

Report to Council



Date: July 8, 2024
To: Council
From: City Manager
Subject: ALC Fees and Charges – Benefits-Based Approach
Department: Active Living & Culture

Recommendation:

THAT Council receives, for information, the report from the Active Living and Culture division dated July 8, 2024, with respect to the Benefits-Based Approach to the Fees and Charges for services provided by the Active Living & Culture division;

AND THAT Council approves in principle the City’s Investment Framework as the basis for continued development of the fees and charges program as noted in Appendix I of the report;

AND THAT staff report back to Council with an update as the Investment Framework is applied to the fee schedule prior to finalizing the program and implementation plan.

Purpose:

To provide Council an update on the Benefits-Based approach to fees and charges and obtain support for the investment framework in calculating fees and charges, as well as provide additional information regarding the application of a non-residential fees within this program.

Background:

Sport, Recreation, Arts, and Cultural programs, including facilities are paramount in the development of a healthy and active community. They provide benefit to residents and visitors of all ages by supporting participation and excellence in sport, recreation and the arts, engaging non-profit and private sectors, inspiring economic development and tourism while providing a place for social connection. Revenue generation occurs through a variety of streams as outlined in the ALC Fees and Charges Bylaw (No. 9609). The revenues generated help to support the division’s operations, reducing taxation funding, while contributing to facility improvement reserves. Fees and charges set by the division generally fall in the areas of program registrations, facility access and facility rentals with annual revenues of approximately \$5.7M.

The current methodology to calculate the fee structure of services considers community needs and trends, collaboration with facility-based user groups, and is primarily driven by a market evaluation comparator – exploring the fee structure other municipalities or facilities are charging to ensure alignment. While a commonly used approach by various municipalities, this approach lacks representation of the true cost to the City of delivering the service and is time-consuming to administer.

Through past discussions with Council, staff have taken steps to determine a Benefits-Based approach to setting fees for services. While work started in late 2022, the program paused due to staff turnover and internal scheduling demands. Staff have resumed with the support of Financial Services; and are ensuring the approach aligns to the direction set within the principles of Active Financial Management through the intentional setting of user fees based on the cost of the services provided plus the benefit those services deliver to the broader community.

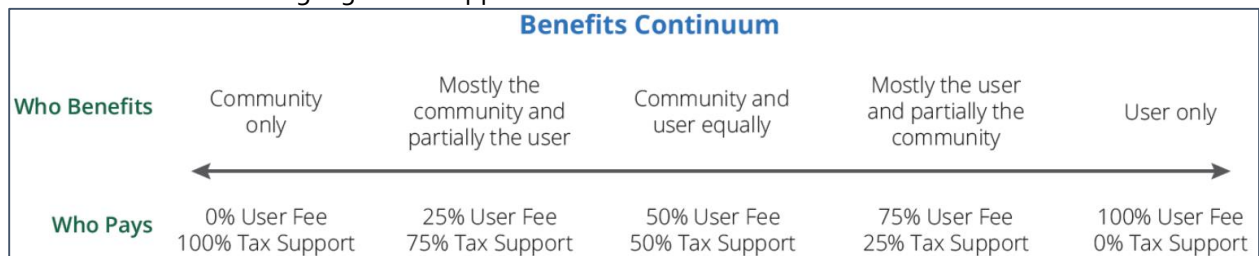
As we move through the process of establishing a Benefits-Based approach, a key step is to determine the level of investment (subsidy) for each individual and group use of activity or service, essentially, calculating the amount of investment based on the proportion of benefit received by the user versus the benefit to the community at large. This report will provide a general overview of the approach with a focus on the investment framework.

Discussion:

Benefits-Based Investment

The Benefits-Based approach to setting fees is practical, transparent, consistent and fair. This approach to setting fees and charges fundamentally ensures those who benefit from a good or service (be they members of the public or users/participants) pay in proportion to the benefit of the service they receive.

The below illustration highlights this approach:



If the service is a benefit to the broader community only, then there would be no user fee. Alternatively, if the service or activity is a benefit only to the private user, then the user would pay at least 100 per cent of the cost of the service. Ultimately, the fees are based on the cost to deliver the service with the user groups paying for their portion of benefit. This approach provides flexibility in adjusting fees based on operational expenses while investing in programs and services that provide direct benefit to the community.

The illustration below presents a simple overview of the steps involved with setting fees through a Benefits-Based approach. Firstly, we must define the unit costs to deliver the service, then assign the user and uses, assign an investment level (subsidy) based on the benefits continuum, and then calculate

recommended fees. The recommended fees would undergo further review to determine practicality, strategy and alignment to Council and Corporate priorities and financial policy.



Throughout early 2024, staff have worked with Financial Services and RC Strategies to capture the overall cost to deliver services by service area, a review of the categories of users and facility usage types, and finally an assignment of investment levels based on the users and types of uses.

Table 1 below is an overview of the user, uses, and the relationship with the level of City investment to guide the framework in setting user fees.

Table 1: Level of Investment by Users and Uses

User Types	Uses	Level of City Investment	Justification of Benefit
Preschool (0-5)	General Admission, Programs	Highest level of investment	Optimum age group to instill lifetime behavior traits of active living and cultural creativity. Early exposure to socialization and learning opportunities create lifelong healthy habits.
Youth, Minor	General Admission, Programs, Non-Profit Rentals	Second highest level of investment	Fostering and advancing positive and healthy habits from early years. Maintaining a proactive stance in supporting mental well-being and fostering positive growth and development.
Seniors	General Admission, Programs	Second highest level of investment	Ensuring opportunities for seniors to be active and connected reduces isolation, promotes healthy lifestyles and strengthens support networks and resilience to crisis
Families	General Admission	Next level of investment	Families are an important building block of community
Adults	General Admission, Programs, Non-Profit Rentals	Reduced investment	Practicing an active and healthy lifestyle may be a habit built from youth and adults are more inclined to continue participation.
Commercial, Private Groups	Rentals	No investment	Commercial operations are primarily aimed at generating income and their profits are not typically allocated for the further benefit of the community.

Appendix I provides a detailed breakdown and becomes the conceptual framework for review and adjustment of the fees. An important note of the process is that while the framework becomes the guide, there are also practical reasons to make further adjustments from simply applying the framework to ensure an effective and fluid fee schedule, such as:

- Rate changes may be too significant to address in one year or may be simply out of reach.
- Rates that reflect prime time, non-prime time, shoulder season, exclusive and shared, etc.
- Approaches to increase utilization of available activities or facilities.
- Strategies that address event procurement (i.e. sport tourism).
- Short term support for new and developing activities.
- Combining services into bundles to encourage participation and uptake by residents.

Calculation of the fees is not a steadfast process and finding the balance between revenues and encouraging participation is critical. Establishing the level of investment becomes an important guide as we take the next steps in a renewed approach.

Non-Resident fees

The notion of a non-resident fee has been raised at various times. As staff continue to work through the application of a new model, while a non-resident fee has not been included in the framework, discussing a special rate for non-resident merits attention.

An important consideration in establishing a non-resident fee for recreation facilities is understanding the impact of and reasons for charging a premium. The main rationale for charging different fees for residents and non-residents is to reflect use for non-tax paying users who do not pay for the full facility costs. Additionally, charging different fees can help regulate the demand and supply of facilities, as non-residents may be less likely to use them if they must pay more, leaving space and availability for residents.

There are numerous benefits and challenges associated with implementing different fees for residents and non-residents that need to be carefully considered, such as:

Benefits

- Potential to generate more revenue from facility use and program participation, which can be used to improve their quality, accessibility and diversity.
- It can reduce the overcrowding and congestion of the facilities, especially during peak hours or seasons – however, this can also be achieved through allocation guidelines that prioritize residents over non-residents.
- It can increase the satisfaction and loyalty of residents, who may feel that they are getting more value and recognition of their tax or user fee.

Challenges

- It can create administrative and operational difficulties, such as verifying the residency status of users, collecting and managing fees, and enforcing the rules and regulations with varying levels of return.
- Ability and process to ensure consistent application between facilities and programs including City-operated and City-owned third party operated facilities.

- Setting fees so that they do not deter use (reduced revenues) or ability for staff to sell unused time during quiet periods, fill empty spots in programs or secure an event with the host organization from outside Kelowna – it’s financially better to have a program full, or time sold rather than remain unused.
- It can cause resentment and dissatisfaction among non-residents as well as affect relationships with our regional partners.

Staff have omitted a non-resident component to the approach. As new facilities come online and staff continue to monitor use trends, or a broader corporate application considered, the inclusion of this program could be revisited. Should Council wish to explore this further, staff would prepare a business case to further evaluate the model and report back to Council.

Conclusion:

Through the implementation of the Benefits-Based approach, the outcome will be a fees and charges program that considers cost of service, defined investment, and balanced with unique features of facility operations and program delivery. The fee structure aligns with the principles of Active Financial Management. As staff continue to work through the development of the Benefits-Based approach program, a key component will be to review and build on the current programs of assistance to ensure those who cannot afford the user fees have access to programs and services.

Next Steps:

With Council’s support of the investment framework, staff will update the fee schedule with this lens, consider adjustments for practicality, and other changes and requirements to ensure a successful program. As this work progresses, staff will update Council prior to finalizing.

Timeline:



Internal Circulation:

Active Living & Culture
 Financial Services
 Communications

Considerations applicable to this report:

Existing Policy:

[Council Policy 222 - Recreation and Cultural Services – Philosophy/Fees & Charges Policy](#)
[Bylaw No. 9609 - Active Living & Culture Fees & Charges](#)

Considerations not applicable to this report:

Financial/Budgetary Considerations:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Consultation and Engagement:

Communications Comments:

Submitted by: L. Regnier, Finance & Business Services Manager, Active Living & Culture

Approved for inclusion: J. Gabriel, Divisional Director, Active Living & Culture

cc: Divisional Director, Financial Services

Attachment(s):

Appendix I: Benefits-Based Approach to User Fees