



## CITY OF SANTA BARBARA

### PARK & RECREATION COMMISSION REPORT

**AGENDA DATE:** February 1, 2010

**TO:** Park and Recreation Commission

**FROM:** Administrative Division, Parks and Recreation Department

**SUBJECT:** Municipal Cost Recovery and Fee Policies

**RECOMMENDATION:** That the Commission review municipal cost recovery and fee policies and identify elements that might be included in a policy for the City of Santa Barbara.

#### **Parks and Recreation Department Fees and Charges**

The Parks and Recreation Department assesses fees and charges for various services in order to offset the cost for the City to provide those services. Parks and Recreation fees are included in the City's Fees and Charges Schedule, along with fees for other city departments. The Fees and Charges Schedule is reviewed and adopted by City Council as part of the annual budget. Proposed fees are developed by staff, and reviewed by the Parks and Recreation Commission which makes its recommendation to City Council. The policy gives the Parks and Recreation Director limited authority to add, delete or modify fees to accommodate programmatic changes throughout the year.

In general, the following factors are weighed by staff in developing proposed fees:

- Cost to offer the program
- Number of participants per class/activity
- Target audience
- Affordability for target audience
- Ability to attract participants
- Popularity, trends, availability of similar programs
- Fees for similar programs offered within the community (market survey)
- Consistency of fee approach within the department

#### **General Fund**

The Parks and Recreation Department budget is comprised of 3 funding mechanisms: The Golf Course is an enterprise fund; and the Creeks Division is a special fund derived from 2% of the City's Transit Occupancy Tax, a measure approved by the voters for that purpose. Neither of those programs receives City General Fund support. The Administrative, Recreation and Parks Divisions are supported through the City's

Agenda Item: \_\_\_\_\_

General Fund. The City appropriates a certain amount of General Fund support to the Parks and Recreation Department each year to subsidize services. The Department generates revenue to augment the General Fund subsidy which allows the Department to provide additional services, and which increases the department's overall annual General Fund budget.

Over the years, the Department has been challenged by the declining level of General Fund support. This is especially true today given the current economic situation. In response, the Department has worked to increase revenues and levels of cost recovery where possible. Efforts include new programs and activities, fee increases, improved marketing of services, implementation of a Resident Discount Program, and retooling programs to improve cost effectiveness. Increasing department revenue has allowed the Department to reduce its reliance on the General Fund and continue to provide services desired by the public. In recent years, the Department has used new revenue to offset mandated budget reductions.

### **Cost Recovery**

Programs and services are often characterized by the degree they cover the cost to provide the service, or level of cost recovery. Cost recovery models vary depending upon which costs are considered in the formula.

- Direct Costs – Costs associated with the particular activity (staff or contractor expense, equipment, supplies) that would not occur if the activity was not offered.
- Indirect Costs – Most commonly such costs include facility and utility costs, permanent salaries, broad marketing efforts, insurance, etc. Some models break indirect costs into two or more categories which may include program, division, department and city overhead.

Overall cost recovery for the Department's General Fund budget is in the area of 30-35%. The Recreation Division, where the greatest number of programs and activities occur, generally achieves a 49-50% recovery of costs for programs. This is full cost recovery, against all expenses which occur in the Recreation Division budget, including direct program costs and indirect costs such as full-time salaries, facility maintenance and operation, insurance, etc. That number does not include department or City overhead.

### **Determination of General Fund Subsidy Levels for Programs**

The Department offers a variety of programs and services which are subsidized to varying degrees by the General Fund. Some activities are specifically designed with no fee or a very low fee, while others have fees designated to recover a percentage of their direct costs or direct costs plus indirect costs. As reviewed with the Commission at their December 3, 2009 Budget Work Session, some programs and services have fees waived or reduced based on a co-sponsorship agreement with a community partner,

such as the Police Activities League or Pony Baseball, meaning that those organizations are subsidized to some level by the General Fund.

Historically, activities have been subsidized to greater and lesser levels based on priorities directly or indirectly identified by the Park and Recreation Commission and City Council over the years. For example, activities for youth, teens, and seniors have been traditionally been subsidized to a greater level than adult activities. Activities targeted to low-income people have traditionally been subsidized to a greater level than those targeted to middle/higher income people.

While there has often been conscious review and discussion about which programs and services should be subsidized, and to what level, without a formal policy in place there is bound to be inequity for who benefits from tax dollars support. For example, there is discrepancy in levels of General Fund subsidy among community organizations with co-sponsor agreements. Another example is the political pressure applied by adult softball players during budget hearings several years ago which resulted in adults playing a much lower rate for equivalent services provided to youth.

In difficult fiscal times when General Fund support is reduced, how these limited funds will be used to subsidize various services is often a contentious issue. Therefore, it is important to have a good understanding for how programs and co-sponsoring organizations are subsidized by the General Fund. Having a formal cost recovery policy will provide a tool to assist staff and community leaders with difficult decisions related to prioritizing how General Fund subsidy should be provided to programs and services.

### **Examples of Municipal Cost Recovery and Pricing Policies**

Staff conducted a list-serve inquiry to gather examples of cost recovery and pricing policies which other municipal agencies have in place. Fourteen agencies responded. Copies of policies from 7 agencies are provided with this report for Commission consideration. Although similar, there are 2 primary models commonly used. First is a pyramid model, with activities grouped by whether they have greater Community Benefit or Individual Benefit. Activities with a greater Community Benefit have a higher subsidy level (lower cost recovery) than those with an Individual Benefit.

An alternate model is 3 – 4 designated Levels of Cost Recovery/Subsidy based on various criteria. This model is most similar to what the Commission discussed at their August 5, 2009 work session.

### **February 1, 2010 Budget Work Session**

The objectives for the February 1, 2010 Commission budget work session are to:

1. Provide a general overview of which programs receive General Fund subsidy and to what levels
2. Discuss whether Santa Barbara should have a Cost Recovery and Fee Policy.

3. If yes, discuss which elements or models in the various sample policies provide the best format for further discussion.
4. Develop a timeline for policy development.

- ATTACHMENTS:**
1. City of Santa Barbara  
Municipal Park and Recreation Fee and Cost  
Recovery Policies Fall 2009 Survey
  2. Policies from Various Cities

**APPROVED BY:** Nancy L. Rapp, Parks & Recreation Director