Analysis of the Resort Owners Plan for Lake Berryessa

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I. Introduction

On October 25, 2004, the authors issued the aptly titled "Economic Analysis of the Dornbusch Associates Report and the Bureau of Reclamation's 'Alternative B' Plan for Lake Berryessa" (referred to hereafter as the "previous analysis").[1] Among the major findings of this analysis were the following:

1. Elimination of long-term use sites would destroy the current (and future) concessions revenue stream and the feasibility of Alternative B.

2. Only the "Phase I" subset of Alternative B is analyzed (since even Dornbusch determined that Alternative B in its entirety is not feasible).

3. The single concession contract would eliminate competition among the concessionaires and might harm lake visitors as a result.

4. The elimination of concession activity at the lake for two years would negatively affect visitor demand (and cause the Bureau to forego fees paid to it by the concessionaires).

5. The lack of compensation to outgoing concessionaires for facilities improvements likely violates Public Law 96-375. If the Bureau is forced to reimburse concessionaires for facilities not included in the Alternative B plan, this fact alone might render the entire plan unfeasible, as the costs to the Bureau (or a future concessionaire) would be enormous.

6. Infrastructure and other significant costs are underestimated or assumed away in the Dornbusch report and Alternative B.

7. The assumption that demand will be enhanced, given the drastically-reduced facilities available under Alternative B's "Phase I," by purportedly improving the quality of concessions is highly unlikely.

8. The assumption that per capita spending of visitors will increase if Alternative B is implemented is unsupported and highly unlikely.

9. The assumption that the loss of business due to the elimination of trailer sites may be made up by the trailer owners returning as visitors or by others who are attracted to the new facilities is highly unlikely.

[1] Adam B. Summers and Michael R. Summers, "Economic Analysis of the Dornbusch Associates Report and the Bureau of Reclamation's 'Alternative B' Plan for Lake Berryessa," October 25, 2004. Available online at the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs_forms/index.html.

10. Numbers crucial to the feasibility analysis, such as the 15% discount rate and earnings of 35% of gross receipts, are exceedingly optimistic. Especially troubling is the fact that Dornbusch's $8.5 million revenue feasibility threshold is reduced to $7.2 million in later sections of the report (when concessions are broken down by type) ***without explanation***!

11. Assumptions of facilities revenues, including occupancy and usage rates and the length of the peak season, are overly optimistic.

12. Reclamation's concession contract management is poor and must be improved. Most, if not all, of the concerns raised by Reclamation regarding the existence of long-term use sites—including health and safety concerns—can be resolved by simply clarifying and enforcing concession contract provisions, which the concessionaires support but the Bureau has been unwilling to consider.

13. Reclamation's management of the Lake Berryessa Recreation Area is poor and must be improved. It seems hypocritical of Reclamation to complain about the quality and/or quantity of concession facilities available to day users when it has not done its part to offer recreation opportunities to current and potential lake visitors.

Apparently, the Bureau of Reclamation (hereafter, "Reclamation" or "the Bureau") found that the arguments were merited, as it then published the analysis on its Web site and reopened the public review and comment period for the Draft Environmental Impact Analysis (DEIS) for the Lake Berryessa Visitor Services Plan (VSP) to consider "additional economic information."[2]

Following the decision to reopen the DEIS, the seven owners of the resorts around Lake Berryessa got together to put forth their own alternative plan for the lake. In late March the resort owners met with representatives from Reclamation. Since Reclamation's Preferred Alternative, Alternative B, (and, indeed, all of the alternatives offered in the VSP) would necessitate drastic changes to every one of the resorts (not just one or two), it was reasonable for the Bureau to meet with all the concessionaires to hear their feedback on Reclamation's Preferred Alternative. This cooperative environment is much more constructive than Reclamation's past attempts to unilaterally impose its vision upon those that actually provide the vast majority of the services at the lake.

The seven resort owners have united to put forth a plan for the lake, drawing upon their decades of resort management experience to provide a plan that will improve facilities and services for Lake Berryessa visitors *and* is financially feasible. This paper will summarize and analyze the Resort Owners Plan (ROP) and compare it to both existing conditions (i.e., Alternative A, the *status quo*) and Alternative B.

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[2] "Lake Berryessa VSP Comment Period Being Reopened to Review Additional Economic Information," U.S. Bureau of Reclamation press release, February 16, 2004. Available online at http://www.usbr.gov/newsroom/newsrelease/detail.cfm?RecordID=4121.

The ROP does not represent a new alternative. Rather, it stays within the boundaries of the current DEIS and offers a blend of Alternatives A and C. As we will demonstrate in this paper, this blending of current Alternatives in the DEIS is more financially feasible and offers greater access to the general public than the current Preferred Alternative proposed by Reclamation.

In addition, the ROP well represents the goals established by the Bush administration. It signifies an effort to find a compromise with Reclamation and to be consistent with the administration's stated goals to maximize access to public lands and not discriminate against any current users of those public lands. Further, it is consistent with the "4 Cs" philosophy outlined by the Secretary of the Interior ("conservation through communication, consultation, and cooperation").[3] At Lake Berryessa there is both a land use issue and water management issue. The current Preferred Alternative by Reclamation will result in both short-term and long-term damage to the physical landscape of the lake. Hundreds of trees will need to be removed and miles of ground cover stripped. The ROP recognizes needs for improvement and at the same time attempts to meet all the guidelines of the 4 Cs.

II. Comparison to Current Conditions

1. Facilities Would Be Improved

The ROP provides for a substantial amount of facilities and services improvements. Under the ROP, the resort owners propose additional facilities and infrastructure investments of nearly $42 million. Implementation of the ROP would increase available hotel/motel rooms by 170 percent, cabins by 367 percent, picnic area capacity by 55 percent, RV capacity by 98 percent, tents by 34 percent, group site capacity by 41 percent, slips by 34 percent, boat ramps by 70 percent (from 10 to 17), rental houseboats by 650 percent (from 4 to 30), restaurants by 67 percent (from 3 to 5), snack bars by 80 percent (from 5 to 9), and stores by 43 percent (from 7 to 10). In addition, long-term sites (i.e., trailer sites) would be reduced by 15 percent and dry storage would be reduced by 56 percent (see Table 1).

The following is a resort-by-resort breakdown of the facilities improvements that would be made under the ROP.

[3] U.S. Department of the Interior, Office of the Secretary press release, "Interior Department Announces Modernized Procedures Implementing the National Environmental Policy Act (NEPA)," March 8, 2005. Available online at http://www.doi.gov/news/040308a.

Berryessa Marina Resort

- Proposes to re-incorporate Smittle Creek with the resort
- Long-term sites will decrease from 157 to 120
- Short-term sites will increase from 157 to 258
- Day-use sites will increase from 90 to 140
- Docks will increase from 166 to 322
- Rental Houseboats will increase from 4 to 30

Markley Cove Resort

- Long-term sites will decrease from 51to 32
- Short-term sites will increase from 0 to 13
- Day-use sites will increase from 100 to 180
- Docks will increase from 256 to 281

Pleasure Cove Resort

- Proposes a hotel (with a restaurant and meeting rooms), which will increase the number of hotel rooms from 0 to 60
- Will develop unused resort land
- Long-term sites will decrease from 73 to 60
- Short-term sites will increase from 185 to 348
- No change in the number of day-use sites (132)
- Docks will increase from 120 to 278

Putah Creek Resort

- Existing motel will be replaced with a hotel that will increase the number of rooms from 27 to 40
- A new restaurant will be added and the existing restaurant/bar will be replaced
- A new amphitheater will be built
- Long-term sites will decrease from 152 to 140
- Short-term sites will increase from 196 to 334
- Day-use sites will increase from 172 to 222
- Docks will increase from 142 to 220
- Boat storage will increase from 50 to 100
- A fuel dock will be added

Rancho Monticello Resort

- New facilities will be developed in the Big Flat area
- Long-term sites will decrease from 569 to 420
- Short-term sites will increase from 93 to 531
- Day-use sites will increase from 275 to 425
- Docks will increase from 386 to 420
- A second store will be added
- A second café will be added
- A second marina will be added

Spanish Flat Resort

- 225 acres of unused resort land will be developed
- Long-term sites will increase from 198 to 225
- Short-term sites will increase from 136 to 350
- Day-use sites will increase from 50 to 200
- Docks will increase from 201 to 224
- Boat Storage will increase from 19 to 100

Steele Park Resort

- Day-use parking will be increased
- Amenities will be upgraded
- No change in the number of long-term sites (147)
- Short-term sites will increase from 80 to 158
- Day-use sites will increase from 400 to 600
- Docks will increase from 212 to 230

Table 1: Comparison of Existing Concession Facilities to Those After Phase I and Phase II of the Resort Owners Plan

Facility	Number of Current Facilities	Resort Owners Plan			
		Phase I	Percent Change	Phase II	Percent Change
Long-Term Sites	1,347	1,198	-11%	1,144	-15%
Long-Term Site Vacation Rentals	0	210	N/A	390	N/A
Hotel/Motel Rooms	43	116	170%	116	170%
Cabins	55	165	200%	257	367%
Picnic Areas	5	6	20%	9	80%
Picnic Area Capacity	544	744	37%	844	55%
RV Sites	222	327	47%	440	98%
Tent Sites	504	589	17%	675	34%
Group Camp Sites	16	16	0%	20	25%
Group Site Capacity	465	465	0%	655	41%
Boat Slips	1,483	1,792	21%	1,989	34%
Boat Ramps	8	15	88%	17	113%
Houseboats	4	20	400%	30	650%
Other Boat Rentals	87	144	66%	190	118%
Dry Storage	1,068	390	-63%	390	-63%
Restaurants	3	4	33%	5	67%
Snack Bars	5	8	60%	9	80%
Stores	7	9	29%	10	43%
Water Ski Center	1	1	0%	1	0%

Source: Resort Owners Plan, p. 37.

2. Long-Term Sites Would Be Reduced

Notably, the concessionaires have agreed to reduce the number of long-term sites by 15 percent. The proposal does not stop there, however. In an effort to address the "exclusive use" issue that has caused Reclamation a great deal of concern, the resort owners have come up with an innovative solution to open up a portion of the long-term sites to the public. Under the ROP, approximately 34 percent of the remaining 1,144 long-term sites would be operated as vacation rentals, with the resorts acting, effectively, as rental management companies. This proportion could be expanded as warranted by visitor demand. The rentals would consist of both permittee- and resort-owned units. Resort-owned units would be used to satisfy short-term user demands while permittee-owned units would satisfy both long-term and short-term user demand.

The vacation rental concept would allow trailer owners the opportunity to earn money towards their site rentals when they do not plan to use the trailers and the public the ability to utilize facilities currently enjoyed solely by the trailer owners.[4] The concessionaires would receive a small percentage for managing the rentals (matching up the owners and renters), which could be used for advertising/marketing or general operations purposes.

3. Franchise Fees Would Be Increased

The seven concessionaires currently pay Reclamation franchise fees of 1.5 percent to 3.0 percent of their net receipts. The average franchise fee is approximately 2.71 percent.[5] Under the ROP, franchise fees would be raised to 5.0 percent. This represents a rate increase of over 84 percent.

Significantly, these fees would be adjusted according to concessionaire performance. Resorts determined by Reclamation to be meeting their objectives would be rewarded with reduced franchise fees and those failing to live up to acceptable standards would be punished with higher fees. Thus, the adjustable franchise fees would maximize the concessionaires' performance incentives. Note that, for this system to work properly, objectives must be clearly spelled out in detail in advance (and adjusted with the mutual consent of Reclamation and the concessionaires, as necessary).

4. Visual Appearances Would Be Improved

In our previous analysis, we addressed the issue of the appearance of some of the trailers:

> *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*

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[4] Under the ROP, some trailers might even be owned by the concessionaires themselves, rather than the permittees.

[5] Markley Cove pays a franchise fee of 1.5 percent of net receipts, Pleasure Cove pays a rate of 2.5 percent, and the remaining five resorts each pay a rate of 3.0 percent, for an average rate of 2.71 percent.

> *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.*[6]

The ROP addresses this issue as well, calling upon the resort owners to develop a palette of acceptable colors for structures. In addition, the ROP would improve the look of the resorts by renovating facilities and adding new graphics, signage, and facades.

5. **Shoreline Access Would Be Increased for Day-Use Visitors**

Another concern voiced by Reclamation and some day users is that not enough of the lake's prime shoreline is accessible to day users. As noted in our previous analysis, this issue is overstated, considering that the seven resorts combined occupy a mere 15 miles of Lake Berryessa's 165 miles of shoreline (approximately 9 percent).[7] Nevertheless, the resort owners have committed, in the ROP, to "Create additional areas along the shoreline for day use recreation and access."[8]

In addition, Reclamation has expressed a desire to address the shoreline access issue by establishing a boat-in camping program.[9] We believe that such a program would be an excellent way to open up more of the lake's expansive shoreline to the public and encourage Reclamation to pursue such a program.

6. **Government Price Controls Would Be Eliminated**

Currently, the Bureau of Reclamation has control over the rates for goods and services provided by the concessionaires. All rate increases for services and merchandise must be approved by Reclamation. Reclamation makes its rate increase approval decisions based upon an annual survey of other recreational lake facilities within the state. The sampling of "comparable" lakes and concessionaires tends to be curiously selective and arbitrary, however. Some resorts from a particular lake may be included in the sampling while others are excluded. Moreover, even when rate increases are approved, Reclamation's rate review and analysis process can cause significant lags (perhaps months) between rate requests and implementation, by which time economic conditions may have changed.

Oddly enough, after determining the "appropriate" rates from this sampling technique, Reclamation manages to arrive at different rate schedules for different resorts within

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[6] Summers and Summers, p.31.
[7] Ibid., p. 36.
[8] *Lake Berryessa Resort Owners Plan (ROP): Future Recreation Use and Operations of Lake Berryessa*, April 4, 2005, p. 16.
[9] Reclamation advocates the creation of a boat-in camping program in each of the action alternatives (B, C, and D) contained within the Draft Environmental Impact Statement (DEIS). See 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*, October 2003. Available at the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/deis/10-2003_draft_lake_berryessa.pdf.

Lake Berryessa. This despite the fact that, oftentimes, the resorts offer substantially the same facilities or services. This makes the rate decisions even more arbitrary.

Some resort owners have complained that their allowable price increases have not kept up with increases in expenses, or even inflation, over the past few years. The ROP calls for an end to this government price fixing, and rightly so. The current system is extremely arbitrary and opens the government up to the criticisms of cherry-picking rates for their price surveys or "playing favorites" with the resort owners. Furthermore, this price setting is simply poor economic policy. When prices are set too low (i.e., below the rates that would be determined in the free market), there will exist too much demand and not enough supply of a given good or service. In other words, restrictive price controls cause shortages. This is good for those who are able to get in at the artificially-low price, but bad for those who are excluded from utilizing the facilities or services at all (not to mention the sellers who must accept artificially-low profits). This prevents some lake users from utilizing facilities and the concessionaires from realizing fair profits.

The continuous changes in economic conditions and people's personal preferences make it impossible for any central planning agency to devise the optimal prices of goods and services (particularly when those rates must remain fixed for extended periods of time). Such can only be done by the free market, through the forces of supply and demand. If the resort owners at Lake Berryessa are to make the substantial capital investments described in the ROP, and to have the opportunity to realize fair profits, they must have the flexibility to adapt their pricing schedules to suit market conditions. Competition among the seven resorts will ensure that rates remain reasonable and that lake users are not gouged. (Excessive price increases would lead to a significant decrease in the number of visitors, and thus profits.) These business decisions must be made by resort owners operating in the market sphere, not bureaucrats operating in the political sphere.

III. Comparison to Dornbusch/Alternative B

1. The ROP Offers Far More Facilities to Lake Users

Our previous analysis noted how drastically facilities would be reduced under Alternative B. Consider, for example, that under Alternative B (Phase I), there would be 30 percent fewer hotel/motel rooms, 49 percent fewer cabins/cottages, 82 percent less picnic area capacity, 50 percent fewer tent sites, 60 percent fewer boat slips, 91 percent less dry storage, and, of course, 100 percent fewer long-term sites. The only facilities that would be increased would be RV sites (by 35 percent) and houseboats (by 400 percent). In contrast, after Phase I alone, the ROP would offer nearly four times as many hotel/motel rooms, nearly eight times the number of cabins/cottages, nearly seven and a half times the picnic area capacity, nearly two and a half times the number of tent sites, nearly three times the number of boat slips, and nearly seven times the dry storage capacity as Alternative B (see Table 2).

Table 2: Facilities Comparison: Alternative B Versus the Resort Owners Plan

	Current	Phase I				Phase II		
Concession		**Percent Change Under Alt. B**	**Alt. B**	**ROP**	**ROP as % of Alt. B**	**Alt. B**	**ROP**	**ROP as % of Alt. B**
Long-Term Sites	1,347	-100%	0	1,198	N/A	0	1,144	N/A
Long-Term Site Vacation Rentals	0	N/A	0	210	N/A	0	390	N/A
Hotel/Motel Rooms	43	-30%	30	116	387%	60	116	193%
Cabins/Cottages	55	-49%	28	221	789%	148	350	236%
Picnic Areas	5	-80%	1	6	600%	6	9	150%
Picnic Area Capacity	544	-82%	100	744	744%	400	844	211%
RV Sites	222	35%	300	327	109%	375	440	117%
Tent Sites	504	-50%	250	589	236%	500	675	135%
Group Camp Sites	16	-81%	3	16	533%	3	20	667%
Group Site Capacity	465	-68%	150	465	310%	150	655	437%
Boat Slips	1,483	-60%	600	1,717	286%	900	1,839	204%
Boat Ramps	8	-13%	7	15	214%	12	17	142%
Houseboats	4	400%	20	20	100%	30	30	100%
Other Boat Rentals	87	-59%	36	144	400%	50	190	380%
Dry Storage	1,068	-91%	100	670	670%	100	751	751%
Restaurants	3	-33%	2	4	200%	5	5	100%
Snack Bars	5	-60%	2	8	400%	4	9	225%
Stores	7	-57%	3	9	300%	7	10	143%
Portable Stores	0	N/A	4	0	N/A	0	0	N/A
Water Ski Centers	2	-50%	1	2	200%	1	2	200%

*Note: Since no detailed facilities information was offered for Phase II of Alternative B, the figures used here are estimates and were derived by applying the Water Recreation Opportunity Spectrum (WROS) that the DEIS proposes to use to designate the "appropriate" kinds of recreational use and use levels for the lake and shore areas to the amount of available resort land.
Source: Resort Owners Plan, p. 39.

2. The Plan Would Be Implemented in Two Phases

Like the Dornbusch proposal for Alternative B, improvements under ROP would take place in two phases. There are a number of stark differences between the two approaches, however. First, while Dornbusch analyzed only "Phase I" of Alternative B (since the plan in its entirety was deemed to be not feasible),[10] the ROP provides a detailed plan for both phases. This brings us to two other significant differences:

a) The ROP is Complete and Finite.

The ROP stipulates that Phase I would be completed within 1-2 years. Dornbusch similarly estimated a two-year implementation period for its Phase I.[11] The ROP's greater capital investment requirement for this period—$27.2 million versus $23.1 million for the Dornbusch/Alternative B plan[12]—is mitigated by the fact that the resorts would be able to continue operating during the improvements (see below). Phase II of the ROP would be completed within 5 years of Phase I completion, assuming demand increases as projected. Dornbusch, by contrast, provides no timetable for the implementation of Phase II: "The feasibility of the remainder of the proposed Alternative B concession developments (Phase II) will need to be evaluated, if and when future visitor demand warrants its implementation."[13] Given that, as we argued in our previous analysis, Phase I was not even feasible on its own, the even more ambitious Phase II likely would never be implemented at all.

b) The ROP is Detailed.

Dornbusch frequently repeated the caveat that its plan for Alternative B was merely "conceptual."[14] Far from being merely conceptual, the ROP provides specific numbers of facilities to be added or renovated for each type of concession for each phase for each resort. While it is certainly not the fault of the Dornbusch authors that the information available to them was limited and incomplete,[15] and that their work was misused when it was presented as justification for a specific action alternative (rather than as a planning document or an idealized wish list of facilities and economic conditions), it should be clear that the concrete and specific plan offered by the resort owners represents a superior plan of action.

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[10] Dornbusch Associates Economic Feasibility Report for the VSP (Dornbusch), October 15, 2003, p. 7. Available at the U.S. Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs_forms/index.html.
[11] Dornbusch, p. 53.
[12] Ibid., p. 4.
[13] Ibid., p. 2.
[14] Ibid., pp. 3, 21, 22, 47.
[15] Ibid., pp. 1, 3, 19, 20, 21, 22, 49.

3. The Lake Would Not Be Shut Down for Two Years

While Dornbusch assumes a "full cessation of concession activities at the lake" during Phase I's two-year construction/renovation period,[16] the ROP would allow the resorts to remain open while facilities are being constructed or renovated. This is mainly because the changes anticipated in the ROP are less drastic than those required in Alternative B and would not involve as much facility demolition and removal.

As noted in our previous analysis, shutting the lake down for an extended period of time could have persistent negative effects on visitor demand, as previous and potential lake visitors would seek out alternative recreation sites and substitute forms of recreation. Keeping the lake open would allow the public to continue to enjoy use of the lake and its facilities, the concessionaires to continue to earn fair profits (although certain renovations might still keep some people away and affect revenues at the margins), and Reclamation to continue to collect franchise fees from the concessionaires during the improvements.

4. The Plan Recognizes the Economic Importance of the Long-Term Sites

As noted in our previous analysis, the long-term sites are a vital component of the economic health of the resorts. The trailer owners currently account for an estimated 50-60 percent off all concessionaire revenues.[17] Removing all these sites would obviously result in a catastrophic loss for the concessionaires.

Trailer-site rentals are a very profitable business for the resort owners. Far from benefiting the resorts or the trailer owners at the *expense* of the general public, however, this revenue source serves to subsidize less profitable facilities for short-term and day users. As the 1992 Reservoir Area Management Plan notes,

> *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.***[18] (Emphasis added.)

While the peak season is roughly only about 100 days (and there is a significant drop-off in occupancy and facilities usage the rest of the year), long-term site rental fees provide year-round income so the resorts can offer year-round services and affordable facilities to the public. Without the long-term sites, full services would likely be offered only during the peak season, with scaled-down operations (i.e., fewer available facilities and services) available during the majority of the year. This certainly would not benefit lake visitors.

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[16] Ibid., p. 53.
[17] Summers and Summers, p. 31.
[18] U.S. Department of the Interior, Bureau of Reclamation, *Environmental Impact Statement: Lake Berryessa Reservoir Area Management Plan* (RAMP), May 1992, p. ix. Available on the Bureau of Reclamation Web site at http://www.usbr.gov/mp/berryessa/docs_forms/05-1992_final_ramp.pdf.

5. Problems from Trailer Removal Would Be Avoided

If Alternative B (or any other single action alternative) were to be implemented, all vacation mobile homes would have to be removed.[19] This would present a number of problems. Removal of the trailers would entail enormous costs. Some trailer owners might refuse to leave, resulting in legal and perhaps even public safety concerns. Others, unable or unwilling to bear the costs of removal might simply remove their belongings from the trailers and leave the structures behind. Moreover, the costs of trailer removal would not merely be economic. Trailer removal would raise a number of environmental concerns as well, including removal of trees and other growth that have sprouted up around the trailers since the trailers were put in place (which would have to be removed in order to get the trailers out), wildlife impacts, and the effects of the resulting erosion, dust, and noise.

To prepare for this contingency, Reclamation will be requesting $15 million in appropriations over the next three fiscal years for "Trailer and Shoreline Structure Removal."[20] Indeed, Reclamation has already made an initial request for $200,000 for this purpose in the President's FY 2006 budget request.[21] Fifteen million dollars is quite a sum to pay for the removal of structures that pose no serious threat to public safety, the environment, or the enjoyment of the lake by others, however. We submit that if Reclamation is to obtain an additional $15 million in federal funding, that money would be much better put to use developing facilities around the lake for day users. This money could be put toward the boat-in camping program, the development of hiking trails around the shoreline and surrounding areas, or numerous other facilities improvements called for in the 1992 RAMP but never implemented. To devote scarce resources to the unjustified and unnecessary removal of trailers would simply be a waste. Moreover, under the ROP, the existing concessionaires would take care of all necessary trailer and shoreline structure removal. The concessionaires are in a position to make the necessary changes in a more economically efficient manner.

6. Financial Assumptions Are More Realistic

One of the most important contributions of the ROP is the introduction of realistic financial assumptions to the development plan for the lake. Dornbusch's "conceptual" analysis relied upon overly-optimistic estimates, which oftentimes seemed tortured[22] (sometimes by Dornbusch's own admission) in order to reach the pre-determined conclusion of economic feasibility for the facilities included in Phase I of Alternative B. The analysis necessarily relied upon very rough (and highly suspect) estimates because it was attempting to analyze a merely theoretical set of economic conditions.

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[19] Under Alternative C, a limited number of trailer sites would be re-introduced to certain resorts at a later date. See the summary of the action alternatives at DEIS, pp. 3-7.

[20] U.S. Bureau of Reclamation, Mid-Pacific Region, *FY 2007 Customer Five Year Overview*, August 25, 2004, pp 1-2, 49-50. Available online at http://www.usbr.gov/mp/bap/reports/2007/0413_FY07.pdf.

[21] U.S. Bureau of Reclamation, *FY 2006 Budget Justification*, p. MP-106. Available online at http://www.usbr.gov/budget/2006/Table%20of%20Contents/01Tblcon.pdf.

[22] For examples of this, see Summers and Summers, pp. 15-23.

The ROP is grounded in economic realities and the resort owners' decades of managerial experience. The ROP is financially feasible, practically by definition, since the resort owners, presumably, would not advance a plan that would put them out of business. Below we discuss some of the specific financial assumptions.

a) Return on Investment

Dornbusch assumed that a prospective investor would require at least a 15 percent return on his investment to undertake the project outlined in Phase I of Alternative B (and, thus, to make the plan feasible). Dornbusch even acknowledged that the risk involved in the project had caused them to consider an even higher rate of return.[23] To illustrate how unlikely such a scenario would be, consider that the resort owners currently earn an average return on investment of about 9 percent.[24] Even after the final phase of the ROP is completed, the concessionaires anticipate a return of just under 10 percent. This remains feasible because there is much less risk involved in expanding upon a proven business model than in ripping out most of the facilities, eliminating 50 to 60 percent of the historic revenue source (the trailer owners), and starting from scratch.

b) Capital Investment

As noted previously, the ROP actually calls for a greater capital investment than Dornbusch/Alternative B plan during Phase I. Since this investment will likely be spread out over a slightly longer time frame, however, it should not be overly burdensome to the concessionaires. In addition, the costs are divided among the seven resort owners, rather than being borne by a single concessionaire. Since Phase II of Alternative B was not analyzed, it is impossible to say what the capital investment requirements of that project might be. Suffice it to say, the resort owners propose a total capital investment (over both phases) of nearly $42 million.

c) Individual Concessions

In our previous analysis, we concluded that Dornbusch frequently underestimated the costs of operating various types of concessions and, in a number of cases, was overly optimistic in its presumptions that the proposed type or level of services would be financially feasible.[25] The numbers provided by the resort owners appear to confirm our suspicions. According to the ROP, concession operating costs as a percentage of gross receipts are approximately 61.0 percent.[26] In contrast, Dornbusch assumed that, under Alternative B, operating costs would be only about 54.7 percent of gross receipts (see Table 3).

[23] Dornbusch, p. 16.
[24] ROP, p. 64.
[25] See Summers and Summers, pp. 18-23.
[26] ROP, p. 64.

While this may not appear to be too great a disparity, this means that Dornbusch assumed that operating costs would be *more than 10 percent cheaper* under Alternative B than under the current economic conditions, a significant difference indeed. Yet, there is no reason to believe that operating costs would be any cheaper under Alternative B. Thus, the ROP's assumptions are more conservative than those of Alternative B, adding greater credence to the feasibility of the concessionaires' plan.

Table 3: Concession Target Revenues and Operating Costs Under Alternative B

Concession*	Target Revenue	Estimated Operating Costs (as % of Gross Receipts)	Estimated Operating Costs (Dollars)
Hotel/Motel	$465,000	62%	$288,300
Cabins/Cottages	$255,000	54%	$137,700
RV Sites	$894,000	35%	$312,900
Tent Sites	$189,000	25%	$47,250
Marinas	$1,300,000	38%	$494,000
Houseboats	$1,700,000	60%	$1,020,000
Other Boat Rentals	$543,000	30%	$162,900
Dry Boat Storage	$29,000	38%	$11,000
Restaurant	$725,000	85%	$616,250
Snack Bar	$112,000	81%	$90,720
Permanent Retail Space	$600,000	85%	$510,000
Portable Retail Store	$108,000	85%	$91,800
Total	**$6,920,000**	**54.7%**	**$3,782,820**

* Note: Excludes water ski operation due to lack of data. Since the water ski operation represents a very small portion of the total concession operations, its omission should not significantly affect the results.
Source: Dornbusch Associates Economic Feasibility Report for the VSP, October 15, 2003, pp. 22-47.

7. Contract Length

The Dornbusch analysis assumed a contract length of 20 years. The ROP calls for a 30-year contract with two 10-year extensions. As noted above, Dornbusch assumed a capital investment of $23,093,000. The ROP's capital investment of $41,683,300 is approximately 80.5 percent greater. Using the same rate as Dornbusch, this translates to a contract term of over 36 years.

Moreover, the ROP's investments will result in a significantly greater quantity and quality of visitor facilities, while the plan analyzed by Dornbusch would result in significantly *fewer* facilities (due to a drastic and unnecessary removal of facilities). This added benefit to lake visitors would seem to command an even longer contract term. Thus, we feel that, given the size of the investment required and the likely benefits to lake users, a total contract period of between 40 and 50 years is justified.

8. Compensation is Provided for Facilities Improvements

Under the ROP, the resort owners would be fully compensated (by Reclamation or a subsequent concessionaire) for improvements made to their facilities. This should not be a point of contention, as Dornbusch's Alternative B plan similarly provides for such compensation to outgoing concessionaires in the form of an end-of-contract Capital Investment Recovery.[27]

Curiously, however, Reclamation has stated that if Alternative B is ultimately implemented, *existing* concessionaires would ***not*** be compensated for their improvements for any facilities not incorporated into the final Alternative B plan. This is, at minimum, highly unfair, and likely would constitute a violation of Public Law 96-375. Refusal of compensation for such improvements would almost certainly lead to expensive and lengthy litigation, and a ruling in favor of the existing concessionaires could potentially add millions of dollars in unanticipated costs to Alternative B (making it even less likely to be feasible).[28]

The ROP avoids this thorny issue entirely by proposing voluntary facilities renovation and replacement, and by adopting the same compensation provision that Reclamation would otherwise extend to a future concessionaire under Alternative B.

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[27] Dornbusch, p. 14.
[28] For a more detailed discussion of this issue, see Summers and Summers, pp. 9-11.

IV. A Good Compromise

The ROP represents a good blend of current DEIS Alternatives A and C and is far superior to Reclamation's Preferred Alternative B in providing recreational opportunities for long-term, short-term, and day-use visitors alike. Implementation of the ROP will result in some concessions, and some gains, for Reclamation and the concessionaires and trailer owners, but the ultimate winners are lake visitors of all types. In addition, we believe that the ROP is consistent with the Secretary of the Interior's aforementioned "4 Cs" goals.

1. Facilities

Facilities would be improved, in terms of both quality and quantity. Concessionaires are allowed to offer a mix of facilities that is similar, albeit more extensive, to the current mix of facilities. To address Reclamation's concerns about facilities for short-term and day users, special emphasis is placed on facilities for these visitors. For example, additional camping, RV, and hotel/motel and cabin lodging will be provided for short-term users and shoreline access and recreation areas would be improved for day users.

The ROP would result in significant facilities improvements without requiring the total elimination and removal of most lake facilities that would be necessary under Alternative B. In fact, the ROP actually results in significantly greater facilities for visitors. In addition, the improvements described in the ROP will be made without effectively shutting down the lake for two years and will ultimately make the lake more accessible and user friendly.

2. Concessionaires

Concessionaires have the opportunity to remain in operation at the lake (pending successful contract renewal or award via winning bids) and continue the same (or similar) business models, but they must also address health and safety issues raised by Reclamation. Facilities such as water and sewer systems, for example, would be brought up to code and periodic evaluations and enforcement would ensure that safety concerns are satisfactorily resolved.

3. Visitor Composition and Needs

The ROP recognizes the value of long-term, short-term, and day users alike. A lake with the size and natural resources of Lake Berryessa has plenty of room to accommodate all types of lake visitors seeking all types of recreation. The ROP allows most long-term users to remain while enhancing facilities for short-term and day users. Greater development at the resorts will satisfy the needs of those seeking more active forms of outdoor recreation while the undeveloped portions of the lake (over 90 percent of the shoreline is undeveloped) remain unblemished for those wishing to simply enjoy the lake's natural beauty.

4. Trailers

Under the ROP, approximately 85 percent of the trailers would get to remain on the resorts' lands, but the concessionaires would address the exclusive use issue by offering a considerable portion of them as vacation rentals to the public. In addition, the plan would require trailers to be camouflaged in natural colors to prevent unseemly eyesores.

5. Economic Assumptions

While it may have been unrealistic to expect resort operations and economic conditions to remain the same, those anticipated in the Dornbusch report's analysis of Alternative B were even more unrealistic. The ROP makes a number of the changes sought by Reclamation while drawing upon the experience of those who have run recreation and hospitality businesses successfully for many years. It utilizes reasonable estimates of the costs of doing business and allows the concessionaires the opportunity to achieve a fair rate of return while meeting or exceeding the needs of the visiting public.

V. Other Issues

Deterioration of Facilities in Advance of Contract Expiration

If Alternative B were to be selected by Reclamation as the development plan for Lake Berryessa, instead of the ROP, there is a very real possibility that concession facilities would be allowed to steadily deteriorate until the end of the resorts current contracts in 2008 and 2009. Such a reaction by the concessionaires would come as no surprise, and would even be considered rational, given (1) the intention under the action alternatives' to effectively evict the existing concessionaires and (2) Reclamation's aforementioned position to deny the existing concessionaires compensation for improvements to facilities not used in future development plans (which would include the vast majority of existing facilities).

Indeed, under this scenario, the concessionaires would have little reason or incentive to invest in property that they would have to abandon in a couple years' time without compensation. Far from being compensated for their improvements, they would actually be *penalized* for maintaining or improving their facilities if they were forced to pay not only for the maintenance/improvements, but also for the removal of those facilities into which they poured their money.

Alternatively, implementation of the ROP (or some plan substantially similar to the ROP, including the compensation for facilities improvement clause) would provide an existing concessionaire the assurance that his investments would not be wasted, regardless of whether he ultimately continues to operate under the next contract or is replaced by a new concessionaire. The ROP thus would thus prevent such a problem from ever arising.

Economic Development in the Surrounding Area

Some public officials and residents in Napa County have raised concerns that police and other emergency services to Lake Berryessa are costing the County a significant amount of money. They are displeased that County tax dollars are being used to subsidize property that is owned and operated by the federal government.

To the extent that increased development at the resorts will spur additional economic growth in the surrounding area, the Napa County tax base would be increased. As it is impossible to make any accurate prediction regarding the new level of business activity that might be triggered several years from now as a result of the improvements at the resorts, we are unable to determine whether or not this added growth (and resulting Napa County tax revenue) would completely offset the costs of providing emergency services to the lake, although it is highly likely that it would offset at least a portion of these costs. The ROP also suggests that the new contract would trigger a reassessment of all facilities within the resorts (including all of the vacation mobile homes), which would likely result in higher property valuations, and thus greater tax revenues, for Napa County. This, too, could help resolve the emergency services funding issue.

VI. Conclusions

The ROP represents a solid plan and a reasonable blend of Alternative A and Alternative C. More importantly, the ROP represents the visions of the concessionaires, whereas Alternative B was formed without the input of those providing facilities and services at the lake and fails to embody a cooperative vision of existing stakeholders. The ROP would provide new and improved facilities, particularly for short-term and day users. It would do so without having to shut down the lake for two years. Day users would be afforded greater shoreline access and recreation areas.

Some long-term sites would be removed, per Reclamation’s wishes, but this vital economic component would be allowed to remain, ensuring continued year-round services for long-term, short-term, and day-use visitors alike. Some trailers would be converted to vacation rental to open up access to prime locations to the general public. The establishment of rules to camouflage vacation mobile homes will improve the visual appearance of resort shorelines and prevent trailer eyesores.

The plan is detailed and financially feasible, as defined by the resort owners themselves. It contains reasonable assumptions of facilities improvement and concession operations costs while offering the concessionaires the chance to make a fair profit. It also provides for a significant increase in franchise fees to Reclamation. The ROP is not merely “conceptual” and does not rely on subjective or overly optimistic assumptions or the emergence of a single, risk-loving “white knight” concessionaire willing to defy sound economic advice to try to satisfy Alternative B’s wish list.

The ROP represents a positive blending of two alternatives contained in the DEIS and does well to bring together “the best of both worlds.” It is a win-win-win situation for Reclamation, the concessionaires, and all current and future visitors to Lake Berryessa. The ROP will allow the greatest number and variety of lake visitors to continue to enjoy Lake Berryessa’s numerous recreational and natural resources. It increases access to the lake, minimizes disruption to the environment, and offers a plan that can be implemented at no cost to the government. Thus, we strongly encourage Reclamation to reconsider the current Preferred Alternative B and instead adopt the provisions of the ROP.