



## CITY OF MILPITAS

| Revision | Date       |
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| Original | 03/16/2021 |
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### CITY COUNCIL POLICY

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| <b>Policy No:</b><br>3-2                       | <b>COST RECOVERY POLICY FOR THE RECREATION AND COMMUNITY SERVICES DEPARTMENT</b>                 | <b>Effective Date:</b><br>3/16/2021  |
| <b>Revision No:</b><br>N/A                     | <b>Policy Administrator:</b><br>Recreation and Community Services                                | <b>Next Review Due:</b><br>3/16/2022 |
| <b>Related Policies and Procedures:</b><br>N/A | <b>Approved by:</b><br>City Council via Resolution No/. 9049, 3/16/2021, Item # 10, and 5-0 vote | <b>Date Approved:</b><br>3/16/2021   |

#### 1. PURPOSE

- 1.1. The purpose of this policy is to establish cost recovery targets for the services provided by the Milpitas Recreation and Community Services Department and to establish a methodology to calculate the cost recovery level moving forward. The establishment of the cost recovery targets will provide direction to staff on the level of funding for services that will be achieved through generated revenues versus those covered from the general fund or other revenue sources. Additionally, adoption of these targets will provide guidance to staff and the City Council when conducting the annual fee review and fee schedule adoption for specific programs and services.

#### 2. POLICY

The Recreation and Community Services Department will annually conduct an internal assessment of the level of cost recovery achieved and present this analysis to the City Council as part of the budget discussion regarding fee establishment. Absent specific policy direction from the City Council, fees and charges for services will be established in alignment with the provisions of this policy and the following principles:

- 2.1. **Public Interest** – The public has an interest in the availability of a broad range of organized recreation opportunities that encourage healthy lifestyles, ongoing and lifelong learning, a sense of belonging to the community, and which provide exposure to a variety of recreational programs and services.
- 2.2. **Balance of benefits** – The benefits of participation in public recreation accrue to both the participant and to the public. The City of Milpitas has determined that it is appropriate that recreation funding is a shared responsibility and should be funded through a mix of both participant fees and public resources

As a broad overarching principle, fees will generally be established at a high level of cost recovery for programs that provide an entirely personal benefit and at a lower cost recovery for programs that provide a mixed public/personal benefit. Additionally, the City has determined that programs for underserved populations or those of limited means, may warrant additional subsidization.

- 2.3. **Focus of cost recovery goals** – The mission and goals for public recreation activities and programs apply to all citizens of Milpitas and interests in specific types of programs and



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activities are determined by individual participants. The greater public interest lies in encouraging participation and reducing barriers to access to public recreation. Therefore, cost of service analysis and cost recovery goals for certain segments of the population where significant barriers to participation may exist will be considered periodically and established at levels that may vary from the typical cost recovery targets. These groups are identified as follows:

- a) **Youth:** in order to invest in the future of our community.
- b) **Low-income residents:** in order to ensure access and mitigate financial barriers to participation.
- c) **Residents with disabilities or seniors:** in order to improve opportunities for inclusion and participation.

Participants in these categories may have program fees and charges reduced when compared to the typical fees and service charges established for all other participants.

To provide a systematic approach to establishing cost recovery targets, all programs shall be classified according to the level of personal benefit received as follows:

- a) **Category A Programs/Services (High or full cost recovery activities):** These programs and services have high personal/individual benefit and should have no or limited subsidy. This category would include programs that are principally of personal benefit with little public benefit and may include high-demand programs.

Examples of programs that typically fall into this category include competitive sports leagues, individual health, and wellness courses (i.e., yoga), private/semi-private lessons, swim camps, organized parties, advanced classes/programs, workshops and clinics, and specialized activities/camps.

- b) **Category B Programs/Services (partial cost recovery activities):** These programs provide both individual and community benefits.

This category would include programs/services such as: intermediate programs, sports center, recreational swim, swim lessons, youth tournaments/leagues, social affinity groups, some educational programs (ESL, Math, etc.).

- c) **Category C Programs/Services (limited cost recovery activities):** These programs have limited personal benefit and high public benefit or address specific policy goals adopted by the City.

Examples of programs that would fall into this category would include therapeutic, adaptive, or special recreation programs, community-wide events, arts programs, summer camps, park/facility usage, inclusionary services, etc.).



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- 2.4. **Cost recovery goals** – Cost recovery goals and targets establish the overall level of subsidy that will be provided by the local government and represent a balancing act between public and personal benefits. Overall, the Recreation and Community Services Department shall target achieving a 40% cost recovery of total costs (inclusive of all direct and indirect costs).
- For each tier of programs/services, the cost recovery goals will be established at the following levels:
- a) **Category A Programs/Services:** Collectively, these programs and services would be targeted at 100% cost recovery.
  - b) **Category B Programs/Services:** Collectively, these should be targeted for 50% cost recovery.
  - c) **Category C Programs / Services:** Collectively, these programs should be targeted at 20% cost recovery.
- 2.5. **Cross-subsidization** – Cost recovery goals, as determined by this policy, are intended to be averages across the Department's entire program portfolio. Over- or under-realization of these cost recovery goals by any particular site, program or activity is acceptable and expected. The City's broader goal is to ensure that programming and pricing fit the changing realities of the marketplace, resident needs, and desires, maximizing participation, making efficient use of facility capacity, and maintaining a broad array of diverse recreation offerings. Nothing in this policy will authorize the City to adopt a fee or charge for a program or service that violates any applicable law or would render such fee or charge a tax requiring voter approval, including, without limitation, article XIII C, section 1(e) of the California constitution.
- 2.6. **Targeted recreation programs** – When the Recreation and Community Services Department provides recreation programs specifically targeted to residents with special needs or seniors (or other City Council-identified populations), these programs may have lower cost recovery rates established than general recreation programs. However, to the degree that residents with disabilities, seniors, and new immigrants participate in general recreation programs, they are subject to the same prices as the general population. Subsidy programs may be used for targeted populations, such as youth or low-income citizens, that participate in general programs to offset costs, but the general fees charged for that program or activity will not be modified.
- 2.7. **Pricing** – Fees are to be set by Recreation and Community Services staff under the authority of the City Council through the annual review of fees. In setting prices, the Department will balance the goals of program availability and affordability within the constraints of budget allocations, market economics, legal restraints, and cost recovery goal approved herein.
- 2.8. **Financial assistance** – In addition to pricing which reflects cost recovery goals for low-income participants, the Recreation and Community Services Department will seek to ensure affordability of Department activities through scholarships, certain free youth activities, time-



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limited price promotions, and by cultivating sponsorships and other partnerships that can support these programs and activities.

- 2.9. **Activities requiring permits** – A permit is required for certain activities in Milpitas parks. When permits for picnics or weddings result in exclusive use of an area, pricing should be set to achieve 80-100% recovery of total costs. When the purpose of a permit is to reserve a limited area for a limited time, such as a small group picnic, then prices should be set to 100% recovery of the direct costs incurred by the Department.
- 2.10. **Renting of facilities** – Various facilities are available for use by groups and private parties. Pricing should be set to recover 80-100% of direct costs for rentals during normal open hours. For events during normally closed hours, prices should be set to recover all incremental costs incurred by the Department, including staff, maintenance, and utilities (i.e. – all direct and indirect costs). However, priority groups (i.e., Milpitas-based non-profits) or other groups approved by the City Council may have reasonable use of facilities at discounted rates.
- 2.11. **Waivers of Fees and Charges** – Waiving or reducing certain fees and charges for recreation activities, permits, and rentals is within the public interest in order to reduce barriers to participation or optimize utilization of existing facilities.

The Department shall submit a recommendation for an appropriation during the annual budget process to offset revenues lost by waiving fees and charges. Total fees and charges waived annually shall be constrained within this appropriation. In accordance with established budgetary policies, the Department may request budget adjustments during the fiscal year when circumstances dictate consideration before the next budget cycle.

- 2.12. **Updating of goals** – Information about cost recovery levels should be calculated and reported annually. The cost recovery goals should be reviewed and updated at least once every three years.

Whenever the City Council approves a cost recovery goal that is higher than the current level of recovery, whenever practical, fees should be raised incrementally over time for the affected program categories, in accordance with the market, in order to optimize revenue generation with program availability and participation. Whenever the City Council approves a cost recovery goal that is lower than the current level of recovery, the Department shall present a budget decision package during the subsequent annual budget process identifying the additional amount of General Fund discretionary resources necessary to achieve the goal and provide options for program changes or reductions in lieu of additional resources.

- 2.13. **Compliance with budget** – Notwithstanding the policy goals for cost recovery outlined in this policy, the Department's primary responsibility in developing programs and services and establishing fees and pricing for recreation programs/services is to operate within the budget set by the City Council. Cost recovery goals are guidelines for program design and pricing, subsidiary to budgetary allocations and economic realities. Furthermore, cost recovery goals are subsidiary



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to the Department's responsibilities for development of the park system and asset maintenance requirements.

- 2.14. **Interagency services** – Services provided to other City departments or other governmental agencies should recover 100% of their full costs.

#### 3. DEFINITION(S)

- 3.1. **Direct costs** – costs incurred to provide recreation services and programs by the Recreation and Community Services Department. These costs are personnel, materials and supply costs budgeted directly within the annual Recreation and Community Services Department budget.
- 3.2. **Total costs** – all costs incurred by the City to provide recreation services and programs by the Recreation and Community Services Department. The costs would include, in addition to the costs in the Recreation and Community Services Department budget, all other costs incurred by the City that are appropriately allocated to the provision of recreation services and programs. Examples of these additional costs would be cost allocation changes (from the annual cost allocation plan) to cover City-administrative costs and expenses incurred by other departments to support the provision of services - such as facility maintenance and set up costs of the Public Works Department directly attributable to recreation programs and services.

#### 4. PROCEDURE(S)

- 4.1. Annually, the Director of the Milpitas Recreation and Community Services Department will develop an assessment of the cost recovery achieved by the Department for the prior year. This assessment will cover both overall departmental cost recovery and the cost recovery for each tier of services established (Categories A, B and C).
- 4.2. Milpitas Recreation and Community Services staff will annually evaluate the mix of programs and services offered, to identify new programs that should be added or dropped in order to maintain a well-balanced services and program portfolio designed to achieve the adopted cost recovery targets.
- 4.3. Annually, staff will evaluate all subsidies and fee discounts provided to youth, low-income, and senior participants and provide a report to the City Council in conjunction with the annual budget process. The report should identify the annual funding needed to maintain adequate participation levels for these populations in the mix of services provided by the Department.
- 4.4. Prior to the annual discussion on fees to be adopted, the Department shall complete the cost recovery analysis and transmit it to the Finance Department for inclusion of the proposed master fee schedule submitted to the City Council for consideration.
- 4.5. Fee recommendations will be developed in accordance with the existing City policy of annual fee review and adoption by the City Council designed to enable the Department to achieve the adopted cost recovery targets.



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- 4.6. The City Council will consider, as part of the establishment of fees each year, the adopted cost recovery targets. While policy decisions may be made that result in fees being adopted that do not achieve the targeted cost recovery targets, this should be a conscious decision based upon identified factors and the subsidy impact on the General Fund subsidy should be noted.
- 4.7. Any deviations to the adopted cost recovery targets adopted will be noted annually during the budget process.