

## Part 7.3

### Bureau of Reclamation Rate Approval Program

This section of the prospectus consists of Reclamation Concession Management Guidelines Chapter 7 and outlines the Concession Laws, Regulations and Policy portion of the Lake Berryessa Prospectus website and includes all applicable processes identified in the Draft Contract of this Prospectus that will apply to the Establishment and Approval of Concession Rates at Lake Berryessa. This is the process that is prescribed for all concession operations within Reclamation and it applies in all areas and not just at Lake Berryessa.

This Appendix 7.3 provides an overview of the Rate Approval Program from the Reclamation Concession Management Guidelines.

The full Reclamation Concession Management Guidelines can be found at the following website:

<http://www.usbr.gov/recreation/publications/RCMG.pdf>.

## **Chapter 7 – Concessionaire Rate Approval Program Overview**

This document and its attachments describe and outline the various components of the Bureau of Reclamation (Reclamation) Concessionaire Rate Approval Program. The separate sections cover the entire spectrum of the program in detail.

### **A. Program Goals and Objectives**

The following guidelines provide direction that pertains to rates charged the public. The goal of the Rate Approval Program is to ensure that rates charged by concessionaires are reasonable. The reasonableness of concessionaires' rates will be judged primarily by comparison with the competitive marketplace with due consideration for operating differences. This is accomplished by review and approval or adjustment of concessionaire rates. Such rate reviews are to be based on studies conducted in accordance with the authorized Reclamation rate approval procedures.

The objectives of the Rate Approval Program are to conduct an analytical process and to review and approve concessionaire rates that:

- Are defensible, valid, and reliable.
- Reflect the competitive marketplace.
- Ensure a consistent Reclamation-wide approach for establishing rates.
- Allow professional flexibility so that individual Reclamation areas can better manage the concession program.

### **B. Requirements**

Reclamation requires preapproval of all rates charged to the public by concessionaires. Reclamation requires that those rates be comparable to rates charged for similar goods and services in the regional area. To meet this requirement and to ensure consistency and accountability, the following procedures, steps, or processes are required of all Reclamation employees who have responsibility for approval of concessionaires' rates.

There are five methods identified in detail in this chapter for approving rates that an area manager can use to determine appropriate rates. The selection depends mostly on the type of product or service being sold and the local situations impacting the business. Those methods are direct comparability, merchandise pricing, contract specified rate, competitive market declaration, and financial analysis and indexing.

A written annual rate schedule is to be developed and must be maintained by the area office. A copy should be provided to the concessionaire and others on request. The schedule should be very specific as to what is provided for the price charged. When conducting the direct comparability method of rate

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approval, there are 12 steps to be completed and documented as outlined in detail in the Rate Approval Program.

Reclamation employees who have rate approval responsibilities must have received formal training in rate approval. If disagreements cannot be solved locally, a regional director is the highest authority to whom a concessionaire can appeal rates or the way the Rate Approval Program is conducted. The required appeal process is outlined in the Rate Approval Program.

There are specific criteria that must be analyzed for each of the six types of businesses to determine comparability for rate approvals. The six types of businesses are lodging, food and beverage, campgrounds, marinas, tour operations, and gasoline stations. The criteria are outlined in detail in the Rate Approval Program.

Concessionaires may be permitted to pass on to the public those utility costs that are in excess of similar costs paid by comparable businesses outside the recreation area. Allowable components of product cost that can be passed along to the public and procedures for computing the final cost are outlined in the Rate Approval Program. Area offices do not have the option of allowing a concessionaire to pass on costs that are prohibited.

Once actual comparables are determined, extra quality features, which are used to identify the approximate value and comparable rate for the concession facilities, must be analyzed. The process is outlined in detail in the Rate Approval Program.

Reclamation, in conjunction with the concessionaire, must approve reservation and refund policies for lodging at the same time that annual rates are approved.

When approving rates on retail merchandise, it is appropriate to round up or down to arrive at a final rate. Specific guidelines on Reclamation-wide increments for rounding are in the Rate Approval Program. Although rounding is optional, the procedure for accomplishing it is mandatory.

These requirements are all outlined in detail in this chapter and will help Reclamation realize the objectives of the Rate Approval Program.

### **C. Responsibilities**

An outline of the various responsibilities of all the offices and entities involved in the Rate Approval Program is presented below. The methods and procedures for accomplishing certain tasks and meeting responsibilities will be identified and discussed in more detail in the Rate Approval Program.

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### **The Office of Program and Policy Services will:**

- Establish and update policy.
- Review and report on the adequacy of the program.
- Coordinate training.
- Contract for services.
- Develop Memoranda of Understanding.
- Coordinate with other agencies.
- Develop and disseminate technical support data.

### **Regional offices will:**

- Provide the final level of appeal, review, and decision for concessionaire rates.

### **The Technical Service Center will:**

- Provide technical program support to areas as requested.
- Review and act on area office requests to use indexing or financial analysis to approve rates.
- Maintain and distribute, on request or on an annual basis, comparability data and various indexes.
- Provide direct assistance, upon request, to area and field offices in the completion of rate approval studies.
- Make determinations regarding the appropriate markup classification of retail sales items when discrepancies are noted between offices.

### **Area offices will:**

- Establish an annual time frame in which concessionaires should request rate actions.
- Determine the appropriate rate approval method if there is a fully qualified employee available. If a fully qualified employee with the required training is not on staff, the regional office should identify the method to be used. Area office staff should obtain assistance and guidance from the regional office or the Technical Service Center if they use the indexing or financial analysis methods of rate approval.
- Perform rate approval studies, approve rates, and maintain current rate schedules for all services provided by concessionaires.
- Monitor compliance with approved rates through the Concessions Review Program.

### **Concessionaires will:**

- Submit rate requests that are timely, accurate, and thorough.
- Comply with the established appeal process.
- Adhere to approved rates.

## **D. Rate Approval Methods**

The following information describes, in brief, the five approved methods that the area manager may use when reviewing a concessionaire's rate request. Each of the five methods has specific applicability depending upon the combination of the different types of services, products, and operating situations with which a concessionaire operates. The methods mentioned below are ways to establish rates charged by concessionaires.

### **1. Direct Comparability**

This procedure requires that Reclamation collect information from businesses outside the recreation area that are identified as potential comparables and that are similar to the concession operation. This information is then analyzed and those properties that are determined to be most similar are used as actual comparables in the assessment of the concessionaire's rate request. These data are used primarily in approving rates to the public for lodging, food, beverage (see core menu portion of exhibits section of this concessions rate approval chapter for options), gasoline, marinas, transportation, and campgrounds.

### **2. Merchandise Pricing**

On a Reclamation-wide basis, markups (percentage increase above wholesale to arrive at the retail price to the customers) for specific merchandise categories are established and provided by Reclamation for use by the concessionaire in calculating rates for grocery, convenience, and gift operations. This permits Reclamation and the concessionaire to quickly arrive at approved rates for thousands of retail sales items. These markup guidelines are determined and updated annually through a compilation of nationally published industry statistics. The application of this method involves pricing merchandise by using the concessionaire's documented product cost multiplied by the percentage determined. Reclamation will conduct compliance reviews of concessionaire invoices on random products to verify that correct pricing is used.

### **3. Contract-Specified Rate**

This procedure establishes the approved rate(s) as part of the contracting process. Rates are actually incorporated into the wording of the contract and are initially determined by direct comparability, competition in response to a prospectus, or negotiation with a successful bidder. Annual price changes are initiated based upon a previously identified subindex of the consumer price index (CPI) provided by the Department of Labor, Bureau of Labor Statistics. This method is used when there are a limited number of items or services, no comparables are readily available, or the method is determined by the area office to be advantageous to the Government. The Technical Service Center will provide this CPI data upon request.

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### **4. Competitive Market Declaration**

This method provides a process by which Reclamation determines that the pricing of a specific item or service is not related to or enhanced by a specific area. Such items and services include those in a highly competitive market, negotiated sales items, or unusual items (such as antiques) wherein value is unrelated to the place where they are sold. For these items or services, a declaration is made that further rate reviews are unnecessary because the concessionaire's pricing must be competitive to secure business and is, therefore, comparable. The declaration must be reviewed annually to ensure that significant changes have not occurred in the marketplace that would necessitate the use of another rate approval method. This review process must be documented. The area manager may rescind the use of this method if it is determined that the competitive situation has changed or if another method appears to be more appropriate.

This method works well in many urban areas where there is a significant level of external competition. Since the administration of a competitive market declaration requires a low level of Reclamation involvement, it is encouraged unless it is apparent that rates will escalate beyond the external competitive environment.

### **5. Other**

Almost all rate approval actions in Reclamation will fall within one of the above four methods, but there may be occasions when a service, product, or situation precludes successful use of these methods. In those situations, Reclamation may approve rates using either the CPI in a process called indexing or Reclamation may use a financial analysis process. Each method is very limited in its application and requires consultation with Reclamation officials beyond the area office level.

### **E. Utility Cost Add-On**

When Reclamation provides a concessionaire with utilities (electricity, water, sewer, solid waste removal) at a rate higher than comparable utility charges in the private sector, the concessionaire may be permitted to recoup utility costs above comparable utility charges. This can be done by adding a surcharge unless the competitive market declaration method is employed. When using the direct comparability method, it is critical that the comparable (outside) charges are those from actual comparables if the actual utility charges from the recreation area are higher than those outside the area.

Where federally owned resources or property is used, a fair market value should be obtained. Charges are to be determined by the application of sound business management principles so far as practicable and feasible in accordance with comparable commercial practices. Charges need not be limited to the recovery of costs; they may produce net revenues to the Government.

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Utility rates based on operating costs (not including existing capital investments) or comparability, whichever is greater, can pass through costs exceeding comparability.

Utility charges can be adjusted (no lower than comparability) where operating costs are extraordinarily high and it is not practical to pass charges through in total to the visitor through price increases (i.e., allow adjustments to rates in excess of comparability when the economic viability of the concessionaire would be jeopardized).

### **1. Procedures**

Since utility rates are to be based on actual operating costs or comparability, whichever is greater. Determinations of utility costs by both methods (comparability and operating costs) must be completed and kept current. Determinations by both methods will be made at the area office level with the regional director's review and approval.

If it is determined that utility charges are greater using the operating cost method rather than the comparability method, concessionaires will be allowed to increase the prices they charge visitors for goods and services. The increase will allow concessionaires to recover those costs that exceed comparable utility costs by passing such excess costs directly to the actual users—the visitors.

### **2. Utility Charge Exception**

A utility charge exception may be applied when the utility cost add-on is so high that consumers begin to resist. At this point, higher item prices are offset by reduction in the number of items sold. The visitor suffers excessive prices, and the concessionaire suffers lost current sales and lost repeat business. There is no hard and fast rule as to when resistance might begin; there will be differences according to the types of goods and services involved, the type of clientele, and the part of the county. The sales mix of the concessionaire will greatly affect the flexibility with which increases can be applied.

The utility charge exception procedure may be used when charging actual costs for utility services would create a financial burden and would frustrate the ability of Reclamation to carry out its responsibilities to preserve, protect, and provide for the public's use and enjoyment of Reclamation lands.

Authority to approve reduction of utility charges on the basis of a utility charge exception is reserved to the regional director.

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The following guidelines will apply:

- a. As a general rule, price increases of 15 percent or less should not create an improper competitive situation.
- b. Add-ons must be spread over as wide a range of goods or services as possible, thus reducing the per item increase. It is not acceptable to concentrate price increases in a narrow range of items to produce an artificial need for the utility charge exception.
- c. Items on which the manufacturer has printed a suggested resale price are not amenable to sale above that price.
- d. Low profit, high dollar volume merchandise such as gasoline is not amenable to large increases.
- e. Merchandise prices approved under a Competitive Market Declaration should not be subject to add-on for utility rates.
- f. Price increases based on utility charges that occur at about the same time as increases based on “normal” market comparability may have a combined effect that creates consumer resistance. In such circumstances, it may be prudent to limit the combined increase to 20 percent at one time and phase the remaining portion of the utility charge increase.

### F. Miscellaneous

#### **1. *Reduced Rates to Government Employees***

These rates can be provided by the concessionaire only while the government employees are conducting official business and only when they benefit the Government by lowering travel expenses, permitting more effective program control, and maximizing use of Federal funds. The amount of a discount is based on the Federal Government published per diem rate or a percentage discount. Reduced rates must be made part of the concessionaire’s approved rate schedule.

#### **2. *Reservations***

Concessionaires should develop reservation procedures, including standards for deposits and cancellations that are patterned after industry standards or those businesses that are used as comparables. Conditions under which deposits will be refunded or cancellation fees charged will be stated in detail in the concessionaire’s approved rate schedule and advertising material. Reservations may not be accepted more than 2 years in advance for accommodation facilities or services such as lodge rooms, trail rides, river runners, or houseboats. Capacity limits should be considered when accepting reservations.

#### **3. *Appeal Process***

If a concessionaire disagrees with the findings of a rate study, including recouping pass-through costs, there is a right to appeal. An appeal should be processed only after reasonable efforts have been made to work out the



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concessionaire's disagreement(s) with the area manager. Appeals should be made in the form of a letter to the regional director, through the area manager, stating the concessionaire's desire to appeal to the regional director. The letter should clearly state the concessionaire's objection to the rate study determination(s) and should include a rationale and supply sufficient data and support information.

The area manager will immediately forward the letter of appeal to the regional director. The area office will provide local comments relating to the concessionaire's objections and sufficient support to justify the area office position relating to each issue of the appeal. The determination of the regional director, through the area manager, will be final. Until the regional director has rendered a decision, the rates charged by the concessionaire for the services in question will remain as currently approved.

The decision of the regional director is returned to the concessionaire through the area manager. If the regional director has changed the area manager's action, the memorandum will become an amendment to the area manager's approved rates. The entire appeal review should be acted upon in a timely manner.

### **G. Implementation**

After the area manager has approved the rates, the following actions and procedures should be implemented.

#### **1. Rate Schedule**

A written rate schedule should be developed by the concessionaire and maintained by the area office. A copy should be provided to the concessionaire and to others upon request. The schedule should be very specific and clearly show what is provided for the price charged. At the bottom of each page should be printed: "These rates are to remain in effect until specific changes are approved by the area manager." At a minimum, the schedule should include, as applicable:

- Portion size, including meal components, prices for children and senior citizens, seasonal rates, length of time for which equipment can be rented, charge per person, charge for single or double occupancy, charge for an extra bed or crib, seasonal rates, tour destination, and stops.
- Reservation deposits and cancellation refund amounts.
- Group and package rates.
- Reduced rates for Federal employees.
- Approved rates displayed separately from add-ons, such as a utility add-on.

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### ***2. Advertising Material***

The area manager must approve all advertising, brochures, and other concessionaire promotional materials to ensure that facilities and services are properly described and rates conform to those approved.

### ***3. Compliance with Approved Rates***

Using the evaluation program, rates should be monitored when evaluating facilities and services.

## Concession Rate Approval Methods

This program is designed to provide an indepth understanding of the procedures for processing concession rate requests. It is a “how to” guide for conducting a comprehensive and professional rate review action. It can also serve as a reference document on some points of debate between Reclamation and the concessionaire. Procedures outlined here are suggested to ensure accountability, Reclamation-wide consistency, and accuracy.

The area manager will exercise his or her authority in a manner consistent with a reasonable opportunity for the concessionaire to realize a profit on his operation as a whole, commensurate with the capital invested and the obligations assumed.

The reasonableness of a concessionaire’s rates and charges to the public shall, unless otherwise provided in the concession contract, be judged primarily by comparison with those rates and charges current for facilities and services of comparable character under similar conditions in the region. Due consideration shall be given to length of season, provision for peakloads, average percentage of occupancy, accessibility (remoteness), availability and costs of labor and materials, type of patronage, and other factors deemed significant by Reclamation.

The basic principle is the concept of comparability. This concept applies not only to the establishment of rates for concessionaires in the Reclamation system, it is used throughout the country for rate determinations in areas where an agency, commission, or other entity is required to approve or authorize rates for goods or services that might otherwise not have normal marketplace controls.

Concessionaires may operate in an environment where there is little or no competition that would restrict or otherwise mitigate aggressive pricing.

When businesses are required to function under the approval of another entity they are known as “regulated monopolies.” In this case, Reclamation is the regulator of concessionaire rates. If rates are approved that are in excess of comparables, Reclamation is responsible because of its responsibility to approve final rates. Reclamation may still approve a rate in excess of comparability because of other factors deemed significant enough for the concessionaire to receive compensation above comparability for operating expenses identified as in excess of comparable facilities. An example of this application is the adjustment to recapture utility charges demonstrated as being in excess of those paid by the actual comparables. Other concessionaire expenses may also result in rate add-ons, but such add-ons must be supported and justified through proper documentation and must be approved by Reclamation. If it is determined that the additional costs are unnecessary or the result of poor business decisions, Reclamation will not approve additions to the comparable rate.

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This program will cover authorized methods and procedures for approving concessionaires' rates, how to implement and conduct the procedures and processes to determine appropriate rates, and actions that a concessionaire may take in appealing a Reclamation rate decision. There are six approaches or methods that can be used by Reclamation for approving rates. These methods are reviewed in the following pages. The first four methods may be selected and performed locally using the following guidelines. The last two methods that are listed under "Other" require some specialized skills and a higher level of approval to use.

## Direct Comparability Study (Method 1)

Direct comparability is the only method that relies on an actual review, analysis, and recommendation at the local level. All other methods introduce national or regional figures, percentages, or averages and require some computation or other application to local situations.

The direct comparability method can apply to the full range of concessionaire charges, with the exception of gifts, souvenirs, groceries, and other merchandise. It is the most complex and widely used application.

### A. Method Description

Under the direct comparability method, the area manager is responsible for directly evaluating an array of generally similar business establishments, or potential comparables. From that group, several are selected that are most similar to the concession and that will serve as the actual comparables. Once that step is completed, the approved rates for the concessionaire may be established by comparison with the actual comparables' rates, taking into consideration appropriate operating differences.

The direct comparability study method correlates the concessionaire's rates to those in the competitive marketplace and offsets the possibility of monopoly pricing. By establishing approved rates for the concessionaire based on a review of similar services operating under similar conditions, it is possible to ensure that the concessionaire's rates are locally comparable.

Establishment of the concessionaire's approved rates under this method involves (1) identifying those businesses that will serve as actual comparables based on the degree to which they are similar to the concessionaire's operation and (2) a review of the concessionaire's rates compared to rates charged by the actual comparables, taking into consideration operating differences.

Identification of comparables need not be done each time the concessionaire proposes new rates. Comparables, once selected, may be used for several years, and the rate approval process can proceed to a review of the proposed rates based on updated pricing information. It is important to verify that the operating conditions of neither the comparables nor the concessionaire have changed significantly.

Reclamation has two variations of the direct comparability method from which to select. First is the **full review** process that actually requires an onsite visit to collect data. Second is the **limited review** process, which permits the collection of the same data by telephone or through correspondence. Typically, the full review is used for more complex operations such as hotels, full-service restaurants, and large marinas where a thorough inspection of operating conditions and business impacts is possible only on location. The

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limited review process is normally used for smaller, less complex operations such as snack bars, service stations, and a few boat rentals. Another important application of the limited review process is the annual gathering of new data to update a full review. Such updates normally can be done several times before another full review is required. Full reviews are more time consuming than limited reviews, but the same information is gathered and evaluated.

The decision to conduct a full review is made locally and depends on many factors, including the level of agreement between Reclamation and the concessionaire, changes in comparables and concession operations, and major changes in the quality of properties.

The selection of actual comparables is the cornerstone of the process. Potential comparables are any business enterprises or establishments suggested by either the concessionaire or the area manager as a candidate. Potential comparables should be similar enough to the concessionaire's operation to be used in approving rates. Actual comparables (throughout this document, the term "comparables" refers to actual comparables; when referring to "potential comparables," the whole term is used) are defined as those businesses selected from the potential comparables. Their selection is based on analysis of all data collected to determine the degree of similarity to the concessionaire's operation. Selection is the responsibility of the area manager and the concession's management personnel. The determination must be based on a thorough analysis and must include supporting justification. If the concessionaire disagrees with the selections, the decision may be appealed to the regional director.

Selection of comparables is followed by Reclamation review and formulation of recommendations for approval or disapproval of the concessionaire's requested rate. This involves the direct comparison of the proposed concessionaire rates and the quality or level of service with the rates charged for similar services by the comparables. The area manager should include a review of extra quality features. These are additional attributes that add value. Extra quality features for both the concessionaire and the potential comparables should be documented. The purpose of including extra quality features information is to more accurately determine the value provided by the concessionaire relative to the comparables. This helps the area manager determine where the concessionaire's rates should fall within the range of rates charged by the comparables. Extra quality features are not intended to be used in the process of selecting actual comparables but only to analyze the variables between the actual comparables. (See Exhibit 8 for a list of the applicable extra quality features.)

Area offices can develop specific extra quality features information that has particular local applicability. To ensure program consistency and adherence

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to policies and guidelines, extra quality features lists should be submitted to the regional office.

Based on a review of the actual comparables' rates and extra quality features, a comparable rate can be developed for each of the concessionaire's services. The comparable rate is defined as the rate that would be approved by the area manager based strictly on comparison to similar operations outside the area. Occasionally, other factors come into play, and concessionaires incur specific operating costs not shared by the comparables. Reclamation will consider other factors deemed significant and adjust rates based on those factors. Examples include added utility costs; additional transportation charges for food, gasoline, or other products because of the distance from suppliers; and the cost of providing employee housing. The area manager ensures that any such adjustments to the comparability rates are justified. The concessionaire is responsible for providing the documentation to support requested adjustments.

The direct comparability study method provides specific criteria to be applied in the selection of comparables for:

- Overnight accommodations.
- Food and beverage services (Exhibit 1: Core Menu Food and Beverage Service Rate Approval Process).
- Campgrounds.
- Marinas.
- Tour operations.
- Gasoline service stations.

In addition, examples of extra quality features specific to those types of businesses are included. The criteria established for each of the six types of operations identified should be used uniformly for all comparability studies to provide Reclamation-wide consistency.

Development and application of additional extra quality features are left to the discretion of the area managers. This provides the latitude for consideration of individual or local operating circumstances and the identification of particular features that are considered important in a particular geographic area.

The following are required steps that must be documented by Reclamation in accomplishing a full or limited review by the direct comparability method. The steps followed by two asterisks (\*\*\*) are not necessary for limited reviews or updates of full reviews.

- 1. Determine Study Level.**—Is it a full or a limited review? If limited, specify whether it is an update of a full review or a limited review.

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- 2. Develop a List of Potential Comparables.**—This step may not be necessary if the study is intended to update a full review. If it is a new full review or a new limited review, Reclamation and the concessionaire should develop a list of potential comparables. Reclamation must be very clear in explaining the difference between potential and actual comparables.\*\*
- 3. Make Contact by Phone or Mail with Potential Comparables.**— This should be done as a courtesy to business people to be visited and can be done by telephone or in written correspondence. An appointment can be arranged and the purpose of the visit explained. This type of precontact can be valuable in paving the way for accurate information collection. For a limited review or an update of a full review, information collection can take place during this step.\*\*
- 4. Visit Potential Comparables.**—This step can be omitted for a limited review or an update of a full review. Visits must be conducted in a professional manner to ensure accurate data collection. Concessionaires should be invited and encouraged to accompany Reclamation personnel on these visits.\*\*
- 5. Compile Data Collected.**—All the information collected through visits, correspondence, and telephone calls must be compiled and analyzed. If done properly, this data collection and analysis will result in the best possible selection of actual comparables. Reclamation is required to complete a comparability matrix as part of this analysis (the matrix will be described in detail below).\*\*
- 6. Select Actual Comparables.**—Selection of actual comparables follows the analysis. In general, there should be a minimum of three actual comparables.
- 7. Indepth Analysis of Actual Comparables.**—This stage focuses entirely on the actual comparables selected. Other factors deemed significant an extra quality features are thoroughly reviewed as part of determining where the concessionaire falls along the range of actual comparables.\*\*
- 8. Rate Request from Concessionaire.**—Rate requests can be submitted at any agreed upon time, but the actual rate request review is not addressed until indepth analyses of actual comparables have been completed. Certain minimum standards for development of rate requests are to be expected and outlined to concessionaires.\*\*
- 9. Rate Recommendation to Area Manager.**—The rate recommendation provided by area office staff should be written and



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should include an executive summary of the process and the information collected. Some recommendations are long and complex for large operations, while others may be fairly simple and short for small businesses in remote areas.\*\*

**10. Notification to Concessionaire of Approved Rates.**—This should be similar in form to and contain the same information as the rate recommendation given to the area manager. It should include any change from the rates originally requested by the concessionaire. All information should be shared with the concessionaire; any data that should not be shared should not be included in the final consideration of rates.

**11. Acceptance or Appeal.**—An appeal is an official part of the process and must follow procedures as described. The appeal of the area manager's decision is made to the regional director.

**12. Print Approved Rates.**—Approved rates are printed, and copies are retained by the concessionaire and Reclamation.

The steps marked with asterisks are addressed in more detail to provide assistance in conducting the direct comparability comparison. Several of the steps are easy and take little time, but they ensure consistency and accountability for the program throughout Reclamation.

### **B. Rate Approval Cosigner**

Reclamation concessions management employees often face major challenges during the completion of initial rate approval studies using the direct comparability method. For employees who are responsible for conducting rate approval studies as a collateral duty, sometimes without the benefit of training or qualified direction, the initial study can be very confusing and demanding. Such employees are required to have their work reviewed and their process analyzed by a qualified employee who can cosign the study.

The area office must also have the selected method of rate approval reviewed and approved by the regional office. To qualify as a cosigner, the employee must have successfully completed training. Cosigners must be full-time concession management employees and be familiar with the concession operation(s) in question. Cosigners can be staff members of other regional offices, area offices, the Technical Service Center, or the Office of Program and Policy Services. Cosigners can also be qualified contract employees. Studies conducted by new concession employees or employees without proper training must be cosigned or the study or analysis will be invalid.

The regional office or the Technical Service Center can assist in identifying a possible cosigner. Discussion and support should begin before the study. During the study, the cosigner can answer questions and provide advice.

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When the study is complete (but before it is submitted to the area manager with final recommendations) the cosigner must review the report for compliance with established procedures and to ensure that positions are supportable.

### C. Comparability Determination Criteria

The following criteria are used to determine the direct comparability of rate approval. They apply to only the following types of operations:

<b>Concession Type:</b>	<b>Criteria Number:</b>
Lodging .....	1-2-3-4-5-6-7
Food and beverage .....	1-2-3-4-6-8-9-10
Campgrounds .....	1-2-5-11-12
Marinas .....	1-2-3-4-13-14
Tours .....	1-15-16-17
Gasoline stations .....	1-3-18-19

#### The specific criteria are:

- 1. Competition.**—Each comparable operation should have at least one competitor engaged in a similar operation (service, amenities) in the immediate area. More than two competitors would be advantageous. Comparables should be in an area that is relatively unencumbered by permits and restrictions. The comparables should not be owned by the same entity that owns the concession operation. More competition ensures greater accuracy and fairness in the pricing approval.
- 2. Seasonality.**—One aspect of the level of comparability is the similarity of operations and visitation seasons in relation to the concessionaire.
- 3. Similar Area (lodging, food and beverages, marinas).**—The degree to which a potential comparable is similar to the concessionaire depends, in part, on the similarity of locations. Establishments operating in differing environments should not be used.
- 4. Similar Clientele (lodging, food and beverages, marinas).**—A potential comparable should serve a clientele similar to that of the concessionaire. The concessionaire serves the vacationing public almost exclusively. Properties that do a substantial portion of their business with commercial or convention clients are different from more tourist oriented concessions.
- 5. Occupancy Rate (lodging, campgrounds).**—Ideally, a comparable facility's occupancy rate would be similar to the in-season occupancy rate of the concessionaire.

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- 6. Facility Characteristics (lodging, food, and beverage).**—A comparable facility should be examined for several characteristics, including age, building type, and construction type. Some of the features of the building could be new, renovated, or original. Building type includes high-rise (three stories or higher), low-rise (two story), single-story attached, detached rooms, cabins, and tents. The construction can be of any type, including masonry, steel, lumber, logs, and canvas. All these factors are important when comparing similarities in construction and maintenance costs.
- 7. Similar Size (lodging).**—Lodging facilities of varying sizes (numbers of guest rooms) can be used as comparables even though they probably have different costs of construction and different costs of operation. Ideally, the comparable would be similar in size to the concession.
- 8. Similar Sales Mix (food and beverage).**—The ideal would be for the comparable to have the same mix of alcoholic beverage and food sales as the concessionaire. Alcohol is generally a high profit producer and can impact the overall profitability of the operation. In some cases, food prices are set or influenced by a comparable based on the degree of sales activity generated by alcoholic beverages. It can be very difficult to obtain the sales mix from the comparables, but a reasonable comparison can be made by observing and documenting the affect that alcoholic beverage sales may have on the overall operation.
- 9. Similar Number of Restaurant Seats (food and beverage).**—Comparables should have about the same number of seats as the concessionaire. This can ensure similar operational costs and reflects the impacts that total seat numbers have on rates. Comparables with many more or far fewer seats do not necessarily charge more or less for menu items.
- 10. Similar Menu and Number of Meals (food and beverage).**—It is important that the desired level and type of service and menu style established be documented for the area office. The menus of the comparables should be similar (e.g., fast food, family type/full-service restaurant, cafeteria, gourmet). This is important regardless of whether the full review rate study or the limited review method is used. A prospective comparable should serve the same meals (e.g., breakfast, lunch, and dinner) as the concessionaire. Any exception should be documented and made a part of the rate study.
- 11. Similar Size (campgrounds).**—Campgrounds of varying sizes (number of sites) can have different operating costs. Comparability

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improves if the concession and the comparable have about the same number of sites.

- 12. Site Type (campgrounds).**—Campgrounds may provide different areas to accommodate recreation vehicle (RV) users and tenters, or they may provide an area that combines the two. To achieve maximum comparability, it is appropriate to compare the concession operation with just the segment(s) of the comparable's operation that it most resembles. Site types can be classified and described as primarily RV (high density, small sites that are close together, tent space lacking or minimal, hook-ups provided); primarily tent (access roads narrow or steep or lacking, few level sites, no large vehicle parking, few or no hookups); and mixed use (more than half the sites are useable by RVs or tenters, average site separation is 50 feet, hookups that are level are considered an extra quality feature).
- 13. Similarity of Operations (marinas).**—Length of boats, number of slips, security and protection, type of boats, number of repair and launch facilities, type of utilities, availability of dry storage, and the level of transient use should be reviewed.
- 14. Construction Characteristics (marinas).**—The type of construction of the dock (floating, pilings, metal, wood), weather protection, and breakwater should be reviewed.
- 15. Similarity of Operations (tour operations).**—The concessionaire and potential comparable should use the same type of equipment (car or van, bus, tram, boat) and preferably the same type of power and fuel. These affect the initial investment and ongoing operating costs for various kinds of equipment. Additionally, the concessionaire and the potential comparable should provide the same type of guide service, whether live narrative or tape recording.
- 16. Tour Length (tour operations).**—Tour comparables should be based upon the length of the tours (2 hour, half day, or full day). Extended tours should not be used as comparables for tours of short duration because fixed costs would vary (e.g., a 1-hour tour cannot be compared to a 6-hour tour by dividing by 6). When evaluating 1-day tours, significant cost factors include the time and distance traveled to provide the tour. Ideally, the concessionaire and comparables would have similar factors.
- 17. Locally Important Criteria (tour operations).**—Because of the wide variety of tour types, it is appropriate for the local recreation area to identify certain criteria for comparability. Examples would be air conditioning, size and type of windows, engine noise, food or snacks

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provided, and restrooms on board. Local development of these criteria should specifically identify the desired levels of service or equipment. Such locally developed criteria should be reviewed by the regional office.

- 18. Owner/Management (gasoline stations).**—To be most similar to the concession operation, a comparable would represent the same oil company.
- 19. Type of Service (gasoline stations).**—Service stations are available in several different configurations, such as self or full service or a combination. Some are associated with convenience stores, and others are more traditional but offer varying levels of mechanical or repair services. The comparable should closely resemble the type of services that the concession provides.

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### Merchandise Pricing (Method 2)

Approved prices for retail merchandise are established by applying approved markup percentages to product costs. This method of rate approval should be used only for retail products and not for service-related items for which quality or amenities are factored into rates. This method should not be used for food and beverage items, marinas, overnight accommodations, transportation, or campgrounds.

This rate approval method uses percentages that have been obtained through a nationally recognized source (the National Retail Federation) to ensure comparability with the private sector. Some variance from the published percentages can be allowed under certain circumstances and can be approved on a case-by-case basis by the area manager.

#### **A. Determining Retail Price**

Markup percentages, markon, keystone, gross profit margins, net profits, and other terms can be confusing to those without a retail background. The terms are defined in the glossary and discussed in this chapter.

Markon percentages and markup percentages are closely related. Markon is rarely used in the retail industry and is found almost exclusively in grocery store operations. Markon represents that percentage of the selling price that is profit. Markup, which is commonly used in retail operations, is the profit percentage that is added to the product cost to establish the selling price.

Markup percentages are broken down into merchandising categories. Some merchandise sold by concessionaires may not be listed or may fit into more than one category. Concessionaires who operate in more than one recreation area sometimes use different categories for the same merchandise to determine retail rates. It is important to identify discrepancies so that the percentages can be applied consistently.

The markup percentage list is distributed annually, normally at the beginning of the calendar year. Only the most current markup percentages should be used for rate reviews. Concessionaires should be given copies of the updated percentages quickly so that new rates can be implemented. Concessionaires and Reclamation staff should agree on a reasonable implementation period and the agreement should be documented in the rate files. (The concessionaire should be given a copy of the documentation.)

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The following examples outline the formulas for Markup and Markon Percentages:

**Assumptions used in this exercise:**

Product cost — \$4.50

Selling price — \$6.00

Approved Markup Percentage — 33%

Approved Markon Percentage — 25%

### 1. Markup

The percentage of Cost that is Profit is determined by subtracting the Cost from the Selling Price, as:

$$\text{Profit} = \text{Selling price} - \text{Cost}$$

$$\text{Markup} = \text{Profit} \div \text{Cost}$$

**For example:**

<b>Selling Price</b>	\$6.00
<b>Cost</b>	<u>- \$4.50</u>
<b>Profit</b>	\$1.50

$$\text{Markup} = \$1.50 \div \$4.50 = 33\%$$

To determine Selling Price from the Approved Markup Percentage:

$$\text{Selling Price} = \text{Cost} \times (1 + \text{Markup})$$

$$\$4.50 \times 1.33 = \$5.985 \text{ (selling price rounded to } \$6.00)$$

### 2. Markon

To determine the Percentage of Selling Price that is Profit:

$$\text{Profit} = \text{Selling price} - \text{Cost}$$

$$\text{Markon} = \text{Profit} \div \text{Selling Price}$$

**For example:**

<b>Selling Price</b>	\$6.00
<b>Cost</b>	<u>- \$4.50</u>
<b>Profit</b>	\$1.50

$$\text{Markon} = \$1.50 \div \$6.00 = 25\%$$

To determine the Selling Price from the Approved Markon:

$$\text{Selling Price} = \text{Cost} \div (1 - \text{Markon})$$

$$\$4.50 \div (1 - .25), \quad \text{or} \quad \$4.50 \div .75 = \$6.00$$

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Rounding is acceptable and common. The approved procedure for rounding should be used in merchandise pricing.

<b>Retail Price</b>	<b>Round to Nearest</b>
Below \$10.00	\$0.05
\$10 to \$24.99	0.10
\$25 to \$49.99	0.25
\$50 to \$99.99	0.50
Over \$100.00	1.00

For example, if the wholesale cost is \$6.23, the retail price after 120 percent markup would be \$13.71, so the approved retail price after rounding would be \$13.70. If the wholesale cost is \$101.26, retail price after 100 percent markup would be \$202.52 and the approved retail price after rounding would be \$203.00.

### **B. Variations from Listed Percentages**

The percentages provided on the approved markup percentage list are the upper range of profitability and should be used as a maximum allowable percentage. Comparability may be achieved where retailers in a particular area price items above or below the national markup/markon percentages. This can be documented by contacting retailers in the area, and rates can be adjusted by using a limited review process. But this should be the exception and not the rule. Retail outlets have too many different types of merchandise that would have to be reviewed continually to allow this method as a routine way of approving rates.

Use of manufacturers' suggested retail prices is generally discouraged. These prices are frequently used as a marketing technique in which items are marked with a suggested price but sold at a lower price in order to appear as a bargain. It is more accurate to approve merchandise rates using the standard merchandise pricing method. Items that are universally sold at a factory printed price, such as magazines, paperback books, newspapers, film, candy bars, and some snack foods, can be sold at the pre-marked price. The concessionaire must be able to demonstrate that these items are nationally marketed at the same rate.

Unusual items or those that are not marketed in a routine manner or do not fit into the normal pricing practices may be priced using the limited review process. Antiques could fall into this category.

### **C. Product Costs**

Merchandise on hand at the time the wholesaler announces a price change may be revalued to reflect new wholesale costs, and retail prices can be adjusted accordingly. Invoices showing price increases on these items can be used for documentation.



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Cash discounts of 5 percent or less do not have to be deducted from normal product costs.

The normal product cost must be reflected on the invoice, and the discount amount must be clearly indicated. Even if a discount of more than 5 percent is offered, only 5 percent may be used in calculating the retail price. Discounts above 5 percent are regarded as a reduction in the wholesale price on which the markup is based.

Documented freight costs may be added to the product cost before applying the markup or markon percentages. The concessionaire must produce explicit documentation for these expenses. An option for the concessionaire is to accurately identify average annual freight costs. With Reclamation approval, the concessionaire may propose a fixed freight cost to be added as a percentage of the wholesale cost. This method allows a concessionaire to keep the same prices on hundreds of items throughout the year as restocking shipments come in with slightly different freight costs. Adjustments are necessary each year. (See exhibit 7 for details.)

Warehouse charges may not be added to the product cost. These charges are the normal labor and other expenses incurred by the concessionaire in handling merchandise in storage and in sales outlets. Warehousing expenses can be recouped through increased sales volume resulting from lower retail prices, merchandise revalued because of documented wholesale price increases, and the convenience and availability of products.

Concessionaires may take advantages of volume discounts offered by suppliers. When requested by Reclamation, the concessionaire must provide documentation of volume discounts (the invoice and the corresponding check). This discount should be clearly documented on the invoice along with the normal wholesale cost. Markups should be based on purchase prices for the quantity that the business would normally purchase to keep the product in stock.

### **D. Compliance Reviews**

Compliance reviews or rate checks should be conducted in conjunction with the operational review program to ensure that concessionaires are in compliance with merchandising rate approval requirements.

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### Contract Specified Rate (Method 3)

The contract specified rate method provides a process for approving and annually adjusting rates in many situations. Once the contract has been written or amended, the ongoing procedure for annual rate changes is the same as the indexing method, which is described later.

The three steps involved with this method are (1) establishing the initial base rate, (2) writing or amending the contract or permit to accommodate the contract specified rate method and very specifically spelling out the exact index to be used (see Indexing Method as described in “Other Methods,” below), and (3) following up each year, adjusting the rate for indexing as spelled out in the authorization. Indexing is not to be used for more than 5 years before the base charge rate is established.

The contract specified rate method is intended to be used when comparables are not readily available or when there are a limited number of services and a simple rate structure. The method should have practical application for charges for unusual services such as seaplane rides, mountaineering services, and river running operations and charges for the use of swimming pools, golf courses, bathhouses, and interpretive services.

This process should be determined to be administratively advantageous to Reclamation because it eliminates the need to conduct comprehensive annual rate approval reviews on activities and services that do not have adequate representative comparables. In many cases, concessionaires favor this method because it provides a definitive process that they can use when determining annual rates and projecting future rates. It also requires minimal preparation before establishing new rates. Once the appropriate CPI is known, the concessionaire will be able to immediately determine the new rates. (See “Other Methods,” below.)

#### **A. Establishing the Initial Specified Rate**

The Reclamation representative making this determination should use any reasonable means to establish a rate that will be fair to visitors and provide a reasonable opportunity for a profit to the concessionaire. A current rate that is considered reasonable can be used as a base rate. An economic feasibility study or financial analysis may be necessary in determining a base rate. A comparability study could also be performed to establish an initial rate. The area manager may request assistance from the regional office or the Technical Service Center to determine when certain studies are in order.

Once a Reclamation-proposed rate has been established, it can be published in the prospectus as the base rate. The prospectus could allow applicants to propose a rate different from the amount issued in the prospectus. If a new rate is proposed, the submittal must justify any increase over the proposed

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base. In such situations, the prospectus must indicate that lower rates are considered more responsive to the prospectus.

### **The following prospectus language should be included when using this method:**

Because there are no comparable \_\_\_\_\_ services in the area of \_\_\_\_\_, the rates charged shall be those approved in this (contract or permit) and subject to annual change. The maximum approved rate shall be adjusted annually to reflect the rise or fall in the U.S. Department of Labor, Bureau of Labor Statistics, CPI for \_\_\_\_\_ covering the same period. If the said CPI figure for the month of January of the year following the effective date of this contract shall show either a rise or fall from the index figure for the month of January of the preceding year, the maximum rate shall be correspondingly increased or decreased for the succeeding 12-month period, commencing on the 1st day of April, to the nearest quarter, half, or one dollar figure representing the percentage difference of increase or decrease of the current January index figure. Likewise, similar recalculations of the rate to be used shall be made using the CPI index for the month of January in each succeeding year. In each instance, the figure shall be compared with the figure of the preceding January and an adjustment made for the next succeeding 12 months in the manner aforesaid.

Reclamation (proposes) (requires) \_\_\_\_\_ as the rate for the calendar year beginning on the execution date of this (contract or permit). All prospective offerors responding should submit proposed rates along with justification and financial rationale to substantiate the proposal. If the justification and rationale are not deemed appropriate, Reclamation will respond by establishing the maximum rate. The lowest rates possible under the circumstances described in the prospectus while maintaining a reasonable opportunity for a profit is preferred and will be judged as more responsive to the prospectus. Under the same circumstances, a lower rate than that currently charged by the operator for the service provided is also preferred.

When this method is to be used, rate(s) proposed by the offeror should be considered. This method will provide competitive rate proposals. Should the proposals or the best proposal have a rate lower or higher than the Reclamation-proposed rate, the rate could be determined through negotiation.

Should all the proposed rates be considered unreasonable, too low or high, the proposals may be treated as any other prospectus where no satisfactory proposals were made.

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Reclamation can either pre-establish the base rate or permit offerors (within certain limitations) to identify and suggest, in competition with other offerors, the base rate as part of their response to the prospectus.

### **B. Existing Operation**

A valid contract may be amended to specify a new rate. In areas where a contract has 3 or more years before expiration and when mutually agreeable, the area manager may amend the contract. A contract amendment requires a substantial Reclamation effort. In some situations, it is in the Government's visitors' best interests to amend the contract. Decisions for amendments should be considered on a case-by-case basis.

## Competitive Market Declaration (Method 4)

This rate method reduces the administrative burden of rate approvals. It is appropriate when the concessionaire operates in a competitive market, the concessionaire derives no competitive advantage from the location on Reclamation land, or prices for items or services are routinely negotiated between the buyer and seller. When this method can be justified, area offices are encouraged to give it strong consideration as a means of simplifying the rate approval process.

### Examples of when a business would qualify follow.

#### A. Competitive Markets

The following three scenarios are representative of conditions where a competitive market declaration could be used.

##### 1. *Competitive Market*

A highly competitive market nearby could require that the concessionaire compete with other businesses that would ensure market pricing. A concession restaurant in an urban area may compete directly with other nearby restaurants and have little or no competitive advantage because of location. On the other hand, a marina on the same property could enjoy a substantial competitive advantage if it provides the only access to a nearby body of water. There could be a competitive market for overnight accommodations adjacent to a recreation area while the same location could still provide a competitive advantage if many visitors want to stay in the recreation area.

##### 2. *No Competitive Advantage*

Sales of antiques may derive little or no competitive advantage from being in a recreation area, since individuals often travel substantial distances to obtain antiques, and the place of purchase is of less importance than the character of the item. Therefore, this is an example of how the location of the concession provides no competitive advantage.

##### 3. *Prices Routinely Negotiated*

The price of consignment items, antiques, boats, and many other products is often negotiated between the buyer and seller.

#### B. Initiating a Competitive Market Declaration

The decision to use a competitive market declaration should not be made lightly because it reduces the area manager's control of the concessionaire. It does not reduce the responsibility for ensuring that rates are fair and reasonable. The decisionmaking process must be well documented and should provide a thorough justification for this method of rate approval.

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The declaration should be included as part of the approved rate schedule. The format of the declaration may be adjusted to meet individual needs and circumstances; however, it should include, at a minimum, a statement to the effect that:

- The concessionaire operates in a competitive market and derives no advantage from being in the recreation area, and competitive market forces are the determining factor of the concessionaire's rates.
- The concessionaire's rates may be adjusted without the specific approval of the area manager but are subject to review to ensure that they remain reasonable in comparison to similar services offered outside the recreation area.
- The declaration must be reviewed annually, and the use of this method may be rescinded if the situation changes.

See exhibit 5 for an example of a declaration and a rate schedule sheet.

## Other (Methods 5 and 6)

There are two other methods that can be used to establish concessionaire rates. Approval to use either of these two additional methods should be granted by the regional office. The methods are discussed in detail below.

### A. Financial Analysis Method

As a last resort, the financial analysis method could be used to approve rates. This method relies on a financial review conducted by the regional office when a decision is made by the area office to request this method.

### B. Indexing Method

Index pricing is an easily implemented procedure for approving or adjusting concessionaire prices on an interim basis. It does not eliminate the need for periodic rate approval. Index pricing can reduce the administrative burden on both concessionaires and Reclamation personnel by eliminating the need for an elaborate study to permit an adjustment. The following example of index pricing may provide a clearer understanding:

In April 2005, the concessionaire requests a price increase to \$57.50 per night for a double room in the hotel. The most recent approved price for a double room is \$56.00, which was approved in January 2004 through a direct comparability study. The area manager could refer to a CPI price index (Lodging Prices While Out of Town) that indicates that from January 2004 to January 2005 those lodging prices have increased by 7.5 percent. On this basis, the concessionaire would be entitled to \$60.20, a 7.5 percent increase over the old price. Therefore, the area manager could approve the requested price of \$57.50. At the same time, the concessionaire requests that the price of the fish platter, established in January 1998, be increased from \$10.00 to \$11.25. The area manager determines from the CPI price index (Food Away From Home) that those food prices have increased 8.2 percent over the period from January 2004 to January 2005. On this basis, the area manager denies the requested increase to \$11.25 and approves instead a price not to exceed \$10.82, or an 8.2 percent increase.

Concessionaire rates approved using the indexing method are good for 1 year or until a rate increase is requested and approved. They may not be indexed for a second year; another method must be used. Indexing may be used repetitively only when the original method used was the contractually specified method of rate approval. This requirement is necessary to (1) ensure that concessionaire prices do not move significantly out of line when compared to prices in the competitive local economy and (2) to limit the continued use of the more easily administered but less appropriate indexing method.

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The index pricing system should be understood to be a method of alleviating the burden of other pricing methods on both concessionaire and Reclamation personnel. It is not a panacea and cannot be used in every instance. It allows concessionaire prices to be adjusted more frequently in special circumstances with minimal administrative burden. The indexing method is an integral component of the specified rate method of authorization. The contract specified rate method is the one exception of permitting a repetitive use of indexing.



## Exhibits

### Exhibit 1: Core Menu Food and Beverage Service Rate Approval Process

The core menu concept has been developed to provide a professional procedure for approving food and beverage rates for recreation area concessionaires. In the past, establishing comparable rates for food and beverage operations required more in-depth analysis than for other services. This was because of the overall complexity and multiple variables that are a part of the food and beverage industry. It is difficult and time consuming to accurately analyze and compare a concessionaire's total menu proposal in a way that results in appropriate rates.

In recognition of the cumbersome approach required to properly address the establishment of appropriate rates through the direct comparability (full review) method, the concept of establishing a "core menu" was developed as an option for use by Reclamation concessions management officials. The determination as to whether to use or continue using the core menu method is the decision of local Reclamation management. **In situations where the concessionaire does not demonstrate reasonable sensitivity to the comparable marketplace, reclamation has the option to return to the direct comparability method of rate approval.**

This process provides Reclamation with an opportunity to identify and approve, based on the direct comparability method, a core menu. The core menu represents a predetermined number of popular food and beverage selections. In a typical restaurant setting, these selections cover food categories such as entrees (fish, fowl, pork, beef, and vegetarian), beverages, desserts, salads, and appetizers. These items reflect the types of items that are regionally expected and offered in similar facilities. The rates for these items are approved using the direct comparability method. The concessionaire is permitted to add items to the menu without the need for a detailed Reclamation analysis. However, the rates for these additional items must still be established within the philosophy and concept of comparability and recognition of the local marketplace. The concessionaire is charged with the responsibility for setting noncore rates that are in line with the established comparables for items not identified in the core menu. If Reclamation questions rates of noncore menu items, the concessionaire should be prepared to justify the rates set and show how the rates were determined. The core menu should be developed locally and should be representative of the needs and expectations of visitors in that specific area.

Unless noncore rates appear excessive, concessionaires should expect to price these additional items independently of the core menu and without the need for Reclamation to conduct detailed comparability analyses. However, Reclamation should be aware of how these rates address the concept and general application of

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comparability and the local marketplace. Reclamation may conduct random audits of noncore items to confirm their approximate relationship with the marketplace. The Concessions Review Program will address apparent anomalies in the total food and beverage program.

Reclamation will not normally take any action beyond perusal and acknowledgment of the noncore menu rates and portions if the concessionaire uses a positive approach in establishing sensitive rates.

Reclamation will approve all concessionaire services, products, and rates, so if the noncore menu has obvious flaws or inconsistencies, Reclamation can approve rates based on the direct comparability method. If an appropriate core menu is provided, it should not be necessary to be concerned with minor or subtle pricing variations in the remainder of the menu. The core menu meets Reclamation responsibility for providing appropriate rates to the public while providing added flexibility and opportunity for creativity to concessionaires and ease of management to Reclamation. An important burden remains on Reclamation to ensure that the core menu provides adequate menu items for varied dining tastes at prices comparable to similar businesses.

### A. Process

The following section outlines the details on how to structure and manage food and beverage rate approvals through the use of the core menu process.

When the rate study is conducted, the type of food service being offered will be identified. Some examples of service types (facilities or styles) usually found in recreation area environments are:

- 1. Full-Service Restaurants.**—This category includes restaurants ranging from small casual facilities with limited menus and table service to large formal gourmet operations that offer extensive and elaborate services and menu selections. Often, food service facilities in recreation areas fall between these two extremes and similar comparables should be used. While the comparable or the concessionaire may provide individual service styles or different food options, it is important that the primary service style and menu be similar. For example, either may offer occasional buffets, seasonal features, traditional selections of the immediate area, or package plans in conjunction with lodging or other promotions, but the standard menu and service style should be similar.
- 2. Cafeteria.**—This includes operations that permit the customer to view and select from individual a-la-carte items as they pass through a serving line. The items are usually individually priced. A cafeteria usually offers specials that may provide a lower overall price when a set number or selection of items is chosen.

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- 3. Other Facilities.**—These can be take out, limited seating, or prepared food service operations in a setting such as a grocery store, service station, or other environment where prepared food is not the primary product offered.

Food can be provided as part of a package deal involving such activities as fishing tournaments. Core menu application is not appropriate for these situations.

- 4. Determine the Core Menu.**—The basic core menu should be outlined before the comparability study is conducted, but some of the core menu items may have to be modified after it is determined what actual menu items are available. The core menu is intended to identify those specific food categories and items that are standard on the comparable menus and that should be reflected on the concessionaire's menu.

After the core menu is established and the comparability study is completed, the approval of rates should be relatively simple. The rate study process combined with the core menu concept produces an inventory of similar items at similar prices.

The core menu should also be reviewed to verify that selections of a national interest or expectation and items required for normal health considerations are included. Examples include salads, low calorie and low fat, low salt, grilled or baked fish and chicken pastas, and vegetables. Local and regional selections are usually limited. The comparables menus can be used for approving the special needs and local or regional item rates.

Other items made available aside from the core menu do not usually require a significant level of review, but even with the core menu concept it is still necessary for Reclamation to grant approval for noncore rates. This approval does not denote anything other than the recognition of the type of items on the menu. This is important to ensure that the configuration of the total menu is acceptable and that basic data of portions and rates are known to Reclamation. The additional menu offerings permit the concessionaire the opportunity to be innovative. They also provide a reasonable means of merchandising without the need for item-by-item Reclamation comparability. The total menu provides the visitor with a reasonable selection of items at reasonable rates that are comparable to rates charged for similar items in the geographic area.

Before prices are established (approved), the actual menu format and content must be agreed upon and approved to ensure appropriate identification and menu placement of those core items.

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For the purpose of the following exercise, establishing a core menu in a typical full-service family-oriented restaurant is addressed. Other types of food service operations may be of a different size and have different types of menus and menu items. The process should provide for the following:

**Rate request.**—A rate study or rate review is generally a result of a request for new rates made by the concessionaire. The concessionaire’s proposed rates and menu items should be a matter of record at this point.

**Core menu determination.**—Review the menus for the facilities that are determined to be comparable (following the normal direct comparability method) and identify those food categories that are generally found on each. Some specific areas that may be included are:

Menu Layout:

- Appetizers
- Salads and soups
- A-la-carte items
- Entrees
- Sandwiches
- Desserts
- Beverages

Other:

- Children’s menus
- Senior citizen’s menus
- Alcoholic beverage menus

Where applicable, these categories will be included for each meal period being reviewed (breakfast, lunch, and dinner).

Review the menus of the established comparables and identify those food types that are made available by most of the comparables (fish, fowl, pork, beef, pastas, diet foods, etc.).

The actual food items should also be identified in the core menus. These items are routinely found on most of the comparable menus. Some portion size and special feature information should be collected for general reference. Other than those items that are typically described as a certain portion size on the menu (meats and some beverages), the approval of core and noncore items should not be precisely tied to specific portions. The concessionaire should have some leeway, especially on side dishes, to be creative in presentations and combinations. Reclamation should use the previously mentioned general portion

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information to address presentations that appear substandard. This requires knowledge of eye appeal, local marketplace standards, and dining trends on the part of Reclamation concessions management personnel.

**Special needs.**—Attention should be given to selections of national interest or expectation and items necessary to satisfy normal health requirements. These should be included on the core menu even if they are not found on the comparable menus.

**Local and regional items.**—The last food items to be added to the core menu are those items that are considered local or regional or those that meet the area's theme. There are usually only a few items of this type. While desirable, these items are not essential. They may be represented as a part of the noncore menu development by the concessionaire and Reclamation.

### **B. Concessionaire Generated Items**

After the core menu items have been established, the concessionaire is permitted to add items on the menu without a detailed review by Reclamation. These may be priced independently of the core menu. Reclamation does not normally take any action beyond review and acknowledgment of the noncore menu rates. Pricing of these items by the concessionaire must be done within the conceptual ideals of marketplace comparability. **In situations where the concessionaire does not demonstrate reasonable sensitivity to the comparable marketplace, reclamation has the option to return to the direct comparability method of rate approval.**

### **C. Rate Approvals**

After the comparables have been identified and the core menu determined, the rates can be approved as follows:

- 1. Food categories and types.**—The various food categories and types to be included on the concessionaire's menus should already be known and Reclamation approval can be given accordingly. This does not mean that the concessionaire would be prohibited from adding other items beyond those considered locally or culturally standard.
- 2. Core menu items.**—Items that have been identified as core menu items are approved and rates are determined through the direct comparability method.
- 3. Special needs and local or regional items.**—The items that are expected by the general public for medical or healthy dining reasons or that are expected in a particular locale should be determined during the core menu approval process. The identified special need or locale

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items on the concessionaire's menu may be a combination of both core and noncore menu preparation. They should reflect the type of items provided by the comparables as much as possible. In some cases, such items may not be carried on the comparables' menus. However, in some instances, Reclamation may determine that they are important to the core menu because of the needs or desires of a public that expects such considerations. If not available locally, rates from outside the area could be considered or a reasonable rate could be determined by comparison with closely related items.

4. **Concessionaire (noncore) items.**—The concessionaire should have an opportunity to identify the items that he or she wants to provide but that are not on the core menu. Unless there is a good reason to deny the request, these rates should be reviewed and approved. An exception would be if some menu items were overpriced, inappropriate, offensive, or otherwise likely to create problems with public perception, or if they impact the overall menu.
  - a. If these procedures are followed, the rates that a concessionaire sets will be determined by the marketplace. In this way, the public can be provided with a reasonable selection of core menu items at reasonable prices as approved through the comparability process and Reclamation can ensure that food and beverage rates are consistent

## Exhibit 2: Indexing

### A. Price Indexes

A price index is a ratio of related prices for commodities or groups of commodities to prices in a base year. For instance, the Consumer Price Index (CPI) for all items for urban wage earners and clerical workers for 1967 through 1982 was:

Table 7.3 - 1: Consumer Price Index (CPI) for All Items for Urban Wage Earners and Clerical Workers

Year	CPI	Year	CPI
1967	100.0	1975	161.2
1968	104.2	1976	170.5
1969	109.8	1977	181.5
1970	116.3	1978	195.3
1971	121.3	1979	217.7
1972	125.3	1980	247.0
1973	133.1	1981	272.3
1974	147.7	1982	288.6

Prices in subsequent years are relative to the base year (1967); prices in 1973 were 33.1 percent higher than they were in 1967. The percentage change in prices (inflation rates) can be calculated by dividing the change in the index over a period of time by the index at the beginning of the same period. The change from 1970 to 1977 was:

$$181.5 (1977) - 116.3 (1970) = 65.2 \quad \text{or a 56\% increase between 1970 and 1977.}$$

### B. Application of Price Indexes

The CPI for Urban Wage Earners and Clerical Workers, on which the index pricing system is based, is compiled by the Bureau of Labor Statistics of the Department of Labor. Cities and regions are broken down into certain specific databases.

The categories provide price trends for particular geographic areas for specific product groups. The CPI detail indexes for specific products and services offered by Reclamation concessionaires include:

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Table 7.3 - 2: The CPI Detail Indexes for Specific Products and Services

Reclamation Concessionaire	Corresponding CPI Index
Restaurants (food service)	Food away from home
Restaurants (alcoholic beverages)	Alcoholic beverages away from home
Lodging	Lodging while out of town
Retail sales	Retail sales
Grocery items	Food at home
Housekeeping	Housekeeping supplies
Clothing	Apparel commodities
Newspapers, magazines, etc.	Reading material
Sporting goods	Sporting goods and equipment
Souvenirs	Toys, hobbies
Tobacco products	Tobacco products
Personal care products	Toilet goods and personal care appliances
Photographic sales	Photographic supplies and equipment
Nonprescription drugs and medical supplies	Nonprescription drugs and medical supplies
Bus transportation	Intercity bus fare

The CPI and associated indexes are computed and available monthly, are found in a number of Government publications, and are usually available with a 3-month lag period. Monthly data makes an index pricing system with a practical time resolution possible.

A sample of one of the pages from the Monthly Labor Review report follows. Each page contains the CPI for specific cities and for geographic regions under the Bureau of Labor Statistics. Each region is further broken down by population size as follows:

- Class A            1,250,000 and above
- Class B            385,000 – 01,250,222
- Class C            75,000 – 385,000
- Class D            Below 75,000

Cities and regions close to the recreation area should be used to aid in determining which CPI to use.

Instructions and price index worksheets for calculating rates appear at the end of this appendix. When concessionaires submit price increase requests, the area manager should break out the request by type of business (e.g., lodging, food service). The initial application of indexing involves an update of previously approved prices and does not establish rates on a first-time basis. The inflation adjustment is computed as the percentage change in the relevant index from the month and year of the request. If the requested percentage price increase is less than the increase in the index, the increase would be allowed, but if the request is for more than the increase in the index, the request would not be approved unless it was sufficiently justified.

Price increase requests greater than prices established by indexing rather than another price approval method (direct comparability, merchandise pricing,



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contract specified rate, and competitive market declaration) would be judged on the same basis. The only computational variation is in the price index reporting lag. The percentage change in the price index should be calculated from the index at the time the earlier prices were granted as compared to the most recent index for the current requested increase. For example, the prices of food away from home in the West were:

- August 1978 108.8
- June 1979 118.8
- August 1979 120.3

The concessionaire established a price of \$3.00 for a fish platter in August 1978 through the direct comparability rate approval method and, in July 1979, requested a price increase to \$3.25 (an 8.3 percent increase). The most recent price index available is the June 1979 figure of 118.8 or a 9.2 percent increase over the index in August 1978. Since the concessionaire's proposed rate increase is less than the index, the request is granted and a new price of \$3.25 is approved. If the concessionaire's requested increase had been greater than the increase in the index, the request would have been limited to the percentage rise in the index.

If the concessionaire were to request an increase from \$3.25 to \$3.35 in October 1979, it would be determined that the last price was established in July 1979 and was based on the price index from June 1979. The increase in the index from June to August (the most recent index available) would be calculated and the increase determined to be 1.3 percent. Since the requested increase is 3.1 percent, greater than the increase in the index, the increase would be limited to \$3.29.

Concessionaire rates approved using the indexing method, are good for 1 year. They may not be indexed for a second consecutive year; another method must be used. Indexing may be used repetitively only when the original method used was the contractually specified method of rate approval. This requirement is necessary to (1) ensure that concessionaire prices remain comparable to prices in the competitive local economy and (2) to limit the continued use of the more easily administered but less appropriate indexing method.

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## Monthly Labor Review Report

CPI — Urban Wage Earners and Clerical Workers: selected areas, selected items  
December 1977 = 100 unless otherwise noted

Area	Other Index Base	Food away from home						
		Aug 1982	Mar 1983	Apr 1983	May 1983	June 1983	July 1983	Aug 1983
U.S. city average	1967	311.8	319.7	321.3	321.9	322.5	323.0	324.3
Anchorage, AK	10/67	—	296.7	—	297.5	—	298.9	—
Atlanta, GA	1967	313.1	—	321.6	—	322.7	—	324.2
Baltimore, MD	1967	—	328.3	—	336.2	—	337.0	—
Boston, MA	1967	—	277.1	—	278.3	—	286.7	—
Buffalo, NY	1967	296.5	—	280.7	—	281.1	—	283.0
Chicago, IL	1967	291.3	299.4	300.3	298.8	298.8	298.8	298.8
Cincinnati, OH	1967	—	303.6	—	306.5	—	304.3	—
Cleveland, OH	1967	309.7	—	317.0	—	321.7	—	335.0
Dallas/Ft. Worth, TX	1967	331.2	—	350.8	—	350.8	—	357.2
Denver/Boulder, CO	1967	—	316.7	—	321.0	—	326.4	—
Detroit, MI	1967	281.9	285.4	285.4	283.0	282.0	282.8	283.0
Honolulu, HI	1967	298.9	—	313.8	—	312.5	—	312.4
Houston, TX	1967	368.0	—	373.2	—	377.1	—	376.9
Kansas City, MO/KS	1967	309.3	—	313.2	—	316.3	—	321.0
L.A./Long Beach, Anaheim, CA	1967	308.2	319.1	319.2	320.1	322.7	323.3	323.9
Miami, FL	11/77	—	173.6	—	174.1	—	174.2	—
Milwaukee, WI	1967	—	332.9	—	334.2	—	334.9	—
Minneapolis/St. Paul, MN	1967	339.3	—	359.6	—	356.9	—	359.7
NY/Northeastern NJ	1967	302.3	307.7	310.2	312.2	312.1	311.9	312.7
Northeast Pennsylvania, PA	1967	—	271.3	—	273.8	—	276.9	—
Philadelphia, PA	1967	385.9	388.8	392.5	393.0	396.9	399.1	402.7
Pittsburgh, PA	1967	318.2	—	328.5	—	329.2	—	329.6
Portland, OR	1967	—	325.8	—	325.6	—	331.0	—
St. Louis, MO	1967	—	296.9	—	297.9	—	299.5	—
San Diego, CA	1967	—	405.8	—	408.9	—	410.3	—
San Francisco/Oakland, CA	1967	298.4	—	305.6	—	306.2	—	312.0
Seattle/Everett, WA	1967	—	304.8	—	305.7	—	311.8	—
Washington, DC, MD/VA	1967	—	321.8	—	324.5	—	321.1	—
Region								
Northeast		150.1	—	154.1	—	155.0	—	156.2
North Central		148.0	—	151.8	—	151.5	—	152.3
South		152.7	—	158.2	—	159.2	—	159.3
West		156.2	—	161.9	—	162.9	—	164.1

Figure 7.3 - 1: Consumer Price Index (CPI) Comparison

Provided as sample only. Use current statistics.

### Exhibit 3: Index Pricing Worksheet Instructions

Complete the required information regarding concessionaire, date, location, and the specific item to be priced and initial the form in the space provided. Then, decide which CPI to use. The CPI information is provided by the Department of Labor and there are dozens of individual indexes. It is important to use the index that most closely matches the item being considered. For instance, if you were approving the price of a fishing rod, you would look for an index that was titled “Fishing Equipment” or whatever seemed closest to a fishing rod. If you are approving an item that does not seem to be associated with a logical index, you may use the concessionaire’s index title.

On the worksheet, you will notice that column C is labeled CPI. You should fill in the name of the particular index that you have decided to use as a heading for column C on the worksheet.

#### Line 1

- Column A: enter the proposed item price
- Column B: enter the current month and year
- Column C: enter the latest CPI for the item
- Column D: enter the month and year for the latest CPI

#### Line 2

If the previous price was established by comparability or other study:

- Column A: enter the previous price
- Columns B and D: enter the month and year the previous price was set
- Column C: enter the CPI for the month and year that the old price was set

If the previous price was established through index pricing, refer to the pricing form completed at that time and:

- Column A: enter amount on line 9 of the earlier form
- Columns B, C, and D: copy from line 1, columns B, C, and D from the earlier form

#### Line 3

- Column A: subtract line 1 from 2
- Column C: subtract line 1 from 2

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### Line 4

- Column A: divide line 3 by line 2 (3 decimal places)
- Column C: divide line 3 by line 2 (3 decimal places)

Compare the amounts on line 4, columns A and C.

If the amount in column C, line 4, is greater than or equal to the amount in column A, place the figure shown on line 1, column A, on line 9.

### Line 5

If the amount in column A, line 4, is greater than the amount in column C, line 4, enter the current price shown in column A, line 2 on line 5

### Line 6

Enter the percent on line 4, column C

### Line 7

Multiply line 5 by line 6

### Line 8

Add lines 5 and 7

### Line 9

Round the amount on line 8

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## Index Pricing Worksheet

Concessionaire	Date
Location	Preparers Initials
Specific Items	

  

Item Price (A)	Date of Column A (B)	CPI (C)	Date of Column C (D)
(1) Proposed			
(2) Previous			
(3) Line (1) minus line (2)			
(4) Line (3) divided by line (2)	%		%

If line (4) column (A) is greater than line (4) column (C), see below. Otherwise, enter the requested price on line (9) below.

(5) Enter amount on line (2) column (A)	
(6) Enter amount on line (4) column (C)	
(7) Multiply line (5) by line (6)	
(8) Add line (5) and line (7)	
(9) Approved Indexed Price	

Figure 7.3 - 2: Index Pricing Worksheet

## Exhibit 4: Utility Program Implementation

### A. Utility Charges to Concessionaires

When Reclamation charges a concessionaire for utilities (electricity, water, sewer, solid waste) at a rate higher than the comparable utility charge in the private sector, the additional charge above the comparable rate (add-on) may be added to the rates charged to visitors. Adjustments to utility rates do not apply when the concessionaire purchases the utility from other sources or when Reclamation charges a comparable utility rate. It is incumbent upon the concessionaire to request that the additional utility rate be added to the approved concessionaire rate.

#### 1. Procedures

The following steps are to be taken in establishing comparable rates, adjusting approved concessionaire rates, and monitoring the additional revenue resulting from the add-on.

Comparable utility charges should be obtained from the area where the concessionaire's comparable rates are determined.

The concessionaire must be notified of increased utility charges 60 days before the charges become effective.

The concessionaire must notify the area manager within 15 days of the concessionaire's request to adjust any rate(s) charged to visitors if an exception is requested. The request must be acted upon by the area manager within 15 days of the of the concessionaire's request. The concessionaire must be notified of all utility charge increases higher than the comparable rates in advance of the main visitor season so that only one yearly adjustment to approved higher charges to visitors will be required.

**Establish Base Price** — Approved rates will be expressed in terms of unit price, markup, or other appropriate measure, and the utility add-on will be expressed in comparable units.

**Documenting Additional Utility Charge Impact** — The concessionaire multiplies the difference between operating costs and comparability by anticipated use.

**Requesting Rate Adjustments** — If the concessionaire decides to pass utility costs on to area visitors, the area manager must be provided with a proposed adjusted rate increase schedule. The schedule must clearly show:

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- Past unit sales or sales volume for goods and services to be adjusted.
- Current approved rate or markup percent.
- Estimated units to be sold or dollar volume.
- Amount of add-on shown as a dollar amount or as a percentage.
- Adjusted rate shown as a dollar amount or as a percentage.
- Estimated additional revenue.
- An explanation if a decrease in units or volume sold is expected.

The following table is an example of a concessionaire’s utility rate adjustment request. The format is recommended but not required. It provides all the information needed for Reclamation review and documents the justification for the final decision. It is the responsibility of the local Reclamation officials to outline to the concessionaires exactly how to request a rate adjustment.

Table 3 - 1: Proposed Concessionaire Rate Adjustment to Recoup \$10,000 Additional Utility Charges

Product Services Adjustment	Units or Dollar Volume Sold Last Year	Comparable Approved Rate Dollar Amount or Markup	Estimated Units or Dollar Volume to be Sold	Amount of Add-on Dollar Amount or Markup	Adjusted Rate Dollar Amount or Markup	Estimated Additional Revenue
Rooms (units)	8,000	\$ 50	8,000	\$ .7	\$ 51	\$ 6,000
Breakfast buffet (units)	9,200	\$ 4	*8,000	\$ .2	\$ 4	\$ 2,000
Sandwiches (units)	5,000	\$ 3	5,000	\$ .1	\$ 3	\$ 750
Tobacco products	\$ 100,000	30%	\$ 100,000	4%	31%	\$ 400
Postcards	\$ 4,000	50%	\$ 4,000	1%	51%	\$ 40
Groceries	\$ 30,000	30%	\$ 30,000	2%	32%	\$ 600
Boat tours (units)	3,500	\$ 4	**3,000	\$ .1	\$ 4	\$ 300
						\$10,090

\* Past history indicates approximately a 12 percent sales resistance when prices are increased by \$0.25. (Perhaps the rate change should be further reconsidered.)

\*\* Boat dock will open 1 week later next season.

It is at the area manager’s discretion to inform the public that the rates include an add-on for utility costs.

### **B. Reviewing Adjusted Rate Increase Schedule**

The schedule is to be reviewed by the area manager to ensure the accuracy of calculations and the reasonableness of projections. If the add-on for any price exceeds 15 percent of the base price, the concessionaire should be asked to

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spread the add-on over more items or classes of merchandise. Only if this is not practical should an exception for utility charges be considered.

### **C. Monitoring**

The area manager should ensure that the accounting system used provides for monitoring revenues generated as a result of the adjustment.

### **D. Distribution of Adjustment**

Goods and services adjusted should affect a wide range of visitors. If the area manager does not agree with the proposed adjusted rates, his or her concerns should be discussed with the concessionaire. Differences that cannot be resolved are treated as an appeal and referred to the regional director.

After an agreement has been reached as to the goods and services to be adjusted and the amount of the increase, the area manager approves the new rates by noting the amount of add-on to the concessionaire's previously approved rate schedule. The concessionaire is provided with a copy. The amount of gross receipts as a result of the add-on should be excluded from the concessionaire's franchise fee calculation.

### **E. Utility Charge Exception**

A utility charge exception may be applied when the utility cost add-on is so high that consumer resistance begins. At this point, higher prices are offset by a reduction in the number of items sold, and the concessionaire suffers lost sales and lost repeat business. There is no set point when resistance begins; differences are attributed to the types of goods and services involved, the clientele, and the part of the country. The sales mix greatly affects price flexibility.

The utility charge exception procedure may be used when charging actual costs for utility services would place an unacceptable financial burden on the concessionaire and would impede the ability of Reclamation to carry out its responsibilities to preserve and protect Reclamation lands and provide for the use and enjoyment of those lands by the public. Such a situation could also justify eliminating or not granting a concession authorization because of a lack of reasonable opportunity for a profit without a Government subsidy

Authority to approve reduction of utility charges is reserved by the regional director, and the procedure parallels that for appeals. The area manager's forwarding recommendation should include a discussion of the relevant guidelines. The regional director's approval for a utility exception is valid for 1 year, and requests for exceptions must be made annually.



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### The following guidelines apply:

1. Price increases of 15 percent or less should not create an unfair competitive situation.
2. Add-ons must be spread over as wide a range of goods or services as possible, thus reducing the per-item increase. Concentrating price increases in a narrow range of items to produce an artificial need for the utility charge exception is not acceptable.
3. Low profit, high dollar volume merchandise (such as gasoline or groceries) is not amenable to large increases.
4. Merchandise prices approved under a competitive market declaration should not be subject to the add-on.
5. Price increases based on utility charges that occur at about the same time as increases based on normal market comparability may combine to create consumer resistance. The combined increase should be limited to 20 percent at one time, and the remaining portion of the utility charge increase should be phased in.

### F. Monitoring Procedures

The following procedures are to be used by the area manager and the concessionaire to ensure that the increases in rates for goods and services approximate the additional utility charges.

The concessionaire, using sales records, invoices, inventory records, and other reports, provides the area manager with documentation showing the rate adjustments and the added costs based on the actual amount of the utility consumed. The following table illustrates the necessary documentation:

<b>Products/Services Adjustment</b>	<b>Projected (\$)</b>	<b>Actual (\$)</b>
Rooms	6,000	6,375.00
Breakfast buffet	2,000	2,625.00
Sandwiches	750	930.00
Tobacco products	400	418.00
Postcards	40	40.00
Groceries	600	800.00
Boat tours	300	310.00
Added revenue	10,090	11,498.00
<u>Added utility costs</u>	<u>10,000</u>	<u>10,300.00</u>
Actual additional revenue generated		11,498.00
Actual additional utility charges		10,300.00
<u>Amount to be recouped or (deducted)</u>		<u>(1,198.00)</u>

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### **G. Minor Differences**

After utility costs and rate adjustments are reconciled, any difference of less than 5 percent of the actual additional utility costs should be ignored.

### **H. Subsequent Adjustments**

The above documentation shows that the concessionaire adjusted rates generated \$1,198 more than actual utility charges. Since the difference is greater than 5 percent of additional utility costs, the add-on to comparable rates is to be adjusted downward by \$1,198 the following year. If the difference between additional sales generated and actual utility costs is less than 5 percent, the difference is ignored.

Reconciliation should be at the end of the prime operating season or at a time agreeable to both parties before the next rate increase based on comparability. This should be done well in advance for seasonal operations so that adjustments can be noted in the rate schedules provided to the public.

If, during the year, the concessionaire believes, based on past and current records, that the adjusted rates could result in a substantial shortage or excess of revenue, changes should be recommended to the area manager that would provide reasonable revenues for the concessionaire and Reclamation

## Exhibit 5: Competitive Market Declaration and Rate Schedule

Catfish Marina Services, Incorporated Waterhole Recreation Area

Catfish Marina Services, Inc., is an authorized dealer for Glaston and Sea Ray boats and sells used Sterury rental boats. As a boat sales dealer, Catfish Marina Services directly competes for customers with the following businesses:

- Rainbow Boats, Holioak, Wyoming, 7 miles away Everude Sales, Holioak, Wyoming, 7 miles away
- Lemon's Leased Boats, Tidewater, Wyoming, 3 miles away Park Boats, Boundary, Wyoming, ½ mile away

The distance between Catfish Marina, at Catfish Basin, and its competitors is minimal. All the above firms sell boats in the same class as those offered by the concessionaire. In addition, the selling price of boats is generally negotiated between buyer and seller. The many variables that enter into boat prices, such as changes in season, interest rates, model year, and salesmanship make the application of fixed prices unrealistic. It is determined that the concessionaire's ability to complete is not enhanced by the location in Waterhole Recreation Area. Prices are comparable based on competition and negotiation.

Use of a competitive market declaration for approving rates for this service would be authorized. Rates could be adjusted without the specific approval of the area manager, but they are subject to review to ensure that they remain comparable to similar services offered outside Waterhole Recreation Area.

This declaration will be reviewed annually, and the use of this method could be rescinded if the area manager determines that the situation has changed. The decision to change the rate approval methods rests with the area manager.

### A. Rate Schedule

#### **1. Boat Sales - Competitive Market Declaration**

Boats sold by Catfish Marina Services, Inc., at Catfish Basin, Waterhole Recreation Area, are sold in a competitive market. The prices charged for boats are negotiated by buyer and seller. In consideration of these factors, it is declared that rates charged by the concessionaire are comparable and approved. Catfish Marina Services, Inc., may price boats competitively without further approval from Reclamation.

This declaration is for (insert inclusive dates).

---

Area Manager

---

Date

## Exhibit 6: Assistance with the Direct Comparability Method

### A. Develop a List of Potential Comparables

This simple process can be accomplished jointly with the concessionaire, who should be asked to provide a list of potential comparables to the area manager. The area manager and the concessionaire's staff will also create a list of potential comparables. Businesses that are not comparable should not be included because any properties that are greatly dissimilar will not make the final selection of actual comparables. An unnecessary point of conflict is eliminated by accepting the properties that a concessionaire suggests at this stage. If a proposed property is a substantial distance (e.g., several hundred miles) from the recreation area and there are plenty of potential comparables nearer, the property could be rejected. In some situations, it is necessary to use comparables that are hundreds of miles away because comparables are so few.

### B. Contact Identified Potential Comparables

(Full Review) Contact with a potential comparable in preparation for full review study should begin with a letter that identifies Reclamation and the program used to review concessionaire rate requests through comparability. This letter would state that an area representative would appreciate permission to visit the property in order to ask questions and collect basic information. A date and time for the visit could also be suggested. The letter could mention that a phone call will follow to discuss needs and set an appointment, which gives the potential comparable time to think about the proposal and decide whether or not to participate. The phone call should confirm a visit date and time. Very few operators decline to assist when approached in this manner.

(Limited Review) A letter may not be necessary in a limited review, but is still a good idea. The followup phone call could include an interview with the manager to collect the necessary information. A followup to an earlier full review can begin with an information collection call because the manager will already be familiar with Reclamation needs from past contacts.

### C. Visit Potential Comparables

This step can be skipped for a limited review. If a letter was sent and followup call made, the actual visit should go smoothly. Information collection is easier if a form is prepared in advance. This sheet could include a space for information on each of the criteria and notes about extra quality features. Utility cost data should be collected. Thorough notes should be taken on each point. Photographs should be taken to record exterior and interior conditions, and measurements (especially for guest rooms) should be taken to compare spaciousness or crowding with the concessionaire facility.

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If this is the first visit to a particular property, it is also helpful to collect rates for previous years to begin charting a rate history for all potential comparables. Such information is very valuable in the subtleties of final rate approval.

### **D. Analyze Data**

The selection of actual comparables has a direct impact on a concessionaire's final approved rates. It also has a significant impact on the expenditures of visitors. It is important to validate the selection through objective rating processes.

The following procedures are suggested and should be used when evaluating potential comparables as part of the direct comparability study method. The comparability matrix provides a defensible method for analyzing the data collected for lodging, food and beverage, marinas, tour operations, campgrounds, and gasoline service stations. This analysis is always required unless the number of comparable businesses is extremely limited. Even with very few comparable businesses, this process eliminates properties that are beyond a reasonable level of comparability.

#### **1. Detailed Matrix Discussion (Strengths and Weaknesses)**

A detailed matrix of the strengths and weaknesses provides a less subjective approach for determining the properties that are selected as actual comparables. The matrix does not eliminate the need for good judgment and a thorough knowledge of the comparability process because some level of subjectivity still allows criticism both from the concessionaire and from within Reclamation. The matrix is based on values of similarity that express differences between a particular potential comparable and the concessionaire. The values are determined using the concessionaire's conditions as the base against which all others are compared. These values are assigned to each of the identified criteria for lodging, food and beverage, marinas, campgrounds, transportation, and gasoline service stations.

Numeric values can be assigned to the criteria, such as number of rooms, percentage of occupancy, number of restaurant seats, and number of boat slips. Assigning values to nominal criteria such as type of area, clientele, facility characteristics, and similar menu is more problematic and requires judgment and knowledge.

Using a matrix provides a balanced procedure for rating potential comparables in an unbiased manner. Determining an approved rate is not an exact science; the concessionaire's rates are appropriate if most customers would expect to pay similar prices for similar services under similar conditions outside the recreation area.

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The comparability matrix has a dual axis. The business properties measured (including the concessionaire) are listed down the left column. The criteria measured are listed across the top. When completed, this matrix will note the degree of similarity between the concessionaire and the potential comparables. It does not designate the properties as better or worse, but only shows the degree of similarity. Quality and value are not analyzed thoroughly until after the selection of actual comparables.

Information on the criteria (food and beverage [8 criteria], lodging [7 criteria], marinas [6 criteria], tour operations [4 criteria], campgrounds [5 criteria], and gasoline service stations [4 criteria]) must be collected during visits to all potential comparables visited to ensure a thorough review. These criteria are the only items measured to determine comparability. After the comparables are identified, extra quality features are used to determine final approved rates.

It is critical that the same person evaluate all the properties in the comparability matrix to ensure consistency. (Concessionaires do not participate in the matrix process.) The concessionaire is listed first on the matrix and is assigned a value of 10 points for each criterion. This format would result in a total of 70 points for the concessionaire in a lodging matrix because there are seven criteria ( $10 \times 7 = 70$ ). The total does not signify a level of performance or quality but only similarity of operations compared to the concessionaire. The Reclamation employee completing the matrix will then devise point spreads for each of the criteria analyzed that reflect the differences between potential comparables. For example, if a concessionaire has 100 guest rooms, a potential comparable should have 95–105 guest rooms, to receive 10 points. A possible rating scenario on the criteria for the number of guest rooms follows:

- 95 – 105 rooms 10 points
- 85 – 94 and 106 – 115 rooms 9 points
- 75 – 84 and 116 – 125 rooms 8 points
- 65 – 74 and 126 – 135 rooms 7 points

Some criteria may not be as varied and could result in either 10 (the same), 5 (partially the same), or 0 (completely different). Reclamation employees should strive for consistency supported by knowledge and thoroughness, not perfection.

This technique is valuable and easy to use because the final scores for each potential comparable are not important alone—but only in relation to the other potential comparables. The most critical aspect of completing the matrix is maintaining program consistency by ensuring

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that the same person evaluate all the properties. Then, any rating can be given on a particular criterion as long as properties that are similar receive the same rating.

After the matrix is completed and the points are totaled for each property, Reclamation employees involved will look for a natural break in the point spread. All properties above that number will be selected as actual comparables. If a break level is not apparent or provides too few or too many properties, an arbitrary number of properties may be selected. The determination can be made locally or through consultation. No specific number of comparables is required, but there should never be fewer than three actual comparables selected.

After the actual comparables are designated, further analysis will consider extra quality features to determine where the concession fits among the comparable properties and the range of rates. Following this analysis, other factors deemed significant are introduced that help define the comparative quality of the concessionaire's goods and services. These factors impact the final rates to the user and should not be considered until a rate based on comparability has been determined. Examples of other factors deemed significant could be the cost of housing employees, utility costs above comparability, significant delivery costs above comparability, and additional costs caused by environmental concerns. Such costs may be passed on to the customer, but it is extremely critical that the concessionaire be able to specifically and concretely substantiate them. Additional rates above comparability should never be authorized without written documentation.

Results of the comparability matrix should be discounted only if the reasons are supportable. For example, if a facility is family staffed with no mortgage or other typical expenses, lower charges might be possible than in a more typical facility.

The matrix system can seem confusing and complicated at first, but with use, it becomes simple, easy to use, and productive. It contributes to an objective, analytical final rate decision. It brings together many disparate functions of the rate approval process to support operational activities that directly impact millions of area visitors.

### **E. Indepth Analysis of Actual Comparables**

The properties that did not become actual comparables are no longer considered. Information, including Other Factors Deemed Significant and Extra Quality Features (see exhibit 8) are thoroughly reviewed as part of

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determining where the concessionaire falls among the range of the actual comparables. This is the step where better and worse are measured and noted.

After completion of this step, it is possible to determine approximately where the concessionaire's operations fit within the range of quality and type of services or facilities offered by the actual comparables. To make this determination, the analysis must compare, measure, and appraise the level of extra quality features in both the concession and the actual comparable facilities. These features generally add operating costs and value and benefit to the customer. The review can be a simple comparison of the concessionaire's extra quality features against the corresponding lists of the individual actual comparables.

Each actual comparable should be discussed in a well-written narrative that includes the extra quality features and other criteria for each specific type of facility or service. The narrative should demonstrate first-hand knowledge of the property and should add value to the matrix comparison. The narrative should discuss various aspects of the property or service and management's attention to detail.

After point-by-point comparisons and development of property narratives, a logical determination of where the concessionaire fits among the actual comparables in respect to service, condition of facilities, and attention to detail can be made. Rates have not yet been considered. Proceeding to review the rates of the actual comparables and positioning the concessionaire among them will provide a good indication of the acceptable price range based on strict comparability.

### **F. Rate Request from Concessionaire**

Certain minimum standards for the development of rate requests are to be expected and outlined to concessionaires by area office staff. The minimum standards should be summarized in the concessionaire's operating plan. A timetable should be prepared that includes the latest date that rates should be submitted for consideration. All dates should be discussed and should provide logical time frames for completing the necessary reviews. It is critical that requests from the concessionaire describe the minimum level of services and products provided for the rate requested.

Rate requests should include information from the concessionaire about which Reclamation may be unaware. Without a detailed rate request, assumptions should not be made by Reclamation to support a concessionaire's desired rates.

At this point, the concessionaire must submit and support any other factors that the concessionaire believes should be considered. Reclamation must carefully evaluate requests for rates over and above comparability to ensure



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that there are expenses that the comparables do not share in one form or another.

With this data and the positioning among comparables, a determination can be made as to whether the concessionaire's rate request is reasonable.

### **G. Rate Recommendation to Area Manager**

This should be written and could include an executive summary of the process and information collected. The rate recommendation should include the formal comparability study and analysis and should provide all the supporting documentation for approving or disapproving the requested rates. Some recommendations are long and complex. Others may be fairly simple and short, such as the food and beverage analysis.

Recommendation documents should be presented in a logical and analytical format that outlines the procedures and methods followed in reviewing the concessionaire's rates and in analyzing the comparability data. A recommended format for the analysis and accompanying recommendation would include:

- Determining study level (full or limited).
- Listing potential comparables.
- Describing properties visited and associated data.
- Analyzing data collected.
- Selecting actual comparables (comparability matrix).
- Analyzing actual comparables (with narrative) in depth.
- Requesting rate from concessionaire.
- Recommending approval or disapproval.

An executive summary should be included to provide a quick synopsis of the results and recommendations for those who do not have the time to read the entire report

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### Exhibit 7: Averaging Freight Costs

This program is optional. It provides a way for concessionaires to include an add-on for freight costs without having to recalculate the retail price after every shipment of merchandise. This program eliminates the need for prices to fluctuate on items throughout the year.

The major burden is on the concessionaire, who must keep accurate records for calculation of an average freight cost. The freight cost should be stated as a percentage of merchandise sold for the previous year. The concessionaire would document to Reclamation (at the area level) exactly what the percentage for freight was for the past year. If the area agrees to permit averaging and the concessionaire's documentation is adequate, the percentage could be added to all merchandise sold in the following year. This procedure is a variation on the standard process that requires the concessionaire to calculate the freight rate for each individual item based on the identified costs on the separate invoices.

The concessionaire is required to track the actual costs for the year to determine if recovery for freight costs is above or below the actual cost. This difference would then be taken into consideration in the next year by either raising or lowering the percentage to account for the difference. Unlike the utility program, which permits a 5 percent plus or minus fluctuation without adjustment, there is no acceptable fluctuation in this program. There is only an annual adjustment.

If an area decides to allow this timesaving process, it is necessary to ignore the invoice freight charges in calculating approved retail sales prices. The final rate for all merchandise will have the same percentage of freight charges (for example, 3.2 percent). Some of the actual freight rates would be higher, and some lower, than the overall average. The average percentage figure would also include reductions to freight charges received for quantity purchases or prompt payment.

As an example, if the wholesale cost of an item to the concessionaire is \$10.00, \$0.32 (3.2 percent in the example above) could be added before the item is marked up to the final retail price. If the mark up is 100 percent, the final retail price of the example item would be \$20.64. This does not include local add-ons for utilities, other appropriate costs, or rounding. No cost add-ons are permitted for warehousing.

This process, when supported by accurate records, results in more stable pricing and a more convenient administrative process.

**Exhibit 8: Extra Quality Features**

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Utility hookups (water, sewer, electric)					
Trash receptacles					
At site					
Centralized					
Dumping station					
Included in campsite rate					
Extra charge					
Showers					
Included in campsite rate					
Coin operated					
Partitioned stalls					
Open/common area					
Heated					
Restroom service					
Pit toilets					
Flush toilets					
Hot and cold water					
Water					
At individual sites					
Scattered hydrants					
Central only					
<b>Site Characteristics</b>					
Site seclusion (utmost, moderate, limited)					
Separate area for tents					
Landscaping appropriate for natural terrain					
Type of access					
Rough or gravel road					
Paved					
Pull-through for RVs and trailers					
Compliance with ADA requirements					
Lighted areas and paths					
Picnic table at site					
Fireplace/grill at site					

Figure 7.3 - 3: Extra Quality Features Campgrounds

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Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
<b>Service Related</b>					
Reservation system					
Public phone available					
Camper service store					
Food service					
Gasoline service station					
Propane					
24-hour onsite available					
Firewood available					
Coin-operated laundry available					
Ice available					
Vending machines					
Interpretative programs					
Entertainment programs					
Recreation room					
Swimming pool					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 4: Extra Quality Features Campgrounds (Continued)

## Lake Berryessa Concession Prospectus

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Decor representative of local area					
Compliance with ADA requirements					
Baby changing area in restrooms (men/women)					
<b>Comfort Related</b>					
Air conditioning					
Live entertainment/stage					
Smoking/nonsmoking areas					
<b>Service Related</b>					
Accommodates tour groups					
Takeout service available					
Complimentary coffee in lobby/waiting area					
Special menus (such as diabetic, vegetarian)					
Senior citizen discounts					
Children's menu					
Ability to pay at table vs. central cashier					
Accepts reservations					
<b>Organizations</b>					
Major credit cards accepted					
Linen tablecloths (dinner)					
Glass vs. paper or plastic cups					
Single-service vs. flatware					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 5: Features Food and Beverage Service

# Lake Berryessa Concession Prospectus

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Restroom					
Public phone					
Car wash					
Air and water					
Free to customers					
Charge					
Convenience store					
Overhead canopy					
Compliance with ADA requirements					
<b>Comfort Related</b>					
Waiting room for auto repair					
<b>Service Related</b>					
Trailer and/or RV service					
Tires, batteries, and accessories					
Tire repair service available					
Tow service available					
Mechanic on duty					
Open 24 hours					
Open 7 days per week					
Accepts major credit cards					
Credit cards accepted at pump					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 6: Extra Quality Features Gasoline Service Stations Facilities

## Lake Berryessa Concession Prospectus

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Hotel/motel					
Restaurant and/or bar					
Groceries					
Adequate water depth for draft of boats					
Secure boat tieup system					
Fuel dock and other fuels (propane, etc.)					
Fire protection water and equipment					
Dock utilities (water, electric, cable TV, phone)					
Availability and proximity of parking lot					
Dock boxes and carts					
Dinghy racks and other storage areas					
Restroom, showers, and laundry					
Ice and other vending machines					
Fish cleaning station					
Parts and accessories store					
Landscaping					
Picnic area, swimming pool, tennis courts, etc.					
Recreation or lounge area					
Posted marina rules					
Boat haul-out facilities					
Repair/maintenance (mechanical, hull, rigging, etc.)					
Transient berths/moorings					
Dry storage					
Trailer parking					
Compliance with ADA requirements					

Figure 7.3 - 7: Extra Quality Features Marina Facilities

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Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
<b>Service Related</b>					
Sewage pumpout station					
Marine VHF monitoring					
Dock hands to assist in docking					
Weather information					
Book/VCR library					
Charter boat operation					
Camping					
Swimming					
Water skiing					
Fishing					
Beach rentals					
Boat rentals					
Fishing equipment					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 8: Extra Quality Features Marina Facilities (Continued)



## Lake Berryessa Concession Prospectus

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Rooms					
Individual temperature control					
Suites					
Compliance with ADA requirements					
Kitchenettes					
Television					
Free cable					
Pay per view movies					
Telephone					
Free local calls					
Vending					
In-room					
Common area					
Swimming pool					
Indoor					
Outdoor Heated					
Outdoor unheated					
Pool deck and/or patio area					
Retail facilities					
Restaurant/bar facilities					
Cafeteria					
Full-service Dining Room					
Bar					
Fireplace in common area					
Designated bus/camper parking					
Children's play area					
Recreation/weight room					
Marina					
Beach					
Tennis courts					
Golf privileges					

Figure 7.3 - 9: Extra Quality Features Overnight Accommodations

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Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
<b>Convenience/Comfort Related</b>					
Wall-to-wall carpet in rooms					
Grade-A furniture					
Bedside lighting controls					
<b>Service Related</b>					
Baggage (bell hop)					
Valet parking					
Room service					
Entertainment					
Medical assistance/RN on duty					
Audiovisual movies					
Make other reservations					
Rental cars available					
Major credit cards accepted					
Registration office open 24 hours					
800 number available					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 10: Extra Quality Features Overnight Accommodations (Continued)

## Lake Berryessa Concession Prospectus

Features (check if present)	Concessionaire	Comparable A	Comparable B	Comparable C	Comparable D
Restroom on board					
Public address system					
Compliance with ADA requirements					
<b>Comfort Related</b>					
Reclining seats					
Air conditioning					
<b>Service Related</b>					
Special activities arranged					
Accepts major credit cards					
Tour guides/foreign language capability					
<b>Local Factors Deemed Appropriate</b>					

Figure 7.3 - 11: Extra Quality Features Tour Services