

# Agenda Report

March 12, 2012

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Human Services and Recreation Department

**SUBJECT: ADOPTION OF A COST OF SERVICE AND PRICING POLICY FOR HUMAN SERVICES AND RECREATION PROGRAMS AND SERVICES**

**RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed amendment to the General Fee Schedule to adjust fees for Human Services & Recreation programs and services is statutorily exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges) and State CEQA Guidelines Section 15061(b)(3) (General Rule);
2. Approve the proposed Cost of Service and Pricing Strategy for Human Services and Recreation programs and services (attachment B); and,
3. Adopt a resolution (attachment A) amending the General Fee Schedule to adjust fees for Human Services & Recreation programs and services consistent with the proposed policy.

**RECREATION & PARKS COMMISSION RECOMMENDATION:**

At its meeting of March 6, 2012, the Recreation & Parks Commission voted to recommend to the City Council that it approve the staff recommendation. The Commission also requested that the Human Services & Recreation Director return to the Commission in one year to report on the impact of the policy.

**EXECUTIVE SUMMARY:**

On November 28, 2011, at a special meeting of the City Council to address the City's budget shortfall, the Council considered a number of options including the consolidation/elimination of several City services as well as revenue enhancements. In regard to

recreation services provided by the Human Services and Recreation Department, the Council consensus and subsequent direction to staff was to pursue moderate adjustments to user fees as a way of supporting such programming as opposed to reducing these important services.

Consistent with this direction, staff is requesting City Council approval of a Cost of Service and Pricing Strategy for Human Services and Recreation programs as outlined in the body of this report. Action on this matter is necessary at this time in order to properly plan for upcoming summer recreation programs.

**BACKGROUND:**

In an effort to continue providing quality recreational programming, the Human Services & Recreation Department is proposing to implement a new fee structure that will maintain and expand current human services and recreation programs. Under the new pricing plan, fees for existing programs will increase modestly but still be generally less than comparable programs run by non-City agencies. For those who may not have the ability to pay, the *Pasadena Passport to Fun Scholarship Program* will be made available to ensure that all residents and minors attending Pasadena Unified Schools have access to quality recreational programs.

The Department conducted a cost of service study in 2005 and presented a revised general fee schedule to the Parks and Recreation Commission and City Council in 2007. As part of this effort, the City Council accepted the definition of a "resident" to be defined as a person who lives, works, or attends school in Pasadena or attends a PUSD school. The pricing policy contained in this report is aligned with this policy. Based on this policy, those meeting the residency requirements are eligible for priority registration and may participate in Pasadena's Passport to Fun Scholarship Program.

The current overall cost recovery rate for the Human Services & Recreation Department, the percentage of revenue collected against the Department's operating budget, is approximately 10%. Many other urban municipalities of similar size, demographics and socioeconomic diversity have cost recovery rates that range from 25% to 40%. As program fees recover only 10% of the Department's costs, the 90% subsidized by the City's General Fund is subject to reduction during difficult economic periods such as that occurring over the past several years. At its special meeting on November 28, 2011, the City Council indicated its preference for adjusting user fees rather than reduce recreational programming.

By becoming financially sustainable through administering appropriate fees, the Department can become less dependent on the general fund and ensure that resources can be available to maintain and/or enhance programs or services. When low cost recovery rates are coupled with budget reductions, the options include program elimination, program reduction or a shift in pricing to allow recreation users to invest in and then maintain the service. Examples of the Department's fee-based programs

include but are not limited to after school programs, swim lessons, facility rentals, seasonal camps and youth/adult sports. These fees are set by City Council resolution in the City's fee schedule. Fees for contract classes are set by the independent contract class instructor and the Department recommends moving the current percentage split between City and contractor from 70% (contractor) / 30% (City) to 60% (contractor) / 40% (City) to help offset the City's overhead in operating the program. Contract youth and adult programs range from martial arts to adult sports.

In addition to offering contract classes, the City also sponsors a variety of free or reduced cost programs at both Villa-Parke and Jackie Robinson Community Centers, such as ballet, "Let's Move" Fitness, and "Guitars Not Guns." Certain programs including after school summer camp at the Washington and La Pintoresca Neighborhood Parks are also free based on the limited financial resources of families in the area.

Traditionally, the City has heavily subsidized prices and kept all user fees low to accommodate the percentage of customers that could not pay. For example, the current fee for Summer Day Camp offered at Victory Park and Allendale Park is \$272 per child for a 6-week program. The unintended outcome of this below-market user fee is that Human Services and Recreation is not able to consistently balance the demand for quality programs with available resources. Moreover, the fees collected for the Summer Day Camp program are not enough to allow the City to offer full-length summer programs, which are typically 9 to 10 weeks long. This leaves children either unsupervised during critical hours of the day or requires families to identify alternative means for childcare. By increasing the fees modestly over the next four years, the City will be able to increase the number of weeks that camps are offered for both fee-based and free neighborhood park camps.

## **PURPOSE OF HAVING A PRICING STRATEGY**

The purpose of the pricing strategy is to serve as a mechanism for allocating the use of public funds and creating a financially sustainable approach for recreational services by maximizing the use of programs and ensuring affordable access to programs and services.

The proposed pricing strategy for programs is intended to serve as an update to the 2007 fee study and set forth a blueprint for cost recovery goals to sustain and even grow recreation services and programs over the next 4 years. The pricing strategy is expected to incrementally move the Department from a 10% cost recovery rate to 30% over time. As part of the annual budgeting process, the Human Services and Recreation Department will conduct an annual review of the strategy that presents the organization's accomplishments, results and performance on cost recovery goals to the Recreation and Parks Commission and City Council.

This strategy will not only allow the Department to grow programs over time, it is intended to ensure all interested participants are able to enroll in City recreation programs by allocating 5% of the revenue from recreation fees to the proposed Pasadena Passport to Fun Program, which represents a new scholarship program offering reduced and free access to services offered by the Department. This program will also enhance the recreational opportunities for the community by allowing residents to take a class of interest at all City facilities, which the current service delivery model does not provide. The Department will also set funds aside from recreation fees collected to support a maintenance fund for recreational facilities to conduct improvements and replace equipment. Finally, the pricing strategy recommends that the City set aside 3% to 5% of funds from recreation fees collected for Capital Improvement Projects to be directed to recreation centers. These funds would accumulate over time and be used to reinvest in the City's recreational facilities.

## **PRICING AND REVENUE FRAMEWORK**

### **1. Identify the Level of Benefit a Customer Receives**

To maximize the distribution of available recreation resources to the greatest number of residents, the Human Services and Recreation Department shall prioritize the subsidization and funding of programs. To determine the percentage of subsidy allocated, the following Public, Merit and Private categories will be used to identify the level of community/public or individual/private benefit a user receives:

#### **a. Public Services**

Public services are core services and provide all users the same level of benefit and can be accessed by the broadest cross section of the population so they receive the highest subsidy levels. Examples of public services include clean and accessible public community centers and park amenities, trails and neighborhood programs.

#### **b. Merit Services**

Merit services provide both a benefit to the community and to the individual. These programs should follow a cost sharing model between subsidy and a fee to the customer. Some portion of the cost of service should be supported by the user thus lowering the general fund contribution. Examples of merit services include swim lessons, and after-school programs for youth.

#### **c. Private Services**

Private services provide a benefit to the individual, are typically specialized and provide minimal to no benefit to the community. These services should receive a minimal subsidization (if any) and the fee to participate is the responsibility of the user/customer. Examples of private services include facility rentals, contract class, adult sports, and private swim lessons.

2. Calculate Cost of Service

The Human Services and Recreation Department will begin collecting cost of service data to determine the actual cost per unit of specific service types including direct and indirect costs. Direct costs are exclusively attributed to a program or service and include salaries for staff directly providing the service, supplies and materials. Indirect costs are attributed to more than one program and can include supervisor salaries, maintenance, utilities, leases, marketing expenses, registration software licensing, equipment replacement, and technology.

Typically the Department has not evaluated the full direct cost for delivering a service. Over the first year of implementation, the Department will evaluate its cost centers and resource allocation to ensure direct costs associated with staff time are properly allocated to the programs, along with other related operating charges.

3. Determine Cost Recovery Goals

The Human Services and Recreation Department shall set targets for the recovery of program costs through the collection of user fees. Targets will be expressed as a percentage of the overall program budget the Department intends to recover. Cost recovery goals should align with public, merit and private service categories and reflect the level of community/public and individual/private benefit received. Cost recovery goals shall be reviewed annually with consideration of the City's overall operating budget. In the first year of implementation, the overall cost recovery goal for the Department is 20% in comparison to the Department's current cost recovery rate of 10%. Revenues in excess of the cost recovery goal of 20% will be directed to the Passport to Fun Program, Recreation Maintenance Fund and Department's Capital Improvement Fund as specified in the pricing strategy.

4. Passport to Fun Scholarship Program

The Human Services & Recreation Department is proud to introduce the proposed Pasadena Passport to Fun Youth Scholarship Program that will enable individuals to participate in recreational programs city-wide. This program is designed to provide financial assistance to individuals who would not have had the opportunity to participate. The City recognizes the value of providing opportunities to individuals to participate in recreational activities, community events, youth sports and enrichment programs that benefit the community and its residents. The Passport to Fun Scholarship Program is designed to assist individuals and families with monetary assistance to subsidize the financial requirements of the program(s) and the total amount of annual scholarship funds needed in Fiscal Year 2012 was approximately \$537,000. For the summer day camps and After School Program, these funds are budgeted in FY 2012-13 and will be offset by the general fund. The remaining funds necessary for scholarships in the first year, approximately \$50,000, will be generated through fundraisers and grants from agencies such as LA84 and the Parks and Recreation Foundation. Proposed recreation fees have been budgeted at the low end so the program can grow modestly and fees will continue to remain relatively low over the next four years. As the fees incrementally increase in Year Two, the balance of the scholarship program is intended to increase with 5% of revenue set-aside from recreation programs, offset by the general fund as in

the case of the After School Program and summer day camps, and fund-raised through charitable contributions.

The pricing strategy recommendations include a three tier pricing structure. The Third-Tier is full pricing, the Second-Tier is a 50% reduced priced based on the participant's needs, and the First-Tier is near-free pricing for those that need the greatest assistance. The 50% scholarship is the current practice for programs and will remain consistent with the recommendations. The practice keeps the prices the same for residents who need and use these programs more. Eligibility for the First-Tier and Second-Tier pricing is based on the Passport to Fun Youth Scholarships Program. The Passport to Fun program details are presented in Section 5.2 in the Pricing Policy report and the program will continue to expand recreational opportunities by extending the benefit to recreation classes.

#### 5. Create Revenue Strategies

The Human Services and Recreation Department shall use a variety of methods to generate revenue to offset the general fund subsidy for recreation programs and services. These methods shall include created income, partnerships and differential pricing methods.

#### Alternative Income Strategies

To support the operating costs of the Department and to meet cost recovery goals that cannot be achieved solely by pricing of services, the Human Services and Recreation Department will implement created income strategies that include but are not limited to sponsorships and partnerships.

#### Partnerships

Partnerships with private and public entities are vital to enhance service levels and to keep program fees affordable to residents. The Human Services and Recreation Department will continue to cultivate existing relationships and employ new partnerships with volunteers, the school district and community-based organizations to minimize program fees as appropriate. Such partnerships currently include working with LA84 to provide \$10,000 in scholarships to ensure all youth have access to swim lessons. The City's partnership with the Tom Sawyer Camp provides for youth scholarships as well.

#### Differential Pricing Methods

The Human Services and Recreation Department intends to implement an assortment of pricing methods to increase customer options and maximize facility and program capacity. Differential pricing methods will maximize facility usage and encourage users to move to options that best accommodate their schedules and price points. Pricing methods may include pricing by weekend/weekday rates, price based upon length of stay, price by amenity and incentive pricing. The pricing of programs, services and facilities shall be continuously reviewed and adjusted to accommodate changes in operations and maintenance costs and the marketplace by the Department. Staff is

currently reviewing facility rental fees and associated use policies for future consideration.

#### Special Note on the After School Program

In Fiscal Year 2013, the City's After School Program will continue to provide over 1,000 Pasadena Unified School District (PUSD) students with a safe and fun environment at 12 PUSD elementary school sites. Although the program's fee structure will be modified to reflect a weekly rate rather than a semester-based rate in FY13, all interested students and families will be enrolled in the program regardless of whether or not they can afford to pay requisite program fees through a combination of available scholarships and discounts, and based on space availability. Additionally, the new program fee structure will ensure that the After School Program is better positioned to rely less on the City's General Fund as a subsidy and more on an enterprise fund structure whereby revenues generated by the program are in turn reinvested back into the program to supplement personnel obligations and supply costs. The General Fund will provide direct support to After School Program Passport to Fun Scholarship recipients. There will be no dollar amount cap on the Passport to Fun users of the City's After School Program services and the City's summer day camp programs.

#### PUBLIC OUTREACH:

Staff conducted three (3) community meetings to review the proposed policy, pricing methods and Passport to Fun Pass. All After School Program families were provided written notice in English/Spanish of the fee changes coming forward and invited to either attend a community meeting or email staff for additional information. The same notice was emailed to the City's 24,000 residents registered as recreation users.

#### ENVIRONMENTAL ANALYSIS:

The proposed amendment to the General Fee Schedule to adjust fees for Human Services & Recreation programs and services has been determined to be statutorily exempt from CEQA per Section 15273 (Rates, Tolls, Fares, and Charges). Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing services areas, or
5. Obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter.

The proposed amendment to the General Fee Schedule is an administrative function that meets requirements 1 and 5 of the statutory exemption as listed above.

Further, the proposed amendment to the General Fee Schedule does not commit the City of Pasadena to a definitive course of action and no construction activities will be undertaken pursuant to this amendment. Accordingly, this amendment is also exempt from the California Environmental Quality Act pursuant to State CEQA Guidelines Section 15061(b)(3); the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

**FISCAL IMPACT:**

In FY 2012-13, the recommended budget for the Human Services & Recreation Department is \$8,924,751 with regards to general fund budgeted expenses and \$1,537,500 in anticipated revenue for the general fund. The total budget expenses include both human services and recreation programs and the cost recovery model only contemplates recreation programs as human services is not assigned any cost recovery goals. Approximately 89% of the Department's budget supports facilities operation and recreation programs, which is \$7,928,857. Should the City Council adopt the pricing strategy and fee schedule, the Human Services and Recreation Department anticipates moving to 20% cost recovery within the first year of the proposed pricing plan.

If approved by the City Council, the proposed fee revisions will go into effect April 12, 2012, with the exception of After School Program and social service fees. The Department will provide quarterly budget analysis of the new model and will provide a full review of the strategy with any needed revisions in the 2012-13 mid-year report. It is anticipated that these changes will generate approximately \$750,000 per year in additional revenues to multiple accounts in the General Fund. Indirect and support costs such as maintenance and IT support are anticipated to be minimal with this action.

Respectfully submitted,



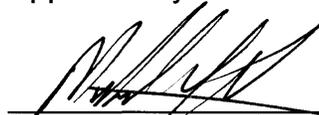
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