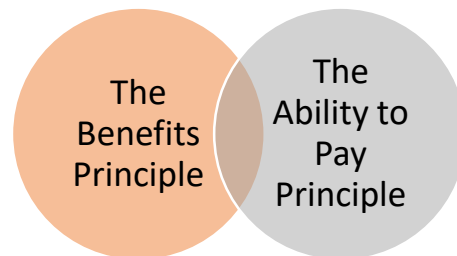


PRICING

The City's pricing strategy is the method for establishing and charging fees for recreation and MICEC services. The chosen method reflects both the Benefits Principle and the Ability to Pay Principle, where taxpayers or users' contributions for a service reflect the benefits received from it, and where the price for the service reflects an individual's ability to pay for the service such that an individual is not excluded from receiving that service. The City's pricing strategy reflects the City's desire to promote equity and inclusion.



There are typically four types of pricing strategies in the realm of recreation services:

1. Arbitrary (prices are set to reach an overall revenue target)
2. Market-based (prices are a product of demand for services or what the target market is willing to pay; in many cases this strategy results in setting fees at the midpoint or higher)
3. Competitor-based (prices are established to match, beat or exceed other providers; in many cases this strategy results in setting fees at the midpoint or lower)
4. Cost recovery pricing (prices are designed to reach cost recovery goals, within the range allowable by market and other conditions)

In addition, all of the strategies above could include a second strategy called "differential pricing," where different fees are charged for the same service when there is no real difference in the cost of providing the service. (Differential pricing is explained in a subsequent section of this report.)

MICEC and Recreation Pricing Strategy

The City's strategy reflects market-based, competitor-based, cost recovery and differential pricing.

The goal of the pricing strategy is to set reasonable fees that are responsive to demand, market realities and minimum cost recovery goals, such that the overall operation is financially sustainable and Mercer Island residents of all income levels can participate.

The method for determining pricing includes conducting market and competitor research, employing established cost recovery targets, and applying policies and procedures related to differential pricing.

Fee study

The City conducted a fee study to review the market and competition prices for benchmarked programs and services. The study helped the City understand what other providers are charging for similar services and how they are structuring those charges (e.g., as part of a membership fee, an ala cart fee, or a package). The City gathered information from area municipalities and private and non-profit providers for a sampling of programs and services. Here are a few examples of the programs or services that were benchmarked:

- Meeting room rental
- Special events facility rental and related services
- Youth martial arts classes
- Fitness center use
- Drop-in activities

Collecting the fee study data was only one part of establishing the City's prices. Fees were also a product of the cost recovery targets and differential pricing.

Fee Schedule

Fees will be set and maintained by the department director, per the municipal code. The list of fees, called a fee schedule, will be publicly posted annually as a reference for all potential users and participants.

A systematic approach to fee revisions is necessary to be thoughtful of customer tolerance for revisions, to give participants and users time to adjust, and to successfully communicate and demonstrate the value of the service or program. The fees should be evaluated every two years

through a fee study and through an evaluation of the cost performance of each category and aggregated tier. Fees may be adjusted annually to keep up with the cost of delivering programs.

The City may establish differential pricing for some programs in the fee schedule or utilize a scholarship or financial assistance program that participants could utilize for those same programs or services.

Differential Pricing and the Scholarship Program

Differential pricing involves offering variations of the price of a service or program to a particular group, which may result in more equitable and efficient service delivery. In differential pricing, different groups are charged different prices for the same service, even though there is no direct corresponding difference in the costs of providing the service to each of these groups. Price differentials or fee waivers can be based on resident (taxpayer)/non-resident, age of participant, location of facility, time or season, quantity of use, incentives, reciprocity benefits for affiliates, or other considerations. Differential pricing can help stimulate demand, reach an underserved population, or shift demand to another time, place or date.

The City of Mercer Island has employed some differential pricing for many years by offering discounted rates for residents versus non-residents, an occasional break on prices for households registering multiple children, and through a scholarship or financial assistance program. The Reset Strategy recommends continuing these practices but examining the policy and procedures of the scholarship program for potential improvements and contemplating other potential ways differential pricing could be offered to enhance diversity, equity and inclusion. Many area municipalities offer similar scholarship programs, setting aside a budget each year for fee waivers. One critical element of these programs is how eligible recipients are defined and authorized.

Under the City's current program, Mercer Island residents who demonstrate income-based need and who are eligible for other types of governmental financial assistance (such as SNAP food benefits) can qualify for a scholarship of up to \$300 per year for an individual or up to \$500 per year for a household. Potential beneficiaries must apply for the scholarship for each program in which they wish to participate during the upcoming quarter, as Staff currently awards funds on a quarterly basis. Applications are screened by Youth and Family Services and then approved for the applicant's desired programs by Recreation's administration. In the future, the City may be able to accept applications for eligibility that continues for the entire year, and the City's financial management or recreation information system may be able to proactively apply the approved level of differential pricing or scholarship balance to each registration.