



**Office of the City Auditor**

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**Report to the City Council  
City of San José**

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**PRNS FEE ACTIVITIES: THE  
DEPARTMENT CAN  
BETTER REFLECT THE  
CITY'S GOALS FOR  
TRACKING AND  
RECOVERING COSTS,  
SETTING FEES, AND  
PROMOTING AFFORDABLE  
ACCESS**

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**Report 15-05  
May 2015**

May 7, 2015

Honorable Mayor and Members  
Of the City Council  
200 East Santa Clara Street  
San José, CA 95113

**PRNS Fee Activity Program: The Department Can Better Reflect the City's Goals for Tracking and Recovering Costs, Setting Fees, and Promoting Affordable Access**

San José's Department of Parks, Recreation and Neighborhood Services (PRNS) provides a variety of programs, including recreation classes in diverse program areas like pre-school, dance, music, health and fitness, gymnastics, and theater. The purpose of our audit was to review the calculation and cost-recovery status of the department's General Fund Fee Activity Program which includes many of these classes.

**Finding 1: The Administration Should Reassess the Purpose and Composition of the Fee Activity Program.** Over the years, the Fee Activity Program has served as a budgetary tool for flexibly allocating resources to provide recreation services and collecting corresponding user fees. Established with the intent to operate like an enterprise fund in that the services are supposed to be funded by user fees, it has also become an important way to sustain some services that, if outside the Fee Activity Program, may not have survived years of budget shortfalls. However, we found aspects of the Fee Activity Program that complicate cost tracking and obscure cost-recovery. Specifically, we found: (1) Overhead costs are not included in the reporting of program expenses and cost-recovery, (2) Some recreation programs' revenues and expenses are not neatly contained within the Fee Activity Program, and (3) Some staffing expenses associated with Fee Activity were not included in the Program, and the same was true of some revenue. For various reasons, the Fee Activity Program's composition has changed over time. We recommend PRNS work with the City Manager's Budget Office to reassess the purpose of the Fee Activity Program, more clearly link revenues and expenses to their respective programs, and determine which activities should be included in the Fee Activity Program.

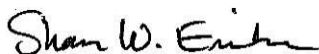
**Finding 2: PRNS Should Improve Fee-Setting and Track Cost-Recovery for Individual Recreation Classes.** The City's *Pricing and Revenue Policy* (Council Policy 1-21) tasks PRNS with setting cost-recovery goals for services depending on whether the services offer "public," "merit," or "private" benefits to the community. These benefit categories and graduated cost-recovery targets have not been assigned to individual recreation classes. In addition, some apparently private benefit recreation classes, which are intended to be cost-recovery, were not covering total costs. Reasons for this include the significant costs of employee fringe benefits and overhead, and low enrollments. Furthermore, because PRNS provides services in a competitive marketplace, we recommend the department formally consider market pricing in the class proposal process, and improve development of new class pricing to better address market factors. We also recommend PRNS revise its fee-setting

form, track cost-recovery for its individual recreation classes, and establish a process to periodically update its fee-setting assumptions.

**Finding 3: PRNS Should Continue Its Efforts to Promote Affordable Access.** PRNS is working on a redesign of its Citywide Scholarship Program to make it easier for customers to apply for and use scholarship funds. A complicated process, delays in approval, and lack of program awareness may be limiting customers' use of scholarships. In addition, there are overly strict limits on the amount of money awarded to each scholarship recipient and on what classes the scholarship may be used. We recommend PRNS continue its efforts in simplifying and standardizing its application processes. In addition, to promote affordable access to its recreation programs, we recommend the department restructure its award amounts, and improve the visibility of scholarship opportunities.

This report includes 6 recommendations. We will present this report at the May 14, 2015 meeting of the City Council's Neighborhood Services and Education Committee. We would like to thank the Department of Parks, Recreation, and Neighborhood Services for their time and insight during the audit process. The Administration has reviewed this report and its response is shown on the yellow pages attached.

Respectfully submitted,



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# Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2014-15 Work Plan, we have completed an audit of the Fee Activity Program within the Department of Parks, Recreation and Neighborhood Services.

We conducted this performance audit in accordance with 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 limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

We would like to thank staff members at the Department of Parks, Recreation and Neighborhood Services for their time and insight during the audit process.

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## Background

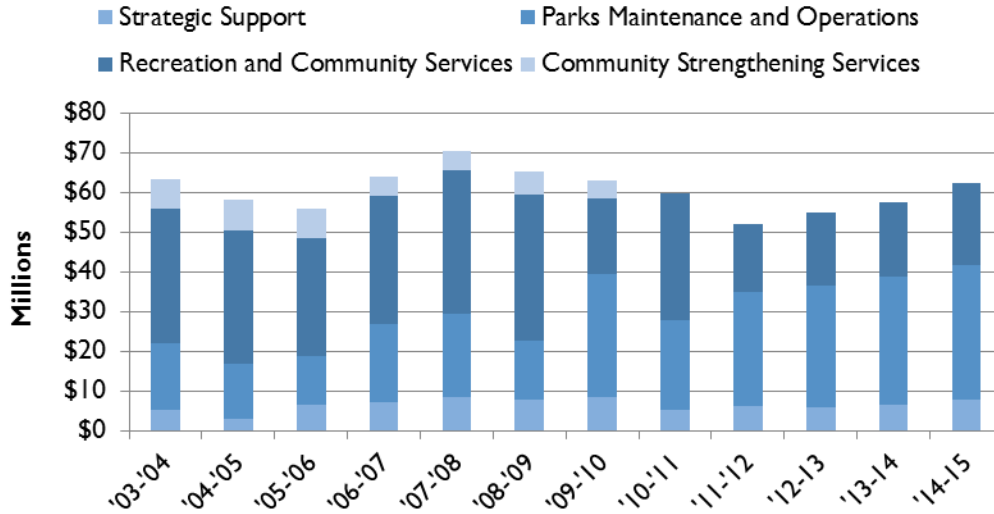
Residing in the City's Neighborhood Services City Service Area, the Department of Parks, Recreation and Neighborhood Services (PRNS) seeks "to build healthy communities through people, parks and programs." PRNS has three core services:

- Parks Maintenance and Operations. Ensuring the proper maintenance and operation of City parks and open space and providing opportunities for City residents and visitors to play, learn, and socialize.
- Recreation and Community Services. Through recreation, promote play and health, strengthen communities and enrich lives.
- Strategic Support. Budget and Fiscal Management Services, Network and Computer Services, Park Planning and Development, Marketing and Public Information, and Contracting Services.

**PRNS Budget and Staffing**

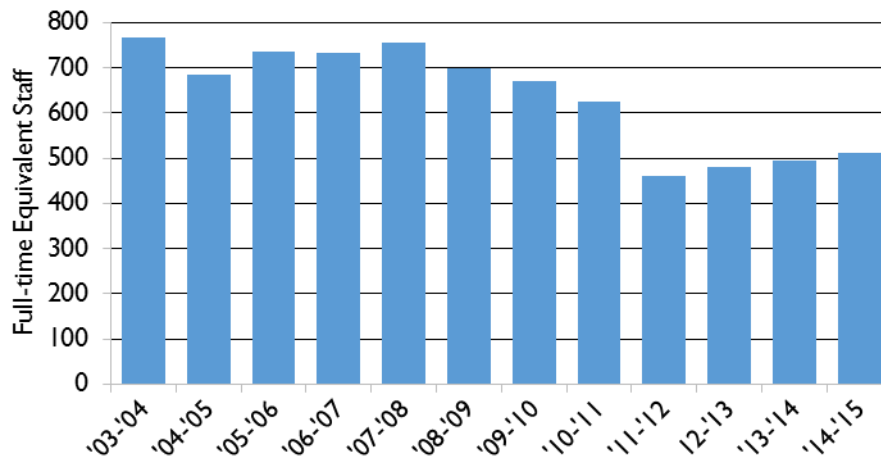
In FY 2013-14, PRNS’ departmental operating expenditures totaled \$58 million.<sup>1</sup> Staffing totaled 494 authorized positions. The following exhibits outline department-wide operating budgets and staffing.

**Exhibit I: PRNS Operating Budget**



Source: Adopted Operating Budget. Note: Beginning in FY 2010-11 the “Community Strengthening Services” division was eliminated.

**Exhibit 2: PRNS Staffing (Authorized Full-time Equivalents)**



Source: Adopted Operating Budgets

<sup>1</sup> Does not include citywide expenditures or funding for the “Brining Everyone’s Strengths Together” Program (BEST).



As shown in Exhibits 1 and 2, PRNS has seen significant reductions in staffing over the years. Staffing in FY 2013-14 is about a third lower than it was in FY 2008-09.

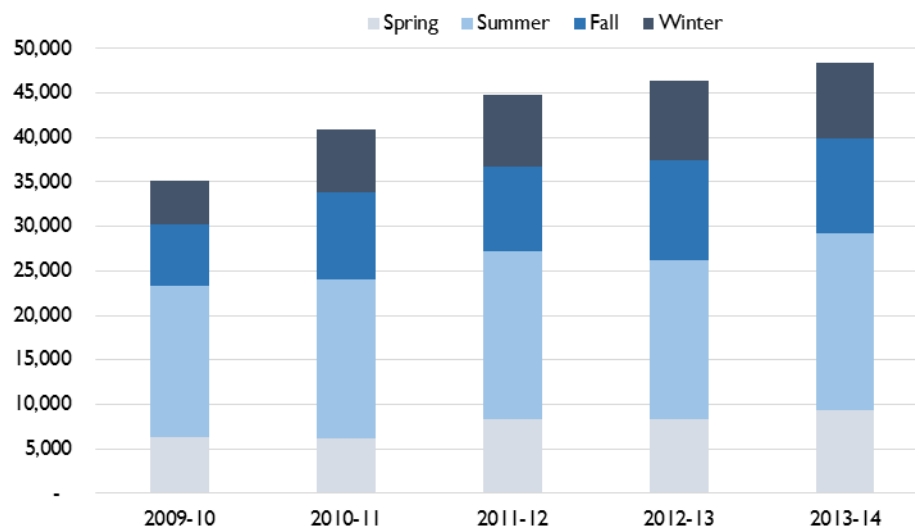
### PRNS Administers Recreation Classes

PRNS offers recreation classes at various sites throughout the City. Offerings are diverse, and include program areas like pre-school, dance, music, health and fitness, gymnastics, and theater. Seasonal brochures (spring, summer, fall, and winter), and the departmental website contain descriptions of recreation offerings, as well as where and when they are held.

Members of the public can register for recreation classes via the web or in-person at the various sites. The recreation classes are administered by the Parks Maintenance and Operations Division and the Recreation and Community Services Division, while the department's Strategic Support team is instrumental in assisting in budgeting and other analytical and administrative roles.

With total enrollment reaching nearly 50,000, FY 2013-14 saw an increased enrollment from prior years as shown in Exhibit 3.

### Exhibit 3: Enrollment in Recreation Classes Over Recent Years

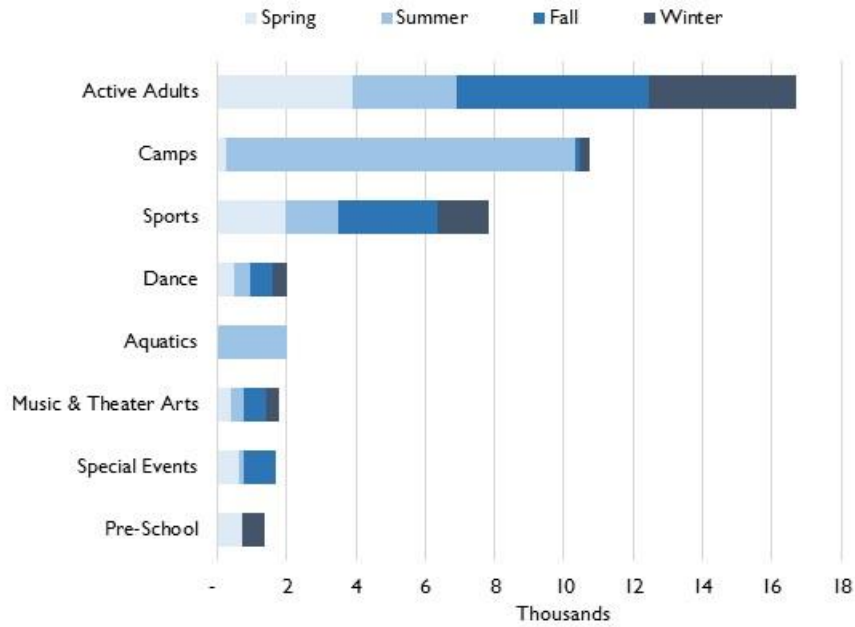


Source: Auditor analysis of data recorded in PRNS' registration database.

Note: FY 2009-10 may be low due to PRNS offering limited online class registrations through their registration database.

Enrollment in recreation classes varies by season and by the type of class. Exhibit 4 details the number of people enrolled in PRNS' top recreation classes by season and recreation category. Customers registered in "active adult" and camp offerings accounted for over half of the City's enrollment.

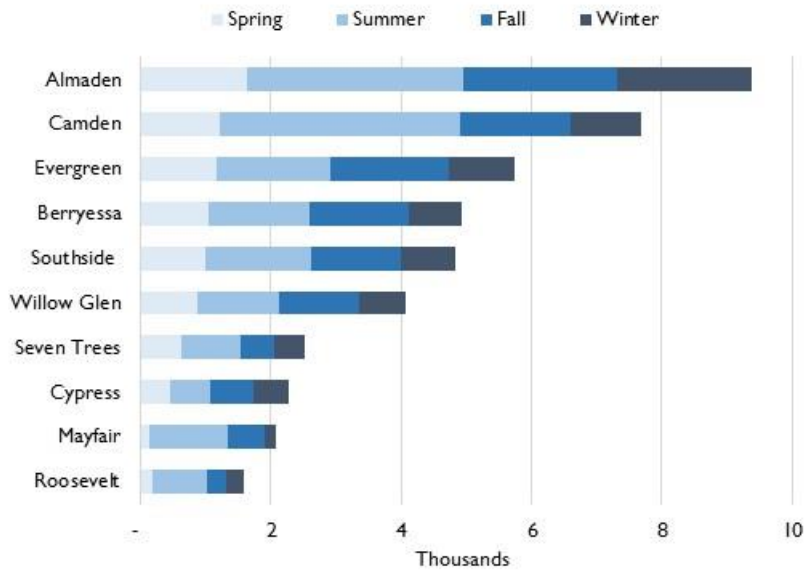
**Exhibit 4: Enrollment in Recreation Classes by Activity Category (Calendar Year 2014)**



Source: Auditor analysis of data recorded in PRNS' registration database.

Enrollment varies across the different activity sites. As shown in Exhibit 5, Almaden and Camden community centers saw over a third of all the City's recreation enrollment in calendar year 2014.

**Exhibit 5: Enrollment in Recreation Classes by Site (Calendar Year 2014)**



Source: Auditor analysis of data recorded in PRNS' registration database.

In addition to hosting recreation classes, PRNS' various public facilities also support other community uses by individual members of the public and partnering organizations.

### **The Pricing and Revenue Policy Provides PRNS Guidance in Setting Fees**

Though PRNS is primarily supported by the General Fund, the department collects a variety of fees for its various programs. In 2009, in response to tightening budget constraints, the department sought and received approval for implementing the *Pricing and Revenue Policy* (Council Policy 1-21). The Policy, which is provided in Appendix A, outlines six guiding principles:

1. Prioritizing the subsidy level of its recreation offerings,
2. Calculating cost of services,
3. Determining cost-recovery goals,
4. Ensuring affordable access,
5. Creating revenue strategies, and
6. Engaging community.

### **PRNS Has Different Cost-Recovery Goals Depending on Type of Service**

PRNS submits its projected cost of services and cost-recovery goals for the subsequent fiscal year during the annual budget process. These are contained in the departmental section of the City's annual *Fees and Charges Report*, which is considered and approved by the City Council through the annual operating budget process.

The more revenues PRNS collects relative to expenses, the less reliant the department is on the General Fund. Accordingly, the department has pursued strategies for increasing net revenues. User fees and charges are a significant portion of general fund revenue for PRNS. Revenue from departmental fees and charges has more than doubled between FYs 2008-09 and 2013-14, growing from \$7 million to \$16.6 million.<sup>2</sup>

The cost-recovery goals for individual programs are based on their perceived public benefit. As the perceived public benefit increases, the expectation of recovering full costs decreases and more of the expense is subsidized by the General Fund. In descending order of public benefit, the categories PRNS has developed are "public," "merit," or "private" services. Council Policy 1-21 specifies the following:

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<sup>2</sup> In addition to user fees and charges, PRNS' revenues to the General Fund are diverse and include: grants from government agencies, rental income, and inter-fund transfers and reimbursements.

## PRNS Fee Activities

- Public services provide all users the same level of benefit and can be accessed by the broadest cross section of the population; they receive the highest level of subsidization. Examples of public services include clean and accessible public parks and trails.
- Merit services provide benefit to both the community and individual. These programs should follow a cost sharing model between subsidy and a fee to the customer. Some portion of the cost of service should be supported by the user thus lowering the general fund contribution. Examples of merit services include swim lessons and after-school programs for youth.
- Private services provide benefit to the individual, are typically specialized and provide minimal to no benefit to the community. These services should receive a minimal subsidization (if any) and the fee to participate is the responsibility of the user/customer. Examples of private services include facility rentals, language classes, and golf.

Exhibit 6 shows the cost-recovery goals for the PRNS programs that are considered by the City Council annually as part of the Fees and Charges resolution. As outlined in Exhibit 6, fee activities include “merit” and “private” benefit classes that, as a whole, are intended to achieve full cost-recovery.

### Exhibit 6: PRNS Fees and Charges Cost-Recovery Goals and Estimates

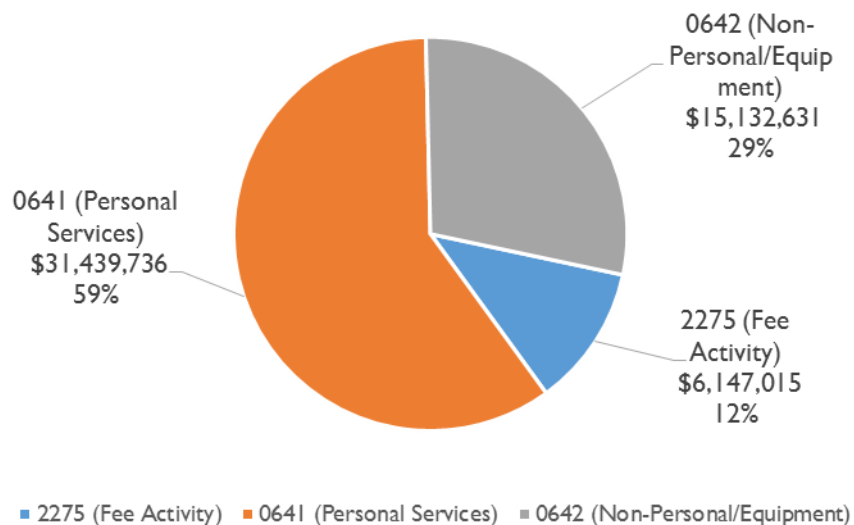
Program	Level of Benefit	PRNS Cost-Recovery Goal	2013-2014 Cost Recovery Estimates	2014-2015 Cost-Recovery Estimates
Anti-Graffiti (Public Property)	Public	N/A	N/A	N/A
Aquatics	Merit	50%	39%	25%
Concessions	Private	100%	64%	80%
Family Camp	Private	100%	79%	65%
<b>Fee Activities</b>	<b>Merit - Private</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Fitness and Drop-in Programs	Merit - Private	65%	54%	58%
Happy Hollow Park and Zoo	Merit - Private	100%	82%	84%
Lake Cunningham Skate Park	Private	100%	100%	100%
Park Permits	Merit - Private	100%	96%	41%
Parking	Private	195%	209%	238%
Lake Cunningham Parking	Private	375%	548%	631%
Rentals and Reservations	Private	100%	100%	100%
Surcharges/Admin Fees	Merit - Private	100%	99%	98%

Source: FY 2014-15 Fees and Charges Report

### Fee Activity Is One of Three PRNS Budget Appropriations

As shown in Exhibit 7, the Fee Activity Program (appropriation 2275) is one of three expense appropriations used in the PRNS Operating Budget.

#### Exhibit 7: PRNS Budget Actuals by Appropriation (FY 2013-14)



Source: Financial Management System (FMS)

The focus of this audit is “fee activities” — PRNS’ recreation classes that are budgeted through the Fee Activity Program within the General Fund. Unlike the department’s other General Fund appropriations, which are divided between Personal Services (appropriation 0641) and Non-Personal/Equipment (appropriation 0642), the Fee Activity Program is used for both personal and non-personal expenses. This flexibility allows PRNS to choose between using a City employee to lead a fee activity class, or an instructor from an outside vendor.

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### Audit Objective, Scope, and Methodology

The objective of this audit was to review the calculation and cost-recovery status of the department’s General Fund Fee Activity Program. We conducted this audit to clarify the uses of the Fee Activity Program and to review what is or is not included within the program. The following outlines the work performed in support of the audit objective.

To review PRNS revenues and expenses, we:

- Compiled, summarized, and reviewed current and past departmental revenues and expenses by program and category.
- Reviewed PRNS' accounting for revenues and expenses inside and outside the Fee Activity Program.

To assess internal controls around registration, billing, payment, and collection procedures, we:

- Interviewed staff at PRNS' Business Unit, Strategic Support team, and program staff at several community center hubs.
- Reviewed registration and payment transactions at a community center.
- Reviewed and ran reports from the online registration and payment database.
- Reviewed the contract between the City and the provider of the online registration and payment database.
- Reviewed the online registration and payment database for Fee Activity transactions, and the corresponding entries in the City's financial management system.

To assess PRNS' pricing and cost-recovery performance, we:

- Reviewed PRNS' pricing policy and strategy.
- Reviewed current and past Fees and Charges reports.
- Evaluated PRNS' cost-recovery reporting for its Fee Activity Program.
- Reviewed the impact of PRNS' cost-recovery policies.
- Interviewed and surveyed recreation staff at other local government agencies.
- Reviewed contracts between PRNS and various vendors that provide recreation classes.
- Inventoried and reviewed scholarship offerings, terms, awards, and fund balances.

To determine how the City budgets for PRNS' Fee Activity Program, we:

- Reviewed projected vs. realized PRNS revenues for FY 2013-14, as well as past and present mid-year budget proposals.
- Interviewed PRNS strategic support staff and staff of the City Manager's Budget Office.
- Reviewed PRNS' internal budget processes and documents.

# **Finding I      The Administration Should Reassess the Purpose and Composition of the Fee Activity Program**

## **Summary**

Over the years, the Fee Activity Program has served as a budgetary tool for flexibly allocating resources to provide recreation services and collecting corresponding user fees. It has also become an important way to sustain some services that, if outside the Fee Activity Program, may not have survived years of budget shortfalls. However, we found aspects of the Fee Activity Program that complicate cost tracking and obscure cost-recovery. Specifically, we found:

- Overhead costs are not included in the reporting of program expenses and cost-recovery,
- Some recreation programs' revenues and expenses are not neatly contained within the Fee Activity Program, and
- Some staffing expenses associated with Fee Activity were not included in the Program, and the same was true of some revenue.

For various reasons, the Fee Activity Program's composition has changed over time. We recommend PRNS work with the City Manager's Budget Office to reassess the purpose of the Fee Activity Program, more clearly link revenues and expenses to their respective programs, and determine which activities should be included in the Fee Activity Program.

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## **The Fee Activity Program Facilitates the Delivery of Recreation Services**

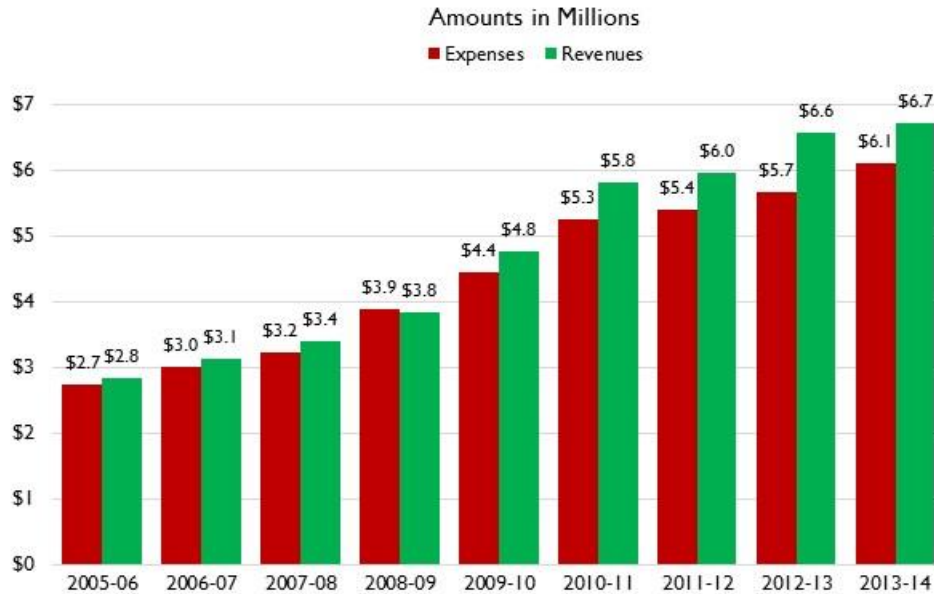
Fee activities include the full spectrum of PRNS' recreation offerings. As stated in the background section of this audit, these include diverse program areas such as pre-school, dance, music, health and fitness, gymnastics, and theater. The Fee Activity Program is intended to operate like an enterprise fund where resources are allocated to provide these services, and user fees are collected to offset the costs of providing the services. As such, expenses from delivering fee activity services should correspond to revenue collected for these activities.

**Fee Activity Program Revenues and Expenditures**

As stated earlier in the background section of this audit, the Fee Activity Program is intended to generate sufficient revenues to cover all costs but, in practice, only covers direct costs. Since FY 2009-10, PRNS has reported that the Fee Activity Program has exceeded 100 percent cost-recovery for direct costs.

Exhibit 8 summarizes the revenue and expense recorded in the Fee Activity Program. For FY 2013-14, the Fee Activity Program recorded \$6.7 million in fees and charges revenue, and \$6.1 million in expenses.<sup>3</sup> Fee activity revenue and expenses, as recorded in the City’s financial management system (FMS), have increased substantially over the years.

**Exhibit 8: Expenses and Revenues Recorded in the Fee Activity Program (FYs 2005-06 through 2013-14)**



Source: Financial Management System (FMS) and PRNS

See Appendix C for a breakdown of expenses and revenues recorded in the Fee Activity Program in FY 2013-14.

<sup>3</sup> As of the January 2015 (midway through FY 2014-15), \$5 million in revenues and \$4 million in direct expenses had been recorded in FMS. Not all mid-year revenues and expenses had been realized.



### **Varying Cost-Recovery Levels Within the Fee Activity Program**

PRNS generally seeks to generate sufficient revenue to cover costs for Fee Activity, but does not necessarily seek full cost-recovery on individual classes or programs within the Fee Activity Program.

Within the Fee Activity Program, there are certain categories of programs for which revenues fall short of expenses. According to PRNS, this aspect of the Fee Activity Program is important to the department's efforts to sustain the diversity of services it has offered throughout the years. For instance, some fee activities, like therapeutics,<sup>4</sup> generate relatively low net revenues, but that is offset by other programs, like the Recreation of City Kids afterschool program (R.O.C.K.), which nets higher revenues.

Some scenarios result in uneven revenue-to-expense ratios within the Fee Activity Program. For instance, actual net revenues generated from running a class with few participants, could be substantially lower than those generated from a large special event. In this way, the one-to-one revenue-to-expense alignment varies dramatically across the myriad classes within the Fee Activity Program.

### **Mid-Year Budget Adjustments Are Based on Revenue to Date**

As part of the City's budget process, PRNS must seek consideration and approval of its operating budget proposals from the City Manager's Budget Office. Major budget actions occur prior to the fiscal year, at mid-year, and at the end of the fiscal year. For the past several years, PRNS has requested increased spending authority to reflect the increases in revenues realized at the mid-year adjustment period.

The mid-year adjustment process for PRNS' Fee Activity Program is complicated because increases in revenues do not necessarily tie to increases in expenses. If mid-year Fee Activity revenues are outpacing previous estimates, the department, as part of the mid-year budget adjustment, may request more spending authority. However, when granted the extra spending authority, PRNS does not necessarily use it to the specific program that drove the increase in revenue. The department may use the extra spending authority on another program within the Fee Activity Program. Increases in one program's revenue may be used in another program within the Fee Activity Program.

When requesting mid-year adjustments, PRNS provides revenue information, including a revenue forecast based on year-to-date revenue, but does not provide detail on where spending authority will be used. In our opinion, PRNS should

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<sup>4</sup> Therapeutic services provides recreation, education, and community services to enrich the quality of life for individuals with disabilities.

provide explanations about which programs within the Fee Activity Program will be funded using its increased spending authority.

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**Calculating the Full Cost of Activities Is a Key Objective of the Pricing and Revenue Policy**

As described in the background section of this report, one of the guiding principles of the *Pricing and Revenue Policy* (Council Policy 1-21) is “calculating costs.” According to Council Policy 1-21,

*“PRNS shall collect cost of service data to determine the actual cost per unit of specific services, including direct and indirect costs. Direct costs are exclusively attributed to a program or service and include salaries for staff directly providing the service, supplies and materials. Indirect costs are attributed to more than one program and can include supervisor salaries, maintenance, utilities, leases, equipment replacement, and technology.”*

PRNS has not generally recognized indirect costs in its reporting of program expenses and cost-recovery. Recognizing these costs entails precisely determining the share of costs attributable to the Fee Activity Program, or applying the indirect cost allocation rates issued by the City’s Finance Department to the Fee Activity Program’s direct labor costs. Determining indirect costs is a key component of Council Policy 1-21. Furthermore, in our opinion, it is important for the City to understand the full cost of the services it provides.

Calculating full costs also requires PRNS to completely, accurately, and consistently identify and categorize revenues and expenses as being part of the Fee Activity Program. The following section outlines ways that PRNS may not be identifying all direct costs associated with the Fee Activity Program.

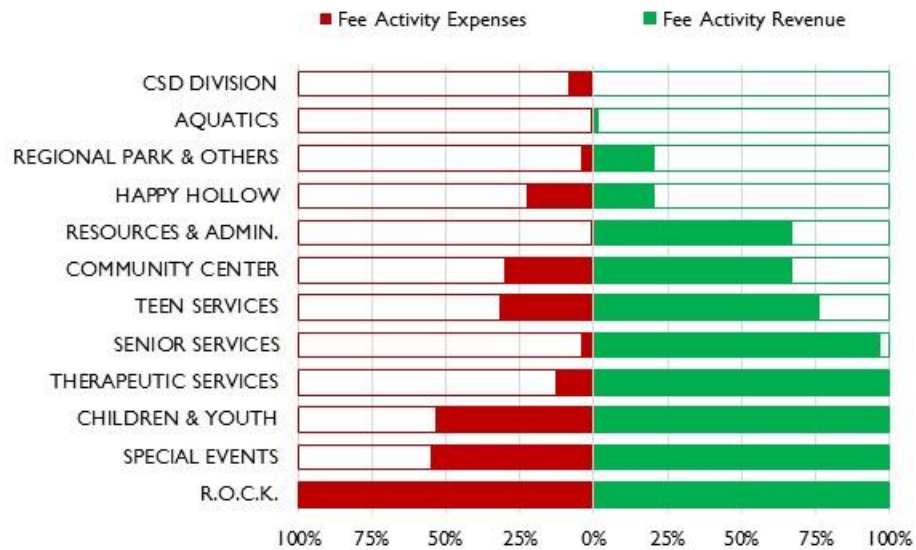
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**Some Recreation Programs’ Revenues and Expenses Are not Neatly Contained Within the Fee Activity Program**

A complicating factor in calculating Fee Activity-specific expenses is that there is significant “cross-over” of items between the Fee Activity Program and the department’s other programs. For example, in FY 2013-14, about 20 percent of the Happy Hollow Park & Zoo program revenues and expenditures were recorded in the Fee Activity Program Fee Activity.

Exhibit 9 shows the permeable nature of the boundaries across PRNS’ budget for Fee Activity.

**Exhibit 9: 2013-14 Percentage of Program Expenses and Revenues That Reside Within the Fee Activity Program**



Source: Financial Management System (FMS) and PRNS cost center definitions.

With the exception of the R.O.C.K afterschool program, all of the programs within the Fee Activity Program have expenses that are also partly accounted for elsewhere. Precisely apportioning program expenses to the Fee Activity Program has not been a focus of PRNS, which provides its programs across three different appropriations.

**Some Staffing Costs Associated with Fee Activities Were Excluded From the Fee Activity Program**

City employees and contractors who lead recreation classes are key to providing Fee Activity services. These include Recreation Leaders, Senior Recreation Leaders, Class Instructors and outside vendors that contract with PRNS. In addition, other City employees including Recreation Program Specialists and Recreation Supervisors plan, strategize, prepare, coordinate, review, supervise, and approve fee activities at the community centers and other activity sites where fee activities are run.

In FY 2013-14, about \$3.9 million in personnel costs were charged to the Fee Activity Program to cover the cost of staff serving direct program, analytic, and management roles related to the Fee Activity Program.<sup>5</sup> However, some key Fee Activity Program staff are expensed entirely outside the Fee Activity Program,

<sup>5</sup> In FY 2013-14, PRNS' personnel costs totaled \$46.3 million. About \$19.3 million of that was attributable to sites where classes are offered.

even though portions of their costs are directly attributable to providing fee activities. For example, one Senior Recreation Leader led 959 hours of classes in calendar year 2014. This equates to over \$45,000 in direct personnel costs, none of which was charged to the Fee Activity Program.

We also found that portions of the staff cost from supervising fee activity programming are excluded from the Fee Activity Program. Recreation Supervisors are tasked with planning, organizing, and supervising a staff that deliver recreation programs. In FY 2013-14, none of the over \$1.3 million in direct personnel costs of Recreation Supervisors were charged to the Fee Activity Program.

Similarly, expenses related to management staff from PRNS' Recreation and Community Services, and Parks and Operations divisions, were excluded from the Fee Activity Program, even though several of these staff have direct involvement in running the program. These include Recreation Superintendents and Parks Maintenance Supervisors.

### **Some Revenue Directly Attributed to Fee Activities Was Excluded From the Fee Activity Program**

On the other hand, the Fee Activity Program may not be including all associated revenue. For example, surcharge revenue associated with recreation classes is not included in the Fee Activity Program. Surcharges are a base fee that is charged on most fee activities (most often \$4 for residents and \$8 for non-residents).<sup>6</sup> Surcharge revenue totaled \$153,000 in FY 2013-14. Since this fee is added to leisure classes and collected through the same mechanism by which other fee activity revenue is collected, it would seem logical that this revenue should remain in the Fee Activity Program.

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## **Temporary and Outdated Uses of the Fee Activity Program**

Even if revenues and expenses are precisely apportioned, calculated costs lose significance if the Fee Activity Program is loosely defined. For various reasons, the Fee Activity composition has changed over time. Today, it includes and excludes certain expenses and revenues that, in our opinion, should be re-considered for inclusion in the Fee Activities Program.

### **Portions of the Happy Hollow Park & Zoo Currently Remain in the Fee Activity Program**

Most of Happy Hollow Park & Zoo is budgeted outside the Fee Activity Program; however, a small portion is recorded in the Fee Activity Program. For example,

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<sup>6</sup> Surcharges are not applied to therapeutics and senior activities.

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in FY 2013-14 the following Happy Hollow Park & Zoo programs were included in the Fee Activity Program:

- Picnic Basket Restaurant (revenue \$1,130,639; expense \$1,113,828)
- Zoo education (revenue \$151,125; expense \$144,338)
- Face Painting (revenue \$78,431; expense \$21,333), and
- Vending (revenue \$30,104; expense \$0)

Though these particular Happy Hollow Park & Zoo programs currently reside in the Fee Activity Program, the department considers them as outside Fee Activity when presenting internal financial reports (typically totaled as “Fee Activity w/o HHPZ”).

### **The Fee Activity Program Previously Contained Some Revenues and Expenses Related to Facility Rental Revenue**

Facility rentals were not originally contemplated as part of the Fee Activity Program. According to PRNS, facility rentals were initiated through the Fee Activity Program to accommodate residents’ desire to rent PRNS facilities outside of regular operating hours. Doing so outside the Fee Activity Program would require re-budgeting staff, thus the Fee Activity Program presented an easier method of launching this program quickly.

In FY 2013-14, PRNS saw \$91,000 in rental revenue within the Fee Activity Program. At the end of the fiscal year, PRNS transferred the facility rental program out of Fee Activity after securing additional staff hours through the budget process.

### **The Fee Activity Program Protected Endangered Resources During Budget Cuts**

During budget cuts, PRNS shifted some positions into Fee Activity, which, according to the department, would have been otherwise cut. One example is a Public Information Representative position. Since FY 2008-09, this position, which functions as a webmaster, has been expensed in the Fee Activity Program, even though the webmaster spends a portion of time on duties outside of the Fee Activity Program. In fact, the position functions as the department-wide webmaster. In FY 2013-14, \$100,000 in webmaster personnel expenses – salary and fringe – were expensed within the Fee Activity Program.

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## **The Purpose and Function of the Fee Activity Program Should be Reassessed**

According to PRNS, the flexibility of the Fee Activity Program is crucial to the success of its recreation programs. However, Council Policy I-21, the policy that PRNS follows in setting its user fees, also requires PRNS include all direct and

indirect costs in calculating cost-recovery. PRNS should address these different purposes and create a policy to gauge the purpose and guidelines for how to account for the Fee Activity Program going forward.

With thousands of charge codes, PRNS has the systems in place to track its revenues and expenses, and calculate cost-recovery accurately. Calculating the cost of delivering fee activities is important if the intention of the program is to achieve 100 percent cost-recovery. However, this goal is a policy choice and PRNS should reconcile its desire to achieve 100 percent cost-recovery, with the requirement that it include all direct and indirect costs associated with the Fee Activity Program.

**Recommendation #1: PRNS should work with the Budget Office to:**

- a) Reassess the purpose of the Fee Activity Program (including cost-recovery targets),**
- b) Provide reasonable justification for mid-year expenditure requests,**
- c) More clearly link revenues and expenses to their respective programs, and**
- d) Determine which activities should be included in the Fee Activity Program.**

## **Finding 2 PRNS Should Improve Fee-Setting and Track Cost-Recovery for Individual Recreation Classes**

### **Summary**

The City's *Pricing and Revenue Policy* (Council Policy 1-21) tasks PRNS with setting cost-recovery goals for services depending on whether the services offer "public," "merit," or "private" benefits to the community. These benefit categories and graduated cost-recovery targets have not been assigned to individual recreation classes. In addition, some apparently private benefit classes were not covering total costs. Reasons for this include the significant costs of employee fringe benefits and overhead, and low enrollments. Furthermore, because PRNS provides services in a competitive marketplace, we recommend the department formally consider market pricing in the class proposal process, and improve development of new class pricing to better address market factors. We also recommend PRNS revise its fee-setting form, track cost-recovery for its individual recreation classes, and establish a process to periodically update its fee-setting assumptions.

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### **The Pricing and Revenue Policy Requires Establishment of Cost-Recovery Goals**

Per Council Policy 1-21, PRNS shall set *"user fees and pricing strategies in accordance with annual City Council approved cost-recovery percentage goals."* The fee-setting process is critical to achieving cost-recovery at the individual class level and at the overall Fee Activity Program level.

### **PRNS Should Identify the Level of Public Benefit in Setting Fees**

As pointed out in the background section, some fee activities that are deemed to offer a "merit" benefit are expected to be subsidized by the General Fund, while fee revenue from other activities that are determined to offer only a "private" benefit are expected to fully cover costs. While the Fee Activity Program is expected to attain 100 percent cost-recovery, not every individual program or class is expected to fully recover costs. Council Policy 1-21 stipulates: *"...PRNS shall prioritize the subsidization and funding of programs. To determine the percentage of subsidy allocated, Public, Merit and Private categories will be used to identify the level of community/public or individual/private benefit a user receives."*

While PRNS assigns benefit categories at a broad program level, the department does not formally assign individual classes to "merit" or "private" categories, nor does it have a process for doing so.

**Some Apparently “Private Benefit” Classes Were not Covering All Direct and Indirect Costs**

As stated earlier, Policy 1-21 outlines direct and indirect costs as the basis for calculating total cost and cost-recovery; however, as discussed later in this finding, PRNS’ fee-setting process for individual classes considers direct costs of salaries, supplies, materials, and transportation, plus 35 percent in consideration of some overhead costs. The process does not require consideration of the significant costs of fringe benefits, nor does it consider current costs of overhead.

When looking at the individual class level, and considering total cost, PRNS has not always accomplished the aforementioned objectives of cost-recovery. We found numerous examples of classes that seemingly qualify as private benefit classes that fell short of generating enough revenue to cover costs. Exhibit 10 shows three examples with our cost-recovery calculations.

**Exhibit 10: Examples of “Private Benefit” Classes That Did not Recover Costs**

Class Description	A	B	C	D	E	F	G	H	I
	Total Enrollment  Actuals from Registration	Fee  Actuals from Registration	Fee Revenue  A*B	Instruction Hours  Actuals from Registration	Hourly Wage  Actuals from Payroll	Hourly Fringe  Actuals from Payroll	Indirect Costs per Hour Actual 2014-15 overhead rates * E	Total Cost  D*(E+F+G)	Total Cost-Recovery Rate  C/G
Farm Art (Summer 2014)	1	\$25.00	\$25.00	2.0	\$23.46	\$24.65	\$25.49	\$147.20	17.0%
Insect World (Spring 2014)	4	\$15.00	\$60.00	1.0	\$23.46	\$24.65	\$25.49	\$73.60	81.5%
Square Dancing (Fall 2014)	14	\$34.00	\$476.00	12.0	\$19.06	\$0.72	\$20.71	\$485.85	98.0%

Source: Compiled by audit team from PRNS’ registration database, PeopleSoft records, and the Finance Department’s cost allocation rates.

Note: The amounts in the table assume fee revenue paid by City residents, and assumes no discounts were granted. The table does not include costs associated with time required to prepare for classes, nor does it include costs of supplies, materials, and transportation.

In the above examples, fee revenue was too low to cover all the direct costs of instructors and overhead for private benefit classes. In addition, as was the case in two of the examples highlighted in Exhibit 10, insufficient class enrollment contributed to not breaking even.

Costs associated with providing fee activities – wages, fringe, and overhead – are all on the rise and have been for quite some time. Overhead in particular, presents a significant challenge to recovering costs. Rates issued by the Finance Department for FY 2014-15 are 109 percent; 112 percent for FY 2015-16. These



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are large increases from FY 2011-12, when the overhead rate was 70 percent. Despite these escalating costs, we found in some cases, fees for private benefit classes were largely unchanged for years.

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### **PRNS Should Improve Its Fee-Setting Process**

PRNS provides program staff with a “New Class Proposal Form” that serves as a guideline for program staff to calculate fees. The form, which is attached in Appendix B, prompts program staff to identify basic information – instructor wages, instructors’ time, and costs of any supplies and materials. The form also prompts staff to input enrollment projections, which triggers a calculation of suggested registration fees – different fee rates for people who are not San José residents, as well as fees for people with disabilities and seniors. In our opinion, in order to align with Council Policy I-21 and mitigate against the above-mentioned pricing problems, PRNS needs to improve the form, and the fee-setting process in general.

#### **PRNS Should Identify All Direct and Indirect Costs**

As stated earlier, PRNS’ current pricing methodology considers instructor wages, but does not consider the costs of fringe benefits. For some City employees that serve as instructors, fringe benefits can approach salary costs.

Moreover, when pricing a class, PRNS adds 35 percent to the cost of salaries, supplies, materials, and transportation as a way to recognize some of the overhead costs from providing fee activities. However, this is far short of the overhead allocation calculated by the Finance Department. For FY 2015-16, the Finance Department has assigned an overhead rate of 112 percent to PRNS fee activities. This rate, which is to be applied to wages, recognizes the indirect costs associated with City central services and departmental administration.

Exhibit 11 below displays examples of the significant effect of accounting for the direct costs of fringe benefits, and indirect overhead costs. The exhibit shows actual costs, as of 2015, associated with actual people who led Fee Activity classes in calendar year 2014.

**Exhibit II: Total Hourly Costs Associated with Various Positions**

Position	A	B	C	D	E
	Wage  Actuals from 2015 payroll	Fringe  Actuals from 2015 payroll	Total Position Cost  A+B	Overhead  A*(Current Overhead Rate)	Total Position & Overhead Cost  C+D
Recreation Leader PT	\$19.06	\$0.71	\$19.77	\$20.71	\$40.49
Class Instructor PT	\$19.83	\$0.74	\$20.57	\$21.55	\$42.12
Senior Recreation Leader PT	\$20.89	\$0.78	\$21.67	\$22.70	\$44.37
Temporary Employee	\$22.00	\$0.82	\$22.82	\$23.91	\$46.73
*Vendor Instructor	**\$54.00	NONE	\$54.00	\$58.68	\$54.00
Recreation Program Specialist	\$24.90	\$9.73	\$34.63	\$27.06	\$61.69
Senior Recreation Leader	\$24.75	\$26.75	\$51.50	\$26.90	\$78.40

Source: Compiled by audit team from PRNS' registration database, PeopleSoft records, and the Finance Department's cost allocation rates.

\*Not City staff

\*\*Term of vendor contract

As shown in Exhibit II, costs soar when including fringe and overhead. The exhibit also illustrates how costs differ significantly depending on which City position an instructor occupies, or whether the instructor is from an outside vendor.

**The Fee-Setting Form Should Consider Varying Levels of Public Benefit**

Fee activity classes are outlined as having “merit” or “private” benefit, which correspond to cost-recovery goals between 65 and 100 percent of total expenses. However, there is no consideration of this built into the current fee-setting form. Given the priority this is given in Council Policy I-21, and the significant effect that implementing this provision could have on the setting of fees, we believe it should be included in the fee-setting form. After identifying total costs, the form should offer fee-setting guidance based on the various public benefit categories. For example, the City of Fremont has also incorporated into its recreation pricing form, a calculation of cost-recovery for individual classes, which clearly outlines the degree of public subsidy needed to run proposed classes.

**The Fee-Setting Form Should Require Market Pricing Information**

Setting fees for Fee Activity classes must consider the market in which the classes are being offered. PRNS' programs are offered in a competitive market where

customers can choose to seek comparable services elsewhere, or choose to pass on recreation services altogether. These choices are influenced by the fees charged.

PRNS program staff and management report that they consider the market in proposing and approving prices for fee activities. However, PRNS' current class proposal form does not provide for the consideration of market pricing. It considers some direct costs, and enrollment in calculating suggested fees. Specifically, the form calculates the minimum enrollment needed to recover salary and supplies. In the current form, enrollment projections that exceed "break even" enrollment levels, lower suggested fees.

This is different from setting fees based on market prices for similar services. The latter is a standard methodology used in the recreation industry, including at the City of Fremont, which considers market pricing first, and then calculates the break-even point based on variable enrollment (including direct and indirect costs). Such an approach is consistent with the department's goal of being more market driven, and should be incorporated into the fee-setting form.

### **The Fee-Setting Form Should Outline the Rationale for Pricing Decisions**

In our opinion, the form should empower program staff to outline realistic costs and projected revenues, and justify fees based on market conditions and public benefit considerations. This is preferable to what the current form might encourage – adjusting costs and enrollment to arrive at acceptable fees. On a program-wide level, PRNS is already taking this holistic approach, whereby program staff periodically propose pricing on categories of classes (e.g. "pre-school," "after-school," "camps") and provide justification for when a class fee does not increase.

#### **Recommendation #2: PRNS should redesign its class proposal form to include:**

- a) **Designated cost-recovery category (i.e. public, merit, or private),**
- b) **All direct and indirect costs,**
- c) **Enrollment target(s),**
- d) **Cost-recovery calculation,**
- e) **Comparable market rate pricing, and**
- f) **Justification for less than cost-recovery pricing (e.g. piloting a class).**

**The form should be required for all classes.**

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### **PRNS Should Track Cost-Recovery for Recreation Classes**

Fee-setting not only informs the planning and approval of classes, it can also provide important information for considering future programming decisions and evaluations by program staff and management. Although PRNS tracks, monitors, and reports detailed data on cost-recovery for some programs, and registration cancellation rates for classes, it does not analyze costs and enrollment for individual classes that have been completed. In our opinion, such an approach is important to ensure PRNS is adhering to Council Policy 1-21.

### **PRNS Should Review Enrollment Trends**

As part of the process of proposing classes, PRNS program staff establish minimum and maximum enrollment targets. Minimum enrollment targets are intended to represent the number of class participants required to recover direct costs plus 35 percent. Enrollment data resides in PRNS' registration database. Ongoing monitoring of actual enrollment data would allow PRNS to review and analyze the sufficiency and accuracy of enrollment targets and cost-recovery projections.

During our review, we found that many classes are run below enrollment targets – that is, below the minimum enrollment needed to recover the department-identified class costs. For example, 26 percent of summer 2014 classes (302 of 1,184 classes) ran below minimum enrollment targets. This means over a quarter of last summer's classes may not have reached cost-recovery even for those costs PRNS considers in its fee-setting process – much less total costs including fringe and overhead. This could lead to unintended subsidies by San José taxpayers since revenues did not cover expenses.

### **PRNS Should Calculate Actual Cost-Recovery for Individual Classes**

At a program level, PRNS calculates cost-recovery of direct costs, not including overhead. However, PRNS does not determine actual revenues generated by, and actual expenses incurred, for individual classes. In our opinion, PRNS should routinely review the cost-recovery of its classes to assess whether they met cost-recovery policy targets.

<p><b>Recommendation #3: To inform future class offerings and pricing decisions, PRNS should track how well the price, enrollment, and expected cost-recovery goals for recreation classes are met.</b></p>
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**PRNS Should Periodically Review and Update Cost Assumptions**

In practice, PRNS reviews cost assumptions and historical performance for some citywide offerings, with the idea that increases in costs and projected enrollment change over time. In turn, the fees for these recreation programs should change. For those classes that are offered at specific sites, there is no built-in mechanism for reviewing expense assumptions after the fact. For classes that are routinely run year after year, prices should be increased proportionally to cover increasing costs. Therefore, the department should ensure expense assumptions are up to date by periodically reviewing cost-recovery, and adjusting as needed.

**Recommendation #4: PRNS should adopt a process for periodically reviewing and adjusting expense assumptions to ensure fees are covering costs.**

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## **Finding 3 PRNS Should Continue Its Efforts to Promote Affordable Access**

### **Summary**

PRNS is working on a redesign of its Citywide Scholarship Program to make it easier for customers to apply for and use scholarship funds. A complicated process, delays in approval, and lack of program awareness may be limiting customers' use of scholarships. In addition, there are overly strict limits on the amount of money awarded to each scholarship recipient and on what classes the scholarship may be used. We recommend PRNS continue its efforts in simplifying and standardizing its application processes. In addition, to promote affordable access to its recreation programs, we recommend the department restructure its award amounts, and improve the visibility of scholarship opportunities.

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### **PRNS Is Working on a Redesign of the Citywide Scholarship Program**

PRNS' scholarships are funded from Fee Activity revenue, private donations to the PRNS Gift Trust Fund, BEST funding, corporate sponsors, foundations, and "friends of" groups. These various sources help support community access to PRNS services on an annual basis. PRNS offers several types of scholarships, including the Emma Prusch Park Scholarship, Family Campership Program, Jim Ward Scholarship (Happy Hollow), Safe Summer Initiative, Fit Camp, and the Citywide Scholarship Program.

The Citywide Scholarship Program makes up the bulk of PRNS's scholarships. It is available to San José residents under 18 years of age (or enrolled in high school), older than 60, or people with disabilities. These scholarships can be applied to leisure classes and activities that meet more than one time (such as summer camps and sports leagues).

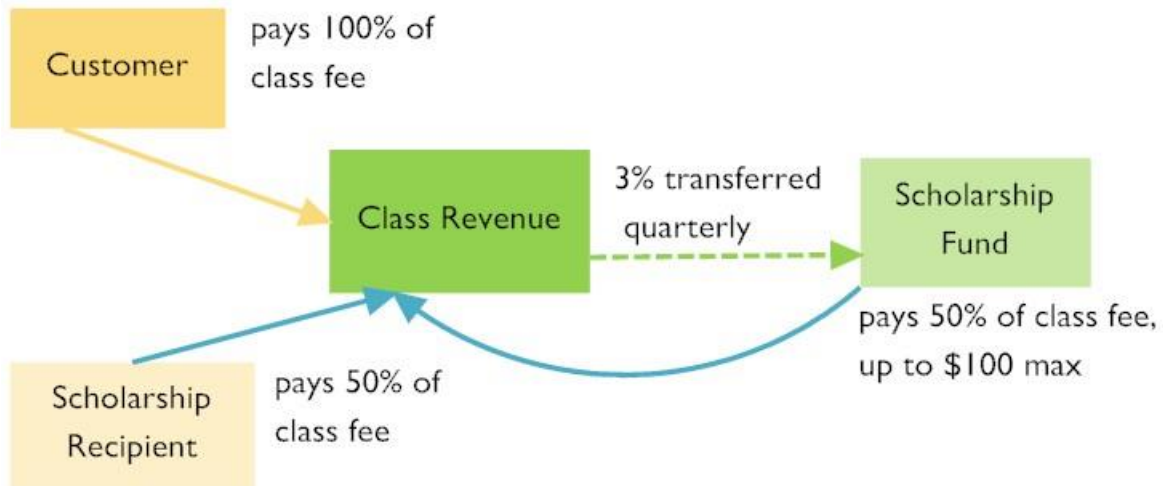
At the time of this audit, the Citywide Scholarship Program provided a maximum award of \$100 per participant, per calendar year, for eligible persons. However, the scholarship could be used to cover only 50 percent of registration fees, the remaining portion was to be paid by the participant. Citywide scholarship awardees must use their scholarships in the calendar year in which they were awarded, and cannot carry over unused scholarships to future years.

### **PRNS Did Not Disburse as Much Scholarship Funding as it Allocated**

There are a variety of ways to account for scholarships. Other jurisdictions set aside a specific dollar amount. In San José, PRNS reserves 3 percent of Fee Activity revenue for citywide scholarships. In FY 2013-14, PRNS set aside

\$200,000 for scholarships. This revenue is kept in an account<sup>7</sup> and drawn down when a scholarship recipient registers for a class, shown in Exhibit 12 below.

**Exhibit 12: Scholarship Funding Process**



Source: Interviews with PRNS staff

In calendar year 2014, there were 525 Citywide Scholarship awardees. However, of \$52,500 eligible for disbursement, only \$21,000 (60 percent) was disbursed. Over 40 percent of Citywide Scholarship awardees did not actually enroll in classes, therefore giving up their entire award for the calendar year.<sup>8</sup>

**Citywide Scholarship Applicants Face Complex Documentation Requirements**

To qualify for a scholarship, applicants must provide two forms of documentation; one to demonstrate economic need, and a second to demonstrate residency. Acceptable forms of documentation for economic need include:

- Subsidized housing;
- HUD Section 8 Rent Subsidy;
- Temporary Assistance for Needy Families (TANF);
- Food Stamps (California Advantage or Cal-Fresh);
- Medi-Cal;
- California’s Life Line Program (reduced rates for phone);

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<sup>7</sup> The 3 percent of Fee Activity revenue is calculated quarterly, and the total amount is transferred each quarter to a finance account (Visible Code 420083109064). When a scholarship recipient uses their award, the money is drawn from the account to cover the registration fee.

<sup>8</sup> The remaining money remained in the account to be rolled over for subsequent years.



- Women, Infants & Children (WIC);
- Supplemental Security Income (SSI), or if both parents/guardians are unemployed and receiving CA State Unemployment Insurance benefits.
- Qualifying Participant, Parent or Legal Guardian can also be enlisted in the U.S. Military and must be considered an “active” member.

Proof of San José residency (utility bills or other documentation showing the name and address of the participant, parent or legal guardian) must also be submitted with the application. According to PRNS, staffing this may be a barrier for some residents. For some applicants (particularly those who are renters), a utility bill may be difficult to produce. Further, disparate eligibility requirements could be confusing if applicants are accustomed to applying for other scholarships previously. To improve consistency and ease the application process and review, PRNS should standardize requirements.

#### **A Redesign of the Citywide Scholarship Program Is in Process**

PRNS is in the process of redesigning its Citywide Scholarship Program to make it easier for customers to apply for and use scholarship funds. According to PRNS, customers were waiting up to 10 business days to be notified of their award. The delay was due to routing the application from the community center to City Hall for approval. Very recently, this process was streamlined to allow recreation supervisors on-site approval.

**Recommendation #5: In order to standardize and expedite award of scholarships, PRNS should include the following in its redesign of the scholarship program:**

- a) Expedited review and approval of scholarship eligibility on-site, and**
- b) Standardized and lower threshold of documentation to verify residency (e.g. proof of enrollment in a school district that serves San José).**

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#### **PRNS Should Improve Affordability by Increasing Availability of Scholarships**

As mentioned previously, at the time of this audit, scholarship recipients were expected to cover 50 percent of the class registration fees, regardless of the scholarship funds available. PRNS has explained that this policy is in place to ensure scholarship recipients actually participate in the classes in which they enroll. However, having to pay 50 percent of a class fee may be cost prohibitive for some very low-income residents. For example, registration fees for a summer

camp can exceed \$200. First, the annual scholarship award of \$100 is exhausted for just one program. Secondly, the registrant, would have to come up with \$100.

The most common zip code of people who forfeited their citywide scholarships, has a median per capita annual income of \$12,500—less than half of the citywide per capita income. In our opinion, people at these income levels may be deterred from applying for or using subsidies because of the matching requirement. Other cities such as San Francisco and Palo Alto offer tiered levels of need-based subsidy, including complete subsidies for some programs.

Further, at the time of this audit, Citywide Scholarships could only be used for leisure classes and some camps; low-income customers may require subsidies for a broader range of programs. For example, since rolling out the citywide pre-school program, PRNS has seen a rise in pre-school enrollment. However, Mayfair Community Center has seen a decline in their pre-school enrollment. Prior to the citywide rollout, Mayfair offered its own early childhood learning program. In 2012 total enrollment in early childhood programs exceeded 200 children. Now that Mayfair is pricing registration at the same level as the rest of the City (\$250/month), their enrollment has dropped. Across all 2014 seasons, enrollment in Mayfair's early childhood classes had declined to 59. PRNS agrees that offering scholarships for pre-school may help improve enrollment at some low-income sites.

### **Some Customers May be Unaware of the Citywide Scholarship Program**

Another potential reason for the low levels of scholarship use may be a lack of publicity about the program. Scholarship information is outlined in each of the recreation class brochures and on the PRNS website, but if a resident simply pages to the list of activities or logs on to the online registration system – they might miss the opportunity to receive subsidies. In our opinion, scholarship rates should be more prominently displayed throughout the brochure and online, so potential participants will see it adjacent to the classes they wish to take.

In addition to more prominently displaying in the printed catalog, PRNS should develop a marketing plan to publicize its scholarships and recreation offerings beyond its current efforts. Although enrollment in PRNS' recreation programs has been increasing, PRNS relies on site-specific marketing to publicize some recreation programming. Perhaps a more centralized marketing effort could better marshal resources to promote PRNS programs. For example, PRNS staff credits increases in its pre-school enrollment to a centralized rebranding campaign the department undertook in FY 2014-15. This type of blanketed approach may benefit the full range of PRNS programming.

When PRNS reached out to scholarship awardees during the time of this audit to determine why they forfeited their awards, reasons cited included not knowing that they were awarded scholarships, and a lack of awareness of the process for claiming awards. These responses, beyond suggesting a need for a more simplified application/approval process, may also point to a need for more vigorous outreach.

Further, scholarship information is provided in English and Spanish, but not in Vietnamese. In our opinion, this information should be conveyed in at least these three commonly-spoken languages in San José.

**Recommendation #6: To improve access and availability, PRNS should consider:**

- a) Offering deeper levels of subsidy based on needs and funding availability,**
- b) Expanding the programs to which scholarships can be applied,**
- c) Improving the visibility of scholarships by making their availability more prominent and advertising their availability in different languages.**

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# Conclusion

The Fee Activity Program is in place to facilitate PRNS's budgeting process and, at the same time, ensure adherence to the City Council's Pricing and Revenue Policy (Council Policy 1-21). This includes calculating costs of providing fee activities, determining cost-recovery, prioritizing subsidy levels, and ensuring affordable access.

## RECOMMENDATIONS

Recommendation #1: PRNS should work with the Budget Office to:

- a) Reassess the purpose of the Fee Activity Program (including cost-recovery targets),
- b) Provide reasonable justification for mid-year expenditure requests,
- c) More clearly link revenues and expenses to their respective programs, and
- d) Determine which activities should be included in the Fee Activity Program.

Recommendation #2: PRNS should redesign its class proposal form to include:

- a) Designated cost-recovery category (i.e. public, merit, or private),
- b) All direct and indirect costs,
- c) Enrollment target(s),
- d) Cost-recovery calculation,
- e) Comparable market rate pricing, and
- f) Justification for less than cost-recovery pricing (e.g. piloting a class).

Recommendation #3: To inform future class offerings and pricing decisions, PRNS should track how well the price, enrollment, and expected cost-recovery goals for recreation classes are met.

Recommendation #4: PRNS should adopt a process for periodically reviewing and adjusting expense assumptions to ensure fees are covering costs.

Recommendation #5: In order to standardize and expedite award of scholarships, PRNS should include the following in its redesign of the scholarship program:

- a) Expedited review and approval of scholarship eligibility on-site, and
- b) Standardized and lower threshold of documentation to verify residency (e.g. proof of enrollment in a school district that serves San José).

Recommendation #6: To improve access and availability, PRNS should consider:

- a) Offering deeper levels of subsidy based on needs and funding availability,
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- c) Improving the visibility of scholarships by making their availability more prominent and advertising their availability in different languages.

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# APPENDIX A

## Revenue and Pricing Policy

### *City of San José, California* COUNCIL POLICY

<b>TITLE</b> PRICING AND REVENUE POLICY	<b>PAGE</b> 1 of 3	<b>POLICY NUMBER</b> 1-21
<b>EFFECTIVE DATE</b> June 16, 2009	<b>REVISED DATE</b>	

**APPROVED BY COUNCIL ACTION**

6/16/2009, Item 3.8(a)(4), Res. No. 74983;

#### **BACKGROUND**

The vision of the Parks, Recreation and Neighborhood Services Department (PRNS) is to be a national leader in cultivating healthy communities through quality programs and dynamic public spaces. We envision a reality where all San José residents view parks and community centers as valued and cherished places and experiences. PRNS must develop a financially sustainable approach to delivering services if it is to realize its vision as well as fulfill its mission to build healthy communities through people, parks and programs.

PRNS offers a wide range of facilities, programs and services including parks, aquatic programs, recreation classes, senior services, sports leagues, youth intervention programs, graffiti abatement and volunteer services. PRNS collects a variety of fees for programs and services but is primarily supported by the City of San José's General Fund.

Many PRNS program fees are set by the Director of PRNS. Examples include adult, senior and youth recreation classes, equipment rental, camps and golf. Fees for other programs such as summer aquatics, Happy Hollow Park and Zoo admission, fitness centers and facility rentals are set by City Council. Authorizing the City Manager or its designee to set all user fees and pricing strategies will allow PRNS to quickly respond to market trends and community needs by implementing differential pricing methods as appropriate.

Traditionally, the City has heavily subsidized prices and kept fees low to accommodate the percentage of customers that could not afford higher rates. For example, the fee for youth groups to reserve one sport field is \$2 per hour per team. Under this scenario a typical two hour game, with two teams, would net the city a total of eight dollars. The unintended consequence of these below-market user fees is that PRNS is not able to consistently balance the demand for quality programs with available resources. The \$2 per hour per team fee does not cover the City's costs for maintaining the fields.

#### **PURPOSE**

The Pricing and Revenue Policy is a mechanism for allocating the use of public funds, creating a financially sustainable approach for recreational services and facilities, maximizing the use of programs and facilities and ensuring affordable access to programs and services.

#### **POLICY**

City Council hereby authorizes the City Manager or its designee to set all PRNS user fees and pricing strategies in accordance with annual City Council-approved cost recovery percentage goals and the guiding principles described in this policy.

This policy and the cost recovery goals shall represent the PRNS section of the City of San José's Fees and Charges document. PRNS cost recovery goals shall be submitted by the Director and approved by City Council through the annual operating budget process. PRNS

<b>TITLE</b> PRICING AND REVENUE POLICY	<b>PAGE</b> 2 of 3	<b>POLICY NUMBER</b> 1-21
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shall publish an annual report that presents the Department's accomplishments, results and performance on cost recovery goals.

**PRNS PRICING AND REVENUE GUIDING PRINCIPLES**

*1. Identify the Level of Benefit a Customer Receives*

To maximize the distribution of available parks and recreation resources to the greatest number of residents, PRNS shall prioritize the subsidization and funding of programs. To determine the percentage of subsidy allocated, Public, Merit and Private categories will be used to identify the level of community/public or individual/private benefit a user receives.

Public Services

Public services provide all users the same level of benefit and can be accessed by the broadest cross section of the population; they receive the highest level of subsidization. Examples of public services include clean and accessible public parks and trails.

Merit Services

Merit services provide benefit to both the community and individual. These programs should follow a cost sharing model between subsidy and a fee to the customer. Some portion of the cost of service should be supported by the user thus lowering the general fund contribution. Examples of merit services include swim lessons and after-school programs for youth.

Private Services

Private services provide benefit to the individual, are typically specialized and provide minimal to no benefit to the community. These services should receive a minimal subsidization (if any) and the fee to participate is the responsibility of the user/customer. Examples of private services include facility rentals, language classes and golf.

*2. Calculate Cost of Service*

PRNS shall collect cost of service data to determine the actual cost per unit of specific services, including direct and indirect costs. Direct costs are exclusively attributed to a program or service and can include salaries for staff directly providing the service, supplies and materials. Indirect costs are attributed to more than one program and can include supervisor salaries, maintenance, utilities, leases, equipment replacement, and technology.

*3. Determine Cost Recovery Goals*

PRNS shall set targets for the recovery of program costs through the collection of user fees. Targets will be expressed as the percentage of the overall program budget PRNS intends to recover. Cost recovery goals will align with public, merit and private service categories and reflect the level of community/public and individual/private benefit received. Cost recovery goals shall be reviewed annually with consideration of the City's overall operating budget.



TITLE PRICING AND REVENUE POLICY	PAGE 3 of 3	POLICY NUMBER 1-21
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4. Ensure Affordable Access

To ensure San José residents affordable access to participation in recreational activities PRNS shall implement a formalized scholarship program. Eligible scholarship applicants will demonstrate proof of qualified income verified by participation in one of the pre-existing local, state or federal assistance programs determined by the City Manager or its designee.

PRNS shall continue to generate scholarship funding with partners, advisory groups, community based organizations and individual donors. Additionally, PRNS shall develop a scholarship fund with a percentage of revenue collected, ensuring scholarships remain funded.

5. Create Revenue Strategies

PRNS shall use a variety of methods to generate revenue to offset the general fund subsidy for recreation programs and services. These methods shall include created income, partnerships and differential pricing methods

Created Income

To support the operating costs of the Department and to meet cost recovery goals that cannot be achieved solely by pricing of services, PRNS will implement created income strategies that include but are not limited to sponsorships, grants and foundations.

Partnerships

Partnerships with private and public entities are vital to enhance service levels and to keep program fees affordable to residents. PRNS will continue to cultivate existing relationships and employ new partnerships with volunteers, school districts and community based organizations to minimize program fees as appropriate.

Differential Pricing Methods

PRNS shall implement an assortment of pricing methods to increase customer options. Differential pricing methods will maximize facility usage and encourage users to move to options that best accommodate their schedules and price points. Differential pricing methods may include pricing by weekend/weekday rates, trade for services, price based upon length of stay, price by amenity and incentive pricing such as early bird registration. The pricing of programs, services and facilities shall be reviewed on an ongoing basis by the City Manager or its designee and adjusted to accommodate changes in operations, maintenance costs and the marketplace to ensure progress towards the City Council approved cost recovery percentages goals.

6. Engage Community

To ensure ongoing community engagement PRNS shall implement a variety of strategies to inform, educate and receive input from user groups. Community engagement strategies may include electronic updates, mailings, focus groups and community meetings.

## APPENDIX B

### Class Proposal Form

<b>New Class Proposal Form (revised 1-9-13) - with 3% increase</b>										
Please review the Check List and Program Assessment when completing this form.										
<b>Step One: Basic Class Information</b>										
Center:					Submitted by:				Date:	
Class Title						Category:				
<b>Step Two: Enrollment</b>										
Minimum Enrollment	12		Maximum Enrollment:	20		80% of Max Capacity:	16			
PLEASE NOTE: ALL GREEN CELLS WILL AUTOMATICALLY COMPUTE FOR YOU.										
<b>Step Three: Class Direct Cost</b>										
Class Meeting Length in Hours	# of Mtgs	Total Class Time in Hours	# of Staff	15 min before & after prep Time in Hours for ONE person	Add'l Prep Time	Total Class Hours	Instructor Pay Rate	Total Salary Cost	Total Operating Costs (ie supplies & materials, trips, transportation, etc.)	Direct Total Class Cost
2.00	6	12	1	3	1.00	16.00	\$17.00	\$272.00	\$100	\$372.00
<b>Step Four: Pricing</b>										
<b>Leisure Class</b>			<b>Active Adult - Non Mem</b>			<b>All Access</b>				
Suggested Act. Fee (w/out surcharge):	<b>\$49</b>		Suggested Class Price**:	<b>\$57</b>		Suggested Res. Class Price:	<b>\$49</b>			
Leisure Class - Resident			Active Adult			All Access				
Activity Fee	\$29		Member Discount	\$29		Program Fee (Res)	\$29			
Surcharge	\$8.00		Non Member (Prog Fee)	\$37		Program Fee (Non-Res)	\$37			
Suggested Price	\$37									
Leisure Class - Non-Res			**NOTE: The suggested class price is the NON-Member price							
Activity Fee	\$29									
Non-Res Surcharge	\$16.00									
Suggested Price	\$45									
Check your pricing to ensure that the % spent on direct services does not exceed 65%										
Leisure Class			Active Adults			All Access				
% spent	110%		% spent	110%		% spent	110%			
<b>Step Five: Class Description</b>										
Class Description (60 words or less) Include ages for Activity at end.										
<b>Business Unit Input</b>										

## APPENDIX C

### Expenses and Revenues Recorded in the Fee Activity Program in FY 2013-14

Program	Expense	Revenue
Community Center Program	\$ 2,494,172	\$ 2,531,301
Happy Hollow Park & Zoo	\$ 1,308,899	\$ 1,482,236
R.O.C.K. After-School Program	\$ 682,002	\$ 937,337
Children & Youth Program	\$ 792,270	\$ 928,010
Senior Services	\$ 146,181	\$ 358,598
Regional Parks & Others	\$ 316,729	\$ 290,299
Office of Therapeutic Services	\$ 152,849	\$ 85,759
Teen Services Programs	\$ 29,892	\$ 40,691
Special Events	\$ 38,615	\$ 38,466
Resources & Administration Services	\$ 24,257	\$ 26,812
Aquatics	\$ 1,124	\$ 1,990
CSD Division Management	\$ 111,091	\$ -
Volunteer, Community Garden & Adopt-a-Park	\$ 2,635	\$ -
<b>Fee Activity Totals</b>	<b>\$ 6,100,715</b>	<b>\$ 6,721,499</b>

Source: Financial Management System (FMS).

# Memorandum

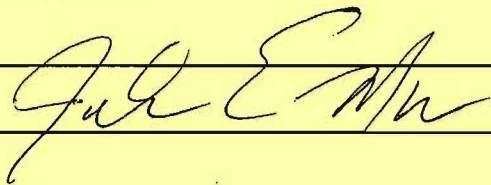
**TO:** SHARON ERICKSON  
CITY AUDITOR

**FROM:** Angel Rios, Jr.

**SUBJECT: RESPONSE TO THE AUDIT  
OF THE PRNS FEE ACTIVITY  
PROGRAM**

**DATE:** May 5, 2015

Approved



Date

5/6/15

## BACKGROUND

The Administration has reviewed the City Auditor's *PRNS Fee Activity Program* audit report and agrees with the recommendations identified in the report. As the audit report notes, the Department of Parks, Recreation and Neighborhood Services (PRNS) provides a diverse variety of programs, classes, camps, and events spanning preschool, after-school, dance, music, health and fitness, gymnastics, and theater, among many other program areas. In 2014, more than 50,000 people signed up for these programs, and many more visited and enjoyed parks, community centers, and community-building events.

PRNS is primarily supported through the City's General Fund, but also receives grants and reimbursements, and generates a variety of revenues. In June 2009, in response to tightening budget constraints, the Administration sought and received approval for a *Pricing and Revenue Policy* (Council Policy 1-21), which is a mechanism for allocating the use of public funds, creating a financially sustainable approach for recreational services and facilities, maximizing the use of programs and facilities and ensuring affordable access to programs and services. As the audit report notes, in the five years since the City Council approved the policy, PRNS revenue from fees and charges has more than doubled, from \$7.0 million in 2008-2009 to \$16.6 million in 2013-2014. During those years, the Fee Activity Program alone grew from \$3.8 million to \$6.7 million. PRNS has a goal of recovering 40 percent of its direct program costs through collected revenues (e.g., fees, charges, leases, grants). For 2013-14, PRNS reported its direct program cost recovery rate was 40 percent, up from 22 percent six years ago. Program fees and charges accounted for approximately 70 percent of collected revenues.

The audit reviewed the calculation and cost recovery status of the department's General Fund Fee Activity Program, and made valuable recommendations to improve the program. The Administration's response to each of the audit's recommendation is presented below.



## **RECOMMENDATIONS AND RESPONSE**

### **Recommendation #1: PRNS should work with the Budget Office to:**

- a) Reassess the purpose of the Fee Activity Program (including cost recovery targets),**
- b) Provide reasonable justification for mid-year expenditure requests,**
- c) More clearly link revenues and expenses to their respective programs, and**
- d) Determine which [activities] should be included in the Fee Activity Program.**

**Administration Response:** The Administration agrees with this recommendation. As the audit report notes, the Administration established and maintains a Fee Activity Program and budgetary appropriation to facilitate and account for valued community services. The program has also become a budgetary tool for flexibly allocating resources to provide recreation services, and an important way to sustain some services that may not have survived years of budget shortfalls had they not been part of the program. Over time, the Fee Activity Program's composition has changed for various reasons, but these reasons were not always well documented amid the Fee Activity Program's rapid growth and persistent staff turnover that contributed to the loss of institutional knowledge. To better document the Fee Activity Program, PRNS will draft an administrative policy that defines the program's purpose and composition, describes the financial and programmatic justification that will be provided to support budgetary adjustments, and explains the link between program revenues and expenses. PRNS will update the policy annually, or as needed, in coordination with the Budget Office. PRNS intends to draft the administrative policy in 2015-2016.

### **Recommendation #2: PRNS should redesign its class proposal form to include:**

- a) Designated cost recovery category (i.e. public, merit, or private),**
- b) All direct and indirect costs,**
- c) Enrollment target(s),**
- d) Cost recovery calculation,**
- e) Comparable market rate pricing, and**
- f) Justification for less than cost-recovery pricing (e.g. piloting a class).**

**The form should be required for all classes.**

**Administration Response:** The Administration agrees with this recommendation. As the audit report notes, the existing class proposal form has not been updated in nearly two and a half years, and it was largely unchanged for many years before then. PRNS will update this document, which is one of several documents meant to guide the creation, evaluation, and pricing of new classes. PRNS intends to update the class proposal form and pilot its use on a sample basis by December 2015.

**Recommendation #3: To inform future class offerings and pricing decisions, PRNS should track how well the price, enrollment, and expected cost-recovery goals for recreation classes are met.**

**Administration Response:** The Administration agrees with this recommendation. As the audit report notes, PRNS tracks, monitors, and discusses class enrollment, capacity utilization, and

cancellation rates by location and program type on a quarterly basis. These data points help staff identify potential areas to improve operational responsiveness, such as programming and marketing. Including pricing and cost-recovery in these quarterly evaluations is a logical extension. Until systems, such as the Financial Management System (FMS), allow for class-level cost tracking, the department will perform these assessments on a sample basis. To better understand the staff time and analyses required, PRNS intends to pilot a class assessment process in October 2015 after the close of the summer 2015 program session.

**Recommendation #4: PRNS should adopt a process for periodically reviewing and adjusting expense assumptions to ensure fees are covering costs.**

**Administration Response:** The Administration agrees with this recommendation. PRNS will include an annual or as-needed review of expense assumptions as part of the Fee Activity Program administrative policy discussed in the Administration's response to Recommendation #1.

**Recommendation #5: In order to standardize and expedite award of scholarships, PRNS should include the following in its redesign of the scholarship program:**

- a) Expedited review and approval of scholarship eligibility on-site, and
- b) Standardized and lower threshold of documentation to verify residency (e.g. proof of enrollment in a school district that serves San José).

**Administration Response:** The Administration agrees with this recommendation. The audit report acknowledges that PRNS was working on a redesign of the Citywide Scholarship Program. The department implemented new scholarship guidelines on April 20, 2015, to advance greater access to programs and services. PRNS also implemented onsite approval of scholarship applications, and standardized the documentation threshold for residency verification. The department expects these measures to expedite and simplify scholarship application and award redemption.

**Recommendation #6: To improve access and availability, PRNS should consider:**

- a) Offering deeper levels of subsidy based on needs and funding availability,
- b) Expanding the programs to which scholarships can be applied,
- c) Improving the visibility of scholarships by making their availability more prominent and advertising their availability in different languages.

**Administration Response:** The Administration agrees with this recommendation. Other elements of the Citywide Scholarship Program redesign implemented on April 20, 2015 include: an increased maximum scholarship award from \$100 to \$400 per person per calendar year; a broadened age focus from 0-18 to 0-49 to reach more working families; and an expanded array of programs to which scholarships can be applied, including the successful San José Recreation Preschool program. PRNS will soon publish revised scholarship guidelines and applications in Spanish and Vietnamese. Creating awareness of available scholarships is a challenge. Over the next year, PRNS will look to redesign its website and print materials to make scholarship availability more prominent, and PRNS will continue to explore creative approaches to spreading the word about all of our programs and services.



HONORABLE MAYOR AND CITY COUNCIL

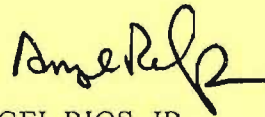
May 5, 2015

Subject: Response to the Audit of the PRNS Fee Activity Program

Page 4

**CONCLUSION**

The audit report makes valuable and insightful recommendations to improve the Fee Activity Program and the positive impact it can make on the community. Equally valuable was the internal dialogue that the audit process fostered, which helped staff reevaluate the way we operate programs on the community's behalf. The Administration has begun addressing many of the report's recommendations, and will complete all of them during 2015-2016. We would like to thank the City Auditor and staff, especially Michael Houston and Erica Garaffo, for the time, attention, and inquisitive approach they gave to understanding, evaluating, and improving our programs.



ANGEL RIOS, JR.  
Interim Director of Parks, Recreation and  
Neighborhood Services

For questions, please contact Matt Cano, Interim Assistant Director, at (408) 793-5553.