JOHN L. CROMPTON

PRICING RECREATION AND PARK SERVICES

The Science and the Art

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John L. Crompton
Texas A&M University

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To the memory of a windy night
on top of The Beacon: Priceless

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Preface

In the early 1980s, Ron McCarville and I initiated a substantial research program with the goal of providing a scientific foundation to guide pricing decisions confronting managers and elected officials in public parks and recreation agencies. The timing was fortuitous because it coincided with the tax revolt that erupted in the late 1970s and early 1980s. This transformed the political narrative in the U.S. (and coincidentally in Canada, U.K., Australia, New Zealand, and other countries during the same time). Prior to this shift, those seeking electoral office promised more and better public services in their platforms. After the tax revolt, the emphasis changed to reducing, or at least not increasing, taxes. This was perhaps most prominently and notoriously exemplified by President George H. W. Bush's 1987 pledge: "Read my lips. No new taxes" and his electoral defeat in 1992, which many attribute to his breaking that pledge.

While voters have widely supported this philosophy for the past 30 years, they have simultaneously continued to expect high quality public services. Raising additional revenues from user pricing has been prominent among the multiple strategies adopted at all levels of government to reconcile these ostensibly antithetical mandates.

The research program that McCarville and I undertook endured for about a decade. Since that time, in the past 20 years, other leisure researchers have reported findings, but the number of studies has been relatively small and a sustained research program has not been pursued. Meanwhile, pricing research in other fields has grown exponentially. Hence, the challenge in writing this book has been to review the extensive literatures in the fields of retailing, welfare economics, behavioral economics, psychology, political science and leisure; extract pertinent concepts, principles and research findings that seem likely to inform policy decisions in the different milieu of public leisure agencies; and adapt, modify and integrate them so they fit the context of these agencies.

The insights gleaned and adapted from these literatures have been honed and refined by two filters. First, numerous leisure professionals at the many workshops, presentations and consulting assignments that I have led in the past 20 years have provided frank and generous feedback. Many of the examples used in the book are not accompanied with citations, because they emerged from these professional verbal interactions and their source was not documented.

The second filter was my experience as an elected official. In my years as a councilman and mayor pro tem for the city of College Station (population of 100,000), on multiple occasions, my state-of-the-art knowledge of pricing had to be reconciled and adapted to the political realities of a particular situation. It is one thing to advocate scientifically best practices; it is a different matter to implement them in the political environment of an emotional, volatile, passionate, crowded council chamber. This experience confirmed the central importance of three principles that permeate this book: carefully framing

issues so they result in a desired outcome, communicating in non-technical language free from the jargon of economists, and building constituency support before seeking a political decision.

While it would never be publicly stated in such crass terms, the overriding concern of many elected officials is how to "pluck the goose to obtain the most feathers with the least amount of hissing." They can identify the losers from price increases, and while they seek the additional revenue to retain service quality, they fear the wrath of those who are adversely affected.

The crux of controversies associated with pricing frequently revolves around how best to reconcile the two concepts of fairness that guide pricing decisions: The Benefit Principle states those benefiting from a service should bear financial responsibility for its cost, and the Ability to Pay Principle recognizes the public sector's obligation to ensure no residents are excluded from participating because they lack the funds to do so.

In the private sector, the sole criterion considered in pricing decisions is maximizing revenues. Usually, this entails exclusively focusing on responsive target markets. Pricing decisions in the public sector are more complex because the mission is different. Decision makers have to find the price that is "fairest" to all; that is, it best serves the interests of all residents, including non-users and the economically disadvantaged.

Section 1 of the book, comprising Chapters 2 to 4, is focused on issues related to the Benefit Principle. These issues invariably revolve around equity, income redistribution, efficiency and income generation. Resolution or avoidance of controversies requires that managers and elected officials understand these issues so they can rationally explain and justify their pricing decisions to constituents.

In Section 2, comprising Chapters 5 to 8, price elasticity is discussed. This is the economic concept that undergirds differential pricing, which creates the discounts and premiums used to reconcile the Benefit and Ability to Pay Principles. The justifications (or lack thereof) for these price differentials are discussed in detail. If discounts are not offered to the economically disadvantaged, one of two undesirable outcomes will occur: (i) Prices will be set at a level that is too high for them so those whose need is greatest are effectively excluded, which abrogates the Ability to Pay Principle, or (ii) to preclude such exclusion, prices are set at a low level for all, resulting in a large consumers' surplus among those who could pay more, which is an abrogation of the Benefit Principle. In accordance with the Benefit Principle, premiums are charged to capture consumers' surplus and to cover the costs associated with meeting the demands of some users for additional increments of benefits beyond the standard offering.

Chapters 9 to 12, which constitute Section 3 of the book, reflect the emergence of behavioral economics in the 1980s. Prior to that time, the guiding economic framework for pricing decisions comprised the neoclassical concepts of price, demand and utility. This was based on how people ought to behave if they were logical and rational. In contrast, behavioral economics recognizes that people's economic behavior is frequently not rational. It focuses attention on how people actually behave. Subsequently, a substantial body of research, comprising hundreds of studies, has demonstrated that pricing decisions are often systematically and substantially different from those predicted by the standard

economic model. Recognizing the principles of cognitive processing and the heuristics likely to be prominent in users' evaluations of price changes will assist in adopting prices that will not arouse negative reactions.

Central ideas that emerged from the research program of three decades ago were widely incorporated into the pricing policies of leisure agencies. In many cases, this did not occur because of direct exposure to the material. Rather, it was a result of the informal sharing of procedures, ordinances and policy documents that is a corollary of professional life in the public sector. Irrespective of their communication route, it has been satisfying to see the positive practical outcomes from that effort. If this book has a similar impact, the endeavor of writing it will have been well worthwhile.

About the Author

John L. Crompton is a University Distinguished Professor, a Regents Professor and a Presidential Professor for Teaching Excellence at Texas A&M University. He received his basic training in England. His undergraduate work was in physical education and geography at Loughborough College. After teaching high school for a year, he attended the University of Illinois, where he completed an M.S. degree in Recreation and Park Administration in 1968. In 1970, he was awarded another M.S. degree from Loughborough University of Technology, majoring in Business Administration. In 1974, Dr. Crompton came to Texas A&M University. He received his doctorate in Recreation Resources Development in 1977.

He is author or co-author of 18 books and a substantial number of articles that have been published in the recreation, tourism, sport and marketing fields. He is the most published scholar in the history of both the parks and recreation field and the tourism field.

He has conducted many hundreds of workshops on Marketing and/or Financing Leisure Services; has lectured or conducted workshops in many foreign countries; and has delivered keynote addresses at the World Leisure Congress and at Annual National Park and Recreation Conferences in Australia, Canada, Great Britain, Japan, New Zealand, South Africa, and the United States. He has received numerous awards from Texas A&M, professional societies and community organizations recognizing his excellence in research, teaching and public service.

Dr. Crompton was a member of NRPA's Board of Trustees for 9 years and is a past president of four professional bodies: the Texas Recreation and Parks Society, the American Academy of Park and Recreation Administration, the Society of Park and Recreation Educators, and the Academy of Leisure Sciences. He is a Board member of the National Recreation Foundation.

In 2006, the city of College Station named a new 16-acre neighborhood park, John Crompton Park. Dr. Crompton served 4 years as a city councilman for College Station from 2007–2011 and was Mayor Pro Tem in 2010–2011.

Chapter 1

Introduction

- What is price?
- Price's role in the financing paradigm
- Focus on revenue streams or the mission?
- Pricing's central conundrum: Reconciling the Benefit and the Ability to Pay Principles
- Involvement of staff in pricing decisions
- The liability implications of pricing
- Pricing: A science and an art
- Summary

Parks, recreation, arts and culture (leisure services) evolved as social services. The rationale for using tax funds to develop facilities and operate programs was rooted in the mandate of governments to provide for the "health, safety and welfare" of their residents. There were some exceptions. For example, in the case of national parks,[1] some state park systems[2] and libraries,[3] the intent was that government's role would be limited to capital investment and user fees would be sufficient to cover their operating expenses. However, around 1920, it was widely accepted that operating costs in these services should be covered by tax funds. The prevailing view was expressed by the chair of the House Interior Committee in Congress with reference to national parks: "The American idea is not that there is going to be somebody with a collection box every time you turn around in a publicly owned enterprise."[4]

This perspective endures today in only a small number of jurisdictions. Thus, the director of a leisure agency in one of those communities observed:

> We service all people. The imposition of a fee is as bad as the imposition of a tax. We shouldn't just look around for something that's popular and then charge for it. If we charged $10 each time a policeman or fireman showed up at your door, there might be a lot fewer emergency calls, but is it what we want? Park users have already paid for the parks once, why should we make them pay again? We're not talking about

> wealthy communities where virtually 100 percent of the people can afford to pay. We're talking about cities. Do we really want to say to these people, "Only those who can afford to pay can play?" (p. 3)[4]

In today's political environment, many elected officials are likely to regard this viewpoint as anachronistic and non-tenable. Two major factors account for this shift. First, government entities at all levels have taken on many more responsibilities. This increase in the number or range of services and the level of benefit each is required to provide has required higher levels of taxation to pay for them. This led to the "tax revolt" of the late 1970s and early 1980s, which was a backlash against higher taxes. It radically and enduringly changed the political climate and was the second factor stimulating user pricing.

Most elected officials are now under relentless pressure from their constituents to lower, or at least not to raise, taxes. The mantra that guided leisure agencies after the tax revolt was: Do more with less. Initially, this was pursued by robustly cutting costs. In most agencies, costs have now been pared to the bone. A complementary mantra that subsequently emerged was: Do more with more, which meant raising prices to create self-generated revenue. This recognizes that support from elected officials for new services is likely to depend on them being self-sufficient.

This revised mantra is reflected in the emergence of the term "net budget," which is defined as the tax-supported portion of an agency's budget. During budget discussions, if a director reports no increase in the net budget, it is likely to meet with approval. The gross budget may increase, but if the increases are funded by program-generated revenues, elected officials are unlikely to be concerned. Hence, the future mantra of this field is likely to be: Do more with more (but not tax funding).

Annual reports published by the Census Bureau on the expenditures and revenues of local governments show that in 1964/65 local government parks and recreation services generated $115 million in non-tax revenue. By 1999/2000 35 years later, this had increased to $514 million in inflation adjusted dollars;[5] hence, when the influence of inflation is removed, self-generated revenue increased by 450 percent. By 1999/2000, it accounted for 34 percent of local parks and recreation departments' operating costs, indicating that for every $2 of tax funds they received, agencies generated $1 from users of their services. The authors of this study concluded:

> These data have equity implications. The park and recreation field initially was regarded as a welfare service, concerned with ensuring that opportunities for the economically disadvantaged would be improved. Over time, this compensatory approach was gradually replaced by notions of equality under which all residents received equal emphasis in the allocation of resources. These data suggest to the authors that in the past decade the field has moved more towards a market equity model, under which more fee-based programs have been introduced, higher prices have been imposed, and residents buy as little or as much of a service as they can afford at the given price. (p. 131)[5]

Similar trends emerged in a longitudinal analysis of the finances of all 50 state park systems. Self-generated revenues rose consistently, so they now account for approximately 40 percent of state parks' operating expenditures.[6, 7] This share has remained roughly constant since the mid-1990s. It is the largest source of state parks' funding, exceeding the 34 percent and 20 percent shares derived from general and dedicated funds, respectively.[7]

Within these mean averages for local and state agencies, there are wide variations reflecting not only differences in community philosophy, but also diversity in the bundles of services that parks and recreation agencies deliver. For example, agencies that have extensive class programs, athletic programs, campgrounds, and recreation centers are likely to generate more revenue than natural resource–based agencies without such programs.

At the federal level, user pricing was accentuated by the 2004 Federal Land Recreation Enhancement Act. This authorizes the National Park Service (NPS) and other federal land management agencies to charge higher prices and to keep the revenues rather than sending them to the national treasury. This act allows each facility to retain 80 percent of its receipts, while the remaining 20 percent can be allocated elsewhere within the agency at the director's discretion. Before this act was passed, revenue from user fees typically accounted for approximately 3 percent of the NPS budget. Ten years after it was passed, almost $300 million of the agency's $2.5 billion budget (12 percent) came from this source.

WHAT IS PRICE?

Price is popularly perceived as the amount of money users are charged to engage in an activity by a leisure agency. It has a diverse nomenclature: Fees, charges, permits, rentals, registrations, and licenses are all synonyms for price. These terms refer only to monetary payments. However, from a user's perspective, price comprises multiple other ingredients. It is the totality of what is given up or sacrificed[8] when these ingredients are aggregated; their totality constitutes a user's composite price.[9] While agencies' revenue goals invariably cause them to focus narrowly on monetary price, when users make a purchase decision, they are likely to consider all the resources they invest, that is, the much broader all-embracing composite price. The ingredients of composite price can be classified as either fixed or variable.

Fixed ingredients may include investments in major equipment, clothing and footwear and in an annual membership or a season pass. Such investments are incurred only irregularly. They are considered to be sunk costs because they cannot be reclaimed once they have been made. As ingredients of composite price, they are likely to influence participation decisions. The nature of this influence is discussed in depth in Chapters 5 and 12.

The variable ingredients of composite price are the resources users invest each time they engage in an activity. These are summarized in Figure 1-1. They may be classified as monetary and non-monetary. Monetary prices are paid for the following:

- Participation in a program.
- Transportation to and from a facility. The challenge of overcoming the "friction of space" is most obvious when substantial distances are traveled, for example, to a state or national park or to a special event. However, substantial effects have been reported for travel times of 30 minutes or less, especially among the economically disadvantaged, older adults, and people with disabilities.[10, 11]
- Ancillary purchases of food, drink, accommodations, equipment (balls, tees, paints etc.) or rentals (carts, bikes, canoes etc.).
- Temporary assistance to take over a user's conflicting responsibilities (e.g., babysitter).

The composite price comprises the following non-monetary resources:

- Opportunity costs of resources. That is, the activities that are given up because monetary and non-monetary resources have been committed to a leisure program. These will include time spent in preparation (i.e., searching for information) and in organizing a schedule to create the time block needed (e.g., find a babysitter, change existing commitments); traveling to and from a facility; queuing; engaging in the activity; and subsequent "cleaning" of equipment, clothing etc.

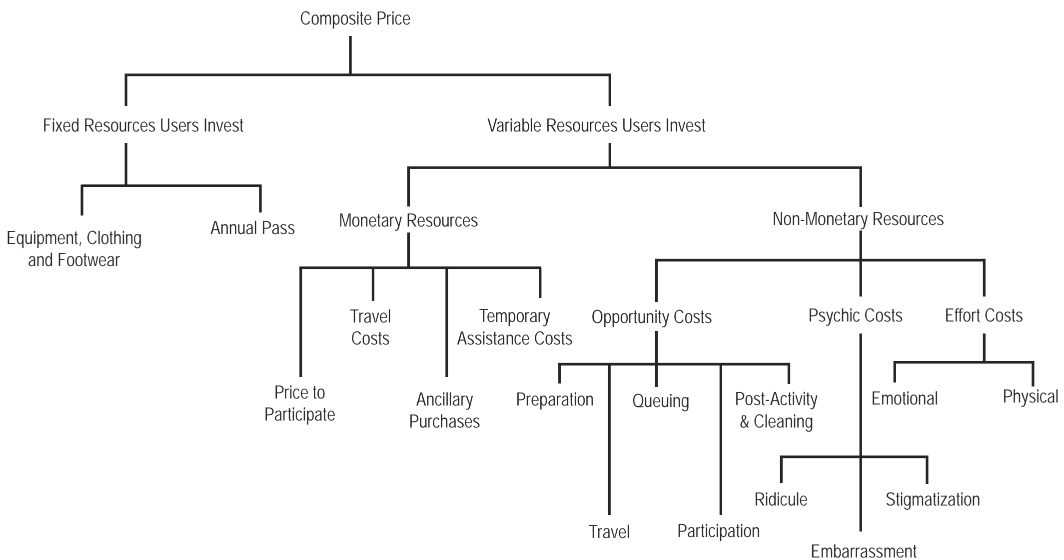

Figure 1-1. The Ingredients of Composite Price

There is an intrinsic difference in monetary and time opportunity costs. Because money is storable, it can be used at multiple times and for many other purposes at some point in the long-term future. For example, the (say) $80 fee for a series of art classes is likely to be weighed against other potential uses of that money over the next (say) 3 months. In contrast, time cannot be stored. It is perishable, which makes its opportunity cost context specific. That is, what are the alternate options for using that time during the scheduled hours the art class will meet?

- Psychic costs such as ridicule because of lack of skill or knowledge; embarrassment from inappropriate somatotype, etiquette or behavior perhaps associated with cultural or language differences; and stigmatization from having to prove eligibility for discounted or free admission
- Effort costs that make up the emotional energy committed to surmounting the frustrations that may arise and in completing the arrangements; and the physical energy needed to handle the stresses of traveling and participation, and the physiological wear and tear that accompanies physical activities.

The concept of composite price has three important implications for managers. First, the magnitude of its aggregated variable and fixed costs is likely to influence the acceptance or rejection of a monetary price increase. This concept of price elasticity of demand is discussed in Chapter 5. At this point, it is sufficient to note that if people invest (say) $1,000 and 6 days in traveling to visit Grand Canyon National Park, the high composite price makes it unlikely they will be perturbed if the entrance price is increased by $5. However, if the admission price to a local swimming pool is increased by $5, there is likely to be an outcry because this constitutes a large proportion of the composite price.

The second managerial implication of composite price is that its components are substitutable. If value is added by reducing non-monetary costs, monetary price can probably be raised without increasing composite price. For example, some will pay a premium monetary price for a reservation because the time saving is more valuable to them than the premium. Consider the following scenario:

- The cost of offering a class that meets for 2 hours once a week for 5 weeks is $500. The class has to be self-sustaining, so it is priced at $50 predicated on 10 people registering for it. At the end of the registration period, there are only six registrations. What actions should managers take?

Unfortunately, the tendency for some would be to notify those who registered that the class was canceled because of insufficient numbers. The concept of composite price suggests that is an inappropriate response given the investment in search and travel time, travel costs, arrangement of personal schedules to accommodate the class, and perceptions of minimal psychic costs. Accordingly, the approach should be to contact the six registrants; explain the situation; point out that if it can be made to work with fewer in the class, they will receive more personalized instruction; and offer alternatives. For example, see if they would accept the class meeting for 1 hour instead of 2 hours (so costs would fall to $250), or be prepared to pay $84 instead of $50, or pay $65 for five 1.5-hour classes.

A third implication is that more is not necessarily better. For many middle-income users, time is their most scarce and valuable resource. Therefore, it is the most important ingredient of their composite price. As a result, in some instances, longer participation times or a longer series of classes may make the composite price too high for them to participate.

PRICE'S ROLE IN THE FINANCING PARADIGM

Figure 1-2 shows a conceptualization of the relationship between a leisure agency and users of its services. It is a voluntary exchange in which something of value is offered to users who reciprocate by exchanging something else of value. An agency delivers services that provide benefits that users seek. Users provide support to the agency through the monetary price they pay, the opportunity costs they incur by participating, and their psychic and effort costs. Some of the components of composite price are not shown in Figure 1-2 because they are paid to entities other than the leisure agency (i.e., payments for transportation; ancillary purchases; temporary assistance; clothing, footwear and equipment). These payments by participants are excluded from the conceptualization of the exchange relationship in the figure because, for the most part, they cannot be influenced by leisure managers. This exchange is analogous to transactions in the private sector.

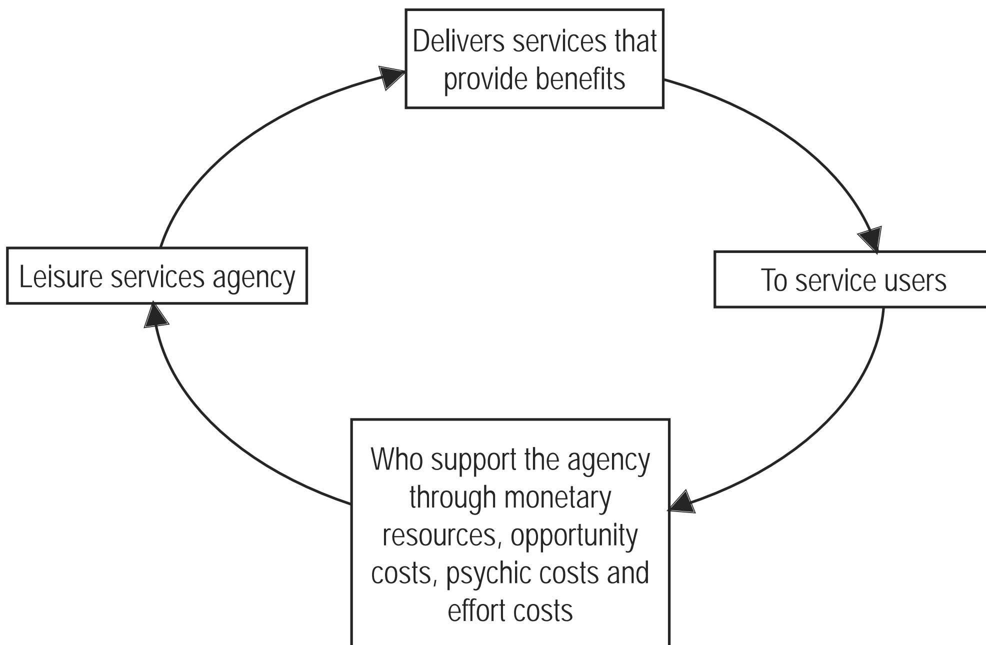

Figure 1-2. The Voluntary Exchange Relationship

In the public sector, however, this exchange has to be embedded within a more comprehensive financial paradigm because most leisure agencies' primary source of funding is taxes, not self-generated revenues. Taxes are fundamentally different from prices

in that people are mandated by law to pay them. They have no choice in the matter. In contrast, paying a price is a voluntary decision—people can elect to do it or not. (There are some situations in which the payment is a hybrid. For example, boaters are legally required to pay to register their craft. The legal requirement ostensibly indicates this is a tax, but the choice as to whether to own a boat suggests it is a price. In these cases, the term "specialized taxes" may be most appropriate.)

The comprehensive public financing paradigm shown in Figure 1-3 recognizes that users and non-users pay taxes to a jurisdiction's general fund. The legislative body with responsibility for the general fund redistributes these funds among departments, one of which is leisure services. The agency uses these resources to pay for (subsidize) services that are perceived to benefit the whole community. This paradigm retains the elements of the exchange in Figure 1-2, showing the price paid by users to the agency for services from which they directly benefit. However, it expands that model to incorporate the role of taxes, and it shows revenues collected from users by the agency in most cases are passed through to the general fund.

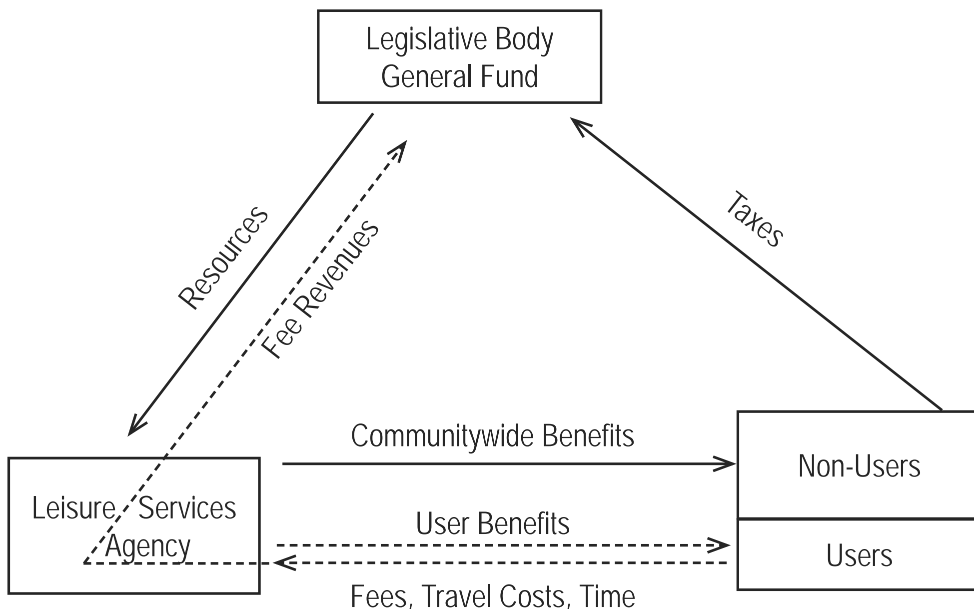

Figure 1-3. The Public Financing Paradigm

The exchange relationship in Figure 1-2 is misleading in that it implies a leisure agency operates in an open system like a private company does. This suggests its managers have sufficient independence to respond directly and quickly to the needs of service users and changes in the environment in which they operate. However, in reality, they operate in a closed system in which their actions are constrained and proscribed by an elected legislative body that limits managers' discretion by its political philosophy, distribution of tax allocations, service priorities and campaign commitments.

FOCUS ON REVENUE STREAMS OR THE MISSION?

A corollary of the ongoing pressure to increase revenues and decrease tax subsidies is that revenue streams may dictate and drive the mission instead of contributing to it. This is manifested by subsidized services being reduced, ignored or terminated, while those which are self-sustaining flourish, even though the former is more important to accomplishing the agency's primary mission. It is illustrated in Figure 1-4, which suggests the priorities manifested by those responsible for managing public lands are sometimes guided by revenue streams rather than by long-term ecological best procedures.[12]

There is no doubt that revenue streams associated with user groups have significantly affected how land managers view their jobs. A familiar example with a very long history is state fish and game agencies, which are heavily funded through the sale of hunting and fishing licenses. As a result, agencies have traditionally focused their efforts not on all wildlife and all fish but on those that hunters and anglers favor. Rather than seeking to maintain healthy ecosystems that support natural biodiversity, the fish and game agencies have sought to maximize the pounds of huntable wildlife and catchable game fish. This often has led to the reduction or removal of wildlife that prey on big game and the introduction of exotic fish. In Montana, for instance, the Fish and Game Commission has opposed both the return of the wolf to its historic habitat and the listing of the grizzly bear as an endangered species. The agency's revenues flow from only certain wildlife, and its wildlife management strategy reflects this fact.

The powerful effect that revenue streams can have on management decisions worries many who would like to see public lands better managed to reflect a broader range of concerns about biodiversity and ecosystem services. If agency decisions primarily seek to serve the interests of users of public lands who are responsible for the largest flow of revenues, land managers may be hesitant, for instance, to control or regulate motorized recreation, including off-road vehicles, or mineral extraction activities that are seriously damaging the land and wildlife. The problem is created by the fact that it is easy to associate revenues with certain on-site activities but difficult to associate revenues with a much broader range of ecosystem services because of their public good characteristics and the complex and not fully understood natural processes that produce them. In this setting, an increasing reliance on locally generated fees from users of public lands to fund public land management may lead to destructive results (pp. 24–25).

Figure 1-4. An Illustration of the Influence of Revenue Streams on Management Decisions[12]

In the U.K., the expressed priority of central and local government was to improve access of disadvantaged groups to public sector sports and leisure centers. However, from an analysis of comprehensive national participation data, it was concluded: "The implication is that stronger cost recovery will cause weaker performance in low socio-economic groups' access" (p. 139).[13]

If an agency is myopically focused on reducing subsidies and raising revenues, this can easily be accomplished by targeting only responsive, middle-class clienteles and ignoring the economically disadvantaged, unskilled and disinterested target markets that are much more costly to access and are either unable or unwilling to pay a break-even price. These clienteles are not provided with leisure programs by the private sector and thus are part of the *raison d'être* for a public agency.

This trade-off between equity and efficiency is discussed in detail later in the book. The point here is to recognize that managers are responsible for making elected officials aware of the trade-off. However, if prioritizing efficiency is a purposeful policy decision reflecting the political platform on which they were elected rather than an unforeseen consequence, then it will occur. Alternatively, if elected officials want to avoid compromising an agency's traditional mission in this way, they should ensure that managers' performance evaluations include metrics beyond subsidy reductions that hold them accountable for serving less responsive clienteles.

PRICING'S CENTRAL CONUNDRUM: RECONCILING THE BENEFIT AND THE ABILITY TO PAY PRINCIPLES

The tension between revenue generation and the mission is a manifestation of the central conundrum in public-sector pricing debates, which is how to reconcile pricing's two guiding concepts optimally: the Benefit Principle (sometimes called the User Pay Principle) and the Ability to Pay Principle. These two broad macro principles were prominent in the thinking of Adam Smith in 1776 when he wrote his foundation treatise on capitalism:

> The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. (p. 825)[14]

In these two sentences, Smith recognized the two concepts of fairness that remain the contemporary principles for guiding decisions on equity in taxation and in pricing. First, each taxpayer or service user's contribution should reflect the benefits he or she receives from the service. Smith observed: "It seems scarce possible to invent a more equitable way of maintaining such works" (p. 725)[14]. Second, the price or amounts of tax to be paid should reflect people's different ability to pay. The Benefit Principle is analogous to Smith's "invisible hand," the market mechanism used to allocate goods and services in the private sector whereby people must pay for the services they use. Pricing is a superior mechanism to any form of taxation for operationalizing the Benefit Principle as it requires users to bear the financial responsibility for a service's cost. However, in situations in which benefits are perceived also to accrue to a large proportion of non-user residents, the Benefit Principle directs that costs associated with that proportion of the benefits should be borne by a community's tax revenues.

Elected officials frequently position themselves as "fiscal conservatives." They proclaim their intent is to keep taxes low. The primary strategy enabling them to meet that obligation without reducing the quality of services is to ensure users pay for them rather than taxpayers. Hence, the Benefit Principle is the core of fiscal conservatism. The Ability to Pay Principle recognizes a community's obligation to provide opportunities equally to all residents. It directs that as far as possible, no residents should be excluded from participating because they lack the funds to do so.

The challenge for public decision makers in arriving at a price that is perceived to be "fair" is how best to reconcile these two principles. Hence, in the first section of the book, (Chapters 2 to 4) the implications associated with operationalizing the Benefit Principle are identified and explained, while the second section (Chapters 5 to 8) discusses the discounts and premiums, which are the differential pricing mechanisms that are available to reconcile the Benefit Principle with the Ability to Pay Principle.

INVOLVEMENT OF STAFF IN PRICING DECISIONS

The success of a revised pricing policy will be strongly influenced by the extent to which an agency's front-line staff embrace it. They will be directly exposed to questions and complaints related to it. If a revised policy is foisted on staff as a *fait accompli,* they will likely be resistant, or at best disinterested, resulting in them being unwilling and unable to respond constructively and positively to negative reactions from their clienteles.

If a revised policy requires a substantial shift in philosophy toward more emphasis on revenue generation, it becomes a new "phenomenon" that changes their relationship with their clienteles from that of *giver* to that of *seller.* Some may feel threatened by this because it is inconsistent with their personal value system and/or they do not possess the management skills required in their new role. Thus, it may disturb, disrupt and cause upheaval in their working lives.

Further, front-line staff have conflicting loyalties. Their duty requires allegiance to the elected policy makers who represent the public they are paid to serve. However, they often feel an emotional connection and empathy with their clienteles. If they perceive a new pricing policy will result in some of their users withdrawing from a program, they will be tempted to bad-mouth the policy and reinforce negative reactions from users.

These factors make it imperative that all staff understand the reasons for changing the pricing policy and have the opportunity to give input into development of the revisions. The intent is to give them a sense of ownership of the changes and an understanding of the rationale and principles on which the revisions are based. This foundation should enhance their ability to articulate, explain and justify the revisions and their willingness to be public advocates for them. If staff have reservations and have no opportunity to verbalize them, then senior management has no opportunity to eliminate that resistance. The following action is illustrative of the strategies that might be used to equip front-line staff to handle a major change in pricing policy:

> Front-line staff were issued 4"x10" cards that described the new fee structures and the reasons for the changes. Staff were able to use these cards as "crib sheets" to help

them answer user questions. These cards were also distributed to visitors while they waited in line at main-entry points. In this way, the visitors were fully informed of the changes in fees before they were asked to pay those fees. (p. 100)[15]

THE LIABILITY IMPLICATIONS OF PRICING

Pricing decisions have implications for an agency's exposure to negligence liability claims for personal injury. The doctrine of sovereign immunity traditionally has protected government entities from such liability. However, this protection only applies when an agency's services embody a government's fundamental legal obligation to preserve its residents' general public health, safety and welfare.

When agencies engage in "proprietary functions" (i.e., act like a private business), even though they act on behalf of their own citizens, they can be held liable for negligence as if they were a private corporation. The distinctions between proprietary and governmental functions are fluid and have become increasingly blurred as agencies have focused more on generating their own revenues to reduce the tax support needed for their budgets.[16] Prices are likely to be a significant factor when courts determine whether a service is an immune governmental function or a proprietary function subject to negligence liability.

Almost all states have sought to clarify the distinction between governmental and proprietary actions by passing a state recreational use statute. Most of them are based on the Federal Tort Claims Act. With minor jurisdictional variations, these statutes generally provide that landowners (which in some cases include public agencies) who open their land for public recreational use, *free of charge,* owe no legal duty to guard, warn or make the premises reasonably safe for such public recreational use. Accordingly, under these statutes, if landowners meet the free-of-charge criterion, there is no liability for ordinary negligence. However, the owner may still be liable for willful or wanton misconduct that causes injury to recreational users. This is characterized by outrageous behavior that demonstrates an utter disregard for the physical well-being of others.[17]

Many state and federal courts have applied the free-of-charge criterion on an equal basis to public and private entities. However, some courts have denied it provides recreational use immunity to public entities. In these decisions, the courts have narrowly construed the legislative intent of the statutes to encouraging *private* landowners to allow public recreational use. Such decisions mean that charging a price has no meaningful effect on liability, as even without the price, a public agency receives no protection from these statutes.

The determining role of price in liability decisions was illustrated in a case when a player was injured on a softball field during an official, city-sponsored league softball game. The Arizona courts ruled this was a non-immune proprietary use, so the city was liable because the team's entry fee gave the team exclusive use of the ball field for that time. This transformed it from being freely available to all residents to being a proprietary use.[18]

In apparent contravention of the general rule that any price is sufficient to classify a service as proprietary, some courts have ruled that the magnitude of a price defines the issue. For example, the Connecticut Supreme Court ruled a municipality may "charge a nominal fee for participation in a government activity and it will not lose its governmental nature as long as the fee is insufficient to meet the activity's expenses." However, the court determined it is engaged in a non-immune proprietary function "if it derives revenue in excess of its costs from the activity."[16]

This criterion of covering an activity's expense, albeit using in-kind contributions rather than cash, appears to have guided the South Dakota Supreme Court. It ruled that when a city gave priority use of its ball fields to a non-profit softball association for $1 and "other good and valuable consideration," it lost its sovereign immunity. The "other consideration" included administration of a softball league open to the public, maintenance of the general grounds, responsibility for mowing the fields, and all electrical bills. The court concluded: "Clearly, the lease of the fields conferred an economic benefit or consideration upon the city."[18]

This brief overview suggests price increases may increase an agency's liability exposure. However, the effects will vary according to the facts of a specific case, specific language in recreational use statutes, and the courts' criteria and interpretations of what constitutes a proprietary function.

PRICING: A SCIENCE AND AN ART

Pricing is one of the most technically difficult and politically sensitive areas in which leisure managers have to make decisions. Pricing decisions are influenced by myriad ideological, political, economic and professional arguments. However, the debate accompanying this diversity of perspectives should be focused on sound principles. In the past, when only relatively nominal prices were charged, the underlying rationale of a price structure was not as likely to be challenged. That has changed as prices have become more substantive and demands for greater transparency in government have grown. Managers and elected officials are now more likely to be required to justify price increases.

During the past 30 years, a substantial number of researchers in the fields of behavioral economics, welfare economics, psychology, marketing and political science with an interest in pricing have engaged in theoretical explanations, observations and empirical experiments. As a result of their efforts, there is now an impressive systematically organized body of knowledge related to pricing. This provides a strong scientific base from which leisure managers can draw to inform their decisions.

Unfortunately, for the most part, this body of knowledge remains untapped in the leisure field. As a result, many good managers and elected officials make poor pricing decisions. Too often, their decisions are based on "the squeaky wheel" syndrome, or "the way we've always done it." Perhaps the most widespread approach is to raise (or not) prices by an arbitrary amount or percentage each year. Such incremental price increases imply the original price was appropriate. Generally, this is a false assumption. An agency's current

prices are often the cumulative result of arbitrary *ad hoc* decisions made from time to time over many years. If the initial price was arbitrarily derived, then subsequent incremental increases lead to an arbitrary price that is unlikely to ultimately reflect either an agency's objectives or its clienteles' best interests.

Agencies tend to make major price changes reactively in response to an emergent financial or political imperative. Strategic pricing, in contrast, requires proactively developing a policy. A proactive approach that embraces the science of the past three decades is needed to ensure the *right* prices are charged for services so decision makers do not expose themselves to a backlash from self-inflicted wounds.

The science base provides a strong conceptual scaffolding upon which to construct an effective pricing policy, but it does not prescribe a formula that will lead to the "one right answer":

> There is no one right way to determine price. Pricing simply cannot be reduced to a formula — there are too many interacting factors. Successful pricing requires considering all internal and external factors and adapting to changes as they occur. Successful pricing is adaptive pricing. (p. 623)[19]

This leads to a recognition that pricing is also an art because the application of the knowledge requires skill, experience, courage and imagination. Price decisions are context specific, so they cannot be formulistic. A one-size-fits-all approach cannot work. A pricing policy that has proved successful in one community may be entirely inappropriate in another. Community perspectives are different, and the expectations of stakeholders vary. Hence, adapting prices to shifts in political, economic and competitive conditions requires local knowledge and understanding. Timing, a sense of what will be an acceptable price, and the ability to influence participants' acceptance of changes are all part of the art. Nevertheless, knowledge of the science base reduces the uncertainties, is likely to prevent egregious errors, and will provide the justification required of agency managers and elected officials to demonstrate their pricing decisions are neither arbitrary nor inequitable:

> Pricing is an art. It depends as much on good judgment as on precise calculation. But the fact that pricing depends on judgment is no justification for pricing decisions based on hunches or intuition. Good judgment requires that one ask the right questions and comprehend the factors that make some pricing strategies succeed and others fail. (p. 9)[20]

SUMMARY

Most public leisure services were established as heavily subsidized social services. However, after the Depression, governments took responsibility for an increasing number of services, and taxes were raised in order to finance them. In the late 1970s and early 1980s, a backlash emerged. This was the start of enduring and relentless political pressure to generate income from user pricing, which continues unabated. The initial political demand was, "Do more with less." This led to inexorable cost cutting and, despite the

mantra, inevitable reductions in services. Subsequently, it was complemented by efforts to do more with more, recognizing leisure services often can be improved and expanded if revenues generated from users are forthcoming.

Price has multiple synonyms: fees, charges, permits, rentals, registrations and licenses. However, from the users' perspective, the total sacrifice that constitutes their price comprises more than money paid to an agency for a service. The total sacrifice is the composite price. It comprises fixed and variable ingredients. Fixed elements include investments in major equipment, clothing and footwear and in annual or season passes. Variable elements may be monetary, which comprises payments to participate in a program; travel to and from a facility; auxiliary food, drink or equipment; and temporary assistance to take over users' conflicting responsibilities; or non-monetary sacrifice, which comprises opportunity costs, psychic costs, and effort costs.

The concept of composite price has three important implications for managers. First, price elasticity of demand suggests the aggregated magnitude of fixed and variable costs will influence acceptance or rejection of a monetary price increase. Second, the composite price ingredients are substitutable. Third, more is not necessarily better because it may raise the time and opportunity cost.

Price is the voluntary reciprocal that users pay in exchange for the benefits derived from a program. This relationship is analogous to transactions in the private sector. However, in the public sector, it is embedded within a more comprehensive financial paradigm that recognizes the primary source of funding for most leisure agencies is taxes, not self-generated revenues.

The pressure to increase revenues and decrease tax subsidies may result in revenue streams driving the mission instead of contributing to it. This tension is a manifestation of the central conundrum in all public-sector pricing decisions, which is how to reconcile pricing's two guiding concepts optimally: the Benefit Principle, which states each user's contribution to costs should reflect the benefits he or she receives from the service, and the Ability to Pay Principle, which directs that residents should not be excluded from participating because they lack the funds to do so.

The effectiveness of price increases will be strongly influenced by the extent to which they are embraced by front-line staff. If staff do not understand or accept the legitimacy of reasons for the changes, they will be resistant, or at best disinterested, when implementing them. If they are unwilling or unable to respond constructively and positively to negative reactions from their clienteles, political controversy may flourish. This means staff must be fully engaged in the development of revised prices and their input solicited.

Pricing decisions have implications for an agency's exposure to negligence liability claims for personal injury. They invariably are a significant factor when courts determine whether a service is an immune governmental function or a proprietary function subject to negligence liability. The greater the magnitude of a price, the more likely it is the courts will make an agency liable.

As prices have become more substantial and demands for greater transparency in government have grown, managers and elected officials have been required to justify their price increases. During the past 30 years, a substantial body of knowledge has

emerged to facilitate this task, but it remains untapped by many leisure managers. A strong conceptual and scientific scaffolding upon which to construct an effective pricing policy is provided in this book, but a formula is not proscribed that will lead to the "one right answer." Pricing is also an art requiring managers to adapt the principles to the unique, context-specific, political, economic and competitive conditions that prevail in their community.

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