THE ROLE OF USER FEES

IN ONTARIO MUNICIPALITIES

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By

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ABSTRACT

An examination of the fiscal structure of municipal governments, particularly in the Province of Ontario, reveals a pattern of development contrary to the perceived norm. The role of senior governmental transfers in reducing the dominance of property taxation as a total municipal revenue source has long been recognized. However, the belief exists, even among governmental officials, that property taxation remains the predominant source of total municipal own source revenue.

Analysis of municipal revenue sources shows that property taxation, even as a municipal own source revenue, has declined significantly. This decline is partially a result of increases in municipal own source revenues derived from user fees. This development has been largely unrecognized in the Province of Ontario, partly as a response to a previous study that was based on a questionable interpretation of municipal government in the structure of local government.

This study has examined user fees based on their theoretical development and their current and future importance. Particular attention is centered on a selected group of Ontario municipalities and on sewerage and certain recreational services in these municipalities. It is shown,

that while the utilization of user fees has become fairly extensive, this has often occurred inconsistently among, and even within, municipalities.

In Ontario, user fees represent an opportunity for municipalities to attain real local autonomy in addressing particular issues of their communities. User fees have become a vital source of revenue to Ontario municipalities. However, while user fees are generally applied in keeping with the principles of average cost pricing, there remain issues, regarding the types of costs targeted for recovery, which need to be addressed.

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PREFACE

This thesis deals with the role of user fees in Ontario Municipalities. Before proceeding, two important points should be recognized by the reader. First, local governments are comprised of school boards, municipal governments and a variety of other special bodies. This paper is concerned only with the operations of municipal governments. Second, user fees are not an area of municipal finance for which extensive public information is available. While a large number of municipalities were very helpful in providing basic financial data, a great deal of the information provided on a more specific basis was done so confidentially. Consequently, it has not been possible to supply case specific information for a number of points made in this paper.

CHAPTER 1

A Review of Issues in Urban Finance and The Place of User Fees

Nearly two decades ago, a wide ranging debate surfaced throughout Canada regarding the nature of changes occurring in the fiscal structure of Municipal Governments. The primary focus of the debate was that a crisis of fiscal imbalance was emerging in municipal finance, which threatened to alter the historical foundations of local autonomy and local fiscal responsibility.[1] In 1985 essentially the same basic issues, which had been the topic of concern fifteen years ago although altered slightly by time and events, continue to be significant in the study of municipal finance. Some recent attempts to comprehend the vast array of issues related to urban finance, demonstrate that there are a number of issues warranting further investigation.[2]

Municipal finance in the Twentieth Century has been marked by a steady erosion in the ability of municipalities to meet their service expenditures out of the revenues which they themselves control. In the past, revenue deficiencies were accounted for through a variety of grant programs, largely provided directly by provincial governments. However, the financial realities of the 1980's have caused senior level governments to seriously begin evaluating the

extent of their financial involvement at the municipal level. It is no longer realistic to expect that either the provincial or federal government will retain the fiscal capacity or will reprioritize their spending patterns to direct additional revenues to the municipal sector. Municipalities need to recognize that funding practices are changing. Consequently, municipalities must revaluate both their spending and revenue patterns to take account of these changes and develop alternative strategies.

It is the purpose of this work not to act primarily as another review of issues in urban finance, but rather to work toward a clearer understanding of the intricacies of a specific issue relating to municipal finance in the Province of Ontario - Municipal User Fees.

To place in the proper perspective the increasing importance which has been attached to user fee programs, it is necessary that a limited discussion of the foundations of fiscal imbalance take place. A century ago the public perception of those activities that government should become involved in was greatly different than is the case today. The beliefs of laissez-faire capitalism, although the subject of increasing criticism, maintained predominance such that the majority of society believed that government, at any level, should have a limited role in the economy. Consequently municipal governments, especially in comparison to the present service spectrum, provided a very limited

range of services. The services provided were primarily for the purpose of either servicing or protecting property. Furthermore, the limited number of "social services" which were provided, such as recreation, were justified on the basis that the benefits they generated were viewed as having a significant influence on property values.

Besides the theoretical confines of accepted governmental influence, the restricted municipal service network was a result of the fact that the primary source of funding for municipal operations was derived from property taxation. This method of revenue generation was deemed acceptable for a number of reasons. The primary reason was that the services provided by municipal governments were viewed as primarily benefiting the local area, and as already indicated, the services raised the value of property. Consequently some form of property tax, not only was viewed as being equitable, but due to the local characteristics of the services provided, it was an important component in insuring local autonomy and fiscal responsibility. Since a relatively low rate of property tax was able to generate sufficient revenues to cover municipal requirements and due to the fact that the property owner was not subject to the demands of other direct and indirect taxation programs, the property tax was not viewed as an excessive burden.[3]

The social and economic changes in the first part of

the twentieth century dramatically altered the environment of municipal affairs. As Goldenberg pointed out, "while the broad categories of municipal functions had been established for a long time, the degree of activity within each function expanded rapidly".[4] In the traditional "hard" service areas infrastructural demands grew rapidly for a number of reasons, one of which was the need for an expanded and improved transportation network to meet the requirements of the automobile.

Furthermore, social perceptions as to the appropriate role government should occupy in society were altered and expanded as a consequence of the two World Wars and the Great Depression. The result was that the primary responsibility for social welfare was transferred from both the private and non-profit sectors to the public sector where it expanded rapidly. These changes meant that the extent, content and complexity of the municipal service agenda was dramatically increased.

One of the most noticeable implications of the expanding municipal agenda was that the costs of municipal governments began to increase rapidly. This situation became a problem not so much because of the nature and extent of jurisdictional enlargement, but rather because the expenditures associated with the changes rapidly began to surpass the revenues which were being raised through the property tax. While the solution to this problem would seem

to be increasing the level of revenue raised through property taxation, there were a number of political and economic considerations, which made such action difficult to implement. Although it is inappropriate to enter into a full discussion of the "property tax debate", it is useful to identify some of the arguments used against increasing property tax rates.

One argument against increased use of the property tax, is that a large number of citizens see the property tax in the form in which it existed as failing to satisfy the criterion of progressiveness. This is important since it was the concept of progressive taxation which was being utilized in the development of other taxation systems in the country.[5] The justification for this view is derived from the fact that a resident's property tax was not, and continues not to be, a calculation based on his/her ability to pay out of current income, but rather was based on the value of real property owned.[6] Since the correlation between property and yearly income is widely divergent among income categories, many citizens viewed property taxation as a regressive tax.[7] Although the actual empirical validity of that conclusion continues to be the subject of extensive debate, the perception of regressivity was so generally accepted by the taxpaying public, that attempting to increase real revenue levels through the property tax was perceived as worsening an

already unpopular situation.

Another point is that increased municipal services, funded primarily through the property tax were eroding the benefit principle. The benefit principle is the underlying basis of private market transactions, since the individual expects to receive benefits equal to his expenditure. Translated to the political spectrum, many citizens expected the same theoretical model to apply.[8] However, public finance literature while acknowledging the merits of the benefit principle, does not recognize it as a complete model in light of the redistributive policies adopted by government. Theoretically, it is acceptable to circumvent the operation of the benefit principle in the management of the welfare state for the purpose of redistribution. However, it must be realized that such a policy is only correct if the taxation system which finances the instruments of redistribution does so through a progressive taxation system. The problem concerning municipal finance in this area is two fold. The first issue is that the principal taxation option available to municipal governments (the property tax), is not a function of ability to pay. The second issue concerns the fact that municipal governments were not intended to be, nor were they provided with the proper instruments for implementation of redistributive programs. Municipalities were created for the purpose of providing basic public services and as Bird points out there

is an important separation between the municipal provision function and the redistributive function.[9] Since the primary object of municipal government is the efficient provision of public services, the best means of accomplishing this is through the application of the benefit principle. As Bird also points out, it is only in this manner:

> that the appropriate level and structure of governmental activity can, at least in theory, be determined simultaneously with the means of financing it. Far from being an outdated notion applicable at most to such minor activities as the issuance of permits and licenses, the benefit principle in a sense thus stands at the core of modern fiscal economics as the essential link between taxation and expenditure.[10]

It is quickly acknowledged that there exists a number of serious restrictions blocking the application of the benefit principle across the whole municipal spectrum. However, this is not a valid justification for abandoning the principle. Quite to the contrary, it means that the principle is modified in practice to suit political realities. Only by utilizing the basic concepts of the benefit principle as the basis of policy development can municipalities hope to insure long term fiscal stability. Consequently, the utilization of the property tax in its present form as a sole means of financing social welfare programs is met by public displeasure.

It is important to recognize that the inability of property tax revenues to fully meet municipal requirements did not suddenly occur. In fact the percentage of municipal

revenue requirements which were being met via property tax had been declining steadily since the 1920's. Although historical data sources are marked by a number of incongruencies thereby making totally accurate comparisons difficult, it is possible see the declining importance of property tax revenue. From the data that has been compiled in Table 1-1 it can be seen that in 1926 seventy nine percent of municipal revenues were derived from real property taxation. However, less than forty percent of municipal revenues came from property taxes.

The demands placed on municipal authorities have been rapidly increasing. This was accelerated in the post war era. Massive infrastructure projects were necessary because of depression and wartime omissions and restrictions, and the tremendous urbanization and decentralization trends that were predominate in Southern Ontario. Since municipalities did not appear to retain sufficient own source revenue capacity to meet these some new source of revenue was necessary. In Ontario, increased provincial grants were used to make up the shortfall.

There are two basic categories of grant programs available to municipal governments in Ontario: unconditional grants and conditional grants. Unconditional grants are the least utilized yet from the municipal view point are the most desirable. This is due to the fact that the unconditional grant is a transfer of funds to a municipality and although

TABLE 1 - 1

Proportion of Municipal Revenue accounted for by Property Tax in Canada

(Millions of Dollars 1926-1981)

Year	Total Revenue	Total Property Tax Revenue	%
1926[1]	264.1	208.7	79
1933	293.3	229.7	78
1938	312.4	239.8	77
1941	333.0	250.1	75
1946	386.3	278.3	72
1951[1]	542.1	294.8	54
1956	877.4	445.0	51
1961	1 318.9	1 044.7	78
1966	2 397.4	1 738.7	73
1971	4 415.2	1 739.7	39
1976	9 258.9	3 232.0	35
1981	18 028.0	5 769.5	32

1 The data for the years 1926 to 1946 is drawn from the Bank of Canada, Statistical Summary, Financial Supplement 1954. This data is aggregate of all municipal data for the whole country. Property Taxation and provincial Grants collected for the purpose of Education are included in these figures.

2 The data for the years 1951 to 1981, is drawn from the Statistics Canada publication 68-204, Local Government Finance, Revenues and Expenditure, Assets and Liabilities Actual. It is impossible for these years to provide data free of the influence of revenues directed towards Education.

it is usually based on some type of indicator, the municipality is free to allocate the funds at its pleasure.[11] In direct contrast to unconditional grants, conditional grants are both the primary means of income transfer from the Province to municipalities, and by their very character are more heavily regulated by the Province. There are two basic types of conditional grants, operating and capital. Conditional grants are usually highly program specific, functioning often on a formula of percentage matching funds from the municipality.[12] By 1981, grant programs had become nearly as important to Ontario's Municipalities as their property tax revenues.[13] The importance of these grants has raised serious concerns about municipal autonomy, accountability and fiscal stability. To qualify for conditional grants, councils find it necessary to expend funds in a manner that does not necessarily reflect their priorities because conditional grants usually require some form of corresponding contribution from the municipality. The point being made is not to argue that conditional grants should be abolished, but rather that the extent of their utilization changes the nature of municipal decision making. The argument is that the extent of conditional grants should be substantially curtailed with the same resources transferred into unconditional grant programs. The justification for this change is based on the presumption of many municipal councillors and residents that locally elected

municipal representatives, those most directly reflective of the communities interests, are having decisions redirected through senior level government grant policies. While the level of citizen participation in municipal elections may be less than desirable, municipal governments have a role to play and a distaste for the level of Provincial interference is valid. While there may be conditional grant programs in which municipalities participate because they reflect their own priorities, this does not change the point that councils are reluctant to turn down grant money in other areas even though it causes them to realign their priorities. Such a situation would be acceptable if their constituents saw them as financial puppets of senior levels of government. The reality of the situation however, is that a large percentage of citizens fail to recognize the financial structure of grants and consequently expect different priorities to be reflected in the expenditure plans adopted by their councils.

The third point raised earlier regarding the stability of the municipal fiscal system, arises from the manner in which Provincial grants are allocated. In Ontario the disposition of grants is determined on a yearly basis, and this decision is not the result of negotiations between the Province and municipalities. Rather the Province states the qualifications for the receipt of grants on a yearly basis, with municipalities expected to conform to any

alterations. Municipalities lack the ability to accurately predict the course of Provincial policy from one year to the next. Consequently, the ability of municipalities to develop and follow through on complex multi-year fiscal plans is frought with increasing uncertainty.

The 1970's saw the major economic systems of the world undergo a number of structural changes. The economic aftershocks of these and subsequent events in North America have precipitated a series of complex economic, and resulting social problems such as double digit inflation, interest and unemployment rates. In attempting to respond to these and other difficulties, the Federal as well as most Provincial Governments including Ontario, found themselves increasingly turning to deficit financing. Partly because of the complex arrangements of fiscal federalism which are presently in operation between the two senior levels of government in Canada, no level of government is immune either directly or indirectly from the fiscal policies of another. Although deficit financing was the economic policy option adopted by many governments as the solution to the economic problems being experienced in the 70's, the cumulative size of deficits and the continued utilization of deficit based financial policies appear to have become one of the major economic and political problems of the eighties. Consequently, many governments have been attempting to alter policy direction by adopting fiscal programs directed towards

deficit reduction.

The adoption of this policy direction by both the Federal and Ontario Governments, contains within it a number of severe ramifications for municipal governments in Ontario. As already mentioned, Provincial grants are an important source of municipal financing, but even more importantly, it was this primary funding source which recorded real increases through the 1970's and early 1980's during a time when property tax revenues generally managed only to keep pace with the rate of inflation.[14] However, the fiscal realities of the mid 1980's indicate that the degree of financial transfer evident just a few years previously is no longer realistic to expect. In fact changes have already begun to occur. Each of the provincial governments recently in power in Ontario have served notice to municipalities that across the board real increases in grant levels are unlikely and furthermore that in some areas, declines in the level of Provincial assistance can be expected.

Another difficulty intertwined with the present set of financial expectations, is that a significant amount of municipal physical infrastructure, especially in the more heavily urbanized and older parts of Ontario, is in less than ideal condition.[15] The provision of a viable local physical infrastructure (the traditional "hard" services such as sewers, roads and water) while lacking the current political

limelight of other service programs such as day care and housing, are a primary responsibility of municipal governments. Critics of municipal spending patterns have correctly been arguing for years that "a crisis" in infrastructure provision and maintenance would eventually occur. Municipal councils however, should not themselves be the recipients of all the blame. Rather, municipal councillors just like any other group of elected officials can only avoid implementing the wishes of their constituents to a certain extent before responding to short run demands, such as for an expanded social service network. Simultaneously, the Province must also accept partial responsibility since the policy options adopted, and the subsequent grant programs implemented, reduced funds available for maintenance and capital development. However, circumstances dictate that the question of primary importance is not apportioning blame, but determining how municipalities, with their budgets under pressure of revenue contraction, are to respond to the unavoidable and extremely expensive expenditure requirements which are emerging.

The problems of a restricted tax base coupled with reductions in Provincial grants have forced Ontario municipalities increasingly to address two general issues:

a) How to control the costs of existing and proposed services? and,

b) How to embark on a program of increasing the level of municipal revenue, for a variety of services?

While different municipalities have used various methods to increase cost effectiveness, the emphasis has been directed at increasing revenues, possibly in ways which would also lead to cost controls. Consequently municipalities have looked to revenue generation components of their budgets over which they retain control, but which up to present have possibly not been utilized fully. Within the municipal budget, the areas which have been the focus of attention are; licences, permits and concessions, special assessments, and the sale of goods and services. Although some debate exists over their applicability, these three areas are generally acknowledged as comprising the field of user fees.

As mentioned the primary focus of this work is to examine user fees with the general purpose of gaining a better understanding of their use in Ontario's municipalities. The final intention is to be able to formulate answers to three general questions concerning user fees.

1. How important are user fees in the operations of Ontario's municipalities?
2. How well does the theoretical study of user fees match their practical application?
3. What is the probable future of user fees in Ontario?

If a government is using user fees it is pricing its outputs. There are essentially three legitimate valuation models that can be adopted by a government for the pricing of its outputs. Consequently, the basics of these three models are each representative of one of the hypotheses posed for investigation. These three hypotheses can be analyzed in the following manner. Are the municipalities in Ontario which are either presently using or planning to utilize user fees:

1. Establishing the structures so as to accurately gauge citizen demand for the purpose of maximizing the efficient utilization of resources in compliance with the theory of Marginal Cost Pricing?
2. Utilizing fees for the purpose of cost recovery in compliance with the theory of Average Cost Pricing?
3. Using fees with the intention of revenue maximization, ideally with the intention of realizing a profit?

These questions will be tested in relation to a specific set of municipal services. (The theoretical rational underlying the different types of pricing systems is discussed in chapter two.) Although it would be ideal if the breadth of this study could cover all municipal services, there are however numerous reasons making this infeasible. Although time and cost constraints are important, the main factor preventing a very broad based study is the fact that the information required for municipalities almost without exception has not been compiled provincially and in many

cases not even within municipalities themselves. Consequently, the data required can only be acquired through primary research, a factor which seriously affects the scope of the investigation. Therefore, two areas have been selected for investigation. The first category is recreational facilities with the specific facilities of relevance being arenas, pools and golf courses. The second category is public works with the relevant area being sewerage.

There are two primary reasons for choosing the above areas for investigation. Although there are differing types of municipal structures in Ontario, many areas presently operate under a two tier municipal system.[16] Consequently in those areas retaining a two tier regional government structure it is unlikely, because of the separation of responsibilities imposed under regional government, that one level of government would retain sole jurisdiction in both commodity classifications. A second reason concerns the actual nature of services to be examined. Due primarily to the obvious private beneficiary aspects of the four commodities in question, it is reasonable from the theoretical perspective to expect that all of the commoditites may not be priced in the same manner.

Before empirical investigations can occur it is necessary that the theoretical basis of the three hypotheses

be examined. This discussion is provided in Chapter Two. It begins with a discussion of how a user fee is defined, and the necessary conditions for user fee programs to be operationalized. Next comes a discussion of the reasons for user fee programs and then the theoretical foundations of Marginal Cost Pricing, Cost Recovery, and Revenue Maximization are discussed.

The third chapter's focus is on the present use of user fees in North America generally and in the Province of Ontario in particular. This discussion is divided into three components. The first component is intended as a broad overview of user fees in the United States. The second component is an overview of user fees in Canada. The third component focuses on user fees in Ontario municipalities. Although there is some limited information available on user fee utilization by municipal authorities, the vast majority of these data is available in only an aggregate format from Statistics Canada. As a result, specific municipal comparison of fees for commodities is impossible. However, one study completed in 1978 provides data current enough to serve as an important source of comparison data.

As already mentioned, data on this subject has to date been poorly compiled thus necessitating the undertaking of relatively extensive primary research. Consequently, a new survey of selected municipalities has been undertaken examining their usage of fees in the specified areas. Thirty

municipalities (Appendix 1A) were chosen for this study. In determining which municipalities would be chosen for investigation the primary objective was to select larger municipalities because of their overall significance in service provision and revenue capacity. Consequently, the group was selected based on the following three criteria. The first was that the municipality be located in Southern Ontario, defined as that area south of Algonquin Provincial Park. Secondly, the municipality has to have a population of one hundred thousand people or more. In the case of Regional municipalities, the region had to have at least one municipality with a population of at least one hundred thousand persons. Finally, some of the municipalities included (although having less than the specified population figures) were included by virtue of the fact that they were important regional centers and all contained populations of at least 50,000.[17] The survey itself was a two part process. The first part consisted of a mailed survey to the administrative head of the municipality (Appendix 2A). The survey data were compiled and where necessary, information was supplemented through either a personal meeting or telephone conversation with the appropriate officials.

The fourth chapter operates as an analytical conclusion drawing together the data examined in the preceding chapters. The purpose of this chapter is to focus

on how the empirical data reflect upon the three hypotheses upon which the survey was modeled. Finally the chapter attempts to formulate some meaningful answers to the three questions posed earlier, regarding the place of user fees in Ontario Municipalities.

Appendix 1A

Upper Tier Municipalities

Regional Municipality of Hamilton/Wentworth

Regional Municipality of Durham

Regional Municipality of Halton

Regional Municipality of Metropolitan Toronto

Regional Municipality of Niagara

Regional Municipality of Ottawa Carlton

Regional Muncipality of Peel

Regional Muncipality of Waterloo

Lower Tier Municipalities

City of Toronto

City of Etobicoke

City of York

City of North York

City of East York

City of Oshawa

City of Burlington

City of Scarborough

City of Ottawa

City of Nepean

City of Gloucester

City of Brampton

City of Mississauga

City of Hamilton

City of St. Catharines

City of Kitchener

Single Tier Municipalities

City of Kingston

City of Peterborough

City of London

City of Sarnia

City of Windsor

City of Guelph

ENDNOTES - CHAPTER 1

[1]Fiscal imbalance is one of the traditional problems encountered in a Federal system. As Johnson notes; "the revenue that can be efficiently raised by a given level of government is not equal to the optimal amount of expenditure by that level of government" (Johnson, p. 24). In Canada, the issues of fiscal imbalance have historically been more readily recognizable between the recognized Federal systems (the Federal government, the Provincial governments). However, the relationship that exists between Provincial governments and Municipal governments and institutions (especially in the Province of Ontario) although in an unofficial and slightly altered status, retains many of the same institutional foundations of a traditional Federal system. Although, legally a creature of their provincial masters, municipal governments operate in part as autonomous units. This means that they are expected to be fiscally solvent. This has become increasingly difficult at the local level as local expenditures have steadily outpaced Local Own Source Revenues perpetuating a situation of fiscal imbalance. See especially:

> J. A. Johnson, "The Financial Plight of Canadian Municipalities and the Effects of Fiscal Choices", in Paul Downing Local Service Pricing Policies and Their Effect On Urban Spatial Structure (Vancouver: University of British Columbia, 1974), pp. 22-24. and
>
> Neil B. Ridler, "Fiscal constraints and the growth of User Fees among Canadian Municipalities" in Canadian Public Administration (Volume #27 No. 3, Fall, 1984), pp. 429-36.

[2]Two of the most recent works in this field are:

R. M. Bird and E. Slack, Urban Public Finance in Canada (Toronto: Butterworths, 1983).

H. Kitchen, Local Government Finance in Canada. (Toronto: Canadian Tax Foundation, 1984).

[3]T. Plunkett. The Financial Structure and the Decision-Making Process of Canadian Municipal Government. (Ottawa: CMHC, 1972), p. 31. and H. Carl Goldenburg,

"Municipal Finance and Taxation: Problems and Prospects", in Canadian Federation of Mayors and Municipalities. Forecast of Urban Growth Problems and Requirements 1959-1980 (Brief submitted to the Royal Commission on Canadian Prospects), 1956, p. 0-1.

The author acknowledges that in different Provinces the actual historical importance of the real property tax has varied. There have been a variety of other taxation programs such as; poll taxes and personal property taxes, which have been placed at the disposal of municipal governments. However from an overall aggregate perspective the real property tax served as the principle vehicle of municipal finance.

[4]Goldenburg, op. cit., p. 0-2, 0-3.

[5]Goldenburg, op. cit., p. 0-4.

[6]There have historically been many definitions given to property for inclusion in the property tax base. Presently property tax is based on the assessed value of real property which essentially refers to assets which are non-movable. Primarily this refers to land and any structures on the land.

[7]For further information on the regressiveness of the property tax refer to

H. Kitchen (op. cit.), 1984, pp. 200-206.

[8]R. M. Bird, Changing for Public Services: A New Look at an Old Idea, (Toronto: Canadian Tax Foundation 1976), p. 11.

Bird traces the empirical justification for these statements to survey work reported in.

A. J. Meltsner, The Politics of City Revenue, (Berkeley: University of California Press, 1971), pp. 231-236.

[9]R. M. Bird, op. cit., p. 10.

[10]Ibid., p. 10.

[11]In the Province of Ontario there are presently six types of unconditional grant programs in existence. They are:

1. General Per Capita Grant

2. Density Per Capita Grant

3. Per Capita Police Grant

4. General Support Grant

5. Special Support Grant

6. Resource Equalization Grants.

The first two types of programs are provided to all municipalities and are calculated primarily as a function of their per capita population. The third type of grant, although functioning on a per capita formula, is only applicable to municipalities maintaining their own police forces. The last three types of grants although being influenced by population are mainly based on indicators of a municipality's fiscal status.

For further information see:

H. Kitchen, op. cit., pp. 224-5 and

Ontario Ministry of Municipal Affairs and Housing. Local Government Finance in Ontario (various years).

[12]It should be mentioned that while there are Federal Grants to municipalities which take the form of both operating and capital, they do not function as a significant source of municipal revenue in aggregate for the majority of Provinces. In 1978 in Ontario total Federal Grants accounted for only 7.09 million dollars which represented 1.8 percent of total grants to municipalities. Even more importantly, eighty percent of this total was included in capital grants.

H. Kitchen, op. cit., p. 222.

Although there have been requests made to the Federal government from various sectors requesting that they re-evaluate their position with the intention of increasing grants to Municipalities, no change in government policy has yet been forthcoming.

[13]Ontario Ministry of Municipal Affairs and Housing. Local Government Finance in Ontario 1982, pp. 18-20.

[14]Ibid., p. 22.

[15]For further information see:

Canada's Urban Infrastructure, Physical Condition and

Funding Adequacy Federation of Canadian Municipalities, June 1984.

[16]The two tier designation is meant to refer to the local municipal government and a Regional Government where one exists. It must however be noted that there are a number of other institutions which operate primarily at the local level such as Conservation Authorities. It is consequently entirely possible that these other institutions may exercise an interest in the areas under investigation.

[17]The information base utilized for determining the municipalities to be included in the survey relating to the population criteria was the 1985 edition of the Ontario Municipal Directory.

Ontario, Ministry of Municipal Affairs and Housing. Municipal Directory 1985, (Toronto: Queens Printer 1985).

CHAPTER 2

The Theory of User Fees

Introduction

Chapter One initiated a discussion of the fiscal issues confronting municipalities. User fees are a means for municipalities to address some of their fiscal difficulties. However, the first step in considering the adoption of user fees is to provide some information concerning the present utilization of user fees. Before proceeding to provide detailed information on this matter, this chapter provides a theoretical foundation for an examination of user fees. Essentially three main areas are addressed in this discussion. The first area is an examination of what user fees actually are. The second concerns the boundaries which need to be addressed when public goods are priced. Finally, the three different methods of pricing; Marginal Cost, Average Cost and Profit Maximization Pricing, are examined within the context of the treatment of different types of costs.

What Are User Fees?

As mentioned in Chapter One there is no specific good or service to which the terminology of user fees is meant to apply. Rather, the terminology has become a popular label for

classifying a series of charges made for a wide range of publicly supplied commodities stretching from sewer charges to day care fees.[1] Consequently, it is difficult to define exactly the form that user fees are meant to take. Bird has confronted this problem by stating that;

> A general definition of a user charge is that it is the amount of money per unit of goods or services produced or provided by the government which is collected from the recipient.[2]

It is important to recognize that a difference in terminology emerges in the above quote concerning user fees and user charges. Downing in examining this issue has defined user charges as being "very much like prices charged for privately produced goods"[3] such that "they represent payment for services which would not be provided to the individual if the charge were not paid".[4] User fees, on the other hand, "represent compensation paid to the government for expenses incurred in providing special services".[5] In another opinion on this issue, Kitchen has defined user fees "as charges imposed on local services that are available to all citizens".[6] He views user charges as being associated with an action of the government, transferring to citizens the ability to undertake a particular activity that is restricted in some manner, such that they may receive or generate some type of special benefit for themselves. Kitchen connects his definition of charging to activities such as the issuance of licences, permits and concessions by

government.[7] Downing in discussing these differences reaches the conclusion that when discussing specific goods or services there are some justifiable grounds for distinguishing between a fee and a charge, however, in many respects the differences are not that significant. Any difference that may exist between the two classifications does not affect the fact that in both instances the government is pricing its outputs. Consequently, for the purpose of a general discussion of governmental pricing, the differences are not that relevant and therefore the terminology can be used interchangeably.[8]

The Bureau of Municipal Research defined user charges as any payment made by either an individual or a group to a municipality for the provision of a particular good or service.[9] While there are a number of conditions which must be satisfied for a user fee policy to be successfully implemented, and while these will be examined, the definitions discussed demonstrate that there is one paramount condition that must be satisfied. A user fee can only be utilized if it is clear that the charge is a direct function of an individual or group receiving some form of direct benefit from a commodity provided to them through the public sector. Therefore it is entirely feasible to include, licences, permits, concessions, special assessments and prices levied in the sale of goods and services, as types of user fees.

In Chapter One the reasons why municipal governments have been increasingly interested in user fees was addressed through a succinct discussion of some important issues concerning municipal finance. Although the issue of revenue constraints has been one of the primary reasons why municipalities have directed their attention towards this policy area, direct revenue generation is not in itself the sole reason for the implementation of a user fee policy. There are three general reasons for the development of a pricing policy; equity, efficiency and finally revenue generation.[10]

The argument that the local level of government is not traditionally the proper level through which to address redistribution questions has already been discussed. The key point that emerged out of that discussion was that services of municipal government are, traditionally, structured on the application of the "Benefit Principle". User fees, since they are a direct reflection of the benefit principle, provide a means by which service equity can be improved. This is possible since the use of goods and services by their actual user can be determined to a much higher degree than is possible within the existing property tax structure. Undoubtedly the argument can be put forward that such a policy when viewed as a function of income levels will for some individuals actually increase the level of inequity present. Even if empirical investigations demonstrated that

the wider utilization of the benefit principle caused an increase in the degree of inequality it is of paramount importance that the underlying assumptions of such a conclusion be carefully examined. Such an examination would reveal that the conclusion of inequality was measured as a function of income. The utilization of this type of scale is appropriate where the central focus of concern is welfare oriented. However, welfare considerations are only one of the traditional responsibilities of municipal governments structured on the benefit principle. It is these measures of welfare inequity that need to be addressed directly by senior level governments who retain the constitutional authority and greater fiscal means to act on such issues.

The changes in Canadian society have not been accompanied by a modernization of municipal institutions. The validity of this argument is secondary to the point being made here. If a modernization of governmental responsibility is required then such a process must recognize the factual or hypothetical effects that such change may generate. The advocation and adoption of change in a piece-meal manner, no matter how well intended, without corresponding alterations in other areas of responsibility would mean that the legitimacy of government is open to question.

The utilization of user fees in the public sector provides one of the most effective and reliable mechanisms by

which the actual demand for many publicly provided goods can be measured. Consequently with a means of more accurately matching the supply of goods and services to actual demand, the level of public sector efficiency can be improved.

There is no doubt that municipalities view user fee programs as an important and in many cases largely untapped source of revenue generation. There are two ways in which user fees will improve the budgetary position of the municipality. The first and most readily obvious revenue generator will be the actual fees themselves. However, and possibly more importantly from the overall perspective of public policy is the revenue that will be generated indirectly. One of the reasons for implementing a pricing policy is to increase the level of efficiency in the provision of public goods. In most cases (assuming demand is not totally inelastic), this will result in the actual volume of a service or good demanded declining especially if it was previously provided free of charge.

Although there are a variety of potential benefits from a user fee program, realizing these benefits requires government to price its outputs. Governments by their very nature must be concerned with a wider variety of concerns than is the case in a private sector operation. Before proceeding to some of the pricing models which have been advanced for publicly provided commodities, an outline is warranted of a number of basic conditions of pricing system

design and operation, which according to generally accepted public finance literature, any public pricing system must address.

Richard Bird has laid out five primary conditions that pricing systems in the public sector should be modelled on:

1. In order to charge any price it is necessary that those who benefit directly from the service can be excluded from enjoying it if they do not pay.[11]

This condition relates to the fact that governments do not only provide pure public goods. Many commodities now supplied by government retain characteristics of private goods. In the pricing of any publicly supplied commodity it is these characteristics that must form the basis of the commodities' pricing. Only in this manner is it possible to ensure that those who pay are those who benefit directly from consumption of the commodities.

2. Most benefits should accrue to the primary recipients of the service so that there is little possibility of loss of significant externalities.[12]

Externalities are the result of some type of economic activity and have an effect on those parties which were not the direct participants in the economic transaction.[13]

3. The demand for the service should be elastic, so that imposition of a price will affect allocation and hence

help achieve the efficiency objective.[14]

If the demand for a commodity is very inelastic, the imposition of a pricing policy will not result in any meaningful efficiency increases in terms of the commodities' allocation.

4. Collection costs...should also be low. In order for a strict pricing policy to be flexible, both the quantity and the quality dimensions of output units must be capable of being specified, and the prices must be enforceable and collectable at reasonable cost.[15]

This condition contains within it two important criteria, relating to the pricing program's administrative cost control. First, the operation of any fee program requires some type of administrative framework. For the program to achieve its objectives while at the same time being cost effective, it is paramount that the program's administrative costs, and in particular the functions concerning the collection of fees and the exclusion of free riders from the commodity are fulfilled at reasonable cost. Second, the development of a useful pricing structure demands that accurate cost data on specific commodities are inexpensively and readily available. In much of the public sector such informational outputs can be difficult to achieve since system operations are not necessarily designed to correlate resource input to commodity output.

5. There should be no unacceptable inequities resulting from the imposition of prices.[16]

The first step in implementing a user fee program is the pricing of outputs. On the surface the actual pricing of government outputs may not appear to be much of a problem since it may seem most desirable to adopt a private sector pricing mechanism of these publicly provided commodities. However, there are a number of potential difficulties with this ideal. One problem concerns any income effect, especially on low or fixed income households, resulting from either the re-evaluation of an existing user fee or the establishment of a new fee. Although municipalities have no clearly defined legal obligation to address income redistributive questions, they may have an obligation to the citizens they govern to be sensitive to the impacts of their policy changes. A second problem centers upon the question of whether access to a particular commodity or some minimum level of that commodity is a privilege or a right. One example is access to clean drinking water supplies. At issue is at what level of consumption are medical and humanitarian concerns satisfied? Furthermore, how can this system be effectively operated, and from what source should the revenue forgone by the selected level of provision, be addressed? Finally, for many public services, it may not be feasible, and in light of other organizational objectives necessarily desirable, for a governmental sector to operationalize itself

in the same manner as a private sector organization.

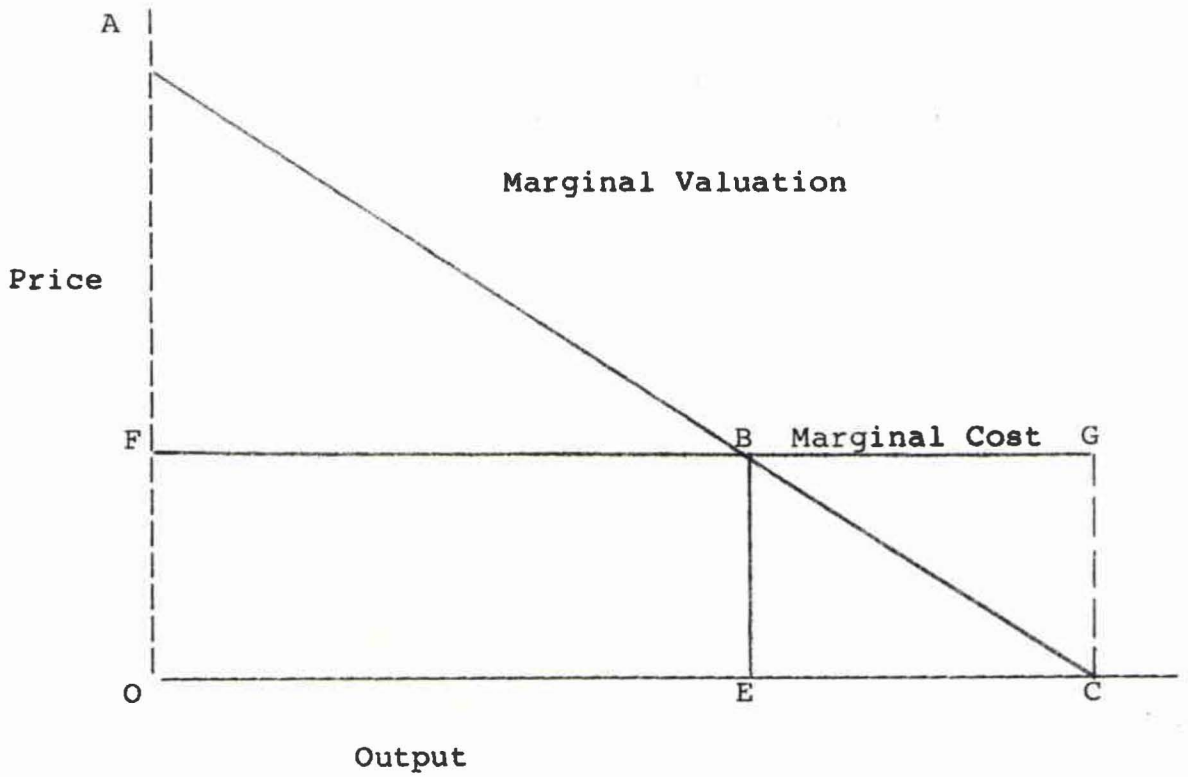
One of the foundations of our economic system is that there are two basic types of goods, public goods and private goods. Pure public goods such as national defence and police protection represent a classification of commodities from which it is impossible to exclude any individual from enjoying their benefits and which continue to be available for others to consume even after one person has done so. Conversely, pure private goods are not available to others after consumption and other potential beneficiaries can be excluded.[17] These two classifications occupy opposite ends of a spectrum between which lie a great number of commodities retaining varying degrees of the qualities of each type.[18] A significant number of these goods generate externalities of a nature significant enough to cause government, in exercising its legitimate concerns over the public welfare, to become associated to some degree with them. Although there are no firm guidelines for governmental involvement in these "quasi" public goods, it is never the less a fact that governments recognize public externalities as factors which must be accounted for in the commodities' supply. In light of these aforementioned issues there have been three principle pricing schemes advanced in the public finance literature; marginal cost pricing, cost recovery pricing and, revenue maximization pricing.

Marginal Cost Pricing:

If people are receiving benefits through the utilization of some type of commodity, assuming there is little cost associated with consumption, they will continue to consume the commodity until the benefit or marginal valuation which they derive from the commodity is zero.[19] This situation is graphically demonstrated in Figure 1-1, which shows that in the absence of price the level of the commodity demanded is C (that point where marginal valuation is zero). When the marginal costs associated with the production of the commodity are examined, it is clear that a significant volume of the commodity (indicated by the distance EC) is provided at a cost (indicated by the rectangle BGCE) greater than the subsequent level of marginal valuation (indicated by triangle BCE) derived. Assuming that it is important to provide services in a fiscally efficient manner it is clear that the level of optimum availability of the commodity is point E. This corresponds directly to point B where the consumers' marginal valuation intersects the marginal cost of providing the commodity.

The basic premise of marginal cost pricing is that the price charged for any commodity should be represented by the marginal costs and therefore be a direct reflection of the opportunities forgone in the provision of that commodity.[20]

FIGURE 1-1



Source: H. Groves & R. Bish, Financing Government, 7th Ed. (U.S.A., Holt, Rinehart and Winston Inc., 1973, p. 309.

> The equality of price and marginal cost ensures that the consumers equate marginal benefits from this use of resources with the real alternatives foregone elsewhere. In a world of pure competition the market mechanism would operate to ensure this equality.[21]

In theory the idea of charging the marginal cost of a commodity to the user is economically efficient. However, in practice attempting to match actual operations to a theoretical model encounters a number of problems. Probably the most obvious problem is that for the total efficiency to be realized, the whole system must be operating in a purely competitive fashion. However, a significant degree of economic activity is carried on outside the assumptions of perfect competition. In the case of many municipal commodities, provision is under some manner of monopolistic arrangement, often not because the commodity could not be produced otherwise, but because of the desire of government to realize economies of scale, especially in instances of long run decreasing costs. One service where such a situation often occurs is in the supply of water. Very often in water supply systems, especially in high growth areas, the capacity limits of existing systems are met and newer and more expensive systems must be brought on line.[22]

Another case where the marginal cost pricing model encounters difficulty is where a commodity is subject to long run increasing returns. The basic issue is that the marginal cost curve continues to decline and fails to intersect the

average cost curve over the relevant market range of output. While this means that the marginal cost price of the commodity is declining over increased output, the more important issue is the fact that the price charged will fail to raise sufficient revenues to cover costs. Consequently, marginal cost pricing under these circumstances will result in a deficit.[23]

Returning to the fourth qualification of Bird's pricing principles, that in those cases where a commodity retains characteristics of both public and private goods, it creates a situation where "neither output nor cost per unit data can be measured or where collection of the charge is prohibitively expensive".[24] For example, the commodity may produce some type of relevant externality. Since marginal cost pricing may be concerned only with the direct costs incurred in the production of a commodity there is no direct means for the inclusion of these costs or benefits. Furthermore, it may be difficult to actually calculate what these costs or benefits are, such that the final price charged may be either too low or too high.[25] Other commodities may be being produced by other producers whose price is not equal to marginal cost. However, there are real difficulties in measuring the appropriate price level. As Kitchen argues in these cases by raising the theory of second best, there may be no reason for the public price to equal marginal cost.[26] Rather,

> efficiency may be improved by supplying the output at the point where the divergency between marginal cost and the price at the local government level is similar to the divergence in the rest of the economy.[27]

In summary, marginal cost pricing is justified for those commodities for which;

1. externalities do not exist
2. where individuals can be excluded from consuming the goods and where availability does not reduce the consumption of others
3. where efficiency prevails in other areas of the economy
4. where precise measurements of outputs and costs can be calculated
5. where collection and administrative costs are low.[28]

Accepting the fact that reality will not always allow these parameters to be satisfied, another type of pricing system, average cost pricing, has been advanced.

Average Cost Pricing:

Average cost pricing which is also referred to as cost recovery pricing, is viewed as the best alternative to marginal cost pricing, especially when the other option is the absence of any pricing structure.[29] The primary advantage of average cost pricing is not that it generates a more efficient solution than a marginal cost format but rather, in terms of practical applicability, that it is much easier to utilize. A relevant example is found in the City

of Burlington. A major report on user fees within the city found that out of one hundred and forty one different charges utilized by the city, accounting for approximately 4.4 million dollars in revenue in 1981, not one was based on marginal cost pricing.[30] Furthermore, at no time was the complete implementation of a marginal cost pricing system viewed as being feasible.

The basic premise underlying average cost pricing is fairly simple. Unlike the marginal cost format, there is no need to go through the generally expensive and sometimes impossible process of formulating marginal cost. Rather, the average cost price is determined by compiling all of the expected relevant costs of providing the commodity and then dividing this amount based on the quantity of the commodity expected to be provided.[31] Referencing the discussions concerning marginal cost pricing it is easy to see that, depending on the situation of each commodity, the price charged could be less, equal to or greater than the equivalent marginal cost price. While the nature of the commodity itself determines the ease of excludability of utilization as well as the format of collection costs, the fact that average cost pricing addresses potential beneficiaries as an aggregate makes it feasible to quickly address the concerns relating to externalities. However, the main problem with average cost pricing is that prices are

equalized irrespective of the costs associated with access to the commodity. Because information is collected in an aggregate manner, it may be impossible to account for differing costs to specific consumers. Consequently, there may be a real problem of user subsidization by other users contributing to inequalities.

One means of overcoming these difficulties in average cost pricing is through the adoption of a multi-part tariff pricing system.[32] Through the utilization of such a program the key advantages of both marginal cost and average cost pricing can be captured. Downing has argued that such a pricing system should be comprised of three components; the Quantity Charge, the Capacity Charge and, the Locational Charge.[33] The quantity charge should reflect the short run costs of providing a certain level of current output of the commodity. The quantity charge is reflective of the short run costs of providing a certain level of a commodity out of the current output. Obviously this charge would be dependent upon the degree of consumption.[34] The capacity charge is intended to recoup any difference between the quantity charge and the full costs of product at the designed capacity level of the institution. Two possible cases where such a charge would be necessary are, one, where the fixed costs of the operation are extremely high or two, where the system is being used at less than capacity. It is possible that there would be no need to implement this charge, but where there is

a need, Downing suggests that it should be allocated according to the potential consumption different consumers could make of designed capacity.[35] Finally the locational charge echoes the long run costs of providing the necessary infrastructure to serve consumers at both different locations and development densities. Not only is such a charge a valuable means by which fixed costs can be recaptured but it also indicates whether there is a justifiable demand for the expansion of delivery systems to certain areas.

Another, and in many ways more significant, issue to be resolved concerns the costs and the relevant assumptions associated with those costs, which are to be accounted for in determining the expenses to be recovered. K. Davey in his 1983 book Financing Regional Government broke this question of relevant costs down into three basic issues.

The first point is deciding which current expenditures can be allocated to a specific commodity. As Davey states;

> Where does one draw the boundary between the costs to a particular service and those of general public services in the locality or the general administrative overheads?[36]

There is no doubt that the solution adopted on this question relies greatly on both the nature of the commodity and the organizational nature of the general administrative body. While there is no specific solution that can be universally applied, it is only proper from both the planning and fiscal

accountability perspectives that those costs that can be attributed directly to the project in question should be included.

The second point is deciding whether costs are calculated according to the cost of providing specific units of the commodity or on a pooled average basis.[37] Obviously this type of concern is closely related to the argument for locational charges already discussed. Again the particular commodity will govern greatly the decision which can be implemented. However, Davey puts forward two criteria which should be tested for in making this type of decision.

1. The extent to which the service (or some minimum provision of it) is meeting an essential human need; the concept of a merit good such as minimum level of water supply.
2. The degree to which individual consumers choose the circumstances - particularly the location - which affect the cost of the service they use.[38]

The second point can in the case of some commodities, especially those involving significant capital outlays, be the most divisive. The question is whether capital costs should be included in expenditure totals, and if so on what basis.[39]

> There are many examples of services which are meant to be self financing, but only the operating and maintenance costs have been met out of general revenues or from loans which have been fully discharged.[40]

The basic difficulty with not including capital costs is that "if we do not require cost recovery from the beneficiaries, we will not really know whether the benefits from the service exceed the costs".[41] If it cannot be reasonably determined that benefits equal or exceed costs, then the commodity, at least from the fiscal perspective is being provided in a highly suspect manner.

The argument against including the capital costs is that they represent sunk historical costs which in terms of future demand and supply are not valid. Therefore only costs that should affect current pricing are operating and maintenance costs.[42] While this will result in current account deficits (equal to the value of capital expenditures) the answer most often forwarded to this problem,

> is that eventually prices will rise to ration demand as demand increases in the future, and that the latter surpluses generated will balance the early deficits so that full costs will be recovered.[43]

Milliman argues that there are two problems with this reasoning. The first point is that the basic assumption of increasing future demand when viewed in the rapidly changing nature of our society is highly suspect.[44] The second point is even more significant because it concerns the basic decisions for future projects. Milliman argues;

> The original investment costs the day after the project is constructed are historical costs - no more and no less - and they will not necessarily reflect changing supply and demand conditions and alternative social costs in the use of

> resources from that day on. Prices that correctly ration the use of capacity and deal with congestion may or may not return historical costs. Moreover, deciding whether the revenues generated justify an expansion of the facilities should not be determined by covering the historical costs..., but whether the resources are sufficient to cover the costs of expansion or replacement costs at the time in the future when they are contemplated.[45]

These different arguments concerning the inclusion of capital costs necessitate some concluding comments. First, from the viewpoint of economic efficiency it is only correct that some provision be made to recover the capital costs incurred in providing a commodity. It is perhaps important to recognize that in the marginal cost pricing system, in a perfectly competitive market, (the theoretical scenario dictated by the model) capital costs would have been recovered because they would have been a component of long run average costs which are equal to marginal cost in equilibrium. Second, although the concerns over future conditions are difficult to accurately plan for, there is considerable merit in pricing supply with consideration given to the level of future demand. The justification for this is based on the fact that if a present commodity is provided at a price representative of historically low costs, then the level of demand will be greater than what the present costs of expansion would dictate. Such a situation requires serious consideration of a pricing policy based on a cost sharing basis of historical and future costs as suggested by

Fox.[46] Obviously the applicability of such policies depends greatly on the characteristics of the commodity in question and whether or not vehicles such as multi-tariff pricing systems which can accumulate cost differentials are feasible.

Revenue Maximization Pricing:

(Making a profit)

The final type of pricing model is one designed to charge a price such that the service realizes a profit. There are essentially four justifications for such a policy. One of the arguments advanced for generating a profit comes from the previous discussion of cost recovery.

> 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 test of viability.[47]

Consequently, the key question is whether some form of capital capitalization component should be included. Furthermore, if a market rate of return is realized how should these revenues be apportioned? Obviously the applicability of this argument is highly dependent on the particular nature of the commodity itself.

Another argument for charging above cost concerns those services which are subject to peak load demands. Increasing prices on a cost plus basis relating to periods of

heavy demand is in many cases an effective means through which a disciplinary effect can be had on demand.[48] A third case is where fees can be instituted for regulatory purposes other than cost recovery. The actual costs of the program may vary but often they are relatively insignificant in relation to revenues. A common example of this type of usage is licensing charges.[49]

The final case where charging above cost is advocated is in those cases where the commodity being provided is also available from private producers. In these cases it is argued that the price should be reflective of the market rate, something that is relatively simple where there is a private market supply.[50] Commodities often viewed in this manner are recreational facilities such as golf courses and racquet facilities.

Conclusion:

In summary, three primary themes were examined in this chapter. The first theme concerned determining what is meant by, a user fee or user charge. Although different definitions were given in the academic literature on this question, all of the definitions cited retained the same basic ideas. The basic idea is that government, in undertaking the wide variety of functions that it does, generates in one way or another, a vast array of commodities with a varied range of characteristics. Further, any manner of monetary remuneration that the government realizes from

the provision of these commodities in a direct, exclusive manner, can be considered a user fee. While this definition may seem somewhat ambiguous it demonstrates the wide spectrum encompassed by this policy area. Further, while there may be justifiable grounds for using the terminology of user fees and user charges separately when case commodity questions are under examination, for the purpose of this discussion, the terms can be used interchangeably.

The second point is that government is attempting to price, for the purpose of direct consumer reimbursement, the commodities it generates. Although there are various pricing models, it is important to recognize that the logical operation of the economic system requires that certain rules of pricing must be followed. Five points of pricing theory were provided by R. Bird and were examined for the purpose of providing a basis upon which any logically consistent pricing structure must be based.

The final theme was the introduction of the three pricing systems which are reflective of the basic valuation and pricing models. The basic thrust of the empirical research (discussed in the next chapter) is to determine which of the three pricing systems are used in practice, and to discover why certain pricing systems are preferred by government. The important point of the investigation is to determine which pricing methodology is advocated and how

exactly it is implemented.

In Chapter One it was pointed out that the principal objectives for implementing user fees, at least from a theoretical perspective, are increased efficiency, equity and revenue. The actual type of pricing system employed is important because the operationalism of that system means that different objectives can be achieved. It is the intention of the empirical research to determine the type of pricing methodology employed and, where feasible, the objectives that the fee system is attempting to realize.

ENDNOTES - CHAPTER 2

[1]R. M. Bird, Charging for Public Services: A New Look at an Old Idea. (The Canadian Tax Foundation, 1976), p. 3.

[2]Ibid., p. 3.

[3]Paul Downing, "User Charges and Service Fees" in James H. Carr Ed. Crisis and Constraint in Municipal Finance. (U.S.A.: Center for Urban Policy Research, 1984), p. 161.

[4]Ibid., p. 161.

[5]Ibid., p. 161.

[6]H. Kitchen, Local Government Finance in Canada. (Toronto: Canadian Tax Foundation, 1984), p. 255.

[7]Ibid., p. 255.

[8]P. Downing, op. cit., p. 161.

[9]Bureau of Municipal Research. Municipal Services: Who Should Pay. (Topic #3, February 1980), p. 2.

[10]Jerome W. Milliman, "Beneficiary Charges - Toward a Unified Theory" in S. Mushkin ed., Public Prices for Public Products. (The Urban Institute, Washington, 1972), p. 28.

[11]R. M. Bird, op. cit., p. 38.

[12]Ibid., p. 38.

[13]R. L. Bish, The Public Economy of Metropolitan Areas. (Chicago: Markham Publishing Company, 1971), p. 18.

[14]R. M. Bird, op. cit., p. 38.

[15]Ibid., p. 38.

[16]Ibid., p. 38.

[17]A Dictionary of Economics (Penguin Reference Books, 1975), p. 336.

[18]Below is presented a very basic model of a service spectrum.

Local Government Public/Private Service Continuum

Pure Public Goods	Mixed Goods, Public and Private Qualities	Pure Private Goods
- police services	- library services	- utilities
- fire services	- recreation facilities	- airports
- street maintenance	- public health	- port facilities
	- public transit	
	- public hospitals	
	- convention centers	

Source: P. C. Glisson and S. H. Holley. "Developing Local Government User Charges: Technical and Policy Considerations" Governmental Finance March 1982, p. 4.

Upon having examined the above chart the reader may undoubtedly have some serious reservations over the categories in which commodities are placed. With reference to this concern a number of points must be recognized. It is extremely difficult to construct such a private/public service continuum in part because of the different externalities associated with different services and the different values placed on those externalities. While the author is not advocating retention of this model, the model does demonstrate that determining how to categorize commodities requires both a number of empirical but even more importantly value judgements. The important point to recognize is that these decisions should probably not be undertaken solely within the administrative domain.

[19]H. Groves and R. Bish, Financing Government. 7th ed. (U.S.A.: Holt, Rinehart and Winston, Inc. 1973), p. 309.

[20]J. W. Milliman, op. cit., p. 33.

[21]Ibid., p. 33.

[22]V. Ostrom, "Water Resource Development: Some Problems in Economic and Political Analysis of Public Policy", in A. Ranney ed. Political Science and Public Policy. (Chicago: Markham Publishing Company, 1968), p. 130.

[23]J. W. Milliman, op. cit., p. 34.

[24]H. Kitchen, op. cit., p. 266.

[25]H. Kitchen, op. cit., p. 266.

[26]Ibid., p. 266.

[27]R. G. Lipsey and Kelvin Lancaster, "The General Theory of Second Best" (1956), 24 Review of Economic Studies 11-32 Cited in H. Kitchen, op. cit., p. 266.

[28]H. Kitchen, op. cit., p. 267.

[29]Ibid., p. 267.

[30]City of Burlington, User Charges in the City of Burlington. (Chief Administrators Office, November 18, 1981), pp. 8-11.

[31]Bureau of Municipal Research, op. cit., pp. 32, 33.

[32]H. Kitchen, op. cit., p. 268.

[33]P. Downing, op. cit., p. 173.

[34]Ibid., p. 173.

[35]Ibid., p. 173.

[36]K. Davey, Financing Regional Government. (U.K. John Wiley and Sons, 1983), p. 90.

[37]Ibid., p. 91.

[38]Ibid., p. 92.

[39]Ibid., p. 92.

[40]Ibid., p. 92.

[41]J. W. Milliman, op. cit., p. 31.

[42]Ibid., p. 36.

[43]Ibid., p. 36.

[44]Ibid., p. 37.

[45]Ibid., p. 37.

[46]Irving K. Fox (ed.), Essays on United States Water Resources Policy (U.S.A.: University of Wisconsin, 1968), cited in J. W. Milliman op. cit., p. 38.

[47]K. Davey, op. cit., p. 92.

[48]Ibid., p. 92.

[49]Ibid., p. 95.

[50]Bureau of Municipal Research, op. cit., p. 33.

CHAPTER 3

How Are User Fees Actually Being Used?

Introduction

The first two chapters had three main purposes. The first purpose was to examine some of the issues of urban finance presently confronting the municipal level of government. The second purpose was to show that the utilization of user fees, while not a solution, was nevertheless one means by which some of the problems of urban finance could be addressed. The final purpose was to examine the theoretical information available on the definition and use of user fees. However, this process has yet to address one of the major purposes of this thesis, How are user fees actually being utilized in Ontario? The answer to this question is critical if an understanding of user fees is to be developed so that they can be best utilized to address the changing needs of Ontario's urban society.

This chapter is divided into three parts. The first section contains a brief discussion of the overall utilization of user fees among all municipal governments in the United States with a further comparison to the largest urban centres. The second section presents information drawn from Statistics Canada detailing the utilization of user fees

in Canadian municipalities classified according to provincial boundaries. The final and largest section introduces the data generated by the survey of Ontario municipalities outlined previously in Chapter Two. This information is divided into two categories, one dealing with Sewerage Collection and Treatment and the other with Recreational Services with specific attention to Arenas, Swimming Pools and Golf Courses. The discussion and assessment of this information regarding the theoretical points raised in the previous chapter and the three objective questions of investigation raised in the first chapter are dealt with in Chapter Four.

Probably the greatest difficulty encountered when attempting to examine municipal government in significant detail is that it is not the subject of the concentrated research effort conducted on the other two senior levels of government. As previously mentioned there has only been one study published on the actual utilization of user fees in Ontario municipalities.[1] When beginning this study it seemed appropriate to generally follow some of the basic guidelines used in the Bureau study, and extend their analysis over a longer period. However, while conducting the theoretical research for the first two chapters, it became obvious that the vast majority of literature was directed towards user fee utilization in the American context. Consequently, the presentation of some broad based information on user fee use

in the United States serves to provide some relevant data for Canadian comparison.

The American Situation

In the United States, the U.S. Bureau of Census collects extensive information on the financial affairs of American cities. This information is published yearly in a document entitled City Government Finances. Data from selected years have been compiled and are presented in two tables; Table 3-1 "Changing Status of Municipal Finance in the United States", and, Table 3-2 "Changing Status of Municipal Finance in the Largest American Cities". There are differences in governmental structure and operation between Canada and the United States and these must be recognized prior to our discussion of this information.

One difference is that many municipalities are not in the same subservient relationship with state governments as exists in Canada between municipal and provincial governments. One effect of this more autonomous relationship is that local bodies generally have a wider variety of taxing authority at their disposal, such as sales and income taxes. One of the more noticeable consequences of these differences is that while property tax normally continues to be the most important source of local revenue, it represents a smaller percentage of revenue, especially own source revenue, than in Canadian municipalities. Another important difference,

Table 3-1

Changing Status of Municipal Finance in the United States
(Figures shown as Percentages)

	1965/66	1970/71	1975/76	1980/81	1983/84	1983/84 - 1965/66
Property Tax as a percentage of Total Revenue	31.5	26.9	21.2	17.3	16.4	(15.1)
Property Tax as a percentage of Total Own Source Revenue	52.4	48.1	42.8	34.2	30.7	(21.7)
User Fees as a percentage of Total Revenue	9.7	9.5	9.2	10.6	11.4	1.7
User Fees as a percentage of Total Own Source Revenue	16.2	17.1	18.6	21.0	21.4	5.2

Source: U.S. Government, City Government Finances, Various years.

Table 3-2

Changing Status of Municipal Finance in the Largest Amercian Cities
(Figures shown as Percentages)

	1969/70	1971/72	1974/75	1977/78	1980/81	1983/84	1983/84 - 1969/70
Property Tax as a percentage of Total Revenue	25.2	22.5	19.0	18.7	15.4	14.9	(10.3)
Propety Tax as a percentage of Total Own Source Revenue	46.1	43.1	39.9	38.7	31.3	28.4	(17.7)
User Fees as a percentage of Total Revenue	8.0	9.0	7.5	8.3	8.9	9.5	1.5
User Fees as a percentage of Total Own Source Revenue	14.7	15.3	15.7	17.1	18.1	18.1	3.4

Source: U.S. Government, Finances of Forty Eight Largest U.S. Cities, Various years.

largely as a result of more independent taxing authority, is that cities receive substantially lower levels of state transfers than Canadian counterparts. Finally, the Federal Government retains a significantly larger presence in providing transfers to local governments than is true in Canada.

Table 3-1 shows the effect of changing revenue patterns for all American cities from 1965 to 1984. This data reveals two important trends. The first is that the importance of property tax as a percentage of total revenue and total own source revenue has declined markedly. The decline in property tax measured as a percentage of total revenue and total own source revenue over the twenty year period represented a cumulative fiscal impact (calculated from data in Tables 3-1A and 3-2A) for the fiscal year 1983/84 of approximately 20.3 and 15.6 billion dollars respectively. These changes are significant not only in terms of their size but more importantly in terms of where the additional revenues were coming from to compensate for the declines in property tax revenue. One of the main sources of replacement revenues has been user fees. By fiscal 1983/84 user fees accounted for 11.41 percent of total revenue representing a cumulative increase of 1.68 percent since 1964/65. However, more significant is the fact that since 1964/65 the proportion of own source revenue derived from user fees had increased by 5.18 percent to 21.39 percent. This decline in the importance

of the property tax is significant because of the problems of property tax already raised. In the United States property taxation is of considerably less importance than in Ontario, and it continues to decrease in importance.

An examination of the data in Table 3-2 concerning only the largest American cities[2] indicates that there are similarities with the data contained in Table 3-1. Although a comparison of the data shows that property tax and user fees from a percentage perspective have been as important in the largest cities, their contribution remains significant. Property tax measured as a percentage of total revenue and total own source revenue has declined by 10.24 and 17.75 percent respectively. Also some of this decline had been accounted for through real increases from user fee revenue.[3]

Distinction Between Total Revenue and Total Own Source Revenue

Before proceeding to an analysis of Canadian data it is important to elaborate on the distinction made between total revenue and total own source revenue. The argument will undoubtedly be advanced that such a separation is meaningless primarily because expenditures are budgeted according to total revenue not total own source revenue. However, the argument is now advanced that a complete reliance on total revenue is not only misleading but can lead to fiscal instability. The justification for this position is drawn largely from the facts advanced in Chapter One. It

was shown that municipalities generally retain control over approximately half of their revenue requirements. It is largely transfer payments of various types from senior level governments which account for the difference between total revenue and total own source revenue. While it is true that it would be unreasonable to expect this system of transfers to be discontinued without some form of replacement program, that does not necessarily mean that the situation will not change. More importantly transfer programs come with no guarantees and it was explained that municipal governments often retain no control over resources provided by these transfer programs. Based on the nature of the fiscal situation affecting most governments, and certainly those senior levels affecting Ontario municipalities, it is only reasonable to expect that transfer payments will be reduced or future increases limited to levels lower than cost increases and/or emerging programs requirements. While municipalities cannot exert control over senior governmental transfer payments they do control their own source revenue fields. Consequently, a sound understanding of existing and potential revenue sources at a municipality's disposal, and utilizing this information to develop viable revenue/expenditure plans are key ingredients in a modern fiscal management strategy.

The Canadian Case

In Canada, the preferred source of publicly available information on yearly municipal fiscal operations, especially for the purpose of time series analysis, is Statistics Canada. Statistics Canada began collecting and publishing yearly statements of municipal financial operations by province in a publication entitled Local Government Finance 68-204. Data have been compiled from this publication and are presented in different formats in Tables 3-3 through 3-6.[4]

Compiling the Statistics Canada information, especially for the purpose of comparative analysis introduces a number of issues requiring acknowledgement. The core issues concern the way municipal finances are viewed and reported since these vary over time. There were three main problems with the Statistics Canada data.

The first issue concerns the treatment given educational revenue. In Ontario and most provinces of Canada, all own source taxation revenue for all local bodies is collected by the local municipal corporation. This situation applies to educational property taxes. Unfortunately since 1961 this revenue has not been reported separately from municipal property tax revenues. Consequently, the impacts of educational operations have to be calculated as accurately as possible and subtracted from

Table 3-3
Percentage Importance of Various Revenue Sources
for Ontario and Canadian Municipalities 1956 - 1981

	1951	1956	1961	1966	1971	1976	1981	
Property Tax Revenue as	63	56	88	77	44	39	33	Ontario
percentage of Total Revenue	54	51	78	73	39	35	32	Canada
Property Tax Revenue as a								
percentage of Total Own	95	94	93	87	73	62	53	Ontario
Source Revenue	86	83	79	80	62	57	49	Canada
User Fee Revenue as a	4	5	5	4	12	15	17	Ontario
percentage of Total Revenue	2	7	10	7	17	18	20	Canada
User Fee Revenue as a								
percentage of Total Own	5	9	6	5	20	25	28	Ontario
Source Revenue	4	11	10	8	27	29	31	Canada
User Fee Revenue excluding	nfa	nfa	nfa	nfa	10	12	17	Ontario
Special Assessment Revenue	nfa	nfa	nfa	nfa	14	15	18	Canada
as a percentage of								
Total Revenue								
User Fee Revenue excluding	nfa	nfa	nfa	nfa	16	21	27	Ontario
Special Assessment Revenue	nfa	nfa	nfa	nfa	21	24	28	Canada
as a percentage of								
Total Own Source Revenue								

NFA = No Figure Available
Source: Statistics Canada Local Government Finance 68-204, Various years.

Table 3-4

User Charge Revenue for 1976 by Province
(Totals in Thousands)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	CAN (excluding Yukon & NWT)
Privileges/Licences	572	37	1261	1025	11182	38510	5068	9413	25621	28530	121219
Water	4823	848	8406	8519	202539	166867	19874	17496	45479	46550	521401
Rentals	645	164	1267	1443	2286	30964	1843	2008	13241	38918	92779
Other General Sales of Goods & Services	3851	1467	7573	8062	114459	219373	26186	33309	131947	82873	629100
Special Assessment	1553	93	4330	126	131891	85292	11762	7903	17923	34518	29539
User Fee Revenue	11444	2604	22792	19172	462357	541006	64733	70129	234211	231389	1659890
All Source User Fee Revenue Special Assessment Excluded	9891	2516	18462	19049	330466	4455714	52971	62226	216288	196871	1364499
Total Municipal Revenue (education excluded)	100051	17093	199679	135245	2346666	3737457	425482	392062	997248	882818	8234781
Total User Fee Revenue / Total Municipal Revenue	11%	15%	11%	14%	20%	15%	15%	18%	23%	26%	18%
User Fee Revenue excluding Special Assessment / Total Municipal Revenue	10%	15%	09%	14%	14%	12%	12%	12%	16%	22%	15%

Source: Statistics Canada, Local Government Finance 68-204, 1976.

Table 3-5

User Charge Revenue for 1981 by Province
(Totals in Thousands)

	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	CAN (excluding Yukon & NWT)
Privileges/Licences Permits	1048	76	1684	799	14716	58330	5884	9962	57843	39822	190164
Water	8748	1423	17870	13788	267546	299076	32028	36975	127011	63150	867615
Rentals	1615	138	2214	1621	4439	66811	4901	4559	30101	82439	198838
Other General Sales of Goods & Services	10100	2843	44846	15394	283683	705221	59268	71313	484096	290822	1967586
Special Assessment	84	49	4880	17	161118	35711	16814	10313	46839	533988	329223
User Fee Revenue	21595	4529	71494	31619	731502	1165149	118895	133122	745890	529631	3553426
All Source User Fee Revenue Special Assessment Excluded	21511	4480	66614	131602	570384	1129438	102081	122809	699051	476233	3224203
Total Municipal Revenue (education excluded)	179448	11497	456409	225072	4062395	6950592	724782	709832	2839453	1808719	17968204
Total User Fee Revenue / Total Municipal Revenue	12%	40%	16%	14%	18%	17%	16%	19%	26%	29%	20%
User Fee Revenue excluding Special Assessment / Total Municipal Revenue	12%	39%	15%	14%	14%	16%	14%	17%	25%	26%	18%

Source: Statistics Canada, Local Government Finance 68-204, 1981.

Table 3-6

User Charge Revenue in Ontario Municipalities, 1971 to 1981
(Totals in Thousands)

	1971	1973	1976	1978	1981
Privileges/Licences	19,682	30,041	38,510	61,559	58,330
Permits					
Water	89,165	115,775	166,867	204,404	299,076
Rentals	8,265	11,830	30,964	45,778	66,811
Other General Sales of Goods and Services	60,761	141,245	219,373	454,629	705,221
Special Assessments	41,777	39,802	85,292	40,273	35,711
Total User Charge Revenue from all sources	219,650	338,693	541,006	806,643	1,165,149
Total User Charge Revenue Special Ass exempted	177,873	298,891	455,714	766,370	1,129,438
Total Municipal Revenue (Education excluded)	1,867,267	2,497,946	3,738,457	4,755,564	6,950,592
Total User Charge Revenue / Total Municipal Revenue	12%	14%	15%	17%	17%
Total U.C. Revene Exclude S. Ass / Total Municipal Revenue	10%	12%	12%	16%	17%
Total User Charge Revenue / Total Own Source Revenue	20%	23%	25%	29%	28%
Total U.C. Revenue - Spec Ass / Total Own Source Revenue	16%	20%	21%	28%	27%

Source: Statistics Canada Local Government Finance 68-204 Various Years

the totals presented.[5] The impact of this reconciliation is significant since educational revenues and expenditures would otherwise have doubled figures.

The second issue concerns the treatment given to the business tax, the other major own source revenue after property tax and user fees.[6] Business tax is not assessed equally upon ability to pay criteria. Rather, this tax, as is the case in Ontario is assessed as a supplementary property tax upon business.[7] As a result business tax revenue based on property is included in the property tax revenue.

There is also the effects of special assessments. Recognizing the particular characteristics of special assessment is important. Special Assessments are used primarily for capital financing, and the level of special assessment revenue will vary in relation to capital project undertakings. This fact does not negate the legitimacy of including special assessments as a user fee. Rather, it simply means that they need to be viewed separately from other user fees for some analyses.

The final issue concerns the treatment given to Federal and Provincial Grants in Lieu of Property Taxes. Originally these transfers were to replace property tax payments of otherwise exempted crown property. However over time the level of transfers (especially from the Province) has failed to keep pace with what would otherwise be the

level of property tax payable. Consequently, since municipal governments retain no control over these payments, they can be better treated as transfer payments.

Table 3-3A in Appendix A presents data for 1951-1981 in five year intervals. Table 3-3 entitled "Percentage Importance of Various Revenue Sources for Ontario and Canadian Municipalities 1951-1981" has been generated from data in Table 3-3A, and reveals two important trends. First, the importance of property tax in terms of both own source revenue and total revenue has declined substantially. In terms of total revenue the importance of property tax has declined twenty two percent nationally and thirty percent in Ontario. Own source revenue declines in property tax importance are even higher, registering thirty seven percent nationally and forty two percent in Ontario. The fact that the property tax revenue share has declined so substantially should not come as a surprise to local officials, although it probably would to many local rate payers in both Canada and the United States.

The second point concerns the rapid increases in the relative importance of user fees over the same period. From 1951 to 1981 user fees increased thirteen percent in Ontario and eighteen percent nationally measured as a percentage of total revenue. However, the increase was even more dramatic when measured against total own source revenue. In Ontario

the increase was twenty three percent while it was twenty seven percent nationally. Further, the proportion of user fee revenue did not begin to increase until after 1966. While more up to date information covering the 1980's was not available, the economic climate of the first half of the 1980's along with the actions of the Provincial and numerous municipal governments allows the following comment to be made. During the first half of the 1980's the generally high levels of inflation coupled with the depressed conditions of the economy meant that increases in property tax were primarily directed towards keeping pace with inflation without instituting real increases in the level of revenue. This coupled with restrictions and reductions in Provincial and Federal transfer payments meant that a problem of revenue growth was facing the majority of municipalities, many of which consequently attempted to increase the level of revenue derived through user fees.

Tables 3-4 and 3-5 show the absolute value and corresponding percentage position of user fee revenue for each province in the years 1976 and 1981 respectively. Although provincial differences make exacting comparisons difficult, a number of points do however emerge. All of the provinces in Canada allow their municipalities to utilize user fees. While the degree of utilization varies by province, the importance of fees is significant, generally increasing in importance moving east to west. In 1976

municipalities in the Province of Newfoundland and Nova Scotia made the least use of fees, only eleven percent of total revenues. In Alberta and British Columbia fees accounted for twenty three and twenty six percent of total revenue respectively. In 1981 the importance of user fees had increased nationally by two percent of total revenue. With the exception of New Brunswick's position, which remained unchanged, and Quebec's, which reported a slight decline in special assessments, all of the other provinces reported increases in the percentage of total revenue raised by user fees. Table 3-5 shows that while most of these increases were close to the national average this was not the case in Nova Scotia which experienced a five percent increase or even in Prince Edward Island where fees increased by two hundred and seventy percent representing a twenty-five percent increase in total revenue from fifteen to forty percent.

Table 3-6 provides a clear picture of the steadily increasing importance of user fees in the operation of Ontario municipalities for the ten year period between 1971 and 1981. Breaking down user fee revenues into five categories provides some interesting comparisons as shown in the following table.

TABLE 3-7

Percentage of Total User Fee Revenue: Ontario 1976, 81

	1971	1981	Net Change
Privileges/Licences	9	5	(4)
Permits			
Water	41	26	(15)
Rentals	4	6	2
Other General Sales of Goods and Services	28	61	33
Special Assessments	19	3	(16)

Source: See, Tables 3-5, 3-6
Statistics Canada Local Government Finance 68-204
Various Years

The most noticeable change is the large increase in the proportion of user fee revenue from the general sales of goods and services. The finding is important for two reasons. The first reason is because many officials appeared to believe that a majority of user fee revenues are accounted for by water charges. This revenue, in most municipalities, would not be important in terms of general operations since water systems mostly operate under a full cost user fee recovery system. Although a substantial amount of revenue is raised through water charges its overall proportion as a component of user fee revenue is declining rapidly (see Table 3-7). The second reason is, that in 1981, this category accounted for increased revenues over 1971 figures of six

hundred and forty million dollars. This classification of user fees although broad, is significant because it represents the impact user fees can have. This increase in revenue of over 1000 percent is far in excess of the cumulative inflation rate for the same period of 136.9%.[8]

Survey Response

All of the major municipalities in Southern Ontario as defined in Chapter One were surveyed for this study. Among these thirty municipalities, twenty-seven or ninety percent responded. While the degree of response varied (seemingly with a municipalities own experience with user fees) the level of information gathered was extensive. In most instances, the initial information supplied by a municipality was supplemented by interviews to clarify the data.

Although municipal governments in Ontario all function under the auspices of the Provincial Government, this has not prevented them from developing different organizational structures. Consequently, the comparison of data between municipalities must recognize the existence of these differences. Failure to do so leads to improper conclusions being drawn. In this case, this task is especially difficult since there is very little comparative information available on the structure of Ontario municipalities. Although efforts were made to recognize

these differences, a superior knowledge of local situations would have allowed more informative analysis.

One of the fundamental structural divisions that is present in Ontario is the result of the introduction of Regional government to a number of urban areas beginning with the creation of Metropolitan Toronto in 1954.[9] One of the organizational consequences of regional government was that urban areas could now be classified under one of three types of municipality; Regional (Upper Tier) Municipality, Lower Tier Municipality and Single Tier Municipality. One of the primary results of this classification is that the classification of a municipality under a regional (tiered) structure alters its service responsibilities. Therefore accurate comparative analysis requires that these classifications be recognized. Appendix 3A lists the municipalities which responded to this study classified according to municipal structure.

Survey Results For Sewerage Collection and Treatment

The primary justification for examining the collection and treatment of sewerage discharges in urban areas is because of its primary component, water. In part because of the need for a reliable source of drinking water, water supplies, especially in relation to large urban areas, are carefully monitored. One side effect of this monitoring is that property specific records of water usage are

available. Therefore, it is also feasible for government to determine fairly accurately the level of property specific sewerage generated. Thus, by being able to accurately determine utilization of a specific service, one of the major components necessary in establishing and efficiently operating a system of user fees is provided for.

The whole issue of sewerage treatment, because of its relation to environmental concerns and recreational pursuits has been receiving an increasing level of public and therefore political and administrative attention. Avoiding the question of desirable environmental standards, the majority of proposals for improvement are extremely expensive causing many municipalities to consider the role of sewer surcharges. While the development of a logical surcharge policy is based on a number of factors which will be addressed in the fourth chapter, important information is provided by the comparative experience of other municipalities.

Before proceeding to the actual survey results, two factors affecting the interpretation of the data need to be recognized. The first point is that many municipalities have designed their accounting systems in such a manner that expenditures and costs are treated completely separately and very often according to a different basis of categorization. Consequently, while a municipality may report complete cost recovery the importance of different types of revenues and

costs is difficult to determine. The primary sources of sewerage revenue are surcharges, development charges and transfer payments. Therefore when a municipality reports complete cost recovery on combined operating/capital accounts it is difficult to determine the relative importance of surcharges themselves. Similarly some municipalities reported only user fee revenue against total cost while being in a total cost recovery mode, while other municipalities funded shortfalls through the general levy.

The second point concerns the actual types of costs which are being targeted for recovery. There are four basic costing classifications; General Operating Costs, Capital Costs of Facilities, Overhead Costs and Capital Valuation Costs. The format of many municipal budgets focuses on general operating costs as the basis of recovery programs, very often ignoring the valuation let alone the collection of these other types of costs. Consequently attention must be paid to the basis of cost recovery in the forthcoming tables.

Upper Tier Municipalities

There are eight regional municipalities which provided information on their sewerage collection and treatment operations. The fiscal impacts of these operations are shown in Table 3-8.

One final point relating to the data presented is that there are jurisdictional differences among

Table 3-8

Revenue from User Fees and Percentage of Budget Recovered

from Fees for Sewerage Services, Upper Tier Municipalities

(Figures in Millions)
(N.F.A. - No Figure Available)

	1979	1980	1981	1982	1983	1984	1985	1986
Metropolitan Toronto		25.5	32.7	38.4	49.2	57.4	63.8	78.7
(Operating Budget)		84%	96%	97%	111%	120%	125%	143%
Region of Durham	5.2	5.9	7.4	10.4	12.4	13.5		
(Individual Fee Recovery)	71%	63%	67%	78%	79%	81%		
Region of Halton	6.8	9.2	10.3	13.1	13.5			
(Total Budget)	100%	100%	100%	100%	100%			
Region of Hamilton/Wentworth							N.F.A.	
(Total Budget)							100%	
Region of Niagara	9.2	9.7	11.5	13.2	14.4	15.8		
(Total Budget)	100%	100%	100%	100%	100%	100%		
Region of Ottawa/Carlton	0.05	0.06	0.06	0.03	0.9	3.4	5.4	8.0
(Operating Costs)	1%	1.1%	0.9%	0.3%	6.7%	22.6%	47.8%	64.0%
(Total Budget)	0.5%	0.6%	0.5%	0.2%	6.2%	17.3%	23.0%	30.0%
Region of Peel	12.0	13.6	15.7	18.5	22.6	24.8		
(Individual Fee Recovery)	81%	86%	83%	83%	84%	88%		
Region of Waterloo						N.F.A.		
(Total Budget						100%		

municipalities. These differences are extremely relevant to regional municipalities in the treatment of sewerage. Regional government was introduced over more than twenty years during which the jurisdictional responsibility for sewerage was affected. For regional municipalities two models of sewerage handling were instituted. The first model provides for a system of shared responsibility between upper and lower tier municipalities. This system, which currently is applicable in the Regions of Metropolitan Toronto, Ottawa-Carlton and Niagara, provides for regional responsibility regarding trunk line sewer collection and treatment.[10] Lower tier municipalities within these respective regions retain jurisdiction over collection systems extending from individual properties to regional trunk sewers. Under the provisions outlining this separation of responsibility, each municipality retains the responsibility for the expenditures associated with its mandate. The second model, which applies to the Regional Municipalities of Durham, Halton, Hamilton-Wentworth, Peel, provides for the complete responsibility, from individual property to treatment discharge, to be the responsibility of the regional municipality.[11] Provisions are also provided whereby sewerage costs can be recovered.

Table 3-8 shows that in the majority of cases complete cost recovery (including operating and capital costs) is the standard. Although numerous constraints prevented the compiling of equally detailed responses for

each region, it is evident that all regions rely for most of their revenue in this area from user fees. Examining user fee usage based on the jurisdictional model under which the municipality is classified provides some interesting results. Under the guidelines of the second model, those regional municipalities which retain sole jurisdiction over their sewerage systems operate them under a program of complete cost recovery. While the Regional Municipalities of Durham and Peel do not generate total cost recovery from user fees as indicated in Table 3-8, they operate on a complete cost recovery format. Their revenue shortfall, related to capital projects is recovered through other mechanisms such as developmental charges and provincial transfers.

Examining the three regional municipalities functioning under the requirement of separated jurisdictional responsibility reveals a different situation. Only the Regional Municipality of Niagara is in the position of complete cost recovery. Consequently, it is only appropriate to focus upon the position of the other two regions. The first case, and the one in which the standard of total cost recovery is most seriously lacking, is the Regional Municipality of Ottawa-Carlton. The information in Table 3-8 indicates that up until 1983 more than ninety percent of sewerage costs were financed from general tax funds. Beginning in 1983 a sewerage user fee program was introduced

contributing to a steady improvement in the level of cost recovery. One issue that naturally arises, especially in reference to the performance of other municipalities, is why did the region not act sooner? Although there are a number of facets to this question, the fundamental reason concerned the predominance of federal government property and corresponding grants-in-lieu in the region's tax base. Previous to 1983 the expectation was that if a sewerage surcharge were instituted the federal government would refuse to pay it. Further, such a move could have a negative impact in the level of grants-in-lieu which were already below what the commercial level of property taxation would be. It was not until 1983 that the Federal Government indicated that they would treat a sewerage user fee as a regular service account not subject to the Crown's taxation prerogative. There would also not be a negative effect on the level of grants-in-lieu transfer.

With this important hurdle cleared, a sewer surcharge was instituted based on the level of water usage. The surcharge was planned to be phased in over a six year period but only to the point of recovering operational costs. Based on the data in Table 3-8 the region's plan appears to be on schedule. However, the figures also show that presently only thirty percent of all costs are being recovered. This cost recovery differential is the result of current expansion and historically necessitated replacement of capital works.

Although some of these costs are addressed through development charge funds, the age of the system results in significant capital replacement expenditures. Under current plans sufficient revenues to address this issue will not be available until 1988. Currently, the question of whether to address capital costs through user fees has not been decided. Currently, these fiscal costs, as were once all sewerage costs, are being funded through the regional levy.

The Regional Municipality of Metropolitan Toronto is the other case where there is a revenue recovery shortfall exists. The situation in Metro Toronto is compounded by the publicity relating to water quality along the region's waterfront. In fairness, it must be pointed out that other municipalities along Lake Ontario and Lake Huron have experienced similar problems. However, the situation in Metro Toronto has certainly received the most media attention.

Sewer surcharges were first introduced into Metro Toronto in 1974 at the rate of ten percent of water billings. The level of billings has been increasing since then under a series of five year agreements among constituent municipalities, with the objective of increasing the level of water pollution cost recovery. Metro Toronto's water pollution costs, like all other municipalities are a function of two cost components, operating and capital costs. The

information in Table 3-8 indicates that a break even position for operating cost was first achieved in 1983. However, Metro Toronto continues to be in a deficit position because of the level of capital expenditure required each year. Currently yearly capital expenditures exceed sixty percent of operating costs. Metro officials indicate that significant capital expenditures can be expected to continue into the future.

The capital expenditure issue is not unique to Metro Toronto. However, most of the separate issues which exert an influence on the infrastructure issue are present in this instance. The first issue is the cost associated with maintaining and where necessary replacing the existing collection system. Because the collection infrastructure is buried and consequently out of public view the extent of maintenance and replacement can either be postponed or not carried out. While this is a common problem the general result is that costs eventually increase. The second issue is the cost of upgrading effluent treatment facilities to the standards achievable under present technology. This point is the most relevant when it comes to the establishment of tertiary treatment facilities. The third issue, in part related to the previous two, concerns the costs associated with the utilization of new technological advancements. Another issue is the costs of disposing of sewerage sludge in an environmentally sound means. A fifth point is the fact

that in the case of Metro Toronto, no capital reserves have been established to assist in meeting these costs. Finally there is the issue of storm water effluent especially the initial seriously contaminated flush. Although storm water management is a lower tier municipal issue it is one in which the upper tier Metro level retains a significant interest for a number of reasons, one of which is the fact that they have all the treatment facilities, if it is deemed that this effluent flush must be treated.

Based on current revenue plans the water pollution (sewerage) surcharge is calculated at one hundred and fifteen percent of the water bill. Based on the current level of water billings, a 1986 break-even point would be achieved at a billing percentage of 126.6 percent. Under the last five year agreement the objective was to reach a complete break-even position by 1988/89. However in 1986 this agreement was terminated and rates will now be set on a yearly and probably a more politicized basis.

Lower Tier Municipalities

The responsibility of lower tier municipalities regarding sewerage varies according to the jurisdictional organization of each region. Where lower tier responsibility is retained it is only for local collection systems entering into the regional collection system. However, many lower tier municipalities retain control over storm sewer

management. Responsibility in this regard can become blurred in those cases where combined storm and sanitary sewers continue to exist. Figures on the use of sewer surcharges in Lower Tier Municipalities is shown in Table 3-9.

Of the five lower tier municipalities within Metro Toronto only two; the City of Toronto and the City of Etobicoke reported the existence of sewerage surcharges.

The City of Toronto operates on the premise of recovering direct operating costs from a sewer surcharge while capital costs are charged against revenue derived from general revenues. The sewer surcharge is calculated as a percentage, presently fifteen, of the water bill. The figures for the city show a dramatic improvement in the level of cost recovery in the 1980 to 84 period. However, there has been no change to the recovery percentage and the increase is largely the result of declining capital costs. Although a program of sewer separation is nearing completion, the overall state of the sewer system will necessitate an expanding capital works program. Consequently, without alterations to the current cost recovery rate, a decline in the total level of cost recovery will almost certainly result. It should be noted that no information was available dealing strictly with operating cost recovery levels which may or may not have provided some justification for the fifteen percent figure.

Table 3-9

Revenue from User Fees and Percentage of Budget Recovered from Fees,

Sewerage, Lower Tier Municipalities

(unless otherwise stated, figures refer to Operating Budgets)
(Figures in Thousands)

(N.F.A. - No Figure Available/ N.A. - Not Applicable)

	1979	1980	1981	1982	1983	1984	1985	1986
City of Toronto	4831.5	5675.7	7680.5	9933.6	10821.7			
(Includes Capital Budget)	28%	28%	40%	38%	41%	81%		
City of Etobicoke						200.0		
						12%		
City of Ottawa	2046.0	1982.0	2091.6	2211.8	2269.7	2224.5		
(Includes Capital Budget)	72%	71%	71%	70%	71%	72%		
City of Nepean	1326.1	1655.6	2081.9	2157.9	2180.4	3054.0		
	121%	140%	118%	107%	123%	132%		
City of York							N.F.A.	
City of North York							N.F.A.	
City of East York							N.F.A.	
City of St. Catharines							N.F.A.	
City of Oshawa							N.A	
City of Hamilton							N.A.	
City of Gloucester							N.A.	
City of Brampton							N.A.	
City of Mississauga							N.A.	
City of Burlington							N.A.	

The City of Etobicoke does not maintain an ongoing individual sewer surcharge. Rather the twelve percent cost recovery level is realized through a variety of service charges for specific services such as sewer connections. These costs are intended to recoup only the direct costs of providing these services.

The other instance where lower tier municipalities have instituted user fees is in the Ottawa Carlton region in the Cities of Ottawa and Nepean. The primary purpose for a sewer surcharge in the City of Ottawa is for the recovery of operating costs. While total cost recovery has been in the area of seventy percent, recovery of general operating costs has been in the region of eighty-five percent.

Table 3-9 demonstrates that the City of Nepean's sewer surcharge has been able to fully recover operating costs and that considerable revenues have subsequently been directed towards capital projects. This situation is a reflection of the "pay as you go" philosophy which has been present in the city. During a substantial period of heavy growth Nepean appears to be structuring their development unburdened by a heavy debt load.

Single Tier Municipalities

Of the five municipalities in this category which responded to the questionnaire as shown in Table 3-10, in only one case is a user fee program of any substance in

place. Neither the Cities of Kingston or London have any type of community wide sewerage user fee in place. While each of the communities retain a variety of development and service fees the vast majority of operating and capital costs are met out of general revenues derived from property taxation and provincial grants.

The City of Sarnia retains a minimal sewerage user fee the purpose of which is to retire an old capital debenture incurred through the construction of a treatment facility. In 1984 the revenue generated from this charge was twenty seven thousand dollars representing a recovery rate of 2.2% on a budget just exceeding 1.2 million dollars. This debt should be fully retired in 1989, at which time the user charge is slated for abolition.

The City of Windsor retains a user fee system which is completely tied to the operation of two sewerage treatment facilities. Each of these facilities provide services not only to the city itself but also to a number of outlying municipalities. With the minor exception of an industrial surcharge, the revenue recovered on sewerage operations is achieved by billing area municipalities on a proportion to flow basis for their utilization of the facilities. The citizens of the city itself are not billed in any way for their use of the system. The remaining costs of the entire sewerage system is charged to the city's consolidated revenue fund.

Table 3-10

Revenue from User Fees and Percentage of Budget Recovered

from Fees, Sewerage Services, Single Tier Municipalities

(unless otherwise noted, figures refer to operating budgets)

(figures in Thousands)

(N.A. - Not Applicable)

	1979	1980	1981	1982	1983	1984	1985	1986
City of Sarnia (Capital Budget)						27.0 2%		
City of Windsor	360.7 10%	314.3 7%	404.0 9%	478.7 9%	312.5 10%	392.1 12%		
City of Peterborough				N.A.	753.8 31%	1199.5 83%		
City of Kingston								N.A.
City of London								N.A.

The City of Peterborough has an extensive user fee program in place for the recovery of sewerage costs. Peterborough's user charge system was implemented in May of 1983. Beginning in May 1983, all users of the system paid a surcharge of thirty-two percent on their water billings. In 1983 a recovery rate of 31.2% was achieved growing to 82.6 in 1984. The original intention of the program was to recover the direct operating costs of the system.[12] The system is rapidly approaching a point where it may well be generating operating surpluses. While the issue of capital costs was not originally examined this issue will soon need to be addressed. At this time it seems most likely that a policy will be recommended whereby a yearly capital contribution is made to alleviate the need for general revenue capital financing. An extensive program of development charges has also been adopted thereby covering capital costs of services to new areas.

Survey Results for Parks and Recreation

Generally response to this component of the questionnaire was stronger than for sewerage. Every municipality which responded to the questionnaire, and which retained some degree of jurisdiction in this field, reported having some system of user fees.

Just as was the case when examining the utilization of sewerage surcharges there are a number of factors which

need to be accounted for when examining the results of the parks and recreation survey. The first point concerns the expenditure basis upon which cost recovery will be examined. This point has two parts. The first is the fact that just as in the case of sewerage, revenue recoveries comprise various types of user fees charged to community users and also internal chargeback revenues resulting from one department using the services of another and paying for them as though these services had been provided privately. Although these internal chargebacks can be viewed as user fees, strictly speaking, they are not of the same type as those under examination here. However, many municipalities either do not record internal chargeback revenue separately or do not have an internal chargeback program. The second point concerns the standard of comparison itself. Generally parks and recreation functions are grouped together. However, the argument supporting their separation can be made, because the private benefits of some recreation services are more readily definable than they are for public parks. The problem with accepting this argument is that there is no standard accepted in the field itself. Therefore while some municipalities make the distinction, the majority do not, consequently requiring a combined Parks and Recreation standard of comparison. Other issues complicating comparison can be: the geographical characteristics and the historical

development of the community, and the socio-economic profile of its citizens. The interrelationship of these and other factors can have a large impact on how the provision of parks and recreation services emerge in a city.

Upper Tier Municipalities

Of the eight regional municipalities responding to the questionnaire as shown in Table 3-11, only Metropolitan Toronto reported undertaking any activities classifiable as falling under Parks and Recreation. The most common justification cited for not becoming involved was that no jurisdictional grounds existed for doing so. Another reason was the fact that community needs in this regard were being served adequately by other public bodies most noticeably constituent municipalities and conservation authorities.

Metropolitan Toronto retains a parks and recreation responsibility largely because of the region's physical features and the historical evolution of the area. A review of the figures for the region indicates that while the level of cost recovery has averaged in excess of twenty percent during the 1980's there have been some significant variations. Unfortunately however, it is difficult to trace these variations to specific policy changes since the department is responsible for a wide variety of functions outside of a traditional parks and recreation department.

Table 3-11

Revenue From User Fees and Percentage of Budget Recovered

from Fees, Parks and Recreation Services, Upper Tier Municipalities

(figures in Millions)

(N.A. - Not Applicable)

	1979	1980	1981	1982	1983	1984	1985	1986
Metropolitan Toronto (Total Budget)		4.9 22%	4.9 18%	5.6 20%	12.0 38%	9.4 28%		
Region of Durham								N.A.
Region of Halton								N.A.
Region of Hamilton/Wentworth								N.A.
Region of Niagara								N.A.
Region of Ottawa/Carlton								N.A.
Region of Peel								N.A.
Region of Waterloo								N.A.

Some of these responsibilities include the maintenance of Metro real estate, in particular police and ambulance headquarters as well as a theatre and the Toronto Island ferries. Even with the assistance of regional officials the regional budget system does not facilitate the development of more precise facts. However, officials did indicate that for a variety of recreational services such as golf, soccer and tennis services user fees are in effect and that on an aggregate basis the level of cost recovery has been approximately sixty percent.

Lower Tier Municipalities

As shown in Table 3-12 all of the fourteen surveyed lower tier municipalities indicated that some manner of user fee policy was in effect. Further, with the exception of one municipality, the revenue derived from user fees and internal charges is significant and in percentage terms of operating budgets has remained stable and or increased during the first half of the 1980's.

There has been a small shift to increasing the level of revenue in terms of costs recovered from user fees. This trend can be confirmed not only by reference to the performance of individual municipalities in Table 3-12 but also by referring to the data provided by the Bureau of Municipal Research from their study in 1977.

Table 3-12

Revenue from User Fees and Percentage of Budget Recovered from Fees, Parks and Recreation Services, Lower Tier Municipalities

(Unless otherwise noted, figures refer to operating budgets)

(figures in Thousands)

(N.F.A. - No Figure Available)

	1979	1980	1981	1982	1983	1984	1985	1986
City of Toronto							N.F.A. 0.5%	
City of Etobicoke								
User Fee Revenue	1609.7 16%	1687.7 16%	1927.1 16%	2047.5 15%	2265.4 15%	2549.4 16%		
Total Revenue	2160.1 22%	2299.4 22%	2610.7 22%	2857.9 21%	3184.9 22%	3550.6 23%		
City of York								
Parks & Recreation						1105.3 21%		
Recreation Only						905.3 35$		
City of North York								
Parks & Recreation	4135.8 23%	4706.7 23%	5560.6 24%	5796.8 22%	5840.3 21%	6150.0 21%	6710.0 20%	
Recreation Only							5095.3 24%	
City of East York								
Parks & Recreation	721.5 21%	796.6 21%	731.8 19%	1174.5 28%	1366.4 29%	1451.9 28%		
Recreation Only							950.0 32%	
City of Oshawa	1766.0 29%	1852.1 30%	1935.4 29%	2153.5 30%	2183.4 29%	2287.7 28%		
City of Hamilton	1698.5 25%	1924.9 24%	2090.2 23%	2184.2 21%	2412.1 22%	3037.0 25%		
City of St. Catharines		367.4 11%	487.7 13%	529.4 11%	531.4 11%	611.0 13%		

Table 3-12 (continued)

	1979	1980	1981	1982	1983	1984	1985	1986
City of Oshawa		848.2 18%	1075.5 22%	1228.9 21%	1455.4 22%	1690.7 23%		
City of Nepean		1935.0 34%	2020.9 29%	2066.9 28%	2224.8 30%	2419.1 30%	2611.2 31%	
City of Gloucester Parks & Recreation			1950.0 41%	2520.0 46%	2417.0 44%	2668.0 43%	3350.6 47%	
Recreation Only						2532.9 51%		
City of Brampton	2453.6	3015.4 41%	3598.7 43%	4088.6 44%	4414.8 43%	4814.9 42%	 42%	
City of Mississauga	3035.7 29%	3498.1 28%	3767.2 27%	5444.8 31%	6167.6 36%	6519.7 36%		
City of Burlington User Fee Revenue	1441.0 27%	1733.3 26%	2366.7 29%	2344.3 28%	2663.3 31%	2663.3 28%	2385.7	
Total Revenue	1839.0 34%	2358.2 36%	2979.5 39%	3287.4 40%	3529.0 41%	3494.6 40%		

Seven lower tier municipalities responded to the Bureau's survey on this question.[21] Some significant changes had occurred in the nine years. The following table contains this comparison.

TABLE 3-13

Comparison of the revenue impact of user fees between 1977 and 1984/85 for selected lower tier municipalities.

Cities	Percentage of Revenue Recovered from User Fees in 1977[1]	User Fee Revenue in 1977[1]	Percentage of Revenue Recovered from User Fees in 1984/85[2]	User Fee Revenue in 1984/85[2]
Etobicoke	2.0	1 903 200	23[3]	3 550 582
Ottawa	18.0	700 000	23	1 680 700
Gloucester	22.0	2 216 723	43	2 667 986
Burlington	20.4	977 856	40	3 494 647

1. These figures are taken from:

   Bureau of Municipal Research. Municipal Services: Who Should Pay (Topic #3, February, 1980) p. 12.

2. Figures for each of the municipalities are the most recent available and are taken from the data presented in Table 3-12.

3. The percentage recovery and corresponding revenue totals for these communities is inclusive of internal chargeback revenue. The justification for this is that there is no evidence to indicate that this difference was recognized in the bureau's study.

As the information both in the table above and Table 3-12 clearly shows user fees in the operations of Parks and Recreation departments is of significant importance.

However, the City of Toronto is a major exception. According to the Commissioner of Parks and Recreation for the City of Toronto;

> It is the policy of the City of Toronto that recreational services offered by the Department of Parks and Recreation are provided free of charge to City residents. Therefore, user fees are not charged.

Although the department does admit to generating some revenue from fees levied for the use of certain facilities such as locker rentals and boat slips, this limited range of charges accounts for less than half of one percent of the department's annual operating budget. The City of Toronto has, however, developed at least one means of providing a recreational service based largely on user fees without reference to the Parks and Recreation Department. This situation will be examined in more detail when discussing arenas.

Single Tier Municipalities

The results of the five single tier municipalities responding to the survey are shown in Table 3-14. These data show that all of these municipalities make use of user fees and that generally they do so to a larger degree than lower tier municipalities. With the exception of the City of Kingston, each of the other four municipalities had responded to the Bureau of Municipal Researchers survey. However, because of problems uncovered in the reliability of the

Table 3-14

Revenue From User Fees and Percentage of Budget Recovered

from Fees, Parks and Recreation Services, Single Tier Municipalities

(Figures refer to Operating Budgets)

(Figures in Thousands)

	1979	1980	1981	1982	1983	1984	1985	1986
City of Sarnia	319.0 18%	360.9 18%	385.8 18%	495.6 21%	467.9 21%	456.7 18%		
City of Kingston	610.1 22%	684.8 23%	767.7 24%	905.5 26%	1010.3 29%	1186.3 31%		
City of Peterborough		1160.0 45%	1257.0 45%	1237.0 42%	1229.0 43%	1340.0 46%		
City of London	1050.0 36%	1350.0 37%	1900.0 35%	2200.0 34%	2400.0 35%	2600.0 37%		
City of Windsor	1126.3 19%	1374.3 20%	1629.6 21%	2185.6 24%	3375.8 40%	3497.2 38%	3782.9 39%	

Bureau's research,[13] a comparison of data would provide unreliable results. Working from the data in Table 3-14 shows that three of the cities; Sarnia, Peterborough and London, have continued to generate approximately the same level of revenue in percentage terms from user fees over the six year period 1978 to 1984. The two cities which did increase the significance of fees were Kingston and Windsor. Between 1979 and 1984 the changes accounted for a fiscal impact in 1984 of 8% or $576,200 for the City of Kingston and 18% or 2.656 million dollars for the City of Windsor.

In none of the five cases was there any evidence indicating that there had been any significant changes concerning the level of services provided to citizens. Since the level of service provision had already been established and a user fee policy established which was meeting its objectives, especially in the City of London and to a lesser degree in the City of Peterborough, there was no reason advanced to alter the existing system. The primary reason given for increasing the significance of fee revenue in the case of Kingston and Windsor was the need for revenue to offset increasing costs and/or budget reductions. In each case not all of the increased revenue was necessarily derived from increasing fees although that played a major role. Another source of revenue increase as was witnessed in the case of Kingston was the implementation of a superior system of internal chargebacks. Although the significance of these

types of developments was already discussed in relation to lower tier municipalities their significance cannot be underestimated since they can cause the development of a more efficient operations pattern.

One of the striking points about Table 3-14 is the high level of fee recovery in the Cities of Peterborough and London. One of the reasons for these recovery levels is that each city has relied on non-municipal facilities. In the case of Peterborough the city has utilized the facilities of Trent University, Sir Sandford Fleming College and other private operators such as the YMCA so as to not be in a position of sole responsibility for services such as indoor pools. The City of London has followed the same basic model, and has allowed private operators and other governmental bodies, such as the Upper Thames Valley Conservation Authority, a large role in serving the community's needs. Momentarily avoiding the debate over public vs private service provision, this type of policy has one substantial benefit. It frees the City from being responsible for the capital financing, administrative overhead and operating deficit costs of a number of expensive capital projects, such as indoor arenas and indoor pools This substantially lowers the yearly costs to the department and ultimately the general taxpayer without necessarily affecting the services which the community can enjoy.

Survey Results for Specific Parks and Recration Services

Aquatic Facilities

Not all of the municipalities surveyed operate indoor pools. In fact some of the municipalities surveyed such as the City of Peterborough do not maintain any pool facility at all. There are essentially three important factors influencing a municipality's decision about providing pools.

The first reason, which affects a decision about indoor year round aquatic facilities, is that perceived demand is not strong enough to warrant municipal involvement. This does not mean that there is not a demand, but rather that other facilities of either a public or private nature are available to adequately service this demand. The most often cited examples of such facilities are; YMCA/YWCAs, Post Secondary Institutions, other governmental facilities such as special provincial schools, and private institutions, most often health clubs. Obviously the applicability of these circumstances varies according to individual municipalities. However, it is possible that through proper management of these facilities which may or may not require municipal participation, community demands may be adequately serviced. This was the case in the Cities of Peterborough and London, although municipal officials in each city indicated that increasing demand may necessitate changes.

The second reason affecting the decision making process is that outdoor pool facilities are both cheaper to

construct and to operate. Further, they have the highest levels of perceived demand. The final reason is that during the summer months there are other sources of safe aquatic facilities available either naturally or again either from other public or private facilities.

One of the major factors affecting the availability of municipal aquatic facilities and programs is the apparently wide spread public perception that safe and accessible public recreation is a merit good that should be publically provided. The justification for this perception may be related to the relationship society maintains with aquatic environments. The need to survive in this environment justifies the most popular of aquatic programs, swimming lessons. While it is unlikely that an individual will die from not being able to skate, a large number of persons, in spite of the wide existence of learn to swim programs, do drown each year.[14]

All of the municipalities contacted which owned pools or leased pool facilities had user fees of some type for most of the aquatic uses they serviced. There are essentially three types of uses for aquatic facilities: swimming lessons, recreational swimming and private rental. Before proceeding it is important to make one point. There is no evidence indicating that any standard pool facility made money, broke even, or even approached a break even position on operating

expenses.[15] Generally, indoor aquatic facilities are very expensive to build and operate.

Due to the high loss expectations associated with pool operations, no evidence was uncovered to suggest that in the majority of municipalities, user fee policies regarding aquatic operations had been the target of more than passing interest. The basic premise of fee utilization related to swimming lessons and pool rental. Generally prices were set to attempt to generate revenues necessary to recover the direct cost of facility staff time.[16] A number of municipalities provided free recreational swimming. The bases for this position were two fold. The first reason was that the additional costs of collecting the charge made it uneconomical. The second reason was that by ensuring easy pool access especially for younger children a safe aquatic environment was being provided.[17]

It is important to recognize that not all aquatic facilities are unprofitable. The type of facility which has been mentioned is the traditional public pool where such a facility is the only facility at a location. As soon as the nature of the pool is changed to provide special facilities, or other facilities are attached, the possible financial implications of the facility changes. Depending on the degree of change and surrounding market conditions the facility can become profitable according to private sector criteria.

Survey Results for Arena Facilities

All of the lower and single tier municipalities surveyed operated indoor arenas, using one of two management methods. One method is to operate the arena just as any regular facility within the parks and recreation department. The second method is to administer the arena separately through a non departmental mechanism such as a board or commission. All municipalities indicated that there was a demand for arena facilities which generally exceeded existing capacity. Although the question of actual cost recovery levels for arenas was not an original survey question this issue was raised in follow-up communication.

The most commonly utilized method of arena management was the regular departmental method. Approximately half of the municipalities surveyed indicated that their cost recovery target was direct operating cost. Actual recorded recovery figures changed from twenty seven to ninety eight percent with an overall average of approximately fifty five percent. This wide variation in the level of recovery seems largely to be the result of four factors. The first point is that the nature of arena facilities and the level of actual service they provide is not identical for all municipalities leading to different cost basis. Secondly, these arenas are not operated according to private sector standards meaning that actual cost recovery is not necessarily important in determining price. Survey responses indicated that a number

of variables are taken into account in establishing arena pricing. The two most popular were, traditional pricing within the municipality, and secondly, the going rate for public facilities in other municipalities. The actual costs of the facilities themselves often do not appear to be important.

Thirdly, municipal officials perceived that accessibility, especially for young people, to arena facilities is a merit good that should be publically supplied. Consequently, municipalities have instituted a variety of subsidy plans, many targeted towards younger people.

The final point is that while citizens perceive arena facilities as a public necessity they are generally willing to pay some "reasonable fee" for their use. However, the real issue is determining what is reasonable and this generally is associated with some relationship to the traditional price. Further, whether a subsidy is internally handled within the municipality, resulting in a lower price, or externally transferred to the user group to be received by the municipality in payment, and how these transactions are recorded, have a real effect on the reported level of cost recovery.

Facilities operated by some manner of non-departmental organization often have their operations

structured in such a manner that they completely bypass regular administrative channels, often reporting directly to the municipal council. The facilities which normally fall under this method of organizational structure are often very large, may be associated with other facilities and have multiple uses. Due to the nature of these facilities a discussion of their operations is really not appropriate at this time. However, research revealed that the City of Toronto utilizes a separate board format in the operation of each of their seven arena facilities. While each of these arena boards reports to the parks and recreation department they individually retain control over their daily operations. Each arena board has five representatives, appointed by the city but representing the primary user groups of each facility. Except where locational considerations limit a facility's operations, each arena board is expected to operate their facility in such a manner that its operating costs are recovered. While further research into this managerial method is necessary, it is interesting to note that much of the political controversy normally associated with user fees is absent.

Finally these points should be made concerning survey responses to arena operations and policy. First, there was no evidence to suggest that capital costs are considered when pricing arena services. The second point is that if demand for arena facilities is as strong as indicated by officials,

why then have market forces not been permitted to play a larger role in governing arena management? Finally, there does not appear to have been much municipal consideration given to the role of private operators in supplying arena facilities. Many municipalities appear to indirectly approach this issue by utilizing a costing format which makes it economically unfeasible for private operators to enter the market. Furthermore, some of those municipalities which have private operators create a market place whereby it is increasingly difficult for them to remain in business. This can create a problem for the municipality since the resulting public cost to replace private facilities driven out of business requires a considerable expenditure of public funds.

Survey Results for Golf Courses

The provision and operation of golf courses does not generally appear to be a traditionally accepted municipal responsibility. Of the twenty seven municipalities surveyed only eight indicated an involvement in this field.[18] Another point is that special circumstances have contributed towards the involvement of municipalities in golf courses. One case in point being the Tyandaga Golf Course now owned by the City of Burlington. The city became involved in this facility originally because it had gone bankrupt and there was no party willing to take it over. Facilities in other cities served as land reclamation projects. Cases in point are

Belle Park Fairways in the City of Kingston, which is built on a land fill site, and Fanshawe Golf Course in the City of London which is located in an old quarry. A final point is that a number of facilities are fairly old.

The only municipality which plans to build a new facility is the Region of Metro Toronto. The Region presently has five facilities and intends to add a full size eighteen hole facility in the eastern section of the Region.

The question of whether municipalities should be directly involved in this particular field raises a number of issues. The first is the public sector role in providing highly specialized recreational services. The second issue is the type of management system under which the facility should be operated. The controversy about whether municipalities should be directly involved is reflected in the types of management arrangements employed, ranging from a regular line function to autonomous facility managers.

A further problem is the basis upon which the facility should be operated. Generally municipalities indicated that these facilities should operate on a break even basis. The issue is what is the basis of break even costs. Survey data indicated that the basis of break even operations is very often direct operating costs. The avoidance of capital costs means that municipal facilities have a significant competitive advantage over existing or

potential private operators.

Very little information was available on the overall fiscal performance of golf courses but, what was available indicated that they were generally meeting the objective of operating cost recovery. Unfortunately the reliability of this conclusion is seriously questioned by public debate concerning the fiscal position of municipal golf courses in the City of Hamilton which surfaced in the summer of 1986. Financial reports showed that in 1985 the facility's operating deficit was just over half a million dollars which when combined with yearly payments on capital debt increased to over six hundred thousand dollars. The 1986 budget estimated operating losses of six hundred and seventy thousand dollars which when considered with capital losses increased to over three quarters of a million dollars.[19]

It was by chance that an aldermanic question brought this whole situation to the public's attention. It is clear that the fiscal operations of the facilities had not been carefully analysed. Consequently, it is only appropriate to question to what extent similar situations exist in other municipalities in respect to all types of services.

Conclusion

This chapter has presented a variety of information obtained from existing statistical reports and survey results concerning the utilization of user fees by municipal governments. Beginning with an examination of financial data in Tables 3-1, 3-2 on American municipalities, two points clearly emerged. The first point was that the importance of property taxation as a municipal revenue source has been declining. The second point was that some of this decline has been offset by a dramatic increase in the level of revenue raised through numerous classifications of user fees. An examination of Canadian municipalities measured nationally revealed similar findings. Not only had there been a decline in the level of revenue generated from property taxation, but there had also been, especially since the early 1960's, a dramatic increase in the level of revenue from user fees with some variation amongst provinces. However, with the exception of Prince Edward Island which now records the highest provincial level of municipal user fee utilization, moving east to west the utilization of user fees as a revenue source increases.

A second point raised in this chapter was the need to evaluate municipal fiscal capacity based on the degree of authority which the municipality retains over individual revenue sources. This discussion resulted in the introduction of the distinction between total revenue and

total own source revenue. When municipal revenue capacity, particularly for Canadian municipalities, was examined in light of this difference the trends in terms of property tax decline and user fee growth were further demonstrated.

The examination of the financial status of Ontario municipalities indicated the same two trends already outlined. However, further analysis showed that the growth in terms of revenue generated from user fees had occurred under the category of General Sales of Goods and Services. In fact this pattern of growth, as shown in Table 3-7, has been so dramatic that it has placed most of the other categories of user fees such as water charges in a negative position in terms of total user fee share, although many of these classifications had generated significant additional revenues. These findings showed not only that user fees have become a important source of municipal revenue, nearly on a par with property tax revenue, something which most municipal officials did not realize, but that the often underestimated user fee was the primary area of real growth in municipal revenue capacity.

The presentation and analysis of the data generated by the survey of municipalities revealed a number of important points concerning the actual utilization of user fees in regards to different municipal service responsibilities. Regarding sewerage collection and

treatment the survey found that there was a tremendous variation concerning the use of user fees depending on the type of municipality. All of the upper tier or regional municipalities responding to the survey were found to make some use of user fees. Those municipalities which retained sole jurisdiction in this field tended to operate their systems on a full cost recovery basis including capital as well as operating costs. However, those municipalities which shared jurisdiction with their lower tier municipalities, were generally not in a full cost recovery position, most often with the main criteria of recovery being operating cost. The use of user fees by lower tier municipalites retaining a jurisdictional responsibility, exhibited a wide variation even among municipalities under the same regional government. None of the municipalities surveyed recovered full costs even from the perspective of operating costs. Shortfalls, or in some cases the entire cost, were financed from property tax revenue. Of the five single tier municipalities surveyed, only one, The City of Peterborough had a user fee system in place. The other four municipalities financed all these costs from property taxation.

The use of user fees in the area of Parks and Recreation Services was shown to vary greatly from one municipality to another. Not only was there no standard policy among municipalities, many municipalities lacked a

consistent approach to user fees across different recreational services within the same department. Generally the utilization of user fees for aquatic facilities was the subject of little attention. While fees were often evident for swimming programs they were often established without concern to the costs of the program and or the facility. For arena facilities, especially indoor arenas, user fees usually represented a major source of revenue. However, the fees themselves were most often established without reference to the actual cost of the facility or programs. The critical criteria in establishing the level of fees was tradition and or the fees in other public facilities in other jurisdictions. Not only does this situation create problems in terms of pricing theory it also raises the issue of public vs. private competition. Another issue identified with arenas was the need to develop a uniform policy on sports subsidies.

Finally, the examination of municipal golf course operations in regards to user fees raised a number of interesting points. The first was that the there are few municipal golf courses, and secondly, many of the facilities in place are well known and popular within their community. However, real issues were raised as to the basis of costs to be recovered in these operations, especially since many are in direct competition with private sector facilities. It

appeared that very often no concern was given to capital costs and that very often not even direct operating costs were recovered. Hamilton provides an example of the problem of poor cost/fee reconciliation.

Appendix 3A

Upper Tier Municipalities

Regional Municipality of Metropolitan Toronto

Regional Municipality of Durham

Regional Municipality of Halton

Regional Municipality of Hamilton Wentworth

Regional Municipality of Niagara

Regional Municipality of Ottawa Carlton

Regional Municipality of Peel

Regional Municipality of Waterloo

Lower Tier Municipalities

City of Toronto

City of Etobicoke

City of York

City of North York

City of East York

City of Oshawa

City of Burlington

City of Ottawa

City of Nepean

City of Gloucester

City of Brampton

City of Mississauga

City of Hamilton

City of St. Catharines

Single Tier Municipalities

City of Kingston

City of Peterborough

City of London

City of Sarnia

City of Windsor

ENDNOTES - CHAPTER 3

[1]The study mentioned is; Bureau of Municipal Research. Municipal Services: Who Should Pay (Topic # 3, February, 1980).

[2]Table 3-2 contains data on the financial status of the largest American cities. There is a problem in the consistency of this information due to changes adopted by the U.S. Bureau of Census in determining what is a "largest American city". Originally there were forty-eight cities classified in this manner, however, no criteria was given justifying their classification. During the 1970's the criteria of inclusion was altered to include a minimum population of three hundred thousand persons. On this basis the number of cities has increased to fifty four. Review of the census data prior to the change and for the period in question indicates that all of the cities had a population of at least three hundred thousand persons.

[3]The data in Tables 3-1 and 3-2 was compiled and analysed in an aggregate format. Consequently, conclusions may not apply to particular areas. Although it is impossible to predict the magnitude of any possible error, one of the factors which could account for it can be identified. The United States does not have a homogenous history. As a result different parts of the country have developed differently, a diversity which is reflected in different attitudes towards, and structures of municipal governments.

[4]As indicated in the text, Local Government Finance # 68-204 has bee published yearly since 1951. As the time of writing the most current year for which data had been published was 1981.

[5]It is inappropriate to combine educational and municipal revenues and expenditures together, since each body is autonomous. The fact that these totals need to be treated separately but are recorded jointly is reflective of some of the accountability problems encountered by municipal councils and boards of education. Although the education component of property taxation revenue was separated no provision was made for user fee revenue. The justification for this position was based on the fact that no data were available on the level of revenue generated by user charges which could occur only from the rental of educational facilities. In attempting to estimate the extent of this revenue inquiries

were made with the Board of Education for the City of Hamilton. (The seventeenth largest board of education in the country.) Officials for the Board indicated that all of their revenue which could be classified as user fees came from the rental of school facilities. This revenue came in two types. The first was the entire rental of redundant school facilities to private, usually non profit organizations. This use accounted for approximately 80 percent of their rental revenue. However, officials indicated that Hamilton holds a larger surplus of these facilities than other boards which either sell off surplus facilities or have a shortage of facilities. The remaining twenty percent of revenue is generated from after school hours rental of facilities. In 1981 revenue generated by after hours rental accounted for approximately one hundred thousand dollars. The cumulative effect of such revenues across the province would only be a few million dollars which if subtracted from combined municipal user fees totally nearly 1.2 billion dollars would have a negligable effect.

[6]There are other potential sources of municipal own source revenue such as Poll and Amusement taxes and income from investments only to mention a few. For a more complete discussion of municipal revenue sources refer to:

H. Kitchen, Local Government Finance in Canada (Toronto: Canadian Tax Foundation, 1984).

[7]For a further discussion of the Business Tax see: H. Kitchen, op. cit., pp. 214 to 216.

[8]Labour Law Reporter (Don Mills, Ontario, CCH Canadian LTD) paragraph # 4082.

[9]For a full discussion of Regional Government and its introduction into Ontario through the example of Metro Toronto see:

Harold Kaplan, Urban Political Systems: A Functional Analysis of Metro Toronto (New York: Columbia University Press, 1967).

[10]Ontario, Municipality of Metro Toronto Act (Toronto: Queens Printer) Sec 36.

Ontario, Regional Municipality of Ottawa Carlton Act (Toronto: Queens Printer) Part III Sec's 32 to 42.

Ontario, Regional Municipality of Niagara Act (Toronto: Queens Printer) Sec's 51, 52, 53.

[11]Ontario, Regional Municipality of Durham Act (Toronto: Queens Printer) Sec 53.

Ontario, Regional Municipality of Halton Act (Toronto: Queens Printer) Sec 86.

Ontario, Regional Municipality of Hamilton-Wentworth Act (Toronto: Queens Printer) Sec 97.

Ontario, Regional Municipality of Peel Act (Toronto: Queens Printers) Sec 81.

[12]City of Peterborough A Sanitary Sewer Surcharge (Ontario: Coopers & Lyband Consultants, 1983).

[13]The Bureau of Municipal Research reported on page 12 of their study that the City of London and the City of Sarnia recovered 40% of 2.368 million dollars and 28% or five hundred and eight thousand dollars of their parks and recreation expenditures respectively from user fees. A comparison of this data to that contained in Table 3-14 shows these 1977 figures to be unreliable.

[14]London Free Press, "Safety Program Treading Water", June 19, 1986, p.C1.

[15]Defining precisely what a standard or traditional pool facility consists of is not a simple issue. The best way of answering this question is to define what it is not. A standard pool is not a wave action pool, it does not contain a large water slide attraction and it is not what is being referred to as a leisure pool such as the Douglas Snow Aquatic Centre in the City of North York which provides a wide variety of inner and outer water amusements.

[16]One example of how such a policy is complicated is in the City of Hamilton. Although actual demand for swimming lessons varies across the city's facilities, the city maintains a basic swimming lesson program at each facility. Consequently rates are set equally across the city to ensure equal access given zero transportation costs.

[17]Especially when it is very hot people will resort to a variety of means to cool off. Many of these means can cause severe personal and public danger and very often extensive public expense. Therefore, the open provision of recreational swimming facilities can be one means of protecting the community.

[18]The following municipalities indicated that they owned and operated at least one golf course:

Regional Municipality of Metropolitan Toronto

City of Hamilton	City of Mississauga
City of Ottawa	City of Kingston
City of Burlington	City of St. Catharines
City of London	

[19]City of Hamilton "Analysis of Expenditure and Revenue Chedoke Golf Course", (Hamilton; Treasury Department, The Corporation of the City of Hamilton, 1986).

City of Hamilton "Analysis of Expenditure and Revenue King's Forest Golf Course", (Hamilton; Treasury Department, The Corporation of the City of Hamilton, 1986).

CHAPTER 4

The Role of User Fees in Ontario Municipalities--What Is It?

Introduction

This thesis has examined the role of user fees in the finances of larger Ontario municipalities. The first chapter served as a general review of the status of municipal finance in Ontario. This review showed that there are serious problems facing municipal governments in regard to how they finance their existing and seemingly expanding responsibilities. One result of this situation is that municipalities can no longer expect to function financially according to established patterns. New methods have to be developed and existing practices reviewed so that municipalities can modernize their operations and increasingly maximize their efficiency and effectiveness. User fees represent one area which deserves careful analysis in assisting municipal governments to meet the challenges facing them.

The purpose of examining user fees was to formulate answers to three basic questions.

1. How Important are User Fees in the Operations of Ontario's Municipalities?
2. How well does the theoretical study of user fees match their practical application?

3. What is the probable future of user fees in Ontario?

Having compiled a general analysis of issues in urban finance in chapter one, chapters two and three addressed the question of user fees from the theoretical and practical perspectives respectively. Chapter Two, in examining the theoretical issues concerning the development and actual utilization of user fees, reached two basic conclusions. First, the rational utilization of user fees can result in a more efficient system of revenue generation based on the basic criteria of municipal government outlined in the first chapter. Second, there are three basic methods of costing that can be applied in determining the level of fees. Further, the type of pricing model adopted and the degree to which it is applied can have a significant financial impact on a municipality. Chapter Three showed results of primary research on the application of user fees in selected areas of Public Works and Parks and Recreation services in the largest municipalities in Southern Ontario. This final chapter brings together the information of the previous three chapters, and attempts to answer the three questions posed earlier.

How Important are User Fees in the Operations of Ontario Municipalities?

Introduction

The major issue to be resolved in answering this question is what is meant by "Important". The primary benefit to be derived from the application of a rational user fee policy, at the municipal level and in accordance with the principles of local government, is that service provision will become more efficient. However, while determining individual benefits of services may appear easy in theory, such is not the case in practice. While it is not feasible to measure the importance of fees in terms of individual benefits, another more practical method is by determining the budgetary impacts of user fees. Therefore, the importance of user fees is determined by measuring the performance of user fees as a revenue source. Measurements are based on the proportions of user fees from total operating budgets since this method allows for a common comparison over time.

While it would have been preferable to compare user fee revenues separately by municipality across the province, no data bank was available allowing for such an analysis. The most extensive and continuous source of compiled data on municipal financial performance is in a Statistics Canada publication, Local Government Finance 68-204. Unfortunately the information available is published on a provincial basis

making it impossible to generate specific municipal comparisons. However, provincial and national figures were calculated which allowed comparison with the case in Ontario. Finally, due primarily to predominance of information concerning user fees in American urban areas, calculations similar to those made for Canadian cases were made from American census data.

Analysis of Data

The analysis of the information contained in the tables covering American, Canadian and Ontario municipal fiscal operations in the beginning of Chapter Three allow some interesting points to be made. In regards to the American situation two conclusions can be drawn. First, the percentage comparison showed that increases in the percentage of revenue from user fees had occurred. Second, the percentage of revenue accounted for by property tax had declined significantly, whether measured as a proportion of total revenue or total own source revenue.

Analysis of Canadian data revealed similar trends. The significance of property taxation measured in terms of both total and total own source revenue has been declining across Canada since the 1920's, and the proportion of revenue from user fees has been increasing, with the period of greatest increase beginning in the mid 1960's. In 1951 user fees nationally had accounted for two percent of total

revenue and four percent of total own source revenue. By 1981 these same figures had grown to twenty and thirty-one percent respectively. During the 1970's user fees accounted for at least eleven percent of total municipal revenue in each province. It is also interesting to note that the reliance placed on user fees by municipalities in each province generally increases moving east to west. Finally the analysis of data from Ontario municipalities revealed essentially the same trends as at the national level.

It is clear that the significance of user fees has increased dramatically. In 1951 user fees had accounted for as little as four percent of total own source revenue for Ontario municipalities with much of this revenue derived from water sales. By 1981, measured on the same scale, the importance of user fees had increased approximately seven hundred percent with the majority of this increase occurring separately from water sales. User fee revenues in 1981 in Ontario equaled roughly two thirds of the revenue raised through property taxation. It is clear that the importance of municipal user fee revenue has increased throughout North America. In Ontario user fee revenue, primarily because of large increases in the late sixties and seventies has become the second most important category of municipal own source revenue. The reliance on user fee revenue, is now so significant that municipalities can no longer reasonably expect to operate without it.

Importance of User Fees by Specific Service

Examination of the primary data generated in the survey showed that presently user fees play a more significant role in the provision of services in one field than they do in another. It is also important to note that different municipalities utilize user fee programs in particular service fields much more intensively than other municipalities.

Sewerage

As was noted earlier all of the upper tier municipalities surveyed operated a user fee program. In most cases these programs were operated according to an average cost pricing full cost recovery format. While two of the regional municipalities had not yet achieved this standard, each retained full cost recovery as their eventual objective and were able to clearly show that they were making steady progress in this direction. It is therefore clear that the largest regional municipalities rely heavily on user fee programs to finance their share of sewerage costs. It is completely unrealistic to expect that this revenue could be generated through the existing property tax structure.

The utilization of user fee programs in the other two types of municipalities which retain either partial or total jurisdiction over sewerage was generally not that extensive. With the exception of the cities of Toronto, Nepean, Ottawa,

and Peterborough the utilization of sewerage user fees, primarily those associated with daily use of the system, are practically non-existent. It is perhaps most important to recognize that the four single tier municipalities which retain sole jurisdiction over sewerage, finance the vast majority of these operations out of general revenue.

Information generated either through correspondence or personal discussion with municipal officials revealed one important theme. Municipal officials in those municipalities which were making extensive use of user fees generally credited the quality of their sewerage infrastructure with the existence of user fees. Many officials indicated that in competition with other municipal expenditure proposals they would not have been able to secure the funding necessary to maintain the quality of the system to the degree they had. The reverse of this position was expressed by some officials in municipalities which did not have a strong user fee program. Concern was expressed in regards to the type, condition and capacity of sanitary sewer systems as well as the level of effluent treatment. One municipal official indicated that the sewer system in many parts of their city was beyond repair due to long term neglect. However, it would probably take a major incident to get the funding necessary to correct the situation since more politically visible programs were getting funding increases.

Generally it would seem to be apparent that in those municipalities operating a full cost recovery sewerage user fee program that the physical condition of sewerage infrastructure was in a superior condition to those municipalities which do not.

Parks and Recreation

The survey data collected in this area showed that the utilization of user fees as an aggregate component of the total parks and recreation budget varies fairly widely among municipalities across the province. There are a variety of reasons behind these variations. One is the extent of non municipally provided access to particular services in the community. Another is the perception of different communities that there is no norm of service availability which must be conformed to. However, it is clear that in a number of municipalities user fee revenues generated through either public charges or departmental chargebacks account for upwards of forty percent of parks and recreation operating budgets. Although the significance of user fees varies among different programs, the level of revenue raised in most municipalities is critical to their ability to continue to provide the program mix they do.

Summary

It is clear that from the revenue perspective user fees play a very important role in financing municipal government operations. General analysis of international, national, provincial and municipal data, according to specific service responsibilities, shows that user fees retain a much more significant role in municipal operations, especially in Ontario, than has been recognized. There is evidence to suggest that their importance will continue to increase.

Incompatibility with Bureau of Municipal Research Conclusions

The data showing just how important user fee revenue is to the fiscal operations of Ontario municipalities is somewhat unexpected since preliminary research had indicated less significant findings would emerge. There were numerous reasons behind this expectation, the most significant of which now appears to have been the result of previous faulty research. The amount of research conducted into actual user fee utilization in Canadian municipalities has been very small. In Ontario, the only publicly available analysis of user fee utilization was published by the Bureau of Municipal Research in 1980. Conclusions arrived at in that study concerning the nature of user fee utilization have been accepted not only by government officials in Ontario but also by subsequent publications on urban finance. One of the main

conclusions arrived at by the Bureau's research was that user fee utilization in Ontario municipalities during the 1970's had accounted for between 4.1 and 5.1 percent of total municipal revenue.[1] Upon reviewing the research and analytical methods employed by the Bureau in arriving at their conclusions, three basic problems in the Bureau's methods were discovered.

The first problem concerned the data source utilized by the Bureau. The Bureau's source of information was the Statistics Canada Publication Local Government Finance #68-203. This publication is similar in title to the one employed in this study except for the critical fact that it contains preliminary estimates rather than the actual figures on municipal operations. The actual figures are available in publication #68-204, the one utilized in this study. If the actual data was not available, the use of estimates would have been acceptable. However, with the possible exception of the year 1978, the actual figures had been published and should have been used. This was a significant error. As an example, preliminary estimates underestimated actual user fee revenue in 1976 by just over fifty three million dollars.[2]

The second problem is the definition of user fees in the Bureau's study. Initially the same all inclusive definition of user fees in this study was accepted as legitimate by the Bureau.[3] However, the Bureau proceeded to make the decision, without any justification, that user fees

would include "only charges which were made on services available to all citizens, and which would otherwise be provided by the municipality at no extra charge".[4] Through the utilization of this more restrictive definition many legitimate user fees are discounted such as; privileges, Licenses, Permits, Rentals, Water and Special Assessments, which in 1976 otherwise accounted for approximately one hundred and fifty five million dollars.

The final and most critical problem is the revenue totals used in the calculation of user charge revenue as a percentage of municipal revenue. The problem lies in the fact that the total revenue figure includes educational revenue. Including educational revenue and expenditure among municipal government fiscal operations is improper. Consequently, the inclusion of educational property tax revenue in terms of total revenue serves to seriously understate the fiscal impact of user fees.[5] Simply correcting this problem but leaving the Bureau's other figures unchanged means that in 1976 user fees accounted for 8.71% of total revenue, an increase of seventy one percent over the previous total. When all of the faults outlined above are corrected for, as is the case in Table 3-4, the Bureau's calculations underestimate user fee utilization by three hundred percent.[6]

How Well Does the Theoretical Study of User Fees Match Their Practical Application?

The answer to this question is generated primarily by determining how the actual application of user fees correlates with the theories of pricing. These are three basic pricing models: Marginal Cost Pricing, Average Cost Pricing and Revenue Maximization Pricing.

Question five contained in the Issues, Attitudes and Policies section of the survey asked municipalities to indicate the basis upon which they operated their user fee program. The three operations available each corresponded to one of the three pricing models. All of the municipalities surveyed were able to relate their process to one of these options and the one identified in each case was Average Cost Pricing. Some of the municipalities indicated that their user fee policy had generated some of the benefits that could be expected from the other models. However, the realization of these benefits had not changed the pricing model utilized. Although average cost pricing is the most popular pricing format it is critical to determine which types of costs are included and excluded in the operation of the pricing formula.

There are four basic types of costs which need to be accounted for in determining the actual cost of a good: operating, overhead, capital and capital valuation. Recognizing that these types of costs exist is critical in

establishing a proper pricing structure of any commodity. Again, the Issues, Attitudes and Policies section of the survey requested information about the cost components the municipality included in determining the average cost price. The cumulative answers for these responses are shown in the following table.

TABLE 4-1

Costing Considerations of Municipal Pricing Policies

Type of Cost	Type of Municipality			
	Regional	Lower	Single	Total
General Operating Cost	8	14	5	27
Overhead Costs	7	6	2	15
Capital Costs	8	5	0	13
Capital Valuation Costs	1	0	0	1

These figures require some clarification. First, these answers often refer to the general municipality's policy and are not applicable to every specific service. Second, simply because a municipality indicates certain types of costs in the pricing formula, this does not mean that these costs are necessarily recovered. Finally, the examination of the information in the table according to the type of municipality shows that the type of costing policy followed varies substantially.

Sewerage

In the case of sewerage, the costing structure found in regional municipalities is the most complete. All of the eight regional municipalities included both operating and capital costs in their recovery targets with only one municipality not including the overhead costs of administration. While each of the regional municipalities was not in a full cost recovery position for sewerage operations, those which were not, indicated that this was their objective and demonstrated progress in moving towards this standard.

The only municipality which included capital valuation costs in its costing basis was the Regional Municipality of Hamilton Wentworth. The objective of the region is to develop and manage its capital reserve funds in such a manner that they can reduce their long term dependence on external capital financing. By operating their capital reserves in the same way as a regular financial institution they are replacing funds in their capital reserves according to current and not historical costs. This type of program achieves two important objectives. First, capital reserves will have the financial capacity necessary to fund infrastructure replacement. Second, by following such a program the capital costs to the municipality are reduced substantially.

The costing structure of those other municipalities retaining control over sewerage operations were generally not as inclusive as in the case of regional municipalities. The non regional municipality which had the most inclusive costing and recovery program was the City of Nepean, followed fairly closely by the Cities of Toronto and Peterborough. Although the City of Peterborough has a more sophisticated system all of these municipalities only attempt to recover operating costs. The costing basis of other municipalities generally included components of operating costs with possibly some recognition of historical costs. However, regardless of the costs included in pricing actual cost recovery levels have not been that extensive.

Parks and Recreation Pricing

Although each of the municipalities surveyed indicated that they employed an average cost pricing basis, answers relating to specific recreational activities generated a number of different responses.

Of the nineteen municipalities surveyed that operated indoor arenas only seven indicated that the recovery of operating costs was an important basis for their arena rates. In each case there were other factors, primarily tradition and the going rate in comparison to other municipalities, which enter the pricing process. In the case of many municipalities it became clear through follow up

investigations that while indoor arenas were generally in a loss position because of either direct or indirect subsidies, complete facility and operations costing had not been undertaken. The level of cost recovery was largely fortuitous since prices were being set without regards to real costs.

A similar situation seems to generally hold true for aquatic facilities. Standard pool facilities, either outdoor or indoor, always lose a substantial amount of money. Most municipalities indicated that while they attempted to recover their direct staff operating costs in programs, tradition was the most important criteria in determining fees.

The management of golf courses exhibited a wide number of pricing criteria. However, one of two basic operations policies appeared to be used. In the first model, the facility was operated without specific reference to financial objectives. Generally in cases where this model applied tradition was the most important criteria in establishing fees. In the second model, the municipality mandates that a golf course operate on a break even basis. However, the issue is those costs which are included in the break even criteria. Investigations indicated that while operating costs are included, many municipalities ignore capital costs meaning that a reduced average cost recovery level is applied.

The point advanced in this discussion of pricing is

not to argue that there is any golden rule which states that all municipal facilities must be operated according to total cost recovery. However, it is critical to note that decisions concerning the financial status of different facilities and goods they offer should be made according to complete financial analysis. It is the job of elected officials to make the final decisions affecting the financial performance of the city not that of the city staff. While many municipal officials will point out that it is elected officials who approve rates, research raised serious questions about the basis upon which the decisions are made. Documents supplied by municipalities indicated that in the majority of cases where the council actually approves fees many decisions are made without cost information.

Although tradition has a role to play in the pricing decision, tradition solely is the incorrect basis upon which to determine charges. Pricing according to a traditional basis bears no direct relationship to current circumstances. The same type of problem arises with pricing according to the going rate in other municipalities, since this rate is not based upon the cost considerations of the municipality in question. While this comparative data may be interesting it is not the proper basis upon which to price municipal goods. In fact it is questionable whether the price in another municipality is actually based on that municipalities' costs.

Another pricing criterion periodically cited was the going rate in regards to private facilities in the area. However, where this criteria is cited it is difficult to believe that this criteria actually has much influence. The first reason is that additional public sector provision usually results from a demand for lower direct cost service accessibility. The second reason is that the public sector usually enters the field in such a manner, or already has an established presence such that the public price is viewed especially by consumers as what the market price should be.

The issue of private sector public sector competition in providing the same commodities is not a new one in Canada. However, competition at the municipal level is a subject which does not seem to have received much attention. As municipalities have expanded their role, the significance of this issue increases. Debating the extent to which the public and private sectors should compete is beyond the scope of this work. However, if there is to be joint activity then the public sector in the absence of clear externalities should be competing fairly with private operators. Private enterprise may fail, but if a market economy is to succeed, it must be allowed to fail or succeed based upon its own merits. It should not be forced out of business or forced to unnaturally structure its operations. It was clear through the research conducted that most municipalities, especially

in the area of indoor arenas, operate their facilities based on much more limited cost criteria than faces a private operator. It is also clear that public operators have forced or are presently forcing private competitors out of business or have created a fiscal environment where it is imperative for municipalities to enter the market. There may be valid externality arguments justifying a different public sector approach to costing. But these externalities should be carefully defined and should not necessarily dictate that the public sector must emerge as sole service provider.

For all of the recreational services surveyed it was felt by municipal officials that there was demand for further service expansion. No municipality appeared to have any analysis indicating what effect an increase in fees from their currently highly subsidized levels would have on demand. However, it is clear that if services expand in response to demand but remain priced according to current practice that the pressure to increase property taxes will grow. Municipalities, which have unanimously selected average cost pricing as their method of user fee determination, need to properly cost user fee designated services according to complete average cost pricing criteria if they hope to ease revenue demands.

What is the Probable Future of User Fees in Ontario?

It is clear that user fees will continue to play an

important part in the operation of Ontario municipalities. User fees are a very important revenue source and one which displays consistent growth. Further, it seems highly probable that their importance will continue to increase. The structure of municipal finance operations appears unable to generate the level of revenue necessary to meet municipal commitments. Second, it is unrealistic to expect, at least in the immediate future, that traditional municipal revenue sources can be reformed. The financial position of senior level governments make it highly unlikely that positive changes from the municipal perspective will occur in transfer policies. In fact municipalities should be concerned that the revenue they receive is not transferred away or more realistically that senior level governments do not realign their priorities towards municipally supplied services without appropriate revenue increases. Third, while market value assessment is gradually being implemented across the province this will not necessarily enhance the ability of the property tax to raise substantially more revenue. Property taxation will remain a regressive tax, and increases may be politically unacceptable. Finally it seems highly unlikely that any provincial party in government in Ontario would be prepared to allow municipalities access to an income based progressive taxation format. Even if this were to occur it is questionable that municipalities would be allowed access

to any more revenue than they would lose in reduced transfer payments. Consequently, if municipalities are to proceed with their current level of service expansion then they must more effectively utilize the one revenue source left to their discretion, user fees.

Sewerage

User fee utilization in the area of sewerage collection and treatment is fairly wide spread. Extensive use is made of user fees for this purpose primarily in regional municipalities. However, among all municipalities the extent of their use along with the basis of their operation varies greatly. Sewerage is a service which easily lends itself to the adoption of user fees. The primary reason for this is that the facilities already exist whereby information on water consumption is easily obtainable. Consequently, since water is the key variable in our present system of effluent movement the utilization of sewerage services, especially by non commercial users, can reliably and inexpensively be determined. Regardless of the ease of operating this system, many municipalities have chosen to limit, the usage of user fees. Real potential exists for causing this situation to change and to what degree it does will likely be determined in one of three ways.

The first way will be dependent on the extent to which demands for new and expanded services, primarily in the

area of soft services conflicts with the existing financial capabilities of the municipality. The traditional hard services, especially those buried and out of sight have a difficult time competing for limited resources against more politically visible alternatives. It may become necessary to provide sewerage, as has been the case with water supply, with its own revenue capacity to insure that the system has the capability to operate to the required level.

The second point concerns the degree to which the present system of sewerage infrastructure is deteriorating. Municipalities have admitted that the current state of sewerage infrastructure in many areas is in poor condition. If deterioration of the system continues a point will be reached where, because of health and safety considerations, extensive capital programs will be necessary to return the system to an acceptable standard.

The final point concerns the question of just how clean an environment society is going to have. In regards to sewerage there are three areas which can be affected by any decision. The first issue concerns the extent and capacity of the current sewerage collection system. One of the key points in this discussion concerns immediate sewer separation. The second issue concerns the degree of care which will be given to storm water. If moves are made to upgrade the sewerage system to a point where just the most contaminated initial storm water run off is collected and

later treated, then extensive capital projects totalling billions of dollars will be necessary. The final issue concerns the actual level of effluent treatment which will be provided. Simply implementing and operating existing technology is beyond the current fiscal capability of many municipalities, not to mention the costs of utilizing emerging treatment technology.

Responding to extensive activity on any of these points will be exceptionally expensive and under current financial conditions is unrealistic. Consequently, the needed revenue will have to be raised in some manner, in all current probability through user fees.

Parks and Recreation

The future of user fees in this area will largely be dependent on two points. The first point will be the ability of the municipality to meet the fiscal demands placed upon it from existing and enlarged service demands, not only in the area of parks and recreation but for other jurisdictional responsibilities as well. The second point will be the extent to which the public recreation system itself continues to expand. The problem will become increasingly pronounced if the municipal recreational sector continues to expand into those areas where the private sector can have a role without basing its decisions on demands revealed by realistic service costs and prices. If this does occur the size of the

recreation budget funded from property taxation revenue will rapidly increase, consuming larger and larger proportions of the municipal budget. Municipalities need to decide which of the services they provide are basic and which are discretionary and then operate them accordingly. In undertaking this process municipalities have to evaluate whether there are less costly means of providing the public with recreational options.[7]

Probably the biggest problem which confronts a municipality in attempting to develop a logical approach to user fees is how to rationalize existing user fees and expectations associated with them. Research showed that the majority of user fee programs in many municipalities have evolved almost always in an ad hoc manner in individual departments without any real direction either departmentally or centrally. The existence of these variations very often reflects the real differences which exist within a municipality's administrative and policy process.

If a municipality is prepared to make the proper use of a user fee program then it must be prepared to confront these differences in developing a corporate policy. This process will, in a number of organizations, require individuals from a variety of departments to work together more than they normally do.

While the ideal program would be the development of a user fee policy for the whole municipality at once, such an undertaking may not be realistic to expect. Consequently, the rationalization of user fee programs on a departmental basis in accordance with a common standard may be more feasible to implement. However, regardless of the administrative scope of the approach, the most critical issue is to design a process to allow the incorporation of user fee theory into a policy, which can be successfully applied.

The issue of developing and implementing a uniform user fee policy has been undertaken by a variety of municipalities with varying degrees of success. The following section attempts to outline the type of process which can lead to the successful development and implementation of a user fee program.

The following seven stage process has been developed from an amalgamation of processes from three separate municipalities:[8]

1. Define ... the role of pricing in the delivery of municipal services.
2. Establish unit cost data on all municipal services regardless of whether user fees presently exist or not.
3. Determine the distribution of benefits both public and private from individual services.
4. Develop a uniform subsidy policy applicable to the level of benefits generated from a particular service.
5. Undertake Impact and Budget Analysis for the implementation of a new policy not only for the municipality but also for major users.

6. Develop a Plan of Action.

7. Implement and monitor policy and distributive effects of service provision under the new system.

Following this process will not necessarily result in success. Other factors need to be acknowledged and included. The first factor is that both politicians and staff have to recognize that the development of this policy will require a lengthy period of time, probably a number of years. Further, the development of the policy and its management once instituted will require changes from current procedures especially in program costing and evaluation.

The second factor and probably the most important is that for meaningful improvements to be made, significant public involvement in the process is necessary early on. The general public, and in particular associations utilizing facilities and programs, must be given an opportunity to make meaningful contributions. This does not mean that organizations and individuals are presented with policy options and asked for comments, but rather that they have a role in developing those options. This type of approach, which has not been present in many municipalities' programs, is critical. Fiscal problems, and in fact the whole fiscal picture as it affects the entire municipality, most often the reason for a user fee policy in the first place, are almost universally ignored by individuals and associations, not because they do not care, but because they are not aware of

them. Only by insuring that there is access to the process can it be reasonably expected that a uniform and beneficial program enjoying a real measure of support will emerge. Otherwise it is only logical to expect that individuals and groups confronted for the first time with user fee policy options, the justifications for which they do not understand, will be significantly opposed. If this happens, the policy at least in terms of immediate change will likely fail. Those dissatisfied parties, regardless of their legitimacy of complaint, will be able to argue with complete impunity that the policy and their perceived implications of its impact will be negative. Municipal politicians unable to sense any consensus or attempts to reach some, and with their eye firmly focussed on the ballot box, will alter pricing policies. Consequently the long term management of community opinion is critical to the success of this type of policy process.

The fiscal factor, that municipalities need to address, is that the existence of user fees or increases in fees will hurt those individuals who can least afford to pay. There is a reasonable argument to be made that municipalities should show some sensitivity to distributive arguments. While there are various ways by which sensitivity can be demonstrated it is preferable that the municipality does just not simply waive fees, as this undermines the justification

for effective fee programs. It is also desirable to have some direct community involvement in the programs implemention. One available format is used in the the City of North York for recreation services is and known as The Recreation Program Trust Fund. This program operates on the basis of matching fund between the community and the municipality. In 1985 expenditures from this fund were approximately thirteen and a half thousand dollars, roughly half of the funds raised. This trust fund ensures that children of the underprivileged are not denied access to recreational programs due to the existence of user fees, since the fee they would otherwise be required to pay is covered by the fund.

Conclusions

The primary purpose of this work has been to provide an enhanced understanding of the utilization of user fees in Ontario municipalities. Throughout this work the changing nature of municipal finance has been discussed. The major conclusion is that municipal governments can no longer fund their operations from what has been their traditional financial resources. Even though the amount of actual revenue raised through property taxation has increased substantially, its overall importance as a municipal revenue source has declined significantly. The importance of transfer revenue from senior level governments in the form of either conditional or unconditional grants has increased to a point where they cumulatively account for half of municipal revenue requirements. Even when municipal revenues are examined from the perspective of own source revenue requirements, the changes are dramatic. While the proportion of own source revenue accounted for by property taxation has declined, the significance of user fee revenue, especially since the 1960's, has been steadily increasing. Although the total effect of user fee revenue is not easily identified, largely because of the large number of small revenue producing fees, it is significant. Municipalities can no longer maintain their operations without the revenue generated by user fees.

As mentioned in Chapter Three, efficiency, equity and revenue generation are the three basic reasons which can be used to justify the utilization of user fees. Based upon the data collected it is difficult to make any statements on efficiency considerations. However, research indicates that some benefits have been realized in this regard. One example is the City of Burlington which in examining the feasibility of user fees, caused departments to accurately cost the services they provide. This type of exercise which has also been carried out to various degrees in other municipalities has provided the basis for a superior evaluation of the municipalities' limited resources. Another example is the effect that user fees have on actual programs. Numerous municipal officials indicated that as residents' awareness of fees for a particular service increased, so did community involvement in the process surrounding the content and delivery of that service. This type of situation if permitted to evolve, without an avenue for meaningful community dialogue, can result in strained relations between service users and the municipality. However, there is also potential for community participation to increase the effectiveness and consequently the efficiency of the actual service.

The research conducted into service equity from the perspective of pricing policy showed that there is inequity

within the system. Inequity does not generally appear to be present in terms of the same service across the community but, rather in relation to the costing and pricing criteria employed between services. In the case of almost every municipality examined there were no guidelines in place providing an equitable basis for evaluation between different services. Not only was this present in the case of municipalities allocating different costs for recovery among different services, but no comprehensive process of equitably determining subsidization levels existed. Finally, the most important conclusion of the survey is that municipalities utilize user fees primarily as a source of revenue. The figures showing the relative change in municipal revenue sources, especially own source revenues, reinforce this point.

This thesis has conclusively shown that user fees occupy an important position in the finances of Ontario municipalities. Furthermore, all indications are that the role played by user fees will continue to increase. However, major issues need to be addressed if user fees are to be as effective as they should. The primary question is the type and extent of costing and pricing criteria which municipalities employ in operating their user fee programs. Governments, both Provincial and Municipal need to recognize that criteria for costing and pricing must be in place before the implementation of a user fee program. If not, then it is

likely that user fees will be seen to create such inequalities that they can not be used to improve services or to alleviate revenue problems.

ENDNOTES - CHAPTER 4

[1]Bureau of Municipal Research, Municipal Services: Who Should Pay (Topic #3, February 1980), p.8.

[2]The preliminary estimate figures utilized in the Bureau's study showed revenue from the category of "Other General Sales of Goods and Services" at $165,852,000 (Bureau op cit p. 8). Actual figures reproduced in Table Can 4 show this amount actually being $219,373,000. The difference and consequential shortfall is $53,521,000.

[3]Bureau of Municipal Research, op cit, p. 2.

[4]Ibid., p. 2.

[5]Refer to Chapter Three Footnote # 3.
Although no provision was made for user fee revenues when establishing municipal totals, it is reasonable to believe, for reasons already discussed, that the impact would not be significant. However, by including educational property tax revenue not only is total municipal revenue more than doubled but the jurisdictional boundaries of local government are completely ignored.

[6]Bureau figures for user fee utilization as a percentage of total municipal revenue for Ontario municipalities in 1976 was 5.1 percent. The corrected actual figure drawn from Table Can 5 is 15 percent.

[7]Implementing new types of policies is never an easy process especially when they conflict with the status quo. However, there are alternative means of providing service and government must be prepared to try new ideas in responding to changing responsibilities. One example of a municipality which has been innovative in the type of service delivery mechanisms they have employed in Parks and Recreation services is the City of Gloucester. The tangible bottom line result of their methods is the highest recorded level of cost recovery. This has been achieved not simply by increasing fees but rather in structuring their service delivery process so that the community has real impact on, and responsibility for, the services provided.

[8]These seven themes are drawn from three separate process in the Cities of Burlington, Etobicoke and York.

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Table 3-1A

Finances of All Cities in the United States
(Totals in Millions)

Years	1965/66	1970/71	1975/76	1980/81	1983/84
Total Revenue	21,865	37,367	66,856	105,431	134,533
Total Own Source Revenue	13,122	20,878	33,107	53,470	71,799
Total Current Charge Revenue	2,127	3,579	6,161	11,200	15,355
Total Property Tax Revenue	6,879	10,041	14,165	18,278	22,061
Total Expenditure	22,372	39,061	67,460	104,470	128,675

Background information to the calculation of figures in Table 3-1

Source: U.S. Government, City Government Finances, various years.

Table 3-2A

Finances of the Largest American Cities
(Totals in Millions)

Years	1969/70	1971/72	1974/75	1977/78	1980/81	1983/84
Total Revenue	17,319	22,608	31.218	38,910	50,167	62,525
Total Own Source Revenue	8,442	11,785	14,886	18,852	24,619	32,847
Total Current Charge Revenue	1,387	1,803	2,332	3,220	4,464	5,959
Total Property Tax Revenue	4,355	5,082	5,943	7,292	7,711	9,323
Total Expenditure	18,030	23,628	31,240	36,943	47,566	59,357

Background information to the calculation of figures in Table 3-2.

Source: U.S. Government, Finances of Forty Eight Largest U.S. Cities, Various years.

Table 3-3A

Compiled Financial Data on Ontario and Canadian Municipalities
1956 to 1981

(Totals in Thousands)

	1951	1956	1961	1966	1971	1976	1981
Property Tax excluding Business Tax and Education Property Tax	108353	184321	nfa[1]	675516	628196	1096126	1641802
	243520	393273	999189	1586678	1426182	2745654	4685824
Property Tax including Business Tax including Education Property Tax	135382	207396	489556	759459	823212	1444051	2305428
	294785	444962	1044652	1738742	1739693	3232011	5769510
User Fees including Special Assessments	7590	18754[3]	29608	40240[5]	219650	541006	1188408
	11988	58014[3]	130205	173687[5]	757011	1663990	3642192
User Fees excluding Special Assessments	nfa[2]	nfa[4]	nfa[4]	nfa[4]	177873[6]	455714	1152697
	nfa[2]	nfa[4]	nfa[4]	nfa[4]	594037[6]	1638446	3311891
Total Own Source Revenue not including Education	143084[7]	220912[7]	nfa	nfa	nfa	nfa	nfa
	344416[7]	537049[7]	nfa	nfa	nfa	nfa	nfa
Total Own Source Revenue less Education including Grants in Lieu	nfa[7]	nfa[7]	525720[8]	874858	1175026	2327737	4555451
	nfa[7]	nfa[7]	1340514[8]	2175241	2934562	6007371	12543417
Total Own Source Revenue less Education less Grants in Lieu	nfa[7]	nfa[7]	nfa	nfa	1123828	2199833	4315999
	nfa[7]	nfa[7]	nfa	nfa	2812371	5663092	11809469
Total Revenue less Education	215921[9]	370739[9]	558673[9]	988778[9]	1867267[9]	3738437[9]	6950592[9]
	542115[9]	877434[9]	1318865[9]	2397355[9]	4415161[9]	9258897[9]	18027976[9]

NFA = no figure available
Source: Statistics Canada Local Government Finance 68:204, Various years.

Notes for Table 3-3A

1. In 1961 no figure was available as to the amount of actual property tax raised excluding business taxation.

2. For the year 1951 there was no separate indication of revenue generated through charges. This revenue is grouped together with revenue derived through Special Assessments in a category entitled "Special Assessments (owners share and charges.

3. In the 1956 census a new category of financial data entitled "Licences and Permits" is included.

4. For this year revenue derived from charges and special assessments continued to be grouped together.

5. In the 1966 census a new category of financial data entitled "Rents, Concessions and Franchises" is included.

6. In 1971 Special Assessments and User Fee Revenues are separated.

7. No information provided as to what the level of grants in lieu were.

8. Calculating education taxation is accomplished by subtracting education grants from education expenditures. However there is no means available for determining education capital expenditures financed through borrowing. Consequently these amounts if any are included in the total remaining expenditure for education after grants. It is this amount which is presumed to be derived from school directed property tax.

9. 1951/56 figures exempting education taxes and grants are available meaning no reverse calculation is necessary.

   1961/81 Had to calculate the effect of school taxes and grants and capital borrow out of revenue totals to arrive at municipal purpose revenue totals.

Table 3-4A

Calculation of Total Municipal Purpose Revenue 1976
(Totals in Thousands)

Province	A Total Revenue		B Education Expenditure	A-B Total Municipal Revenue
NFLD	106271	-	6220	100051
PEI	515032	-	324410	17093
NS	497197	-	297518	199679
NB	135245	-	-	135245
QUE	4466714	-	2120048	2346666
ONT	67487689	-	3010311	3738457
MAN	778474	-	352992	425482
SASK	699726	-	307664	392062
ALTA	1682415	-	685167	997248
BC	1860610	-	977792	822818
CAN (excluding Yukon & NWT)	17026923	-	7792142	9234781

Background data to Table 3-4.

Source: Statistics Canada, Local Government Finance 68-204, 1976.

Table 3-5A

Calculation of Total Municipal Purpose Revenue 1981
(Totals in Thousands)

Province	A Total Revenue		B Education Expenditure	A-B Total Municipal Revenue
NFLD	179448	-	-	179448
PEI	79282	-	67785	11497
NS	912154	-	455745	456409
NB	225072	-	-	225072
QUE	8190272	-	4127877	4062395
ONT	11738159	-	4787567	6950592
MAN	1253480	-	528698	724782
SASK	1230661	-	520829	709832
ALTA	4238476	-	1399018	2839453
BC	3279761	-	1471042	1808719
CAN (excluding Yukon & NWT)	31326765	-	13358561	17968204

Background data to Table 3-5

Source: Statistics Canada Local Government Finance 68-204, 1981.

Table 3-6A

Selected Ontario Municipal Financial Information 1971 to 1981

		1971	1973	1976	1978	1981
1.	Privilages/ Licences	19,682	30,041	38,510	61,559	58,330
2.	Water	89,165	115,774	166,867	204,559	299,076
3.	Rents	8,265	11,830	30,964	45,778	66,811
4.	Other	60,761	141,245	219,373	454,629	705,221
5.	Special Assessments	41,777	39,802	85,292	40,273	35,711
6.	Total User Fee Revenue	3,724,802	4,460,624	6,748,768	8,360,278	11,738,159
7.	Total Own Source Revenue	1,966,777	2,279,050	3,616,142	4,560,523	6,496,247
8.	Education Grant	1,065,784	1,215,155	1,721,296	1,951,783	2,607,319
9.	Education Expenditure	1,857,535	1,962,678	3,010,331	3,604,714	4,787,567
10.	Sewerage Expenditure	128,679	154,214	235,668	248,826	314,148
11.	Recreation and Culture Expenditure	179,148	278,400	437,432	543,192	675,301
12.	Total Expenditures	4,002,419	4,721,488	7,045,127	8,739,167	11,388,247
13.	Grants of Property Tax	51,198	68,912	127,904	166,763	239,451
					166,763	239,451

Background data to Table 3-6

Source: Statistics Canada, Local Government Finance 68-204, Various Years.

Table 3-6B

Calculation of Total Own Source Revenue Ontario Municipalities
(Totals in Thousands)

	Education Expenditure	-	Education Grant	=	Education Tax
	Total Own Source Revenue	-	Education Tax	- Grants in Lieu =	Total Own Source Revenue Municipal Purpose
Year					
1971	857,535	-	1,065,784	= 821,751	
	1,966,777	-	821,751	- 51,198	= 1,093,828
1973	1,962,678	-	1,215,155	= 747,523	
	2,279,050	-	747,523	- 68,912	= 1,462,615
1976	3,010,331	-	1,721,296	=1,289,035	
	3,616,142	-	1,289,035	- 127,904	= 2,199,203
1978	3,604,714	-	1,951,783	=1,652,931	
	4,560,523	-	1,652,931	- 166,763	= 2,740,829
1981	4,787,567	-	2,607,319	=2,180,248	
	6,496,247	-	2,180,248	- 0[1]	= 4,315,999

[1] Grants in Lieu shown separately for this year.

Background data to Table 3-7

Source: Statistics Canada, Local Government Finance 68-204, Various years.

Table 3-6C
Calculation of Total Revenue, Ontario Municipalities
(Totals in Thousands)

	Total Revenue		Education Expenditure		Total Municipal Revenue
1971	3,724,802	-	1,857,535	=	1,867,267
1973	4,460,624	-	1,962,678	=	2,497,946
1976	6,748,768	-	3,010,331	=	3,738,437
1978	8,360,278	-	3,604,714	=	4,755,564
1981	11,738,159	-	4,787,567	=	6,950,592

Background data to Table 307

Source: Statistics Canada, Local Government Finance 68-204, Various years.

ISSUES, ATTITUDES AND POLICIES

Municipality: _____
Name: _____
Position: _____

1. Over the last five years what has been the general trend in your municipality regarding the use of user charges? CIRCLE APPROPRIATE WORD IN SENTENCE.

   (a) User charges have increased/decreased as a proportion of locally-derived municipal revenues (i.e. excluding grants).

   (b) There has been an increase/decrease in the number and diversity of types of user charges.

2. (a) Are you expecting to make greater use of user charges and fees in the near future?

   Yes No

   (b) If YES to 2 (a), will this involve:

   (i) charges for services which had previously been provided free to the user?

   (ii) new types of charges for services which already involve some sort of fee?

   (iii) new types of charges for new types of services.

3. Please list the service areas and the possible charges which are being considered for greater use of the user charge approach.

_____
_____
_____

4. (a) When new charges have been introduced in the past, have there been efforts to publicize the user-pay approach and to explain its value?

   Yes No

   (b) If YES to 4 (a), please describe the way in which this has been done.

_____
_____
_____

5. When user fees, charges were instituted, were they established for the purpose of?

   1. Cost recovery, for the purpose of transferring costs to the actual users.

   2. As a means of gauging the supply and demand of the commodity in question.

   3. For the purpose of increasing revenues over costs.

      (a) Please identify the relevant costs involved.

      _____
      _____
      _____

      (b) Were their legal requirements to change in this manner?

      Yes No

      If YES please explain:

      _____
      _____
      _____

6. If charges for services have been considered in the past but <u>not</u> adopted, what reasons were most commonly given for not adopting them? CIRCLE LETTER INDICATING APPROPRIATE ANSWER(S).

   (a) Too difficult to administer.

   (b) Not fair to public.

   (c) Non-payers cannot easily be excluded from benefits of the service.

   (d) Collection costs are high.

   (e) Hurts people who can least afford to pay.

   (f) Easier to raise the necessary funds through increased taxes or grants.

   (g) Other (please specify): _____
   _____
   _____

7. (a) When new charges have been introduced in the past, has there been significant public resistance?

Yes No

(b) If YES to 7 (a), what form has public resistance usually taken?

_____
_____
_____

(c) What service or type of fee was involved? _____
_____
_____

8. When user charges are set so as to make a service operate on a cost-recovery basis, are the following costs incorporated into the rates?

(a)	General operating costs.	Yes	No
(b)	Capital costs of building and land.	Yes	No
(c)	Overhead cost of administration.	Yes	No
(d)	When capital costs are included but not debenture-financed, are interest charges imputed as a cost of the capital?	Yes	No

9. Revenues generated from fees and charges are directed to:

(a) Consolidated General Revenues Fund.

(b) Program related to charge.

(c) Other: Please specify _____
_____
_____

Further Comments: _____
_____
_____
_____
_____

SEWERAGE

Municipality: _____
Name: _____
Position: _____

1. Please estimate the amount ($) of the total budget for the Sewage System including both collection and treatment which came from user charges or fees for the following years.

   1979 $ _____

   1980 $ _____

   1981 $ _____

   1982 $ _____

   1983 $ _____

   1984 $ _____

2. Please estimate the proportion (%) of the total budget for the Sewage System including both collection and treatment which came from user charges and fees for the following years.

   1979 _____ %

   1980 _____ %

   1981 _____ %

   1982 _____ %

   1983 _____ %

   1984 _____ %

3. If the figures just cited show a changing pattern, what are the reasons for this change?

   Please explain: _____
   _____
   _____

4. Please indicate the user fees or charges made on users of sewerage services.

   (i) Connection Charge
   (ii) Capacity/Volume Charge
   (iii) Locational Charge
   (iv) Flat rate within serviced areas
   (v) Other (please specify): _____
   _____

5. Please indicate if there are different rates established among separate classes of users based on the above criteria.

_____
_____
_____

6. Are there special charges for different types of wastes.

Yes No

Please explain: _____
_____
_____

7. On what basis are the rates for charging users set?

(i) Going rate - by comparison to other municipalities.

(ii) Recovery of direct operating costs.

(iii) Recovery of all costs; direct operating, indirect operating and capital.

(iv) Tradition: historical reflection of what has been charged in the past.

(v) Volume of usage.

(vi) By the type of waste.

(vii) Other (please specify): _____
_____
_____

* Please elaborate on your answer if no one answer is completely appropriate.

Further Comments: _____
_____
_____
_____
_____

PARKS AND RECREATION

Municipality: _____
Name: _____
Position: _____

1. Please estimate the amount ($) of the total budget for the Parks and Recreation Department which came from user charges or fees for the following years.

   1979 $ _____

   1980 $ _____

   1981 $ _____

   1982 $ _____

   1983 $ _____

   1984 $ _____

2. Please indicate the proportion (%) of the total budget for the Parks and Recreation Department which came from user charges or fees for the following years.

   1979 _____ %

   1980 _____ %

   1981 _____ %

   1982 _____ %

   1983 _____ %

   1984 _____ %

3. If the figures just cited show a changing pattern, what are the reasons for this change?

   Please explain: _____
   _____
   _____

ARENAS

Municipality: _____
Name: _____
Position: _____

5. Please indicate the basic charges or fees levied on users of arena facilities or services. (attach a rate schedule if more convenient).

Skating	general charge	_____
	membership	_____
	ice rental	_____
	other	_____
		_____

5. (a) For the figures cited above, indicate if there are special rates for students, seniors, or other groups. (attach a rate schedule if more convenient).

_____
_____
_____

6. Please indicate the basis on which the rates for charging users of arena services are established.

(i) Going rate - by comparison to private facilities in the area.

(ii) Going rate - by comparison to other municipalities.

(iii) Recovery of direct operating costs.

(iv) Recovery of all costs; direct operating, indirect operating, capital.

(v) Tradition: historical reflection of what has been charged in the past.

(vi) Based on the volume of Demand.

(vii) Other (please specify).

* Please elaborate on your answer especially if no one answer is completely appropriate.

_____
_____
_____

7. Are rates adjusted to take into account periods of high and low demand?

Yes No

* Please explain your answer.

_____
_____
_____

8. Is there any policy governing the proportion or amount of costs that must be defrayed from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

9. Is there a upper limit set on the revenue that may be derived from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

Further Comments: _____
_____
_____
_____
_____

SWIMMING POOLS

Municipality: _____
Name: _____
Position: _____

5. Please indicate the basic charges or fees levied on users of swimming facilities or services. (attach a rate schedule if more convenient).

Swimming	general charge	_____
	membership	_____
	pool rental	_____
	instruction	_____
	other	_____
		_____

5. (a) For the figures cited above, indicate if there are special rates for students, seniors or other groups. (attach a rate schedule if more convenient).

_____
_____
_____

6. Please indicate the basis on which the rates for charging users of swimming pool services are established.

(i) Going rate - by comparison to private facilities in the area.

(ii) Going rate - by comparison to other municipalities.

(iii) Recovery of direct operating costs.

(iv) Recovery of all costs; direct operating, indirect operating, capital.

(v) Tradition: historical reflection of what has been charged in the past.

(vi) Based on the volume of Demand.

(vii) Other (please specify).

* Please elaborate on your answer especially if no one answer is completely appropriate.

_____
_____
_____

7. Are rates adjusted to take into account periods of high and low demand?

Yes No

* Please explain your answer.

_____
_____
_____

8. Is there any policy governing the proportion or amount of costs that must be defrayed from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

9. Is there a upper limit set on the revenue that may be derived from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

Further Comments: _____
_____
_____
_____
_____

GOLF COURSES

Municipality: _____
Name: _____
Position: _____

5. Please indicate the basic charges or fees levied on users of golf facilities or services. (attach a rate schedule if more convenient).

Golf	green fees	_____
	memberships	_____
	instruction	_____
	rental of facilities	_____
	other	_____
		_____

5. (a) For the figures cited above, indicate if there are special rates for students, seniors, or other groups. (attach a rate schedule if more convenient).

_____
_____
_____

6. Please indicate the basis on which the rates for charging users of golf services are established.

(i) Going rate - by comparison to private facilities in the area.

(ii) Going rate - by comparison to other municipalities.

(iii) Recovery of direct operating costs.

(iv) Recovery of all costs; direct operating, indirect operating, capital.

(v) Tradition: historical reflection of what has been charged in the past.

(vi) Based on the volume of Demand.

(vii) Other (please specify).

* Please elaborate on your answer especially if no one answer is completely appropriate.

_____
_____
_____

7. Are rates adjusted to take into account periods of high and low demand?

Yes No

* Please explain your answer.

_____
_____
_____

8. Is there any policy governing the proportion or amount of costs that must be defrayed from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

9. Is there a upper limit set on the revenue that may be derived from fees?

Yes No

* Please elaborate on your answer.

_____
_____
_____

Further Comments:_____
_____
_____
_____
_____