Canadian User Fees: Past, Present and Future

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Outline

• Financing government services
• Examples
• Level of fees
• Rationale
• When should they be used?
• Why are they opposed?
• Current problems
• Structure and governance
• Future - examples
Financing Gov’t. Services

Three general types of goods/services:

1. ‘Public goods/services’ – are equally available to everyone although not everyone uses them equally & one person’s consumption does not reduce another person’s consumption. These should be financed by taxes.

2. Private goods/services’ – one person’s consumption means that the good/service is not available to anyone else. These are best financed by user fees.

3. Mix of ‘public and private’ – should be financed by a mix of user fees and taxes.
Examples of Federal fees

- International Bridge Tolls
- Grain inspection
- Fishing licenses
- Specific statistical services
- Passports
- Import/export permits
- National park entrance
- Terminal rentals and concessions
- Small business loan administration
- Scientific services (mapping, remote sensing)
- Race track supervision
- Citizenship registration
- Broadcasting licenses
- Aircraft landing
- Contract policing
- Publications
Examples of Provincial fees

• Over 400 types
• registration and search services and for the issuing of licences.
  – MTO collects almost $1B —for vehicle registration, carrier, and driver licence fees.
  – The Alcohol and Gaming Commission of Ontario collects another 22%—for liquor licences and permits.
  – Provincial parks – 80% of operating revenue collected from park users.
Prov. Acts/Legislation re: user fees

- Financial Administration Act
- Treasury Board Act
- Provincial financial planning policies and processes:
  - Non-Tax Revenue Directive
  - 2008 budget one-time review of fees
  - Results-Based Planning and Estimates Process
  - Costing and Pricing Policy
- Auditor General 2009 report recommendations
- Treasury Board of Cabinet and Management Board Secretariat responsible
Examples of Municipal User Fees

- Water and sewer
- Solid waste collection and disposal
- Public transit
- Public recreation
- Library services
- Charges for planning documents/permits
- Parking charges
- Development charges
- Electricity (e.g. hydro utilities)
## Level of User Fees (2008)

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Rationale for User Fees

Correctly designed fees achieve the following:

• Economic efficiency
• Fairness
• Accountability
• Transparency

Rationale is not to generate revenue although this is often why user fees are supported.
Where should they be used?

• Wherever possible; especially for services with ‘private goods’ characteristics.

Examples include:

- water and sewer systems
- solid waste collection and disposal
- public recreation and libraries
- transportation, public transit and parking
- post secondary education
- dare I say, health care
Why are they opposed?

Because:

• They are alleged to be regressive and unfair.
• Cost data are not recorded/reported in a way that supports marginal cost calculations (a problem with fixed or joint costs).
• Insufficient revenues to cover costs – problems with over-sized infrastructure.
• They are not politically acceptable.
• Already paying taxes for services that some argue should now be funded from user fees.
Current problems with user fees

- Designed to raise revenues rather than to allocate resources efficiently
- Are not used for enough services
- Pricing structure has contributed to the so-called ‘infrastructure deficit”
- Many are not earmarked
How should they be structured?

• Basic principle is that $P=MC$.
• Deviations of $P=MC$ are necessary in the following circumstances if the rationale for charging is to be met
  - when economies of scale are present
  - when capacity constraints exist
  - when demand differs in peak and non-peak periods
  - when second-best considerations are prevalent
  - when distance from source of supply affects costs
  - when externalities exist
Governance

• Refers to the responsibility for setting fees

Current problems exist where:
• user fee funded services are the responsibility of two levels of municipal govt. (regional/area municipality)
• service responsibility extends across neighbouring municipal borders.
Future

- Use must be expanded.
- Structures must be changed.
- Governance must be improved.

Examples of changes:
- Water and sewer
- Electricity
- Public transit and roads
Example: Water and Sewer

- Current practice leads to overuse and over investment.

Changes needed:
- Meters so that volumetric pricing can vary by time of day, season of year, distance from source, etc.
- Multi-part pricing to cover both operating and fixed costs.
- Asset replacement costs must be included in prices.
- Opportunity cost of water should be included in prices.
Example: Electricity

• Past practice and current pricing has led to over-use and over investment.

Changes needed:

• smart meters
• pricing that varies by time of day (peak vs. non-peak), distance from source, and any other factor that affects prices
• multi-part pricing to cover operating and fixed costs
Example: Roads and Public Transit

Ontario Municipalities (on average):
• Almost 13% of total spending is on roads & less than 4% of total spending is on public transit.

Provincial govt. in Ontario:
• About 3.3% of all provincial spending is on roads and public transit.
Example: Roads and Public Transit

• Zone charges for public transit.
• Municipal fuel tax with tax rates set locally
• Congestion toll charges with rates varying by time of day
• High occupancy toll lanes
• Motor vehicle registration fee – based on size of vehicle and emissions
• Non-residential parking space fees
• Governance in large metropolitan areas.