CITY OF NAPA

PARKS & RECREATION SERVICES DEPARTMENT
FINANCIAL SUSTAINABILITY DEPARTMENT POLICY

OBJECTIVE

The objective of this Financial Sustainability Department Policy of the Parks and Recreation Services Department (which may be referred to herein as this "Department Policy") is to establish and implement financial programs (through the Citywide budget and fee setting processes) to fund the services provided by the Department in a financially resilient and sustainable manner using guidelines that are logical, intentional, and thoughtful. The strategy will encourage the City Council to adopt Citywide policies that will balance the establishment of fees paid by those who receive services (on the one hand) and the investment of general fund tax revenue (on the other hand) in a manner that is fair, equitable, responsible, and compliant with all legal requirements. This Department Policy is intended to factor economic realities, planned development within the City, evolving community needs and demographic shifts, and the separate Department Policy on Social Equity. This Department Policy is intended to guide investment and spending decisions in a manner that establishes and maintains the Department's financial stability in both the near term and the long term.

This Department Policy identifies important factors that will inform analyses and recommendations that will be made by Department staff to City decision-makers in the preparation of Citywide policies and implementing actions (including the City Council approved Budget, Fiscal Policy, and fees that are incorporated into the City's Master Fee Schedule). While this Department Policy will guide the efforts of Department staff, it does not supersede any requirements of law. While this Department Policy may be a basis for recommending updates to Citywide policies, this Department Policy does not supersede any Citywide policies until approved by the relevant City decision-maker.

POLICY STATEMENT

In alignment with the City of Napa 2040 General Plan (*adopted October 2022*) which acknowledges the value parks, recreation and the urban forest provide as critical contributor to the environment and human health, and focused on policy development relating to access, equity, asset management, and funding, this Department Policy grounds cost recovery expectations and the spending of taxpayer dollars (subsidy) in a philosophical underpinning that affirms a commitment to equitable investment, financial discipline, and the long-term fiscal health.

In accordance with the City Council's direction, the 2022/2023 budget represents a spending plan that balances providing high quality services to residents, businesses, and visitors with limited resources. The annual Department budget ultimately determines the amount of taxpayer funds available for park and recreation services which results in understanding the degree to which subsidy investment can be made and to which services, and the degree to which user fees will be assessed and to which services. In addition to the annual budget, there are specific user fees for Department services that are identified and set forth in the Master Fee Schedule.

This policy document is an implementation step of the following 2040 General Plan policies:

- CSPR 14-3: Identify cost recovery targets for parks and recreational facilities, services, and maintenance needs to ensure the long-term sustainability of recreational programming and park operations; adjust these targets as needed.

COST RECOVERY/SUBSIDY

Cost recovery refers to offsetting the costs (expenses) of delivering services by way of revenues generated from fees and charges, sponsorships, donations, grants, and other alternative revenue streams. Alternatively, subsidy represents a tax source. It is a benefit given by a governmental entity; typically to remove some type of burden, and often considered to be in the overall interest of the public. It is also given to promote a social good or an economic policy.

For example, a cost recovery level of 75% simply means that for each dollar spent on a service, 75-cents are generated from a revenue source (i.e., fees) with the remaining 25-cents covered by subsidies (i.e., taxes).

DEPARTMENT FUNDING/REVENUE SOURCES

The services provided by the Department are funded by several revenue sources which all contribute varying levels of funding to support the breadth of park and recreation services provided to the community. The amount of funding provided by each source can shift based upon the economy, market behaviors, and City-wide policy.

- Property taxes
- Sales taxes
- Transient Occupancy Tax (TOT)
- Fees for services
- Assessment district(s)
- Gas tax / Measure T funds
- Grants
- Donations
- Sponsorships
- Development impact fees

SERVICE CATEGORIES

The development of categories which include *like* services are important when it comes to justifiable and equitable allocation of subsidy, cost recovery levels, and assignment of budget and general ledger lines to account for a category's fiscal performance (e.g., a service category such as *Beginner/Intermediate Programs* would include "like purpose" activities such as learn to swim classes, introduction to painting, or beginner basketball regardless of age).

The benefits of this type of approach are two-fold. First, it is inefficient for the Department to determine cost recovery expectations by each individual service including facility, activity, or event. Secondly, categorizing by "type of service" or "likeness of service" discourages attempts to determine fees and charges (and therefore cost recovery decisions) based upon special interests, age-based services, or individual values.

The Department provides many services annually to the community. The following Service Categories represent the Department's service menu and include Service Category definitions as well as example services.

Open Access: Access to parks and park amenities which do not require staff oversight and activity is self-directed by the user. *(Examples: playgrounds, skatepark, outdoor sports courts, open turf areas, trails, boat launches, public art)*

Community Events: Events designed to appeal to our broad and diverse community regardless of age, ability, family composition, etc. *(Examples: July 4th, Napa Lighted Art Festival)*

Drop-In: Access to activity areas at recreation facilities which do not require registration but require staff supervision and activity is self-directed by the user. *(Examples: drop-in volleyball/basketball in gym; recreation swim, Senior Center lounge)*

Human Services: Prevention and remediation of life challenges and maintaining quality of life, independence, and connection to the community by linking and/or providing resources for those in need. *(Examples: CANV meal services, tax support, counseling, referrals)*

Education & Enrichment Programs: Classes, programs, and instructed activities designed to provide education, enhance life skills, and provide socialization. *(Examples: monthly senior seminars, summer day camps, preschool classes, ranger guided hikes)*

Learn to Programs: Classes, programs, and instructed activities designed to learn a new skill. *(Examples: swim lessons levels 1-3; beginning painting, intro to karate, mini sports)*

Specialty Events: Events designed to appeal to a target market or market niche'. *(Examples: adult special needs dance, senior center holiday luncheon, San Francisco theater trip)*

Intermediate/Advance/Competitive Programs: Classes, programs, and instructed activities designed to advance or master a skill or provide competition between participants. *(Examples: swim lessons levels 4-6, adult softball league, Jr. Warriors basketball league, intermediate painting)*

Rentals: Facility or park rentals which are for exclusive use by an individual or group. *(Examples: sports field rentals, senior center rentals, picnic shelter rentals)*

Specialized Services: Services that are commercial in nature and whose operations align most with those offered by the private sector. *(Examples: Main Street boat dock, tree services, hot air balloon permits, memorial bench sales)*

NOTE: Service Categories are listed in order from Common Good (#1) to Individualized Benefit (#10) as ranked by Department staff and the Parks and Recreation Advisory Board which represents the community's interests.

FINANCIAL SUSTAINABILITY STRATEGY

The Department's Financial Sustainability Strategy Continuum presents the degrees to which financial resources will be spent and expenses will be recovered. It is grounded in the differentiation of park and recreation services on the basis of who benefits and who should pay. Economists have differentiated goods and services in the economy in this manner for decades and have designated three types of goods and services: community benefit, dual benefit, and individual benefit.

The Financial Strategy Continuum acknowledges varying levels of service. This strategy shifts from one which suggests that all services should be provided at no or low cost for everyone to an equitable and just philosophy where subsidy allocation decisions are based upon "beneficiary of service." In this conceptualization, each type of service has a set of specific characteristics that provide a rationale for who should pay (e.g., taxpayers, the individual, or both) and to what degree. Ultimately, this aligns subsidy allocation and cost recovery goals and expectations with beneficiary of service. Essentially, those who benefit from a service should pay for that service.

The three (3) year Department's Financial Sustainability Strategy Continuum includes the Department's Service Categories and short-term cost recovery/subsidy goals and expectations that align with current financial conditions while the three (3) year Department's Financial Sustainability Strategy Continuum includes the Department's Service Categories and more long-term cost recovery/subsidy goals and expectations. The continuums are graphic representations of the Department's tax use and revenue enhancement strategy. *City of Napa Parks and Recreation Services Department's Financial Sustainability Strategy Continuum 2023-2025 are included in Appendix A of this policy.*

UPDATING SUBSIDY INVESTMENT EXPECTATIONS

Service category subsidy (tax dollar) investment goals should be reviewed, analyzed, and updated at least every three years or more frequently as necessary.

PRICING – DETERMINIG FEES AND CHARGES

Several pricing methods are utilized by the Department to establish fees and charges. The principal method for establishing services fees will be cost recovery pricing which is defined as determining a fee based on established cost recovery goals.

Other pricing methods may be utilized by the Department, however, any strategy or method used will ultimately require that cost recovery goals or subsidy allocation expectations be met. Common alternative pricing methods include the following options which can be used based upon market behaviors, the competition, and other relevant considerations.

- *Bundle pricing* allows for the sale of multiple services for a lower rate than customers would pay if they purchased each service individually. Bundling can be an effective way of selling services that are poor performers and can also increase the value perception in the eyes of customers - essentially giving them something for a reduced rate.
- *Competitive pricing* establishes prices based on what similar service providers or close proximity competitors are charging for services. One method for establishing a competitive fee is to identify all providers of an identical or similar service (i.e., private sector providers, other municipalities, etc.), and set the price at the mid-point or lowest fee.
- *Differential/Dynamic pricing* follows the "law of demand" by supporting a key pricing principle: some customers are willing to pay more than others. Differential pricing is the strategy of selling the *same* service to *different* customers at *different* prices. Differential pricing enables organizations to "profit" from their customers' unique valuations (ex. Prime time or surge pricing).
- *Discount pricing is* based upon a motive to entice users or purchasers, reward a customer for their loyalty, or credit a customer for their perceived inability to pay.
- *Market (demand-based) pricing* results in pricing based on demand for a service or what the target market is willing to pay for a service. The private and commercial sectors commonly utilize this strategy. One method for establishing a market rate fee is to identify all providers of an identical service (i.e., private sector providers, other municipalities, etc.), and set the price at the highest fee. Another consideration is setting the fee at the highest level the market will bear.
- *Penetration pricing* has the aim of attracting customers by offering lower prices on services. While many may use this technique to draw attention away from the competition, penetration pricing often results in lost revenue and higher subsidy requirements. Over time, however, an increased awareness of the service may drive revenues and help organizations differentiate themselves from others. After sufficiently penetrating a market, organizations should consider raising prices to better reflect their position within the market.

In the event a Service Category's subsidy/cost recovery goal is higher than current cost recovery performance and fee increases are required, prices may need to be raised incrementally in accord with market acceptance to optimize revenue generation. However, if the market does not respond favorably to the increase, the service may require divestment if the subsidy investment required cannot be justified based upon beneficiary of service.

In the event a tax dollar investment/cost recovery goal is less than the current level of recovery, the established fee will remain the same to ensure that there is no loss of revenue or negative impact on the Department's financial condition.

PARTNERSHIPS

Partnerships are advantageous collaborations that position both the Department as well as participating partner organization(s) to efficiently utilize resources leading to cost effective and efficient service delivery, bridging of markets, reductions in duplication of services and fragmentation of resources, and cooperative capital development and/or improvements.

A condition that must be met in order for the Department to enter into a partnership agreement includes that of reciprocal benefit. To prevent the Department from simply becoming a granting body to any organization, the Department and its partner identify the value of the mutual contributions brought forth to the agreement and arrangement. There will be equal value and benefit to each organization resulting from any partnership ensuring that the Department is receiving fair and just value on behalf of taxpayers in return for any resource investment and commitment.

The Department has several existing partnerships with various community organizations and many of these relationships are formalized with MOUs, Lease Agreements, or License Agreements. A few examples of these organizations include Napa Valley United School District, Napa Little League, Napa Valley Vine Trail, North Bay BMX, UC Master Gardeners, and Napa Parks & Recreation Foundation.

FINANCIAL SUSTAINABILITY and REINVESTMENT

This Policy guides re-investment into the park and recreation system such as in those services which require extensive and essential investment including the maintenance, replacement, and care of physical assets and infrastructure and addressing inequities in the community.

Methods for re-investment may include a retained earnings fund (or similar) that will allow for the re-distribution of excess revenues generated from Department services such as Specialized Services that are individualized, highly specialized and/or exclusive, and expected to generate a minimum of 100% cost recovery to a retained earnings fund. This fund may be used to support social equity initiatives and capital investments in park and recreation infrastructure alleviating pressure and reducing reliance on the City's General Fund. An example of this financial strategy is the lease agreement with Course Co at the Kennedy Park's Napa Golf Course which requires a certain percentage of the revenue to be allocated to the capital investment account each year to maintain this public asset.

NEEDS BASED ASSISTANCE

The Department ensures that services are accessible to residents who may require financial assistance to access or participate in parks and recreation services. The Department will appropriate funds fairly and equitably to support persons in financial need, with a focus on low-income households earning less than 50% of the area median income (AMI) for Napa. Funding will be made available in a manner that provides reduced rates or financial assistance to the neediest individuals and families as well as provide equitable subsidies across the system.

As part of the annual budget process, the Department will appropriate funds to its scholarship/reduced rate fund. The amount of the appropriate will be calculated based on annual projected financial aid needs, award thresholds, and anticipated total population needing to be served based upon previous year's requests and results of a needs quantification system (e.g. HUD Poverty Guidelines, individual's/family's location of residence, enrollment in local Social Services such as WIC, participation in state programs such as CalFresh or CalWORKS, etc.).

Needs based assistance awards will vary based upon the financial support requested on behalf of each individual and/or family who applies for assistance.

CAPITAL INVESTMENT BASED UPON CONDITION & EQUITY CRITERIA

Park and recreation infrastructure and physical assets are financial liabilities and expenses assumed by the City of Napa and taxpayers. These assets are fundamental to delivering high quality services that meet the needs and desires of the community and are among the indirect costs associated with service delivery.

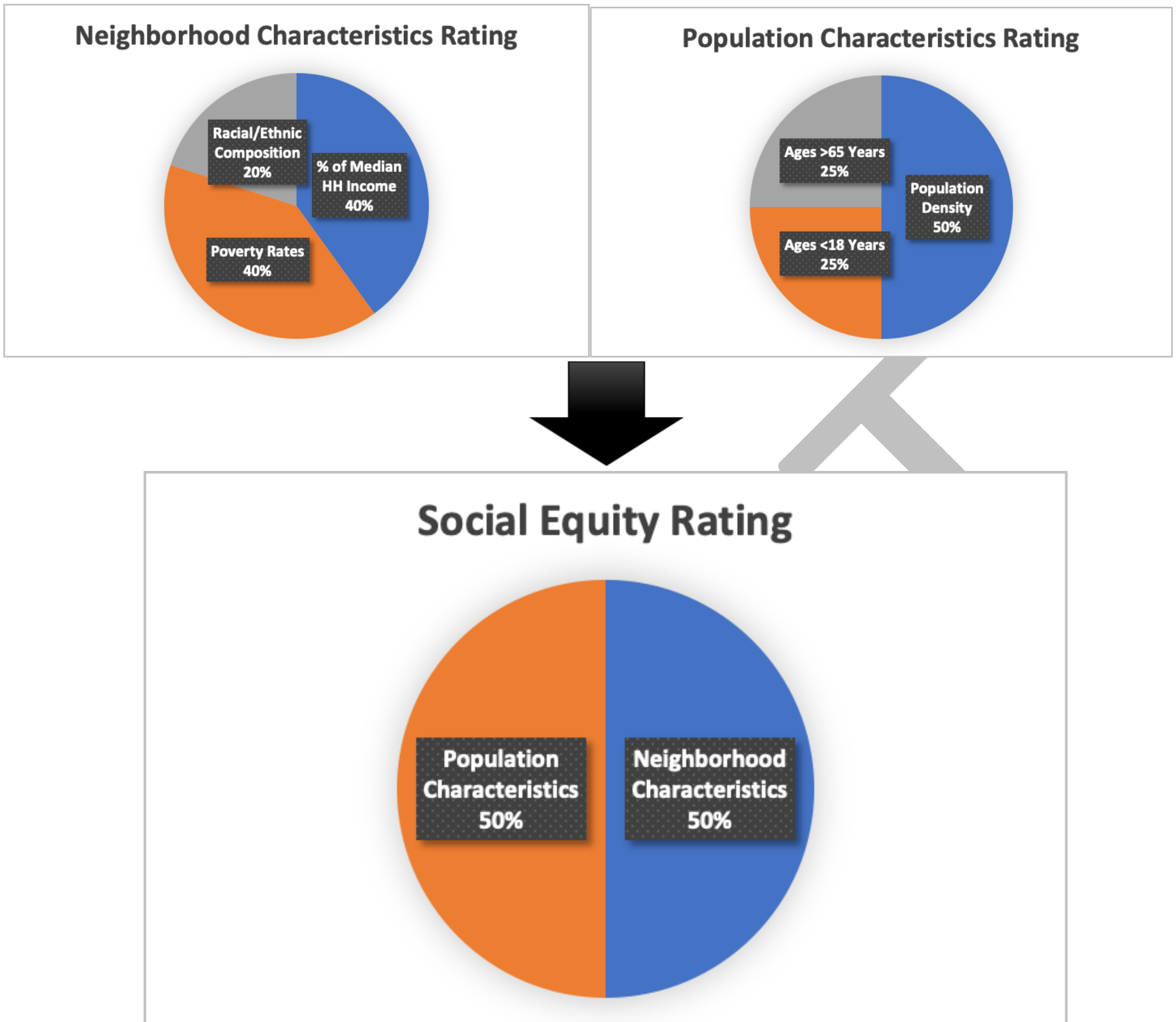
Decisions to invest in infrastructure and physical assets impose a responsibility to provide requisite funds for not only the construction of any new asset, but for necessary investment over the asset's life for preventative, short, and long-term maintenance, rehabilitation, or refurbishment. Therefore, investment decisions will be considered within the context of the City's overall budget capacity and assumed long term liabilities.

Infrastructure investments in the state of California extend beyond traditional construction and maintenance to relevant considerations like clean energy innovations, wildfire management methods and applications, drought resilience response, and social equity interests. In Napa these issues are underscored by way of the City's Climate Emergency Proclamation and Systematic Racism Resolution.

Equity-based criteria direct the prioritization of capital investment by quantifiably evaluating park and recreation assets so that investments are equitably targeted and support City of Napa commitments to address inequities in the community.

Infrastructure and assets that support park and recreation service afforded City of Napa residents and visitors include several category types, such as natural areas and open spaces; community parks and facilities; neighborhood parks; mini parks; special use parks and facilities; civic spaces; landscape assessment districts and trails.

Criteria used to analyze these assets and determine priority-based capital investments include a combination of neighborhood and population characteristics using multiple data sources as well as asset condition characteristics.



<u>Equity Criteria</u>

- Neighborhood characteristics include income; poverty rate; and race/ethnicity.
- Population characteristics include population density; percent of residents within the service area of the asset who are 17 & under; and percent of residents within the service area of the asset who are 65 & over.
- Park access within a 10-minute walk and ease of access by bus line or auto.

<u>Asset Criteria</u>

- Conditional characteristics include park condition, asset's lifespan, and park type.

This Policy serves as an overarching fiscal philosophy guiding how the Department will financially support all services provided including understanding and accounting for the immediate and long-term expenses associated with essential investment in park and recreation infrastructure and physical assets.

SUCCESS METRICS

The following success metrics will be used to evaluate whether or not each service is in compliance with established cost recovery goals (as indicated on the Financial Sustainability Strategy Continuum) as well as other efficiencies and intended outcomes.

Success Metric 1: Financial Viability: a service must meet its minimum tax dollar investment/ cost recovery goal as noted on the Financial Sustainability Strategy Continuum.

Success Metric 2: Operational Efficiency: services should meet 75% or more of capacity (maximum) or realize a minimum increase of 10% usage during each service cycle to ensure efficiency of resource investment *(excludes: events where capacity is difficult to establish).*

Success Metric 3: Participant/Customer Satisfaction: overall participant (customer) satisfaction must meet a minimum of 85% satisfaction or higher *(per user surveys and evaluations).*

Success Metric 4: Participant/Customer Impact: alignment with service goals – impact on social connections, increases in activity levels, impacts on quality of life/public health, etc. *(per user surveys and evaluations).*

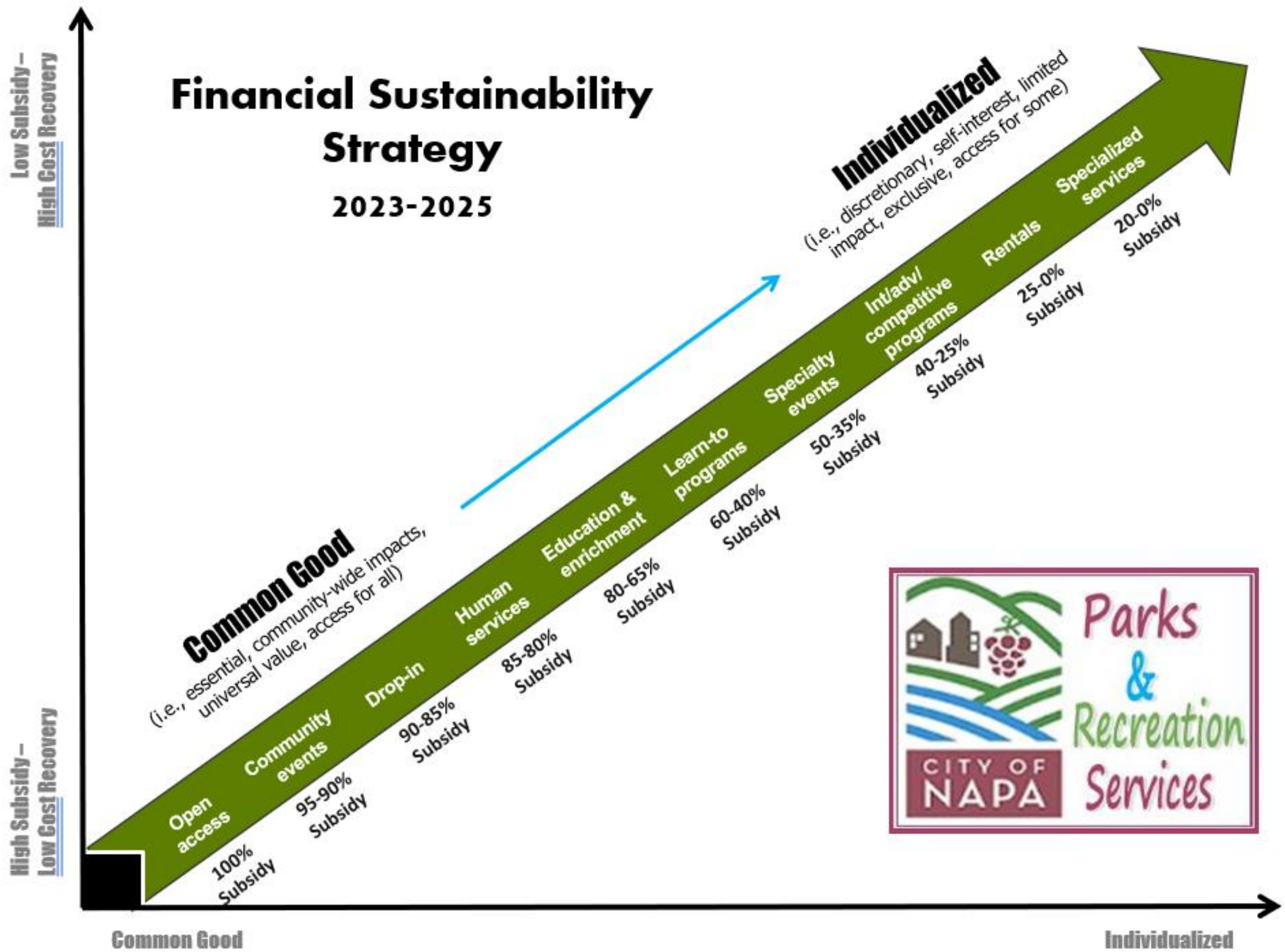
Success Metric 5: Social Equity Targets for Capital Expenditures: over a two-year CIP budget cycle, invest 50% or more of capital projects in parks identified as high priority on the Social Equity scale (i.e. receiving a Social Equity score of less than three).

Success Metric 6: Social Equity Targets for Recreational Services: over each operating year, allocate 50% of financial subsidies to program budgets that serve low-income households earning less than 50% of Napa's AMI.

In the event the above success metrics are not being met, the following outlines actions the Department may take to address gaps between current performance and success metrics.

1. Analyze success metrics for services not meeting their cost recovery goal.
2. Analyze direct and indirect costs of providing service.
    a. Measure ratio of direct and indirect cost.
    b. Identify cost reduction opportunities and implement.
3. Suggest market increase commensurate with cost recovery goal.
    a. Conduct market analysis of service.
    b. Identify opportunities for capturing larger market.
4. Identify potential sponsorship or donation opportunities.
5. Identify potential partnership opportunities to continue to provide a service, however, in collaboration with another provider, reducing impacts on and dilution of Department resources, avoiding unnecessary duplication of service, and responsibly utilizing finite taxpayer resources.
6. If services do not satisfy success metrics, consider divestment of service at end of a three-year strategy term or sooner.

7. If overall capital project investments do not meet social equity targets, analyze opportunities to increase the percentage of social equity target projects in the next two-year CIP budget cycle
8. If social equity targets for recreational services are not being met, adjust, or add service offerings that serve low-income households earning less than 50% of Napa's AMI.


Financial Sustainability Strategy
2023-2025
Low Subsidy – High Cost Recovery
High Subsidy – Low Cost Recovery
Common Good
(i.e., essential, community-wide impacts, universal value, access for all)
Individualized
(i.e., discretionary, self-interest, limited impact, exclusive, access for some)
Open access
100% Subsidy
Community events
95-90% Subsidy
Drop-in
90-85% Subsidy
Human services
85-80% Subsidy
Education & enrichment
80-65% Subsidy
Learn-to programs
60-40% Subsidy
Specialty events
50-35% Subsidy
Int/adv/ competitive programs
40-25% Subsidy
Rentals
25-0% Subsidy
Specialized services
20-0% Subsidy
CITY OF NAPA
Parks & Recreation Services
Common Good
Individualized

FINANCIAL SUSTAINABILITY STRATEGY – Appendix A
FINANCE-CENTRIC DEFINITIONS – Appendix B

Ability to Pay: Derived from the economics principle suggesting that those who have more financial resources (wealth) or earn higher incomes should pay more taxes. Relative to municipal park and recreation services, this can be translated to the ability to pay for direct service based on an individual's financial circumstances.

Alternative Funding: Other ways to improve cost recovery in addition to fees and charges. May include grants, sponsorships, donations, volunteer programs, etc.

Benefit: The degree to which programs and services positively impact the public (individual and community), or in other words, the impact of services.

Budget: An estimation of revenue and expenses over a specified future period of time; usually compiled and re-evaluated on a periodic basis.

Capacity: The number of available spaces or the occupancy rate of a service. Also referred to as service maximum.

Collaborate: The process of two or more people or organizations working together to complete a task or achieve a goal.

Cost Recovery: The degree to which the cost (direct and indirect) of facilities, services and programs is supported or paid for by user fees and/or other designated funding mechanism such as grants, partnerships, etc. versus the use of tax subsidies.

Direct Cost: Cost incurred that can be traced directly to provision of a service. This cost would not be incurred if the service ceased. This includes fixed and variable costs.

Donation: A gift, grant, or contribution with no expected exchange or reciprocity. Typically done as "good will".

Exclusive Use: Scheduled, planned, or programmed use of a facility or space that is limited or restricted to a reserved or rented party. They have the right to the space for the specified period while others are excluded from using the facility or space.

Fee/Price: The amount charged to the customer for an activity or service.

Financial Management: The planning, directing, monitoring, organizing, and controlling of monetary resources.

Full Cost: The total cost associated with an activity or service.

Grant: A bounty, contribution, gift, or subsidy bestowed by a government or other organization (grantor) for specified purposes to an eligible recipient (grantee) and conditional upon certain qualifications as to use, maintenance of standards, or proportional contribution by the grantee.

Indirect Cost: Cost incurred with or without provision of a service. These costs are not traceable to a specific service and can benefit the system as a whole (do not directly benefit a single service).

Needs Quantification: Numerically expressing need through the application of a scoring system that quantifies whether an individual or family qualifies for financial assistance (e.g., applying a scoring system to HUD Poverty Guidelines, location of residence, school free lunch program qualification and other relevant variables).

Non-resident: A person or household whose primary residence is outside of the organization's (jurisdiction's) service area and does not pay property taxes to the organization (jurisdiction).

Participant/Guest/User/Visitor: The individual who participates in an activity, class, course, event, etc.

Participants/Guests/Users/Visitors: The total number of individuals who participate in an activity, class, course, event, etc.

Participations: The total number of participants multiplied times the total number of hours an activity, class, course, event, etc. meets.

Partnership: An advantageous collaboration that positions two or more participating organizations with common missions to efficiently utilize resources leading shared profits/losses and reciprocal benefit.

Price/Fee: The amount charged to the customer for an activity or service.

Profit/Excess Revenues: Additional revenue generated when revenues exceed costs or expenditures.

Program: A common label in the field of parks and recreation for recreation services such as activities, course, classes, and events.

Resident: A person or household whose primary residence is within an organization's (jurisdiction's) service area and who do pay property taxes to the organization (jurisdiction).

Scholarship: A waiver provided to create access to services for those in in need of financial assistance.

Sponsorship: The act of supporting a person, organization, or activity by giving money in either in-kind or cash form. Typically done with an expectation for some type of "exchange".

Subsidy: Funding through taxes or other mechanisms that are used to financially support programs or services provided to users and participants. Subsidy dollars provide for the program or service costs (direct and/or indirect) that are not covered by user or participant fees, or other forms of alternative funding. This is the community's financial investment (i.e., taxes).

Success Metrics: Performance measures are quantifiable evaluations of the organization's performance on a pre-determined set of criteria measured over time. The agreement upon standard performance measures allows the organization to judge its progress over time (internal benchmarking) and identify areas of strength, weakness, and potential for improvement.

Total Cost of Service: The cost to provide a service including both direct and indirect costs.

Willingness to Pay (WTP): The maximum amount an individual is willing to give to procure a product or service. The price of the transaction will thus be at a point somewhere between an individual's willingness to pay and the seller's willingness to accept. Macro environmental factors such as the overall state of the economy can influence willingness to pay.