

Resident/Non-Resident Differential Fees

Administrative Analysis



BACKGROUND

Differentiation of a resident/non-resident rate presents both benefits and challenges. The City of St. Albert – Comparative Analysis of Cost Sharing Agreements & Differential Fees for Recreation Facilities completed in 2005 explored this issue in detail.

The implementation of differential fees for rentals is commonplace in the region and represented a sound practice; however, it is not commonplace for recreation or cultural facility access. Facility users, regardless of whether they are residents or not, do not differentiate between geographic boundaries and who the direct provider of services is.

In situations where regional cost sharing agreements have been unsuccessfully negotiated, the concept of differential fee pricing often results to the detriment of neighbor relations. The Ernst & Young Service Review recommends cost sharing agreements as preferential to differential fees as differential fees are administratively challenging to manage and damage goodwill at a customer level. It recommends differential fees only as a temporary policy while cost sharing agreements and ICFs are developed.

Differential fees, also known as 'two tiered pricing', are usually resorted to when prior agreements no longer meet mutual goals and discussions to resolve differences between regional governing bodies fail. Negotiations to find equitable solutions typically fail when there is a lack of understanding between parties as to the actual costs of maintaining a service or a facility.

The Edmonton Metropolitan Region is unique as it relates to differential fees and joint municipal agreements as it is comprised of several smaller municipalities and counties which surround a larger urban centre. The physical borders of each community blend seamlessly into the larger region, allowing for easy access to facilities and services across municipalities regardless of the community of residence. Currently, Administration is unaware of any municipalities in the capital region that have differential fees based on residence.

Operational viability for most major recreation and cultural centres depends upon the attraction of revenue through pass holder and ticket sales which can comprise close to 60% of total facility revenues. Wise business acumen would suggest that operators should maximize pass holder and ticket sales and meeting this challenge does not mean differentiating between the origin of users.

In cases where revenue is increased through differential fees, it is likely significantly offset by the cost of administering (auditing, checking, accounting and monitoring) the differential fee.

Benefits of Differential Rates

Revising fees to include a “non-resident” surcharge component could enable the City to generate additional revenue from over 30% of the users of its facilities and programs, thus reducing the deficit between revenues and operating expenditures, which is currently borne by St. Albert’s tax base. This additional revenue is achievable only if patronage is able to be maintained through the increased rate and staff administration of the fees can be managed cost effectively.

Differential rates may be appealing to some residents who do not feel that non-residents should be benefiting from facilities and services that are paid for by residents through taxes.

By taking the time to analyze the users and the costs associated with programs and services, communities are able to explore the regional use for recreation and cultural amenities providing the opportunity to more effectively allocate resources and provide greater levels of service to the community and/or regions affected.

Potential Effects of Differential Rates

The following effects could be expected if differential prices are charged for non-resident use:

- Reduced goodwill and trust between communities and/or increased incentive to complete intermunicipal collaboration frameworks/cost-sharing agreements.
- Decreased revenue and a greater dependency on the tax levy from a host municipality to cover operating deficits.
- Increased costs associated with training staff to deal with customer service issues and administration costs to implement and police a differential fee policy and resident verification system.
- Implementation for differential fees for recreation and culture programming and services may set a precedent for other communities, resulting in increased fees being charged to St. Albert residents for accessing non-St. Albert programs and services.
- Reduced community draw impacts businesses through second and third round spending.
- Reduced usership, growth levels and a decrease in potential market draw. Non-residents often view the differential fee as a penalty and or a 'money grab' and show their dissatisfaction by boycotting the service or facility. This is particularly true when residents have options to access services in other jurisdictions.

It is important to note that implementing differential fees is likely to result in a loss of market share. Implementing this change at a time when recreation and cultural facilities are currently in a recovery state and the customer's readiness to return is unknown will further threaten the potential recovery of these services. Due to the complexities of price differences and the demand for recreation and cultural services, there is no consistent method to measure the potential loss of revenues.

Applying differential fees has a potential to increase revenues however there are significant draw back such as reduced goodwill and trust, increased administrative time and costs, economic Impacts on reduced non-resident spending, decreased market draw resulting in decreased revenue potential and the likelihood that St. Albert residents would be Impacted by Increased fees for use in surrounding municipalities. More time would be needed to thoroughly review the Impacts of differential fees.