CITY OF HURST

RESOURCE ALLOCATION STUDY

DECEMBER 2020

ACKNOWLEDGEMENTS

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INTRODUCTION

In fall of 2019, the Hurst Parks, Recreation, and Senior Services Divisions, of the Community Services Department, began an extensive project to review its programs and services pricing and resource allocation. This major undertaking is built on community values and mission-based service, and it provides a foundational philosophy, policies, and a best practice model which will live on in the organization. Its intent is to be flexible and responsive to changing conditions, allowing the Divisions to allocate resources wisely and provide valuable information for decision making and setting priorities for improvements to the system.

This comprehensive effort and approach to providing services is undertaken to introduce and implement strong "best practice" business tools to the Divisions. Resource allocation is particularly important now as the long-term effects of COVID-19 include a shortage of tax revenue that will eventually impact all agencies - some sooner than later. Informed resource allocation decisions give agencies flexibility and durability in evolving situations, like the one we are in right now. Resource allocation must be done carefully, with information and insight, so that agencies can recover appropriate costs without compromising essential services to the widest public. Resource allocation needs to be thoughtful, deliberate, and based on understanding. It should not be reactionary. This plan aims to provide relief and stability that permeate all other processes.

Through this effort, the Divisions are seeking a meaningful resource allocation philosophy and methodology that is based on community values and supported by the City of Hurst policy makers. In the wake of a pandemic and beyond, this study will provide increased awareness and understanding of the true cost of providing each program or service, the use of incremental fee adjustments to address potential sales tax shortfalls, and valuable data to support cost-cutting decisions.

THE PYRAMID METHODOLOGY

The Pyramid Methodology used in the development of the model is built on a foundation of understanding who is benefiting from park and recreation services to determine how the costs for service should be funded. A full description of the pyramid model is found in ***Appendix A.***

The model illustrates a pricing philosophy for establishing fees commensurate with a target subsidy level based on the benefit received. Descriptions regarding each level of the pyramid are provided; however, the model was used initially as a discussion point and was very dependent on values of the Hurst community to determine what programs and services belong on each level. Cultural, regional, geographical, and resource differences play a large role in this determination, making the resulting pyramid unique to each agency that applies this methodology.

THE OVERALL GOAL

Responsible stewardship of resources also includes the creation and maintenance of affordability, fairness, and equity in the system. This requires pro-active planning and a business tool designed around these principles that addresses a much more comprehensive picture than just pricing. Although fee adjustments are likely, the goal is not to simply generate new revenues through fees, but to ensure a sustainable system into the future by using tax revenues and fees in the most appropriate ways, supplemented where possible by grants, donations, partnerships, and other sources of alternative revenues.

Having a resource allocation philosophy, model, and policy assists in answering challenging questions from organization leadership and from citizens such as:

- Are our programs priced fairly and equitably?
- How will we continue to fund facilities and services in relationship to future budget constraints?
- Are we using funding in a responsible manner?
- Does the way we charge for services (facilities, programs, etc.) support our values, vision, and mission?

This comprehensive effort and approach to providing services is undertaken to introduce and implement strong "best practice" business tools to the Divisions. Parks, Recreation, and Senior Services are varied and make up a lot of smaller "businesses" that each have their unique place in the market and appeal to the population in a myriad of ways. The overall goal of this plan is to develop a framework and model for planning, resource allocation, budgeting, and pricing for the City's parks, facilities, and programs, based on a strong philosophical foundation.

HURST PARKS, RECREATION, AND SENIOR SERVICES DIVISIONS

The Hurst Parks, Recreation, and Senior Services Divisions system of parks, trails, facilities, programs, and special events are major contributors to the City of Hurst quality of life. The system improves Hurst by enhancing lives and job performance as individuals exercise, play, and relieve stress.

Hurst Parks, Recreation, and Senior Services offers more than 500 programs to community members annually and manages a vast system of nearly 300 acres of parkland. This includes 14 playgrounds, 22 pavilions, 12 soccer fields, and 14 baseball/softball fields. In addition, the Divisions manage two outdoor swimming pools, the Brookside Center, the Hurst Recreation Center, and the Hurst Senior Activities Center. Each of these assets provides the opportunity for development of body, mind, and spirit through open play and programmed activities.

The development of a financial resource allocation philosophy and policy is built upon a very logical foundation rooted in Hurst's values. Mission and vision represent principles that create a philosophical framework to serve as the foundation for organizational decisions and processes. They also help determine those community conditions that the Divisions wish to impact, guiding often difficult management decisions, substantiating them, and making them justifiable and defensible.

HURST MISSION STATEMENTS

Recreation Services
The Hurst Recreation Division is dedicated to improving the quality of life for citizens of all ages by providing a variety of recreational activities, special events, facilities, and services that encourage life-long learning, fitness, and fun.

Senior Services
The Hurst Senior Activities Center is dedicated to empowering seniors by providing programs and services that support social interactions, life-long learning, and leisure interests.

PROJECT APPROACH AND METHODOLOGY

A Project Team comprised of staff from the Divisions was established to review practices and existing policy, to become familiar with the Pyramid Methodology, and to work with the public to understand its values.

This project included:

- Categorization and sorting of services based upon the level of community versus individual benefit
- Identification of direct and indirect costs
- An evaluation of current pricing policy and methods
- Determination of current levels of subsidy using FY 18 -19 actuals
- Identification and determination of appropriate tier target levels
- Recommendations to integrate this process into the everyday operations of the divisions, and specifically to align resource allocation, pricing and subsidy level with community values

The project was accomplished through a Workshop Series, each preceded and followed with intensive staff work to understand, gather data, discover, engage with the public, sort, strategize, and determine final recommendations. This effort will now be sustained in the divisions to allow ongoing data-driven decision-making.

COMMUNITY ENGAGEMENT

During public workshops, which were held March 3-4, 2020, 60 community members each dedicated two hours of their time to participate in discussions and an activity about balancing the community benefits and individual benefits of programs and services provided by the Divisions. This approach, providing 120 hours of meaningful volunteer deliberation, allowed staff to understand the values of the community. It also allowed participants to better understand their fellow citizens' perspectives.

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II. Hurst Parks, Recreation, and Senior Services Resource Model Results

Figure 1 is the Hurst model. Through the use of the Pyramid framework, the model is populated with Categories of Services that make up the service portfolio of the Divisions. Categories are then placed on tier levels according to the perceived balance of community and individual benefit. Actual subsidy levels for each category of service based on FY 18-19 are reported on the model, as well as target subsidy levels that have been determined through the study.

A consensus pyramid was created with each Category of Service placed in the appropriate tier of the pyramid based on the benefits filter and other filters. All Categories of Service with a full description and listing of programs and services within can be found in ***Appendix B.*** Current resource allocation percentages were calculated based on a more specific and consistent definition of direct and indirect costs identified during this process.

The main purpose of this endeavor has been to create a fair, equitable, and transparent approach for establishing and adjusting fees and charges. However, it should be noted that adjusting fees is only one mechanism for meeting target subsidy levels. Other mechanisms include using other funding sources (sponsorships, scholarships, donations, grants, etc.) and creating cost efficiencies. Key findings were identified that have been addressed through a series of study recommendations.

DIRECT AND INDIRECT COST DEFINITION

No measurement of subsidy level or cost recovery is possible without a clear definition of what is being counted as “cost.” For the study, the definitions include direct and indirect costs of programs and services.

DIRECT COST

Includes all the specific, identifiable expenses (fixed and variable) associated with providing a service or program. These expenses would not exist without the program or service and often increase exponentially.

- Applicable portion of full-time, part-time, and seasonal staff (percentage directly related to program delivery) and corresponding benefits
- Contractual services for coaches, officials, instructors, security, etc.
- Program specific licensing agreements like Motion Pictures, etc.
- Program specific consumable equipment and supplies like ping pong balls, camp supplies, art supplies provided by instructor or agency
- Uniforms, tee shirts, awards for participants and staff
- Non-consumable equipment purchased only for the program that require periodic, continual replacement or are necessary for the start of the program like yoga mats, blocks, bouncy balls, basketballs, low free weights, racquets and goggles
- Training specifically for the program or service such as a lifeguard certification
- Transportation costs like van driver and mileage, parking, tolls, detailing, or rental of buses, etc.
- Field trip entry fees, tickets, admissions for participants and leaders/instructors
- Association fees related to specific activities such as USSSA and TAAF
- Rental fees for facilities, spaces, janitors, charge backs, etc.
- Marketing/promotion/printing/distribution/fliers/etc., associated directly for programs (non-marketing staff who does some direct marketing)

- Repair or maintenance of program or service specific equipment
- Software fees associated with a specific program or service
- Any other costs associated or attributed specifically with the program or service

INDIRECT COST

Includes expenses (fixed and variable) associated with providing a service or program, but are shared expenses among programs and services. (Cannot be tied specifically to one program.)

- Full-time, part-time, and seasonal employees that primarily perform administrative duties for the divisions such as Director, Superintendent, etc., and corresponding benefits
- Other full-time, part-time, and seasonal employees that perform some support services for the divisions such as working on strategic planning initiatives (percentage directly related to support services) and corresponding benefits
- Utilities for the facility such as water, electric, and solid waste
- Other overhead costs as deemed appropriate
- Building alarm monitoring
- Safety equipment and supplies such as fire extinguishers, AEDs, and first aid
- Any other costs associated or attributed specifically with the facility
- General consumable equipment, office supplies and maintenance supplies like paper, toner, toilet paper, mops, cleaning supplies
- Repair or maintenance of divisions-wide equipment like copier maintenance agreement
- Various other appropriated costs

KEY FINDINGS

The following topics were identified as key findings needing further review and possible revision to current policies and/or practices:

- A formal policy regarding pricing and subsidy levels for services does not exist.
- Cost accounting at the activity level is challenging due to limitations in the City's financial software capabilities. Program codes are not used to track expenses or labor.
- Prior to completing the necessary steps of this project, the Divisions lacked consistent, defensible administrative processes to define and track direct costs of programs and services in both pre-planning and program evaluation.
- The current method of setting and changing fees is not conducted using meaningful methodology that aligns resource allocation and pricing with community values.
- Non-resident rates are inconsistently applied across the Divisions. The value of non-resident rates as they relate to meeting program revenue goals and equitable application requires review.
- Setting fees artificially low and using tax dollars to cover costs of services with moderate and significant individual benefit can result in a disservice to the community over time, such as lack of fairness in assignment of fees as new services come into demand, with limited funding available. In addition, when an economic downturn occurs and there are artificially low fees, it is often necessary to cancel programs and services that could otherwise continue with minor adjustments.
- High subsidy levels may be an indicator of high expenses and should be reviewed.
- Evaluation tools and performance measures are not specific or defined. Currently there is no formal services assessment process in place.
- The method used to establish class minimums needs further evaluation for consistency throughout the Divisions.
- Limited understanding of the City's budget process and the Divisions' revenue goals exist.
- A financial aid or scholarship program is not in place.

RECOMMENDATIONS

The main purpose of this endeavor has been to create a fair, equitable, and defensible resource allocation model for establishing and adjusting fees and charges that has credibility with elected officials, stakeholders, the public, and staff. The recommendations will act as the implementation catalyst and internal work plan, and are intended to guide goals, objectives, and decision-making, while creating service sustainability for the Divisions. Some recommendations are scheduled to occur in the near future, and others will take time to put into place. Sensitivity to fee tolerance levels must be considered as fee adjustments are made.

The first year of implementation will continue to be a learning year as more data is generated and analyzed. It is likely that some adjustments will be made during or at the end of year one including:

- Further clarification or addition of categories
- Possible movement of a category to a more appropriate tier
- Possible movement of a program or service to a different category
- Reassignment of costs or recalculation of subsidy levels
- Refinement of targets based on any or all of these bulleted items

Recommendations have been developed and grouped into the following themes:

A. Policy Strategy
B. Administrative Strategies
C. Revenue Generation and Cost Savings Strategies
D. Tier-specific Strategies
E. Planning for the Future

Table 1: Recommendations

A. Policy Strategy	
A1	Seek approval of the proposed Resource Allocation Policy by the Parks and Recreation Board and City Council. Recommended policy language is provided in ***Appendix C.***
A2	Recognize the Hurst Parks, Recreation, and Senior Services Resource Allocation Pyramid (***Figure 1***) as a fundamental component of the Resource Allocation philosophy.
A3	Review existing policy and procedure to assure full integration with the overall resource allocation philosophy.
A4	Set initial pricing for programs and services at a fee level that considers subsidy level targets and market rates and is reasonable for most participants.
A5	Develop a Partnership Policy and philosophy to create equity and consistency while maximizing and leveraging resources of the Divisions. Distinguish partnerships from simple use agreements. The criteria for partnership should establish the premise of a true partnership with the Divisions, with mutual goals and outcomes desired. Facility use costs should be addressed in the guidelines as a cost of the endeavor, and calculated as a value of what the City offers in the partnership. A partnership should not be represented first and foremost as a method of waiving or discounting fees.

A6	Research trends and revise the non-resident fee policy as needed to ensure consistency in setting fees for program and service delivery to non-residents.
A7	Develop a scholarship program with stream-lined eligibility requirements. Consider increasing the Parks Donation fund voluntary donation from 75-cents to $1.00 per month. Allocate the additional 25-cents to the development of a scholarship fund.

B. Administrative Strategies	
B1	Further refine all expenses considered "direct costs" for programs and services and continue to investigate expanding cost accounting functions to create a systematic solution to establishing subsidy levels more efficiently.
B2	Use resource allocation philosophy, model, and policy as a Divisions-wide staff training tool, and incorporate specific recommendations into annual staff work plans as appropriate.
B3	Review all fees for annual adjustments at the staff level and provide an update to City Council through the budget process. All fees should be considered for an annual adjustment in order to keep up with the increasing cost of providing the service.
B4	Engage program staff in budget development and discussion of annual revenue goals. Partner with the Finance Division to provide biannual staff training on the budget process.
B5	Explore available and potential tracking mechanisms and opportunities with the Finance and Human Resources Division to expand ability to track expenses and labor at the program level.
B6	Review all sports association agreements to align with the subsidy and resource allocation policy and to achieve goals of both service to the community and financial sustainability. Consider amount of use, times of use, equity of use, and fees for use to promote efficient and effective use of the facilities.

C. Revenue Generation and Cost Savings Strategies	
C1	Explore alternative funding sources that strategically align with the Divisions missions including potential partnerships.
C2	Implement the use of program planning sheets to identify subsidy based on class minimums. Subsidy level should align with associated tier target.
C3	Manage program lifecycles through monitoring registration, attendance figures, and subsidy level goals on an ongoing basis. Cancel, retool, and/or replace under-performing services. Set fees using the provided Pricing Strategies, allowing staff to respond to market conditions, opportunities, and service demands in a timely manner. Adjust fees to reflect the Division's subsidy and resource allocation philosophy, being sensitive to fee tolerance, and implementing over time, as necessary.
C4	Continue to review internal management practices to identify cost savings. Expenses may be minimized through avenues such as restructuring of programs, management efficiencies, and partnering.

C5	Continue to maintain current capital and maintenance management plans, appropriately budgeting for ongoing operating expenses to avoid deferring expenses that will multiply in the long run.

D. Tier-specific Strategies	
D1	Subsidy level targets may need refinement over the first year of implementation, so preliminary targets should be re-evaluated prior to year two. These targets are set to be in addition to what is needed just to keep up with inflationary expenses and will have to be carefully considered in the wake of the impact of COVID-19.
D2	Identify and implement opportunities for fiscal adjustments such as fee changes, program elimination or outsource, and/or expense reduction.
D3	Tier 5 represents activities determined to provide a very high level of individual benefit. These programs are the least related to the fundamental purpose of the Divisions, although they complement other activities. For this reason, these categories should not be subsidized. Review the structure of programs in all categories on Tier 5 to minimize the subsidy.
D4	The categories of programs on Tier 4 represent considerable individual benefit and should not be reliant on tax resources to support them. Reduce Tier 4 subsidy to 29% or less. Strategies may include restructuring of the offering, decreasing expenses, and/or increasing fees.
D5	Tier 3 is a large tier with a variety of programs and services, and a large capacity for volume, which results in an acceptable aggregate cost recovery level for the tier. However, within each category of service, there are areas that suggest a closer look at program structure, consistency, and refinement of the cost accounting. Review the structure of programs in all categories on Tier 3 to maintain an overall tier target of a maximum subsidy of 64%.
D6	Focus the use of General Fund Subsidy on those activities, primarily found in Tier 1 and Tier 2 of the Pyramid Model, that provide mostly community benefit to the taxpayers of the City. Support Tiers 3 to 5 with General Fund dollars as appropriate and determined by the established subsidy level targets.

E. Planning for the Future - Evaluation and Performance Measures	
E1	Review the performance toward subsidy level goals on an annual basis.
E2	Conduct cost benefit analysis of programs by evaluating participation, waiting lists, cancellation rates, and rate of repeat customers.
E3	Continue to provide ongoing opportunities for community input through a variety of outreach efforts and keeping the input process current and reflective of changing demographics, interests, and economic conditions.
E4	Continue collaborations and discussions with other agencies including state and regional agencies, neighboring municipalities, and non-profits, to collectively meet identified needs.

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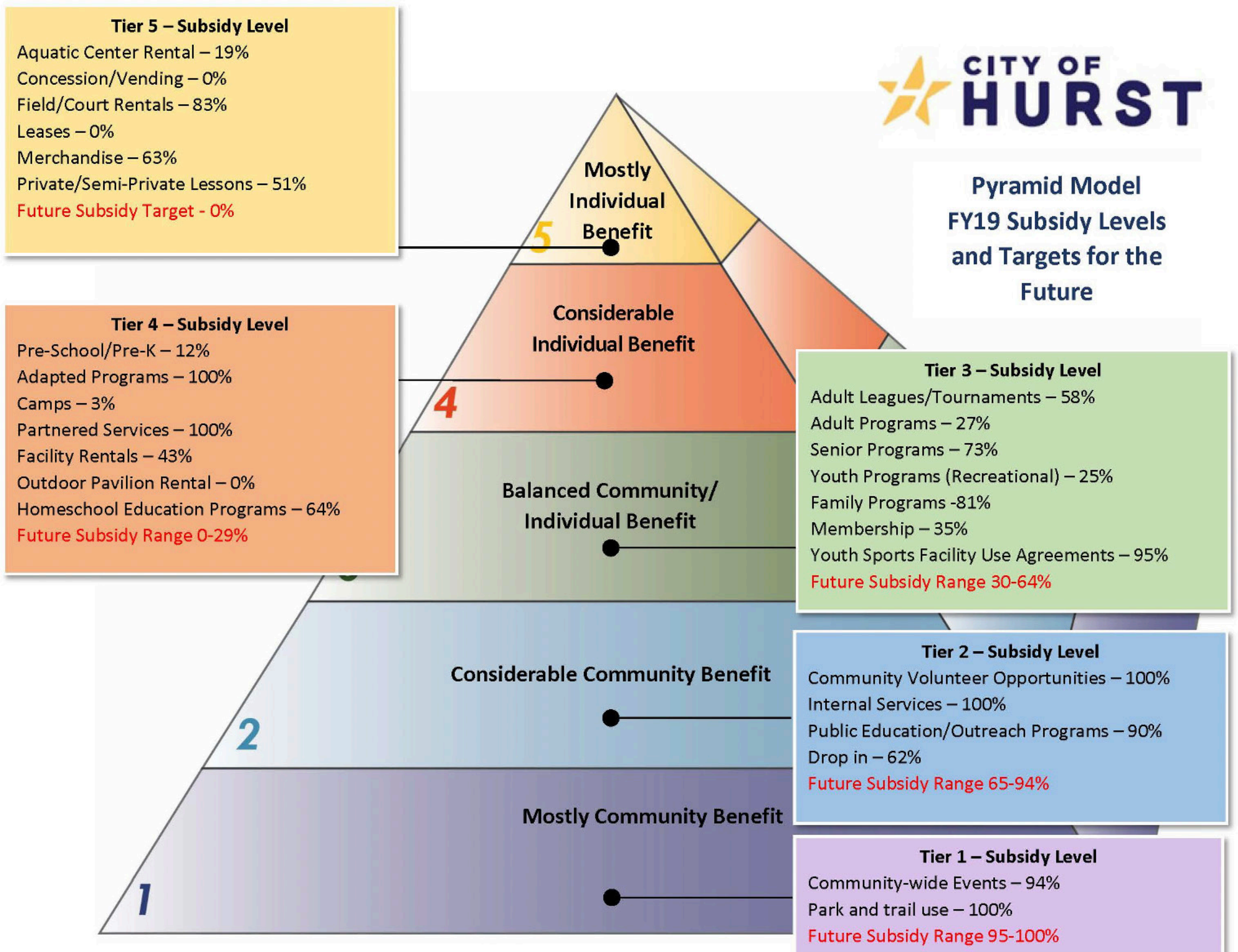
Figure 1: Hurst Subsidy and Resource Allocation Pyramid Model



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SUBSIDY LEVEL TARGETS

Typically, with governmental accounting systems, it is very challenging to measure subsidy levels as expenses are not tracked at the activity level. On the other hand, revenues are accounted for in adequate detail due to registration software. For this study, the Divisions measured programs and activities on levels of the Hurst pyramid to provide a baseline of data for setting appropriate subsidy level targets. Using the specific definition of costs to be included in the measurement, the following targets ranges are recommended:

Table 2: Subsidy Level Targets

Tier Level	Subsidy Level Target Range
Tier 5	0%
Tier 4	0-29%
Tier 3	30-64%
Tier 2	65-94%
Tier 1	95-100%

It is not intended that every category of service necessarily meets the target, but that the tier as a whole is at or below the tier target range. Targets range from 100 percent subsidized (or free) for those programs and services in the base level (Tier 1 Mostly Community Benefit) such as Park and Trail Use and Community Events, to zero percent in the top tier (Tier 5 Mostly Individual Benefit) level, such as Merchandise and Private Lessons.

ESTABLISHING FEES AND CHARGES

PRICING STRATEGY

Pricing of services must be done on a service-by-service basis. Pricing information is included as ***Appendix D*** in this document. Definition of costs and fees as discussed are provided here and followed by criteria for establishing fees and charges that align with pyramid levels.

The following concepts were discussed and defined over several months.

Table 3: Cost and Fees Defined

Costs are defined as:	Fees are defined as:
DIRECT COST: Costs that are directly attributable to efforts to put on or provide a program or service. Examples are program specific supplies and marketing, rental fees for facilities, and applicable portions of full-time, part-time, and seasonal staff, as well as corresponding benefits. Cost associated with individual programs or services are not easily identifiable, so some reasonable assumptions may be necessary. **INDIRECT AND DIVISIONS OVERHEAD COST:** These costs are incurred by the Parks, Recreation, and Seniors Divisions and are not directly attributable to a specific program or service, but are necessary to support the effort, and are incurred for a common objective. Examples may include applicable portion of staff and benefits charges that are shared among multiple services, gas and vehicle maintenance, insurance, fund transfer charges, and staff overtime costs.	**PARTIAL COST FEE**: A fee recovering something less than the cost calculation determined through the chosen methodology. The remaining portion of the costs are subsidized. **FULL COST FEE:** A fee based on a traditional price-cost relationship; recovers the total cost of a service or program including all costs determined through the chosen methodology, enabling the break-even point to be reached. Full-cost fee is often used as a strategy for services perceived as "private," benefiting only users while offering no external benefits to the general community. **MARKET RATE FEE:** Fee based on demand for a service or facility. The market rate is determined by identifying all providers of an identical service (Examples: private sector providers, other municipalities, etc.), and setting the fee at the highest level that the market will bear.

CRITERIA FOR ESTABLISHING FEES AND CHARGES

Criteria is established for each level of the pyramid as indicated below. A full description of the criteria that applies to each level is found in Appendix E.

High or Full Tax investment/Low or No Cost Recovery:
These criteria apply to the Mostly Community Benefit Tier (1) of the pyramid.

Partial Tax investment/Partial Cost Recovery:
These criteria apply to the Considerable Community (2) and Balanced Community/Individual Benefits (3) tiers of the pyramid. Keep in mind that a service does not have to meet every criterion.

Low Tax Investment/Substantial Cost Recovery:
These criteria apply to the Considerable Individual Benefit tier (4) of the pyramid.

No Tax investment/Full Cost Recovery:
These criteria apply to the Mostly Individual Benefit tier (5) of the pyramid.

Appendix A: The Pyramid Methodology

The GreenPlay Pyramid Methodology, used in development of the Subsidy and Resource Allocation Model, is built on a foundation of understanding who is benefiting from park and recreation services to determine how the costs for service should be paid.

The Model illustrates a pricing philosophy based on establishing fees commensurate with the benefit received. Descriptions regarding each level of the pyramid are provided; however, the model is intended as a discussion point and is very dependent on agency philosophies to determine what programs and services belong on each level. Cultural, regional, geographical, and resource differences play a large role in this determination. The resulting pyramid is unique to each agency that applies this methodology.

Application of the pyramid methodology begins with the mission of the organization, but must also address other considerations:

- Who benefits from the service, the community in general or only the individual or group receiving the service?
- Does the individual or group receiving the service generate the need (and therefore the cost) of providing the service?
- Will imposing the full cost fee pose a hardship on specific users? (The ability to pay is different than the benefit and value of a program, activity, or service, and therefore, should be dealt with during the implementation phase of pricing and marketing.)
- Do community values support taxpayer investment for the cost of service for individuals with special needs (for example, people with disabilities or low-income)?
- Will the level of the fee affect the demand for the service?
- Is it possible and desirable to manage demand for a service by changing the level of the fee?
- Are there competing providers of the service in the public or private sector?

The application of the model is broken down into the following steps:
Step 1: Building on your organization's values, vision, and mission
Step 2: Understanding the Pyramid Methodology, the benefits filter, and secondary filters
Step 3: Developing the organization's Categories of Service
Step 4: Sorting the Categories of Service onto the Pyramid
Step 5: Defining Direct and Indirect Costs
Step 6: Determining (or confirming) current tax investment/cost recovery levels
Step 7: Establishing tax investment goals/subsidy level targets
Step 8: Understanding and preparing for influential factors and considerations
Step 9: Implementation
Step 10: Evaluation

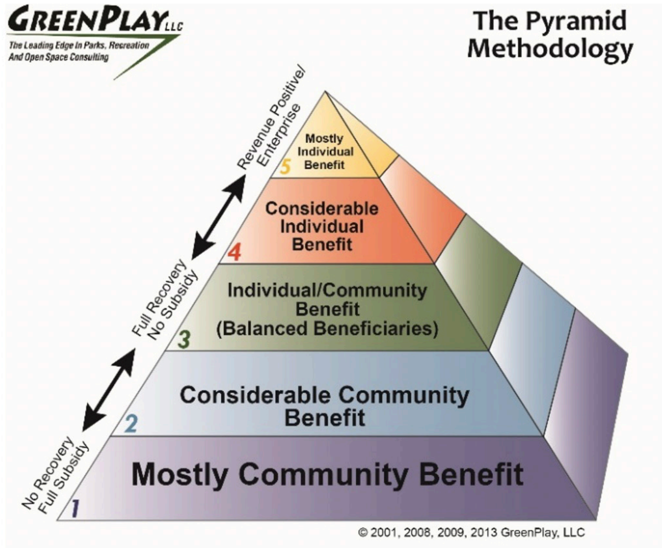
STEP 1: BUILDING ON YOUR ORGANIZATION'S VALUES, VISION, AND MISSION

Critical to this philosophical undertaking is the support and buy-in of elected officials and advisory board members, staff, and ultimately, citizens. Whether or not significant changes are called for, the organization should be certain that it philosophically aligns with its constituents. The development of a financial resource allocation philosophy and policy is built upon a very logical foundation, based upon the theory that those who benefit from Parks, Recreation, and Senior Services ultimately pay for services.

Envision a pyramid sectioned horizontally into five levels.

A brief description of the process follows.

Figure 2: GreenPlay Pyramid Methodology

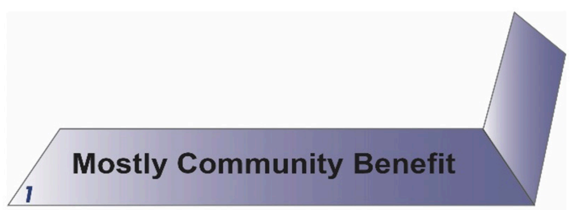


STEP 2: UNDERSTANDING THE PYRAMID METHODOLOGY, BENEFITS FILTER, AND SECONDARY FILTERS

The creation of a subsidy and resource allocation philosophy and policy is a key component to maintaining an agency's financial control, equitably pricing offerings, and helping to identify core services including programs and facilities.

The principal foundation of the Pyramid is the **Benefits Filter.** Conceptually, the base level of the pyramid represents the core services of a public Parks, Recreation, and Seniors system. Services appropriate to higher levels of the pyramid should only be offered when the preceding levels below are comprehensive enough to provide a foundation for the next level. The foundation and upward progression are intended to represent the Parks, Recreation, and Senior Services core mission while also reflecting the growth and maturity of an organization as it enhances its service offerings. Each level of the Pyramid from the bottom to the top is described below.

MOSTLY COMMUNITY BENEFIT

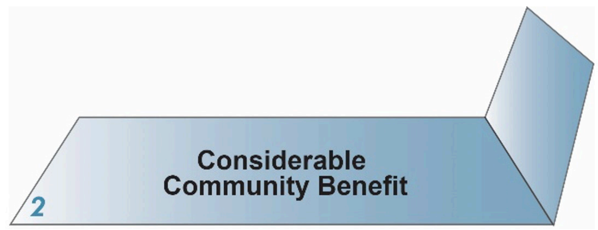


The foundational level of the Pyramid is the largest, and it encompasses those services including programs and facilities that **MOSTLY** benefit the **COMMUNITY** as a whole. These services may increase property values, provide safety, address social needs, and enhance quality of life for residents. The community generally pays for these basic services via tax support. These services are generally offered to residents at a minimal charge or no fee. A large percentage of the agency's tax support would fund this level of the Pyramid.

Examples of these services could include: the existence of the community Parks, Recreation and Senior Services system, the ability to visit facilities on an informal basis, park and facility planning and design, park maintenance, or others.

NOTE: All examples given are generic – individual agencies vary in their determination of which services belong in the foundation level of the Pyramid based upon agency values, vision, mission, demographics, goals, etc.

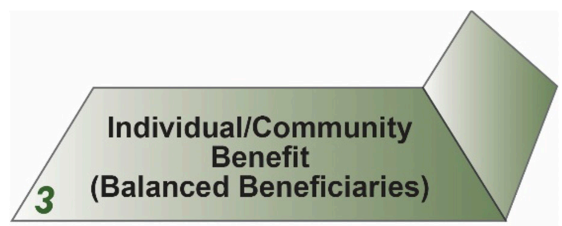
CONSIDERABLE COMMUNITY BENEFIT



The second level of the Pyramid represents services that promote individual physical and mental well-being, and may begin to provide skill development. They are generally traditionally expected services and/or beginner instructional levels. These services are typically assigned fees based upon a specified percentage of direct (and may also include indirect) costs. These costs are partially offset by both a tax investment to account for **CONSIDERABLE COMMUNITY** benefit and participant fees to account for the Individual benefit received from the service.

Examples of these services could include: staff facility and park use, volunteer programs and services, public outreach programs, etc.

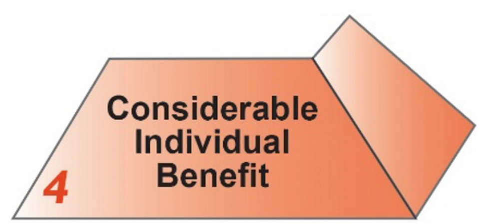
BALANCED INDIVIDUAL/COMMUNITY BENEFIT



The third level of the Pyramid represents services promoting individual physical and mental well-being, and provides an intermediate level of skill development. The level provides balanced **INDIVIDUAL** and **COMMUNITY** benefit and should be priced accordingly. The individual fee is set to recover a higher percentage of cost than those services falling within lower Pyramid levels.

Examples of these services could include: beginning level instructional programs and classes, teen programs, senior programs, memberships, etc.

CONSIDERABLE INDIVIDUAL BENEFIT



The fourth level of the Pyramid represents specialized services generally for specific groups, and those that may have a competitive focus. Services in this level are not highly subsidized and may be priced to recover full cost, including all direct expenses.

Examples of these services could include: camps, advanced level classes, competitive leagues, etc.

MOSTLY INDIVIDUAL BENEFIT

At the top of the Pyramid, the fifth level represents services that have potential to generate revenues above costs, may be in the same market space as the private sector, or may fall outside the core mission of the agency. In this level, services should not be supported by subsidy, should be priced to recover full cost, and may generate revenue in excess of cost.

Examples of these activities could include: Private lessons, company picnic rentals, other facility rentals for weddings or other services, concessions and merchandise for resale, etc.

STEP 3: DEVELOPING THE ORGANIZATION'S CATEGORIES OF SERVICE

Prior to sorting each program and service onto the Pyramid, the project team took on the daunting task of reviewing, analyzing, and sifting through many individual programs and services in an effort to create the Division's **Categories of Services,** including definitions and examples. "Narrowing down" facilities, programs, and services and placing them in categories (groups of like or similar service) that best fit their descriptions allowed a reasonable number of items to be sorted onto the pyramid tiers using the Individual and Community Benefit filter.

These categories were identified as listed in the study report. The charge was then to sort these categories onto appropriate levels of the pyramid model based on who they benefited (the benefit filter). Those categories ranged from mostly benefiting the **community as a whole,** to programs and services mostly providing an **individual** benefit. There was also discussion of consideration of additional filters (discussed in Step 8 below) which often hold a secondary significance in determining placement on the Cost Recovery Pyramid.

STEP 4: SORTING THE CATEGORIES OF SERVICE ONTO THE PYRAMID

The sorting process is where ownership is created for the philosophy, while participants discover the current and possibly varied operating histories, cultures, missions, and values of the organization. The process develops consensus and allows everyone to land on the same page. The effort must reflect the community and align with the mission of the Divisions.

The sorting process was a challenging step and was led by objective and impartial facilitators in order to hear all viewpoints. The process generated discussion and debate as participants discovered what others had to say about serving the community; about adults versus youth versus seniors; about advanced versus intermediate and beginning programs; about special events; athletic fields; and about rentals involving the general public, non-profit and for-profit entities; etc. It was important to push through the "what" to the "why" to find common ground.

STEP 5: DEFINING COSTS

The definition of direct and indirect costs can vary from agency to agency. The most important aspect to understand is that all costs associated with directly running a program or providing a service are identified and consistently applied across the system. Direct costs typically include the specific, identifiable expenses (fixed and variable) associated with providing a service. These expenses would not exist without the service and may be variable costs.

STEP 6: DETERMINING (OR CONFIRMING) CURRENT TAX INVESTMENT/SUBSIDY LEVELS

The agency will confirm or determine current subsidy allocation levels by category of services based upon the definition of costs. Results of this step identify what it costs to provide services to the community: whether staff has the capacity or resources necessary to account for and track costs, whether accurate cost recovery levels can be identified, and whether cost centers or general ledger line items align with how the agency may want to track these costs in the future. Staff may not be cost accounting consistently, and these inconsistencies become apparent.

STEP 7: ESTABLISHING COST RECOVERY/TAX INVESTMENT TARGETS

The Project Team has worked to align who is benefiting from programs and services with the sources of funding used to pay for them. The tax investment is used in greater amounts at the bottom levels of the pyramid, reflecting the benefit to the community as a whole. As the pyramid is climbed, the percentage of tax investment decreases, and at the top levels, it may not be used at all, reflecting the individual benefit.

Targets take into account current subsidy levels. As cost of services and matching revenues is a very revealing process, realistic and feasible targets are recommended to align with the pyramid model and also to meet specific financial objectives for recovery of direct and indirect cost. These targets will be identified for each tier of the Pyramid Model.

STEP 8: UNDERSTANDING AND PREPARING FOR INFLUENTIAL FACTORS AND CONSIDERATIONS

Inherent to sorting programs onto the Pyramid Model using the Benefits and other filters is the realization that other factors come into play. This can result in decisions to place services in other levels than might first be thought. These factors can aid in determining core services versus ancillary services. These may include participant commitment, trends, political issues, marketing, relative cost to provide the service (cost per participant), current economic conditions, and financial goals.

STEP 9: IMPLEMENTATION

The Divisions have set their goals based upon their missions, stakeholder input, funding, and/or other criteria. Upon completion of Steps 1-8, the Divisions have positioned themselves to illustrate and articulate where they have been and where they are heading from a financial perspective. Some recommendations are scheduled to occur immediately, and others will take time to put into place, while some will be implemented incrementally. It is important that fee change tolerance levels are considered.

STEP 10: EVALUATION

This process has been undertaken in order to articulate a philosophy, train staff on a best practice ongoing approach to subsidizing services in public Parks, Recreation, and Senior Services, and enhancing financial sustainability. Performance measures have been established through subsidy level targets, specific recommendations have been made for services found to be out of alignment, and evaluation of goal attainment is recommended to take place annually.

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Appendix B: Hurst Parks, Recreation, and Senior Services Divisions Categories of Service

Table 3: Categories of Service

Tier 5

Service Category	Definition	Examples
Aquatic Center Rental	Exclusive use of the Central or Chisholm Aquatics Center during evening, non-public hours	Central Aquatics Center, Chisholm Aquatics Center
Concession/Vending	Food and beverage for individual use or consumption	Machine or concession stand
Field/Court Rentals	Exclusive use of athletic fields or courts on a one-time or limited recurring basis	Field rentals, tennis court rentals
Leases	Providing Parkland to a communication company for placement of a cell tower.	Cell towers
Merchandise	Merchandise sold for individual or team use	Tennis merchandise, headphones
Private/Semi-Private Lessons	Lessons arranged for one to three students with a specific instructor and/or time	Learn to Swim, tennis, nutrition counseling, private trainer

Tier 4

Service Category	Definition	Examples
Adapted Programs	Specialized opportunities for people with disabilities. These are not reasonable accommodations required as inclusionary services.	Adapted Egg Hunt, Special Needs Swim Night
Camps	Targeted annual, individualized camps requiring registration	Tennis, swim, STEM, and sport camps

Facility Rentals	Indoor room or building rentals by the general public for parties or gatherings	Baby showers, birthday parties, family gatherings at Brookside or the Rec. Center
Outdoor Pavilion Rental	Exclusive use of athletic fields or courts on a one-time or limited recurring basis	Park pavilions, aquatic pavilions during open hours
Partnered Services	Providing space and/or marketing for contracted companies and/or government agencies or service organizations that improve the community and individual well-being	Informational speakers, travel programs
Social Clubs	A sanctioned support or social club for persons with common special interest; may or may not include self-initiated or scheduled activities	Bridge Club, Book Club, play groups
Homeschool Education Programs	Programs designed for homeschooled, elementary aged children which fulfill a school credit. Classes occur during the school-day and require registration. Examples: history, science, physical education	Homeschool classes, history classes, science classes
Preschool/Pre-K Programs	Preschool programs and activities offered throughout school year registration required	Ready for Kindergarten

Tier 3

Service Category	Definition	Examples
Adult Leagues/Tournaments	Recreational athletic leagues and activities operated and/or managed by the city through contract or city staff throughout the year	Softball, basketball, tennis leagues and/or tournaments
Adult Programs	Group recreational and/or instructional programs and activities typically requiring registration	Learn to Swim group lessons, group fitness, weight training, art classes, music classes, etc.

Family Programs	Programs where parent or guardian participation is required	Daddy/Daughter Dance, Fishing Derby, Parent/Tot classes
Senior Programs	Group recreational and/ or instructional programs, events and activities requiring registration	Art, general, senior exercise, group fitness, Golden Couples, Senior Banquet
Youth Sports - Facility Use Agreements	Annual, twelve-month agreements allowing for dedicated or exclusive use of fields to associations for youth sports such as soccer and baseball	Hurst United Soccer Assn.; Tri-Cities Baseball and Softball; YMCA
Youth Programs - Recreational	Group recreational and/or instructional programs and activities typically requiring registration	Learn to Swim group lessons, sport fundamentals, art classes, music classes, etc.
Membership	On-going monitored facility use of Recreation buildings (Rec Center, Senior Center Aquatics) for all ages during specific time blocks	Fitness room, computer lab, billiards, racquetball, basketball, open swim hours

Tier 2

Service Category	Definition	Examples
Community Volunteer Opportunities	Projects-based volunteer opportunities managed or overseen by staff initiated by the City or outside entities	Volunteers in Action, School District Honor Society or other groups, Adopt-a-Park, boards and commissions
Internal Services	Coordination and delivery of event equipment, supplies and staffing for non-division events	Ribbon cutting/other city-dept. event support
Monitored Center Use	Recreation buildings (Rec Center, Senior Center Aquatics) for all ages. Either one-time use or ongoing during specific time blocks	Fitness room, computer lab, billiards, racquetball, basketball, open swim hours
Public Education/Outreach Programs	Community engagement in a structured or non-structured setting	Career Fairs, Empowering Seniors event, public workshops; Play Safe Event; Free Lifejackets

Tier 1

Service Category	Definition	Examples
Community-wide Events	Community events offered by the Department on an annual basis	Stars & Stripes, Tree Lighting, EGGstravaganza, Fall Festival, etc.
Park and trail use	Unmonitored access or use of any outdoor park space or park amenity for recreational purposes that does not require coordination or supervision of city staff	Walking/jogging path, outdoor basketball, volleyball, and tennis courts, outdoor exercise equipment and playgrounds

Appendix C: Suggested Policy Language

A formal policy regarding pricing and subsidy levels for services does not exist. This begins with a foundational statement of policy that articulates the philosophical underpinnings and addresses the financing and service provision strategies by looking at them through a different lens.

SUGGESTED POLICY LANGUAGE FOR A COMPREHENSIVE POLICY

As a publicly financed park system, the Hurst Parks, Recreation, and Senior Services Divisions provide a basic level of Parks, Recreation, and Senior Services for the public, funded by tax dollars. However, fees and charges and other methods to recover costs are considered a responsible and necessary means to supplement tax revenue and regulate park use where appropriate.

Critical to the success of service delivery is affordability, fairness, and equity. It is the intent of this policy to ensure that the approach in the use of tax dollars as well as alternative forms of revenue will result in these qualities.

In establishing fees and charges, the Parks, Recreation, and Senior Services Divisions will determine the costs of providing services based on an identified and consistently applied methodology including direct, indirect, and overhead costs. This calculated cost will be used to measure current and future levels of subsidy and to help establish appropriate subsidy goals to support services. The appropriate level of tax subsidy will be based on an assessment of who is benefiting from the service provided. If the benefit is to the community as a whole, it is appropriate to use taxpayer dollars to completely, or primarily fund the service. Examples of services that primarily provide community benefits are hiking and biking trails, play areas, parks, and signature community events. The subsidy goals are used to establish and/or adjust fees to reach these goals.

As the benefit is increasingly offered to an individual or select group of individuals, it is appropriate to charge fees for the service at a decreasing level of subsidy and an increasing rate of cost recovery. Supervised or instructed programs, facilities, and equipment that visitors can use exclusively, as well as products and services that may be consumed, provide examples where fees are appropriate.

The Divisions shall also consider available resources, public need, public acceptance, and the community economic climate when establishing fees and charges. In cases where certain programs and facilities are highly specialized by activity and design, and appeal to a select user group, the Divisions shall additionally consider fees charged by alternative service providers or market rates. Fees and charges can be set to recover costs in excess of direct and indirect costs, where appropriate, as a method of subsidizing other services.

The Divisions may further subsidize services for persons with economic need or other targeted populations, as allowable, through tax-supported fee reductions, scholarships, grants, or other methods.

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Appendix D: Developing a Pricing Strategy

As the final step in the development of the Comprehensive Subsidy and Resource Allocation Policy, pricing strategies were considered. This discussion should continue in the future, and the following topic areas should be included and applied.

1. UNDERSTANDING FINANCIAL TRENDS

The increasing complexity and resulting shifts of our society's economy have led to what can be deemed as constant fiscal change in government. Public sector administrators and managers must be prepared to respond to the fiscal realities that have resulted from these economic shifts. Trends impacting fiscal and pricing decisions include:

- Increased governmental accountability
- Increased demand for people's "leisure dollar"
- Ongoing or increased demand for services with no/limited additional funding, or decreased funding
- Disinterest in service reductions or increased fees and charges
- Increased operating expenses (utilities, fuel, personnel, supplies, etc.)

2. UNDERSTANDING THE BUDGET PROCESS AND FISCAL YEAR CYCLE

Budgets are viewed as annual financial plans and include planning and forecasting, establishing priorities, and a way to monitor fiscal process. This overview allows for an abbreviated look at the process and how it is impacted by pricing.

3. UNDERSTANDING THE COSTS OF SERVICE PROVISION

Prior to making pricing decisions, it is important to understand the different types of service provision costs. Having knowledge of the various types of costs allows staff to make better informed pricing decisions. The different types of service provision costs are as follows:

- Direct costs
    - Fixed costs
    - Changing fixed costs
    - Variable costs
- Indirect Costs

4. UNDERSTANDING THE PURPOSE OF PRICING

There are many reasons to develop service fees and charges. These include, but are not limited to, the following:

- Recover costs
- Create new resources
- Establish value
- Influence behavior
- Promote efficiency

5. PRICING STRATEGIES – DIFFERENTIAL PRICING

Differential pricing is grounded in the notion that different fees are charged for the same service when there is no real difference in the cost of providing the service. There may be many reasons the Divisions may wish to consider this pricing strategy including:

- To stimulate demand for a service during a specified time
- To reach underserved populations
- To shift demand to another place, date, or time

6. ALTERNATIVE FUNDING SOURCES

In general, there has been a decrease in the amount of tax support available to public Parks, Recreation, and Senior Services agencies across the nation. The Divisions are forward thinking in their planning. As such, the need to look at alternative funding sources as a way to financially support services has become commonplace. Alternative funding sources are vast and can include:

- Gifts
- Grants
- Donations
- Scholarships
- Sponsorships
- Collaborations
- Volunteer contributions

7. EXAMINING THE PSYCHOLOGICAL DIMENSIONS OF PRICING

In addition to the social and environmental issues surrounding pricing, the human elements of pricing must be considered. Regardless of how logical a price may seem, customer reactions and responses are their own and can be vastly different than what one might expect. The psychological dimensions of pricing include:

- Protection of self-esteem (pricing in such a way as to not offend certain users)
- Price-quality relationship (value received for every dollar spent)
- Establishing a reference point (worth of service in comparison to others)
- Objective price (price has a basis in fact, is real, and impartial)
- Subjective price (price is not biased or prejudiced)
- Consistency of image (perception of the brand and identification with product or service)
- Odd pricing (perception of arbitrary or incongruent pricing)

8. ESTABLISHING INITIAL PRICE

Establishing an actual price for a program can be based upon a variety of strategies including:

- Arbitrary pricing: basing fees on a general provision such as raising all fees $.25 to meet budget goals which ignores market conditions and cost recovery goals. Arbitrary pricing is not encouraged, as it is impossible to justify.
- Market pricing: a fee based on demand for a service or facility or what the target market is willing to pay for a service. The private and commercial sectors commonly use this strategy. One consideration for establishing a market rate fee is determined by identifying all providers of an identical service (examples: private sector providers, municipalities, etc.) and setting the highest fee. Another consideration is setting the fee at the highest level the market will bear.
- Competitive pricing: a fee based on what similar service providers or close proximity competitors are charging for services. One consideration for establishing a competitive fee is determined by identifying all providers of an identical service (examples: private sector providers, municipalities, etc.), and setting the mid-point or lowest fee.
- Cost recovery pricing: a fee based on cost recovery goals within market pricing ranges.

9. UNDERSTANDING PRICE REVISIONS

Once a price is established, there may be the need to periodically review it and examine the need for revision. In some cases, “revised” may be viewed as “increased;” therefore, a systematic approach to pricing revision is important. Factors to consider in pricing revision include:

- Customer tolerance: the degree to which small increases in price will not encounter client resistance.
- Adjustment period: the period of time where the value of the service is assessed by the customer in relation to the price increase. The value of the service from the customer’s perspective must meet or

exceed the impact of the increased cost. Adjustment periods may lead to diminished participation or termination of participation altogether based upon customer loyalty and other factors.

- Customers' perceived value of the service: the degree to which services including programs, facilities, and parks impact the public (individual and community), or in other words, the results or outcomes of services. Value is the judgment or perception of worth or the degree of usefulness or importance placed on a service by personal opinion. The intent or intention of a service is the purpose, aim, or end.

10. THE PRICING PROCESS – DEVELOPING A METHOD

Staff participating in the series of workshops engaged in interactive exercises that applied the cost recovery goals of their respective service areas. The workshops prompted discussions leading to recommended changes to selected current pricing practices with the intention of attaining recommended cost recovery and tax investment allocation goals and establishing a new method for setting fees and charges. This method is based upon using cost recovery goals as a primary pricing strategy, followed by either market pricing (for services with low alternative coverage – few if any alternative providers) or competitive pricing (for services with high alternative coverage – other alternative providers offer similar or like services).

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Appendix E: Criteria for Establishing Fees

HIGH OR FULL TAX INVESTMENT/LOW OR NO COST RECOVERY:

These criteria apply to the Mostly Community Benefit Tier (1) of the pyramid. The following criteria are used to determine if a service should be included in the tier, keeping in mind that a service does not have to meet every criterion:

- The service is equally available to everyone in the community and should benefit everyone
- Because the service is basic, it is difficult to determine benefits received by one user
- The level of service attributable to a user is not known
- Administrative costs of imposing and collecting a fee exceed revenue expected from the fee
- Imposing the fee would place the agency at a serious competitive disadvantage
- The service is primarily provided by the public sector

PARTIAL TAX INVESTMENT/PARTIAL COST RECOVERY:

These criteria apply to the Considerable Community (2) and Balanced Community/Individual Benefits (3) tiers of the pyramid. Users fees may recover only partial cost for those services for which the agency desires to manage demand.

- User fees may recover only partial cost from those individuals who cannot pay full cost due to economic hardship
- User fees may recover only partial cost if competitive market conditions make a full cost fee undesirable
- The following criteria are used to determine if a service should be included in these tiers, keeping in mind that a service does not have to meet every criterion:
  - ✓ Services benefit those who participate but the community at large also benefits
  - ✓ The level of service use attributed to a user is known
  - ✓ Administrative costs of imposing and collecting the fee are not excessive
  - ✓ Imposing a full cost fee would place the agency at a competitive disadvantage
  - ✓ The service may be provided by the public sector but may also be provided by the private sector

LOW SUBSIDY/SUBSTANTIAL COST RECOVERY:

These criteria apply to the Considerable Individual Benefit tier (4) of the pyramid.

- User fees should recover the substantial cost of services benefiting specific groups or individuals
- User fees should recover the substantial cost for those services provided to persons who generate the need for those services
- The following criteria are used to determine if a service should be included in this tier, keeping in mind that a service does not have to meet every criterion:
  - ✓ The individual or group using the service is the primary beneficiary
  - ✓ The level of service use attributed to a user is known
  - ✓ Administrative costs of imposing and collecting the fee are not excessive
  - ✓ Imposing a substantial cost fee would not place the agency at a competitive disadvantage
  - ✓ The service is usually provided by the private sector but may also be provided by the public sector

NO TAX INVESTMENT/FULL COST RECOVERY:

These criteria apply to the Mostly Individual Benefit tier (5) of the pyramid.

- User fees should recover the full cost or more for a service in order to subsidize other services provided to the community
- The following criteria are used to determine if a service should be included, keeping in mind that a service does not have to meet every criterion:

- ✓ Individuals or groups benefit from the service and there is little community benefit
- ✓ The level of service use attributable to a user is known
- ✓ There is excess demand for the service; therefore, allocation of limited services is required
- ✓ Administrative costs of imposing and collecting the fee are not excessive
- ✓ The service is provided at market price by the private sector