

**TO:** PARKS AND RECREATION COMMISSION

**FROM:** JAZMIN LEBLANC, STRATEGY AND OPERATIONS SENIOR MANAGER,  
COMMUNITY SERVICES DEPARTMENT

**AGENDA DATE:** JULY 24, 2018

**SUBJECT:** MUNICIPAL FEES IN THE COMMUNITY SERVICES DEPARTMENT

### **EXECUTIVE SUMMARY**

This document provides information on the policies and procedures that guide fee setting in the Community Services Department (CSD). It also includes the status of Audit Recommendations from the City Auditor's recent evaluation of CSD's municipal fees and cost recovery levels.

### **RECOMMENDATION**

No action to be taken.

### **BACKGROUND**

The City provides a variety of services to the public which provides a variety of services that benefit the entire community, including individual residents and local businesses. For certain services such as facility rentals, arts and science classes, and recreational activities, the City has traditionally recovered the partial or full cost for providing these services, which would have been otherwise paid from the General Fund. The Community Services Department (CSD) offers a variety of fee-based programs and services within its various divisions. CSD's fee-based programs must adhere to the City's User Fee Cost Recovery Level Policy which was adopted by the City Council on May 18, 2015 ([CMR #5735](#)).

The City's Cost Recovery Level Policy directs staff to set municipal fees to recover a portion or all of the cost of activities with the following considerations:

1. *Community-wide vs. Private Benefit:* Does it benefit specific people or businesses or does it provide a community-wide benefit?
2. *Service Recipient vs. Community Benefit:* Is it a regulated activity, such as an activity requiring police issued permits or development review that will mainly benefit individual service recipients?
3. *Consistency with City Goals and Policies:* Will the cost to residents encourage or discourage an action that the City Council has prioritized such as healthy habits and environmental stewardship?

4. *Elasticity of Demand for Services:* If the City will significantly impact demand by adjusting the price of a service, staff should consider that when making price adjustments.
5. *Availability of Services from the Private Sector:* When services are also available from other sources, a high cost recovery level is typically sought to preserve City funds for other uses.

Given these policy considerations, the Cost Recovery Level Policy includes the following table outlining cost recovery goals:

The three **Cost Recovery Groups** are:

Cost Recovery Level Group	Cost Recovery Percentage Range	Policy Considerations
Low	0% - 30%	<ul style="list-style-type: none"> <li>• No intended relationship between the amount paid and the benefit received</li> <li>• Fee collection would not be cost effective and/or would discourage compliance with regulatory requirements</li> <li>• No intent to limit the use of the service</li> <li>• Public at large benefits even if they are not the direct users of the service</li> <li>• Affordability of service to low-income residents</li> <li>• The service is heavily supported through donations</li> </ul>
Medium	30.1% - 70%	<ul style="list-style-type: none"> <li>• Services which promote healthy activities and educational enrichment to the community</li> <li>• Services having factors associated with the low and high cost recovery levels</li> </ul>
High	70.1% +	<ul style="list-style-type: none"> <li>• Individual users or participants receive most or all of the benefit of the service</li> <li>• Other private or public sector alternatives provide the service</li> <li>• The use of the service is specifically discouraged</li> <li>• The service is regulatory in nature</li> </ul>

## DISCUSSION

Palo Alto’s Community Services Department is committed to providing a wide variety of high quality programs and services for all residents. CSD offers activities that promote positive community values such as:

- Lifelong learning
- Health and a sense of well being
- A sense of community
- Respect for the natural environment

Palo Alto residents have made significant investments in our parks and facilities. As a department, CSD is responsible for protecting these investments through sustainable operations

and maintenance practices, which includes the collection of fees to reduce the department’s reliance on the City’s General Fund.

Participation in CSD’s programs provides community-wide and private benefits. Personal benefits include: an increased a sense of wellbeing, lifelong learning, and enjoyment. Community benefits include: increased community involvement and cooperation, a more attractive location for businesses and their employees, better educated and more responsible youth, improved public safety and health, stronger and more cohesive neighborhoods, and greater respect for the environment. As such, CSD’s programs and services are supported by a blend of participant fees and taxpayer funding.

Generally, CSD’s programs and services will fall into categories as outlined below:

<b>Cost Recovery Level Group</b>	<b>Programs and Services</b>
Low	<ul style="list-style-type: none"> <li>• Special Events</li> <li>• Programs targeted at low-income or special needs populations</li> <li>• Human Services programs</li> <li>• Programs supported by Friends groups</li> <li>• Facility rentals by non-profit partners</li> <li>• Classes aimed at teaching an essential life-skill or a skill aimed at increasing safety, such bike safety</li> <li>• Programs aimed at decreasing teen stress such as participating in the Mitchell Park Teen Center</li> </ul>
Medium	<ul style="list-style-type: none"> <li>• Group classes, camps and workshops</li> <li>• Sports league registrations</li> <li>• Field and facility rentals for programs providing services to majority Palo Alto residents</li> </ul>
High	<ul style="list-style-type: none"> <li>• Private lessons</li> <li>• Facility rentals for private events</li> </ul>

CSD’s Administration, together with program staff, evaluates programs and services several times each year. Revenue targets and cost recovery levels are included in program reviews.

## **Non-Resident Pricing**

Approximately 20 percent of CSD's class and camp participants are not residents of Palo Alto. CSD currently charges non-residents a 15 percent premium to participate in classes and camps and a 15 to 50+ percent premium to book facility rentals depending on the location and date. Many, but not all, neighboring communities charge non-residents a premium to participate in recreational programming and for facility rentals. When premiums exist, they are typically set at 15 to 25 percent.

It is important to recognize that non-residents have alternatives to participating in CSD's programs, and therefore, CSD cannot charge prices beyond what the market will bear. It is also important to recognize that residents support CSD's programs and facilities through ongoing General Fund contributions and should be prioritized above non-residents whenever possible. CSD prioritizes residents by both offering lower prices to residents and by offering residents the opportunity to book programs before non-residents. The non-resident premiums that CSD currently utilizes aim to increase cost recovery levels, while still maintaining prices that will attract non-residents to programs with space available.

## **Fee Reduction Program**

Since 1996, the City has provided a Fee Reduction Program for low income and disabled residents of Palo Alto to reduce the cost of CSD classes, camps, community garden fees and other programs. There have been several modifications to the program since its inception; until July 1<sup>st</sup> of this year, that included a limitation in the program's scope to cover only low-income children and seniors but not low-income adults.

The program for disabled residents and low-income youth and seniors currently provides a 25 or 50 percent fee reduction per eligible person per year with a \$300 per year subsidy cap. The reduction amount varies based on the eligible person's income level; lower income residents receive a higher fee reduction. In Fiscal Year (FY) 2018-19, CSD is testing a fee reduction program for low income adults as well. Low-income adults will be limited to a subsidy cap of \$150 per year in FY 2018-19. This subsidy cap will allow CSD to minimize the potential financial impact of this program as staff assess the demand for this program.

Over the past several years, the fee reduction program has had a financial impact of approximately \$25,500 per year. Staff anticipates that expanding the program to include low income adults in FY 2018-19, may increase the impact by about \$10,000 to approximately \$35,500 per year. In typical years, approximately 300 residents participate in the program, with approximately 80 percent of program participants qualifying for the very-low income discount of 50 percent off all fees. On average, participants receive a subsidy total of approximately \$90 per year.

Starting here is where it doesn't transition well. It might help if you do a longer executive summary guiding the reader through the purpose of this document. For someone who isn't familiar, it may draw the question of why are you bringing in the audit when you are talking about how we set muni fees.

## **Municipal Fee Schedule**

CSD presents municipal fee changes to the City Council for approval through the City's the City's Municipal Fee Schedule, which is adopted by City Council each fiscal year. Typically, City staff recommends that each fee in the schedule increase by the City's anticipated average cost increase to deliver the service. This level of fee increase should maintain the cost recovery level for each fee. In FY 2019, most CSD fees increased by 2.6% which was the average increase of salaries and benefits for FY 2019.

One new fee was added in 2019, this was the Corporate Event Fee. CSD staff reviewed facility rental policies and rates to ensure that largely "private-benefit" events with exclusive facility usage for long periods of time will more than fully recover the cost of their rental. Their usage does limit the ability of the community at large to use City facilities. The new corporate rate fee ranges from \$4,000 to \$8,000 per day, in addition to the normal facility rental fees which will also be applied. The range is assessed based on the size and duration of the rental.

Several other fees were adjusted by more than 2.6% including community garden plots, golf course green fees, and picnic reservations at Foothills Park. These fees were increased based on reviews of competitor programs/facilities and in the case of community gardens, rising potable water costs. The full list of CSD Adopted FY 2018 Municipal Fees is attached as Appendix A to this report and the list of FY 2019 changes is included in [CMR #9210](#).

## **Cost Recovery Audit Recommendations**

The City Auditor's Office issued an audit, the Community Services Department (CSD) Fee Schedule Audit on February 14, 2017, which included a review of CSD's procedures around municipal fee setting. The full audit report can be found here: <https://www.cityofpaloalto.org/civicax/filebank/documents/55243>. The audit objective was to determine if department fees cover the cost of services to ensure:

- Financial sustainability of CSD programs;
- Customers pay the appropriate share of service costs, including direct costs and the indirect cost rate related to the service;
- City programs are subsidized in accordance with the City's cost recovery policy and that the financial impact of subsidies on total cost recovery is clear.

The City Auditor made three recommendations to strengthen the department's cost recovery procedures and processes for monitoring program costs. The key recommendations were:

1. The City Manager's Office should coordinate with the City Attorney's Office and the Administrative Services Department to revise the City's cost recovery policy and Questica budget system procedures to clarify which fees are not subject to laws limiting fees to cost recovery.
2. CSD should create a procedure to implement the City's User Fee Cost Recovery Level Policy and incorporate relevant and useful elements from its existing "Class Cost Recovery Policy," which can then be rescinded.
3. CSD should work with the Administrative Services Department (ASD) and the Information Technology Department to configure SAP or include a requirement for the proposed new enterprise resource planning system to align cost centers with CSD programs.

CSD has already completed the tasks suggested in Recommendation #2 and has begun implementing the tasks in Recommendations #1 and #3. Staff anticipate that this fall, the CMO will bring an updated Cost Recovery Level Policy forward for Council adoption and will update budget system procedures which should complete the tasks in Recommendation #1. Staff will also continue the task of cost realignment within CSD's cost centers which should complete the tasks in Recommendation #3.

## **CONCLUSION**

There are a variety of policies and procedures that guide CSD in setting and evaluating department fees. Staff assess program fees regularly to ensure that they continue to meet policy and procedural requirements and approved Council direction. CSD also has the ability to reduce fees for low-income and disabled community members to expand program accessibility throughout the community.