‘Enterprising’ Cities: An Exploratory Analysis of Municipal Enterprise Revenues, User Fees and Charges, and Service Delivery

Christopher W. Hoene
Center for Research and Program Development
National League of Cities
1301 Pennsylvania Avenue, NW
Washington, DC 20004
(202) 626-3172
hoene@nlc.org

Michael A. Pagano
Graduate Program in Public Administration
College of Urban Planning and Public Affairs
University of Illinois at Chicago
412 S. Peoria St. (MC 278)
Chicago, IL 60607
(312) 355-4681
mapagano@uic.edu

Abstract
For nearly three decades observers of public finance have noted a marked rise in municipal enterprise activities. These activities have traditionally taken the form of public utilities such as water and power and service delivery mechanisms for sewers, sanitation, and stormwater control. In response to decreased federal funding, recessions, and voter tax revolts, municipalities have increased the range of services provided through enterprise funds to include parks and recreation, libraries, and other services. Simultaneously, municipalities have also increased their usage of user fees and charges to fund and deliver services through their General Fund budgets. The proliferation of enterprise activities and user fees and charges represents a fundamental shift away from traditional funding-service delivery mechanisms associated with “public goods,” to mechanisms that more closely resemble “private goods.” Proponents of this shift note the increased efficiency that it brings to service delivery while opponents raise concerns about municipal budget control and equity in terms of the ability to pay for services by needy and less wealthy citizens.

In this paper, we explore cities’ usage of these funding and service-delivery mechanisms in recent years, with specific attention devoted to differences in city fiscal structure. We also identify areas of further research in this expanding arena of municipal finance.

I. Background

The importance of user charges and fees, as well as enterprise funds, in financing public services is well documented. As technology has improved governments' capacities to measure public service consumption and as the tax revolts of the past 25 years have encouraged efficient service production via the market-like user fee, governments have identified scores of possible applications of fees. A Government Finance Officers Association catalog of user fees and charges listed over 1500 separate fees used by 178 governments, ranging from the familiar (water and sewer fees, airline landing fees and yard waste fees) to the obscure ("messenger fee" imposed by Indianapolis when a staff member "must travel to a patron's home to retrieve overdue library material").[1] Fee-for-service funding alternatives have in turn led to increased usage of enterprise funds as a means of collecting fee revenues tied to the delivery of specific services.

Netzer found that local governments increased their reliance on user charge revenue from 1962 through 1989.[2] Recognizing the difficulty in accurately measuring user fee reliance, Netzer created a "narrow" and a "broad" definition of local government reliance. The narrow definition included current charges and utility revenues; the broad definition added highway-user taxes, special assessment and fines. In 1962, the narrow definition of user fees amounted to 26.4% of local government own-source revenues (defined as own-source general revenue plus utility revenue); in 1972, these user fees were a slightly smaller 25.6%; and in 1982 and 1989, their reliance became nearly one-third of own-source and utility revenues (33.4% and 33.7%, respectively).

Increased reliance upon user charges and fees is one part of the shift from public service delivery mechanisms to more market-like mechanisms. Another key indicator of this shift is the rise of enterprise fund activity and reliance by municipalities. Bunch found that in a ten-year period (1989-1999), cities in her sample of respondents (N=124) increased the aggregate number of enterprise funds from 491 to 551, a 12% increase in a decade.[3] She speculates that the increase in enterprise fund usage might be attributable to the greater feasibility of raising fee rates than tax rates, or to an increased interest in privatization, or to federal mandates (especially in the environmental arena). She also finds that the average annual growth rate in a city's enterprise fund revenues exceeds (usually by a substantial margin) the growth rate in a city's General Fund revenues. This finding, she argues, might be due to the relatively low political feasibility of enterprise funds, or to a transfer of general-fund activities (tax supported) to enterprise funds (fee supported), or to the kind of activity that tends to be accounted for in an enterprise fund (namely, one that has a higher demand function associated with it).

[1] Dennis Strachota and Bruce Engelbrekt (compilers), *Catalog of Public Fees and Charges* (Chicago: Government Finance Officers Association, 1992)
[2] Dick Netzer, "Differences in Reliance on User Charges by American State and Local Governments," *Public Finance Quarterly* 20:4 (October 1992), 499-511.
[3] Beverly Bunch, "Changes in the Usage of Enterprise Funds by Large City Governments," *Public Budgeting & Finance* 20:2 (Summer 2000), p. 20.

Rubin examined the budgetary and political implications of a rise in municipal enterprise activities in Illinois municipalities and found that reformed cities and cities with a broader scope of general governmental services are more likely to utilize enterprise funds.[4] Regarding reformed cities, she cautions that enterprise funds are typically not managed like successful private enterprises because these funds often run fee deficits and/or provide interfund transfers to other city funds.

The importance of municipal fiscal structure in examining reliance upon user charges and fees and enterprise funds is also noted in the aforementioned studies. All of these studies point to fiscal constraints imposed by state and voter imposed tax and expenditure limits. Netzer, in particular, notes that the property tax revolt in the late 1970's triggered a large shift to user charges and fees reliance on the part of municipalities. In separate studies, Netzer and Tannenwald also find that the ability to export state-local tax burdens affects user charges and fee reliance at the state level.[5]

Previous analyses of user charges and enterprise fund reliance also examine the range of services funded and provided through these mechanisms. Bunch finds that enterprise funds are most commonly used for municipal utilities (water, sewer, electricity), parking, solid waste management, and municipal airports. Similarly, Rubin finds that Illinois cities utilize enterprise funds mostly for water, sewer, and parking. Netzer finds that user charge reliance is heaviest for municipal utilities and airports.

Building upon the work of these earlier studies, we explore recent trends in enterprise fund and user charges and fee reliance, the extent to which this reliance differs based upon municipal fiscal structure and tax base composition, and the range of services delivered through enterprise funds.

II. Trends in Enterprise Funds, User Charges, and Fees

A. Data Source and Sample

The data presented here are drawn from the National League of Cities' annual survey of *City Fiscal Conditions.* The survey is a national mail survey of finance officers in U.S. cities conducted in March-April of each year. Surveys are sent to all cities with populations greater than 50,000 and, using established sampling techniques, to a randomly generated sample of 520 cities with populations between 10,000 and 50,000. In 2001, surveys were sent to 1,060 cities. Data reported here are taken from the 325 cities that responded to the mail survey, for a response rate of 30.7 percent.

The annual survey questionnaire requests data on cities' General Funds, including revenues from user charges and fees that support General Fund activities. In each year, survey respondents provide revenue composition data for the current fiscal year (budget

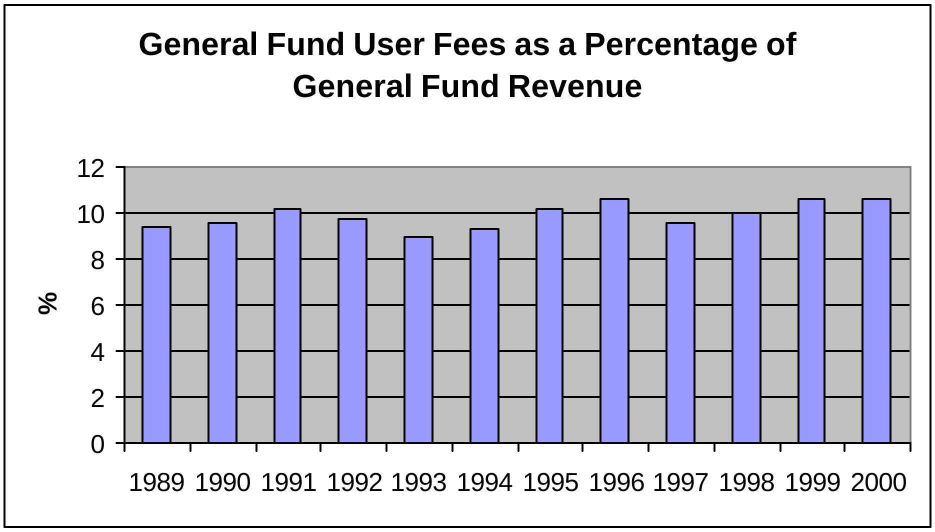
---

[4] Irene Rubin, "Municipal Enterprises: Exploring Budgetary and Political Implications," *Public Administration Review* 48:1 (January/February 1988): 542-550.

[5] Robert Tannenwald, "Taking Charge: Should New England Increase Its Reliance on User Charges?" Federal Reserve Bank of Boston, *New England Economic Review* (January/February 1990).

year), and the two previous fiscal years. Longitudinal data on user charges and fees revenues are available since the survey began in 1989 and are displayed in Figure 1. Although there is some variation through the period, user fees and charges have amounted to 9.9%, on average, of total General Fund revenues for the decade.

Figure 1: General Fund User Fees and Charges as a Percentage of General Fund Revenue



The 2001 survey also requested data on cities' enterprise funds. Although enterprise funds are established as self-supporting entities, their revenues profiles do not rely entirely on user fees/charges for services. Contributions, fines, intergovernmental transfers, and other revenue sources constitute the broader revenue structure of enterprise funds. Survey respondents to enterprise fund questions (N=289) provided revenue composition data for FY1999, FY2000 and the FY2001 budget projections (questions on enterprise funds were not requested in earlier surveys). In these cities, 85% of the revenues for all enterprise funds are derived from user fees and charges with the remaining 15% from "miscellaneous" sources. The 2001 survey also requested information about the types of services funded through enterprise funds.

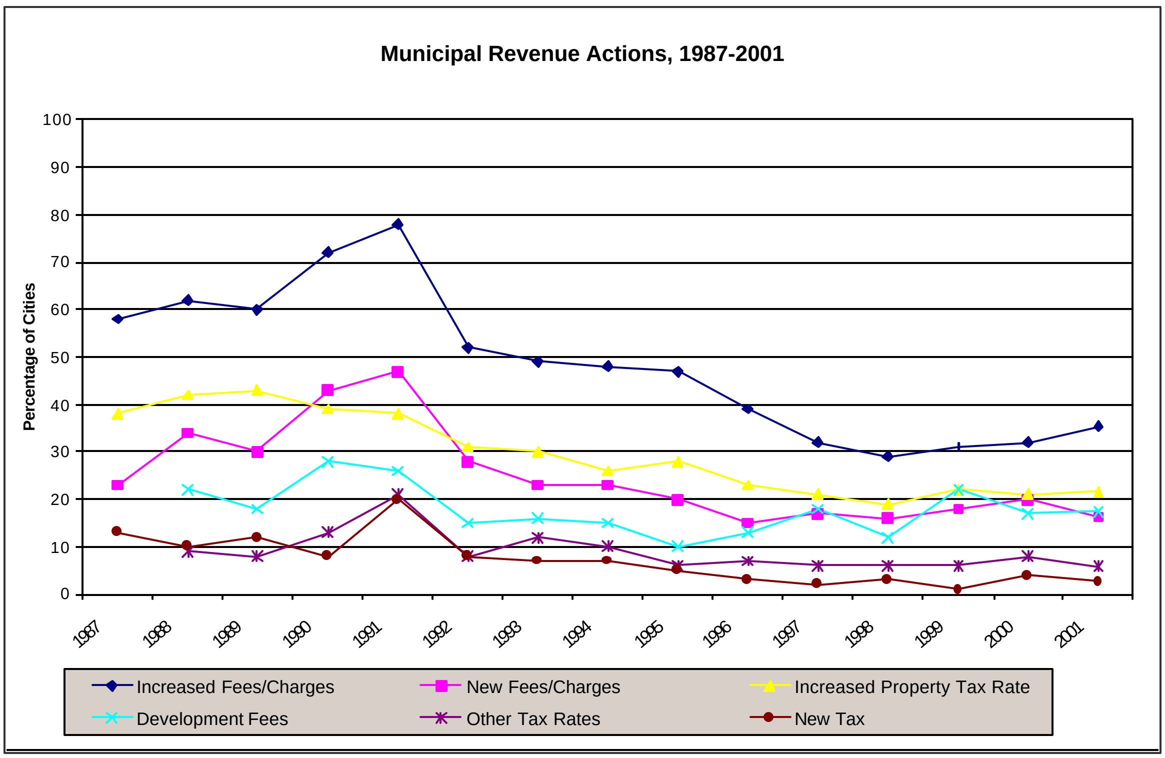
B. User Charges and Fees

The annual survey of the National League of Cities also requests information on revenue and expenditure actions that the city has undertaken. One of these revenue actions is "increasing user fee rates," which is not specific to any enterprise fund or to any other activity. Consequently, the number of cities reporting that user fees were increased might pertain to (a) an enterprise fund activity, (b) a special revenue fund activity, (c) a General Fund activity, or (d) several activities (the survey does not ask how many separate user fees were increased). Nevertheless, Figure 1 presents longitudinal data on the number of cities that increased user fee rates (compared to other tax rates) as a mechanism to generate additional revenue. What is clear from the chart is that more cities increased the rates of both taxes and fees during the recessionary period of 1990-92 than in other years.

While not surprising, it is also clear that a larger percentage of cities consistently increase charges and fees or impose new charges and fees than increase taxes or impose new taxes. The exception may be the local property tax rate. When faced with taking action to increase revenues, it appears that cities first prefer to increase existing fees and charges. Short of this option, they prefer to raise the existing property tax rate or impose new fees and charges, followed by imposing new taxes.

This trend is borne out in a National League of Cities opinion survey of city officials conducted in March of 2001. The survey asked elected and non-elected city officials about revenue actions they expected to take in the next fiscal year. Of the 348 respondents, 70 percent reported that they expected to increase user charges and fees, while 37 percent said they would increase property tax rates, 18 percent said they would increase sales tax rates, and 16 percent said they would increase other tax rates.[6]

Figure 2: Municipal Revenue Actions, 1987-2001[7]



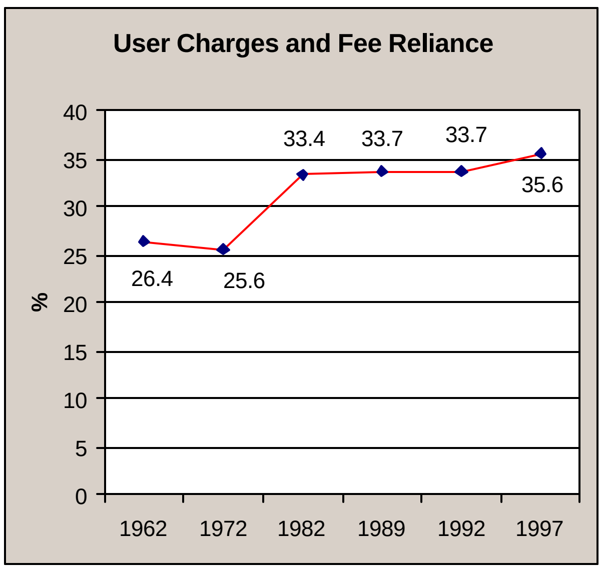
Perhaps most notable among the results displayed in Figure 2 is that the percentage of cities reporting that they are increasing the rates of user fees and charges increased gradually from 1998-2001, after falling consistently from 1991-1998. Between 1998 and 2001, the percentage of cities increasing fees and charges has increased from below 30

[6] Christopher Hoene and Kyan Bishop, "Cities Adjust Budgets to New Economic Realities," *Nation's Cities Weekly*, March 2001.
[7] Michael A. Pagano, *City Fiscal Conditions in 2001* (Washington, DC: National League of Cities, 2001).

percent to more than 35 percent. At the same time, little change is evident in the percentage of cities taking other revenue actions.

This result suggests that for the first time since the recession of the early 1990s — the last period of marked increases in user charges and fees activity — user charges and fee rate hikes are on the rise. Updating the work of Netzer reveals a similar upswing in user charges and fees activity. Census data released since Netzer's publication reveal that local governments' reliance on user fees in 1992 was identical to their reliance in 1989 (33.7%). But, by 1997, user-fee reliance increased for the first time since 1982 to 35.6% (see Figure 3).[8]

Figure 3: User Charges and Fees Reliance
(As percentage of own source general and utility revenue)[9]



Why would user charges and fees reliance be increasing during this period when municipal coffers were benefiting from unprecedented growth? Previous periods of increased user charges and fees reliance (late 1970s and early 1990s) occurred when the municipal fisc was severely constrained. A number of explanations are possible. One explanation is that demand for fee-based services may have increased. Residents and businesses benefiting from the economic growth may, for example, have been more inclined to consume greater amounts of these services. Another explanation is that during recent prosperous economic times, cities may have moved to reduce their subsidization of certain fee-based services (those services where the fee revenue fails to

[8] Bureau of the Census website, State and Local Government Finances: http://www.census.gov/govs/www/estimate.html

[9] Data for 1962, 1972, 1982, and 1989 are drawn from Netzer (p.501). We use Netzer's "narrow" definition of user charges and fee revenue, which includes current charges and utility revenue. Data for 1992 and 1997 are drawn from the Bureau of the Census website, State and Local Government Finances: http://www.census.gov/govs/www/estimate.html.

cover the full costs of providing the service). Increasing fees and charges may signal a move to more fully recover the costs of these services. On the supply side, the costs of delivering fee-based services may also have increased, particularly where additional capital and infrastructure investments are made in fee-based services.

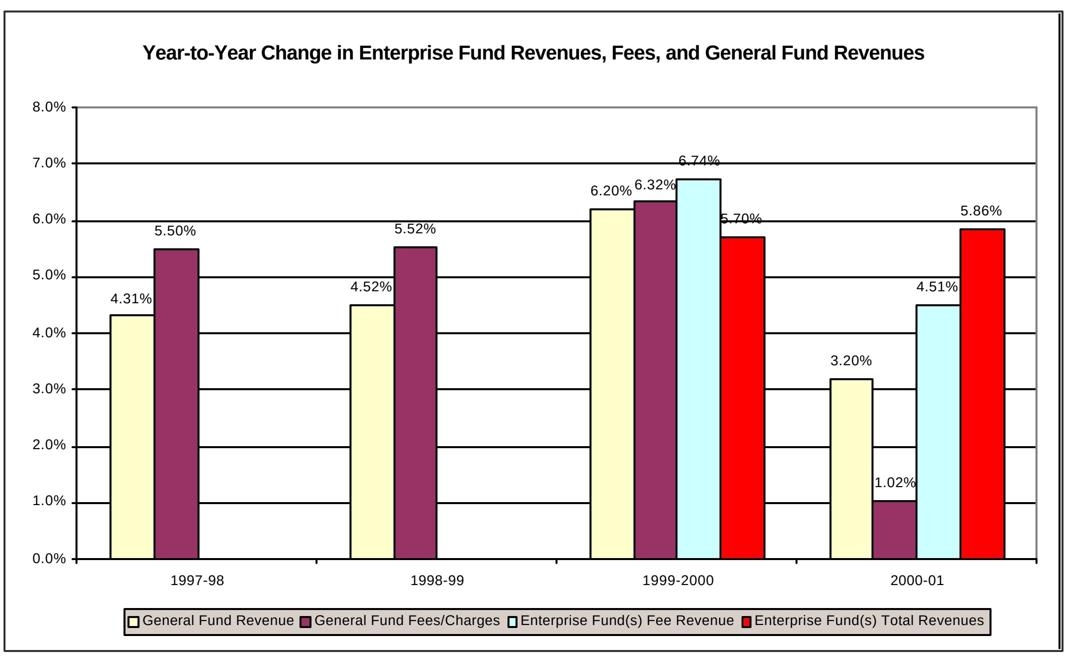
Regardless, the results indicate that user charges and fee reliance appears to be increasing in the last several years.

C. Enterprise Funds

Bunch's study indicates that enterprise fund revenue growth has been substantially greater than General Fund revenue growth during the 10 years of her study, which ended in 1997 or 1998 (depending on data availability). In the few short years since the end of the study period, has the level of enterprise revenue growth maintained itself and has the disparity between the two funds increased or converged?

Figure 4 compares the year-to-year change in enterprise fund revenues, fees, and General Fund revenues in recent years. The results reveal that total General Fund revenue growth (6.20%) outpaced total enterprise fund revenue growth (5.70%) for FY2000. Given the effect of economic growth on municipal tax revenues, however, this result is not altogether surprising. Budget projections for FY2001 show a return to the trend found by Bunch. Total enterprise fund revenue growth (5.86%) exceeds total General Fund revenue growth (3.20%).

Figure 4: Year-to-Year Change in Enterprise Fund Revenues, Fees, and General Fund Revenues



i. Enterprise Funds and Fiscal Structure

One of the conclusions reached in Bunch's analysis is that the differential revenue growth rates between the General Fund and enterprise funds lead to a call for investigating budgetary and managerial procedures and outcomes. Yet, these differences mask tremendous variation in general-fund revenue growth that, we argue, might be at least related to general tax reliance. In other words, research into the budgetary and managerial procedures of cities that have changed their fiscal structure, as suggested by Bunch, might be augmented and better focused by considering the general-fund fiscal structure.

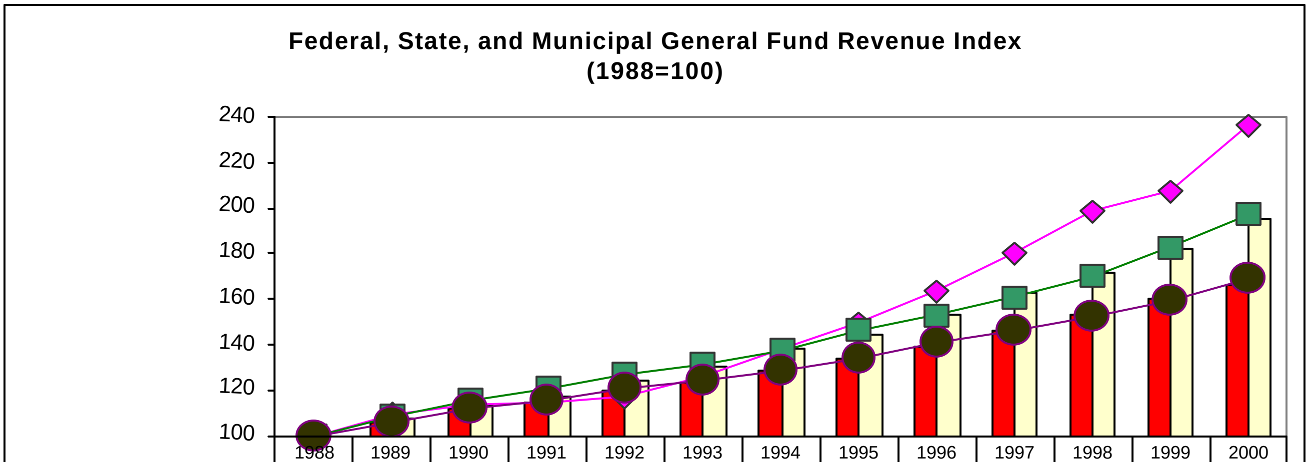
To do this, we disaggregated the data on the General Fund and enterprise funds by general tax structure. Three categories were created based on a city's access to the property tax only (74 responding cities), to a retail sales tax in addition to the property tax (204 responding cities), and to an income tax in addition to the property and/or sales tax (42 responding cities).

The revenue elasticity of each of these tax sources has been demonstrated to be quite different one from the other. Both the federal government and the states rely on one or both of the elastic general tax sources, namely, the income tax and the sales tax. During eras of rapid economic growth in which both incomes and consumption increase, governmental budgets increase at a growth rate that tends to be strong. Without increasing tax rates, tax revenues surge for those governments that levy a sales or an income tax. Because economic growth is not capitalized entirely in real estate investment and land ownership, governments that rely more heavily on a property tax do not usually experience revenue growth as rapidly or immediately as the sales or income-tax governments during rapid economic expansion. Nor do these property-tax levying governments experience the sharp declines in revenue generation during economic recession. Unlike the quick responsiveness of sales and income tax revenue collection to surges in the underlying economy, the growth in property tax collections changes more slowly. And most municipalities (with the notable exception of those in Oklahoma) depend at least in part on property tax revenues to provide funding for their General Funds.

Figure 5 presents the index in General Fund revenue growth for the federal government, state governments and municipal governments from 1988 to 2000 (1988=100). The federal government has experienced considerable and prolonged growth in revenues, especially since 1996. The index for the federal government's Federal Fund for 2000 was 236, meaning revenues have grown 136% over their 1988 levels. States have also experienced robust growth.[10] The index in 2000 for states was 197 or nearly double the 1988 level. And municipalities have experienced a slower overall growth rate in revenue generation. The index in 2000 for municipalities' General Fund was 169. The state and municipal indexes continue to mirror the growth in GDP and personal income, respectively, while the federal index is outpacing these measures by a considerable margin.

[10] General Fund revenue data are not tracked by the NASBO, but expenditure data are. These expenditure data are used as reasonable estimates of General Fund revenue data.

Figure 5: Federal, State, and Municipal General Fund Revenue Index[11]



	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Per Capita Income	100	106	112	115	120	124	128	134	139	146	153	160	167
Gross Domestic Product	100	107	114	117	124	130	138	145	153	162	171	182	195
Federal	100	110	113	114	117	126	138	149	163	180	198	207	236
State	100	109	116	121	127	131	138	146	153	161	170	183	197
Municipal	100	106	112	115	120	124	129	134	141	146	152	159	169

Although access to the property tax by municipalities is ubiquitous, their revenue structures are anything but homogeneous. The revenue trend line in Figure 5 masks the influence of diverse revenue structures. Although all municipalities are granted a property tax authority by their states, municipal access to a sales or income (payroll) tax is not universal. For example, of the approximately 555 US cities with populations greater than 50,000, roughly 34% have access to the property tax only, 8% have access to the income tax (in addition to having access to the property tax), and nearly 58% have some retail sales-taxing authority.[12] Besides nearly universal access to the income tax by municipalities in Ohio, Pennsylvania, and Kentucky (and 20 or so in Michigan), most other municipalities with an income tax authority tend to be among a state's largest (e.g., New York City, Kansas City, St. Louis, San Francisco) and are granted that authority by a special action of the state legislature.[13]

Sales tax authority is granted to some or all cities in 28 states. In Oklahoma, cities rely on the sales tax as the only source of general tax revenues. In the other states, municipalities' sales tax revenues are supplemented with one or both of the other general tax revenues, namely the property or income tax.

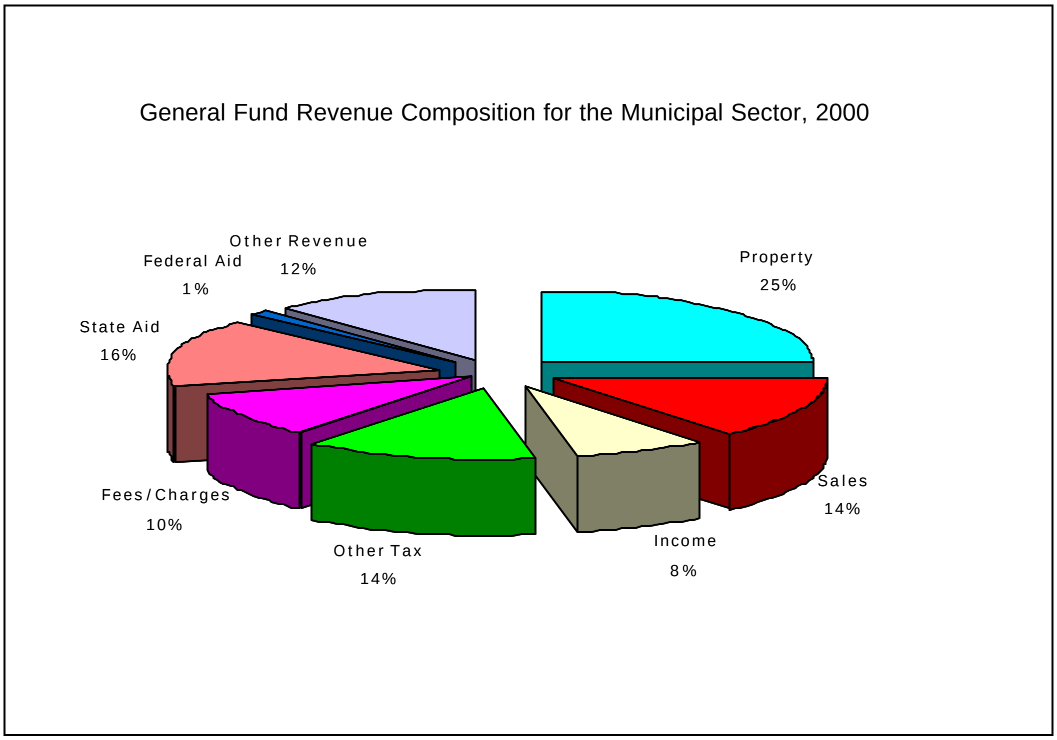
---

[11] Michael A. Pagano, *City Fiscal Conditions in 2001* (Washington, DC: National League of Cities, 2001).
[12] Calculation by author. General taxing authority derived from Appendix A, Michael A. Pagano, *City Fiscal Conditions in 1999* (Washington, DC: National League of Cities, 1999) and revised by the author.
[13] Tracy Von Ins, "Some Cities Turning to Local Income Taxes for Revenue," *Nation's Cities Weekly*, July 9, 2001, p.1.

The predominant general tax revenue for some cities, then, is the property tax (e.g., Milwaukee, Portland, Buffalo), for others it's the sales tax (e.g., Oklahoma City, Shreveport), and for others the income tax (e.g., Columbus, Philadelphia, New York, Louisville, Cincinnati).

The composition of municipalities' General Funds is presented in Figure 6. Although the property tax does represent the largest piece of the General Fund pie (24.8%), the sales tax and the income tax components taken together amount to nearly the same size (22.4%) as the property tax element. Other tax revenue accounts for 13.5% of General Fund receipts in 2000.

Figure 6: General Fund Revenue Composition for the Municipal Sector, 2000[14]



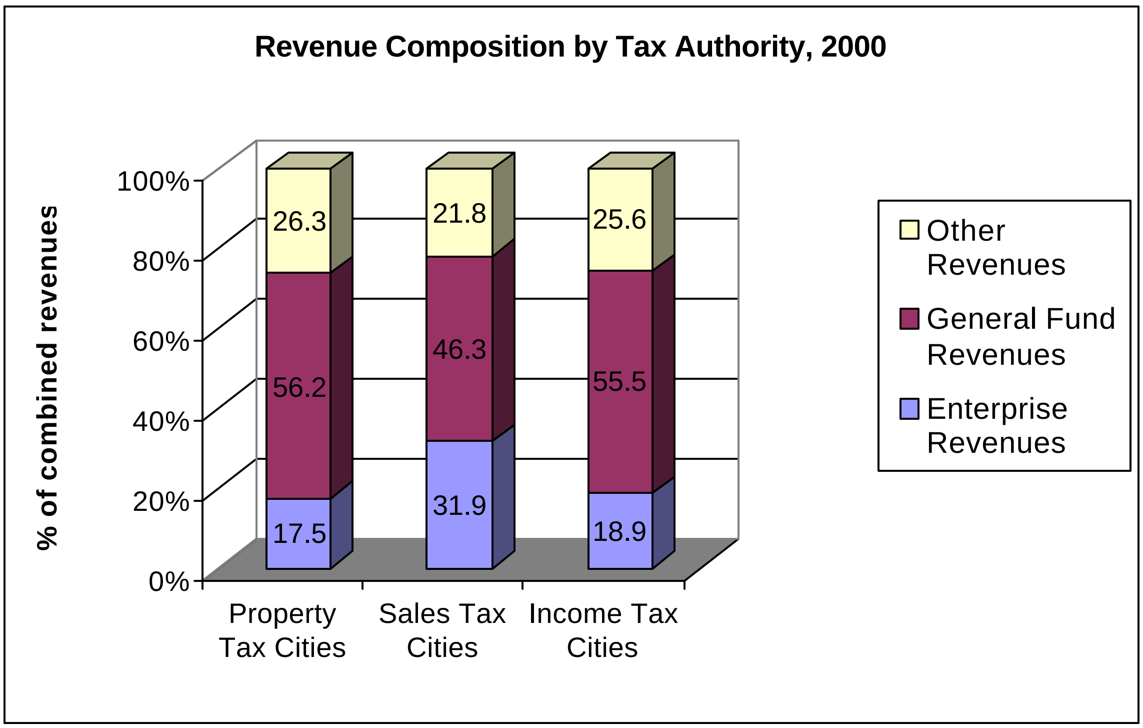
Beyond the General Fund, how does the total combined revenue composition — including the General Fund, enterprise funds, and all other revenues — differ by tax authority? Will cities with access only to the property tax be more reliant upon enterprise funds, or will cities with additional tax authority over sales and/or income taxes rely more upon enterprise funds? Our expectation going in to the analysis was that the property tax-only cities would be more likely to utilize enterprise funds because these cities are less likely to see the marked revenue growth that the more elastic revenues sources of the sales and income tax produce. However, it also seems plausible that sales-tax cities might utilize enterprise funds as a means of institutionalizing services that can be funded

[14] Michael A. Pagano, *City Fiscal Conditions in 2001* (Washington, DC: National League of Cities, 2001).

during growth periods when the sales tax is producing additional revenues, but that would have to be cut during slow growth or recessionary periods.

Figure 7 shows the total combined revenue composition of cities based upon their tax authority for FY2000. The results reveal that sales tax cities (also with property tax authority) are more reliant upon enterprise funds to deliver services. Nearly one-third (31.9%) of the total combined revenue of sales tax cities is generated by and set aside in enterprise funds. In comparison, property tax-only cities and income tax cities generate less than one-fifth (17.5% and 18.9% respectively) of their total combined revenue from enterprise funds.

Figure 7: Total Combined Revenue Composition by Tax Authority



Because of the revenue-elastic nature of the sales tax, it may be the case that sales tax cities feel more inclined to turn to the security of enterprise funds as a means of minimizing the effects of the cyclical volatility that plagues sales tax revenue.

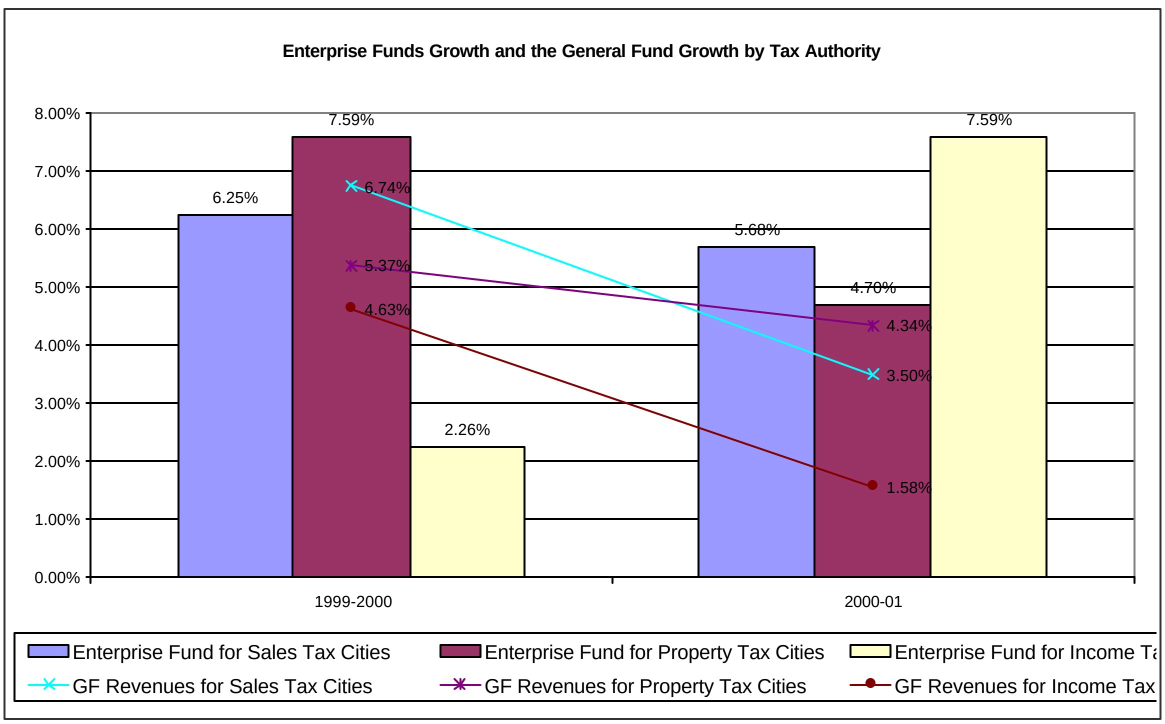
Because other results presented here suggest that enterprise fund reliance may be increasing in recent years, it is also worth examining the different growth rates between enterprise funds and the General Fund by tax authority. Figure 8 displays these growth rates for the three types of cities for the growth between FY1992-FY2000 and FY2000-FY2001 (budget). The general expectation is that enterprise fund revenue growth will outpace General Fund revenue growth in most instances.

For 1999-2000, however, General Fund revenue growth exceeded enterprise fund revenue growth for the sales tax cities (6.75% to 6.25%) and income tax cities (4.63% to

2.26%). Our expectation holds only for the property tax cities. While counter to the expectation, the results are again explained by the unprecedented economic growth of the past several years and its implications for income tax and sales tax revenues in particular. During this period, greater than expected growth in both revenue sources was often reported at both the state and local level. The National League of Cities' annual fiscal survey also tracks municipal ending balances as a percentage of expenditures, which reached their highest level in FY2000, at 18.7%, fueled largely by growth in sales and income tax revenues. That General Fund revenue growth would exceed enterprise fund revenue growth at this time is therefore not particularly surprising.

Turning to projections for 2001, we find that our general expectation of enterprise fund growth exceeding General Fund growth is upheld in all three types of cities. The budgeted rate of growth in General Fund sales and income tax revenues decreases dramatically from its 1999-2000 levels. Additional data are needed to assess which scenario is more common, but we contend that the extraordinary General Fund revenue growth in the past several years, particularly sales and income tax revenue, is more an anomaly than the rule.

Figure 8: Enterprise Funds Growth and General Fund Growth by Tax Authority



D. Enterprise Fund Types

The National League of Cities survey also asked cities to list the types of services delivered through enterprise funds for FY2000. Responses to this question were then categorized based upon common types of funds and general service areas. The categorization and typology employed by Bunch is in part replicated here.

Comparing the 2000 survey data to Bunch's findings from 1997-98, we examined the extent to which there have been any notable changes in the types enterprise funds being used by cities. Table 1 shows the percentages of cities using specific types of enterprise funds from Bunch's study and from our most recent survey. The six most common types of enterprise funds in Bunch's study were water, sewer, parking, solid waste, golf, and airport funds. Similarly, the six most common types of enterprise funds in this study are sewer, water, solid waste, stormwater, parking, and airport funds. In general then, the mix of services provided through enterprise funds does not appear to have undergone any significant changes. Given the relatively small passage of time between the two studies, this finding is not surprising.

The notable differences between the two studies are largely explained away by differences in sampling and categorization. Bunch's study examines 124 cities with populations greater than 100,000. In contract, the results presented here are drawn from 326 cities with populations greater than 10,000. Subsequently, some of the differences between the two surveys can be attributed to differences in city size. Bunch's study, for example, shows a much larger percentage of cities with convention center enterprise funds, stadium funds, airport funds, and golf funds — services, facilities, and activities we would expect to be more prevalent in larger cities. Smaller cities are less likely to be engaged in a broad range of enterprise activities, other than the more common water and sewer enterprises. Thus, we find that water and sewer enterprise funds are more common, while most other enterprise funds are less common than in Bunch's study.

However, the 2000 survey results do yield a picture of the broader range of services being provided through enterprise funds today. Aside from the more common types of funds related to utilities and environmental activities, we note that cities have shifted other, less common enterprise-funded activities from their General Fund umbrella to fully-funded enterprise activity, including library and cemetery enterprises, museums and other cultural amenities, and a variety of other recreational activities.

However, most of these goods have excludable or rivalrous characteristics compared with other "public" goods provided by the city, making them prime candidates for enterprise funds. Privately run cemeteries, libraries, museums, and aquatic centers, for example, are all fairly common. The reality is that the range of services that lend themselves to enterprise activities is limited. Many social and human services do not lend themselves well to fee-based service delivery. Thus, the extent to which cities continue to broaden the range of services delivered through enterprise activities remains a question for further research.

Table 1: Enterprise Funds By Fund Type

(% of cities using an enterprise fund)

Bunch (1997-98) n=124		Pagano-Hoene (2001) n=326	
Utilities		***Utilities***	
Water	51%	Water	75%
Sewer	47%	Sewer	77%
Water+sewer	19%	-	-
Electricity	8%	Electricity	13%
Natural Gas	3%	Natural Gas	2%
Combined Utility Fund	3%	Other	1%
Environmental		***Environmental***	
Solid Waste	37%	Sanitation/Solid Waste	46%
Drainage	11%	Stormwater	29%
Facilities		***Facilities***	
Convention Center	19%	Convention Center	3%
Auditorium	10%	Civic Center	3%
Stadium	8%	Stadium	4%
Hospital	5%	Museum/Theater	4%
-	-	Cemeteries	4%
Recreation		***Recreation***	
Golf	36%	Golf	10%
Other	5%	Other	16%
-	-	Libraries	3%
Transportation		***Transportation***	
Parking	43%	Parking	20%
Airport	28%	Airport	15%
Transit	15%	Transit	12%
Ports	12%	Ports	9%
Community Development		***Community Development***	
Economic Development	5%	Economic Development	2%
Housing	6%	Housing	2%
Public Safety		***Public Safety***	
Emergency Services	6%	Emergency Services	3%
		Other	**12%**

III. Conclusion

The analysis presented here reveals that user charges and fees, and enterprise funds, continue to be an important and vibrant means of delivering services and generating revenues for municipalities. Facing an ever-changing economy, state and voter imposed tax and expenditure limits, and significantly lower federal aid levels than in the past, cities have gradually and dramatically transitioned to providing a variety of quasi-private services.

In terms of user charges and fees (irrespective of fund type), we found that these mechanisms continue to be politically preferable to raising taxes, and that municipal reliance upon user charges and fees may be increasing again for the first time since the recession of the early 1990's.

On the enterprise fund side, we examined whether the trend of enterprise fund growth outpacing General Fund growth held in more recent years. We found instead that General Fund growth exceeded enterprise fund growth for FY2000, most likely as a result of tax revenue windfalls during the most recent period of economic growth. Future research may want to examine whether there is a return to the aforementioned trend.

We then struck a different path by examining the differences in reliance upon enterprise funds across cities with different general tax structures and authority — namely, property tax, sales tax, and income tax cities. We argue that municipal tax structures might be an important variable in explaining the extent to which cities pursue alternative funding and delivery mechanisms. The tremendous variation in fiscal structure across municipalities warrants further attempts at disaggregating those differences.

The results of the tax structure disaggregation reveal that cities with sales tax authority (in addition to property tax authority) are more reliant upon enterprise funds than cities with the property tax authority only. We posit that this is most likely a function of, and response to, the elasticity of the sales tax as a revenue source. The volatility that accompanies the sales tax makes it difficult to depend upon as source of revenue for ongoing services, which in turn serves as an incentive for cities to pursue alternative funding sources.

The tax structure analysis also showed that General Fund revenue grew faster than enterprise fund revenue for sales and income tax cities from 1999-2000, which is also most likely the result of the substantial economic growth over the same period.

Finally, we examined the types of services provided through enterprise funds. Little overall change in the types of services provided through enterprise funds was evident, but the analysis showed the breadth of enterprise fund activity engaged in by municipalities today and revealed that most of these activities have rivalrous and excludable qualities than many traditional public goods. The extent to which municipalities have segregated those rivalrous and excludable goods and services into enterprise funds is not known, but it does raise questions about future financial management. That is to say, cities have engaged in off-loading and enterprise-funding services that were traditionally provided by cities as a means of protecting their commitments to providing nonrivalrous and nonexcludable, public goods, such as public safety. How will cities continue to provide services such as public safety and social services is a topic for further exploration.

In conclusion, many topics with regard to user charges and fees, and enterprise funds, are not addressed here, including debates about the efficiency gains from these mechanisms and concerns about the implications for equity and governance. These debates warrant considerable attention and we hope to address them in subsequent research.