



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

April 17, 2017

The Honorable City Council  
Palo Alto, California

### **Policy and Services Committee Recommendation to Accept the Community Services Department: Fee Schedule Audit**

The Office of the City Auditor recommends acceptance of the Community Services Department: Fee Schedule Audit. At its meeting on February 14, 2017, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. The Policy and Services Committee minutes are included in this packet.

Respectfully submitted,

Harriet Richardson  
City Auditor

#### **ATTACHMENTS:**

- Attachment A: Community Services Department: Fee Schedule Audit (PDF)
- Attachment B: Policy and Services Committee Meeting Minutes Excerpt (February 14, 2017) (PDF)

Department Head: Harriet Richardson, City Auditor





## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

February 14, 2017

The Honorable City Council  
Palo Alto, California

### Community Services Department: Fee Schedule Audit

In accordance with the Fiscal Year 2016 Annual Audit Work Plan, the Office of the City Auditor has completed the Community Services Department: Fee Schedule Audit. The audit report presents one finding with a total of three recommendations. The Office of the City Auditor recommends that the Policy and Services Committee review and recommend to the City Council acceptance of the Community Services Department: Fee Schedule Audit.

Respectfully submitted,

Harriet Richardson  
City Auditor

#### ATTACHMENTS:

- Attachment A: Community Services: Fee Schedule Audit (PDF)

Department Head: Harriet Richardson, City Auditor





CITY OF  
**PALO  
ALTO**

# Community Services Department: Fee Schedule Audit

December 15, 2016

## Office of the City Auditor

**Harriet Richardson**, City Auditor

**Houman Boussina**, Senior Performance Auditor

**Marisa Lin**, FISCAL Intern

Page intentionally left blank for double-sided printing



CITY OF  
**PALO  
ALTO**

## OFFICE OF THE CITY AUDITOR

### EXECUTIVE SUMMARY:

## Community Services Department: Fee Schedule Audit December 15, 2016

#### PURPOSE OF THE AUDIT

The purpose of this audit was to determine if fees cover the cost of services provided as expected.

#### REPORT HIGHLIGHTS

**Finding: Most Community Services Department (CSD) programs recover costs consistent with City policy; however, CSD does not consistently apply its cost recovery policies and procedures (Page 6)**

In FY 2016, six of eight Community Services Department (CSD) programs<sup>1</sup> recovered service costs at rates consistent with the City's 2015 User Fee Cost Recovery Level Policy. The policy does not require recovery of all service costs, and acknowledges that the City will subsidize some programs more than others depending on the level of benefit to the community versus the individual. CSD can refine and further implement existing fee-setting policies and procedures to ensure:

- Financial sustainability of its programs.
- Customers pay the appropriate share of service costs, including direct costs and the indirect cost rate related to the service.
- City programs are subsidized in accordance with the City's cost recovery policy and that the financial impact of subsidies on total cost recovery is clear.

CSD does not consistently apply its cost recovery policies and procedures, and its internal policy's four cost ranges are not aligned with the three cost recovery ranges in the City's 2015 cost recovery policy. Implementing the City's cost recovery policy and updates to procedures may result in changes to CSD's cost recovery levels and overall 28 percent recovery rate.

#### Key Recommendations:

- The City Manager's Office should coordinate with the City Attorney's Office and the Administrative Services Department to revise the City's cost recovery policy and Questica budget system procedures to clarify which fees are not subject to laws limiting fees to cost recovery.
- CSD should create a procedure to implement the City's User Fee Cost Recovery Level Policy and incorporate relevant and useful elements from its existing "Class Cost Recovery Policy," which can then be rescinded.
- CSD should work with the Administrative Services Department (ASD) and the Information Technology Department to configure SAP or include a requirement for the proposed new enterprise resource planning system to align cost centers with CSD programs.

<sup>1</sup> We use the term "programs" throughout the audit as a generic reference to all services, programs, or activities that CSD offers to the public.

Page intentionally left blank for double-sided printing

## TABLE OF CONTENTS

Objective.....	1
Background.....	1
Scope .....	3
Methodology .....	4
Finding:	
Most Community Services Department (CSD) programs recover costs consistent with City policy; however, CSD does not consistently apply its cost recovery policies and procedures .....	6
Recommendations.....	10
Appendix 1: City of Palo Alto User Fee Cost Recovery Level Policy .....	12
Appendix 2: Community Services Department Class Cost Recovery Policy .....	14
Appendix 3: Community Services Department Expenses, Revenues, Subsidies, and Cost Recovery Percentages (FY 11 to FY 16) .....	19
Appendix 4: City Manager’s Response .....	22

---

### ABBREVIATIONS

---

ASD	Administrative Services Department
CSD	Community Services Department
FY	Fiscal Year
GFOA	Government Finance Officers Association
OMB	Office of Management and Budget

Page intentionally left blank for double-sided printing

## INTRODUCTION

---

### Objective

The purpose of this audit was to determine if fees cover the cost of services provided as expected.

### Background

The City provides a variety of services to the public that benefit the entire community, individual residents, or businesses. The City has traditionally recovered a portion or all of the costs of certain services, which otherwise would have been paid from the General Fund or other sources. Each City department recommends a schedule of fees and rates for its services to the Administrative Services Department (ASD) and is required to collect and deposit fees in accordance with City policies and procedures. The City Manager issues an annual municipal fee schedule, which the City Council approves.

### *Community Services Department Programs<sup>2</sup>*

The Community Services Department (CSD) operates the Arts and Sciences; Open Space, Parks, and Golf; and Recreation and Cubberley Divisions and the Office of Human Services to provide a diverse range of programs and services designed to increase knowledge, creativity, artistic expression, physical activity, social assistance, and enjoyment of the outdoors. Although CSD charges fees for many services and programs, it provides some that do not charge fees based on City Council and management direction. The City's fee schedule lists specific fees for facility rentals, golf services, open space and parks, and certain recreation activities and a range of fees for camps and classes. The specific fees for camps and classes are provided in CSD's quarterly *Enjoy!* catalog.

### *Calculating costs*

The Government Finance Officers Association (GFOA) recommends collecting cost data for a variety of purposes, including setting user fees and charges and identifying alternative service delivery options. The full cost of a service encompasses:

- Direct costs, including the salaries, wages, and benefits of employees who deliver the service; materials and supplies; and other associated operating costs, such as utilities, rent, training, and travel.
- Indirect costs, including shared administrative expenses within the work unit and in support functions outside the work unit

<sup>2</sup> We use the term "programs" throughout the audit as a generic reference to all services, programs, or activities that CSD offers to the public.

(e.g., legal, finance, human resources, facilities,<sup>3</sup> maintenance, technology). Shared costs should be apportioned by a transparent, systematic, and rational allocation methodology.

### *General fund charges for services*

The City's General Fund revenue includes "charges for services," which includes fees for fire services to Stanford, paramedic services, golf-related activities, art and science classes, and plan checks. "Charges for services" was the City's third largest source of revenue and comprised \$25.4 million (14 percent) of the City's General Fund revenue in Fiscal Year (FY) 2015.

### *Legal framework*

Under California law, municipalities have wide discretion to establish charges for use of government facilities, including park entrance fees and facility rentals, and participation in elective services and programs, such as arts and recreation classes. Although the California Constitution, Article XIII C, as amended by Proposition 26 in November 2010 ("Prop. 26"), limits some types of user fees to the estimated reasonable cost of providing the service, it exempts the fees and charges addressed in this audit. For these fees, it is lawful for the City to establish charges at, below, or above the cost of providing the service.

### *User Fee Cost Recovery Policy*

The City adopted a User Fee Cost Recovery Level Policy in May 2015 (see Appendix 1). Its purpose is to set cost recovery goals for City services. The policy acknowledges that fees should not be charged or should be low for services that benefit the entire community or for services that promote City goals and policies, such as healthy habits and environmental stewardship. The policy identifies three cost recovery levels and says that recreational activity fees should generally be set at the medium level, which means that fees would generally recover 30.1 percent to 70 percent of the related costs. The policy also states, however, that high-demand recreational activities may have a high cost recovery level due to high enrollment per class. The City began to align fees with the policy during the FY 2017 budget process.

### *CSD Class Cost Recovery Policy*

The City adopted CSD's Class Cost Recovery Policy in 2007 "as a guideline to establish cost-recovery targets for fee-based classes and camps within the divisions of Recreation & Golf, Arts &

<sup>3</sup> According to a November 2013 City Manager report, the City does not include facility expense as a cost component to calculate cost recovery.

Sciences, and Open Space & Parks.”<sup>4</sup> The policy identified four cost recovery groups, which represent the low to high ends of the cost recovery spectrum:

- Group I: Community benefit
- Group II: Majority community benefit
- Group III: Equal community benefit and personal benefit
- Group IV: Majority personal benefit

The policy, which CSD developed as a result of an October 2006 audit recommendation, requires programs to be reviewed annually and fee adjustments to be made to ensure that established cost recovery levels are met. CSD drafted another document that assigned categories of classes and activities to a group.

---

## Scope

Our original audit scope included financial information through FY 2015; however, the audit process extended through December 2016, which provided an opportunity to include certain FY 2016 financial information to assess the extent to which CSD’s fees recover the cost of its programs. We did not update background, sampling, and class enrollment information to include FY 2016 data. We did not assess fees that other departments, such as Planning and Community Environment and Development Services, charge for services that primarily benefit service recipients. We also excluded activities that primarily benefit the community and do not generate revenues.

CSD’s cost recovery and fee setting policies and procedures cover only fee-based classes and camps. However, because cost recovery data for individual classes was not readily available, we focused our assessment on cost recovery for CSD divisions and programs overall. CSD did not have written procedures specific to other program areas.

We did not benchmark Palo Alto’s CSD program cost recovery levels with other jurisdictions because other studies identified difficulties due to variations in service levels, service bundling, pricing structures, and methods of budgeting and accounting for revenues. For example, unlike most jurisdictions, CSD operates the Office of Human Services, the Children’s Theatre, the Art Center, an artist studio program, and the Junior Museum and Zoo.

<sup>4</sup> CSD has reorganized since 2007 and now includes the Arts and Sciences; Open Space, Parks, and Golf; and Recreation and Cubberley Divisions and the Office of Human Services.

---

## Methodology

To accomplish our audit objective, we:

- Interviewed Office of Management and Budget (OMB) and CSD staff responsible for fee setting to understand the relevant data and policies and procedures.
- Obtained clarification from the City Attorney's Office regarding laws and regulations applicable to CSD fees.
- Conducted a risk assessment to identify and prioritize risks associated with setting fees.
- Reviewed applicable laws and regulations, and fee setting best practices from the Government Finance Officers Association.
- Reviewed published audit reports and included audit steps to address risks identified in the City's 2006 audit report on CSD class cost recovery and relevant audit and technical reports from other jurisdictions.
- Calculated CSD's cost recovery rates from FY 2011 through FY 2016 by compiling and mapping relevant financial data from the City's SAP system, CSD, and OMB. The SAP financial data consisted of actual City revenues and expenses, excluding noncash expenses such as depreciation.
- Compared CSD's cost recovery rates with ranges specified in the City's cost recovery policy.
- Reviewed a judgmental sample of CSD fees to assess the fee-setting process and alignment of cost recovery with the City's cost recovery policy.
- Reviewed CSD class enrollment data.

## Sampling methodology

We judgmentally selected and reviewed a sample of 33 CSD fees to assess whether CSD's cost recovery procedures are consistent with the City's cost recovery goals and objectives. Our sample covered classes, camps, registration seasons, and varying participant and fee levels. Because this was a judgmental sample, our conclusions cannot be projected to the total population of CSD classes.

Because expense data was not readily available for the 33 CSD classes in our sample, we could not assess whether cost recovery levels for each class were aligned with the City's cost recovery policy. The finding provides an assessment of cost recovery for CSD programs overall, assuming that most classes or services within each program align with the same City policy cost recovery category.

***Data reliability***

We assessed the accuracy and completeness of CSD revenue and class enrollment data in its ACTIVE Net recreation management software system by reconciling the data with the City's SAP system and published CSD course catalogs. Based on these assessments and discussions with ASD accounting staff, we concluded that the data were sufficiently reliable for the purposes of this report.

Because SAP data, which the City's external financial auditor audits annually, is widely accepted as the source for financial data in the City, we relied on the data without assessing data reliability.

***Compliance with government auditing standards***

We conducted this audit of CSD class fees in accordance with our FY 2016 Annual Audit Work Plan and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**We would like to thank management and staff in the Administrative Services and Community Services Departments for their time, cooperation, and assistance during the audit process.**

## Finding

### Most Community Services Department (CSD) programs recover costs consistent with City policy; however, CSD does not consistently apply its cost recovery policies and procedures

In FY 2016, six of eight Community Services Department (CSD) programs recovered service costs at rates consistent with the City's 2015 User Fee Cost Recovery Level Policy. The policy does not require recovery of all service costs, and acknowledges that the City will subsidize some programs more than others depending on the level of benefit to the community versus the individual. CSD can refine and further implement existing fee-setting policies and procedures to ensure:

- Financial sustainability of its programs.
- Customers pay the appropriate share of service costs, including direct costs and the indirect cost rate related to the service.
- City programs are subsidized in accordance with the City's cost recovery policy and that the financial impact of subsidies on total cost recovery is clear.

CSD does not consistently apply its cost recovery policies and procedures, and its internal policy's four cost ranges are not aligned with the three cost recovery ranges in the City's 2015 cost recovery policy. Implementing the City's cost recovery policy and updates to procedures may result in changes to CSD's cost recovery levels and overall 28 percent recovery rate.

---

### Most CSD programs recover costs at rates consistent with City policy

CSD recovered \$8.0 million (28 percent) of its \$28.5 million in service costs in FY 2016 through fees and outside contributions. Exhibit 1 shows cost recoveries for CSD program areas. Based on the City's 2015 User Fee Cost Recovery Policy, eight program areas would generally be expected to recover at least 30.1 percent of costs and four would generally be expected to recover 30 percent or less of costs. Although CSD has its own class cost recovery policy, it is applicable only to fee-based classes and camps and is not consistent with the City's newer cost recovery policy, which has broader applicability. The amount of future cost recovery will depend on Council and City management decisions within the broad framework of the City policy.

**EXHIBIT 1: CSD Cost Recovery by Program Area (Fiscal Year 2016)**

CSD Programs	CURRENT				POTENTIAL
	Expense (millions)	Revenue (millions)	Recovery Percentage	General Fund Subsidy (millions)	City Policy Cost Recovery Range <sup>A</sup>
CSD programs that should generally recover at least 30.1 percent of costs <sup>A</sup>					
1. Art Center (Exhibitions & Visual Arts)	\$1.8	\$0.8	43.2%	\$1.0	30.1% - 70%
2. Theatre, Music, & Dance	\$2.6	\$0.8	29.8%	\$1.8	30.1% - 70%
3. Junior Museum and Zoo	\$2.9	\$0.7	22.4%	\$2.3	30.1% - 70%
4. Aquatics	\$0.9	\$0.4	44.8%	\$0.5	30.1% - 70%
5. Middle School Athletics	\$0.5	\$0.3	61.3%	\$0.2	30.1% - 70%
6. Recreation	\$3.9	\$2.1	53.6%	\$1.8	30.1% - 70%
7. Cubberley	\$2.1	\$0.9 <sup>B</sup>	45.3%	\$1.1	30.1% - 70%
8. Golf	\$1.8	\$1.5	84.2%	\$0.3	70.1% - 100%
CSD programs that should generally recover between 0% and 30% of costs <sup>A</sup>					
9. Public Art, Concerts, & Art Partnerships	\$0.3	\$0.0	1.0%	\$0.3	0% - 30%
10. Special Events	\$0.3	\$0.0	5.8%	\$0.3	0% - 30%
11. Parks & Open Space	\$9.2	\$0.5	5.0%	\$8.7	0% - 30%
12. Human Services	\$2.1	\$0.0	0.5%	\$2.1	0% - 30%

<sup>A</sup> Based on City of Palo Alto 2015 User Fee Cost Recovery Level Policy ranges as applied by the Office of the City Auditor. However, some activities within a program area may have different cost recovery expectations, including services that are either not expected to generate fees or warrant lower or higher fees due to their level of benefit to the community or individual.

<sup>B</sup> Does not include revenue from leases managed by ASD that are not considered "charges for services."

**Source:** Office of the City Auditor cost recovery analysis based on City policy and SAP financial data.

Although the City's User Cost Fee Recovery Level Policy was not expected to be implemented until the FY 2017 budget process, Exhibit 1 shows that six of CSD's eight programs that would generally be expected to recover at least 30.1 percent of costs did so in FY 2016.

- The cost recovery rate for the Junior Museum and Zoo is less than the policy range because the City does not currently charge admission fees to the facility, which is considered a community benefit.
- The cost recovery rate for Theatre, Music, & Dance is lower because the Children's Theatre does not charge to participate in productions, the City fully subsidizes the three theatre groups' exclusive use of the Stern Community Theatre, and the theatre groups do not meet the City's \$90,000 revenue target for annual ticket sales that they provide to the City. CSD estimates that the

theatre group subsidies have a combined value of about \$500,000 annually.

- Golf is the least subsidized program. Golf revenues surpassed expenses from FY 2011 through FY 2013 (see Appendix 3), but the City began subsidizing Golf in FY 2014 and recovered about 84 percent of costs in FY 2016.

*Some CSD programs do not have cost recovery objectives*

Exhibit 1 shows four programs that do not have significant cost recovery objectives: Public Art, Concerts, & Art Partnerships; Special Events; Parks & Open Space; and Human Services. Because most of the expenses for Parks & Open Space are for maintenance, there currently is limited opportunity to recover those costs. Cost recovery rates may reflect the Council's policy to subsidize, in part or in full, services that benefit the public at large or promote health activities and educational enrichment to the community, but the City policy does not provide detailed expectations regarding subsidies for specific activities. CSD's implementation of the City policy will help define where subsidies supplement or supplant fees for specific services.

*Cost recovery rates fluctuate from year to year*

CSD's total cost recovery has ranged from a high of 34 percent in FY 2011 to a low of 28 percent in FY 2015 and FY 2016. The decline is mostly due to lower Golf revenues. Appendix 3 shows program expenses, revenues, general fund subsidies, and cost recoveries, by CSD program, from FY 2011 to FY 2016.

---

*CSD has not consistently applied its cost recovery policies and procedures*

CSD has developed policies and tools to meet cost recovery objectives but has not updated them since 2007 or consistently applied them. These include fee-setting templates, a draft document with specific program cost recovery targets, and a 2007 Class Cost Recovery Policy. The City's policy does not acknowledge that state law exempts recreation programs and facility rentals from the cost recovery limits that apply to many other City services.

*Fee-setting templates and tools not consistently used*

CSD created a document to show the cost recovery targets for its programs and a fee-setting template to calculate fees based on projected costs, revenues, enrollment, and cost recovery targets. However, CSD does not have a process to ensure that the templates are completed, reviewed, and used, or that the targets in the templates align with the cost recovery target document. CSD had not used the template to set fees for any of the 33 classes and camps in our sample, although some program coordinators provided completed forms as examples for the audit. Updating the cost recovery target document and consistently using the templates

would help ensure compliance with the City's 2015 User Fee Cost Recovery Level Policy.

*SAP not configured to help monitor cost recovery*

As shown in Exhibit 1, comparing cost recovery levels by program area with City policy cost recovery ranges is useful to assess if the City is meeting cost recovery objectives. The City's SAP financial system tracks revenues and expenses by City department, division, fund, and cost centers that generally correspond to services. However, SAP cost centers are not aligned with program revenues and expenses. Calculating cost recovery by program area, including appropriately allocating indirect costs, requires a manual process to map SAP cost centers to program areas. Also, there is no procedure or tool to allocate division, department, and City indirect costs to program areas. Calculating cost recovery, including both direct and indirect costs, by program area can help CSD staff ensure that it sets fees at a level that meets the City's cost recovery objectives.

*CSD Class Cost Recovery Policy not aligned with City policy and is redundant*

CSD has a 2007 Class Cost Recovery Policy but has not yet updated it to align it with the City's 2015 User Fee Cost Recovery Level Policy, which was expected to be used starting with the FY 2017 budget process. CSD's policy:

- Only addresses fee-based classes and camps and excludes services such as golf green fees.
- Has four cost-recovery groups with targets based on the benefit level to the community or the individual versus the three cost recovery groups in the City's policy.
- Has cost recovery targets that are based on direct cost plus overhead rates for department and City overhead; the City policy targets are based on total cost but does not specify how to include overhead.

*Class enrollment levels may affect anticipated cost recovery*

Of the 33 CSD classes we reviewed, 14 (42 percent) had enrollment that was less than the minimum or more than the maximum listed in ACTIVE Net. Because of this, we looked at FY 2015 enrollment levels in ACTIVE Net and found that 428 (19 percent) of the 2,238 activities or classes had actual enrollment under the stated minimum. CSD does not have written policies and procedures to ensure that class enrollment levels support the City's cost recovery policy. Although CSD program coordinators use their judgment, based on knowledge of past enrollment levels, ideal class size, and room capacity to enter minimum and maximum enrollment levels in ACTIVE Net, they do not always cancel classes or limit enrollment based on these numbers. According to CSD staff, enrollment levels below the minimum in

ACTIVE Net may not adversely impact cost recovery for contracted classes because the contracts compensate instructors based on the number of enrollees. However, this does not consider that overhead costs for that class or activity may not be recovered or that the facility may have been better used for a different activity.

*State law exemption to cost recovery limit not reflected in policies and procedures*

The City's 2015 User Fee Cost Recovery Level Policy; budget, fee setting, and publishing tool (i.e., the Municipal Fee Module of the City's Questica budget system); and procedures to use the Municipal Fee Module limit fees the City can charge to 100 percent of service costs. This limit applies to fees for recreation services such as golf where market pricing may lawfully provide revenues that exceed costs. Prop. 26 exempts recreation programs and facility rentals from the cost recovery limits that apply to some service costs, such as permit or utilities fees. Minutes for various Council meetings show that fee-setting decisions were influenced by this misunderstanding of state law.

---

**Effects of lower than expected cost recovery**

Lower than expected cost recovery could result in:

- The City subsidizing more programs than expected or not being able to offer some programs.
- Some residents paying more or less than appropriate for services they benefit from.
- The City not achieving its social goals and objectives, such as subsidizing low-income individuals, seniors, and/or youth, because it subsidizes other unintended individuals.

---

**Recommendations**

1. The City Manager's Office should coordinate with the City Attorney's Office and the Administrative Services Department to revise the City's cost recovery policy and Questica budget system procedures to clarify which fees are not subject to laws that limit fees to cost recovery; modify the cost recovery categories to allow for fees that recover more than costs, based on market rates; and configure the Questica budget system to support setting fees to recover more than 100 percent of costs when appropriate.
2. After recommendation 1 is complete, CSD should create a procedure to implement the City's User Fee Cost Recovery Level Policy and incorporate relevant and useful elements from its existing "Class Cost Recovery Policy," which can then be rescinded. CSD's new procedure should:
  - a. Update and finalize the draft CSD program level cost recovery

targets to be consistent with the ranges in the City policy. The procedure should clarify the rationale for targets assigned to programs and reference the City policy categories.

- b. Clarify exceptions to fees that are set to target specific cost recovery goals and that may impact rates for other service recipients and program cost recovery levels, such as discounted rates for certain groups.
  - c. Require CSD to annually assess whether cost recovery levels achieved targets and address obstacles and opportunities to meet targets.
  - d. Describe how to use the fee-setting form to calculate service costs based on total costs for the service provided, including direct costs and an indirect cost rate calculated by OMB, and set fees that are consistent with the City's cost recovery policy. To minimize administrative efforts, describe which classes/services may be grouped together when calculating costs (i.e., one form may cover more than one class).
  - e. Require completion and review of the forms to ensure that class/service costs are known and that fees are set to recover costs consistent with targets. Clarify who is responsible to complete the forms, when the forms are completed, and who reviews and approves the forms.
  - f. Establish a method to estimate a reasonably accurate minimum and maximum class enrollment number to enter in ACTIVE Net. The procedure should address what enrollment levels should prompt a review to determine whether to cancel a class or increase offerings to accommodate demand.
3. CSD should work with ASD and the Information Technology Department to configure SAP or include a requirement for the proposed new enterprise resource planning system to align cost centers with CSD programs.

## APPENDIX 1 – City of Palo Alto User Fee Cost Recovery Level Policy

POLICY AND PROCEDURES 1-57/ASD  
May 2015

### USER FEE COST RECOVERY LEVEL POLICY

#### BACKGROUND

The City provides a variety of services to the public which benefit the entire community or individual residents or businesses. For certain services such as regulatory fees, arts and science classes, or recreational activities, the City traditionally has recovered partially or fully the cost for providing these services, which would have been otherwise paid from the General Fund.

Propositions 13, 218, and 26 have placed both substantive and procedural limits on cities' ability to impose fees and charges. Collectively these constitutional amendments provide safeguards against taxes being imposed without a vote of the people.

This policy was approved by the City Council on May 18, 2015 (CMR # 5735).

#### POLICY STATEMENT

It is the policy of the City of Palo Alto to set Municipal Fees based on cost recovery levels in lieu of fully subsidizing fee-related activities with General Fund dollars. The cost recovery levels are reflective of the following policy statements.

1. Community-wide vs. Private Benefit: Funding services such as Police patrol services only through taxpayer dollars is appropriate for services that benefit the entire community. When the service or program provides a benefit to specific individuals or businesses such as the issuance of building permits, it is expected that individuals or businesses receiving that benefit pay for all of the cost of that service.

2. Service Recipient vs. Community Benefit: For regulated activities such as development review and Police issued permits, it is appropriate that the service recipient such as an applicant of a building permit or a Pushcart Vendor permit pay for the permit although the community at large benefits from the regulation.

3. Consistency with City Goals and Policies: City policies and Council goals related to the community's quality of life are factors in setting cost recovery levels. For example, fee levels can be set to promote healthy habits, facilitate environmental stewardship, or discourage certain actions (e.g. false alarms).

4. Elasticity of Demand for Services: The level of cost recovery can affect the demand for services. A higher level of cost recovery could ensure the City is providing services such as recreational classes or summer camps for children and youth without over stimulating a market with artificially low prices. Such low prices, which are a reflection of a high General Fund subsidy, may result in huge waiting lists and attract participants from other cities; however, high cost recovery levels could negatively impact the demand for such services from low income individuals, special needs individuals, and seniors.

**POLICY AND PROCEDURES 1-57/ASD**  
**May 2015**

5. Availability of Services from the Private Sector: High cost recovery levels are generally sought in situations where the service is available from other sources in order to preserve taxpayer funds for other General Fund funded City services. Conversely, services that are not available from other sources and are typically delivered when residents experience an emergency basis typically have low or zero cost recovery levels.

Based on these policy statements, the table below overlays certain cost recovery levels grouped in low (0-30%), medium (30.1% to 70%), and high (70.1% to 100%) cost recovery percentage ranges. It is important to note that these groupings provide policy guidance and are not absolute. Some policy statements may weigh more heavily than others, which may result in a different cost recovery level grouping for particular fees. For example, fees for recreational activities are expected to be set in general at the medium cost recovery level. However, fees for recreational activities for which there is a high demand may have a high cost recovery level due to high enrollment levels per class. It is important to note that Municipal fees will be reviewed annually by the Finance Committee and subsequently by the City Council as part of approval of the Municipal Fee Schedule.

Cost Recovery Level Group	Cost Recovery Percentage Range	Policy Considerations
Low	0% - 30%	<ul style="list-style-type: none"> <li>• No intended relationship between the amount paid and the benefit received</li> <li>• Fee collection would not be cost effective and/or would discourage compliance with regulatory requirements</li> <li>• No intent to limit the use of the service</li> <li>• Public at large benefits even if they are not the direct users of the service</li> <li>• Affordability of service to low-income residents</li> </ul>
Medium	30.1% - 70%	<ul style="list-style-type: none"> <li>• Services which promote healthy activities and educational enrichment to the community</li> <li>• Services having factors associated with the low and high cost recovery levels</li> </ul>
High	70.1% - 100%	<ul style="list-style-type: none"> <li>• Individual users or participants receive most or all of the benefit of the service</li> <li>• Other private or public sector alternatives provide the service</li> <li>• The use of the service is specifically discouraged</li> <li>• The service is regulatory in nature</li> </ul>

## APPENDIX 2 – Community Services Department’s Class Cost Recovery Policy

### Community Services Department Class Cost Recovery Policy

The Community Services Department (CSD) offers a variety of programs within its various divisions such as recreational activities, arts and sciences classes, and open space interpretive programs. The following Class Cost Recovery Policy is to be used as a guideline to establish cost recovery targets for fee-based classes and camps within the divisions of Recreation & Golf, Arts & Sciences, and Open Space & Parks.

Included in CSD’s Strategic Plan is an initiative to “focus energy and (budgetary) resources on sustaining and enhancing core services”. Through implementation of this Class Cost Recovery Policy, the department aims to establish cost recovery levels while providing core services and meeting the social needs of the community.

#### Policy

The policy takes into consideration: (1) minimum level of acceptable cost recovery, (2) target level of cost recovery, and (3) fee setting considerations. Cost recovery levels are inclusive of direct and indirect costs. Indirect costs include both department and City overhead.

Although each program has set minimum and target cost recovery levels, other fee setting considerations may factor into the pricing of registration fees. Fee setting considerations may either increase or decrease fees and place cost recovery outside of the minimum and target levels. These factors include, but are not limited to, market rates, programs for those with special needs, new programs still being established, and population served. However, within each of the three divisions offering fee-based classes, the division-wide cost recovery should meet minimum cost recovery levels.

Once a program is determined to be within the purview of the Class Cost Recovery Policy, program fees are to be established using the Class Cost Recovery Model and adjusted as needed. The model is included in the pages to follow.

Each fee-based class or camp is placed in one of four Cost Recovery Groups. The groups range from Community Benefit to Personal Benefit, representing opposite ends of a cost recovery spectrum. Programs rated as Community Benefit will cost recover less, while programs rated as Personal Benefit will cost recover more. This cost structure is in line with the department’s mission statement: “Engaging individuals and families to create a strong and healthy community, through parks, open space, recreation, social service, arts, and sciences.”

The four Cost Recovery Groups are:

- Group I: Community Benefit
- Group II: Majority Community Benefit
- Group III: Equal Community Benefit and Personal Benefit
- Group IV: Majority Personal Benefit

Division managers, along with input from program coordinators and supervisors, determine the value of a class or camp for placement within one of the four groups. Each group has a cost recovery range inclusive of a minimum cost recovery and a target cost recovery level. This detail is reflected in pages to follow.

On an annual basis, programs are to be reviewed to ensure the established cost recovery levels are met and adjustments made.

### **Recovered Costs**

**Direct costs** are expenses incurred in correlation to a class being offered. These costs would not be incurred if a class were not offered. Typical direct costs are instructor fees and supplies and materials.

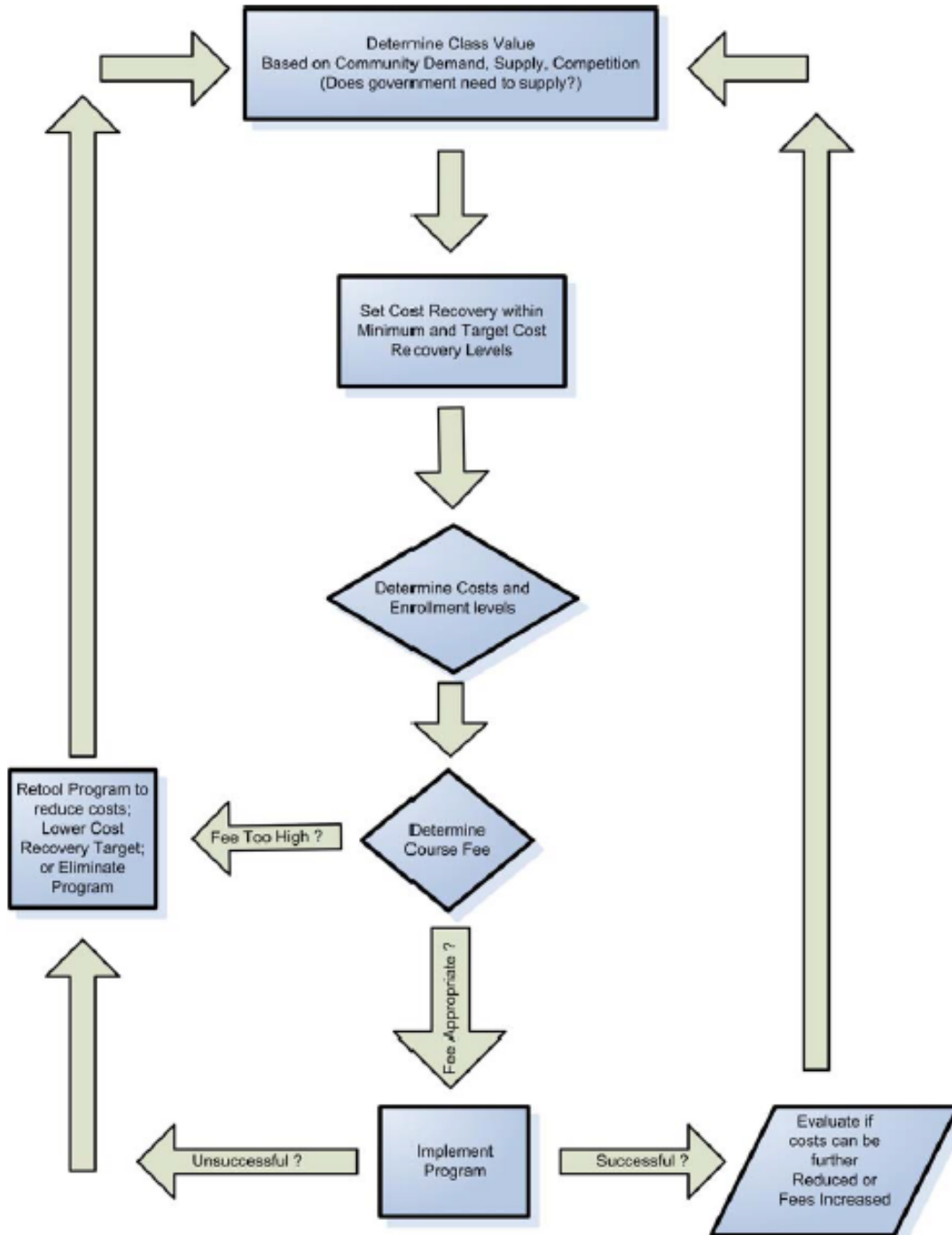
**Department indirect costs** cover overhead costs incurred by the department for administrative support, program supervision, utilities, and some maintenance. Some of these costs would probably be incurred regardless whether a class is offered or not.

**City indirect costs** encompass citywide overhead, administrative, and facility maintenance costs. Some of these costs would probably be incurred regardless of whether a class is offered or not.

Department indirect cost is estimated to be 15% of direct cost while both department and City indirect costs are estimated to be 35% of direct cost. These estimates are subject to change as programs are reviewed and to reflect changing overhead costs.

## Class Cost Recovery Model

This model is to be used by Program Coordinators, Supervisors, and Division Managers to plan, evaluate program cost recovery, and determine expenses, revenues, and course registration fees.



## **Class Cost Recovery Guidelines**

In conjunction with the Cost Recovery Model, the following guidelines are to be used to place classes and camps into one of the four Cost Recovery Groups.

### **Process:**

- 1) Set a cost recovery range for each Cost Recovery Group, with minimum and target recovery levels.
- 2) Evaluate and place each existing program in a Cost Recovery Group.
- 3) Determine guidelines to be used to place future new programming into a Cost Recovery Group.

### **Parameters:**

- 1) Apply to fee-based class and camp programs.
- 2) Generally, cost recovery for children's programs will be less than adult programs.
- 3) Some programs may cost recover less than the minimum level. However, other programs will need to make up for the difference.
- 4) Approximately 15% above Direct Costs covers Department Overhead, subject to adjustment.
- 5) Approximately 35% above Direct Costs covers both Department and City Overhead, subject to adjustment.
- 6) Other fee considerations should be taken into account, such as, but not limited to, market pricing, competition from other service providers, new program being established, and population served.

### **Cost Recovery Groups, Cost Recovery Minimum, and Cost Recovery Targets:**

#### **Group I: Community Benefit**

- Cost Recovery Minimum: Less than Direct Cost
- Cost Recovery Target: Direct Cost

#### **Group II: Majority Community benefit**

- Cost Recovery Minimum: Direct Cost
- Cost Recovery Target: 115% Direct Cost

#### **Group III: Equal Community and Personal Benefit**

- Cost Recovery Minimum: 115% Direct Cost
- Cost Recovery Target: Up to 135% Direct Cost

#### **Group IV: Majority Personal Benefit**

- Cost Recovery Minimum: 135% Direct Cost
- Cost Recovery Target: 135% Direct Cost

### Characteristics of Community Benefit vs. Personal Benefit programs

The four Cost Recovery Groups represent a cost recovery "spectrum". Programs classified as being of Community Benefit will cost recover less than programs classified as being of Personal Benefit.

Division managers, along with input from program coordinators and supervisors, determine the value of a class or camp for placement within one of the four cost recovery groups.

- Group I: Community Benefit
- Group II: Majority Community Benefit
- Group III: Equal Community Benefit and Personal Benefit
- Group IV: Majority Personal Benefit

Below are characteristics to define Community and Personal benefit, opposite ends of a cost recovery "spectrum". The opposite ends are represented by Group I and IV. As most programs have aspects of both benefits, they are placed within the spectrum in either Group II or III.

<u>Community Benefit Characteristics</u>	<u>Personal Benefit Characteristics</u>
Youth and Teen Development	Leisure Time Experiences
Safety	Financial Enhancement
Early Childhood Development	Stress Reduction
Environmental Stewardship	Mental / Physical Health for adults
Fitness/Healthy Lifestyle for youth	Professional Development
Connecting / Involving People w/ Community	Competitive Sports for adults
Service Back to Community	Personal Enhancement
Encourages Volunteerism	Weight Loss
Cultural Understanding	Fitness for adults
Cross-Generational Understanding	Fashion/Beauty/Personal Enhancement
Unique Experiences not provided by other organizations	Classes already provided by other organizations for adults
Life Skills for Self Independence	Life-Long Learning
Diversity of Experience	Skill Building
Community Policing – Public Involvement	Social Networking / Contacts for personal gain
Sustaining our Resources	

### APPENDIX 3 – Community Services Department Expenses, Revenues, Subsidies, and Cost Recovery Percentages (FY 11 to FY 16)

Year	CSD Programs/Divisions	Expense	Revenue	General Fund Subsidy/Revenue <sup>5</sup>	Cost Recovery %
FY 2011	Art Center (Exhibitions & Visual Arts)	\$1,244,402	\$450,597	\$793,805	36%
	Public Art, Concerts, & Art Partnerships	\$203,404	\$2,986	\$200,418	1%
	Theatre, Music, & Dance	\$2,217,346	\$553,620	\$1,663,726	25%
	Junior Museum and Zoo	\$2,353,146	\$551,066	\$1,802,080	23%
	Aquatics	\$777,592	\$469,109	\$308,483	60%
	Middle School Athletic	\$460,362	\$258,597	\$201,765	56%
	Recreation	\$3,323,113	\$1,646,006	\$1,677,107	50%
	Special Events	\$226,955	\$13,593	\$213,362	6%
	Cubberley	\$1,825,519	\$865,944	\$959,575	47%
	Golf	\$2,076,378	\$2,817,141	-\$740,764	136%
	Parks & Open Space	\$7,107,273	\$380,431	\$6,726,842	5%
	Human Services	\$1,557,612	\$14,027	\$1,543,585	1%
<b>2011 Total</b>		<b>\$23,373,103</b>	<b>\$8,023,117</b>	<b>\$15,349,985</b>	<b>34%</b>
FY 2012	Art Center (Exhibitions & Visual Arts)	\$1,209,679	\$303,594	\$906,085	25%
	Public Art, Concerts, & Art Partnerships	\$230,632	\$4,399	\$226,233	2%
	Theatre, Music, & Dance	\$2,254,777	\$548,622	\$1,706,155	24%
	Junior Museum and Zoo	\$2,471,170	\$512,266	\$1,958,904	21%
	Aquatics	\$820,346	\$500,110	\$320,236	61%
	Middle School Athletic	\$516,139	\$288,737	\$227,402	56%
	Recreation	\$3,135,541	\$1,493,968	\$1,641,572	48%
	Special Events	\$131,480	\$15,686	\$115,794	12%
	Cubberley	\$1,959,129	\$838,380	\$1,120,749	43%
	Golf	\$1,951,978	\$2,740,197	-\$788,219	140%
	Parks & Open Space	\$7,948,316	\$398,164	\$7,550,152	5%
	Human Services	\$1,535,920	\$11,996	\$1,523,924	1%
<b>2012 Total</b>		<b>\$24,165,107</b>	<b>\$7,656,120</b>	<b>\$16,508,987</b>	<b>32%</b>

<sup>5</sup> Negative values for Golf through FY 2013 mean that revenues exceeded expenses and the General Fund received revenue as a result.

Year	CSD Programs/Divisions	Expense	Revenue	General Fund Subsidy/Revenue <sup>5</sup>	Cost Recovery %
<b>FY 2013</b>	Art Center (Exhibitions & Visual Arts)	\$1,453,828	\$522,431	\$931,397	36%
	Public Art, Concerts, & Art Partnerships	\$240,109	-\$264	\$240,373	0%
	Theatre, Music, & Dance	\$2,107,253	\$593,381	\$1,513,872	28%
	Junior Museum and Zoo	\$2,361,788	\$498,189	\$1,863,599	21%
	Aquatics	\$834,692	\$569,079	\$265,613	68%
	Middle School Athletic	\$550,576	\$346,143	\$204,432	63%
	Recreation	\$3,031,055	\$1,795,906	\$1,235,149	59%
	Special Events	\$128,069	\$21,580	\$106,490	17%
	Cubberley	\$1,984,666	\$905,257	\$1,079,409	46%
	Golf	\$2,184,277	\$2,528,484	-\$344,207	116%
	Parks & Open Space	\$8,395,630	\$418,449	\$7,977,181	5%
	Human Services	\$1,479,075	\$11,716	\$1,467,359	1%
<b>2013 Total</b>		<b>\$24,751,017</b>	<b>\$8,210,351</b>	<b>\$16,540,666</b>	<b>33%</b>
<b>FY 2014</b>	Art Center (Exhibitions & Visual Arts)	\$1,502,846	\$604,625	\$898,221	40%
	Public Art, Concerts, & Art Partnerships	\$356,030	\$5,943	\$350,086	2%
	Theatre, Music, & Dance	\$2,443,410	\$744,354	\$1,699,056	30%
	Junior Museum and Zoo	\$2,516,689	\$594,013	\$1,922,676	24%
	Aquatics	\$787,284	\$454,388	\$332,896	58%
	Middle School Athletic	\$567,044	\$305,118	\$261,926	54%
	Recreation	\$3,050,877	\$1,982,081	\$1,068,796	65%
	Special Events	\$95,576	\$12,738	\$82,838	13%
	Cubberley	\$2,065,456	\$844,367	\$1,221,089	41%
	Golf	\$1,972,998	\$1,761,100	\$211,897	89%
	Parks & Open Space	\$9,018,480	\$419,092	\$8,599,387	5%
	Human Services	\$1,862,867	\$14,532	\$1,848,335	1%
<b>2014 Total</b>		<b>\$26,239,555</b>	<b>\$7,742,353</b>	<b>\$18,497,202</b>	<b>30%</b>

Year	CSD Programs/Divisions	Expense	Revenue	General Fund Subsidy/Revenue <sup>5</sup>	Cost Recovery %
FY 2015	Art Center (Exhibitions & Visual Arts)	\$1,672,498	\$654,852	\$1,017,646	39%
	Public Art, Concerts, & Art Partnerships	\$284,814	\$1,520	\$283,294	1%
	Theatre, Music, & Dance	\$2,476,064	\$751,020	\$1,725,045	30%
	Junior Museum and Zoo	\$2,757,841	\$608,276	\$2,149,565	22%
	Aquatics	\$856,545	\$449,826	\$406,719	53%
	Middle School Athletic	\$548,856	\$314,146	\$234,710	57%
	Recreation	\$3,413,008	\$2,010,039	\$1,402,969	59%
	Special Events	\$98,392	\$22,037	\$76,355	22%
	Cubberley	\$2,142,635	\$840,003	\$1,302,632	39%
	Golf	\$1,829,851	\$1,576,872	\$252,979	86%
	Parks & Open Space	\$9,177,995	\$410,959	\$8,767,036	4%
	Human Services	\$1,868,762	\$9,588	\$1,859,173	1%
<b>2015 Total</b>		<b>\$27,127,262</b>	<b>\$7,649,139</b>	<b>\$19,478,123</b>	<b>28%</b>
FY 2016	Art Center (Exhibitions & Visual Arts)	\$1,813,481	\$783,217	\$1,030,264	43%
	Public Art, Concerts, & Art Partnerships	\$316,328	\$3,085	\$313,243	1%
	Theatre, Music, & Dance	\$2,580,474	\$769,582	\$1,810,892	30%
	Junior Museum and Zoo	\$2,944,558	\$659,974	\$2,284,584	22%
	Aquatics	\$948,180	\$424,848	\$523,332	45%
	Middle School Athletic	\$517,671	\$317,540	\$200,132	61%
	Recreation	\$3,882,819	\$2,079,900	\$1,802,919	54%
	Special Events	\$286,205	\$16,704	\$269,501	6%
	Cubberley	\$2,080,703	\$942,867	\$1,137,836	45%
	Golf	\$1,839,437	\$1,548,993	\$290,444	84%
	Parks & Open Space	\$9,168,139	\$460,215	\$8,707,924	5%
	Human Services	\$2,084,917	\$11,257	\$2,073,660	1%
<b>2016 Total</b>		<b>\$28,462,913</b>	<b>\$8,018,182</b>	<b>\$20,444,731</b>	<b>28%</b>

## APPENDIX 4 – City Manager’s Response

CITY OF  
**PALO  
ALTO****CITY OF PALO ALTO  
MEMORANDUM**

**TO:** Harriet Richardson, City Auditor

**FROM:** James Keene, City Manager

**DATE:** December 14, 2016

**SUBJECT:** Community Services Department: Fee Schedule Audit

---

Staff appreciates the assistance from the City Auditor in assessing the cost recovery and fee setting process in the Community Services Department and agrees with the recommendations of the Audit.

The Community Services Department (CSD) provides a wide range of services to sustain a positive quality of life for residents and visitors including services with no revenue expectations such as preservation and maintenance of parks and open space, managing and enhancing a robust public art collection, providing many special events, and operating Project Safety Net, a community coalition focused on suicide prevention and youth well-being. CSD also provides many services that do have a cost recovery expectation including summer camps, classes for youth and adults, a municipal golf course and facility rentals. Approximately one-third of CSD’s costs are supported by user fees and other revenues.

Staff agrees that CSD should align its cost recovery goals for each “fee-related activity” to match the City’s 2015 User Fee Cost Recovery Level Policy and will update its fee setting procedures to provide compatibility with that Policy. CSD will also clarify which programs and services qualify as fee-related activities to reduce ambiguity around revenue expectations for major CSD institutions such as the Art Center and Junior Museum and Zoo. Staff appreciates that the City Auditor identified opportunities for CSD to improve its procedures and management practices around the fee-setting process and will make recommended changes to ensure that staff frequently assess and review fees and the cost recovery for each fee-related activity.

Action steps have been identified by staff in the attached response to the Audit recommendations. Staff will be prepared to respond to Policy and Services Committee questions when you present your findings in February, 2017.



**JAMES KEENE**  
City Manager

The City Manager has agreed to take the following actions in response to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<b>Finding: Most Community Services Department (CSD) programs recover costs consistent with City policy; however, CSD does not consistently apply its cost recovery policies and procedures</b>			
<p>1. The City Manager's Office should coordinate with the City Attorney's Office and the Administrative Services Department to revise the City's cost recovery policy and Questica budget system procedures to clarify which fees are not subject to laws that limit fees to cost recovery; modify the cost recovery categories to allow for fees that recover more than costs, based on market rates; and configure the Questica budget system to support setting fees to recover more than 100 percent of costs when appropriate.</p>	ASD	<p><b>Concurrence:</b> Agree  <b>Target Date:</b> 6/30/2017  <b>Action Plan:</b> ASD staff will coordinate with the CMO, City Attorney and departments to revise and implement the recommendations.</p>	
<p>2. After recommendation 1 is complete, CSD should create a procedure to implement the City's User Fee Cost Recovery Level Policy and incorporate relevant and useful elements from its existing "Class Cost Recovery Policy," which can then be rescinded. CSD's new procedure should:</p> <ol style="list-style-type: none"> <li>a. Update and finalize the draft CSD program level cost recovery targets to be consistent with the ranges in the City policy. The procedure should clarify the rationale for targets assigned to programs and reference the City policy categories.</li> <li>b. Clarify exceptions to fees that are set to target specific cost recovery goals and that may impact rates for other service recipients and program cost recovery levels, such as discounted rates for certain</li> </ol>	CSD	<p><b>Concurrence:</b> Agree  <b>Target Date:</b> 6/30/2017  <b>Action Plan:</b> Staff will develop a new CSD procedure with the following features:</p> <ol style="list-style-type: none"> <li>a. cost recovery targets in alignment with the City's three Cost Recovery Level Groups and clarity around how the rationale for cost recovery levels for each major CSD activity as well as references to City policy categories</li> <li>b. a list of exceptions to fees and a rationale for each exception</li> <li>c. a clear process outlined for staff to use with instructions on who should assess costs, where the assessments are maintained, how they are reviewed,</li> </ol>	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<p>groups.</p> <p>c. Require CSD to annually assess whether cost recovery levels achieved targets and address obstacles and opportunities to meet targets.</p> <p>d. Describe how to use the fee-setting form to calculate service costs based on total costs for the service provided, including direct costs and an indirect cost rate calculated by OMB, and set fees that are consistent with the City's cost recovery policy. To minimize administrative efforts, describe which classes/services may be grouped together when calculating costs (i.e., one form may cover more than one class).</p> <p>e. Require completion and review of the forms to ensure that class/service costs are known and that fees are set to recover costs consistent with targets. Clarify who is responsible to complete the forms, when the forms are completed, and who reviews and approves the forms.</p> <p>f. Establish a method to estimate a reasonably accurate minimum and maximum class enrollment number to enter in ACTIVE Net. The procedure should address what enrollment levels should prompt a review to determine whether to cancel a class or increase offerings to accommodate demand.</p>		<p>how to calculate service costs, how to group activities, and how frequently to do these assessments</p> <p>d. a process to incorporate cost recovery reviews into the Department's existing internal quarterly budget reviews</p> <p>e. a process outlined for management responsibility and oversight to ensure that service cost calculations and fee setting occur when expected</p> <p>f. a process outlined for establishing minimum and maximum enrollments in Activenet and the rationale and evaluation of whether to proceed with classes enrolled below the minimum.</p>	

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	Status
<p>3. CSD should work with ASD and the Information Technology Department to configure SAP or include a requirement for the proposed new enterprise resource planning system to align cost centers with CSD programs.</p>	<p>CSD</p>	<p><b>Concurrence:</b> Agree  <b>Target Date:</b> 7/1/2018  <b>Action Plan:</b> While we will begin working on this in earnest, realistically, we anticipate that we will not fully implement this recommendation for at least two budget cycles. We are currently working with ASD to better align CSD's Cost Centers in SAP with our individual lines of business. We expect we will complete much of this recommendation by 7/1/2017 but that there will be additional clean up in the next budget year.</p>	



# POLICY AND SERVICES COMMITTEE TRANSCRIPT

Special Meeting  
Tuesday, February 14, 2017

Chairperson Wolbach called the meeting to order at 6:02 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

[First 34 minutes recorded on a digital device]

Chair Wolbach: Alright, let's call bring this meeting of the Policy and Services Committee to order.

Present: DuBois, Kniss, Kou, Wolbach (Chair)

Absent:

Vice Mayor Kniss: Four present, exhausted Council Members.

## Oral Communications

Chair Wolbach: Do we have any members of the public that would like to speak? Looks like we don't have any Oral Communications.

## Agenda Items

1. Community Services Department: Fee Schedule Audit.

Chair Wolbach: Let's move onto our first Action Item of the evening. (Inaudible) Community Services Department Fee Schedule Audit. I'll turn it over to our City Auditor.

Harriet Richardson, City Auditor: Thank you. Good evening Mr. Chair and members of the Committee. Harriet Richardson, City Auditor. We're here to present the audit of fee schedules in the Community Services Department. Houman Boussina, who's sitting beside me was the lead auditor on that and we also had a Stanford intern, [phonetics] [Mercer Lynn] who worked on that with us. She couldn't attend tonight but she as a great asset to our office this past summer. Then, we also have Community Services Center to answer questions after. The audit objective was whether the fees –

# TRANSCRIPT

community service fees for their projects cover the cost of services provided as expected. We focused the audit on CSD primarily, because other departments we identified that have fees for services had had some recent fee studies and CSD had not. CSD implemented a cost recovery policy in 2007 and in May 2015, the City adopted a Citywide user fee cost recovery level policy to set cost recovery goals for City services. We looked at the extent which CSD's fee setting practices might need to be updated to align with the newer Citywide Cost Recovery Policy and because cost recovery data was not available for individual classes, we focused our assessment on cost recovery for CSD divisions and programs overall. I am going to turn the presentation over to Houman, who's going to go through the audit (inaudible) findings and recommendations.

Houman Boussina, Senior Performance Auditor: The Audit Report has one finding. Most CSD programs recover cost (inaudible) with City policy, however, CSD does not consistently apply its cost recovery policies and procedures. We found that CSD's total cost recovery has ranged from a high of 34 percent in Fiscal Year '11 to a low of 28 percent in Fiscal Year '15 and '16. The decline is mostly due to lower golf revenues. CSD has developed policies and tools to meet cost recovery objectives...

Vice Mayor Kniss: Can I just ask quickly? Are you on Packet Page 16? Do you know where you are? (Crosstalk) Am I following along with the right one?

Ms. Richardson: Did you get the handout?

Vice Mayor Kniss: Yes. It should be the same.

Council Member DuBois: Page 32 for the findings.

Mr. Boussina: What I'm reading is (inaudible) bullets.

Ms. Richardson: He's using the PowerPoint notes. Yes.

Vice Mayor Kniss: Ok, good.

Mr. Boussina: Alright...

Vice Mayor Kniss: We're still waiting (inaudible) with the bouncing ball here.

Ms. Richardson: I think you have – yeah, you have the separate hand out there.

# TRANSCRIPT

Mr. Boussina: CSD has policies and tools to meet cost recovery objectives but has not updated them since 2007 or consistently applied them. CSD has a 2007 cost recovery policy but has not yet updated that to align with the City's 2015 User Fee Cost Recovery Level Policy which was expected to be used starting with the Fiscal Year '17 budget process. The City's 2015 User Cost Recovery Policy limits fee the City can charge to 100percent of service costs, however, Prop. 16 (inaudible) recreation programs such as golf and facility rentals, from the cost recovery limits where market pricing may provide revenues that exceed costs. Staff reports presented to Council when the City was developing its Cost Recovery Policy, misstated the requirements of the law, which influences decisions regarding the policy. As (inaudible) cost was another area we looked at. We found that they are not aligned with the program revenues and expenses. Calculating cost recovery by program area including appropriately allocating a direct cost requires a manual process currently (inaudible) cost centers to program areas. The Audit Report includes three recommendations. These include coordinating with the City's Attorney's office and ASD who provides the City's Cost Recovery Policy and Questica procedures by which fees are not subject to laws limiting fees to cost recovery. Creating a procedure to implement the City's User Fee Cost Recovery Policy and incorporating (inaudible) in useful elements from CSD's existing Class Cost Recovery Policy which then can be rescinded and working with ASD and the IT Department to configure SAP to include a requirement for the proposed new ERP system to align cost centers with CSD programs. Just the correction, I may have said Prop. 16 instead of Prop. 26 as what exempts recreational grounds from the cost recovery limits. Alright...

Ms. Richardson: That concludes our presentation and we'll answer your questions and the departments here to answer your questions.

Chair Wolbach: Ok, we'll turn to Committee Members for questions or comments. Liz, (inaudible) you have some questions?

Vice Mayor Kniss: Under – on Packet Page 16, you indicate that cost recovery rates for the Junior Museum and Zoo is less than the policy (inaudible) which the City doesn't currently charge an admission fee for that facility which is great. (Inaudible) remember that. Just for the mic, I'm on Page 16 and close to the bottom of the Page. How do we go about making that kind of, somewhat subjective decision? This is a community benefit and therefore, I'm guessing that golf is not a community benefit because we recover far more of the cost there. My question is, how do we make that subjective decision...

Ms. Richardson: I think...

# TRANSCRIPT

Vice Mayor Kniss: ...of does somebody else make it for us?

Ms. Richardson: I think it is somewhat subjective. If you look at Packet Page 22, the City policy is there and (inaudible) cost recovery percentages in ranges which allow for some room within those ranges for the cost recovery should be. It can... as a community benefit – primarily a community benefit, the expectations at that – it might not recover anything or it might recovery up to 30 percent of the cost. When it's an individual personal benefit, the expectations that it would likely cover 70 to 100 percent of the cost. There's room within each of those ranges for some decision making and they aren't hard set ranges.

Vice Mayor Kniss: You fit them into these and make the best decision you can, right?

Ms. Richardson: Correct.

Vice Mayor Kniss: Golf is probably pretty easy. Maybe the Zoo is pretty easy. Which ones are hard to decide whether or not they're being a good benefit? Is that your decision Rob?

Rob de Geus, Community Services Director: Yeah, we look at the policy to give us guidance. Rob de Geus, Director of Community Service (inaudible) she's the senior analyst for the department. The Junior Museum – this is a little tricky one. When we looked at that – (inaudible) we looked at the whole of the Junior Museum and Zoo and some of the programs within the Junior Museum (inaudible) may fit into different categories within the (inaudible). For instance, the exhibit in the Zoo is free and I think that's going (inaudible) for the City, right? It's not in that range of 30 percent-70 percent at least it hasn't been the policy until now. While the summer camps and the classes and the fee-based programs in the schools – are fee-based and they fall within the range of the 30 percent-70 percent but the way the audit was done, they looked at the whole of the Junior Museum (inaudible) one program.

Vice Mayor Kniss: One of the things that we're always discussing is cost recovery. That's one of our (inaudible). It just seems that there must be times when it's somewhat difficult. I remember this decision a long time ago at the Children's Theater and whether that was community or whether that was individual. I'm not making any new decisions or asking you to. I'm just curious as to how you made those and where the cost recovery does fit in. Glad (inaudible) – I don't play golf so it's good to see (inaudible), pretty well on the golf.

# TRANSCRIPT

Ms. Richardson: We had – but golf is an example of where you can actually collect market rate and policy – the City policy right now, goes only up to 100 percent so one of our recommendations does focus on the recognition that you can go above that. This policy should be revisited to allow for opportunities where revenue can be generated for the City based on what the market will allow.

Vice Mayor Kniss: Good thanks.

Chair Wolbach: Lydia.

Council Member Kou: I'm just trying to understand, being new to all of this. Which of the CSD programs – can your kind of elaborate a little bit more about how these programs fall into the recovery fee level policy – I mean the community wide – first there's private benefit and then they're 1, 2, 3, 4 over there on Page – Packet Page 21.

Ms. Richardson: As far as – our office would not make that decision. Rob – someone answered already. It really depends on a bit on who – a lot on who's benefitting for it. Is it really a community-wide benefit? Is there some community benefit mixed with some individual benefit? Is it all individual benefit? Those are the types of things they would look at as they decide which one of these categories to fit it into. That's where – when the CSD policy was established back in 2007, the City policy didn't exist. The audit is really focusing on recommending that CSD, now that there's a City policy. Look at the City policy and realign their programs to match.

Council Member Kou: What is the percentage between resident and non-resident that uses all of these services?

Mr. de Geus: It varies from program to program. It's on average, I think, 70/30, 70 percent residents. With our summer camp program and swim lessons, it's very high residents, 90 percent-95 percent. Some of our art programs for instance – studio – adult art program is really a regional (inaudible). We have almost 50 percent non-residents, 50/50. The Junior Museum and Zoo also sees a lot of non-residents because there's not something like it nearby so we get people coming from a long way away. The golf course is the other example. We get a lot of non-residents which is not – which is typical for a golf course to see. (Inaudible)

Vice Mayor Kniss: Could I piggyback on that because that's really interesting?

Chair Wolbach: Tom, do you mind if Liz just ends (inaudible) (crosstalk).

# TRANSCRIPT

Vice Mayor Kniss: I promise – just a follow up (inaudible) because I think that's just a good question, the resident versus not. In return, do many of our residents go to Mountain View or Melow Park (inaudible) could swim program and so forth? Is there any exchange there like we belong to the same club and therefore, we go back and forth because residency is so interesting? Are we – the real question I think would eventually be, are we subsidizing other communities to our own – for our own cost? I didn't want to say the word.

Mr. de Geus: There aren't too many programs or any that I can think that is predominately non-resident. Actually, they're majority resident and when we get non-residents they pay a little more. They don't get the first...

Vice Mayor Kniss: They do pay a little more.

Mr. de Geus: ...opportunity to register. Yeah, so residents get the first chance. Usually, it helps the bottom line to have -- to fill the class, fill the program.

Vice Mayor Kniss: I didn't realize they paid a little more. That's good. We're cost recovering. Thanks, Tom.

Chair Wolbach: Tom.

Council Member DuBois: First of all, Houman, thank you for the audit. It looks like it was a good audit. There was the finding about the SAP System I guess. I don't know how quickly we're going to get our new system but do we have a way to track requirements that we want to put into the new system?

Ms. Richardson: One of the things that happening right now is that the new (inaudible) system is in the requirement development phase and the Department of Information and Technology has hired a consultant, [phonetics] [Plant Meran], who has met with all the departments and collected information about requirements. Now they're re-meeting with departments and reviewing those requirements. We have been doing this, trying to identify in our audits some things that we know. I had requested a specific meeting with Plant Moran and IT – on what was that, about 5 or 6 months ago? Where we actually sat down with them and just talked about issues we identified in audits so that they would pick up on those things in case...

# TRANSCRIPT

Council Member DuBois: Is there an ongoing way? Does Rob have to add it to the list for CSD or when you find something new that you want in the (inaudible) system? How do we make sure it doesn't get lost?

Ms. Richardson: I think the primary way is when the – we're hoping departments can keep track but I think the primary way is when the RFP is ready to be issued, we are going to be looking at that and when we see that, we'll do a cross check with some of our – with all of our outstanding recommendations and say, is there something we identified that we're still missing? In some ways, the RFP will identify things in a very broad way and we might not be able to exactly say that's a direct match but as they implement, there'll be more discussion to make sure that that happens.

Council Member DuBois: Ok. That would be great if the departments owned it in some way and just added it to their requirements.

Mr. de Geus: I was just going to say, we expressed that same thing. We looked at the new system, what we would like to see and we would like to see a robust system that allows us to tie direct cost to programs so when we get questions about how much does it cost to run the pool? We can easily and quickly report.

Council Member DuBois: This could be really helpful for you. What kinds of programs can go over 100 percent legally?

Terence Howzell, Principal Attorney: Terence Howzell, City's Attorney's Office. Just direct your attention to Packet Page 11 which kind of lays out the legal framework and I think that accurately sets forth what the law is. Responding directly to your question, we can go – given that this is the services that are the subject of this audit, are excepted from the Prop. 26 requirements that we've all discussed at other context. Given these are (inaudible) recreation programs, we can exceed those...

Council Member DuBois: So, all of these?

Mr. Howzell: All of these that are subject to – of the audit.

Council Member DuBois: Then can you include overhead and Capital Replacement Fund as part of the cost recovery?

Mr. Howzell: You can as long – I think the only real challenge is making sure that you are just competitive in whatever market you're in but that – those are really the limits.

# TRANSCRIPT

Council Member DuBois: Ok. It doesn't even really apply to this?

Mr. Howzell: No.

Council Member DuBois: I did see one place where we offer classes when we have more than or less than the minimum amount. How did we decide to do that?

Mr. de Geus: We did look at that. That was one of the findings that surprised us in the department to and we took a closer look and said, why is that happening? So many that seem to go forward with less than the minimum and so we looked into that further and we found a couple things. One, when classes were canceled – effectively canceled, they didn't have any enrollment. They were not being subsequently canceled in the system. You actually have to go into the system and official cancel the class and so when we ran the numbers or the auditor ran the numbers, those classes came up as still active, even though they were effectively canceled. That was a big portion of why that number was there. In addition to that, what we found was several program areas had minimums that were really just too high. We have group lesson for products as an example, where if we get two out of four, we will go ahead with the class but we had set the minimums at three. I'm not sure why we did that because we would always go forward if there are two kids in that class. I think we need to relook at (inaudible) and make sure that they're accurate.

Council Member DuBois: Cool, thanks. I guess with the new Junior Museum, I think the plan is they are going to charge – start charging fees, right?

Mr. de Geus: That's correct.

Council Member DuBois: That will... I mean overall, I think we make the right choices. I'm pretty comfortable with the levels of recovery and what we offer for free. I do think – do we have a golf course management company when the fold course opens?

Mr. de Geus: We – (inaudible) to ask because we currently have three firms that we work with. We have Brightview Maintenance that does the maintenance at the golf course. Brad Lozares does the golf professional services and (inaudible) that own the restaurant. The (inaudible) makes sure everybody is working together. All of those contracts expire in April of 2018. We are currently thinking about how we might proceed with a new operator. Do we extend the contracts of the existing 3 or do we put out an RFP and bring in a new operator? One operator which we think is more effective ultimately. Have them come in before we re-open in November and

# TRANSCRIPT

(inaudible) Council or something on that soon because that's the direction (inaudible) now or the next couple months so we can have someone on board.

Council Member DuBois: Yeah, this seems like a really interesting pricing question. It's going to be (inaudible) of a golf course. Probably want to be the high end of the market rate I would think but you want it to be used, right? Some kind of expert like a golf course management company; seem like they could figure that out.

Mr. de Geus: That's the balance – we've been working closely with National Golf Course Foundation which is an organization that helps with price setting and finding a good operator. We will be working with them again as we put out this RFP if that's the direction we go. We will have a discount for residents, certainly. To make sure that that's (inaudible).

Council Member DuBois: It will probably be – once brand new, it will probably be the highest and with that over time its (inaudible). I know it's not in here, I'm just curious, the airport is not considered community service at all, right? Those fees?

Mr. de Geus: Not yet.

Council Member DuBois: Ok. I mean, wow. Is it just (inaudible) something at this point?

Mr. de Geus: It's kind of Public Works I think. We have an airport manager that's managing it, Andy – I forget his last name...

Mr. de Geus: ...Swanson. (Inaudible)

Council Member DuBois: I mean it's off topic, do you guys know if we manage that as market rate for fees and things?

Khashayar Alaei, Management Analyst: There's a study underway to look at all the fees of the airport as well. I don't know the specifics about it. From what I understand that those are being looked at too. In addition to the leases at the site.

Council Member DuBois: Thanks.

Chair Wolbach: Any other questions or comments? Let's go back to – do the second round. Would either you want to go ahead then...

# TRANSCRIPT

Council Member Kou: Chair, I still have questions is that ok?

Chair Wolbach: Sure.

Vice Mayor Kniss: Only one per night.

Council Member Kou: I was just wondering what programs are here that are unique to Palo Alto within – different from say, Mountain View or Los Altos, that would draw in more out of towners and non-residents so we have that cost recoverage?

Mr. de Geus: We have a number of unique programs and assets in Palo Alto because the Council and Communities invested in for many decades in parks and recreation services. I think the Children's Theater – dedicated Children's Theater are very, very unique. You don't see that in other Cities. Even a municipally run Art Center in Palo Alto is also quite unique. Junior Museum and Zoo is another example of something that you don't see in neighboring Cities and so it draws people from the region. Palo Alto is definitely an attraction. People come here to use our facilities, to come to our theaters. We have three theaters which is unusual for a town of our size.

Council Member Kou: Three?

Mr. de Geus: Yeah, the Community Theater, the Children's Theater and the Cubberley Theater. They all have different – they operate differently from one another. Then we have playgrounds like the Magical Bridge Playground that gets people coming from Santa Cruz to the north end to participate in that universally accessible playground that has hundreds of people every day. (Inaudible) gets at your question but Palo Alto is a draw or a lot of the different activities and programs that we have; which has an impact on wear and tear and other thing but most of the fee-based programs across the realm non-residents pay and they pay more than Palo Alto residents. They stay in Palo Alto and hopefully spend a little money in Palo Alto. They get lunch or dinner or spend some money (inaudible).

Council Member Kou: I guess what I'm trying to figure out is are we taking full advantage of the cost recovery for those that we can charge for? I know Magical Bridge is not – there's not cost there.

Mr. de Geus: There's no cost. The City covers the full cost of the Magical Bridge Playground and it's not inconsiderable because it wears down because of the amount of use it gets there.

# TRANSCRIPT

Council Member Kou: I met with Magical Bridge people and they said that they like the show. Every other City who wants to have one, they come here to look at it and then there is definitely that wear and tear. When the...

Vice Mayor Kniss: We should charge those other Cities.

Council Member Kou: ...the Junior Museum, when it comes back is there the cost – there's a fee charge. Is it going to be the same where non-residents are going to have a high fee?

Mr. de Geus: Yes.

Council Member Kou: Ok. Very good. Thank you.

Chair Wolbach: Liz, you had another question to?

Vice Mayor Kniss: Yeah. (Inaudible) because we went late last night and I'm not totally absorbing some of it. The theater, music and dance; we've got three theater groups. We've got Theater Works. We've got Palo Alto Players?

Mr. de Geus: Yep.

Vice Mayor Kniss: Ok, Theater Works, Palo Alto Players and

Vice Mayor Kniss: (Inaudible) that's the one I hadn't thought about. Those are – when you say they don't meet the City's \$90,000 revenue target or in those (inaudible) provides to the City so on and so forth. Then you talk about the value annually. Why am I having some trouble with my math here? The theater group has to meet the \$90,000 revenue target for annual sales and if they did meet it – even though it's the \$500 on the next that's kind of (inaudible) me a little.

Ms. Richardson: I can tell you what was explained to us during the audit. They have a target to generate a certain amount of revenue from each ticket that gets contributed to the City; that's the \$90,000. We're at the bottom of Packet Page 16, top of Page 17. At \$500,000 is the value of the City's subsidies and that takes into consideration the cost of maintenance of the facility; utilities that are provided and that sort of thing. There isn't right now an expectation where the portion of the ticket sales that the City gets to offset – to fully offset that – those cost so that's where your \$90,000, \$500,000 are.

Council Member DuBois: Does that include theater Staff as well? Yep. That's probably the biggest part of it.

# TRANSCRIPT

Vice Mayor Kniss: Does that also include – Theater Works is kind of interesting because they go back and forth between two theaters. Does that alter anything or not?

Mr. de Geus: When we – the theaters come in and it's pre-scheduled throughout the year and they each have approximately (inaudible) (crosstalk).

Vice Mayor Kniss: You figure it out...

Mr. de Geus: Yeah.

Vice Mayor Kniss: ... is what you're saying.

Mr. de Geus: Their participation and attendance have not been growing. That's been a challenge for the theater groups that they have shared with us. Theater Works does pretty well but the other two...

Vice Mayor Kniss: I know.

Mr. de Geus: ...they struggle a little bit.

Vice Mayor Kniss: How about the Children's Theater? Have you listed that separately somewhere? I just remember one awful year we tried to raise the ticket prices a dollar and needless to say, we never did.

Mr. de Geus: I think that's here, right?

Vice Mayor Kniss: Yes.

Mr. de Geus: The Children's Theater...

Vice Mayor Kniss: Pardon?

Mr. de Geus: There's a policy or a philosophy – I'm not sure what you call it but the Children's Theater does not have a pay to play program. Kids sign up to be in a play, they don't need to pay for that. The parents do pay for costumes, they pay for tickets to go see the play but we do not (inaudible) charge the kids to participate in the Children's Theater and that's been a long stand tradition...

Vice Mayor Kniss: It has been, right.

# TRANSCRIPT

Mr. de Geus: ... at the theater.

Vice Mayor Kniss: I think it's worth reiterating because there's really no cost recovery there and – but there is a cost to maintaining the theater. Just what Tom has talked about the Staff and the backstage crew.

Mr. de Geus: The Children's Theater has some cost recovery. Those kids also take acting lessons and singing lessons and all of those are fee-based programs. We have the friends of the Children's Theater. By the way, we have five friend's groups in community service that support – they are tremendous in what they do for the department but the friends of the Children's Theater -- is that when that topic came up, should we charge pay to play? The friend's group stepped up and said, we will pay. We will raise money and pay. They pay, I want to say \$50,000 or something annually to support the theater.

Vice Mayor Kniss: There's no appetite for charging Children's Theater anymore that we do, I know there isn't.

Ms. Richardson: I just want to add something. When Rob mentioned the friend's group, that reminded me of another thing where with – during the audit, there's not a clear way to identify where those subsidies from the friend's groups are coming into offset program cost. The new ERP system could potentially help with that so you could really get a full sense, not just of what the cost of a program is? What's revenue are being generated through fees? What costs the City is paying because you really have three revenue sources; fees, General Fund and those friend's groups and being able to link those altogether would give a much better picture of what's going on.

Council Member DuBois: Are those friends amount showing up in here? Not at all?

Ms. Richardson: No, we couldn't identify how they (inaudible) (crosstalk)...

Council Member DuBois: The theaters at 30 percent but the friend's money is on top of that?

Mr. de Geus: Yes.

Council Member DuBois: Great. Yeah, it would be good to see that.

# TRANSCRIPT

Mr. de Geus: Some of it is really considerable. It's remarkable what the friends of the Junior Museum have been able to do. They just now hit their 25-million-dollar goal rebuilding...

Vice Mayor Kniss: Astonishing.

Mr. de Geus: Yeah. Amazing residents and non-residents that just love the program and are willing to put that much into it and spend money and ask for money to support a City program like that. The Palo Alto Art Center Foundation is the same way. I mean, they raised over 4 million dollars to renovate -- as you know, is the Palo Alto Art Center. They raised \$100,000 or more a year to support programs which are also not represented here.

Council Member DuBois: Well, that's pretty big.

Vice Mayor Kniss: They -- at least the Art Center has a paid developer. I don't know about Theater Works whether they do or not.

Mr. de Geus: Each of the friend -- every friend's group or most have some type of Staff to help the development ... (Crosstalk).

Vice Mayor Kniss: Somebody who attracts that development work.

Mr. de Geus: Particularly ones that have a membership program like the Junior Museum and Zoo. They have a robust membership program. The Art Center does as well. The Recreation Foundation not so much in the friends of Palo Alto parks. They are really project based. They raise money for a specific park or playground.

Vice Mayor Kniss: You know that would be fun to know Tom, is how many friend's groups there are because I have a feeling there are 20 or 25.

Mr. de Geus: We have many partners that support us like Save the Bay and Acterra, the two (inaudible) but there's 5 foundations that exist, non-profits, just to raise money for the City of Palo Alto in a specific program area.

Council Member Kou: Can you name them?

Mr. de Geus: Yeah, there's the Friends of the Children's Theater, Friends of the Junior Museum and Zoo, Friends of Palo Alto parks, the Palo Alto Art Foundation, and the Palo Alto Recreation Foundation. They're the...

Council Member DuBois: That's a lot of (inaudible).

# TRANSCRIPT

Mr. de Geus: They're a different department -- there is a Friend's of the Library, also raise a lot of money and sell used books and other things in generating a couple \$100,000 for the libraries.

Vice Mayor Kniss: Theater Works has something called Their Inner Circle, where they raise money as well.

Council Member DuBois: Those are expenses we don't see (inaudible).

Chair Wolbach: Alright. Any other questions for now?

Vice Mayor Kniss: Not at the moment.

Chair Wolbach: Tom, do you have a couple more?

Council Member DuBois: I would just make us move that we accept the audit for (crosstalk).

Chair Wolbach: Mind if I ask a couple questions first?

Council Member DuBois: Oh, certainly. Sorry. (Crosstalk).

Chair Wolbach: I'll try to be quick because I know we all want to get out of here. It's Valentine's Day and we did have quite a meeting last night. Just a few questions. First, the goals on -- just stepping back a little bit, right, to think about the goals for a second on Packet Page 6. Ensuring financial stability -- I mean, obviously, that's something I think we want to be in favor of. Customers paying appropriate shares of the costs and (inaudible) programs are subsidized in accordance with the City's Cost Recovery Policy. I think these are generally pretty good goals but I just want to make sure we are all thinking about that in the context of this. I don't really have a question there but in that context, looking at a couple of other things here. On Packet Page 10 at the top listing the objectives of the audit. In kind of getting towards what the impact of the audit will be. Does this audit obligate CSD to seek more cost recovery or does it just offer a recommendation? Then it's totally up to the director or the City Manager to make that determination.

Ms. Richardson: It doesn't direct them to seek new cost recovery. What it does is it makes a recommendation to ensure that they're -- now that the City has a City-wide policy, that their cost recovery practices align with the City policy and that they look at the cost -- the actual cost which was hard for us to really identify on a class by class basis. I don't think it's necessary that they identify it to class by class but they do need to know on a program

# TRANSCRIPT

level basis at least, what it's costing them so that they can set their fees appropriately. The goal is really and the recommendation is to really make sure that what they charge aligns with the City policy but before they can necessarily do that, that City policy needs to be revisited to allow for market level recovery when that's appropriate.

Chair Wolbach: Ok. Going – actually looking at Packet Page 20, Item C, where it talks about – it says, requires CSD to annually assess whether cost recovery levels achieved targets and addressed obstacles and opportunities to meet targets. I actually wonder if there are times where Council will actually want to be one of those obstacles, right? Really my question here is knowing that there may be times where – I really – let me step back a second and say, I think this audit is really useful because I think it does help get us towards a better understanding and help the department have a better understanding in coordination and alignment with the City policies. Then when it comes time to make a determination or make a decision about how much to charge for a program? Obviously, Council may have a sense about a particular program where we want to charge more or maybe even more likely, where we want to charge less than the director or the City Manager may recommend because we see an equity issue or we see some need in the community – a benefit to the community of having a lower fee for – especially for residents. I just wanted to check – as a reminder for all of us, what the process is for when Council wants to say, we actually want to see a lower fee? That would come to us as a separate – that would be a separate agenda item, right? Whether it's at Policy and Services or at full Council, talking about the Fee Schedule itself separately from the audit of the Fee Schedule.

Ms. Richardson: I would agree. Let Rob speak for a second but I also want to say, we didn't (inaudible) wrote that. We didn't envision Council as being the type of obstacle (crosstalk) (inaudible). We were thinking that more once there was some sort of agreement and there was something that was unexpected that caused them not to be able to meet – that they would look at that and say, why can't we meet this target. Kind of like a performance measure. What causes you not to meet that measure?

Chair Wolbach: Right. I was taking it a bit poetically, you say. Taking liberties but again, when Council wants to weigh in on the fees themselves. That will come back to us. Will that come to P&S or will that come to – does that come to full Council or does that come to finance.

Mr. de Geus: It goes to Finance...

Chair Wolbach: That's right.

# TRANSCRIPT

Mr. de Geus: ...Committee. I think to you question Chair Wolbach, we – and we currently are preparing the '18 Budget – and I see Kiely over there and we talk at length about fees and revenues and what is reasonable. What does the policy say? We know that costs are going up and so to keep up with even today's cost recovery level means fees need to go up to maintain that. What does that mean? Does that create a barrier for participation or not so there are some real trade-offs that we have to consider? You're right, it comes to the Finance Committee and the full Council as part of the budget process and the (inaudible) Fee Schedule.

Chair Wolbach: Right and I think that that's important for us to just remember that Staff, you guys will do your best to implement the policy but then, ultimately – I know you guys know that this Council is never afraid to weigh in if we wanted to tweak something in the details. My last question is, just as far as implementing the recommendations. I actually wanted to think about a few different departments here; CDS, ASD – I see a representative here (inaudible) and the City's Attorney's Office and IT, are all named in the recommendations. I was just wondering if we had a sense of what the administrative burden of implementing this audit might be in – even in a qualified rather than or qualitative rather than quantitative sense. I don't know if any of those departments want to weigh in or if there's any thinking on the administrative burden that Staff would like to share with us? Just so that we have a sense of what the implementation would look like.

Mr. de Geus: I can begin – that's a good question. I don't think it's a huge administrative (inaudible). I think most of it falls to CSD to manage. The cost recovery policy that was drafted and approved in 2007 is not very different than the one that the Council approved as the City-wide policy so there are some tweaks we need to make. The template tools and consistency, we've already begun working on that. We're going to be working closely with Office of Management Budget and ASD to make sure that that's going to work. I don't think – first of all, we agree with all the recommendations and I don't think it's a big burden. I would add and I was going to say this at the beginning but I'll just say it now. Thanks to the auditor for the work that they did. I mean, we – as you know, the department does a lot. Community Services does a great deal – all across the community and is very diverse and you don't always get the time to do deep dives into fee settings and other things. It's actually very helpful to have a report like this and we this will help us do our homework better.

Chair Wolbach: Great. Well, that's it for my questions.

Vice Mayor Kniss: Just one last thing. What are you most popular...?

# TRANSCRIPT

Chair Wolbach: Don't forget your mic.

Vice Mayor Kniss: What are the most popular programs? I frequently hear parents say, I just never can get my kids into those summer programs or I can't get into the afterschool whatever it is or we waited in line – use to be for preschool family and things like that. So, that's school, not you but what do you – if you were going to expand what you're doing. Where would you do it?

Mr. de Geus: The two that come to mind that we see waitlist consistently is the Junior Museum and Zoo and the Palo Alto Art Center. I think largely a testament to the Staff that runs those programs, phonetics Karen Kienzel and John Aikin are the two managers. The unique facilities and they're constantly reinventing the program and it's a combination of fun but also science and education which just people love. They just do a really nice job with it and it's a unique facility. People want to be in Zoo Camp and there's only one Zoo and so there's only so much – that gets filled up immediately. Those are the two that come to mind that is really, really popular. Within the recreate division we have more opportunity to add kids and participants because a lot of the programs are in community centers and on athletic fields so we can have 30 or 40 or even more – Foothills Park we had 55 kids at every camp and we have several camps. We have over 150 children and they do fill up but there's just a lot of space whereas Zoo Camp, it's 12-15 kids and that's all we can really accommodate to make sure the experience is a quality one.

Vice Mayor Kniss: Yeah, no it's an enormous and varied department and very visible in the community.

Chair Wolbach: Thank you. (Crosstalk) I think somebody was making a Motion? Who wanted to go ahead and make it?

Vice Mayor Kniss: Tom did and I seconded it.

Chair Wolbach: Tom, let's just make it official.

**MOTION:** Council Member DuBois moved, seconded by Vice Mayor to recommend the City Council accept the Community Services Department Fee Schedule Audit.

Vice Mayor Kniss: Amen.

# TRANSCRIPT

Chair Wolbach: Seconded by Vice Mayor Kniss.

Vice Mayor Kniss: Yes.

Chair Wolbach: Any discussion? Alright.

Vice Mayor Kniss: Thanks, guys.

Chair Wolbach: All in favor of the Motion? Alright.

Vice Mayor Kniss: Good job.

**MOTION PASSED: 4-0**

Chair Wolbach: Looks like it passes unanimously. Thank you all.

Vice Mayor Kniss: Go forth and raise the fees.