

***Tax Foundation, Inc., 50 Rockefeller Plaza
New York, N.Y. 10020***

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TAX FOUNDATION, INC.

Research Publication No. 18 (New Series)

Price \$1.50 Per Copy

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Printed in U.S.A.

Foreword

As governments expand their activities and as tax burdens approach levels inconsonant with economic efficiency and personal freedom, the possibility of financing some public activities by methods other than taxation gains increasing appeal.

In recent years all three levels of government have increased their reliance on nontax sources, and nontaxes now account for significant proportions of revenue. Receipts from all nontax sources now exceed \$40 billion for Federal, state, and local governments combined. In terms of cash flows, nontax receipts are second only to those from income taxes.

Nontax sources not only produce revenue. Some can leave a trail of important economic effects in their wake. But since these receipts derive from a diversity of sources, they raise diverse problems. Unfortunately, few of the difficulties which

deserve attention have been subjected to careful scrutiny.

This study examines the major facets of nontax revenues which are common to all three levels of government, together with certain other topics considered to be of intrinsic importance. The hope is that this study, although not exhaustive, will provide helpful background for those who must make judgments on the use of nontaxes.

Elizabeth Deran, Senior Research Analyst, had primary responsibility for the research and drafting of this study.

The Tax Foundation is a private, non-profit organization founded in 1937 to engage in non-partisan research and public education on the fiscal and management aspects of government. It serves as a national information agency for individuals and organizations concerned with government fiscal problems.

TAX FOUNDATION, INC.
December, 1968

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I.

Introduction

Most governments today, aside from oil sheikdoms, rely heavily on the imposition of taxes to raise the funds used to finance government functions. In recent years, however, revenue sources other than taxes have gained in significance for all three levels of government in the United States.

Nontax receipts derive from a bewildering array of sources. They include such diverse items as interest earnings, the sale of property, utility income, liquor store revenue, and local special assessments. Another traditional subdivision of nontax revenues, "current charges," spans an even larger group of government activities for which a fee is collected. Here are found the pennies collected from school children for lunches, charges levied on shipowners for the use of public wharves and docks, sewerage and garbage collection fees, Federal post office receipts, charges for admission to recreation facilities ranging from Yellowstone National Park down through municipal swimming pools, and so on through an almost endless list.

For Federal, state, and local governments combined, in fiscal 1966 receipts from all nontax sources totaled \$34.2 billion, somewhat more than the total for all sales and gross receipts taxes collected that same year. In terms of cash flows, 1966 nontax sources were second only to income taxes. Moreover, over the past decade nontax receipts have increased more rapidly than tax collections, and now account for substantial

proportions of general revenue from own sources: 12 percent at the Federal level, 19 percent at the state level, and 38 percent at the local level.

Nontax receipts traditionally are divided into the two major categories of current charges and miscellaneous revenue. The latter consists of rents, royalties, special assessments, and sale of property. Current charges cover fees collected for government services rendered in connection with education, hospitals, sewerage and sanitation, housing and urban renewal, the use of a variety of transportation facilities, and many other areas of less quantitative importance.

This study will attempt to survey the use of nontax revenue sources in general and some of the components in particular. With a topic ranging over so many subdivisions, some of which bear only the slightest similarity to the others, the requirements of space have forced a selective approach. While the revenue aspects will be covered in considerable detail, many phases of operational detail and/or economic questions receive only the briefest treatment. Some topics, such as Federal postal charges, have been excluded because with so complex a subject an outline approach would not present a meaningful picture, while adequate treatment would require far more space than could be allotted. Others have been discussed at length in other Tax Foundation publications and do not receive as detailed treatment in the following pages as might otherwise have been

the case.¹ The general guide in deciding how much detail might be devoted to the remaining topics has been the degree to which each topic has common applicability to all three levels of government.

The study will begin with a survey of the significance and growth of nontax revenue sources in the United States, presenting an overall picture of their use by Federal, state and local governments. Nontax receipts will then be ex-

amined at each level of government. The general nature of nontax revenue sources, and the use of charges as an economic regulator, will be considered in some detail. Common practices in the sales and rental of government property and developments in the utilization of idle government funds for interest income will be surveyed. A final chapter will present a brief summary of the status of nontax revenue sources in the United States today.²

1. These include *State Medicaid Programs after Two Years*, *Urban Mass Transportation in Perspective*, *Public Financing of Higher Education*.
2. This study will not attempt to analyze the comparative effects of financing a given function by taxes or nontaxes. It should be noted, however, that most governments treat the two quite differently for income tax purposes. For example, excise taxes on gasoline and toll charges both finance the construction of highways; the taxes may be deducted in computation of Federal income tax liability but tolls may not.

II.

The Growth and Significance of Nontax Revenue Sources

All three levels of government in the United States collect fairly substantial amounts of revenue from sources other than taxes. Trilevel receipts from nontax sources totaled \$34.2 billion (excluding \$31 billion of insurance trust revenue) and represented the second largest major source of governmental receipts in fiscal 1966.

This collection total contrasts with that of a decade earlier, when receipts from nontax sources ranked third. In 1957 nontax receipts amounted to \$19.0 billion, a figure about 8 percent lower than the \$20.6 billion from sales and gross receipts taxes that same year. Thus the level of nontax collections increased by \$15.2 billion over the period 1957 to 1966—considerably more than the \$11.6 billion increase over the same period in the level of property taxes and the \$13.1 billion increase in sales and gross receipts taxes (Table 1).

Differences by Level of Government

The significance of nontax revenues depends to some extent on the level of government under consideration. As shown in Table 1, Federal collections for charges and miscellaneous revenue, amounting to \$14.4 billion in 1966, accounted for the largest part of nontax receipts. But clearly such sources do not represent as significant an element in the overall financial structure at the Fed-

eral level as at the state and local levels. The \$8.0 billion collected at the local level, for instance, amounted to 23 percent of local general revenue from own sources, whereas the much larger Federal receipts came to only 12 percent. The comparatively small state collection of \$5.1 billion—roughly one third the magnitude of Federal receipts—nonetheless assumed more relative importance, contributing 15 percent of state general revenue. Similar relationships between the three levels of government, in terms of both absolute magnitudes of receipts and comparative proportions of general revenue, prevailed in 1957, but at lower levels (Tables 1 and 2). If total nontaxes—i.e., utility and liquor store revenue as well as charges and miscellaneous revenue—are brought into the picture, the contrasts between levels become yet more marked.

Current charges and miscellaneous revenue as a percent of general revenue from own sources¹ gained one percentage point at the Federal level, six at the state level, and seven at the local level over the period 1957-1966, indicating that nontax collections have been increasing more rapidly than tax collections. If each level is considered separately, current charges and miscellaneous revenue increased more rapidly than either total taxes or property, income, or sales taxes over the period 1957-1966 (Table 2). At

1. General revenue from own sources consists of all receipts except revenue from other governments, utilities, liquor stores, and insurance trusts.

Table 1
Collections from Nontax Sources and Selected Taxes,
by Level of Government, Fiscal 1957 and 1966

(Billions)

Year and Level of government	Total	Nontax sources		Taxes			
		Charges and miscellaneous revenue ^a	Utility and liquor store revenue	Property	Income ^a	Sales and gross receipts	Insurance trust revenue ^b
1966							
All governments	\$34.2	\$27.6	\$ 6.6	\$24.7	\$92.3	\$33.7	\$30.6
Federal	14.4	14.4	—	—	85.5	14.6	22.6
State	6.5	5.1	1.4	.8	6.3	17.0	7.1
Local	13.2	8.0	5.2	23.8	.5	2.0	.8
1957							
All governments	19.0	14.9	4.1	13.1	59.5	20.6	12.3
Federal	9.4	9.4	—	—	56.8	11.1	8.7
State	3.0	1.9	1.1	.5	2.5	8.4	3.2
Local	6.5	3.5	3.0	12.6	.2	1.0	.4
1966 minus 1957							
All governments	15.2	12.7	2.5	11.6	32.8	13.1	18.3
Federal	5.0	5.0	—	—	27.7	3.5	13.9
State	3.5	3.2	.3	.4	3.8	8.6	3.9
Local	6.7	4.5	2.2	11.2	.3	1.0	.4

a. Individual and corporation.

b. Includes earnings on investments, employer and employee contributions to retirement and other social security programs, and contributions to unemployment compensation funds.

Source: Bureau of the Census.

the Federal level the difference appears slight: a 49 percent increase for taxes compared with 53 percent for current charges and miscellaneous revenue. At the state level, however, the two differ by 65 percentage points (taxes increasing 102 percent, nontaxes 167 percent) and at the local level, by 41 percentage points (taxes 88 percent and nontaxes 129 percent). Nontaxes show less dramatic increases, however, when utility and liquor store revenues are included in the total, since revenue from these two sources increased by comparatively small percentages. Nonetheless, total

nontaxes increased by somewhat more than total taxes or any major tax except the income tax.

Components of Nontax Revenue

Nontax revenue sources consist of two major groups: current charges and an assortment traditionally referred to as miscellaneous general revenue. Charges, or fees for government-provided goods and services, comprise a fantastic array of items, ranging from such familiar types as bridge tolls through more esoteric transactions such as the sale of stable isotopes. Miscellaneous revenue

Table 2
Selected Items of Government Finance as Percent
of General Revenue and Percent Change, by Level of Government
Fiscal 1957 and 1966

Item	Federal	State	Local
As percent of general revenue from own sources			
1966			
Total taxes	88%	85%	77%
Total nontaxes ^a	12	19	38
Current charges and miscellaneous revenue	12	15	23
Current charges	8	10	16
Miscellaneous revenue	4	4	6
Utility and liquor store revenue	—	4	15
1957			
Total taxes	79	70	68
Total nontaxes ^a	11	14	30
Current charges and miscellaneous revenue	11	9	16
Current charges	9	6	12
Miscellaneous revenue	2	3	5
Utility and liquor store revenue	—	5	14
Percent change, 1957-1966			
General revenue from own sources	35	66	65
Total taxes	49	102	88
Property	—	74	89
Income	50	148	130
Sales and gross receipts	32	102	99
Total nontaxes ^a	53	117	104
Current charges and miscellaneous revenue	53	167	129
Current charges	29	191	131
Miscellaneous revenue	153	123	125
Utility and liquor store revenue	—	28	74

a. Includes utility and liquor store revenue.

Source: Bureau of the Census.

Table 3
Nontax Collections by Level of Government
Fiscal 1957 and 1966
(Millions)

Source	All governments		Federal		State		Local	
	1966	1957	1966	1957	1966	1957	1966	1957
Charges and miscellaneous general revenue	\$27,626	\$14,878	\$14,452	\$9,447	\$5,131	\$1,924	\$8,044	\$3,507
Current charges	19,189	11,349	9,817	7,614	3,606	1,240	5,766	2,495
National defense	659	995	659	995	—	—	—	—
Postal service	4,584	2,512	4,584	2,512	—	—	—	—
Education	3,701	1,267	15	n.a.	2,036	613	1,650	654
School lunch sales	1,048	499	—	—	—	—	1,048	499
Institutions of higher education	2,198	357	—	—	2,008	357	190	—
Other	455	412	15	—	28	256	412	156
Hospitals	1,552	630	32	30	427	173	1,093	427
Sewerage and other sanitation	789	280	—	—	—	—	789	280
Local parks and recreation	175	83	—	—	—	—	175	83
Natural resources	3,358	3,551	3,099	3,406	148	103	111	42
Sale of agricultural products	2,074	2,899	2,074	2,899	—	—	—	—
Housing and urban renewal	984	469	527	201	5	—	452	268
Air transportation	289	90	4	n.a.	18	3	267	87
Water transport and terminals	433	226	240	86	55	30	138	110
Parking facilities	160	—	—	—	—	—	160	n.a.
Other	2,505	1,244	656	385	917	317	932	542
Miscellaneous revenue	8,439	3,529	4,635	1,833	1,526	684	2,278	1,012
Special assessments	529	288	—	—	—	—	529	288
Sale of property	785	165	480	66	39	26	266	73
Interest earnings	2,373	899	967	474	661	237	745	188
Other	4,751	2,177	3,188	1,293	825	421	738	463
Utility revenue	5,069	2,891	—	—	—	—	5,069	2,891
Liquor store revenue	1,550	1,190	—	—	1,361	1,065	189	125

Source: Bureau of the Census.

divides into several main categories: rents, royalties, interest earnings, special assessments, and sale of real and used property. Table 3 lists some of the more important types of nontax revenue, giving the magnitude of receipts in 1966 and 1957.

From Table 3 it is immediately apparent that the composition of nontax sources differs markedly at each level of government, though certain types of receipts are common to all three.

Receipts from postal service (\$4.6 billion in 1966) of course are confined to the Federal level. Similarly, "charges for national defense" must be exclusively a Federal item. Receipts under "natural resources" also fall almost entirely in the Federal column. A very substantial part of this item consists of sales of agricultural products by the Commodity Credit

Corporation (\$2.1 billion). The item also includes fees collected in connection with Federal (and a very small amount for state) parks, agricultural extension services, farm insurance and credit activities, and numerous other activities. Other items, important to state and local governments, either bring in only trifling amounts or do not exist at all at the Federal level. These include charges for education (\$3.7 billion for state and local combined) and hospitals (\$1.6 billion for state and local).

Several types of nontax receipts fall primarily in the local domain: sewerage and other sanitation charges, air transportation, fees for the use of parking facilities, special assessments, and utility revenue. Except for utilities, these revenue sources do not bring in massive revenue (from \$0.2 billion for parking to \$0.8 billion for sewerage and sanitation).

Table 4
Revenue from Selected Nontaxes as Percent of
Direct Expenditures for Associated Function, All Governments
Fiscal 1957 and 1966

Function	Revenue as percent of expenditure on function		
	1957	1966	1966 minus 1957
Postal Service	82.8%	80.3%	- 2.5%
Education	8.2 ^a	10.6	2.4
Institutions of higher education	18.2	30.5	12.3
Hospitals	18.6	24.6	6.0
Sewerage and other sanitation	19.9	30.7	10.8
Local parks and recreation	14.2	14.7	0.5
Natural resources	54.5	32.6	-21.9
Housing and urban renewal	81.0	40.7	-40.3
Nonhighway transportation	24.0	24.9	0.9
Utilities	82.6	83.9	1.3
Liquor stores	126.6	125.0	- 1.6

(a) Excludes small percentage of Federal charges and expenditures; exact amount not available.
Source: Bureau of the Census.

Utilities account for collections of \$5.1 billion.

The states, plus only a few local units, maintain liquor stores, which provided \$1.6 billion revenue.

Nontax Receipts and Associated Expenditures

The diversity of sources shown in Table 3 suggests that a consideration of changes in nontax revenues as a group cannot give an altogether reliable impression of what has happened in this area. The increases shown in Table 2, for instance, may merely reflect heavier public demand for those goods and services financed by charges, rather than a deliberate effort to increase reliance on charges.

Nontax receipts collected in connection with some specific function, taken as a percent of expenditures on that function, provide a measure of how

heavily government relies on charges to finance the function. Table 4 shows this measure for several types of government service, for 1957 and 1966, for all three levels of government combined. The relative use of charges has declined slightly in the areas of postal service and nonhighway transportation, and sharply in natural resources and housing and urban renewal. On the other hand, reliance on charges has increased moderately in connection with institutions of higher education, sewerage and other sanitation, and hospitals.

The broad category of current charges and miscellaneous revenue covers a multiplicity of sources, some of which are increasing, some decreasing, and others remaining more or less stable in their relative importance. Examination of the changes at each level of government in the following pages may help to clarify some of the trends which have taken place over the past decade.

III.

Federal Nontax Revenue

Title V of the Independent Offices Appropriation Act of 1952, which provides the basis on which Federal user charges are levied, specifies that "any work, service, publication, report, document, benefit . . . or similar thing of value or utility performed, furnished . . . by any Federal agency . . . shall be self-sustaining to the full extent possible." Bureau of the Budget Circular No. A-25, which spells out implementation detail, requires agencies to review and update their fees annually, submitting an annual report accounting for total charges collected during the year and separately indicating instances of new or increased fees. During fiscal 1966, agencies established 102 new fees and raised 165. At the same time, 48 fees were decreased, generally as the result of lower costs.

Table 5, which lists a sampling of some of the changes in fees during 1966, gives some impression of both the level of fees and the consequences of the mandatory annual reviews. Some of the new charges seem quite modest (i.e., the Navy, which previously searched records free, now charges \$3.00 per hour) but in other cases the level of fee established makes one wonder how the service could ever have been supplied without charge. For instance, rates for the testing

of security cabinets have been set at \$1,540 to \$9,290 per test; for the use of a hypersonic wind tunnel on company projects, at \$20,000 per 40 hour week. Both previously had been supplied free.

Growth of Federal Nontax Revenue

Table 6 presents a very rough impression of the direction of change in some of the components of Federal nontax revenue. Unfortunately, since it was necessary to draw the detail from the U.S. Budget, Table 6 is not completely consistent with the totals shown in Tables 2 and 3.¹ Moreover, even the Budget does not provide data on many of the nontax components over the full decade, since accounting changes introduced during the period make it impossible to trace the changes in many items.

The largest increase in charges over the period 1957-1966, 253 percent, has taken place in charges levied for services. Table 6 indicates, however, that the greatest part of this increase took place during the first third of the decade and that the increase has rapidly tapered off since. Charges for products, which show a more modest increase of 59 percent, increased by the largest percentage in the most recent third. Fees for permits and licenses show a puzzling pattern, with the largest increase taking place

1. Miscellaneous receipts as reported in the U.S. Budget and by the Bureau of the Census in *Governmental Finances* vary from one another considerably, primarily because the two sets of figures are prepared on different conceptual bases. The major difference stems from the fact that in the Budget many receipts have been netted against expenditures, whereas the Census figures generally are presented on a gross basis. Both approaches have merit, depending on the purposes for which the data are needed.

Census reports on a gross basis virtually all receipts. In contrast, the Budget nets against expenditures many items, with the result that Budget totals are markedly smaller than Census totals. Under Budget practices prior to 1968, receipts in excess of expenditures have been reported as negative expenditures if the public agency concerned (such as CCC or TVA) operates under a revolving fund. On the other hand, in cases where no enterprise fund has been established (e.g., Rural Electrification Administration, Bonneville Dam) receipts are reported on a gross basis as miscellaneous receipts. Under the new Budget concepts introduced in 1968, the practice of netting against expenditures has been extended to include virtually all possible cases.