



## PARKS & RECREATION COMMISSION STAFF REPORT

Item 4  
February 4, 2021  
Regular Business

### AGENDA ITEM INFORMATION

<b>TITLE:</b>	Recreation Reset / Recovery Planning (Cont.)	<input checked="" type="checkbox"/> Discussion Only
<b>RECOMMENDED ACTION:</b>	Discuss and provide input on planning process.	<input type="checkbox"/> Action Needed: <input type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>STAFF:</b>	Ryan Daly / Emily Moon (Consultant)	
<b>COUNCIL LIAISON:</b>	Jake Jacobson	
<b>EXHIBITS:</b>	Exhibit 1: Rec and MICEC Reset Presentation (January 21, 2021) Exhibit 2: Cost Recovery Pyramid (draft)	

### SUMMARY

#### BACKGROUND

The Parks and Recreation Commission held a workshop on January 21 which included a presentation by consultant Emily Moon, shown as **Exhibit 1**. This meeting and presentation included an exercise where past and potential categories of services and programs were sorted into cost recovery target tiers. Services were sorted principally according to who benefits from the service, and who should bear the cost of providing the service. Additional factors that influenced the categorization included whether the service was required, whether it was reasonable to assume that taxpayers should subsidize the service (in part or whole), whether other providers of the service exist on Mercer Island, whether there was equal access to the service, and the perceived value to residents of the service being provided by the City of Mercer Island.

#### UPDATE

City staff from the Recreation Rest Team ("Reset Team") reviewed input received at the workshop and collated that information into a draft Cost Recovery Pyramid for the Commission's review, shown as **Exhibit 2**.

In reviewing the pyramid, the Reset Team recommends that the Commission consider the following adjustments based on the rationale provided below.

#### *Youth Camps, Before and After School, School Break Programming:*

The majority of the Commission placed this program category in Tier 3 and it was not discussed during the workshop. Now that the draft cost recovery pyramid shows the Commission's placements, the Reset Team would like the Commission to verify that Tier 3 is its preference for this program category.

The Reset Team (and approximately half of the cities that have performed this exercise) placed this program in **Tier 2: Considerable Community Benefit**, to underscore the program's benefit to the wider community. In Mercer Island, these types of programs provide an affordable and enriching childcare offering to a diverse



population of residents. These programs directly support working families and may reduce the need for other public services. The community benefits by ensuring children have a safe and supervised childcare experience, where participants engage in positive and structured activities. In addition, camps are often a first exposure for Island families to other recreation programs and can lead to the creation of enduring behaviors that promote wellness. The Reset Team believes this program category reflects the definition of Tier 2.

*Fitness Center Use:*

In addition to applying the cost recovery benefits filter of “Who benefits from this service?” it is important that we ask, “Should taxpayers subsidize the cost of an individual’s workout?” Placement in a cost recovery tier is fundamentally about the level of taxpayer subsidy, not about whether the program or service has sufficient benefit to justify its existence. Furthermore, if access equity is a question, the City’s scholarship program is the applicable service that would receive subsidization. Also, consider that fitness centers are not a standard service offered at many community centers; it is a more premium service. The private sector offers this service and there are many options on the Island, including venues that have differential pricing. For these reasons, the Reset Team believes this service should be moved to **Tier 5: Mostly Individual Benefit**.

*P-Patch Use:*

While the P-Patch program is open to all, there are fewer than 60 individuals who have a plot at any given time. Plots are leased for exclusive use, like the use of a field or picnic shelter, and leases can be renewed annually indefinitely, per the City’s existing policy. No community-driven programming is conducted at the P-Patch and there is not a formal relationship to the MIYFS food pantry. Plots are currently \$65 per year and the department typically recovered approximately 20% of the direct costs, not including water.

The Reset Team believes this program should be moved to **Tier 5: Mostly Individual Benefit**, as it meets that tier’s definition. Moving it to Tier 5 does not force the City to increase this program’s fees to the tier-level cost recovery target but would signal that the program mostly serves the individuals who participate in it and that its costs should be covered by non-tax sources (such as user fees and the proceeds of the other Tier 5 programs).

*The Reset Team would also like to share the following thoughts about the recommended placements for the following services:*

*Senior Transportation:*

This service was not discussed during the workshop. Commission members had expressed separately that a Tier 2 or Tier 3 placement would be preferable. The Reset Team has placed the potential program in Tier 3 but wishes to define the previously existing program so that everyone shares this definition. The past program involved transporting seniors from their home to the Community Center via a City-owned bus to participate in a Parks and Recreation program, before returning seniors to their homes. This service was used for programs such as: Senior Social, senior lunches and exercise programs. Transportation was also included in some additional programs (such as grocery shopping), but in those cases the rides were considered as an aspect of those programs and not an additional service.

*Communitywide Special Events or Open Special Programs (no pre-registration):*

Parks and Recreation Commission members were split on whether to place this in Tier 1 or 2, with just slightly more members advocating for Tier 2. The Reset Team believes Tier 2 is appropriate. While this program or service meets the Tier 1 test of providing “mostly community benefit,” it is considerably different in nature than the other Tier 1 programs, more scalable and, perhaps, more discretionary. In addition, taxpayers can



choose to participate or not, whereas many of the Tier 1 services are foundational in nature and will be provided at all times, to all.

The costs of providing this service or these programs are considerably higher than many others. By placing this in Tier 2, the City will demonstrate its intent to seek non-tax funding sources to help offset the costs of providing special events and programs. Most cities who develop cost recovery and resource allocation philosophies have made a similar decision to reserve the bulk of tax dollars for other business sustainability and social core services, and to place community events in Tier 2 or Tier 3. Many have stated that the base tax support for these events could not meet the exponential growth of the cost of providing these events in the last two decades. Some cities have even approved separate levies or designated non-tax revenue sources to provide the municipality's share of the expense, limiting events to only those that fit the available funding.

In Mercer Island, some special events or special programs may be able to recover costs through implementing actions such as:

- Seeking sponsorships or donation
- Selling tickets or collecting entrance fees
- Charging an admission fee for a portion of an event (e.g., a certain concert, tournament element or art show)
- Licensing or renting business/private areas (e.g., vendor booths)
- Selling merchandise or collecting a percentage from vendors for food or beverage sales
- Hosting beer or wine gardens / hosting tastings for food or beverage.
- Offering VIP experiences or additional amenities or features for an additional price
- Conducting raffles, fundraisers or auctions
- Selling advertising space
- Charging for parking

#### *Scholarship Program:*

The City's existing policy enables income-qualified individuals and households to receive a discount of 50%-100% of the cost of participation, up to a maximum of \$300 per person or \$500 per household per year. The increment of cost that is not paid by the program participant is waived or covered by General Fund revenues (including donations from community members). The scholarship program facilitates equity in service access and provision. In the past few years, 15-20 individuals have received scholarship assistance. In 2019, the Parks and Recreation scholarship program provided approximately \$2,700 of assistance.

The Reset Team (and at least half of the Commission members during the January 21 workshop) placed this program in Tier 1. While individuals clearly benefit from the program, the Reset Team believes the entire community benefits by ensuring municipal recreation services are available to all taxpayers and that all residents benefit from diverse participation in City programs. Placing the scholarship program in Tier 1 is consistent with the City's past policy and practice, and recognizes that the cost recovery philosophy allows the City to weigh such factors as:

- The probability that others (non-participants) benefit from the service or program even if they are not engaged in it,
- That the need for the service or program (therefore the cost of it) may be generated by circumstances created by something other than the participants,
- That community values support the subsidy of this program, and



- That Tier 1 is defined, in part, as services or programs that 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.

Placing the scholarship program in Tier 2 would mean that half of the program's cost (which is the value of the waiver or discount) would need to be recovered either by charging the participant more or by generating some other non-tax source of revenue. This would, in essence, diminish the intent and effectiveness of the program.

## **COST RECOVERY TARGETS**

The January workshop included limited time for discussion about the recommended cost recovery targets. Thus far, the discussion has been focused about who benefits for the services and programs and what sources of funding (i.e., taxes or non-taxes) would be appropriate for each. The lowest levels of the pyramid receive the greatest share of tax support. The programs and services in the upper tiers provide financial support for the lower tiers and some of the indirect costs of all services and programs. Targets are set at the tier aggregate level, and the actual fee charged for each program or service within a tier can vary considerably.

Most recreation departments do not have accounting systems that easily allow them to set and monitor cost recovery targets. Going forward, Staff will work to establish a system and a process that will enable them to periodically report out about performance and make recommendations about adjustments to tier placements and targets. Cost recovery targets and the placement of each service can be altered as the City sets fees, has informative expenditure and revenue data, or as community priorities change. Tier targets should be examined on a regular, established basis, which will be outlined in the final recommendations.

The Reset Team reconsidered the targets after the Commission's draft pyramid was developed and does not recommend making any changes to the targets at this time. As was discussed briefly during the workshop, the targets were based on reviewing a sampling of programs' direct costs and revenues, examining cost recovery targets from other jurisdictions, and considering the revenue potential of each tier's collection of services and programs. However, the Commission should be aware of one potential challenge the Reset Team predicts with the initial targets:

- The ability of Tier 2 to meet its 50% cost recovery goal given the inclusion of one of the City's highest direct cost categories ("community-wide special events or open special programs - no pre-registration"). That program category will be a cost burden regardless of tier placement.

## **NEXT STEPS**

The Reset Team and the Parks and Recreation Commission will hold a second workshop on February 25, 2021. The anticipated agenda for that meeting includes:

- Sharing the Let's Talk survey results and identifying programs and services as public good/social core, business sustainability core or non-essential desirables.
- Introducing the fee study data and resource allocation recommendations.
- Discussing ideas for program and service offerings that may begin in the Fall of 2021.
- Disclosing resource needs for future service delivery.
- Reviewing a list of policies and procedures that require attention and possibly adjustment to implement the cost recovery and resource allocation philosophy and future service delivery.



## RECOMMENDATION

Discuss and provide input on the draft Cost Recovery Pyramid.