

FEES FOR SERVICE: PROS AND CONS

by Larry J. Gordon, M.S., M.P.H.

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The problems of financing governmental services have become increasingly acute at all levels of government. One can scan almost any metropolitan newspaper any day of the week and read something of the financial problems facing the local governing body.

The hypothetical community of Dixon-Tiller County would appear to be facing budgetary problems somewhat similar to that of scores of other similar sized communities across the nation.

With specific reference to environmental health, the continued and rapid growth of urban and suburban areas is requiring not only rapid expansion, but in many cases virtual "crash" programs of increasing all environmental health activities. Without the necessary environmental health planning, control, and inspections now, the price for curative programs will be vastly increased in future years, not only for government, but for business, industry, and home owners. The population will continue to increase, age, have more leisure time and congregate in metropolitan areas.

There are "musts" in every environmental health activity. Each poses a problem and is a challenge for planning and improvement. We must increase environmental health activities and these involve all age groups, working conditions, etc., whether at home, work, school, or play. Time and large scale

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financing are required, but it is frequently found to be extremely difficult to convince governing bodies that programs of the necessary scope and magnitude must be undertaken immediately. To compound this difficulty, the average citizen often takes his environmental health services for granted and assumes that he is being protected when no such protection exists. It is understandably difficult to compete for necessary financing with activities such as police, fire, traffic engineering, and public works, which are sometimes more glamorous and obvious in their efforts and where lack of effort is indicated by immediate symptoms. A decreased or inadequate environmental health budget is, however, more insidious in that the damaging effects may not be apparent for years or even generations.

I have been speaking in an abstract manner about environmental health programs, services, activities, etc. We all know there is no commonly accepted definition for environmental health and that what is considered an environmental health program in one community may be administered by an agency other than a health agency in another community. It might be better if other terminology such as environmental planning and control were used as it would actually be more descriptive as well as broader in scope. It is naive to believe that the majority of activities of a typical health department environmental health program have a proven cause and effect relationship with disease. To the contrary, a large amount of effort is spent improving esthetic considerations which are presumably based on the demands and expectations of the particular community in

question. Along this same line of reasoning, the "environmental" needs of a community cannot be based on morbidity and mortality rates alone. Not only are such rates usually inaccurate and thereby misleading, but they do not demonstrate the chronic, long-term effects of many environmental hazards associated with the modern metropolitan environment.

Likewise, the "magic figures" which have been suggested by the American Public Health Association for sanitation personnel-population ratios are of very little use except as very vague guide lines. They do not properly define what is meant by "sanitation personnel" nor do they consider the specific problems and demands of a given community or that portion of the total "environmental" program which is administered by "sanitation personnel".

I am going to make the following assumption regarding environmental health services in the hypothetical community of Dixon-Tiller County:

1. We do not have a sufficient budget for adequate personnel, salaries, training, or expenses in order to offer the quality and level of services which are necessary and/or demanded.

I am not at this time making specific recommendations about what the budget and personnel levels should be for Dixon-Tiller County. This can be determined by group opinion as a part of the class problem. What I do want to point out is that services are inadequate both in depth and breadth, and some means must be found for financing a considerably higher level of environmental health services. For purposes of this paper,

I am also assuming that the health department has been unable to secure the necessary funds from presently available revenue.

The information available to us on Dixon-Tiller County indicates that slightly less than \$15,000 is received annually from fees paid to the health department. I do not find information indicating how much of this revenue was derived from fees for environmental services.

Following are some of the criteria that must be considered at any level of government in determining methods of obtaining additional revenue:

1. Is the proposed tax legally feasible?
2. Will the proposed tax bring in the desired revenue?
3. Can the proposed levy be economically administered or will collection costs be too great?
4. Is the tax fairly simple and certain?
5. Will the taxpayer understand how the tax is computed? Will he be able to anticipate the amount of his liability? Is provision made for hearing complaints without need of counsel?
6. Is the proposed tax equitable as to benefit? In other words, is the tax in accordance with some generally accepted notion of justice? Will the addition of the proposed new source make the total tax burden more equitable?

Health agencies have been understandably reluctant to suggest or promote inspection fees as a means of obtaining

additional revenue. I personally have never favored inspection fees as a matter of principle. However, principle is one thing and practice is another. The cold hard facts in a given community may indicate that inspection fees are a practical answer to the need for increased revenue to provide for improved or additional environmental health services. In some instances, health agencies have not been able to provide the proper type or level of environmental health services and have lost such programs to other agencies by default. In many instances, the other agency which takes over such an environmental control program assesses fees on the very type of activity which the health department refused to consider for inspection fees. This has happened on such environmental services as food control, milk sanitation, water sanitation, sewage disposal, barber and beauty shops, trailer parks, swimming pools, etc. I believe that such activities should be administered by public health-trained and -oriented personnel. If it takes inspection fees to finance such services, the health department must be practical about it.

Most metropolitan health agencies now have some inspection fee requirements for various services. These inspection fees, of course, vary considerably.

Inspection fees or permit fees can probably be required for any service which is applicable to everyone in that particular type of endeavor.

There is usually a distinction made between a "tax" and a "fee". When a license is primarily issued as a revenue

measure the term "tax" is appropriate. It emphasizes that a license is purchased simply for the privilege of operating a business or practicing an occupation. The term "license fee" or "permit fee" is used primarily in connection with regulatory licenses. In this discussion, we are concerned primarily with permit fees.

It would be well for one person in any governmental unit in question to be assigned primary responsibility for developing initial recommendations regarding inspection or permit fees for consideration by the governing body. Such a person might be an administrative assistant, city clerk, city attorney, finance director, management analyst, or a department head. Some cities have also established an advisory committee to study and make recommendations for permit fees.

All state legislatures have enacted statutes granting and restricting the power to license. Some states grant the power to license both for revenue and regulation, while others restrict the power to regulation only. In determining legal authority, state statutes are not the only source of power or restriction. Court interpretations of statutes should not be overlooked. Often the court will narrow or enlarge upon what appears to be the meaning of a law. City charters, particularly in home rule states, should be studied for legal authority.

Before the actual ordinance and rate schedule are developed, it is wise to obtain agreement on basic policy among administrative officials and members of the governing body. Questions that should be answered include: the principle upon which

the rates will rest, the basic rate structure, and the extent of coverage. There should be agreement as to whether the rates will be based on benefit received, costs of regulation, or a combination. Rates cannot exceed the cost of regulation, but the cost of regulation may include such "overhead" as administration, public education, laboratory service, epidemiological investigations, retirement fund, staff training, and costs of collecting the required fees.

The next step would be to compile a complete list of activities that are subject to inspection fees.

Next, is development of an equitable rate structure for the activities listed.

It is wise to contact and consult with the businesses that are going to be licensed. First, it gives the administrative personnel the opportunity to explain the need, the objectives, and methods of obtaining these objectives. This can eliminate future misunderstanding. Secondly, business community cooperation makes it easier to obtain needed information.

The decisions made through the foregoing processes are now incorporated into a recommended ordinance. At this point, it is also necessary to give thought to internal administration. A permit fee or inspection fee ordinance normally provides for administrative procedures. The city or county attorney should draft or check the ordinance closely.

The chief administrator transmits the ordinance to the governing body setting forth the basic needs, methods, and objectives. It is generally desirable to hold a public hearing before adoption of the ordinance.

The health department would have to determine the cost and frequency of periodic inspections for the fees to bear some reasonable relationship to the cost of service. (Several years ago, the City of Los Angeles found that, when everything was considered, sanitation services cost the city government \$11.60 per hour.)

Many methods of establishing the rate base have been utilized. Perhaps the gross receipts basis is the most popular and, for environmental health services rendered, gross receipts can often be quite accurately related to the cost of service rendered. In addition, it is relatively easy to administer as compared to other methods such as flat rates, number of employees, seating capacity, size of inventory, square feet, and pieces of vital equipment. These may have little relationship to the cost of the service. However, volume of sales in gallons is frequently used for milk inspection fees, hourly rates are sometimes set for certain services, and the number of carcasses are commonly used for slaughterhouse inspection fees. All have their place if used equitably, but each must be considered in the light of the particular community service and needs.

Environmental inspection and permit fees and routine billing and collection should be handled by the finance department or city treasurer.

Some of the advantages for better administration and improved environmental sanitation which have been listed for requiring permit fees are as follows:

1. A feeling of common interest and community service between the health agency and the industry involved;
2. Businessmen becoming more interested in the health department's recommendations as they are paying for the service;
3. Consultation with the health department prior to opening new businesses;
4. Providing an accurate record of all businesses requiring regular health department supervision;
5. Formally establishing a system for routine and regular inspections of businesses subject to the fee;
6. Industry-wide support for an adequate environmental health staff because those who pay the fees "expect to get their money's worth";
7. Placing the health department "on the spot" to be efficient and effective.

I could cite numerous cases of inspection fees being favored by enlightened businessmen due to the above factors. In addition, the inspection fee cost is frequently lower than if each industry involved employed its own consulting sanitarian. Industry self-inspection is important, but it is no substitute for competent official supervision, education, and consultation.

Some of the adverse considerations for inspection fees are:

1. The level of activity may become dependent on the acquisition of revenue.
2. Inspection frequency may become regulated by the permit

fee revenue. This is closely related to number one.

3. The health program should operate on a firm financial structure, with the government as a whole assuming the hazard of reduced revenue instead of having the health program operating on a conditional financial structure with the health department alone assuming the hazard of reduced revenue.
4. The government as a whole has a sufficiently broad base of revenue to permit it to pursue all its programs as originally planned and adopted, even though health department revenue falls short; but the health department scope is so narrow that a revenue deficiency would require reducing health department programs.
5. The health department may lose staff if business volume of some large industry decreases, whereas funds could more probably be transferred from other sources of revenue if all the budget came from the general fund.
6. The general public, not just select businesses and industries, benefits by environmental health services and should, therefore, pay their fair share.
7. No method of assessing inspection fees is entirely equitable.

8. Not all environmental health services are amenable to financing based on inspection fees. Examples of such services include air pollution control, water pollution control, housing conservation and rehabilitation, and school sanitation.
9. Inspection fees may provide for the continuation of unnecessary programs which should otherwise be dropped, inasmuch as most administrators dislike losing personnel.
10. Fees are usually written into law and such fees may not increase as rapidly as the need for, or increased costs of, additional service.