

Minnesota Department of Natural Resources Division of Parks and Trails

La Salle Lake State Recreation Area

Management Options for the Resort Area

Report required in Laws 2011, 1st Spec. Sess., Ch. 6, Art. 3, Sec. 9

March 1, 2012



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Executive Summary

A 1,000-acre parcel of land in Hubbard County now known as the La Salle Lake State Recreation Area (SRA) was acquired by the DNR on October 27, 2011. The 190-acre area in the northeast part of the SRA contains improvements that will offer additional recreational opportunities when they are opened. This built portion of the SRA is referred to as the resort.

The 2011 Legislature directed the commissioner of the DNR to study management options for the resort operations (Laws 2011, 1st Sp. Sess., Ch. 6, Art.3, s.9):

By March 1, 2012, the commissioner of natural resources shall submit a report to the senate and house of representatives committees and divisions with jurisdiction over natural resources policy and finance evaluating options for the management of the resort within the LaSalle Lake State Recreation Area, including an evaluation of the option to lease the resort to a nonstate entity. The evaluation shall include potential financial arrangements or mechanisms that would make the equivalent of local taxes or payments in lieu of taxes the responsibility of the nonstate entity.

The management options examined in this report are lease, concession, management service contract, and state-run operations, including operation as a government enterprise fund. As a component of the Minnesota state parks and recreation areas system, the La Salle Lake State Recreation Area, including the resort, is public property in use for a public purpose – whether operated under a lease, concession agreement, management agreement, or as a state operation. An option to sell the resort area was not examined.

The resort operation, based on available information, did not generate net positive revenues in the several years preceding state ownership. This report concludes that it would not be successful as a lease or concession until (1) constraints on operations and limitations of the current configuration of assets are addressed, and (2) a baseline track record of financial and operational performance is established. Potential mechanisms for making PILT or its equivalent the responsibility of a nonstate entity may require statutory changes and could be approached in more than one way.

Management options

Although there are basic distinctions between leases, concessions, and service contracts, in practice these agreements have many features in common – and the variations in specific contract terms can make the distinctions less clear, especially between leases and concession agreements. Examples of uses by the Division of Parks and Trails and others that illustrate this point are included in the report. Basic distinctions among the three options that involve private sector participants include these (again, note that these are not universal distinctions; contract terms often cross-over):

- **In a management service contract**, an entity is typically given specified responsibilities concerning services to be provided and is not asked to assume commercial risk. The contractor is paid a fee, which may be performance-based, to manage and operate the specified services. The contract period is typically short, perhaps one or two years.

- **In a concession contract**, an entity is typically given specific rights and responsibilities to operate a facility and to provide specified services for a fixed period of time. The concessioner generally pays the governmental unit for the concession rights; however, in other circumstances the governmental unit may also pay the concessioner for meeting specific conditions, or to support commercial viability of the enterprise. The private sector entity generally carries commercial risks and may be required to make or contribute to investments in the facilities.
- **In a lease contract**, an entity is typically responsible for operating and maintaining facilities and services. Generally, the lessee retains revenues collected from the operations and makes a specified lease fee payment to the governmental unit. Alternatively, the lessor and lessee may have a revenue sharing arrangement. Generally, the governmental unit has responsibility for investments but the operator may be required to make some investments. The operational risks are transferred to the operator.

Implementing a management option

The feasibility and implementation timing for utilizing one or more of the specified management options depends in large part on the readiness of the resort infrastructure to generate sufficient revenues and the historical and projected financial results from resort operations. An exception would be the management service contract whereby a third party is paid to operate the facility without concern for net positive revenues from operations.

In addition to fully covering operational costs, there are other state objectives in seeking to attract private sector management and investment. They include being able to generate enough additional revenues to:

- (1) pay the pro rata share of PILT (payment in lieu of taxes) attributable to the La Salle Lake State Recreation Area resort operations,
- (2) pay for building repair and improvements, and
- (3) contribute to further development of the business operations including build-out of infrastructure over time.

Currently these costs are state responsibilities. The level of needed or expected return on the effort and investment by the private entity would also be part of the calculation for determining the feasibility of a lease or concession agreement.

Evaluation of options

The recent history of the resort under private operation before acquisition by the state, from available information, did not demonstrate positive cash flow. We also projected operating results for the first two calendar years of operations using “comparable” Division of Parks and Trails facilities. These projections alone do not support a current consideration of a broad-scope lease or concession agreement.

The analysis has concluded that at least two full seasons of operations would be required to document actual financial results that could provide a reasonable basis for assessing

the viability of concession or lease arrangement (potentially including PILT and other investments in the resort).

Seeking additional information from qualified recreation-based development organizations and others through a request for information (RFI), while operating the resort, would provide additional support for the identification and evaluation of options. This period for evaluation of actual operating results, and the additional information, also provides time to determine if and what types of additional infrastructure would be most useful and productive. Due diligence on both sides of any contractual arrangement such as lease or concession requires much more supporting information than what is currently available.

Payment in lieu of taxes (PILT) responsibility

Minnesota statutes do not specify or define a mechanism to reassign responsibility for payment of the equivalent of local taxes or PILT for natural resource lands from the state to a private or nonprofit lessee/concessioner (nonstate entity). If the legislative goal is to establish direct responsibility for payment of local taxes through a lease or concession agreement – and supersede the statutory DNR requirement to pay PILT – then authority would be needed to establish this responsibility. Alternatively, if the goal is collection by the DNR of the equivalent of local taxes or PILT from a nonstate entity under the terms of a lease/concession, then (a) authority would be needed for this collection – as well as (b) authority to expand the distribution of DNR lease/concession revenues to include payments of PILT, or payments equivalent to local taxes, to counties.

The resort operations future

The La Salle Lake State Recreation Area resort operations, over a several-year period of time, should be positioned to support and help build the local economy. The statutorily-created “satellite” relationship to the Itasca State Park should enable faster startup and longer-term viability. A further evaluation of management options, with completion of the master planning process and additional input from the private sector, will be helpful.

Sources

In preparing this report, Management Analysis & Development division (Minnesota Management and Budget) consultants interviewed management and staff of the Division of Parks and Trails including Itasca State Park, local stakeholders including resort owners/managers and chambers of commerce officials, and others with a knowledge of the market and business operations. The consultants reviewed available documentation regarding the LaSalle Lake State Recreation Area resort past operations and toured the site with DNR Management Resources and park operations staff members. The LaSalle Project Management Business Analysis Team, including a liaison and several field experts, provided information throughout the process. Additional market research included interviews with officials from a variety of economic development agencies. The consultants also interviewed additional selected DNR personnel in the areas of operations, finance, and outreach. The cost of preparation for the report totals \$97,960.

Introduction

The 1,000-acre La Salle Lake State Recreation Area (SRA) was acquired by the DNR on October 27, 2011. The Trust for Public Lands, a national, nonprofit land conservation organization partnered with the DNR to transfer the property to public ownership.

The property was purchased with funds dedicated to environmental projects. The largest portion of the \$8.49 million funding came from the 2008 Clean Water, Land and Legacy Amendment Act – specifically the Outdoor Heritage Fund through a grant from the Lessard-Sams Outdoor Heritage Council. Additional funding was provided by the Parks and Trails Fund and the Environment and Natural Resources Trust Fund as recommended by the Legislative Citizen Commission on Minnesota Resources (LCCMR).

The SRA contains within its borders the La Salle Lake Scientific and Natural Area (SNA) that was purchased in 2010. The SNA is located north of Highway 9; the rest of the SRA is south of the highway. The SNA contains rich and diverse habitats for such species as river otter, gray wolf, fisher, bald eagle, osprey, loons and many other species of common plants and animals.

The SRA includes LaSalle Lake, one of Minnesota's deepest lakes at 213 feet. The SRA includes the complete lakeshore of the 221-acre lake, more than one-half mile of Mississippi River Headwaters shoreline, a cold-water stream (LaSalle Creek), and high quality forest and wetlands. The SRA also has value in connecting a number of adjacent parcels already in public ownership, including county lands and state forests. From a historical perspective, evidence of American Indian and early settler use can be found within the SRA.

LaSalle Creek connects LaSalle Lake to the Mississippi River and its source in Itasca State Park. Near the place where LaSalle Creek joins the Mississippi is the well-used Coffee Pot canoe landing. The area is rich in trails – water, land, and highway – and opportunities to experience varied terrain, habitats, and wildlife.

In this report, the “resort area” or “resort” refers to the 190 acres in the northeast portion of the La Salle Lake State Recreation Area that has a campground, cabins, and other amenities that will be available to the public starting in May 2012 for rental on a day-use or overnight basis.

The previous owner of the property was a private developer that operated these resort amenities. References in this report to the operations of the resort under its previous ownership will be distinguished from resort operations under public ownership.

Current resort area amenities, to be available for use in May 2012, include a campground with 40 sites, two cabins, and a pool building with swimming pool, whirlpool, and sauna.¹ Two other existing cabins will be added for the 2013 season. The site also includes a public water access and other various buildings that are not revenue-generating.

The enabling legislation designated that the La Salle Lake State Recreation Area is a satellite operation of the Itasca State Park. The Park's management and staff would provide oversight, management, and operational support to the SRA resort area as well as the rest of the SRA. Itasca State Park is well known for its features and amenities, which include both day-use and overnight facilities.²

In the following pages, maps of the La Salle Lake State Recreation Area show its amenities and infrastructure as well as its physical relationship with Itasca State Park and the surrounding areas.

- Exhibit 1 shows the SRA and surrounding area including highways, roads, and cities
- Exhibit 2 shows the basic SRA and highlights basic resort features
- Exhibit 3 shows a close-up view of the relationships and connections between the SRA and Itasca State Park

¹ Because LaSalle Lake is very deep and cold, few people swim in the lake. The swimming pool, built by the previous owners, provides a convenient swimming option for visitors to the La Salle Lake State Recreation Area.

² Day use facilities include: a seasonal visitor center with restaurant/exhibits, a year round visitor center with exhibits and meeting room, a lodge with restaurant and meeting rooms, a conference center (Forest Inn), three gift shops, a museum, two picnic areas, a picnic shelter, a swimming beach with bath house, an amphitheater, a tour boat concession, a sports rental concession, six boat landings, twenty key natural and historic sites, fourteen historic markers, thirty interpretive locations, four miles self-guided interpretive trails, a 1-mile boardwalk, over fifty miles hiking trails, eight miles of North Country Trail, four trail shelters, nearly six miles of dedicated bike trails, five miles of snowshoe trails, 31 miles of ski trails, and 31 miles of snowmobile trails.

Overnight facilities include: two campgrounds, 223 semi-modern camping sites (100 w/electricity), eleven cart-in sites, eleven backpack sites, a class III group camp, a class II group camp, shower buildings, dump station, a lodge with ten rooms, 26 cabins/units, twelve year-round rental suites, and an American Youth Hostel (concession).

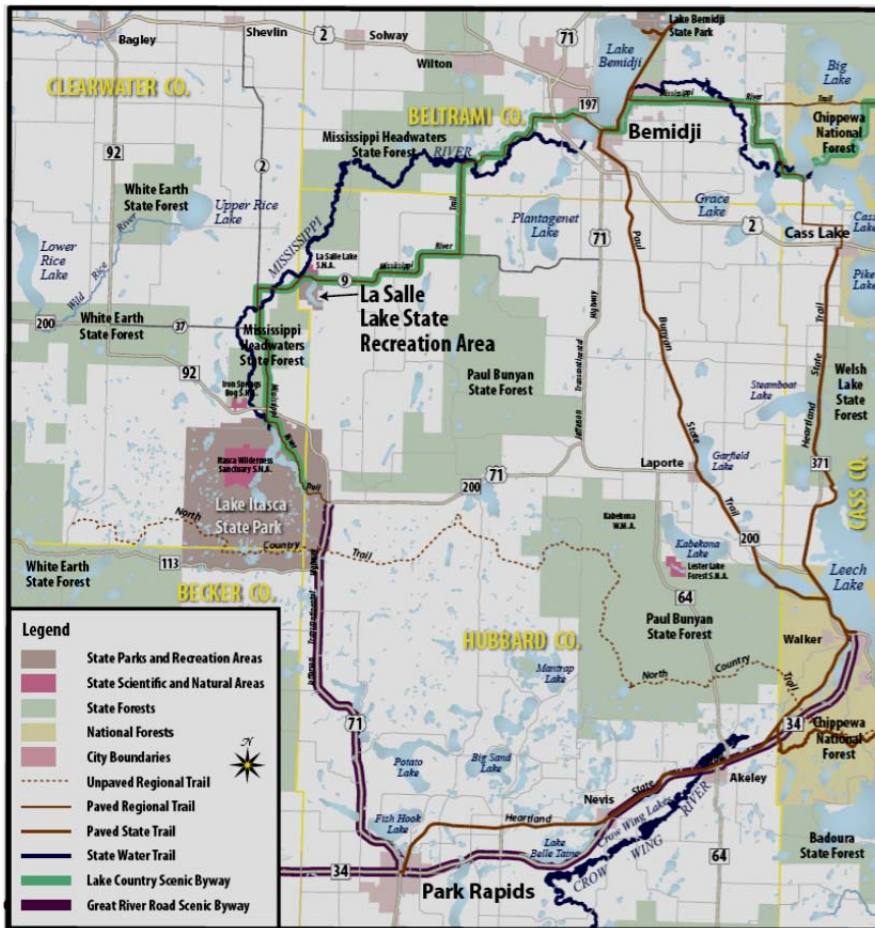


Exhibit 1. Map of the area that includes La Salle Lake State Recreation Area.

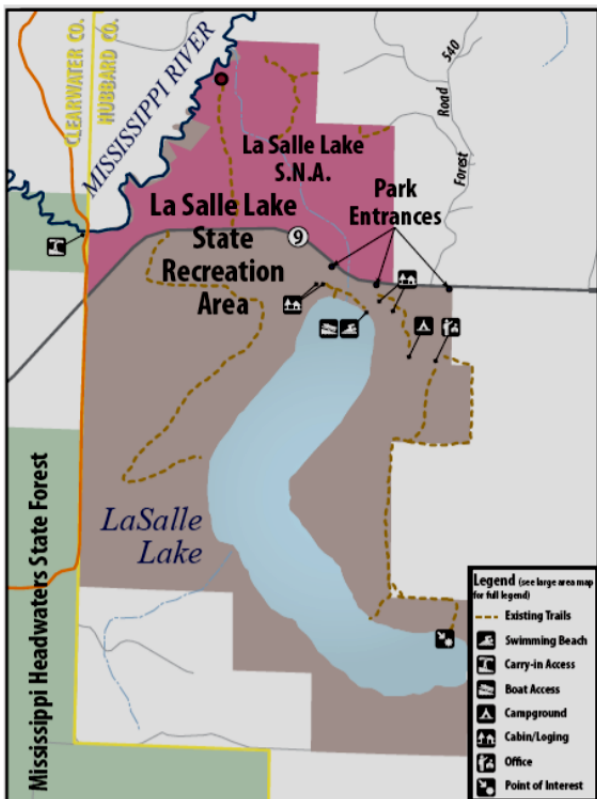
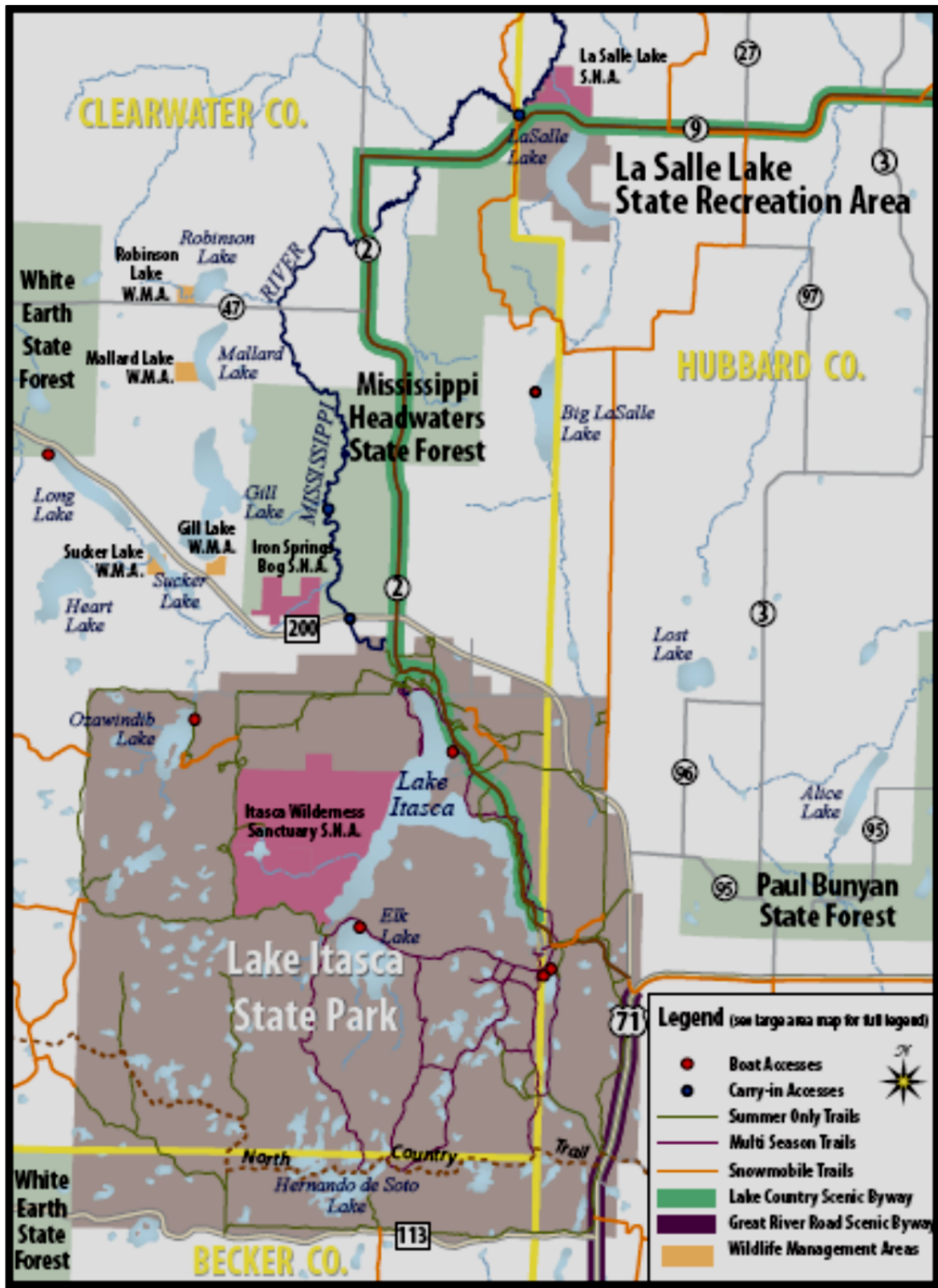


Exhibit 2. Map of the La Salle Lake State Recreation Area highlighting key resort area features.

Exhibit 3. Map of the La Salle Lake State Recreation Area showing connections and geographic relationship to Itasca State Park.



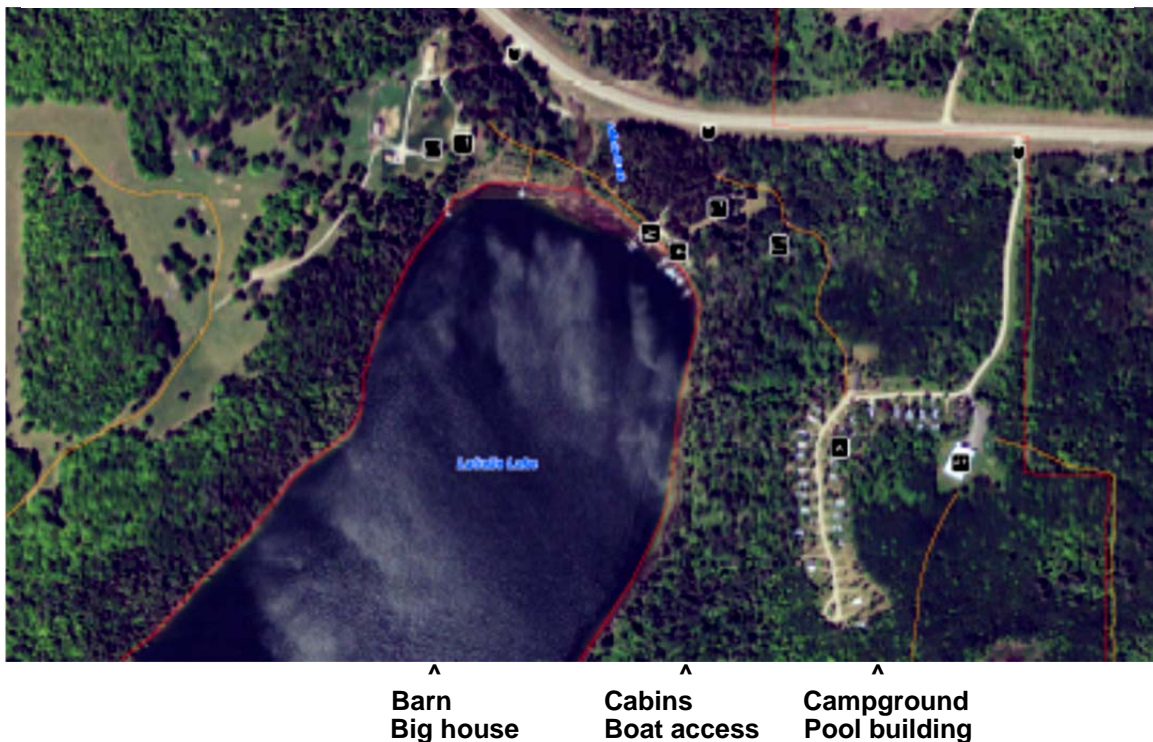
Resort area status

The 1,000-acre SRA is robust as a natural and conservation area. The DNR wants to see that the property's natural resource values are protected. The 190-acre built portion, or resort area, was a component of the SRA purchase. Its fit within the SRA, and the objectives for the property as a whole, have yet to be fully formulated.

The vision, mission, and management plan for the La Salle Lake State Recreation Area will be developed in the context of the master plan process. A draft of the management plan is expected to be ready in mid-March. The draft will be released for public review and comment before being approved by the Commissioner of Natural Resources.

Exhibit 4, below, shows an aerial photographic view of the resort area. Three entrances to the resort area are shown along Highway 9. The “barn” is a feature of the property that currently has no identified next use. The “big house” is another name for one of the two cabins that are expected to be available for public use in the 2013 season. Two other cabins will be available in mid-May 2012. The red line along the shoreline of the lake designates that the SRA does not include the lake, which is publicly owned “state waters” but not part of the SRA. A small portion of the SNA is shown north of Highway 9. The SNA is part of the SRA. The LaSalle Creek, labeled with blue letters, connects LaSalle Lake to the Mississippi River, traversing the SNA to the north.

Exhibit 4. Photographic aerial map of the La Salle Lake State Recreation Area highlighting resort area features in the northeast portion of the SRA. The major road shown is County Highway 9.



The expectation of many stakeholders is that the resort area will continue to provide a level of access to the amenities of the SRA. Parts of the existing infrastructure may not fit well with the short and longer term needs of visitors and the public, as will be discussed. The built infrastructure will have to be brought up to Minnesota state parks and recreation areas standards, meet all code requirements including ADA, and provide the right configuration of features and amenities for public enjoyment.

Historically, Minnesota state park investments have largely been focused on developing and maintaining campground-type features and amenities. Units of the state parks and recreation system have a range of facilities and amenities, from rustic to full service. Nearby Itasca State Park has a wide variety of lodging and campground infrastructure and other amenities.

The proximity of the La Salle Lake State Recreation Area to Itasca State Park provided the opportunity to designate in the legislation that it should be operated as a satellite of Itasca State Park. The definition of satellite operations is not precise, but can be assumed to include using the respective resources of the two entities to the benefit of both. In the short term, the support that can be provided to La Salle by Itasca State Park staff will be necessary, substantial, and critical especially in the early stages of development and reconfiguration.

Starting operating financials and ongoing studies

The resort area of the La Salle Lake State Recreation Area is starting operations in May 2012 from a point of having no revenues. Prior to when ownership was transferred to the Trust for Public Lands and then to the State of Minnesota and the DNR, the campsite and cabin renters and the onsite manager left the property.

Before acquisition and since, the department has conducted a number of evaluative studies including a preliminary engineering assessment of the property. These evaluations feed into the master planning process. The evaluations and other information are addressing immediate needs and providing parameters for use and potential future development of the resort area.

Certain facts about the resort operations should be underscored:

- 1- **No history of net positive revenues.** Based on available information, the resort area of the LaSalle Lake property that is now within the SRA did not produce positive net revenue when operated with its current configuration of assets. The previous owner was a developer that was seeking to create a viable business based on future residential development.
- 2- **Projected revenues speculative.** Projections of financial results have been made by DNR local staff, based on a comprehensive set of assumptions of similarity to other established Minnesota state parks and state recreation areas. The estimates will need to be revisited, for example, if the expected rate of utilization of revenue-generating assets (one of the key assumptions) and overall level of projected sales do not occur

as quickly as projected. These estimates and assumptions do not show a breakeven outcome in the short-term.

- 3- **Infrastructure evaluations ongoing.** Critical evaluations of the property's condition and potential for development are only partially completed. This elevates the risk of making important assumptions about the condition of existing infrastructure and about revenues and expenses from early operations.
- 4- **Major planning ongoing.** The master planning process and the integration of information are expected to be completed by spring of 2012. Public input and departmental level planning could change the focus of efforts to develop and expend capital funds for the resort area.

The findings and conclusions from this report should be understood and utilized in the context of these key facts about the current resort operations and finances.

Management Options

Planning, innovations, and public process

As noted earlier, the vision, mission, and management plan for the La Salle Lake State Recreation Area will be developed in the context of the master plan process. Additionally, the DNR is developing a resource management plan – the first of its kind in the DNR Northwest Region – that will provide cross-division coordination for managing the La Salle Lake State Recreation Area. The department will determine how to enforce the currently separate rules for state recreation areas (SRA) and scientific and natural areas (SNA) into a new structure for more integrated departmental management and oversight.³

The department's activities noted above will shape the vision, mission, and operating plans for the La Salle Lake State Recreation Area, including the fit, scope, and scale of the resort operations. Because the implications for the La Salle State Recreation Area can't be known at the time this report is being prepared, the management options and the conclusions presented here should be revisited in light of decisions and changes that are likely to happen in the near future.

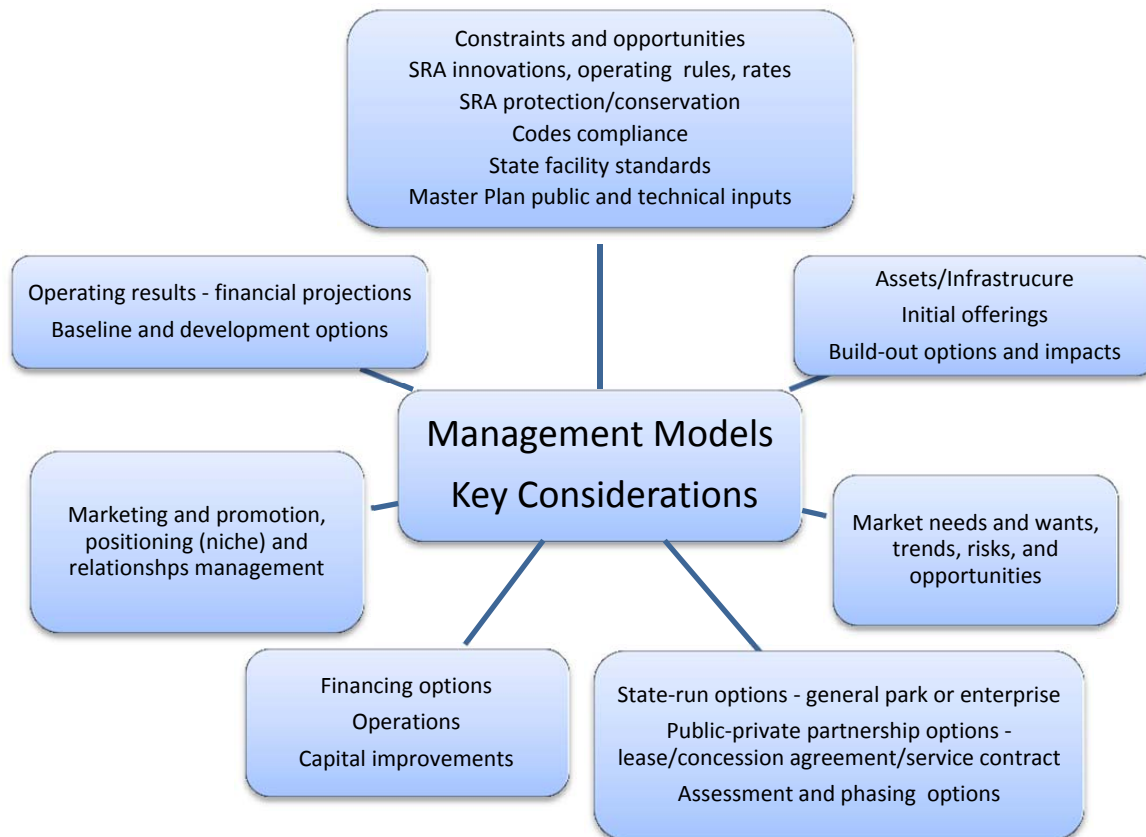
Overview of this section of the report

The discussion includes: (1) the overall framework of considerations for management of the resort area, (2) factors in the selection of a management option, (3) the various types of existing contracts for services of private sector operators and a framework for reviewing the options, (4) a more in-depth discussion of the lease and concession types of options in relation to the La Salle Lake State Recreation Area resort area (this fourth topic describes the type of information that would be typically required to establish that a concession or lease is feasible), and (5) the additional idea and design for creating a performance track record and setting periodic points to reassess whether a concession or lease is feasible. This last topic reflects the report's conclusion that immediate contracting on the usual terms of a comprehensive management concession or lease is impractical. Due diligence on both sides of the agreement would clearly and quickly establish that actual experience of operations and financial results is needed first.

³ The La Salle Lake State Recreation Area (an SRA with a SNA as a secondary unit) was purchased with funds from several sources, each of which has its separate rules. Certain activities not typically supported by the rules for SRAs and SNAs – primarily hunting and trapping – will be allowed in the La Salle Lake State Recreation Area under revised rules. The department's intent is to manage the SRA, as much as possible, under a consistent set of rules to benefit the visiting public. The processes for communicating new rules and determining how the rules will be enforced are in development. In addition, the department has proposed an amendment to Laws 2011, 1st Sp. Sess., Ch. 6, Art. 3, sec. 8, subd. 3, that would allow "hunting, fishing, and trapping of protected species during designated seasons, and dogs under control for hunting purposes during regular hunting seasons."

Framework for an overall plan

The management plan for the La Salle Lake State Recreation Area resort area will have many dimensions, not all of them addressed in this report. The illustration below provides an overview of major considerations.



The report focuses on the analysis of management options, existing infrastructure, revenues and costs with financial projections, opportunities for change that may influence financial results, and practical implementation.

Options considered

In overview, the options for management of the SRA resort area include:

State-run operations

Park account⁴

Park enterprise account⁵

Third-party contract operations

Concession

Lease

Service contract

⁴ The state parks operation fund has three sources: (1) general fund for state park operations, (2) lottery in lieu funds, and (3) state parks fund (vehicle permits/camping fees).

⁵ Government enterprise account.

Sale to private party⁶

Sale to a private or nonprofit entity

All of these management options (except sale) would be under the continued satellite relationship with Itasca State Park. The Park Manager would provide oversight of operations and/or contracts for the La Salle Lake State Recreation Area resort.

Although there are basic distinctions between leases, concessions, and service contracts, in practice these agreements have many features in common – and the variations in specific contract terms can make the distinctions less clear, especially between leases and concession agreements. Examples of uses by the Division of Parks and Trails and others that illustrate this point are included in the report. Basic distinctions among the three options that involve private sector participants include these (again, note that these are not universal distinctions; contract terms often cross-over):

- **Concession contract:** An entity is typically given specific rights and responsibilities to operate a facility and to provide specified services for a fixed period of time. The concessioner generally pays the governmental unit for the concession rights; however, in other circumstances the governmental unit may also pay the concessioner for meeting specific conditions, or to support commercial viability of the enterprise. The private sector entity generally carries commercial risks and may be required to make or contribute to investments in the facilities.
- **Lease contract:** An entity is typically responsible for operating and maintaining facilities and services. Generally, the lessee retains revenues collected from the operations and makes a specified lease fee payment to the governmental unit. Alternatively, the lessor and lessee may have a revenue sharing arrangement. Generally, the governmental unit has responsibility for investments but the operator may be required to make some investments. The operational risks are transferred to the operator.
- **Management service contract:** An entity is typically given specified responsibilities concerning services to be provided and is not asked to assume commercial risk. The contractor is paid a fee, which may be performance-based, to manage and operate the specified services. The contract period is typically short, perhaps one or two years.

Factors in the selection of a management option

In considering and selecting a management option for the La Salle Lake State Recreation Area, the following should be taken into account:

⁶ An option to sell the resort area was not examined. The transaction documents for the acquisition of the north parcel (SNA) and the south parcel (SRA) include Notices of Funding Restrictions. For the SRA portion of the property, the option agreement identifies that both Environmental Trust Fund money and Legacy Fund money were used to acquire the property. Thus, the property is subject to the deed restrictions in Minn. Stat. §116.15, subd. 2, and Laws 2011, 1st Sp. Sess., Ch. 6, Art. 1, sec. 2, subd. 13(b). That means sale of the property is restricted without obtaining required approvals and proceeding as directed by law. A lease would most likely be deemed to “further encumber” the property, so approvals would be needed. If the DNR were to not comply with the funding restrictions, the land title transfers to the state.

- A settled vision, mission, and plan defining the public purposes and uses of the entire SRA, and the fit of the resort area within that framework
- Understanding of the market need and the market niche that the resort area could occupy now and in a longer time frame
- A reasonable conception of a plan for infrastructure that would generate sustained net positive revenues at a level that supports investment funding, private or public
- Operational rules and practices that allow flexibility to generate net positive revenues on a sustained basis, whether under public or private operating management
- Management model that (1) serves the public interests in conserving and utilizing the property, and (2) provides financial advantage to both the state and the private vendor(s) over an extended period that includes additional beneficial development of the property

Agreements currently in use

The Division of Parks and Trails utilizes a *very limited* number of leases, concession agreements, memoranda of understanding, and joint powers agreements to engage outside parties to operate and manage facilities, due to the conditions and requirements that limit these potential arrangements. Some of them are reviewed below, with notes of their essential features and uses.

Concession agreements

- Itasca Sports, Inc. (Itasca State Park) – to provide boat and bicycle rentals. Term is 10 years. Franchise fee is 7 percent of gross receipts, and an additional 3 percent of gross receipts go into a repair and maintenance reserve fund.
- Coborn's Lake Itasca Tours (Itasca State Park) – to provide excursion boat services. Term is slightly more than five years. Franchise fee is 5 percent of gross receipts. No other fees or charges.

Leases

- Sailboats Inc. (Knife River Marina)⁷ – to operate the marina. The term is for five years (2009-2013). The lease fee is 18 percent of gross revenue of Dockage and Outdoor Winter Storage, and 5 percent of gross revenue of Service and Repairs. Lessee is responsible for all taxes levied on the premises. The lease requires that the leased public land shall be open for public recreational uses, and that the boat launching facilities must be open to the public without charge to the public.⁸
- Minnesota Shooting Sports Education Center, a nonprofit organization – to operate the shooting center which the lessee had purchased and donated to the

⁷ The Knife River Marina is located about 15 miles from Duluth, has been in operation since the early 1970s, and was previously operated as a private marina under Lake County ownership. The DNR acquired the property in 2001. The full-service marina has 100 slips. Improvements and redevelopment are cooperative efforts among the DNR, the U.S. Army Corps of Engineers, the Knife River Marina Advisory Board, and the operator.

⁸ Sales at the Knife River Marina went down each year from 2006 (\$509,392) to 2011 (\$415,435). The total decline was approximately 18 percent over the six years.

state. The two year lease expired in 2006 and was not renewed. There was no lease fee. The facility is no longer operating.

Cooperative (joint powers) agreements between governmental units

- City of Silver Bay (Silver Bay Marina) – to manage and operate the marina. Term of three years. DNR pays the city to operate the marina and public use facilities based on submitting itemized invoices for services performed. Net revenues would be deposited in an account for operation and maintenance and/or expansion of the marina.
- City of East Grand Forks (Red River State Recreation Area) – to manage and operate the SRA. Term of 4 years. DNR pays the city based on reimbursement for expenses following a funding formula based on itemized Eligible Revenues minus itemized Division of Parks and Trails Administrative and Technical Expenses.

Two additional contractual agreements with private organizations are noteworthy. Neither are Minnesota DNR agreements.

Management Service Agreement

- Troon Golf Midwest LLC, Scottsdale AZ (Giants Ridge Golf and Ski Resort/Iron Range Resources & Rehabilitation Board) – to manage and operate Giant's Ridge golf course and food and beverage service facilities. Term of 2 years, may be extended for 2 additional years. Management fee of 3 percent of monthly gross receipts.

Large state park concession agreement

- Custer Resort Company (Custer State Park, South Dakota) – to manage and operate four developed resort areas: lodging, food and beverage, retail stores, rentals, guide service, vending, catering, group accommodations, and fuel sales. Term is 10 years. A minimum franchise fee of 9.4 percent of gross revenues, with funds used for reinvestment in the park.

The La Salle Lake State Recreation Area resort currently does not closely fit any of the underlying business configurations that these existing designs represent. La Salle Lake State Recreation Area resort is distinguishable in that it is essentially a small, startup operation that to date does not have positive financial results. The intention so far articulated would be to propose a lease or concession agreement for comprehensive management and operations with a contribution to cover current and future costs in addition to direct operating expenditures. The RFI responses would potentially provide additional information about options for development as well as private sector interest and capabilities to manage and operate the resort.

Framework for the review of options

The state system of parks and state recreation areas is designed for public participation at moderate cost. The level of fees and charges (and thus revenue potential) is balanced

against the goals of public access for people of all income levels. Services are defined and prices are set a year in advance through a commissioner's order that is updated annually and amended as needed throughout the year. This mechanism helps to ensure that services and pricing are generally uniform and prices are predictable and moderate. This system supports important public policy objectives for public use of public assets. In recent years, some flexibility has been provided by allowing the commissioner the authority to set fees, other than vehicle permit fees.

The in-government version of "business operations" – the government enterprise fund that operates "more like a business" – is constrained. For example, revenues generated are appropriated back through the legislative process, unlike a business that can draw on revenues as they are earned. The requirements include a fixed set of services established or revised typically a year in advance, with uniform and consistent pricing. Prices, with some exceptions, are unlikely to change for an upcoming year. Government enterprise funds are required to operate at a breakeven level of revenues and costs over time – which is how their performance is evaluated. However, operations that are set up within these funds have some additional latitude to innovate.

A concessioner or lessee that operates a Minnesota state park or state recreation area, or part of it, would be similarly constrained. Such entities would be bound by current statutes, rules, policies, and practices that pertain to the operation of state park and recreation area facilities, and the particular requirements of the specific facility.

Some examples of constraints that generally pertain to state-run parks and SRA operations (there are a few exceptions) are listed below. Changes to these constraints for the La Salle Lake State Recreation Area resort would break new ground, whether under state-run or private-run SRA operations. These items are discussed more fully in the later report section called Future Development. In brief, current revenue-generating capacity is limited because the following tools are either not in place or are underutilized:⁹

- Flexible accommodation pricing
- Promotional rates/fees
- Gift sales and gift shop pricing
- Sales of alcohol
- Shared revenue contracts with private sector vendors for interpretive services

Other structural considerations might have access to enterprise fund operations and exercise of available operational flexibility, access to additional types of capital funding, and extended duration of lease or concession agreements. These are also discussed in the Future Development section of the report.

A concession, lease, or management services contract would specify the services required to be provided, may specify additional allowable services, the minimum number of hours and times for operation, the rates that can be charged for all services (any variations must

⁹ Flexible accommodation pricing, promotional rates/fees, and gift sales and gift shop pricing could be accomplished to some extent under current authority. Sale of local wine and beer is allowed by statute at the Douglas Lodge restaurant in Itasca State Park. A limited number of interpretive services contracts are used.

be approved in advance, and variances probably would be infrequent), and minimal staffing levels, among other requirements.

The additional flexibility that *might* be allowed to a concessioner or lessee would include hiring less costly labor, operating more hours than specified, expanding some categories of services within limits and consistent with state requirements, conducting more advertising and promotion at its own expense, and others that might be developed by the department. An underlying value is that the visitor experience to Minnesota state parks and recreation areas should be reliable, predictable, and up to the state standards of quality, at a moderate and predictable cost.

Finally, it should be noted that many other states' parks systems and the National Parks System make frequent use of concessions. The most successful concessions and leases are in places with a durable and strong attraction for a large number of visitors; sufficient size of operations to generate revenues that reliably cover substantial fixed costs and produce positive net revenues; a sufficient degree of latitude for experimentation and entrepreneurial activity (if it is needed) and cost controls; and some degree of competition for the rights.

Additional discussion of the lease or concession contract types

The challenge of drafting a concession or lease prospectus (or request for proposals) for the La Salle Lake State Recreation Area resort can be illustrated by reviewing the usual contents of such documents in relation to the information currently available about the existing resort operation. Important items of information not available now, noted in the outline below, are significant and limit the ability to frame a whole offer of a business agreement. This shortage of relevant information can be remedied mostly with (1) completion of the ongoing planning and (2) a time period of actual operating experience that confirms or clarifies financial and operating results and likely prospects for the future operations of the resort.

Contents of a prospectus or request for proposals

The information generally required to make an offer to enter a concession or lease agreement to manage and operate a park or SRA could include the following. This listing includes available information and also shows gaps in needed information. This is in draft form, showing information available at the date of this report.

Required visitor services (CY2012)

- 40 campground sites
- 2 cabins
- Pool building – events and swimming pool
- Public boat access
- Misc. sales: ice, firewood, park permits

Future potential required visitor services

- 2 residence buildings as cabins or other type of lodging to be introduced in CY2013

Authorized (but not required) services – potential options

Boat/canoe/kayak rental

Camp store

Food Option 1: catered or visitors bring their own food

Food Option 2: vendor who wishes to prepare food would need to (1) expand the prep kitchen into a full service kitchen and (2) bring the kitchen up to commercial standards and meet all health codes

Operating guides and requirements, including fees and rates

Total annual gross receipts – historical 3 years

(No historical financial data available/useable for this purpose. Current understanding is that past recent operations did not produce net positive cash flow). DNR has estimated 2013 gross revenues from required services based on comprehensive set of assumptions only, not historical information

Minimum franchise fee

To be determined

May include allocation of PILT and building maintenance and repair assessment or reserve for capital improvements and repair

Term (duration) of the contract

Up to 5 years, with possible extension for 5 years

Estimated required initial investment

Personal property: not estimated while planning is continuing

Inventory: not estimated

Startup costs and working capital: costs include hiring and training, support activities such as accounting and legal, marketing, advertising, others: not estimated

Capital investment: not estimated; planning and development of options not completed; ability to obtain nongovernmental investment needs further evaluation

Description of the park and the SRA: to be added

Market area overview: to be added

Minnesota and regional

Local market area

Demographics

Visitor profile (expected visitors)

Visitor count (expected visitors)

Current area operations: to be added

Similar facilities – resorts and campground

Other leases/concessions

Competitive environment

Nearby same services

Exclusivity provided within park or SRA for required services, when applicable

Historical financial data: [reliable historical data not available. Indications not profitable]

Future concession operation: build-out, relationships to Itasca State Park: to be determined

Term and effective date of draft contract: to be determined

Cautionary language about reliance on information provided and needed due diligence

In summary, this presentation layout can be utilized once the information gaps have been addressed – with information addressing these specific topics, information resulting from the master plan, *and* actual experience of resort operations.

Summary and conclusions about management options

As noted earlier, recent operating and financial history prior to public ownership of the La Salle Lake State Recreation Area resort supports the conclusion that the property in its current configuration lacks the short-term potential for breakeven or better financial operations that would support a third-party contractual relationship such as a comprehensive management lease or concession.

Need for additional actual experience and information from outside entities

- A full season of operations or more that results in close-to breakeven financial results could establish a basis for active consideration of a third-party agreement. Such information can be secured through actual operation of the resort in the baseline configuration over the next two or three years.
- Relevant information might also be solicited through a request for information (RFI) from commercial developers and managers experienced in providing build-out capital and operating public facilities. Such experts may be able to help address whether the completed vision, mission, and plan for the La Salle Lake State Recreation Area resort area offers a viable development opportunity for a public-private partnership.

Support services

An important additional consideration is that necessary support services to be provided by Itasca State Park staff in the short term. This support will be critical in establishing that the resort area, in the current configuration, is upgraded to meet code and Minnesota state parks and recreation areas standards. The list of needed support activities, including both operating and capital costs, is extensive. At present, there are many unknown conditions that may require expenditures. Such areas of risk need to be defined and contained to make the business opportunity viable, whether run by the state or an outside entity.

Conclusions

In conclusion, the first two or three years of operations can be accomplished by (1) having the Division of Parks and Trails operate the La Salle Lake State Recreation Area resort area as a state-run satellite of Itasca State Park, and (2) issuing a request for information to experienced commercial developers when a sufficient base of operating and financial experience shows that lease/concession success potential has been achieved. However, both of these items can be done differently. First, another (private sector) operator could be contracted to provide services for the startup phase of the operations. Significant Itasca State Park support, or some undetermined amount of financial support, would likely be needed to enable a third party operator. A management contract may be

the way to deal with this option. Second, an RFI could be sent out at any time, including during startup operations and after. We suggest that the master planning process should be completed, at a minimum, before an RFI is composed and distributed.

A management services agreement in this early period would engage a private party to run the early operations. There would be existing agreements that could provide a foundation for this type of arrangement; however, this arrangement may not be useful or effective if state employees provide greater value overall and at the same or lower costs. In that regard, it should be noted that the department's assumptions about La Salle Lake State Recreation Area onsite staffing for the resort include seasonal employees (seasonal parks workers, seasonal natural resource workers, and seasonal specialists), with supervision provided by an Itasca State Park supervisor (and without adding to Itasca State Park staffing).

The RFI would outline the vision for the SRA resort area and provide information needed to determine whether the developers, and others, would be able to respond to a subsequent request for proposals to undertake capital development and management of the resort area.

Design and phasing of management options

The peak use season for Minnesota state parks and recreation area systems use is May through the end of October.¹⁰ In the following sections, the calendar year is used to differentiate seasons. The periodic assessment of management options would be tied to full-season operating results along with information from ongoing planning and assessment of options.¹¹

Site preparation and First operating season Nov 2011 through end of CY2012

Site preparation

From November, 2011 through early May, 2012 the DNR will prepare for use of resort area structures and amenities, assessing needs and uses, bringing structures into ADA and code compliance, evaluating and improving ADA compliance, and making necessary changes and improvements for the baseline configuration.

Startup (first full season) operations through the end of CY2012

The first season of operations is anticipated to begin in mid-May 2012. Reviving the baseline infrastructure includes bringing into potential revenue-generating use the pool building including the swimming pool, the two cabins, and 40 campsites. Based on available information, the two additional rental houses (or cabins) would be ready for use in May 2013, after structural deficiencies and ADA compliance issues are addressed.

¹⁰ Many state parks and recreation areas facilities are also open in the winter.

¹¹ Note also that the La Salle Lake State Recreation Area would continue to operate as a satellite of Itasca State Park regardless of lease or concession agreements. The structure of this relationship would be specified in detail in the contracts.

During this startup period, the support provided by the Itasca State Park work crews and supervision will be essential to determine that all systems are operating reliably and can support revenue-generating operations. During this startup period there is increased risk of finding unexpected problems with the infrastructure. If problems are found, they can be fixed and additional necessary updates or upgrades to the infrastructure can be made. It is unlikely that additional infrastructure or build-out would be done during this initial startup period.

The resort area property can be further assessed for problems and stabilized. This period will also be used to establish operating procedures, coordinate and supervise operating activities, and experiment to determine what is working and what needs to be changed. The experiences will inform the potential for future management options and the need for additional actions such as build-out to bolster revenue potential.

If the early financial and operating results are very good, establishing an enterprise fund may be considered as a viable management option. This is more fully described in the second season discussion.

In summary, the startup period will require heavy reliance on the Itasca State Park staff for supervision and operating support to establish a stable operation. Third-party contractual engagement such as lease or concession (other than for ancillary services) during this period is probably not useful. At the end of calendar year 2012 (or before the next operating season), the first practical decisions about management options may be considered in light of the facility's needs and the experience of revenue generation in relation to the costs of operation.

One (startup) season is probably not sufficient as a basis to accurately predict stable revenues and net revenues – and with reasonable likelihood would show that more operating revenue is needed to make practical an offer for a lease or concession that would include contributions to lower operating costs to the state, contribute to capital preservation and enhancement (and/or the DNR building maintenance and repair assessment), and provide for the portion of payment in lieu of taxes (PILT) attributable to the La Salle Lake State Recreation Area resort operations.

Second operating season through the end of CY2013

A second full season may confirm or bolster the first year financial and operating results and offer the first useful picture (from the perspective of analyzing practical management options) based on a stabilized operation at the baseline level. If the second year operations show both a stable operation consistent with the first year's results, and a net positive revenue result, then the end of 2013 analysis of results would include the consideration of practical alternative management options. The La Salle Lake State Recreation Area resort would operate as a state-run satellite of Itasca State Park during this second season in order to further build and stabilize the revenues and costs.

The La Salle Lake State Recreation Area resort operation might become part of a separate enterprise fund similar to that of the Douglas Lodge at Itasca State Park. This structure could be made to provide additional flexibility to the state supervisor that would allow for experimentation and further opportunities to increase net revenues.

In summary, two years of stable operations that yield sufficient net positive revenues could be enough to determine that an arrangement involving a third party as a concessioner or lessee may be appropriate. The same experience might indicate that the changeover to a government enterprise fund would provide flexibility to generate additional revenues that can contribute to capital and PILT accounts.

Third operating season through the end of CY2014

Depending on the second season results, a third season may be needed to build revenues and expenses to an acceptable level, or better, and/or to document sufficiently stable and reliable performance. The CY2014 (third) season could confirm that the financial and operating results are stabilized and sufficient for consideration of the full range of management options. This season also provides time to assess the historical or prospective effects of a build-out of the infrastructure. The experience also should confirm that operating results either are or are not sufficient to support contributions to capital or operating accounts (PILT, building maintenance and repair assessment, or other capital and operating contributions) whether in a state-run or third-party operation. As noted above for season two, during this period, the resort might start or continue to be operated as an enterprise fund.

The second or third operating season might show that the baseline configuration (or a configuration with some initial build-out, if applicable) does not result in breakeven or better financial results – and that a continuation of the status quo would be unlikely to yield significantly better results over a longer period of time. It might show that even sustained net positive revenues would be unlikely to support payment of PILT or PILT equivalent, building maintenance and repair assessment, costs of support services like those provided by Itasca State Park staff, and contributions to capital improvements. Those results would indicate that third-party agreements are probably not viable within this time period or beyond, absent basic change that establishes a more financially viable and sustainable model.

An important question is whether, and to what extent, additional infrastructure build-out would contribute to greater net positive financial results. The related question is what types of infrastructure could be most beneficial and practical. The answers might be developed in part by seeking information from established commercial developers who may be interested in exploring the opportunity. See the discussion of Requests for Information (RFI) in the report section titled Opportunities.

Revenues and Expenditures

Estimate of baseline revenues and expenditures

The projection of revenues and expenses is based on the state-run baseline and informed opinions and assumptions about near-term future operations by the Division of Parks and Trails staff. Management Analysis consultants have updated the information as available to the date of this report.

The baseline estimate of future revenues and expenditures represents the configuration of revenue-producing assets in place at the date that the state assumed ownership, except that the number of cabins/lodging accommodations is now two with the potential of four. The baseline configuration of revenue-generating assets includes:

- Pool building (events and swimming)
- Cabins (2)
- Cabins/residences (2 additional in the second year)¹²
- Campground with 40 sites

There will also be sales of park permits, firewood, and ice and those are factored in the total revenue projections. Other services and buildings may be added later, but are not part of the baseline configuration.

The Division of Parks and Trails staff provided the initial estimate of revenues, costs, and a comprehensive set of assumptions. The Management Analysis consultants updated the information to include the impacts of the recent Commissioner's Order No. 59 that established approved services and rates, including those at LaSalle Lake State Recreation Area. The information was converted from fiscal year to calendar year presentation for consistency.

The projected financial performance from the baseline configuration of revenue-generating assets for the LaSalle Lake State Recreation Area resort operations for CY2012 and CY2013 shows that operational expenses plus payment in lieu of taxes (PILT) and Itasca State Park support estimated costs exceed estimated operating revenues.

¹² These are existing cabins/residences, not new structures.

Revenues and expenditures – estimates and assumptions for the baseline configuration of assets

Exhibit 5. Estimated revenues and expenses for first two seasons of operations.

	Calendar Year 2012	Calendar Year 2013
Revenues		
Drive-in camping	\$99,889	\$99,889
Cabins: Black Bear, Lone Wolf	59,670	59,670
Cabins: Fox Den, Eagle's Nest	0	73,710
<i>Subtotal: Camping and cabins</i>	<i>\$159,525</i>	<i>\$233,269</i>
Pool building events	12,000	12,000
Swimming pool day-use fees	9,000	9,000
Park permits	15,000	15,000
Firewood	15,000	15,000
Ice	2,000	2,000
<i>Subtotal: Other revenues</i>	<i>\$53,000</i>	<i>\$53,000</i>
Total estimated revenues	\$212,525	\$286,269
Expenses		
Personnel	\$84,100	\$94,024
Propane, electricity	56,836	59,827
Campground electricity	4,500	4,500
Communications	8,400	8,400
Supplies	35,100	37,000
Fleet	7,000	7,000
Purchased service – garbage	5,000	5,000
Purchased service – septic tank pump	1,800	1,800
Purchased service – well maintenance	1,000	1,000
Building maintenance assessment	40,036	40,036
Total estimated expenses	\$243,822	\$258,587
Net revenues before PILT and est. support services	(\$31,263)	\$27,682
Additional expenses (lessee/concessioner responsibility)		
PILT amount attributable to resort area	\$14,648	\$14,648
Itasca State Park support services (est. cost to replicate)	\$36,180	\$36,180
Net revenues including PILT and est. support services	(\$82,090)	(\$23,146)

Assumptions

Overall assumptions

- Baseline configuration of assets (no additions to infrastructure)
- Six-months per year of operation of campground
- Cabin occupancy is year-round – 48% peak season occupancy rate; 30% off-peak occupancy rate (weekends)
- Two cabin rental units available in CY2012; four rental units in CY2013.

Revenues

- Drive-in camping – 40 sites, 66% occupancy (Itasca State Park comparable)
- Cabins: Black Bear, Lone Wolf (first season) – 48% peak season occupancy; 30% off-peak
- Cabins: Fox Den, Eagle's Nest (second season) – 48% peak season occupancy; 30% off-peak
- Pool building events – 30 full-day rentals, 20 half-day rentals
- Swimming pool, day-use rates - \$3 per use, 3,000 annual users
- Park permits – total revenues \$15,000 per year
- Firewood - \$4 per bundle
- Ice - \$2 per pack

Expenses

- No full-time staff at LaSalle Lake State Recreation Area
- No on-site manager, supervision by Itasca State Park staff
- Working months: May through October, possible hours worked in April, November
- Office in pool building staffed year-round, may have second person on weekends (Friday evenings, Saturday mornings)
- Off-season – pool building staffed by Itasca personnel
- Average cost per hour for LaSalle seasonal staff \$14.58

Additions to expenditures

- PILT was calculated as .75% of \$1,953,000, the portion of the acquisition price for the South Parcel that has been allocated to the 190-acre resort area.
- In a concession or lease agreement, support services provided by Itasca staff would be the responsibility of the contractor unless other arrangements are made.
- Value of Itasca support staff services based on 3% of estimated Itasca State Park \$1.2 million personnel budget.
- The costs of support services would be the responsibility of a private operator (nonstate entity) if the resort operation was not state-run.

Itasca State Park support services for La Salle Lake State Recreation Area

- Building utilities
- Plumbing services
- Electrical services
- Facility maintenance – other
- Grounds maintenance
- Other services that require specialized equipment
- Accounting/financial/human resources and other administrative support
- Interpretive programs support
- Management and supervision

Market and Customers

In addition to the considerations of accommodations, amenities, and pricing identified throughout this report, the current market for nature-based recreation and existing customer base presents unique marketing and promotion challenges for the La Salle Lake State Recreation Area resort operations.

The resort will need to be well marketed, advertised, branded, and positioned to be attractive among an array of recreational options. To that end, a marketing plan will need to be developed and funded to implement such a plan before, during, and after this site is opened for public use. Ongoing Division of Parks and Trails marketing initiatives could provide guidance regarding the appropriate amount of funding needed to complete these tasks.

The marketing plan will evolve as a more complete vision of the offering evolves over the next two seasons. Estimates of return on investment for some level of marketing may be possible if the division has data from the historical experience of similar startup operations that might be comparable or other industry data. The following information should help guide decisions about the level of investments needed to market and promote the La Salle Lake State Recreational Area resort operations.

Changing visitor demand

After 50 years of growth following World War II, the upward trend in demand for nature-based recreation changed in the 1990s and is now exhibiting declining participation on a per-capita basis. In Minnesota, all Minnesota park visitations have declined on a per-capita basis some 10 to 12 percent. This decline is broad based and national in scope.

The *2007 Minnesota State Parks Research Summary Report*¹³ attributes the primary factor in this general trend to a decline in participation by young adults (age 20 to 40) and their children. Obstacles that have been identified for this group include lack of time, lack of outdoor skills, and fears and personal discomfort. As a consequence, the average age of Minnesota park visitors is increasing. Further, this report notes that the strongest association with adult park use is the direct experience with parks they had as a child. If individuals do not experience parks as children, there is a strong likelihood they will not do so as adults.

Data on visitors to the region surrounding La Salle State Recreation Area is limited. However, two recent findings are instructive regarding this trend. The average age of visitors to Minnesota state parks, as measured by the department, is 41.3. A recent survey conducted by the University of Minnesota Tourism Center¹⁴ found that the average age of visitors while on the nearby Lake Country Scenic Byway was 55.4 years. The Lake Country Scenic Byway is one of Minnesota's 22 designated scenic byways spanning 88 miles connecting the communities of Detroit Lakes, Park Rapids, Walker, and Leech Lake.

¹³ Office of Management and Budget Services, Minnesota Department of Natural Resources, October 2008, pp. 6-8.

¹⁴ *Lake Country Scenic Byway: Awareness, impact on quality of life & economy* (Lake Country Scenic Byway), University of Minnesota Tourism Center, Dec. 2010, p. 21.

In summary, the trend for all Minnesota park visitations is declining and the pool of currently available visitors travelling through the Hubbard County where the La Salle Lake State Recreation Area is located is significantly older than the DNR's target audience of 25 to 49. Dependence on current visitor demographics may not provide the desired number of visitors or level of stewardship for DNR resources by future generations of Minnesotans. If the La Salle Lake State Recreation Area is to be successful, it will have to be designed, operated, and offer services to attract and satisfy this target audience.

Regional visitor demographics

The most recent nature-based tourism study, the May 2010 *Minnesota's Network of Parks & Trails: Northwest Region Profile*¹⁵ completed by the Center for Changing Landscape, University of Minnesota, indicates that there were 7.8 million person-visits to the North Central/West Region of Minnesota.¹⁶ The Northwest region, which includes Hubbard County, also includes 23 other counties from Lake of the Woods in the north, to Pope in the south, and west to the North Dakota border.¹⁷ Half of these 7.8 million person-visits are Minnesota residents, with the largest segments coming from the Fargo-Valley City area (32 percent) and the Minneapolis/St. Paul area (31 percent). One in five visited a state or national park and one in ten overnight visitors stayed at campgrounds. Almost three-quarters of visitors indicated participating in one or more recreational activity.¹⁸

These demographics are further supplemented by the *Lake Country Scenic Byway* survey which found that a majority of these travelers were female (63.3 percent) and a significant majority (67.9 percent) of all travelers had household incomes of greater than \$50,000.¹⁹ More than a third were couples (35.9 percent) and nearly a third were in family groups (29.3 percent).²⁰

International visitors: the Headwaters attraction

While the statistical information is not known, the Mississippi Headwaters is a significant destination of international visitors to this region as noted by the Mall of America Tourism Facts.²¹ These visitors come primarily from Canada, Scandinavia, Great Britain, Japan, Latin America and Germany. A metropolitan tourism expert noted that these visitors come to Minnesota because they have heard about the Mall of America and the Headwaters of the Mississippi River. Typically they do not bring camping equipment.

¹⁵ <http://industry.exploreminnesota.com/wp-content/uploads/2009/01/2008-mn-northcentralwest-region-report-final.pdf> (accessed Feb. 1, 2012).

¹⁶ *Minnesota's Network of Parks & Trails, Northwest Region Profile*, p. 12.

¹⁷ The counties include Becker, Beltrami, Cass, Clay, Clearwater, Douglas, Grant, Hubbard, Kittson, Lake of the Woods, Mahnommen, Marshall, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd, Traverse, Wadena, Wilkin

¹⁸ *Minnesota's Network of Parks & Trails, Northwest Region Profile*, p. 12.

¹⁹ 25 percent - \$50,000-\$74,999; 13.1 percent - \$75,000-\$99,999; 16.7 percent - \$100,000-\$124,000, 13.1 percent - more than \$150,000.

²⁰ *Lake Country Scenic Byway*, p. 21.

²¹ <http://www.triplefive.com/en/pages/moa/tourism-facts> (accessed Feb. 1, 2012).

Thought should be given regarding their accommodation needs. This potential visitor may also come to the nearby La Salle Lake State Recreation Area if this destination is not viewed as “in the middle of nowhere” as another interviewee stated.

Travel Habits

Frequency and duration of visits

On average, travelers to the Lake Country Scenic Byway²² had visited the region twice in the past 12 months and six times in the past five years. Importantly, approximately half of these travelers stayed overnight, averaging 3.12 nights per visit, with 40 percent of them as guests in their own vacation home, condo or cabin. Other overnight visitors stayed with friends (26.7 percent) or in a hotel, motel, inn or bed and breakfast (20 percent). Approximately 7 percent stayed in a resort or private campground or RV park.²³

Lodging and group camping preferences

At nearby Itasca State Park, an occupancy report prepared by the department for the past three full years (not including the 2011 state government shutdown), shows a customer accommodation preference for lodging facilities (83 percent occupancy rate), over camping (66 percent occupancy rate), and group camping (62 percent occupancy rate). A review of statistics collected by Explore Minnesota Tourism confirms this data,²⁴ and also indicates that these stays are in a decreasing number of facilities that are gradually increasing their number of lodging units, which typically offer more amenities. See Appendix A, Trends in Lodging Units and Accommodation Types.

Among park accommodation types, DNR personnel noted that group camping and group lodging is growing in popularity. Within the La Salle Lake State Recreation Area resort, the two large residences (houses) and the open pasture land near one of the residences might offer suitable group lodging and camping options. Other locations illustrate the potential. One such popular destination is the Group Center at Lake Carlos State Park. With attractive amenities such as a dining hall, the group center typically has 100 percent occupancy. The facility intended for individual youth hostlers at Itasca State Park also provides group camp amenities. According to interviewees, rather than catering solely to the intended individual youth hostel camper, this facility is often used by groups for group-related functions.

Product Offerings

Customer experience preferences

Visitors are motivated to visit Minnesota state parks and recreation areas to engage in experiences that will enrich their lives. The most important experience is to have fun. The

²² *Lake Country Scenic Byway*, pp. 21-22.

²³ *Lake Country Scenic Byway*, p. 22.

²⁴ <http://industry.exploreminnesota.com/lodging-camping-database-comparison/> (accessed Feb. 1, 2012).

activity in which most visitors participated at Minnesota state parks is hiking and walking, at 71 percent. The next leading activity is observing nature with 37 percent of visitors participating.²⁵ However, this may not necessarily be the case in the Hubbard, Minnesota area.

General market information for current visitors to the Northwest Region of Minnesota indicates that snowmobiling and ATV off-road riding as priority activities, not swimming, nature center visits or biking.²⁶ See Appendix B, Recreation Activity Participation Reported by Visitors – Comparison of Northwest Region and State. These statistics also point to a challenge in initially marketing the pool complex, given the limited number of units and types of lodging on the site. If snowmobiling and ATV riding can be developed in a manner that is consistent with the mission of the LaSalle Lake State Recreation Area, these recreation preferences could present an opportunity for increased visits to the SRA.

On the other hand, the DNR's target audience (age 25 to 49) is more likely to engage in active water-related activities and active learning-related activities. Further, biking is on an upswing in Minnesota. As a result, there could be demand for bicycling, canoeing and kayaking between La Salle Lake State Recreation Area and Itasca State Park and an opportunity for a concessionaire to shuttle people and equipment between locations.

Conservation education, interpretive services and partnerships

The *Lake Country Scenic Byway* report indicates that visitors will travel throughout the region to participate in a variety of activities. A 2004 study conducted by the University of Minnesota Tourism Center entitled, *Leech Lake Area Summer Visitor Profile: A focus on interest in culture and nature based experiences* (Leech Lake Area), found that over 75 percent of the visitors to this region participated in historical or cultural activities.²⁷

In reconfirming visitor interest in historical and cultural experiences cited above, a tourism professional underscored that visitors want new experiences and noted that the homestead house and interpretive signage at Crow Wing State Park was one example of such an offering. Opportunities to offer a new experience of a similar type could be considered for La Salle Lake State Recreation Area because of the farm that is located on this site and the SRA's proximity to the Great Plains, which are 80 miles away.

New and existing DNR programs in conservation education and interpretive services could meet the growing demand for historical, cultural, wilderness and nature-based experiences. According to DNR research, the potential state park visitor may be less skilled and knowledgeable about the outdoors and seeking practical experiences and learning opportunities. Interviewees from the target market (ages 25 to 49) confirmed this DNR finding, stating, for instance, that they are committed environmentalists that want to act but need education.

²⁵ 2007 Minnesota State Parks Research Summary Report.

²⁶ Minnesota's Network of Parks & Trails: Northwest Region Profile, p 10.

²⁷ *Leech Lake Area Summer Visitor Profile: A focus on interest in culture and nature based experiences*, University of Minnesota Tourism Center, December 2004, p. vi.

From 2007 to 2010, attendance at DNR programs, events and tours has grown from 170,294 to 266,403, or by 56 percent.²⁸ To keep pace with this growing demand, the DNR may consider establishing fees to recover costs, or even increasing revenues for other La Salle Lake State Recreation Area services using the merit good principles of its *1998 MN State Parks Fee Strategy* report.²⁹ In brief, if a particular good or service has a primarily personal or private benefit to the visitor; it may be priced so that revenues accrued may be used to subsidize benefits for the entire community of resort users.³⁰ This was confirmed by an interviewee from the target market who agreed that a fee for such an activity would not only be appropriate, but expected.

Examples of creative interpretive service partnerships abound. The resort naturalist models used in the Gunflint Trail area could be considered, as well as working with resident ELCs as is done at Wolf Ridge or Deep Portage. Further, in Grand Marais there is a successful non-profit called North House Folk School that offers a number of activities; for example, bread making is very popular. DNR personnel have expressed interest in targeting interpretive services to various demographic groups. Wilderness Inquiry is another example. This organization helps people from all walks of life to personally experience the natural world. Wilderness Inquiry might be a potential partner for delivering experiences to target groups of visitors.

Trends

Technology and communications

Not surprisingly, the target audience (aged 25 to 49) is highly ‘connected’ to the world through a variety of communication services and tools and expects to have access to the Internet and wireless communication systems. In a recent study,³¹ Gartner, Inc. estimates that US sales of smartphones (combination of Internet and mobile phone) will grow from 67 million in 2010 to 95 million in 2011, and become the highest-selling consumer electronic device category. A Nielsen report³² found that 43 percent of all US mobile phone owners will have a smartphone as of October 2011, and expect smartphones to become the majority by the end of 2011. This penetration rate is even higher, when looking at the DNR target market where 62 percent of mobile adults aged 25-34 report owning smartphones and among those 35-44 years old the smartphone penetration rate is near 54 percent.

Interviewees confirmed this trend, noting that one of the first things these visitors do upon arriving at a resort or cabin is check whether their cell works and if the Internet is available. While this anecdote does not describe all future potential customers, it does

²⁸ *Interpretative Services 2010 Annual Report*, Division of Parks and Trails, p. 2.

²⁹ *Minnesota State Parks Fee Strategy*, Division of Parks & Recreation, State Park Fee Strategy Committee, June 1998.

³⁰ *Minnesota State Parks Fee Strategy*, p. 5.

³¹ <http://www.gartner.com/it/page.jsp?id=1550814> (accessed Feb. 1, 2012).

³² http://blog.nielsen.com/nielsenwire/online_mobile/generation-app-62-of-mobile-users-25-34-own-smartphones/ (accessed Feb. 1, 2012).

reflect the nature of the change taking place. In essentially every interview, resort owners, travel professionals, chamber of commerce personnel and selected travelers all confirmed that visitors want to stay connected to the ‘outside’ world and that cellphone signals, access to Internet and email were expected.

This particular demand represents a significant constraint on smaller resorts and private campgrounds, but is also viewed as an opportunity to larger resorts as a way to offer the visitor a way to stay ‘connected’ while enjoying their northern Minnesota experience.

This demand for enhanced communications, when met, may also provide the means for marketing La Salle Lake State Recreation Area to the target audience. As noted in the *2007 Minnesota State Parks Research Summary Report*, young adults depend more on websites and social media as the primary method to learn about DNR offerings which has reduced the need for some printed materials.³³ Young adults use the DNR website as their primary trip-planning tool, while older adults use the Minnesota State Parks Guide. However, as noted by one interviewee, the DNR website is informational and this will not be sufficient to attract new visitors. To overcome this limitation, it was recommended that La Salle Lake State Recreation Area be marketed and that the DNR should seek out partnerships to do this. Options for low cost promotion could include making use of various social media, such as YouTube, Twitter and Facebook.

Looking for a deal

Finally, one travel professional noted that prior to the recession, accommodation rates in hotels were very high and fill rates were also high. However, in the current recession, the consumer is much more frugal and is seeking a bundle of benefits at a discount. Promoting visits by this target group may require bundling a variety of experiences, amenities, and accommodations into a discount package.

Summary and Conclusions

Customer demand for recreation-based experiences is declining. A majority of current visitors to the Lake Country Scenic Byway are female, have household income of \$50,000 to \$124,000, and are, on average, about 55 years old. While current visitors are interested in snowmobiling and ATV riding, they are less attracted to swimming, nature hikes and interpretive services. A successful resort operation at La Salle Lake State Recreation Area will need to meet the demands of its target audience, aged 25 to 49 years old. The target audience is less likely to visit a state park or recreation area unless they did so as a child. They are also less skilled in outdoor recreation activities than their parents. Accustomed to paying user fees, the target audience seeks practical, relevant, historical, cultural and nature-based experiences. During their short visit, they will likely seek other experiences throughout the Northwest Region. Their stays in the La Salle Lake State Recreation Area are likely to be short and with preferences for lodging (in addition to camping), group activities, and the ability to stay connected by technologies like smart phone and Internet.

³³ *2007 Minnesota State Parks Research Summary*, p. 18.

Opportunities, Lease/Concession and PILT

Private operations, investment, and the need for additional experience and information

The feasibility of a lease or concession contract for operation of the LaSalle Lake State Recreation Area resort depends on the financial decision-making of private parties. To attract participation to the extent of being able to contribute to operating and capital costs, including the private entity assuming responsibility for payment of PILT, the state would have to demonstrate a financially viable and remunerative (positive cash flow and sufficient return on investment) resort operation, or the very strong prospect of one. That does not seem possible in the near future, based on currently available information. Limited available information about recent past financial performance shows lack of profitability, and the department's projections of operations using the baseline of infrastructure carried forward from the past resort operation, consisting entirely of educated assumptions, does not make a strong enough case. Actual experience to verify assumptions and time to build the baseline resort operation may be the minimum needed to attract any private funding. There are additional ways to increase the prospects for concession or lease participation.

Mechanism or arrangement to make PILT the responsibility of a nonstate entity through a lease or concession agreement

Under M.S. §477A, the source of PILT is an open appropriation from the general fund to the commissioner of natural resources for transfer to the commissioner of revenue to make payments.³⁴ The statutes do not specify or define a mechanism to reassign responsibility for payment of the equivalent of local taxes or PILT for natural resource lands from the state to a private or nonprofit lessee/concessioner (nonstate entity).³⁵ Changes to effectuate a change of responsibility might take two paths, and statutory changes may be needed.

(1) **Direct responsibility.** If establishing direct responsibility for payment of local taxes through a lease or concession agreement – superseding the statutory DNR requirement to pay PILT – then authority would be needed to establish this alternative responsibility, *or*,

³⁴ The amount of PILT for FY2012 for the entire LaSalle Lake State Recreation Area (that is, the South Parcel purchased in October 2011) would be \$63,675, based on the purchase price of \$8,490,000. The portion of PILT attributable to the resort area of the La Salle Lake State Recreation Area would be \$14,648, based on the portion of the total acquisition purchased by the Division of Parks and Trails (\$1,953,000).

³⁵ As a component of the Minnesota state parks and recreation areas system, the La Salle Lake State Recreation Area, including the resort, is public property in use for a public purpose – whether it is state-operated or operated under a lease, concession agreement, or management agreement. The DNR could not, consistent with current DNR statutes, completely turn over a property for commercial use. A lease or concession agreement can place responsibility for paying local taxes, including property taxes, on the lessee. A commercial lease can require that a lessee pays property taxes (which are characterized in statutes as personal property taxes). Statutes still require that the DNR pays PILT on acquired natural resources land.

(2) **DNR collection of PILT equivalent.** If collection by the DNR of the equivalent of local taxes or PILT from a nonstate entity under the terms of a lease/concession is the goal, then (a) authority would be needed for this collection – as well as, (b) authority to expand the distribution of DNR lease/concession revenues to include payments of PILT, or payments equivalent to local taxes, to counties.

Opportunities to build revenues and net positive revenues

Increased utilization of baseline infrastructure

Increasing use of the resort at La Salle Lake State Recreation Area in ways that increase revenues more than costs is a challenge. Existing La Salle Lake State Recreation Area resort infrastructure for revenue generation presents a limited opportunity to enhance net revenues in the short term, principally because of the small asset base that generates revenues. However, this mechanism is the most accessible and able to be influenced with current resources and within current constraints.

Information from DNR visitor surveys identified the demographics of people who would be likely visitors to the La Salle Lake State Recreation Area with its baseline features:

- Older visitors who would be attracted to RV campsites with full hook-ups
- Families and other groups who would be attracted to the cabins
- Local residents who would be attracted by boating, fishing, hunting, snowmobiling and ATV recreation

Additional information from visitor surveys informed the types of additional infrastructure or services that would attract additional visitors:

- Variety of interpretive programs would potentially appeal to families and youth
- Variety of camping/cabin types and amenities would appeal to a range of potential visitors
- Connections to other recreational and learning opportunities, such as those at Itasca State Park and other facilities in the region

Increased target marketing and outreach would be important parts of the effectiveness of building increased utilization of the baseline infrastructure.

Additional build-out of the baseline infrastructure of the resort

The capital costs to build out the property, and the resulting potential changes to normalized revenues and expenditures, are important considerations for the future of the resort. In general, information based on actual experience with current assets would be useful to evaluate the potential for more of the same or different types of assets. For example, there may be a critical mass of campground sites that helps make a campsite location much more likely to be utilized; and on the other hand, the costs of overbuilding are significant.

Two of the *possible* build-out options for revenue-generating assets include camper cabins and additional campsites. These initial ideas for options are *not* based on an assessment of needs, but only on what the site's terrain would probably accommodate

and the relationships to current resort assets and amenities. The cost estimates shown below are preliminary and include the major related costs for implementation. The third listed option includes adding solar panels to the pool building to reduce utility costs. As of the date of this report, no decisions have been made whether to propose any of these projects within the department or to the legislature. See Appendix C for additional detail on these possible build-out options.

- **40- site campground expansion** \$2,100,000
- **8 camper cabins** \$600,000
- **Miscellaneous other build-out*** \$900,000

*Includes campground enhancements such as shelters and solar panels to offset pool building utility costs.

Also note that the addition in the second season of operations of two existing but not yet ready cabins (or houses), and associated costs, would be considered part of the build-out.

Public-private partnership opportunities

The following partnership opportunities can benefit (1) the La Salle Lake State Recreation Area by providing equipment that expands and enhances visitor experiences, creating interest to increase the number of visitors, and generating revenues to support activities, and (2) private contractors through revenue-sharing and/or the opportunity to place branded products in a state park or state recreation area.

Campsite options – “hard campsites”

The La Salle Lake State Recreation Area resort has a 40-site campground, adjacent to the pool building/swimming pool and other amenities, which will be opened to the public in mid-May 2012. Current plans include site rentals by the day or week. Persons with recreational vehicles can occupy spaces with their own equipment. This partnership opportunity would be to place one or more dealer-owned motorhomes/travel trailers/fifth-wheel campers in site locations with a full service hookup. The trailer would be available for rental. Visitors would have this additional option for staying on-site in the state recreation area. The dealer would be responsible for renting the units and could establish reasonable fees for use. A number of issues remain to be worked out to make this type of partnership feasible, including whether the units could be placed for the season, the maximum continuous rental period, fees and charges, revenue-sharing arrangements, and other issues.

Recreational equipment rentals

The types and quantities of recreational equipment available to visitors to the La Salle Lake State Recreation Area could be improved through a public-private partnership. A distributor or manufacturer might provide equipment such as snowshoes, small boats, or other equipment. DNR staff would rent the equipment to visitors and the revenues would be split. The equipment can be branded, providing another benefit for the supplier. Issues specific to the circumstances remain to be defined or negotiated.

Events sponsorships and co-marketing

A private sector partner could sponsor appropriately themed events at the La Salle Lake State Recreation Area – one or a series, potentially throughout the season. Some events would provide training/orientation for access and use of the SRA’s and might be combined with equipment access/rentals as described above. The DNR’s current “*I Can*” series, providing basic information for access and enjoyment of natural resources, is a comparable framework that could be adapted to additional topics specific to the La Salle Lake State Recreation Area’s amenities. The revenues from events would be split between the vendor and the DNR. Site appropriate events for this SRA could include *I Can Camp*, *I Can Paddle*, and others. Some of these events have occurred in other Minnesota state parks and state recreation areas. These event partnership and sponsorship agreements would specify the obligations, deliverables, and performance required of the parties.

Opportunities for revenue enhancement – nontraditional channels

In addition to the straightforward ways to increase revenues noted above, there are other changes in practices that would potentially boost revenues. These and other entrepreneurial practices have been constrained in order to avoid competition or the appearance of competition with the private sector. The ideas are offered to bring awareness to the constraints; they are not currently practiced and/or allowed.

Flexible accommodation pricing.³⁶ A model for operating overnight amenities might include allowing changes to lodging and camping prices to reflect temporary market conditions and/or the availability of new accommodations. Park lodging and camping prices are currently set annually and posted for the public in a DNR Commissioner’s order. Although the order provides a certain level of flexibility, more opportunities for market-based adjustments may be beneficial. This authority would improve opportunities to increase revenues based on market conditions.

Promotional package rates.³⁷ A management option might be to allow promotional rates for accommodations, food, flowers, and other amenities and services. A current example of the application of this authority is the February-only promotion at the state-owned lodge at Custer State Park, South Dakota. Such promotional rates are not currently used by the DNR. This practice might attract additional visitors, particularly during slow or non-peak periods.

Partnership promotion. A management option might include encouraging a non-state operator to join the local chambers of commerce and other non-profit trade associations and organizations so that it may partner in the promotion of this less well known asset. This could lead to co-marketing efforts. The current practice of the Division of Parks and Trails is to not engage in promotion or pay public sector membership fees in trade

³⁶ The DNR has lowered camping fees at some parks that have lower rates of use.

³⁷ The DNR has used promotions – such as giving away park permits as part of a Minnesota Public Radio fundraising drive, and making available to the public State Parks and Trails gift cards.

associations. However, note the additional public-private partnership opportunities outlined in the immediately-preceding section of this report.

Gift sales. A management option might allow sales of a selection of gifts, including items unique to the La Salle Lake State Recreation Area vicinity and/or the history and culture of the state of Minnesota. Currently, state parks are generally limited in what may be sold through the Division of Parks and Trails nature stores.

Gift shop pricing. A management option might include being allowed to charge closer to market prices for gift sales. Current DNR practice is to limit gift store prices to two times the cost of the product, plus \$2.00. Gifts could be priced higher since such items are completely optional for visitor purchases.

Alcohol and liquor sales. A management option might be to allow sales of alcohol at events hosted in the pool building, in collaboration with other food suppliers from the surrounding community. This facility is remote, offers a very nice location for banquets, weddings and other events. Currently, the Itasca State Park Douglas Lodge can sell Minnesota-produced wine and beer at the restaurant (Minn. Stat. §85.0505).

Interpretive services contracts. A management option might be to allow contracts with for-profit and nonprofit organizations to offer a wide range of interpretive services to individuals and groups visiting La Salle Lake State Recreation Area. Currently, interpretive services contracts appear to be limited to agreements between the DNR and selected non-profit organizations. Leveraging community members, organizations and assets might provide economic opportunities for vendors and generate revenues.

Enhanced Operation, Capital Acquisition and Contracting Authority

The ideas noted below are structural changes. The first idea, enterprise fund authority, may have usefulness as explained in the section above titled Management Options. The latter two, revenue bonds and extended lease/concession duration, would represent extraordinary changes. Because of their broad and significant impacts, they cannot be recommended solely for their potential benefits in this current situation.

Enterprise fund authority. The resort might be allowed to operate as a government enterprise with a dedicated enterprise fund. The arrangement would allow the resort to carry forward revenues at the end of each fiscal year that would be used for improvements in operations and other uses. The risks of establishing an enterprise fund for an operation that is not yet viable, however, is a significant consideration. Best practices in other states as well as a review of other Minnesota state enterprises should be evaluated to determine the appropriate scope of authority needed to enhance this operation.

Revenue bonds. Raising funds for needed capital projects and capital improvements through the current bonding process does not meet all Division of Parks and Trails renewal and development priorities. The state does not issue revenue bonds for Division of Parks and Trails capital assets or improvements. There is no assumption here that this

mechanism would be possible, useful, or financially feasible in the case of the LaSalle Lake State Recreation Area resort.

Extended lease/concession duration. It is possible, other things being assumed, that a longer lease or concession agreement term might help attract private participation. Current state law limits these agreements to five years with a possible extension of an additional five years. There is no basis to recommend this change generally or in the specific case of the LaSalle Lake State Recreation Area resort. In other states that allow longer terms, concession and lease agreements are more widely used, including with established park development concessionaires. These organizations make payments to various types of reserve funds, pay franchise fees, and may make capital investments on publicly-owned land. The National Park Service has a well-established operation for concessions; their concession agreements are generally limited to ten years or less, but can extend for up to 20 years.

Request for Information and Request for Proposals

Identifying potential opportunities with an RFI

An exchange of information with potential private sector partners might be initiated by inquiries informally or through a Request for Information from prequalified larger organizations in the industry. Expertise from outside organizations that manage and operate on a larger scale could yield useful information, including the realities of engaging private capital. Other smaller organizations might also have useful insights.

Development of request for information (RFI)

An RFI is used to gather information to help make a decision on what steps to take next. Following completion of the master plan, an RFI could be drafted requesting information from experienced recreation-based capital developers and managers. The RFI would restate the DNR's vision, mission and planned development of the SRA resort and seek information on whether the development could be accelerated under a public-private partnership that could entail capital development and management. The RFI could also inquire, for example, whether certain group facilities could be cost-effectively developed on the site that are consistent with the DNR vision and mission. Responses to the RFI would provide ideas for creative financing and management of the La Salle Lake State Recreation Area resort as well as information about the capabilities and past experiences of vendors to provide capital and manage recreation- and nature-based parks and facilities.

Determination of whether to issue a request for proposals (RFP)

Based on the input received from the RFI and the financial and operating results of the SRA under state operation, the DNR should be in a better position to determine whether to issue a Request for Proposals to accelerate development of the resort area of the property and to run it under one of the identified management options discussed in this report.

Summary

From available information, it seems clear that a lease or concession agreement in the first two years of operation would not be feasible based on the economics of the La Salle Lake State Recreation Area resort. On the other hand, if state operation of the resort provides sufficient positive revenue *and* information from RFI responses provide viable and beneficial financial/operational plans (consistent with the DNR master plan goals for the SRA), then such a contract may be realistic. If a plan proposed by a RFI responder requires a long-term contract not allowed in statutes, then that proposed plan would be impractical. If an RFI response proposes a lease term longer than five years with a five year potential extension as a necessary condition to private capital investment, then the situation can be assessed and presented to decision makers for consideration.

Appendix A

Trends in Lodging Units and Accommodation Types

“Point in Time” Explore Minnesota Accommodation Database 2004-2011

Taken from the “Point in Time” Explore Minnesota Accommodation Database, the figures below graphically express growth in indoor lodging units (Figure 1); track the comparative of growth of indoor and camping accommodation types (Fig. 2); and compare the percentage growth and decline of indoor and camping accommodation types (Fig. 3).

Figure 1. Lodging Units
Total Number of Indoor Lodging Units, 2004-2011

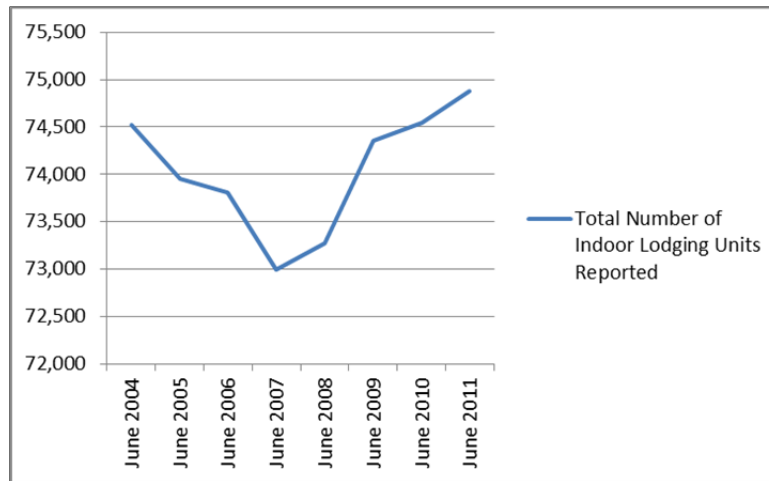
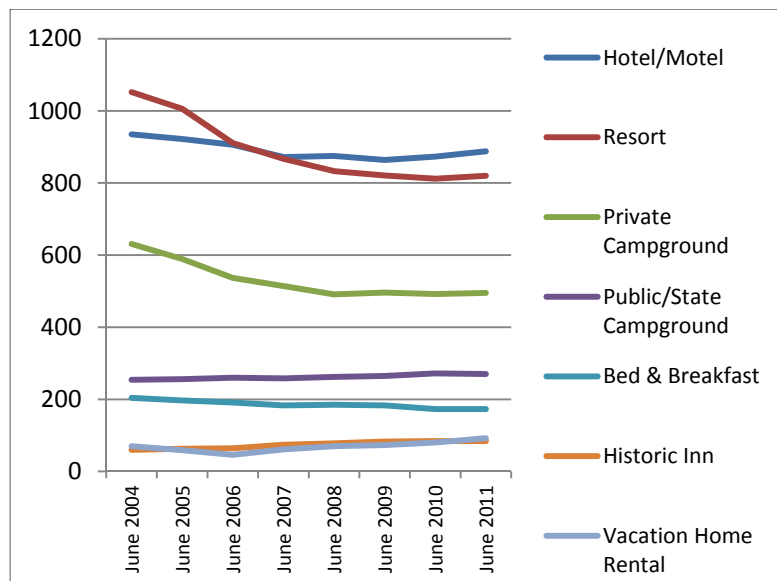


Figure 1, above, depicts a 2 percent decline (1,500 units) in the number of indoor lodging units from 2004 through 2007. However, this trend has reversed and today there is a net increase of 354 units for the period of 2004 through 2011, or approximately .03 percent.

Figure 2. Accommodation Types
Growth by Accommodation Type, 2004-2011



As noted in Figure 2 above and in Figure 3 below, from 2004 through 2011, there have been increases in Historic Inn and Vacation Home Rental accommodation types, and a slight increase in the Public/State Campground accommodation type. Also, during this period there have been decreases in the Hotel/Motel, Resort, Private Campground and Bed & Breakfast accommodation types.

Figure 3. Accommodation Types
Percent Increase and Decrease in Accommodation Types, 2004-2011

Hotel/Motel	-5%
Resort	-22%
Private Campground	-22%
Public/State Campground	6%
Bed & Breakfast*	-15%
Historic Inn	40%
Vacation Home Rental	167%

*data 2004 through 2010

Figures 4, below, depicts the growth in the average number of lodging units for selected accommodation types from 2004 through 2011.

Figure 4. Accommodation Types
Growth in Lodging Units by Accommodation Type, 2004-2011

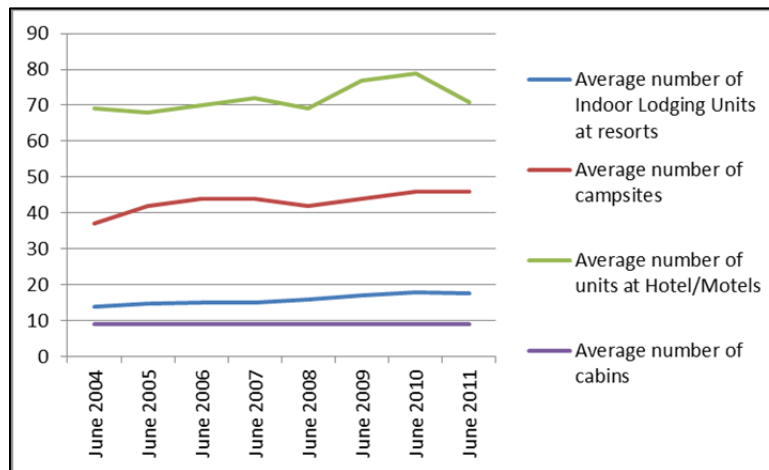


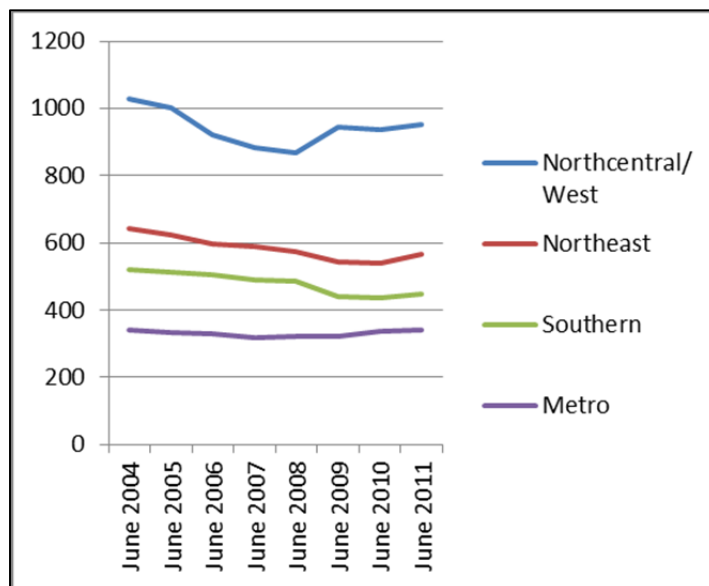
Figure 5, below, converts the growth in lodging units by accommodation type into percentages. This information shows that the largest increase in the average number of lodging units has occurred at resorts, at 30 percent, followed by campsites at 24 percent.

Figure 5. Accommodation Types
Percentage Growth in Lodging Units by Accommodation Type, 2004-2011

Increase in Average number of Indoor Lodging Units at resorts	30%
Increase in Average number of campsites	24%
Increase in Average number of units at Hotel/Motels	14%
Increase in Average number of cabins	0%

Finally, except for the metropolitan area, Figure 6 below indicates that the number of lodging units steadily declined in other regions of the state until about 2008 or 2009, when this trend appeared to reverse. This reversal is most strongly observed in the Northcentral/West Region of the state.

Figure 6. Lodging Units
Regional Growth in Lodging Units throughout Minnesota, 2004-2011



Summary

From 2004 to 2011, Public/State campgrounds increased as an accommodation type (6 percent - Figure 3) and in average number of “lodging” units (24 percent - Figure 5). While the number of resorts has declined during this period (-22 percent - Figure 3), they are also experienced the largest increase in the number of lodging units of all accommodation types (30 percent - Figure 5).

Appendix B

Recreation Activity Participation Reported by Visitors – Comparison of Northwest Region and State

Minnesota's Network of Parks & Trails: An Inventory of Recreation Experience Opportunities in Minnesota, College of Design, University of Minnesota, May 2010, page 10.

The table below compares the recreation activity preferences in Northwest Minnesota to the rest of the state.

Activity	NW %	State %	Difference %
<i>Walking/hiking</i>	48%	54%	-6%
Boating of all types	43%	43%	0%
Swimming or wading	37%	41%	-4%
Driving for pleasure on scenic roads or in a park	40%	37%	3%
Picnicking	34%	36%	-2%
Fishing of all types	35%	30%	5%
<i>Biking</i>	19%	29%	-10%
Camping of all types	30%	26%	4%
<i>Visiting nature centers</i>	20%	25%	-6%
Nature observation	20%	24%	-4%
Golfing	19%	24%	-5%
Outdoor field sports (e.g., soccer, softball/baseball, football)	21%	21%	0%
Visiting historic or archaeological sites	17%	21%	-3%
Sledding and snow tubing	15%	18%	-3%
Outdoor court sports (volleyball, basketball, tennis)	15%	18%	-3%
<i>Hunting of all types</i>	23%	16%	7%
<i>Running or jogging</i>	6%	14%	-8%
<i>Ice skating/hockey outdoors</i>	5%	12%	-7%
Inline skating, rollerblading, roller skating, roller skiing	6%	11%	-5%
Off-road ATV driving	17%	10%	7%
Snowmobiling	16%	10%	6%
<i>Downhill skiing/snowboarding</i>	3%	9%	-6%
Gather mushrooms, berries, or other wild foods	11%	9%	2%
Cross country skiing	4%	7%	-3%
Horseback riding	3%	5%	-2%
Snowshoeing	2%	4%	-2%

Appendix C

Additional detail for La Salle Lake State Recreation Area Build-out Options

La Salle Lake State Recreation Area	
Campground and Lodging Budget Estimate	2012-01-04

40 Site Campground Expansion	
Electric	\$300,000
Campsites*	\$1,030,000
Two single vaults	\$70,000
Sanitation building	\$700,000
Total	\$2,100,000

Camper Cabins Addition	
Eight camper cabins	\$550,000
Double vault toilet	\$50,000
Total	\$600,000

Improvements	
Two Shelters	\$400,000
PV solar	\$200,000
Pave campground road	\$265,000
Vault toilet	\$35,000
Total	\$900,000

*Includes grading, clearing, gravel and development of paths

DATE: 2-26-11

LEGISLATIVE REPORT – Cost of Preparation

NAME OF LEGISLATIVE REPORT – La Salle Lake State Recreation Area Management Options for the Resort Area

Based on: Laws 2011, 1st Sp. Sess., Ch. 6, Art. 3, Sec. 9

Minnesota Statute Reference: _____

Prepared by: Casey Nelson, Department of Natural Resources

Phone: 651-259-5629

E-Mail: casey.nelson@state.mn.us

Description of Cost	Further explanation if necessary	Amount
Staff Time	DNR Staff Time	\$30,459
	Consultants	\$59,925
Duplication Cost (includes paper)	2 Copies	\$10
Other:		
TOTAL TO PREPARE REPORT (Note: Right click on amount cell and choose update to complete)		\$97,960