

Minutes

Audio Tape No. 676

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 6:30 P.M., on Monday, April 2, 2007. Councilmember Azeltine led the Work Session as Presiding Officer.

Councilmembers present: Jim Rawlings, Lou Rasmussen, Gary Bussing, Gregory Peppes, James Azeltine, and Mike Gill.

Councilmembers absent: Scott Gullede and Debra Filla.

Staff present: Scott Lambers, City Administrator
Patty Bennett, City Attorney
Kathy Rogers, Finance Director
Kathy Byard, Budget Coordinator
Chris Claxton, Parks & Recreation Director
Brian Anderson, Superintendent of Parks
Kim Curran, Superintendent of Recreation
Deb Harper, City Clerk
Christy Wise, Deputy City Clerk

Others present: Stacy Miller, Public Finance Consultants
Laura Uhlmansiek, *Kansas City Star* reporter

1. Opening Remarks

Mayor Dunn called the Work Session to order at 6:50 P.M. Apologetically, she informed that it is necessary for her to leave the meeting due to a family matter. Councilmember Azeltine took over the meeting as Presiding Officer. Introductions were made by those present.

2. Discuss Parks & Recreation User Fees

Parks & Recreation Director Chris Claxton distributed informational material to the Governing Body, including a Parks & Recreation Fee Study. She reviewed there has been concern about the widening gap between the service charges and the general fund subsidy of programs and services. An analysis of user fees was performed with the aid of Public Finance Consultants.

Finance Director Kathy Rogers informed that data used in the analysis represents figures from the audited 2006 Financial Statement, which is scheduled for City Council approval on April 16th.

Ms. Claxton pointed out that the widening began at an obvious point in 2003 due to increased operating costs for the construction of new parks and facilities. The gap has remained constant from 2005 to 2006 as new programs and facilities were stabilized. There are three primary areas that reflect the gap:

1. Low maintenance modes shifted to high maintenance modes.
2. Reduced participation in soccer and T-Ball leagues, which is attributable to changing dynamics of age groups.
3. Increased operational expenses for Nature Center programs. Half of this operation provides educational opportunities (i.e. exhibits, interactive software) while the other half is full fee service (i.e. Challenge Course, classes).

Ms. Claxton informed Mr. Azeltine that synergy is promoted between the Nature Center, Challenge Course, Oxford Schoolhouse, and camping area. Interchanging activities are provided as much as feasibly possible for these outdoor educational programs.

Councilmember Gill asked the specific objective of the Work Session. City Administrator Scott Lambers stated the first aim is to prepare a document by which the Governing Body can make a decision regarding overall cost recovery. A goal can then be set in trying to achieve recovery of identified costs, either in whole or in part. Mr. Lambers noted there are certain programs with no recovery whatsoever, such as the Mayor's Holiday Lighting Ceremony and the Fourth of July Celebration at City Park. The question is how to set a comfortable cost recovery methodology in place and whether or not to include debt service and indirect costs.

In terms of cost analysis for each fee, Councilmember Gill suggested also assessing the prevailing rate, fair rate, etc. Although it is important to know the cost allocation of recreational activities the City provides to citizens, it is also necessary to understand the activity itself and the alternatives for recreation. A "tops down" and "bottoms up" approach should be reviewed.

Mr. Lambers stated cost recovery would not be the driving goal of setting fees.

Councilmember Rasmussen stated his objective is to give overall budget direction. In his opinion, fee programs should recover 100% of direct costs with a total cost recovery goal of 60%. He does not desire involvement in determining detailed fee structures for each activity as this should be done at the committee level. The topic has been raised as taxpayers are now paying more in this area than ever before. In terms of fee structure, there are four items to be discussed: Aquatics Center, Golf Course, programming, and sports. Events such as the Mayor's Lighting Ceremony, Freaky Fall Fest, and trail events should not be factored into the analysis.

Councilmember Rasmussen continued that utilization of shelters and the Lodge at Ironwoods Park should also recover 100% of direct costs, including an allocable portion of park debt for the structure.

Ms. Claxton discussed the differences of direct costs versus indirect costs. Direct costs would include general operating expenditures of personnel, contractual services, commodities, and supplies. Capital figures are amortized over four years with costs assigned to the applicable program. Indirect expenditures consist of debt and overhead costs.

Ms. Rogers informed that overhead is a percentage calculation of time spent by specific departments in providing support to other departments with fee-related services. A rate of 27% is used in the formula. Councilmember Gill stated the rate is a very high, aggressive allocation of costs in terms of fee setting.

Ms. Claxton stated user fees are set up to recover costs based upon the minimum number of participants. The current recovery rate of 52% across all funds is felt to be satisfactory given the national trend is 30%. Overland Park has set a goal of 30-40% across all programs.

Mr. Azeltine confirmed with Ms. Claxton that the Johnson County Parks & Recreation Department is not one of the five entities typically used as a benchmark.

Councilmember Rasmussen commented that he is not concerned with comparing Leawood's recovery rates to those of other cities as their bookkeeping methods are unknown.

Mr. Azeltine suggested compiling a study of similar-sized first class cities and their experiences in this area. Ms. Claxton stated there are fee setting studies by parks and recreation agencies all over the country. She agreed with Councilmember Rasmussen's point that variables included in these recovery figures may be different and irrelevant to Leawood. Some studies include debt and capital while others do not.

Councilmember Bussing arrived at 7:15 P.M.

Councilmember Gill asked if real estate at a four-year amortization is included in the capital. Councilmember Rasmussen informed that capital includes personal property such as lawn mowers, equipment, etc. Real estate can be amortized up to 25 years and is based upon the debt schedule. A portion of the debt would be allocated to the fee based service.

Using the Lodge at Ironwoods Park as an example, Mr. Claxton stated fees are set accordingly to recover the operational costs of approximately \$170 per hour. The cost figure includes supplies, utilities, and personnel.

Referring to the Revenue Policy, Ms. Claxton stated it would be very challenging to recover debt through fee charges. It would be more reasonable to include capital with amortization. The incorporation of overhead will make it difficult to stay within market ranges, although a phase-in of overhead costs at a percentage rate over time may be a possibility.

Ms. Rogers advised Councilmember Gill that the 27% overhead rate is spread linearly across all programs. He reiterated this is not a very fair allocation as the overhead is needed to support basic City functions with or without the existence of any parks or activities. Program fees should not be unnecessarily increased because of unduly high overhead charges.

Ms. Claxton pointed out that Item No. 3 of the Revenue Policy states, "charges, shall wherever possible recover the full cost (operating, direct, indirect, and capital) of providing the service." However, there is no guidance as to an expected goal. The widening gap has prompted the need for direction.

Ms. Rogers stated it is not uncommon for political subdivisions to have an overall broad statement and then be specific to certain fees or other strategic areas. The Governing Body can determine how much is fair and by what method fees should be set in terms of cost recovery.

Councilmember Rasmussen stated the first goal should be to recover 100% of direct costs from fee based programs. In his judgment, 60% should be recovered when combining the direct costs with the allocated portion of debt service. Staff can use this direction over the next year while reviewing future trends.

Ms. Rogers reviewed the pie chart on page 1 of the Fee Study. Of the overall user fees, 46% is tax-supported for programs that do not recover any costs while 54% are user fee programs. The current aggregate cost recovery rate of the four user fee divisions is 52%, which includes amortized capital, debt, and overhead.

Councilmember Rasmussen clarified for Councilmember Peppes that his suggested recovery rate goal of 60% refers to an aggregate figure.

Regarding the golf course, Ms. Rogers informed Mr. Azeltine that projections for the 2008 Budget reflect revenues at 75% and expenditures at 100% based on the current fee schedule. The 2007 Budget includes only the bare operational expenses needed while the facility is undergoing improvements. Ms. Claxton noted that 25% of the projected revenue will be lost if the golf course is not ready for reopening by May 2008 as this is a high revenue month.

Mr. Azeltine requested opinions from each councilmember regarding their satisfaction with the current rate of recovery.

Councilmember Rasmussen expressed dissatisfaction with the current figures. He restated his recommendation to recover 100% of direct costs with a goal of bringing the total aggregate cost recovery figure to 60%.

Councilmember Peppes expressed support for the current formula. He suggested including the expectation of recovering 100% of direct costs in the Revenue Policy. There are too many unknown variables, such as weather and project completion dates, that could prevent achieving a total recovery rate of 60%.

Councilmember Gill stated he does not endorse Councilmember Rasmussen's suggestion as recovering 100% of direct costs would require a significant increase in fees. He voiced approval for the current aggregate recovery rate of 54%.

Councilmember Bussing stated he is generally satisfied with the current figures. There is a supply and demand quotient to establishing fees that cannot necessarily be driven by a formula. He would be particularly uncomfortable with having parks and recreation activities target some portion of the debt. This would raise the question of lowering the fees when debt is repaid.

Councilmember Rawlings stated although he would like to see a slight increase in the recovery of direct costs, he is generally pleased with the current formula.

Based upon the distributed information, Mr. Azeltine also stated satisfaction with the current procedure. Trend management is the most concerning issue.

In terms of declining program statistics, Ms. Claxton stated pre-paid soccer will be offered in the future due to significant requests. User programs fees will be as fully cost recoverable as possible.

Mr. Lambers noted there is a lag with the process in that the early 2008 Budget is currently in the process of being prepared. Any changes would not be reflected until the 2009 Budget. He stated comfort with a 50% overall recovery. Improvements can be made, however the question is to what extent and where to implement changes. In terms of overhead, he stated the percentage recovery rate of the allocation can be revised at Council's discretion.

There being no further business, the Work Session adjourned at 7:30 P.M.

Christy Wise, Recording Deputy City Clerk