

## Chapter 11

# The Inequity of User Fees and the Overreliance by Communities to Generate Revenue

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### **ABSTRACT**

*One of the largest sources of revenue for local government are user fees and charges. Increased reliance upon user fees and charges by many jurisdictions has coincided with their attempts to deal with the fall out of the Great Recession. This study aims to assess the regressive distributional effects that increased reliance upon user fees and charges have on poorer communities. While it is clear that the United States operates a mixed economy where private sector organizations or firms address many economic activities, and government undertakes other economic activity, the juxtaposition of user fees in this environment is unclear.*

### **INTRODUCTION**

The issue of resource scarcity is an ongoing challenge for US governments, particularly at the local level. Public perceived need coincided with less personal enthusiasm to pay for resources requires public managers to continuously search for and develop creative mechanisms to offset this quandary. Resource scarcity and perceived need may have reached its zenith on the heels of the Great Recession of 2007-2009. Due to a significant decline in property, sales and income tax revenue, coupled with a continued need to provide public services, many local governments increased their emphasis on other sources to bolster revenue. One such source has been user fees. Over the past two decades local governments, who

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had already begun increasing their reliance on user fees, amplified this dependence, in large part due to the recession. A local government may impose charges for services that include a driver's license, automobile registration, marriage license, highway tolls, checking plans for new construction, attending recreation classes, and use of public areas (pools, parks), amongst others (Institute on Tax and Economic Policy). Other areas where charges are attached to services include planning for subdivisions and zoning, healthcare and air travel (Bailey, 1994). Typically, the amount of a fee may not exceed the cost of providing the service or granting a benefit or privilege which may include overhead, capital improvements and debt service (Institute on Tax and Economic Policy). According to Bartle, Kriz and Morozov (2011) a user fee is theoretically feasible under three conditions. First, the benefits of a service accrue to particular individuals. Second, it is possible to exclude non-payers from the benefits of the service. The third condition they identify says that the administrative costs are reasonable (p. 270).

User fees and charges have been viewed as a popular method to increase government revenue primarily because they are viewed as politically acceptable. Elected officials are more likely to support the introduction of a new user fee or charge as opposed to a tax increase (Jang & Kwon, 2014). Public sentiment also typically coincides with elected officials on this issue as well. Residents are usually not in favor of another tax they are forced to pay, especially as cries of government waste and fraud continue to grow louder. As a result, supporters of user fees also point to the fact that they are likely to improve government efficiency and accountability. This argument falls into the category of "perceived fairness" since user fees are only charged to those individuals who actually use a particular service. When individuals choose to use a public swimming pool or park, then requiring them to pay, often a nominal fee, is viewed as appropriate. It is also responsible for government to include a fee for service because it allows the facility to function optimally and efficiently. Beirhanzl and Downing (1998) found that increased reliance on user charges, at the local level, led to a reduction in government expenditures. Further, the application of the user fee in this case, does not impact those residents who choose not to use that particular service. Another common utilization of user fees is from public utility companies who charge based upon a percentage of usage. Again, the fee appears to be fair and equitable since it is the individual's responsibility to determine the amount of water, electricity, etc., that he or she uses during a given period of time.

This research focuses on the increased reliance of user fees by local governments and how their utilization may be inequitable to residents of poorer jurisdictions. While it is clear that the United States operates a mixed economy where private sector organizations or firms address many economic activities, and government undertakes other economic activity, the juxtaposition of user fees in this environment is unclear. Some may argue that user fees resemble an optimal level of efficiency. Their increased reliance by government, however, may be seen as inequitable for many individuals in society and ultimately inefficient.

The remainder of this chapter is as follows: First it begins with a brief discussion on fiscal federalism, which forms the foundation of government service delivery. It then moves on to the basis of establishing consumption taxes. Next, questions are proposed challenging the fairness and equity of user fees. It then applies the principles of user fees along with the aforementioned treatment questions in the context of social choice theory. The final section offers concluding thoughts and next steps in the utilization of user fees.

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