

**User Fee Study in Central Texas: Describing How User Fee Structures Are Treated In  
the FY 2012-13 Budget Documents of Cities in Central Texas**

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## **Abstract**

The purpose of this research is to describe how user fee structures were treated in the FY 2012-13 budget documents of small Central Texas cities. It examines ways city governments employ user fees and charges as financial and management tools. This research uses existing literature to develop a conceptual framework based on three themes of economic efficiency, equity and administration to describe the role of fees in overview budget materials, public libraries, police departments and park and recreation divisions' budget documents of some smaller cities in Central Texas (FY 2012-13). The overall findings demonstrate that the smaller cities in Central Texas incorporate fee information in their budgets to show comparisons in revenue sources, but seldom refer to fees in ways that promote economic efficiency, equity and administration.

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## CHAPTER 1: INTRODUCTION

### **Cities and Fiscal Stress**

After the economic recession that began in December 2007 many city governments face fiscal stress, and cities in Central Texas are no exception. The definition of fiscal stress is the difference between predicted revenues and expenditures (Delisle, 2010, p.2).

Therefore, it raises the question about how city governments can address the budget gap by generating more revenues or reducing expenditures to avoid cutting valuable city service levels.

Historically, local governments have relied on taxes, especially property taxes, as their major source of revenue. However, the lengthy economic downturn resulted in the loss of general sales and property tax revenue. The revenue decline made it difficult for local governments to fund public goods and services (Bartle, Kriz & Morozov, 2011). The federal government worsened the situation by cutting back aid to local governments, which forced municipalities to rely more on own-source revenue sources (Shuford & Young, 2000, p.6).

All of these fiscal pressures facing local governments—the falling property tax revenue, the unpopularity of the property tax, and the decrease in federal funds have forced government officials to search for alternative sources of revenue (Cline, 1987, p.1). In this case, user fees and charges provide a feasible way to increase revenue because “continued resistance to taxes combined with a demand for good local services make non-tax revenue a good solution to the budget gap. Also, the advancement in electronic technology has made it much easier than before to monitor user fees and charges” (Bartle, Kriz & Morozov, 2011, p.274).

City governments can employ user fees or charges as alternative financial tools to reduce expenditures or generate revenue. User fees and charges have taken on various definitions. –A user fee is a charge imposed for service based on the amount or level of service provided to the user” (Charles, 1998, p.1). A User fee or charge can also be defined as –a specific price set on goods and services provided by the public sector (SV Senge, 1986, p.92).” In the simplest terms, user fees and charges are the prices set by governments for goods and services they provide (Lloyd Mercer & Douglas Morgan, 1983, p.203).

### **Freud Efficiency and Pragmatism**

In 1989 Patricia Shields wrote –Freud, Efficiency and Pragmatism” as a way to discuss the different ways user fees were conceived by the fields of economics, social work and public administration. Economists focused on efficiency and conceptualized user fees as prices. As such, they had the potential to guide allocations decisions within cities. Social Work drew on the ideas of Sigmund Freud for its theories on fees. Social Work professionals are more concerned for equity issues and ignore efficiency, or demand, implications. They ask if it is fair or equitable to charge the poor for city services and exclude them from needed services.

Finally, public administrators view user fees pragmatically as a revenue source. First, a user fee or charge can be used as an alternative financial tool to reduce expenditures (Shields, 1992). Citizens have a demand for public goods and services and price is one factor they take into account as they register their demand. User fees are directly tied to use, so they reflect a more accurate record of service demand. If citizens cut back on a service in response to an increase in the fee, expenditure can be reduced. Local officials will then have

a better understanding of citizens' preferences for local government goods and services and make better decisions about what services to provide.

An appropriate user fee or charge may also be used as an alternative financial tool to generate revenue. The 2009 State of the Profession Survey by the International City/County Management Association, which covered 2,214 cities and counties, found widespread interest in user fees as a source of revenue. "Among various fiscal strategies" to enhance revenue, "46 percent of local agencies surveyed reported an increase in user fees, while 23 percent added new fees" (David Baker, 2010, p.66).

### **Purpose**

A closer look at the user fee scholarly literature shows that the three themes (economics and efficiency, equity and practical administrative purposes) dominate the discussion of user fees. Clearly, user fees can be explored from multiple perspectives. Just how do municipalities consider user fees in governance? One place to look would be their budget documents. Therefore, the purpose of this research is to describe how user fee structures were treated in the FY 2012-13 budget documents of ten cities with a population ranging from 10,000 to 50,000 residents in Central Texas. It used three themes of economic efficiency, equity and administration to describe the role of fees related to library, police and park divisions of city governments in Central Texas. In the following chapters, by means of content analysis, this study further analyzed the use of fees and charges gauged through economic efficiency, equity and administration in the related budget documents.

Including this introduction, this research is organized into five primary chapters. These chapters are: (1) Introduction, (2) Literature Review, (3) Research Methodology, (4) Findings and (5) Conclusion. The Literature Review chapter explores how city governments employ user fees and charges as financial tools and begins to develop the three themes of

economic efficiency, equity and administration to describe the role of fees in local governments. The Research Methodology chapter chiefly presents content analysis as the methodology used to gather information and to describe the role of user fees and charges in the FY 2012-13 budgets of ten cities in Central Texas. The Findings chapter provides an overview of key findings in the budgets of the ten cities in Central Texas related to the three themes importance to the role of user fees and charges in park and recreation divisions, library services and police departments. The findings are based on content analysis and a review of the literature. In the Conclusion the paper is summarized, and the results or key findings about the role of user fees and charges in the cities' budgets are presented from the perspective of economic efficiency, equity and administration. The conclusion presents suggestions for future research.

## CHAPTER 2: LITERATURE REVIEW

This chapter examines how city governments employ user fees and charges as financial tools. It uses the three themes of economic efficiency, equity and administration to describe the role of fees in local government. Then, the themes are used to develop a framework to describe the use of fees in local government.

### **Conceptual Framework**

The literature review created the cornerstone for the major components of the descriptive categories and provided a basis for a content analysis of the role of user fees and charges in the budgets. The literature regarding user fees and charges supports the idea that there are three broad themes of economic efficiency, equity and administration surrounding the role of user fees and charges in local government. Drawing on these themes, a conceptual framework is developed to describe various types of user fees and charges and how they are treated in Texas municipal budgets.

### **Overview**

Researchers have discerned traits a public good must possess in order to be sold through user fees or charges. "Publicly provided goods and services must have two important characteristics before user charges are feasible. First, the benefits of the public expenditures must accrue primarily to particular individuals rather than to the general public. Second, it must be feasible to exclude nonpayers from receiving the individual benefits of the program" (Cline, 1987, p.25).

Two essential factors of public goods and services must be taken into account in determining the applicability of user fees and charges. One is excludability and the other is non-rival consumption. Excludability means the consumption of a service may be restricted (Bird, 1997, p.40). Street lighting, for example is not excludable while a tollway is

excludable since drivers have to pay tolls to use it. Non-rival consumption refers to the idea that ~~a~~ number of people may simultaneously consume the same good and consumption by one person need not diminish the quantity consumed by anyone else” (Browning, 1983, p.23). Emergency 9-1-1 telephone service is a good example to clarify this concept. One more person’s consumption of 9-1-1 service will have no effect on others‘ consumption. User fees and charges are both desirable and feasible after meeting these two criteria (Bird, 1997). Here it’s useful to examine different types of user fees and charges.

## **1. Types of Fees**

Municipal user fees and charges normally fall into three categories such as fees for products, fines, penalties and regulation. The next section discusses each type of fee.

### 1.1 Fees for services or products

First, fees are charged for public goods and services actually consumed by ~~in~~ individuals, groups, businesses, and organizations.” These fees and charges are intended to partially or completely offset the cost of specific goods and services provided by local government (Silverman & Levitan, 1994, p.62). Fees charged for consumption of public services or products include user fees and charges paid for public library operations, electricity, water or other items . Also, these user fees and charges cover services such as recreation and leisure activities, as well as utilities , sanitation and police protection (Shuford & Young, 2000, p.35).“ Fees for services and products are the most common use of fees in local government.

### 1.2 Fines or Penalties

Second, fees can be classified as fines or penalties imposed on agencies or individuals for violation of ordinances enacted by local governments. Examples of fines or penalties are parking fines for parking offenses, traffic fines for speeding or running red lights and

finer for items such as false alarms. Fines and penalties are an important source of revenue for the local governments. The increased use of information technology such as the installation of red-light cameras at specific locations, the implementation of parking enforcement field technology and online bill payment systems has greatly improved the efficiency of collection and generated more revenue from fines or penalties. (Moser, 2011) Fines and penalties also compel citizens to abide by the ordinance and so to influence individuals or groups to act in the public interest (Denhardt, 2006, p.5). For instance, red light camera programs force drivers to abide by the traffic law about stopping for such signals. When aware of the presence of red light cameras drivers tend to be more cautious about slowing down and stopping for red lights. The drivers' caution comes from knowing that the red light camera will capture photographic evidence of red-light running and that they will get tickets later. According to a report of the Insurance Institute for Highway Safety released in 2011, the installation of red light cameras reduced fatal red light running crashes by 24 percent in 14 US cities with populations over 200,000.

### 1.3 Regulatory Fees (Licenses and Permits)

Third, user fees and charges are also derived from cities' regulatory powers (Mushkin, 1972, p.6). User fees and charges are regulatory fees which are similar to a tax in that they stem from the government's "power to regulate particular economic agents or activities" (Shome, 1995, p. 107). Regulatory fees include licenses and permits. When governmental action sanctions an activity by an individual or a business, the terms "license" or "license fee" are frequently applied (Mushkin, 1972, p.7). Licenses and permits include fees collected for a wide range of activities. Examples of licenses are fees for construction, plumbing, electrical work, development and food service operations. Permits include those for building, mechanical work, zoning, site development, food handler, moving and alarm permits required for business operation. These monies are used to fund the operating costs associated with enforcing codes and building regulations.

In these cases, the users may not see a benefit for themselves, but others will likely see a benefit. (Shome, 1995, p.107). For example, restaurant owners may not benefit personally from the restaurant inspection they pay for, but the public will benefit from it as a whole in terms of public health (Bird, 2011).

## **2. Economic Efficiency**

From an economic point of view, local governments can be seen as companies delivering goods and services to citizens and economic efficiency is a very important objective in terms of both demand and supply side (Bird, 2006, p.5). On one hand, user fees and charges have the potential —to promote economic efficiency by providing demand information to public sector suppliers” (Bird, 2006, p.5). Chargeable goods and services provided by local government can be considered from the consumer perspective. There is a demand curve and economic efficiency can come into play because it is possible to measure citizens’ preference for a specific good or service. Second, taking into account the supply of publicly provided goods and services, local governments are more concerned about the cost of these goods and services related to economic efficiency. In this context, it is very important for policymakers to determine the appropriate price for various user fees and charges. Third, user fees and charges help promote economic efficiency because fees for different public services and goods can regulate local economic activities. —Government agencies are typically the only provider of these regulatory activities, such as driver’s licenses, zoning fees, or licensure fees for regulated professions” (Hager, 2011, p.1). In the next sections, economic efficiency is examined from the perspective of demand, supply and regulation.

### **2.1 Demand Side**

#### **2.1.1 Citizen Preferences in Demand**

User fees and charges help achieve economic efficiency by gauging citizens' preference in terms of demand for specific services and goods. Demand is often referred to as the level of services citizens desire, want or need" (Shields, 1984, p.3). Economic efficiency can be defined as "supplying goods and services preferred by the community or meeting citizen demand" (Gell, 1979, p.22-23). User fees and charges provide mechanisms to determine preference of citizens for a specific good or service through their willingness to pay. Obviously, if citizens are willing to pay to use a park or visit a municipal museum, they are revealing a preference and demonstrating a preference taking into account personal cost. "User fee revenues can be used as indicators of change in demand (Shields, 1984, p.10)."

Demand is revealed through changes in price. Will consumption fall if a fee is raised 10 percent? Also, other factors, including weather, could influence the number of people using a public facility. For example, demand for a campground may increase in the summer rather than in the winter. Recreation facilities tend to receive heavy use on holidays or weekends in the summer. If local government officials understand these trends in demand they can adopt differential user fees and charges to distribute demand and generate revenue. "The law of demand can give insights into why and when citizens will change the level of government services desired. Hence, uncertainty in decision making can be reduced and efficiency enhanced" (Shields, 1984, p.3).

## 2. 1.2 Peak Load Demand

Local officials can use knowledge of demand trends to reduce pressure on public services and raise revenue. The demand for public services and goods may vary during peak and off-peak periods. User fees and charges can also help achieve economic efficiency by developing time-varying pricing systems for peak and off-peak periods respectively to smooth capacity. Increased prices at peak times should lead some customers to cut their

usage, reducing the peak demand. The peak-load pricing strategy for user fees and charges switches consumption of public services and goods from peak times to non-peak times by rewarding citizens a cheaper price for using public services and goods during off-peak period (Castell & Tanchuco, 2002, p.1). In this case, the consumption of public services and goods is lower during peak periods while the consumption of public services and goods is higher during off-peak period to strike a balance between capacity and demand and lead to a more efficient use of existing capacity. For instance, water and electricity consumption varies during different periods of the year or the day. Normally, driven by more frequent use of residential air conditioning, electricity consumption is the highest on scorching summer afternoons. Water use usually peaks in the morning and evening. Therefore, many local governments are mulling tiered rate structures based on peak time consumption to achieve more efficient water use.

User fees might be employed to limit or ration use when environmental impact or crowding at a facility becomes excessive (Stankey and Baden, 1977). Setting fees on a bridge that operates only during rush hour may push the drivers to avoid the bridge when fees are high. They will use the bridge at other times thus slowing the growth of peak demand. Different entry fees in different seasons for parks and recreation service may displace some consumption to off-peak periods. Take traffic congestion as an example. Direct, yet different, tolls at different times of the day can reduce congestion. As it is known to all, traffic congestion will lead to time delay, wasted fuel and air pollution etc. Setting fluctuating direct user fees and charges at different times of the day responding to user demand can effectively ration scarce highway space to relieve congestion. For instance, during rush hours in the morning with the worst traffic, the user fee or charge can increase to a higher price. In contrast, when the road is not congested late at night, the user fee or

charge can be set at zero. This pricing strategy is also a good fit for an even use of park and recreation service. Park or recreation areas are often crowded in the summer, especially on the weekends. The highly uneven patterns of use may result in inefficient use of resources, administrative scheduling difficulties, needless crowding, and perhaps even undue environmental impact” (Manning, 2011, p. 24). Differential user fees and charges such as a higher entrance fee in peak periods or a lower entrance fee in off-peak periods will effectively solve this problem by redistributing the demand of users.

## 2.2 Supply Side

From the supply side, the main economic values of user fees and charges are to ensure that publicly provided goods and services are “valued at least at cost by citizens” (Bird, 2006, p.5). Therefore, it is very important to design and set appropriate prices for various user fees and charges.

### 2.2.1 Marginal Cost

Provision of public goods and services is not costless. Some proponents maintain that the size of the user fee or charge should be related to the cost of the service provided or the value of the good or resource used (Bird 2001; Dewees 2002). The direct and indirect costs of supplying the specific public goods and services can be offset by user fees or charges. Two pricing strategies are suggested for setting the appropriate level of user fees and charges: marginal-cost pricing and average incremental cost pricing. Marginal-cost pricing sets the charge at a level that covers the costs associated with the provision of the last unit of the good (Zorn, 1991, p.7). If local government officials set price for a good or service at the marginal cost of provision, this price reflects the cost of the service. In the private sector, if the value of this specific good or service to the user is equal to or greater than the cost of provision, it is efficient for the consumer to purchase given that the price is

set at marginal cost. In contrast, if the specific good or service's value is less than what it costs to provide it, efficiency would dictate that the user will not consume it. When city governments take into account marginal cost pricing, they are taking into account efficiency principles that guide efficiency in the private sector. Each user can adjust his or her consumption demands for the specific good or service based on the price and finally ~~the~~ last unit of the service consumed is valued at the price, which equals the marginal cost of supply" (Deweese, 2002, p.587). In this case, allocative efficiency is achieved as a result of efficient level of output.

### 2.2.2 Incremental Cost

Though marginal-cost pricing is the most efficient, it is difficult to implement it because it is often difficult to determine both the social costs and accounting costs of many public goods and services accurately and properly. Incremental cost pricing is proposed as a compromise approach to overcome the revenue-flow problem affiliated with marginal-cost pricing (Zorn, 1991, p.13). The logic of this approach maintains that many costs are costs associated with existence of a public agency, regardless of its annual program or particular facility use. The cost that charges for a program should seek to recover are those resulting only from the program's existence (Mikesell and Zorn, 1982, p.158). Essentially, this approach ~~focuses~~ focuses on costs directly associated with provision of the good or service, not indirect costs. Incremental costs are the costs that are avoided if a program or activity ceases operation" (Zorn, 1991, Chapter 8). In this case, it is ~~simply~~ simply to allocate each element of costs, fixed and variable, financial and (to the extent that they are readily measurable) social, to a particular incremental decision that results in the provision of a service and then to assign to each additional user the incremental cost attributable, on average, to his or her usage" (Bird, 1997, p56). For example, we can apply this pricing strategy to calculating the

costs of a vehicle entering the highway at a specific time. The strategy might involve extra charges for peak use and charges for recovering the cost of road usage. Further, there could be an access charge to cover the cost of highways. (Bird, 2001, p.8). Local government might want to pay attention to average cost and average cost trends. The difference between the average cost and the fee charged is the value of the service supported by the dollars, which is known as the subsidy. If local governments pay attention to average cost, they can be more explicit about the subsidy for each service.

### 2.3 Regulation

Through user fees and charges, local governments regulate users' behavior to improve economic efficiency. For example, police officers charge people for reckless driving such as speeding, running red lights and passing in front of oncoming traffic. The reckless drivers can pose a risk to public safety by injuring themselves or other people in the surrounding area. Fines and penalties for the reckless drivers have not only changed their behavior and caused them to improve their driving, but also raised revenue for the local governments as well. Likewise, public libraries' fine borrowers who return library materials late, or have borrowers pay for the replacement cost of library materials that are declared lost. Otherwise, borrower's privileges for borrowing library materials will be suspended. In this way, public libraries have regulated borrowers' behavior and the fines incurred have become an important source of revenue as well.

It is the same with park and recreation division of local governments. Public officials in park operations of local governments prohibit visitors of parks and other recreational facilities from littering, carving, cutting trees or picking flowers or foliage by fining them to effectively protect the natural environment or recreational facilities.

### 3. Equity

Equity or fairness is a complex idea that is viewed differently from distinctive perspectives. Aristotle developed the equity theory. This theory posits that goods should be handed out to individuals in a way that is proportionate to each person's contribution. (Nyaupane, et al, 2007, p. 425). Aristotle's equity theory is often referred to as equality or democratic equity (Nyaupane, et al, p. 426). Rawls (1971) developed the idea of social justice equity. This perspective emphasizes that the "least well-off group in society should be made as well-off as possible. This type of equity is known as compensatory equity" (Nyaupane, et al, 2007, p. 426). In this case, society should also avoid "imposing great harm on a few to confer benefits on the many" because it is "unfair and unethical" (Nyaupane, et al, 2007, p. 426). Advocates of user fees and charges may find Aristotle's equity theory a more appealing rationale for fees. Public prices are fair because people who benefit from the services are the ones who pay. Fees, unlike the regressive property tax, can be avoided (Muskin and Vehorn, 1977). When it comes to the provision of public goods and services, user fees and charges neatly adhere to the benefit principle form of equity. User fees and charges distinguish beneficiaries of specific public goods and services from the general public. Specific individuals receive benefits from these goods and services and in turn contribute to supporting the good through user fees and charges. This enhances fairness by eliminating the general tax subsidy provided by nonusers to users. (Demerritt, 1985)

#### 3.1 Benefit Principle

The benefit principle of taxation justifies user fees. This means the person benefitting from a government-provided good or service should pay the cost (Senge, 1986, p.93). User fees and charges guarantee that payers enjoy the benefits of a specific good or service while non-payers are priced out. In this case, those who use the specific good or

service most will correspondingly bear most of the cost of the specific good or service. Therefore, users are no longer subsidized by nonusers through the general taxation mechanism. For instance, only those citizens who pay entry fees for parks, public museums and recreation services have access to these services. "User fees are viewed as ultimately equitable in that the direct users of public services pay their costs" (Manning, 2011, p.22). Students pay tuition for schooling, visitors pay for park and recreation services and drivers pay the highway toll. Each of these people pays directly to consume a specific chargeable public good or service from which they expect to benefit.

Businesses are also subject to the benefit principle. Local governments charge user fees on businesses with the idea that firms benefitting from government services should help cover the costs of supplying them. For instance, some states charge user fees on regulated firms such as electric utilities. These charges cover the costs of regulation. In another example, building permit fees charged by some local governments are meant to recoup the cost of personnel needed to conduct the permit process (Mackey, 1999, p.2).

### 3.2 Resident vs. Non-resident

Uniform user fees can achieve the test of horizontal equity to reduce inequalities between residents and non-residents (Shields, 1989, p.70). User charges do this by eliminating the general tax subsidy provided by residents to nonresidents for public goods and services (Demeritt, 1985). Urban locations are often distinguished by multiple adjacent cities and suburbs. Citizens often cross jurisdictions to enjoy amenities such as parks. If the park is free, nonresidents who enjoy the park are subsidized by tax-paying residents. Fees enable governments to capture revenue from nonresidents who use their services. If local governments do not charge these tax-exempt nonresidents user fees for consuming public goods and services provided by local governments, it will not be equitable for residents who

support these goods and services by contributing their tax payment to them (Demerritt, 1985). “Larger central cities may be particularly interested in user-charge financing as a means of charging nonresidents, including commuters, for the use of specific cultural and recreational facilities and public services (Cline, 1987, p.32).”

### 3.3 Income Level

“The most frequent argument against imposing new or higher user charges, even if economically feasible, is that they impose unfair burdens on low-income individuals (Cline, 1987, p.35).” In this scenario, vertical equity is a problem for user fees as they are generally considered to be regressive, which means that people with lower income must pay a larger percentage of their income for public goods and services than do higher-income people (Joyce & Mullins, 1991, p.243). The situation can worsen if the low-income citizens are priced out because they are unable to afford the user fee for specific public goods or services. As a result, it raises the question about how public agencies respond to a few unacceptable inequalities (Shields, 2006, p.22).” To mitigate the negative effects of inequality, some local governments reduce fees for children and the elderly in a limited way. In addition, fees may vary by place. For example, recreation centers sometimes reduce fees in low-income neighborhoods (Shields 1992, p.22.14).”

In some cases, user fees and charges represent more fairness to low-income citizens. Compared with a mandatory library property tax, library fees might be more equitable to low-income residents since they have the choice whether to pay them. User fees and charges may also have the virtue of equity for lower income people to enjoy public recreational facilities.

A random-dial telephone survey of residents of the Pacific Northwest states of Oregon and Washington was conducted in 2001 to gauge perceptions of respondents at

different income levels about fees. –Surprisingly, lower income respondents were more likely than those with higher incomes to favor users fees instead of taxes for operating and maintaining public recreation areas” (Burns & Graefe, 2006, p.18). Both examples indicate that user fees and charges are more equitable to low-income citizens compared with property tax and they have little effect on their consumption of specific public good or service.

#### **4. Administration**

##### **4.1 Revenue Sources**

For more than 20 years, supporters of user fees have touted the benefits of user charges as a revenue source. For example, Demeritt (1985) and Cline (1987) point to constrained budgets that may make user fees and charges an important alternative source of revenue for fiscally constrained local government officials. The revenue from fees may make it possible to expand existing services or providing new ones, which would be more difficult than raising the tax rates. User fees and charges may also be used as a tool to increase revenues when state-imposed tax limitations have restricted the growth of local property taxes. In response to the unpopularity of higher property taxes, user fees and charges have helped governments diversify their sources of revenue, thereby decreasing the volatility of revenues and better preparing local governments for economic recessions. In this instance, user fees and charges are the more expedient options for local governments to enhance revenue collection, which provide a route to alternative revenue generation by shifting all or most of the cost of delivering a service to the end user. In 1962, user fees were just over 15 percent of local governments’ own-source revenue; in fiscal year 2008, that number had risen to more than a quarter of the local government revenue pie. (State and Local Government Finance Data. U.S. Census Bureau) According to the data from the Data

Services Division of Texas Comptroller of Public Accounts, the majority of Texas cities' debt, which amounts to 57 percent, is backed by project revenue such as user fees from public utility services, airports or recreational facilities.

#### 4.2 Implementation

Since user fees and charges are important alternative financial tools for additional revenue, how to implement them properly has become an equally important issue for local government officials.

People may object to some user fees charged for traditionally free or nominally priced goods or services in the public sector (Manning, 2011, p.23). There may be ways, however, to avoid such objections by returning revenues directly to the collecting agency for facility and service development (McCurdy and Miller 1968). For example, the payment for the outdoor recreation service goes directly to park and recreation division for the purpose of purchasing more recreation facilities or designing more fitness programs.

Also, the implementation of user fees and charges may lead to discrimination against low-income people. It is noted that many resource-based recreation facilities, often because their locations require extensive travel costs, have disproportionately low user representation from low-income people (Vaux 1975; Lucas 1980). All taxpayers are required to contribute to the development and upkeep of such facilities while only the middle or higher-income groups make heavy use of them (Ellerbrock 1982). In this case, policymakers should think twice before implementing any user fee policy to avoid discrimination against low-income people.

The conceptual framework presented in this chapter is summarized and connected to supporting literature summarized in Table 2.1 (See Table 2.1).

**Table 2.1: Conceptual Framework Table**

**Conceptual Framework Linked to the Supporting Literature**

<b>Descriptive Categories</b>	<b>Supporting Literature</b>
<b>1. Types of fee</b>	
1.1 Fees for services/products	Shields (1984) Shields (1992), De Merritt and Byron (1985) Mushkin ( 1972) Downing (1981) Silverman (1994)
1.2 Fines/Penalties	Mushkin ( 1972) Lawrence (2012)
1.3 Regulatory Fees (Licenses and permits)	Mushkin ( 1972) Downing (1981) Lemov (2009) Silverman (1994) Shome (1995) Silverman (1994) Mushkin ( 1972) Hager (2011)
<b>2. Economic Efficiency</b>	
2.1 Demand	Shields (1989) Downing (1992) Duff (2004) Senge (1986) Straussman (1981) Shields (1984) Gell (1979) Castell & Tanchuco (2002)
2.2 Supply	Bird (2001) Johnson (1991) Zorn (1991) Deweese (2002)
2.3 Regulation	Shuford Gordon & Young, Richard (2000) Mushkin ( 1972) Bird (2001)
<b>3. Equity</b>	
3.1 Benefit principle	Baker (2010) Mikesell (2006) Mangum (1962)
3.2 Resident vs. Non-resident	Johnson (1992) Chapman (2011)
3.3 Income level	Brandis (1980) Bird and Tsiopoulos (1997)

<b>4. Administration</b>	
4.1 Revenue Sources	Baker (2010) Bartle and Kenneth and Boris (2011)
4.2 Implementation	Shields (1984) Shields (1992) Stankey and Baden (1977) Manning (2011)

### **Chapter Overview**

The literature review examined both definitions and practices of user-fee financing from the perspectives of economic efficiency, equity and administration. A number of examples are also provided to better illustrate the three themes concerning the role of user fees and charges in the FY 2012-13 budget documents of ten cities in Central Texas. The next chapter will present methodology used to gather information and data important to the role of fees in overview budget materials, library service divisions, police departments and park and recreation divisions' budget documents of these smaller cities in Central Texas for FY 2012-13. Again, this information is viewed from the perspective of economic efficiency, equity and administration.

## CHAPTER 3: RESEARCH METHODOLOGY

This research used content analysis to describe the role of user fees and charges in the FY 2012-13 budgets of ten cities in Central Texas. The coding categories used in the content analysis were developed from the conceptual framework based on the literature. Coding in content analysis transforms the raw data into a standardized form suitable for analysis (Babbie, 2010).

### **Operationalization of Conceptual Framework<sup>1</sup>**

Table 2.1 incorporates the elements identified in the literature. Three columns are used to describe the content of user fee structures, whether or not they exist in the budget and their degree of relevance in the budget and other comments as well. Under “category” column, there are four categories including types of fees, economic efficiency, equity and administration which consist of several detailed elements. Under “in the budget” column, either “yes” or “no” is assigned to confirm if a specific type of fee is identified in the budget or not. Three variables of “never,” “seldom,” and “significant” measures the degree of specific type of fee related to the budget in terms of economic efficiency, equity and administration focusing on parks, library and police divisions in city governments in Central Texas. The “comment” column is designed for additional comments.

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<sup>1</sup> For more information on operationalization and conceptual frameworks see Shields, 1998; Shields and Tajalli, 2006; Shields and Rangarajan, 2013.

**Table 3.1: Coding Document and Operationalization Table**

Category	In the budget			Comment
	Yes	No		
<b>Types of Fee</b>				
<b>Fees for services/Products</b>				
-Parks				
-library				
-Police				
<b>Fines/Penalties</b>				
-Parks				
-library				
-Police				
<b>Regulatory Fees (Licenses/ Permits)</b>				
-Parks				
-library				
-Police				
	<b>Never</b>	<b>Seldom</b>	<b>Significant</b>	
<b>Economic Efficiency</b>				
<b>Demand</b>				
-Parks				
-library				
-Police				
<b>Supply</b>				
-Parks				
-Library				
-Police				
<b>Regulation</b>				
-Parks				
-Library				

Category	In the budget			Comment
	Never	Seldom	Significant	
<b>Regulation</b>				
-Police				
<b>Equity</b>				
<b>Benefit Principle</b>				
-Parks				
-Library				
-Police				
<b>Resident vs. non resident</b>				
-Parks				
-Library				
-Police				
<b>Income Level</b>				
-Parks				
-Library				
-Police				
<b>Administration</b>				
<b>Revenue Sources</b>				
-Parks				
-Library				
-Police				
<b>Implementation</b>				
-Parks				
-Library				
-Police				

## **Research Technique**

This research project used content analysis to describe how user fee structures are treated in the FY 2012-13 budgets of ten cities in Central Texas. Babbie defines content analysis as “the study of recorded human communications, such as books, websites, paintings, and laws” (Babbie, 2010, p.333). For this research, content analysis was used to collate data concerning the role of user fees and charges in the FY 2012-13 budget year.

There are both pros and cons of using content analysis as a research method. Babbie notes four advantages. First, it saves both time and money. Second, it allows the correction of errors. Third, it permits the study of processes occurring over a long time. Fourth, the content analyst seldom has any effect on the subject being studied (Babbie, 2010, p.344).

Babbie also states a disadvantage of content analysis in that it is limited to the examination of recorded communications which must be oral, written, or graphic to permit analysis (Babbie, 2010, p.344). However, compared with other methods, the concrete nature of content analysis increases reliability (Babbie 2010, p. 344).

## **Population**

Fiscal Year 2012-13 budgets used in this research are from ten cities in Central Texas. Two factors were involved in choosing which city budgets to examine. First, the researcher believed that the budget documents would be available on the city’s websites. Second, these cities are located in Central Texas, each with a population ranging from 10,000 to 50,000 residents. The official websites of the researched cities were checked to find out if their FY 2012-13 budget was available from each city’s website. If a copy of the budget was not available from the official websites of researched cities, an email request would be sent to the finance department of the researched cities for a copy of the budget. Table 3.1 presents the ten cities in Central Texas that make up the population for this

research. These cities are covered by the Central Texas Council of Governments (Please refer to Appendix 1) and the data were aggregated by using the census 2010 population data of the Capital Area Council of Governments (CAPCOG) Region (<http://www.capcog.org/data-maps-and-reports/tabular-data/>).

**Table 3.2: List of 10 Cities in Central Texas by population ranging from 10 to 50 thousand**

<b>City in Central Texas</b>	<b>Census 2010 Population</b>	<b>FY2012-2013 Budget Website</b>
<b>Lakeway</b>	<b>11,391</b>	<a href="http://tx-lakeway2.civicplus.com/index.aspx?NID=501">http://tx-lakeway2.civicplus.com/index.aspx?NID=501</a>
<b>Lockhart</b>	<b>12,698</b>	<a href="http://www.lockhart-tx.org/web98/downloads/financebudget.asp">http://www.lockhart-tx.org/web98/downloads/financebudget.asp</a>
<b>Hutto</b>	<b>14,698</b>	<a href="http://www.huttotx.gov/index.aspx?nid=84">http://www.huttotx.gov/index.aspx?nid=84</a>
<b>Taylor</b>	<b>15,191</b>	<a href="http://www.ci.taylor.tx.us/index.aspx?NID=641">http://www.ci.taylor.tx.us/index.aspx?NID=641</a>
<b>Leander</b>	<b>26,521</b>	<a href="http://www.leandertx.org/page.php?page_id=137">http://www.leandertx.org/page.php?page_id=137</a>
<b>Kyle</b>	<b>28,016</b>	<a href="http://www.cityofkyle.com/finance/operating-budgets">http://www.cityofkyle.com/finance/operating-budgets</a>
<b>San Marcos</b>	<b>44,894</b>	<a href="http://www.ci.san-marcos.tx.us/index.aspx?page=139">http://www.ci.san-marcos.tx.us/index.aspx?page=139</a>
<b>Pflugerville</b>	<b>46,936</b>	<a href="http://www.pflugervilletx.gov/index.aspx?nid=282">http://www.pflugervilletx.gov/index.aspx?nid=282</a>
<b>Georgetown</b>	<b>47,400</b>	<a href="https://files.georgetown.org/annual-budget-2011-2012/">https://files.georgetown.org/annual-budget-2011-2012/</a>
<b>Cedar Park</b>	<b>48,937</b>	<a href="http://www.cedarparktexas.gov/index.aspx?page=166">http://www.cedarparktexas.gov/index.aspx?page=166</a>

#### Coding Scheme and Evaluation Criteria

The content analysis coding scheme and evaluation criteria are identified in Table 4.1 and Table 5.1. If either type of fees for parks, library or police service existed in these 10 cities' budgets, it was coded 1, otherwise it was coded 0. If there was any information related to economic efficiency, demand, supply, regulation, equity, benefit principle, resident vs. nonresident, income level, administration, revenue sources, implementation

identified in these 10 cities budgets for park, library and police service, three possible states were recorded: 1=Never, 2=Seldom, 3=Significant.

Statistical software, in this case SPSS, was used to run a frequency distribution for the findings in terms of types of fees, economic efficiency, equity and administration in the ten cities' budgets related to park and recreation, library and police services. Data and information were collected to identify whether these types of fees exist in the cities' budgets and to further analyze the level of significance of these fees in the budgets from the perspective of economic efficiency, equity and administration. Excel spreadsheets were developed to summarize the findings about the information from the budgets.

**Table 3.3: Coding sheet for types of fees**

City	Fee Service	Fee Fine	Fee Regulatory	Fee Parks	Fee Library	Fee Police	Fine Parks	Fine Library	Fine Police	Regulatory Parks	Regulatory Library	Regulatory Police
Lakeway	1	0	0	1	0	0	0	0	0	0	0	0
Lockhart	0	0	1	1	1	1	0	0	0	0	0	0
Hutto	1	1	1	1	1	0	0	0	0	0	0	0
Taylor	1	1	1	1	1	1	0	1	0	0	0	0
Leander	1	1	1	1	1	1	0	1	0	0	0	0
Kyle	1	1	1	0	1	0	0	0	1	0	0	0
San Marcos	1	1	1	1	1	1	0	0	0	0	0	0
Pflugerville	1	1	1	1	1	0	0	0	0	0	0	0
Georgetown	1	0	0	0	0	0	0	0	0	0	0	0
Cedar Park	1	1	1	1	0	0	0	0	0	0	0	0

**Coding key values: 1=Yes (it can be identified in these 10 cities' budgets), 0=No (it cannot be identified in these 10 cities' budgets)**

**Table 3.4: Data for information related to economic efficiency, demand, supply, regulation, equity, benefit principle, resident vs. nonresident, income level, administration, revenue sources, implementation (park, library and police service).**

City	Economic Efficiency Parks	Economic Efficiency Library	Economic Efficiency Police	Demand Parks	Demand Library	Demand Police	Supply Parks	Supply Library	Supply Police	Regulatory Park	Regulatory Library	Regulatory Police
Lakeway	1	1	1	1	1	1	1	1	1	1	1	1
Lockhart	1	1	1	1	1	1	1	1	1	1	1	1
Hutto	1	1	1	1	1	1	1	1	1	1	1	1
Taylor	1	1	1	1	1	1	1	1	1	1	1	1
Leander	1	1	1	1	1	1	1	1	1	1	1	1
Kyle	1	1	1	1	1	1	1	1	1	1	1	1
San Marcos	1	1	1	1	1	1	1	1	1	1	1	1
Pflugerville	1	1	1	3	3	3	1	1	1	1	1	1
Georgetown	1	1	1	3	1	3	1	1	1	1	1	1
Cedar Park	1	1	1	1	2	1	1	1	1	1	1	1

**Coding key values: 1=Never, 2=Seldom, 3=Significant**

City	Equity Parks	Equity Library	Equity Police	Benefit Principle Parks	Benefit Principle Library	Benefit Principle Police	Resident vs. Nonresident Parks	Resident vs. Nonresident Library	Resident vs. Nonresident Police	Income Level Park	Income Level Library	Income Level Police
Lakeway	1	1	1	1	1	1	1	1	1	1	1	1
Lockhart	1	1	1	1	1	1	1	1	1	1	1	1
Hutto	1	1	1	1	1	1	1	1	1	1	1	1
Taylor	1	1	1	1	1	1	1	2	1	1	1	1
Leander	1	1	1	1	1	1	1	1	1	1	1	1
Kyle	1	1	1	1	1	1	2	1	1	1	1	1
San Marcos	1	1	1	1	1	1	1	1	1	1	1	1
Pflugerville	1	1	1	1	1	1	1	1	1	1	1	1
Georgetown	1	1	1	1	1	1	2	1	1	1	1	1
Cedar Park	1	1	1	1	1	1	1	1	1	1	1	1

**Coding key values: 1=Never, 2=Seldom, 3=Significant**

City	ADMIN Parks	ADMIN Library	ADMIN Police	Revenue Sources Parks	Revenue Sources Library	Revenue Sources Police	Resident vs. Nonresident Parks	Implementation Park	Implementation Library	Implementation Police
Lakeway	1	1	1	1	1	1	1	1	1	1
Lockhart	1	1	1	1	1	1	1	1	1	1
Hutto	1	1	1	1	1	1	1	1	1	1
Taylor	1	1	1	1	1	1	1	1	1	1
Leander	1	1	1	1	1	1	1	1	1	1
Kyle	1	1	1	1	1	1	1	1	1	1
San Marcos	1	1	1	1	1	1	1	1	1	1
Pflugervi lle	1	1	1	3	1	1	1	1	1	1
Georget own	1	1	1	1	1	1	1	1	1	1
Cedar Park	1	1	1	1	1	1	1	1	1	1

**Coding key values: 1=Never, 2=Seldom, 3=Significant**

This chapter has presented the methodology of this research. Content analysis was augmented by information and data identified in FY 2012-13 budget documents of ten small Central Texas municipalities. The next chapter presents the findings of the research, describing the patterns of how user fee structures are treated in the budget documents of these cities.

## CHAPTER 4: FINDINGS

The purpose of this chapter is to organize the findings of the fee analysis of the FY 2012-13 budget documents of ten cities in Central Texas (population range: 10,000 to 50,000). Drawing from the conceptual framework, the budget document data and information pertaining to the role of user fees and charges are organized to four tables with detailed explanation for each table. They are (1) Table 4.1—Types of fees found in Central Texas Budgets, (2) Table 4.2—Economic efficiency information related to user fees and charges found in Central Texas Budgets, (3) Table 4.3—Equity information related to user fees and charges found in Central Texas Budgets and (4) Table 4.4-Administration or practical information related to user fees and charges found in Central Texas Budgets.

The data and information presented in the following tables reveal the findings from the manifest content coding procedure. Ten websites were examined.

### **Types of fees**

Table 4.1 provides an overarching picture of how fees are covered in overview budget materials. Overall, the cities studied presented general information on fees for services, fines and regulatory fees in their budget. The type of fee most commonly found dealt with services rendered (with 9 of 10 cities reporting). Hutto was the only city without any fee discussion. The information on fees was usually presented as percentages of fees along with other sources of revenue identified in their FY 2012-13 budget. The data revealed that nine of the ten cities mentioned fees for services in their general material. This was true for seven library budgets and eight park budgets.

**Table 4.1 Types of Fees Found in Central Texas Budgets**

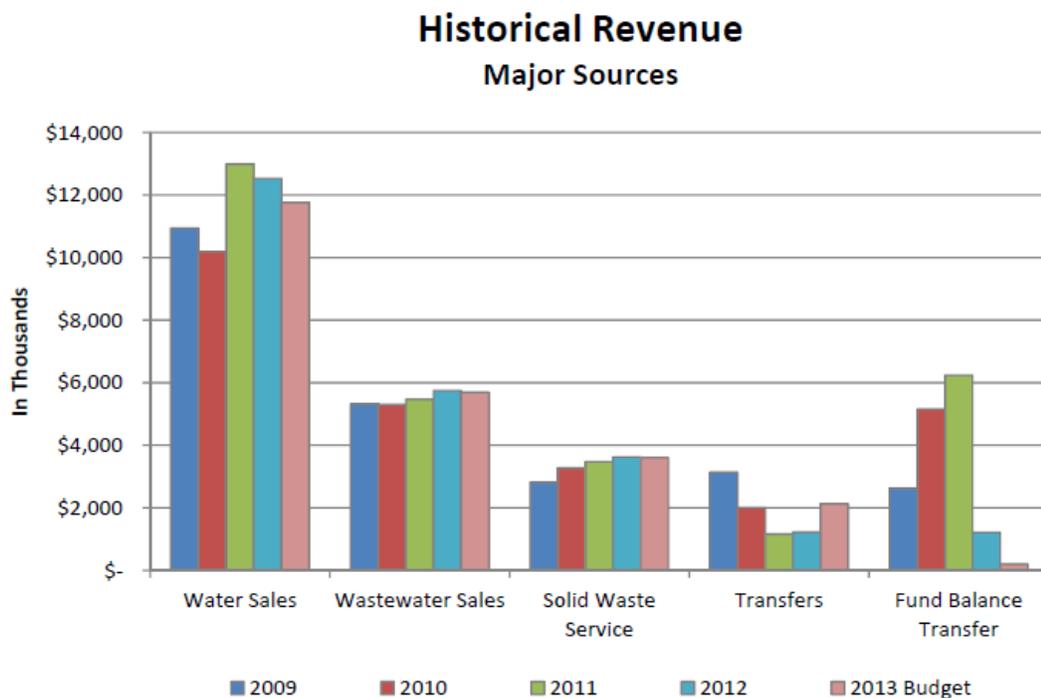
Item N=10	General (Early budget materials)	Park	Library	Police
Service	9	8	7	4
Fines	7	0	2	1
Regulatory fees	8	0	0	0

Neither parks and recreation, nor library and police divisions reported the use of fees for regulatory purposes. There were also very few reporting information on fines (only two for libraries and one for police). Individual division budgets did report on information on fees for service. Eight of the 10 cities' park and recreation departments reported information on fees for services. Seven cities reported information for libraries and four for police.

Overall, Taylor ranks on top in its reliance on fee for services as a revenue source. It accounts for 20.4% of their total revenue for the general fund and is the second largest revenue category. Georgetown ranks the second place and its fee for service accounts for 9.51% of budgeted revenues. Cedar Park is next with fees for service accounting for 7.1% of their FY2012-13 budget. The cities' depiction of fees in the budget is usually through the use of colorful bar graphs and pie charts. Figures 4.1, 4.2 and 4.3 present examples from Pflugerville, Cedar Park and Leander. Fines are a major revenue source for Pflugerville, which account for 4.8% of their General Fund and it has slightly increased over the past several years (Please see the bar graph 1.1 below). Cedar Park breaks down the fees for services and products into protection fees, park and recreation fees, library fines and animal control fines and among which park and recreation fees account for 42.9%. This was the second largest fee of their service fee category (See Figure 2.1 for more details). Leander breaks down the fees for services and products into franchise fees, special fees and

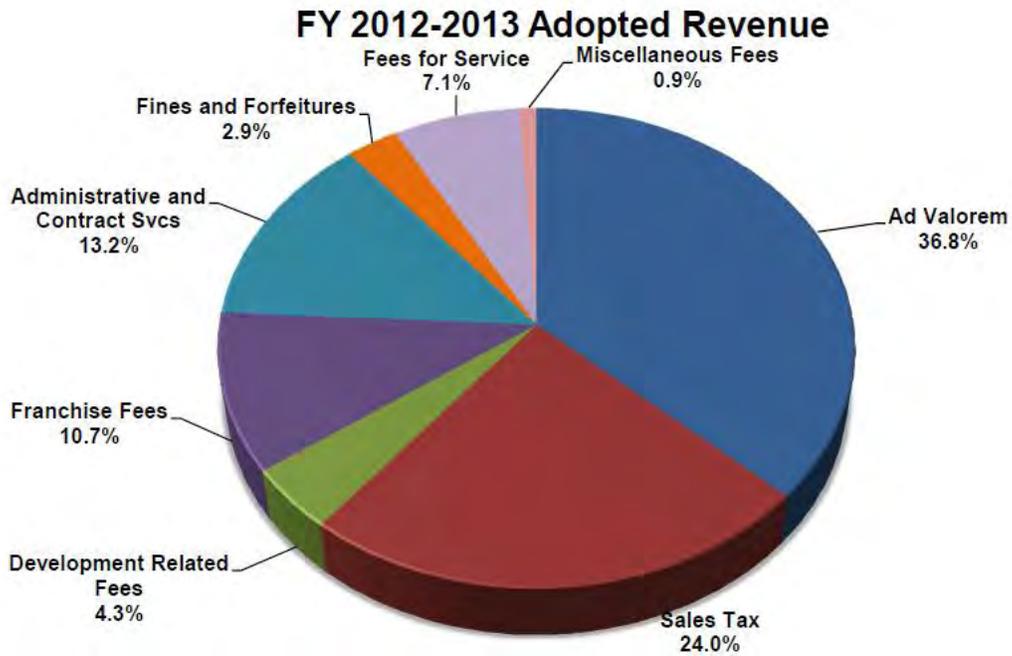
recreation fees (See Chart 2.1 for more details). Franchise fees are derived from major public utilities operating within the city which total \$1,217,500 of Leander’s FY 2012-13 budget. Special fees of their budget mainly include book/ merchandise sales, library contributions, fines & fees of the library, fee for library cards and copier/printer fees/interlibrary loans which total \$31,250 of the budget. Recreation fees of their FY 2012-13 budget primarily include concession parks & rec, movies in the park revenue and park facility use fees, which total \$85,300 of the budget.

**Figure 4.1 Pflugerville’s FY2012-13 Source of Revenue**



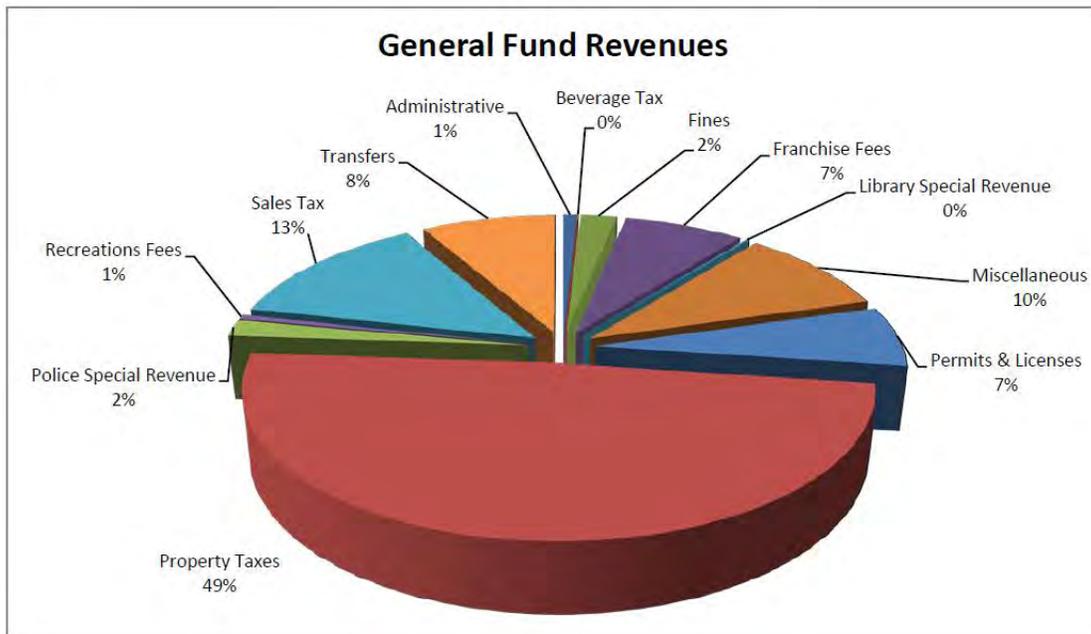
**Source: City of Pflugerville FY2012-2013 Budget**

**Figure 4.2 Cedar Park’s FY2012-13 Adopted Revenue**



**Source: City of Cedar Park FY2012-2013 Budget**

**Figure 4.3 Leander’s General Fund Revenues**



**Source: City of Leander FY2012-2013 Budget**

## **Economic Efficiency**

The discussion in the literature review revealed that some economists, including Bird (1997), for example, referred to user fees as public prices and promoted the use of fees among local governments for efficiency reasons. “Charges achieve this goal both by providing information to public sector suppliers about how much clients are actually willing to pay for particular services and ensuring that citizens value what the public supplier at least at (marginal) cost (Bird, 1997, p.28).” Table 4.2 reveals the findings for the content analysis of the budget that focused on efficiency or economic aspects of fees.

None of the budgets for parks, library and police divisions mentioned the use of fees as a way to achieve greater economic efficiency. Two out of ten cities’ budgets placed emphasis on the demand for park services. These two cities are Pflugerville and Georgetown respectively. According to the FY 2012-13 budget of Pflugerville, the demand for park and recreation programs is increasing in terms of population size. The FY 2012 actual population is 48,354 compared with 47,640 in FY 2011. According to the FY 2012-13 budget of Georgetown, demand for parks is expected to increase as shown in the City Five-year Business Plan Highlights that the city will continue implementation of Parks, Recreation and Trails Master Plan and expanding recreation opportunities throughout Georgetown. Out of these ten cities, Pflugerville is the only city to reveal a small amount of information about demand for library service in their FY 2012-13 budget. The budget indicated that the demand for their library service is decreasing slightly in terms of numbers of card holders. FY 2012 actual card holders are 25,841 compared with 25,854 in FY 2011.

Out of these ten cities, Cedar Park is the only one focused on increasing demand for their library service. According to their FY 2012-13 budget, a Lead Library Generalist and computer replacement funding was added to the library’s budget to reflect the increased

demand for library services. Two out of ten cities' budgets placed emphasis on the demand for police services. These two cities are Pflugerville and Georgetown respectively.

According to the FY 2012-13 budget of Pflugerville, the demand for their police services is increasing in terms of population size. For FY 2012 actual population is 48,354 compared with 47,640 in FY 2011. According to the FY 2012-13 budget of Georgetown, demand for police service is expected to increase as shown in City Five-year Business Plan Highlights.

The information shows the city will add sworn officers and technical support to maintain police service levels as city grows.

**Table 4.2 Economic Efficiency information found in Central Texas Budgets**

Item N=10	Parks			Library			Police		
	Never	Seldom	Significant	Never	Seldom	Significant	Never	Seldom	Significant
Economic Efficiency	10	0	0	10	0	0	10	0	0
Demand	8	0	2	8	1	1	8	0	2
Supply	10	0	0	10	0	0	10	0	0
Regulation	10	0	0	10	0	0	10	0	0

### **Equity**

In the literature review, Stiglitz (2000), Duff (2004) and Mikesell (2006) pointed out that User fees are an equitable method for raising revenue because the users who pay for the service or product will benefit the most from the service or product (Stiglitz, 2000; Duff, 2004; Mikesell, 2006). Uniform user fees can achieve the test of horizontal equity to reduce inequalities between residents and non-residents (Shields, 1989, p.70). User charges do this by eliminating the general tax subsidy provided by residents to nonresidents for public

goods and services (Demerritt, 1985). In addition, Shields (1989) argues that a user fee is fair as it charges the user of the service and solves the problem of cross-subsidization that can have lower income groups subsidizing upper income services, such as golf courses, for example (Shields, 1992, p. 22.14). Table 4.3 reveals the findings for the content analysis of the budget that emphasized on equity aspects of fees.

Though none of the budgets for parks, library and police divisions mentioned the use of fees as a way to promote equity, the principle of benefit and income level, under Revenue Management section of Georgetown's FY 2012-13 budget, the City mentions that it will make every effort to recognize the benefit that city taxpayers contribute to city programs and services. Out of these ten cities' budgets, only two cities' budgets for parks and recreation division revealed only a small amount of information about whether there was any difference between the fee rates for residents and nonresidents within their city limits. These two cities are Kyle and Georgetown respectively. According to the FY 2012-13 budget of Kyle, it describes the same fee rate charged for both resident and nonresident for private swimming pool rental or taking swim lessons. According to the FY 2012-13 budget of Georgetown, the annual parks and recreation residential membership rates are established at 75 percent of non-residential rates plus or minus 10 percent at the discretion of the parks and recreation director in keeping with the targeted market cost recovery. Out of these ten cities' budgets, only Taylor's budget for library mentioned briefly some information about whether there was any difference between the fee rates for residents and nonresidents within their city limits (Please see the listing 1.1 below for more details).

**Table 4.3 Equity information found in Central Texas Budgets**

Types of Equity N=10	Parks			Library			Police		
	Never	Seldom	Significant	Never	Seldom	Significant	Never	Seldom	Significant
Equity	10	0	0	10	0	0	10	0	0
Benefit Principle	10	0	0	10	0	0	10	0	0
Resident vs. Nonresident	8	2	0	9	1	0	10	0	0
Income Level	10	0	0	10	0	0	10	0	0

**Table 4.4 Fee charged for library service of Taylor**

**LIBRARY SERVICES**

**Library Meeting Room**

Should there be damages or cleaning needed, the deposit will NOT be refunded. In addition to the deposit, charges to defray clearing or repairs or loss of equipment will be charged to the responsible group.

Refundable Deposit	\$ 200.00
Individuals/Non Profit	\$ 50.00 first two hours
Individuals/Non Profit - Additional Hours	\$ 25.00 each additional hour
Business/Commercial	\$ 100.00 first two hours
Business/Commercial - Additional Hours	\$ 50.00 each additional hour
Meeting Room Kitchen	\$ 25.00 per meeting

**Library Fees**

Library card - Non-resident Individual	\$ 10.00 per year
Library card - Non-resident Family	\$ 25.00 per year
Library card - Resident	no charge
Library card - replacement (1st replacement)	\$ 1.00
Library card - subsequent replacement cards	\$ 5.00
Copies - Black & White	\$ 0.10 per impression
Overdue book	\$ 0.10 per day, \$5 maximum
Lost or damaged book	Cost to replace/repair
Processing fee for lost or damaged book(s)	\$ 5.00 per book, non-refundable

**Source: City of Taylor FY2012-2013 Budget**

## **Administration**

In the literature review, both Demeritt (1985) and Cline (1987) agree that the shrinking budget may make users fees and charges an important alternative source of revenue for city governments. Therefore, how to implement them properly to raise more revenue for local government has become an important issue for policymakers. Table 4.4 reveals the findings for the content analysis of the budget that focused on administration aspects of fees.

None of the budgets for parks, library and police divisions mentioned the use of fees as a way to improve administration or implementation. Out of the ten cities' FY 2012-13 budgets, only Pflugerville's budget mentioned that fees generated from their park programs was an important source of revenue. According to Pflugerville's FY 2012-13 budget document, 22.1 percent of the city's budget was recovered through their park programs and fees. Out of ten cities' FY 2012-13 budgets, only Taylor's budget mentioned a small amount of information about their use of fees generated from their park, library and police services as a source of revenue. According to Taylor's FY 2012-13 budget document, \$56,850 in revenue has been generated at the Taylor Regional Park this year. This amount is a more than 60 percent increase compared with the same period of last year. Under the section of Charges for Services of their budget document, revenue for library services totaled \$9,000 and revenue for library meeting room rent totaled \$1,500 respectively of the budget. Revenue for police services is \$30,000 of the budget. Revenue for fines slightly decreases by 3.17 percent when compared with the previous year while revenue for permits slightly decreases by 1.2 percent from the previous year.

**Table 4.5 Administration information found in Central Texas Budgets**

Item N=10	Parks			Library			Police		
	Never	Seldom	Significant	Never	Seldom	Significant	Never	Seldom	Significant
Administration	10	0	0	10	0	0	10	0	0
Revenue Sources	9	1	1	9	1	0	9	1	0
Implementation	10	0	0	10	0	0	10	0	0

The research found that the trend for using user fees and charges as alternative financial tools to raise revenue and reduce expenditure is not evident in these ten cities. This is based on the analysis of the four tables consisting of data and information from the FY 2012-13 budget documents of ten cities in Central Texas pertaining to the role of user fees and charges from the perspective of different types of fees, economic efficiency, equity and administration.

Local government budgets are a tool for policymakers to forecast revenues and expenditures of their jurisdictions. The budgets also serve as a vehicle for them to make decisions and as a means for them to monitor operations (Hyde, 2002). The findings will provide information for the municipal policy maker to reconsider the potential of using user fees and charges as financial tools during hard financial times to generate revenue and reduce expenditures. Based on users' preference, policymakers in city governments will better determine the demand for government services and products. Additionally, they will be more able to properly set up pricing for user fees and charges and estimate the cost before adding new services to increase economic efficiency and prevent the free rider

problem. By using these tools they will enhance equity so that who pays for the service will benefit the most from it.

## CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

This final chapter provides an overview of key findings in the research and literature review related to the role of user fees and charges based on the three themes. These themes are economic efficiency, equity and administration identified in library service divisions, police departments and park and recreation divisions in the FY2012-13 budget documents of the studied cities in Central Texas. The findings are based on an analysis of the FY 2012-13 budget documents of the cities and a review of the literature. This chapter will also discuss recommendations to expand the importance of local user fees and the direction of possible future research.

### **Summary of Research**

This research has examined the role of user fees and charges in FY 2012-13 budget documents of ten Central Texas cities with populations ranging from 10,000 to 50,000.

From the perception of economic efficiency, equity and administration, this study focused specifically on the park and recreation divisions, libraries and police departments of these ten cities and found that user-charge financing diversified the local revenue structures and contributed to the horizontal equity in local budgets. However, the findings indicated that user fees and charges only account for a small proportion of these cities' revenue.

Obviously, the applicability of user fees is limited by the nature and characteristics of public sector activities (Cline, 1987, p. 55). User fees are not appropriate in cases where income redistribution is an integral component of a public provided good or service or where substantial community wide benefits are associated with an individual's consumption of the good or service (Cline, 1987, p. 55). The potential of raising the awareness of flexibly using user fees and charges as financial tools to generate revenue and reduce expenditures will be determined by local government policymakers. –One promising area for further innovation

is a more creative combination of general taxation and user charges to finance specific services (Cline, 1987, P55).”

### Summary of Findings

This section presents tables summarizing the findings of all the descriptive categories. The tables are organized by general category of types of fees, economic efficiency, equity and administration as shown from Table 5.1 through Table 5.4.

**Table 5.1 Summary of types of fees found in Central Texas Budgets N=10**

Types of Fees	N	%	Comment
Fees for Services/Products	9	90%	9 out of 10 cities report the type of fees for services they provide.
Fine/Penalties	7	70%	Out of 10 cities, only 3 cities Hutto, Taylor and Leander report some information related to fine. For Hutto, fines account for 3% of their budget. For Taylor, revenue for fines slightly decreases compared with 3.17% of previous year. For Leander, fines include child safety fees, city percentage-state costs, juvenile case manager fee, municipal court receipts-fines, notary fees, special court fees, state arrest fees which account for 2% of the budget.
Regulatory Fees (Licenses/ Permits)	8	80%	8 out of 10 cities report information related to regulator fees. Except for Leander, regulatory for other 7 cities mainly refer to licenses and building permits. For Leader, the regulatory fees include both fees for building permits and liquor permits.
Fee for park and recreation service	8	80%	8 out of 10 cities report fees related to park and recreation service. Except for Lakeway, the other 7 cities’ revenue for parks and recreation is increased. For Lakeway, its revenue for parks & recreation is in the red. For Pflugerville, 22.1% budget is recovered through their park programs and fees.
Fee for library	7	70%	7 out of 10 cities report fees related to library. Out of 7 cities, only Kyle’s library General Revenue is in the red.
Fee for police service	4	40%	4 out of 10 cities report fees for police service. This type of fees mainly includes fines, law enforcement security service fees and various fees assessed through the Police Dept. such as accident report.
Fine (Parks)	0	0	None of these cities have fines for park and recreation service.
Fine (Library)	2	20%	Only Taylor and Leander’s budget mentioned fines for library service.
Fine (Police)	1	10%	Only Kyle mentioned that its fines and forfeitures account for 17.53% of General Fund.
Regulatory Fees (Parks)	0	0	None of the budget mentioned regulatory fees for park and recreation service
Regulatory Fees (Library)	0	0	None of the budget mentioned regulatory fees for library service.
Regulatory Fees (Police)	0	0	None of the budget mentioned regulatory fees for police service.

Table 5.2 summarizes the economic efficiency information related to fees identified in the ten cities' budget documents. As it is shown, none of the budgets mentioned any information important to economic efficiency, supply and regulation related to fees. Out of ten cities, only Pflugerville and Georgetown mentioned that the demand for their park and recreation program is increasing in terms of population size. Out of the ten, only Pflugerville and Cedar Park revealed information related to demand for library services, but even in their cases, the amount of information was limited. Out of the ten cities, only Pflugerville and Georgetown mentioned that the demand for police service is increasing from population growth.

**Table 5.2 Summary of economic efficiency information found in Central Texas**

**Budgets: Mode responses**

Item N=10	Parks	Library	Police
Economic Efficiency	never	never	never
Demand	never*	never*	never*
Supply	never	never	never
Regulation	never	never	never

**\* A few cities mentioned demand criteria**

Table 5.3 summarizes the equity information related to fees identified in ten cities' budget documents. As it is shown, none of the ten cities' budgets mentioned any information important to equity, benefit principle or income level related to fees. Only Kyle and Georgetown mentioned if they charge different fee rates for residents and nonresidents in terms of their recreation service. Out of these cities, only Taylor mentioned briefly information about whether there was any difference between the fee rates for residents and nonresidents in terms of their library service.

**Table 5.3 Summary of equity information found in Central Texas Budgets**

**Mode responses**

Item N=10	Parks	Library	Police
Equity	never	never	never
Benefit Principle	never	never	never
Resident vs. Nonresident	never*	never*	never
Income Level	never	never	never

**\* A few cities mentioned resident vs. nonresident criteria**

Table 5.4 summarizes the administration information related to fees identified in the cities' budget documents. As it is shown, none of the ten budgets mentioned any information important to administration and implementation related to fees. Out of the ten cities, only Lockhart revealed a small amount of information related to revenue generated from their library, park and recreation and police services.

**Table 5.4 Summary of Administration information found in Central Texas Budgets**

**Mode responses**

Item N=10	Parks	Library	Police
Administration	never	never	never
Revenue Sources	never*	never*	never*
Implementation	never	never	never

**\* Only one city mentioned revenue source criteria**

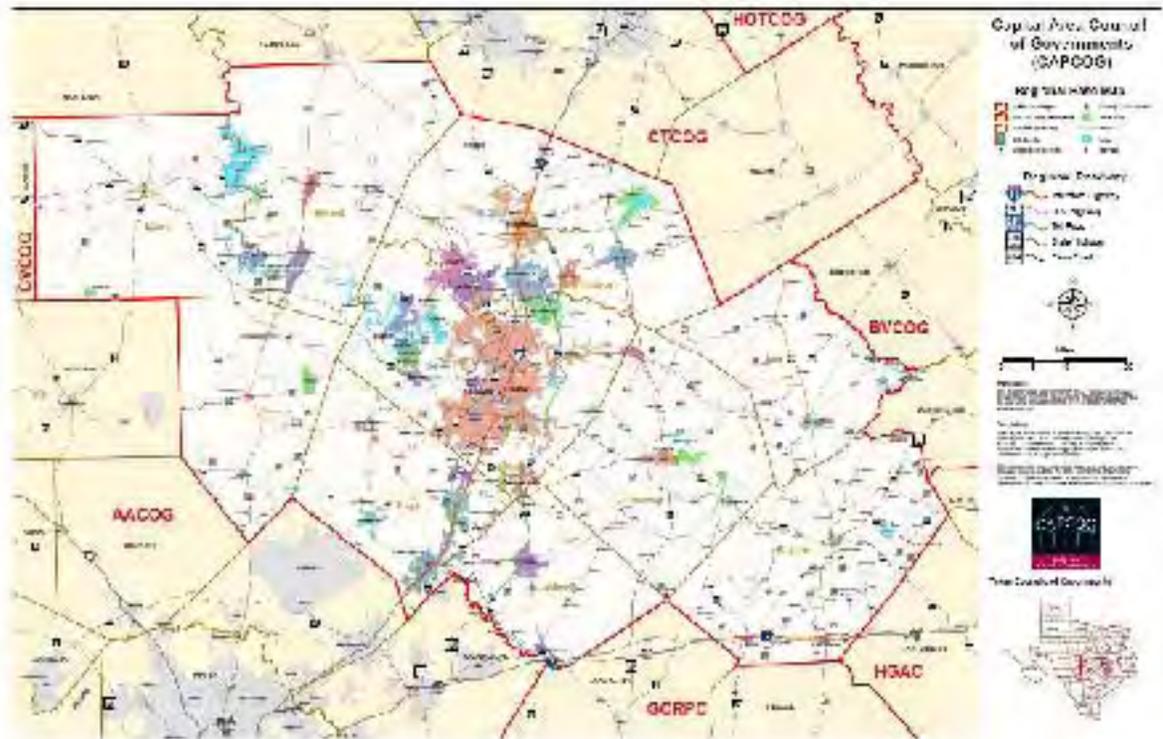
**Future Research**

This research was limited to only ten cities in Central Texas. Therefore, further research of budget documents from a larger population of cities in Texas or even on a national basis would provide different perspectives and results. In addition, the limited time span only allowed for the identification of basic findings of the research. Given additional

time, the future research involving more cities in Texas or other States would provide a better understanding of the role of user fees and charges in the budget documents.

APPENDIX

Appendix 1 – Map of Capital Area Council of Governments



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