

# Memorandum

**TO:** NEIGHBORHOOD SERVICES  
AND EDUCATION COMMITTEE

**FROM:** Jon Cicirelli

**SUBJECT:** SCHOLARSHIPS AND FEE  
ACTIVITY REPORT

**DATE:** November 23, 2020

Approved

*Angel Rios*

Date

12/03/20

## **RECOMMENDATION**

1. Accept the report on Scholarships and Fee Activity; and
2. Provide feedback and direction regarding equitable access to community center programs aligned with Education Policy 0-30, and Pricing and Revenue Policy 1-21.

## **OUTCOME**

The Committee will be provided with an update on fee activity, scholarship utilization, and current plans to address the ActivateSJ priorities of equity and access. The Department of Parks, Recreation and Neighborhood Services (Department) will develop a plan with the City Manager's Budget Office to update Pricing and Revenue Council Policy 1-21.

## **BACKGROUND**

On December 10, 2019, the City Council approved the Department's ActivateSJ Strategic Plan to achieve a parks and recreation system that builds healthy communities that inspire belonging through five guiding principles: 1) Stewardship; 2) Nature; 3) Equity and Access; 4) Identity; and 5) Public Life. The guiding principle of Equity and Access aspires to provide exceptional experiences for all people in San José regardless of age, ability, income, or neighborhood.

To operationalize this aspiration, ActivateSJ's Equity and Access (EA) Benchmark 5, prioritizes *evaluating revenue generating programs and increasing scholarship assistance programs* (EA5) by 1) updating the Pricing and Revenue Council Policy 1-21 to align subsidies with intended outcomes related to public, merit and private services (EA5a); and 2) expanding and marketing the scholarship program to increase donations to meet growing needs (EA5b).

In 2019, through the ActivateSJ development process, the Department began to reflect on and evaluate the unintended impacts of the cost-recovery approach the City adopted to preserve program and service delivery during the Great Recession over a decade ago. The Department

began re-evaluating the implications of the Pricing and Revenue Policy 1-21, which drove the implementation of pricing models aimed at maximizing revenues to offset the City's General Fund expenses for providing those programs. Specifically, the Department has been re-considering the level of subsidy given to key programs based on the level of benefit afforded to the community at large. These categories include Public (broad community benefit), Merit (large sections of the community benefit), and Private (participant-specific benefit) benefit programs and services.

The Department can see that in some cases, certain "Fee Activity" programs, which are currently categorized as Private-level services at 100% cost-recovery, may better be categorized as providing Merit-based services (such as the R.O.C.K. afterschool and the San José Recreation Preschool programs). These programs support the entire community by providing a safe environment for children and youth that promote social, emotional, and academic development, reduce risk factors, and promote health. In these cases, the emphasis on 100% cost recovery creates barriers to full participation for families who are economically disadvantaged, even when participant fees are partially offset by the Department's scholarship program. While the growth in scholarship funds has provided greater access to more members of the community over time, the budgeted availability of scholarships has not kept pace with the increasing cost of doing business or the need to raise pricing to offset these increases. For that reason, a structural barrier exists that detracts from the Department's ability to ensure that access to high-demand programs is consistently available and affordable to all.

For these reasons, the Department reported to the Neighborhood Services and Education Committee in December 2019 with the following plan:

1. Examine program offerings through a more focused Public/Private/Merit analysis centered on needs and equity;
2. Explore increased availability of scholarships;
3. Continue to utilize data to assess scholarship usage and community impact; and
4. Coordinate with the Budget Office on any impacts to the General Fund.

This memorandum provides an update to the plan set forth last year and acknowledges the revenue generation/cost-recovery challenges presented by the COVID-19 emergency. In addition, this report highlights lessons learned from the COVID-19 emergency, which has illuminated the pervasive health and economic disparities that exist for people of color, people without documentation status, and those living on limited incomes and in overcrowded housing. To this end, the Equity and Access goals have become a top priority for the Department as we seek to meet community expectations and strategic goals.

## **ANALYSIS**

The Department's approach to financial sustainability is currently governed and implemented in accordance with the following:

- City Council Pricing and Revenue Policy 1-21  
(<https://www.sanjoseca.gov/home/showdocument?id=12883>)
- Adopted Fees and Charges Budget Document
- Overall 40 percent cost-recovery target
- Registration and e-commerce system and customer portal (ACTIVE Net)
- Scholarship Program
- Use of vendor contracts to augment recreational services
- Neighborhood Centers Partner Program (formerly Reuse)

### **Council Policy**

In 2009, the City Council approved Policy 1-21 authorizing the City Manager or his/her designee (PRNS Director) to set all Department user fees and pricing strategies in accordance with the adopted cost-recovery percentage goals set forward in the annual Fees and Charges budget document. In implementing this policy, the Department has adjusted pricing in accordance with market conditions, rising operating costs, and the community's capacity to afford programs and services. The Department has done this while also seeking to boost revenues through ongoing marketing and communications to achieve its stated financial sustainability goals.

As stated above, Policy 1-21 identifies three levels of benefit that the customer and residents receive from the Department's revenue generating programs/services and provides general parameters on the levels of public subsidy afforded to those programs/services. Table 1 outlines the current type of programs/services as well as those under consideration for review.

**Table 1 – Programs and Services**

<b>Subsidy Category</b>	<b>Level of Community or Individual Benefit</b>	<b>Current</b>	<b>Under Review</b>
<b>Public</b>	Highest level of community benefit and subsidy. <i>No fee.</i>	Trails, neighborhood parks, and senior nutrition program.	Includes recreational swim, teen center memberships.
<b>Merit</b>	Benefits the community and the individual. Involves a cost-sharing model between 100% cost-recovery fee and 100% scholarship discount.	Swim lessons, active adult enrichment, and therapeutic classes.	Includes San José Recreation Preschool, R.O.CK., swim lessons, youth enrichment classes (PRNS Leisure), full-day camps.

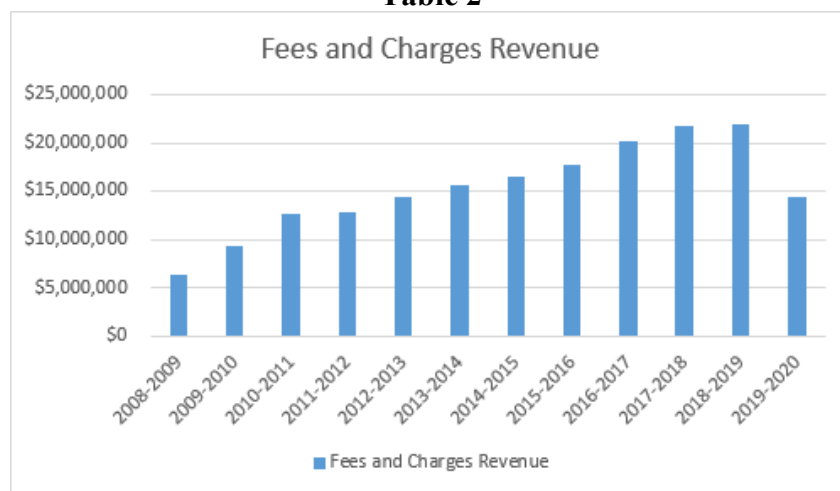
<b>Subsidy Category</b>	<b>Level of Community or Individual Benefit</b>	<b>Current</b>	<b>Under Review</b>
<b>Private</b>	Primarily benefits the individual participant with marginal community benefit. 100% cost-recovery target/no subsidy.	Preschool, R.O.C.K. afterschool, leisure classes, rental for private parties, fitness memberships, and golf.	Rentals, fitness, golf, and destinations such as Happy Hollow Park & Zoo.

As a recession recovery strategy, core services such as the R.O.C.K. afterschool and San José Recreation Preschool programs, as well as certain leisure activities and specialty camps, have been priced and operated under the category of Private (individual) benefit. This means that historically, the Department has worked hard to attain 100% cost-recovery, which involves tying our pricing model to budgeted expenses and competitive market conditions. As previously discussed with the Committee in 2019, establishing pricing this way has resulted in lower enrollment and reduced program offerings in areas where income disparities exist such as at Roosevelt, Seven Trees and Mayfair compared to other centers.

The Department seeks to update the pricing of education-based programs to align with the new Education Policy 0-30 adopted by Council on February 11, 2020. It provides guidance that ‘education, educational attainment and impact to education outcomes should be a vital consideration in City plans and programs and highlights that children and families most in need of educational support are also the most likely to face financial hardships and may be unable to pay program registration fees, if they exist.’ Further, the policy states that programs *should be financially sustainable, yet be affordable and accessible to the City's diverse community*.

Historically, these programs have contributed greatly to meeting the Department’s cost-recovery goals. To illustrate the point, the Department has generated an average of more than \$20 million per year in revenue over the past five years. And, over the last 11 years, the Department has offset General Fund costs with almost \$200 million in revenue as shown in Table 2. This highlights the direct value that the Department’s financial sustainability efforts have contributed to maintaining recreational and community services, and the benefits to other valuable General Fund-supported programs and services citywide. However, even with the growing, but limited, scholarship funding that the Department has been able to secure over the years, the current business model and pricing structure has not permitted equitable enrollment throughout the City. Despite the efforts to increase available scholarship funding, some families continue to be ‘priced out’ of these City-operated educational opportunities by virtue of the fact that the Department continues to pursue a revenue focused cost-recovery model set forth in Fees and Charges budget document.

**Table 2**



### Scholarship

A key component of the Department's equity approach is its scholarship program, which grew from approximately \$200,000 in 2011 to \$884,379 in 2018. This growth in budgeted scholarship resources is attributable to the increase in Fee Activity revenues and other created revenues such as grants, sponsorships, and partnerships. In 2018-2019, the Department increased scholarship pricing discounts for San José Recreation Preschool from 34% to 75%. Staff recognized the economic realities for families and sought to create consistency across the Department's other childcare, family-friendly programs such as Camp San José, which have historically had higher pricing discounts for qualified participants. Yet, while families benefit from the 75% scholarship pricing discount for Camp San José and Preschool, a family with two children still needs to pay \$456 a month for Camp San José and \$160 a month for Preschool.

During the COVID-19 emergency, the Department provided all-day childcare options for families of essential workers through Camp San José Strong and R.O.C.K. 'n' Learn. These services were provided with a 100% scholarship pricing discount afforded by Cares Act Local Assistance funding. The enrollment data shows that Roosevelt is currently at capacity for R.O.C.K. 'n' Learn with three full cohorts. The demand at Roosevelt led us to open an additional cohort to serve more families at the East San José Carnegie Branch Library, which is currently at capacity as well. This can be compared to Almaden, which had zero enrollment for session 1 and only reached one full classroom during session 3. Roosevelt currently has 48 kids enrolled while Almaden has 11 kids.

Additionally, from April - October 2020, three zip codes that are consistently among the areas of San José with the highest number of COVID-19 cases (95116, 95122 and 95127) representing 30% of citywide COVID cases, also represented 36% of the scholarship participants, yet, these zip codes make up 16% of the city population. A total of 927 (unduplicated) scholarships were awarded citywide across 29 different zip codes.

### Community Center Operations

In addition to variations in the cost-recovery performance among Fee Activity programs, there are also variations among community centers in terms of the overall net revenue or net cost have on the General Fund. The Department also continues to address the question of how the financial sustainability goals met through fee activity programs impact equity and affordability among our disadvantaged, low-income populations. Several community centers such as Almaden and Berryessa are able to reach approximately 70% cost recovery; while centers such as Roosevelt, Mayfair and Seven Trees recover less than 30% of their operating costs (exclusive of City overhead).

Table 3 below illustrates Roosevelt Community Center's net impact to the General Fund for 2018-2019. For this example, 2018-2019 actuals are presented because 2019-2020 performance was severely skewed by the County's Shelter in Place orders. As presented, the Fee Activity revenues are distinguished from other General Fund revenues, such as facility rentals. To illustrate the effects of re-categorizing Fee Activity programs as Merit or Public benefit-based programs, assuming 100% free access to fee activity programs at this site, the fiscal burden to the General Fund would increase by \$374,058 (the loss of Fee Activity revenues) for an adjusted General Fund impact of \$1,700,331.

Due to the COVID-19 emergency, current enrollment has demonstrated that eliminating fees to fee activity programs at Roosevelt has increased participation. Camp San José Strong and R.O.C.K. 'n' Learn operated at maximum capacity and Roosevelt is one of three sites in addition to Southside and Berryessa currently operating the in-person model of San José Recreation Preschool. Full participation in such programs would have an additional expense beyond the \$1.6 million operating costs mentioned above.

**Table 3 – Roosevelt Community Center Net Impact to General Fund**

<b>Roosevelt Community Center FY 2018-2019</b>	
<b>Expense</b>	
PRNS General Fund Cost (11.24 FTE + NP)	\$1,569,540
PRNS Fee Activity Cost (0.53 FTE+ NP)	\$288,907
<b><i>Total Expenses</i></b>	<b>\$1,858,447</b>
<b>Revenue</b>	
Fee Activity Revenue	\$374,058
Other General Fund Revenue	\$158,116
<b><i>Total Revenue</i></b>	<b>\$532,174</b>
<b>Net Impact to General Fund</b>	<b>\$1,326,273</b>
Additional General Fund Impact (If all fee activity Programs are free)	\$374,058
<b>Total Adjusted General Fund Impact (If all Fee Activity Programs are free)</b>	<b>\$1,700,331</b>

**CONCLUSION**

Several key points will need to be evaluated further if the City is to provide equitable access to recreation and community center services while at the same time acknowledging the City's need to balance the budgetary implications. The COVID-19 pandemic has demonstrated that disadvantaged communities value and need the programs the Department has historically categorized as Private-benefit programs with 100% cost-recovery targets. Once the Department offered 100% scholarships during the pandemic it was easy to observe the unmet demand due to affordability, as evidenced by the increased ROCK 'n' Learn and Preschool participation. Roosevelt Community Center participation demonstrates that the Department has an opportunity to test the fiscal implications that increasing scholarship discounts will have across our various Fee Activity locations, citywide.

The Department will continue to work with the Budget Office to evaluate program-specific impacts to the General Fund due to pricing reductions and/or increases in scholarship funding. With that analysis, the system-wide costs among the various Fee Activity programs will need to be considered to answer key questions about the net impacts that increased General Fund support

and/or increased scholarship funds will have on the City's budget balancing obligations. For example:

- What are the implications of stepping away from the approach set forth in Policy 1-21 with a goal of 100% cost-recovery for what are currently categorized as Private-benefit Fee Activity programs (Preschool, R.O.C.K., etc.)?
- What are the implications of categorizing recreation and education-based programs like Preschool, Camp San José Strong, R.O.C.K 'n' Learn, etc. as Merit or Public benefit-based programs with less than 100% cost recovery targets in place?

The impact of COVID-19 on our most vulnerable residents who face historic and pervasive institutional barriers has accelerated the Department's implementation of the ActivateSJ strategic Equity and Access goals. With Coronavirus Relief funding, the opportunity to expand access to essential programs absent cost-recovery goals highlighted insights into the Department's cost-recovery approach and how it meets the needs of our community. The Department is committed to evaluating which programs and services can be prioritized for equitable availability and access.

### **EVALUATION AND FOLLOW-UP**

Pending direction/input from the Committee, the Department will:

- Review potential updates to Public/Private/Merit categories in Council Policy 1-21 with the City Manager's Budget Office; and
- Assess the ability to increase scholarship funding to align with Education Policy 0-30 through fiscal year 2021-2022 Budget

### **CLIMATE SMART SAN JOSÉ**

The recommendation in this memorandum does not have any impact on Climate Smart San José energy, water, or mobility goals.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the December 10, 2020 Neighborhood Services and Education Committee meeting.



## **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

## **COMMISSION RECOMMENDATION/INPUT**

This memorandum will be presented to the Parks and Recreation Commission at its December 2, 2020 meeting, and Commission feedback will be provided to the Committee.

## **CEQA**

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Information Memos that involve no approvals of any City action.

/s/

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and Neighborhood Services

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