

CITY COUNCIL COMMUNICATION FORM

FROM: Kyrill Kretzschmar, Recreation and Enterprise Manager
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THROUGH: Gary Suiter, City Manager

DATE: April 2, 2019

ITEM: RESOLUTION: A resolution of the City Council of the City of Steamboat Springs adopting a Parks and Recreation Cost Recovery Model.

_____ DIRECTION
_____ INFORMATION
_____ ORDINANCE
_____ MOTION
 RESOLUTION
_____ PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

During the City Council June 12, 2018 work session, it was recommended by Council that the Parks and Recreation Commission and Parks and Recreation Department Staff evaluate the recommendations of the 2018 Pass User Fee Study and develop a long-term Cost Recovery Strategy. Additionally, City Council would like to implement some/all changes in 2019 if possible. Since then, the Parks and Recreation Commission has discussed this topic five times, on June 27, 2018, July 25, 2018, December 12, 2018, January 23, 2019, and February 13, 2019. Staff presented the cost recovery model and strategy to City Council during the March 5, 2019 City Council meeting.

Staff recommended several alternative approaches to implement a Cost Recovery Strategy during the June 27, 2018 and July 25, 2018 Parks and Recreation Commission meetings. To assist in framing and facilitating the conversation Staff prepared a recommendation and presentation for the December 12, 2018 work session utilizing the GreenPlay LLC., community benefit vs. individual benefit pyramid Strategy and methodology. During the

January 23, 2019 Work Session, the Parks and Recreation Commission came to a consensus on the Cost Recovery Strategy, methodology, service categorization, and cost recovery goals for each service category. During the February 13, 2019 Parks and Recreation Commission meeting, the commission made a motion to recommend the cost recovery methodology (Pyramid structure of community versus individual benefit) and to move the Steamboat Tennis Center from Category V. – “Mostly Individual Benefit” to Category III. – “Individual/Community Benefit”). Due to the substantial public testimony and in-depth discussions by the commission, this Cost Recovery Strategy was presented to City Council during the March 5, 2019 meeting whereas City Council directed staff to change the Tennis Center from Category III. – “Individual/Community Benefit” to Category V. - “Mostly Individual Benefit”. City Council also directed staff to place the topic on the City Council agenda at a future date in order to adopt the presented cost recovery strategy through a resolution.

Background Information

Cost of service is an identification and calculation of what is required financially to produce or operate a service. It is essentially a decision to generate revenues by charging fees relative to the total operational costs to provide them. Cost recovery does not imply that the goal is total cost recovery but cost recovery may range from 0% to 100% taking into account the specific nature of each program, who benefits from subsidies and also the specific desires of the community. Cost recovery is unique to every Parks and Recreation department.

The National Recreation and Parks Association national cost recovery average is 28%, while the City of Steamboat Springs Parks and Recreation Department has a cost recovery margin of about 39%. The conclusion from this information is that the City of Steamboat Springs Parks and Recreation is definitely in the range of most Parks and Recreation departments in the country – a fact that Matt Hickey also determined through his analysis with the Pass software.

About ten years ago, the Parks and Recreation Department received guidance from City Council to recover all direct costs for adult recreational programs and to subsidize all youth recreational programs to some degree.

2016

In 2016, City Staff engaged with MGT consulting group in a user fee study per City Council direction. While this study resulted in actionable recommendations for many City departments, it did not yield good results for the Parks and Recreation department as the cost accounting terminology ultimately was dependent on Staff cost estimates for specific services.

2017

In 2017, Director of Finance, Kim Weber, presented the MGT cost recovery study to city council and asked for policy direction on where council wanted cost recovery to be for each department. The general direction Kim Weber received for Parks and Recreation Department was as follows:

- "At Risk" youth programs – 0-15%
- Youth Programs – 15-50%
- Adult Programs – 70-100%
- Special Events – 100%

2018

The Parks and Recreation Department engaged with Logan Simpson Colorado Environmental consultants for the 2018 Parks, Recreation, Open Space, Trails, and River Master Plan update. A cost recovery fee analysis was part of the 2018 Master Plan proposal by Logan Simpson and was conducted by Matt Hickey, owner and founder of ePRepSolutions LLC. The analysis was based on a software system called "Pass", a software tool specifically designed for finding the "true cost of doing business" of parks and recreation operations. Users of the software could then implement various cost recovery scenarios to determine subsidy levels. The summary and final recommendations were presented to the Parks and Recreation Commission on May 9, 2018 and also to City Council on June 12, 2018.

June 12, 2018

During the City Council June 12, 2018 work session, it was recommended by Council that the Parks and Recreation Commission and Parks and Recreation Staff evaluate the recommendations of the 2018 Pass User Fee Study and develop a long-term Cost Recovery Strategy. Additionally, council would like to implement some/all changes in 2019 if possible.

June 27, 2018

During the June 27, 2018 Parks and Recreation Commission meeting, Staff presented several alternative cost recovery strategies to the Commission in order to assist the commission with developing a long term Cost Recovery Strategy. The following alternatives were presented to the Commission:

- A. Continue with City Council recommendations from 2017.
- B. Implement Pass software for at least two years and follow service categories as presented by Matt Hockey with ePRepsolutions and determine subsidy levels for each of the recommended service categories.
- C. Develop cost recovery categories and cost recovery goals according to the "Pyramid Methodology" developed by Greenplay LLC.
- D. Develop new cost recovery categories, goals and levels of subsidy.

As a result, the Parks and Recreation Commission directed Staff to provide detailed information from the Pass software analysis and study.

July 25, 2018

Staff provided detailed information from the Pass software cost recovery analysis and study. After discussing the Parks and Recreation Commission decided to continue discussing the subject at a future work session.

December 12, 2018

To assist in framing and facilitating the conversation Staff prepared a recommendation and presentation for the December 12, 2018 Parks and Recreation Commission Work Session utilizing the GreenPlay LLC., community benefit vs. individual benefit pyramid Strategy and methodology while taking into account underlying principles that are important and unique to our community. Such as, our history, sense of place, economic climate, and the communities priorities identified from existing survey data. At the conclusion of this work session, there was consensus and support amongst the Commission on several items as well as questions for Staff to research and report back on.

During the December 12th Parks and Recreation Commission Work Session, there was consensus amongst the Commission in the following areas:

1. To utilize the GreenPlay LLC., community benefit vs. individual benefit pyramid Strategy and methodology while taking into account underlying principles that are important and unique to our community.

2. Percent range of cost recovery per category within the pyramid to be:

- I. Mostly Community Benefit, 0-10%

Category I. Description / Definition: The foundational level of the Pyramid is the largest, and encompasses those services including programs and facilities that mostly benefit the community as a whole. These services may increase property values, provide safety, address social needs, and enhance quality of life for residents. The community generally pays for these basic services via tax support. These services are generally offered to residents at a minimal charge or with no fee. A large percentage of the agency's tax support would fund this level of the Pyramid.

- II. Considerable Community Benefit, 10-25%

Category II. Description / Definition: The second level of the Pyramid represents services that promote individual physical and mental wellbeing, and may begin to provide skill development. They are generally traditionally expected services and/or beginner

instructional levels. These services are typically assigned fees based upon a specified percentage of direct (and may also include indirect) costs. These costs are partially offset by both a tax investment to account for considerable community benefit and participant fees to account for the Individual benefit received from the service.

III. Individual/Community Benefit, 25-50%

Category III. Description / Definition: The third level of the Pyramid represents services promoting individual physical and mental well-being, and provides an intermediate level of skill development. The level provides balanced individual and community benefit and should be priced accordingly. The individual fee is set to recover a higher percentage of cost than those services falling within lower Pyramid levels.

IV. Considerable Individual Benefit, 50-80%

Category IV. Description / Definition: The fourth level of the Pyramid represents specialized services generally for specific groups, and those that may have a competitive focus. Services in this level may be priced to recover full cost.

V. Mostly Individual Benefit, 80-100%

Category V. Description / Definition: At the top of the pyramid, the fifth level represents services that have potential to generate revenues above costs, may be in the same market space as the private sector, or may fall outside the core mission of the agency. In this level, services should be priced to recover full cost.

3. On the correlation of service area to each category within the pyramid to be: (Please also refer to Attachment 2. for detailed description of each Service Area.)

I. Mostly Community Benefit, 0-10%

- Botanic Park
- Streetscapes
- Parks
- Trails and Open Space

II. Considerable Community Benefit, 10-25%

- Rodeo
- Howelsen Hill Ski Area

III. Individual/Community Benefit, 25-50%

- Youth Programs

IV. Considerable Individual Benefit, 50-80%

- Adult Sports
- Bike Series
- Ice Arena

V. Mostly Individual Benefit, 80-100%

- Haymaker Golf Course
- Tennis Center

Items for Staff to research and report back during the January 23, 2019 work session included:

1. Description of how costs are calculated, including:
 - A. Description of overhead charges and identify which service areas are charged overhead.
 - B. Description of Capital Improvement Projects and explanation as to when they are or are not included in Cost Recovery projections.
2. Establish a Sports Field Service Area.
3. Description of each service area.
4. Consider applying overhead, administrative, and marketing costs across the board for equality.
5. Evaluate how to prioritize reduced fees for youth.

January 23, 2019

For the January 23, 2019 Parks and Recreation Commission Work Session Staff had researched and prepared responses to the Commissioners requests. These responses are below:

1. Description of how costs are calculated: Cost recovery calculations are based on the City's current accounting structure that accounts for direct costs only for each service area. Direct costs include all associated personnel costs, operating, certain equipment, and maintenance costs to provide the service. The annual budget process serves as the first step of cost allocation and approval and includes an annual budget approval meeting with the Department Director, Finance Director, and City Manager. Throughout the year, payment requests of up to \$2,499 are approved by a Department Delegate, payment request of up to \$4,999 are approved by the Department Director, payment request of up to \$9,999 are approved by the Finance Director, and payment request of over \$10,000 are approved by the City Manager.

Labor cost allocations are also defined during the annual budget process and actual labor cost allocations can either be done automatically according to the budgeted labor cost allocations or manually through the payroll system. For example, the 2019 cost recovery level for the Howelsen Hill Ski Area is calculated by dividing the 2019 budgeted Howelsen Ski Area revenue of \$241,000 by the total costs of \$1,290,727. Therefore the 2019 Howelsen Hill cost recovery level is 18.7%. Direct costs used for this calculation may include City overhead for operational divisions outlined but not an allocation of the department's administration or marketing costs.

It is important to note that within our current accounting system, the accounting for several services is often combined into a single service area and thus cost recovery calculations may require educated estimates or by calculating cost recovery by using activity codes that may capture a certain service area or special projects.

A. Description of overhead charges and identify which service areas are charged overhead: The City charges a portion of the city's administrative costs, such as IT, Finance, City Manager, and Human Resource related costs to "Enterprise like" functions of the Parks and Recreation Department in order to recover but also capture these administrative costs. The overhead calculations are very complex but are intended to accurately reflect the City's administrative costs of each service area the city supports.

Currently, the city charges the following Parks and Recreation Service Areas with city administrative overhead:

- Tennis Center, \$36,130
- Howelsen Ice Arena, \$147,600
- Rodeo, \$33,222
- Howelsen Hill, \$175,698
- Golf Course, \$163,978

All figures are based on 2019 budgeted costs.

B. Description of Capital Improvement Projects and Capital Assets and explanation as to when they are or are not included in Cost Recovery projections: Capital Improvement Projects (CIP) items of \$50,000 or more are budgeted on an annual basis and are not accounted for in any of the Parks and Recreation Departments expense accounts. However, Capital Assets as defined in the City of Steamboat Springs Capital Asset Policy may still be accounted for in operating expense accounts labeled appropriately. For instance, a piece of equipment that costs more than

\$5,000 but less than \$50,000 may still be accounted for in a service area expense account.

2. Establish a Sports Fields Service Area: In that past, Sports field maintenance was budgeted and accounted for in the Parks Service Area. However, expenses are also tracked in "rectangular field" and "diamond field" activity codes. In the future, we hope that we can budget separately for Sports Fields expenses and revenues, thus create a new service area in order to budget and track any expenses related to this distinct service. For the purpose of this analysis, we looked at the 2018 expenses and revenues associated with ball field maintenance with the "rectangular field" and "diamond field" activity codes.

The 2019 cost recovery level for the proposed Sports Fields Service Area is 8.9%. However, it is important to note that the cost recovery within the activity codes within this service area differ greatly. As the Rectangular Field Activity Code has a cost recovery of 30.7% while the Diamond Field Activity Code has a cost recovery of 1.7%.

It is Staff's recommendation that the Sort Field service area belong to the GreenPlay LLC., community benefit vs. indivual benefit pyramid Strategy and methodology category III. Individual/Community Benefit, 25-50% cost recovery category. If this recommendation were accepted, Staff would work gradually towards increasing the 8.9% Sort Field Cost Recovery to within the 25-50% cost recovery range by maintaining the current 30.7% Rectangular Field Activity Code Cost Recovery within the 25-50% range and increasing the 1.7% Diamond Field Activity Code Cost Recovery by applying and increasing field use fees.

3. Staff informed that Parks and Recreation Commission that they are in the process of preparing detailed descriptions of each service area and each service areas 2019 budgeted cost recovery, expenditures, and revenues. This information is expected to take a week to prepare and will be presented to the Parks and Recreation Commission prior to endorsement.

4. Consider applying City overhead, administrative, and marketing costs across each service area for equality.

Reasons to incorporate City overhead, administrative, and marketing costs across each service area include:

- Applying the City's overhead costs, the Department's administrative costs as well as marketing costs, would result in capturing all relevant expenses for any particular service area – not just direct costs only.

- Applying the City's overhead costs, the Department's administrative costs as well as marketing costs, would result equality as the City's overhead is currently not charged to every service area.

Reasons not to incorporate City overhead, administrative, and marketing costs across each service area include:

- Applying the City's overhead costs across all service areas is not in-line with the City's accounting methodologies and underlying principles of calculating and applying overhead charges.
- For consistency purposes, any overhead, admin / marketing costs would have to be applied by percent of (expense) budget and therefore may or may not represent true cost of service.

5. Evaluate how to prioritize reduced fees for youth: Based on the Parks and Recreation Commission's December 12, 2018 Work Session discussion to prioritize youth services and keep the fees charged for youth services at a lesser rate than those charged for adults. It is Staff's recommendation to accomplish this within the City Manager approved Fee Schedule.

The attached fee schedule currently incorporates reduced youth fees for many of the services offered. However, for services that do not currently have youth specific fees, such as trail impact fees, changes can be considered in future fee schedules. Further, it is possible to provide the opportunity to consider in-kind contributions for regular reoccurring user groups as part of the fee setting guidelines.

After reviewing and discussing the researched and prepared responses from Staff, there was consensus that the city's administrative costs as well as the Parks and Recreation Department's administrative and marketing costs are to be allocated to each service area by percent of expense budget in order to capture all relevant direct and indirect costs. The cost recovery calculations using this methodology are attached in Attachment 1. There was consensus to provide the recommended cost recovery calculations to the commission in advance of the February 13, 2019 meeting. Staff also was to provide an updated description of each service area. The service area descriptions are attached in Attachment 2.

February 13, 2019

During the February 13, 2019 Parks and Recreation Commission meeting, following substantial public testimony and in-depth discussions by the Commission. The Commission made a motion to recommend the Cost Recovery Strategy to City Council with the modification of moving the Steamboat Tennis Center from Category V. of the cost recovery Pyramid (Mostly Individual

Benefit) to Category III. (Individual/Community Benefit). Public comments were mostly received from members of the Tennis and Pickleball community who emphasized the importance of the Steamboat Tennis Center to the community and generally did not agree with the categorization originally proposed by the Parks and Recreation Commission. The Commission emphasized that the Steamboat Tennis Center operates under a concessionaire agreement and is therefore not looking to recover 80 to 100% of the city's cost to operate the Tennis Center. The current cost recovery for the city to operate the Tennis Center is 21.4%, however it is important to note the total cost recovery for the service to be provided to the community (city and tennis concessionaire operational costs and revenues combined) is 79%. There was also consensus among the commission to leave the determination of youth vs adult fee structures within a service area to Staff and to strive for lower youth vs adult fees within a given service area.

March 5, 2019

During the March 5, 2019 City Council meeting, following in-depth discussions, City Council directed Parks and Recreation staff to move the Tennis Center from Category III. of the cost recovery Pyramid (Individual/Community Benefit) to Category IV. (Mostly Individual Benefit). City Council also directed staff to bring back a resolution that would allow City Council to formerly adopt the presented cost recovery model at a future City Council meeting.

II. SUMMARY AND ALTERNATIVES:

City Council may approve as presented, approve with revisions, table, or deny the Resolution.

III. STAFF RECOMMENDATION:

Staff recommends approval of the Resolution as presented.

IV. FISCAL IMPACT:

The resolution, if adopted, is likely to have impacts to fees collected and service operations for some service categories as outlined below:

Haymaker Golf Course

2019 cost recovery ratio: 79.5%

Recommended cost recovery ratio: 80-100%

Possible fiscal impacts/actions: The Haymaker Golf Course is accounted for in an Enterprise fund and therefore financially self-sustainable within the existing Haymaker enterprise accounting structure.

Adult Sports

2019 cost recovery ratio: 56.9%

Recommended cost recovery ratio: 50-80%

Possible fiscal impacts/actions: Continue to monitor operational expenses and user fees to ensure the service area remains within the recommended cost recovery ratio.

Howelsen Ice Arena

2019 cost recovery ratio: 80.8%

Recommended cost recovery ratio: 50-80%

Possible fiscal impacts/Actions: Continue to monitor operational expenses and user fees to ensure the service area remains within the recommended cost recovery ratio.

Bike Series

2019 cost recovery ratio: 28.7%

Recommended cost recovery ratio: 50-80%

Possible fiscal impacts/Actions: Consider raising fees gradually in combination with lowering operating costs and consider partnering with another organization to either host or assist in hosting the event.

Tennis Center

2019 cost recovery ratio: 21.4%

Recommended cost recovery ratio: 50-80%

Possible fiscal impacts/actions: The Tennis Center is operated by an independent contractor under a concessionaire agreement. The concessionaire is responsible for operating the Tennis Center in accordance with the highest standards. The city maintains the facility, provides snow removal and landscaping services and receives utility reimbursements from the concessionaire. Due to the nature of this agreement and the cost recovery calculation methodology of only capturing the revenues and expenses incurred by the City, it is not possible to achieve the recommended cost recovery ratio in 2019. However it is important to note the total cost recovery for the service to be provided to the community (city and tennis concessionaire operational costs combined) is 79%. It may be possible to increase the cost recovery ratio through operational efficiencies in the future.

Sports Fields

2019 cost recovery ratio: 8.9%

Recommended cost recovery ratio: 25-50%

Possible fiscal impacts/Actions: Consider applying current field rental rates to all user groups. This action will take time to implement due to contractual obligations.

Youth Programs

2019 cost recovery ratio: 46.3%

Recommended cost recovery ratio: 25-50%

Possible fiscal impacts/Actions: Continue to monitor operational expenses and user fees to ensure the service area remains within the recommended cost recovery ratio.

Howelsen Hill Ski Area

2019 cost recovery ratio: 15.6%

Recommended cost recovery ratio: 10-25%

Possible fiscal impacts/actions: Continue to monitor operational expenses and user fees to ensure the service area remains within the recommended cost recovery ratio.

Rodeo

2019 cost recovery ratio: 13.0%

Recommended cost recovery ratio: 10-25%

Possible fiscal impacts/actions: Continue to monitor operational expenses and user fees to ensure the service area remains within the recommended cost recovery ratio.

Botanic Park

2019 cost recovery ratio: 72.3%

Recommended cost recovery ratio: 0-10%

Possible fiscal impacts/actions: The Botanic Park service area is self-supported by the Botanic Park Endowment Fund.

Streetscapes

2019 cost recovery ratio: 0.0%

Recommended cost recovery ratio: 0-10%

Possible fiscal impacts/actions: Continue to monitor operational expenses.

Parks

2019 cost recovery ratio: 1.5%

Recommended cost recovery ratio: 0-10%

Possible fiscal impacts/actions: Continue to monitor operational expenses and user fees.

Trails and Open Space

2019 cost recovery ratio: 9.0%

Recommended cost recovery ratio: 0-10%

Possible fiscal impacts/actions: Continue to monitor operational expenses and user fees.

V. LEGAL ISSUES:

The Parks and Recreation Commission's recommended Cost Recovery Strategy may take time to implement due to existing contracts with user groups that have would need to be revised.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

Conflicts are possible as some user groups may disagree with the Parks and Recreation Commission's recommendation for Cost Recovery Strategy; including identified categories, ranges for each category, and correlated services to each category and range.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

1. Supportive of City Council's Mission (We plan, partner, and provide superior services and a safe environment in our thriving, authentic community.)
2. Supportive of City Council's priority goals (Develop a long-term fiscal sustainability plan for the city, which incorporates revenue diversification, cost recovery, asset performance for facilities, and community education and outreach.)
3. Supportive of City Council's goal of community engagement through multiple channels such as social media posts, project outline and materials posted on <https://www.engageteamboat.net> website, mass emails to community stakeholders, a press release, and email invitations to all stakeholder groups to the February 13, 2019 Parks and Recreation Commission meeting.

ATTACHMENTS:

- Attachment 1: Cost Recovery Model calculations including all direct and indirect costs.
- Attachment 2: Description of Parks and Recreation Service Categories.
- Attachment 3: 2019 Parks and Recreation Fee Schedules.
- Attachment 4: Links to previous meeting packet materials and videos.
- Attachment 5: Master Plan and Community Survey Data.