



T E N N E S S E E

State Parks

BUSINESS AND MANAGEMENT PLAN

MARCH 2013



THE MISSION OF TENNESSEE STATE PARKS

Our mission is to preserve and protect, in perpetuity, unique examples of natural, cultural, and scenic areas and provide a variety of safe, quality, out-door experiences through a well-planned, professionally managed system of state parks.

THE MISSION OF TENNESSEE STATE PARKS IS BASED ON THE FOLLOWING VALUES AND VISION STATEMENT:

There is inherent value in the natural environment. The observation and experience of natural things in a setting removed from the hectic world of the day-to-day can uplift and recreate the human spirit.

There is also value in physical reminders of the past. Without history, there is no context upon which to base an understanding of the present or dreams of the future.

Tennessee's natural and cultural resources provide perspective and continuity to our lives to help make us whole. The intrinsic worth of these resources is beyond monetary consideration. Even if a person cannot travel to a state park, there is value in knowing that these special places exist and will be protected for future generations to experience.

These places are so valued that we intend to preserve and protect them, even in the face of whatever may be the fashion of the moment, to the end that all citizens, rich or poor, may enjoy them forever.



Business Plan for Tennessee State Parks

Tennessee Department of Environment and Conservation

March 2013

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Introduction

The Administration has stated that it wants to make Tennessee a premier place in the country to live, work and play. Our 54 state parks and 82 natural areas serve an important role in that effort. The state park system serves multiple purposes for the state of Tennessee and its citizens:

- To preserve and conserve natural, aesthetic, cultural and historic resources;
- To provide opportunities for Tennesseans to enjoy a diverse array of outdoor recreational activities and provide affordable vacation experiences; and
- To help grow the state's tourism business and promote local economic development.

The state parks system has suffered from years of politically expedient decisions and subsequent neglect due to lack of funding to maintain or modernize facilities, and, in some cases, provide adequate staffing. Little focus has been given to revenue generation or marketing. Cumbersome state practices from procurement to employee hiring and performance management only exacerbated the problems. When funding resources were available, the temptation was to add more land or facilities at the expense of taking care of existing assets. Park management neither had little control over nor was expected to manage against a detailed budget.

This plan has been developed to articulate more clearly a vision for state parks and a business plan to fulfill that vision. This business plan focuses primarily on those aspects of the state park system that are, or have the potential to be, revenue generating assets. While important, direct revenue generation is only part of the overall story in how we should value our state parks. In the future we will be evaluating all state parks and their value to the parks mission as all parks have a cost to operate and maintain.

Background

Tennessee's 54 state parks encompass more than 185,000 acres. The system operates six inns (642 total rooms) and conference centers, eight restaurants, nine golf courses, four marinas, 27 swimming pools, 35 different campgrounds that include more than 3,600 campsites, and 366 cabins scattered over 21 different parks.

Tennessee State Parks has a significant impact on Tennessee's economy and creates direct and indirect employment in many rural areas where jobs are needed most and options for significant private sector investment and growth may be limited. In 2009, the University of Tennessee estimated the economic impact of state parks resulted in over \$725.2 million in direct expenditures by state park visitors. For every direct dollar spent by visitors, an additional \$1.11 of economic activity was generated in the state. Direct and indirect expenditures, therefore exceeded \$1.5 billion in total industry output. The UT study calculated that every general fund dollar spent on state parks created \$17 dollars of direct expenditures and more than \$37 dollars of combined direct, indirect and induced expenditures. This 1 to 17 investment to return ratio for direct expenditures from state park economic activity compares favorably with recent state investment decisions in tourism activities.

Our customer base is mixed and the demographics are changing. This business plan includes needed investments to recognize changing demands, needs and expectations of our varied customer base. Most Tennesseans live within one hour of at least one state park. Many of our parks are locations for a day outing to enjoy the outdoors and participate in recreational activities ranging from bird watching to rigorous hiking. Our parks also welcome school buses full of students learning Tennessee history at the Bicentennial Capitol Mall or provide a day on a boat, at the golf course, or with family for Sunday brunch or Saturday night ribs and barbecue chicken buffet dinner. In addition to our day use customers, parks serve as affordable vacation option for families from in state and out of state. Our inns, cabins and campgrounds generated more than 350,000 nights of rentals last year. We estimate 30% of our overnight visitors are out of state tourists bringing their dollars to Tennessee. More than 11% of our inn and conference center sales is business from other state agencies, providing state government a very cost effective way to hold internal or external training sessions, business meetings, and workshops.

Obviously our locations and natural settings are our greatest draw and asset. While visitors to parks expect a more casual and rustic experience, in many cases our physical assets are in such a deteriorated condition and the amenities are so tired and worn, we are significantly limited in our ability to either raise rates or attract new customers.

Business Vision

From its beginning in 1937, Tennessee State Parks were established to protect and promote the unique natural, cultural and historic resources of Tennessee. The public interest has also been served by a variety of benefits for citizens and communities produced by our state park system. Many of these benefits complement Governor Haslam's priorities, including creating jobs and economic development and improving health and welfare. Tennessee State Parks contribute to stronger communities and healthier citizens across the state through diverse resource-based recreation while conserving the natural environment for today and tomorrow – preserving authentic Tennessee places and spaces for future generations to enjoy. As stewards of the resources in our parks, we seek to manage Tennessee's state parks in order to preserve and protect valued resources and to provide a balance of services and benefits for the enjoyment of the people.

It is our vision for Tennessee to have the best managed state park system in the nation. In order to do this, we will strive to enhance and maintain our highest value facilities while we conserve and protect our unique and valued resources so that future generations will enjoy the same quality outdoor experiences that their parents enjoy today and their grandparents enjoyed yesterday.

Marketing

We are developing a comprehensive Marketing Plan to attract visitors and grow revenue focusing on use of social media, web-based marketing, online reservations, smart phone apps and disciplined branding. The goal is to maintain our traditional customer base and also expand our customer reach. State Parks has opportunities to expand into key target market segments: adventure travelers, ecotourism seekers, heritage tours, corporate and business retreats, state business, and traditional local events such as reunions, weddings, and church and scouting groups. Improving group sales at inn and conference centers will be critical to enhancing revenue and creating more stable occupancy across the entire week for improved operational performance, particularly staffing flexibility and expense control.

Investments in Physical Assets

Campground Improvements – Campgrounds are the most profitable aspect of revenue operations at state parks. The low operating costs of campgrounds combined with recent campground upgrades to meet market standards, willingness to take advance reservations, new online reservations system, plus targeted rate increases provide significant opportunity for increased revenues and additional out of state tourist activity.

Cabin Improvements - Cabin renovations are underway at Fall Creek Falls. These are very popular cabins but are not in good condition. Capital investment to modernize these 40-year old cabins will pay dividends and will complement a comprehensive upgrade to this park. An additional \$1 million is requested to upgrade furnishings at other park cabins that are structurally sound but need modern furnishings, new carpet, and furniture to meet customer expectations.

Inns and Conference Centers - Most inns and conference centers are in need of refurbishment and modernization before we can attract more visitors, book more business groups, and increase rates to generate more revenue:

- Finishing refurbishment of Fall Creek Falls and investing in capital renovations at Montgomery offer best return on investment. Fall Creek Falls has widespread regional appeal as a travel destination because of its full range of recreational options, central location for conferences, and beautiful setting.
- A modest investment of \$1 million for upgrades to room furnishings at Pickwick Landing will enhance marketability and price point for that popular location in Hardin County.
- Paris Landing's inn and conference center are tired and worn. Strategic and needed infrastructure investments in this facility will enhance marketability and revenue at this location on the Tennessee River. The park also plays a key part of the local tourist economy.
- Inns and conference centers at Henry Horton and Natchez Trace are candidates for outsourcing or closing.

Golf Courses - Investments in new Bermuda greens at Paris Landing and Henry Horton will provide ability to increase revenue, reduce risk of a forced closing due to heat stress on existing greens, and reduce maintenance costs. Past investments in Harrison Bay and Montgomery Bell have helped improve financials at those courses.

Restaurants

Our restaurants are popular at many parks and are necessary to support the inns and conference center facilities; however, the restaurants mostly have a one-size-fits-all approach centered on large quantities of food served buffet style. We are undergoing a detailed top to bottom analysis at each of our restaurants. Focus is on catering the food at each location to the particular park, moving away from buffet style at all meals to more menu based dining complemented by special buffet nights. We are slowly integrating the beer (and where legal) wine service at park restaurants to satisfy customer expectations and enhance revenue. Alcoholic beverages are often most profitable aspects of a restaurant in the private sector. Revenue increases have been slow to improve due to some reluctance by staff to embrace beer and wine service.

Other Revenue Enhancement/Savings

Tennessee State Parks has identified several other ways to either increase revenue or decrease costs. These include an increase in program activities and charging for additional programming, like guided hikes and admission to interpretive centers. In addition to charging fees for programming, there is an opportunity to establish a development fund to attract corporate or high net worth individual sponsorships, naming rights, and other corporate alliances. While some park affinity groups currently raise money for additional land acquisition, this fund raising effort would focus on care and maintenance of existing resources.

Access fees are another option for some revenue enhancement, but the logistics of implementing access fee and public dislike for past efforts to collect fees make access fees a political issue.

Parks currently expend \$8 million in intergovernmental charges from other state agencies for fuel, managing of equipment and vehicles. We believe there may be an opportunity for reducing costs and will be working with General Services and Finance and Administration to find additional costs savings.

Strategic Outsourcing

There are already several outsourced operations at select state parks, including marinas, restaurants, and park gift shops. We will continue evaluating all aspects of our revenue producing operations to determine if strategic outsourcing of these operations makes sense from both a financial and mission perspective. Resort inns and conference centers, restaurants and golf operations are the most likely candidates for outsourcing.

Introduction

The primary purposes of Tennessee State Parks are to conserve natural, aesthetic, cultural, and historic resources, to provide opportunities for enjoying healthful outdoor recreation and to serve as outdoor classrooms for environmental and cultural resource education. Over the last 50 years, many of our state parks have also developed extensive infrastructure to provide the public with access to quality recreational amenities, educational experiences, and comfortable but modest on-site accommodations.

This business plan is focused on the revenue generating assets and operations of current Tennessee State Parks' infrastructure: inns, cabins, campsites, conference centers, restaurants, golf courses, marinas, and gift shops. It evaluates current performance and conducts market analysis of these assets with the goal of identifying strategic investment options for improved results over near-term and long-term periods. A separate organizational analysis will be done to focus on parks currently without revenue generating assets to determine if they still meet the agency's mission, fulfill their original purpose, and offer value to the citizens of the state.

Tennessee State Parks is unique in state government as it must attract customers to select its products and services in an environment that resembles a traditional marketplace. While we remain true to Tennessee State Parks' mission, we must also have strategies, investments and operations to ensure both competitive market position and margin performance to sustain park activity levels that guests expect and will select voluntarily.

Mission of Tennessee State Parks

Tennessee State Parks, established in 1937, is a division of the state government charged with protecting and preserving lands that possess natural or historic features; scenic beauty; recreational value; and scientific, aesthetic, or other social values. Access to the people of Tennessee and tourists is provided along with a wide array of lodging, programming and other park facilities. The Mission of Tennessee State Parks is to preserve and protect, in perpetuity, unique examples of natural, cultural, and scenic areas and provide a variety of safe, quality, outdoor experiences through a well-planned and professionally managed system of state parks. This Mission is based on the following Vision and Values:

- There is inherent value in the natural environment. The observation and experience of natural things in a setting removed from the hectic world of the day-to-day can uplift and recreate the human spirit.
- There is also value in physical reminders of the past. Without history, there is no context upon which to base an understanding of the present or dreams of the future.
- Tennessee's natural and cultural resources provide perspective and continuity to our lives to help make us whole. The intrinsic worth of these resources is beyond monetary consideration. Even if a person cannot travel to a state park, there is value in knowing that these special places exist and will be protected for future generations to experience.
- These places are so valued that we intend to preserve and protect them, even in the face of whatever may be the fashion of the moment, to the end that all citizens, rich or poor, may enjoy them forever.

Historical Funding and Support for Tennessee State Parks

Tennessee, like most states, saw its state park system begin in the 1930s with assistance from the federal government and numerous “New Deal” Great Depression-era programs. Major catalysts across the last 75 years of Tennessee State Parks include:

Federal Agency Initiatives - Federal programs, including the Tennessee Valley Authority (TVA), Civilian Conservation Corps (CCC), and Works Progress Administration (WPA) were instrumental to the establishment of the earliest state parks in Tennessee. TVA worked with the state to establish a State Parks Planning Commission, and our first state park, Harrison Bay, was a public access point at TVA’s Lake Chickamauga. Many of Tennessee’s first state parks continue to feature and utilize structures designed and built by the CCC and WPA. Other early state parks were funded by the federal government through the Department of Interior – National Park Service (Fall Creek Falls, Montgomery Bell, Meeman-Shelby Forest), Department of Agriculture – U.S. Forest Service (Natchez Trace, Chickasaw, Pickett), and later the U.S. Army Corps of Engineers (Long Hunter, Edgar Evins, Bledsoe Creek).

Land and Water Conservation Fund (LWCF) - Congress created the Land and Water Conservation Fund in 1964 to provide funds and matching grants to federal, state and local governments for the acquisition of land and development of parks and recreation projects. The LWCF source of income is fees paid to the federal government by companies drilling offshore for oil and gas, and the “stateside” portion of these funds is based on a formula that takes into consideration population and other factors. In Tennessee, these funds have been used to implement a local parks matching grant program and to fund acquisition and development of projects in the State Park system. Originally authorized for 25 years, it was reauthorized for an additional 25 years and is now mandated only through 2015.

Amenities in State Parks - During the 1960s, national emphasis began to turn from preservation of spectacular scenery and unique natural resources to making parks more accessible to the public and making them recreation destinations. This movement was adopted by many state park systems as federal funding for visitor amenities began to escalate. While campgrounds and rustic cabins were commonplace in many state parks, an effort to construct more comfortable, and in some cases, luxurious lodging with resort type amenities ensued. In Tennessee, several “resort parks” were developed along with more modern and comfortable cabins at other park locations.

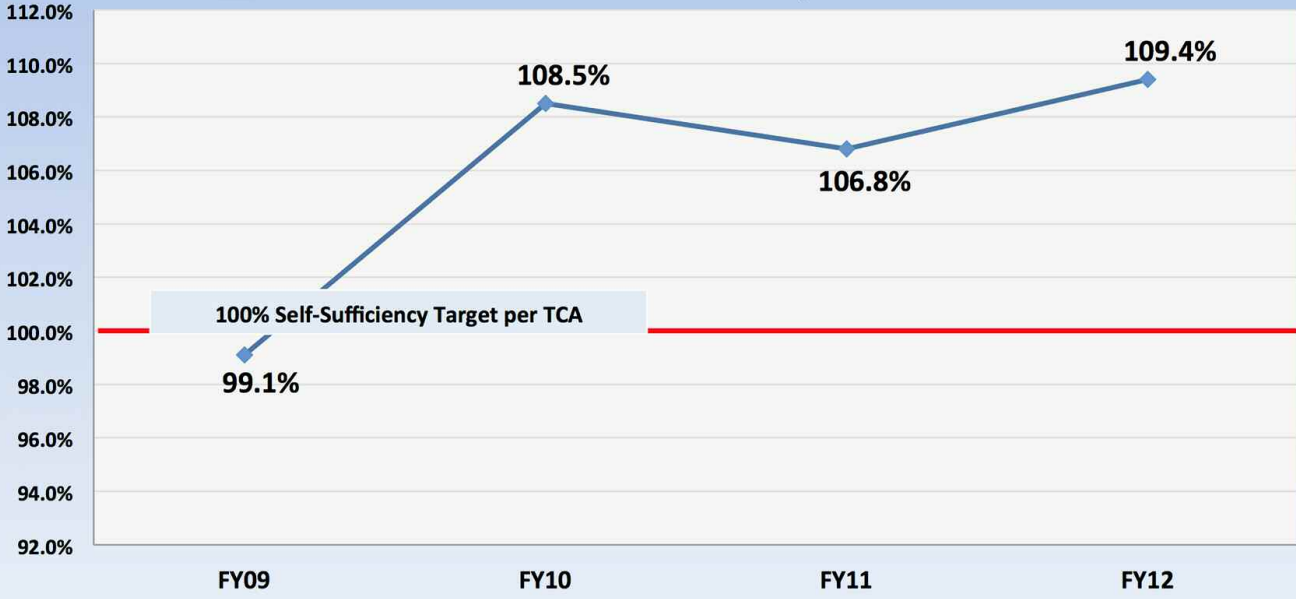
Influences on Management and Decision Making - From its inception in 1937 through the end of the 20th century, state parks experienced a period of relative prosperity. Effectiveness of the state park system was based primarily on earnest and conscientious effort. Performance was based upon a parks level of service to a community and level of loyalty to political leadership. There was some degree of competition among members of the General Assembly over who obtained funding for amenities like swimming pools, golf courses, for the park in their legislative district. Location decisions to establish new state parks and additional amenities for existing state parks were often driven by political considerations.

Funding Support from Real Estate Transfer Tax - In 1989, the Tennessee Wetlands Acquisition Fund was authorized and funded through Real Estate Transfer Tax Fund collections as part of a land conservation initiative for the Tennessee Wildlife Resources Agency (TWRA). It was subsequently amended in and now includes funding for Agricultural Non-Point Water Pollution Control Fund administered by the Department of Agriculture and the Local Parks and Recreation Fund (LPRF) and State Lands Acquisition Fund, both administered by TDEC’s Bureau of Parks and Conservation. These funds are also used by TDEC as match to draw down federal grant funding such as at the LWCF.

Budget Distress and Access Fees - In 2001, a \$3 per vehicle access fee was assessed at 23 state parks. Fourteen state parks were closed and other parks had staffing and operating reductions in an effort to alleviate an overall shortfall in the state budget. The access fee generated only \$1 million in net revenues annually at peak, and there was significant public and political backlash to the closings and fee implementation. In 2003, the State reopened all parks. Access fees were eliminated in 2006, and today, no state park charges an entry or parking fee.

Mandate for Operational Self-Sufficiency - In 2004, the Tennessee General Assembly passed the “State Park Funding Act of 2004.” This act defined revenue generating facilities at state parks as the following: “marinas, campgrounds, golf courses, cabins, gift shops, restaurants and inns.” It directed that “revenue generated at all such facilities **collectively** is sufficient to cover all of the **direct** operational costs incurred at those facilities.” Tennessee State Parks provides a report to the General Assembly each year regarding this directive and the economic outcome of its revenue generating facilities.

Self Sufficiency Ratio for Tennessee State Parks Guest Services Operations



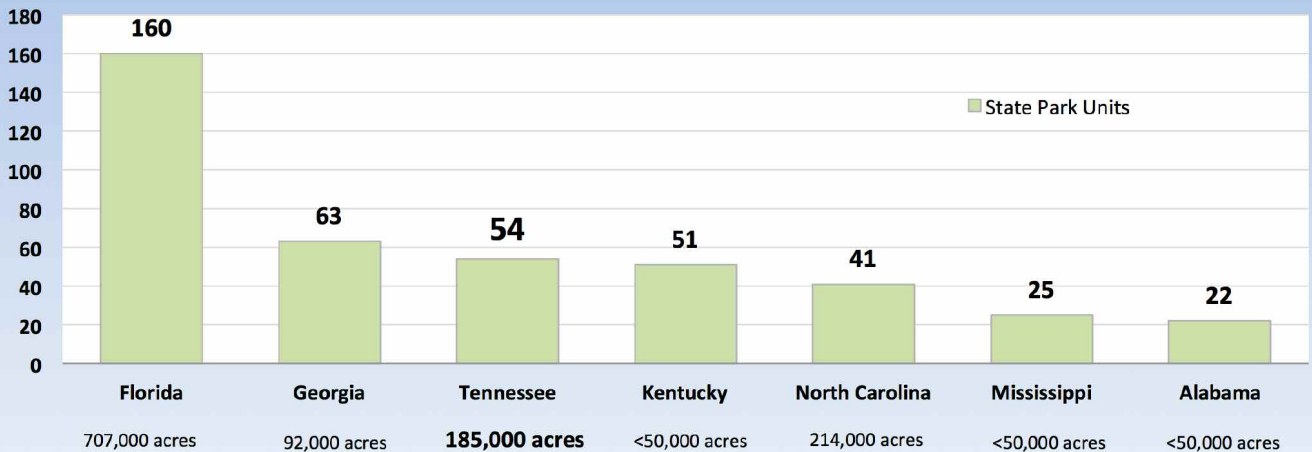
Tennessee Features a Significant State Park System

In the southeast, only Florida (160) and Georgia (63) have more state park units than Tennessee (54) ([Attachment A](#)). Only Florida (707,000) and North Carolina (214,000) have more park acres managed than Tennessee (183,000). Tennessee State Parks counted approximately 31 million day visits in FY 11-12 ([Attachment B](#)), placing Tennessee among top ten state park systems nationally in terms of visits. Southeastern state closest to Tennessee is Florida with just more than 18 million day visits in FY 11-12.

Tennessee State Park Visits



SE State Comparison - State Park and Acres



Financial Model

Tennessee State Parks currently operates an annual budget of approximately \$77 million. Roughly \$35 million of the annual budget funding is provided by revenue generation through the sale of overnight accommodations, food and beverage, gift shop merchandise, and recreation activities. The remaining approximate \$42 million of annual funding is provided by the tax paying public through annual appropriations made by the Tennessee General Assembly. This public support covers many state parks that feature no physical amenity and have no revenue operations as well as supporting non-revenue aspects, e.g. visitor centers, nature centers, trails, at state parks with revenue generating activities like Montgomery Bell and Fall Creek Falls. Some state parks simply preserve scenic beauty

and wildlife and serve as venues for low or no cost outdoor recreation and education. Therefore, the General Fund supports operations and enables free access to all 54 award-winning Tennessee State Parks for an equivalent cost of ~\$7 per citizen annually. This blending of both public funding and revenue generation has been the basis of funding since the inception of the Tennessee State Park system.

FY13-14 Tennessee State Parks Funding



While Tennessee receives 55% support for state parks from the General Fund, the average percentage of other state parks' operating budget provided by their respective General Fund allocation is closer to 41%. However, most other states have entrance fees or parking (access) fees, Tennessee does not. Tennessee is one of only eight state park systems nationwide, and one of only two in the southeast, along with Kentucky and Virginia, that are free to the public.

Historical Financial Decision Making

Over the years, new park facilities have been added to the system, some driven by political considerations absent realistic business models, creating flawed business models accompanied by unrealistic expectations regarding performance levels. However, the economic impact of many of these facilities is significant due to their value to create jobs and generate tourism related revenues for their communities.

Internal Structure

Tennessee State Parks is a division of the Bureau of Parks & Conservation in the Tennessee Department of Environment and Conservation. The Deputy Commissioner for Parks & Conservation is responsible for planning, organizing and directing the division through the work of division directors – State Park Operations, Marketing and Product Development, Interpretive Programming and Education, Facilities Management and Natural Areas - and coordinating administrative support services inside and outside the department.

Park managers have operational authority at their individual park property. The state park central office staff can work directly with the park manager to implement programs and initiatives that affect the guest services, or revenue generating, activity of their park. Park managers work closely with their supervisors to make staffing and workload allocation decisions that improve productivity and efficiency. Tennessee State Parks have already held LEAN process improvement events leading to changed procedures, including 30% decrease in room turnaround time by housekeeping staff and greater capacity to clean inn common areas. We continue to pursue opportunities to gain increased flexibility to match available staff with actual demand as there is considerable variability across state parks' guest service workload.

Interdepartment Structure

State parks, in order to meet its mission and directives, works with other departments of state government, notably the Departments of General Services, Human Resources, and Finance and Administration. Other departments of state government have mission and purposes that may not be in alignment with the mission and purposes of state parks. We find many obstacles are placed in our path regarding issues that are time sensitive in nature or have an influence on our ability to be successful from a revenue generation perspective. Bottlenecks are sometimes appropriate safeguards for bureaucracy but can be damaging to organizations needing to respond to market conditions and guest expectations like Tennessee State Parks.

The Department of Tourist Development recognizes the value state parks bring to Tennessee's overall economic health and works closely with state parks' management to coordinate their tourism promotion and support efforts in a way that benefits state parks.

Current Business Units

Tennessee State Parks operates 54 state parks on more than 185,000 acres. The system operates six inns and conference centers, eight restaurants, nine golf courses, four marinas, 35 campgrounds with 3,689 sites, and 21 cabins arrays with a total of 366 cabins.

This detailed review of Tennessee State Parks' product line reflects current asset inventory, activity levels, customer trends, discrete profitability, and contribution to the overall park property. As the drop in state park guest activity leveled off from the original decline in the recession period of FY09 and FY10, we have been concerned by the fact that general market and hospitality industry trends have been accelerating ahead of state parks' experience. In short, we remain relatively flat for inn, cabin and restaurant activity and revenues while the overall Tennessee hospitality market has demonstrated real growth.

Most recent Tennessee State Park business unit economic performance from FY11-12:

| | Campsites | Inn/Cabins | Restaurants | Golf | Marinas | TOTAL |
|---------------------------|-------------|--------------|-------------|---------------|-------------|--------------|
| Revenue | \$3,532,127 | \$10,901,013 | \$7,622,854 | \$7,386,778 | \$2,578,639 | \$32,021,411 |
| Direct Expenses | \$1,370,387 | \$9,912,431 | \$7,914,851 | \$8,531,324 | \$1,688,350 | \$29,417,343 |
| Profit (Loss) | \$2,161,740 | \$988,582 | \$(291,997) | \$(1,144,546) | \$890,289 | \$2,604,068 |
| Self-Sufficiency % | 258% | 110% | 96% | 87% | 153% | 109% |

Camping

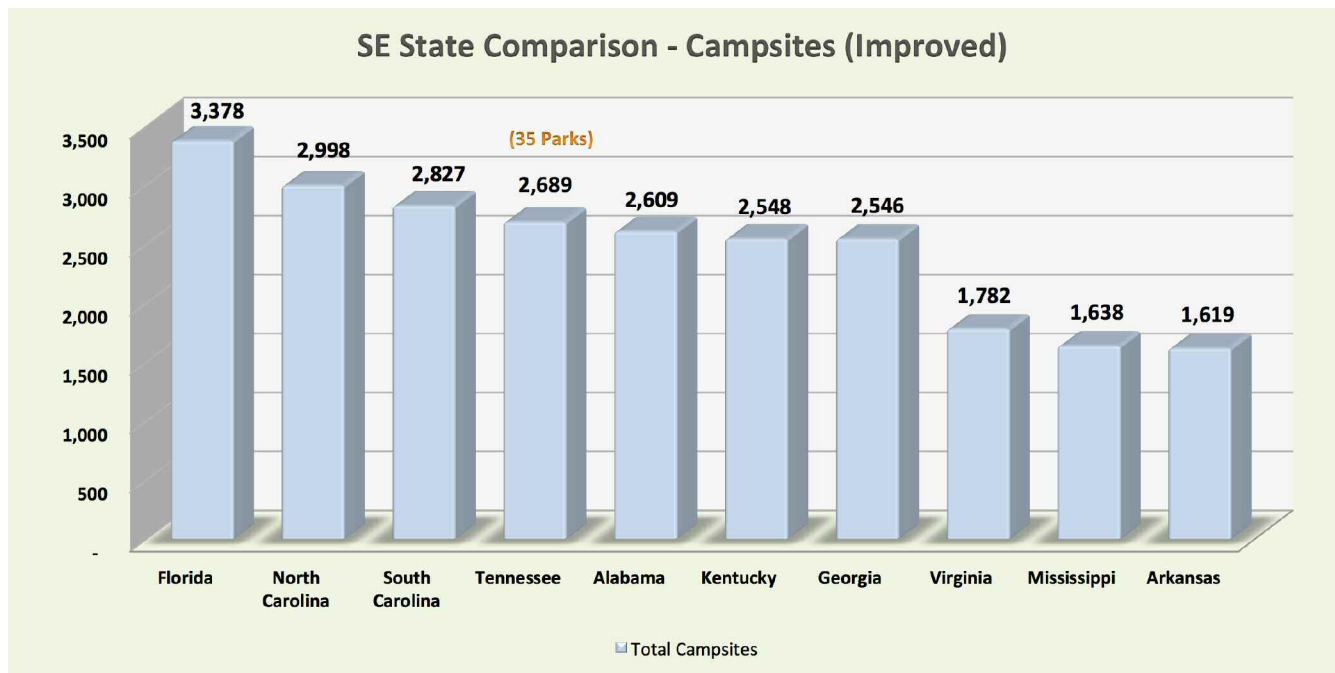
State Parks offers 35 campgrounds that include 1,977 year round improved campsites, 712 seasonal improved campsites, and 310 primitive campsites. Sites are typically full over the holiday weekends throughout the summer and during the fall leaf season.

- The busiest campgrounds in volume and occupancy rate are predominately in East Tennessee parks: Cumberland Mountain, Roan Mountain, Warriors Path, Harrison Bay, Fall Creek Falls, Hiwassee/Ocoee, Rock Island, Tims Ford, Cove Lake, and Panther Creek.
- Other productive campground operations are located at Montgomery Bell, Bledsoe Creek and David Crockett in middle Tennessee.
- In FY2011-12, west Tennessee campgrounds sold 95,158 nights of the 484,184 nights available for an occupancy rate of 20%. During the same time period, east Tennessee campgrounds sold 128,658 nights from an inventory of 443,071 for an occupancy rate of 29% ([Attachment C](#))

Camping is a highly profitable enterprise for Tennessee State Parks and operated at 257% of its direct operating cost in FY11-12. Campgrounds require little day to day supervision and maintenance. A volunteer Campground Host oversees the campground or a section of a campground in exchange for a free campsite. Check-in often occurs at the Park Office, already staffed, or after hours at a self directed check-in kiosk.

Online reservations will simplify the payment and check-in process. Bathhouse/restroom cleaning and maintenance is performed by regular or seasonal park maintenance staff.

State Park Campsites Across Southeastern United States



For the most recent period reported, Alabama has approximately the same number of campsites as Tennessee but rented 314,628 nights as compared to 221,039 for Tennessee in same period. However, Kentucky, with 140 fewer sites, rented 189,010, or approximately 33,000 fewer nights than Tennessee. We need to strategically invest and protect our market position and customer attractiveness as campsites act as a key revenue producer for the system in a competitive service line.

Inn and Conference Centers

Tennessee State Parks operates six Inn and Conference Center facilities:

| Park Inn | Rooms | Occupancy Rate FY11-12 |
|--|------------|-----------------------------------|
| Fall Creek Falls | 145 | 48% |
| Henry Horton | 65 | 28% |
| Montgomery Bell | 125 | 36% |
| Natchez Trace | 47 | 24% |
| Paris Landing | 130 | 32% |
| Pickwick Landing | 119 | 44% |
| Total | 662 | 36% |
| Statewide hotel occupancy rate for Tennessee | | 57% (Smith Travel Research, 2012) |

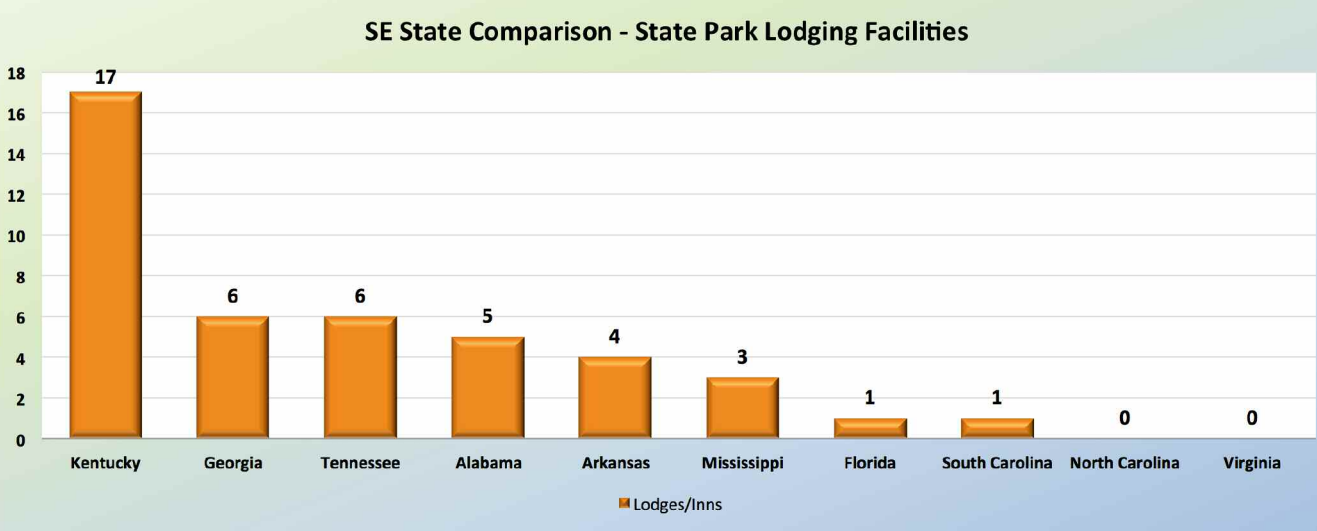
Considered together, revenues from Tennessee State Parks’ inns and cabins cover their operating costs and contribute to fixed overhead expense. Each inn contains a restaurant and gift shop. All inns are showing significant age and wear. While state and national occupancy rates for hotels and cabins have been trending up the past three years, state parks occupancy rates have been trending down (Attachment D). Trip Advisor (Attachment E) website customer reviews of locations such as Paris Landing are a good indicator of age and wear issues. Most reviews indicate positive reaction to the park location, but negative reaction to the condition of the facility. A recent effort by State Parks to do a Groupon coupon at Paris Landing was rejected by Groupon due to comments regarding the quality of the property on Trip Advisor. AAA has threatened to downgrade several of our inns in their annual rankings due to substandard conditions. This would hurt our ability to increase occupancy or increase revenues by raising rates.

According to the American Hotel and Lodging Association industry standards:

- guest rooms are renovated on a seven year cycle
- soft goods are replaced every five years
- case goods are replaced every seven years
- carpets, draperies, and bedspreads are replaced every 5 years
- lobby and corridor renovations occur on a six year cycle
- front desk area renovations occur every nine years
- public areas are renovated on a six year cycle

All six state parks inns and most cabins are well beyond these replacement life cycles.

State Park Lodges/Inns Across Southeastern United States



In the southeast, Tennessee’s 642 rooms at six lodges run a close second to Kentucky’s 890 rooms at 17 lodges. Kentucky rented 136,597 nights as compared to Tennessee’s 85,564 nights rented. However , these numbers suggest that there is significant potential for increasing the occupancy rate.

Cabins

Tennessee State Parks has cabin operations at 21 parks in a competitive marketplace for cabin rentals. Cabin revenue is up for the second year in a row after a period of decline associated with the downturn in the economy. The combination of online reservations and strategic investments in furniture and furnishings upgrades can result in an immediate revenue boost. Key long term investment strategies include the renovations and branding of our Civilian Conservation Corps cabins at Norris Dam, Chickasaw, Pickett, Natchez Trace, and Cumberland Mountain for a rustic yet comfortable historical and cultural park experience for guests.

Top five revenue producing cabin operations in FY12 are Fall Creek Falls (\$772,000), Natchez Trace (\$410,000), Roan Mountain (\$380,000), Cumberland Mountain (\$351,000), and Tims Ford (\$315,000). Top five revenue per cabin producers are Montgomery Bell (\$26,653), Fall Creek Falls (\$25,761), David Crockett (\$21,400), and Paris Landing (\$21,269). Montgomery Bell and David Crockett's success reflect that these are the two newest sets of modern and unique cabins opened in Tennessee State Parks during the last four years.

| State Park | # of Cabins | Total Cabin Revenue | Revenue per Cabin |
|------------------|-------------|---------------------|-------------------|
| Cumberland Mtn | 37 | \$351,200 | \$9,492 |
| David Crockett | 7 | \$149,798 | \$21,400 |
| Fall Creek Falls | 30 | \$772,841 | \$25,761 |
| Henry Horton | 7 | \$117,030 | \$16,719 |
| Montgomery Bell | 8 | \$213,220 | \$26,653 |
| Natchez Trace | 27 | \$410,937 | \$15,220 |
| Paris Landing | 10 | \$212,694 | \$21,269 |
| Pickwick Landing | 10 | \$165,984 | \$16,598 |
| Tims Ford | 20 | \$315,709 | \$15,785 |

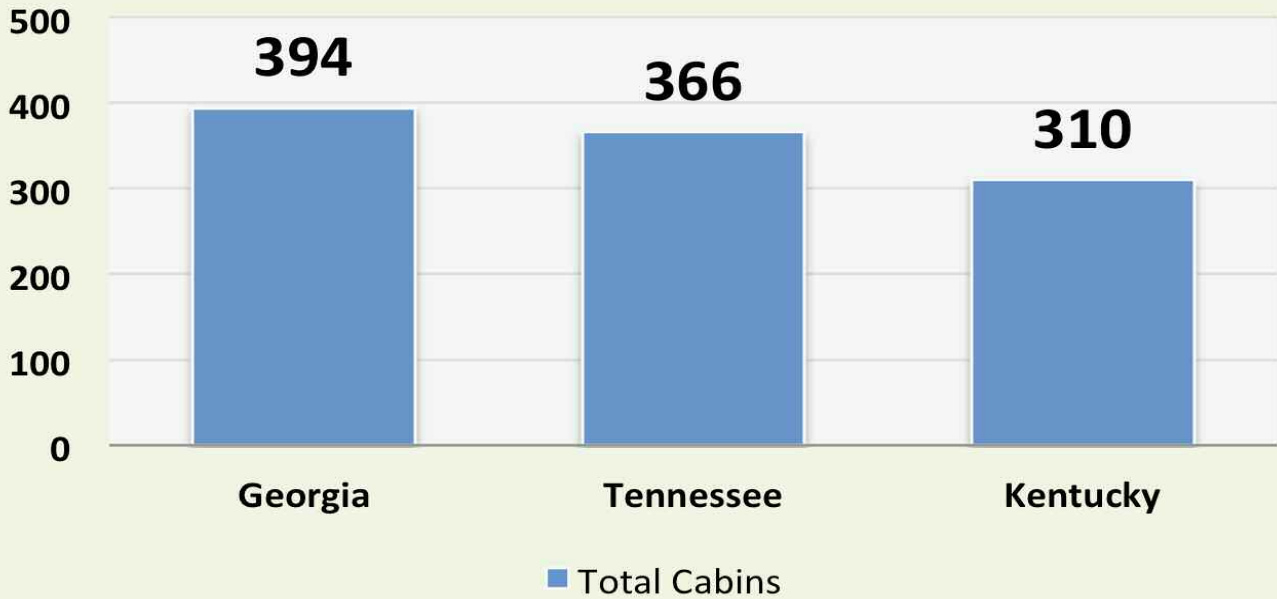
As with the inns, many of our cabins are worn and tired. The furniture and furnishings are dilapidated. The televisions are over a decade old. The array of cabin options varies in quality and type, from “upscale” with modern amenities at David Crockett to rustic and spartan CCC cabins at Pickett. Managing our guests’ expectations is critical in marketing our wide assortment of cabin styles. We recently completed an assessment of all cabins and have reclassified them to better reflect reality, including renaming units called “chalets” or “villas” to indicate a more accurate image of what our customer might expect upon arrival. Online reservations for all cabins will be implemented in the spring of 2013 accompanied by photos in order to better manage expectations.

While our guests may overlook the worn condition of a rustic cabin, they do not overlook the quality and condition of furnishings, furniture, and appliances. As cabins are upgraded to the point where we can raise our rental rates, we will build a furniture and furnishings reserve into the rate.

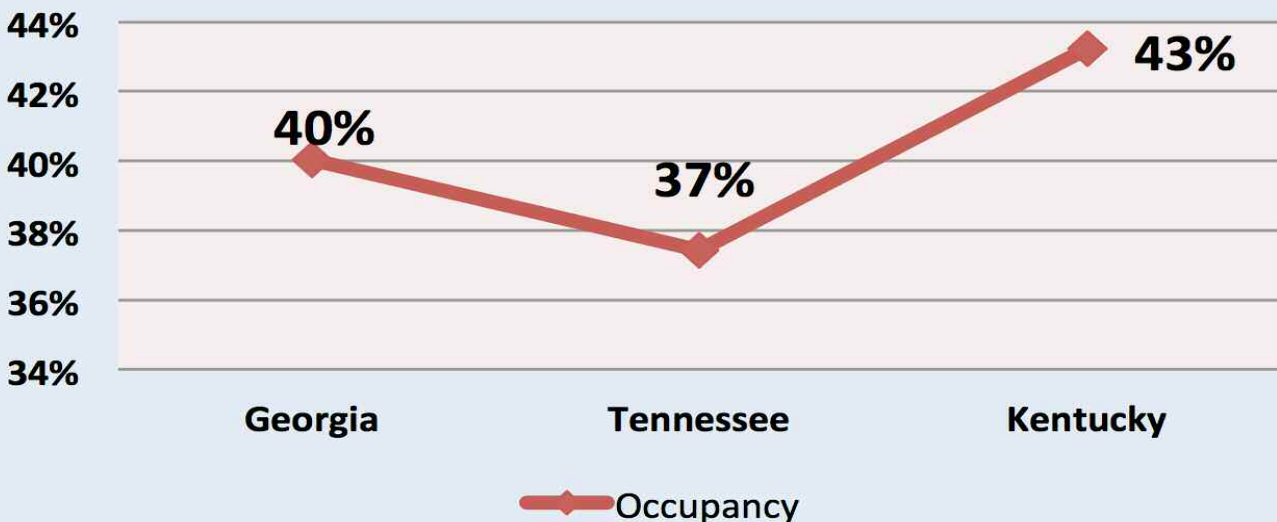
State Park Cabins Across Southeastern United States

Tennessee has 366 cabins at 21 parks. All southeastern states have cabins units for rent on a seasonal or year round basis, and Georgia has the most with 394. Kentucky has 310 cabin units. All state park systems have cabins units for rent except Maine and Wyoming. Tennessee rented 49,985 nights, as compared to Georgia's 57,567 and Kentucky's 48,922 nights rented.

SE State Comparison - Cabins



SE State Comparison - Cabin Occupancy



Restaurant, Food and Beverage

There are eleven restaurants at Tennessee State Parks. State Parks operates eight restaurants and three are leased to private operators. Six are co-located with the inns in order to provide dining options for inn guests, and there are two stand-alone operations at Cumberland Mountain (Crossville) and David Crockett (Lawrenceburg). All rely heavily on a buffet business model – often featuring special seafood buffet or barbecue buffet nights. Each park restaurant is unprofitable when considered as a stand-alone operation. Collectively, they generated revenues to cover 96% of their direct operational costs in 2011-2012. However, there is a need for restaurant food service at park inns in remote locations.

Restaurants Link to Lodging - The obvious driver of food and beverage revenue at the six inn locations is number of inn guests and conference business. The condition of inn rooms and the inn common areas has a direct impact on the food and beverage sales. It follows, that renovations and upgrades to the inn rooms will have a positive impact on earnings at the inns and restaurants. Upgrades to common areas and inn rooms at Fall Creek Falls, Montgomery Bell, and Paris Landing will provide the most positive impact on restaurant business. While the common areas at Pickwick Landing are in suitable condition, the inn rooms are in need of significant upgrades.

Golf

Tennessee State Parks operates nine 18-hole golf courses. Five are co-located at inn and conference center facilities: Fall Creek Falls, Montgomery Bell, Pickwick Landing, Paris Landing, and Henry Horton. One course, Warrior's Path, is located in a park in the Kingsport city limits with no lodging. The three Jack Nicklaus signature Bear Trace courses are located at Harrison Bay, Cumberland Mountain, and Tims Ford. All Bear Trace courses operate at parks with no lodge or inn operations, although cabins are available at Cumberland Mountain and Tims Ford. State Park course activity has high volume of senior play due to being a cost-effective option to value oriented consumers.

Overview of current operations reflects:

- Golf operations generated revenue to cover 87% of their operating expenses in FY12, reflecting numbers that have trended up over the past three years.
- While golf packages and a newly introduced annual golf pass are available, most of our golf business is generated by day use visitors to those parks.
- Busiest and most profitable golf operation is at Harrison Bay, near Chattanooga.
- Warrior's Path course is near break-even and located in Kingsport.
- Montgomery Bell, near Nashville, has experienced an increase in revenue since upgrades to the course were completed three years ago.

Providing a consistent level of quality is a key component of marketing the Tennessee Golf Trail and Bear Trace annual passes. Current proposed upgrades will provide a return on investment while also strengthening the Tennessee Golf Trail's market position as offering consistent quality, enjoyable play, high value for the golf dollar in a beautiful state park setting.

All southeast state park systems, except North Carolina and Virginia, have one or more golf course operations. Historically, golf courses have been the most financially challenged part of state parks' portfolio, but the past two years results have reflected more favorable rounds played and revenue results across the board.

Marinas

Tennessee State Parks operates four marina operations:

- Paris Landing with 285 slips
- Pickwick Landing with 269 slips
- Harrison Bay with 193 slips
- Warriors' Path with 54 slips

Marina operations generated revenues covering 152% of their direct expenses in FY11-12. The marinas at Pickwick Landing and Harrison Bay are currently undergoing upgrades that will result in more revenue opportunities due to enhancements at both and reutilization of slips previously closed at Pickwick Landing due to electrical issues. With targeted, prudent investments, marinas can remain complementary win-win assets for their park host – featuring cash cow operations that also brings boaters on the park property for other activities.

Pools

Tennessee has 27 seasonal and full time pools in operation, second only to Massachusetts (39) in number of total pool operations nationwide. There is significant variability in the revenue and margin performance of current pool assets – a few draw enough paying guests to create positive margin but most operate at a loss, and large maintenance items loom in the future.

Programming and Events

In 2012, State Parks provided more than 8,500 programs to an estimated 350,000 participants through our Division of Interpretative Programming and Education and the Division of Natural Areas. Some parks have full time Interpreters, while others rely on the Seasonal Interpretive Recreators (SIR) staff that typically provides park specific programming during the summer or shoulder seasons. Other programming will be led by a State Park Ranger or the State Naturalist and are associated with spring flower hikes or fall leaf hikes.

Business Vision

From its beginning in 1937, Tennessee State Parks were established to protect and promote the unique natural, cultural and historic resources of Tennessee. The public interest has also been served by a variety of benefits for citizens and communities produced by our state park system. Many of these benefits complement Governor Haslam's priorities, including creating jobs and economic development and improving health and welfare. Tennessee State Parks contribute to stronger communities and healthier citizens across the state through diverse resource-based recreation while conserving the natural environment for today and tomorrow – preserving authentic Tennessee places and spaces for future generations to enjoy. As stewards of the resources in our parks, we seek to manage Tennessee's state parks in order to preserve and protect valued resources and to provide a balance of services and benefits for the enjoyment of the people.

The built environment of facilities and buildings that has grown up at Tennessee State Parks over the last five decades served a useful purpose but now places a tremendous maintenance burden on the system, creating a difficult challenge for parks as the decline in existing facility quality becomes tied to a decline in revenue. Currently, we estimate Tennessee State Parks would need significantly increased investments in major maintenance and capital funding to bring the most critical, productive assets back to a standard level in the marketplace. Therefore, we have developed a business approach to address the capital deprivation that has accumulated over the years and the need to generate improved revenue at locations where it fits Tennessee State Parks' mission and makes financial sense.

The most cost effective way to improve outdoor recreation opportunities for Tennessee is to maintain and make the best use of existing resources. Prior to the commitment of additional capital assets for new land and facilities, we will emphasize securing adequate operations and maintenance for existing resources. We will focus on the enhancement of local and regional rural economies and the opportunity for job creation.

While our commitment to resource stewardship comes first, we will be business-like in our planning and operations for revenue producing activities at state park locations. A professional business-like approach using best, most current data available will inform marketing, create efficiencies, and provide excellent customer service that attracts visitors and grows guest volume while also achieving better financial performance at the unit and park level.

The entire physical asset base of Tennessee State Parks cannot and should not be maintained in perpetuity. Market, mission and financial considerations will be applied to determining return on potential Tennessee State Parks projects and investments. With a current capital and major maintenance backlog exceeding \$150 million, we must be disciplined in how we evaluate capital spending and investment decisions. Specifically, capital decisions for a park's guest services will reflect the receiving park's ability to be viable in the market, generate adequate revenues, and produce a required return on investment.

We will be creative, innovative and targeted in our approaches to capital acquisition, fundraising and revenue generation. Tennessee State Parks is evaluating new user charges for services and raising rates where the market will bear such changes. From friends to foundations to at-risk partners, there are a variety of private sector opportunities available to create additional, needed financial support for state parks.

It is our vision for Tennessee to have the best managed state park system in the nation. In order to do this, we will strive to enhance and maintain our highest value facilities while we conserve and protect our unique and valued resources so that future generations will enjoy the same quality outdoor experiences that their parents enjoy today and their grandparents enjoyed yesterday.

Market Analysis – Current Impact, Customers, Opportunities and Threats

Economic Impact of Tennessee State Parks

The University of Tennessee conducted an economic impact study ([Attachment F](#)) for Tennessee State Parks in 2009 and summary of their findings include:

- Trips to Tennessee State Parks resulted in \$725.2 million in direct expenditures by state park visitors.
- For every dollar spent on trips to Tennessee State Parks, an additional \$1.11 of economic activity was generated throughout the state. When the direct and indirect expenditures were combined, the impact of Tennessee State Parks to the state's economy was \$1.5 billion in total industry output.
- For every dollar spent from the State Park's budget allocation from the general fund (\$41 million), it generates over \$17 in direct expenditures and over \$37 in economic impacts (total industry output). The 1:17 direct impact ratio for State Parks compares favorably to the ratio projected for tourist development spending reported by the Governor's Commission on Tourism in January 2013.
- The total indirect business taxes generated from expenditures by Tennessee State Park visitors were over \$106 million.
- The \$725 million in direct expenditures supports almost 12,000 jobs across Tennessee.
- \$1.5 billion in total industry output supports over 18,600 jobs in Tennessee.

Economic activity generated by Tennessee State Parks has a significant impact on Tennessee's economy and creates jobs in many rural areas of the state where jobs are needed most. The direct benefits visitors gain from their State Park visits also have significant economic benefits to Tennessee by reducing physical and mental health costs and increasing overall productivity. Finally, Tennessee State Parks improve Tennessee's economic well being by increasing the state's attractiveness to outside industries, retirees, and people seeking to relocate in areas rich in natural amenities.

Tennessee State Parks Customers

Attributes of individual state park customers include being nature-oriented, value seeking, and having experienced Tennessee State Parks at previous points throughout their lives. We also book more than 11% of our inn and conference center sales from other state government business. However, previous experience, return customers, and state government business will not be enough to maintain required activity volumes to ensure long-term financial health. Our new customers are more technologically savvy, more discerning, and less loyal to a particular venue. Data from the Tennessee Department of Tourist Development suggests visitors indicate a propensity to seek sustainable and eco-travel, historical and cultural attractions, adventure tourism experiences, and are more inclined to utilize technology both before and during travel. Tennessee State Parks is uniquely positioned to meet this segment of the tourism market. While State Parks has a distinct edge by offering an array of unique locations to guests, our physical asset condition often puts us at a competitive disadvantage when evaluated by today's more discerning consumer. Our outdoor natural, historical and recreational resources cannot overcome our historical inability to maintain plant, furnishings and equipment at levels expected by today's decision makers – particularly younger, female and tech-savvy customers.

Strengths and Opportunities for Tennessee State Parks

Health and Fitness Emphases - Tennessee State Parks features a variety of high quality resource based recreation activities to engage visitors of all ages. Individuals and families can experience recreation at state parks through self-directed activities, or they can take advantage of organized programming, including Junior Rangers, NFLPlay60, running events, and other planned outdoor fitness series. Our locations and programming complement and reinforce Governor Haslam's Healthy Tennessee Initiative and support improved overall health.

Favored Destination - The Tennessee Department of Tourist Development's 2012 Tennessee Travel Snapshot ([Attachment P](#)) indicates that National and State Parks are the fourth highest favored visitor destination and activity, with a 10% response. Other visitor data indicates a propensity to seek sustainable and eco-travel, historical and cultural attractions, and to utilize technology both before and during travel. Tennessee State Parks is uniquely positioned to meet this segment of the tourism market.

Touch Point - Touch point is a business term for any encounter where customers and business engage to exchange information, provide service, or handle transactions. A customer has vast possibilities to be in contact with Tennessee State Parks. Touch points include guest services, interpretive programmers, park rangers, park personnel, website, social media, advertising, word of mouth, and links to area groups, tourist organizations and local chambers. Consistency is the key with quality in mind. We are currently revamping Tennessee State Parks messaging and renewing our commitment to customer service training to ensure we provide a consistent level of service quality for our guests.

Growth Activities - In 2009, Resources for the Future's Outdoor Resources Review Group (ORRG) conducted a national assessment identifying opportunities and critical challenges prevalent throughout the nation's state parks. When ORRG surveyed regarding park activities with the greatest growth to date and potential for future growth, these activities were identified: camping, hiking, fishing, water based recreation other than fishing, wildlife viewing, and bird watching.

Local Support for Recreation in Tennessee - Individuals, businesses and communities are organizing their efforts to promote both awareness and advancement of outdoor recreation. Examples include the Knoxville Legacy Parks Foundation that was formed to promote outdoor activities and create awareness of local scenic beauty and open spaces. The foundation has raised several million dollars to purchase and develop more parks and greenways in and around the City of Knoxville. The development of Tennessee's 54th State Park at Cummins Falls was a result of Jackson County, Putnam County, the City of Cookeville and area businesses joining forces with the Tennessee Parks and Greenways Foundation to generate significant funding. The Mississippi River Corridor Association, partnering with Tennessee State Parks, was awarded a grant for renovations and additions to the Reelfoot Lake State Park Visitor Center in Tiptonville. The revamped center will focus on the nature and history of the region while providing a renewed focus on the region's tourism efforts. We benefit from strong local support for mutually valued conservation and recreation activities.

Threats for Tennessee State Parks

The 2009 ORRG assessment also identified these critical challenges facing state parks across the country ([Attachment H](#)):

- insufficient funds for other capital expenditures and construction of new facilities;
- insufficient funds for operation of and maintenance of parks; and
- complaints from citizens about park conditions.

These threats materialize in the condition across physical plant assets throughout Tennessee State Parks. Many of our facilities are worn, tired, and dilapidated. Often, it is the deteriorating, dated physical plant set in the compelling natural world causing a majority of our guests' complaints and concerns. We are addressing this threat with a strategic approach focused on investing at site facilities where there is a real return on investment – locations where we can make a direct impact on occupancy rates, fees charged and collected, and guest satisfaction.

Marketing Strategy

A new Director of Marketing and Product Development position was established in January 2013 and is assisting management in developing a consistent branding and a marketing plan. Tennessee State Parks has a limited annual marketing budget of \$200,000, so we rely on earned media, tourist related outreach at area conferences and conventions, generating repeat local business, website and social media, and positive word of mouth from guests and Friends. We are assessing whether additional marketing investments will yield a significant return on that investment.

Focus on Digital Platforms

Operating in a world of scarce advertising resources, Tennessee State Parks emphasizes connecting with potential customers in the digital space. Last May, we launched an award-winning 75th Anniversary microsite at www.tnstateparks75.com in conjunction with Tourist Development and www.tnvacation.com.

In the past year we addressed a huge need by establishing a reservation system for all 35 state parks with campgrounds. Online campsite reservations for each park went live to the public on Feb. 5, 2013. During the first 40 days of operations, online campsite reservations are:

- 37% of total campsite reservations
- 35% of total campsite revenue
- 32% of campsite online reservations from out of state

Visitors' early adoption of these online capabilities and initial results reinforce our original estimates that online campsite reservations would add 15% to 20% overall volume and revenue from camping activity.

We presently have online reservations for inn rooms and cabins at those six parks that have inns. Tennessee State Parks will be implementing online reservations for all the remaining cabins during spring 2013. We anticipate making our cabin inventory and reservation transactions more accessible to website visitors will provide a 10% increase in cabin rental activities. Other online reservation capabilities coming in the spring of 2013 include golf tee times, marina slips, and meeting facilities.

The first smart phone app for Tennessee State Parks was developed in partnership with Parks By Nature and introduced in February 2013. The free, Tennessee State Parks Pocket Ranger mobile app was created at no cost to the taxpayer and will provide a connection to current and new customers that only consume information and make decisions on a mobile platform.

The current State Parks website resides on the State of Tennessee server platform and is thus limited to be more informational than inspiring. The Governor's Office has realized these functional limits and authorized development of a new www.tnstateparks.com website, separate from the State platform, that we aim to roll out later in 2013 featuring more dynamic, responsive content.

Innovative Programming

Recent efforts to engage youth through our Interpretation and Education Division via the Junior Ranger and NFL Play60 programs have been successful. The 75th Anniversary in-park events included Birthday Cake cutting parties (with local chamber, tourism, elected officials, and General Assembly members) and generated local and statewide media.



The Marketing and Product Development division includes the Friends of State Parks staff, and positions charged with responsibility for developing recreation based land and water associated events with revenue potential for State Parks. The Bicycle Ride Across Tennessee (BRAT), State Parks Running Tour, and fishing and boating events are being further developed with revenue generation in mind.

Innovative programs at Tennessee State Park Golf Courses including Certified Audubon Cooperative Sanctuary designations and sustainability measures have created free media, public interest, and a unique golfing experience that has increased revenue. All electric golf carts, mowers, and greens keeping equipment will be introduced at the Bear Trace at Harrison Bay this spring, further enhancing State Parks reputation and revenue potential.

Pricing

We have established a Revenue Manager position in the State Park Operations division to maximize revenue. Revenue generation is discussed at monthly Operations Division meetings along with budget issues.

Option to Establish Government Rate: All State employees are provided discounts at State Parks. This is a benefit to the state employee, but any discount is a reduction in a revenue opportunity for state parks. We are considering elimination of the employee discount or seeking an opportunity to journal voucher the discounted amount to the employee's department. State Parks would then incorporate a fixed "government rate" similar to hospitality industry standards.

Identifying and Marketing to Target Audiences

While our state park locations and natural settings are our greatest draw and asset, new customers are more technologically savvy, more discerning, and less loyal to a particular venue. Data from Tennessee Tourist Development suggests visitors indicate a propensity to seek sustainable and eco-travel, historical and cultural attractions, adventure tourism experiences and are more inclined to utilize technology both before and during travel. Tennessee State Parks is uniquely positioned to meet this segment of the tourism market.

Adventure Travelers - Adventure tourism is rapidly growing in popularity, as tourists seek different kinds of vacations. According to the U.S. based Adventure Travel Trade Association, adventure travel may be any tourist activity, including two of the following three components: a physical activity, a cultural exchange or interaction and engagement with nature. Access to inexpensive consumer technology, such as Global Positioning Systems, social networking, and photography has increased the worldwide interest in adventure travel. Research indicates that the adventure traveler, while not a big spender, is a "high value customer" due to the propensity to spend dollars on local lodging, food, guides, crafts, etc.

Ecotourism Seekers - Generally, ecotourism focuses on socially responsible travel, personal growth, and environmental sustainability. Therefore, in addition to evaluating environmental and cultural factors, an integral part of ecotourism is the promotion of recycling, energy efficiency, water conservation, and creation of economic opportunities for local communities. Ecotourism can provide much-needed revenues for the protection of parks and other natural areas — revenues that might not be available from other sources. Ecotourism can provide a viable economic development alternative for local communities with few other income-generating options.

Heritage Tourism - History and culture provide a key opportunity for tourism-related economic development. The educational experience from heritage tourism can be partnered with other tourist attractions. The National Trust for Historic Preservation defines heritage tourism as “travelling to experience the places and activities that authentically represent the stories and people of the past” based on five guiding principles: collaborate; find the fit between a community or region and tourism; make sites and programs come alive; focus on authenticity and quality of experience; and preserve and protect resources.

Corporate and Business Retreats - Corporate retreats help people find a sense of purpose and encourage an exchange of new ideas, foster camaraderie and cooperation, and reinforce each employee is an integral part of the business. Retreats often involve team building outdoor recreation activities, but also require current up to date conference center technology and amenities such as cellular service, Wi-Fi, audio-visual systems, and projection technology.

State of Tennessee Business - Much of our business is from park based government conferences/training meetings and local and regional return business. State of Tennessee business at State Parks was \$1.2M in FY2011-12, or 11% of the total revenue generated by inn and conference center sales. We appreciate the support from within state government, but there is still additional business to be booked and referred from state government.

Family Functions, Weddings, Reunions, Church Groups, and Scouts - Family and group activities, primarily within an hour’s drive of a park location, are our primary source of group visitors. These groups may come to a park for a day, a weekend, or at group camps, a week stay. They are our current “sweet spot.” Nearby location, sense of place, price, and tradition are motivators for this audience.

Camping

State Parks is currently making upgrades to nine state park campgrounds. Upgrades will include:

- electrical conversion from 30 amp to 50 amp service, the current industry standard
- Wi-Fi installation, #1 campsite amenity desired according to a park customer surveys
- bathhouse/restrooms improvements
- enlarging sites

These upgrades, combined with our transition from a first come/first serve system to an online campsite reservations system, is anticipated to increase revenue significantly. The availability of online reservations, new technology, electrical upgrades, and site improvements will significantly improve revenue and our guests' satisfaction. Estimates from other park systems who converted to online reservations indicate a 15 percent increase in revenue.

Investments in campgrounds not only protect our relative competitiveness and market share but also create improved pricing opportunities. Our current charges per night are the second lowest of any state park system in the southeast and are also low compared to the private sector and TVA. After the upgrades, Tennessee will have high quality RV and tent sites that are equal to or exceed industry standards, meet the current needs of the camping public, and enable us to raise rates to market level without likelihood of losing market share.

Inns and Conference Centers

In 2014, Fall Creek Falls Inn will undergo a renovation that includes 73 of its 145 rooms. Guests have complained about room quality for years. Guest rooms have furniture previously at a Hampton Inn in the Knoxville area that was being thrown away. No significant renovation to the common areas of the Inn or the 73 adjoining guest rooms has occurred since the facility opened in 1972. Guests pay around \$100 per night for a room that is equivalent to, at best, a Days Inn type quality. If located at an interstate exit, no one would pay the current inn rates for the drab concrete block interiors. This speaks to the "power of place" at Fall Creek Falls.

The Fall Creek Falls Inn renovation is intended to highlight the sense of place in much the way the National Park Service does at its inns. New design elements, room furniture and furnishings will reflect the rustic outdoors setting. Wi-Fi, a lake front craft beer and coffee bar, and expansive lobby area will provide for an improved guest experience.

The renovated inn rooms will be on par with Hampton Inn quality, increasing occupancy 10% or more as it draws non-camping individuals and families that appreciate nature and outdoor recreation while still preferring modern, comfortable accommodations. Upgrades and increased demand will also make it possible for the market to bear increased inn rates – customers will pay more for better quality accommodations in a unique park setting.

Montgomery Bell, forty miles from Nashville, provides opportunity for corporate retreats and business meetings, but will require technology upgrades, as well as significant renovation of the inn common areas, rooms, and grounds. Other Inns with a high opportunity for increased revenue are Pickwick Landing near Savannah and Paris Landing near Paris, both located on the Tennessee River in west Tennessee. Water sports and other outdoor activities, and nearby Civil War battle sites attract tourists to these very scenic parks.

Inns at Henry Horton and Natchez Trace provide little opportunity for profitability or growth due to required cost for upgrades to current plant and remote setting of Natchez Trace.

Proposal for Sustainable Lodging Investments: When renovations to inns and rooms occur, State Parks proposes to set aside furniture, furnishing, and equipment (FF&E) replacement reserves equal to 5% of the room rate. This reserve, an industry standard, will be built into the room rate and utilized for future furniture and furnishing replacements at the specific location where collected. This provides for an orderly and routine process and should diminish, if not completely eliminate, the need for future taxpayer provided funding for this purpose.

Restaurant, Food and Beverage

A top to bottom review of all food and beverage operations is underway, and will include a full review of the buffet business model by location, effectiveness of the new alcohol offerings, a return to a uniform dress code for servers, and sense of place considerations by location. Improving the condition of inn rooms will result in more “heads in beds” and impact food and beverage revenue positively. [Hospitality Trends](#) reported ~42% of business travelers frequent the hotel restaurant or bar. State Parks’ remote settings and limited local offerings around our inns and restaurants indicate our numbers could be a much higher percentage due to more of a captive audience.

The most successful restaurant operation at Cumberland Mountain is near break-even likely due to its close proximity to I-40, the tourism community of Crossville, and proximity of several resort/retirement communities. This restaurant is also situated overlooking the park lake, historic crab orchard stone bridge, and its grounds are similar to an urban park setting with flower beds, flowering plants and trees and short easy walks. The restaurant management at Cumberland Mountain over the years has understood that the food, while important, is secondary to the setting. They sell the park experience first and the food second. This model at Cumberland Mountain is similar to the approach taken by private concessionaires at National Park restaurant operations. The waterfront views at Paris Landing and Pickwick Landing are impressive, as are the views of smaller lakes at Fall Creek Falls and Montgomery Bell.

Golf

Investments at Harrison Bay several years ago have resulted in it becoming the premier public golf course in the Chattanooga area. This includes conversion from Bentgrass greens to Champion Bermuda and obtaining Certified Audubon Cooperative Sanctuary designation, a designation that all nine state park courses now have achieved. Improvements in wildlife and habitat management, chemical use reduction, and water conservation save money and make for a more enjoyable golf experience for players. Since this conversion, the annual revenue of less than \$1million in 2002, increased to \$1,450,000 in FY 11-12. Where it makes sense, we have applied Harrison Bay's successful practices to the other state park courses.

Upgrades at Montgomery Bell include conversion from Bentgrass greens to Champion Bermuda in 2009. Revenues had declined over several years until this upgrade. The cost to water and maintain the Bentgrass greens had also increased until the conversion. After the conversion was complete, direct expenses declined \$45,000 and revenue increased by over \$50,000. Annual rounds played has increased by more than 4,000 per year.

This conversion process is currently being proposed for Paris Landing and Henry Horton. If implemented, it is anticipated to reduce expenses and increase revenue at those locations while also mitigating the risk of total green failure during periods of extreme summer heat. Several private and public courses in middle Tennessee have experienced major revenue loss over the past few years during summer heat as they "lost" their greens and day-use golfers.

Programming and Events

A new focus is to provide a greater emphasis on programming at a park with overnight accommodation opportunities and tie the programming back to another program such as a run, bike ride, or other planned activity occurring at that particular park. We are evaluating packaging the programming along with a fee based event or charging a fee for programming to visitors that are not staying overnight at the park in an inn, cabin, or campsite. Other park systems do this on a limited basis. Given that there is no admission fee to a Tennessee State Park, a small fee for programming provides a real measure of the value of the programming to our guests. A charge of \$5 per person for only 10 percent of the current programming participants will generate more than \$175,000.

Future Investment and Potential ROI for Revenue Generating Activities

Options for increased revenue include strategic investments in facilities, closing under performing facilities that aren't contributing to larger park performance, privatization of some facilities, contracting with private concessionaires for future facilities, strategic outsourcing, and charging for programming or parking (access) fees. Developing relationships with corporate and private donors is a strategy already in motion. Introducing technology such as on-line reservations, in park Wi-Fi, and smart phone apps will provide better access to customers and will generate more interest, but the condition of many facilities is substandard. Managing expectations will be a key component of any current marketing efforts.

Projects identified with the greatest probability for effective return on investment have been grouped into two categories: "Immediate" for FY13-14 and "Near Term" for a one to three year period. These projects have been evaluated primarily from an isolated business standpoint, without considering political consequences, direct impact on jobs and local economy, or effect on local option and occupancy tax revenue. While we recognize sunk cost investments by the State in various park properties over the years, current investment decisions should be made on the probability for future results expected to be achieved and attaining a reasonable return for taxpayer dollars. There will be instances where the taxpayer will be better served through the closure and reuse of some park facilities.

Immediate – Within One Year

Invest \$1 million in furnishings for Targeted Cabins - Several cabin operations are located at popular park locations, and the physical structures are in decent condition. However, the furniture, furnishings and appliances are in poor condition and put us at a competitive disadvantage that our place-based advantage cannot overcome in the market. This includes worn-out mattresses and room furnishings, old carpet, old televisions and no access to Wi-Fi. The relatively low per unit improvement costs allow us to improve many cabins in a way that is tangible to guests, resulting in increased occupancy and higher rates for perceived better amenity level offered at these locations. ([Attachment I](#)).

Invest \$1 million in furnishings at Pickwick Landing Inn - This Inn and Conference Center near Savannah is in good condition, except for the room furniture and furnishings, televisions, and bathroom fixtures. This investment will result in room increases in both rate and occupancy ([Attachment I](#)).

Invest \$800,000 in golf course improvements at Paris Landing and Henry Horton - This includes the same kind of conversion from Bentgrass greens to Champion Bermudagrass that produced course improvements, lower maintenance costs, and immediate increases in play when implemented at Harrison Bay and Montgomery Bell. It would be a great service to our customers to convert both of these golf courses to Champion Bermudagrass. Our customers are the ones we look to for our revenue, but more importantly we must make sure that they have a good experience at our parks. ([Attachment J](#)).

Campground Improvements - The relatively low cost of campground operations combined with campground upgrades to meet market standards and new online reservations capability provides significant opportunity to increase revenues. We recommend the next round of new campground investments be in three state parks with high volume but substandard facilities: Warriors' Path, Cedars of Lebanon and David Crockett (Lawrenceburg). Improvements at these facilities will result in increased revenue per site. These improvements can be funded in phases. If funded in FY13-14, design and construction can be completed by winter 2014 in time for the following camping season.

We will continue current investments in converting 30 amp to 50 amp service for RV campsites that bring our operations to current industry standards. Site improvements that accommodate today's larger RV increase our relevance to the recreational vehicle market. Eight campgrounds funded in FY12-13 will also include Wi-Fi, another highly desired feature requested by the RV camping community. Our strategy is to invest in campgrounds with the highest occupancy rates as frequent blackouts have occurred at these operations under that stressed load factor. Our guests have indicated they are willing to pay more for these enhanced, additional services.

Montgomery Bell Inn and Conference Center - TDEC's capital projects proposal for FY 13-14 included this project. The inn rooms, common area, conference center and grounds are in need of renovations. Facilities Division staff estimated this cost at \$3 million. The private consulting group contracted by the State estimated the cost to be \$5.1 million. Recent investments in the Montgomery Bell golf course and new villas have resulted in increased revenue. The worn and tired condition of the inn and conference center diminishes state parks' ability to fully take advantage of these enhancements. State Parks believes the proximity of Montgomery Bell to Nashville lends itself to a corporate retreat and weekend getaway marketing effort. In order for this strategy to be fully realized, we must enhance the condition of the Inn and Conference Center. The design and construction of this project will encompass two to three years from designer approval.

Land Conservation for Economic Growth - Economic development is a strong consideration regarding the acquisition of new lands for state parks. Recent additions of State Parks at Jackson County and Unicoi County strongly suggest that this component is being considered by the State Lands Acquisition Committee. While the presence of significant natural features are also considerations, direct economic impact will continue to drive the thought processes. A new park themed around the growing popularity of bird watching is being considered for east Tennessee. A new historic park component under development in west Tennessee is tied back to the Civil War and the two nearby National Park Service Civil War properties at Shiloh and Corinth.

Near Term – Within One to Three Years

Civilian Conservation Corps Cabins - The CCC-constructed buildings (circa 1930s) are iconic cultural and historical elements of State Parks throughout America. The arts and crafts elements of the cabin design and construction are very appealing to the tourist desiring an authentic travel experience. These cabins are located at Norris Dam, Cumberland Mountain, Pickett, Chickasaw, Natchez Trace, and Big Ridge. The funding for renovating the CCC Cabins at Norris Dam were included in the Governor's FY13-14 budget. Renovation of the CCC cabins to their original status with modern conveniences included, but not obtrusive to the sense of place and time will result in significant ability to increase rates. Situated near the Museum of the Appalachia in nearby Norris, this cabin array will be marketed at a holistic experience with other area attractions.

Paris Landing Inn and Conference Center - Located on Kentucky Lake, this facility is both tired and worn. It has an HVAC system that is near the end of its life with components are more than 40 years old and where repair parts no longer exist. Replacing the HVAC is estimated at \$1.8M, and a significant renovation for the facility is estimated at nearly \$6M. We believe a major investment would increase occupancy, room rates, and will produce a significant increase in revenue.

Henry Horton Inn and Conference Center and Natchez Trace Inn and Conference Center - These facilities are placed in locations with attractive, yet insignificant scenery. Both are local or regional in their appeal. Both are tired and worn. Both have experienced significant operating losses over the past few years. Despite recreational lakes at Natchez Trace and Henry Horton's location on the Duck River with golf course and shooting range, neither park has been able maintain adequate utilization of their inns. We recommend seeking a private operator for each, or if not successful, explore demolition of the facilities. Annual savings are approximately \$700,000 per year ([Attachment K](#)).

Swimming Pools - State Parks operates 27 swimming pools: seven located at inn and conference centers for guests' exclusive use and 20 for public admission. These public pools are available to campground guests at a reduced fee. An analysis of the 20 public pool operations indicates that overall they generated approximately \$50,000 more than they cost in FY11-12. However, several operate at significant deficits. These include Booker T. Washington, Standing Stone, and Indian Mountain. Many others will need significant investments in a few years due to age and their general condition. These pools are typically open for the summer months only with busiest times from Memorial Day to mid-August. Mid-August school starting dates impact both revenue and staff availability. Some pools have weekend hours from mid-August through Labor Day weekend.

We propose to close highly unprofitable pool operations not located at inns. Other pools should be considered for closure as they deteriorate, as opposed to renovations. Potential savings associated with selected pool closures at this time are approximately \$200,000 per year.

Rocky Fork - Development of new park units such as Cummins Falls and Rocky Fork will be limited to core elements such as ranger station, visitor center and restroom facilities, trails, picnic facilities, and park interpretative efforts. A primitive campground is proposed for Rocky Fork due to its proximity to the Appalachian Trail. No camping is proposed for Cummins Falls. Preservation and protection of the scenic value of the natural resource is paramount as this scenic value affords the private sector and local economic development entities to promote the resource to tourists and business prospects. Recreation opportunities, both passive and active, would be types that local Friends Group or private sector sponsors will want to fund for select park facilities and programming.

At Rocky Fork, state parks is working with TDOT to develop a simple park road to provide access various components: Ranger Station/Visitor Center, picnic area, interpretive trail, and campground. We will recommend inclusion of funding for the park components in the FY14-15 budget. Road funding can be provided thru TDOT and should be constructed as soon as possible with paving after the park components are complete.

Private Concessionaires - The National Park Service and some state parks lease inn, restaurant, and other operations to private companies. The practice has been used by the National Park System for decades. It is relatively new to America's state parks. Companies such as Xanterra, Forever Resorts, and Regency Hotel Management are examples of private concessionaires who lease state and national park operations. Typical agreements provide details regarding hours of operation and facilities/services provided ([Attachment L](#)). The private concessionaire pays a percentage of gross sales to the park system. There are also reserves set aside for marketing and for furniture, fixtures, and facilities replacement. If significant investment is necessary in order for the facility to be competitive in the marketplace, a rent credit is negotiated. Proper control of facility maintenance and upgrades, plus coordination with park management, marketing, and operations personnel is important.

We have discussed internally such an agreement for the six inn and conference center locations and for the two stand alone restaurants. Collectively, the six inns and conference center operations lost approximately \$1.7 million dollars in FY11-12. The eight restaurants lost \$715,000, continuing a decline in profitability from a loss of \$425,000 the previous year and a loss of \$290,000 two years ago. Privatization of these facilities could result in savings of approximately \$2.5 million if a private concessionaire were to take them over, even if no percentage of gross revenue payment was made initially to the state. We will further explore these options with the private sector market.

Outsourcing Strategy in Practice: A Request for Proposal (RFP) has been issued for a zip-line concession at Fall Creek Falls that is based on a percentage of gross revenue. We are in process on similar opportunities for canoe, kayak, and paddle board vendors at appropriate park locations as well. Early discussions regarding a craft beer brewing facility and brew pub at the historic Old Mill at Rock Island State Park are in process. Developing craft beer brands associated with state parks and served at inns and restaurants is the desired outcome.

Reduce or Restructure Intragovernment Relationships – Reducing charges to state parks from other state agencies is another opportunity to garner additional savings. State parks was charged in excess of \$8 million dollars by other state agencies in FY11-12 and reflect a significant opportunity to improve state parks budget. We are working with General Services, Finance & Administration and other departments to identify additional savings for state parks. We are also determining if some of these services could be provided more cost-effectively inside TDEC or contracted out to the private sector to benefit state parks and the taxpaying public.

Access Fees - Logistics of implementing access fees and public dislike for past efforts to collect fees make access fees a political issue. When access fees, or parking fees, were collected from 2001 to 2006, peak collections of \$1 million annually were split 25%-75% between the park (25%) and the general fund (75%). While most state park systems across the U.S. charge \$3 to \$5 for parking or for admission, there is a question about the amount of time, effort and reduced goodwill required to generate a significant amount of revenue from access fees. ([Attachment M](#)).

Programming Fees – Last year, Tennessee State Parks delivered 7,558 in-park programs to 121,942 participants, and 922 special event programs, e.g. festivals and unique tours, were delivered to 229,262 participants. In Fall 2013, State Parks will experiment with fees for some programming events. As noted earlier, a 10% participation rate from current program participants at \$5 per person will result in an additional \$175,000 in revenue per year.

Corporate Sponsorships - Strategies to increase opportunities for corporate sponsorship of facilities such as playgrounds and picnic shelters; educational programming; and significant structures such as swim beaches, trail systems, and group camps are being initiated. State Parks has contracted with a company that connects corporate sponsors with park systems. State Parks will also continue to utilize the Friends Groups to develop park specific projects with corporate partners. State Parks will work with specific private and non-profit organizations to enhance park thematic efforts for park programming.

Conclusion

Tennessee State Parks has been negatively impacted by years of politically expedient decisions and a lack of sustained funding to maintain facilities and staffing levels. Efforts to correct this situation have been sporadic and piecemeal as each administration has its own agenda.

However, state parks in Tennessee have a significant impact on the economic growth of rural communities. Direct impact of jobs and local taxes generated from park-related activities are real benefits to those communities. It is common for local tourism efforts to center and develop their primary marketing strategies around their state park as a focal point and primary draw to the region. State parks' diverse resource-based recreation opportunities also encourage healthy lifestyles and showcase the environment as an outdoor learning classroom for visitors of all ages.

State parks with revenue generating operations are expected to contribute toward the expenses incurred from operations and perform in a manner that achieves operational self-sufficiency when taken as a whole. While state parks continues to review and make changes that improve expense control and budget management, the primary opportunity to enhance overall financial performance is to increase revenues through increased activity volumes across viable state park business units in the best position to succeed. Recent improvements in cabins, golf courses, campgrounds, and other facilities have led to revenue growth, and in some cases, a decrease in operational expenses.

The primary hindrance to increased revenue generation at park facilities, such as inns and cabins, is the worn and tired condition of those facilities and their furnishings. State parks lags significantly behind industry standards for facility renovation and furnishing replacement. External factors that also hinder opportunities for revenue generation and cost minimization are cumbersome rules and regulations of other state agencies and, ironically, the fact that state parks is charged for these services.

Options for increased revenue or cost reduction include investments in key facilities, strategic outsourcing, new fees for programming, access fees to the park, and corporate sponsorships. Introducing technology such as online reservations, Wi-Fi in the park, and smart phone apps will provide better access to customers and should generate more interest. However, the condition of many facilities is so substandard that even good marketing targeted at the correct audience will not yield sustainable business activity. Managing expectations will be a key component of any current marketing efforts.

Investments in facilities through either state commitments or arrangements with private sector operators will be the key to future financial and operational success.

Appendices

Attachment A – National Association of State Park Directors' Statistical Report of State Operations, 2012

Attachment B – Tennessee State Parks Visitation Reports

Attachment C – Tennessee State Parks Campground Report

Attachment D – Cabin Occupancy Rate Report and Statewide Comparison

Attachment E – Trip Advisor Feedback Information on Inns
(Fall Creek Falls, Paris Landing, Pickwick Landing)

Attachment F – University of Tennessee Economic Impact Study of Tennessee State Parks, 2009

Attachment G – 2012 Tennessee Travel Snapshot

Attachment H – Outdoor Resources Review Group Resources for the Future Report, 2009

Attachment I – Cabin and Pickwick Inn Investment ROI Spreadsheet

Attachment J – Henry Horton and Paris Landing Golf Course Investment ROI Spreadsheet

Attachment K – Henry Horton and Natchez Trace Financial Data FY11-12

Attachment L – Private Concessionaires Websites

Attachment M – Final State Park Access Fee Report, June 2006

