City Manager's Work Group on Recreation Financing

Report to the City Manager

April 30, 2008

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Work Group members

Todd Bryan, PRAB, aquatics, non-profits
Joel Davidow, PRAB
Dan Fremont, Aquateens
Murl Hendrickson, golf
Dan King, private business
Betsey Martens, Boulder Housing Authority
Francie Reel, pottery lab
Rod Tarullo, Director of Parks and Recreation, Golden
Billie Torrance, adult sports
Jayne Weber, EXPAND
(Originally included Dan Burns, youth softball, and Mark Yost, municipal finance)

City of Boulder staff project team

Jan Geden, Parks and Recreation Direction, project manager
Abbie Novak, Business and Finance Manager
Sarah DeSouza, Policy and Information Services Manager
Jamie Sabbach/Teri Olander, Recreation Superintendent
Jim Reasor, Budget Analysis Manager

Consultant

Joann Roberts Stacy, process facilitator

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Executive Summary

Following the adoption of the Parks and Recreation Master Plan, the City Manager appointed a group of citizens to make recommendations to him regarding the pricing policy and methodology and the funding structure for recreation programs and services. Two studies by outside experts were commissioned to assist the group. The group met from September 2007 through March 2008 and is providing its recommendations in this report. The group intends through these recommendations to provide a framework for the long term sustainability of the city's recreation programs.

The work group chose to provide advice in the following areas of recreation financing: program costing, cost recovery policy and fund methodology. Most members of the group found that many of the department's current practices are sound. Recreation revenues and expenses are accounted for in a manner that makes accounting and legal sense, though the system is not easily understood by recreation users and the community. Almost all of the work group members thought the current cost recovery model was conceptually sound. The group considered alternative models but ultimately preferred to build on the existing model by remedying its weaknesses. The group found that the Recreation Activity Fund has been a good vehicle to manage fluctuating funding levels for recreation and recommended that the department use the fund even more consistently as the gateway through which recreation revenues and expenses flow.

A key theme that runs throughout the work group's recommendations is a call for increased transparency, or making processes clearer and easier for the community to understand. In the area of program costing, the group found it difficult to know the true cost of programs due to the lack of clarity in which sources of funds are associated with which expenditures. The group recommended three actions to improve transparency in this area. The work group found that the cost recovery model was a sound base to work from but that the method of placing programs into cost recovery categories was not documented or clearly explainable. In its report, the work group provides a revised cost recovery model as well as recommendations for an analytical approach to assigning programs to cost recovery categories and goals. While the revenues and expenses are all accounted for, the monies are mingled in several different funds, sometimes with some revenues for a program flowing into one fund and the related expenses flowing out another. The current fund methodology is complex, making it difficult to discern the cost of programs and to communicate issues to policy makers and constituents. The work group provides eight suggestions to improve transparency and the sustainability of recreation programs.

The process

In response to public comment on the Parks and Recreation master plan, the City Manager appointed a citizen group representing a variety of interests to review the City of Boulder's recreation financing policies and to advise him on these issues. Staff solicited suggestions of individuals representing recreation stakeholders at every cost recovery level, for-profit and non-profit facility users, and people with relevant financial, economic, professional and community expertise. Ultimately sixty-seven names were proposed by the Parks and Recreation Advisory Board (PRAB), the recreation management team and the parks and recreation administration staff. Initially the PRAB selected two individuals from their board to serve on the work group. Staff worked with those two appointees to create a matrix of names with a variety of skills and interests to recommend to the City Manager. The goal was to create a reasonable cross-section of program participants, people with professional expertise and community stakeholders.

A group of twelve community members ultimately accepted appointments to serve on the City Manager's Work Group on Recreation Financing. With some attrition, a group of ten met once a month from September through December of 2007 to receive information from city staff and to pose question on city-wide and recreation specific financing issues. The specific topics the group explored are listed below.

In January 2008, the work group received presentations and consulting reports which provided outside perspective. The firm of Clifton Gunderson, LLP was contracted to analyze the purpose and functioning of the Recreation Activity Fund. This report is found in the consultants' reports section. Dr. Daniel McLean, Ph.D., chair of the Department of Recreation and Sport Management at the University of Nevada at Las Vegas, was selected to survey selected cities and current literature regarding best practices in recreation cost recovery and pricing. This report is also found in the consultants' reports section at the end of this document.

Presentation topics

September 19 – Frank Bruno, City Manager; Jan Geden, Parks and Recreation Director

The problem, the work group's objective

- Group connection and work planning
- Manager's overview of the problem
- Receiving the City Manager's direction for the work group
- Overview of the Parks and Recreation Department

October 18 - Jamie Sabbach, Recreation Superintendent

Recreation financing, past and present

- Background on the field of recreation
- Recreation finances & operations
- Parks and Recreation master plan
- Core services business model

November 13 – Kathy McGuire, Budget Officer; Kevin Burke, Deputy City Manager
City-wide policies and directions

- City-wide user fee guidelines
- City of Boulder business plan
- Community sustainability guidelines
- Blue Ribbon Commission work

December 11 – Abbie Novak, Business and Finance Manager
Boulder's rate-setting methodology

- Facility costing
- Cost recovery
- Pricing methodology

January 9 – Jason Carroll of Clifton Gunderson, LLP
Recreation Activity Fund Analysis (RAF)

- Define the programs/activities of the RAF
- Define the original purpose and structure of the fund
- Determine whether the RAF has performed as intended
- Analyze unintended consequences
- Determine whether the RAF is a sustainable way to fund recreation in future
- Provide recommendations and options

January 22 – Dr. Daniel McLean Ph.D., Department of Recreation and Sport Management, U.N.L.V.
Benchmarking Study

- Comparison of Boulder to selected cities (pricing policies, pricing methodologies, cost recovery models, funding sources)
- Literature review
- Analysis of data

In addition to the presentations and related materials provided during meetings, the work group reviewed numerous materials on practices in other cities, professional articles and scholarly studies. A list of those materials is provided in Appendix A.

In February and March of 2008, the full work group met four times and subcommittees met six times to draw conclusions from the information provided. While the work group had engaged in several discussions and the subcommittees had provided comprehensive proposals to the work group, all of the decisions about recommendations to exclude or include in the report were made in one final lengthy session at which seven members were present. Two absent members weighed in by e-mail.

The work group developed broad consensus on most points articulated in this report, with one or two members dissenting on each recommendation. In addition to preparing recommendations on program costing, cost recovery and fund methodology, the group also brainstormed some issues related to pricing but did not try to reach conclusions. As this information is oriented toward policy implementation, it may be helpful to the City Manager or Parks and Recreation staff and is included in Appendix E. In Appendix F, the City Manager will find any minority opinions that members of the group prepared.

Project objectives

At the outset of the project, the City Manager gave the work group its charge, asking that they consider not only the recreation interests they know best but also those of the entire recreation community. He stated the objective and scope of work of the group as follows:

> **Objective:** To make recommendations to the City Manager regarding the pricing policy and methodology and the funding structure for recreation programs and services
>
> **Scope of Work:**
> Parks and Recreation's pricing policy and methodology
>   Is it a good fit for Boulder? Does it need some changes? Do we need a new model?
> Parks and Recreation's financing structure
>   Should we recommend any changes to the Recreation Activity Fund (RAF)?

Recommendations

The work group conceptualized the framework in Figure 1 for the recreation financing policy areas it would analyze. Other key areas of the recreation process such as programming, pricing and managing, were considered to be primarily staff functions. The work group tried to hold its focus on policy level questions.

Figure 1

Costing programs	Cost recovery	Fund methodology
Policies for how costs are allocated to programs and facilities to calculate the total cost	Criteria that direct placement of programs into the cost recovery model and determine cost recovery goals	Guidance for aggregating the sources and uses of funds appropriately for the types of funds selected

The work group focused its energies within a limited timeframe, striving to complete the recommendations to the City Manager in time for consideration in the 2009 budget process. By using subcommittees to craft proposals and the full group to make decisions, the work group was able to reach majority agreement on recommendations in the three areas of costing, cost recovery and fund methodology. The work group's intent is to provide a framework for the long term sustainability of its programs.

I. Costing programs

The group believes that the first step in recreation financing is awareness of the total cost of programs, classes, facilities and drop-in activities. Whether one is determining how to offset program costs with general tax subsidy, determining whether a facility could be self-supporting or making decisions about the financial viability of programs, the starting point is to calculate the total cost of offering each service. An important corollary is to attribute revenues in a reasonably accurate manner to programs in order to evaluate their viability and appropriate user fees.

A. Determine the true cost of programs

The group recommends that the department determine the true cost of all recreation programs and activities. This is the continuation of an effort already underway, but the recommendations will likely require additional accounting and administrative changes. This work will be time consuming and may bring to light questions about the financial viability of some programs. The group believes that this effort should be completed within the next two years. It is essential that the department then update the program costing periodically as costs change.

The Parks and Recreation department has, in recent years, made progress in determining the cost of programs, an essential precursor to making sound decisions about setting fees. The department appears to have good systems to identify costs incurred to conduct a specific program (instructors, supplies, etc). In its recent effort to develop fees that are more cost-based, the department has focused on determining facility costs and allocating them to the program level. The department has also clarified those recreation division costs that should be attributed to individual programs.

Figure 2 below provides an overview of the major groups of costs. The department has efforts either completed or underway to allocate to recreation programs those costs in the area shaded green. The remaining indirect costs are not currently being allocated at the program level.

Figure 2

Total cost of recreation programs/activities				
Direct costs		Indirect costs		
Fixed	Variable	Division	Department	City-wide
Program staff (instructors, etc)	Supplies	Recreation admin.	Department head	Insurance
Facility usage		Technology support	Department administration	Technology
Program administration staff		Customer service team	PRAB support	HR, budget
		Registration		Finance, purchasing, accounting
		Marketing & promotions		Internal audit

To achieve the goal of determining the true cost of programs, the group recommends that the department first complete any work necessary to accurately calculate direct program costs and to associate them with the appropriate programs. This could include costs such as ball field maintenance and recreation facility maintenance costs that are not currently budgeted in the Recreation Activity Fund (RAF).

Once this is accomplished, the department should establish cost allocation rates and methods to allocate departmental and city-wide indirect costs to the recreation division and to specific programs. The work group recommends that efficiency be a primary goal. Where documented data do not exist and would not be cost effective to gather, the department should use reasonable estimating methods to determine how to allocate costs and revenues. Since the city currently uses a cost allocation process to charge city-wide indirect costs to most restricted funds, this process could also be used to identify the RAF's city-wide indirect costs. To assess departmental indirect costs, a similar cost allocation process could be used or the department could decide to transfer to the RAF both a reasonable estimate of costs and the corresponding revenue.

The group recommends that care be taken not to expend a greater level of effort to allocate costs accurately than is warranted by its impact on fees. The department should start with reasonable estimates and refine the allocation proportions over time. Transparency is also a key issue, as the department should clearly communicate the basis for making any estimates.

In addition to clarifying the direct and indirect program costs, the department should review its allocation of revenues at the program level. For example, staff should estimate a reasonable amount of revenue from drop-in users to be attributed to cost centers, such as the pool and weight room. The goal is to ensure that both the costs and fee revenues attributable to each program area are accurately captured and accounted for.

B. Consolidate costs and revenues

In order to facilitate costing recreation programs, all expenses and revenues related to recreation operations and maintenance should be accounted for in a single fund. Currently, these expenses and revenues flow into and from a variety of different funds. The intent of having all funding streams and expenses flow through a single gateway is to consolidate financial information and increase transparency and understanding of the full cost to the community. This change would provide clarity in determining total program costs as well as making all of the involved costs and revenues more visible. This work is discussed further in the fund methodology section.

Two specific issues worthy of note are as follows:

a. Most or all of the costs in the un-shaded area of Figure 2 above are either currently budgeted in the General Fund portion of the department's budget, or are city-wide indirect costs not generally charged to the department. The funding that currently underwrites these departmental and city-wide indirect costs should be transferred into the RAF when the costs are allocated. In other words, the General Fund transfer to the RAF should be increased by the amount of indirect costs charged to the RAF in order to keep it "whole."

b. To facilitate capturing the expenses to calculate the true cost of programs, it would make sense to transfer from the .15 and .25 sales tax funds to the RAF all recreation operating revenues and expenses. Although ballot restrictions may require segregation of some sources of costs into separate funds, the group recommends that in some appropriate manner, all expenses and revenues for recreation operations flow through the RAF.

C. Assess program viability

Once the true cost of programs is calculated, the department should examine revenues to understand how much of the total cost of each program is currently recovered through user fees. If necessary to get to that point, staff may have to adjust accounting structures to enable each program to be assessed on its own financial merit. Staff should evaluate what the fully burdened fee for each recreation program would have to be for it to be self-supporting without subsidization. Then by crediting those programs with the amount of subsidy designated through the cost recovery model, it will be clear what amount must be recovered through user fees to in order to make the program financially viable. The department should at that point determine which programs can be priced in the competitive market at the level necessary to recover the remaining costs.

If programs cannot attract sufficient participation or cannot recover the net level of user fees required, decisions should be made about which programs to continue and discontinue. Factors in these decisions should include the financial viability of the program, the city's civic responsibility to provide some services for some groups without recovering costs, the community's values, and judgments about the recreation businesses in which the department should be engaged.

This recommendation is in alignment with the Blue Ribbon Commission's proposed general policy stating, "Councils should consider that new services and programs can obtain funding by reducing or eliminating funding for existing services that may no longer serve public needs or may be of lower priority."

The group recommends that making decisions about those recreation businesses the City of Boulder should be in, and those it should not, should be a major focus of a Recreation Program Plan. Initiating an effort to create this plan is one of the goals set in the Parks and Recreation Master Plan. As program demand and financial viability become clearer through this plan, the department should provide information to the community so that people can understand the basis for decisions to continue activities, to offer new programs or to discontinue services. The work group is clear that some recreation users will disagree with the outcomes of this process. But the logic used to make the decisions should be clear to them.

II. Cost recovery

The purpose of a cost recovery model is to determine the proportion of program costs that should be built into user fees and the proportion of program costs that should be subsidized through general taxation. In the City of Boulder, this subsidy takes the form of a transfer from the General Fund to the RAF. The amount of this subsidy was set as an absolute dollar amount when the RAF was first formed in 2001 and has since been inflated annually. Occasionally when some budgeted expenses are moved between funds, one-time changes to the amount of the transfer occur.

While the General Fund pays several overhead expenses directly, such as for Parks and Recreation department administration, the amount of General Fund money provided to subsidize recreation programs is currently approximately $1.7 million annually. As an average across all recreation programs, this amount represents less than 20 percent of the costs currently accounted for in the RAF.

In the Parks and Recreation master planning process, the department created a system to determine the amount of tax subsidy that should offset a portion of the cost of programs. This system was called the Core Services Business Model (CSBM). Most of the members of the City Manager's Work Group on Recreation Financing feel that the CSBM is a fundamentally sound structure for making such decisions but a critical concern with the model is its lack of transparency. In other words, while the descriptions of the categories are fairly clear, the rationale for how individual programs are slotted into the categories is unclear. Although staff may have based the categorization decisions on logic that seemed clear and consistent to them, that logic was not documented and could not be explained clearly.

Concerns with how recreation programs sponsored by organizations other than Parks and Recreation were slotted into the model's categories were a major impetus for forming the City Manager's Work Group on Recreation Financing. This was also a frequent topic of discussion in the work group. The current CSBM considers the use of recreation facilities by outside groups as "rentals" and places all such programs in the highest cost recovery category, thereby receiving no tax subsidy. A significant amount of deliberation was invested in determining whether non-profit recreation organizations should receive tax subsidies on the same basis as programs sponsored by the City of Boulder.

Intent

With these concerns in mind, the work group set out to modify the cost recovery model with the following intent.

- To build on the base of the current Core Services Business Model, with improvements that strengthen and clarify it.
- To create a more transparent system for placing programs into cost recovery categories and setting cost recovery goals that can be documented, communicated, reviewed and understood by the community.

- To translate community values around tax subsidies for recreation programs into distinctions between programs and to embody those distinctions in analytical criteria.
- To achieve a clear and dynamic approach to cost recovery that is applied consistently to recreation programs and activities.
- To provide a conceptual example of an empirical tool to place programs into cost recovery categories and to determine how much tax subsidy each program should receive.

To achieve these goals, a majority of the members of the work group supported continuing the use of the current five-tier model, with the same category labels (basic, merit, enhanced, specialized and enterprise-like). Likewise most of the existing cost recovery ranges for each category were retained. The work group learned from the benchmarking report that similar systems, even category labels, are common in comparable cities. The work group, however, proposed significant changes to some aspects of the CSBM that are explained in the following sections. To assist the City Manager in comparing the current and proposed approaches, information on the CSBM adopted with the Parks and Recreation master plan is included in Appendix B.

Guiding Principles

The City Manager's Work Group on Recreation Financing believes that the department should aspire to achieve the following principles as it continues to develop and implement its cost recovery model. These are ideals to strive for, as opposed to requirements that must be met without exception and immediately.

A. Cost recovery criteria should be applied to programs or activities, not to facilities. Facility costs should be paid through the fees charged for and subsidies allocated to programs that use those facilities.

B. Once the full cost of programs is known, fees for programs in the basic, merit and enhanced categories should generally be set at the lowest level within the designated cost recovery range that still meets budgetary constraints, as these programs represent the core civic functions of a municipal government. Costs to users in these categories should be set as low as possible to encourage participation, to build motivation and to promote the life-long love of healthy activities.

C. Programs in the specialized and enterprise categories often compete in the open market of recreation services and, once the full cost of programs is known, fees should be set to meet or exceed cost recovery goals. Where the market will support it, programs in these categories are intended to produce the highest practical level of revenue in order to support their own costs as well as other programs.

D. Community benefit is an important principle in setting cost recovery goals for each program. The cost recovery model should designate subsidy levels based on a continuum of community benefit, e.g., with families and youth receiving more subsidy than adults, building basic skills receiving more subsidy than sharpening competitive skills, with benefiting large portions of the community being more subsidized than individualized benefit, meeting the needs of the under-served more highly subsidized than serving those who are able, with subsidizing city recreation programs a higher priority than the programs of outside organizations. The model should clearly communicate the values that determine how the tax subsidy is distributed so that the City Council and the community as a whole are able to confirm that they meet the goals of the community.

E. Cost recovery goals for programs should be reviewed on a regular basis to ensure that they reflect the values of the community and the City's ability to pay. The scoring mechanism, program categorization approach and system of placing programs within the cost recovery ranges should be refined and improved over time.

F. The model provided should serve as the basis for further staff development. The proposal shows how to take key community values and translate them into an empirical tool capable of guiding staff in making judgments that can be explained to the community, can be understood even when agreement is unlikely, and is consistent across recreation activities and facility users.

Community values as subsidy criteria

The work group brainstormed the values on which it believes the community would want to base recreation financing decisions. These values are displayed in Appendix C in the original form that they were gathered from individuals then consolidated by the work group. The repetitions provide some insight into the multiple sources. But in the process of creating a cost recovery model and implementing products for the City Manager, the work group pared down those community values surrounding recreation programs to core distinctions that the group believes should guide the use of scarce tax subsidy dollars provided to recreation programs. The group struggled with the recognition that values are highly subjective. Values vary across the community and are difficult to design into objective decision criteria. The City Manager in the following sections will note a focus on supporting these community values with the tax subsidy for recreation:

Greater tax support	Less or no tax subsidy
Youth	Adults
Entry level opportunities	Advanced skill development
Families	Individuals
Access for all	Exclusive use
Under-served populations	Fully able populations
Greater community benefit	Greater individual benefit

This set of community values were not derived from the City Council's adopted user fee guidelines. The values, however, are in close alignment with concepts expressed in these guidelines

Non-profit recreation organizations

The group discussions and subcommittee sessions focused a significant amount of time on the issues of the non-profit organizations with which the department works. The city is fortunate to have over 100 non-profit groups using its recreation facilities. With the assistance of the two work group members who represented non-profit recreation organizations, the group came to understand some of the concerns of these entities. The work group developed an appreciation of the contribution to the community offered by these organizations, especially noting the enormous impact many have on the physical and emotional health of young people. These non-profit organizations benefit the social fabric of Boulder, providing opportunities not only for physical and skill development but also for social networking.

One request heard from work group members representing non-profits was for non-profit recreation organizations to be evaluated to receive tax subsidy on the same basis as programs offered by Parks and Recreation. The proposal was to create a level playing field when distributing general tax dollars across programs. While most of the work group did not agree with this approach, the group did find merit in the argument that these entities offer valuable programs that often overlap with the core mission of the department and make contributions toward many of the same community values as department programs. The group also acknowledged that non-profits make an important contribution to the social and recreational fabric of the Boulder community. They affirmed the benefit of non-profit organizations to the community.

The work group discussed that the recreation tax subsidy is primarily about creating access to recreation activities for those who might not otherwise participate due to various barriers. The group rationalized that in a resource-limited environment, the city must choose to subsidize some activities and not others. Most believed that the city should primarily subsidize that part of the community that has limited access to recreation services and programs rather than those sectors where access and motivation are already strong. For example, it was stated in the group discussion that, in the absence of adequate money to do it all, the city should focus general taxation dollars on "learning somersaults and swimming one lap" rather than on "perfecting flips and swimming competitively."

The recommended cost recovery model places the non-profit programs in the enterprise-like tier of the model, meaning that these organizations are asked to pay 100 percent of their costs (mainly facility usage, as no overhead expenses or direct program expenses are incurred). The majority of the work group did not agree that the programs non-profit organizations provide would otherwise be offered by the city. It did not seem certain to most of the work group that non-profit recreation organizations are relieving the department of the cost burden of offering these types of programs. As a result, a majority of the group did not find it compelling that the city should subsidize the non-profits with general taxation dollars, while programs the city offers must compete for a finite amount of tax subsidy, be evaluated for financial viability and possibly be discontinued.

Cost recovery model and scoring matrix

The revised core services business model crafted by the work group is presented as Figure 3. While other approaches were drafted and discussed by the work group, this iteration received the most support as it is based on the existing model, with proposals to remedy some of its weaknesses. The recommended criteria for determining the cost recovery category for each program is based on very subjective concepts. The revised model uses some principles from the Parks and Recreation Master Plan and some values that the work group believes a large portion of the community supports. The group was clear that any system that provides tax subsidy to some programs but not to others, which benefits some in the community more than others, will never be supported by all. Objections about the subjectivity of any model should be anticipated.

The work group did not find that it was within their scope of work to refine the cost recovery model, to design the details of the scoring matrix nor to validate that the current General Fund contribution of tax monies to the Recreation Activity Fund is sufficient to fund the outcomes of the system proposed. The group also did not wish to spend several more months to complete these tasks. The City Manager will find that the work group's products address a conceptual and policy level, leaving many months of work to be completed by staff. The proposed processes and tools will need to be refined by staff as they implement the new empirical approach and adjust it to budget realities.

The City Manager will note that the following revised Core Services Business Model displays the same five categories as the existing model, with program characteristics that are a mixture of existing distinctions and some that came from the group's discussions of community values regarding recreation tax subsidy. The City Manager will note only two minor but significant changes in the cost recovery ranges. In the enterprise-like and specialty ranges, the higher end of cost recovery may exceed 100 percent.

A core work group recommendation is that staff should create an analytical tool to slot programs into the categories of the model. Whether an individual or group in the community agrees with the system or likes the cost recovery goal of their favorite activities, they deserve to understand how subsidy decisions are made. Refining and communicating an analytical system to determine the placement of programs in the cost recovery model is essential to achieving the transparency the work group recommends. The scoring matrix in Appendix D is a conceptual example of how to develop this tool. What is important is that the tool be consistently applied to programs in order to achieve the highest level of fairness possible in what is essentially a judgment process. The basis for judgments should be defined, systemized and documented to ensure consistency across different raters and over time.

Figure 3

REVISED COST RECOVERY MODEL

April 19, 2008

CHARACTERISTICS OF PROGRAMS

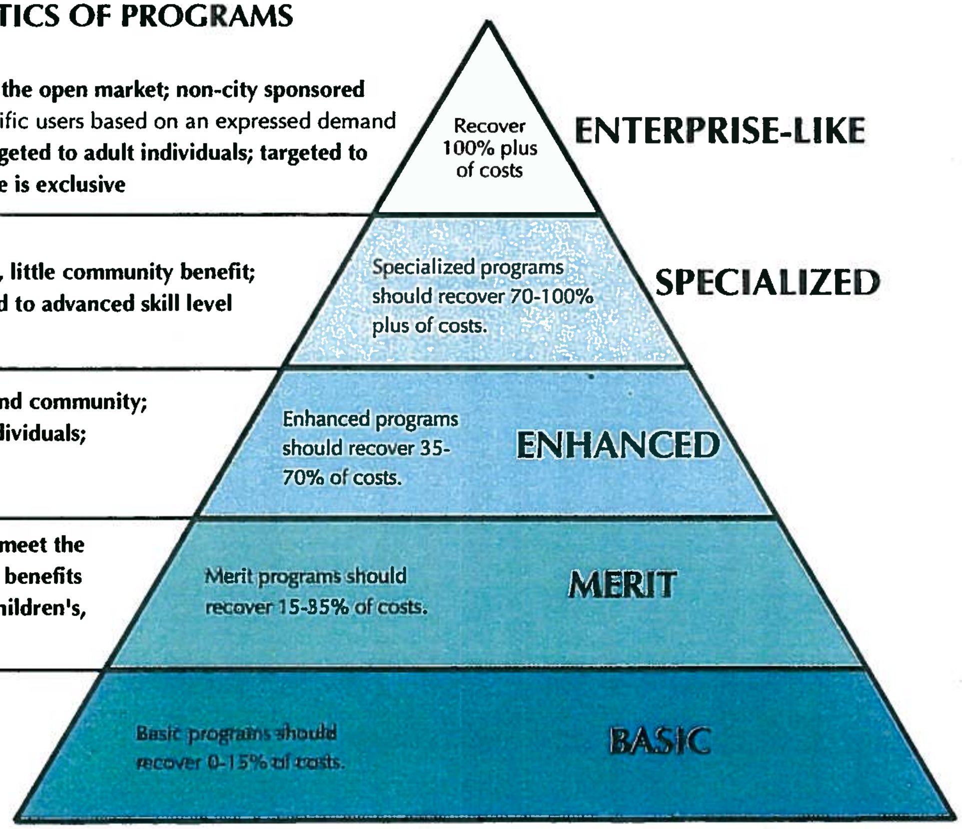
Programs that compete in the open market; non-city sponsored programs; targeted to specific users based on an expressed demand and willingness to pay; **targeted to adult individuals; targeted to competitive skill levels; use is exclusive**

Primary benefit to the individual, little community benefit; targeted to adult groups; targeted to advanced skill level

Equivalent benefit to the individual and community; targeted to child, youth, or senior individuals; targeted to intermediate skill level

Programs and services identified by the department to meet the needs of under-served community members; generally benefits the community more than the individual; targeted to children's, youth, or senior groups; targeted to novice skill level

Programs and services identified by City Council* to meet the needs of under-served community members; meets legal requirements; **targeted to families;** benefits a large proportion of the community; **targeted to entry or mixed skill levels; use is non-exclusive**



Bolded language denotes community values derived from the work group; non-bolded criteria are from the Parks and Recreation master plan.

*** If a program receives this high level of subsidy, the program should be approved by City Council as meeting its city-wide social goals.**

III. Fund methodology

In his charge to the work group, the City Manager asked the work group members to consider the funding structure for recreation programs and services. Specifically, the group was asked to recommend any changes that might be needed to the Recreation Activity Fund.

Objectives

The work group set the following objectives for their analysis of the funding structure of recreation activities.

- To determine whether the Recreation Activity Fund is a good fit for Boulder.
- To encourage the department to recognize that it cannot be all things to all people. It must determine which of the many recreation and related businesses it makes sense for the City of Boulder to be in.
- To deal proactively with the dilemma that General Fund contributions to the RAF appear insufficient to support all of the programs currently offered, without cross-subsidization from the golf course, reservoir and possibly other revenue-generating programs.
- To encourage good financial management by challenging the department to analyze the financial viability of programs, to determine which cannot bring in sufficient fee revenue to support their costs, then to make appropriate business decisions about which programs should be discontinued.
- To challenge the department to redefine its priorities and to manage its existing inventory of program offerings well before embarking on new ventures.
- To ensure that recreation services remain affordable and future fee increases are minimized by encouraging constant evaluation of whether current resources are used in the most efficient manner and by looking for ways to reallocate money to higher priority needs.
- To champion the need to examine how the current profile of people in Boulder has changed demands on recreation and has created new opportunities.
- To suggest funding approaches for the department's diverse recreation programs and facilities.
- To increase transparency in recreation funding by identifying all program/service costs, including direct, departmental overhead, city-wide indirect and maintenance costs.

Recommendations

The work group determined that the following eight recommendations will help the department achieve the above objectives. However, to complete the analyses and actions proposed in this section will require a large amount of staff work. The work group is mindful of the constrained administrative resources within the department and does not wish to imply by the magnitude of work proposed below that the group would want to add administrative overhead positions. The priority of the group would be for any new resources to contribute directly to services to the recreation community. While the group desires to see these recommendations be a priority for the department, it accepts that accomplishing the proposed initiatives will have to be spread over time. The department will undoubtedly have to find creative ways to program the recommendations into future work plans. The work group also recognizes that the type of analytical work it proposes may have consequences the group could not foresee. Such unanticipated discoveries may modify the direction the work group has recommended.

A. Continue the Recreation Activity Fund (RAF)

The work group recommends that the department continue to use the Recreation Activity Fund to manage the costs and revenues for recreation programs. While this recommendation on the surface sounds out of sync with the advice from the Blue Ribbon Commission to avoid the use of restricted funds, the RAF has proven its value to the department by providing operating flexibility to the fee-for-service recreation programs across good years and bad. Although the fund receives some tax subsidy, approximately 80 percent of the revenue in the RAF is from user fees.

The work group observes that establishing the RAF increased staff's awareness of the costs of programs and facilities. It has led to improved information about how much of the cost of programs is being recovered by fee revenue. It has also improved accountability in the department by integrating cost recovery, revenue generated by user fees and the corresponding program expenditures. As stated in the RAF Analysis report, the RAF has made it possible for the recreation division "to manage their programs through up and down economic cycles. It has provided more flexibility than it would have if it was blended into the General Fund." The vehicle of the RAF should continue to be used and should account for all recreation activities unless decisions are made to modify the income stream, turning some activities into enterprise funds.

B. Pursue financial sustainability

The group supports the continued use of general tax monies to support some recreation services, recognizing the benefit that recreation provides to community values such as health, active lifestyle, social interaction and opportunities to meet social and physical goals. The work group believes that recreation is a basic function of government that encourages the physical and social health of individuals and the economic health of the community. The group encourages the City Manager to maintain recreation as a vital program in this municipal corporation and to ensure its health through continued tax support.

Fiscally Constrained Plan

The group supports the Blue Ribbon Commission's (BRC) proposal to renew the portion of currently sun-setting sales taxes that funds recreation activities and programs. This includes portions of the .15 and .25 sales taxes. This group proposes that the specific earmarking of the current taxes be replaced with a broader designation of the funds as simply "for Parks and Recreation operations." The group would have the existing portions of these funds flow into the RAF for unrestricted Parks and Recreation purposes. The money will be distributed among recreation uses based on the values set in recreation's cost recovery model and pricing approaches. The group realizes that this recommendation runs counter to the BRC direction of placing all renewed sales tax monies into the General Fund. The nature of recreation services needs the flexibility to hold over revenues from good year to cover shortfalls in bad years.

Action Plan

The group supports the Blue Ribbon Commission's conclusion that some new services will inevitably be needed in the coming years. The group agrees with the BRC recommendation not only to renew the base level of sales and other taxes currently supporting the city but also to expand the sales tax authorization for $350,000 for recreation operations out of the $8.5 million total proposed in the "BRC Enhanced Package" category. The group believes that a new revenue source could be structured to provide funding for the broader needs of the General Fund, as well as a specific earmarked portion for Recreation (and potentially other highly valued programs/services). This blended approach would align with the BRC recommendation to think of the city as a single company and presents a positive rationale for Boulder voters to support a new tax.

Vision Plan

If the City Manager and City Council are willing to consider a new earmarked sales tax ballot issue, the group desires to put forth the value of such a tax to recover recreation operations and capital investment in current and/or new recreation facilities. It is important to structure the tax such that it also provides new developments the community desires. The goals would be to increase the pool of money available to fund increased costs of operations over time and reduce the rate of increase of user fees in order to keep programs affordable to a broader portion of the community. The ballot issue would be a referendum on the popularity of these programs and would give the community a decision making opportunity.

C. Consolidate costs and revenues

As mentioned in the costing section, the group recommends that the city account for all recreation expenses and revenues in the RAF. This will facilitate program costing and will further the goal of transparency to the community. The group supports the Clifton Gunderson conclusion that accounting and finances related to recreational activities "are so complex and intricate that they make it difficult to communicate issues to policy makers and constituents." The group concurs with the consultant's statement that "it is difficult to make and enforce policy decisions because the 'true cost' of providing each of the recreational programs is not readily apparent."

One change implied by this recommendation is that both the revenues and related expenses currently accounted for in the .15 and .25 sales tax funds should be transferred into the RAF. Another change necessary to implement this recommendation is for the RAF to be assessed its portion of departmental indirect costs. This will required that staff costs will need to be distributed between the General Fund and the RAF. On a city-wide basis, similar to other restricted funds, the RAF could be charged cost allocation for its use of city-wide services. Note that when departmental and city-wide indirect costs begin to be recorded in the RAF, the General Fund money currently underwriting them should be increased and transferred into the RAF as well.

Consolidating costs into the RAF will help the department address the following concern expressed in the RAF Analysis report. "The 'true subsidy required' for all of the programs is clouded by the following three facts: 1) the programs...with positive incomes in effect subsidize the other RAF programs; 2) not all of the direct costs related to the RAF programs are captured in the RAF; and 3) many of the indirect costs related to the RAF programs are not captured in the RAF."

This approach also aligns with the BRC's recommended policy to "Expose hidden subsidies either by fully charging taxes or fees...or by making such subsidies specific budgetary line items in order to completely capture the value."

D. Create a Recreation Program Plan

The group concurs with the intention outlined in the Parks and Recreation Master Plan to create a Recreation Program Plan. There is a normal life cycle in recreation programming, with some programs needing to be supported while they develop through early stages, with some flourishing in a mature program phase, and with some programs gradually declining as demographics, social developments and recreational tastes change. The department needs to take stock of where programs are in the cycle of program viability. The plan should be designed for a three to five year planning period and should be periodically reviewed.

This recommendation flows from the Blue Ribbon Commission general policy suggestion, "Existing services and programs should periodically be measured against new community needs and desires, and thus may be cut or reduced." The work group encourages decision makers to recognize that taxpayer subsidy for recreation is a limited resource and its use must be closely evaluated to align the community benefit with the program and/or service provided, as well as to address broader community sustainability goals.

The group suggests that the work plan to create the Recreation Program Plan include but not be limited to the following:

a. Analyze who are the current recreation customers;

b. Project demographic, social and recreation trends by conducting a comprehensive community study to understand population shifts and changing social and economic conditions;
c. Assess and define the values of the community related to the provision of recreation programs and services in a municipal environment;
d. Gather statistically valid information on what programs the community most wants through a professional survey process to help analyze demand, creating a "needs index" on what recreation activities are desired, taking into consideration the basic needs of the people in the community and where needs are not being fulfilled;
e. Create an inventory of program elements, services and physical resources to assess any overlap, deficiencies, omissions, inadequacies and potential safety risks;
f. Determine the total cost of programs and compare that with the revenue each produces;
g. Recognize those programs that cannot recover their full costs even with the level of subsidy designated in the cost recovery model;
h. Create a program inventory – a total community plan encompassing programming among public, commercial and non-profit entities;
i. Craft a systematic, documented logic for making decisions about programs, one that is transparent to the community;
j. Systematically evaluate all recreation programs, set investment priorities and make decisions about whether to continue or discontinue each program;
k. Make judgments on which recreation businesses the City of Boulder should be in and which it should turn over to other sectors;
l. Provide information to the community on the basis for decisions to continue activities, to offer new programs or to discontinue services; and
m. Develop financial assumptions, funding plans and implementation strategies.

E. Create an asset plan

While the group is reasonably confident that most operating expenses are currently budgeted and expended in the RAF, it is less sure about whether major maintenance for recreation facilities and equipment is being planned and budgeted at appropriate levels. The group recommends that the department develop a strategic plan for all of the assets it manages and that it reflects the recommended capital replacement costs in the annual operating and capital budgets at the level recommended by the city's Facility Asset Management (FAM) division. It should be a goal that all budgeted money needed for routine and major maintenance flow through the RAF.

The work group suggests that the department formally recognize that it has a large deferred maintenance issue for recreation and encourages staff to develop an appropriate plan. Further, the group recognizes the value of the department engaging in a systematic major maintenance and facility replacement planning effort for its recreation facilities. This should take the form of an asset plan or a facilities management plan. As part of this plan, the department should not only identify the current deferred maintenance backlog but also prepare a calculation of the twentyyear life-cycle needs of its facilities. Whether Parks and Recreation can afford to maintain its current facilities and programs is a driving question behind some of the work proposed by this group.

Funding for the capital replacement of recreation facilities is complex. Capital replacement is currently funded from multiple sources and is managed across the whole department. This group is not making recommendations about how to improve this aspect of recreation capital improvement program (CIP) funding. It is specifically not suggesting that a capital component be added to fees in order to accumulate money for major capital improvements on recreation facilities, as the group does not have enough understanding of the capital needs or of the implications of such a change on recreation fees. It may be better to raise capital funds to improve a major facility through a bond issue, using increased revenues to repay the bonds.

A key component of an asset plan is to evaluate the highest and best use of every recreation facility and property. Once the department knows the total cost of needed capital repairs, it will be in a better position to make decisions about existing facilities and properties.

F. Examine properties owned

In making reasoned decisions about which programs and facilities to continue or to develop, the department should consider that it is unique in owning undeveloped plots of land and underutilized facilities. The department should systematically examine the properties it owns for the financial and economic viability of developing and operating programs/facilities on them. The department should give serious consideration to selling properties that will not be developed, using the proceeds from such sales to go into the Permanent Parks Fund to fund capital improvements to recreation facilities. The following are simply examples of the types of questions that should be examined.

a. The pottery lab should be evaluated for how well the property fits this use. The department should examine a range of questions such as expanding the program to operate more cost effectively, getting a private enterprise to take it over, and selling the property.

b. The Mapleton ball fields should be examined to determine whether the facility could be relocated to Valmont City Park. The proceeds from selling the Mapleton ball fields could be used to improve recreation facilities.

c. A final example is the golf course. While the golf course is earning good revenue, it is possible that an authoritative look at the full cost of the asset might lead to a different conclusion about the best use for both the land and the golf program. The department should analyze whether the current location is the best place to operate the facility, whether it should build a new and better golf course elsewhere and whether there is an opportunity to do a joint venture with CU.

Any property sales will result in one-time funds. Rather than allowing decisions about where to spend these funds to be made based on whatever "hot button" issue has arisen most recently, the priorities for the money from the sale of properties should be dictated by the Parks and Recreation Master Plan and the proposed asset plan. The policy priorities should be to assure that the department can properly maintain its current assets before adding to its asset base.

The work group suggests that the department investigate whether money from property sales could possibly become an endowment fund to underwrite operating expenses. To examine this possibility, the department would need to consider legal and possibly even existing ballot language issues.

G. Conduct an enterprise fund analysis

The group proposes that the department engage in a process to determine whether the Flatirons Golf Course, Boulder Reservoir and any other apparently self-supporting programs that might be financially viable could potentially operate as separate enterprise funds. Those entities that should be examined in this exercise and the data to analyze them will emerge from the program costing effort described earlier.

As the Clifton Gunderson report stated, "Since the RAF does not include all of the direct costs for these programs and many of the indirect costs are also not included, further analysis on these programs is required to determine if they would be able to sustain themselves when all of the direct and indirect costs are included in the program." This would also provide an opportunity to assess whether the indirect administrative costs are in line with reasonable levels of overhead burden and industry standards.

The golf course and reservoir are facilities with significant capital needs. The department should evaluate whether those facilities are capable of generating sufficient revenue to support all of their direct operating and maintenance costs, their division/department/city-wide indirect costs as well as their long term capital improvement needs. Over time, moving some facilities to enterprise fund status could reduce the drain on other capital sources of funding for Parks and Recreation.

Clifton Gunderson reported that that they contacted several other Front Range cities that operate municipal golf courses (Westminster, Arvada, Louisville, and several others). All the other cities account for their courses through an enterprise fund. Because Boulder's golf course operates in competition with other private and public courses, it already operates in many ways as a private enterprise.

H. Sustain funding for RAF programs

If the department moves forward with making the Flatirons Golf Course, Boulder Reservoir or other program areas into enterprise funds, it will be critical to do so without detriment to the rest of the recreation programs remaining in the Recreation Activity Fund. To achieve that goal, the group recommends that while the analysis is conducted over the next two years, the department continue to account for these potential enterprise activities in the RAF, as other programs in the fund depend on the excess revenues from these programs to sustain the fund's viability. These potential enterprise facilities, however, are underwriting the cost of other programs at the long term expense of those facilities' major maintenance and capital replacement needs.

At the end of the two year period of preparation, if the department creates one or more enterprise funds, it should backfill the revenue that formerly offset other recreation program costs with increased tax subsidy and creative new revenue approaches. To ensure the continued financial viability of the RAF, the department should research and consider funding sources such sponsorships, donations, endowments, foundation grants and naming rights. The group also suggests that the department investigate the viability of selling underutilized properties and setting up an endowment to generate investment income to support recreation operations. Examining this proposal could require legal research. A similar suggestion is to investigate using the Parks and Recreation Foundation to take in donations from members of the community to create an endowment to fund recreation.

The work group questions the possibility of establishing a type of hybrid fund for enterprise activities such that once they meet certain financial goals, monies above the operating, maintenance and capital needs for that facility could go back into the RAF to assist in subsidizing other recreation programs. To examine this possibility, accounting rules and legal considerations will need to be explored.

Conclusion

The work group submits to the City Manager the foregoing objectives, intents, guiding principles and recommendations regarding recreation finance. The City Manager's Work Group on Recreation Finance appreciates the opportunity created by the Manager to offer insights and suggestions. The work group has indicated a positive direction for staff to pursue in improving the City of Boulder's recreation costing, cost recovery and funding systems, knowing that it will take some investment of resources to achieve the proposed goals.

Appendix A

Bibliography of Educational Materials

> Parks and Recreation staff provided copies of the following materials to the City Manager's Work Group on Recreation Financing as background information to assist the group in understanding how the City of Boulder and other organizations handle similar issues.

"2000 Recreation Program & Cost Recovery Plan." Vancouver-Clark Parks and Recreation, Implementation Strategy: 13-17.

"Blue Ribbon Commission on Revenue Stabilization." BRC Report Summary, prepared by the Budget Office for the City Manager's Work Group on Recreation Financing.

Brayley & McLean. "Chapter 9, Pricing." Managing Financial Resources, 2nd edition.

Burns, Robert C., Alan R. Graefe. "Toward Understanding Recreation Fees: Impacts on People with Extremely Low Income Levels." Journal of Park and Recreation Administration 24.2 Summer 2006: 1-20.

Crompton, John L., Andrew T. Kaczynski. "Trends in Local Park and Recreation Department Finances and Staffing from 1964-65 to 1999-2000." Journal of Park and Recreation Administration 21.4, Winter 2003: 124 – 144.

Dropinski, Chris, C.P.R.P. GreenPlay, LLC. "Cost Recovery in Public Parks and Recreation." Illinois Parks and Recreation 38:5 September/October 2007.

Kelsey, Craig W., Ph.D. "Fees and Charges in Parks and Recreation: Philosophy and Methodology." Arizona Parks and Recreation Magazine Fall 2006.

Mowen, Andrew J., Gerard T. Kyle, William T. Borrie, Alan R. Graefe. "Public Response to Park and Recreation Funding and Costsaving Strategies: The Role of Organizational Trust and Commitment." Journal of Park and Recreation Administration 24 Fall 2006: pp. 72-95.

"User Fee Guidelines." City of Boulder, Colorado Revenue Policies, 2.3.

Appendix B

CORE SERVICES BUSINESS MODEL

March 16, 2007

BOULDER'S PARKS, FACILITIES AND RECREATION PROGRAMS

Boulder Reservoir (except park land at reservoir); Flatirons Golf Course; Private Lessons (all kinds); Personal Training; Community Gardens, Harbeck House; Special or Dedicated Use Groups; Rentals

Flyers Gymnastics; Dance Expressions; Pottery Lab; Adult Sports; Andrews Arboretum

Adult Recreation Instruction; Pleasant View Fields; Fitness and Wellness Classes

South Boulder Recreation Center; North Boulder Recreation Center; East Boulder Community Center; Mapleton Complex; Stazio Complex; Youth Recreation Instruction and Youth Sports; Spruce Pool; Dog Parks

Park Shelters; Satellite Ballfields

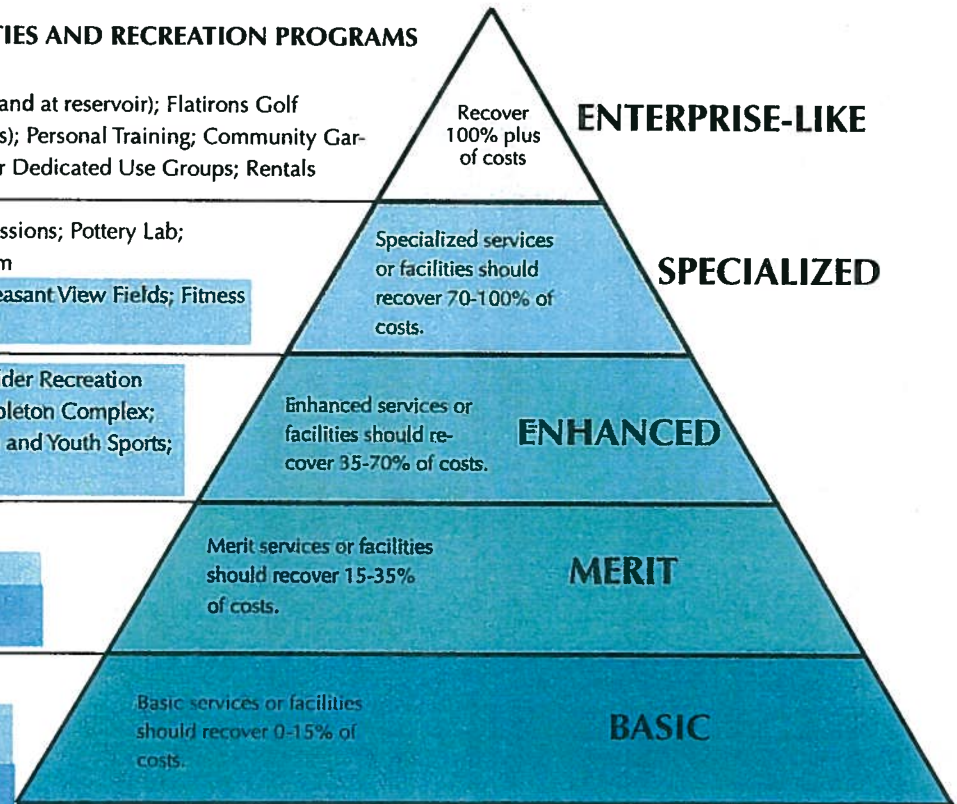
Annual Flower Program; Recreation Center Facility Drop-in

Expand (noninclusion); Pearl Street Mall; Learn to Swim Programs; Scott Carpenter Pool

Columbia Cemetery

Park Restrooms; Park Facility Replacement; Skatepark; Multi-purpose Practice Fields (soccer, football, ultimate frisbee); Youth Services Initiative

Parks and Park Infrastructure; Playgrounds; Maintenance (mowing, snow and trash removal); Woody Horticulture and Urban Forestry; Park Shop and Equipment; Expand (inclusion); Public Open Swim; Boulder Creek Path; Chautauqua Park & Historic District



Business Plan Categories

DISCRETIONARY

DESIRABLE

ESSENTIAL

Appendix C
Values

The work group brainstormed the values the Boulder community has for its recreation activities. The group's intent was to build its recommendations on the foundation of these values. They did not take the time to label, consolidate and polish the value statements. Instead, they accepted and used each work group member's contributions with the understanding that the community does not have a single set of unified values and may even have conflicting values.

Value 1 (possibly a value, possibly a condition)

Financially responsible, fiscal sanity, accountability, subsidy minimization, affordability, enterprising, profitable, a commodity value (free to all)

Value 2

Openness, transparency, transparent

Value 3

Community, health, families (that play together have the most fun), children (need opportunities to develop life-long interest in exercise)

Value 4 (possibly an overarching goal)

Efficiency, market-driven (need based, financial based), leadership, innovation, sustainability, responsiveness

Value 5

City role as civic organization (with roles for non-profit and private sectors), affordability, people with disabilities (are part of our community), outreach (especially in communications), inclusion, inclusion, accessibility

Value 6

Equity, fairness, fairness, equity, equitable

Appendix D
Scoring Matrix

Conceptual Core Services Business Model Scoring Matrix				
Category	Characteristic	characteristic score	total	category %
Basic	*Programs and services identified by City Council to meet the needs of under-served community members*	Yes/No		
	Meets Legal Requirements	Yes/No		
	Targeted to families			
	Benefits a large proportion of the community			
	Targeted to entry or mixed skill levels			
	Use is non-exclusive		0	0%
Merit	*Programs and services identified by Parks & Recreation to meet the needs of under-served community members*	Yes/No		
	Generally benefits the community more than the individual			
	Targeted to children's, youth, or senior groups			
	Targeted to novice skill level		0	0%
Enhanced	*Equivalent benefit to the individual and community*			
	Targeted to child, youth, or senior individuals			
	Targeted to intermediate skill level		0	0%
Specialized	*Primary benefit to the individual, little community*			
	Targeted to adult groups			
	Targeted to advanced skill level		0	0%
Enterprise-like	Competes in the free market *or non-city sponsored program*	Yes/No		
	Targeted to specific users based on an expressed demand and willingness to pay	Yes/No		
	Targeted to adult individuals			
	Targeted to competitive skill level			
	Use is exclusive		0	0%

sources:	scores:
master plan CSBM descriptions	0 - not at all
workgroup suggestions	5 - completely

Scoring matrix process

A. A cost recovery model like that recommended by the Work Group should be adopted. It is important that the model is rooted in the civic mission of the city yet recognizes the role of market competition.

B. A systematic approach to place programs into the cost recovery model should be developed based on guiding principles and community values to provide a conceptual basis for broad goals of cost recovery. Such an approach is proposed by the City Manager's Work Group on Recreation Financing.

C. A preliminary assessment should be made by the department to determine the workability and budgetary feasibility of the model. This assessment may be made by selecting programs representative of large numbers of classes, then selecting from those a reasonable cross-section of programs, then scoring that subset. Such a process has the potential to illuminate "unintended consequences" and to provide a fairly good check on workability and budgetary feasibility without exhaustive work.

D. Transition into the model refined through step C above should take place over a period of time that is reasonable from a resource availability perspective of the department. Also, a calibration of scoring, slotting, and setting cost recovery goals across programs should be performed during phase-in and then repeated on an as-needed basis to ensure the model results are sensible and workable, especially from a budgetary perspective.

E. All programs should be scored on the recommended set of distinctions that reflect community values and City goals. The proposed CSBM revision provides a mechanism to score every recreation program and activity, whether sponsored by the city or not. The resulting scores will determine which CSBM category a program belongs in and provide guidance on where within each cost recovery ranges each program should be placed.

F. The process used to score programs should be documented. The judgments will be subjective but should be consistent across all programs and activities. The scores should be based on the characteristics of each program and applied with a consistent rating methodology across all programs. The cost recovery goal for programs will be based on the distribution of scores within the designated cost recovery ranges.

G. The new fee structure based on the revised model should be implemented when the system is ready and ample review has been accomplished. As this may take one to three years, an interim plan will be needed, including implementing fee changes based on updated costs and unfreezing fees. The city should communicate changes to impacted community members and groups whenever program cost recovery goals change.

H. The new fee system can be implemented all at once or in phases, whichever works best. City Council should consider rescinding the current restriction of 10% increases for codified fees per year to allow fees to reach their appropriate level in a reasonable period of time. Fees generally should not be codified so that they can be responsive to changes. Criteria for fee changes should be set to trigger review by PRAB and/or Council. Such a trigger could be a 10% fee increase, a lesser percent fee increase, or some multiple of the current inflation rate.

l. The city should communicate the program evaluation process and the program outcomes to stakeholders, using PRAB as a means of review and an opportunity for public input.

Scoring matrix instructions for raters

1. Use the same factors and the same scale to score all recreation programs and activities.

2. Assign Yes/No judgments and scores for every factor in each of the five categories, regardless of whether it is a city-sponsored, non-profit or for-profit program, a class or a drop-in activity.

3. Score each line-item characteristic of the program, other than the Yes/No factors, from 0 to 5, with 0 indicating "not at all" and 5 for "completely." Create ways to ensure consistency of judgment across raters, programs and time. For example, define the meaning of a score of 1, 3 and 5 for each rating factor. Use the scores in between (2 and 4) when a program does not exactly fit the defined points.

4. Document the systematic approach all raters will use to make judgments.

5. Spreadsheet formulas should automatically total the scores separately in each category.

6. Spreadsheet formulas should automatically normalize the score in the far right column, to account for differences in the number of criteria.

7. Slot the program into a category.
    a. A program should be placed in the lowest category in which it receives a Yes determination.
    b. If a program does not receive any Yes determinations, then assign that program to the category in which it has the highest normalized score in the last column.
    c. If a program's highest score is duplicated in two neighboring categories then use the scores in the other categories to compare affinity to the upper levels and affinity to the lower levels. The program should be slotted into the category closest to the stronger affinity.
    d. If a program's highest score is duplicated in two non-neighboring categories (hopefully a rare case) then the program should be slotted into the category closest to the midpoint between those two non-neighboring categories.
    e. If a program's highest score is duplicated in any other manner, then the best balance among all scores should be used to slot the program into a category and the PRAB should provide a recommendation as to the most appropriate category and cost recovery goal for the program.

8. Set the recovery rate for the program within the range defined for the assigned category by comparing the normalized score in the last column for the program's slotted category with that of other categories. Even the scores for programs placed in a category through the Yes/No process should be evaluated to set a cost recovery rate within the given range.
    a. If the program has a strong affinity to upper levels, then the recovery rate should be set at the high end of the range defined for the category in which the program was slotted.
    b. If the program has a strong affinity to lower levels, then the recovery rate should be set at the low end of the range defined for the category in which the program was slotted.
    c. If the program has similar affinities to both upper levels and lower levels, then the recovery rate should be set near the midpoint of the range defined for the category in which the program was slotted.

Appendix E
Pricing considerations

After the total cost of a program is calculated and any tax subsidy is credited to it, staff must set a price for every class, activity, facility usage and program. At this point in the process, differential pricing based on economic or other considerations may be applied to individuals participating in any program, through pricing approaches such as the reduced rate program. The reduction in revenue will be absorbed on a per program basis through a General Fund subsidy and/or fees from other participants. Various program pricing approaches may also be considered in setting the ultimate fee charged.

The City Manager's Work Group on Recreation Financing gathered a few ideas for possible changes to pricing approaches currently used by the City. The work group did not feel it essential to its charge to make recommendations on what the group saw as essentially an implementation issue. However, the suggestions gathered may have future value to staff.

The following table examines some of the pricing approaches currently in use by the City of Boulder and changes that the City could pursue. Work group members sometimes had contradictory ideas about how to improve considerations used in pricing. Those unedited and differing ideas are presented in the chart below. In addition to changes in current practices, members offered the following additional ideas to consider.

- Discontinue providing pricing breaks based on employment (city, county, other employees)
- In general, set a more aggressive pricing policy for adults, both on an individual and group basis. When cost recovery decisions demand price increases, those increases should be aimed at adult activities, keeping market conditions under consideration, of course.
- Promote either punch cards or annual membership, whichever is more profitable.
- De-codify fees to maintain flexibility from a budget perspective in a dynamic environment. Make setting fees primarily an administrative staff function, with feedback from PRAB and referral to Council as needed.
- Reduce the cost of using City facilities for programs offered by partner organizations to reflect the portion of costs that the department would otherwise bear to provide that service, in cases when the City would provide the program if the partner organization did not.
- Reduce prices for organizational partners who provide services to support programs in the basic category and thereby offset department costs.
- Offer opportunities for individuals or groups to do volunteer work that avoids costs the department money would otherwise bear in exchange for credits or reduced rates.
- Consider in setting prices the degree to which a program use optimizes the full capacity of a facility or portion of space.
- Tailor the period on which costs are based on a per program basis to reflect the volatility of the program and impacts to the cost of providing that program.
- Set up a simple process for users to communicate regarding fees back to the city, including advertising on the website the existing opportunity to speak to PRAB during the public comment period
- Use PRAB for various fee-related functions in the interests of transparency, accountability and public input.

Current pricing methodology with suggestions		
Program considerations	**Current approach**	**Modifications proposed**
Volatility	Minimize the annual rate of change in rates to the Council-set maximum of 10%	A. To minimize volatility, use 10% cap as trigger for further review and possibly lower the annual increase ceiling B. Fees should change as frequently as costs change, with notice to users and opportunity for feedback C. Request that Council expand the annual 10% limit to 20%
Market	Use information on what the competition charges in setting fees, determine what the market will bear without significantly impacting demand	Specify that this consideration is only applicable to programs in the specialized and enterprise-like categories
Congestion	Give price breaks to encourage facility use during off-peak periods and set higher prices for use during peak periods to control congestion	No changes proposed
Duration	Set lower prices for long-term programs using city facilities than for short-term events	No changes proposed
Individual considerations	**Current approach**	**Modifications proposed**
Residency	Non-residents charged 25% more than residents for codified fees	A. Raise the amount of the price differential to non-residents B. Do away with nonresident surcharges in order to attract customers
Low income	Reduced rate program	No changes proposed
Age	Discount for drop-in activities for seniors (over 60), teens and youth	A. Raise minimum age for seniors from 60 to 65 B. Abolish senior discount, create Super Senior Rate for 72+

Appendix F
Minority opinion - Dan Fremont

Thank you for the opportunity to address some issues relevant to the recommendations of the Report to the City Manager, specifically some of the recommendations on the Cost Recovery model and the proposed Scoring Matrix revision for the Core Service Business Model (CSBM).

The concept of "community benefit" is one of the most powerful elements of the scoring matrix and is the least concrete in its meaning. Nowhere is the term "community benefit" clearly defined. What are the elements that constitute a benefit to the community or the individual and to what degree is each one valued? This detail is the cornerstone to accurately inform the decision making process. Even the Citywide User Fee Guidelines relies heavily on the concept of community versus individual benefit. But this key term is not defined in that document either.

Without question, the limited funding to subsidize programs in the department makes the choices extremely difficult. It is then even more important that the process utilized in making those hard choices accurately represents the values to the individuals and community of the various programs.

In the recommended cost recovery methodology, a non-profit group is slotted into the same category as a for-profit entity. A non-profit group is constituted for the personal non-financial communal benefit and growth of its members, whereas a for-profit organization is constituted for the personal financial benefit of its owners. The ability of a non-profit to compete for the same resources in the marketplace is markedly different than a for-profit entity. While cost recovery goals may be different for the two, the proposition that they are more alike and thereby should be considered in any manner the same is fundamentally flawed.

The skill level designations that are used to evaluate cost recovery goals needs review. An organization that supports all levels of skill development would seem to provide a greater benefit than one that only exposes youth to the basics. Programs that encompass multi-skill levels enhance the community benefit of supporting lifelong fitness much more than ones designed without that goal. The benefits to the participants of a long-term program become much more developed and lasting than one where the skills of the program are not meant to be developed over time.

Department sponsored programs are automatically given more consideration for subsidy than non-sponsored ones. By default, non-sponsored programs are de-valued regardless of any other considerations. There are no objective criteria to support that simply because the city sponsors a program that it is intrinsically more worthy of public support than a non-profit. One of the primary goals of any revision of the CSBM was to create a mechanism that was equitable and transparent. That this undefined "worthiness" exists contradicts both those goals. If the costs of a program are less when operated by a non-profit than if city sponsored when there are equally rated "community benefit" factors, consideration for the cost differential should be recognized.

The proposed scoring matrix is constructed such that if the only difference between two programs is that one is sponsored by the city the other by a non-profit organization, with all other factors for benefit to individuals and the community being the same, the differential in cost recovery goals are at least 30% more for the non-profit. It is inequitable in that the "enterprise-like" category the factors considered in all other categories are not considered.

The cost recovery sub-committee initially brought a cost recovery matrix design to the work group that created a more level playing field for evaluating the relative "benefits" of programs. Its simplicity supported the work group's recommendation for increased transparency in decision making and prioritization of needs. This first proposal is consistent in its application and is more easily understandable and supportable through its objectivity.

In this three-tier model, the top tier included all for-profit and non-profit users of recreation facilities. The basic services tier included services offered for the benefit of those elements in our community that are under-represented and that represent the level of programming believed to meet the department's basic civic duty. It is this writer's proposal that with the exception of programs currently in the basic level of the CSBM <u>all</u> other programs be assessed a percentage of their costs based on factors such as serving community-based groups and families, skill, age, access/exclusivity, efficiency, partnership, leverage and peak/off-peak usage. This first proposed matrix provided a mechanism to evaluate programs except for those in the basic level with all the same factors determining cost recovery goals. The department would have the flexibility to set the cost recovery benchmark at any level necessary to adequately meet its' cost recovery goals once the fully burdened costs and revenues of each program are defined, another recommendation in costing methodology of the work group's report.

The discussion in the work group placed a priority on subsidizing the early levels of skill development rather than higher levels. I disagree with this assumption. It has been my experience that developing excellence in skills, and by extension, the character traits acquired through the process, are of prime value to the community and should be subsidized at least minimally with tax monies. While this was not one of our stated charges, the Parks and Recreation department as a civic entity does value the development of an interest in life-long fitness. The attributes associated with this value manifest themselves through self-discipline, goal directedness, mental and physical stamina, teamwork, problem solving, creativity, interpersonal skills and positive stress management. These skills are all gained when excellence in a program are emphasized. Those are certainly benefits to the individuals involved that also radiate out to the community through the participant's daily interactions with others. The CSBM's vision of "community benefit" should be one that supports non-profit programs that enhance the growth of individuals, especially youth, by providing opportunities for achievement not simply participation. Our community will ultimately be better served.

While this writer supports the work group's position to modify the structure and process of the CSBM, the model recommended is not adequate for the reasons given above.

Minority opinion -Todd Bryan

I am a strong proponent of citizen-based collaborative processes and work in this area professionally as a senior associate for The Keystone Center, an organization often used by the City of Boulder to help address difficult public policy issues. I was also part of the ad hoc advisory group that helped establish the City Manager's Working Group on Recreation Financing. At that time I expressed my concern to advisory group members and the facilitator about several short comings with the process that was being created, mostly internally. I also expressed these concerns to then PRAB chairperson Stu Stuller.

On a process level, these concerns fall into two categories. First, the timeframe for completing the work was, in my opinion, far too short. While the time set aside for the entire process was ample, the Working Group would spend the majority of its time listening to expert presentations. This gave us very little time – 8 hours in fact – to discuss, synthesize, and try to reach consensus on any recommendations. In addition, the process timeline was further contracted by two months due to the perceived need by some group members to fit any legislative recommendations into a legislative pipeline. While no legislation was recommended, the shortened timeframe was kept.

To address this flaw, I recommended that subgroups be formed to address specific issues and that subgroups meet between regularly scheduled meetings. The subgroups – usually three people – were to represent the various perspectives on the issue being addressed and were to work towards consensus on a recommendation that they would bring back to the larger group for its approval. The approach showed promise with the first subgroup, which reached consensus on a modified Core Service Business Model. Unfortunately, the larger group decided not to honor the hard-fought consensus of the subgroup and voted it down (which violates one of the standard principles of consensus building processes – majority voting is a no-no). After that, subgroups pursued recommendations that mainly preserved the status quo.

Second, this occurred, in my opinion, due to the lack of collaborative process expertise and experience of our facilitator, who was chosen by the city manager. In addition, the facilitator was a former city administrator and should not have served in this role, even with adequate process skills. With an abundance of independent and impartial facilitators with superior process skills in and around Boulder, it is troubling that a former city administrator with a lack of such skills would be selected. While our facilitator did a great job running the meetings, I am confident that, had a more experienced individual been in place, the problem with the timeframe would have been addressed in the beginning and subgroup consensus would have carried through to the larger group deliberations. Instead, the consensus building process deteriorated into a contest in which those benefiting from the status quo merely ran out the clock.

On a substantive level, it appears that the majority of Working Group members are satisfied with the status quo and do not wish to see significant changes in recreation pricing policies. One way to interpret these recommendations is to conclude that those benefiting from the existing policies wish to maintain them, regardless of how those policies affect other groups and other recreational users. This is the conclusion I drew from discussions over whether to maintain existing policies or modify them. And since it appears that most of the users are benefitting from the status quo, it is easy for their representatives to take the next step and codify those benefits through a majority vote.

That is certainly one way to "resolve" the issue but it is not how a consensus process functions. In a consensus process, the facilitator is trying to manage and balance what I refer to as "the tension between the tyranny of the majority and the tyranny of the minority." Unfortunately, the Working Group process fell short in this regard and allowed the tyranny of the majority to prevail. Majority and minority reports are not uncommon in consensus building processes however they generally occur after many days and hours of deliberation in which group members struggle to find agreement. In our process, the shortened timeframe denied any opportunity for Working Group members to truly deliberate, except in subgroups.

Another way to interpret the recommendations is to conclude that the problem really comes back to the unique hardship faced by the Aquatics Groups. These groups appear to be experiencing a "double whammy" that other groups and users are not facing. This double whammy results from two policies that were instituted by the P&R staff without PRAB or City Council review. The first is the subjective placement of the Aquatics Groups in the Enterprise Tier of the Core Service Business Model, requiring 100% cost recovery. The second is the decision to itemize costs for facilities and to pass those costs on to user groups (and not individuals) regardless of the cost to operate the facility. The combination of these policies means that the Aquatics Groups are required to pay 100% of the operational and administrative costs of the most expensive facilities in the City's recreation portfolio – the swimming pools. This unique hardship places the Aquatics Groups in a distinct minority with no recourse through a voting process. Adding misery to this hardship is the fact that other recreation facilities, such as Stazio and Pleasant View Fields, are funded in part through the City's .15 percent sales tax, which offsets user fees and serves as a subsidy. The pools have no similar subsidy.

Finally, because of their greater expense, the swimming pools and their users need to be managed in a way that optimizes their use. To take advantage of efficiencies of scale, the pools need to be managed the same way that Colorado DOT manages traffic on the Boulder Turnpike. To optimize use of the Turnpike, DOT encourages people to join others in their commute to work. Through numerous incentives, DOT rewards people for carpooling and taking the bus while discouraging people from driving alone. An individual can still choose to drive alone, albeit at a greater cost in terms of time and expense. For the sake of efficiency, transportation policies favor the group over the individual. By contrast, Boulder's recreation policies favor the individual over the group and reward the individual with lower costs and greater access while taxing the group with higher costs and reduced access. Reversing this policy, and mimicking DOT traffic management policies, will go a long way towards making the pools more efficient and affordable.

I also wish to reinforce Dan Fremont's minority viewpoint.