



**Government Finance Officers Association**

# **Revenues and user fees policies**

**Section 6**

# Objectives of Revenue Policies

- Overall revenue strategy
  - Strong mix of revenue to sustain operations
  - On-going versus one-time revenue considerations
  - Revenue volatility / predictability
  - Regressive versus progressive revenues
  - Forecasting approach
    - Forecasting methodologies to be used
    - Conservative versus realistic
    - Growth versus stability
    - Multiple forecast scenarios

# Objectives of Revenue Policies

(continued)

- Overall revenue strategy
  - Frequency of forecasts / forecast updates
  - “Price of Government” considerations
  - Stance of government toward collecting owed revenues

# Examples of topics

- Revenue diversification
  - Policies typically favor seeking a diversified revenue base
  - Policies may address reliance on less stable on-going revenue sources (i.e. development revenues)
    - May be pledged to support related expenses
    - May be pledged to support growth related infrastructure
  - Use of fund balance as a “revenue” in budget balancing

# Revenue Policy Ideas

- Sample policy from Denver on volatile revenue.
  - *It is not prudent to allocate sales tax revenue that exceeds the normal growth rate (defined as the average annual growth rate over the last ten years) to on-going programs. Therefore, sales tax revenues that exceed the normal growth rate should be used for one-time expenditures or to increase reserves for the inevitable economic downturns.*

## City of Redmond -

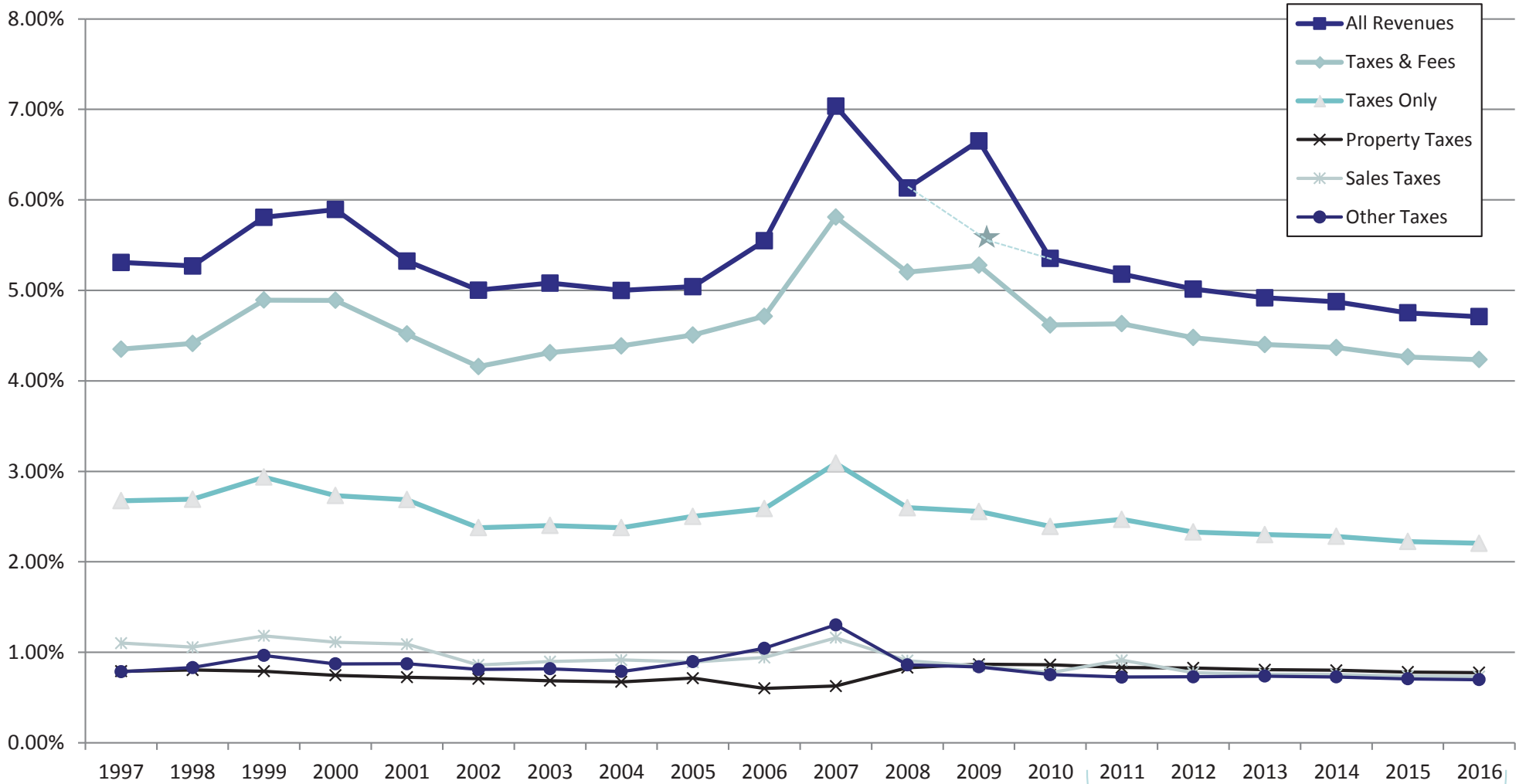
### 3. Revenue Policies

- a. The City will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine **elastic and inelastic revenue sources** to minimize the effect of an economic downturn.
- b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.
- c. The City will estimate its biennial revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.
- d. The City will project revenues for the next six years and will update this projection biennially. The Finance Department will biennially review and make available to the Public Administration and Finance Committee an analysis of each potential major revenue source before going to the full Council for review.
- e. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.
- f. **In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities, such as recreational services, at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Council.**



# The Price of Government

## City of Redmond, Washington



Notes: Compares ratio of total city revenues to total personal income  
 Data for "taxes only", "taxes & fees", and "all revenues" are cumulative -  
 individual tax types data is not cumulative

Estimates



# Objectives for User Fee Policies

- Clarify objectives of the various fee types
  - Degree of revenue recovery
    - Cost basis for recovery analysis
  - Program access
    - Subsidy for certain types of fees or users
    - Use of fees to control utilization
- Fee review parameters
  - Schedule, review level, authority
  - Notice, process, review / appeal



# Grant Revenues

- Before applying / acceptance
  - Any grants must be consistent with the government's mission and strategic priorities
    - Maybe consider requiring policy level approval
  - A multi-year cost/benefit analysis must be performed before a grant is pursued and/or accepted.
- After receipt
  - Upon expiration of a grant, a thorough review of the program's value is conducted before it is supported with general tax dollars.
  - Ideas / suggestions about how to budget and account for grants
    - Cost accounting
    - Internal controls over grant expenditures / proper invoicing of grant related revenues
    - Federal / state grant management standards

# Changing Fees or Implementing New Fees

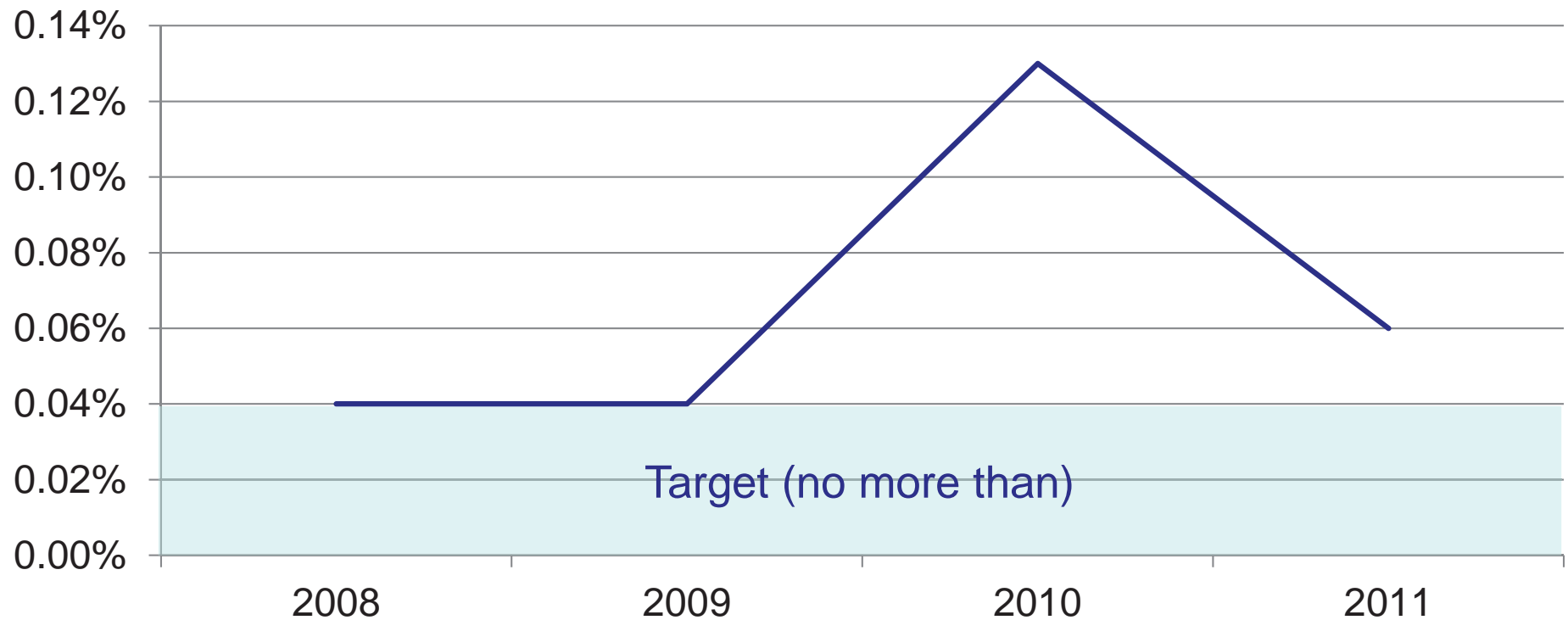
- Denver's policy criteria
  - Whether the service benefits the community in general or only the individual or group receiving the service
  - Whether the service is provided only by the public sector, or also by the private sector
  - Whether imposing the full cost fee would pose a hardship on specific service users
  - Whether imposing the full cost fee would place the City and County of Denver at an economic disadvantage
  - Whether not imposing a full cost fee would cause an unrealistic demand on the service.

# Collections

- A revenue policy should provide broad guidance to staff on how to execute revenue collections.
- A policy might direct the staff to engage in “aggressive” or “vigilant” tax collection.
- Ideally, the policy will include a defining target.
  - New Castle County, Delaware’s policy directs staff to “aggressively collect delinquent County property tax in order to achieve year-end accounts receivable balance of \$2.3 million.”
- A target could also be stated in more generic terms, such as limiting uncollected amounts to 2% of annual yield.
  - The City of Portland, Oregon’s policy further supports aggressive collections by directing that projects to improve net collections will be given priority in the City’s budget process.
  - City of Redmond’s performance measures set targets and evaluates results of total receivables over 60 days old as a percent.

# City of Redmond

**Percent of Bad Debt < .04% of total revenues**



<b>Rating</b> Improving	<b>Influence</b> Medium	Due to improvements in bankruptcy filings, receivables over 30 days have declined by 46% (Aging report: January 2012 vs January 2011). Current outstanding receivables over 30 days: \$26K ; Total Billed in 2011: \$41M.
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# Discussion Topic

(if we have time)

- “Conservative” forecasts
  - Policies often call for a “conservative” forecast.
  - However, our forecasting research suggests this can cause some problems.
  - What are the implications of this kind of policy?
  - What are other potential policy approaches?
  - What are the advantages / disadvantages of each?
  
- ? Which occurs in your policies and why?