

4-1-2010

Alternative Funding Mechanisms for Public Recreation: An Analysis of the Montana State Parks Opt-Out Fee

Caleb Judy

Kennesaw State University, cjudy@students.kennesaw.edu

Follow this and additional works at: <http://digitalcommons.kennesaw.edu/etd>



Part of the [Public Administration Commons](#)

Recommended Citation

Judy, Caleb, "Alternative Funding Mechanisms for Public Recreation: An Analysis of the Montana State Parks Opt-Out Fee" (2010). *Dissertations, Theses and Capstone Projects*. Paper 231.

**Alternative Funding Mechanisms for Public Recreation:
An Analysis of the Montana State Parks Opt-Out Fee**

Caleb Judy

A Practicum Paper
Submitted in Partial Fulfillment of the Requirements for the

Master of Public Administration

Kennesaw State University

May 2010

Department of Political Science and International Affairs

Master of Public Administration Program

College of Humanities & Social Sciences

Kennesaw State University

Kennesaw, Georgia

Certificate of Approval

This is to certify that the Capstone Project of

Caleb Judy

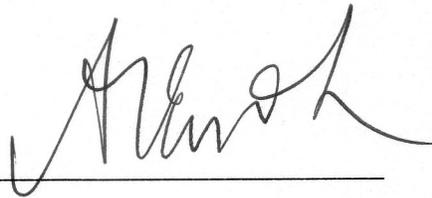
Has been approved by the Program Director

For the capstone requirement for the Master of Public Administration

Professional exercise in the Department of Political Science and International Affairs

At the May 2010 graduation

Capstone Director:



A handwritten signature in black ink, appearing to read 'Mark', is written above a solid horizontal line.

Alternative Funding Mechanisms for Public Recreation: An Analysis of the Montana State Parks Opt-Out Fee

Executive Summary

Financing remains one of the greatest challenges facing public parks and recreation managers in the United States. Managers are confronted with the challenge of providing more services for a growing population with dwindling public financial support (Fretwell and Frost, 2006). Adequate funding has been described as the most important factor in the delivery of recreation at the local level (Gladwell, Anderson, and Sellers, 2003). While public recreation funding originally came primarily from general tax revenues at the federal, state and local levels, shrinking appropriations over the last few decades have caused agency managers to experiment with alternative funding sources.

Much of the focus in recent years has been the increased utilization of user fees. User fees in parks and recreation areas vary from general (entrance into parks) to specific (camping fees or boat dock fees). User fees have been shown to generate revenue and increase economic efficiency and equity, but opponents contend that they pose a disproportionate burden on low-income groups (More, 1999; Samnaliev, More, and Stevens, 2006; More and Stevens, 2000) and turn a public good meant for everybody into an excludable private good (Samnaliev, More, and Stevens, 2006).

In 2003, the State of Montana took an alternative approach by enacting an opt-out fee during vehicle registration to fund state parks. Several other states, including California, Michigan, Arizona, and Washington, have experimented with a vehicle registration fee based on the Montana model. The purpose of this study is to evaluate the

Montana opt-out fee to determine if it is a viable alternative funding solution to increase revenue, improve efficiency, and ensure equity in the provision of public recreation. Utilizing a case study approach, the origins of the opt-out fee, including the authorizing legislation, and budgetary implications are reviewed. Since the literature on public recreation opt-out fees is limited, this analysis of the opt-out fee is conducted by utilizing public financing criteria from Mikesell (2007), including efficiency, equity, collection cost/simplicity, and revenue consequences. These are operationalized for the public recreation context through themes from research on public recreation user fees.

While the Montana opt-out fee raised significantly more revenue than previous sources, the Montana State Parks system continues to face financial challenges associated with rising operational costs. Additionally, efficiency and equity were actually harmed when viewed from a user fee perspective. However, collection cost/simplicity was improved through the opt-out fee. The mixed results of the analysis coupled with the high performance of the revenue generating function of the fee suggest that the opt-out fee performs much differently than a typical public recreation user fee.

While the revenue potential of an opt-out fee is apparent, further inquiry should be conducted to explore the fee from the perspectives of political feasibility and individual compliance with the voluntary fee. In a difficult financial climate for state and local governments, the opt-out fee remains a potential independent funding stream for public recreation, but more studies are needed before the fee is adopted by multiple state parks programs.

Acknowledgments

To Dr. Andrew Ewoh, for his thoughtful review of this document to ensure that it meets the professional standards of Kennesaw State University and the field of public administration. His mentoring and suggestions for improvement are appreciated. To Dr. Barbara Neuby, for her insights into public financing and budgeting. Finally, to the professors I have had the pleasure of working with during my studies at Kennesaw State: Drs. Ulf Zimmermann, Sungjoo Choi, Chenaz Seelarbokus, Martha Griffith, Barbara Neuby, William Baker, and JoAnn Foster. I look forward to applying the theories that I learned in the classroom into practice as I continue my career as a public administrator.

**Alternative Funding Mechanisms for Public Recreation:
An Analysis of the Montana State Parks Opt-Out Fee**

Table of Contents

Executive Summary i

Acknowledgments..... iii

Introduction..... 1

Background and Literature Review 2

 Equity 5

 Efficiency 5

 User Fees in Parks and Recreation..... 7

 Public Response to User Fees 9

 Montana State Parks User Fees..... 11

 The Montana “Opt-out” Fee..... 13

Methodology 13

 Operational definitions..... 14

Analysis of the Montana State Parks Opt-Out Fee 15

 Origins..... 15

 The State Park Futures Committee..... 16

 State Parks Futures Committee II..... 20

 Senate Bill 336 23

 Implementation of the Opt-out Fee 24

 Budgetary Implications 25

Analysis.....	26
Efficiency	27
Equity	29
Collection Cost and Simplicity	31
Revenue Consequences.....	31
Conclusion and Recommendations.....	32
References.....	35

Alternative Funding Mechanisms for Public Recreation: An Analysis of the Montana State Parks Opt-Out Fee

Introduction

Financing remains one of the greatest challenges facing public parks and recreation managers in the United States. Managers are faced with the challenge of providing more services for a growing population with dwindling public financial support (Fretwell and Frost, 2006). Adequate funding has been described as the most important factor in the delivery of recreation at the local level (Gladwell, Anderson, and Sellers, 2003). While public recreation funding originally came primarily from general tax revenues at the federal, state and local levels, shrinking appropriations over the last few decades have caused agency managers to experiment with alternative funding sources.

Much of the focus in recent years has been the increased utilization of user fees. User fees in parks and recreation areas vary from general (entrance into parks) to specific (camping fees or boat dock fees). User fees have been shown to generate revenue and increase economic efficiency and equity, but opponents contend that user fees pose a disproportionate burden on low-income groups (More, 1999; Samnaliev, More, and Stevens, 2006; More and Stevens, 2000), and turn a public good meant for everybody into an excludable private good (Samnaliev, More, and Stevens, 2006).

In 2003, the State of Montana took an alternative approach and enacted an opt-out fee during vehicle registration to fund state parks. Several other states, including California, Michigan, Arizona, and Washington, have experimented with a vehicle registration fee based on the Montana model. The purpose of this study is to evaluate the

Montana opt-out fee to determine if it is a viable alternative funding solution to increase revenue, improve efficiency, and ensure equity in the provision of public recreation. Utilizing a case study approach, the origins of the opt-out fee, including the authorizing legislation, and budgetary implications are reviewed. Since the literature on public recreation opt-out fees is limited, this analysis of the opt-out fee is conducted by utilizing public financing criteria from Mikesell (2007), including efficiency, equity, collection cost/simplicity and revenue consequences. These are operationalized for the public recreation context through themes from research on public recreation user fees.

Background and Literature Review

The period from the 1950s to 1970s saw a dramatic increase in parks and recreation services. While federal legislation was adopted in the late 1950s to collect fees at federal sites, federal agencies did not use fees as a major source of funding due to the prevailing belief that parks should be open to all for free and user fees would negatively affect low-income groups. Traditionally, numerous parks that were open for free to the public required heavy support from general tax revenues. However, high inflation and the rise of fiscal conservatism culminating in the “tax revolt” in the 1970s resulted in dwindling revenues for government programs, including parks and recreation (Bowker, Cordell and Johnson, 1999).

In the decades following the 1970s, the “anti-tax” sentiment continued to result in lower appropriations for parks and recreation. Minnesota, Idaho, North Carolina, North Dakota, Ohio, South Carolina, Virginia, Arizona, and other states have seen a drastic decrease over the last few decades of appropriations from general tax revenue. In fiscal year 2004, the Arizona State Park system, for example, was faced with a 63 percent

reduction in general fund support; previously, the largest percentage of state park revenue was from the general fund – 44 percent in fiscal year 2002 (Fretwell and Frost, 2006). In response, public recreation managers have looked at alternative funding strategies including corporate sponsorships, private donations, privatization, the use of volunteers and user fees (Mowen et al., 2006). Due to their large revenue generating potential as well as the public sentiment that those who benefit most from a service should bear most of the cost, user fees have emerged as a primary mechanism for raising revenue for parks and recreation.

The Economics of User Fees

A general understanding of the utility of user fees is necessary to evaluate their appropriateness for parks and recreation systems. The pricing of public goods through user fees has the potential to enhance both efficiency and equity. The feasibility of user fees depends on the ability to identify and separate users from non-users, and set an appropriate price to account for externalities and transaction costs.

The coercion of taxation is necessary when funding non-rival, non-excludable public goods. Where general taxes are “mandatory levies” tied to each individual’s economic capacity, user fees impose a cost on individuals or groups for the benefits they gain or services they use (Duff, 2004). General taxes are coercive; user fees, in most cases, are voluntary. While the voluntary collection of revenue might advance democratic values, coercion is needed to raise enough funds for government services (McGee, 1997). For a “pure” public good, government services open to all (non-excludable) where one individual’s use does not impact the use of another (non-rival), the

individual has no incentive to voluntarily pay for the service. When a large number of individuals benefit from the provision of a pure public good (national defense, for example) and the costs are dispersed among all the members, the rational individual realizes his/her contribution of payment will be small and will not impact the provision of the good. It makes more economic sense for the individual to opt-out of payment – the “free-rider” problem (Weimer and Vining, 2005). Payment coercion through mandatory taxation is necessary to combat the “free-rider” problem and raise necessary funds for the provision of non-excludable, non-rival public goods.

However, the utilization of user fees is considered a preferred method for raising revenue when benefit/cost separability and exclusion is possible (Mikesell, 2007). In developing a user fee, efficient pricing can only be set when the individuals or groups that benefit from the good can easily be identified. If the good benefits society as a whole, inefficiency results when the users subsidize non-user benefits through the payment of a user fee. A method for exclusion is also necessary to prevent the free-rider problem, as earlier indicated. High administrative costs associated with an exclusion structure (staffing park entrances, for example) could negate any efficiency gains from the utilization of user fees. Transaction costs are a major efficiency challenge in establishing user fees (Stiglitz, 2000; Weimer and Vining, 2005; Mikesell, 2007). Additionally, funds that depend on individual choice, rather than coercion, are less predictable (McGee, 1997). Still, to the extent that benefit-cost separability and exclusion is assured, user fees have both equity and efficiency benefits.

Equity

User fees are the most equitable method for raising revenue because the user pays most of the cost of the good (Stiglitz, 2000; Duff, 2004; Mikesell, 2007). The result is a “quasi-market” arrangement where individuals only pay for the services they benefit from and those who use the service the most bear a greater percentage of the cost burden (Mikesell, 2007). Mikesell (2007) uses a motor fuel tax as an example of the equity enhancements of user fees. Assume the revenue from a motor fuel tax goes to highway maintenance. The more a person uses the highways, the more fuel is used and tax is paid. Those with the heaviest use make the highest payment. If highway maintenance was funded through general tax revenues, non-users would also bear some of the cost. As a user fee, the motor fuel tax increases equity by shifting the cost burden to the heaviest users and eliminates “cross-subsidization.” Equity is also advanced with “close-complementarity,” where there is a clear link between the fee and the government service. Mikesell (2007) suggests that the elimination of cross-subsidization and the promotion of close-complementarity can also help mitigate anti-tax sentiment.

Efficiency

Efficiency can be enhanced through the development of an appropriate pricing mechanism such as a user fee. Under general taxation, individuals do not fully realize the cost of production; the marginal cost of an additional user or use is, in reality, zero. As a result, individuals demand more than if they paid the full cost of production and undersupply could occur. User fees connect individuals directly with the cost of production. Externalities are internalized and managers are given the necessary

information to set the price at the marginal cost. User fees also work to allocate scarce resources to the most valued users, defined by those willing to pay (Duff, 2004).

Efficiency is also enhanced by connecting agencies to public demand for service and improving operating efficiency (Mikesell, 2007; Duff, 2004). Under general revenue financing, public managers have little information on public demand. When information is available, managers have little incentive to respond to changing client preferences. User fees can legitimize (or delegitimize) public agencies by providing a record of public demand. Also, user fees may improve the operations of agencies by making them more responsive to client needs. However, efficiency gains can be lost if non-rival or non-excludable public goods are priced.

Pricing non-rival goods can result in underconsumption (Stiglitz, 2000). For rival goods, pricing can be utilized as a mechanism to limit congestion. Where congestion is not an issue (an open highway), pricing can lead to underconsumption to the extent there are other options (a parallel, non-charged open highway). Additionally, pricing non-excludable goods leads to the “free-rider” problem where an individual has no incentive to voluntarily pay for a service where the exclusion for non-payment is not assured (Stiglitz, 2000).

Public recreation areas are difficult to put into particular categories of public goods. Pristine wilderness areas with minimal human impact could be considered “pure” public goods – non-rival and non-excludable in consumption. In contrast, public recreation areas have the potential to become rivalrous with congestion, where an individual’s use impacts the use of another person. User fees have often been implemented in these instances to reduce congestion, exclude, and account for

externalities such as ecological damage. However, these efficiency gains could be potentially moderated with high administrative costs associated with exclusion (Weimer and Vining, 2005), such as providing staff for all entrances to parks to collect fees or developing a complicated, labor-intensive fee system. Transaction cost remains a challenge in setting up an efficient user fee pricing system (Weimer and Vining, 2005; Duff, 2004).

User Fees in Parks and Recreation

Considering the need to exclude participants in rivalrous, congested recreation areas and the need to raise revenue, pricing systems in parks and recreation must reconcile two potentially conflicting objectives: generating revenue and maintaining access (Kyle, Graefe, and Absher, 2002). The ability of user fees to generate revenue in parks and recreation systems is generally accepted (More, 1999). Due to increased self-generated revenue, most of which came from user fees, local parks and recreation budgets in North Carolina from 1986-2001 remained steady despite reductions from appropriations (Gladwell, Anderson and Sellers, 2003). Other concerns, related to maintaining access are also prevalent in the literature: efficiency (Rosenthal, Loomis, and Peterson, 1984; More, 1999), fairness and equity, user ability to pay, and congestion (Richer and Christensen, 1999).

Rosenthal, Loomis, and Peterson's (1984) work, "Pricing for Efficiency and Revenue in Public Recreation Areas" provides much of the economic basis for user fees in parks and recreation. The authors assert that rationing by price is the best way to achieve efficiency in parks and recreation. Equity, community stability, and

environmental quality are also assured by pricing. User fees help recreation areas become more self-sufficient and deter ecological damage by limiting congestion. Rosenthal, Loomis, and Peterson (1984) suggest that prices charged for public recreation activities are generally low and are not being effectively utilized in regulating use and demonstrating demand and user preferences. For pricing to be appropriate, marginal cost should be above zero; in public recreation, costs include congestion, ecological damage, and operating costs. Under congestion, the use of one individual affects the use of another. At this point, the good becomes rival in consumption and an appropriate price would be set at the utility lost by the other user. Similarly, the marginal cost of ecological damage is equal to the amount of damage done by the user. An efficient pricing system could limit congestion by making the user realize the full cost of the service including operating costs and ecological damage (Richer and Christensen, 1999; More, 1999).

Most opponents of user fees in parks and recreation realize the potential efficiency gains of pricing systems (More, 1999; Richer and Christensen, 1999). However, critics contend that inappropriately designed fees can harm efficiency. Opponents have labeled user fees as “double taxation” (Richer and Christensen, 1999; Winter, Palucki, and Burkhardt, 1999). To the extent that programs receive revenues from general taxation and user fees, these criticisms are accurate. Additionally, poorly designed user fees, either excessive or for non-rivalrous goods, could result in underconsumption and expected revenue will not be generated.

The fairness and equity considerations in parks and recreation funding deal with connecting beneficiaries directly to the cost of service and maintenance of access. User

fees insure that those interested in the service, and willing to pay, are allowed to participate while non-users are excluded (Rosenthal, Loomis, and Peterson, 1984). They effectively transfer the cost of the service to those who use it most (More, 1999). As a result, users are no longer being subsidized by non-users through the general taxation mechanism.

Regarding equity and fairness, opponents are primarily concerned with how user fees can impact the participation of low-income users. Since user fees are related to consumption of a good, the fees are regressive and impose a higher burden on low-income individuals, because they spend a higher percentage of their income on consumption (Duff, 2004). Several studies have suggested that user fees cause participation to decrease, especially with low-income users (More, 1999; Samnaliev, More, and Stevens, 2006; More and Stevens, 2000). In a mail survey of New Hampshire and Vermont households, user fees were widely accepted, but participation for those earning less than \$30,000 per year substantially decreased. Twenty-three percent of low-income respondents said they reduced participation after recent fee increases, while only eleven percent of high-income respondents indicated a reduction in their participation (More and Stevens, 2000, 341).

Public Response to User Fees

The public response to user fees has varied. The process of implementing user fees has been shown to be as important as the fee. Anderson and Friedmund (2004) conducted in-depth interviews of active opponents of the Recreation Fee Demonstration Program (RFDP), authorized by Congress in 1996 to allow federal land agencies to set user fees on federal lands. The participants' opposition to RFDP was based on three

main factors: belief about the role of public lands, perception that the political process was secretive and exclusionary, and concern about the management of the program. The study provided support for the importance of the process of setting up user fees as well as the outcome. Similarly, Fix and Vaske (2007) found that participants' beliefs about the fee structure were the strongest predictor of the evaluation of the fees. Organizational trust and adequate information on the user fees have been shown to be major determinants on the acceptance of user fees (Nyaupane, 2009; Winter, Palucki, and Burkhardt, 1999).

Among alternative funding options, user fees have received mixed reviews. From a national sample of 12,000 households, respondents were asked questions about how ten different recreation activities should be funded. Ninety five percent responded that user fees or a combination of taxes and user fees should fund at least one recreation activity. More support was shown for activities often offered in both public and private sectors, such as campgrounds and boat ramps. Only one-third of participants selected "taxes-only" funding, suggesting that the public does not think users should bear the full cost of the activity (Bowker, Cordell, and Johnson, 1999). One study showed a favorable evaluation of the general entrance fee, approximately three-quarters of the participants described the fee as "about right" (Fix and Vaske, 2007). A survey of wilderness area users showed support for user fees in developed areas, but minimal support was given for user fees in wilderness areas (Williams, Vogt, and Vitterso, 1999). In More and Stevens' (2000, 352) study, broad support was given for user fees; forty percent of the respondents preferred user fees to other forms of funding.

However, in Mowen, Kyle, Borrie and Graefe's (2006) research, participants were most supportive of corporate sponsorships and private donations as alternative revenue sources. Park services privatization and the use of park entrance fees received the least support. In a 2002 mail survey of New Hampshire and Idaho households, donation boxes, corporate sponsorships, and adopt-a-site contracts were strongly supported as alternative funding mechanisms. Increased taxes and user fees were not supported by the participants. Additionally, twenty-five percent of the respondents indicated that user fees negatively impacted their use of public recreation (Samnaliev, Stevens, and More, 2006, 35). Providing evidence for user fee opponents, a survey of New Hampshire and Vermont households cited a substantial reduction in recreation participation for low-income users after user fees were introduced (More and Stevens, 2000).

Montana State Parks User Fees

The first user fee in a Montana state park was instituted in 1939 for tours at Lewis and Clark Caverns. Tour admission was \$0.75 for adults and \$0.25 for children (Legislative Audit Division, 2001, 8). Since that time, user fees have remained a major, growing funding source for Montana State Parks. User fees in Montana have included daily entrance or annual "passport" fees, camping fees, cave tour fees, boat ramp use fees and group use fees (Montana State Parks, 1998). In times of financial difficulty, user fees have typically increased to raise additional revenue. From 1969, when the first camping fee was charged, to 1998, the fee was raised nine times (Montana State Parks, 1998, 17-27). Strategic funding plans were developed from the late 1980s to 2002, and all plans advocated for an increase in existing user fees and the establishment of new fees to help

fund parks (The State Park Futures Committee, 1990; Montana State Parks, 1998; State Parks Futures Committee II, 2002).

In “2020 Vision for Montana State Parks,” a long-term strategic plan for the Montana State Parks system, the Montana State Parks department articulated the efficiency and equity concerns associated with user fees:

One of the main arguments for the new emphasis on user fees is that users have not been paying their share, while the general public has been paying for too great a proportion... An opposing argument is that the public goods provided by resource management agencies should be broadly subsidized—in the same manner that schools and libraries are—because what is provided is of general benefit to society as a whole, even non-users. Some people feel they should not have to pay to use public outdoor resources. Another aspect of this argument is the need to find ways to make these public goods and services affordable to less well-off members of society... Both of these perspectives have merit, and they are not mutually exclusive. It seems evident from trends occurring around the country and in Montana, however, that there is likely to be continued pressure to increase and expand user fees throughout government for a wide variety of public goods, including those related to outdoor recreation (Montana State Parks, 1998, 257).

Embracing the utilization of user fees while understanding the associated challenges, the department sought to increase the yield of user fees, moving the user fee funding percentage from 21 percent to a range between 30 and 50 percent. Managers believed that park visitors would be willing to pay more, citing a Department of Fish, Wildlife, and Parks study showing that 75 percent of State Park Passport holders are getting either a “good” or “very good” value from their passport (Montana State Parks, 1998, 257). The report proposed a regular review of fees to determine possible increases. Considering equity concerns associated with access, discounts to low-income visitors were proposed. The expansion of user fees in other areas, outreach to commercial interests such as outdoor outfitters and concessions, better enforcement of fee non-

compliance and periodic free entrance days were all proposed as ways to increase visitation and user-fee revenue generation (Montana State Parks, 1998).

The Montana “Opt-out” Fee

In 2003, the State of Montana pioneered a new approach to generate revenue for state parks. The legislature enacted a \$4 “opt-out” fee to be paid during vehicle registration. In the Montana opt-out fee provision, individuals are charged the fee unless they sign additional paperwork to opt-out of payment. The fee was established to generate enough revenue to replace state appropriations and park entry fees during a time when financial support from the state was dwindling (Legislative Fiscal Division, 2009). Proponents have argued that the move will “free Montana’s state parks” (McKee, 2003) by replacing the annual passport and day use system. Advocates projected that the revenue generated from the new fee would replace both state appropriations and park entry fees and increase visitation. Opponents have described the move as hidden taxation (Gevoek, 2004). Several states have moved to implement similar measures. Washington State has enacted a “donation” program during vehicle registration. During registration, individuals are automatically signed up for a \$5 “donation” unless they fill out paperwork to opt-out of the gift (Washington State Parks and Recreation Commission, 2009). Arizona, Michigan, and California have also attempted to implement vehicle registration fees for state park funding with varying levels of success.

Methodology

A case study approach is used to examine the Montana opt-out fee in order to draw conclusions on the effectiveness of the strategy for generating revenue and

increasing efficiency and equity. The case study consists of a relevant history of the Montana opt-out fee including the origins of the fee, its legislative history, and budgetary implications. Criteria from Mikesell (2007) including efficiency, equity, collection cost/simplicity, and revenue consequences are utilized to evaluate the opt-out fee as a viable revenue option. Data on the background of the Montana opt-out fee are collected from Montana State sources including the Department of Revenue, the Montana State Legislature, and the Department of Fish, Wildlife and Parks. Qualitative analysis is aided by the relevant literature on public finance, budgeting, and economics.

Operational definitions

For the purposes of this study, criteria for evaluating the effectiveness of the Montana opt-out fee is defined based on the current literature regarding user fees in parks and recreation. Efficiency is gauged by the extent the fee gives agency managers information on demand and client preference and how it mitigates negative externalities such as ecological damage by limiting congestion. Equity is advanced if a larger portion of the cost is shifted to the highest users of the system and low-income users are not dramatically impacted by the fee. Collection cost refers to the transaction costs associated with setting up a pricing system and can be analyzed quantitatively. Simplicity is more difficult to determine, but accounts from users on the complexity of the system will provide some evidence. Revenue consequences can be determined through data from the Montana Department of Revenue.

Analysis of the Montana State Parks Opt-Out Fee

The Montana Department of Fish, Wildlife and Parks (DFWP) manages the state parks system. DFWP is comprised of eight divisions with different functions in managing Montana's fish, wildlife and recreation resources. The Parks Division, also known as Montana State Parks, is tasked with "providing diverse recreational opportunities while preserving the historical, archaeological, scientific, and cultural resources of the state" (Legislative Fiscal Division, 2008, 3).

Origins

The creation of the Montana State Parks system can be traced to 1929 when the Montana Land Board was authorized by the legislature to set aside land for state parks. The first state park was not established until 1939 after the National Park Service donated Lewis and Clark Caverns (Legislative Audit Division, 2001). The 1939 legislature established a State Parks Commission and set the foundation for the Montana State Parks system. The system was designed to:

[conserve] the scenic, historic, archaeological, scientific and recreational resources of the state and [provide] for their use and enjoyment, thereby contributing to the cultural, recreational, and economic life of the people and their health (The State Park Futures Committee, 1990, 5).

Inadequate funding, staffing, and management resources have been a challenge to fulfilling state parks responsibilities since the establishment of the system. Despite the expansion of state parks in the 1960s and 1970s in response to the increasing consumer demand, funding remained relatively flat due to inflation. The economic downturn in the 1980s agitated the funding situation. The State of Montana's budget crisis resulted in a reduction of approximately \$1,000,000 annually in the state parks' budget from the

elimination of General Fund support, a reduction of appropriations from the coal tax, and a cut from the Federal Land and Water Conservation Fund. Such a large reduction in funding caused a cutback in operations and maintenance. A moratorium on new capital projects and the acquisition of new park lands was also instituted. To raise additional revenue, statewide entrance and other user fees were first established in 1989. The 1989 legislature appropriated \$2.6 million to address deferred maintenance costs and aid in the transition to a user fee-based system. Despite these interventions to inject more revenue into the state park system in the late 1980s, Montana was near the bottom among all fifty states in funding. Montana spent \$25,000 annually per park while Colorado spent \$145,000, and North Dakota spent \$66,000. As a result, maintenance continued to be a problem and the full economic potential of the state park system was not realized (The State Park Futures Committee, 1990, 17).

The State Park Futures Committee

In response to these challenges, the State Park Futures Committee was established to make recommendations to Governor Stan Stephens, the 52nd Montana State Legislature and the Department of Fish, Wildlife and Parks on the proper role, priorities and funding structure for state parks. From August of 1989 to November of 1990, the Committee conducted interviews with industry professionals, held public meetings, collected surveys from the Montana residents, and examined the operations of state parks. The Committee identified five areas that contributed to the problems of the state parks system: role of state parks, long-range planning, management, image and marketing, and funding. Regarding the roles of state parks, the Committee contended that the broad mandate established by the legislature in 1939 caused confusion about the proper role of the state

parks system. Long-range planning had also been stagnant due to low funding and staffing. As a result, the public did not have adequate information about the state parks program. The management challenges of housing the parks department in the Department of Fish and Wildlife were also identified. The different needs in managing non-renewable cultural and environmental resources of the parks compared to renewable wildlife resources were raised. Additionally, the public image of the state park system was very poor (The State Park Futures Committee, 1990).

Lastly, inadequate funding and lack of support from the General Fund were identified as major constraints in meeting the needs of the state parks system. Without additional funding, the Committee asserted that conditions at park facilities including roads, water and septic systems, and boat ramps would continue to deteriorate. The conservation function of the parks system would not be met and environmental conditions would worsen. Staff positions would have to be eliminated and educational opportunities for visitors would be drastically cut. The Department of Fish, Wildlife and Parks presented the Committee with four funding scenarios that would support Montana State Parks at different levels: current funding, park protection, park improvement, and accelerated park improvement. The Committee recommended several new funding sources to meet the accelerated park improvement scenario to account for moderate growth and improvement, and to secure the state parks system for up to five years. Ten criteria, outlined in Table 1, were identified to evaluate the new funding sources.

Table 1: Prioritized Criteria for Evaluating Funding Options

1. Preferred new funding sources should not create obligations or earmarking which diverts the department from, or is in conflict with, the park mission.
2. Recommended new funding sources should not carry accounting responsibilities and complexities which are beyond the management scope and capacity of department, but should contribute to a planned and balanced parks program.
3. The recommended funding options should have broad constituency support.
4. Funding sources which can be expected to provide long-term benefits, are stable and predictable, are preferred.
5. Funding sources which are the least costly and simplest to manage and which provide a revenue source large enough to assure a high "benefits to the public" vs. "cost to administer" ratio are preferred.
6. Funding sources which can be shown to have a logical tie to the purpose for which they will be spent are preferred.
7. Activity-related user fees should provide benefits to those who paid the fees.
8. Funding which permits or instills an expression of pride and confidence in the parks system and which can be used to enhance the aesthetic value of the system is preferred.
9. Given the demands on traditional funding sources, the Committee will also give priority consideration to new, innovative, and creative funding options.
10. Because the public recognizes that there are urgent needs in parks and is rightly impatient to have them addressed, funding sources which will provide immediate budget relief to provide quick and visible improvements are also needed.

Source: The State Park Futures Committee, 1990, 36

Significant funding resources were needed to meet the goals of accelerated park improvement – about \$6,313,000 annually. Sixteen new funding sources were identified and recommended by the Committee (as outlined in Table 2). The proposed revenue sources included increased user fees at state parks as well as for unrelated services. The reintroduction of General Fund support was requested coupled with an increase of statewide taxes and establishment of new taxes.

Table 2: Recommended Funding Sources

- Rental Car Fees
- General Fund, restore
- Coal Tax, increase Parks' share
- Statewide Mil Levy
- New \$0.01 Gas Tax
- Big Sky Dividend
- Sales Tax
- Recreational Equipment Tax
- User Fees
- Restaurant Tax
- RV Sticker
- Nonresident Boat Fees
- Existing Park Roads Maintenance Law Amendment
- Motor Vehicle Taxes
- Small Boat Fees
- Federal Matching Funds

Source: The State Park Futures Committee, 1990, 36

The motor vehicle tax recommendation is most closely related to Montana's opt-out fee. As most visitors arrive by vehicle, and much of the maintenance costs at parks are associated with vehicle traffic, the Committee reasoned that a vehicle tax would be appropriate. At the time of the report, there were approximately one million vehicles registered in Montana; the recommended \$0.50 fee could potentially raise \$500,000 annually (The State Park Futures Committee, 1990, 42).

As a result of the State Park Futures Committee's recommendations, the Department of Fish, Wildlife and Parks adopted a statewide entrance fee system. The number of state parks shrank from 60 to 42 so that the agency could focus on core properties. Significant improvement was made on deferred maintenance. Although the recommended funding levels were not adopted, the General Fund revenue was returned to the parks system, and there were efforts to increase funding for capital improvement, historical preservation, maintenance, and staffing. A new program provided volunteers

from the Montana University system; and by 1994, these volunteers performed work equivalent to ten full-time employees, thus saving the system \$115,000 annually. New Visitors Centers were added to select, high-impact parks. The smaller, better funded system began attracting more visitors in the mid 1990s and helped in improving the local and regional economies (Montana State Parks, 1998, 26).

2020 Vision for Montana State Parks

In 1995, Montana State Parks began “2020 Vision for Montana State Parks,” a long-term strategic plan for ensuring the success of state parks in the first two decades of the twenty-first century. Holding with the analysis of the State Park Futures Committee, the department identified the establishment of adequate and stable long-term funding as a major goal. The project highlighted the importance of a diverse funding regiment to “ride out tough political and economic times” (Montana State Parks, 1998, 253). The department recommended several alternative funding sources to build a more diverse and versatile revenue system. An expansion of the gift item program where visitors could buy Montana State Parks merchandise was recommended. Increased outreach to charitable foundations and the legislature was suggested. As suggested by the State Park Futures Committee, a rental car surcharge was also highlighted. The project also prescribed options described as less politically feasible, such as increasing General Fund support, coal tax and fuel tax allocations, and user fees (Montana State Parks, 1998).

State Parks Futures Committee II

In 2001, the Montana State Legislative Audit Division conducted a performance audit of the Montana State Parks program. While positive reforms had taken place as a

result of the State Parks Futures Committee recommendations, the audit identified needed improvements as a result of changes to the system in the years since the Committee submitted its report. The Committee had promoted the equal distribution of user-fees across the system to promote equity and raise revenue, but revenues from user fees remained flat from 1990 to 2000 due to the Primitive Parks Act, established in 1993, which exempted one-third of the state parks from entrance fees. Additionally, the resources for monitoring fee compliance were not developed as recommended by the Committee to increase the collection of user fees. Due to the increase in visitation and the changes over the twelve years since the previous review of parks in State Park Futures Committee's report, the Legislative auditors suggested that a new review of state parks was needed (Legislative Audit Division, 2001).

The State Parks Futures Committee II was established through an Executive Order by Governor Judy Martz in October 2001. The purpose of the State Parks Futures Committee II was to make recommendations to Governor Marks, the Department of Fish, Wildlife and Parks, and the legislature regarding changes in parks and new challenges that occurred since the first State Parks Futures Committee report. On the issue of funding, the Committee was charged with developing recommendations for addressing flat revenues and rising costs. Although the Committee members did not seek unanimous consent on funding recommendations, they voted on each recommendation and the percentage level of support was offered. Table 3 details the funding recommendations and levels of support.

Table 3: State Parks Futures II Major Funding Recommendations

Item	Level of Support	Current Price	Proposed Price	Estimated New Revenue
Park Passport	78%	\$24/15	\$30/20	\$30,000
Caverns Tour	89%	\$8/5	\$10/5	\$35,000
Prime Camping	78%	\$12/8	\$15/11	\$20,000
Eliminate Senior Discount	89%	½ price camping	Full price camping	\$15,000
Motorboat decal	56%	\$2.50	\$10	\$231,000
RV license fee	67%	\$3.50	\$5	\$90,961
Boat in Lieu	67%	20% of fees	25% of fees	\$68,750
Non-motorized boat fee*	44%	\$0	\$5-\$10	\$354,000 - \$700,000
Vehicle license plate fee*	56%	\$0	\$4/vehicle	\$2,900,000
Statewide Mill Levy*	44%	\$0	-	\$2,200,000

*New funding sources

Source: State Parks Futures Committee II, 2002, 15-16

Moreover, the Committee recommended the abolishment of park entrance fees if the vehicle license plate fee or statewide mill levy was adopted. The Committee estimated that if the license plate fee became a mandatory charge on approximately 900,000 light vehicles on Montana’s roads, it would generate about \$2.9 million annually, after accounting for lost entrance fee revenue and administrative costs. Also, a statewide mill levy would potentially generate about \$2.2 million annually. The potential for revenue generation through a license plate fee or statewide mill levy was apparent. However, the Committee was concerned with the potential administrative costs associated with the license plate fee and preferred the mill levy option. Additionally, the Committee believed that the license plate fee may be more regressive and could potentially harm low-income users (State Parks Futures Committee II, 2002, 11-12). Despite the Committee’s preference for the mill levy option, the legislature chose to consider the vehicle license plate fee – which eventually became the Montana opt-out fee.

Senate Bill 336

Effective January 1, 2004, the Senate Bill 336 established an optional \$4 fee for light passenger vehicles to provide funding for state parks. The bill was designed to:

... [implement] recommendations of the State Parks Futures II Committee to improve the operation and funding of the state park system; assessing an optional \$4 fee for each passenger car or truck under 8001 pounds... that is registered for licensing and directing that the fee be used for state parks [and] fishing access sites; allowing the registrant... to make a written election not to pay the additional \$4 fee if the registrant does not intend to use state parks... providing that persons who pay the optional fee may not be required to pay a day-use fee for access to state parks... (Montana State Legislature, 2003, 1)

The legislation set aside \$3.50 of the fee for state parks funding, \$0.25 for fishing access weed maintenance, and \$0.25 for the operation of the state-owned facilities at Virginia City and Nevada City. The passage of the fee eliminated day-use entrance fees for residents. Additionally, Montana State Parks would no longer be subsidized through regular appropriations from the General Fund (Montana State Legislature, 2003).

The Senate Bill 336 passed through the Senate without amendments. The bill called for a \$4 opt-out fee for parks funding. However, the House of Representatives amended the bill to include an opt-in fee. In the conference committee, the Senate rejected the opt-in fee provision, since the Department of Fish, Wildlife and Parks (DFWP) was skeptical that the fee would raise the necessary revenue. The Department saw the opt-out fee as a relatively simple, optional method for generating funds for state parks and did not intend to enforce non-payment (Montana State Legislature, 2004).

Implementation of the Opt-out Fee

The opt-out fee replaced day-use and passport entrance fees. Following the implementation of the fee, the only certification needed to enter a state park without paying an entrance fee was a Montana State license plate. Park users from other states were able to purchase day-use passes or annual passports. Agency managers expected that about 50 percent of the individuals registering vehicles would opt-out of payment of the fee. During vehicle registration, individuals who do not use state parks facilities can sign a waiver stating that they do not intend to use state parks. However, the policy of DFWP is to allow any vehicle with a Montana license plate to access state parks for free. Due to the infeasibility of monitoring non-payment of the fee, DFWP adopted a policy that relied on citizens' honesty for compliance with the new law (Montana State Legislature, 2004). Senator Mahlum, the sponsor of Senate Bill 336, echoed the notion of trust with the new law:

The idea of this bill is TRUST. If you are a Montana citizen and have elected to pay the [\$4] parks fee, you are entitled to all of the Parks place to visit... For those people who choose not to buy the [\$4] license and choose to go to the Parks in Montana, there is nothing we can do. Hopefully, as this is a matter of trust, only a few percent of people will choose to do this... I am still convinced this will be good for the people of Montana as so many people do use the parks/fishing access that our state has to offer (Montana Legislature, 2004).

The Montana opt-out fee was met with both enthusiasm and resistance. Despite the transfer of a large part of the burden to an opt-out user fee, advocates identified the change as a move to "free Montana's state parks" (McKee, 2003). The fee was perceived as making entry into state parks free regardless of the fact that payment was being made by individuals in a different way. Opponents viewed the new fee as a hidden tax. "Opt-out is a device by which people are tricked out of money or rights" (Gibson, 2004, 1).

The initial implementation of the opt-out fee worked to confirm opponents' fears when the Department of Justice left the \$4 fee out of vehicle renewals for the first month. When the Department sent out renewal cards pointing out the error, the cards did not say the fee was optional. Eventually, the error was corrected and the optional nature of the fee was publicized (Gevock, 2004).

Budgetary Implications

The opt-out fee provides significant support for the Montana State Parks budget. The Montana State Parks system is funded by four primary sources: bed tax, coal tax, state parks miscellaneous fund, and motorboat fuel tax. A 6.5 percent bed tax provides funds for the maintenance of state parks facilities. A coal severance tax of 1.27 percent is set aside for parks acquisition and management. State Parks Miscellaneous is a special state revenue fund where revenues raised through user fees, concessions and the opt-out fee are deposited. The Montana State Parks system receives 9/10 of the 1 percent motorboat fuel tax for the improvement of state parks where motor boating is allowed (Legislative Fiscal Division, 2009). Table 4 provides the revenue history of Montana State Parks from 2000 to 2009 with revenue projections for 2010 and 2011.

Table 4: Parks Program Major Revenue Sources

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Bed Tax	\$683,423	\$682,624	\$733,850	\$769,199	\$865,807	\$887,350	\$910,440	\$1,160,434	\$1,117,667	\$1,074,826	\$1,175,000	\$1,225,000
Coal Tax	\$1,103,431	\$1,059,393	\$1,129,826	\$1,129,100	\$1,039,904	\$1,044,208	\$888,754	\$990,758	\$1,168,343	\$1,003,879	\$1,079,000	\$1,112,000
State Parks Misc.	\$1,652,204	\$1,664,708	\$1,496,221	\$1,744,096	\$3,217,544	\$4,800,554	\$4,339,958	\$4,601,078	\$4,325,769	\$4,394,632	\$4,415,609	\$4,415,609
Motorboat Fuel	<u>\$1,293,927</u>	<u>\$1,158,095</u>	<u>\$1,174,389</u>	<u>\$1,170,010</u>	<u>\$1,203,408</u>	<u>\$1,122,338</u>	<u>\$1,190,844</u>	<u>\$1,210,284</u>	<u>\$1,137,441</u>	<u>\$1,085,547</u>	<u>\$1,086,000</u>	<u>\$1,080,000</u>
Total	\$4,732,985	\$4,564,820	\$4,534,286	\$4,812,405	\$6,326,663	\$7,854,450	\$7,329,996	\$7,962,554	\$7,749,220	\$7,558,884	\$7,755,609	\$7,832,609

*Projected Revenue

Source: Legislative Fiscal Division, 2009, 3

The opt-out fee is the largest contributor to the State Parks Miscellaneous Fund. However, revenues from the opt-out fee have remained flat since fiscal year 2005 (see Table 5).

Table 5: State Parks Miscellaneous Revenue

Source	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Lt Vehicle Registration	\$0	\$0	\$0	\$0	\$1,339,791	\$3,401,832	\$2,947,055	\$2,835,665	\$2,859,106	\$2,745,194
Camping/Cabin Rentals	\$285,083	\$261,668	\$252,446	\$293,967	\$438,315	\$425,341	\$442,816	\$425,468	\$444,141	\$532,229
Passports	\$197,280	\$202,299	\$250,060	\$240,034	\$58,470	\$13,740	\$15,030	\$15,885	\$18,893	\$24,010
Guided Tours	\$303,140	\$301,107	\$246,323	\$264,879	\$388,835	\$392,000	\$387,609	\$395,917	\$436,864	\$390,890
Day Use Fees	<u>\$403,215</u>	<u>\$381,684</u>	<u>\$342,107</u>	<u>\$393,065</u>	<u>\$323,919</u>	<u>\$95,263</u>	<u>\$86,729</u>	<u>\$81,691</u>	<u>\$83,485</u>	<u>\$96,788</u>
Subtotal	\$1,188,718	\$1,146,758	\$1,090,936	\$1,191,945	\$2,549,330	\$4,328,176	\$3,879,239	\$3,754,626	\$3,842,489	\$3,789,111

Source: Legislative Fiscal Division, 2009, 3

While eliminating regular General Fund support and lowering entrance fee revenue, the opt-out fee has generated significant revenue for the Parks Division, causing a 31.47 percent jump in revenue from fiscal years 2003 to 2004. Still, Montana State Parks continues to face fiscal challenges as demand and basic costs like gas, electricity and nominal salary adjustments increase and the productivity of revenue streams remain relatively flat (Legislative Fiscal Division, 2009).

Analysis

While extensive research has been conducted on the merits and challenges of user fees in public recreation, little inquiry has occurred on opt-out fees. To gain a better understanding of the opt-out fee, an evaluation utilizing concepts from public financing, budgeting, and economics in a public recreation context is necessary. Mikesell (2007) suggests that efficiency, equity, collection cost/simplicity, and revenue consequences should be considered in evaluating revenue options. Considering the relevant public

recreation literature, efficiency is evaluated in this analysis by the extent to which the opt-out fee gives agency managers information on client demand and preference and mitigates negative externalities such as ecological damage by limiting congestion. Equity is advanced if a larger portion of the cost is shifted to the highest users of the system and low-income users are not dramatically impacted by the fee. Collection cost/simplicity is determined by the administrative costs and complexity of the opt-out fee system. The revenue consequences can be examined by evaluating the budgetary effects of the new fee to determine if appropriate revenue was raised. Table 6 details the analysis.

Table 6: Opt-Out Fee Analysis Using Mikesell (2007) and Public Recreation Financing Operational Criteria

Mikesell (2007) Criteria	Operational Criteria	Criteria Met?
Efficiency	Information on Demand and Client Preference Reduces Congestion and Corrects Negative Externalities	No No
Equity	Cost Shifted to Higher Users Minimal Low-income User Impact	No Mixed
Cost Collection and Simplicity	Low Administrative Costs and Simplicity of System	Yes
Revenue Consequences	Adequate Revenue Raised and Minimal Negative Budget Implications	Yes

Efficiency

Based on the operational criteria of the study, the Montana opt-out fee is a structurally inefficient funding mechanism. Data on demand are limited due to the lack of entrance fees. The utilization of park resources by non-payers is not monitored. As a result, congestion and overconsumption are likely.

Information on Demand and Client Preferences

User fees have the potential to connect agencies with public demand by providing a record of usage and preferences (Mikesell, 2007; Duff, 2004). Prior to the opt-out fee, Montana had a system of entrance fees that could provide information on attendance at particular parks. Managers could use that information to gauge public interest and determine where to allocate scarce resources. When the opt-out fee system eliminated the resident day-use and annual passport entrance fees, managers were left with less information on demand and client preferences.

Congestion and Negative Externalities

User fees offer the opportunity to connect individuals directly to the cost of production of a good. Under general taxation, benefits are partially subsidized by non-users, and an individual does not fully realize the cost of the benefit. As a result, over-consumption of the benefit and the free-rider problem may occur. In terms of remedy, user fees can be set at the marginal cost of production and can take into account negative externalities such as ecological damage (Weimer and Vining, 2005; Duff, 2004). A park manager could choose to raise the entrance fee for a particular park if congestion was causing the quality of the park experience to deteriorate either through overcrowding or environmental damage. At the local level, the manager could even set the price to account for specific negative externalities.

The opt-out fee does not perform this efficiency function. Instead, it has the potential to increase congestion and does not offer managers the tools to set appropriate pricing at the local level. By lacking an exclusion mechanism and eliminating entrance

fees, the opt-out fee has switched the state parks from an excludable to a non-excludable public good. Individuals have little incentive to pay the opt-out fee since compliance is not monitored if non-payers attempt to enter state parks. Doug Monger, the Parks Division Administrator at the time of the introduction of the opt-out fee, believed that attendance would drastically increase. In his words, “currently, we serve about 1.6 million people per year... when state parks are free, we’re guessing that will double” (McKee, 2003). A large increase in attendance without exclusionary controls could result in congestion, turning what many consider a “pure” public good into a rivalrous, non-excludable good prone to overconsumption.

Equity

The opt-out fee partially advances equity. The system is designed in a way that low-income individuals can easily be free-riders and gain the benefits without paying the fee. However, regarding shifting the cost to high users, the fee acts more like a general tax and is relatively disconnected from the benefit.

Cost Shifted to High Users

User fees have great potential to promote equity because users pay most of the cost of the good (Stiglitz, 2000; Duff, 2004; Mikesell, 2007). Whereas the general taxation subsidizes the benefits of users with the resources of non-users, user fees place the cost burden on those who benefit the most. User fees also offer “close-complementarity” where there is a direct link between payment of a fee and the receipt of a government service (Mikesell, 2007). Under the day-use and passport system, payment of the user fee was made by those benefiting from the public good. The payment was

directly linked to the benefit and the cost was mostly borne by the beneficiary. The opt-out fee, instead, performs a quasi-tax function where the majority of car owners subsidizes the benefits of park users. Equity is harmed as cost is shifted away from the direct users and moved to the general population. While the utilization of vehicle taxes for state park funding was originally justified due to high maintenance costs of vehicle use on state parks roads, the link between the payment of the opt-out fee and the receipt of the benefit is weak (The State Park Futures Committee, 1990).

Minimal Low-Income User Impact

Equity concerns with the cost burden of user fees on low-income users should also be considered. Significant literature exists on the regressive nature of user fees (Duff, 2004) and the resulting participation reduction with high user fees ((More, 1999; Samnaliev, More, and Stevens, 2006; More and Stevens, 2000). The Department of Fish, Wildlife, and Parks (DFWP) considered user fee discounts for low-income participants but never implemented them (The State Park Futures Committee, 1990). Additionally, the State Park Futures II Committee (2002) described the license plate fee as more regressive than the proposed mill levy and cautioned that it could disproportionately impact low-income users negatively. However, the removal of entrance fees may actually reduce cost for low-income individuals. Previously, entrance into state parks required a standard payment, but under the opt-out fee, individuals can easily opt out of payment and continue to use the service as “free-riders.”

Collection Cost and Simplicity

Gains in efficiency and equity can be compromised by high administrative costs associated with complex systems (Weimer and Vining, 2005; Duff, 2004). The opt-out fee system is relatively inexpensive to administer and works to simplify certain components of state parks funding by working through existing fee mechanisms.

The opt-out fee uses an existing system, the vehicle registration process, to collect the revenue. The Department of Fish, Wildlife, and Parks (DFWP) developed the process with the Department of Justice, Motor Vehicles Division. While an “opt-in” fee would have been easier to administer, DFWP determined that adequate funding will not be generated through an opt-in fee (Montana State Legislature, 2004). Instead, fee waivers were developed and processed by DFWP for those individuals who opted out of payment. Administrative costs were low due to the lack of effort in enforcing noncompliance with the fee. Additionally, the opt-out fee eliminated entrance fees and solved the perennial problem of monitoring non-compliance with user-fee payment (The State Park Futures Committee, 1990; Montana State Parks, 1998).

Revenue Consequences

The opt-out fee replaced entrance fee revenue for Montana citizens and regular General Fund appropriations. Between fiscal years 2003 and 2004, the Parks Division saw a budget increase of 31.47 percent due to the opt-out fee. However, since 2005, opt-out fee revenues have remained flat. During that same time, expenditures have risen. Although the opt-out fee has raised significant revenue, the Parks Division is still in need of additional funding.

The revenue generating potential of a vehicle registration fee is obvious. Of the funding options proposed in the State Parks Futures II report, the vehicle license fee had the highest revenue potential (State Parks Futures II Committee, 2002). As a quasi-tax structure, a small increase shared by a larger population has the potential of raising significant additional revenue if necessary.

Conclusion and Recommendations

The Montana opt-out fee during vehicle registration is an innovative funding strategy with great potential of generating revenue for state parks. The Montana opt-out fee has certainly performed a revenue generation function for the Montana State Parks system. The removal of General Fund support, subject to political and other environmental factors, has created a more stable funding environment. The abolition of entrance fees for Montana residents has also reduced collection costs. During the year of implementation, the opt-out fee raised Parks Division revenue by 37.47 percent (Legislative Fiscal Division, 2009, 3). However, despite the revenue generated by the opt-out fee, the Montana State Parks program continues to have funding issues. While revenue has remained flat over the last few years, expenditures have continued to rise. The Montana opt-out fee has raised additional revenue for state parks but has not solved all funding problems of the state park system.

Particularly during a time when states across the country are facing fiscal crises and General Fund support for state parks' programs is being cut, funding solutions with the potential to generate large, independent streams of revenue for state parks systems are attractive. The opt-out vehicle registration fee should be considered as a funding

alternative for public recreation financing, but several questions regarding political feasibility, efficiency, equity, and payment of the voluntary fee remain unanswered.

Several states, such as Michigan, Arizona, California, and Washington have experimented with vehicle registration fees with varying levels of success. Thus far, only the State of Washington has succeeded in implementing a similar system – a “donation” program during vehicle registration. During vehicle registration, individuals are automatically signed up for a \$5 donation unless they fill out paperwork to opt-out of the gift (Washington State Parks and Recreation Commission, 2009). Initiatives in California and Michigan have not found traction in the political process; similar to the Montana experience, opt-out fees are seen as additional or hidden taxation. Particularly with the current, prevailing anti-tax sentiment, alternative funding sources, when perceived as additional taxation, are less politically feasible to adopt.

While significant research exists on the utilization of user fees in public recreation, there is little literature on the use of opt-out fees. There are several differences between user fees and opt-out fees. User fees provide a direct connection between the cost and benefit, and help to improve efficiency and equity concerns. In contrast, opt-out fees act as more of a broad, quasi-tax and do not satisfy the efficiency concerns of connecting users to the full cost of the benefit or providing information for price setting. Payment of the voluntary, opt-out fee is also perplexing. Standard economic assumptions suggest that a rational individual would opt-out of the fee. With the Montana opt-out fee, the system is non-exclusionary. Provided that an individual has Montana license plates, s/he can enter state parks without the verification of payment, and this creates a “free rider” problem. However, agency administrators and legislators

estimated that up to 50 percent of vehicle owners would pay the fee (Montana Legislature, 2004).

Behavioral economics concepts such as the “salience effect,” which describes the impacts of fee complexity and convenience, could provide some insight into why individuals opt to pay a voluntary fee for a non-excludable good. Congdon, Kling, and Mullainathan (2009) note that:

...human frailties – procrastinating filling out a form, or being put off by the tediousness or hassle of completing it, or failing to understand program rules – can lead qualifying individuals to forgo benefits (379).

If an opt-out fee is to be utilized as a major funding source for public recreation, thorough inquiry needs to be conducted to explore individual compliance with the voluntary fee. The revenue potential of an opt-out fee is tremendous, but more study is needed to determine if it is the most efficient and equitable method for generating revenue for public recreation.

References

- Anderson, Kristin H., and Freimund, Wayne A. (2004). Multiple Dimensions of Active Opposition to the Recreation Fee Demonstration Program. *Journal of Park and Recreation Administration*, 22 (2), 44-64.
- Bowker, J.M., Cordell, H.K., and Johnson, Cassandra Y. (1999). User Fees for Recreation Services on Public Lands: A National Assessment. *Journal of Park and Recreation Administration*, 17 (3), 1-14.
- Congdon, William J., Kling, Jeffrey R., and Mullainathan, Sendhil. (2009). Behavioral Economics and Tax Policy. *National Tax Journal*, 62 (3), 375-386.
- Duff, David G. (2004). Benefit Taxes and User Fees in Theory and Practice. *The University of Toronto Law Journal*, 54 (4), 391-447.
- Fix, Peter J. and Vaske, Jerry J. (2007). Visitor Evaluations of Recreation User Fees at Flaming Gorge National Recreation Area. *Journal of Leisure Research*, 39 (4), 611-622.
- Fretwell, Holly Lippke and Frost, Kimberly. (2006). State Parks' Progress Toward Self-Sufficiency. Property and Environmental Research Center. www.perc.org (accessed February 7, 2010).
- Gevock, Nick. (2004). "Drivers Confused Over Parks Fee Mix-up." *Bozeman Daily Chronicle*. January 11, 2004.
- Gibson, Jeff. (2004). "Monday Matters: Modern Survival Kit." *Montana Standard*. February 2, 2004.
- Gladwell, Nancy, Anderson, Denise M., and Sellers, James R. (2003). An Examination of Fiscal Trends in Public Parks and Recreation from 1986 to 2001: A Case Study of North Carolina. *Journal of Park and Recreation Administration*, 21 (1), 104-116.
- Kyle, Gerard T., Graefe, Alan R. and Absher, James D. (2002). Determining Appropriate Prices for Recreation on Public Lands. *Journal of Park and Recreation Administration*, 20 (2), 69-89.
- Legislative Audit Division, State of Montana. (2001). *Report to the Legislature, Performance Audit, State Parks Program*. Helena, MT: 2001.
- Legislative Fiscal Division. (2008). Profile of Department of Fish, Wildlife and Parks. Montana State Legislature. <http://leg.mt.gov/css/fiscal/default.asp>. (accessed January 16, 2010).

- Legislative Fiscal Division. (2009). Issues Impacting the Fiscal Health of the State Parks Program. Montana State Legislature. www.leg.mt.gov/css/fiscal (accessed January 17, 2010).
- McGee, Robert W. (1997). Taxation and Public Finance: A Philosophical and Ethical Approach. *Commentaries on the Law of Accounting and Finance*. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=461340 (accessed February 7, 2010).
- McKee, Jennifer. (2003). "New Law Allows Montana Residents Free Access to all 42 State Parks." *Billings Gazette*. February 12, 2003. <http://montanaforum.com/rednews/2003/12/02/build/parks/entrancefree.php?nnn=1> (accessed October 25, 2009).
- Mikesell, John L. (2007). Fiscal Administration: Analysis and Applications for the Public Sector. 7th ed. Belmont: Thomson Wadsworth.
- Montana State Legislature. (2003). Senate Bill 336. 58th Legislature.
- Montana State Legislature. (2004). Environmental Quality Council Agency Oversight Subcommittee. *Meeting Minutes and Exhibits*, Exhibit No. 21, March 4, 2004. http://leg.mt.gov/content/committees/interim/2003_2004/environmental_quality_council/subcommittees/agency_oversight/minutes/eqcao03092004_ex21.pdf (accessed October 26, 2009).
- Montana State Parks (1998). 2020 Vision for Montana State Parks. Montana Department of Fish, Wildlife and Parks, Parks Division. Helena, MT.
- More, Thomas A. (1999). A Functionalist Approach to User Fees. *Journal of Leisure Research*, 31 (3), 227-244.
- More, Thomas and Stevens, Thomas. (2000). Do User Fees Exclude Low-income People from Resource-based Recreation? *Journal of Leisure Research*, 32 (3), 341-357.
- Mowen, Andrew J., Kyle, Gerard T., Borrie, William T., and Graefe, Alan R. (2006). Public Response to Park and Recreation Funding and Cost-saving Strategies: The Role of Organizational Trust and Commitment. *Journal of Park and Recreation Administration*, 24 (3), 72-95.
- Nyaupane, Gyan P., Graefe, Alan R., and Burns, Robert C. (2009). The role of equity, trust and information on user fee acceptance in protected areas and other public lands: a structural model. *Journal of Sustainable Tourism*, 17 (4), 501-517.
- Richer, Jerrell Ross and Christensen, Neal A. (1999). Appropriate Fees for Wilderness Day Use: Pricing Decisions for Recreation on Public Land. *Journal of Leisure Research*, 31 (3), 269-280.

- Rosenthal, Donald H., Loomis, John B., and Peterson, George L. (1984). Pricing for Efficiency and Revenue in Public Recreation Areas. *Journal of Leisure Research*, 16 (3), 195-208.
- Samnaliev, Mihail, More, Thomas and Stevens, Thomas (2006). Financing Public Recreation Lands: Attitudes About Alternative Policies. *Journal of Park and Recreation Administration*, 24 (3), 24-49.
- State Parks Futures Committee II. (2002). Final Report and Recommendations. Helena, MT.
- Stiglitz, Joseph E. (2000). *Economics of the Public Sector*. 3rd ed. New York, NY: W.W. Norton & Company.
- The State Parks Futures Committee. (1990). The State Park System: Montana's Legacy – A New Growth Industry, A Report to Governor Stan Stephens and the 52nd Legislature. Helena, MT.
- Washington State Parks and Recreation Commission. (2009). License Renewal Donations. www.parks.wa.gov (accessed October 25, 2009).
- Weimer, David L. and Vining, Aidan R. (2005). *Policy Analysis: Concepts and Practice*. 4th ed. New Jersey: Pearson Prentice Hall.
- Williams, Daniel R, Vogt, Christine A. and Vitterso, Joar. (1999). Structural Equation Modeling of Users' Response to Wilderness Recreation Areas. *Journal of Leisure Research*, 31 (3), 245-268.
- Winter, Patricia L., Palucki, Laura J., and Burkhardt, Rachel L. (1999). Anticipated Responses to a Fee Program: The Key is Trust. *Journal of Leisure Research*, 31 (3), 207-226.