

# Cost Recovery Working Group Final Report

12 August 2018

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### 1. Executive Summary

The Cost Recovery Working Group (CRWG) recommends that Arlington Public Schools (APS) collect revenue from all users for admission to the Aquatic Centers (hereinafter “Pools”) located at Arlington’s high schools to cover the costs of Pool Operations and Maintenance (O&M). The admission charge calculation should be simple, repeatable, transparent, and accountable. These goals can be achieved by ensuring that the admission charge is based on the number of pool entries (“splashes”) that have occurred during the most recent fiscal year (FY) for which data is available. Splashes will be assigned to one of four user groups: APS programs, renters, DPR program registrants, and community swimmers. Additionally, rental groups should pay a portion of O&M expenses based on the space and time the groups are in the Pools. Admission charges for participants in APS programs are tax-supported through the County’s Revenue Sharing Agreement (RSA), while rentals, DPR program registrants, and community swimmers will pay access fees to APS. To ensure that users are paying their fair share, the revenue targets for each of those four groups is based on splash percentages assigned each year. This approach to setting revenue targets aims to recover 100 percent of expenses, and will have the effect of equitably rebalancing the share of O&M expenses paid by community swimmers. When 100 percent cost recovery is not reached, the deficit should be paid by Arlington County, not APS. In years when +100 percent cost recovery is reached, the surplus should be set-aside for O&M expenses approved by the Aquatics Committee and used within the new FY.

### 2. Membership

The CRWG is comprised of members of the Aquatics Committee (AC):<sup>1</sup>  
Cynthia Hilton, Chair  
Ron Kampeas  
Dee Romanek

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<sup>1</sup> The AC is a joint committee of Arlington County and the Arlington Public Schools. The Committee is charged with ensuring community engagement in the operation and use of the Arlington indoor swimming pools located within the three high schools and with making recommendations on behalf of users to the County Board, through the Sports Commission, and to the School Board as needed.

- Staff Liaisons  
Helena Machado (APS)  
Kevin Cronin (APS)  
Jennifer Lainhart<sup>2</sup> (DPR)

### 3. Background

In 2009, a Memorandum of Understanding (MOU) was signed between the Arlington County Board and the School Board to set forth general policies and procedures related to the operation and use of the Pools. Among other things, the MOU provided that the Department of Parks and Recreation (DPR) would annually transfer to APS funds “in addition to all amounts budgeted for the schools and the Community Activities Fund by the County Board” for O&M costs. The FY2010 transfer was set at \$286,988. APS and DPR staff were additionally charged to annually “evaluate both the revenue and the expenditures for all three Pools, and [to] recommend changes to the transfer amount, if appropriate.” Since that time, DPR programs and the number of participants served have more than doubled, but the amount of the transfer has not changed.

During this time, O&M costs have risen. To keep pace with these increasing costs, APS has increased fees for community swimmers and renters four times, cumulatively increasing these fees over 40 percent. The most recent increases went into effect July 1, 2018, for FY 2019.

The 2018 fee increases were included in the budget without input from the AC. Among the responsibilities of the AC is a charge to make recommendations on fees charged for the use of the Pools. In 2014, the Committee adopted criteria to assess the need for fee adjustments.<sup>23</sup> The AC is generally supportive of justified fee increases. However, the 2018 proposal was not justified based on the Committee’s fee assessment criteria. Also, the fee increases are estimated to generate revenue in excess of the \$55,000 APS said it needed to close a revenue gap expected in FY 2019, and, while revenue needs for FY 2019 prompt the proposed fee increases, there is no plan to sunset the higher fees at the end of the fiscal year.

To address these concerns, the AC instituted a survey to alert the public to the proposed fee increase and to solicit input on options to generate the \$55,000 in new revenue requested by the APS Superintendent in his FY 2019 budget request. To date, the survey has generated a response rate in excess of 10 percent. It shows that 60 percent of the respondents want the DPR transfer to be increased as stipulated in the MOU. The APS Superintendent’s proposal to raise fees was preferred by only 13 percent.

The AC presented the results of the survey and the Committee’s concerns to County and APS staff as well as both County and School Boards. Despite reconsideration, it was too late before the beginning of FY 2019 to exercise the O&M transfer provision in the MOU as a source of the needed \$55,000. Going forward, however, both the County Manager and the Superintendent expressed in an exchange of letters that they were open to an increase.<sup>4</sup> The Superintendent’s letter stated that,

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<sup>2</sup> Although appointed, Ms. Lainhart did not attend any CRWG meetings; DPR did not provide a substitute.

<sup>3</sup> The criteria are intended to be considered as a whole; no one criterion should be used to justify a fee increase. The criteria are used to trigger fee adjustment analyses, not automatic fee increases. The criteria consist of three metrics: (1) cost recovery that falls 1-5% below a 3-year rolling average; (2) comparison of similar fees assessed by other jurisdictions; and (3) consideration of inflation and cost of living rates.

<sup>4</sup> County Manager letter dated 30APR2018; Superintendent letter dated 23MAY2018.

The aquatics industry commonly uses the number of individual swims, referred to as splashes, as the key data point for evaluating costs and revenue, establishing cost recovery targets and setting user fees.

Furthermore, the Superintendent found that splash data “is critical to developing an equitable, logical and manageable approach for determining how to distribute operating costs across all APS and DPR user groups.” The AC established a CRWG to make recommendations about the merits of using a splash-based formula to ensure that all Pool users were contributing their fair share to O&M costs.

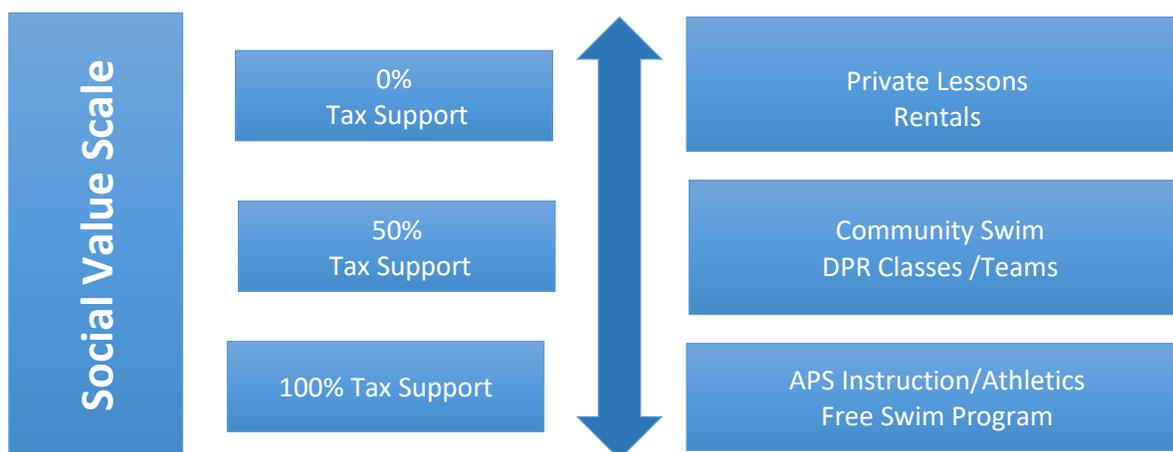
#### 4. Working Group Activities

The CWRG met four times, May 22, 2018, June 5, 2018, June 19, 2018, and July 24, 2018. Minutes and agendas are also posted at: <https://commissions.arlingtonva.us/sports-commission/aquatics-committee/> Public comment was welcomed at each meeting, but none was received.

#### 5. Purpose and Goals

The CRWG adopted as its purpose to recommend a cost-recovery model for aquatics O&M expenses that is fair to all users, simple for patrons to understand, repeatable for staff to implement, and transparent and accountable for the public.

The CRWG first considered the cost-recovery pyramid used by DPR as a model to benchmark how much revenue would be expected to be recovered through fees.<sup>5</sup> However, the DPR model was deemed inadequate because it was ranking all county sport/recreational activities, and the Working Group was looking to rank only Pool uses. Instead, the CRWG developed a cost continuum based on a social value scale:



The Working Group set a goal to develop a cost-recovery formula that would recover 100 percent of O&M costs based on fees aligned to the social value scale. To achieve this goal, the CRWG established a formula based on the percent of splashes assigned to each user group annually. The effect would be to lower current O&M costs charged to community swimmers by APS. Since DPR has not heretofore factored into its aquatic program registration fees an O&M surcharge or otherwise transferred to APS funds sufficient to cover O&M costs attributed to its Pool usage, this goal was deemed reasonable.

<sup>5</sup> DPR Cost Recovery Pyramid (November 2013).

## 6. Recommendations

### ➤ **Establish Cost-Recovery Expectations that are Fair to All Users**

The CRWG recommends that APS collect revenue from all users for admission to the Pools to cover the O&M expenses. The admission charge calculation should be simple for customers to understand, repeatable for staff to implement, and transparent and accountable to the public. These goals can be achieved by ensuring that the admission charge is based on the number of individual splashes that have occurred during the most recent FY for which data is available. Splashes will be assigned to one of four user groups: APS programs, rentals, DPR program registrants, and community swimmers. Additionally, rental groups should pay a portion of O&M expenses based on the space and time the groups are in the Pools. Admission charges for participants in APS programs are tax-supported through the County's RSA, while renters, DPR program registrants, and community swimmers will pay access fees to APS. To ensure that users are paying their fair share, the revenue targets for each of those four groups is based on splash percentages assigned each year.

### ➤ **Setting a Per Splash Rate**

The CRWG set as goals to reach 100 percent cost-recovery using a "per/splash" formula for setting admission charges while reducing current fee assessments. Data from the latest FY (1JUL to 30JUN) should be used to set the splash rate for the coming FY. It is expected that data will be no more than two-years old. Each splash is assigned to one of four user groups. (See following table for FY2018 splash percentages.)

<b>Splash Group</b>	<b>FY 2018 Percentages</b>
APS Programs	16
DPR Classes & Teams	43
Community Swimmers	30
Rentals	11

To minimize the burden of data collection, APS student numbers will be based on the September 30 enrollment by grade report and the number of athletes registered to participate in aquatic athletic programs, and DPR class participant numbers will be based on full enrollment in classes advertised.

By the end of a FY, individual admission charges credited to each user group will be expected to contribute to revenue available for O&M expenses an amount equal to the user group's assigned percentage of splashes.

Levying an admission charge on all individuals seeking access to the Pools allows the charges for FY2020 to be set at rates below those set for FY2019, and ends the practice of imposing disproportionate fee increases on community swimmers or rentals when revenue collection does not cover O&M expenses.

### ➤ **Social Value Scale**

While the equivalent of the established splash rate must be collected from each individual Pool user in order to cover 100 percent of O&M expenses, the CRWG recognizes that there is merit to

setting reduced, free, or otherwise discounted admission charges based on a scale that reflects Arlington's social values and promotion of active recreational lifestyles as follows:

- **APS “Reduced Cost”/Free Swim Programs**

APS will continue to pay all or a portion of admission charges for certain individuals with funds from its RSA as follows:

- All APS Instructional/Athletics Programs;
- Free Swim for Youth and Seniors;
- Free Swim for uniformed public safety personnel; and
- Reduced-rate admissions for community swimmers based on income according to School Board established policy in order to facilitate Pool use by all citizens.

- **Discounts**

The splash rate is based on the O&M cost for a single-swim adult admission.

- APS will continue to pay for discounts to full-time APS employees consistent with APS policy to promote an active lifestyle.
- APS will continue to offer:
  - Age-based discounts to community swimmers who are children and seniors;
  - Discounts for college students;
  - Discounts to individual community swimmers purchasing multi-month or annual memberships or multi-swim passes; and
  - A discount for a combined family membership package.
- APS will offer discounts to individuals registering for DPR classes or teams.

- **O&M Revenue Collection Responsibility**

Inasmuch as APS is responsible for the operation and management of the Pools, APS should be charged with collecting admission revenue from all users to cover O&M expenses. Basing the admission charge on the individual user allows APS to operate and manage the Pools in a fair and fiscally-responsible way. This approach does not task DPR with collecting O&M admission charges from its user communities. While DPR may continue to charge a separate fee to cover the costs of its programs, APS will establish a process for collecting admission charges from DPR participants that minimizes the inconvenience to or otherwise benefits the participant:

- APS will explore web-based registration and linking to DPR's registration site to simplify participant registration.
- DPR participants may choose to purchase existing swim passes and membership packages; these would exempt them from additional APS charges for DPR class/team admission.
- DPR participants who miss a non-refundable class or practice, will be able to use the “splash” for a non-class/practice swim of their choosing.

- **Treatment of Over- or Under-Revenue Collection**

This approach to setting revenue targets aims to recover 100 percent of expenses, and will have the effect of rebalancing the share of O&M expenses paid by community swimmers to ensure that all users are assessed equitable admission charges. In years when +100 percent cost recovery is reached, the surplus should be set-aside for O&M expenses approved by the Aquatics Committee and used within the new FY. When 100 percent cost recovery is not reached, the deficit should be paid by Arlington County, not APS.

In the past, shortfalls have been paid by APS out of its RSA, which is the “school budget” for books, teachers, schools, etc. The competition for scarce “school budget” resources has led APS to cover the funding gap by raising the O&M fees APS collects on community swimmers (e.g., the 5% increase imposed in FY2019). Of the four splash user groups, two are paying their fair share and two may fall short. APS is funding its user community at the full-adult, non-discounted splash rate. Renters are also assessed 100 percent of costs. Discounts are offered only to DPR class and team registrants and to Arlington citizen swimmers, a subset of DPR’s larger sports and recreation community. It is appropriate that DPR fund any O&M shortfall as it would fund O&M expenses incurred for other sports/recreation options offered by the County.

➤ **Retaining the DPR “Transfer”**

The Aquatics MOU (2009) provides that DPR “transfer” funds from its appropriated funds to the APS Community Activities Fund (CAF) for aquatic O&M expenses incurred by its program users. This is revenue to APS in addition to the RSA. County and APS staff have been directed by the County and School Boards to see what changes need to be made to the MOU after receiving citizen input about failure of the MOU text to require that the O&M transfer, which has not exceeded \$286,988, match DPR’s increased usage of Pool space and patrons served.

While the current annual transfer bears no relationship to the increased O&M costs APS incurs to support DPR’s programs, the CRWG recommends that the concept of a “transfer” (meaning a disbursement from DPR appropriated funds and a deposit to the CAF) be retained in any revised MOU. The directive for a transfer should be triggered only when there is a gap between aquatics revenue collected and O&M expenses incurred, and the amount of the transfer should be limited to the unfunded gap.

APS will continue to apply cost avoidance strategies and revenue generating opportunities to ensure 100 percent recovery of Community Swim costs.

➤ **Accountability**

The AC retains its responsibility to oversee the aquatics budget and revenue streams to cover O&M expenses. In this capacity, APS and DPR will provide a financial report, at least annually, to the AC as required by the AC charter. The data APS and DPR provide in the report must be based on the same standards of disclosure in order for the AC to verify the reliability of the “social value scale”; to determine the effect, if any, of admission charges on DPR’s ability to recover program costs; and to allow for recommendations on fee setting for the upcoming budget cycle. The AC will also evaluate recommendations for the use of funds that may be collected in excess of actual expenses related to the aquatics center operations.

## **7. Other Issues**

➤ **Reciprocity with Long Bridge Park (LBP) Aquatics Center**

The CRWG did not specifically address reciprocity of memberships between APS Pool and LBP. The main focus of the group is to establish a process by which APS can operate its facilities at 100% cost recovery. To the extent that this goal can be maintained, the CRWG recommends that the AC address this issue at a later date.

## 8. Next Steps

The CRWG requests that the AC support its recommendations and forward them to the County Board, through the Sports Commission, and to the School Board with a request that the recommendations be shared with and acted upon by the Superintendent and the County Manager in time to be included in County and APS FY 2020 budget proposals.

## 9. Appendices

- **Definitions**

- **Community Swimmers** mean all patrons at APS aquatics centers other than those that are APS curriculum-based or sanctioned by the VHSL, Renters, or those registered in DPR classes or teams.
- **DPR Classes** means programs managed by DPR and offered at the APS aquatics centers as stipulated under a current MOU. These programs are further organized into:
  - Sessions – Seasonal set of multiple offering of classes (e.g., summer, fall, winter and spring).
  - Class – A scheduled offering within the Session (e.g., 5:30 pm Water Babies Class).
- **DPR Competitive Teams** mean youth and adult teams managed and offered by DPR at the APS aquatics centers, currently, AAC and Masters.
- **O&M costs** mean “Operations and Maintenance” costs including costs related to the staffing, utilities, supplies, maintenance and repairs necessary to keep the APS Aquatics Centers safely operational.
- **Rental** means a third-party individual, group or entity using the APS Aquatic Centers under a rental agreement with APS, including private instructors, for profit and non-profit teams, one-time events or other service providers.
- **Revenue** means all funding sources that are allocated for O&M costs including appropriated tax revenue, the DPR transfer, and fees collected by APS.
- **Tax-Supported Programs** mean programs managed by APS that are funded by the County/APS Revenue Sharing Agreement through the APS Community Activities Fund.

- **County Manager/Superintendent Letters** (pdf attachments)

- **Recommended FY 2020 Aquatics Admission Charges**

The O&M cost of a single splash each baseline year (preceding two fiscal cycles) will dictate the Adult admission charge for a single swim, e.g., FY2018 splash cost for FY2020 admission charges. All other fees will be based on the formula shown below:

Per-Splash Discount or Surcharge	Proposed FY 2020 Splash Assessment
Baseline Cost/Swim (0%)	\$5.15
Adult Fee – Res (0%)	\$5.15
Arlington Uniformed Public Safety Employees (0%)	\$5.15
APS Students and Athletes (0%)	\$5.15
Senior Fee Res (<30%)	\$3.65
College Student Fee Res (<20%)	\$4.15
Child Fee Res (<60%)	\$2.10

Adult Fee - Non Res (+30%)	\$6.70
Senior Fee Non Res (+30%)	\$6.70
College Student Fee Non Res (+20%)	\$5.00
Child Fee non Res (+30%)	\$2.75

Swim Passes and memberships will continue to be calculated using the formula implemented by APS in 2010 and supported by the Aquatics Committee in 2018:

Packages	# Splashes	Discount
3-mos	24	15%
3-mos NR	24	10%
6-mos	52	25%
6-mos NR	52	10%
12-mos	104	40%
12-mos NR	104	10%
Family Membership	Summed Cost of individual memberships	10%
APS Full-time Employees	Cost of individual membership	50%
Swim Pass Res	10	15%
Swim Pass Non Res	10	10%

Non-Resident fees will continue to be adjusted to match the resident fees at neighboring jurisdictions.

Rental fees will be based on the preceding two fiscal cycles' actual O&M costs/hour, and admission charges capped at the number of swimmers that can safely occupy a lane, divers per board, or the capacity of IPools, etc. Table below shows the estimated rental fees based on Fiscal 2018 Budgeted expenses and cost/splash adjusted to a resident child admission charge:

Third Party (Rental) Rates (FY 2018 estimate)	Utilities	O&M	Manager on Duty	#Guards	Wages	Subtotal	#Swimmers	Splash Fee	Income/ Splash /hour Rental	Non Profit Fee 2020	For Profit Fee 2020
Full Facility (Cpool/Ipool/Well)	27	18	35	2.0	15.6	31	94	2.1	\$ 197	\$ 309	\$ 324
Full Facility (Cpool/Ipool/Well/Classroom)	27	18	35	2.0	15.6	31	124	2.1	\$ 260	\$ 372	\$ 390
10-Lanes (WL Only)	27	18	35	2.0	15.6	31	80	2.1	\$ 168	\$ 279	\$ 293
8- Lanes	27	18	35	1.0	15.6	16	64	2.1	\$ 134	\$ 230	\$ 242
8 lanes with tank	27	18	35	2.0	15.6	31	94	2.1	\$ 197	\$ 309	\$ 324
6-Lanes	27	18	35	1.0	15.6	16	48	2.1	\$ 101	\$ 196	\$ 206
6-Lanes + Tank	27	18	35	2.0	15.6	31	78	2.1	\$ 164	\$ 275	\$ 289
4-Lanes	14	9	9	0.5	15.6	8	32	2.1	\$ 67	\$ 106	\$ 112
4-Lanes + tank	16	11	9	0.5	15.6	8	32	2.1	\$ 67	\$ 111	\$ 117
Instructional Pool (WK)	27	18	35	1.0	15.6	16	32	2.1	\$ 67	\$ 163	\$ 171
Instructional Tanks	27	18	35	1.0	15.6	16	30	2.1	\$ 63	\$ 159	\$ 167
Divning Well	14	9	35	1.0	15.6	16	12	2.1	\$ 25	\$ 98	\$ 103
3-Lanes	8	5	11	0.4	15.6	6	24	2.1	\$ 50	\$ 81	\$ 85
Classroom	7	4	35	0.0	15.6	0	25	2.1	\$ 53	\$ 114	\$ 119
Classroom w/ AV	7	4	35	0.0	15.6	0	25	2.1	\$ 53	\$ 139	\$ 146
Single Lane (1/2 Lane)/Partial Tank -Private	3	2	4	0.3	15.6	4	2	3.6	\$ 7	\$ 21	\$ 22
Special Event Set up/Session			35	2.0	15.6	31	0	2.1		\$ 66	\$ 70
Special Event Clean up/Session	0	0	35	3.0	15.6	47	0	2.1		\$ 82	\$ 86
Colorado Equipment Set up/Session	0	0	35	1.0	15.6	16	0	2.1		\$ 51	\$ 53
Colorado Equipment Rental /session					15.6			2.1		\$ 100	\$ 105
Colorado Operator/Hours			35		15.6			2.1		\$ 35	\$ 37