

## Summary of Parks & Recreation Fee Study

The City of South San Francisco contracted with the Matrix Consulting Group to conduct a Cost of Service (User Fee) analysis for fee-based services provided by City Departments. As part of this study, the fees and rental rates for Parks and Recreation were also evaluated. The detailed results of that analysis were provided to City staff under separate cover. This memo addresses pertinent legal framework for evaluating Parks & Recreation fee and the city's current cost recovery levels.

### Legal Framework

A majority of services provided by Parks and Recreation can be separated into two categories – rental rates and recreation programs. The following points provide further information regarding these items:

1. **Rental Rates:** One of the exceptions to the tax category under proposition 26 is a charge imposed for entrance to or use of local government property, or the purchase, or rental, or lease of local government property<sup>1</sup>. There is no requirement that these rates must be limited to the cost of service, as they can be dependent upon a variety of features of the facility or park being rented.
2. **Recreation Programs:** Under Proposition 26, the exception to the tax category is a charge that is "imposed". Based upon the League of California Cities implementation guide for Proposition 26, as well as other legal opinions, recreation classes, youth sports, adult sports, are not a charge that is "imposed upon residents". Rather residents have the option to voluntarily participate in those programs and utilize a private entity (non-governmental entity) for those activities. Therefore, these rates are allowed to be set based upon the market options within the area rather than being restricted to the cost of service being provided.

Utilizing these two principals it's recommended to base these types of fees upon the rates that the market can bear rather than based on cost of service.

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<sup>1</sup> Proposition 26 Article XIII C(1)(e)(4)

## Parks and Recreation Detailed Results

The project team did work with City staff to calculate the cost associated with providing rental services and recreation activities. However, as the previous legal framework section states, because these services are voluntary, the City is not under the same obligation to set these fees based upon the cost of service. Additionally, the cost of service varies depending upon number of participants, desirability of the program, and the amenities offered. Therefore, while the project team has calculated based upon certain assumptions the City's cost, City staff should carefully review that information and set their fees based upon market demand.

## Parks and Recreation Cost Recovery

South San Francisco's Parks and Recreation Department provides opportunities to residents and visitors for physical, cultural and social wellbeing; protects and enhances the physical environment; and ensures the effective and efficient use of public facilities and open spaces. In order to review cost recovery, the project team looked at total revenue and compared it to the direct costs associated with each program. The following table show by Fee Program: Revenue, Revised Budget, the associated difference, and cost recovery percentage.

**Table 1: Direct Program Cost Recovery**

Fee Program	Revenue <sup>2</sup>	Budget <sup>3</sup>	Difference	Direct Cost Recovery %
Aquatics Program	\$245,185	\$751,662	(\$506,477)	33%
Sports & Athletics	\$40,874	\$773,900	(\$733,026)	5%
Rentals/Picnics	\$440,988	\$722,006	(\$281,018)	61%
Classes/Events	\$349,302	\$715,297	(\$365,995)	49%
Preschool & Early Learning / Childcare	\$2,270,012	\$4,648,869	(\$2,378,857)	49%
Senior Centers	\$97,545	\$429,770	(\$332,225)	23%
<b>TOTAL</b>	<b>\$3,443,906</b>	<b>\$8,041,504</b>	<b>(\$4,597,599)</b>	<b>43%</b>

Preschool & Early Learning / Childcare / Real Program accounts for the vast majority of the Parks and Recreation Department's revenues. When comparing the revenue collected by the city for these Programs (\$3.44 million) to the direct costs incurred (\$8.04 million), cost recovery is 43% or has an annual shortfall of approximately \$4.6 million.

However, in order to provide these services, there are departmental overhead costs associated with recreation management, recreation commission, as well as citywide overhead costs incurred from city manager, city council, finance, facilities maintenance,

<sup>2</sup> FY21-22 Actual Revenue.

<sup>3</sup> FY22-23 Adopted Budget.

etc. The below table outlines the same Fee Programs accounting for the full cost (direct + indirect) and showing the resulting differences and cost recovery percentages.

**Table 2: Full Cost Recovery**

<b>Fee Program</b>	<b>Revenue</b>	<b>Annual Full Cost</b>	<b>Difference</b>	<b>Full Cost Recovery %</b>
Aquatics Program	\$245,185	\$1,575,581	(\$1,330,396)	16%
Sports & Athletics	\$40,874	\$1,216,873	(\$1,175,999)	3%
Rentals/Picnics	\$440,988	\$1,242,012	(\$801,024)	36%
Classes/Events	\$349,302	\$1,327,829	(\$978,528)	26%
Preschool & Early Learning / Childcare	\$2,270,012	\$6,697,592	(\$4,427,580)	34%
Senior Centers	\$97,545	\$821,224	(\$723,679)	12%
<b>TOTAL</b>	<b>\$3,443,906</b>	<b>\$12,881,112</b>	<b>(\$9,437,206)</b>	<b>27%</b>

Factoring in these overhead costs, the overall cost recovery for the department decreases from 43% to 27%. The 27% cost recovery is an overall average for recreation and rental-related services. Certain programs or activities might achieve higher cost recovery (i.e., rentals and classes); whereas other programs such as aquatics and senior center, due to their benefit to the community, may have lower cost recovery. Parks and Recreation programs typically base their cost recovery levels based upon a tiered or pyramid structure depending on the proportion of benefit provided to the community.

The typical cost recovery for Parks and Recreation services is between 20-50%. The low-cost recovery for these services is due to the belief that these services primarily benefit the community at large, and as such are providing a benefit to the residents of the jurisdiction. The department's direct and full cost recovery of 43% and 27% are both within the typical cost recovery range.