

Fireworks fee not a simple question

Colin Read: Everybody's Business

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— The City of Plattsburgh is wrestling with a difficult question. Should they charge an entry fee for beach access to view the fireworks?

Most of us have a gut reaction whether they should or should not. It is an intriguing question, though, because it is far more complicated and nuanced than it appears.

The fireworks exhibition in conjunction with July 4th and the Mayor's Cup is one of the major events put on by the city each year. It rivals the Battle of Plattsburgh in tourist and resident interest. The city invests about \$14,000 on the fireworks demonstration alone. It is understandable that they would like to recoup some of their expenditures, especially in these dire city budget times.

The cost side of the equation is obvious. How about the benefits side of our benefit/cost analysis?

Their bang for the buck, pun intended, is not so straightforward to calculate. The subtleties involved point to one of the difficulties of running our cities and towns.

We know one thing for sure. Close to a thousand households demonstrated they were willing to spend at least \$5 for the convenience of parking their car near the location where they can best view the fireworks. Does this mean the value of the fireworks is only \$5,000?

Such an estimate is low, for a number of reasons. First, many others view the fireworks for free from various locations, or park their car somewhere else for free and walk to a good viewing location. We don't know how many people exercised that option, but we do know they were willing to walk for a time to avoid the fee. If their time is valuable, that represents a user fee not captured by the revenue stream accrued to the city.

Some of these people perhaps did not want to pay the fee because they did not value the fireworks by \$5 or more. If they viewed the fireworks at all, this is yet another revenue stream not captured by the fee.

Ideally, we would be able to determine how much each person values the fireworks and charge them a fee just a bit less. They would still receive some benefit, net of the user fee, and the city would likely generate tens of thousands of dollars of revenue.

We could simply ask every attendee how much they value the fireworks and then charge accordingly. That won't work, though, as human nature induces us to under-report our true valuation if we know we will be billed accordingly!

Some sophisticated companies have figured this out. They seem to be able to extract every last bit of revenue they can from us. For instance, an auction can extract an amount up to the valuation of the second highest bidder. However, fireworks attendance cannot be auctioned because we cannot exclude non-bidders from

enjoying the show. So few, if any, would bid.

This inability to generate direct revenue does not at all mean that the fireworks do not generate huge benefits for our residents and visitors.

This difficulty in extracting revenue, no matter how small, is no doubt frustrating for the city. Does that mean it does not extract revenue by other means?

To see these other benefits lurking in the shadows of our analysis, consider the gas used to travel to view the fireworks, or the households that use the fireworks demonstration as an opportunity to enjoy a night out at local restaurants. A 20-mile trip into the city or just one appetizer at a local restaurant costs more than the user fee the city charged. While only a share of these associated expenditures wind up in the city coffers, they all contribute to the economic impact of the fireworks.

Taking these associated revenues beyond the sales tax and the property values and taxes paid by businesses profiting from the fireworks, we also see we generate jobs for cooks and servers, and for the restaurant suppliers, bakers and barbers, doctors and teachers that make a living because cooks and servers are employed. These indirect and induced effects usually add another 30 percent to 50 percent to the direct benefits of spending associated with the event.

Now, here's the rub. The share of economic benefits accruing to the city is very small compared to the total benefits from such an event. If fireworks are an economic engine for the city and the region, but little of the economic bang goes directly to the city, how can they afford to put the event on without paying for it out of general tax revenue?

Indeed, they do pay for the fireworks primarily out of general tax revenue. They do so because they know it is good for the city.

However, it is also good for the town and county residents that view the fireworks, the international visitors that are attracted to our park and beach, and the Clinton County businesses that notice an uptick in activity.

But just as the City would find it difficult to bill each fireworks viewer for their true viewing benefit, it would be nigh impossible to get each layer of government or surrounding businesses to pay a share of their benefits.

This is a reality in providing things we want when there is no easy way to prevent non-payers from enjoying them. These "public goods" must necessarily be provided by government because private providers could not make a profit. This reality is exacerbated by geographically small local government entities. The wider we cast the net of regional benefits, the more it makes the case for a larger regional governmental entity to pursue economic development that benefits us all.

The proposition that a larger governmental entity can capture these regional benefits more effectively must of course be balanced against government that is regionally too extensive and consequentially unresponsive to local needs. It is that right balance on the geographic size of government that is so vexing in New York politics.

Well, my day today as an economist is done. I have succeeded in making a simple question exceedingly complex.

Colin Read runs Economic Insights, a local economics consulting firm, and teaches economics and finance at SUNY Plattsburgh. His fourth book, "The Fear Factor," will be published in the U.S. this October. He can be reached at economicinsights@gmail.com.

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