DIFFERENTIAL USER FEE STUDY

Prepared by the Budget & Evaluation Department
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Differential User Fee Study
Executive Summary

Per the request of the Manager's Office, a comprehensive differential user study was begun in August, 2003 that considered a more equitable distribution of costs to provide certain programs enjoyed by both City resident as well as non-resident users. All of the City's user fees were considered in this study and input from departmental staff was solicited. The overriding criteria in determining whether a differential user fee for non-residents should apply to a particular service was whether or not it was both reasonable and could be consistently applied. To this end, three areas were identified where differential fees for use by non-residents can be applied: Parks and Recreation; Libraries; and Cemeteries. Below are summarized highlights from the overall detailed report applicable to each area.

Parks & Recreation

- There is currently a 25% non-resident differential user fee for non-resident participation as a result of the 1998 Woolpert Parks & Recreation Master Plan that has been in place since March, 2001. The Woolpert plan recommended that an eventual 50% differential user fee be considered.
- Because of variability of programs, costs, number of participants, and market conditions, study analysis indicates that it is not reasonable to apply a single differential fee across the board; therefore, a variety of methods has been considered.
- Many programs/activities are not recommended to have non-resident user fees adjusted from the current level (i.e. summer camp, swimming pools, etc.).
- Comparisons using available data from initial 25% non-resident user fee implementation as well as data gathered from other jurisdictions indicate that little or no significant decrease of non-resident participation is expected to occur with respect to any recommended non-resident user fee increases.
- Three program areas, in particular, were given the most consideration since these experience the most significant non-resident participation and carry the most significant cost: Athletics; Arts; and Lakes.
- In FY 02-03, Athletics was very heavily supported by general property tax revenue (over $1.9 million).
- 125% non-resident user fee is maximum and recommended such that both residents and non-residents are equally sharing program costs; minimum of 100%. (See **User Fee Recommendation chart** beginning on p. 12).
- In FY 02-03, more than $770,000 of general property tax supported City Arts.

- Maximum and recommended 75% non-resident user fee is advised to better support all of the Arts programs; minimum of 50%. (See **User Fee Recommendation chart** beginning on p. 12).
- Over $400,000 of general property tax went to support the Lakes.
- Maximum and recommended 50% non-resident user fee is advised and achieves equal cost-sharing. (See **User Fee Recommendation chart** beginning on p. 12).
- Overall incremental revenue impact of recommended differential user fees for all P&R programs ranges from $48,000 to $58,000 annually.

Libraries

- Greensboro is one of two municipal libraries that also serve the residents of Guilford County.
- Guilford County's contribution of $322,200 has remained at the same level for at least 10 years with the exception of the current year when it increased to $522,300. This sum represents about 7% of the net operating budget.
- Data contained in the Library Users Survey, completed in November, 2002, shows that approximately 39% of GPL's card-holders live outside of the City and account for about 25% of the materials checked out on any given day.
- Consistent with this data, the City submitted a municipal grant application of the more conservative 25% of GPL's net operating budget, or $2.1 million, for the FY 03-04; the amount awarded was $522,300.
- Four of 10 libraries with which GPL consistently benchmarks charge a user card fee to non-residents that range from $35 to $50 per year.
- Implications of charging a user card fee are that the GPL would be re-classified as a municipal library and would have to forego all of its State Aid. The State Aid package of about $317,600 would be lost for a full year as well as valuable resources for State programs, including Summer Reading Program, federal LSTA pass-through grants, and NCLive access.
- $144,000 in State Aid including Block Grant funds would be lost as long as GPL remained a municipal library, annually.
- Greensboro would no longer be considered a "public" library and would have to go through a demonstration year in order to qualify and re-apply for approximately $173,523 of State Aid in the following year.
- Three user fee scenarios are discussed in detail in the report. For purposes of calculating net revenue impacts, all three scenarios assume the loss of both State and County funding support. The following table summarizes these scenarios and the breakeven point of each:

Fee	Methodology	Percentage of County Cardholders that Could be Lost to maintain Breakeven
$20	Fee would recover lost County and State support	0%
$24	Fee would recover per capita cost of library services (not including RFID costs)	33% (or 13,879)
$75	Fee would recover 39% of total library costs; (established based on data that 39% of cardholders live outside the City)	80% (or 33,648)

Cemeteries

- Only a few municipally owned cemeteries charge a non-resident differential user fee for the sale of cemetery plots only: Asheville and Concord, currently; and Durham, previously.
- The differential in these two jurisdictions is 25% and a tiered range of 20%-67%, respectively.
- City of Greensboro Cemeteries Division had been considered as implementing a 25% differential user fee in FY 00-01 under the auspices of its parent department, P&R, which did so in March, 2001.
- No differential was set in 2001 as there were concerns over establishment of residency and whether it would be appropriate to charge for service as well as plot sales.
- Cemeteries has significantly increased its use of fund balance to run its operations since FY 01-02 with no increased General Fund support from $7,500 to $110,000 in the current year.
- Costs for maintenance of facilities and landscaping have increased greatly as nearly the entire budget goes towards maintenance of grounds.
- Sale of plots to non-residents has remained fairly stable at about 20% over the years.
- A 25% non-resident differential user fee is recommended to offset the use of fund balance which is quickly declining and Cemeteries would still remain competitive with private providers.
- The differential would be applied to plot sales only (not to services) and would occur at the point of sale, so that verification of residency is easily established.
- Estimated annual incremental revenue impact: $11,000.

Purpose
The purpose of the Differential User Fee Study was to determine a reasonable differential rate for various user fees that could be reasonably and consistently applied for those services that non-residents routinely use. This report will identify the fees that the City believes fall into this category and will quantify revenue impacts to the extent possible.

Definition of User Fees and Examples
User fees are fees that are charged by the City of Greensboro for certain services rendered. These fees are for services that are not typically funded by the General Fund property taxes that residents pay. Examples of some common user fees include water charges, registration for a recreation center program, facility rentals, library fines, various building permits, and waste collection fees. Both General Fund departments and Enterprise Funds may charge user fees. In General Fund departments, user fees are generally set to off-set some of the cost associated with delivering the services; in Enterprise Funds (such as the Coliseum or Solid Waste Management), these fees may either completely fund the service or fund a greater portion than user fees collected for services offered by General Fund departments. In General Fund departments, the remaining cost of delivering a service comes mainly from property tax paid by City of Greensboro residents. At present, user fees account for about 35% of the City's FY 03-04 budget, or about $ 115 million, surpassing property tax as the single largest revenue source.

The City undertook this study based on serious funding and equity issues; that is, providing certain services to non-residents when those participants do not pay property tax continues to become increasingly expensive and we do not feel that the entire burden should fall on the shoulders of City of Greensboro residents who pay these property taxes. Those services that fall under General Fund departments such as Parks and Recreation and Libraries are greatly supplemented by the property tax collected while only a small portion is covered by the user fee charged for the service. These fees will be discussed in greater detail within the report.

For the purposes of this study, residents are defined as those citizens residing within the corporate City of Greensboro limits. Non-residents are defined as those citizens living outside of Greensboro city limits, including both incorporated as well as unincorporated areas.

Study Objectives

Specific study objectives of the Differential User Fee Study included the following:

- Determine number and type of user fees to which a differential rate can be reasonably and consistently applied
- Document current cost recovery rate for those fees identified as most likely possibilities for application of differential fees
- Document any non-resident rates that the City presently applies
- Determine any revenue implications that may arise from the application of differential rates
- Develop recommended differential fees consistent with recommended methodologies for determining appropriate level of non-City user support

Study Methodology

Reasonable and consistent application was a key component in this study. Staff spent considerable time reviewing all of the City's current user fees to determine types of user fees where it made sense to apply a differential. Many fees that the City collects did not meet the criteria, and, therefore, are not discussed in the study. The criteria used to determine reasonableness included the absolute number of a particular fee collected, ability to reasonably track and document resident and non-resident participation, and success that other jurisdictions have experienced in applying a differential fee.

The fees that will be discussed in this study include the following areas:

- Parks and Recreation
- Libraries Services
- Cemeteries

Park and Recreation

Philosophy

The use of differential fees to recover a portion of service delivery costs to non-residents is not a new approach and is, in fact, widely used throughout the United States by Parks & Recreation departments, in jurisdictions both large and small. We received a wealth of information through inquiry via the International City Manager's Association (ICMA) as well as the North Carolina Local Government Budget Association (NCLGBA). An overwhelming percentage of participants (more than 90%), indicated their desire to equitably distribute costs among participants. This quote from the City of Boynton Beach (Florida) Recreation and Parks Department Revenue Policy Manual provides a short

summary regarding its use of differential fees that mirrors the philosophies of most of the other jurisdictions surveyed:

> *Many out-of-town residents use Boynton Beach recreation services but make no direct tax contributions the help support these services. It is not equitable for these citizens to enjoy the facility or service while this jurisdiction's residents are taxed for its maintenance and operation. Therefore, it is reasonable to incorporate into the fee and charge policy different Non-resident and Resident fees. Thus, visitors and residents together will help maintain the facility and provide funds for continued expansion and proper staffing.*

Methodology

Methodology for design and implementation of differential user fees among respondents varied, but centered around the following three rationales:

- Across-the-board percentage, ranging generally from 25 to 100 percent, although more or less for certain programs/services. There were a couple of instances in other jurisdictions of as much as a 400 percent mark-up on a non-resident fee.
- Cost recovery of providing the service with a clearly established cost recovery goal. For instance, a jurisdiction might establish a differential aimed at recovering 15% of its direct cost to provide service.
- A benchmark approach among peer jurisdictions such that a fee would not be the highest nor the lowest in the cities surveyed, thus establishing a market price.

Consistent with the Parks and Recreation Master Plan that was completed in 1998 by Woolpert, a professional park planning firm, the Master Plan recommended that an equitable fee structure be set for both City of Greensboro residents as well as non-residents residing within Guilford County. In determining an equitable fee, three types of services that P&R provides were identified:

- Public service – provides high public benefit (equal for everyone) and should be free and supported solely by taxes.
- Merit service – provides some public benefit. The person receiving the service usually benefits more than the general taxpayer and should pay an equitable share of the cost to provide the service.
- Private benefit service – provides benefits completely to the user, not the general taxpayer; therefore, the user should pay the total cost of providing the service.

The Master Plan study found that most of P&R's activities were merit service and recommended implementation of a differential user fee to non-residents if Guilford County chose not to provide a more equitable portion of program costs. There was some expectation that the County would offset the increased cost of providing the programs, however, this did not occur.

As part of the Master Plan study, the City of Tallahassee was contacted concerning their use of differential fees for non-residents. The City of Tallahassee and Leon County had a partnership structure in place that allowed the County to contract/pay for recreational services offered to County residents by the Tallahassee Park Recreation Department. This agreement was nullified and the City instituted a 50% differential fee for non-City residents in order to recover a portion of the cost associated with providing the services. Tallahassee uses utility billing codes and appropriate photo identification to establish proof of City residency. At the time of study (1998), Tallahassee's program had been in place for 18 months and they had reported no significant decline in program participation, but noted they were not in direct competition with Leon County. This is the same case as Greensboro has with Guilford County, i.e. the City is not in direct competition with the County in providing recreation services.

Woolpert's Parks & Recreation Master Plan recommended that the aforementioned approach *only* be used when partnership agreements or other mutual agreements cannot be attained. It was noted that use of differential fees should be a last resort in attempting to afford service for residents in the area. The local climate in Guilford County coupled with continued declines in State-shared revenues has increased the burden of providing service to fall upon the General Fund and, more directly, on Greensboro residents' shoulders.

No formal proposal was made to Guilford County to more fully participate in the expense of providing recreational activities for its residents; however, discussions between P&R Management staff and Guilford County Planning staff indicated that such an agreement would not be forthcoming. The absence of a solid partnership with Guilford County for a more equitable participation in costs coupled with the Master Plan findings relative to Tallahassee prompted the City of Greensboro to adopt an initial 25% across-the-board differential fee for its programs provided to non-resident users with an intended eventual implementation of a 50% differential fee in the next several years. This philosophy was shared with the public and supported by the Parks and Recreation Commission and, ultimately, by City Council.

Implementation

The first year that these fees were implemented was March of fiscal year 2000-2001. The first full year that fees were collected was 2001-2002. The goal of implementing a differential user fee was to increase cost recovery for programs that P&R provided to its users and rely less on general fund subsidy paid by City residents via property tax. At the time of the Master Plan, P&R's overall cost recovery rate was about 16.96% and the recommendation by Woolpert was to implement a strategy to recover at least 18% of cost of operations through user charges. Gross cost recovery for the last three years is shown in the table below.

	FY 00-01	FY 01-02	FY 02-03
Operating Revenues	$ 3,127,170	$ 2,921,539	$ 2,572,765
Operating Expenditures	$18,146,634	$18,413,173	$17,732,696
Cost Recovery	17.23%	15.87%	14.51%

As one can see, overall cost recovery has gone down to only 14.51% for fiscal year ended FY 02-03, setting the department back farther from the recommendation in the Woolpert P&R Master Plan. While this represents overall cost for the entire department, it does not fully represent the user community and environment. That is, there are many areas in P&R that do not have direct event participation such as Landscape and Beautification; however, these activities provide for the enjoyment, appearance, etc. in support of programs and events which do have direct participation and, therefore, these costs are included. In addition, the overall cost recovery percentage is made up of several programs ranging from modest cost recovery to others that virtually have no cost recovery. 14.51% is a mixture of all of these programs. For this reason, a single methodology is not appropriate for the application of differential user fees in P&R.

P&R staff has been vigilant in trying to keep costs for providing programs down, but declines in revenues have significantly outpaced the increases in expenditures over this time period. The decline in revenues and, subsequently, in cost recovery is due to a mixture of many contributing factors:

- Budget reductions were made in FY 02-03 as a result of State revenue shortfalls, most notably, in City Arts. In this area, overall programming for all participants was cut by half and, therefore, revenues in this area have declined at a similar rate;
- Increased competition from Guilford County Schools in the Afterschool Program also offered by the City's Recreation Centers' has caused a drop

in revenues as well such that many centers have not made up the revenues through additional programs;
- Significant revenue impacts have occurred in programs affected by the extremely wet weather the area has experienced: both golf revenues at Gillespie Golf Course as well as a variety of lake activities have suffered;
- Fees collected have not kept pace with on-going staffing, maintenance and capital improvement expenses;
- Downturn in the economy, resulting in fewer dollars available for leisure activities;
- More competition in certain recreation areas such as golf and arts;
- Some loss of participation due to higher non-resident fees, although this is not significant in most program areas;
- Inconsistent application of differential fees to non-residents (see discussion in following paragraphs)

Parks and Recreation staff developed a Leisure Card to ease in the application of the differential fees. City residents received two cards per household, free of charge, and are to present the card as proof of residency in order to receive the residential fee. If a user wishes to participate who is a non-resident or who does not possess a Leisure Card, the non-resident differential is to be charged.

Discussions with Parks and Recreation staff indicate that application of the differential is not always consistent and waivers are given if a participant claims residency, but cannot produce a residency card. In a few instances, data suggests that differentiation between residents and non-residents is not collected at all and, therefore, different fees may not be collected. Lastly, in the Athletics Division where most team-based sports were appropriately assigned a differential fee, staff reports that the differential is collected, but all revenues were deposited into the same account for both residents and non-residents. This practice eased the difficulty of separating the two revenue streams for Athletic program staff, but does not allow for determining effectiveness of applying the differential fee to the particular program. The only exception in this division was in the area of Soccer where the non-resident revenues have grown just over 10%. It is unclear as to why this is the only area where policy is followed.

Resident Vs. Non-Resident Practical Examples

A citizen of Greensboro owns a $200,000 home and each penny in property tax that the homeowner pays generates $20. How much program cost does each penny support? Assuming $200,000 property value, the following examples demonstrate the degree to which a Greensboro property taxpayer is subsidizing Parks and Recreation activities in three areas where both non-resident participation and net operating costs are most significant: Athletics, Arts and Lakes. Each example considers *net* operating costs; that is, expenditures less all revenue sources, including user fees.

FY 02-03	Athletics	Arts	Lakes
Tax penny that supports net program costs	1.18	0.47	0.24
Total net program costs funded by Property Tax AFTER all revenue is factored out	$1,946,358	$770,966	$400,633

CURRENT FEE STRUCTURE EXAMPLES

1. Athletics Example

In FY 02-03, over 1 cent of property tax, or over 1.9 million tax dollars, supported the Athletics program. Overhead costs of this program are more significant (about 75% of the total operating budget) in comparison to other programs, but are still a cost of providing the program and must be included. In addition, Turf/Athletic Field Maintenance costs must be included. The City resident taxes referenced above contribute $24 ($20 X 1.18) toward the program costs before he is assessed the resident's user fee for program participation.

For example, the resident referenced wishes to enroll his 8-year old child into the Soccer program and the resident fee per team participant is $19. The resident is now underwriting his child's participation in this program (via property taxes and fees) at a rate of $43 ($24 + $19). Comparatively, a non-resident wishes to enroll his child in this same program and his non-resident fee is only $24 (or 25% more than the resident fee). Therefore, the City resident is paying an additional $19 for his child to participate in the same program.

2. Arts Example

In FY 02-03, nearly one-half cent, or .47, of property tax supported City Arts. City residents are underwriting the total net cost of the Arts program by about $770,966. City Arts cost recovery averages about 15% over the last three fiscal years for all its programs.

Consider the following illustrative example: the same City resident referenced above wishes to enroll his child in a Creative Drama class. He has already paid $9 ($20 X.47) towards the class via his property taxes; the resident user fee for the class is $50. This resident has effectively paid $59 for his child to take this class; the non-resident user fee for this same class is $63 (the current 25% differential). In this example, it appears that the differential is appropriate, but this does not bear out for each individual Arts program.

3. Lakes Example

Nearly one-quarter cent of property tax, or $400,633, went towards the net support of City Lake activities during FY 02-03. This is the amount that City

residents supported this program prior to the assessment of user fees for either residents or non-residents. On average, Lakes recover roughly 1/3 of its program costs via user fees.

An example best illustrates this impact. The same City resident referenced above wishes to take his family fishing and heads out to Lake Brandt to rent a rowboat. This citizen has already underwritten the cost of the program by approximately $5 ($20 X .24) through the payment of his property taxes. He pays an additional $11 rental fee; therefore, he has subsidized the Lake program costs by $16. On the same day, a non-resident family pays only $14 for the rental of a rowboat. The current differential is 25% ($14 non-resident vs. $11 resident), but in true costs, the non-resident has paid $2 less for the service.

Implications from Initial Non-Resident Fee Implementation

According to data obtained through the International City Manager's Association (ICMA) as well as the North Carolina Local Government Budget Association (NCLGBA), several respondents expressed concern that their jurisdiction would suffer a loss of participation when implementing a differential user fee for non-residents. In some instances, significant loss of participation occurred initially, but usually rebounded within a couple of years. Generally speaking, this loss of participation did not occur in all programs across the board, but rather where the market provided an alternative recreation source for a similar program.

Greensboro has seen little, if any, significant loss of participation due to its implementation of a non-resident user fee in those areas where data is available and where the non-resident fee has been consistently applied. While Greensboro has avoided significant loss of participation in non-residents, non-resident revenues have followed the downward trend of other P&R revenues in the last two fiscal years.

Summary & Recommendations

The City of Greensboro has seen declining revenues in the area of Parks and Recreation programs over the last three years. A non-resident differential user fee was recommended by the Woolpert P&R Master Plan in 1998 due to a lack of agreement with Guilford County concerning sharing of operational costs for providing leisure programs to County residents residing outside of Greensboro city limits. This measure was taken not with a punitive intent, but rather, in order to reach the recommended cost recovery rate of at least 18% and to spread the cost of providing the service over all users benefiting from the abundant recreational programs that the City provides. To this end, the City believes that an increase in the differential user fee for non-residents is in order. This increased fee will allow the City to continue to provide the level of service and variety of programs that both City and County residents alike have come to enjoy and expect.

Although, the P&R Master Plan initially called for implementation of a 25% differential, with an ultimate implementation of 50% across the board, the City does not recommend this method. Instead, P&R staff has made recommendations based on community feedback and market knowledge. Based on the analysis done in this study, some of those recommendations have been accepted, while others have been recommended with modifications. The recommendations will be shared with several advisory groups such as the Parks & Recreation Commission and the Arts Advisory Group with the final decision being made by the City Manager and City Council. Survey feedback coupled with analysis performed during this study suggests that no single method works in all situations, i.e. one size does *not* fit all. Therefore, a variety of methods should be used to attain a more equitable distribution of program costs to all users while still providing the quality and variety of recreational programs that all users have come to expect.

For example, in some areas such as City Arts, pure cost recovery would increase the fee so much that it would be cost-prohibitive to both resident and non-resident users, alike; therefore, a reasonable cost recovery percentage is recommended. In other cases, such as Recreation Centers, a market-based or benchmark approach is a more sound method. Recommended methodologies for each division are presented in the following table:

1. **User Fee Recommendations**

Division	Recommended Methodology	Notes
Athletics	RECOMMENDED & MAXIMUM: 125% differential; MINIMUM: 100% differential **(see discussion below chart)**	Some exceptions in field rentals; football; indoor tennis & volleyball; and swimming pools; Break-even analysis indicates that non-resident participation must drop by 50% before a loss of revenue occurs and this is unlikely
Gardens	50% differential	
Bryan Park Shelter Rentals	25% differential	No change recommended
Recreation Centers	Market-based per activity differential	Afterschool Program & Karate fee drops for both residents & non-residents with no differential; youth basketball unchanged @ 25%
City Arts	RECOMMENDED & MAXIMUM: 75% differential; MINIMUM: 50% differential; market-based approach for a few activities **(see discussion below chart)**	Current differential is 25% and these programs are among P&R's more costly to provide; alternative arts resources exist for many programs; Break-even analysis indicates that non-resident participation must drop by 50% before a loss of revenue occurs and this is unlikely

Caldcleugh	50% differential	Some exceptions in Camp fees and African Drumming
Gillespie Golf Course	Market-based per activity differential	Alternative sources drive fee-setting; no change recommended
Regional Parks	25% differential	No change recommended
Hagan-Stone Park	50% differential	Some exceptions in shelter rentals; Hagan-Stone Chapel
Hester Park	50% differential	Some exceptions in Equipment Rentals; Softball Field use
Special Programs	50% differential	Special Activities including Camp Joy
Lakes/Watershed Parks	MINIMUM & RECOMMENDED: 50% differential; MAXIMUM: 75% differential **(see discussion below chart)**	Current differential is 25% and these programs are among P&R's more costly to provide; Break-even analysis indicates that non-resident participation must drop by 25% before a loss of revenue occurs and this is unlikely

PROPOSED FEE STRUCTURE EXAMPLES

The impact of each of the above recommendations on its respective area compared to the current fee structure examples shown previously on pg. 10 is shown below.

A. Athletics Example

If the City were to implement only a 50% differential, the analysis clearly shows that Athletic programs would continue to be heavily subsidized with general tax dollars. That is, the resident would continue to subsidize the program by $14 more than the non-resident pays. For this reason, the differential recommendation is 125%. This differential would put both the resident and non-resident participant at an equitable level of cost-sharing, both paying the same cost for their child to participate in the program; both receiving the same level of benefit.

Consider the same example where the resident referenced above wishes to enroll his 8-year old child into the Soccer program and the resident fee per team participant is $19. Recall that the resident is underwriting his child's participation in this program (via property taxes and fees) at a rate of $43 ($24 + $19). If the non-resident fee is increased to $43 (a 125% differential), both the City resident and the non-resident pay the same amount and the resident no longer subsidizes the cost of the program with general tax dollars.

If the minimum recommendation of 100% differential is adopted, a gap of $5 remains, where the resident continues to subsidize that program with general tax dollars paid.

B. Arts Example

As discussed earlier in this report, cost per participant and a higher degree of cost recovery both must be considered when setting fees. This is particularly true in the Arts programming area where cost per participant is extremely high. Consider that cost per participant in FY 02-03 in the Music program was $778 and $1,031 in the Drama program. Of course, fees cannot be set to fully recover these costs as it would be cost-prohibitive for both residents and non-residents; however, a higher degree of cost recovery and spreading of costs can be achieved through a higher differential. It is recommended that a maximum 75% non-resident differential be set for most of the Arts programs but no lower than 50% if absolutely necessary. P&R Management may want to consider a market-based approach for **a few** of the programs as there are several alternative sources for some of these programs available in the community.

C. Lakes Example

Consider the previous example where the resident takes his family fishing where he has effectively paid $16 ($5 via property tax and $11 in user fees). If the non-resident differential was increased to 50%, or $17, this approximates a breakeven scenario where both the resident and non-resident are paying nearly the same amount for the service received (non-resident pays $1 more in this case). This is an equitable sharing of costs to provide the program to both parties.

2. Consistent Application of Non-Resident User Fees

In addition to the recommended user fee changes, P&R should more effectively use the Leisure Card to consistently apply the non-resident differential and track this participation. As noted earlier in this report, this has not always been the case and remains a critical element in tracking the relative success of differential user fees.

3. Differential Fee Charged by Contracted Employees

P&R Management Staff should ensure that all contracted employees that offer programs such as Karate, Tai Chi, Aerobics, etc. comply with the City's policy of collecting a differential fee for non-City residents to ensure fair and consistent application.

Proposed Revenue Impacts of User Fee Recommendations

As referenced in the User Fee Recommendations table above, breakeven analysis was computed for each of the three larger areas indicated in the study (Athletics, Arts, and Lakes). Breakeven analysis assumes the same level of non-resident revenues will be brought in as a result of user fee increases, but calculates the

minimum non-resident participation that must occur so that revenue is not lost. The breakeven analysis computed for this study indicates that non-resident participation must drop by as much as 25% (Lakes) and 50% (Athletics and Arts) before a loss of revenue over the FY 02-03 level occurs.

One may also assume a loss of revenue factor to account for non-resident users who will seek an alternative source for recreational activities, but it is highly unlikely that it will approach 25%. The study also assumes a less direct factor, but one which is nonetheless relevant: it is expected that more normal weather patterns will prevail since wet weather negatively affected several recreational activities and levels of participation in FY 02-03.

A range of revenue forecasts using the proposed user fee recommendations are shown in the chart below in the example areas where non-resident participation is most significant. In some instances, a loss of non-resident participation is included and is based on prior years' history. A range is presented instead of a discrete number because data pertinent to resident vs. non-resident participation is not fully tracked or available, as previously discussed. Non-resident user fee increases have been recommended in other areas, but are not included in these estimates. An overall range for incremental differential user fees for all of Parks and Recreation programs is estimated to range from $25,000 - $35,000.

Program Area	Incremental Revenues per Recommendations
Athletics	$20,000-$25,000
Arts	$500-$2000
Lakes	$8,000-$10,000
Total Average Impact of Additional Non-Resident Revenue per Year	$48,250-$58,260

LIBRARIES

Philosophy

North Carolina's Aid to Public Libraries program has been in effect since 1941 when the General Assembly articulated its policies regarding the role of the Sate in public library development. In North Carolina, there are 75 county, regional and municipal library systems serving all 100 counties. There are 51 single

county libraries; 15 regional libraries serving 49 counties; and 9 municipal libraries. The Greensboro Public Library is recognized as the county library for Guilford County by the Office of the State Library as evidenced by receipt of a block grant provided by the Aid to Public Libraries Fund which serves county residents. Aid to Libraries funding provides approximately 3.8% of the library's net operating budget. Although GPL is designated as the county library, Guilford County contributes only 6.3% of the GPL net operating budget to provide service for its rural residents.

The use of differential fees to recover a portion of library service delivery costs to non-residents is a new approach and is a significant departure from what the City of Greensboro has historically done. Charging a non-resident card fee seems to defy the GPL mission of providing free and equal access to information to all, but County contributions to the system have not increased at a pace consistent with increasing expenditure levels and there appears to be no other alternative. It should be pointed out that GPL does not intend to limit access to libraries themselves, but rather any fee structure will most likely charge non-residents an annual fee for checking out materials.

In October 2002, Greensboro Public Library's Board of Trustees requested that the City research and make recommendations concerning the non-resident fee structure. City Council discussed the idea of implementing a non-resident user fee card, but held off. Instead, Guilford County decided to implement a Municipal Grant Application program for FY 03-04 to help offset the significant revenue losses experienced by its cities due to the revised distribution method used for local option sales tax collections. The change in distribution method resulted in the City of Greensboro losing an estimated $1.4 million.

Consequently, the City decided to apply for a municipal grant of approximately 25% of its library system net operating costs (including debt service and excluding all revenues and any Historical Museum expenses and revenues). The grant request was based on a great deal of research completed in November, 2002 which indicated that 39% of public library card-holders live outside of the City of Greensboro and account for about 25% of the materials checked out on any given day. This percentage was consistent over the course of four quarters and consists of statistically valid data gathered from GIS-mapped cardholders and independent survey data. Twenty-five percent of GPL's FY 03-04 net operating costs, or $2.1 million, was requested via the Guilford County Municipal Grant application; the City received $522,300. Prior to FY 03-04, the City has received $322,300 from Guilford County in support of its library operations and this has been the level of contribution for at least ten years. This amounts to about 6% of the GPL net operating budget.

This disparity between number of County users and funding level, in part, accounts for GPL's consistently low performance rating in both national and state

rankings. According to the 2003 HAPLR survey (Hennen's American Public Library Ratings), a comprehensive analysis of library spending and resources relative to number of users, Greensboro consistently ranks much lower than its N.C. benchmark libraries. The HAPLR methodology uses a combination of input and output measures that are weighted and scored within population categories. One of the most heavily weighted measures is expenditures per capita and because Greensboro's legal service population is much larger than High Point's, its per capita expenditure (and subsequent ranking) is much lower. Comparatively, High Point, Charlotte-Mecklenburg, Wake County and Durham County, libraries rank 8th, 12th, 13th, and 14th, respectively in the state, while Greensboro ranks 37th.

Methodology

Methodology used for Libraries in this study is obtained from information supplied by its benchmark libraries that have comparable legal service populations:

Benchmark City	**Service Population**	**Fee Charged**	**Notes**
Greensboro	338,753	N/A	
Anaheim, CA	329,068	No Fee	Proof of residency required for permanent residents
Anchorage, AK	260,283	$35/year	
Arlington, TX	348,905	$50/year	Property-owners are eligible for a free library card
Aurora, IL	490,000	N/A	*No information provided*
Birmingham, AL	242,820	No Fee	
Kansas City, MO	239,525	No Fee	
Mesa, AZ	403,753	N/A	*No information provided*
Newark, NJ	273,546	$50/year	
Norfolk, VA	274,832	No Fee	A person who is not a resident of VA may receive a card by presenting ID & paying a fee equal to budgeted per capita library expenditure each year
St. Paul, MN	287,151	No Fee	
St Petersburg, FL	248,232	N/A	*No information provided*
Santa Ana, CA	348,100	$45/year	Property-owners are eligible for a free library card as are library volunteers and non-resident City of Santa Ana employees
Wichita, KS	344,631	No Fee	

In addition to the benchmark information, a *Public Library Fines and Fees Survey* was conducted by the State Library system in March, 2002 that compiled information from 61 library systems. Of the 61 systems that reported information, 33 indicated that their system charged a non-resident borrowing fee. A further break-out of other library systems with which the Greensboro Public Library typically benchmarks, Wake County, Durham County and High Point each charge a card fee of $25; $35; and $40, respectively. The methodology used by those systems which charge a non-resident fee is based on a system cost per capita calculation.

The City of Greensboro Library System cost per capita for the last two fiscal years and FY 03-04 projections are shown below:

Greensboro Public Library Cost Per Capita Data

	FY 01-02	FY 02-03	FY 03-04 (Projected)
Direct Costs			
101-55			
Personal Services	$4,909,970	$ 5,073,370	$ 5,358,982
Maintenance & Operations	2,428,625	2,670,505	2,674,125
Capital Outlay	2,400	-	80,940
Total Direct Costs	$7,340,995	$ 7,743,875	$ 8,114,047
Indirect Costs			
Organizational (.09 of Direct Costs)	660,690	696,949	730,264
Total Indirect Costs	$ 660,690	$ 696,949	$ 730,264
Debt Service for Libraries	$1,356,388	$ 1,310,969	$ 1,266,201
Total Libraries Cost - 101-55	$9,358,073	$ 9,751,793	$10,110,512
LESS: Historical Museum Direct Costs	(735,982)	(750,625)	(776,523)
LESS: Historical Museum Indirect Costs	(66,238)	(67,556)	(69,887)
LESS: Central Library Costs for Museum	(22,883)	(24,978)	(26,024)
LESS: Libraries Revenues (incl. Museum)	(778,284)	(759,585)	(972,010)
GPL Net Operating Budget	$7,754,685	$ 8,149,049	$ 8,266,068
Legal Service Population - 338,753			
Cost Per Capita	$ 22.89	$ 24.06	$ 24.40

The FY 03-04 cost per capita calculation does **not** include significant costs associated with full implementation of the radio frequency identification (RFID)

system that Libraries has begun during FY 03-04 and which will eventually be implemented in all branches. RFID (SmartCard technology) allows libraries a method of identifying data stored on a microchip through use of an antenna. The initial implementation will be at the Kathleen Clay Edwards and Hemphill branches and establishes a materials handling system, security system and a self checkout system. A rough estimate of these costs for all other branches is in excess of $1,320,000. These costs have not yet been finalized, but with this rough estimate of the costs factored in, the cost per capita rises to approximately $28.

Implications from Implementing a Non-Resident Library Card

In FY 01-02, the Libraries Director inquired to the State Library of North Carolina as to the impact on the City's system if the City implemented a non-resident card fee to users in Guilford County. State Statute 153A-264 and relevant administrative code states:

> *If a county or city, pursuant to this Article, operates or makes contributions to the support of a library, any resident of the county or city is entitled to the free use of the library.*

According to the administrative codes, if the City of Greensboro implemented a non-resident user card, it would have to forego <u>all</u> of the State aid it currently receives for an entire year, or $317,605, based on FY 03-04 data. If GPL opted to be re-classified as a municipal library and, after proving itself as a municipal library in the demonstration year, it could apply for the per capita equalization portion for its legal service population within Greensboro City limits, about $173,523 in the following year; the Block Grant funds of $64,243 for service as the County library would be lost as long as GPL remained a municipal library. The Greensboro Public Library would operate as a municipal library like High Point or Chapel Hill and, as such, it would qualify to receive only the per capita portion of the Aid to Public Library Grant attributable to the City of Greensboro. High Point is classified as a municipal library and it receives approximately $145,000 annually from Guilford County to support its operations.

In addition to the loss of State Aid and other intergovernmental revenues, the change of status to a municipal library would result in the loss of valuable State resources and services to the Greensboro Public Library. GPL would not be considered a public library during the demonstration year and would lose access to a number of other programs including the Summer Reading Program, federal Library Service and Technology (LSTA) grants, and NCLive. NCLive provides the following services to the GPL and its patrons:

- 24/7 online access to an extensive database to all library users, both residents and non-residents alike. To put this into perspective, during FY 02-03, GPL patrons accessed information via NCLive 22,090 times.
- Services to special populations for the blind and physically handicapped including provision of materials, equipment, and delivery of these items to these individuals.
- training to GPL personnel for a variety of essential duties.
- LSTA grants that provide resources for service improvements to reference librarians, federal discounts on telecommunications services, including services to the Hispanic community and a variety of expenses associated with Planning Committee activities.

Access to NCLive resources would be lost to GPL for one full year. Further, since these resources were negotiated at the State level for use by all which receive State funds, the price for these services is much lower than could be obtained independently. In other words, GPL could not likely afford to purchase these services as a stand-alone unit. According to the NCLive Lead Negotiator for the State Library System, a conservative annual cost to independently obtain NCLive content ranges $65-$100,000 and the related infrastructure cost to build the technology to deliver the information to the customer is an additional expense that is not known at this time.

Summary & Recommendations

In the current fiscal year, Guilford County contributes approximately 6.3% of the Greensboro Public Library's net operating budget which is significantly less than the proportion of non-resident cardholders who use typically use library services on any given day. Approximately 39% of library cardholders live outside the City of Greensboro and account for about 25% of system materials that are checked out. Based on this information, the City applied to Guilford County for 25% of the Greensboro Public Library's net operating budget for the current fiscal year, or $2.1 million. The City received a contribution of $522,300.

Loss of State revenue over the past couple years, continued increases in operating costs, and an essentially unchanged funding level from Guilford County have caused the system to close two branches and necessitate that the City consider the drastic action of charging a non-resident cardholder fee.

1. **User Fee Recommendations**

<u>SCENARIO 1</u>

In order to make up the lost intergovernmental revenues referenced above and to more equitably distribute costs of delivering library services to Guilford County

residents outside of Greensboro, a user card fee of approximately $20 must be charged per cardholder.

Loss of Guilford County contribution		$ 522,300
Loss of State Aid to Libraries		317,605
Total Lost Funds of Becoming a Municipal Library		$ 839,905
Number of Non-Resident Cardholders	**	42,059
*** 39% of Total Cardholders reside in the County*		
Non-Resident Card Fee		$ 20

The major obstacle of this method of computation is that it only considers on-going costs with no provision for major capital expenditures such as RFID or building new branches. This would essentially be a "wash"; that is, no net revenue would be generated from this method and it would most certainly result in some loss of non-resident cardholders.

SCENARIO 2

A second method of computing a non-resident user fee would be to use the $24 cost per capita referenced earlier in this report (recall that this figure jumps to $28 if the rough RFID estimate is included). This method bases its calculation on the "legal service population" as defined by the Office of the State Library. The major obstacle of using this method is that it doesn't match the proportionate amount of costs to deliver library services to the number of County residents who actually use the service. If this method is charged **per non-City resident cardholder** (42,059 or 39%), it would net the City approximately $1 million in revenues. However, if the fee was charged **per address** to take into consideration that one non-resident family may contain *multiple* cardholders, then it is estimated that the net revenue realized would drop to approximately $300,000. The latter figure is based on the unknown number of multiple-cardholder addresses and some loss of non-resident cardholders.

SCENARIO 3

A third method calculates a non-resident user fee that more closely matches annual net operating costs to the number of actual Guilford County cardholders. Per information contained in the GPL database, 39% of cardholders live in Guilford County. Thirty-nine percent of FY 02-03 actual net operating cost shown earlier amounts to $3,178,129. This figure divided by the number of verifiable County cardholders (42,059) delivers a non-resident user fee of approximately $75. This method best matches the cost of delivering library services to the number of County residents who use those services; however, a

major obstacle is that the market would not bear it and GPL would certainly lose a number of patrons; perhaps permanently.

2. Use of SmartCard Technology in Conjunction with Other City Services

The RFID/SmartCard technology that GPL is currently including in all of its existing and future branches may also prove to be helpful in tracking a wealth of service distribution, participant, and other information (including residency status and participation rates), in other areas, such as Parks and Recreation; however, more information is needed. A SmartCard Feasibility Study should be performed to determine potential costs, benefits and efficiencies to be gained from implementing a compatible system in P&R facilities and other areas. It is recommended that an outside vendor with the specific technological expertise be considered in conducting such a study.

CEMETERIES

Philosophy

The City of Greensboro Cemeteries Division operates and maintains three municipal cemeteries, including plot sales and burials and maintenance of graves, related grounds, facilities and equipment. In performing a comprehensive user fee study, all of the City's fees were considered. One of the criteria used in the study was whether a differential fee could be reasonably and consistently applied and since residency is somewhat easily verifiable and non-resident consumption is constant (about 20% of plot sales annually), cemetery fees were deemed as appropriately qualifying under this criterion.

During FY 00-01, Cemeteries was considered as one of the services for which a differential user fee would be administered for a couple of reasons. First, management of this division falls under the auspices of the City's Parks and Recreation Department. Second, since Parks and Recreation decided to move forward with a 25% non-resident differential user fee for its leisure programs, Cemeteries followed suit for its services and plot sales. The initiative was tabled because some questions had arisen concerning establishing residency (i.e., one's parent dies who is a resident, but a non-resident family member purchases a cemetery plot). Currently, management indicated that the City should consider Cemeteries again within the comprehensive scope of this study.

Methodology

The City of Greensboro Cemeteries Division compiles an annual review of local privately-owned cemeteries and benchmarks its charges to determine a market-based rate. This information is the basis that is used for making any changes to cemetery plot sale rates and charges for services.

Like other cemeteries, both privately- and municipally-owned, Cemeteries has seen significant increases, too, in grounds and maintenance needs in each of its facilities. Nearly all of Cemeteries total budget is used for grounds and facility maintenance, including a mixture of full-time equivalent positions as well as contracted maintenance. Use of fund balance has grown steadily from $7,570 in FY 01-02 to more than $110,000 in FY 02-03, in order to meet these needs while receiving no additional General Fund contribution.

Research indicates that very few municipally-owned cemeteries implement a non-residential differential user fee; no data was received concerning this from any of the national respondents and, at present, only the City of Concord and the City of Asheville have a differential fee for cemetery plot sales in place. Both of these respondents cited significant increases in site maintenance as the underlying rationale for charging the differential.

Asheville applies a straight 25% differential for adult non-resident plot sales only (no differential for children's gravesites); Concord has a tiered percentage in place, depending on number of plots purchased and for which cemetery that ranges from 20% to 67%. In Asheville, non-resident sales account for approximately 10% of annual sales and Concord experiences a similar rate of non-resident plot sales. Neither entity charges a differential for cemetery services.

Additionally, the City of Durham implemented a non-resident differential fee for the sale of cemetery plots which was in place for several years, but discontinued it because application of the differential became increasingly difficult since the City of Durham accounts for nearly the entire county.

Implications from Implementing a Non-Resident Cemetery Lot Fee

In FY 00-01 when charging a differential fee for Cemeteries was first considered, ***both*** sale of plots and fees for services were considered. Discussion on the issue raised concerns about establishing residency (discussed previously) and the appearance of imposing additional stress on those who were going through the difficult time of burying a loved one by charging a higher fee for service. Based on these concerns and per the recommendations of City management, it was decided that a differential fee should not be imposed at that time.

During this study, it was determined that imposing a non-resident differential fee on <u>only</u> the sale of cemetery plots (not on services) would be feasible and within those guidelines that establishment of residency could be simplified:

> **Residency will be based on the residency of whomever purchases a cemetery plot at that point in time.**

For example, if one's aunt dies who lived in Greensboro and the surviving family member/other lives outside of the City of Greensboro and the latter wishes to purchase a burial lot, then he/she should be assessed a differential fee. There would be no differential fee imposed for the burial service itself. The scenarios are many, but the general guidelines would be easy to apply. Of course, any extraordinary exceptions could be handled on a case-by-case basis.

According to information obtained from the Cemeteries Division, approximately 20% of plot sales are made to non-residents in two of the three municipal cemeteries, Forest Lawn and Maplewood (Green Hill has not experienced any plot sales to non-residents in the last two fiscal years). The approximate revenue impact of implementing a 25% non-resident differential in each of these cemeteries is shown below:

Location	Average Sales of Non-Resident Plots/Yr	Proposed 25% Differential	Incremental Revenue
Forest Lawn	40	$ 46,500	$ 9,300
Green Hill	0	$ -	$ -
Maplewood	8	$ 8,550	$ 1,710
Total Average Impact/Yr		$ 55,050	$ 11,010

Summary & Recommendations

Operating expenses of the City's Cemetery operations has increased significantly over the past several years and fund balance of the operation continues to be used to meet these maintenance demands. Continued use of fund balance cannot occur indefinitely without extreme negative consequences on the quality of maintenance given to the grounds and facilities. Although there are not many municipally-owned cemeteries that impose a non-resident differential user fee, the City recommends a 25% differential at this time as a means to re-build the Cemeteries Operating Fund balance while providing a level of maintenance acceptable to those who bury their loved ones at one of the City's cemeteries.

Implementation of the 25% non-resident differential should be used only for the sale of cemetery plots and not for any services rendered. Residency should be established using valid identification of the person purchasing the cemetery plot at the point of sale and not on the residency of the deceased. Management may want to consider waiving the 25% non-resident differential fee if the purchaser of the cemetery plot owns property in Greensboro and can show proof of ownership and payment of taxes.