ALTERNATE LOCAL REVENUE SOURCES: USER CHARGES

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INTRODUCTION

User charges were the second most important source of local government own source revenue in 1977. Local governments in 1977 collected $19 billion in user charges, such as admission fees.[1] This represented 16 percent of total revenue from own sources. The biggest revenue producer at the local level, the property tax, accounted for half of all locally raised revenue.

This overall figure obscures differences in the importance of user charges between regions of the country and between large and small governments (Collins, 1981a, 1981b, 1981c). The purposes of this paper are to examine the use of charges by counties, municipalities, and townships in the Northeastern states,[2] with emphasis on differences by state, size, and type of government. Some reasons for the diversity are also discussed. In addition, the paper reviews the economics of user charges and discusses their potential as a source of local government revenue.

The data source for this study is the most recent Census of Governments computer tape containing data on the finances of individual units of local government in 1977. Although the Census Bureau attempts to collect data from every unit of local government, the detail requested differs by type and size of government, and this has important implications for analyzing the data. For the purpose of this analysis, the important points are: (1) data on user charges are available only for municipalities and townships with population of 1,000 or more, and for counties, and (2) data on specific types of charges are available only for municipalities and townships of 5,000 population or more, and for counties. As a result, the 1,984 municipalities and townships of less than 1,000 population are excluded from the analysis.[3] All 277 counties are included, as are the 1,778 municipalities and 2,949 townships with population of 1,000 or more.

THE ECONOMICS OF USER CHARGES

Unlike taxes, which are applied to a broad tax base such as sales, income, or property, and then used to support local government services in general, user charges are more nearly analogous to a price paid to purchase a specific good or service. Because they are imposed in return for a specific government service, such as trash collection, or in return for the right to use a government-operated facility, such as a park, user charges are not an appropriate means of support for all government services. Charges are most appropriate in those cases where a charge will discourage wasteful use of the service and use of the service during peak use periods, and where the benefits are largely confined to the individual who paid. This is clearly not the case with many major public services. For example, education benefits are not confined to the children attending school, but rather spill over to the community and Nation as a whole.

Because of its nature, charge financing has some favorable aspects not found in tax financing. First, because they are essentially prices, charges can help provide signals to local governments on how much and what services to produce; putting a price on a good or service helps reveal the value of, and hence demand for, that good or service on the part of consumers. Second, a charge can help reduce the wasteful or excessive use of a service that is apt to result if a service is perceived to be free. Third, charges can help reduce congestion and overcrowding of facilities; a higher charge at hours of peak use can provide an incentive for consumers to use the good or service at offpeak hours. Finally, to the extent that the recent tax revolts reflect a sentiment that taxpayers are not 'getting what they paid for' and that the connection between taxes paid and benefits received is vague, charges are a logical alternative means of financing those services for which charges are appropriate. By paying a fee, the consumer has signaled his or her desire to consume that service and the belief that the service is worth the price. Moreover, the connection between the fee paid and the benefit received is obvious.

USER CHARGES IN THE NORTHEAST

The importance of user charges as a source of local government revenue is measured in two ways: the ratio of tax revenue to own source general revenue[4] and the ratio of charge revenue to tax revenue, that is, fee intensity. The use of charges varies considerably between types of governments, between large and small governments, and between states.

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1 User charges (or "current" charges), as defined by the Census Bureau, include the following categories: airports, education, hospitals, housing and urban renewal, local parks and recreation, natural resources, parking facilities, sanitation other than sewerage, sewerage, and water transport and terminals.

2 Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, West Virginia.

3 Collins and Perkinson discuss the data collection procedure and the implications for research on small governments.

4 General revenue excludes revenue of government-owned utilities.

User Charges in Counties

On average, counties in the Northeast derive sixteen percent of their own source revenue from charges, and raise $0.32 in charges for every dollar in taxes (Table 1). The ratio of charge revenue is highest, about 0.18, in counties with population of 50,001 to 500,000. In contrast, fee intensity is generally inversely proportional to the size of the county. For example, the smallest counties collect $0.73 in charges for every dollar in taxes, while the largest counties collect only $0.19 in charges for every dollar in taxes.

Counties in the Northeast generally do not use charges as heavily as do counties overall. This is true for both measures of charge use and for all population categories, except in the smallest counties where fee intensity is higher than in the U.S. as a whole.

User Charges in Municipalities[5]

Municipalities in the Northeast use charges to the same extent as do counties, on average. Use of charges is highest in the smallest communities and lowest in the largest communities by either measure (Table 2). For example, the smallest communities collect $0.35 in charges for every dollar in taxes, but the largest communities collect just $0.10 in charges for every dollar in taxes.

Although smaller communities are relatively more dependent on charges, actual per capita charges and taxes are proportionate to city size. Total taxes and charges per capita are lower in smaller communities, but revenue is more evenly split between taxes and charges in these communities (Table 2). Municipalities in the Northeast use charges less than do municipalities as a whole regardless of population size or the measure used.

User Charges in Townships[6]

Of the three types of general purpose governments, townships use charges the least, deriving just 4 percent of their revenue from charges, and collecting $0.07 in charges for every dollar in taxes (Table 3). Charges are used the least in the smallest townships (1,000-5,000 population) and in the largest townships (population of more than 100,000). Per capita charges are also lowest in these townships.

Although townships use charges relatively little compared to other general purpose governments in the Northeast, Northeastern townships do use charges to a greater extent than townships do overall.[7]

Variations by State

Although, overall, counties and municipalities in the Northeast make relatively low use of charges, while townships make relatively heavy use of charges, within certain states this is not the case (Table 4). For example, all local governments in Delaware make fairly heavy use of charges, as do municipal and township governments in West Virginia and Vermont. User charges are also important in New Hampshire counties.

Specific Charges

Data on specific charges (for parks, airports, sewers, and so on) are available only for townships and municipalities of 5,000 population or more, and for counties. The importance of the various types of charges for which the Census Bureau collects data differ between types and sizes of government.

For example, in municipalities of less than 1,000,001 population, at least half of all charge revenue is for sewers and hospitals (Table 5). The smallest municipalities are most dependent on sewer charges; in the larger communities, hospital charges are most important. A more balanced use of a number of charges is found in municipalities of 1,000,001 or more.

Townships of less than 100,001, which include all but 13 of the 2,949 townships studied, derive about one-third of their charge revenue from charges for sewers (Table 6). School-related charges are also important in these townships. The pattern is quite different in the 12 townships of 100,001 to 1,000,000 where charges for parks and recreation and sanitation other than sewerage (primarily trash collection) account for more than half of all charge revenue. In counties, charges for hospitals and school-related activities are most significant (Table 7).

The data in Tables 5, 6 and 7 are averages by size category across all the Northeastern states and thus conceal considerable differences between states. For example, the bulk of township charges for schools are found in Connecticut, Maine, Massachusetts, and Rhode Island; township hospital charges are largely confined to Massachusetts. Townships in Connecticut, Massachusetts, New Jersey, and Rhode Island account for most of the township charges for parks and recreation.

Similar diversity occurs in municipalities. Most municipal airport charges are found in Maine, and the New England states (except Vermont) and the District of Columbia account for

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5 The definition of municipality is that of the Census Bureau: a political subdivision within which a municipal corporation has been established to provide general local government for a specific population concentration in a defined area. A municipality may be called a city, a village, a borough (except in Alaska), or a town (except in the New England states, New York and Wisconsin).

6 The definition of township is that of the Census Bureau: a local government established to provide general local government to residents of an area defined without regard to population concentration. Townships are called "towns" in Connecticut, Maine (including organized plantations), Massachusetts, New Hampshire (including organized locations), New York, Rhode Island, Vermont, and Wisconsin and "townships" in other states.

7 The township form of government is confined to the Northeastern and North Central states.

Table 1--Average values 1/ of selected revenue variables, by population size, Northeastern and all U.S. counties, 1977

Item	Population size												All counties	
	0-10,000		10,001-50,000		50,001-100,000		100,000-500,000		500,001-1,000,000		1,000,001 & up			
	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total
Number of counties	20	786	99	1,577	64	336	74	280	15	44	5	19	277	3,042
Ratio of charge revenue to general own source revenue	0.157	0.176	0.144	0.229	0.181	0.239	0.181	0.214	0.150	0.167	0.147	0.202	0.164	0.214
Ratio of charge revenue to tax revenue	0.734	0.445	0.291	0.664	0.333	0.721	0.264	0.430	0.201	0.246	0.191	0.339	0.319	0.584
Charge revenue per capita (dollars)	24	36	13	30	19	30	14	24	28	25	20	29	16	31
Tax revenue per capita (dollars)	38	129	57	61	92	65	67	70	149	116	149	109	73	81

1/ Unweighted averages.

Table 2--Average values of selected revenue variables, by population size, Northeastern and all municipalities of 1,000 population or more, 1977

Item	Population size												All municipalities	
	1,000-5,000		5,001-10,000		10,001-50,000		50,001-100,000		100,001-1,000,000		1,000,001 & up			
	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total	North-east	U.S. total
Number of municipalities	995	5,659	359	1,463	344	1,728	50	232	27	159	3	8	1,778	9,249
Ratio of charge revenue to general own source revenue	0.159	0.189	0.147	0.208	0.146	0.210	0.127	0.198	0.096	0.195	0.084	0.119	0.152	0.196
Ratio of charge revenue to tax revenue	0.354	0.507	0.286	0.495	0.267	0.473	0.192	0.415	0.121	0.327	0.105	0.161	0.315	0.493
Charge revenue per capita (dollars)	17	23	20	35	30	41	41	47	43	55	62	50	21	30
Tax revenue per capita (dollars)	81	65	103	88	170	115	294	157	381	201	889	461	114	83

1/ Unweighted averages.

Table 3--Average values 1/ of selected revenue variables, by population size, Northeastern and all townships of 1,000 population or more, 1977

Item	Population size												All townships	
	1,000-5,000		5,001-10,000		10,001-50,000		50,001-100,000		100,001-1,000,000		1,000,001 & up			
	Northeast	U.S. total	Northeast	U.S. total	Northeast	U.S. total	Northeast	U.S. total	Northeast	U.S. total	Northeast	U.S. total	Northeast	U.S. total
Number of townships	1,951	5,252	465	871	486	851	34	73	12	33	1	5	2,949	7,085
Ratio of charge revenue revenue to general own source revenue	0.032	0.014	0.060	0.033	0.082	0.053	0.090	0.042	0.080	0.029	0	0	0.045	0.021
Ratio of charge revenue to tax revenue	0.047	0.022	0.116	0.065	0.131	0.091	0.113	0.053	0.096	0.035	0	0	0.073	0.036
Charge revenue per capita (dollars)	4	1	10	5	17	10	17	8	8	3	0	0	7	3
Tax revenue per capita (dollars)	90	43	162	93	213	128	232	117	246	100	2,500	542	125	61

1/ Unweighted averages.

Table 4--Average values 1/ of selected revenue variables, by state and type of government, Northeast 1977

State	Revenue variable											
	Ratio of charge revenue to own source general revenue			Ratio of charge revenue to tax revenue			Charge revenue per capita			Tax revenue per capita		
	Counties	Municipalities 2/	Townships 2/	Counties	Municipalities 2/	Townships 2/	Counties	Municipalities 2/	Townships 2/	Counties	Municipalities 2/	Townships 2/
							Dollars					
Connecticut	NA 3/	0.064	0.041	NA	0.083	0.046	NA	22	17	NA	275	371
Delaware	0.378	0.219	NA	0.800	0.512	NA	19	33	NA	25	64	NA
District of Columbia	NA	0.079	NA	NA	0.089	NA	NA	92	NA	NA	1,038	NA
Maine	0.097	0.124	0.053	0.117	0.210	0.076	1	47	10	13	229	186
Maryland	0.108	0.219	NA	0.132	0.501	NA	37	28	NA	289	105	NA
Massachusetts	0.177	0.090	0.038	0.255	0.113	0.044	6	51	18	25	446	423
New Hampshire	0.396	0.132	0.057	0.813	0.196	0.105	18	57	10	24	277	104
New Jersey	0.145	0.052	0.033	0.182	0.072	0.041	17	13	6	98	212	189
New York	0.143	0.123	0.033	0.237	0.256	0.073	27	20	3	132	105	62
Pennsylvania	0.229	0.199	0.054	0.353	0.383	0.084	9	18	4	28	53	36
Rhode Island	NA	0.047	0.025	NA	0.051	0.027	NA	16	8	NA	310	302
Vermont	0.009	0.219	0.082	0.010	0.576	0.111	0	29	9	2	72	89
West Virginia	0.140	0.239	NA	0.528	0.701	NA	15	37	NA	24	52	
Total, Northeast	0.164	0.152	0.045	0.319	0.314	0.073	16	21	7	73	114	125
Total, U.S.	0.214	0.196	0.021	0.584	0.493	0.036	31	30	3	81	83	61

1/ Unweighted averages.
2/ Population 1,000 or more.
3/ Not applicable.

Table 5--Charge revenue in Northeastern municipalities, by population size, 1977

Type of Charge	Population size				
	5,000-10,000	10,001-50,000	50,001-100,000	100,001-1,000,000	1,000,001 & up
	Percent of total charge revenue				
Airports	0	2.1	0.5	1.5	7.7
Schools 1/	2.1	7.9	12.4	11.1	11.3
Hospitals	12.4	28.9	35.2	34.8	17.3
Highways	0	0	0	0.3	13.4
Housing and urban renewal	0.4	2.5	3.8	7.3	18.0
Parking	8.1	7.2	5.4	7.9	3.2
Parks and recreation	7.6	6.1	3.9	5.9	2.1
Sewers	53.1	29.9	21.9	15.4	13.4
Sanitation other than sewers	6.2	5.4	3.9	1.0	1.0
Water transport and terminals	0	0	2.4	*2/	3.0
All other	10.1	10.0	10.6	14.8	9.6
Total	100.0	100.0	100.0	100.0	100.0

1/ Includes school lunch fees.
2/ *less than 0.05.

Table 6--Charge revenue in Northeastern townships, by population size, 1977

Type of Charge	Population size				
	5,000-10,000	10,001-50,000	50,001-100,000	100,001-1,000,000	1,000,001 & up
	Percent of total charge revenue				
Airports	0.7	0.3	0	2.6	
Schools 1/	26.9	27.4	17.2	0	
Hospitals	9.9	13.0	2.6	0	
Highways	0	0	0	0	
Housing and urban renewal	0.5	*2/	0.1	0.9	
Parking	1.1	0.8	2.6	2.6	
Parks and recreation	6.0	7.3	15.8	28.2	NA 3/
Sewers	33.7	32.5	36.2	12.5	
Sanitation other than sewers	2.1	3.2	7.5	24.7	
Water transport and terminals	0.1	0	0	0.6	
All other	19.0	15.5	18.0	27.9	
Total	100.0	100.0	100.0	100.0	

1/ Includes school lunch fees.
2/ *less than 0.05.
3/ The one township in this category had no charge revenue.

Table 7--Charge revenue in Northeastern counties, by population size, 1977

Type of Charge	Population size					
	5,000-10,000	10,001-50,000	50,001-100,000	100,001-500,000	500,001-1,000,000	1,000,001 & up
	Percent of total charge revenue					
Airports	1.8	0.2	1.5	2.1	1.0	12.5
Schools 1/	0	12.6	32.2	29.2	33.3	18.7
Hospitals	81.2	44.2	17.0	10.6	31.7	38.8
Highways	0	0	0	0	0	0.8
Housing and urban renewal	0	0	0	0.3	0	0
Parking	0	0	0	0	1.6	*
Parks and recreation	0.4	0.9	1.0	1.5	5.9	7.9
Sewers	*2/	0	4.1	6.9	9.0	0.9
Sanitation other than sewers	2.6	0.4	0.7	1.0	7.5	0.1
Water transport and terminals	0	0	0	0	0	0
All other	14.0	41.7	43.5	48.4	10.0	20.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

1/ Includes school lunch fees.
2/ *less than 0.05.

most school charges. Average per capita hospital charges range from over $25 in Massachusetts and New Hampshire to $0 in Delaware, Pennsylvania, Rhode Island, and Vermont. Average per capita fees for garbage collection are highest by far in West Virginia and the District of Columbia.

Finally, use of charges by counties in different states varies. The only fees found in West Virginia counties are for hospitals. Average per capita county sewerage charges are highest by far in Delaware, average per capita county school charges highest in Maryland.

REASONS FOR DIVERSITY

The differences just described are related to diversity in the types of functions performed by governments. For example, higher per capita charges in the larger governments might well result from the provision of more services--in per capita terms--which are amenable to user charge financing. Such services could include parks and other recreational facilities, airports, and garbage collection. The data on sources of charge revenue suggest that smaller governments do rely on fewer kinds of charges. Higher per capita charges in larger governments are not inconsistent with lower fee intensities in these governments because per capita taxes are also higher.

The presence of special districts also affects the extent to which general purpose governments use charges, because most of the services provided by special districts are amenable to charge financing. To the extent that special districts are responsible for such services, general purpose governments have less opportunity to use charges. For example, almost two-thirds of the sewerage special districts in the Northeast are located within Standard Metropolitan Statistical Areas (U.S. Dept. of Commerce). This is consistent with the previously noted relatively light use of sewerage charges by larger governments compared to smaller governments.

Finally, governments with the same nominal title vary considerably from state to state (Stephens and Olson). The use of charges reflects such variations. In Maryland, for example, there are no school districts; counties provide education. Average county per capita charges for education are highest by far, $25, in Maryland. New York and New Jersey are the only other two states in which counties charge education fees. Conversely, municipal and township fees for education are confined to the New England states (except Vermont) and the District of Columbia. In these states, towns and municipalities account for the bulk of local government expenditures for schools, despite the existence of school districts. As another example, charges account for over one-quarter of all county revenue in New Hampshire. This is primarily due to the receipt of federal funds, via the state, in the form of user charges for county nursing homes.

SUMMARY AND PROSPECTS

In general, local governments in the Northeast conform to the nationwide pattern of greater relative use of charges in smaller governments. Nonetheless, as a whole, county and municipal governments in the Northeast, especially in New England, were less dependent on charges in 1977 than were county and municipal governments nationwide. Reliance on the property tax remains generally high. Although nonproperty taxes are used to a fair extent in the District, Maryland, New Jersey, New York, and Pennsylvania, local governments in the rest of the Northeastern States do not have authority to levy such taxes, which include sales and income taxes.

Reasons for the generally low use of charges in the Northeast are not apparent. One hypothesis, that special districts may be relatively more abundant in the Northeast, is not supported by data on the numbers of special districts. Nationwide, and in the Northeast, about one-third of all governments are special districts. In New England special districts actually comprise less than one-third of all local governments (U.S. Dept. of Commerce). However, compared to both the South and the North Central region, a higher percentage of the special districts in the Northeast are operating special districts, defined as those with some own source revenue.

Whatever the reasons for historically low use of charges, this is apt to change in years to come.[9] Local governments across the country are being squeezed by tighter federal and state aid budgets, demands for lower property taxes, and continuing demands for services. The ability of local government to cope with these changes in the fiscal and political environment is already, and will continue to be, rigorously tested. One response is increased reliance on user charges to cover the costs of services for which charges are appropriate.

Such a response is especially likely in Massachusetts, where Proposition 2 1/2 recently took effect. Proposition 2 1/2 limits property taxes to 2.5 percent of assessed valuation and limits the growth in property tax revenue to 2.5 percent per year. Local governments in Massachusetts may react similarly to those in California where user charges increased from 15 to 25 percent of own source revenue between 1977 and 1979. This period, of course, covers both the passage of Proposition 13 and the end of the temporary 'bailout' provided by the large state surplus.

Given the current taxpayer sentiment of disillusionment with government in general yet continued demand for government services in particular, it will be interesting to observe local public finances in the Northeast in the coming years.

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[9] Such a shift did not occur between 1977 and 1979, however. Charges as a percent of own source revenue actually decreased in 5 of the states (4 of these in New England) and increased only slightly in most of the rest. The largest percentage increase, 19 percent, occurred in New Jersey (Spain and Wooldridge).

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