Mr. Chairman and members of the Committee:

The hearing which you are undertaking today is of great importance. Secretary of the Interior Udall, by virtue of his service in the Congress, was aware of the difficulties attendant upon operations of concessioners in national parks even before becoming Secretary, and he has given the subject intensive consideration since. He personally participated in hearings on one aspect of this problem before the Government Operations Committee: I have made statements on behalf of the Department on several occasions to the House Interior Committee: we have had the privilege of cooperating with your staff members in the intensive analysis which has culminated in today's proceedings.

My statement today is directed to the question of franchise fees alone. I tried to summarize my general views about concessions operations in a statement before the House Committee on Interior and Insular Affairs on February 7 when I said:

"At a meeting with the concessioners last fall, I outlined my own conclusions: that utilization of private enterprise to furnish needed facilities in national parks on a regulated basis seemed to me a sound policy which had achieved a measure of legislative sanction; that government in these circumstances owed it to the concessioners to understand and accommodate, as far as practicable, the incidents to private enterprise operations, principally those necessary to amortize debt-financed capital investments requested by the Government; that low franchise fees were causing criticism of concession operations, a matter which the concessioners themselves ought to look to; that although difficult to regulate, the so-called non-profit distributing companies which combine profitable with unprofitable operations at different parks would not be disturbed unless or until Congress told us to; and that certain archaic practices, principally having to do with transportation monopolies ought to be carefully re-examined by both the concessioners and the government as contracts come up for renewal."

An analysis of the function of franchise fees indicates that two governmental objectives are served.

Raising revenue is one. The generosity of the American people, through this committee and the Congress, in creating and developing national parks, justifies the application of policies which provide for contributions to the Treasury based upon doing business in, as well as entrance fees to, the national park areas.
But business done in parks is regulated business. Concessions are government privileges, premised upon compliance with governmental requirements of types of services, seasons, architecture, rates, and the like. Franchise fees are a cost of doing business, and are passed on to the using public. At least this assumption can be indulged so long as the rate of return doesn't fall abnormally.

The conclusion is inescapable that franchise fees, as a source of government revenue, are inefficient and inadequate. Your Committee indicated as much when it said in Report No. 1446, 37th Congress, 2d Session: "... $520,000 was from business concessions. Considering that these concessions had a gross income during this period of about $43 million, the Committee believes that considerable increase in franchise fees is warranted."

A second governmental objective is regulation -- raising franchise fees is one way of controlling unconscionably high profits, while fixing a lower rate is a method of getting either a higher quality of service, or a lower cost to the public.

This objective is inefficiently served by the "formula" for higher franchise fees on certain types of business within parks than other, and by a uniform franchise fee covering both the high-profit and the low or no-profit segments of operations in one park, or by operations in different parks by the same concessioner.

But because franchise fees are passed on to the users in one way or another, they are not a good tool for regulation even when they are based on the net profit, rather than gross business. Experience indicates tremendous difficulty in relating franchise fees to net profits, whether in parks or in any regulated business.

It seems to me that we ought to separate the two governmental objectives. One way to do this would be to have the fee passed on identifiably to the users. Each park user, whether in a remote and high cost park, or in one of the high density parks, would simply pay an added 2% or 3% with his bill, large or small, to any business concessioned in a park. This would be like a sales tax, and might even be called a sales tax, if the Congress should authorize it specifically. It would have the virtue of ease of collection and definiteness. Gross business of fifty million in a year would yield $1.5 million at a 3% rate.

Concomitant with this, of course, ought to be greatly strengthened regulatory authority of the National Park Service in supervising concession operations. Freed of the revenue gathering concern in fixing franchise fees, the service could devote attention to what ought to be its real objectives -- improvement of the amount of service available to meet the growing needs, and either raising the quality of the service or reducing
the cost, or both. These objectives would be easier served if it did not have to be coupled with accounting and financial arguments with the concessioners related to the concession fee. That matter would be a fixed and definite obligation of the user, the amount based only on the dollar level chosen to be spent.

This is not a legislative proposal. My purpose today is to initiate the Department's presentation by indicating that we think the concern of this committee in terms of the amount of revenue being raised is legitimate, and one we share. And we hope to continue our study and analysis, with you, hoping that the objectives of concession management reflected in the report I transmitted to you can be served, while at the same time being considerate of the continuing burden upon the government's revenues.