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PYRAMID COST RECOVERY METHODOLOGY

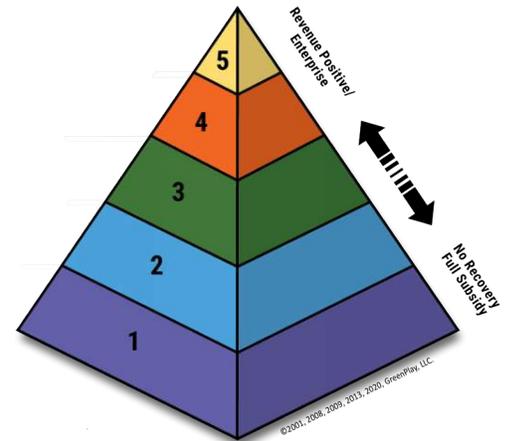


# BerryDunn

## THE PYRAMID METHODOLOGY

The BerryDunn Pyramid Methodology, used in the development of the Subsidy and Resource Allocation Model, is built on a foundation of understanding **who** is benefiting from park and recreation services to determine **how** the costs for service should be paid.

The Model illustrates a pricing philosophy based on establishing fees commensurate with the benefit received. Descriptions regarding each level of the pyramid are provided; however, the model is intended as a discussion point and is very dependent on agency philosophies to determine what programs and services belong on each level. Cultural, regional, geographical, and resource differences play a large role in this determination. The resulting pyramid is unique to each agency that applies this methodology.



Application of the pyramid methodology begins with the mission of the organization, but must also address other considerations:

- Who benefits from the service - the community in general, or only the individual or group receiving the service?
- Does the individual or group receiving the service generate the need (and therefore the cost) of providing the service?
- Will imposing the full cost fee pose a hardship on specific users? (The ability to pay is different than the benefit and value of a program, activity, or service, and therefore, should be dealt with during the implementation phase of pricing and marketing.)
- Do community values support taxpayer investment for the cost of service for individuals with special needs (for example, people with disabilities or low-income)?
- Will the level of the fee affect the demand for the service?
- Is it possible and desirable to manage demand for a service by changing the level of the fee?
- Are there competing providers of the service in the public or private sector?

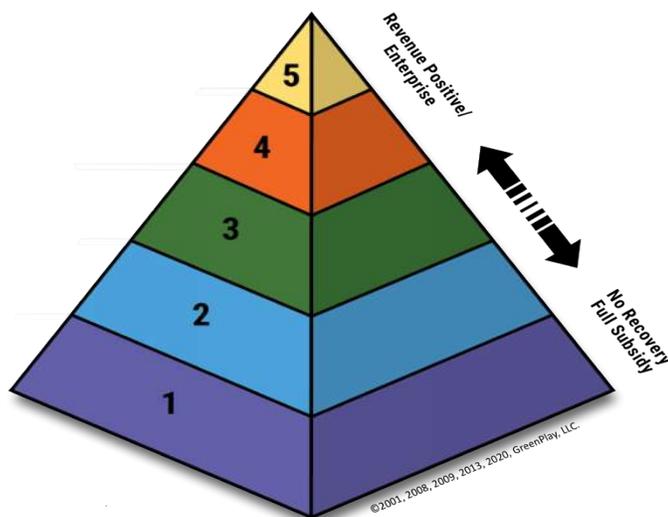
The application of the model is broken down into the following steps:

- Step 10:** Evaluation
- Step 9:** Implementation
- Step 8:** Understanding and preparing for influential factors and considerations
- Step 7:** Establishing tax investment goals/subsidy level targets
- Step 6:** Determining (or confirming) current tax investment/cost
- Step 5:** Defining Direct and Indirect Costs
- Step 4:** Sorting the Categories of Service onto the Pyramid
- Step 3:** Developing the organization's Categories of Service
- Step 2:** Understanding the Pyramid Methodology, the benefits filter, and secondary filters
- Step 1:** Building on your organization's values, vision, and mission

## Step 1: Building on Your Organization's Values, Vision, and Mission

Critical to this philosophical undertaking is the support and buy-in of elected officials and advisory board members, 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 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 them.

Envision a pyramid sectioned horizontally into five levels:



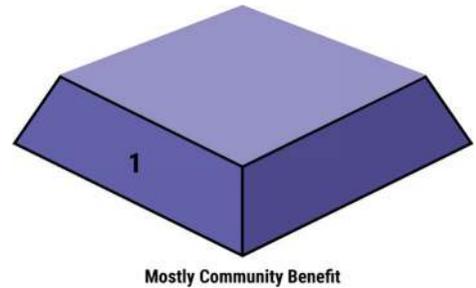
## Step 2: Understanding the Pyramid Methodology and Filters

The philosophy and policy are key components to maintaining an agency's financial control, equitably pricing offerings, and helping to identify core services including programs and facilities.

The principle of the Pyramid is the **Benefits Filter**. The base level of the pyramid represents the core services 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. The foundation and upward progression are 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.

## MOSTLY COMMUNITY Benefit

Level One is the foundation of the pyramid and therefore the largest, and encompasses those services, including programs and facilities, that **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 and they are generally offered to residents at a minimal charge or with no fee. A large percentage of the agency's tax support funds this level.

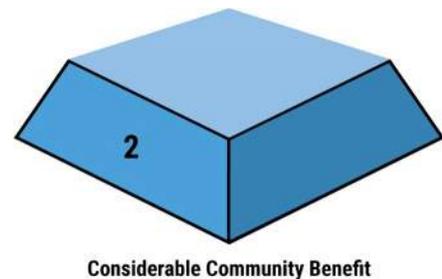


*Examples of these services could include: the existence of the community parks and recreation system (park maintenance), the ability to visit facilities on an informal basis, park and facility planning and design.*

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

## CONSIDERABLE COMMUNITY Benefit

Level Two represents services that promote community and 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 investment 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: staffed facility and park use, therapeutic recreation programs and services, senior services, etc.*

## BALANCED INDIVIDUAL/COMMUNITY Benefit

Level Three represents services promoting individual physical and mental well-being and providing an intermediate level of skill development. There is a more 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 falling within lower Pyramid levels.



*Examples of these services could include: summer recreational day camp, youth sports leagues, summer swim team, etc.*

## CONSIDERABLE INDIVIDUAL Benefit

Level Four represents specialized services geared toward individuals and specific groups, and services that may have a competitive focus. These are not highly subsidized and may be priced to recover full cost, including all direct expenses.

*Examples of these services could include: Trips, advanced level classes, competitive leagues, etc.*



**Considerable Individual Benefit**

## MOSTLY INDIVIDUAL Benefit

At the top of the Pyramid, Level Five represents services that have potential to generate revenues above costs, may be in the same market space as the private sector, or may fall outside the primary mission of the agency. In this level, services should not be supported by subsidy, should be priced to recover full cost, and may generate revenue in excess of cost.

*Examples of these activities could include: Private lessons, company picnic rentals, other facility rentals for weddings or other services, concessions and merchandise for resale, restaurant services, etc.*



**Mostly Individual Benefit**

## Step 3: Developing the Organization's Categories of Service

Prior to sorting programs and services onto the Pyramid, each must be reviewed, analyzed, and sifted through to create the agency's Categories of Services, including definitions and examples. "Narrowing down" facilities, programs, and services and placing them in categories (groups of like or similar service) that best fit their descriptions, allows a reasonable number of items to be sorted onto the pyramid tiers using the Individual and Community Benefit filter. There is not a pre-determined number of categories, however, ultimately every program and service offered must fit within a category, so carefully naming, describing, distinguishing, and providing examples for each category is critical to a successful effort.



#### **Step 4: Sorting the Categories of Service onto the Pyramid**



The sorting process is where ownership is created for the philosophy, while participants discover the current and possibly varied operating histories, cultures, missions, and values of the organization. The process develops consensus and allows everyone to land on the same page. The effort must reflect the community and align with the mission of the agency.

The sorting process is a challenging step led by objective and impartial facilitators in order to hear all viewpoints. The process generates discussion and debate as participants discover what others have to say about serving the community; about adults versus youth versus seniors; about advanced versus intermediate and beginning programs; about special events; athletic fields; and rentals involving the general public, non-profit and for-profit entities; etc. It is important to push through the “what” to the “why” to find common ground. There is also the consideration of additional filters (discussed in Step 8), which often hold a secondary significance in determining placement on the Cost Recovery Pyramid.

#### **Step 5: Defining Costs**

The definition of direct and indirect costs can vary from agency to agency. The most important aspect 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 the specific, identifiable expenses associated with providing a service. These expenses would not exist without the service and may be fixed or variable costs. Indirect costs are costs shared among services. It is up to each agency to determine how best to allocate indirect costs, and the default is often the consequence of the agency’s accounting software’s ability to track and assign costs at the programmatic level.

#### **Step 6: Determining (or Confirming) Current Tax Investment/Subsidy Levels**

The agency will confirm or determine current subsidy allocation levels by category of services based upon the definition of costs. Results of this step identify what it costs to provide services to the community, whether staff has 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. Staff may not be cost accounting consistently, and these inconsistencies become apparent.

## Step 7: Establishing Cost Recovery/Tax Investment Targets

The steps thus far work to align who is benefiting from programs and services with the sources of funding used to pay for them. The tax investment is used in greater amounts at the bottom levels of the pyramid, reflecting the benefit to the Community as a whole. As the pyramid is climbed, the percentage of tax investment decreases, and at the top levels, it may not be used at all, reflecting the Individual benefit.

Targets take into account current subsidy levels. As costing of services and matching revenues is a very revealing process, realistic and feasible targets are recommended to align with the pyramid model and also to meet specific financial objectives for recovery of direct and indirect cost. These targets will be identified for each tier of the agency's Pyramid Model.

## 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 can aid in determining core services versus ancillary services. These may include participant commitment, trends, political issues, marketing, relative cost to provide the service (cost per participant), current economic conditions, and financial goals.

## Step 9: Implementation

The agency sets goals based upon its mission, stakeholder input, funding, and/or other criteria. Completion of steps 1-8 position the agency to illustrate and articulate where it has been and where it is heading from a financial perspective. Some recommendations are scheduled to occur immediately, and others will take time to put into place, while some will be implemented incrementally. It is important that fee change tolerance levels are considered.

## Step 10: Evaluation

This process is undertaken to articulate a philosophy, train staff on a best practice ongoing approach to subsidizing services in public parks and recreation and enhance financial sustainability. Performance measures are established through subsidy level targets, specific recommendations are made for services found to be out of alignment, and evaluation of goal attainment is recommended to take place annually.