

# Benefits of Well-Designed User Fees

BRIAN BYRD

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## INTRODUCTION:

User fees present a viable option for local government to maintain service delivery in times of fiscal stress. Innovative user fees such as garbage tags and improvement districts allow local governments to raise additional funds to provide adequate service delivery. **Although user fees can provide additional city funding, their application can be inequitable and regressive.** Local governments must design user fees holistically and consider all the potential variables to justify their use and receive community support and acceptance.

## WHAT IS A USER FEE?:

User fees are designed by local government to tax the individual user for a given service. A user fee may promote efficiency through a “you get what you pay for,” model. This approach can reveal citizen preference regarding quantity, quality, and to whom (Bird 97).

However, user fees are inherently regressive and exclude residents (elderly, children, poor) who cannot afford to pay. **The key to successful user fee design and implementation is a holistic assessment of the user fee and its implications for the user and the local government. Proper design needs to be predictable, easily justifiable, and transparent.**

## USER FEES IN UPSTATE NEW YORK:

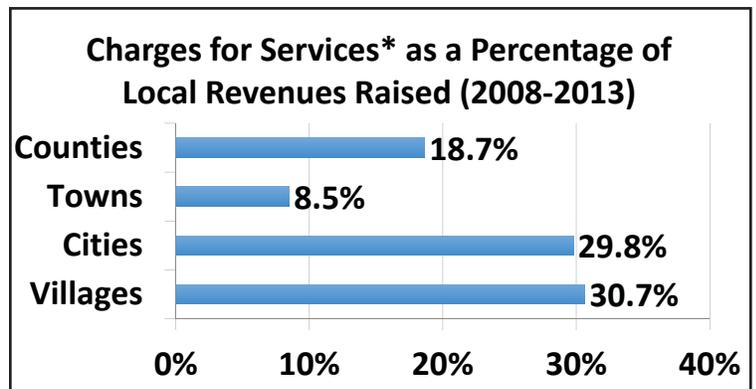
The New York State Comptroller’s Office (NYOSC) measures *Charges for Service*, defined as the total amount of revenues derived from fees/charges/recoveries associated with a local government providing a specific service to an individual (NYOSC). Based on the NYOSC data, villages and cities raise more local revenues from charges of service (approximately 30%) than counties and towns. The difference in revenue generated can be explained by the available services such as water, sewer, and waste removal that are more amenable to charges as compared to most roads for which user fees (tolls) are simply untenable.

## THE LOCAL GOVERNMENT SHARED SERVICE DELIVERY SURVEY:

According to the Local Government Service Delivery Survey conducted by Cornell in 2013, approximately one-third of local governments reported they raised user fees in response to fiscal stress (Homsy et al 2013). All cities, counties, towns and villages were surveyed and 946 (58%) responded. The survey asked, “Has fiscal stress caused you to increase User Fees?” From the survey, 329 (35%) of local government managers said “Yes,” they had increased user fees as a result of fiscal stress; 472 (50%) said “No”. A follow up to the survey took place this fall with a set of more detailed questions.

While there is a general consensus that user fees present an alternative to raise local revenue, in order for a user fee to be successful there must be factually based information in setting the charge and a justification to support the user fee. When designing user fees, local governments review other municipality charges and the cost of the service. **Local governments report no major pushback from citizens when user fees are well designed.**

One manager stated eloquently, “As the City faces fiscal challenges, we have considered what services we need to provide and which are nice to provide. Those that we are not required to provide should be self-supporting” (Anon).



Average percent of local revenue raised from, “Charges for Services” by government type, NYOSC data 2008-13.

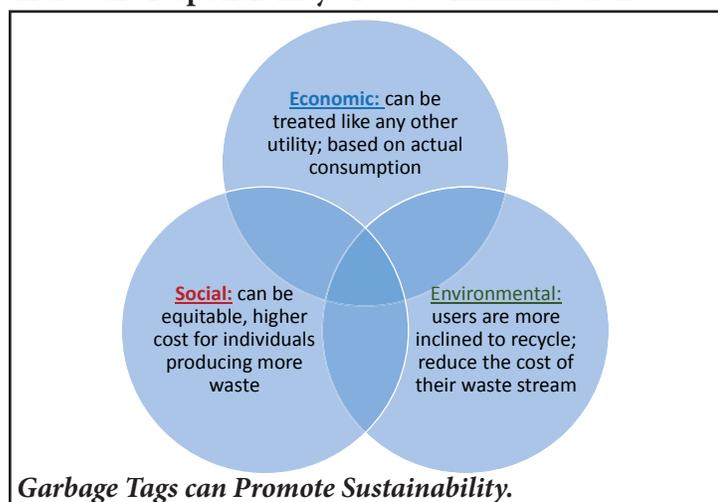


## CASE STUDIES IN NEW YORK STATE:

While only a few NYS communities use trash tags, this is a system that can generate revenue and promote conservation. Similarly, sidewalk districts can improve sidewalk repair and ensure that all owners, including tax exempt properties, still pay. The following examples from Ithaca, NY describe the careful study that must go into effective and fair user fee design.

### GARBAGE TAGS:

The NYS Department of Environment Conservation (DEC) has made the garbage tag model a key strategy in the NYS Solid Waste Management Plan (DEC 2013). The Garbage Tag model is a user fee based on the amount of municipal solid waste produced by the user. **The rationale for the garbage tag model consists of two principles. First, the producer pays. Second, the community shares the responsibility of waste minimization.**



In the City of Ithaca Trash Tags are required for trash collection. The tag is valid for large trashcans and bags weighing up to 35 pounds. The trash tags cost \$3.75 each and are available throughout Ithaca.

The trash tags provide a steady source of funds, however the Solid Waste Fund continues to have an “insufficient fund balance.” The total fund expense for 2015 declined 20.4% from 2014 (Mayor’s Budget). The decreased fund expense is due to a decrease in tonnage collected and a reduction in collection days.

### REFERENCES:

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- (5) New York State Department of Environmental Conservation. 2013. Accessed November 10, 2014 <<http://www.dec.ny.gov/>>
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### SIDEWALK IMPROVEMENT DISTRICT (SID):

Many cities face the challenge of maintaining sidewalks. Sidewalk improvement is the responsibility of the property owner, however the large one-time costs of sidewalk replacement (upwards of \$200/Linear Foot) can be very difficult for residents to budget. The City of Ithaca decided to address this problem through creation of the Sidewalk Improvement District (SID) in 2013.

The new Sidewalk Policy went into effect January 2014. The SID imposed a user fee to spread out the cost of sidewalk repair over time and across all property owners. **The new Sidewalk Policy makes sidewalk fees predictable for property owners.** Five sidewalk improvement districts were created and each individual district is assessed annually. Money raised in each district will be spent for improvements in that district.

One challenge in district design was how to address the large amount of non-profit tax exempt land in the City. **By maintaining an owner-pays principle, the sidewalk district ensures that all owners, including non-profit institutions, pay the sidewalk fee.**

Sidewalk Improvement District (SID) Fees			
Building Type:	Annual Fee:	Additional Fees:	Example:
One & Two Family Homes	\$70	N/A	Small Family Home (\$70)
All other lots	\$140	\$0.015/square foot +\$30 per 50 feet of lot frontage on the street	Small Business (\$185); Walmart (\$3283.7)
Expected Local Revenue per year: \$840,000 +/- \$50,000			

*Appropriate pricing is essential to good user fee design.*

### CONCLUSION:

**Through proper design and implementation, user fees in local government provide a viable option to facilitate funding of service delivery. User Fees can be incorporated in neighborhood improvement districts, stormwater management, park and recreation facilities, but care should be given in design to insure that they do not result in the exclusion of the poor, elderly, or children.**