

# Public Pricing Growing in Rural America

Charles L. Vehorn\*

Charging for public services is a revenue option that deserves more serious consideration in an era of rapidly escalating prices and budgetary cutbacks.

Some local governments have recently reduced services and numbers of employees, but economic events in the eighties may force even larger cutbacks than anticipated. Increases in standard revenue sources—taxes and Federal grants—have not been rapid enough to meet growing demands for services. One reason to expect even slower revenue growth in the future is the taxpayers' revolt that makes local public officials reexamine proposals to increase tax rates. At the Federal level, officials are seeking ways to scale down the growth in Federal aid. Although local public officials may not be able to avoid cutbacks, public pricing—charging the taxpayer a direct fee for public services rendered—is one revenue source with the potential for growth.

Pragmatic issues need to be resolved before local governments can adopt public pricing on a large scale. Even so, local governments in rural areas have shifted more towards pricing than urban governments.

What are the advantages and disadvantages of public pricing?

## Pros and Cons

Advocates of public pricing usually argue that the general welfare will be enhanced through increased efficiency in providing the service. Those opposed point out that particular groups, especially the poor, may no longer have easy access to the service.

Both taxpayers and local government administrators face numerous practical issues that planners cannot ignore when considering public pricing as an alternative to financing services through the use of tax revenues.

Many economists have long advocated greater reliance on direct payment for public services through user fees and charges. Charging fees to users, when they can be readily identified, improves allocation of local government resources. Consumers can directly reveal their desires for different services to public officials. When revenues are collected through taxes and services are distributed through a bureaucratic process, consumers wanting more or less of a specific service, such as public parks, cannot so directly convey their preferences.

Although pricing is a more efficient means of sending demand signals to public officials, an inequity occurs when low-income people not able to pay the fees are deprived of services. However, if a sliding scale of fees

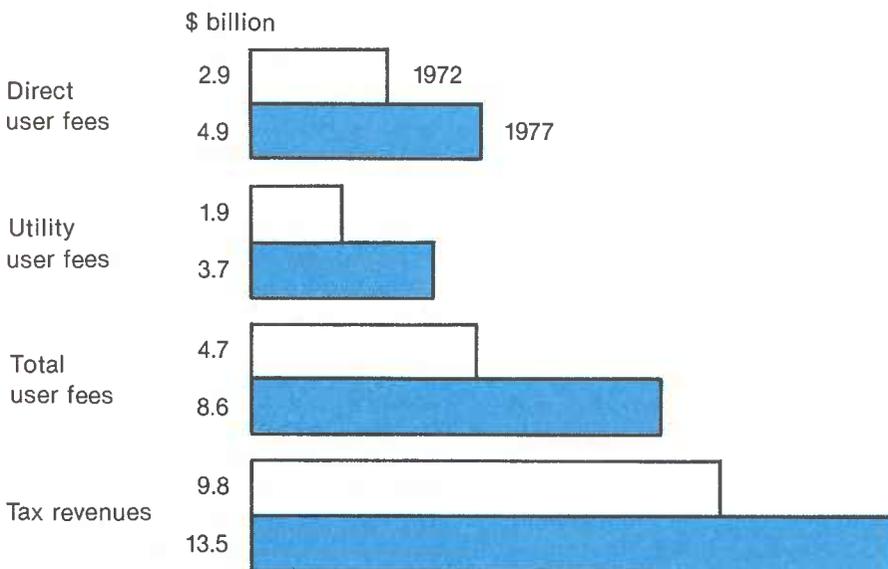
were established, based on incomes, many who otherwise might be priced out of the market might be able to obtain the priced services.

Moreover, fees in lieu of taxes might provide more, rather than less, distributional equity. If landlords pass the costs of property taxes on to renters in the form of higher rents, low-income renters might shoulder an undue share of local government financial burdens. The user fee approach helps to overcome this problem.

The current financing system of local governments commonly places revenues from different sources into a general fund and, through a centralized decisionmaking process, these funds are distributed among various public service functions. An alternative to such a centralized structure would be a system in which separate agencies finance through user fees the specific public services they provide. This approach would allow the profit motive to operate in governmental provision of public services, providing

Figure 1

## Nonmetro User Fees Grow Faster than Taxes, 1972-77

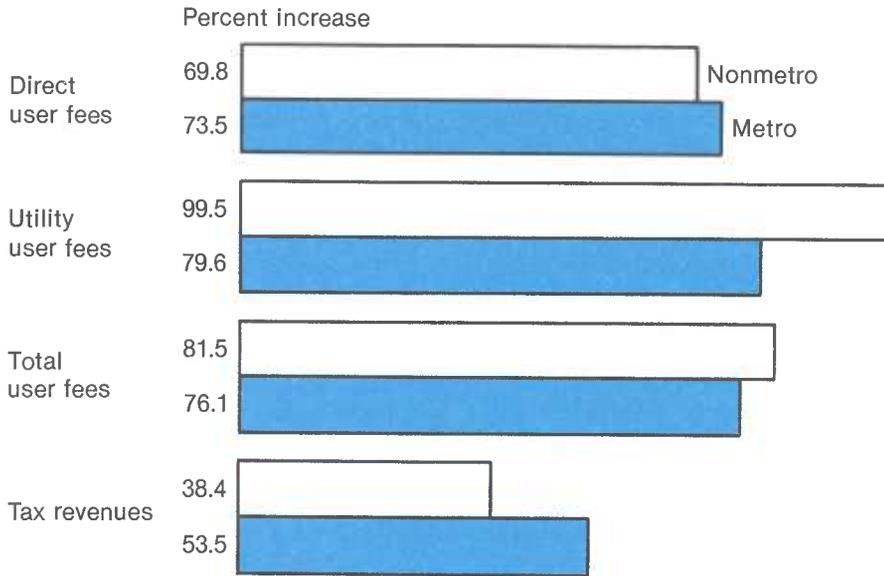


Source: U.S. Census Bureau.

\*The author is Staff Economist, U.S. General Accounting Office.

Figure 2

**Sources of Local Government Revenue Change, 1972-77**



Source: U.S. Census Bureau.

a discipline lacking in a centralized structure. The discipline imposed by the profit motive could enhance efficiency as program administrators would be compelled to provide services at the lowest cost possible.

**Political Resistance Likely**

Considerable resistance to adopting a system that puts a price on public goods and services can be expected. The view that public services should be provided free and financed through taxes is deeply embedded in the electorate. Resistance to increased reliance on user charges is likely to be strongest in those groups currently enjoying a subsidy from the general tax fund. Some groups may pay less in taxes than the value of local public service benefits they receive. Others benefit because local taxes can be deducted when computing Federal income tax

payments, thus reducing the true burden of local taxes. Local user charges, however, cannot be deducted.

Although political resistance to user fees initially might be high, the alternative of reduced public services because of budgetary cutbacks might be even less acceptable politically.

**Implementation Difficult**

In some States, local governments lack the authority to institute a system of user fees or to change fee schedules once a user fee system is adopted. Local officials interested in user fees should consult appropriate State officials to learn about their locality's legal authority.

Even if a local government has the necessary authority, problems of what services are to be financed by user fees and how much to charge must be resolved before pricing can be implemented. Local public officials can rank the various services provided

as essential, quasi-essential, and optional. Serious consideration should be given to pricing of optional and quasi-essential services. Even some essential services can be priced. But, public pricing of services is appropriate only for those services for which individual users can be identified easily.

Once decisions have been made concerning which services to price, officials must decide for each service whether the government should recapture only part or all of the cost, or should show sufficient profit to help finance other services. In the absence of prior experience, local communities may be guided by other communities where user fees have been charged. Even so, early experience may involve a trial-and-error procedure before an appropriate schedule of user fees can be reached.

Many local officials shy away from increased reliance on user charges because of concerns about possible administrative complexities. Problems center on difficulties of accurately estimating the administrative and personnel costs of establishing and maintaining a fee collection mechanism. If a public pricing system cannot be managed efficiently on a day-to-day basis, adopting the user fee approach can become an administrative and financial headache.

Because of problems of public resistance, implementation, and day-to-day administration, local officials think long and hard before adopting or expanding public pricing of government services. Even so, local governments shifted toward more user charge financing during the seventies.

**Public Pricing Increasing**

All local governments, both urban and rural, have increased their reliance on public pricing as a revenue source.

In 1972, local governments averaged 22 cents in current charges for every dollar of tax revenue; by 1977, the average rose to 26 cents. Rural governments relied more on user charges than urban governments. Reliance on user fees also increased more rapidly in rural areas—from 29 to 36 cents per dollar of tax revenue, compared with a rise from 20 to 23 cents in urban areas. When revenues derived from utility user fees are included, rural government reliance on total charges rises from 49 cents to 64 cents per dollar of tax revenue.

Rural governments have led the shift toward more public pricing. One important reason is that rural communities have been more successful in obtaining public consensus in favor of user pricing. Also, financing necessary capital improvements through the sale of bond issues may be more successful in rural communities if local subscription to the sale of bond issues is widely supported.

As cutback management becomes more evident, an even greater shift in the pricing and taxing components of rural government budgets can be expected. □

### Suggested Reading

Downing, Paul B. (ed.). *Local Service Pricing Policies and Their Effects on Urban Spatial Structure*. Vancouver: Univ. of British Columbia Press, 1977.

Mushkin, Selma J. (ed.). *Public Prices for Public Products*. Washington, D.C.: The Urban Inst., 1972.

National Association of Counties Research Foundation, Inc. *Bridging the Revenue Gap*. Washington, D.C., 1980.

## Cooperation: A Help in Providing Community Services

Beth Walter Honadle\*

If a community is unable to perform a needed public service by itself, it should explore the possibility of cooperating with other communities to provide that service.

Small communities often do not have the money, personnel, or equipment to provide all needed public services on their own. Even if they can perform the function, they can often save considerable money and effort by cooperating with neighboring communities in providing some services.

Voluntary cooperation is a good idea when a problem is not confined to a political jurisdiction. Cooperation can alleviate duplication, overlap, and fragmentation in the delivery of community services. It can lower costs to the individual communities in the process.

### Varied Forms of Cooperation

Local communities can cooperate with one another in varied ways. One community can develop a service that other communities purchase from it. Communities can volunteer supplemental service in an emergency. Or, communities can share operation of a jointly-owned facility.

Not all cooperation is formal or contractual. In fact, a recent study of interlocal cooperation in Massachusetts and Rhode Island towns found that most cooperation is informal. Exchange of information among jurisdictions, mutual aid on an as-needed basis, or informal exchanges of resources are examples.

Thus, flexibility is a key to cooperative provision of services among local communities. Agreements can be formal or informal, permanent or

temporary. They can cover one or several services, or even parts of services. Typically, however, agreements cover provision of only one service.

### Problems of Cooperation

The two most common difficulties in interlocal service delivery are preserving local autonomy and dividing costs.

Some officials feel that they are giving up local prerogatives when they agree to cooperate with another jurisdiction. Local residents fear the encroachment of outsiders on their ways of doing things. This is particularly true when the service to be provided is relatively controversial or unstandardized. A service such as police protection is best kept under local control, some say, because the police from another community are unfamiliar with local problems and conditions.

Difficulties frequently arise over paying for services that are provided by another community. For instance, if a town is purchasing a service, should the town reimburse the other community for only the additional cost of providing the extra service to its neighbor? Or, should the town also pay for some of the fixed costs borne by the community supplying the service?

The way services are paid for is another important issue. Individual residents using the service may be charged a fee. This fee may cover the entire cost of delivering the service. Or, the fee may be the difference between the total cost of providing the service and any subsidy paid by the recipient's community from local revenues. Alternatively, individuals may not pay a fee directly. Their community may purchase the service for the benefit of all residents without their having to pay additional charges.

### Ways to Cooperate

Here are some examples that demonstrate the flexibility and adaptability of what is generally called interlocal cooperation:

\*The author is an Economist in the State and Local Government Program Area, Economic Development Division.