



CITY COUNCIL AGENDA REPORT

MEETING DATE: January 20, 2004

ITEM NUMBER:

SUBJECT: RECREATION PROGRAM COST RECOVERY GUIDELINES

DATE: JANUARY 8, 2004

FROM: ADMINISTRATIVE SERVICES DEPARTMENT/RECREATION DIVISION

PRESENTATION BY: JANA M. RANSOM, RECREATION MANAGER

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RECOMMENDATION:

The City Council is requested to approve the proposed revised Recreation Programs Cost Recovery Guidelines.

BACKGROUND:

On October 22, 2003, at the regular Parks and Recreation Commission meeting, staff presented the Cost Recovery Guidelines for Recreation Programs to Commission for review and recommendations on placing programs within recovery categories. After reviewing the programs and categories, Commission voted to add the Mobile Recreation, Concerts in the Park, and the Mobile Skate Park programs to the heavily subsidized category. Commission voted to reassign the Community Garden from the heavily subsidized to the partially subsidized category. In addition, Commission voted to reassign Teen Camp, Teen Day/Night Out and Family Night Out programs from heavily subsidized to partially subsidized categories.

On November 10, 2003, Administrative Services/Recreation staff presented the Recreation Cost Recovery Guidelines to Council at its Study Session (Attachment 1). Several Council members indicated they would like to review the guidelines annually, at the same time User Fees and Charges are presented for adoption. Finance staff presented the User Fees and Charges to Council at the January 5, 2004 meeting and now, Recreation Division staff is requesting Council action on revised cost recovery guidelines.

Specifically, Recreation Division staff is requesting that Council re-affirm the philosophical basis upon which the Cost Recovery Guidelines are based. In 1997, the Council adopted the initial guidelines that established the extent of support the City of Costa Mesa would provide to programs based upon each program's relative merit or benefit to the community.

A variety of factors are considered when staff recommends an activity be assigned to a cost recovery category:

- Legal/legislative restrictions (fees collected may not exceed the reasonable costs incurred by the City of Costa Mesa in providing said activities and/or programs)

- General Plan, Open Space and Park Master Plan and Community Objectives priorities
- Feasibility and cost of fee collection
- Needs and abilities of special or underserved populations
- Programmatic intent (such as provision of water safety programs to the broader community)
- Marketplace (what other public agencies and/or private entities are charging for same or similar programs/services)

In determining the placement of programs within the cost recovery categories, Council affirms that it is beneficial to provide residents with a variety of recreational activities and opportunities and that recreational services should be provided at no cost (fully supported), at low cost (mostly supported), at minimal cost (partially supported) and/or at full cost (self-supported) to the participants.

ANALYSIS:

Finance staff provided a breakdown of revenue and expenditures for Recreation programs for the last four complete fiscal years. Recreation staff categorized the programs based on the existing cost recovery guidelines and calculated the average percent of recovery for each program subject to the guidelines. Only those programs actually subject to the cost recovery guidelines were considered, while those programs whose fees are set outside the guidelines were not analyzed, as there is no intent to link revenue to expenditures. Programs such as the Senior Center, Mobile Skate, Job Center, Committees and Commissions, are not part of the recovery program and not considered in this analysis. However, these programs are listed on the table for reference.

For self-supporting activities, the City's target was to recover a total of 147% of the costs (100% of direct costs plus 100% of the indirect costs based upon a 33% multiplier plus 100% of the city overhead costs based upon a 14% multiplier). The actual recovery averaged 137.3% of expenditures. For partially supported activities, the City's target to recover was at 133% of the costs (100% of direct costs plus 100% of the indirect costs based upon a multiplier of 33% - there was no assessment for city overhead costs). These activities actually recovered 81.94% of expenditures (Attachment 2).

In reviewing Attachment 2 with Finance staff, there was agreement that the existing three categories are somewhat inadequate. Fees for programs and activities are set based on a number of criteria and not on a simple target recovery rate and as a result, recovery for programs has been lower than the "target" rate. There are several reasons for this. Fees were established based on maximum enrollment in a class or program. If a class could handle 30 participants, fees were established based on 30. If less than 30 enrolled, revenue would be lower than projected and not cover all costs. The lower revenue does not mean that the program is not successful, it simply means less than the maximum number of participants enrolled. Most cities are now setting fees based on a number lower than maximum, such as 75% of maximum enrollment. Staff will review the method used to establish program fees and define something other than a "maximum" enrollment in an effort to smooth out the effects of "less than maximum enrollment" on recovery.

Also, changes in the method of how staff's hours are allocated to programs will impact the expenditures and subsidy level. Over the years, there have been changes in how full time

staff allocated their time to the programs. In some years, Administrative and Recreation staff had their time split based on a percentage of time, sometimes down to a 2% level, other times as high as 50%, and that portion of their salary was allocated to the direct cost of a program. These allocations have a significant impact on the program cost. For example for FY 03, Program 40235 (Youth and Family Programs) shows an expenditure of \$61,909 with revenue of \$5,846. During this period, portions of the Director, Recreation Manager, Recreation Supervisor and Coordinator time and salary may all be allocated to programs. In this case, of the \$61,909 expended, \$30,870 was in full time salary allocations, which makes the program costs appear much higher than actual direct costs, (direct costs are those costs to operate the program, which includes part time staff, materials, and supplies). For Fiscal Year 04, most full time staff costs are now included in administrative overhead programs and added to programs as an indirect cost, not a direct cost.

Because of the difficulty in assigning existing programs and activities into the current three categories, staff is proposing to expand from three to four cost recovery categories and establishing a range within each category as a more appropriate measure of recovery (Attachment 3).

These categories would provide for fully supported programs, mostly supported programs, partially supported programs and self-supported programs. Recovery of costs would be as follows:

	Fully Supported	Mostly Supported	Partially Supported	Self Supported
Direct Costs	0%	Up to 100%	100%	100%
Indirect Costs	0%	0%	Up to 100%	100%
City Overhead	0%	0%	0%	100%

The additional category, Mostly Supported, provide greater flexibility in determining the level of support to be provided to programs. Members of the City Council and Parks and Recreation Commission have commented that it is difficult to show the desired level of City support with three very broad categories. By providing an additional category, with a recovery range (“up to”), programs that target underserved populations or benefit the community can be placed in a category intended to recover a more appropriate amount of costs.

No cost to participant programs, or **Fully supported programs**, are those activities or programs that meet one or more of the following criteria:

- promote a safe, healthy community
- target underserved populations (teens, at-risk youth, persons with disabilities, seniors)
- Youth or senior program emphasis

These programs are offered at no charge, and direct, indirect and city overhead costs are subsidized by the general fund.

Low cost to participant programs, or **Mostly supported programs**, are those activities or programs that meet one or more of the above criteria, but some, and up to all, of the direct costs that could be said to more directly benefit the individual participant are recovered. Some direct costs, all indirect costs and all city overhead costs are subsidized by the general fund.

Minimal cost to the participant programs, or **Partially supported programs**, are those programs or activities that meet one or more of the following criteria:

- Enhance quality of life in the community
- Build community social equity
- Provide recreational opportunities to a broad spectrum of community
- Affordable for the majority of the community

Fees will be set to recover all direct costs and some to all indirect costs. City overhead costs are subsidized by the general fund.

Full cost to participant programs, or **Self supported programs**, are those programs or activities that are largely directed to adult participants, benefit could be considered largely personal versus community. Fees are set for these programs and activities to recover all direct costs, all indirect costs and all city overhead costs associated with the provision of those programs.

Direct costs of an activity or program are those expenditures specifically associated with the provision of that program. These costs include one or more of the following:

Instructors (contract/staff), program leaders (contract/staff), and supervision of the program staff and/or contractors; office supplies, disposable and consumable supplies; vehicle leases/rentals and special training used specifically by/for program; entrance/admission fees; advertising fees.

Indirect costs are Recreation Division and Administrative Services Department level expenditures related to the general management and supervision of recreation and community services programs.

City overhead costs are Finance, Purchasing, Risk Management and Treasury office support costs, determined by the Finance Department, and intended to recover some of the costs associated with the business of providing city services.

The philosophy of the Council has been that the intrinsic community value of recreation programs in some cases warrants subsidy by the general fund. In that same vein, only some of the recreational programs and activities provided by the City thus warrant self-supported status.

Finally, it should be noted that indirect and overhead costs are relatively constant and are not significantly impacted by individual programs/activities (i.e., these costs would not be reduced if a single activity were eliminated).

Using these proposed cost recovery ranges, staff will be able to assess, on an ongoing basis, the level of subsidy being provided compared to the category in which Council and Commission has placed a program or activity. Programs are placed in a specific category because they fulfill a community need, but the level of recovery does play a role as well. For example, under previous guidelines, most teen programs were placed in the heavily subsidized category because of need to attract teens to new programs, and because Commission felt that the community, and therefore the City, was best served by having free and low cost teen programs. Commission indicated, in October, that consistent with charging youth for some activities, teens should bear some of the costs for their activities.

Staff has placed the programs in the Cost Recovery Category that appeared to be the best fit, given the various activities within that program (Attachment 4). This attachment also shows the average expenditure, average recovery over the last four complete fiscal years, and the recovery goals under the proposed guidelines for each program. Council has the discretion to place programs in other categories.

ALTERNATIVES CONSIDERED:

- Maintain the existing guidelines (Attachment 5)
- Approve the three category guidelines (Fully Self Supporting, Partially Subsidized, Fully subsidized) with programs differentiated from Council approved activities/facilities as recommended by the Parks and Recreation Commission (Attachment 6)

FISCAL REVIEW:

The fiscal impact of the proposed cost recovery guidelines is not known. Staff is not proposing a change in specific fees associated with the proposed guidelines. Rather, these guidelines are intended to allow Council and Commission to show the level of subsidy and support the City provides recreational programs. Staff anticipates that there should be minimal net change to the amount of revenue generated using the proposed guidelines as the programs are simply being reassigned to revised categories.

However, the City Administrative Overhead factor has changed from 14% to 15%, and therefore there will be a slight increase in revenue based on this change. Staff anticipates the increased revenue from this change to be approximately \$2,000. According to the FY 04 adopted budget document, the revenue associated with these programs is \$1,225,220.

LEGAL REVIEW:

No legal review of this item is needed.

CONCLUSION:

The Recreation Division has used Council approved cost recovery guidelines for many years in an effort to assist in setting program and activity fees. As programs become more complex and multiple activities are housed within program numbers, the existing guidelines do not allow for an easy “fit” of programs into three categories. In addition, cost recovery is only one component of the fee setting formula and should not be considered the sole measure of program success. Fees are set in an effort to recover costs, provide affordable activities, attract underserved populations to participate in community programs and events, and to create a sense of community. Expansion to four categories allows the Council to place programs in more appropriate ranges, and removes those facilities and programs that are not part of cost recovery. It is therefore recommended that Council approve the proposed expanded Recreation Programs Cost Recovery guidelines.

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ATTACHMENTS: 1 [City Council Study Session Report of November 10, 2003](#)
2 [Revenue – Expenditure Comparison Excel Spreadsheet](#)
3 [Proposed 4 Category Cost Recovery Guidelines](#)
4 [Cost Recovery Categories and Recovery Goals](#)
5 [Existing Cost Recovery Guidelines](#)
6 [Guidelines as recommended by the Parks and Recreation Commission](#)