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Should We Charge User Fees for Our Extension Program?

Extension Economics Notes # 2012-2

This *Note* explores in more detail whether your program has the characteristics that make it a good candidate for charging user fees or not. Some of the common questions that arise when Extension programs are considering charging fees or increasing them are listed below.

1. Where on the spectrum of private value to public value does your program or event fall?
2. How should we handle fees for programs for low income people?
3. Are we discouraging private consulting businesses if we provide free programs?
4. Does USDA require that Extension provide free programs?
5. Will charging fees result in our losing some of our public funding?
6. Will we lose focus on our mission in order to generate program fees?
7. Will the cost of collecting the fees be so high that it is not practical?

Question 1: ***Where on the spectrum of private value to public value does your program or event fall?***

Private value is the value, or benefits, that a program participant receives from the program. For example, it might be increased profits for farmers from an agricultural program, improved health from nutrition programs, or just having fun for youth in 4-H. ***Public value*** is the total of the indirect benefits received by non-participants as participants make changes. For the examples listed, some of the public values are: a strong local economy as farmers earn and spend more, reduced Medicaid costs to taxpayers, and more community leaders as 4-H youth mature.

Five Types of Programs with Varying Private Value to Public Value Ratios:

Table 1 gives examples of the private and public value of five different types of programs. Every program has to have private value to attract participants and almost all have some public value. But the ratio of private to public value varies. If you accept the view that those benefiting from the program should pay for at least a part of it, a program with a high ratio of private to public value should be funded by a higher portion of the costs in fees than one with a lower private to public ratio.

Type 1: Very High Private to Public Value Programs: Individual consulting with a business is an example of this. While growing firms help the local economy, sometimes the gains won by one firm are lost by another firm, reducing the overall public value and sometimes profits go to absentee landlords.

Extension Economics Notes *may not reflect the views of the University of Minnesota or its units. I appreciate the feedback from several colleagues but any errors or omissions are my responsibility. From 1974 to 2002 I was a faculty member and Extension economist at South Dakota State University, Ohio State University, and University of Minnesota. From 2002 to 2007 I served as the Associate Dean and Director for the University of Minnesota Extension.*

Type 1 programs should be done at full cost to avoid competition with the private sector and to avoid using scarce Extension resources for these programs.

However, there are exceptions. When an innovative farming practice is first introduced, individual consulting, or farm visits, might be the most effective means of developing credibility for the practice and for later educational programs on the topic. Hence, at this early stage the farm visit is a Type 4 program and the fees would be less than full cost.

Table 1. Examples of Types of Private to Public Value

Private to Public Value Ratio	Educational Program Examples	Private Value Examples **A**	Public Value Examples	Portion of Costs in User Fees
Type 1: Very High	Consulting with an individual business, Farm visits	Firm is more profitable.	For small local businesses, improves the local economy. Provides testing ground for new ideas.	All
Type 2: High	Certification program for economic developers	Leads to better employment opportunities for participants.	Improves the pool of qualified professionals to help communities	Most.
Type 3: Intermediate	Landscaping lakeshore properties to protect lake water	Cabin or home owners gain satisfaction of good stewardship and higher property values.	All lake users, tourist industries, & other local taxpayers benefit from improved lake quality.	Some [C]
Type 4: Low	Pilot program on manure management; Farm visits new practices	Saves farmers money eventually	Protects the area's natural resources & provides feedback for future offerings.	Low
Type 5: Very Low	Health & nutrition information online	Improves individual user's health	Reduces health care system costs, reducing taxes needed for Medicare and Medicaid [B]	None

Notes: **A.** Only one example is given of the private value and the public value for each program but most programs have several of each. **B**. All of the examples assume that the educational materials effectively lead to changes in behavior that lead to the private value, creating the public value as spillovers. If the programs are not effective, there is neither private nor public value. **C**. These include everything except for personnel costs for staff partially supported with federal USDA funds.

***Type 2: High Private to Public Value Programs*:** This type of program focuses on the needs of a specific group of people, type of community or industry. Certification programs for professionals are a good example of this type of program. For example, a certification program for economic development program can have benefits for a community but often the immediate benefits are for the participants who improve their employment status. Typically, most of the costs of these events should be charged in user fees.

Type 3: Intermediate Private to Public Value Programs: In type 3 programs, the educational events are tailored to the needs of a target audience but still have considerable public value. For example, educational programs for landscaping lakeshore properties have value to the property owners. Since lakeshore owners are wealthier than the average taxpayer, why not charge full cost in fees? Because, the general public, most of which do not participate, also benefit from high participation in this program. All lake users will enjoy the higher quality of the lake. Tourist industries will attract more people and do better, which in turn helps the local economy. Taxpayers who cannot afford a property on the lake also benefit because the lakeshore properties increase in value and pay higher taxes, reducing the tax rates of others. However, if the program is funded only with user fees, the higher fees will result in fewer people participating in the program and reduce the benefits to the public. Probably the majority of programs fall into Type 3.

Type 3 programs can charge user fees for all of their direct costs (sometimes called "incidental costs" such as meals, materials, outside speaker's fees, space rentals and travel). In addition, they sometimes cover the portion of their personnel costs not covered by USDA Smith-Lever funds.

Type 4: Low Private to Public Value Programs: Pilot programs are an excellent example of this type. For example, there might be strong research evidence that a new manure management practice will save farmers money while protecting the environment, which has high public value. Early adoption might be faster by doing farm visits. However, if most farmers are not yet aware of the private benefits, user fees will not work well at this stage. Sometimes pilot programs, with low fees, are used to build credibility until the audience appreciates the private value.

Type 5: Very Low Private to Public Value Programs: These are the basic educational materials which apply to a general audience and are not tailored to the needs of specific groups. The best examples are the educational materials on the Extension websites or from eXtension. Rarely are fees charged for this type of educational materials to encourage its use and to promote Extension's brand. Also, USDA guidelines do not allow charging for basic educational materials. (Other reasons not to charge fees are addressed later.)

For slightly different discussions of these program types, see "Funding Extension Services with User Fees" by Laura Kalambokidis at http://faculty.apec.umn.edu/lkalambo/documents/MNPFN2002-01.pdf or see "A New Funding Model for Extension." in *Journal of Higher Education Outreach and Engagement. By Paul Brown, Dan Otto, and Michael Ouart at* http://openjournals.libs.uga.edu/index.php/jheoe/index .

Question 2: How should we handle fees for programs for low income people?

User fees depend on people being both willing and able to pay. While scholarships can be used for low income persons, it is better to find alternative sources of funding because of the stigma of asking for a lower fee. However, consider carefully whether reluctance to pay a fee is due to the lack of the "willingness" or the "ability" aspect. The event sponsorship model (where an organization or a firm pays the user fees for a minimum number of people and also handles most local logistics) is an excellent alternative to user fees for both low income and other audiences. Grants, contracts, and gifts are all excellent, if you can get them.

Question 3: Are we discouraging private consulting businesses if we provide free programs?

Possibly, for program types 1 and 2. Often, however, there is a need for free or very low consulting fee, when an idea or practice is a new and unfamiliar one. For example, very few rural communities were interested in economic impact analysis of community development proposals until Extension did a number of them at very low cost. Farm visits aimed at introducing new technologies are similar and might be done at low fees. Extension's initial work helps to build the market for these types of consulting so that some private firms now can provide the first two types of programming in Table 1.

Question 4: Does USDA require that Extension provide programs without charging user fees?

No. USDA does not allow charging for personnel time funded by federal Smith-Lever funds for program for general audiences (Type 5 and maybe Type 4) but you can cover the direct or incidental costs for all types of program events. If cost recovery results in a surplus, USDA requires that it be reinvested into the same program area as the event. For details see http://www.aplu.org/NetCommunity/Document.Doc?id=427

Question 5: Will charging fees result in our losing some of our public funding?

Extension has already lost considerable public funding, when adjusted for purchasing power, over the past several decades, even though fees have been a very small portion of the total funding. This loss is likely to continue unless the public value aspects are well known. Naturally, it takes excellent evaluations to document the impacts of the public value and an excellent awareness program to build public support. To learn more about describing the public value of your program, see articles by Laura Kalambokidis and by Nancy Franz in the *Journal of Extension* and the blog: http://blog.lib.umn.edu/kalam002/publicvalue/

Question 6: Will we lose focus on our mission in order to generate program fees?

This is a constant danger in any of the cost recovery programs. However, if program teams keep the mission first, the money will follow. Before doing any work on the best type of cost recovery, a program team ought to discuss and agree on their program's non-financial aspects. For a discussion of the business planning process, see *Extension Economics Notes # 2011-1*.

Question 7: Will the cost of collecting the fees be so high that it is not practical?

For example, a fee to enter an Extension booth at a county fair is doable. But the revenue generated is likely to be very low relative to the cost of collecting it. In addition, you would lose the public relations value of the booth. Likewise, it is possible to charge a fee for short factsheets or videos, but the revenue is likely to be low relative to collection costs. Further, both of these examples are likely to violate the USDA restrictions on fees for basic programming.

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Discussion Questions for Program Teams

1. What type of program (#1 to #5) best fits our program events at this stage?
2. If we decide to charge fees or to increasing them significantly, who is willing to help estimate the costs of the program? (For tips on estimating costs, see *Extension Economics Notes # 2012-3*).
3. Who is willing to work with an economist to estimate the willingness to pay? (For tips on estimating costs, see *Extension Economics Notes # 2012-4 and # 2012-5*).