



# KIRKLAND PARK BOARD SPECIAL MEETING

Date: July 31, 2018

Time: 7:00 p.m.

Place: Council Chambers, City Hall

*The mission of the Park Board shall be to provide policy advice and assistance to the Department of Parks and Community Services and City Council in order to ensure the effective provision of Parks and Community Services programs and facilities to the residents of the City of Kirkland.*

## AGENDA

1. **CALL TO ORDER**
2. **ROLL CALL** 5 minutes
3. **PRESENTATIONS** 30 minutes
  - a. Cost Recovery Study Update and Discussion  
*Action: Staff Presentation*
4. **ITEMS FROM THE AUDIENCE** 20 minutes
  - a. Public Comments – 3 minutes each
5. **UNFINISHED BUSINESS** 30 minutes
  - a. Cost Recovery Study Update and Discussion  
*Park Board Questions and Discussion*
6. **GOOD OF THE ORDER** 5 minutes
7. **ADJOURNMENT** Estimated meeting completion: 8:30 p.m.

### Next meetings:

September 12, 2018

October 10, 2018

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**Alternate Formats:** Persons with disabilities may request materials in alternative formats. Persons with hearing impairments may access the Washington State Telecommunications Relay Service at 711.

**Title VI:** Kirkland's policy is to fully comply with Title VI of the Civil Rights Act by prohibiting discrimination against any person on the basis of race, color, national origin or sex in the provision of benefits and services resulting from its programs and activities. Any person who believes his/her Title VI protection has been violated, may file a complaint with the City.

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## MEMORANDUM

**To:** Park Board

**From:** Lynn Zwaagstra, Director, Parks and Community Services

**Date:** July 31, 2018

**Subject:** Cost Recovery Study Update

## **RECOMMENDATION**

That the Park Board receive a briefing from staff on the next steps in the cost-recovery study. Park Board will receive a presentation on the financial analysis results, draft recommended community versus individual benefit pyramid, corresponding cost recovery target ranges and draft key elements of a fiscal policy.

## **BACKGROUND:**

The City of Kirkland has defined fiscal policies that are reaffirmed every two years through the adoption of the biennial budget. The current policies are presented in the 2017-2018 budget book, approved by City Council during the budget process. The fiscal policy related to parks and Community Services is stated below.

"All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City."

Parks and Community Services carried out a financial analysis resulting in updated financial guidelines for the Department in 1999, 2002 and 2005. These previous studies yielded cost recovery targets as a percentage of total service cost versus covering the total cost of service. This is due to the mission and status of the department as a service to the community with many of the programs and services offered by the Department being non-revenue generating (e.g., human services, youth services, general park use, etc). In accordance with financial policy and previous practice, staff embarked upon an updated study in February 2018.

At the June 5 Kirkland City Council Meeting, staff presented background information and an overview of the current cost recovery study. Background on the 2005 study was presented along with the philosophical foundation of cost recovery based in equity, sustainability and meeting the community need. More detailed information can be found in the June 5 Council Packet located [here](#).

At the July 17 City Council Study Session, staff presented the results of a financial analysis carried out by the financial consulting firm MGT of America Consulting, LLC (MGT). This portion of the study incorporated analyzing true costs for providing parks, recreation and community services by programmatic category. Based on this information, the current cost recovery level for each programmatic category was calculated.

Another component of the study included engaging the community to complete a “community benefit” versus “individual benefit” assessment. This component of the study was carried out by the parks and recreation consulting firm GreenPlay, LLC (GreenPlay). Their methodology is based in the Pyramid Model, which allows for the sorting of each programmatic category into the 5 tiers of a pyramid. The bottom of the pyramid is Tier 1, which is understood to have the most community benefit and expected to be supported through tax funding. The top of the pyramid is Tier 5, which is understood to have the most individual benefit and expected to receive the least tax dollar support. Tiers 2 through 4 have both community and individual benefits and would be supported by a mix of tax dollars, fees and other alternative revenue sources.

The Pyramid Methodology and results of community outreach workshops, MGT’s financial analysis and draft key elements of a fiscal policy can be found in the July 17 Council Packet located [here](#). Additionally, definitions of terms used and the breakdown of programmatic categories is shown in **Addendum A**.

## **INITIAL RECOMMENDATIONS**

City staff and GreenPlay analyzed the community feedback provided in the “community benefit” versus “individual benefit” assessment. This analysis, along with initial feedback from City Council yielded a recommended Pyramid Model, which is located in **Addendum B**. A target cost recovery range by tier will also be presented, located in **Addendum C**. The 2018 cost recovery levels is compared to the 2005 study in **Addendum D**.

Draft key elements of a fiscal policy were also presented to Council on July 17. Based on Council feedback, these elements have been revised to the following.

### Draft Key Elements of Fiscal Policy

- The Kirkland Parks and Community Services Department provides a basic level of service “free” to the public, in exchange for tax dollars. However, fees, charges and other methods to recover costs (grants, donations, sponsorship) are considered a responsible and necessary means to supplement tax revenue to ensure a sustainable system that meets the community’s need into the future.
- In establishing fees and charges, the Parks and Community Services Department will determine the direct and indirect costs of providing services and establish goals to recover those costs. The appropriate level of cost recovery 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 play areas, parks, trails and large natural areas. The Parks and Community Services Department may also seek grants, donations, sponsorships and partnerships for these community benefit services as appropriate to help sustain these services.

- As the benefit is increasingly offered to an individual or select group of individuals, it is appropriate to charge fees for the service at an increasing rate of cost recovery. Supervised or instructed programs, facilities that visitors can use exclusively, and products and services that may be purchased, provide examples where user fees are appropriate. Cost recovery ranges will be identified by community versus individual benefit tier levels in the Pyramid Model and revisited as necessary to meet City of Kirkland Fiscal Policy.
- The Parks and Community Services Department should also consider available resources, public need 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 Department 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 supporting other services desired by the community.
- The Department will employ incremental periodic fee increases (often annually); a best practice in the parks and recreation industry to keep up with increasing expenses. Smaller, frequent increases have been found to be less impactful on program participants than larger increases that occur less frequently.
- The City may subsidize the cost recovery targets for persons with economic need or other targeted populations through tax-supported fee reductions, scholarships, grants, or other methods. The City Council, City Manager or Department Director may also approve exceptional fees or fee waivers upon determination the fee arrangements will benefit the public interest.

In order to continue the process of developing a resource allocation and fiscal policy, staff is seeking Park Board feedback on the following items.

1. The recommended sorting of programmatic categories within the community/individual benefit tiers.
2. The proposed cost recovery ranges by tier.
3. Draft key elements of a fiscal policy.

These items, along with Park Board feedback, will be presented to City Council at the August 6 Council Meeting.

### **NEXT STEPS**

MGT will complete an assessment of financial impact to the City based on the proposed draft target cost recovery ranges. They will also calculate impact to select fees and charges for programs and services. GreenPlay will complete benchmarking and market assessment of select fees and charges. These components of the study are anticipated to be presented to Council in September. Based on Council feedback, staff will work collaboratively with the consultants to generate final recommendations and reports.

**Addendum A:** Cost Recovery Study Terms and Programmatic Categories

**Addendum B:** Draft Pyramid Model for Park Board

**Addendum C:** Draft Cost Recovery Targets by Tier

**Addendum D:** 2005 to 2018 Comparison

## Glossary of Key Terms

**Ability to Pay:** wherewithal to exchange cash for service based on an individual's financial circumstances; it is not related to who benefits from programs and services.

**Activity:** specific program or service offered by the Department.

**Actual expenditures and revenues:** fiscal year reporting from a completed fiscal year of operation.

**Alternative Funding:** other ways to increase cost recovery in addition to fees and charges; may include grants, sponsorships, partnerships, fundraising, and volunteers.

**Benchmarking:** comparison of certain attributes of the Department's management practices, fee structure, and fees; also known as comparative analysis.

**Benefit:** 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.

- **Community Benefit:** economic, environmental, social value; maintains or improves quality of life for the taxpaying community in general
- **Individual Benefit:** skill building, entertainment, exclusive use, relationship building, financial gain, etc.

**Benefits Filter:** a set of criteria, used in cost recovery models to evaluate services, that delineates between the value that accrues to the community as a whole and the value that accrues to an individual or individual group when a service is received.

**Best Practice:** professional procedures that are accepted or prescribed as being correct or most effective.

**Budgeted expenditures and revenues:** projection of anticipated expenditures and revenues for a fiscal year.

**Category of Service:** a collection of activities offered through the Parks and Community Services Department combined based on similarity in type of activity, target market, and/or desired outcome.

**Comparative Analysis:** comparison of certain attributes of the Department's management practices, fee structure, and fees; also known as benchmarking.

**Competitive Pricing:** setting the price of a product or service based on what the competition or alternative providers are charging.

**Core services:** activities and services that satisfy an agency's mission and vision, typically benefiting all community members.

**Cost:** specific, identifiable expenses (fixed and variable) associated with providing a service.

- **Direct Costs:** budgeted costs associated with providing programs including:
  - Instructor(s) or Program leader(s) (contract and/or staff)
  - Supervision of the program staff and/or contractor(s)
  - Supplies (office and disposable/consumable)
  - Telephone, Postage & Duplicating (specifically identified)
  - Vehicle leases/rentals and local mileage reimbursement
  - Division or section management
  - Special training
- **Indirect Costs:** costs related to general support of programs within the section, and other general costs that are specifically related to program activities. Costs included at this level are allocated to each activity/program according to the size of the program's budget (i.e., costs are allocated on a "percentage of budget" basis).
  - Division or section Administrative Support staff
  - Advertising and Publications
  - Public information and assistance
  - Registration handling/processing
  - Facility maintenance (including associated other Department costs)
- **Department Overhead Costs:** costs incurred for the overall administration and management of the Department. These costs are allocated to all departmental programs and activities, based on size of the budget, and include:
  - Department Director and Managers
  - Department Administrative Support Services (Clerical, Budget, Finance, HR and Special Projects)
  - Departmental portion of shared costs which may include telephone, postage and duplicating; strategic planning
- **City Overhead Costs:** costs incurred for the overall administration and support necessary by the City in order to provide the activities of the Department. These costs are allocated to all departmental programs and activities, based on size of the budget, and include:
  - Human Resources ( HR Analyst, Clerical)
  - Finance (Budget Analyst, Payroll, Accounts Payable)
  - Information Technology (servers, computers, software, website)
  - City Attorney's Office (contract development, client representation)
- **Full Cost or True Cost** Department's direct, indirect, and overhead cost.

- **Net Cost:** a calculation of expenses minus revenue generated by a service or collection of services. (also known as subsidy)

**Cost Recovery:** degree to which the cost (direct and/or indirect) of services including programs, facilities and parks is supported by user fees and/or other designated funding mechanisms such as grants, partnerships, etc.

**Cost Recovery Model:** a framework with a philosophical underpinning that guides the Department's pricing for programs and services.

**Cost Recovery Rate:** the performance metric for cost recovery, expressed as a percentage (revenue divided by expense).

**Cost Recovery Target:** a goal set for the performance metric, such as percentage of cost recovery.

**Exclusive Use:** scheduled, planned or programmed use of a facility or space that is limited or restricted to an identified individual or group for a specified period of time.

**Fee or Price:** the amount charged to the customer for the service.

**Fee Reduction:** a waiver or discount in fee, allowed by policy, to best fulfill the mission of the City and its residents.

**Gross Revenue:** all of the income from a transaction or delivery of a service before any commission is recognized and/or before a supplier receives some of the sales revenue, such as when a contractor receives the total (gross) revenue and passes along the percent of that amount owed to the City by contract.

**Market Rate Fee:** fee based on demand for a service or facility. One consideration for establishing a market rate fee is determined by identifying all providers of an identical service (i.e. private sector providers, other municipalities, etc.), and setting the highest fee. Another consideration is setting the fee at the highest level the market will bear.

**Marketplace Comparisons:** what other public agencies and/or private companies charge for the same or similar programs or activities.

**Mission:** a clear and concise formal summary of the purpose, aims and values of the organization.

**Non-Resident:** A person who does not meet a verification qualification or test established by the jurisdiction.

**Non-Fee-Based Programs:** activities for which it has been determined that no fee will be

charged.

**Outcome-Based Activities:** activities designed with goals to be achieved; by the end of the recreational or educational experience, each participant should have achieved the goals.

**Performance Measures:** quantifiable evaluations of the organization's key performance areas on a pre-determined set of criteria measured over time. The agreed upon standard performance measures allows the organization to judge its progress over time (internal and external benchmarking) and identify areas of strength and weakness.

**Performance Metric:** an agreed upon standard for measurement of performance such as a cost recovery rate.

**Pricing Philosophy:** theoretical reasoning behind the structural model used to assign fees to activities.

**Resource Allocation:** how appropriated tax dollars and alternative sources of funding are determined to be used by an agency in its delivery of services.

**Revenue Streams:** the variety of sources from which revenue is generated to support all operations of an organization; may include property, sales, or other tax sources, as well as fees and charges, grants, donations, partnerships, and other alternatives.

**Scholarship:** registration subsidies to income-eligible residents to facilitate their participation in limited programs and activities.

**Services Assessment:** a detailed look at services and service delivery strategies to assist in determining what activities should be advanced, affirmed, changed, or divested (discontinued).

**Special Populations:** groups of people with unique needs to which the Department may target services such as seniors, people with disabilities, economically disadvantaged, etc.

**Subsidy:** taxes and other vehicles that are used to financially support Department services including programs, facilities and parks. Subsidy dollars provide for service costs (direct and/or indirect) that are not covered by user or participant fees, or other forms of alternative funding.

**Subsidy allocation:** how appropriated tax dollars are determined to be used by an agency in its delivery of services.

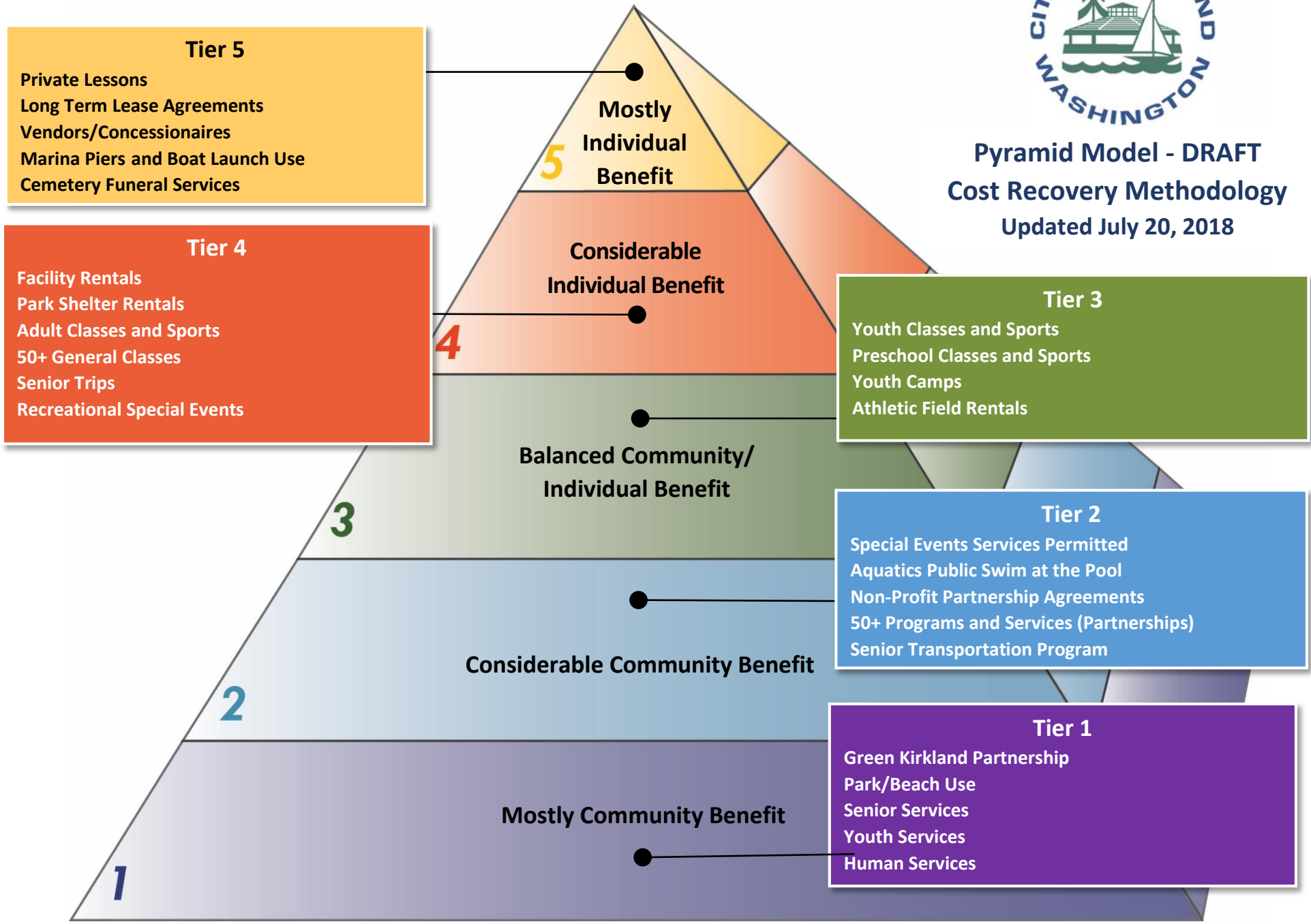
**Target Market:** a particular segment of the population at which a product or service is aimed.

**Tiers:** levels that provide the framework for the cost recovery model that function to define activities by outcomes or benefits and target markets.





**Pyramid Model - DRAFT  
Cost Recovery Methodology  
Updated July 20, 2018**



Addendum C: Cost Recovery Targets by Tier

# Staff Proposal

<b>DRAFT</b> City of Kirkland Parks and Community Services Pyramid Recommendation			Current Cost Recovery % Total Cost	Recommended Target Minimum Cost Recovery % Total Cost	Tier as % of Total Expense
<b>TIER 5</b>	Private or Advanced Skill Lessons	5	148%		<b>3%</b>
	Long Term Lease Agreements	5	104%		
	Vendors/Concessionaires	5	300%		
	Marina Piers and Boat Launch Use	5	106%		
	Cemetery Funeral Services	5	143%		
<b>Tier 5 Cost Recovery</b>			<b>126%</b>	<b>100%+</b>	
<b>TIER 4</b>	Facility Rentals	4	18%		<b>10%</b>
	Park Shelter Rentals	4	93%		
	Adult Classes and Sports	4	66%		
	50+ General Classes	4	62%		
	Senior Trips	4	53%		
	Recreational Special Events	4	38%		
<b>Tier 4 Cost Recovery</b>			<b>44%</b>	<b>75%+</b>	
<b>TIER 3</b>	Youth Classes and Sports	3	89%		<b>21%</b>
	Preschool Classes and Sports	3	86%		
	Youth Camps	3	114%		
	Athletic Field Rentals	3	5%		
<b>Tier 3 Cost Recovery</b>			<b>44%</b>	<b>50%+</b>	
<b>TIER 2</b>	Special Events Services Permitted	2	7%		<b>5%</b>
	Aquatics Public Swim at the Pool	2	64%		
	Non-Profit Partnership Agreements	2	na		
	50+ Programs and Services (Partnerships)	2	6%		
	Senior Transportation Program	2	10%		
<b>Tier 2 Cost Recovery</b>			<b>20%</b>	<b>25%+</b>	
<b>TIER 1</b>	Senior Services	1	1%		<b>61%</b>
	Youth Services	1	0%		
	Human Services	1	4%		
	Green Kirkland Partnership	1	2%		
	Park/Beach Use	1	2%		
<b>Tier 1 Cost Recovery</b>			<b>2%</b>	<b>0%+</b>	

Addendum D: 2005 Comparison to 2018 Recommendation Pyramid

2005				2018			
Pyramid Tier	Program/Service	2005 Actual Cost Recovery	2005 Staff Recommended Cost Recovery Targets	Pyramid Tier	Program/Service	2018 Actual Cost Recovery	2018 Target Cost Recovery
Tier 5	N/A	N/A	N/A	Tier 5			100%+
Tier 2/3/4	Private Lessons	N/A	N/A		Private Lessons	148%	
	Long Term Leases	N/A	N/A		Long Term Leases	104%	
	Vendors/Concessionaires	N/A	N/A		Vendors/Concessionaires	300%	
	Marina/Moorage	24%	24%		Marina/Moorage	106%	
	Cemetery	82%	82%		Cemetery	143%	
	Facility Rentals	N/A	N/A	Tier 4	Facility Rentals	18%	75%+
Heritage Hall	2%	10%	Park Shelter Rentals		93%		
Adult Classes and Sports	68%	70%	Adult Classes and Sports		66%		
Senior General Classes	72%	50%	50+ General Classes		62%		
Senior Trips	72%	50%	Senior Trips		53%		
Community/Family Recreation Events	55%	0%	Recreation Special Events		38%		
Swim Lessons	68%	60%	Tier 3	Swim Lessons		50%+	
Preschool Classes and Sports	N/A	N/A		Preschool Classes and Sports	86%		
Athletics/Youth	49%	40%		Athletics/Youth			
Youth Classes, Camps	55%	40%		Youth Classes and Sports	89%		
				Youth Camps	114%		
Athletic Field Rentals	6%	6%		Athletic Field Rentals	5%		
Special Events	26%	26%	Tier 2	Special Events	7%	25%+	
Aquatics: Beaches and Pool Lifeguarding	16%	10%		Public Swim at Pool	64%		
Non-Profit Partnership Agreements	N/A	N/A		Non-Profit Partnership Agreements			
50+ Programs and Services	N/A	N/A		50+ Programs and Services	6%		
Senior Transportation Program	N/A	N/A		Senior Transportation Program	10%		
Tier 1	Park/Beach Use			Tier 1	Park/Beach Use	2%	0%+
	Senior Services	2%	0%		Senior Services	1%	
	Youth/Human Services	0%	0%		Youth Services	0%	
			Human Services		4%		
			Green Kirkland Partnership		2%		