

by Chris Dropinski, CPRP

# cost recovery

in public parks and recreation

Any way you look at it, cost recovery is a complex subject. Essentially, it represents a park, recreation or conservation agency's decision to generate revenues by charging fees for some, or all, of its programs and services in order to offset the expenses of providing those programs or services. Cost recovery does not imply that the target is total cost recovery; an agency establishes the target according to a variety of considerations, from 0 percent to more than 100 percent of direct costs.

Among the challenges to cost recovery is explaining and justifying the fees to a board of trustees, or to other municipal officials or to members of the community. Two other challenges are assessing appropriate fees and identifying the right target of cost to recover.

Cost recovery through fees and charges means that the cost of the program is not being borne completely by the tax resource and that individuals taking advantage of that particular service or opportunity pay for at least a portion of it.

The public is demanding specific programs; cost recovery is the means by which parks and recreation can meet that demand, says

In this manner, residents' collective taxes do not bear the full costs of all programs; tax dollars can be applied more specifically to broad community services; and specialized programs can be augmented by the residents who participate in them.

Barron noted that in Lisle, as in many communities, there are groups (albeit sometimes small) for almost any interest. "For each, we look at the number of users and how we can accommodate those users. We determine if a program's costs are based on a small group, or if the program is something from which a large number of people can benefit."



Laura Barron, director of parks and recreation for the Oakbrook Terrace Park District in Illinois and formerly the superintendent of recreation for the Lisle Park District.

"[At Lisle] we changed our philosophy in this competitive marketplace: to offer more to a more sophisticated resident," Barron said. It was a matter of balance, she said.

### Why Cost Recovery Matters

Cost recovery signifies an agency's responsibility to use its budget wisely, points out Daniel Betts, deputy manager of recreation and facility services for the Denver Department of Parks and Recreation. Agencies are simultaneously accountable for maintaining a functional, sustainable system that attracts the overall community and one that also responds to the interests of the individuals. Park and recreation professionals have a broad mission to provide opportunities and services that will improve the quality of their residents' lives.

Revenues have an obvious impact on their ability to do this.

"In city government, we're not in business to generate a profit. We're only in business to be more efficient with the limited resources we have and to be equitable with our programs, structures and fees," Betts said. "The balance is not giving it away, but also making our services attractive so that folks want to come and play with us."

One philosophy holds that there should be a relationship between the way tax revenues are spent and the extent to which the community as a whole benefits from the resulting opportunity. If some individuals receive greater benefit from a specialized program or service, the opportunity exists to charge them for part, or a bulk of, the operational costs.

### Controversy

Public recreation programs were initiated in the United States primarily for social reasons and were supported by taxes. Early programs were free, and there wasn't originally a thought about collecting money. Some parks and recreation professionals hold to that ideal.

As Harvey Feldman notes, "I started in this business because parks and recreation was a public good. I felt that we had a responsibility to provide at least a basic set of recreation services for all of our community members." Feldman is the former superintendent of administration for the Minneapolis Park and Recreation Board and director of the Recreation Facilities Management Institute at the University of Minnesota.

Feldman's concerns relate to community centers that are called enterprise fund operations. For example, he says, some groups convince local communities to build specialized recreation facilities with assurances that they will achieve full cost recovery. "To me, cost recovery becomes an issue mainly when it comes to facilities like golf courses, ice arenas and water parks."

Oftentimes city councils and park boards tell their citizens that facilities of this nature ultimately will not use any tax dollars. But when the facilities are unable to generate the expected revenues, city officials or park boards may blame park agency personnel, said Feldman. "There are directors of parks and recreation, there are community directors and there are ice arena managers being fired because the council and the mayor have suggested to the public that they'll have full cost recovery in these facilities," he said.

## Effective Application of Cost Recovery

Reliable cost recovery analysis helps an agency make decisions and discern if it is on track with its own goals and standards. Analysis also provides the means by which an agency can, over time, recognize and respond to changes in the community and in the programs.

"In order for park districts to survive now, they have to adopt a cost recovery philosophy," Barron said. "They need to be run as a government agency that does provide services, but more in a current business fashion, the ways businesses operate today." This does not mean generating a "profit," but being accountable and maximizing resources.

Resources are limited and government agencies have to justify their decisions, expenditures and fees. Effective cost recovery analysis builds credibility with stakeholders. Denver uses its analysis to improve its programs and to explain its pricing, said Betts. "[Our residents] get a better product, because we can invest more into it," he said. "And cost recovery analysis provides the details we need to inform the public and our key stakeholders why we price the way we do."

When parks and recreation professionals want to add programs or services, they try to assess value based on what the outcome is going to be. They match the outcome with the input of resources. But in order to know how costs stack up to benefits, they have to have a clear understanding of what to count as a cost and what revenues can be reasonably expected.

Furthermore, by having a clear understanding of who is benefiting from a particular program, fees can be explained. Being able to explain a pricing structure to community leaders, staff and the residents is empowering for parks and recreation professionals. It raises morale and confidence with all audiences. People are willing to pay for a program when they understand where their tax dollars are going and why it takes a combination of both taxes and fees to offer the caliber of program those patrons say they want.

## Counting Costs and Benefits

One way to develop a cost-benefit analysis model and pricing philosophy is to break services into various categories based on the balance of community benefit with individual benefit. The breakdown can be represented in a pyramid shape, because, based on the public parks and recreation mission, the greatest quantity of service goes to the community at large, with less service, comparatively, going to specialized programs.

The foundation level of the model represents the mainstay of a public park, recreation or conservation agency's programming. Programs that serve smaller segments of the population are appropriate to higher levels of the model and should be offered only when the preceding levels are carried out well enough to provide a platform for the next level.

A pyramid structure that graphically represents cost-benefit and pricing – having a foundation with upward progression – can demonstrate both the agency's core mission and the maturity of the organization as it enhances its program and facility offerings.

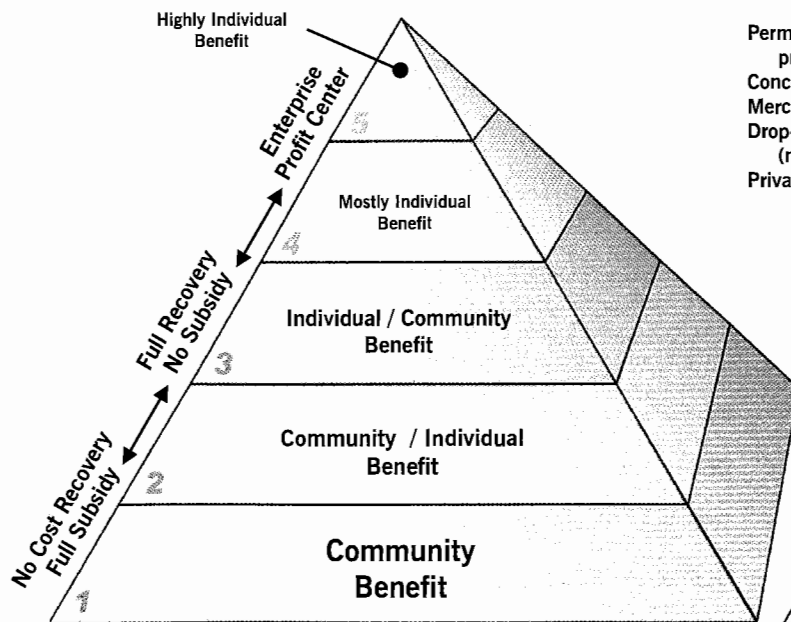
This approach provides perspectives for discussion and requires an agency to determine which programs and services belong on each level. Those determinations will depend largely on the agency's circumstances and history. Cultural, regional, geographical and resource differences play a large role. Each agency that applies this methodology will come up with unique results.

Among the figures that cost recovery analysis will consider are:

- the number of participants,
- fees,
- revenues,
- direct costs and, possibly,
- indirect costs.

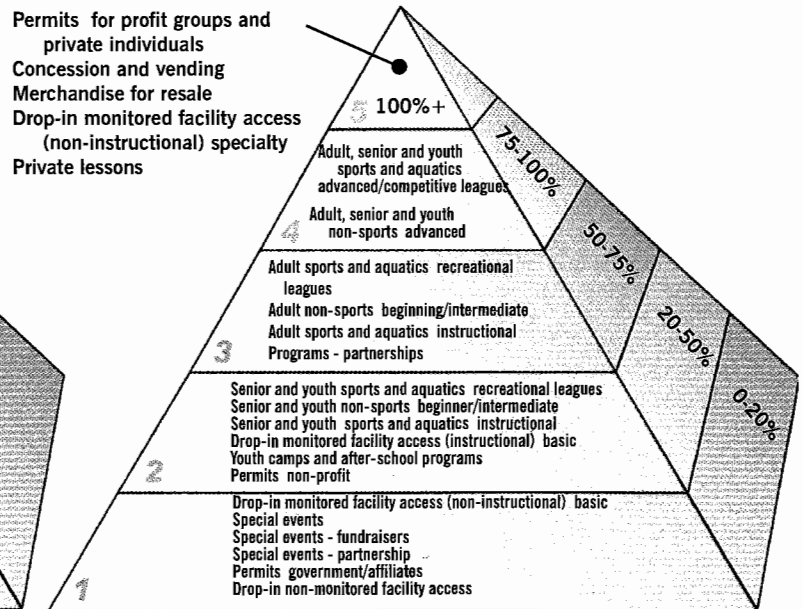
For existing programs, history should provide data regarding

**Cost Recovery Pyramid**



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**Denver Parks & Recreation Department  
Cost-Benefit Analysis Pyramid / DRAFT**



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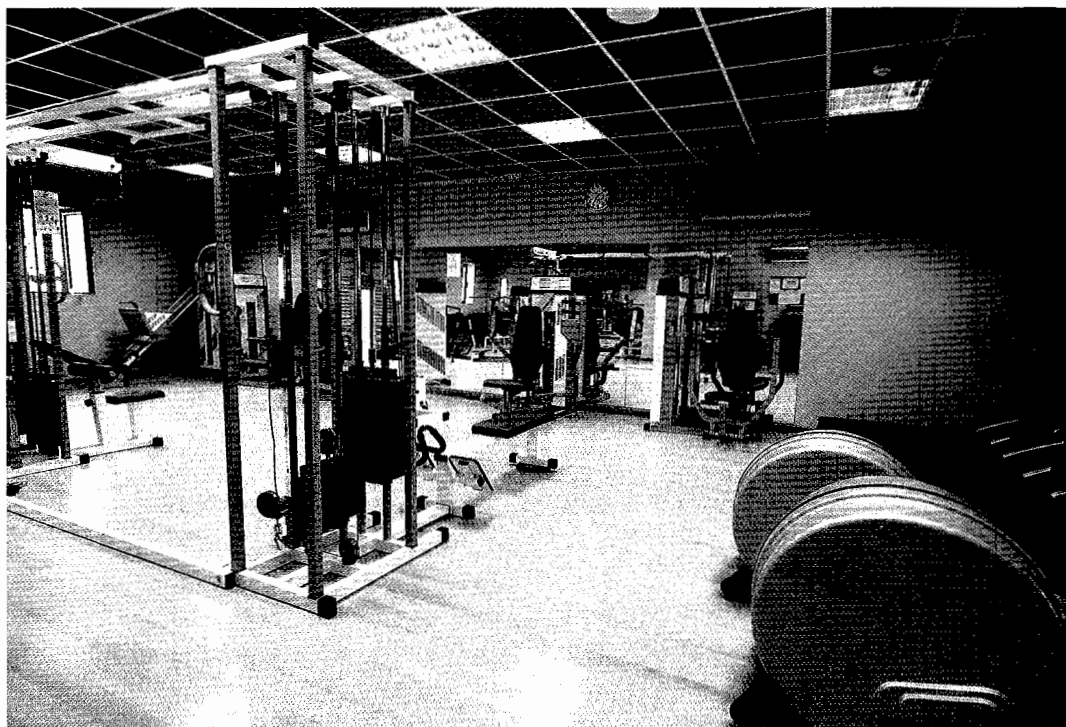
The cost recovery pyramid is a method that allows agencies to look at their programs from the point-of-view of the breadth of the community served. Generally, agency programs that serve a select segment of the community should recover more – or all – of their costs. The figure on the left is a model cost-recovery pyramid. The figure on the right represents a draft version of how the Denver Parks and Recreation Department is putting the model to use.

participation numbers and revenues. For new programs or services, similar programs or area benchmarks can be used to estimate usage and income.

But a good starting point for any analysis is counting the costs, a task that is more challenging than it may first appear.

### Direct Costs

Among the direct costs are the instructors hired to lead a program, the supplies and materials used only in that program and, perhaps, the room rented. In a cost recovery analysis, direct costs are commonly counted and people try to recover all or part of those costs.



### Indirect Costs

While some of the costs are obviously and solely associated with a program, the percentage of other costs stemming from a program are less easy to quantify. Indirect expenses – which include the percentage of wages paid to the instructors' superior, who did the legwork to launch the new program, for example – can be difficult to determine. Some costs, such as the administrators' time, are split across several programs, making them difficult to delineate and measure by function or program. As a result, the sincere question for many institutions is: 'Do we invest the energy in calculating those costs?'

In Betts' opinion, it is necessary to calculate the indirect costs. "I made the decision to count as much as I can to show a more accurate picture of what our cost recovery actually is," he said. "For all of our programs, we do a business cost-benefit analysis. This gives us insight to assess current programs and to consider prospective programs."

According to Barron, the Lisle Park District does program analyses each season, looking at how the fees and charges are affecting the programs' performance. The agency uses the information not only to make decisions about adding or eliminating programs, but also to make changes to the fees, if necessary.

### Obstacles: Educating Decision-makers

In most cases, administrators understand the premise for considering, and possibly implementing, a cost recovery philosophy. However, local governments and staff throughout the organization may not grasp the justification and potential importance of the subject.

This may be particularly true in a municipal setting. In Betts' opinion, the biggest obstacle is "the political wheel, city government," which he attributes to a lack of education around the significance of cost recovery and poor communication with the upper ranks. This makes the analysis of program costs, tax revenues and fee income important, he says. "If you haven't done the analysis around where

you are and where you want to be, it's hard to even have those conversations," Betts said.

The other big obstacle is determining the fees. "Once you do the analysis, it becomes easier to associate fees to what you do," he said. Betts maintains that letting the abilities of low-income residents define fee amounts is the wrong approach and one that undermines the sustainability of the department. "It's really about pricing our programs to the 80 percent who can afford to pay and subsidizing those who can't," said Betts. "Historically the parks and recreation sector has directed fees for programs to the 20 percent of the community that can't afford to pay. In this scenario, 80 percent get a great bargain and our cost recovery stays in the basement. We're changing that focus, and that's the right thing to do."

It's not uncommon for a community to set up scholarship programs for low-income families and individuals who can't afford to pay, making their access to parks and recreation programs less of a defining issue.

### Obstacles: Educating Staff and the Public

The staff interfaces directly with the residents. Their clarity about the subject, conviction in its justification and buy-in to the cost recovery plan influences morale within the organization and understanding from the community.

Cost recovery analysis allows the staff to recognize the needs of the organization as a whole, Barron says. In order to survive, the individual programs depend on the health of the entire organism; they don't exist in a vacuum. The agency's vitality is influenced by its overall ability to satisfy community demand, use tax revenues equitably and provide specialized, high-quality services when they are justified by community participation.

"The staff needs to be educated," Barron said. "When they see the big picture, agency-wide breakdowns, rather than individual program breakdowns, they understand the justification for cost recovery."

One of the biggest dilemmas across the country is that people try to compare their programs and costs to those of other communities. This stems from a perspective of 'shoulds.' For example, the question, "What should our cost recovery percentage be?"

Little work has been done to determine a national average for cost recovery for park and recreation agencies for a variety of reasons. One reason is because agencies do not calculate their percentages the same way; what is, and is not, counted on the cost side varies widely. This obviously undermines the value of comparing cost recovery data from one agency to another.

The breadth of the services under consideration also varies. Some wish to compare an entire park and recreation agency budget, or

"The more inclusive that you can be, the better," Betts said. "It's about informing the people who don't deal with this every day. What we're doing with the cost-benefit analysis is involving key stakeholders – city council, user groups and staff. They've been at the table almost from the beginning, and, by involving them in the conversation, we have given them a broad understanding of the fees and the need for the fees. Our strategy is to communicate with our public and elected officials on a monthly basis. We update them on these kinds of initiatives through a communication that goes strictly to city council. Also, we get on their calendar to present our initiatives in person. Our department is constantly in front of them with issues."

Internally, Denver has created a Fees and Charges Committee devoted to related issues, such as the costs of its programs, pricing them and relevant trends. Additionally, Denver has earned the support of its staff by positioning the subject in slightly different way. "We changed the conversation with our staff by changing the language," Betts said. "We moved from 'cost recovery' to 'cost-benefit.' People can associate spending money if they're benefiting from something. Quality is the driving piece."

Barron notes that when communicating with the public, the possibility exists to provide too much information. At Lisle, her staff generally explained simply that the tax dollars do not support

**"We educated the public broadly with annual reports and electronic newsletters, letting them know which portion came from tax dollars and educating them on the big picture."**

perhaps just the recreation division. It is more common to consider a single facility such as a recreation center. However, there are also a variety of "cost centers" within a single facility with a wide range of potential cost recovery targets. For example, a senior services wing may have very low cost recovery potential, while a fitness center may experience high cost recovery, making it difficult to compare facilities offering different activities. It may be more beneficial for an agency to set its own cost recovery targets and work to hold that line, modifying the target as circumstances change.

Two other factors that influence a program's cost recovery potential, and also challenge the notion of standards, are the size and type of community. Different economies have different needs. Residents of rural communities have different expectations of a recreation center than residents of affluent suburban communities. The same is true of other demographics, such as age.

National averages do not reflect the nuances of individual communities and they do not reflect a number of decisions that distinct agencies will make in conducting a cost recovery analysis.

Betts considers standards helpful but doesn't apply them to his own process unless he knows what has actually gone into the calculations. "It's easy for the folks to say, 'We did 50 percent cost recovery,' but what are you counting as indirect costs?" Betts said. "Often, that changes the conversation. Some folks who are at a higher cost recovery are not counting the same things I'm counting. I can show on paper a 50 percent or 60 percent cost recovery, but it wouldn't be the real story."

### **Overcoming the Challenges**

Communication is essential to overcoming challenges to implementing a cost recovery approach. The form of communication and frequency will vary by community. Each organization chooses the best means for educating its stakeholders.

everything the agency provides and so the agency relies on user fees to support those services. "We educated the public broadly with annual reports and electronic newsletters, letting them know which portion came from tax dollars and educating them on the big picture," Barron said. "By doing this, they saw that we were funded minimally in comparison to other governmental bodies, such as schools or the fire department."

### **Cost-Benefit and the Balanced Use of Tax and Fee Revenues**

Cost recovery reserves tax revenues for those things that really should be supported by the entire local population. As Barron says, public park, recreation and conservation agencies are entrusted with taxpayer dollars. As such, they are responsible for providing as many high quality services as possible, without placing an exceptional burden on the taxpayers.

By determining the appropriate balance of tax and fee revenues, recreation managers can decide confidently how to broaden participation and serve the expectations of their constituents.

**Chris Dropinski, CPRP**, has more than 30 years of experience in the public parks, recreation and open space industry. She is currently a management consultant with GreenPlay, LLC. Her career has focused on management, facility development, public and alternative funding, as well as open space and park planning, public process facilitation, board/council relations, analysis and policy research and development. She is a fellow of the American Academy for Park and Recreation Administration and currently serves as chair of the Rocky Mountain Revenue Management School. She is a frequent speaker in the industry.