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Using Fees and Charges to Fund Government

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Critics of government are fond of saying that government should be run more like a business. Parts of government can be run like a business, with customers and payment for services. In fact, local governments in particular use enterprise funds to separate their business activities, like water and sewer service and sometimes electricity or public transit, from those services that are funded mainly through taxes and available to all citizens. Many state agencies are supported by a combination of fees for services and general fund financing, like public colleges and universities and state parks. Fees make sense when it is easy to identify who benefits, from college students to households and businesses using water. For many government services, however, it's harder to make that direct connection between the service and the user or customer. Who benefits from public schools? Mainly families with children, but we all benefit from having public schools in one way or another. Putting the entire cost on the families with children would greatly increase the burden of having and raising children. We all have an interest in the health and well being, including education, of those who share our communities with us and those who will be working, voting, and paying taxes in our later years.

Fees for water and sewer, park use and college, are easy to understand. General taxes, like income and sales taxes that go into a common fund to pay for government administration, public safety, and other public services are also pretty easy to understand. What's harder to deal with are those gray areas between a pure tax, like the sales or income tax, and a fee that is only paid if you use the service. As South Carolina and other states (and local governments) have shifted from depending mainly on taxes to relying more heavily on fees and charges to support general public services, the distinction has become blurred.

South Carolina relies much more heavily on fees and charges than most other states. As a percentage of own source revenue (revenue excluding federal aid), fees and charges make up 28% of South Carolina state revenue, compared to an average of 14.2% nationwide. Per person, South Carolina collects an average of \$873 per person in fees and charges, compared to \$493 in the average state.

Some fees, and some taxes, are pretty close to a payment for services. Gasoline taxes at the state level and road use fees added to your property tax on vehicles both go to maintain the roads that cars use. Dog licenses support animal shelters and animal control officers. Others, however, are just a different way to raise revenue. Some local governments charged on restaurant meals before they were authorized by the state to levy a hospitality tax. There is no meaningful difference between a hospitality tax and a hospitality fees that except that local governments have more flexibility in spending the revenue from fee than from the tax.

Fees and charges have benefits and drawbacks as a revenue source. They implement the principle that users should pay for those particular services that they need or want while others do not. They control demand for services that would otherwise skyrocket if it was available to all for free, and they determine who gets the use of the city tennis courts or the state park cabins based on willingness to pay. But fees and charges are regressive; that is, they are more burdensome on low-income families. When the city offers a summer recreation program based on fees, a poor family with several children is less able to take advantage of the program because of the cost, even though it would be of greater benefit to them than to children in higher income families who can afford other kinds of summer programs. Fees for immunizations and library use may discourage poor families from taking advantage of such services. The increased use of school fees to help replace lost state aid and property tax revenue is particularly difficult for low-income households.

Charging everyone the same price may seem fair, but it's a bigger percentage of income for those at the bottom of the income scale. And South Carolina, with a poverty rate well above the national average, has a lot of families for whom the extra fees for public services are a real challenge when they are struggling to keep a roof over their heads and food on the table. Sometimes state or local government agencies are able to make provision for low-income households with vouchers or sliding scale rates of payment, but most fees and charges are not designed that way. So fees and charges have a useful and important role to play in funding public services in South Carolina, but they need to be used with care.



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