



CBJ Docks & Harbors - Rate Setting Policy

Introduction

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. The acquisition and improvement of the facilities have been financed from existing cash resources, issuance of revenue and general obligation bonds, and state and federal grant funds.

Harbors Enterprise – To account for operations, maintenance and capital improvement to the four City-owned boat harbors and numerous launch ramps.

Dock Enterprise – To account for operations, maintenance and capital improvements of the city-owned facilities, which are heavily used by over 500 cruise ships during the summer months.

Background

Over the last few decades, the D&H board has set and adjusted rates on an individual basis as the need arose for additional revenue or where significant changes in the quality of facilities or services suggested that a rate revision would be justified. As a result, some rates have not changed since 2005 while other have been adjusted multiple times as recently as this year. Starting in 2005, the board added a CPI adjustment to some rates and left some untouched.

While generally these rate adjustments were discussed in multiple public meetings, distributed via various media channels, and often presented at public comment opportunities, the impression remains with too many users of D&H facilities that the rate setting process is opaque and not justified by the underlying cost and services.

It is the intent of the CBJ Docks & Harbors Board to establish 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 replace 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

Approach

Components

In general, there are several components which must be considered when setting a rate:

1. Recovery of operational costs
2. Recovery of capital investment
3. Build a reserve for contingencies and to build new capital for future growth
4. Equity adjustment
5. Sticker shock

Rate Adjustment

After a rate has been set there should be consistency and predictability going forward. The proposed policy would be to apply the CPI adjustment annually on all rates and to set a review schedule for each rate based on issues such as the changes in the underlying cost structure as well as user demand and changes in the use of facilities or services. The underlying rate should be reviewed at least every five years and in order to provide stability for the user community not more often than every three years. The board will always have the discretion to deal with exceptional circumstances such as the 2020 COVID impact on cruise ship revenues.

Discussion

Rates must be fair and reasonable

Fair and reasonable is primarily a subjective issue of perception. However, by implementing a defined and consistent approach and striving to allocate an equitable share of the cost to every user the D&H board strives to be fair to all users.

Rates must be consistent

By establishing this rate setting policy we will have a consistent approach to every rate and rate change. This will give commercial users the ability to plan for future years. Normally CPI changes will be applied starting April 1st and base rate changes either January 1st or July 1st as determined by the Board. Other starting dates may be established by the Board at its discretion.

Rates must be supported by data and an explanation of how the data justifies the rate

Meeting this component of the policy will present a significant challenge to the Board as well as D&H staff. In order to create a starting point and baseline for the underlying components of each rate the Finance Sub-committee is recommending that a professional consultant firm be retained to perform a rate study

Rates must be sufficient to support the operations of docks and harbors

This item will also present a challenge for staff as in most harbors both the facility as well as the staff support multiple user groups each of which can have their own rate structure.

Rates must replace capital investments

This item can normally be clearly defined for each facility. Policies will need to be established in consultation with the CBJ Finance director for facilities where funds from multiple sources were used. The rate study is expected to provide guidelines determining remaining useful life and repayment schedules.

Rates must build reserves for contingencies and future growth

Setting a target for building reserves will be largely a board decision but the basis and need for additional reserves must be clearly defined.

Where currently significant disparity exists between the cost allocation to user groups these need to be adjusted in a fair and appropriate manner

In some cases where rates have not been adjusted in many years a large increase may be indicated. This should be recovered over a reasonable number of years.

Approved: _____ signed _____

Don Etheridge
Board Chair

Attest:



Carl Uchytel
Port Director