



**Draft for Parks and Recreation Commission
and Arts Commission review on April 13, 2011**

Council Date: April 26, 2011

**SUBJECT: Revisit City Policy Governing the Community Recreation
Fund—Study Issue**

REPORT IN BRIEF

The concept behind the creation of the Community Recreation Fund (CRF) was very simple: place all of the revenues and expenses associated with the City's recreational services together in one fund, operate it on a "pay to play" basis, and recover the cost of providing services to the degree possible through user fees. Strive for full cost recovery on an overall fund basis.

In practice, things are not nearly as simple as this; at least not under the current fund's structure. Fortunately, staff believe that with some relatively minor changes (revisions to existing policy, coupled with the creation of a new framework), more effective tools can be developed to help Council set service levels and to help staff manage day to day operations.

BACKGROUND

The CRF, which was created in FY 1991/1992, provides for the recreation activities of the City, including the two City-operated golf courses as well as all other recreation programs and services. Prior to the initiation of the CRF, golf operations were contained in a separate fund, with recreation services part of the General Fund. The primary intent of creating the CRF was to significantly reduce the amount of General Fund monies required to support recreation services in future years. This was to be accomplished largely by:

- running recreation like a business, and
- allowing net profits from golf to subsidize recreation activities

While these strategies certainly helped to reduce the level of General Fund support required by recreation (particularly in terms of increased revenues), the convoluted structure of the CRF makes it difficult to manage or understand, and hampers its usefulness as a decision-making tool – both for Council during budget time, and for staff managing day to day operations. In addition, several of the City's General Plan policies relative to the CRF – and its relationship to other funds – are either in conflict with actual City practice or create unintended consequences.

This report addresses those concerns and recommends a revised path forward. (See Attachment A – 2011 Council Study Issue, DCS 11-01, Revisit City Policy Governing the Community Recreation Fund.)

EXISTING POLICY

- Fiscal Sub-element Policy I.2a.1.: The General Fund subsidy received by the Community Recreation Fund shall be fixed at the FY 2006/2007 level as the base year and increased annually by the inflation factor included in the recommended budget for the upcoming year.
- Fiscal Sub-element I.2a.2.: Any increase in service levels by City Council not covered by an increase in revenues will result in a corresponding increase to the General Fund subsidy.
- Fiscal Sub-element I.2a.3.: Any action by City Council to decrease revenues of the Community Recreation Fund not covered by a decrease in operating costs will result in a corresponding increase to the General Fund subsidy.
- Fiscal Sub-element 1.2a.4.: The infrastructure rehabilitation and replacement of all facilities on park land, including the golf courses and tennis center, will be funded first through the Park Dedication Fund if funds are available.
- Fiscal Sub-element I.2a.5.: A fee waiver system should be provided to allow persons who are economically disadvantaged to participate in and utilize programs, facilities, and services provided by the Community Recreation Fund. The criteria for eligibility in the system shall be established by Council policy.

DISCUSSION

Proposed Framework

Despite its name and its promotion as an enterprise fund, the CRF is neither restricted to recreational activities, nor operated as a true enterprise fund. Staff's interest in reframing the CRF stems in part from how the fund is perceived, and the performance expectations that accompany those perceptions. Both the CRF's name (Community *Recreation* Fund), and the fact that it is managed by the *Recreation* Division, help to promote the notion that it represents a basket of *recreational* services provided to the public. The fact is, however, that a number of services provided by the CRF are not recreation-oriented. Examples include the City's art in private development program, social services for seniors, and the administration of a fee waiver program.

This would be of little importance were it not for the accompanying expectation that the CRF operate as an enterprise fund – i.e., that it be capable of generating sufficient revenue to cover its own costs. Because the very creation of the CRF was predicated on significantly reducing the amount of General Fund monies

required to support *recreation* services in future years, it's only natural the fund's performance be interpreted in this context – i.e., as a reflection of staff's ability to recover *recreational* costs through user fees. And success has always been measured in relationship to full cost recovery. This too makes sense, as enterprise funds are typically established for services whose fees and charges are designed to recover all related costs, including capital expenditures. In fact, soon after its origination in the early 1990's, the CRF was projected to attain full cost recovery over the course of the next several years.

The reality, however, is that despite great strides forward in terms of revenue generation and operational efficiencies, the CRF's struggle for self-sufficiency has been hampered by a host of non-recreational services which do not traditionally charge fees (i.e., social services), or at least do not charge fees designed to recover their full costs (e.g., an at-risk youth program designed to serve economically challenged families). This makes the pursuit of full cost-recovery at the fund level very difficult, if not impossible. (See Attachment B – growth of overall subsidy to the CRF over the past 10 years.) In fact, an enterprise fund mindset runs counter to the establishment of a social service safety net, which is typically characterized by subsidized services. That is, to attempt to achieve the social objectives of a senior health program under the fiscal objectives of an enterprise fund is simply not realistic.

The tension between these opposing objectives (managing an enterprise fund and providing heavily subsidized social services) is, in fact, exacerbated when the economy suffers, because at that time the pressure to do both intensifies.

Staff wants to do both, but managing an enterprise fund with a heavy menu of services that aren't expected to come close to paying their way is a continual exercise in frustration. Nor is there any apparent rhyme or reason for including certain social services in the CRF while excluding others. If care management, blood screening and flu shots for seniors are included, why not health services for youth? For that matter, why not the entire Columbia Neighborhood Center program? That consistency in approach, however, would only call further into question the wisdom of operating the CRF as an enterprise fund.

Staff Recommendations regarding the framework of the CRF:

- **In keeping with the spirit of an enterprise fund, include only golf and tennis operations – i.e., those services that charge fees designed to cover the full cost of providing the service, including both capital and operating costs. Transfer all other recreational services to the General Fund. Rename the CRF the Golf and Tennis Fund so that it is self-explanatory.**

Revenue Confusion

Just as there are services within the CRF that do not belong in an enterprise fund, so are there a number of revenue streams attributed to the CRF that have nothing to do with recreation (e.g., payments by cellular phone companies for lease of space for cellular antennae in City parks, which are in no way related to recreation's operations, and require no effort on the part of recreation staff to manage, monitor, or maintain).

Staff Recommendation: Transfer out of the CRF (and into the General Fund) revenue streams that are not directly tied to golf and tennis operations.

Proposed Revisions to Existing CRF Policies

Staff believes the following General Plan policies regarding the CRF should be eliminated for the reasons detailed below:

- **Existing Fiscal Sub-element Policy I.2a.1.: The General Fund subsidy received by the Community Recreation Fund shall be fixed at the FY 2006/2007 level as the base year and increased annually by the inflation factor included in the recommended budget for the upcoming year.**

Even under the current CRF, this policy unnecessarily ties the Council's hands. In fact, strict compliance with this policy would not have allowed Council's recent action to require an overall reduction of \$600,000 in General Fund subsidy to the Community Recreation Fund over a period of three years. Were golf and tennis to operate as a true enterprise fund, little if any General Fund support should be needed in future years.

- **Existing Fiscal Sub-element I.2a.2.: Any increase in service levels by City Council not covered by an increase in revenues will result in a corresponding increase to the General Fund subsidy.**

The intent here was simple: preclude decisions to add services which were not self-sufficient (think "care management" or a new special event) without acknowledging and addressing the additional General Fund subsidy needed to carry those services.

If the CRF is to operate as a true enterprise fund, however, this policy should also be eliminated. There should be no increase in service levels to an enterprise fund that requires a corresponding increase in General Fund subsidy.

- **Existing Fiscal Sub-element 1.2a.3.: Any action by City Council to decrease revenues of the Community Recreation Fund not covered by a decrease in operating costs will result in a corresponding increase to the General Fund subsidy.**

Even under the current CRF, this policy was too restrictive. While increasing the General Fund subsidy was one way to address decreased revenues, it was not the only way. If a Golf and Tennis enterprise fund is created, there should be no need for this policy.

- **Existing Fiscal Sub-element 1.2a.4.: The infrastructure rehabilitation and replacement of all facilities on park land, including the golf courses and tennis center, will be funded first through the Park Dedication Fund if funds are available.**

The spirit of an enterprise fund would suggest that all golf and tennis expenses, including those related to infrastructure, be paid for by golf and tennis revenues. Currently, however, expenses associated with rehabilitating and replacing golf and tennis infrastructure are not included in the CRF. Instead, they are paid for by the Park Dedication Fund. This is good for the CRF as it allows golf and tennis profit (which has ranged from a high of \$2 million to approximately \$120,000 annually at present) that would otherwise be used to maintain golf infrastructure, to instead support other recreational programs. This arrangement, however, has had a negative impact on the condition of golf's infrastructure, as the golf course now competes with all other park projects for Park Dedication funding. Since there are far more projects than there is available Park Dedication funding, and since there are no established policies governing the prioritization of those projects, the golf course infrastructure – from trees to pro shops to restaurants – has begun to suffer. Attachment C provides a list of needed golf course projects that have yet to be funded due to competing demands from other park and recreation projects. Staff recommends that this policy be eliminated and eventually replaced with a broader set of Council policies governing the Park Dedication Fund. Given current efforts to streamline the General Plan, these would be recommended for inclusion in Council's Policy Manual rather than the General Plan.

The downside to this proposal would be the loss of a significant revenue stream to other recreational activities. Golf and tennis profits previously funneled into recreational activities would now pay for golf and tennis infrastructure instead (and the monies from the Park Dedication Fund that previously paid for golf and tennis infrastructure would be restricted to paying for park and recreation-related infrastructure outside of golf and tennis). See Fiscal Impact section.

- **Existing Fiscal Sub-element I.2a.5.: A fee waiver system should be provided to allow persons who are economically disadvantaged to participate in and utilize programs, facilities, and services provided by the Community Recreation Fund. The criteria for eligibility in the system shall be established by Council policy.**

Staff does not believe this policy should reside in the CRF (a more appropriate connection would be with Youth and Family Resources). Without an established minimum or maximum level of funding (which staff does not advocate), it is of limited value anyway. Staff believes that the adoption of an annual budget allows sufficient opportunity for Council to consider the merits of a fee waiver program and to determine an appropriate level of funding.

FISCAL IMPACT

Staff has already been tasked with finding ways to reduce the required subsidy to the CRF by \$600,000 over three fiscal years, starting in FY 2010/2011. Staff has achieved the targeted savings for 2010/2011 (\$200,000), is implementing the required changes for FY 2011/2012 (an additional \$200,000), and will be bringing forward for Council's consideration several options to achieve the final \$200,000 in ongoing savings for FY 2012/2013. These ongoing savings are required in order to maintain the overall subsidy to the CRF at \$4.4 million dollars.

The recommendation to transfer all recreational services (other than golf and tennis) back into the General Fund, coupled with the requirement that golf and tennis fund their own infrastructure needs, would *increase* the amount of Park Dedication Funds available to address non-golf and tennis infrastructure in parks and recreation areas, but it would also *decrease* the financial support provided by golf and tennis to other community services (recreational activities as well as social services). To the degree that the City could no longer pay for those other community services through the General Fund or increased revenues, service levels would need to be reduced. Staff estimates that over the next five years, the average fiscal impact in this regard would be *an additional* \$600,000 reduction annually. In other words, the approximately \$3.8 million dollar subsidy from the General Fund to recreational and social services—which already assumes a \$600,000 ongoing savings by staff, will grow to \$4.4 million dollars annually unless service levels are further reduced by an additional \$600,000.

PUBLIC CONTACT

Public Contact was made through posting of the Parks and Recreation Commission and Arts Commission agendas on the City's official-notice bulletin board, on the City's Web site, and the availability of the agenda and report in the

Office of the City Clerk. Notice of this report was also sent to all parties registered for the “Friends of Parks and Recreation” mailing list (a list of organizations and individuals who have expressed interest in Parks and Recreation issues).

ALTERNATIVES

- 1. Beginning in Fiscal Year 2012/2013, rename the Community Recreation Fund the Golf and Tennis Fund. Operate it as a true enterprise fund. Transfer all other recreational services, including both revenues and expenses, to the General Fund.**
- 2. Maintain the CRF as it is currently structured.**
- 3. Eliminate Fiscal Sub-element policies 1.2a.1; 1.2a.2; 1.2a.3; 1.2a.4; and 1.2a.5. Fund golf and tennis infrastructure with golf and tennis revenues rather than Park Dedication Funds.**
- 4. Maintain all existing Fiscal Sub-element policies.**
- 5. Create new policies for Council’s consideration governing the Park Dedication Fund.**
- 6. Do not create new policies for Council’s consideration governing the Park Dedication Fund.**
- 7. Other actions as directed by Council.**

RECOMMENDATION

Staff recommends Alternative numbers 1, 3 and 5. Although created as an enterprise fund, the current CRF does not operate as such, and it does not provide a clear or useful picture to City Council regarding the revenues, expenditures, or self-sufficiency of recreational services.

Staff believes that the creation of a Golf and Tennis Fund will allow the City to manage both operations as a true enterprise fund – i.e., one comprised of services whose fees and charges are designed to recover all costs, including capital costs. This in itself would necessitate that golf fund its own infrastructure costs, as opposed to relying on the Park Dedication Fund to do so. But requiring golf operations to pay for its own infrastructure will also maximize the amount of Park Dedication Funds available for park and recreation related projects outside of golf and tennis.

None of this will stop recreation from operating like a business or striving for self-sufficiency. In fact, the pressure to do so will only increase. A decrease in support from golf and tennis to other community services will necessitate one or more of the following:

- a) a higher level of General Fund subsidy to community (recreation and/or social) services
- b) a higher level of revenues associated with community services
- c) a lower cost of doing business due to efficiencies in community services

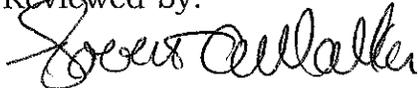
- d) service level reductions in community services, and a more effective tool for making related recommendations to Council

While these are not attractive options, the only remaining option is to continue allowing golf to subsidize other recreation and social services with dollars it would otherwise use to rehabilitate its own infrastructure. Staff believes that this would be penny-wise and pound-foolish, resulting in not only more expensive infrastructure repairs in the future, but a continual decline in the golf courses' ability to turn a profit. This past year, in fact, golf netted only \$120,000 in profit, forcing it to contribute nearly half a million dollars more from its reserves to the CRF. Those reserves are nearly depleted now, and so the reality is that if golf does not improve its revenue position in the near future, the General Fund will need to pick up the slack regardless. Golfers have options, and if Sunnyvale is to continue to hold its own against other golf courses in the area once the economy improves, then we must position ourselves as a destination of choice, and an important strategy in that regard involves investing in our infrastructure.

Given the complexities involved in the structural budgetary changes proposed, staff recommends that this approach be implemented in conjunction with Council's adoption of the next two-year operating budget (FY 2012/2013 and FY 2013/2014). This will allow staff in both the Departments of Finance and Community Services to adapt to pending change, and transition to the new structure accordingly.

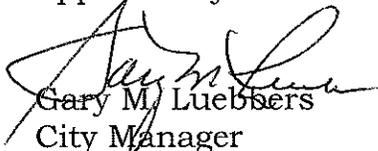
Should Council concur, staff would return later in calendar year 2011 with recommended policies of a more detailed nature governing use of the Park Dedication Fund, as well as an Information Only report discussing strategies for dealing with Community Service service levels in a fiscally constrained environment.

Reviewed by:



Robert Walker, Assistant City Manager

Approved by:



Gary M. Luebbbers
City Manager

Attachments

Attachment A: 2011 Council Study Issue, DCS 11-01

Attachment B: Growth in Subsidy to Recreation Over Past 10 Years

Attachment C: List of Unfunded Golf Course Projects

2011 Council Study Issue

DCS 11-01 Revisit City Policy Governing the Community Recreation Fund

Lead Department Community Services

History 1 year ago None 2 years ago None

1. What are the key elements of the issue? What precipitated it?

The Community Recreation Fund was originally established in FY 1991/1992 as an Enterprise Fund. The fund contains City arts and recreation classes and activities for pre-school aged children through seniors; community and health services through the Senior Center; public access to arts and recreational facilities and open space; the two City-operated golf courses and the tennis center at Las Palmas Park. The original intent of the fund was to be self-sufficient, but over time this goal was determined to be unrealistic. Lessons learned over the years have reinforced this fact. Since its creation, many of the priority programs and activities provided by the Community Recreation Fund have required support from the City's General Fund—a reflection of the fact that despite its attempts to generate revenue, the Fund still rests on a policy foundation heavily geared toward social service as opposed to commercial enterprise.

Management of the Fund has become increasingly complex and time-consuming, and it has become difficult for the layperson to digest it. Staff spend a significant amount of time each year monitoring the Fund, including the tracking and analyzing of various expenditure and revenue streams, some of which have no relationship to the provision of recreational services (for example, the revenue from cell phone providers leasing tower space in parks). This study would address the following questions:

- Do the Council policies related to the Community Recreation Fund warrant revision?
- Could the framework of the Community Recreation Fund be improved upon?
- Could the goals and objectives of the Community Recreation Fund be accomplished in a more efficient or effective manner?

2. How does this relate to the General Plan or existing City Policy?

All of the Fiscal Policies related to the creation and purpose of the Community Recreation Fund will be reviewed in the course of the study. The following are from the Fiscal Sub-Element:

I.2: Community Recreation Fund Policies

I.2a: Fund Management

- I.2a.1 The General Fund subsidy received by the Community Recreation Fund shall be fixed at the FY 2006/2007 level as the base year and increased annually by the inflation factor included in the recommended budget for the upcoming year.
- I.2a.2 Any increase in service levels by City Council not covered by an increase in revenues will result in a corresponding increase to the General Fund subsidy.
- I.2a.3 Any action by City Council to decrease revenues of the Community Recreation Fund not covered by a decrease in operating costs will result in a corresponding.

increase to the General Fund subsidy.

1.2a.4 The infrastructure rehabilitation and replacement of all facilities on park land, including the golf courses and tennis center will be funded first through the Park Dedication Fund if funds are available.

1.2a.5 A Fee Waiver system should be provided to allow persons who are economically disadvantaged to participate in and utilize programs, facilities, and services provided by the Community Recreation Fund. The criteria for eligibility in this system shall be established by Council policy.

1.2b: User Fees

1.2b.1 Golf fees shall be set annually utilizing market-based comparisons and included in the City's Annual Fee Schedule adopted by Council resolution.

1.2b.2 User fees for recreation services shall be set administratively by the Director of Parks and Recreation in accordance with a documented methodology that depicts a relationship to cost recovery, market forces, and adjustments based on such factors as:

- Perceived benefit to the community
- Pricing which favors Sunnyvale residents over non-residents
- Target populations
- Promotional and marketing considerations

1.2b.3 The fees established administratively by the Director of Parks and Recreation shall be published at least twice a year.

1.2c: Reserves

1.2c.1 The Community Recreation Fund shall maintain a Twenty-Year Resource Allocation Plan Reserve to stabilize economic cycles and maintain service levels over the long term.

1.2c.2 Any fund balance remaining in the Community Recreation Fund shall remain in the Fund for use in subsequent years.

1.2c.3 The Community Recreation Fund will maintain a Co-op Sports Reserve to administer the after school intra-mural sports league programs at Sunnyvale Middle School and Columbia Middle School as required by agreement with the Sunnyvale School District.

3. Origin of issue

City Staff Community Services Department

4. Staff effort required to conduct study Moderate

5. Multiple Year Project? No Planned Completion Year 2011

6. Expected participation involved in the study issue process?

- Does Council need to approve a work plan? No
- Does this issue require review by a Board/Commission? Yes
- If so, which? Arts Commission, Parks and Recreation Commission
- Is a Council Study Session anticipated? No

- 7. Briefly explain cost of study, including consultant hours, impacted budget program, required budget modifications, etc. and amounts if known.

None. The cost for this study is limited to a moderate amount of existing staff hours (estimated at 100 to 300 hours) which can be covered by existing resources.

- 8. Briefly explain potential fiscal impact of implementing study results (consider capital and operating costs, as well as potential revenue).

This study would not, in itself, increase or decrease the cost of providing recreational programming. Rather, it would explore different frameworks for monitoring and evaluating the revenues and expenditures associated with providing recreational services. There is the possibility that implementing the results of the study would create a cost savings associated with reduced administration of the Fund. Any fiscal impact associated with implementing the results of this study would be identified in the Report to Council.

- 9. Staff Recommendation

Staff Recommendation For Study

If 'For Study' or 'Against Study', explain

Staff believe that a study of the Community Recreation Fund could result in a more efficient, effective model for managing the expenditures and revenues associated with the provision of recreational services.

Reviewed by

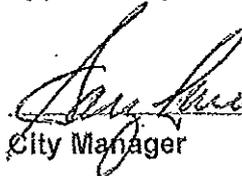


Department Director

10-26-10

Date

Approved by



City Manager

10-29-10

Date

Growth in Subsidy to Recreation Over Past 10 Years

Attachment B

*City of Sunnyvale
Community Recreation Fund
Fiscal Year 1999/00 to 2009/10*

	FY 99 - 00	FY 00 - 01	FY 01 - 02	FY 02 - 03	FY 03 - 04	FY 04 - 05	FY 05 - 06	FY 06 - 07	FY 07 - 08	FY 08 - 09	FY 09 - 10	Total
GOLF OPERATING INCOME/(LOSS)	\$1,624,653	\$1,132,838	\$1,159,547	\$1,609,281	\$1,136,911	\$797,659	\$799,106	\$810,358	\$659,568	\$525,156	\$120,041	\$10,375,119
USE OF RESERVES	\$4,896	\$9,475	\$628,707	(\$99,400)	(\$386,587)	\$136,870	\$453,675	\$73,277	(\$214,967)	(\$79,337)	\$473,013	\$999,622
GENERAL FUND TRANSFER	\$1,568,656	\$1,915,472	\$1,630,328	\$2,541,781	\$3,187,371	\$3,207,294	\$3,318,383	\$4,103,858	\$4,301,081	\$4,483,703	\$4,641,720	\$34,899,647
TOTAL SUBSIDY TO RECREATION	\$3,198,205	\$3,057,785	\$3,418,582	\$4,051,662	\$3,937,695	\$4,141,823	\$4,571,164	\$4,987,493	\$4,745,682	\$4,929,522	\$5,234,774	\$46,274,388

List of Unfunded Golf Course Projects

Attachment C

ProjectID	Name	Status	Estimated Cost
900600	Sunnyvale Golf Course Irrigation Replacement- main lines	Not Funded	\$1,500,000
804401	Golf Courses Protective Netting Replacement	Not Funded	\$109,300
900441	Golf Course Tree Trimming and Removal	Not Funded	\$110,000
900658	Sunnyvale Golf Course Clubhouse Remodel	Not Funded	\$500,000
900660	Sunken Gardens Golf Course Clubhouse Remodel	Not Funded	\$250,000
900594	Sunken Gardens Driving Range Light Replacement	Not Funded	TBD
900602	Sunken Gardens Golf Course Parking Lot Landscapes	Not Funded	TBD
New	Sunnyvale GC Lessons/warm-up area	Not Funded	TBD
New	Sunnyvale GC covered equipment/bulk materials area	Not Funded	TBD
New	Sunken Gardens GC covered tee area for practice range	Not Funded	TBD
New	Sunnyvale GC Lessons / Club fitting Indoors	Not Funded	TBD
New	Sunnyvale GC Snack Shack Replacement	Not Funded	TBD
New	Sunken Gardens GC Practice Range Equipment	Not Funded	TBD
New	Sunnyvale GC Landscape Renovation	Not Funded	TBD
New	Sunken Gardens GC Landscape Renovation	Not Funded	TBD
New	Sunken Gardens Public Address System Replacement	Not Funded	TBD
New	Sunken Gardens GC Patio Renovation	Not Funded	TBD
	TOTALS	Not Funded	TBD