



MEMORANDUM

Date: August 18, 2014 at 6:00 p.m.
To: Mayor Dickson and City Council
From: Dara MacDonald
Re: Work Session Items

- I. Budget Workshop



To: Mayor Dickson and Elected Officials
From: Jan Schmidt
Date: August 15, 2014
Subject: First Budget Work Session

The first public budget work session with elected officials will be held on Monday, August 18th. Primary objectives for this meeting revolve around participants gaining an understanding of the process and timeline and gaining consensus of overarching goals of the governing body.

Agenda:

- Introduction to the budget process, format, roles, etc.
- Review timeline
- How do we prioritize requests?
 - Guiding documents (Comprehensive Plan, Parks Master Plan, capital improvement plans, special studies, etc.)
 - Criteria established for internal projects
 - Criteria for community support requests
- What are council's overarching goals?
- Affirm city-wide goals
 1. Maintain and improve Salida's existing assets
 2. Do it right and make it last
 3. Increase pride in the community and confidence in local government
 4. Invest in employees
- Understand different revenue sources and restricted uses
- Cost recovery philosophy (see attachment)

Attachments:

- Budget Timeline
- Salida Municipal Code §4-3-50
- The Pyramid Methodology: Cost Recovery and Subsidy Allocation Philosophy
- Example policies from Louisville and Evergreen

Budget Timeline

<u>What</u>	<u>When</u>
1. Department Heads submit preliminary budget narratives	Friday, July 25
2. Individual Department Review Meetings	Week of July 28
3. Capital requests prioritization meetings.....	Weeks of August 4 & 11
4. Department heads submit worksheets & final narratives	Monday, Aug 18
5. Vision, Goals & Priorities meeting with Council	Monday, August 18
6. Staff Work Session #2.....	Wednesday, Aug 27
7. Individual Department Follow Up Meetings (as needed).....	Mid to Late August
8. Community Funding Requests Due.....	Sunday, August 31
9. Council Work Session #1 (general fund)	Tuesday, Sept 2
10. Council Work Session #2 (water & sewer).....	Monday, Sept 15
11. Council Work Session #3 (all funds)	Tuesday, Sept 30
12. Submit proposed budget to council	Tuesday, Oct 7
13. Council Work Session #4.....	Monday, Oct 20
14. Adopt Fee Schedules	Tuesday, October 21
15. Council Work Session #5	Tuesday, Nov 4
16. Present Revised Budget & hold Public Hearing.....	Tuesday, Nov 4
17. Additional Council Work Session (if needed).....	Monday, Nov 17
18. Budget Approval	TBD - Tuesday, Nov 4, 18 or Dec 2

Salida Municipal Code
Section 4-3-50, Disposition of revenue

(a) Thirty-five percent (35%) of proceeds received from the two-percent sales tax imposed by the City shall be pledged to the Sales Tax Capital Improvement Fund to be used to provide streets and other capital improvements or to pay debt service on bonds or other obligations of the City issued to provide for such capital improvements. All other revenue shall be allocated as follows:

(1) Nine percent (9%) shall be allocated to a Capital Expenditures Fund to be used for the purchase of machinery and equipment that is greater than five hundred dollars (\$500.00) with a useful life in excess of one (1) year.

(2) One percent (1%) shall be allocated to an Economic Development Fund to be used as approved by the City Council for economic development within the City.

(3) Up to eight percent (8%) shall be allocated to a Contingency Fund in any calendar year when such fund is less than fifteen percent (15%) of the City's General Fund Operating Budget, it being the intent to maintain a Contingency Fund which, in any year, is equal to fifteen percent (15%) of the General Fund Operating Budget. The Contingency Fund can be utilized by the City Council to cover unbudgeted, unforeseen reductions in revenue collections or unusual expenditures outside the scope of normal operations.

(4) All other revenue collected from the City sales tax shall be allocated to the General Fund for operating expenditures.

(b) The proceeds of the one percent (1.0%) increase in sales tax imposed by Ordinance No. 34, Series of 2008 shall be used for funding construction, operation, maintenance, and repair of roads and other public infrastructure of the City.

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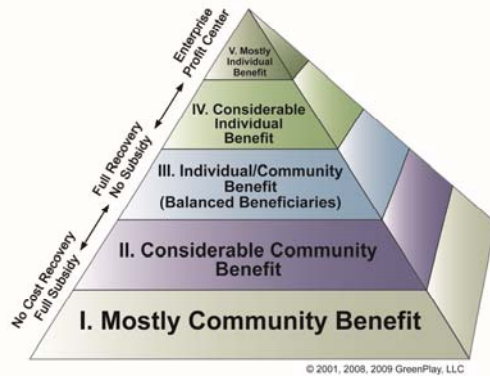
THE PYRAMID METHODOLOGY: COST RECOVERY AND SUBSIDY ALLOCATION PHILOSOPHY

The creation of a cost recovery and subsidy allocation philosophy and policy is a key component to maintaining an agency’s financial control, equitably pricing offerings, and helping to identify core services including programs and facilities.

Critical to this philosophical undertaking is the support and buy-in of elected officials and advisory boards, staff, and ultimately, citizens. Whether or not significant changes are called for, the organization should be certain that it philosophically aligns with its constituents. The development of a financial resource allocation philosophy and policy is built upon a very logical foundation, based upon the theory that those who benefit from parks and recreation services ultimately pay for services.



The Pyramid Methodology



The development of a financial resource allocation philosophy can be separated into the following steps:

Step 1 – Building on Your Organization’s Values, Vision, and Mission

The premise of this process is to align agency services with organizational values, vision, and mission. It is important that organizational values are reflected in the vision and mission. Oftentimes, mission statements are a starting point and further work needs to occur to create a more detailed common understanding of the interpretation of the mission and a vision for the future. This is accomplished by engaging staff and community members in a discussion about a variety of Filters.

Step 2 – Understanding the Pyramid Methodology, the Benefits Filter, and Secondary Filters

Filters are a series of continuums covering different ways of viewing service provision. **Filters** influence the final positioning of services as they relate to each other and are summarized below. The **Benefits Filter**, however; forms the **foundation** of the **Pyramid Model** and is used in this discussion to illustrate a cost recovery philosophy and policies for parks and recreation organizations.

Filter	Definition
Benefit	Who receives the benefit of the service? (Skill development, education, physical health, mental health, safety)
Access/Type of Service	Is the service available to everyone equally? Is participation or eligibility restricted by diversity factors (i.e., age, ability, skill, financial)?
Organizational Responsibility	Is it the organization’s responsibility or obligation to provide the service based upon mission, legal mandate, or other obligation or requirement?
Historical Expectations	What have we always done that we cannot change?
Anticipated Impacts	What is the anticipated impact of the service on existing resources? On other users? On the environment? What is the anticipated impact of not providing the service?
Social Value	What is the perceived social value of the service by constituents, city staff and leadership, and policy makers? Is it a community builder?

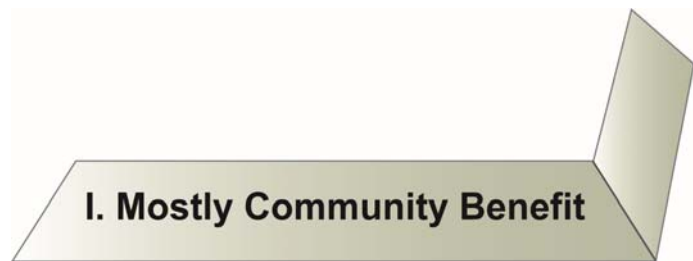
THE BENEFITS FILTER

The principal foundation of the Pyramid is the **Benefits Filter**. Conceptually, the base level of the pyramid represents the mainstay of a public parks and recreation system. Services appropriate to higher levels of the pyramid should only be offered when the preceding levels below are comprehensive enough to provide a foundation for the next level. This foundation and upward progression is intended to represent public parks and recreation's core mission, while also reflecting the growth and maturity of an organization as it enhances its service offerings.

It is often easier to integrate the values of the organization with its mission if they can be visualized. An ideal philosophical model for this purpose is the pyramid. In addition to a physical structure, *pyramid* is defined by Webster's Dictionary as "an immaterial structure built on a broad supporting base and narrowing gradually to an apex." Parks and recreation programs are built with a broad supporting base of core services, enhanced with more specialized services as resources allow. Envision a pyramid sectioned horizontally into five levels.

MOSTLY COMMUNITY Benefit

The foundational level of the Pyramid is the largest, and includes those services including programs and facilities which **MOSTLY** benefit the **COMMUNITY** as a whole. These services may increase property values, provide safety, address social needs, and enhance quality of life for residents. The community generally pays for these basic services via tax support. These services are generally offered to residents at a minimal charge or with no fee. A large percentage of the agency's tax support would fund this level of the Pyramid.



Examples of these services could include: the existence of the community parks and recreation system, the ability for youngsters to visit facilities on an informal basis, low-income or scholarship programs, park and facility planning and design, park maintenance, or others.

NOTE: All examples above are generic – individual agencies vary in their determination of which services belong in the foundation level of the Pyramid based upon agency values, vision, mission, demographics, goals, etc.

CONSIDERABLE COMMUNITY Benefit

The second and smaller level of the Pyramid represents services which promote individual physical and mental well-being, and may begin to provide skill development. They are generally traditionally expected services and/or beginner instructional levels. These services are typically assigned fees based upon a specified percentage of direct (and may also include indirect) costs. These costs are partially offset by both a tax subsidy to account for **CONSIDERABLE COMMUNITY** benefit and participant fees to account for the **Individual** benefit received from the service.



Examples of these services could include: the capacity for teens and adults to visit facilities on an informal basis, ranger led interpretive programs, beginning level instructional programs and classes, etc.

BALANCED INDIVIDUAL/COMMUNITY Benefit

The third and even smaller level of the Pyramid represents services that promote individual physical and mental well-being, and provide an intermediate level of skill development. This level provides balanced **INDIVIDUAL** and **COMMUNITY** benefit and should be priced accordingly. The individual fee is set to recover a higher percentage of cost than those services that fall within lower Pyramid levels.



Examples of these services could include: summer recreational day camp, summer sports leagues, year-round swim team, etc.

CONSIDERABLE INDIVIDUAL Benefit

The fourth and still smaller Pyramid level represents specialized services generally for specific groups, and those which may have a competitive focus. Services in this level may be priced to recover full cost, including all direct and indirect expenses.



Examples of these services could include: specialty classes, golf, and outdoor adventure programs.

MOSTLY INDIVIDUAL Benefit

At the top of the Pyramid, the fifth and smallest level represents services which have profit center potential, may be in an enterprise fund, may be in the same market space as the private sector, or may fall outside the core mission of the agency. In this level, services should be priced to recover full cost in addition to a designated profit percentage.



Examples of these activities could include: elite diving teams, golf lessons, food concessions, company picnic rentals, and other facility rentals such as for weddings or other services.

Step 3 – Developing the Organization’s Categories of Service

In order to avoid trying to determine cost recovery or subsidy allocation levels for each individual agency service including every program, facility, or property, it is advantageous to categorize agency services into like categories. This step also includes the development of category definitions that detail and define each category and service inventory “checks and balances” to ensure that all agency services belong within a developed category. *Examples of Categories of Service could include: Beginner Instructional Classes, Special Events, and Concessions/Vending.*

Step 4 – Sorting the Categories of Service onto the Pyramid

It is critical that this sorting step be done with staff, governing body, and citizen representatives involved. This is where ownership is created for the philosophy, while participants discover the current and possibly varied operating histories, cultures, and organizational values, vision, and mission. It is the time to develop consensus and get everyone on the same page – the page that is written together. Remember, this effort must reflect the community and must align with the thinking of policy makers.

Sample Policy Development Language:

XXX community brought together staff from across the department, agency leadership, and citizens to sort existing programs into each level of the Pyramid. The process was facilitated by an objective and impartial facilitator in order to hear all viewpoints. It generated discussion and debate as participants discovered what different people had to say about serving culturally and economically varied segments of the community, about historic versus active-use parks, about the importance of adult versus youth versus senior activities, and other philosophical and values-based discussions. This process gets at both the “what” and “why” with the intention of identifying common ground and consensus.

Step 5 – Defining Direct and Indirect Costs

The definition of direct and indirect costs can vary from agency to agency. What is important is that all costs associated with directly running a program or providing a service are identified and consistently applied across the system. Direct costs typically include all the specific, identifiable expenses (fixed and variable) associated with providing a service. These expenses would not exist without the service and may be variable costs. Defining direct costs, along with examples and relative formulas is necessary during this step.

Indirect costs typically encompass overhead (fixed and variable) including the administrative costs of the agency. These costs would exist without any specific service but may also be attributed to a specific agency operation (in which case they are direct expenses of that operation). If desired, all or a portion of indirect costs can be allocated, in which case they become a direct cost allocation.

Step 6 – Determining (or Confirming) Current Subsidy/Cost Recovery Levels

This step establishes the expectation that the agency will confirm or determine current cost recovery and subsidy allocation levels by service area based on the new or revised definition of direct and in-direct costs. This will include consideration of revenues sources and services costs or expenses. Typically, staff may not be cost accounting consistently, and these inconsistencies will become apparent. Results of this step will identify whether staff members know what it costs to provide services to the community, whether staff have the capacity or resources necessary to account for and track costs, whether accurate cost recovery levels can be identified, and whether cost centers or general ledger line items align with how the agency may want to track these costs in the future.

Step 7 – Establishing Cost Recovery/Subsidy Goals

Subsidy and cost recovery are complementary. If a program is subsidized at 75%, it has a 25% cost recovery, and vice-versa. It is more powerful to work through this exercise thinking about where the tax subsidy is used rather than what is the cost recovery. When it is complete, you can reverse thinking to articulate the cost recovery philosophy, as necessary.

The overall subsidy/cost recovery level is comprised of the average of everything in all of the levels together as a whole. This step identifies what the current subsidy level is for the programs sorted into each level. There may be quite a range within each level, and some programs could overlap with other levels of the pyramid. This will be rectified in the final steps.

This step must reflect your community and must align with the thinking of policy makers regarding the broad picture financial goals and objectives.

Examples

Categories in the bottom level of the Pyramid may be completely or mostly subsidized, with the agency having established limited cost recovery to convey the value of the experience to the user. An established 90-100% subsidy articulates the significant community benefit resulting from these categories.

The top level of the Pyramid may range from 0% subsidy to 50% excess revenues above all costs, or more. Or, the agency may not have any Categories of Service in the top level.

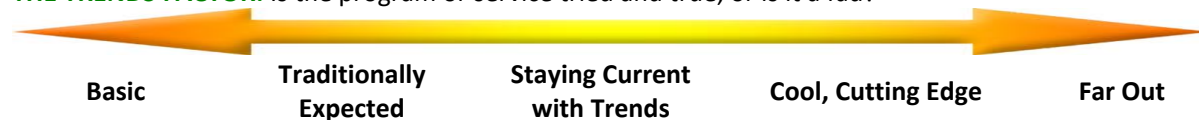
Step 8 – Understanding and Preparing for Influential Factors and Considerations

Inherent to sorting programs onto the Pyramid model using the Benefits and other filters is the realization that other factors come into play. This can result in decisions to place services in other levels than might first be thought. These factors also follow a continuum; however, do not necessarily follow the five levels like the Benefits Filter. In other words, a specific continuum may fall completely within the first two levels of the Pyramid. These factors can aid in determining core versus ancillary services. These factors represent a layering effect and should be used to make adjustments to an initial placement on the Pyramid.

THE COMMITMENT FACTOR: What is the intensity of the program; what is the commitment of the participant?



THE TRENDS FACTOR: Is the program or service tried and true, or is it a fad?



THE POLITICAL FILTER: What is out of our control?

This filter does not operate on a continuum, but is a reality, and will dictate from time to time where certain programs fit in the pyramid

THE MARKETING FACTOR: What is the effect of the program in attracting customers?



THE RELATIVE COST TO PROVIDE FACTOR: What is the cost per participant?



THE ECONOMIC CONDITIONS FACTOR: What are the financial realities of the community?



FINANCIAL GOALS FACTOR: Are we targeting a financial goal such as increasing sustainability, decreasing subsidy reliance?



Step 9 – Implementation

Across the country, ranges in overall cost recovery levels can vary from less than 10% to over 100%. The agency sets their goals based upon values, vision, mission, stakeholder input, funding, and/or other criteria. This process may have been completed to determine present cost recovery levels, or the agency may have needed to increase cost recovery levels in order to meet budget targets. Sometimes, simply implementing a policy to develop equity is enough without a concerted effort to increase revenues. Upon completion of steps 1-8, the agency is positioned to illustrate and articulate where it has been and where it is heading from a financial perspective.

Step 10 – Evaluation

The results of this process may be used to:

- articulate and illustrate a comprehensive cost recovery and subsidy allocation philosophy
- train staff at all levels as to why and how things are priced the way they are
- shift subsidy to where it is most appropriately needed
- benchmark future financial performance
- enhance financial sustainability
- recommend service reductions to meet budget subsidy targets, or show how revenues can be increased as an alternative
- justifiably price new services

This Cost Recovery/Subsidy Allocation Philosophy: The Pyramid Methodology Outline is provided by:



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Creating a Cost Recovery Philosophy and Policy

It is important for Department to develop a Pricing and Cost Recovery Philosophy that reflects the values of the community and the responsibility it has to the community. This philosophy will be especially important as the Department moves forward to maintain current programs, development of new programs, current and/or expanded facilities, and as it strives for sustainability and determines how much it is willing to subsidize operations.

Louisville Preliminary Pyramid Recommendation – Utilizing the information identified during the planning process, it is recommended that the categories below be used to determine to what level Louisville programs and services should be subsidized. ***This is not intended to be an all-inclusive list or firm recommendation for subsidy level but rather a starting point for discussion. Further development will be needed and should be based on mission, vision, identified core services, and other guiding principles of the Department, the City and the Community.***

- Mostly Community Benefit - Highest level – 100% subsidy
 - Non-monitored parks and recreation facilities
 - Facility maintenance
 - Property acquisition (open space, parks, and trails corridors)

- Considerable Community Benefit – approximately 50% (+/-) of Direct Costs
 - Facility admissions (recreation center, Memory Square Pool)
 - Senior programs (introductory/recreational)
 - Social programs (i.e. Senior meals, scholarships)

- Individual/Community Benefit (Balanced) – 75% to 100% of Direct Costs
 - Youth programming – introductory/recreational
 - Preschool programming – introductory/recreational
 - Senior Programming – advanced/limited access
 - Special Events
 - Facility rentals – non profit

- Considerable Individual Benefit – 100% to 150% of Direct Costs
 - Youth programming – advanced/competitive
 - Adult programming – introductory/recreational

- Mostly Individual Benefit – 200% of Direct Costs
 - Adult programming – advanced/individual
 - Private lessons
 - Facility rentals – private

Evergreen Preliminary Pyramid Recommendation – Utilizing the information identified during the planning process, it is recommended that the categories below be used to determine to what level Evergreen programs and services should be subsidized. ***This is not intended to be an all-inclusive list or recommendation for subsidy level, but rather a starting point for discussion. Further development will be needed and should be based on mission, vision, identified core services, and other guiding principles of the District and the community.***

- Mostly Community Benefit - Highest level – 100% subsidy
 - Non-monitored parks and recreation facilities
 - Facility acquisition and maintenance
- Considerable Community Benefit – approximately 80% (+/-) of direct costs
 - Facility admissions (recreation center)
 - Special populations programming
- Individual/Community Benefit (Balanced) – 100% - 120% of Direct Costs
 - Youth programming – introductory/recreational
 - Preschool programming – introductory/recreational
 - Special Events
 - Facility rentals – non profit
- Considerable Individual Benefit – 120% + of direct costs
 - Youth programming – advanced/competitive
 - Adult/Senior programming – introductory/recreational
- Mostly Individual Benefit – 150% + of direct costs
 - Adult programming – advanced/individual
 - Private lessons
 - Facility rentals – private.