Financial Analysis & Sustainability Report

Supplement E

Parks & Community Services
Parks Make Life Better!

What’s Inside

Supplement E – Financial Analysis & Sustainability Report

p. 3 Financial Analysis
p. 7 Financial Sustainability Strategy

Financial Analysis

Overview

The City is currently operating in a period of fiscal constraint, making it increasingly difficult to provide the level of service the community desires and expects. Budget shortfalls require thoughtful prioritization, and in some cases, even revenue-generating services face scrutiny as broader financial pressures impact the General Fund. In this environment, fiscal stewardship is not optional, it is foundational. Strategic use of taxpayer dollars lays the groundwork for a stable, trusted, and resilient parks and recreation system capable of serving the community not only today, but well into the future.

Figure E.1: Total Department Operating Budget

Parks & Community Services, Applegate Park Zoo, and Public Works Parks Maintenance	FY Actual 2022	FY Actual 2023	FY Actual 2024	FY Actual 2025
Total Revenue	$ 326,423	$ 465,632	$ 639,563	$ 908,817
Total Expense	$ 3,985,373	$ 4,502,302	$ 5,590,506	$ 6,416,899
Net Revenue	**$ (3,658,950)**	**$ (4,036,670)**	**$ (4,950,943)**	**$ (5,508,082)**
Cost Recovery	***8%***	***10%***	***11%***	***14%***

Strategic financial management balances immediate fiscal realities with long-term obligations. By aligning investments with community priorities and maintaining a disciplined, transparent approach to resource allocation, Merced can build a park and recreation system that remains equitable, resilient, and sustainable for generations to come.

Figure E.1 shows the four-year history of the Department's total operating budget, including total revenues and expenses, for recreation, parks maintenance, and the Applegate Park Zoo.

During the 2025 fiscal year, each of the three areas impact on the Department's operating budget is as follows:

- **Parks Maintenance** does not generate any revenue and incurred expenses of $3,191,798, or about 50% of the Department's total expenses (shown in Figure E.2).
- **Recreation** generated $749,285 in revenue, over 80% of the Department's total revenues, and incurred expenses of $2,553,310, or nearly 40% of the Department's total expenses. This resulted in 29% cost recovery performance (shown in Figure E.3).
- **Applegate Park Zoo** generated $65,611 in revenue, about 18% of the Department's total revenues, and incurred expenses of $671,791, or 10% of the Department's total expenses. This resulted in 24% cost recovery performance (shown in Figure E.4).

Financial Analysis

Figure E.2: Recreation Division Operating Budget

Parks & Community Services	FY Actual 2022	FY Actual 2023	FY Actual 2024	FY Actual 2025
Total Revenue	$ 260,812	$ 367,400	$ 505,003	$ 749,285
Total Expense	$ 1,413,478	$ 1,627,186	$ 1,927,675	$ 2,553,310
Net Revenue	**$ (1,152,666)**	**$ (1,259,786)**	**$ (1,422,672)**	**$ (1,804,025)**
Cost Recovery	*18%*	*23%*	*26%*	*29%*

Figure E.3: Public Works Parks Maintenance Operating Budget

Public Works Parks Maintenance	FY Actual 2022	FY Actual 2023	FY Actual 2024	FY Actual 2025
Total Revenue	$ -	$ -	$ -	$ -
Total Expense	$ 2,371,801	$ 2,657,983	$ 3,304,772	$ 3,191,798
Net Revenue	**$ (2,371,801)**	**$ (2,657,983)**	**$ (3,304,772)**	**$ (3,191,798)**
Cost Recovery	*0%*	*0%*	*0%*	*0%*

Figure E.4: Applegate Park Zoo Operating Budget

Applegate Park Zoo	FY Actual 2022	FY Actual 2023	FY Actual 2024	FY Actual 2025
Total Revenue	$ 65,611	$ 98,232	$ 134,559	$ 159,531
Total Expense*	$ 200,094	$ 217,134	$ 358,059	$ 671,791
Net Revenue	**$ (134,483)**	**$ (118,901)**	**$ (223,500)**	**$ (512,259)**
Cost Recovery	*33%*	*45%*	*38%*	*24%*

Financial Analysis

Merced's recent financial analysis confirms that the City's current revenue structure is not keeping pace with the true cost of operating and maintaining its extensive system of dedicated parks and specialized amenities. While the Community Services and Parks Department has been proactive in pursuing grants and cultivating partnerships, evidenced by investments supporting the Zoo, community events, and expanded outdoor programming, these efforts, though commendable, are not sufficient to offset the system's structurally high subsidy level. Ongoing pressure on the General Fund remains, particularly as capital maintenance needs continue to grow and deferred maintenance compounds over time. Strengthening and diversifying revenue sources, including evaluating a dedicated funding mechanism, will be necessary to align ongoing operating and lifecycle costs with sustainable funding. Until revenues are better aligned with obligations and cost recovery improves where appropriate, the City should avoid adding new amenities that create additional long-term financial commitments.

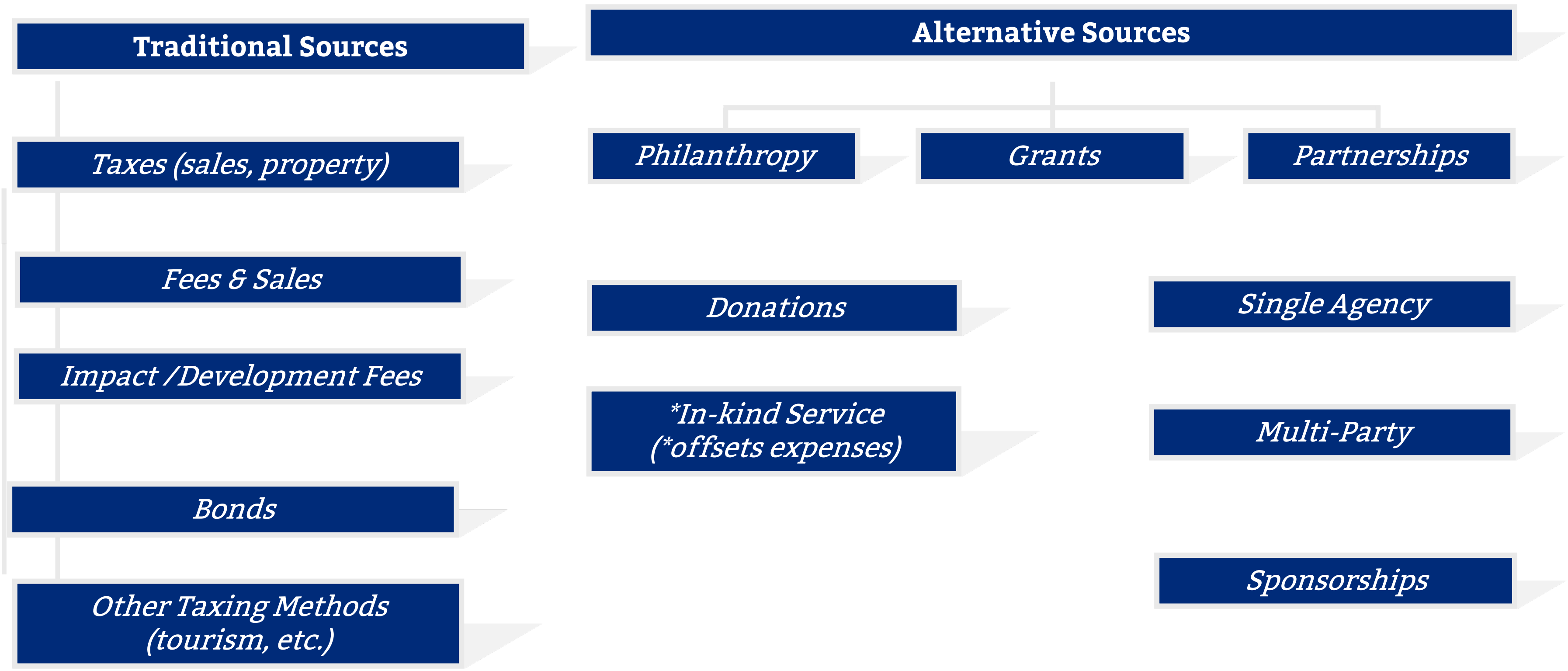
Figure E.5: Total Parks & Community Services Revenue Sources

Revenue by Source - Parks & Community Services and Applegate Park Zoo	FY Actual 2022	FY Actual 2023	FY Actual 2024	FY Actual 2025
Contributions	$ 5,556	$ 49,463	$ 54,052	$ 70,567
Cost Recovery	$ -	$ 5,833	$ 23,905	$ 477
Grants	$ 28,960	$ 120,168	$ 190,236	$ 400,690
Investments	$ 2,599	$ 504	$ 680	$ 2,206
Miscellaneous	$ 8,321	$ 8,296	$ 8,105	$ 12,155
Fees & Charges	**$ 280,987**	**$ 281,370**	**$ 362,585**	**$ 422,721**

Financial Analysis

Figure E.6 shows a diversified funding approach. Combining General Fund support, program and service revenues, partnerships, grants, sponsorships, and potentially dedicated funding sources will be essential to stabilizing service levels and reducing volatility. Over time, exploring dedicated revenue mechanisms may provide greater predictability and allow the Department to align community expectations with sustainable financial capacity.

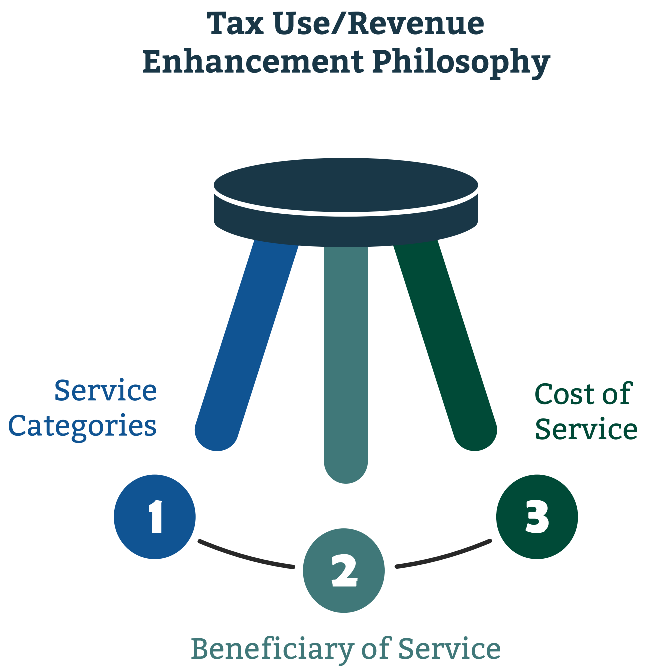
Figure E.6: Revenue Sources



Financial Sustainability Strategy *Overview*

The Financial Sustainability Three-legged Stool illustration builds on the philosophy of 110%'s Parks and Reconomics© - how parks and recreation organizations manage their finite financial resources.

The Department embraced this philosophy and the exercise of creating a Cost Recovery Strategy for its parks and recreation services by following these principal steps (as illustrated in the graphic below).



Financial Sustainability Strategy *Overview*

1

Service Categories

The development of categories which include services that are alike in "purpose" is important when it comes to justifiable and equitable allocation of subsidy, cost recovery levels, and assignment of budget and general ledger lines to account for a category's fiscal performance.

Service categorization can lead to the diminishing of special interests and social values that can drive arbitrary investment and revenue decision making

2

Beneficiary of Service

Beneficiary of Service evaluates each service category based on who benefits, who should pay (and to what degree).

Common Good services are accessible, of benefit to the community, and provide universal value. Essentially, they contribute to the "common good" and can be characterized as essentially having community-wide interest and far-reaching impacts.

Exclusive Benefit services provide exclusive benefit to the individual(s) and can include constraints or barriers to access. Essentially, these services benefit the individual more than the community as a whole and can be characterized as discretionary with less of a community-wide impact.

3

Cost of Service Analysis

Completion of an operational cost-of-service analysis allowed the department to understand its cost-of-service of doing business, ultimately revealing each service's cost recovery and subsidy investment level. Operational revenues (fees and charges, sponsorships, grants, donations), direct costs (expenses associated with the delivery of a service; without the service, the cost would not exist) and indirect costs (expenses that would exist with or without the provision of any one service) that the department provided were captured and attributed to all services as part of this work, providing several insights that would inform the design and development of the Department's Cost Recovery Strategy.

Financial Sustainability Strategy *Beneficiary of Service*

Beneficiary of Service

The development of categories which include services that are alike in "purpose" is important when it comes to justifiable and equitable allocation of subsidy, cost recovery levels, and assignment of budget and general ledger lines to account for a category's fiscal performance. The benefits of this type of approach are two-fold:

1. It is inefficient for the department to determine cost recovery expectations by each individual service including facility, activity, or event
2. Categorizing by "type of service" or "likeness of service" discourages attempts to determine fees and charges (and therefore cost recovery decisions) based upon special interests, age-based services, or individual values.

Service Categories are listed in order from those perceived to be Common Good Services (#1) to those seen as providing a more Exclusive Benefit (#10).

Common Good Services or cause and purpose driven services intend to impact social, economic, and environmental issues and needs and align with the fundamental purpose and mission of the department. Typically, there are no like services provided by the non-profit/Non-Governmental Organizations (NGO) or private sectors.

Exclusive Benefit Services or specialized services, intend to serve personal interests. Typically, there is competition with the non-profit/ Non-Governmental Organizations (NGO) and private sectors which offer like services.

Common Good Services (justification for greater subsidy investment)

- Community building
- Provides accessibility to marginalized/under-represented populations
- Broad appeal to a wide audience
- Services contribute to greater equity, cultural awareness, and make EVERYONE's life better

Exclusive Benefit Services (justification for greater cost recovery expectations)

- Individualized, special interest
- Requires higher competency/ability level to participate
- Specialized activities
- Individualized services are often accessible outside of the parks and recreation system

Financial Sustainability Strategy *Service Categories*

Service Categories

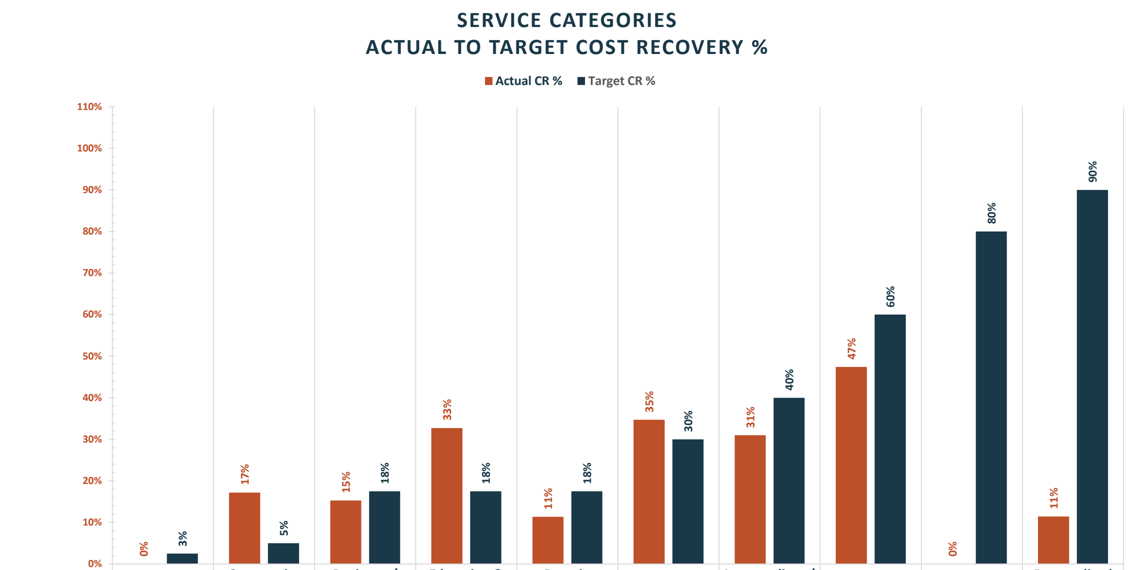
1. **Open Access Activities** Access to parks, park amenities, and/or recreation facilities which does not include supervision or oversight by staff and/or volunteers. *Examples: parks, trails, playgrounds, non-reservable outdoor sport courts or fields, splash pads, dog park, Bocce court*
2. **Community Events** Mass interest events planned to be appealing and accessible to the broader community regardless of age, ability/skill, family composition, etc. Registration or entry is not required. *Examples: Movies in the Park, Nightmare on Main Street Parade, Earth Day, Block Party Trailer parties, National Night Out, Cops for Critters, Adopt a Park Green Scout Initiative, Community Clean Ups*
3. **Beginner/Introductory Level Activities** Classes, clinics, workshops, leagues, and other led and/or instructed activities in which the primary intent is to acquire or learn a skill. *Examples: Jiu Jitsu, Folklorico Dance classes, Karate, Merced Sunday Dance, Senior Beginner Line Dancing, Children's Tap and Ballet Dance classes, Parent & Me swimming lessons, Beginner Prep swimming lessons, Jr. Giants Baseball, H.I.T.S Tennis, Junior NBA Basketball, NFL Flag Football, Tiny Tot Sport Clinics*
4. **Education & Enrichment Activities** Classes, clinics, workshops, and other led/or supervised activities in which the primary intent is to provide socialization, interaction, and life skills development with a focus on education and lifelong learning. *Examples: Youth Council, Trail Blazers Outdoor Recreation Trips, Stargazing Nights, Senior Social activities, Zoo School Tours*
5. **Drop-in Activities** Activities where participants can join at their convenience which may or may not require registration. These activities include staff/volunteer supervision or oversight. *Examples: open gym pickleball, open gym badminton, Senior Pinochle, Senior Crafts, Yoga in the Park, Zumba, Recreational Swim, Merced Applegate Zoo entry*
6. **Special Events** Events designed for a niche' market or a specific interest with registration or entry being required. *Examples: Breakfast with Santa, Zoo Boo, Gateway to Yosemite 5K/10K, Lights Before Christmas at the Zoo, Mermaids and Pirates, Earth day @ the Zoo*
7. **Intermediate/Advanced Level Activities** Classes, clinics, workshops, leagues, and other led and/or instructed activities in which the primary intent is to master a skill and/or participate in a competitive environment. *Examples: Stroke Technique swimming lessons, Adult Slow Pitch Softball Leagues, Adult Basketball Leagues, Senior Advanced Belly Dancing*
8. **Rentals** Space and facility reservations for exclusive use by an individual or group. *Examples: ball field tournament rentals, park shelter rentals, Rossotti Ed-zoo-Cation Center, Merced Senior Community Center-Main Hall, Rotary Scout Hut, Merced Open Air Theater, Ada Given Pool, Seasonal Sports Field Rentals, Gymnasium*
9. **Resales** Consumable goods and non-consumable goods and services available for purchase. *Examples: concessions items, vending items, zoo gift shop*
10. **Personalized Services** Private or semi-private activities and instruction. *Examples: private swimming lessons, Hunting Permits*

Financial Sustainability Strategy *Cost of Service Analysis*

Cost-of-Service Analysis

Completion of an operational cost-of-service analysis allowed the department to understand it cost of doing business, ultimately revealing each service's cost recovery and subsidy investment level. Operational revenues (fees and charges, sponsorships, grants, donations), direct costs (expenses associated with the delivery of a service; without the service, the cost would not exist) and indirect costs (expenses that would exist with or without the provision of any one service) that the District provided were captured and attributed to all services as part of this work, providing several insights that would inform the design and development of the Department's Cost Recovery Strategy.

Figure E.7: Service Categories Actual to Target Cost Recovery %



	Open Access	Community Events	Beginner / Introductory	Education & Enrichment	Drop-in Activities	Special Events	Intermediate / Advanced	Rentals	Resales	Personalized Services
Actual CR %	0%	17%	15%	33%	11%	35%	31%	47%	0%	11%
Target CR %	3%	5%	18%	18%	18%	30%	40%	60%	80%	90%

NOTE: Capital expenses, which are a large portion of the Department's total budget, were not included as they do not relate to the cost-of-service delivery

Financial Sustainability Strategy *Cost of Service Analysis*

Process

The consulting team worked closely with the Merced team to ensure all expenses and services were identified, and to develop meaningful divisions, facility, and park areas to facilitate the appropriate attribution of expenses to services. The result is a clear picture of the total cost-of-service guiding the development of cost recovery/subsidy investment goals.

Results

Results of the analysis provide a comprehensive review of fiscal year 2024/2025, encompassing July 1, 2024 – June 30, 2025. The full results from the analysis and interactive features are available in the Cost-of-Service Results excel file provided separately. Selected results from the analysis are included below.

Summary of Results by Service Category

Figure E.8

Service Category	Stats				Expenses				Subsidy		Cost Recovery Results
	Number of Offerings	Participations/ Quantity Sold	Total Hours	Total Revenue	Direct - Service	Direct - Facility	Indirect	Total Expense	Subsidy Amount	Subsidy %	Cost Recovery %
Community Events	11	2,501	93	$ 10,300	$ 48,391	$ 942	$ 10,601	$ 59,934	$ 49,634	1%	17%
Beginner / Introductory	26	1,782	8,739	$ 80,974	$ 242,167	$ 194,421	$ 93,818	$ 530,406	$ 449,432	8%	15%
Education & Enrichment	3	3	2,914	$ 219,639	$ 276,486	$ 276,059	$ 118,736	$ 671,282	$ 451,643	8%	33%
Drop-in Activities	2	30,636	62,383	$ 147,691	$ 667,390	$ 402,007	$ 229,802	$ 1,299,198	$ 1,151,508	20%	11%
Special Events	5	141	46	$ 18,994	$ 43,796	$ 1,270	$ 9,684	$ 54,750	$ 35,756	1%	35%
Intermediate / Advanced	7	108	780	$ 61,006	$ 123,568	$ 38,462	$ 34,818	$ 196,848	$ 135,842	2%	31%
Rentals	8	628	3,136	$ 174,134	$ 111,771	$ 190,540	$ 64,963	$ 367,274	$ 193,140	3%	47%
Resales	1	1	2,500	$ -	$ 25,362	$ 2,929	$ 6,079	$ 34,371	$ 34,371	1%	0%
Personalized Services	2	7	13	$ 940	$ 5,455	$ 1,315	$ 1,455	$ 8,225	$ 7,285	0%	11%
Total by Service Category	**65**	**35,807**	**80,603**	**$ 713,676**	**$ 1,544,387**	**$ 1,107,944**	**$ 569,957**	**$ 3,222,287**	**$ 2,508,611**	**44%**	**22%**
Open Access	-	-	-	$ -	$ -	$ 2,629,550	$ 565,062	$ 3,194,612	$ 3,194,612	56%	0%
TOTAL	**65**	**35,807**	**80,603**	**$ 713,676**	**$ 1,544,387**	**$ 3,737,494**	**$ 1,135,019**	**$ 6,416,899**	**$ 5,703,223**	**100%**	**11%**

Financial Sustainability Strategy *Cost of Service Analysis*

Summary of Results by Service Area

Figure E.9

Service Area	Stats: Number of Offerings	Stats: Participations/ Quantity Sold	Stats: Total Hours	Stats: Total Revenue	Expenses: Direct - Service	Expenses: Direct - Facility	Expenses: Indirect	Expenses: Total Expense	Subsidy: Subsidy Amount	Subsidy: Subsidy %	Cost Recovery Results: Cost Recovery %
Aquatics	3	2,561	5,693	$ 27,123	$ 144,208	$ 124,612	$ 57,766	$ 326,586	$ 299,464	5%	8%
Enrichment	11	916	4,365	$ 20,779	$ 115,045	$ 327,756	$ 95,153	$ 537,954	$ 517,175	9%	4%
Sports	23	642	7,939	$ 99,461	$ 224,669	$ 167,161	$ 84,200	$ 476,030	$ 376,569	7%	21%
Events	15	2,641	115	$ 13,010	$ 53,768	$ 2,183	$ 12,023	$ 67,974	$ 54,964	1%	19%
Rentals	9	629	3,137	$ 174,134	$ 112,900	$ 190,540	$ 65,206	$ 368,645	$ 194,512	3%	47%
Zoo	3	28,417	59,354	$ 159,531	$ 640,321	$ 295,691	$ 201,139	$ 1,137,150	$ 977,619	17%	14%
Outdoor Recreation	1	1	1	$ 219,639	$ 253,477	$ -	$ 54,470	$ 307,947	$ 88,308	2%	71%
Total by Service Area	**65**	**35,807**	**80,603**	**$ 713,676**	**$ 1,544,387**	**$ 1,107,944**	**$ 569,957**	**$ 3,222,287**	**$ 2,508,611**	**44%**	**22%**
Open Access	-	-	-	$ -	$ -	$ 2,629,550	$ 565,062	$ 3,194,612	$ 3,194,612	56%	0%
TOTAL	**65**	**35,807**	**80,603**	**$ 713,676**	**$ 1,544,387**	**$ 3,737,494**	**$ 1,135,019**	**$ 6,416,899**	**$ 5,703,223**	**100%**	**11%**

Financial Sustainability Strategy *Cost of Service Analysis*

Expense Insights

Expense insights provide context and a greater understanding of how the district spends its operational budget. Results below detail the Department's Divisions and category breakdown.

Expense Insights by Division

Figure E.10

Division Summary	Amount	% of Total
Youth Council	$ 12,847.00	0.20%
Parks & Comm Svc - Admin	$ 1,387,527.05	21.62%
Parks & Comm Svc - Zoo	$ 671,790.70	10.47%
Parks & Comm Svc - Facilities	$ 500,315.63	7.80%
Parks & Comm Svc - Recreation	$ 155,114.06	2.42%
Parks & Comm Svc - Youth Sports	$ 159,270.38	2.48%
Parks & Comm Svc - Adult Sports	$ 75,944.79	1.18%
Parks & Comm Svc - Outdoor Recreation	$ 253,477.42	3.95%
Parks Comm - Admin	$ 8,814.00	0.14%
Parks Maintenance	$ 3,191,797.92	49.74%
Total Department	**$ 6,416,898.95**	**100.00%**

Expense Insights by Category

Figure E.11

Expense Category Summary	Amount	% of Total
Personnel	$ 2,956,911.82	46.08%
Admin	$ 597,669.58	9.31%
O&M	$ 2,240,636.83	34.92%
Utilities	$ 621,680.72	9.69%
Total Department	**$ 6,416,898.95**	**100.00%**

Financial Sustainability Strategy *Continuum*

Tax Use/Revenue Generation Strategy

Merced Parks & Community Services' Cost Recovery Continuum presents the degree to which financial resources will be spent and expenses will be recovered and managed. This strategy shifts from one which suggests that all services should be provided at no or low cost for everyone to an equitable philosophy where subsidy allocation decisions are based upon "beneficiary of service". In this conceptualization, each type of service has a set of specific characteristics that provide a rationale for who should pay (e.g., taxpayers, the individual, or both) and to what degree. Ultimately, this aligns subsidy allocation, cost recovery goals and expectations with beneficiary of service. The Cost Recovery Continuum includes the department's Service Categories and cost recovery goals and expectations. The continuum, shown on the next page, is a graphic representation of the department's tax use and revenue enhancement strategy and philosophy.

Financial Sustainability Strategy *Continuum*

Figure E.12