



# Rec and MICEC Reset

January 21, 2021

A collection of abstract geometric shapes in orange, green, and blue. On the left, there is a vertical orange line, a green semi-circle, and a blue dashed line. In the center, there is a green semi-circle, a blue dashed line, and a green semi-circle. On the right, there is an orange semi-circle, a green semi-circle, and a blue dashed line. The shapes are arranged in a way that they seem to be part of a larger, abstract design.

# Introductions and roles

Rec reset team: Emily Moon (consultant); staff:  
Ryan Daly, Merrill Thomas-Schadt, Katie Herzog

Develop recommendations for the reset (immediate and longer-term) of recreation and Mercer Island Community and Event Center (MICEC) programs and services by applying data, priorities/goals and input, such that some operations can begin as soon as the Summer of 2021.

## Parks and Recreation Commission Members

Review and provide input on the reset plans; provide City Council with advice regarding a recommended cost recovery and resource allocation philosophy, a pricing strategy and a multi-year road map for recreation and the Mercer Island Community and Events Center; help ensure alignment with the Parks, Recreation and Open Space (PROS) Plan; advise City Council concerning the development of future policies related implementation.

# Big task, but take comfort...

- Two months to learn, listen, discuss, make initial recommendations; you've been empowered to represent and advise
- Public engagement's focus is on helping residents know that we're working on the reset; engagement and input opportunities will be ongoing – even after initial recommendations are made
- All final products can be updated over time, as priorities or other factors change; full implementation will take a few years

# Goals for workshop

Learn	Learn about the cost recovery model
Discuss	Discuss outcomes for reset project and, overall, for recreation and MICEC
Begin	Begin to identify cost recovery targets and share ideas about a pricing strategy

# BIG PICTURE project directive

“Figure out how to start up some services.”

- What?
- When?
- How?
- Why?
- Who?

What are we working with? Limited financial and staffing resources, a great physical asset, a new but dedicated commission, a supportive community, and more.

“If you don’t know where you are going,  
any road will take you there.”

# Reset project's goals and expectations

- Improve financial sustainability
- Be deliberate about which programs we offer and what level of resources we are putting into them
- Use strengths and assets to improve the City's ability to deliver more service, services that need more financial support, or higher quality services
- Create greater clarity around who is benefitting from services and who is paying for them
- Develop a strategic approach for near- and far-term (including a cost recovery and resource allocation philosophy)

# What are the outcomes we are seeking through developing a philosophy or strategy for cost recovery and resource allocation?




FINANCIAL SUSTAINABILITY THAT  
ENSURES STEWARDSHIP AND  
ACCESSIBILITY THAT BENEFITS ALL




PURPOSELY PLANNED BALANCE  
BETWEEN COMMUNITY-INVESTMENT  
AND INDIVIDUAL BENEFITS



SERVICE AND PROGRAM OFFERINGS  
THAT ARE ALIGNED WITH VALUES AND  
GOALS



# What is cost recovery?

- 
- The degree to which the operational (and sometimes maintenance) costs of providing a program or service are supported by user fees and/or other funding mechanisms such as grants, partnerships, donations, sponsorships, or other alternative (non-tax) funding sources.
  - Subsidized programs and services receive General Fund support such as revenue from taxes collected by the City. Subsidy can be thought of as the community's investment in recreation.



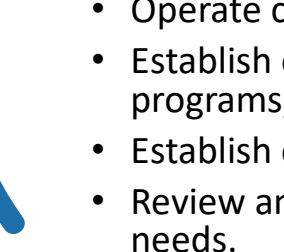


Questions so far?



# A brief sidenote...

a framework focusing on Rec's financial sustainability isn't new.

- Fee study completed in 2002 established an overall cost recovery goal, which has been increased several times
  - 2014-2019 Parks and Rec Plan includes goals such as:
    - Cost recovery levels for adults shall be greater than youth and seniors and youth programs shall recover more than senior programs
    - Adult sports leagues shall recover a higher level of costs than youth sports leagues
    - Operate community center (MICEC) within budget policy as set by City Council
    - Establish city and department usage and fee guidelines for overall facility usage such as recreation programs, public rentals, and free usage
    - Establish cost recovery guidelines for facility
    - Review and establish Council directed funding policy for center that can support its annual operational needs.
- 



## Policy questions to keep in mind

- To what extent should recreation programs, services and MICEC costs be taxpayer supported, as opposed to being paid for by participants or users? Does that extent vary depending on if the service is deemed to be a core service rather than a discretionary one, or if the service benefits individuals more than groups or the community as a whole?
- Should specific populations be the target audience or recipient of a larger share of the City's recreational programming or MICEC use? If so, who are those populations?
- Should the way the City charges for programs and services reflect the mission, values and vision for recreation services? If so, how?
- What is the City's role and responsibility for recreation (or as a recreation center or events center) in Mercer Island? How can the new portfolio of programs and services reflect that role and responsibility?

*These questions appeared on the project's Let's Talk page.*

# Key questions in establishing a cost recovery and resource allocation philosophy

- Where's the money going?
- Which programs or facilities are being subsidized?
- What should you be subsidizing to meet your overall goals?
- Is the City the best or most appropriate organization to provide the service?
- Is market competition good for our residents?
- Is the City spreading its resources too thin without the capacity to sustain core services and the system in general?

# Key questions in establishing a cost recovery and resource allocation philosophy

- Are there opportunities to work with another organization to provide services in a more efficient and responsible manner?
- Are our programs priced fairly and equitably?
- How will we continue to fund departmental facilities and services in relationship to future budget constraints?
- Are we using funding in a responsible manner?
- Is there a methodology for the distribution of subsidy (funds used in excess of what is collected by direct fees)? If so, are we transparent?
- Does the way we charge for services (facilities, programs, etc.) support the departmental/City values, vision, and mission?



Questions so far?

# Funding

In the past, recreation and MICEC sources of funding were:

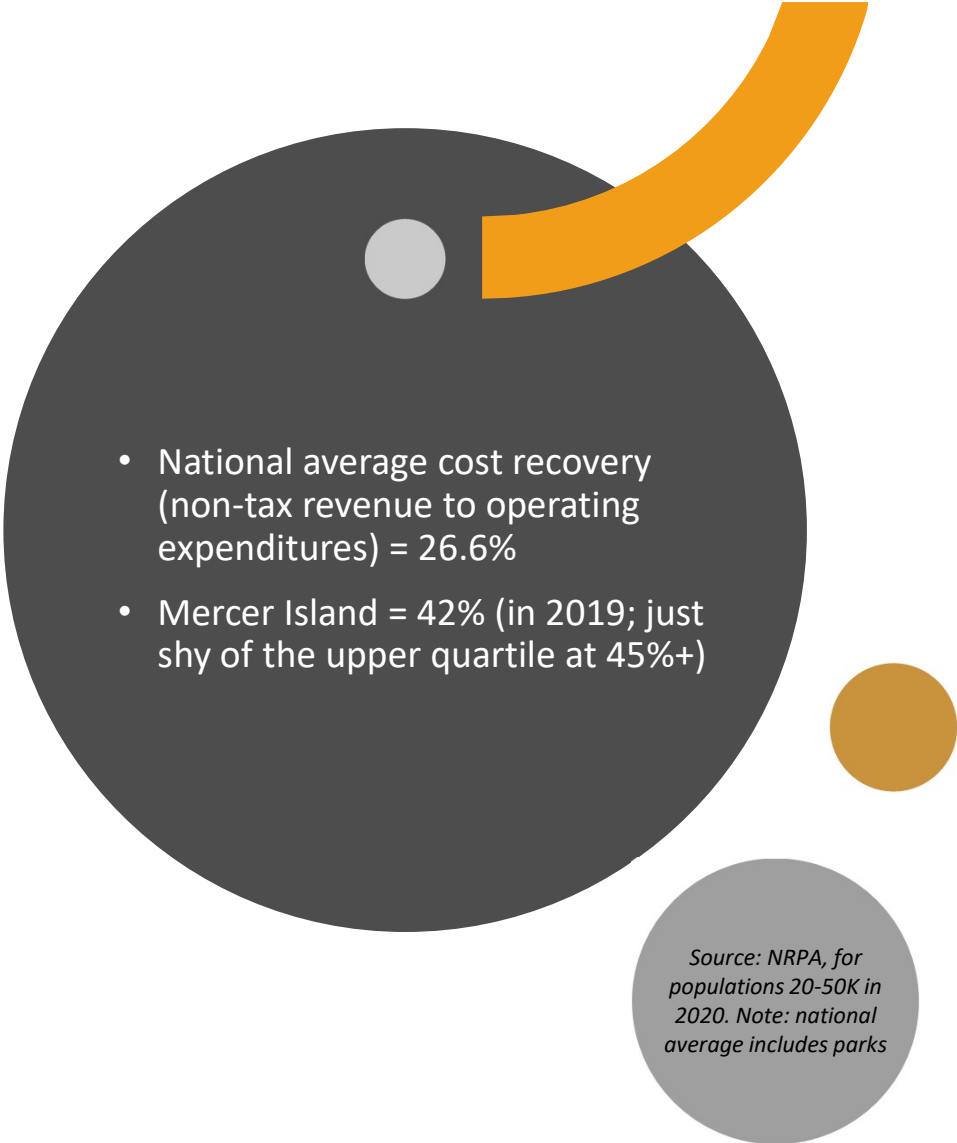
- 57% from taxes
- 23% from rental fees paid by people of groups to rent rooms in the facility
- 17% from fees paid by participants and users for programs
- 2% from miscellaneous assortment of sources (such as gallery art sales, donations, etc.)

Nationally, sources of operating support for parks and recreation departments or districts are, on average:

- 60% General Fund tax support
- 24% earned/generated revenue
- 8% dedicated levies
- 3% other dedicated taxes
- 2% grants
- 2% other
- 1% sponsorships

*(Source: NRPA)*

# Mercer Island's cost recovery compared to a benchmark

- 
- National average cost recovery (non-tax revenue to operating expenditures) = 26.6%
  - Mercer Island = 42% (in 2019; just shy of the upper quartile at 45%+)

*Source: NRPA, for populations 20-50K in 2020. Note: national average includes parks*



# Cost recovery and resource allocation philosophy

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Getting started

# Getting started



## Typical steps for departments that are simultaneously delivering services:

1. Pause to examine values, mission, vision
2. Identify core services and assets
3. Do some assessment of services/programs
4. Categorize past/potential types of services
5. Identify direct and indirect costs
6. Examine past and market pricing
7. Consider current and future capacity for doing cost recovery accounting

## Our steps

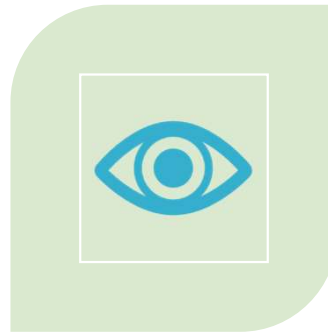
1. Proceeding with these in mind
2. Will discuss with Commission
3. No current programs but will review when new framework complete and ready to select offerings
4. Will discuss with Commission
5. Have identified
6. Will do as part of the fee study and development of fee schedule
7. Ongoing

# Guiding statements



## MISSION

*(P&R) Take pride in providing the highest quality facilities and services in partnership with the community to enhance livability on Mercer Island.*



## VISION

*(City) To provide valued and effective municipal services in ways that are efficient, flexible, innovative, and creative, with an emphasis on sustainability. We strive to be among the best in all we do.*



## VALUES

*(City) We value high ethical standards, outstanding customer service, teamwork, and leadership development.*

Community members were largely happy with recreation and the MICEC prior to the pandemic.



Nearly all respondents (99%) think parks and recreation are important to quality of life on Mercer Island.

(2020 PROS survey)



76% “satisfied” or “very satisfied” with “recreation programs and special events”

(2018 community survey)



The majority expressed satisfaction with the quantity of programs, services and indoor facilities.

(2020 PROS survey)

# Past offerings included...

- Youth and adult athletics
- Room/gym/facility rentals
- Special events
- Trips
- Fitness and non-fitness classes (such as art, language, computer)
- Daytime program for seniors
- Adaptive recreation opportunities
- School break and summer camps
- Drop-in activities
- Art gallery
- Fitness Center
- And more!



# Core services and (fixed) assets

## Recreation

Assets:

Equipment, available space

Core services: ?

## Community and Events Center

Assets:

Gymnasium, meeting/activity  
rooms, kitchen, locker rooms,  
gallery space....

Core services:

Facility rental or reservation  
for public or private use....

Core = can be debatable; often means services that the municipality is required (compelled) to deliver and services that are expected (usually because no other provider exists).

Which  
programs  
or activities  
should we  
provide?

- We will identify our goals for service delivery.
- By clarifying how we will achieve our sought-after outcomes, we will bring into focus what is “essential”.

Eventually, we will begin to label programs and services as one of the following:

- The public good/social core
- The business sustainability core
- The non-essential desirables



# Quick discussion on core services



# Ways of viewing service provision

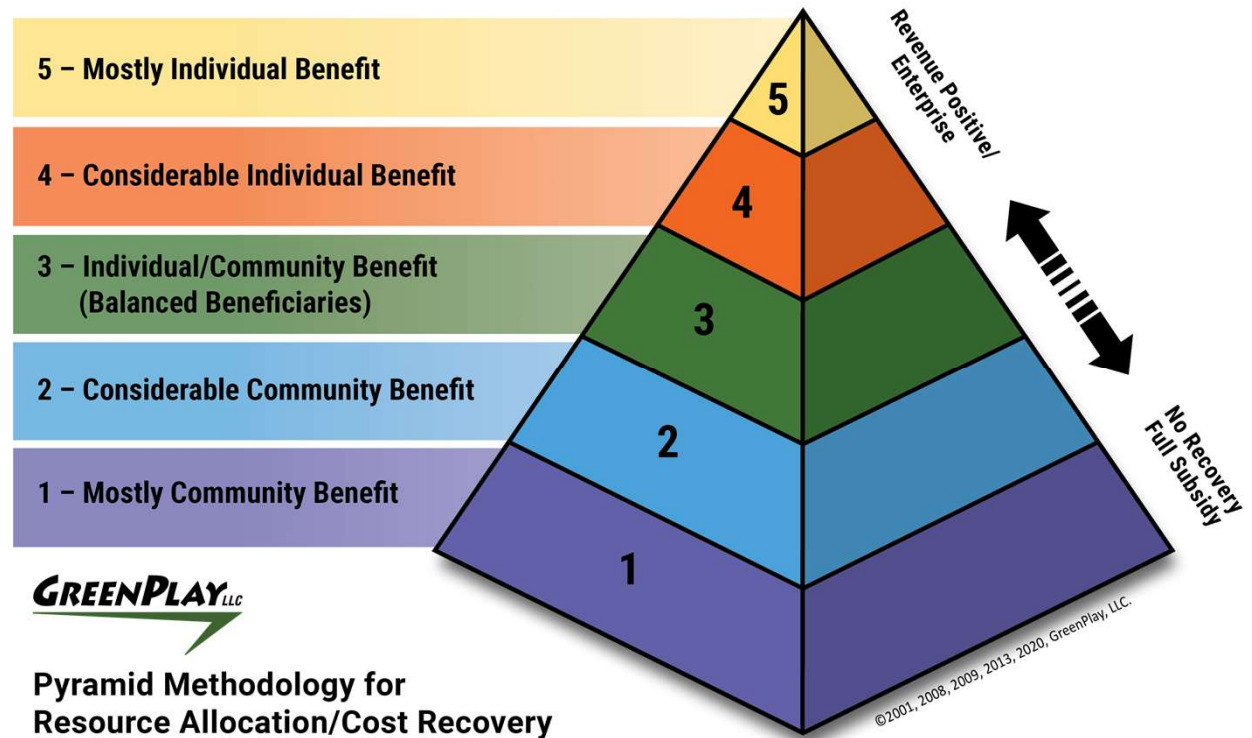
Filter	Definition
Benefit	Who receives the benefit of the service? (Skill development, education, physical health, mental health, safety)
Access/Type of Service	Is the service available to everyone equally? Is participation or eligibility restricted by diversity factors (i.e., age, ability, skill, financial)?
Organizational Responsibility	Is it the organization's responsibility or obligation to provide the service based upon mission, legal mandate, or other obligation or requirement?
Historical Expectations	What have we always done that we cannot change?
Anticipated Impacts	What is the anticipated impact of the service on existing resources? On other users? On the environment? What is the anticipated impact of not providing the service?
Social Value	What is the perceived social value of the service by constituents, city staff and leadership, and policy makers? Is it a community builder?



# Pyramid Methodology

Sorts programs and services into tiers based on an assessment of who benefits from that program/service

Other filters may also be applied but the benefits filter is primary.



# Influential Factors and Considerations

The provision of services also can be influenced by these factors and filters:

- Trends (traditional and expected to innovative or fad)
- Commitment factors (drop-in to specialized)
- Political filter (not a continuum; asks, “What’s in/out of our control?”)
- Marketing factor (effect in attracting participants/customers)
- Relative cost to provide factor (low to high)
- Economic conditions factor (financial realities; ability to pay)
- Financial goals factor (100% subsidized to generates excess revenue)



# Categorizing services/programs

Administrative overhead/allocated costs

Adult advanced/competitive programs

Adult beginner/intermediate programs

Boat launch use

Community and Events Center facility rentals (exclusive use)

Community-wide special events or open (no pre-registration) special programs

Drop-in, self-directed sports

Equipment rentals

Facility/park shelter/field rentals (public use)

Fitness center use

Inclusion services

Maintenance/custodial services

Merchandise sales

Mixed age/family programs

Park shelter/field rentals (exclusive use)

P-Patch use

Preschool-age programming

Private leases of Annex

Private/semi-private lessons, taught by City instructors/contractors

Scholarship program

Senior transportation

Social or human services

Special events (not City-sponsored/external party; substantial)

Therapeutic/Adaptive/Specialized Recreation Services

Tournaments

Trips

Vending, concessions or other commercial sales

Volunteer program

Work study/internship/community service

Youth advanced/competitive programs

Youth beginner/intermediate programs

Youth camps, before and after school, school break programming

32 categories:  
past and possible

# The tiers

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 in addition to a designated profit percentage.

5

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, including all direct expenses.

4

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.

3

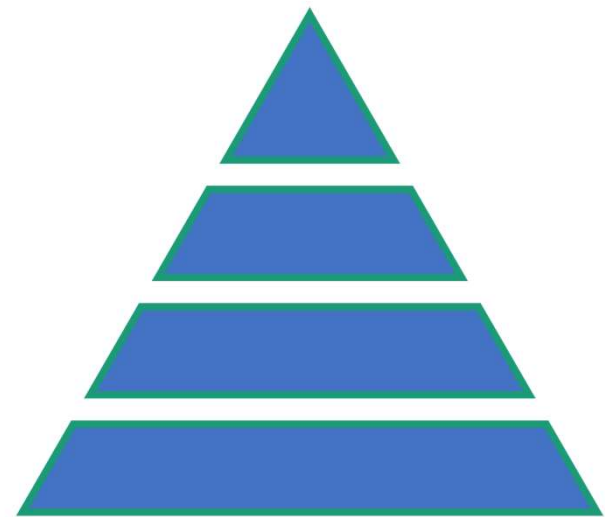
The second level of the Pyramid represents services that promote individual physical and mental wellbeing, and may begin to provide skill development. They are generally traditionally expected services and/or beginner instructional levels. These services are typically assigned fees based upon a specified 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.

2

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.

1

# Exercise: Designing MI's pyramid



# Exercise

- Considered helpful guidance (next slide)
- Reviewed and applied tier definitions
- Sorted categories of services and programs into tiers
- Reset Team aggregated the results
- Tonight: discuss Commission's pyramid and the Reset Team's pyramid

# Exercise

Guidance included:

Think less about who is paying what and more about who is benefitting. Is the service available to more or less of the community? How specialized is the service? Do other people benefit even if they are not engaged in the program/service directly? Who is generating the need for and therefore the cost of the service? Is the City compelled/required to provide this? Are there competing providers?

Cost recovery tier is not synonymous with level or amount of fee. Fees will be set based on a variety of factors (not simply based on the “benefit filter”).



# Commission's aggregated pyramid

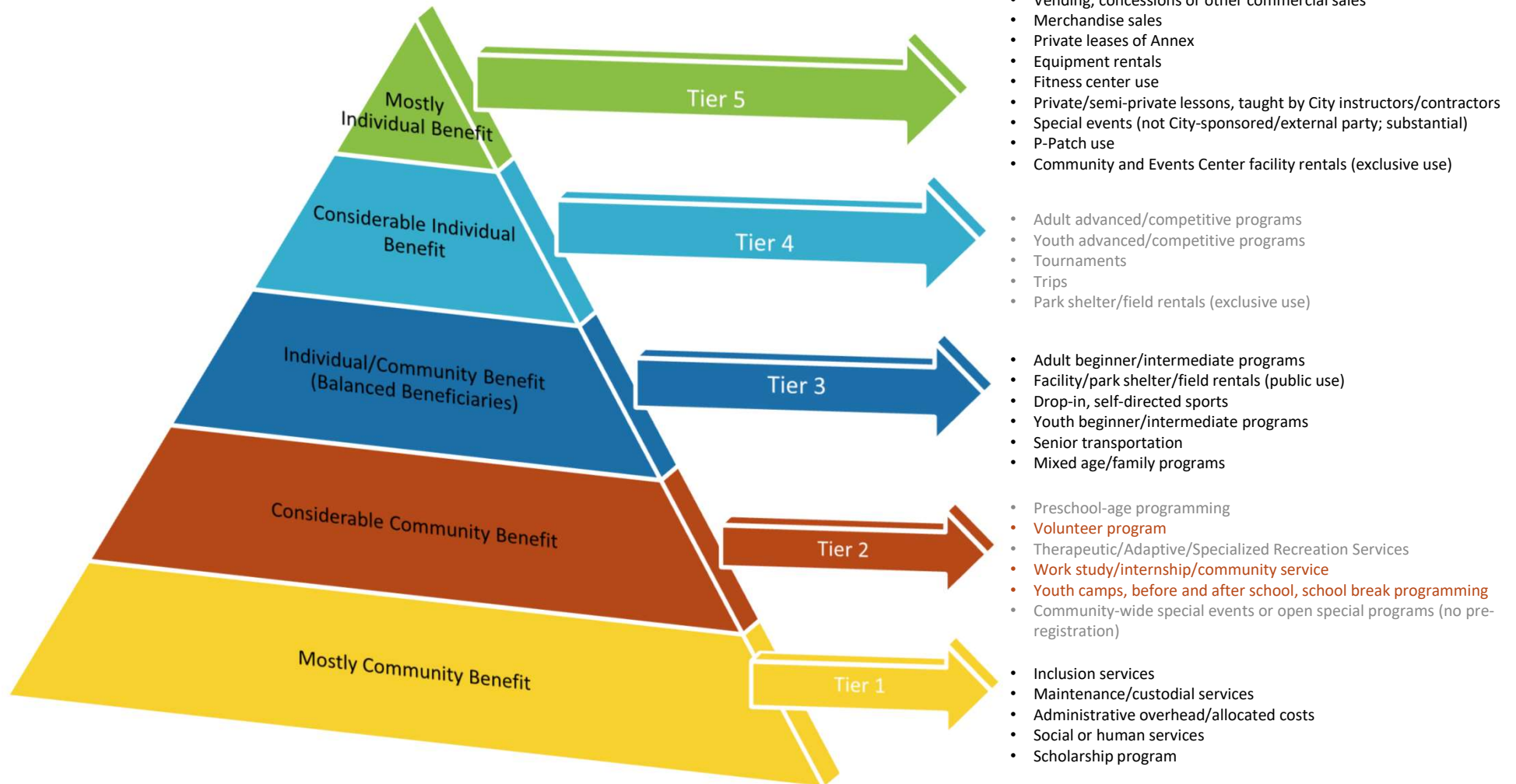
	1 - Mostly Community Benefit	2 - Considerable Community Benefit	3 - Individual/Community Benefit	4 - Considerable Individual Benefit	5 - Mostly Individual Benefit
Administrative overhead/allocated costs	5		1		
Adult advanced/competitive programs		1		2	3
Adult beginner/intermediate programs		2	2	1	1
Boat launch use	2		1	1	2
Community and Events Center facility rentals (exclusive use)				1	5
Community-wide special events or open (no pre-registration) special programs	2	3	1		
Drop-in, self-directed sports		3	2	1	
Equipment rentals				3	3
Facility/park shelter/field rentals (public use)	1		5		
Fitness center use		1	3	2	
Inclusion services	2	2	1	1	
Maintenance/custodial services	6				
Merchandise sales					6
Mixed age/family programs	1	2	2	1	
Park shelter/field rentals (exclusive use)				3	3
P-Patch use		1	2	3	
Preschool-age programming		4	1	1	
Private leases of Annex				1	5
Private/semi-private lessons, taught by City instructors/contractors		1		1	4
Scholarship program	2	2	2		
Senior transportation		3	3		
Social or human services	4	2			
Special events (not City-sponsored/external party; substantial)				2	4
Therapeutic/Adaptive/Specialized Recreation Services	1	3	1	1	
Tournaments				6	
Trips		1	1	4	
Vending, concessions or other commercial sales					6
Volunteer program	4		2		
Work study/internship/community service	4	1	1		
Youth advanced/competitive programs				5	1
Youth beginner/intermediate programs		1	4	1	
Youth camps, before and after school, school break programming			4	1	1

# Commission's aggregated pyramid

	1 - Mostly Community Benefit	2 - Considerable Community Benefit	3 - Individual/Community Benefit	4 - Considerable Individual Benefit	5 - Mostly Individual Benefit
Adult advanced/competitive programs		1		2	3
Adult beginner/intermediate programs		2	2	1	1
Boat launch use	2		1	1	2
Community-wide special events or open (no pre-registration) special programs	2	3	1		
Drop-in, self-directed sports		3	2	1	
Fitness center use		1	3	2	
Inclusion services	2	2	1	1	
Mixed age/family programs	1	2	2	1	
P-Patch use		1	2	3	
Scholarship program	2	2	2		
Therapeutic/Adaptive/Specialized Recreation Services	1	3	1	1	
Senior transportation		3	3		
Park shelter/field rentals (exclusive use)				3	3
Equipment rentals				3	3

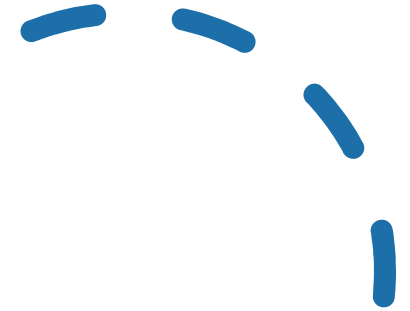
1. Discuss placement of programs/services that lacked good consensus, where results were highly varied
2. Discuss placement of programs/services that had a 3:3 split
3. Discuss where the Commission's pyramid differs from the Reset Team's pyramid

# Reset Team's Proposed Cost Recovery Pyramid





Thoughts about the  
categorization exercise?



# Costs

## Direct

Includes all the specific, identifiable expenses (fixed and variable) associated with providing a service, program, or facility. These expenses would not exist without the program or service and often increase exponentially.

## Indirect

Departmental administration, support services or cost allocations from other internal departments encompass the remaining overhead (fixed and variable) and are not identified as direct costs.

# Cost Recovery Targets

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- The tier cost recovery targets represent the minimum cost recovery for aggregated categories of service within that tier and are primarily attempting to recover direct cost of service provision, not all costs nor fully loaded (direct and indirect) costs.
- While each individual service within the tier may have a fee that is established to recover at or above the target level, the primary objective is for the entire tier as a group to achieve the target.
- The fees for each service will be a product of several factors; tier placement is not the same as scale of fee.

# Examples of Cost Recovery Targets



Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Jurisdiction
Minimum 0%	Minimum 45%	Minimum 90%	Minimum 100%	Minimum 200%	Corvallis, OR
0-15%	16-50%	51-80%	81-100%	100%+	~Steamboat Springs, CO
Minimum 0%	Minimum 20%	Minimum 50%	Minimum 125%	Minimum 150%	Alexandria, VA
Minimum 0%	Minimum 75%	Minimum 100%	Minimum 150%	Minimum 200%+	Tualatin Hills P&R District
Minimum 0%	Minimum 55%	Minimum 75%	Minimum 100%	Minimum 150%+	~San Luis Obispo, CA
Minimum 0%	Minimum 50%	Minimum 75%	Minimum 125%	Minimum 150%+	Denver, CO*
0-1%	Minimum 100%	Minimum 110%	Minimum 130%	Minimum 160%	Redmond, WA
>0%	>25%	>50%	>75%	>100%	Kirkland, WA
<i>Minimum 0%</i>	<i>Minimum 50%</i>	<i>Minimum 75%</i>	<i>Minimum 120%</i>	<i>Minimum 150%</i>	<i>Mercer Island, WA<sup>!</sup></i>

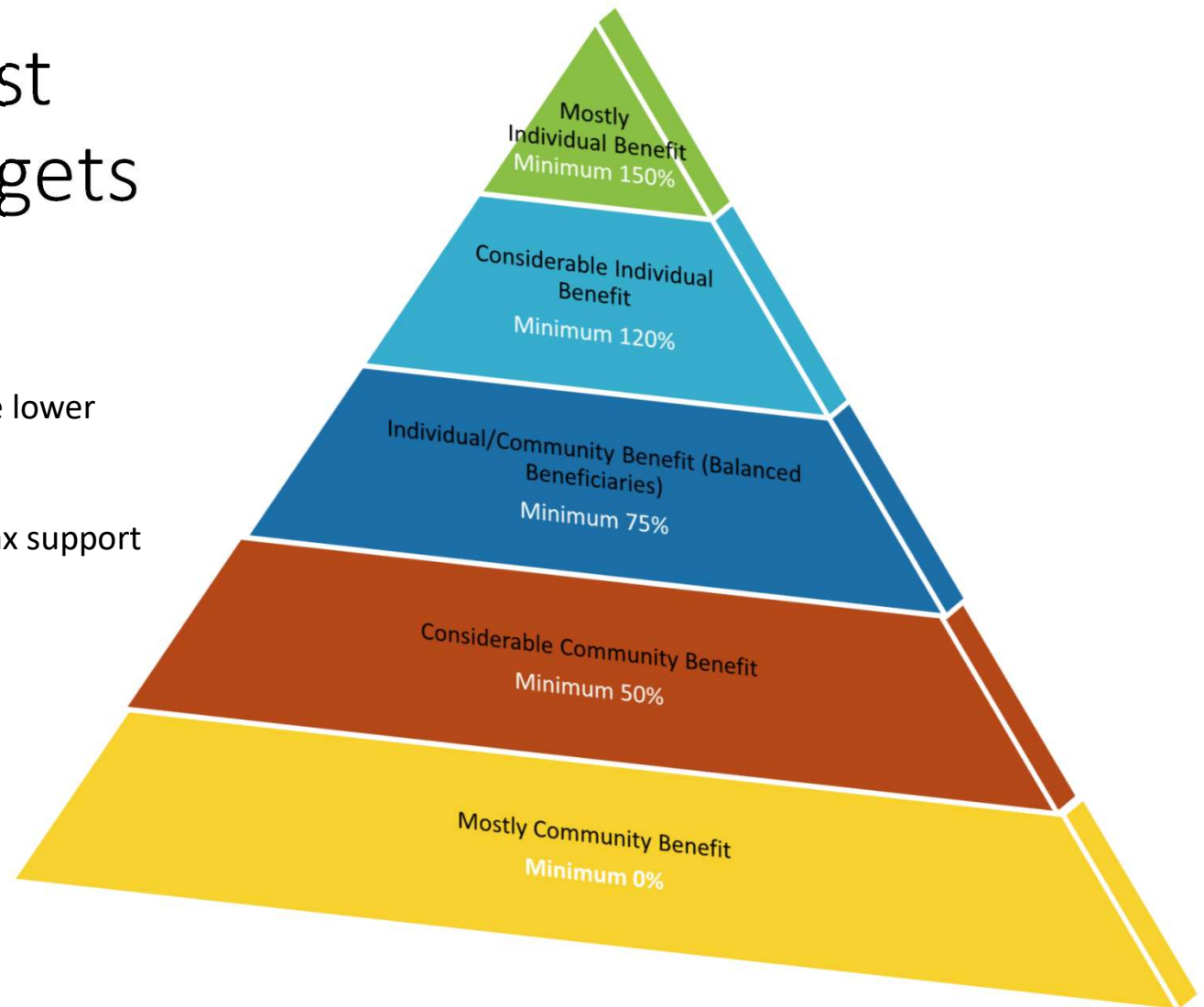
~ Representative

- Includes indirect and capital costs
- ! For discussion

# Proposed Cost Recovery Targets

Upper tiers must help subsidize lower tiers.

Lower tiers will receive more tax support than upper tiers.

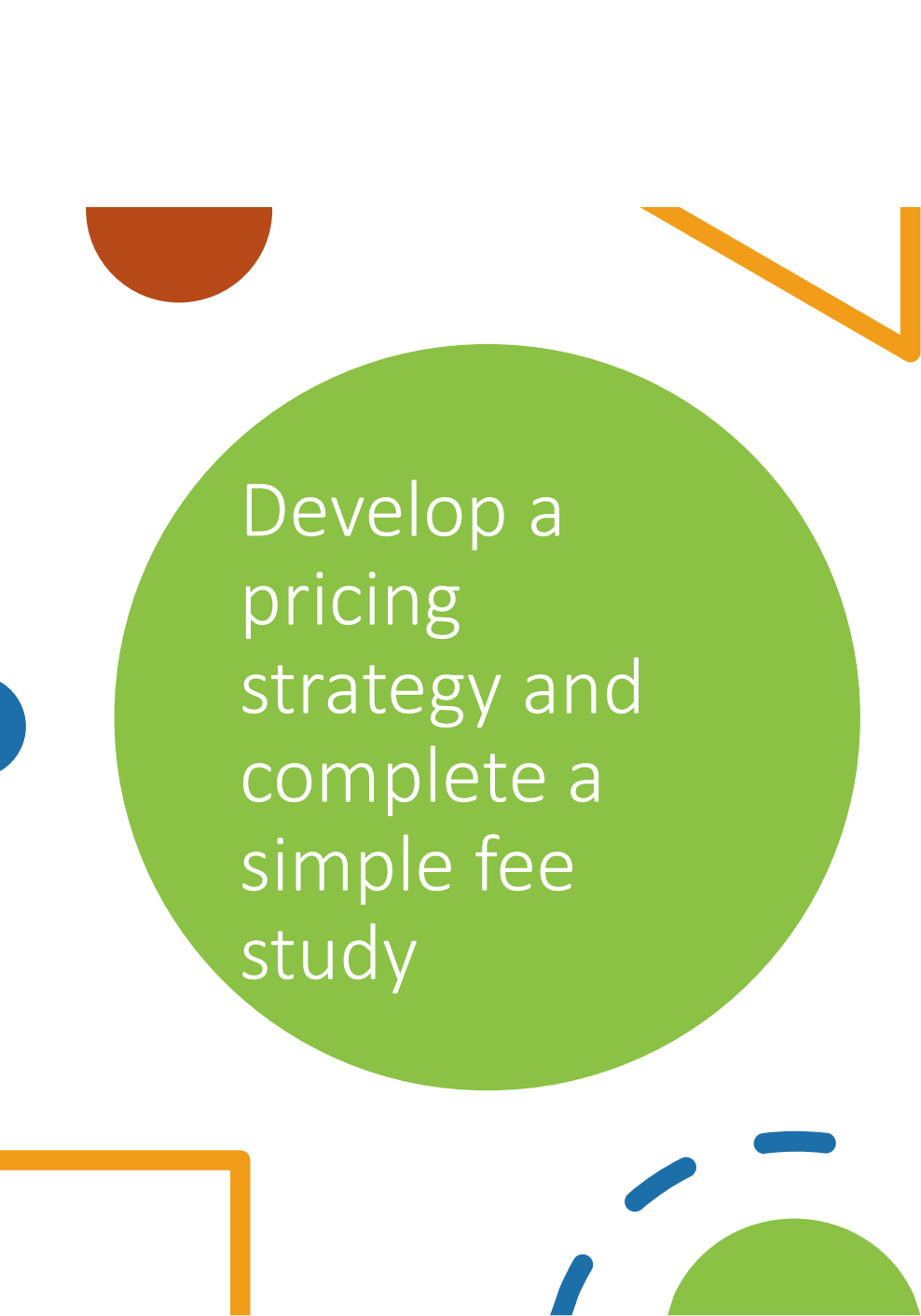






Questions so far?

# Next Steps



Develop a  
pricing  
strategy and  
complete a  
simple fee  
study

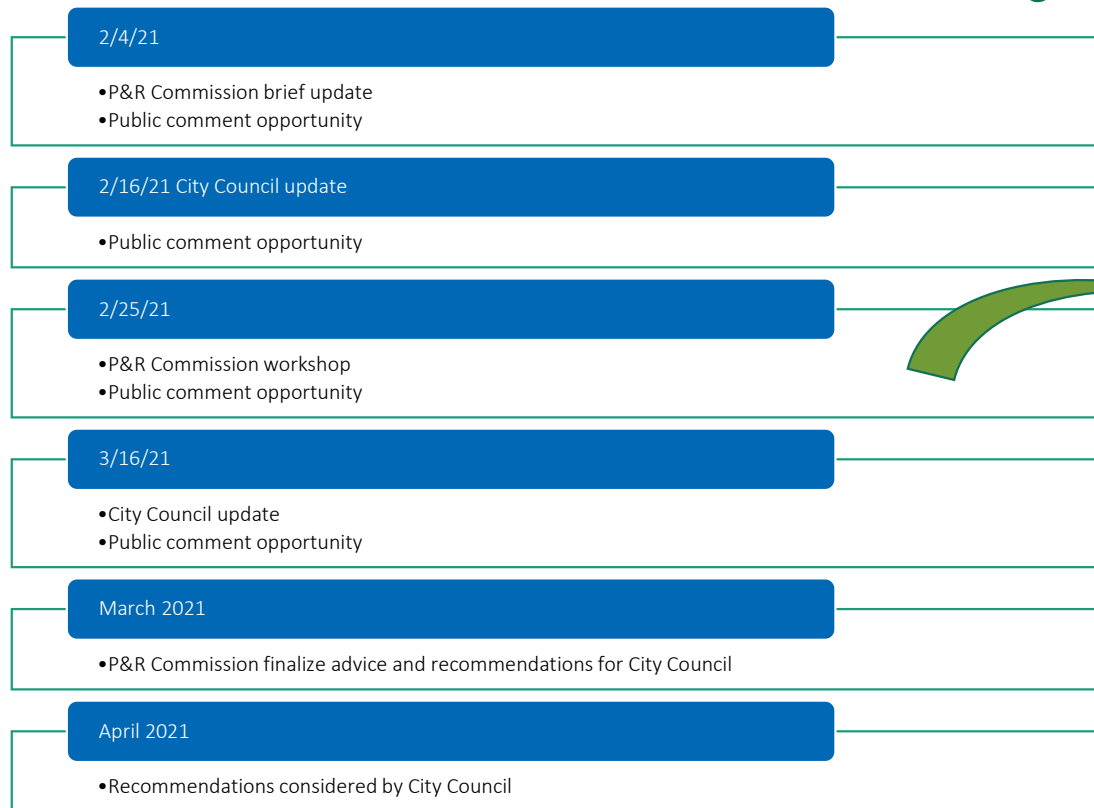
Possible aims of a strategy:

- Recover costs
- Create new resources or seed funds
- Establish value
- Influence behavior
- Promote efficiency
- Implement differential pricing to either stimulate demand for a service during a specified time or to reach underserved populations

Types of strategies:

- Arbitrary (need to reach an overall target)
- Market-based (product of demand)
- Competitor based (match, beat or exceed other providers)
- Cost recovery pricing (designed to reach cost recovery goals)

# Project Schedule



Let's Talk survey is open now!  
Closes February 16<sup>th</sup>.

Next workshop is likely  
to focus on.... sharing  
survey results, fee study  
findings, preliminary  
offerings beginning Fall  
2021, resource needs

