DOCKS & HARBORS BOARD

CONSUMER PRICE INDEX (CPI) JUSTIFICATION

The Enterprise Funds are operated and financed in a manner similar to private business. The intent of the governing body is to provide goods and services to the general public on a continuing basis and be financed or recovered primarily through user charges. Unlike other municipal taxes such as sales tax or property tax, the increase in revenue is organically tied to inflationary economics. Service fees which Docks & Harbors reply upon for its operational budget is disadvantaged if these fees are not periodically adjusted.

CBJ Docks & Harbors Board has established a rate setting policy which meets the following criteria:

1. *It must be fair and reasonable*
2. *It must be consistent*
3. *It must be supported by data and an explanation of how the data justifies the rate*
4. *It must be sufficient to support the operations of docks and harbors*
5. *It must replenish capital investments*
6. *It must build reserves for contingencies and future growth*
7. *Where currently significant disparity exists between the cost allocation to user groups these need to be adjust in a fair and appropriate manner*

A discussion of how these criteria's have been applied to the proposed CPI adjustments are provided below.

Criteria 1 – It must be fair and reasonable

Is it reasonable?

Over time the cost of labor and materials changes, usually up, sometimes down. The best measure we have in Juneau of those changes is the Department of Labor Consumer Price Index for Urban Alaska (CPI). Applying the CPI keeps the rate reasonably in sync with the general cost of living. This is reasonable.

Is it fair?

In recent years a CPI adjustment has been applied to some rates and not to others. Applying the CPI to all rates is fair. Applying a "catch up" rate to rates not adjusted in many years is also fair, particularly to those who have had their rate revised and adjusted by the CPI in recent years. It is proposed that the "catch up" period be no more than 10 years and that it not exceed 5% in any one year. This is also fair.

Criteria 2 – Is it consistent

By applying an annual CPI adjustment to all rates which are based on an underlying cost which is subject to the change in the cost of goods and services we are consistent in applying rate changes to all user groups.

Criteria 3 – Is it supported by data and an explanation of how the date justifies the rates?

The CPI is supported by extensive data gathered by the U.S. Bureau of Labor Statistics and is generally recognized as the best available measure of the underlying change in the cost of goods and services.

Criteria 4 - Is it sufficient to support the operations of docks and harbors?

Currently this question does not have a clear answer. For those rates which have not been reassessed for a decade or more just applying the CPI evenly and applying a "catch up" factor as well, a further rate adjustment

may be necessary. Docks & Harbors is in the process of retaining the services of a qualified firm to help in determining whether the base rate to which the CPI is being applied is appropriate or whether additional rate changes should be considered. The application of the CPI where it has not been applied historically is an interim measure until we have better data.

Criteria 5 - Is it sufficient to replace capital investment?

As in the previous question Docks & Harbors will be better able to answer this question once the rate study has been completed.

Criteria 6 – Will it build reserves for contingencies and future growth?

As in question 4, Docks & Harbors will be better able to answer this question once the rate study has been completed.

Criteria 7 – Does it address disparities between user groups in a fair and appropriate manner?

As in question 4, Docks & Harbors will be better able to answer this question and determine the best approach to setting a rate if a large increase is indicated once the rate study has been completed.

Approved by Docks & Harbor Board
January 27th, 2022