Funding Extension Services with User Fees
Minnesota Public Finance Note #2002-01

Should public funds be used to support Extension programs?

Yes, at least in part. Governments provide many services because it is believed that the social benefits of the service exceed the private benefits. That is, a service that is purchased by a single family on the private market creates benefits for others who did not pay for it. Consider, for example, a family paying for their children’s participation in a youth development program. If the program is successful, then the children who participate may be more productive and less of a burden to their fellow citizens than if they had not participated. The benefits to the entire society of a child’s education and enrichment exceed the benefits to the child or her family alone.

In choosing whether and how much to spend on youth development programs, a family will consider their financial means and the benefits they expect to receive from the programs. They might not consider the benefits to the rest of society of their children’s participation. A family’s willingness to pay for the service, therefore, is based primarily on its budget and on its own private benefit from the service, less on the benefit to society as a whole.

In cases like this, the government subsidizes the provision of the service, so that more of the service is provided than would have occurred had the provision been left to the private market. Public safety, national defense, transportation services, environmental protection, and public education are all examples of services that are subsidized by the government in order to ensure that they are provided adequately.

Do all Extension programs provide both a public and private benefit?

Again, private benefits are those benefits that are captured by a household or a small number of households, while public, or social, benefits accrue to society as a whole. While all Extension programs likely produce both types of benefits, the relative sizes of those benefits will vary widely across different types of programs. For example, many environmental protection programs will produce significant benefits for the community, without generating returns that are specific to any individual household. A program that encourages homeowners to practice environmentally-safe lawn and garden care may generate benefits to a community in the form of a healthier environment, but may not
produce much private benefit (except to homeowners who get personal satisfaction from using such practices).

On the other hand, Extension programs that are very narrowly targeted to a small segment of the population may benefit the targeted households almost exclusively. For example, a program that provides technical assistance to a single farm household produces primarily private, not public, benefits.

Many Extension programs exist somewhere between these two extremes. Youth development programs, as discussed above, generate benefits to the individual household and to the rest of the community. Disseminating technical information to all of the producers of an agricultural commodity may reduce the costs of the individual farmers while also improving the sustainability of the industry.

Are there other reasons that government should support Extension services?

Yes. The government supports the provision of services that would be unlikely to be provided by the private sector. For example, a primary product of the Extension Service is objective, scholarly, credible research. Private companies certainly engage in research and generate knowledge, but these companies necessarily focus on those areas of research that will increase their profits. Only an institution that does not have a profit-motive can consistently generate knowledge that is objective, credible, and focused on issues of concern to communities and to society as a whole.

Moreover, conducting research requires a large infrastructure and substantial resources to invest in equipment, training, and support of scholars. The government and the University are well-equipped to provide these.

If all Extension programs produce some public benefits, should all Extension services be completely funded by the government (the University)?

No, not all services, though often the government will completely fund services that generate public benefit. This makes the most sense under certain circumstances:

- when the public benefit of a service is large, and families’ willingness to pay for the service is low (such as education on environmentally-safe lawn-care practices);
- when the public benefit of a service is large, and it is impractical to charge a user fee, or the costs of collecting a fee are very high (such as a community beautification project); and
- when it is felt that access to the service should not be limited to those with the ability to pay a fee (such as nutrition programs).
When is it possible to fund a public service with user fees?

It may not always be practical to charge a user fee for a public service. Whether or not a user fee is practical depends on the nature of the service. A key factor is whether or not it is possible to exclude those who do not pay the fee from using the service. It is not possible, for example, to exclude non-payers from viewing artwork in a public place or from benefiting from well-lit public streets. In these cases, the service cannot be financed with mandatory user fees.

Even when it is technically possible to limit the service to those who pay the fee, it is not always feasible to do so. The technology may exist to exclude non-subscribers from enjoying public radio broadcasts, but the costs of doing so would surely be high. And charging a toll for the use of every public bridge or road would be an overwhelming burden to drivers. Charging a fee and excluding non-payers, therefore, creates administrative costs that must be weighed against the benefit of being able to demand a fee from users.

It seems to be practical and feasible to exclude non-payers from most Extension programs. Fees can be required to gain access to a seminar, website, or recorded phone program. Fees can be charged for publications, whether printed or downloaded, and for in-house or on-farm visits by Extension staff. Note, however, that is not possible to exclude non-payers from enjoying the social benefits generated by these programs. The benefits of a healthier environment, strong farm economy, productive youth, and thriving communities accrue to us all. This means that, even when we can charge for a program, the program may still generate public benefits that justify government support.

Should all Extension programs charge some type of fee?

No. As discussed above, there are times when the government or the University should fully fund the program. Nevertheless, most programs can probably charge something. In addition to the issues discussed above, the following considerations may matter:

- The Extension Service may want to support new programs that are still finding and generating an audience. Until the program is tried, tested, and well-known, it may be necessary to offer the program for free (or nearly so), charging a fee only after the program has “matured.”

- We may want to ensure that low-income families have access to the service without charge or at a rate that takes into consideration the family’s ability to pay. Note, however, that requiring that a participant show proof of financial need introduces administrative costs and privacy concerns that must be weighed against the advantages of collecting user fees. (This argument applies both to programs that are specifically targeted to low-income families and to programs that are intended for a general audience, but which we want to make accessible to families of all income levels.)
The response to introducing fees will vary across different types of Extension programs. For some programs, the response may be dramatic. If, once a fee is introduced, the number of participants in a program plummets, then the Extension team should re-evaluate whether to reduce the fee (perhaps to zero), change the program, or discontinue it. On the other hand, if participation remains high, even after a charge is introduced, we may want to consider increasing the charge.

Taxpayers already fund the University through federal and state income taxes, and the Extension Service through county payments. Why should they be charged anything more for participating in Extension programs?

Clearly, current funding levels are insufficient to support all of the Extension programs for which there is a demand. In this time of limited resources, one way to make up the shortfall in government funding is with user charges. Because of the public benefit generated by Extension programs, however, participants should not be charged the full cost of producing the programs. In fact, user fees will likely cover only a very small portion of Extension’s programming costs, with traditional (or newly discovered) funding sources making up the rest. Nevertheless, how exactly costs should be allocated between general public revenues and user fees is still unanswered.

Many public services are funded by a combination of general revenue and user fees. A visit to a state or county park will often require a small payment, though not nearly enough to cover the full cost of maintaining the park. Public university students also pay fees, though much of the cost of their education is funded by tax revenue. These schemes attempt to charge users a fee that approximates their private benefit, while continuing to support with government funds services that benefit society as a whole.

Are there other benefits to user fees besides helping to fund the service?

Yes, there can be:

- When congestion is a potential problem with a service (for example, with access to a park or enrollment in community education course), user fees can be used to limit access and control congestion. A carefully-chosen fee would limit access to those people who value the service the most.

- By adjusting the amount of a user fee, administrators can observe how much people seem to be willing to pay for the service. The user charge provides a price signal that can help determine how much of the service should be provided.

How would we decide how much to charge for Extension programs?

To determine the amount of fees to charge for Extension programs would require information about participants’ willingness to pay for a program and the costs of providing the program. As discussed above, we would also want to consider the
practicality and costs of collecting fees and ensuring access to the program for low-income families.

**Cost of producing program:** While this information is not now collected, Extension staff could be required to begin estimating and recording all costs associated with developing and delivering an Extension program. Iowa State University Extension Service has created an “Extension Cost Recovery Calculation Worksheet” that could serve as a basis for a cost estimation system in Minnesota.

It will be important to determine not only the total costs of producing a program, but also the incremental cost that is generated by additional participants. There may be cases in which we should collect only this incremental cost in fees and use general funds to cover the rest of the program’s costs.

**Willingness to pay:** Researchers have used several different approaches to estimating the demand for Extension programs in other parts of the countries and the world. Most of this research has focused on programs for agricultural producers. With considerable effort, some of this research could be applied in Minnesota. Alternatively, the Extension Service could evaluate the demand for individual programs on an ad hoc basis through surveys and by charging trial fees.

Would it make sense to charge a flat percentage of costs for all Extension programs?

Assuming we know the costs of producing a program, charging a fee equal to a flat percentage, say 20%, of the production costs would be simple and understandable. However, the chosen flat rate is arbitrary, and may not be the right rate for all programs. For example, if the public’s willingness to pay for a program is very low, even though the expected public benefit is high (such as the environmental protection programs mentioned above), few households may choose to pay as much as 20% of the cost of the program. If the private benefit is very low, even well-off families may be unwilling to pay much for a program. If you add to this scenario a high production cost, the 20% rate may, indeed, be far too high.

Recall that one of the benefits of charging a user fee is to generate some information about the public’s willingness to pay for services. In order to provide a valuable signal, however, the price must be flexible. For example, if a fee for a program is introduced, and demand plummets, we need to be able to act on that information. We would want to lower the price (perhaps to zero), improve the quality of the service, or evaluate whether the service should be provided at all. A flat-rate charge, especially if it is meant to remain constant over some time, does not allow this flexibility.