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All Things Governmental (an FYI newsletter)

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To Fee or Not To Fee?

Governments have utilized enterprise funds to report any activity for which a fee or user charge is charged to external users for goods or services. Additionally, in many instances enterprise funds are frequently used to account for activities whose costs are only partially funded by these fees or user charges. Subsidies may be the primary revenue source rather than the fee or charge. However, care should be taken in determining the appropriate fee charged for the particular service. The fees charged can be thought of as a voluntary payment used to finance traditional governmental services such as water, sewerage, and recreational activities such as golf and swimming or miscellaneous programs such as libraries, tree removal, or animal shelters.

According to economic theory, the most efficient use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service. In practice, governments set some charges and fees to recover 100 percent of the cost. Other charges and fees are set at levels above or below cost for various reasons, and in some cases, the amount of a charge or fee may be restricted by state or local law.

So how much should the fee/user charge be?

The City should address the following:

1. Factors to be taken into account when pricing goods and services.
2. Whether the government intends to re-

cover the full cost of providing goods and services.

3. The circumstances or rationale used when the government might set a charge or fee at more or less than 100 percent of full cost.
4. Is there a need to regulate demand
5. If the fee/charge is to be calculated in order to cover costs will it be direct, indirect or both.



Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.

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