees[89]

a. Benefits of User Fees

User fees, or "impact fees," offer the practical benefits of providing the recreation manager with the resources with which to fund operations and make facilities improvements. This reduces reliance on congressional (tax) appropriations and gives the manager more flexibility in setting priorities (based on where user fee revenues are reinvested).

In addition to providing obvious practical benefits, user fees constitute a more fair funding system than tax appropriations. Under tax funding, everyone is taxed to pay for resources that relatively few will use. User-fee funding, by contrast, ensures that only those who actually utilize a resource, such as the LBRA, pay for it. This also allows those who do utilize recreational resources the freedom to spend their money as they see fit on the activities that they value most, thereby increasing their enjoyment of the resources. Moreover, the way visitors spend their money provides valuable information about their desired facilities and activities, which, in turn, allows recreation site managers to make more informed decisions regarding the expenditure of available financial resources. This, furthermore, makes recreation site managers more accountable to the wishes of the general public.

Despite the benefits of user fees, some have raised concerns that fees might be so high as to preclude the enjoyment of natural resources by the poor. To avert such a problem, there are several steps recreation managers can take. They include:

- Offering free or deeply discounted passes for admission or certain activities on a limited number of days each year,
- Setting aside a portion of free or deeply discounted activity passes to be distributed on a first-come, first-served basis, thereby allowing poorer visitors to compete with more wealthy visitors based on time (waiting in line) rather than money, or
- Offering free passes to those who volunteer a certain amount of time to facility improvements, such as trail maintenance or trash cleanup.

The likelihood that user fees would price Lake Berryessa visitors "out of the market" for the lake's resources is rather slim, however. According to the DEIS,

> ***There are no data that demonstrate or suggest that the rates currently charged by various resorts discourage use by any group of potential users****, although that possibility exists. Though the use of resort entrance*

[89] For a more in-depth discussion of user fees as applied to recreation site management, see Adam B. Summers, *Funding the National Park System: Improving Services and Accountability with User Fees*, Reason Foundation Policy Brief No. 31, September 2004. Available online at http://www.rppi.org/pb31.pdf.

fees is likely to have a discouraging effect on some lower-income users, ***there are no known disproportionately high adverse human health or environmental impacts, including social or economic effects to minority or low-income populations, as a result of approved programs and policies employed by the resorts****.*[90] [Emphases ours.]

If anything, it is the implementation of Alternative B that would negatively affect low-income populations, as it seeks to attract "a clientele with more disposable income than the current concessions attract"[91] to make up for lost revenues from the trailer tenants.

b. Reclamation's Efforts to Collect User Fees

User fees are currently charged both by the concessionaires and by Reclamation. The concessionaires charge user fees for things such as admission to the resorts and the use of boat launch ramps. Reclamation's utilization of user fees is limited but includes requiring fees for special-use permits, which are necessary for activities such as fishing tournaments, races, and regattas. The fees are used to cover administrative/processing costs. In addition, it is encouraging that Reclamation is advocating the implementation of user fees at the Capell Cove launch ramp and the Camp Berryessa group campground.

Reclamation recognized the value of charging user fees, though on a limited basis, in the 1992 RAMP:

Where legally authorized, charge user fees in areas where improvements have been made or a special service is provided. Semi-primitive (Class IV) and dispersed recreation (Class III) areas around the lake will remain open to the public at no charge. Fees could be charged for:

- *Houseboat inspections.*
- *Boat access camping program services.*
- *Special events.*
- *Special permit processing.*[92]

However, in the DEIS, Reclamation backed away from imposing user fees:

[U]nder this alternative [B], there would be no resort entrance fees, removing the "air of exclusivity" associated with resorts under current conditions. Prices of accommodations would be more amenable to lower income visitors than those that would exist under Alternative A, with economy cabins and campsites available at Spanish Flat and Rancho Monticello, as an example.[93]

[90] DEIS, p. 213.
[91] Dornbusch, p. 12.
[92] RAMP, p. 26.
[93] DEIS, p. 214.

The "air of exclusivity" comment is especially ironic considering Reclamation's desire, as expressed in the DEIS and the Dornbusch report, to attract a wealthier clientele to the resorts and tap into the Napa Valley visitor base. Reclamation would do better to ensure that facilities at Lake Berryessa remain affordable by encouraging competition among the concessionaires, rather than proposing that a single monopolist concessionaire control all concession facilities!

Finally, we must acknowledge that Reclamation's ability to implement or expand the use of recreational impact fees is limited, as the following example illustrates. In the 1992 RAMP, Reclamation included some of the comments received during the public scoping period that dealt with the fee issue. One person offered the following suggestion:

> *User fees should be charged for use of Knoxville-Berryessa Road. A toll road could be established between Turtle Rock and the Napa-Lake County line. Local residents and services could have passes.*[94]

Though a very valid suggestion, Reclamation had no choice but to dismiss it. As explained in the RAMP, "Reclamation has no control or authority over county or state owned roads leading to surrounding Lake Berryessa."[95] Unless the boundaries of the LBRA are expanded, Reclamation will remain unable to capitalize on the value of the roads surrounding Lake Berryessa. At a minimum, this would require the approval of Napa County, and likely federal approval or law changes.

c. Need for Improved Incentives

Reclamation does not currently have much incentive to efficiently impose user fees or make the most of its revenues, however. If it were to be too successful in generating user fees, Congress would likely raid Reclamation's funds and redistribute them to the general Treasury, as has happened numerous times in the past with land management agencies.

To correct this problem, Congress established the Recreational Fee Demonstration Program, signed into law as Public Law 104-134, in 1996. The program was initially authorized as a three-year pilot program and has been extended several times since, most recently in November 2003 (Public Law 108-108). Of critical importance is a provision in the law that guarantees that 80% of fees collected will stay within the park or recreation site that collected the fees, the rest being distributed to other recreation sites to satisfy government objectives and needs. Unfortunately, the "Fee Demo Program" is currently only available to the National Park Service, Forest Service, Bureau of Land Management, and Fish and Wildlife Service. These agencies have strongly supported the Fee Demo Program, lauding it in the FY 2003 Fee Demo Program "Progress Report to Congress," and have called upon Congress to make the program permanent.

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[94] RAMP, p. 34.
[95] Ibid., p. 34.

The Bureau of Reclamation, and Lake Berryessa visitors, would greatly benefit from Reclamation's inclusion and participation in the Fee Demo Program. Alternatively, management of the LBRA could be turned over to an agency that does participate in the program. Either option would require changes in current laws at the federal level.

3. Impact of President Bush's Executive Order Concerning Local Environmental Management

It is important to note that President Bush recently issued an executive order concerning local environmental management. The order commands government agencies to defer more to local stakeholders—including individuals, private for-profit and nonprofit groups, and state and local governments—when managing environmental resources. Specifically, it calls for more "cooperative conservation" regarding the "use, enhancement, and enjoyment of natural resources, protection of the environment, or both" by the departments of Interior, Agriculture, Commerce, and Defense, as well as the Environmental Protection Agency. The order further requires that government "takes appropriate account of and respects the interests of persons with ownership or other legally recognized interests in land and other natural resources."[96]

It is unknown whether or how this executive order might affect the implementation of Alternative B, although it is conceivable that if the Department of the Interior (and, by extension, the Bureau of Reclamation) is forced to give greater consideration to the interests of the concessionaires and/or the trailer owners, Alternative B and the other action alternatives contained in the DEIS may not be legally viable options.

IV. Conclusions

The economic feasibility analysis conducted by Dornbusch Associates attempts to put as positive a spin as possible on an unreasonable and unworkable alternative management plan for the Lake Berryessa Recreation Area. Dornbusch has concluded that "Alternative B would not represent a viable business opportunity if the underlying concession contract(s) stipulated that the concessionaire(s) would have to fund all of the associated capital investment requirements."[97] This alone should have sealed the fate of Alternative B (and the other substantially similar action alternatives). Reclamation then attempted to salvage Alternative B by adopting Dornbusch's recommendation to pursue a partial solution, Phase I. Even Dornbusch's analysis of this "phased development" subset of Alternative B is lacking, however.

[96] John Heilprin, "Bush: More Local Environmental Management," Associated Press, August 26, 2004.
[97] Dornbusch, p. 7.

In short, Reclamation proposes to:

- Remove all 1,300 long-term trailer sites, which account for nearly 40% of total concession revenues from rental fees alone (not counting revenues trailer tenants generate for marina slips, restaurants, and other concessions),

- Drastically reduce facilities at the lake from the current seven resort sites to three developed sites and four sites with nominal services, and

- Effectively shut down the lake for two years during a period of construction.

Despite all this, it expects to receive higher per capita spending and greater revenues than currently exist (net of the trailer rental fees). Dornbusch repeatedly acknowledges that the implementation of Alternative B, Phase I, will result in "uncertain" demand, although it seems quite obvious that demand would be depressed. After finding suitable substitute recreation sites, people may not be so eager to return to Lake Berryessa, particularly if facilities are drastically reduced. The scaled back concession operations will only make Lake Berryessa less attractive to past (and potential) visitors.

In its Draft Environmental Impact Statement, Reclamation cautions:

> *Under Alternative B, each bidder, including any existing concessionaires who wished to participate, would prepare a bid package covering a significantly larger and much more complex business than those currently operated under contract agreements at the lake. Operation of such a concession would demand substantial financial resources and management expertise from the outset. These demands would be challenging for any bidder, including existing concessionaires, to meet.*[98]

Throwing this caution to the wind, however, Reclamation has largely ignored significant risks that having a direct bearing on the feasibility of Alternative B. The costs of removing facilities not selected by Reclamation or a future concessionaire for inclusion in the Alternative B plan, or compensating concessionaires for their investments in such facilities, are assumed away, although this remains an open legal question.[99] These costs, which could easily total tens of millions of dollars, could, by themselves make the difference in whether the project is attractive or feasible to a future concessionaire, even if all of Alternative B's other provisions are deemed feasible (which is clearly not the case, as we have demonstrated).

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[98] DEIS, p. 200.

[99] Reclamation has also acknowledged that the issue of who pays additional costs, such as the removal of gas lines, gas meters, telephone lines, and electrical lines to trailer weather heads, is "a legal question." [See U.S. Department of the Interior, Bureau of Reclamation, Central California Area Office, Letter to Mr. Henry Howard ("Response to Citizen Comments – Lake Berryessa Visitor Services Plan"), dated August 16, 2004, Enclosure 4, p. 4.] These costs, when aggregated for the 1,300 or so trailer owners, could prove a significant added burden to Reclamation or a future concessionaire if a court were to rule that they are responsible for footing the bills.

Also ignored is how Reclamation plans to pay for its proposed improvements (trails, visitors' center, etc.) under Alternative B. By Dornbusch's admittedly optimistic projections, it will be highly unlikely (at best) for a new concessionaire to even achieve the \$8.5 million or \$7.2 million thresholds, from which Reclamation derives fees to support its operations. This is dramatically lower than the \$12.7 million in revenues realized by the resorts at the time of the Dornbusch study. Given that it is also highly unlikely that there will be any significant increase in congressional appropriations for the management of Lake Berryessa, where does Reclamation propose to get the money to fund these improvements? Moreover, since these improvements have been desired, but not acted upon, for the past 12 years, why should we believe that Reclamation is entirely committed to making them in the first place?

Dornbusch Associates repeatedly refers to its economic feasibility study as a merely "conceptual-level analysis." As a testament to its lack of faith in its own numbers and assumptions (some of which were provided and required by Reclamation), Dornbusch cautions in several places that assumptions and estimates contained in the analysis will have to be revisited at a time closer to the expiration of the current concessionaires' contracts. Reclamation does not appear to want to wait until then, however, and is stubbornly proceeding with its frail proposed management plan.

It is clear that there can be no economic justification for the removal of 40% of current revenues in direct rental fees, plus an additional unknown portion of the other concession revenues (especially boat slip rentals) provided by the current long-term users of the lake. The Dornbusch study is the most extreme example we have ever seen of torturing the numbers in order to reach a desired conclusion. To use the study as an economic justification for Reclamation's Plan B would be intellectually dishonest. In fact, it is striking that the Dornbusch study, the ***only*** economic justification provided by Reclamation for its plans, is scarcely mentioned in Reclamation's DEIS. The inescapable conclusion is that Reclamation's real reasons for its proposal are non-economic. Rather than pitting long-term and short-term users against one another, Reclamation should celebrate the fact that Lake Berryessa can accommodate all types of visitors and activities. Any respectable management plan should incorporate the interests of all types of visitors, not just preferred interest groups or ideological whims.

Recommendations

1. Engage in cooperative discussions with concessionaires, trailer tenants, and other interested parties.

2. Extend the leases of the current resorts (with open bidding for the concessions) for 10 more years.

3. Implement performance-based concession contract management reforms to (1) clarify concession facilities (including trailers) requirements and specifications and (2) elucidate facilities inspection procedures and remedies for non-compliance.

4. Conduct an extensive survey of public demand for the various uses of the lake.

5. Expand the use of recreation impact fees (user fees) and increase Reclamation's reliance on user fees as a funding source to provide more resources, fairness, and recreation management decision making, flexibility, and accountability.

6. Seek to include the Bureau of Reclamation in the federal Recreational Fee Demonstration Program.

7. Let the market for recreation at Lake Berryessa decide the appropriate mix of facilities and services.

8. Conduct open discussions regarding other public policy issues affecting lake usage.

9. Explore the possibility of shifting overview of Lake Berryessa to other resource management agencies such as the National Park Service or Bureau of Land Management.

About the Authors

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