TO: HONORABLE CITY COUNCIL
ATTN: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: COMMUNITY SERVICES
DATE: MAY 11, 2004 CMR: 255:04
SUBJECT: COMMUNITY SERVICES DEPARTMENT FEE REDUCTION PROGRAM

This is an informational report and no Council action is required.

BACKGROUND
The Fee Reduction Program (FRP) was approved by City Council on May 30, 1996 (CMR 235:95) for the purpose of reducing fees for Community Services Department classes and programs to low-income and disabled residents of Palo Alto. There have been modifications to the program since its inception (CMRs 280:96 and 206:98). Currently, the FRP provides a 75 percent discount to city residents, City of Palo Alto employees and children enrolled in the Palo Alto Unified School District who meet the low-income guidelines established by the federal Department of Housing and Urban Development (HUD). The discount is also available to disabled residents who meet the median-income limits.

Participants are registered in the program for a one-year period and can enroll in any of Community Services Department classes or programs with the following exceptions:

- Children and Community Theatre productions
- Library services and fines
- Equipment rental and camping fees
- Community facility rentals
- Golf services

Program applicants must provide proof of residency, a City of Palo Alto employee identification card or proof of enrollment in the Palo Alto Unified School District. In addition, applicants must verify that they meet the income guidelines by providing two of the following:
• Two most current pay stubs
• A current social services award letter
• Documentation of participation in the Utility Rate Assistance Program
• The most recent tax statement

If the applicant is disabled, one of the following forms of verification must be presented:
• Documentation of participation in the Utility Rate Assistance Program
• Letter from a medical doctor or licensed psychologist
• Documentation from the California Department of Motor Vehicles

The staff cost to manage the FRP is approximately $21,500 annually. This estimate includes 0.2 FTE and related overhead allocated charges.

DISCUSSION
Total costs for the program have increased substantially, expected to exceed $200,000 in FY 2004-05, resulting in a number of programs beginning to lose money rather than recover costs.

Demographics
As of April 2004 there are 720 participants in the Fee Reduction Program. Participant breakdown is as follows:
Families: 190 (68%)
Children enrolled in Palo Alto Unified School District: 43 (15%)
Single individuals: 32 (11%)
Disabled: 5 (2%)
City of Palo Alto Employee Benefit: 11 (4%)

FRP Program Status
The program is becoming familiar to the community and participation has increased from 228 individuals enrolled in 2001 to 720 individuals enrolled in 2004 (year-to-date), which represents a 216 percent growth rate in participation over 3 years (Attachment A). As with participation, the annual City subsidy has also increased from $74,866 in 2001 to $196,185 in 2004 (year to date), which represents 162 percent growth in City subsidies over 3 years (Attachment B). Staff estimates the City subsidy for fiscal year 2004-05 to exceed $200,000.

Although Community Services Department revenue projections for fiscal year 2004-05 take into account the expected FRP subsidy, the subsidy itself is not explicitly recognized in the budget (Attachment C).
With the increasing participation and annual subsidy, several Recreation and Arts and Culture camps and classes that once recovered direct costs (i.e. instructor costs and supplies and materials) now lose money. Examples of this problem are discussed below:

**Horseback Riding Camp**
The City of Palo Alto charges $595 for a horseback riding camp. The contractor that provides the service receives 80 percent of the resident fee and the City retains 20 percent. The camp has a capacity of 10 participants. The camp has a wait list, and would likely fill with or without fee reduction participants.

Revenue: 1 participant at the full fee: $595  
Revenue: 9 participants at the FRP fee: ($595 \times 25\%) = $1,339  
Expense: contractor share: 10 \times $595 \times 80\% = $4,760

City Subsidy: revenue less expense = $(2,826)

**Individual Tennis Lessons**
The City of Palo Alto charges $135 for a 3-hour tennis lesson. The contractor that provides the service receives 80 percent of the resident fee and the City retains 20 percent.

Revenue: 1 participant at the FRP fee: ($135 \times 25\%) = $34  
Expense: contractor share: 1 \times $135 \times 80\% = $108

City Subsidy: revenue less expense = $(74)

**Individual Swim Lessons**
The City of Palo Alto charges $65 for 2 hours of lesson time. The cost of paying the instructor is, on average, $15 per hour:

Revenue: 1 participant at the FRP fee: ($65 \times 25\%) = $16  
Expense: instructor hourly rate: $15 \text{ per hour} \times 2 \text{ hours} = $30

City Subsidy: revenue less expense = $(13)

Staff increased class fees to help offset the FRP subsidy, however when the FRP participants are greater than 15 percent for a specific program, raising the fees sufficiently to cover the subsidy will price the program out of the market and enrollment will drop.

Staff has also observed that a relatively small number of participants are benefiting from a majority of the subsidy. The high level FRP users are families and most of the registrations are for children. On average, children enrolled in the FRP register for 3 to 6 programs annually. High-level users register for 13 to 16 programs annually. This frequently includes summer camps for the entire summer, i.e. 8 to 10 weeks. Several families receive $4,000 to $7,000 in annual subsidies. The current FRP policy does not limit the number of programs one can enroll in or cap the annual dollar subsidy for participants.
The following is a list of frequent programs high-level FRP users are registering for:

<table>
<thead>
<tr>
<th>Program</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horsemanship camp</td>
<td>$595</td>
</tr>
<tr>
<td>Windsurfing and sailing camp</td>
<td>$355</td>
</tr>
<tr>
<td>Foothills day camp</td>
<td>$275</td>
</tr>
<tr>
<td>Science camp</td>
<td>$235</td>
</tr>
<tr>
<td>Kinderschool</td>
<td>$186</td>
</tr>
<tr>
<td>Private tennis lessons</td>
<td>$135</td>
</tr>
<tr>
<td>Golf clinics</td>
<td>$125</td>
</tr>
<tr>
<td>Art camps</td>
<td>$121</td>
</tr>
<tr>
<td>Private swim lessons</td>
<td>$65</td>
</tr>
</tbody>
</table>

Also, because confirming household income and total household members is difficult, staff relies to a large degree on the applicant’s word that the information provided in the application process is accurate.

**RESOURCE IMPACT**
The resource impact as mentioned in the discussion above is the reduced potential revenues to offset (or subsidize) the cost of providing fee-based Community Services programs. The reduced potential revenues are expected to exceed $200,000 in fiscal year 2004-05.

**POLICY IMPLICATIONS**
The budget impact of the FRP and the challenges staff faces in managing the program is offset by the fact that the FRP is a valuable program that allows many low-income and disabled residents to participate in CSD programs.

The Human Relations Commission (HRC) has on several occasions heard staff reports on the status of the FRP. The last report to the HRC was September 2002. Should the Finance Committee or Council recommend changes to the FRP, staff recommends the HRC be involved in evaluating alternatives.

**ENVIRONMENTAL REVIEW**
This is not a program that requires environmental review.

**ATTACHMENTS:**
- Attachment A: FRP - Participants 2001 to 2004
- Attachment B: FRP - CSD Annual Subsidy 2001 to 2004
- Attachment C: FRP - Subsidy to date by program area for fiscal year 2003-04