



Fiscal First Aid Quick Reference

Exploring Fees for Services

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Introduction

Fees for service are often the most accessible form of revenue during fiscal distress, especially during a general economic downturn. User fees are more politically feasible than a general tax increase because the economic burden for funding a service is assessed directly to the user of that service. This guide explains how to explore making greater use of fees.

Steps to Take

- I. Get the organization thinking about user fees and charging for services.
 - A. Institute an annual review of fees to make sure the fees are kept up to date with cost increases.
 - B. Develop a fee schedule/catalogue that includes the legal basis for the charge, the last time it was updated, and last year's revenue yield.
 - C. Change the budget process to encourage departments to think about fees. For example, perhaps departments can be given greater discretion on how to use the revenues from the fees they generate.
 - D. Every few years, perform a cost-of-services study to create a strong basis for developing fee structures.

- II. Determine the services for which it is possible to charge a fee.
 - A. Does a service provide a private benefit to individuals (e.g., a recreation class)?
 - B. Can the benefit of a service be denied to others who haven't paid a fee (e.g., a non-payer can be excluded from the class)?
 - C. Is it administratively practical to charge and collect a fee?

- III. Determine which services *should be* financed by a fee
 - A. Is it equitable to charge a fee? If the individuals benefiting from the service can be easily identified and non-payers can be excluded from the service, it is likely that fee would be an equitable way to finance the service.
 - B. Do other nearby jurisdictions charge a fee for the service? Precedent makes it more likely the fee will be accepted.
 - C. What impact would a fee have on demand? In most cases, a fee will reduce demand, but this might not always be in the best interest of the community. For example, charging full prices for swimming lessons in an ocean-side community could lead to an increased risk of drowning.

Examples of services for which fees have been charged include:

Concessions Greens fees Law library	Planning and economic development Plat processing	Document search Election filing Farmers' market
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Public library	Zoning variance	Meeting room rentals
Swimming	Animal control	Photocopying records
Tennis	Euthanasia	WiFi
Web-based data	Large item pickups	Advertising on public space
Utility services	Rabies vaccination	Cemeteries
Abandoned-vehicle removal	Street cleaning	Vending machine space rental
Barricades	Ambulance service	Airport landing
Curb/street cuts	Vehicle impoundment	Bridge tools
Maps	Inoculations	Bus fares
Right-of-way access	Mental health services	Hangar rentals
Weed cutting	Serving warrants	Parking garages
Police protection		Parking meters
Accident reports		Special occasion bus rentals
False alarm calls		
Funeral escorts		

IV. Determine cost recovery goals.

A. Factors suggesting lower cost recovery goals:

1. Is there a community-wide benefit to the service? For example, bus service reduces traffic for everyone, suggesting that full-cost recovery from fees is not appropriate.
2. Will the fee discourage compliance with regulatory requirements? If the fee is too high, people may decide it is better to skirt the regulation. This is especially germane where the jurisdiction relies primarily on self-reporting for regulation, as is the case with smaller licenses and fees. Another example is that excessive fees for garbage collection might encourage “fly dumping.”
3. Is there a weak nexus between the amount paid and benefit received? In some cases (like social services), a fee might be intended to govern demand rather than recover the cost of the program.

B. Factors suggesting higher cost recovery goals:

1. Is the service similar to services available in the private sector? Government should probably not subsidize services than the private sector also provides.
2. Is there a strong nexus between the amount paid and benefit received? Many types of recreation services and utilities fall into this category.
3. Is the goal to discourage use of a service? For example, it is usually a goal to discourage police calls for false alarms.
4. Is the service regulatory, and can it be monitored by government? Those engaging in the regulated activity are causing the government to incur costs. Examples of this are building permits and plan checks.

V. Develop and implement the fee.

- ##### A. Using full-cost accounting methods to understand the true cost of providing the service. Full cost is direct cost plus administrative costs and support costs such as accounting, human resources, information technology, vehicle maintenance, and risk management.



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- B. If full-cost accounting is being used, the revenues from the fee should not exceed the cost of providing it.
- C. The method of assessing and collecting fees should be as simple as possible to minimize administrative costs.
- D. Consider the “market” when setting the fee. Consider what surrounding jurisdictions are charging, including their cost recovery policies and accounting methods. Also consider special circumstances of different customer segments (e.g., might a low-income discount be needed?).
- E. Develop a communications strategy for those who will be affected by the fee. For example, if a service was previously free to users, they might strongly object to a charge.
- F. Make sure elected officials understand the reason for a fee.
 - 1. Fees can increase revenues without a general tax increase. Those using the services pay in proportion to the benefits they derive. Those who don't use the service don't pay anything more.
 - 2. Fees reduce wasteful consumption and heighten users' awareness of the cost of the services.

Evaluating Success

A formal user fee policy with comprehensive cost recovery goals for each class of services is a good indicator that the organization is mindful of the role of fees in its financing structure. Also, a regular review of fees and the cost of providing services keeps that structure up-to-date. Finally, success is marked by operating departments that are cognizant of the role of fees in financing their individual operations, and that proactively take steps to propose new fees and update old ones without much or any prompting from central administration.

References

- Robert Bland. *A Revenue Guide for Local Government*. ICMA, 1989.
- City of San Luis Obispo, California. “Budget and Fiscal Policies.”