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# Development of a Model for User Fees: A Model on Policy Development in Creating and Maintaining User Fees for Municipalities

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**Development of a Model for User Fees -  
A Model on Policy Development in Creating and Maintaining  
User Fees for Municipalities**

**MPA Research Paper**

**Submitted to**

**The Local Government Program  
Department of Political Science  
The University of Western Ontario**

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## Chapter 1 - Introduction

Through legislative and regulatory means, The Province of Ontario is forcing local governments to rethink their mandate to the public and to reconsider how services to the public will be financed in the future. “ The goal of the Local Services Realignment process is to reduce waste and duplication, improve accountability and provide better government services at a lower cost to Ontario taxpayers “.1 Citizens in general are more sensitive to and informed about community services and how they are financed. Thus with provincial grants being reduced and restraint applied to property tax increases, one of the few revenue streams remaining for municipalities is user fees. A broad definition of a user fee is a charge to a user for a specific government service. This research paper will explore policy issues associated with recovering costs through new fee sources or increasing existing user fees. The paper will begin with a summary of the current literature on the subject. Then a discussion on issues and considerations in developing a user fee model will be put forward. From this background, a user fee model will be developed which will draw from the literature and practical experience. I will then compare the model with actual practice used by four municipalities in Halton Region in preparing user fee policy and setting user fees. Finally, I will provide conclusions about the user fee model and make some observations about areas for further research.

Since 1993, the provincial government has been reducing transfer payments to Ontario municipalities. The elimination of significant grants for roads and streets maintenance and construction, and the reduction in grants through the expenditure control program and the social contract was completed by 1994.2 This resulted in a grants revenue loss of more than 50 percent for most municipalities. Now in 1998,

municipalities are facing the impact of the Province's "Who Does What" downloading exercise which is not revenue neutral as promised by the Minister of Finance.<sup>3</sup> During the past five years, local governments have also had to bear a new employer health tax, have seen sales tax exemptions reduced and accepted a variety of other provincially mandated responsibilities without any direct compensation. Also during this period, the general local political mood has been to restrict property tax increases while at the same time citizens are wanting services maintained or even enhanced. For example, the Town of Milton has not had a tax increase since 1993 and for 1998 there is a slight tax decrease for town services.<sup>4</sup> Thus user fees are now being considered more closely as a possible revenue source to supplement the loss of grants and to complement the property tax as a source of funding for some services. According to Statistics Canada, user charges as a percentage of own revenues in Canadian municipalities have increased from 12.2 percent in 1965-66 to 22.1 percent in 1994-95.

As the prominence of user fees as a source of local government revenues becomes greater, there are complex factors which must be considered in developing user fee policies. Urban centres which are growing are now facing private competition in some service areas. In the recreation area, it is becoming more common to have private enterprise own and operate arenas, operate food facilities, and conduct recreational and fitness programming. This raises the issue of "what business" should municipalities be in on the public/private continuum. As well, direct competition is causing municipalities to be more conscious of the economic efficiencies of a service and the need to properly market services to the public. For example, in The Town of Milton, a new private fitness centre has opened in 1998 in direct competition to the town's fitness facility.<sup>5</sup> This is

forcing leisure services staff to broaden their marketing activities and be more aware of their program costs. “ Staff will continue to take a broader role in the community in 1998 as leaders in the promotion of healthy life styles through activity, researching new trends in leisure service delivery and educating the community on the benefits of participation in leisure activities”.<sup>6</sup>

Another consideration related to user fees development is the role of the public and politics. Users of service are more sensitive to their services and the general taxpayer is more interested in knowing what services are being funded by property and to what degree. In a recent survey of the Ontario public concerning alternative service delivery conducted by Angus Reid on behalf of Ernst and Young, several conclusions were drawn about the public’s view of user fees. Services like police, fire and roads are perceived as public goods. People don’t like change and will tolerate user fees in other areas, but only as an adjunct to funding, not as a primary revenue source. This attitude is prevalent regardless of the level of satisfaction or dissatisfaction with the current system. Consistent with the above, people are most comfortable with user fees in service areas where they already exist. This kind of reaction to user fees stresses the burden put on local municipal councils and administrators as they make decisions about increasing user fees or recovering the cost of services previously exempt from user fees. Clearly the process of change will require education and consensus building by all the stakeholders.

An illustration of this reaction comes from the Town of Milton which is experiencing feedback from the user public around the subject of user fees and fee increases. The user public has raised several issues which have influenced staff and politicians alike in addressing service costs, setting an increased user fee or developing

new policies about user fees. Recent comments gathered from the Milton public indicate their concerns about user fees. This feedback stresses the fact that people see user fees as the property of a particular program rather than general revenue and are willing to pay but only if the service level is maintained or improved. Care has to be taken in setting user fees and programs for subsidizing fees in the areas dealing with children's and senior's programs. Many seniors would withdraw from full cost services rather than request subsidy.

After considering the variety of issues that can be raised by the public about user fees, it can be concluded that the easy part of establishing user fees is calculating the price. The difficult part is convincing the public that in spite of their concerns, a user fee structure has to be set. Bird and Tsiopoulos summarized that dilemma as follows; "The prices set by any public agency will be, to some extent, the outcome of a political and administrative process rather than a pure 'market' or economic process. User charges are therefore inevitably a political institution and, like all such institutions, they are inherently 'sticky' or hard to change".<sup>7</sup>

The use and role of user fees in financing local government services has generated considerable debate with differing philosophies and ideas emerging on both sides. The new City of Toronto is attempting to equalize user fees across the city. Recently, Toronto council made a decision to drop user fees for all outside pools. "Councillor Frances Nunziata ( York Humber ) said..... 'I don't feel it's fair for kids and seniors in other areas to be able to swim free, while in York, East York and Scarborough we have to pay to swim.' "<sup>8</sup> While the debate will no doubt continue, the fact remains that this revenue source is becoming more important because of the current fiscal

atmosphere. In addition, emerging fundamental differences may alter earlier thinking about financing public programs through user charges. While in the earlier years the debate revolved around the issues of economic efficiency and equity, the debate in today's tax limited environment may centre on whether to finance a service through user fees or not provide the service at all. Given this current climate, it is important for municipal managers to systematically assess existing service charges and to evaluate the feasibility of extending user fee financing to other services.

### What Are User Fees?

In order to appreciate the term "user fees" within a municipal environment, the writings of several authors were reviewed. Sproule-Jones and White suggest that user fees are all fees levied on all individuals for the use of service from which they receive direct benefits; namely, licenses, permits, concessions, special assessments and the sale of goods and services.<sup>9</sup> This is a good definition in that it is specific and understandable. The writers do argue that user fees could be more accurately considered a consumption tax rather than prices for services offered. They support their position on the basis that user fees attempt to cover operating costs only, are calculated generally on average price costing and tend not to be earmarked revenue for programs and facilities that generate it. Based on research and my own experience, these assumptions are no longer valid. Municipalities are now considering indirect costs and capital replacement allocations when developing a pricing model. As well, most municipal accounting systems are reporting user fee revenues as direct recoveries to the program or service being offered.

Stephen Bailey, in "User Charges for Urban Services" stated that user fees are really user charges.<sup>10</sup> He contends that the term "charge" rather than "fee" or "price"



recognizes the administrative, rather than market determination of payments. He also suggests that the use of “ user charge “ recognizes the necessity to exclude internal recharges between local government departments in order to avoid multiple counting. Although I tend to agree with his former statement, I would not entirely support his view on internal recharges. In developing user fees, the internal recharges which are indirect costs are being applied as part of the cost of a service in a pricing model and are not a duplication of costs. However if the user fee revenue is credited only to the department providing the direct service, then it could be inferred that property tax revenue or other general revenue is financing the indirect costs.

Bird and Slack in their book, Urban Public Finance in Canada, defined “ user charges “ to include a range of prices, charges and fees.<sup>11</sup> They did offer some insight about how user charges are viewed by others. For example, they suggest that user charges are viewed by hard-pressed urban officials as a potential additional source of revenue. The authors also provided an economic view of user charges. They pointed out that to an economist, the real value of user charges is to promote economic efficiency by providing information to consumers and officials, enabling them to make efficient use of resources. This ideal of the worth of user fees will continue to be debated as municipalities develop user fee policies. However, there is no doubt that as financial resources become scarce, municipalities will direct their thoughts to outputs of service of which the whole pricing structure is an important element.

Harry Kitchen in his book, Local Government Finance in Canada, offers a different view in defining user fees. From his findings, he determined that licenses, permits and concessions were not defined as user fees/charges. Instead, he defined user

fees as charges imposed on local services that are available to all citizens.<sup>12</sup> His reasoning is that in the absence of user fees, these services would likely be provided and financed from alternative revenue sources. On the other hand, licenses, permits and concessions represent examples of municipalities charging individuals for the right to undertake particular activities designed to benefit specific groups of individuals or allowing individuals to engage in money-making operations. There are limitations to Kitchen's views about defining user fees. The definition is too narrow since it does not consider such things as the varying consumption of services by the citizens of a community. For example, a swimming pool or an arena is available to all residents but not all residents would use these facilities. In contrast, fire service is an essential service for the whole community. In addition, his definition excludes licenses, permits and concessions many of which benefit the entire community. For example, the licensing of restaurants ensures that a high standard of cleanliness will be maintained for the health of citizens.

For the purposes of this research paper, the definition provided by Sproule-Jones and White will be used. This definition provides the broad view applied by municipalities when considering service costs to be recovered through user fees. However, their basic assumptions about user fees are not considered valid today and will not be considered further.

### Property Taxes Versus User Fees

Before proceeding further to discuss the subject of user fees, it is important to provide some comments about local property taxation since it is the major source of local government revenue and is often compared to user fees. Property taxes have been

considered as regressive in that a larger burden is felt by low income taxpayers.<sup>13</sup> This is because taxes are calculated using assessed values of individual properties which are driven by market and do not reflect ability to pay. Also tax rates are now becoming very complex because of new provincial legislation associated with assessment and tax policies. Rates are set differently depending on the assessment class of the property. Some links can be made between the property tax payments and the benefits accruing to property owners from municipal services. Examples would be fire services and road expenditures. Once tax bills are prepared, the process is easily administered. As well, taxes are secure, since arrears can be registered on title and will always be collected.

In contrast, user fees are potentially fair in that those who use that specific service, pay for it.<sup>14</sup> User fees at full cost recovery can provide an efficient service for the municipality. The user truly decides whether or not to use the service at a set price. On the other hand, a municipality can encourage the social and health benefits of a service by providing a subsidy for specified individuals or groups. User fees can be difficult to cost because of a lack of appropriate information supplied by the accounting records and an inability to access indirect costs. Collection of user fees can be onerous and costly. For user fees which are billed, there is no security of the accounts receivable which can lead to bad debt write-offs. In the final analysis, it is important to recognize that user fees are a rational form of tax, in that they are fair as opposed to being a hidden tax used to keep the property tax rate down.

Ontario municipalities have until recently developed user fees on an “ ad-hoc “ basis. The distinctive change by the Provincial Government in funding arrangements to local government has created the need to be more aware locally of services provided to

the public and how these services should be funded in the future. The public is also being more responsive to the services provided to them especially as it relates to the cost and cost sharing of them. This paper will provide a review of user fee literature in order to bring forward issues and concerns about user fees in view of their more important role in acting as a revenue source for municipalities. It will provide a contribution in filling the gap in user fee policy which will assist municipalities in being proactive in support of user fee revenue.

## Chapter 2 - Literature Review

Robert Anthony and David Young in their book “ Management Control in Nonprofit Organizations” provide an excellent incite into factors influencing pricing decisions for nonprofit operations. “ Pricing decisions are an important aspect of management control in nonprofit organizations. Nevertheless, many nonprofit managers have given insufficient thought to pricing policies. In fact, many tend to regard all marketing activity as something to be ignored “.15 The authors point out that this lack of policy making is in total contrast to the private sector, can mean that nonprofits give insufficient attention to the needs and decision-making behaviour of its clients, can result in the organization pricing its services in a way that is unfair to some of its clients and can develop pricing policies that inhibit the achievement of its strategic goals.

Anthony and Young further explain why pricing is so important in management control by reviewing three areas of influence. Firstly, prices influence the behavior of clients. In their view, the better a pricing scheme fits with a user’s decision making options, the more powerful its impact on the user’s behavior. Secondly, the authors feel that prices can provide a measure of output. If services are priced at their costs, then total

revenue approximates the total amount of service provided during that period. Although this may not be a perfect measure, if revenue from one year to the next decline, then managers have a good indication that the organization's real output has decreased.

Thirdly, the authors discuss how managers behavior can be changed by pricing decisions. They indicate that if services are sold, the responsibility centre that sells them frequently becomes a "profit centre". Profit centre managers base their decisions on more complex models that include ways to provide additional services so as to increase revenue, cut costs or change prices. They suggest that if users don't use the service that is priced reasonably in the minds of the manager, then this is an indicator that something else is wrong such as; not enough people believe the service is worthwhile at that price or perhaps similar or better service is available elsewhere at that price. In the end, Anthony and Young reason that managers will be prompted to re-examine the service and its price by addressing a variety of questions. Can costs be reduced? Is there a need for better marketing? Can service be made more attractive? If not, Should the service be discontinued?

Anthony and Young discuss a number of issues associated with normal pricing which are key to developing user fee policy for municipalities. "In general, the price of a product or service provided by a nonprofit organization should be at its full cost ( i.e. - the sum of its direct costs and a fair share of its indirect costs ) plus a modest margin ".<sup>16</sup> The margin is intended as a reserve for the replacement of fixed assets. They call this "normal pricing".

Anthony and Young also explored the subject of pricing subsidized services. "Services are being subsidized when the price charged for a service to one client is lower

than the full cost of the services they receive".<sup>18</sup> Several types of subsidy were considered in the writings.

They first looked at subsidy for certain services. A price is a subsidy price if a nonprofit organization decides to price a certain service at less than the normal price. It may want to encourage the use of the service by clients who are unable or unwilling to pay the normal price or the organization may want clients to select services on some basis other than their ability to pay. The authors reported that economists tend to argue that, in most circumstances, providing a service at a subsidy price is preferable to providing it for free. This is because a price, even if low, motivates clients to give thought to the value of the service they receive. However, they point out that an organization should be careful to determine whether the price deters clients from requesting needed services. Anthony and Young also pointed out that an organization may decide that its price will be the same for all services even if some services cost more. In this case, the higher cost services are said to be cross-subsidized by lower cost services or any difference in price that does not reflect a difference in cost results in cross-subsidization. The writers stated that an important reason for allowing cross-subsidization is that the organization may not want clients to choose one service over another on the basis of price. One final key point is made in this area is that managers may find it helpful to calculate the actual cost of the subsidized services even if they don't use cost as a basis of pricing. Knowing the difference between price and full cost can flag areas for managerial decision making by encouraging further analysis of alternative service delivery.

The another type of subsidy examined by Anthony and Young is subsidy for some clients. “ A client who is not charged the same amount as other clients who receive the same or comparable services is being subsidized”.<sup>19</sup> The reason for this subsidy is that the organization’s objective is to provide the service to all qualified clients, some of whom are unable to pay the normal price. The subsidy can be in the form of a lower price, or no charge or the client may be charged the normal price and the subsidy treated as a deduction. The latter is often preferable because the gross revenue resulting from this method provides a better measure of the amount of service rendered by the organization than does net revenue.

In general, the Anthony and Young discussion provides guidelines for developing prices and raises the concerns about the setting of subsidies . It does this from the perspective of accomplishing organizational goals and presenting an efficient and effective program.

In researching the subject of costing services, a book called Costing Government Services: A Guide For Decision Making by Joseph Kelley was helpful in providing information on the importance of cost analysis. “ Cost analysis provides a tool for understanding what services are being provided; what the services cost; why they cost what they do; and what can, and should be changed”.<sup>20</sup> Knowledge about costs is an essential ingredient in effective decision making and contributes to improved planning, implementation, and analysis of every aspect of municipal endeavor. The author suggests that the objective of cost analysis is to achieve an understanding of service costs that is clear and accurate, plus a determination of which costs can be changed by management decisions. As a consequence, the basic measure of a cost analysis is the usefulness of the

information it produces. Cost analysis provides an analytical tool whose wide range of uses share a common characteristic----- the use of factual cost data as a basis for informed decision making in government.

Kelley also provides considerable information in addressing the variety of costs associated with cost analysis. Of particular importance are definitions related to cost components of a service where user fees might be applied. Direct costs are those costs that can be assigned specifically to a given or particular service. Indirect costs are costs necessary for the functioning of the organization as a whole, but which can not be directly assigned to one service.

Richard M. Bird and N. Enid Slack in their book Urban Public Finance in Canada provided insights into pricing urban services. Their view is that the major virtue of pricing urban services whenever possible is to improve efficiency. However, this does not occur without consequences. “ The major cost of doing so is, on the one hand, that it is expensive to price and, on the other hand, that the distributional consequences of pricing are often thought undesirable”.<sup>21</sup>The authors suggest that any argument in favour of a policy of charging for more urban services must therefore pay attention not only to the potential gains from pricing in terms of revenue, improved knowledge of consumer needs, and improved efficiency, but also to its limitation from the points of view of administration, politics and distribution. They further explain that the useful allocative role that prices can play in the urban public sector has been grossly neglected in practice. Not only have the potential virtues of prices as rationing and demand-signaling devices been neglected, but the failure to price properly also means that there has been a good



deal of unexplained and implicit redistribution in kind, much of which would probably not be acceptable if it were made explicit.

Bird and Slack explain that in addition to the distributive argument against more use of the charging principle in urban public finance, there is a classic confusion that is sometimes employed to argue against any levying of service charges by local government. Some have argued that any service provided by a local government agency is in the public interest ( because if it were not in the public interest it would be presumably not be provided ) ----it follows that the cost of the service should be borne by the entire public. The authors indicate the concern with this approach, is that it assumes urban public services are either completely private or completely public in nature. In reality, most government activities do not fall into this neat black and white dichotomy but instead different shades of grey. Thus, it is important to establish criteria in order to decide what services will be recovered from user fees and to what extent.

The authors found few general pricing patterns which could be detected. In summary, Bird and Slack noted “ The failure even to consider the key economic functions of prices as ways of rationing access to a scarce resource and signaling how much consumers were willing to pay for such access, is both striking and characteristic “.22

The authors did provide some suggestions in principle about specific characteristics of public recreational facilities that should affect the level and nature of recreational pricing. Firstly, the majority of most recreational facilities should be treated as constituting a private consumption good to those that use the facilities. There may be some benefits to nonusers from knowing the facility exists and perhaps some sort of

general improvement of societal health and well-being, but any such external effects would appear to be definitely secondary and minor in nature. The writers conclude that such goods are more like private than public goods and therefore, charging users full cost, or close to it, would appear to make sense. Secondly, Bird and Slack indicate that different facilities vary considerably both in nature of the services provided and in the extent to which complimentary private expenditures on time, travel and equipment are required in order to take advantage of them. They further point out that many recreation services that are provided by the public sector are provided by the private sector too. The writers comment on a third characteristic of many public recreational facilities in that they are substantially underutilized for long periods of time and then so crowded for a short time that the need for expanding them seems apparent to all. Their solution to alleviate the problem is by charging higher prices at peak periods to reflect the higher marginal social costs arising from congestion and the consequent deterioration of service quality. These factors expressed by the authors suggest that a re-examination of the pricing strategy employed in many recreational facilities would be worthwhile.

Harry Kitchen discussed in Urban Governance and Finance the subject of pricing of local government services. His thoughts on efficiency, pricing and subsidization of user fees are beneficial when considering the policy development area of user fees. Mr. Kitchen comments that the nature of many of the services provided by local government makes them ideally suited for market-type pricing. Services such as water and sewerage, garbage collection and disposal, public transit, public libraries and public recreation could just as easily be provided by the private sector. The author further noted that in some jurisdictions, some or all of these services are contracted out by local government

to the private sector for delivery. “ Failure to fully exploit the price system when charging for these services suggests that goals other than efficiency dominate local decision making “.23 According to Kitchen, a primary goal of local government , then, should be the efficient delivery of goods and services. To secure this, he suggests local governments should follow the principle of benefits received and charge directly for goods and services wherever possible. In this way, the consumer of the service knows how much it costs and can make an efficient, informed choice on how much to use.

In this author’s view, a user fee is a revenue instrument that is most effective in achieving a more efficient use of society’s resources; it is fair in terms of charging for benefits received; and it is accountable in the sense that consumers are better able to judge whether the benefits received are worth the price paid. He sees user fees, if priced correctly, having all the efficiency advantages of private sector prices. They serve to ration output to those who are willing to pay for the good or service, and they act as a signal to suppliers ( local governments ) that indicates the quantity and quality of output desired. However, Kitchen says in reality, prices or user fees are generally set to raise revenue rather than serve as a rationing and/or demand signaling device. By not pricing properly, local government activity may generate some implicit income redistribution that is neither planned or desired. For example, a tendency to charge a fixed price for water, regardless of quantity consumed, on the premise that fixed income earners (seniors and poor ) could not afford to pay more, provides an implicit subsidy for high income households with large lawns to water and more cars to wash.

“ Decisions on pricing structures and the proportion of costs that should be recovered cannot be related to a specific set of factors. Local tradition, type of service,

tastes and preferences of residents and the desire ( or lack thereof ) of local politicians and administrators to substitute prices for local taxes have all contributed to the policies adopted ".<sup>24</sup> In considering these policies Kitchen does offer some commentary on pricing of services for applying user fees. In his view, allocative efficiency may be achieved by establishing a user fee per unit of output equal to the cost of delivering the last unit; in other words, by setting a price equal to the marginal cost. He continues by indicating in practice, the kinds of services for which the local governments are responsible present a myriad of problems from the perspective of marginal cost pricing which include; free riders, economies of scale, capacity constraints and second best considerations. In addition, the presence of externalities or spillover benefits accruing to non-residents, means that subsidization of some services may be warranted.

In Kitchen's experience, average cost pricing is the more common approach to pricing local government services. Here the incremental cost of delivering a service to specific properties or individuals is not calculated. Instead, the total costs of servicing the entire community, or large areas of the community, are aggregated and each consumer is charged the average cost of the service. The author indicates that as such, there is no clear link between the price paid by each customer and the cost of the service consumed. He concludes by stating that there is no reason to believe that a pricing structure of this type will be as efficient, fair or accountable as it would be under marginal cost pricing.

According to Kitchen, subsidizing certain services may be warranted in the presence of externalities or spillover benefits accruing to non-residents. He sees much of the infrastructure in urban centres benefiting residents and non-residents alike and charges levied for local residents may be less than full marginal cost. While user charges

can be imposed on non-residents as well, they may not capture capacity costs appropriately. The author suggests in these circumstances, it may be preferable to provide a subsidy rather than shift the associated costs to the local residents.

Mr. Kitchen is not a strong proponent of a subsidization policy and this can be illustrated by his views about this policy in two specific service areas. He suggests the strongest argument for subsidization in the recreation area relates to the positive externalities ( spillovers ) to be derived. These externalities may take the form of a more physically fit and healthy society and, hence, lower medical costs for everyone. His conclusion is that in reality, this assumption is questionable as the externalities are unlikely to be significant. In another service, transit, Kitchen questions lower fees for seniors, children and students as being difficult to justify especially during peak hours when transit systems are over-used. He also raises a concern about subsidies applied on the basis of age or status ( and not related to income ) as they are difficult to support on analytical grounds. He also feels that fixed fares usually mean that short distance travelers are subsidizing long distance travelers.

In conclusion, Kitchen would prefer straight market pricing as opposed to average cost pricing but realizes there are goals in addition to efficiency which are considered when decisions are made in pricing services. He also prefers a narrow focus on subsidization of user fees which again emphasizes his views on practicing market pricing.

Richard M. Bird and Thomas Tsiopoulos had a recent article in the publication "Canadian Tax Journal " about the potential and problems of user fees for public

services. Their review included a discussion about the importance of the public process associated with changing or introducing new user fees within a municipality.

“ Since user charges are always politically determined to some extent, it is important from the beginning to provide an adequate process of consultation with affected groups and review both the public and the central government agency “.25 The authors advise that some such process is necessary to ensure that the prices set are reasonable and acceptable, and that subsequent adjustments will be made when they are appropriate. They discuss a few general principles which will insure proper communications are in place when dealing with user fee rate and policy changes;

1. It is important to set out clearly the parameters within which individual public sector managers can determine prices. What should they take into account? Whom should they consult and in what fashion? To what review, if any, are their decisions subject? Political processes are distinguished from market processes primarily by their emphasis on perceived procedural fairness. It is therefore imperative to set out exactly what procedural fairness means in the context of user charge policy and how it is to be attained.
2. It is important to provide clear and strong incentives for managers to impose efficient user charges. For example, the introduction of charges may give managers a larger budget, or at least one over which they have more control. On the other hand, if the adoption of user charges is likely to reduce the agency's budget, managers will have no obvious incentive to undertake the difficult task of designing and implementing the charges.

3. If the prices set by a particular agency are subject to central agency review, then the principles that will guide the review process should be stated clearly and the application of those principles demonstrated clearly to the affected managers and the concerned public. Public sector managers, by definition, cannot and should not be expected to respond solely to the “bottom line” in any financial sense. Any activity that can be appropriately managed on that basis alone should not be in the public sector in the first place. On the other hand, public sector managers cannot be expected to act efficiently in pursuit of public policy objectives if the lines and rationale of accountability are not made crystal-clear.
4. As a rule, the only public voice to be heard when a policy changes is that of the direct beneficiaries of the previous policy, who are clear losers. It must therefore be made clear to those who are directly affected by the introduction of user charges for a particular service that the real problem to which any decision about charges must be referred is in fact the people as a whole, as represented by their elected officials.

Bird and Tsiopoulos conclude that even full compliance with these principles, however, is not enough as a serious effort must also be made to persuade affected groups that the pricing policy adopted is reasonable. That is, the policy must not only be reasonable but must also be persuasively presented as reasonable to a group of people whose natural interests are opposed to it.

Having researched this topic at some length, it becomes evident that there are certain areas of user fee policy that have been dealt with satisfactorily and other areas where gaps need to be addressed. The question of which services in general should be recovered through service charge financing was covered well in the literature reviewed

but criteria are needed in deciding which specific services should be subject to user fees. Although there is general information about developing user fees in the texts I reviewed, there appears to be an absence of a structured method of gathering the required data in conducting a user fee analysis. The literature reinforced a need to recognize the value of tying user fee development to the goals of the organization and program in bringing focus to user fee policies. In other words, a philosophy to govern user fees provides guidance to administrators, politicians and the public when setting user fee policy. After doing my research, the importance of economic considerations in defining user fee policy became quite obvious in such areas as elasticity of demand, subsidization of rates, economic incentives and competitive constraints. It becomes very apparent that it might be regarded as reasonable policy to set fees at a level which does not reflect the full cost of providing the service. Accounting for user fees can be difficult in pricing services correctly. The readings stressed the importance of ensuring that all direct and indirect costs are accounted for when estimating the full cost of a service. Most of the readings commented on marginal cost pricing as being the preferred pricing concept for public services but also expressed the impracticality of using this pricing structure in reality. However, the important point gleaned from my readings about pricing is to have a defined pricing policy in place even if full costs are not recovered. The prevalent pricing model in the public sector according to the authors is average cost pricing followed by market pricing. The literature covers a broad area, but does not provide a comprehensive model that incorporates all of the factors needed in setting and changing user fee policies and prices.



## Chapter 3 - Issues and Considerations in Developing a Model

### What Services?

*Public/Private.* The question of what services to provide through service charge financing is a dilemma confronting more and more local government officials. While local governments provide a host of user charge or fee related programs, their diversity and their specific use of charges make generalities difficult. Some services typically financed, either fully or partially from charges, include recreation and leisure services, commercial and residential development regulation, public transit systems, and solid waste management and disposal. The extent of service charge financing depends on the availability of other revenue sources, the community's social and political environment and the attitude of citizens and political leaders toward user charges. Currently, service charge decision-making is driven almost exclusively by financial considerations, ignoring economic and social criteria. There is a need to address issues such as the public/private nature of the service, who benefits, and target populations.

Many local services can be classified as pure public goods, services that affect the total community's quality of life and cannot be easily divided into purchasable lots. Local services such as basic police and fire operations typically are not considered public goods and are not financed from user fees. Private sector-type services provided by local government are at the opposite end of the spectrum and usually are provided through service charge financing. Examples would be water, sanitary sewers, solid waste management and airports. In between the two extremes fall a number of services provided by local government that have both private and public attributes. These would

include library services, recreational facilities and programs, public health, public transit, and public parks and playing fields. The services that are pure public goods should generally be financed by property taxes and general revenues, not by user charges. Pure private goods, on the other hand, should in general be fully financed by user fees. The financing of services that have both public and private qualities will require a combination of financial analysis by staff, appropriate public feedback and political considerations by elected councils.

Drawing from the public/private good distinction, a service financed by charges should have clearly identifiable benefits that accrue to the individuals receiving the service and thus justify the charge for the service. An example is the charge for water on a per-unit basis where the user is charged on the number of units consumed. For other municipal services, the benefit principle is more difficult to discern, and judgment is necessary in deciding whether the service provides individual benefits. Another important aspect of the benefit principle is that nonpayers must be excluded from the benefits of a user financed service. In other words, the users pay and get access to the service while those who don't pay are denied access to the service.

The social and equity aspects of public services also must be considered. Some public services, due to their nature and community impact, should not be totally financed through service charges. These services must be available to everyone in order to maintain a safe, healthy community ( e.g. police service ). Services that have public and private qualities are difficult to price because of their mixed nature. Others might provide individual benefits but, due to equity and social considerations, may need to be financed

or subsidized by general taxation. Services targeted to specific populations, such as recreational programs for youth and seniors, could fall into this category.

Regulatory activities such as building permits and taxi licensing are also a source of service fee revenue and as such should be considered. Unlike other local government services, regulatory activities do not easily fit the public/private good concept. These activities usually are undertaken to insure the public safety, health and welfare. The general trend in regulatory activity financing indicates that many local governments either partially or fully fund these services through fees. The merits and demerits of charging for specific regulatory activities differ, and a community should carefully evaluate all aspects of the issue when considering financing alternatives.

*A Philosophy to Govern User Fees.* The development of user fees and user fee policies is not an exact science as with all policy making in the municipal environment. However, the task can be made clearer for all parties ( administrators, politicians, and the public) if the user fee policies are tied to the goals and objectives of the municipality. This can lead to a philosophy to govern user fees which in turn can provide the policy framework for setting user fees.

For example, the parks and recreation department for the City of Boise, Idaho have a series of council approved goals which guide the municipality in establishing user fees. In implementing these goals, Boise City believes that basic parks and recreation services should be free. They outline their definition of basic services. The Boise policy on fees and charges also state that special consideration must be given to certain individuals and groups. For example, discount rates are mandated for physically challenged citizens and senior citizens.

The City of Burlington has recently adopted a new strategic plan. Ingrained in the plan is a series of goals and objective related to user fees for that community. The following goals and strategies are quoted from their strategic plan:

- Burlington will develop and maintain a more diverse and progressive revenue base for City operations.
- The loss of all general support from senior levels of government will be accommodated.
- User fees and service charges will be reviewed and updated annually to reflect legislative authority and address full costing.
- Establish clear goals for user fees in relation to service delivery costs and market conditions.
- In consultation with user groups, implement a user fee strategy/policy which rationalizes user fees versus tax subsidy.
- Pursue the authority to implement new forms of municipal revenue sources.
- Diversify Burlington's revenue base including investigating the marketing of internal technology and data.

The Council for the City of Burlington wanted to highlight the presence of user fees as a future revenue resource as provincial grants are removed and reliance on the property tax base is no longer an acceptable financing alternative with the public.

The Town of Milton is currently developing more formal policies associated with user fees as a revenue recovery source. In a recent staff report to Milton council, the need to tie user fees to corporate goals and objectives was stressed. In Milton's corporate plan,

a number of goals and objectives have been related to the setting of user fee policies and user fees. Among them are:

- to focus priority on the delivery of programs and services to the public.
- to establish program priorities which balance visions, goals as legislative requirements with affordability and financial realities.
- to manage our corporate human and financial resources in the most efficient and effective manner.
- to monitor the external environment.

By tying user fee development to corporate goals and objectives and by developing philosophies to govern user fees, a municipality can more easily move to specific policy making for the various services for which a user fee will be established.

#### A Service Charge Analysis

Inadequate information is one of the first problems many local government officials encounter when considering adopting or changing service charges. This inadequacy exist for several reasons. When first considering user fee financing for a service, there might be little historical data and information in a usable format because there might have been little need for it in the past. Additionally, there might be limitations set by the current information system. For instance, current accounting systems might not be structured to capture and report cost and income data by specific service charge area.

A local government considering increasing the use of user fees needs an adequate information base on each service to determine public policy and set rates. To provide this information base, officials should conduct a service charge analysis of individual

services. The purpose of this analysis is to identify and document pertinent information for policy analysis. The information provided by a service charge analysis allows policy-makers to determine whether to partially or fully finance a service through charges and to cost the services. A service charge analysis can be fairly extensive and should be prepared in a similar format for each service.

*Purpose of service.* A brief description should include the service's purpose and objectives, including historical information about when and why the service was begun. This information usually is attained by interviewing departmental personnel and surveying budget documents and enabling legislation. Alternatives to the existing service delivery system must be researched. For example, could a service be a more cost-efficient if provided by private enterprise or through a joint community effort? Finally and perhaps most importantly to the policy making process is an assessment of the service's public/private nature.

*Service demand.* Before attempting to price a service, officials must study the demand for that service, particularly if a user fee has never been imposed. Even though a service might not be free (being financed by general tax revenues ), it will be treated as if it were free as long as there is no direct charge for the service. For example, compare utilities use by apartment dwellers whose utilities are provided in the rent with the utility use by a homeowner, who has an incentive to conserve because use affects the utility bill. If the service under study currently has no service charge, the analysis should consider that pricing the service might significantly affect the demand. Elasticity of demand determines the degree of the effect on supply. Although evaluation is difficult, some attempt should be made to assess the effect various prices might have on the demand for

the service. Information on current users' social and economic status also is beneficial. For example, charging for tennis court use, might have little effect on demand in a high income area compared to a low income area. Finally, the absence of a central reporting system might require analysis of departmental management reports or performance data. If service demand data is incomplete, work sampling, direct observations, time logs and surveys can be used to support use statistics.

*Legal review.* Services under consideration for possible service charge financing should be legally researched. A legal review will determine what authority currently exists and the constraints and ceiling, if any. Also, it will identify the local government's power in adopting user fees or changing them.

*Cost/revenue analysis.* The heart of any cost analysis of service charge financing is identifying and documenting the cost and revenue potential of a specific service area. Acquiring this information might be more difficult than it seems. Municipal accounting and financial management systems in many instances are not designed to capture expense data by service. Data might be recorded in various cost centers and funds, and it might be difficult to ascertain all costs associated with providing a specific service. In many cases, only direct operating and maintenance expenses can be readily documented. All expenses, however, including operating, maintenance, overhead, capital and debt service should be documented and accounted for in such an analysis. Documenting the full costs of delivering a service enables policy-makers to understand and evaluate the cost effectiveness of this service and make possible benefit/cost analysis. Overlooking indirect or other costs leads policy-makers to inaccurate cost assessment that may result in under pricing and so, subsidizing the service. While a service may be priced at less

than full cost, such a decision should be a policy decision by the local elected officials and not the result of data not being available during the policy making process. Similar to expenses, revenues generated by specific service are required to assess whether a current rate or fee schedule is appropriate. Revenues must be matched to a specific service to provide a accurate pricing base.

*Schedule of current fees and charges.* Current fees and charges, including the dates and amounts of any changes from the inception of the fee, should be identified and documented. Fees or charges for like services provided by surrounding communities and private companies also should be reviewed. While service competition might not be a major consideration in pricing many local services, it becomes an important consideration when other close local governments and private companies provide the same or similar services. Information from another government's experience in implementing or increasing user charges might help avoid pitfalls or unnecessary costs.

*Billing and collection.* Charges or fees must either be collected at the point of service delivery or assessed and billed to service users on a periodic basis. Depending on the charge, there may be a requirement to operate and maintain a customer accounting system and /or a control system to insure proper handling and processing of cash and other receipts. As part of the service analysis process. The existing or proposed billing and collection system should be reviewed to determine its ability to handle additional collections.

### Pricing Principles.

In their article, " The Scope and Application of Use Charges in Municipal Governments ", Sproule-Jones and White referenced three pricing models; marginal cost



pricing, average cost pricing and revenue maximization. From my research in Chapter 2, these three pricing models appear to be the only ones associated with pricing services in the public sector. There was slight terminology differences put forward by Anthony and Young as they referred to average cost pricing as normal pricing. They also referred to revenue maximization as market-based pricing.

The three different pricing principles for user fees or charges require a brief explanation. Marginal cost pricing sets user fees so that the marginal evaluation of the good or service in question is equated to the marginal cost of providing that good or service. Marginal cost pricing of goods of a private good character is not always possible, such as when the good is subject to long-run increasing returns to scale but marginal cost pricing is the standard normally associated with efficient service provision. From the literature review, it was apparent that writers on the subject of pricing services do favour the marginal cost pricing model from a theoretical standpoint of efficiency. However, Kitchen pointed out specific reasons for not using marginal cost pricing to establish user fees. He found these problems; (a) inability or difficulty of being able to define units of output for many public goods combined with an inability or excessive difficulty in collecting cost data; (b) if other sectors of the economy are producing levels of output where price is not equal to marginal costs, then there may be no reason to insist on local provision at a point where the two equal; (c) in instances where external benefits exist, it is unlikely that local officials will be able to achieve the efficient level of output; (d) provision of a local government service at a level where price equals marginal cost may not generate enough revenue to cover the cost of supplying this service.<sup>26</sup>

Average cost pricing sets fees by dividing the total costs of providing a service or quantity of goods by the number of units of service or quantity of goods actually produced. Although it may be difficult to calculate all of the relevant costs of providing a given level of service and to measure accurately outputs, average cost pricing is the standard normally associated with administrative simplicity and cost recovery rather than pure efficiency.

The third pricing model is revenue maximization. It has been argued that investing capital in a particular service can only be justified if it earns a rate of return comparable with alternative forms of public or private use. The public's willingness to buy a service at the resulting level of charging is comparable to its readiness to buy goods or services from a commercial operator using the same amount of capital; it is the essential market test of viability. Public producers have difficulty justifying revenue maximization strategies, but if they can, and if a large competitive market for comparable products or services exists, then revenue maximization can yield efficient outcomes.

#### Advantages and Disadvantages of User Fees

There are a number of advantages of user fees as a source of expenditure recovery or revenue creation:

1. User fees promote equity by passing the cost of goods and services directly to the end user, not to those who neither need or want them.
2. Another advantage of user fees is their effectiveness in allowing for improved allocation of public resources. By using a free market system similar to private enterprise, municipalities can better determine the demand for optional services. Users decide for themselves whether the service has value or benefit; then they

compare the value or benefit with the fee for the service to determine whether they wish to pay it. These fees can be adjusted or the service can be eliminated altogether according to the demand for the service. This theory would not apply to mandatory user fees such as licenses and permits.

3. A third advantage of user fees is the political acceptability of them; it makes sense that those that use the services should pay for them. In general, people do not resist the fees charged for user-specific goods and services because they have the option not to use them, or can control the extent of use. In addition, those who do not need the services support the fees because property taxes are saved for other common services.
4. A final advantage of user fees can be pricing flexibility. Property taxes being a municipality's major source of revenue has an inherent limitation in its ability to keep pace with service desired. As well, tax rates by legislation are only set once per year. In contrast, user fees can be adjusted immediately depending on demand or the cost of the service. This flexibility could result in increased savings or enhanced services during the year.

Several disadvantages do surface with regard to user fees:

1. A common argument against user fees is that they create a burden on low income individuals who may need or want the service but are least able to pay for it. Instituting or increasing user fees may deprive low income citizens of vital services and programs. It is possible to offset the regressiveness of user fees by having some sort of subsidy in place.
2. Another disadvantage of user fees is that the fees are not eligible in most cases as an income tax expense and are not income tax deductible unlike property taxes.

3. A third disadvantage cited has been the advent of user fees to replace property taxes in order to control property tax increases. Those who oppose user fees feel that municipal taxes based on property ownership is more equitable than user fees. The argument is that property taxes fund all services and the burden is shared equally, whereas some user fees create an unfair burden to a few. There is a general fear to see any change in how municipal services are funded.
4. A fourth objection to user fees as a source of revenue in the municipal environment is that a user fee can not cover the true direct and indirect costs associated with a service in question.

The theory of separating municipal services into two areas, public and private, for purposes of evaluating cost recovery through user fees seems very clear. In practice, there are factors which make this task difficult. Reduction in Provincial transfers, public pressure to limit tax increases and a community's economic and social environment all contribute to what services will be funded by user fees and to what extent. A municipality can cope with these factors by developing goals and objectives which are explicit to each program or service. This can be readily addressed if a municipality has a strategic plan in place for all services within a community. Developing user fees and user fee policy does require detailed and accurate information. One method of providing this for services to be recovered by user fees is to conduct a service charge analysis. This will assist policy makers in establishing the " rules " for user fees. Part of the service charge analysis includes determining the full costs of each service to be recovered and then setting prices for them. Although there are three pricing models, the most frequently used in the

municipal sector is average cost pricing. In to-days economic and political environment, the potential fairness and acceptability of user fees make them attractive.

#### Chapter 4 - A Model For User Fees

Based on the literature review, current practice and personal experience, the following is a model for assessing user fee policies;

1. A philosophy to govern user fees should be established for each service function that is tied to a user fee recovery policy. User fee policy has to be developed within the context of explicit goals and objectives for the programs being charged. Arguably, this cannot be accomplished unless the municipality has developed an overall strategic plan but at the very least, the mission, goals and objectives of each program need to be explicit. Having a philosophy associated with user fees will assist all parties (administrators, politicians and the public ) in realizing the role of user fees in financing services.
2. A municipality needs to determine what services within a community should be cost recovered either in whole or in part from user fees. The nature of the service provided in terms of benefits received has to be determined. Can we determine who receives the service, who benefits and the quantity of service provided. If yes, then user fees are appropriate. The following criteria can be considered:

- a. Traceability

If a service is traceable to an individual, household or a defined group, then it can be considered a private good and user fees would apply. The extent of recovery will be determined by the economic policies which may be established as described later in the model.

If a service is not traceable to an individual, household or a defined group, then the service could be considered a public good and would not be subject to user fees.

#### **b. Consumption Control**

If there is a reasonable choice on the quantity of service uses, then user fees would apply and as the choice diminishes, consideration can be given to a flat fee.

#### **c. Market Versus Monopoly**

If the service has competition in a municipality, then consideration can be given to setting market prices.

If the service is a monopoly service, then policies should be established to set a long term cost recovery.

3. To determine public policy and set rates, a local government should establish an adequate information base on each service to be recovered in whole or in part from user fees. To do this, officials should conduct a service charge analysis of individual services to identify and document pertinent information for policy analysis and this analysis should consist of the following components;

- I. Purpose of the Service
  - description of service
  - objectives of service
  - organizational placement
  - alternatives for provision of service
- II. Service Demand
  - service population
  - current service demand
  - peak-load demand
- III. Legal Review
  - existing legislation
  - authority to adopt or change fees
- IV. Cost/Revenue Analysis
  - cost determination
  - cost allocation

- revenue determination
- revenue potential
- V. Schedule of Charges and Fees
  - surrounding jurisdictions
  - private companies
- VI. Billing and Collection System
  - cost
  - system design

4. There are economic circumstances in the public sector which would dictate that services cannot be totally recovered through the application of user fees. These areas should be addressed and controlled through the establishment of policies which would formally recognize that there will not be full cost recovery in these instances. The key economic areas are: ( 1 ) where volume may be adversely affected by the fee level sometimes referred to as “ elasticity of demand “, ( 2 ) where a reduced or subsidized rate will benefit identified groups or individuals which they cannot otherwise afford and to provide benefits for groups or individuals beyond the immediate recipients of the service, ( 3 ) where it may be desirable to use fees as a means of encouraging or discouraging certain activities or patterns of use ( peak-load and off peak-load policies ), and ( 4 ) where competitive pressure may constrain the ability to raise fees.
5. All costs occurring for each public service should be accounted for when developing a pricing model for service cost recovery. The appropriate costs to be considered include direct costs, indirect costs and an allocation for depreciation or debt associated with the capital assets of a municipality. This will provide a total cost base for a service when considering the price to be set for user fee recovery.

6. A consistent pricing approach should be practiced for all services to be recovered from user fees. The most reasonable method of pricing municipal services is to use an average costing which sets charges or fees by dividing the total costs of a service by the number of units produced or expected to be produced. It would be preferred to use future costs and units to arrive at a user fee. Consideration must also be given to market pricing if the service is closely aligned with the private market place.

7. A plan or schedule should be prepared annually which provides all parties associated with the user fee process information about; frequency of user fee reviews, timing of the review process, a time for public input and any other administrative detail which would benefit the stakeholders.

#### Chapter 5 - Comparing the Model to Actual Practice

In order to test the model, a comparison was made to the actual practices of the four local municipalities within the Regional Municipality of Halton. Interviews were conducted with key finance staff in Halton Hills, Oakville and Burlington. Being the Treasurer for Milton, I depended on my own experience in dealing with the subject of user fees. An outline of the user fee was provided model ahead of the interviews. Although this may have biased the interview, it was felt that existing user fee development was so unstructured that it was necessary to allow the managers to consider the issues in some sort of context prior to the actual interview. In addition, this allowed for a critique of the model.

I first reviewed how each municipality decided what services were targeted for user fee revenue recovery. None of the four municipalities followed a formal process to distinguish between public and private services and thus establish some criteria to set a



pricing structure. It was apparent that in all cases past practice determined which services would be subject to user fees and they tended to be recreation, planning and development and transit. Recently both Halton Hills and Milton conducted core services reviews. The purpose of a core services review is to survey the public and other stakeholders about the priority of services, the importance of services, the efficiency of services and the alternative financing methods of services. They have used the results of the reviews to establish a corporate view of what services can be considered for user fee recoveries in the future. There was no such corporate view of which services could be candidates for user fees in the other two municipalities.

As part of the model review process with each municipality, the concept of a service charge analysis was discussed with each person interviewed. None of the municipalities are using a structured analysis as outlined in part three of the model. The purpose of a service has been covered by Halton Hills and Milton through their core services work. Oakville has covered this component through their business plans for each department. Documented information on service demand and the legal review is done on an “ ad-hoc “ basis by all four communities. There was some consistency by all municipalities in doing cost/revenue analysis for each service. However, this important financial analysis work is being conducted by individual departments in Oakville and Burlington instead of being centralized within their respective finance departments. In all four communities, there are ongoing refinements to the financial analysis component . All communities do have schedules of charges and fees. Finally, the billing and collection system has not been a major issue with any of the four municipalities.

However, it was noted that Halton Hills and Milton are installing a new accounts receivable system.

Another component of the model, a philosophy to govern user fees, was discussed with each of the municipalities. Burlington is now giving the subject of user fees prominence in their newly council adopted Strategic Plan. <sup>There</sup> is a specific section devoted to goals and objectives tied to user fees. Burlington has also recently conducted two public surveys using Angus Reid on the subject of “ budget service “ and “ service quality “. The results of both of these surveys have provided valuable feedback to guide Burlington in setting the goals and objectives associated with user fees. Oakville is now using a business plan approach in preparing budgets for all departments. There is a common goal in all business plans to reduce the financial impact of services on property taxes which includes looking at user fees as a revenue source as well. Both Halton Hills and Milton tie the development of user fee policy to the general financial goals and objectives of their respective strategic plans. In summary, it was apparent from my interviews that municipalities in Halton have relied on past practice rather than formal written philosophies in connection with user fee policy development. For example, Milton has historically provided user fee subsidies for children and seniors without the benefit of any specific written statement about the need to provide subsidy to these groups.

The economic policy considerations were addressed next with the area municipalities. In all four communities, the matter of elasticity of demand has been considered when setting rates for programs associated with seniors and youth. This of course connects with the next economic consideration of subsidization. All

municipalities are providing subsidy to many groups and individuals without a great deal of formal policy. Also the subsidy practice is focused in the recreational areas only. Subsidization is usually financed by property taxes in all four municipalities and not worked into the current user fees for the service provided. The lack of formal policy associated with subsidization leads to inconsistency and inequitable decisions in all four municipalities. Halton Hills uses a committee to consider requests for subsidy and to make allocation recommendations to council. They also use a set of factors to determine appropriate rates of cost recovery for services to have recovery from user fees which ends up being another form of subsidy. All municipalities are using off peak-load rates for their arena ice rentals but that appears to be the only service where economic incentives are used. The matter of competitive constraints although not recognized in formal policy is becoming an issue as private enterprise appears in the market place in the recreational area.

I found that three of the four municipalities surveyed are applying a full costing model in accounting for costs related to services to be financed by user fees. In other words, direct costs, indirect costs and a capital or debt recovery are all included in their costing analysis. However, in Burlington there is no consistency across departments in applying costs for user fee development as only recreation, for example, includes an allocation for capital recovery. Oakville has produced a policy paper which provides a detailed cost allocation model.

With regard to pricing models, all municipalities were using average cost pricing in developing user fees. This was not surprising since this form of costing is easy to quantify in the first place and change if costs change.

The final policy addressed related to the administrative process related to developing user fee policy and user fees. All communities do engage in a public process when setting or changing user fee policy or the user fee rate. The public tends to be the users of a service where a fee is applied. Any adjustments to user fees or user fee policy happens either ahead of budget approvals or in conjunction with budget approvals in all four municipalities. Oakville has a specific policy which indicates that user fee charges must be reviewed every year.

In summary, the municipalities in Halton all indicated that user fees are more prominent as a revenue source than they used to be. They all are working towards more formal policies that will assist in supporting user fees as an important revenue recovery source. There tends to be considerable reliance on informal policies and historical practices in setting user fees. The coordination for user fee analysis is centralized by the finance department both in Milton and Halton Hills but is managed by individuals departments in Oakville and Burlington. I favour the centralized approach since it tends to bring a more objective and corporate perspective to user fee policy development. As all four municipalities intend to address user fees more aggressively, the user fee model could provide specific direction to document and justify new policies and fees. This interview process in Halton shows that lack of a consistent approach to user fee policy development and thus the need for a model. All stakeholders deserve a common understanding about user fee policy and related user fee charges and the proposed model would provide the tools to allow this to occur.

## Chapter 6 - Conclusions

In the end my topic may have been too broad. The policy areas selected for research revealed considerable information which I had to condense to fit the criteria set for the research paper. In spite of this concern, the paper does offer a sound policy model for evaluating existing user fees and considering new ones. This paper suggests a new focus on the significance and relevance of user fees through a formal and deliberate process.

Although there is considerable research material available, the majority of the texts were published some time ago. As well, there is limited current literature related to Ontario municipalities. These factors underline the current gaps in written information to provide support for municipal managers who are dealing with this very important topic. In this paper, I have attempted to address these gaps and provide a workable user fee model.

In producing this model, I have become very aware of the many facets of the topic of user fees which individually need detailed study. Many issues fall into this category. One is a communications plan to implement user fee policies and changes. This topic alone would require attention to identify audiences, develop appropriate methods of marketing, and prepare a public engagement process. Another issue which would require considerable research is the development of a performance management system which ties individual manager's performance to those services which are to be recovered through user fees. Thirdly, a specific cost accounting model could be developed to provide more accurate costs associated with services. Finally, an area that needs more

research is a benchmark or comparative tool with other municipalities and private enterprise. This would assist in not only setting fees but also help in assessing service performance.

In conclusion, user fees are an important component of a municipality's revenue base and, as such, will need significant attention to policy development in the future.

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