

Other Government Revenue Sources

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User charges

- Price on voluntarily purchased, publicly provided services
- Example: Public transit fare

License fees

- Government sale of licenses to engage in otherwise restricted or forbidden activities
- Example: Fee for a driver's license

Examples of Local Government Charges

Sanitation charges

- Trash collection, landfill, or sewage services

Public utilities (e.g., water, electricity)

- Meter, connection, and consumption charges

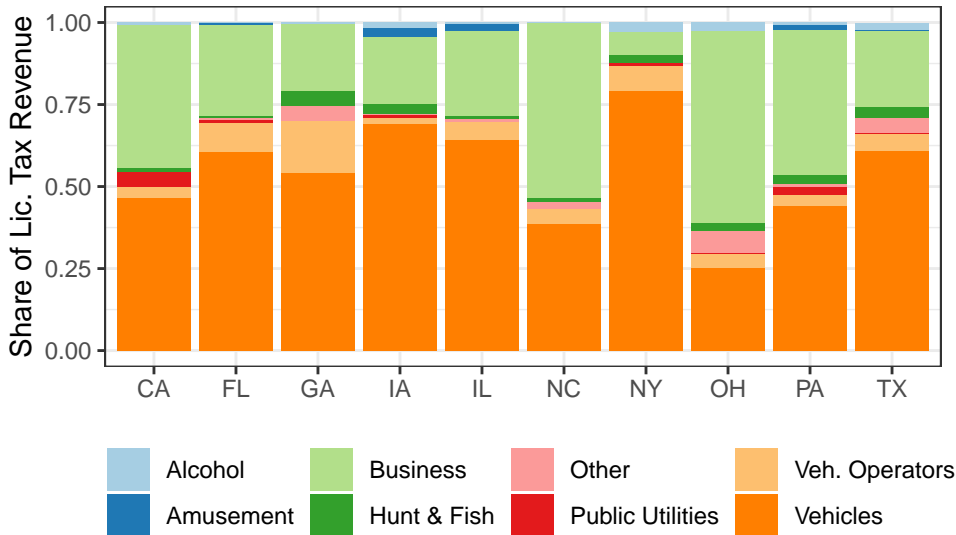
Transportation and parking

- Subway and bus fares, bridge and road tolls, landing and departure fees
- Meter or parking lot fees

Parks and recreation

- Public golf courses, permit charges for tennis courts

Licence Taxes



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User Charges

Design
Considerations
for User
Charges

Evaluation of
User Charges

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Design Considerations for User Charges

Evaluation of User Charges

Identification of beneficiaries of good/services at the individual level

- Charges linked to frequency/volume of usage
- Means of controlling consumption (e.g., increase prices in times of congestion)
- Examples: City's recreation facility or parking fees

Prevention of non-payers from consuming good or service

- No free riders requiring good to be excludable
- Exclusion must be cost effective

Closest financing mechanism in public sector to private sector pricing

Suitable Services and Reasons

User Charges

Design Considerations for User Charges

Evaluation of User Charges

Characteristics of services suitable for a user charge

- Measurable
- Excludable
- Individual benefits

Reasons to impose a user charge

- Reduction in the reliance on taxes
- Encouragement to conserve resources
- Congestion management
- Benefits principal including ability to charge non-residents and nonprofits

Advantages and Disadvantages

Advantages

- Additional revenue
- Register/record service demand
- Improvement of operating efficiency due to responding to demand
- Improvement of financing equity for selected services (e.g., recreational) due to broad usage (e.g., non-residents, tax-exempt entities/individuals)
- Finance burden shifted away from local tax payers

Disadvantages

- Benefits extending beyond principal recipient (e.g., sanitation)
- May produce regressive-burden pattern
- Denial of service delivery to non-payers potentially problematic (e.g., water, electricity, gas)

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Feasibility, Excludability, and Coverage

User Charges

Design Considerations for User Charges

Evaluation of User Charges

Feasibility of user charge, i.e., ability to measure output

- Type of output measure to be used
- Practicality of output measure and cost effective user charge collection

Feasibility to exclude non-payers

- Ease of charge avoidance

Extent of user charge to cover service provision

- Resource conservation as objective
- Positive (e.g., public health) or negative (e.g., pollution) externality associated with service

User Charge Variation with Volume and Time

Variation with volume

- Constant or increasing marginal cost per unit of output
- Encourage conservation: Charge increases with use
- Encourage use: Charge decreases with use

Variation of user charge by time of use (e.g., by day/week/month)

- Significant variation or uniform service demand over time
- Capacity constraint at peak times
- Ability and cost to add capacity at peak times

Example

- Variation of zoo prices by season or time of day
- Efficiency in pricing by imposing higher (lower) charges during peaks (off-peak)

User Charge Variation by Type of User

Differentiation based on type of user

- Differences in pricing for senior citizens, children, or students
- Difference in unit cost by type of user
- Presence of positive externalities by type of user
- Industry: Higher profits from price discrimination due to variations in willingness-to-pay

Differentiation based on ability-to-pay

- Equity reasons for imposing different user charges
- Means-testing of user charges
- Necessity of service
- Potential of user charges to be regressive

Treatment of Residents versus Non-Residents

User Charges

Design Considerations for User Charges

Evaluation of User Charges

Subjection of non-residents to different prices

- Higher costs of providing services to non-residents
- Partial subsidization of the service with general taxes paid by residents
- Assure adequate capacity for residents by discouraging non-resident use
- Comparable to in-state versus out-of-state tuition

Example:

- Memphis Zoo [Free Tuesday Afternoon Guidelines](#): *"The Memphis Zoo allows free general admission to Tennessee residents with ID on Tuesday afternoons from 2 p.m. to close."*

Use of Two-Part User Charge

Separation of user charge into fixed and variable component, i.e., full charge equals fixed fee plus charge per unit

- Linking fixed fee to depreciation for capital component of service and any other fixed cost divided by number of users
- Variable charge per unit is equal to the unit cost for all non-fixed costs

Advantage

- Coverage of full cost of service provision and efficient consumption decision

Disadvantage

- Fixed fee likely very regressive

Other
Government
Revenue
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Ability to measure demand of public good and service by imposing user charges

- Expression of preferences by user
- Provision of service as long as demand is present
- Not cut in services even during fiscal shortfalls

Response of agency to consumer demand

- Exclusion of politics in providing service due to legislative body not responsible for appropriating funds

Efficiency and Equity

Efficiency

- Distortion of economic decisions to to user charges, e.g., reduction in zoo visits
- Possible increase in operating efficiency of good and service provider

Benefits principle

- Comparison of user charge to property tax regarding benefit principal (e.g., zoo)

Horizontal equity

- Comparison of all households with same ability-to-pay or only users
- Potential exclusion of household that are non-users due to high financial burden

Vertical equity

- Are user charges regressive, proportional, or progressive

Adequacy, Elasticity, and Stability

Adequacy of user charges to finance operations

- In theory: Adequate in the case of full coverage user charge

Elasticity

- Will revenue from the user charges keep up with economic growth (assuming no change in the charges)?

Stability:

- Will revenue from the user charges be relatively stable or not?

Licenses

Regulation of specific activities

- Driving
- Sale of alcohol

Usually flat rate but graduated by type of activity

- While a license is needed to operate, it does not buy a service or a good.

Types of user fees

- Licenses for regulation: Very restrictive and involving regular inspections (e.g., alcohol license)
- License for revenue: Given to all who apply with no inspections

User fees and licenses usually rely on the police power of the state