



# COMMUNITY SERVICES DEPARTMENT

## Cost Recovery Policy

### For Community Services Programs and Services

City Council Resolution Number: 19-52

City Council Adopted: 11/28/2017

City Council Amended: 06/11/2019

  
Director of Community Services

#### **1.0 POLICY STATEMENT**

The Community Services Department (Department) is responsible for managing a public park and recreation system and delivering a broad mix of programs and services including classes, outdoor recreation, health and human services and community events that enhance the quality of life enjoyed by the community. In an effort to continuously improve the Department's overall effectiveness in delivery of service, this Cost Recovery and Pricing Policy is established to ensure programs and services are: (1) aligned with the City's core values, vision and mission; (2) fiscally responsible; and (3) supportive of a healthy, vibrant and sustainable community.

#### **2.0 PURPOSE AND INTENT**

The purpose and intent of this Policy is to establish a cost recovery framework that guides Department pricing for programs and services provided to the community. The Policy considers cost recovery and pricing in relation to: (1) levels of community and individual benefit; (2) maintaining core services; (3) ability to administer the program; (4) support of the City's youngest, oldest, and most vulnerable populations; (5) promotion of health, safety and quality of life; (6) providing opportunities for personal development; and (7) marketplace conditions.

#### **3.0 COST RECOVERY APPROACH**

Cost recovery is a decision to recover some level of direct, indirect and overhead costs. Fundamentally, the level of cost recovery, and associated pricing, moves along a *benefits continuum* representing activities that provide general community benefit on one end to activities that provide increasingly individualized benefit on the other end. When activities benefit the general community, cost recovery is lower and non-user fee revenues are the core source of funding. As activities provide a more specific or individualized benefit, cost recovery is higher and user fees and charges are an increasing source for recovering costs.

When establishing cost recovery levels for activities, considerations independent of the benefits continuum, may influence cost recovery levels and the allocation of the City's resources. These considerations include City Council direction; contractual, legal and legislative restrictions; Strategic Business Plan priorities; needs and abilities of special populations; budgetary constraints; feasibility (ability to collect fees for activities); public interest levels; and market constraints (e.g., program participation levels, pricing comparisons with public agencies and/or private companies providing similar activities).

## 4.0 THE FIVE TIER MODEL FOR COST RECOVERY

The *Five Tier Model for Cost Recovery* (Model) establishes the cost recovery framework that serves to align the Department's programs and services with the City's mission, vision and values (Attachment I). Each of the five tiers represents the balance of community and individual benefit with corresponding cost recovery guidelines. Cost recovery guidelines are expressed as a range to account for the broad variety of programs in each tier and variable participation rates at the individual program or service level. Each tier contains "categories of service" which group the Department's programs and services by similarity of content, audience and historical cost recovery level. Below are descriptions of the categories of service within each tier and the associated cost recovery guidelines that influence pricing strategies for the various programs and services offered to the community.

### ***TIER 1: Mostly Community Benefit - 0% - 15%***

Represents public services that benefit the community as a whole. The activities may promote education, health and safety; provide support services for seniors, families, youth and persons with disabilities; may be open to the entire community; and enhance the overall quality of life for residents. Pricing strategy may include a portion of direct costs with the remainder supplemented by other revenue sources.

#### **Drop-in Use of City Facilities**

Stewardship of public spaces and facilities and public use that include activities that are non-registered, non-instructed, and/or do not require additional direct supervision by staff (e.g., trail use, open space, playgrounds, passive park areas, volunteer-run activity, mobile recreation, lectures and exhibits).

#### **Community Safety/Education**

Activities that provide education and promote a safe, healthy and secure community. Activities may include referral services and safety training classes such as CPR & First Aid training, distracted driving, and bike safety.

#### **Family and Senior Support Services**

Social outreach and support services such as FOR Families; child care coordination (e.g., referral services, training and assistance); senior support services such as information and referral services, in-home care management and health and nutrition services.

#### **Support for Persons with Disabilities**

Inclusion support services; awareness training; and community resource and referral services.

#### **Youth Development**

Youth outreach activities such as Youth Action Teams at Middle and High School.

#### **Senior Wellness**

General activities that strengthen emotional, cognitive, physical and social well-being.

#### **Special Events**

Community-wide events typically offered on an annual basis and open to the general public (e.g., movies on the lawn, summer concerts, and seasonal events).

## ***TIER 2: Considerable Community Benefit – 10% to 35%***

Represents activities that serve the community, but have an increased level of individual benefit. The activities may address social needs and focus on underserved populations such as youth and seniors. Pricing strategy may recover up to 100 percent of direct costs.

### **Introductory Child, Youth and Family Activities**

Recreational and learning activities that are introductory, and exploratory with beginner and basic skill level instruction.

### **TRIPS (Seniors and Disabilities)**

Accessible transportation services for eligible Irvine seniors and persons with disabilities in maintaining independence, community involvement and employment.

### **Animal Care Services**

Irvine Animal Care Center services including sheltering; licensing and adoptions; and basic veterinary care.

### **Activities for Persons with Disabilities**

Social and recreational activities designed for individuals with disabilities.

### **Introductory Aquatics Programs**

Instructional activities focused on beginning water safety and swimming skills.

### **Seniors Recreation**

Introductory activities or education for senior populations.

### **Use of Monitored City Facilities**

Activities offered through membership at a staff or volunteer monitored facility (e.g., Computer Lab, Fine Arts Studio, and Senior Fitness Center).

## ***TIER 3: Balanced Community & Individual Benefit – 30% to 60%***

Represents activities with balanced individual and community benefit. Activities provide social, health and educational enrichment that increases quality of life and enhances the scope of opportunities available to participants. Pricing strategy recovers at minimum 100 percent of direct costs.

### **Continuing or Progressive Classes, Workshops and Clinics**

Recreational and continued learning activities that provide enrichment and intermediate level of instruction that is beyond introductory levels.

### **Excursions and Specialized Services for Children, Youth, Family & Seniors**

Field trips, staff-led exploratory excursions, tours and specialized activities.

### **After-School Camps and Programs**

Child and youth camps and seasonal intersession activities such as Kids Club, and teen camps, with a social or educational focus, and may include field trips.

### **Athletic Programs (Non-professional leagues and activities)**

Organized non-professional sports leagues and tournaments.

### **Intermediate Aquatics Programs**

Intermediate instructional and recreational activities that provide a progressive, continued, enriched level of learning.

#### ***TIER 4: Considerable Individual Benefit – 55% to 100%***

Represents activities that are defined as highly specialized or highly individualized personal development, and, while may be available elsewhere, offering is predicated on community demand. Pricing strategy recovers at minimum 100 percent of direct cost and up to 100 percent of full cost.

### **Specialized/Advanced/Extended Classes, Workshops and Clinics**

Recreational and learning activities that are advanced, specialized and/or highly individualized for adults, seniors, children, youth and families.

### **Private/Semi-Private Lessons (Tennis, Aquatics or Other Personalized Instruction)**

A personalized session or individualized focus to develop advanced skills at a high level such as tennis, aquatics or other personalized/advanced instruction.

#### ***TIER 5: Mostly Individual Benefit – minimum of 100%***

Represents activities that may fall outside the core mission of the City or may be similar to activities seen in the private sector. These services are designed to recover full costs since the activity provides significant direct individual benefits on a pay-as-you-go basis. These services may generate revenue to offset other City expenses where appropriate and as permitted by state and federal law.

### **Merchandising**

Items sold for individual or group use or consumption (e.g., consignment items and pro-shop items such as athletic wear, and tennis balls).

### **Concessions and Vending**

Food, beverages and snacks sold for individual or group use or consumption.

### **Advertising**

Advertisement space in City's publication, facilities or amenities.

## **5.0 POLICY ESTABLISHMENT AND UPDATING**

A City Council resolution establishes the Cost Recovery Policy for Community Services programs and services. This Policy may be updated as part of the Cost of Services Study performed every five years, in accordance with the City's Financial and Budget policies, or as directed by City Council.

Upon staff analysis, the Department will make recommendations to the City Council if cost recovery goals are not being met at the Category of Service level. The recommendation could include a modification of fees and/or service delivery levels or a change to the placement of the Category of Service in the Policy's Five-Tier Model. Modification of Category of Service placement within the tier framework requires City Council approval.

## **6.0 PRICING APPROACH AND CALCULATION FOR PROGRAMS AND SERVICES**

Pricing shall be established to meet the City Council approved cost recovery guidelines and to support delivery of programs and services in a sustainable manner allowing for: (1) the addition of mission aligned programs and services to adjust with changing and/or emerging markets, and (2) the elimination of activities that are not meeting cost recovery guidelines.

### **Price Calculation for New Programs and Services**

Pricing for programs and services is established according to the cost recovery guidelines as outlined in Section 4.0. The process to validate cost recovery guidelines includes a staff prepared financial model detailing estimates for program costs and participation levels. New programs or services pricing is established based on historical pricing for similarly categorized programs or a comparative market price when appropriate. The new program or service pricing is included in the financial model and evaluated to ensure that the new program or service meets the approved cost recovery guidelines.

### **Price Changes for Existing Programs and Services**

Changes in program costs, participation levels and/or market conditions affect cost recovery levels for programs and services. These considerations, when viewed over time, may indicate the need for a price change in order to maintain alignment with the cost recovery guidelines of the Policy. For example, when increases in direct costs (e.g., fuel or field trip venue prices for traveling summer camps) indicate a trend (not a one-time or limited event) that cannot be offset by participation level increases, a price increase may be needed to maintain cost recovery levels.

Due to holidays, school start date or other factors, the duration (hours of service delivery) of a program or service may change, either adding or subtracting hours from a given program or service. The intent is to keep the hourly price of the program or service consistent. For this reason, this type of event is not considered a formal price change, as the program or service pricing will be computed on a pro-rata basis at the existing approved price rate.

### **Price Calculation for Contract Classes**

Programs and services provided by outside contract instructors, "contract classes", are a cost effective way of presenting a wide variety of offerings to the community. Contract class pricing and related revenue split are contractually negotiated. The City collects revenue and a percentage of revenue is paid to the contract instructor. The revenue split negotiated between the contract instructor and the City is generally within a range of 40% to 70% based on various factors. In certain situations, factors like changing market conditions or unique cost structures may result in a split outside the general range. For example, contract classes delivered at a City facility tend towards a 50/50 split due to City incurred facility costs; however, the split for classes delivered at a non-City facility may increase for the contractor since the facility costs are not incurred by the City.

The revenue split, may also be influenced by the benefit continuum of the Five Tier Model. For example, contract classes serving seniors may tend toward a higher split for the instructor in order to keep program fees lower for senior participants. This aligns with the *Seniors Recreation* category of service in Tier II, low cost recovery, on the Model.

### **Review of Pricing**

Programs and services are reviewed by staff on an ongoing basis. During the City's budget process, program costs, participation levels, and the comparative market place are evaluated to ensure program and service pricing achieves compliance with the Policy. In accordance with the City's Financial and Budget Policy, a Cost of Services Study is performed every five years. This includes a comprehensive evaluation of actual cost recovery levels and Policy compliance.

### **Other Revenue Sources**

Revenue from admission sales, parking, concessions, in-kind or cash donations, sponsorships, and grants may be used to improve cost recovery above the Model's established cost recovery guidelines, but cannot exceed 100 percent of the full cost of the program or service. The provision to seek alternative sources of revenue provides flexibility to respond to changes in public need, the economic climate and available resources.

## **7.0 OTHER PROGRAM FEES**

### **Non-Resident Fees**

For cost recovery activities of less than 100%, there shall be a differential in rates between residents and non-residents.

Activities with a fee of \$10.00 or less	no additional fee
Activities with a fee of \$11.00 - \$74.00	\$5.00 additional fee
Activities with a fee of \$75.00 and over	\$10.00 additional fee

In the event that an additional charge is not feasible, or will harm or cancel the program and deny residents the opportunity to participate, the Community Services Director or their designee may approve a fee modification or not charge the non-resident fee differential for that specific activity.

### **Pass-Through Fees**

Programs and services may be enriched with value-added services, supplies or transportation provided by an outside organization. These services may include, but are not limited to, obtaining a sport's tournament rating, earning a certificate of completion (e.g., Red Cross certification) or admission to an event hosted by an outside vendor. The costs for these value added services, supplies or transportation are set by the outside organization and may be considered a pass-through paid by the participant and not included in fee or fee change calculations for programs and services.

Administrative fees related to registration or participation in programs or services may also be passed-through to the user to support cost recovery. Administrative pass-through fees may include, but are not limited to registration software fees, credit card processing (merchant services) fees, and staff processing fees.



## **8.0 SCHOLARSHIPS**

Through administration of its Scholarship Policy, the City shall seek to ensure affordability and maximum resident participation in city programs and services by means of scholarships, partnerships and cultivating of volunteers.

## **9.0 ADDITIONAL CITY POLICIES AND AGREEMENTS**

This Policy may be superseded when City Council establishes or has approved policies and/or agreements that establish separate user fee structures and/or cost recovery goals for specific programs and services as identified below.

- Community Facilities Reservation Policy
- Public Sports Facilities Reservation and Fee Policy
- Joint Use Agreements for reciprocal use of City and school district facilities
- Orange County Great Park Sports Complex Field Allocation and Fee Policy
- Orange County Great Park Balloon and the Carousel Fees
- Relationship Policy for reciprocal support between the City and community partners
- Sponsorship agreements

## **10.0 DEFINITIONS**

Activity: Specific program or service offered by the Community Services Department.

Benefit Continuum: Used to evaluate an activity based on the degree to which services impact or benefit the community. Cost recovery levels are low for activities that mostly provide a community benefit. Cost recovery levels increase as the benefit becomes more individual based.

Category of Service: A collection of activities offered through Community Services Department that are combined based on similarity in type of activity, target market, and/or desired outcome.

Community Benefit: Economic, environmental, social value that maintains or improves quality of life for community in general.

Core Services: Activities that satisfy the City's mission, vision, and goals, and provide a community-wide benefit.

Cost Recovery: Setting of fees to recover up to 100% of direct, indirect and/or department overhead costs. Cost recovery is the amount of the annual budgeted operating expense that is, or can be, offset by user-fees and charges.

Department Overhead: A cost incurred for the overall administration and management of the Department. These costs are allocated based on size of budget and may include department management, budget, finance, human resources and internal shared costs.

Direct Cost: A cost that can be easily and fairly accurately identified with a specific activity or facility (e.g., class instructors; technical and functional supervision; delivery or consistent

support or monitoring of an activity; supplies; and admissions to a theme park). A cost may be direct even if cost is not directly interacting with the end user if the cost is narrowly defined and can be fairly accurately measured. For example, a Program Coordinator at a Community Park is considered a direct cost, as the delivery of their service is typically limited to one location (narrowly defined) and it is easy and fairly accurate to recognize the time spent among the activities provided at the individual Community Park.

Indirect Cost: A cost that is not attributable to one specific activity or not easily or accurately identified to an activity (e.g., general management, advertising, registration and maintenance). These costs typically extend over multiple locations such as business support services and department administration, and section management with multiple locations.

Market Rate: Reflects a general accepted price point determined by supply and demand forces in a given geographical area. Market rate is supported by benchmarking against similar services in local, regional or national markets.

Resource Allocation: How sources of funding are determined to be used by the City in its delivery of activities.

Scholarship: Registration subsidies to income-eligible residents to facilitate their participation in activities.



# FIVE TIER MODEL FOR COST RECOVERY

<b>TIER I</b> <b>Mostly Community Benefit</b> <b>(Fully Supported)</b>	<b>TIER II</b> <b>Considerable Community Benefit</b> <b>(Substantially Supported)</b>	<b>TIER III</b> <b>Balanced Community &amp; Individual Benefit (Partially Supported)</b>	<b>TIER IV</b> <b>Considerable Individual Benefit (Minimally Supported)</b>	<b>TIER V</b> <b>Mostly Individual Benefit (Self-Sufficient)</b>
<p><b>DROP-IN USE OF CITY FACILITIES</b> - Trails, playgrounds and other passive park areas</p> <p><b>COMMUNITY SAFETY/EDUCATIONAL</b> -Basic safety, informational, educational, and referral resources, workshops and seminars</p> <p><b>FAMILY AND SENIOR SUPPORT SERVICES</b> -for Families, senior in-home care and nutrition, child care referral services</p> <p><b>SUPPORT FOR PERSONS WITH DISABILITIES</b> -Inclusion services, awareness training, and resource referral services</p> <p><b>YOUTH DEVELOPMENT</b> -Youth Action Team, mobile recreation and youth volunteer programs</p> <p><b>SENIOR WELLNESS</b> -General activities that strengthen emotional, cognitive, physical and social well-being</p> <p><b>SPECIAL EVENTS</b> -Community-wide events such as movies on the lawn, summer concert series, and holiday and seasonal events</p>	<p><b>INTRODUCTORY CHILD, YOUTH &amp; FAMILY ACTIVITIES</b> -Recreational and learning activities that are introductory, exploratory, with beginner and basic skill level instruction</p> <p><b>TRIPS (SENIORS AND DISABILITIES)</b> -Accessible transportation for eligible seniors and persons with disabilities</p> <p><b>ANIMAL CARE SERVICES</b> -Sheltering, licensing, adoptions, and basic veterinary care</p> <p><b>ACTIVITIES FOR PERSONS WITH DISABILITIES</b> -Social and recreational activities</p> <p><b>INTRODUCTORY AQUATICS PROGRAMS</b> -Beginner level aquatic programs and activities</p> <p><b>SENIORS RECREATION</b> -introductory activities or education for senior populations.</p> <p><b>USE OF MONITORED CITY FACILITIES</b> -Fitness Center membership, use of special equipment and facilities such as Fine Arts Studio</p>	<p><b>CONTINUING OR PROGRESSIVE CLASSES, WORKSHOPS &amp; CLINICS</b> -Recreational and continued learning activities that provide enrichment and intermediate level instruction; beyond basic and introductory levels</p> <p><b>EXCURSIONS AND SPECIALIZED SERVICES FOR ECHIDREN, YOUTH, FAMILIES AND SENIORS</b> -Field trips, staff-led exploratory excursions, tours and other specialized activities</p> <p><b>AFTER-SCHOOL CAMPS AND PROGRAMS</b> -Child and youth camps and seasonal intercession activities (e.g., Kid's Club and teen camps)</p> <p><b>ATHLETIC PROGRAMS (NON-PROFESSIONAL LEAGUES AND ACTIVITIES)</b> -Organized non-professional sports leagues and tournaments</p> <p><b>INTERMEDIATE AQUATICS PROGRAMS</b> -Intermediate and recreational activities that provide a progressive, continued, enriched level of learning</p>	<p><b>SPECIALIZED/ADVANCED/EXTENDED CLASSES, WORKSHOPS &amp; CLINICS</b> -Recreational and learning activities that are advanced, specialized and/or highly individualized</p> <p><b>PRIVATE/SEMI-PRIVATE LESSONS (TENNIS, AQUATICS OR OTHER PERSONALIZED INSTRUCTION)</b> -Personalized sessions or individualized focus to develop advanced skills at a high level such as tennis, aquatics or other personalized/advanced instruction</p>	<p><b>MERCHANDISING</b></p> <p><b>CONCESSIONS AND VENDING</b></p> <p><b>ADVERTISING</b></p>
<b>0%-15%</b> <b>Minimal Cost Recovery</b>	<b>10%-35%</b> <b>Low Cost Recovery</b>	<b>30%-60%</b> <b>Moderate Cost Recovery</b>	<b>55%-100%</b> <b>Significant Cost Recovery</b>	<b>100%</b> <b>Market Cost Recovery</b>