

# Setting Sustainable Harbor Rates

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*Presentation to*

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The Alaska Association of Harbormasters and  
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# Agenda

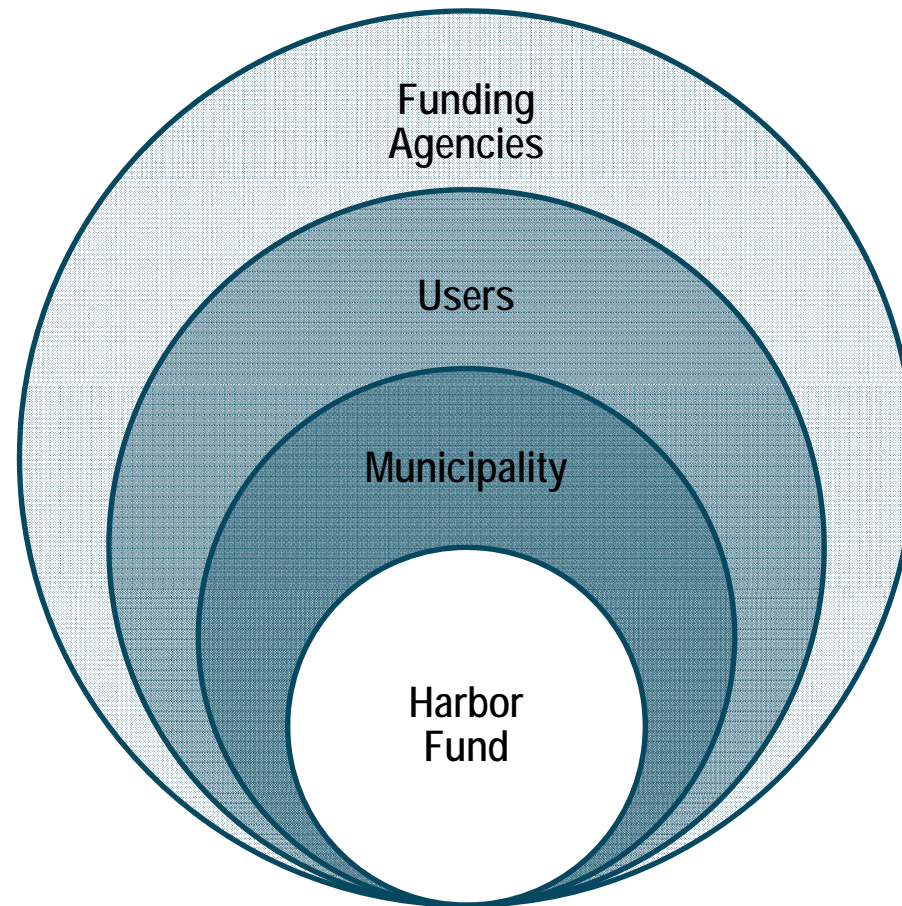
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- Why does sustainability matter?
- How can we determine what's sustainable?
- Biting the bullet: setting the rates you need

# Why does sustainability matter?

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- Think about stakeholders as layers of an onion...



# Sustainability and the Harbor Fund

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## ■ Why does the harbor department exist?

- Provide a public service
- Maintain that service (ongoing, not a one-time event)
- Plan for future needs
- Manage day-to-day and long-term operations
- Operate in the best interest of stakeholders
- Anything else?

***“Harbor management is extremely useful as a form of employment for harbormasters.”***

*--Mike Fisher,  
with apologies  
to J. K. Galbraith*

## ■ How does sustainability fit into each?

# Sustainability and the Municipality

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## ■ Why does the Municipality care about the harbor?

- Access to marine transportation and recreation
- Maximize the benefit of public resources
- Effective use of public resources
- Harbor-related economic activities
- Long-term return on investment in public assets
- Burden of getting large projects off the ground

## ■ How does sustainability fit into each?

# Sustainability and Users

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## ■ What do users want from their harbor?

- Have a safe and functional place to moor their vessel
- Address their needs (commercial, recreational)
- Understandable rate structure
- No surprises (steady rates versus change with each project)
- Equitable (Why should I pay more now to cover construction of a new harbor I'll never use?)

## ■ How does sustainability fit into each?

# Sustainability and Funding Agencies

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## ■ What do funding agencies expect from the harbors they fund?

- Long-term operation and existence
- New facility operates without needing more money
- Some return on investment
  - ◆ Job creation or retention in the region
  - ◆ Economic benefits to the region
  - ◆ Benefits to the harbor users, etc.

## ■ How does sustainability fit into each? (hint: you have to show sustainability if you want funding)

# How can we determine what's sustainable?

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- There are many ways to talk about sustainability
- Categories:
  - Environmental
  - Economic
  - Social
- We're focused on *economic* sustainability, specifically *financial* sustainability.



# Defining Financial Sustainability

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- Covering all costs, both in the present and future
- Costs in the present
  - Operations
  - Regular maintenance
  - Debt service
- Costs in the future
  - Major repairs and replacement
  - Expansion



# How to Determine Financial Sustainability

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## ■ Three steps

- Analyze harbor operations
- Determine the true cost of the harbor
- Develop rates to cover the cost of operations



# Analyzing Harbor Operations

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- What activities take place in your harbor?
- What are the drivers of cost for your harbor?
- What trends do you see in activity levels?



# Determine the True Cost of the Harbor

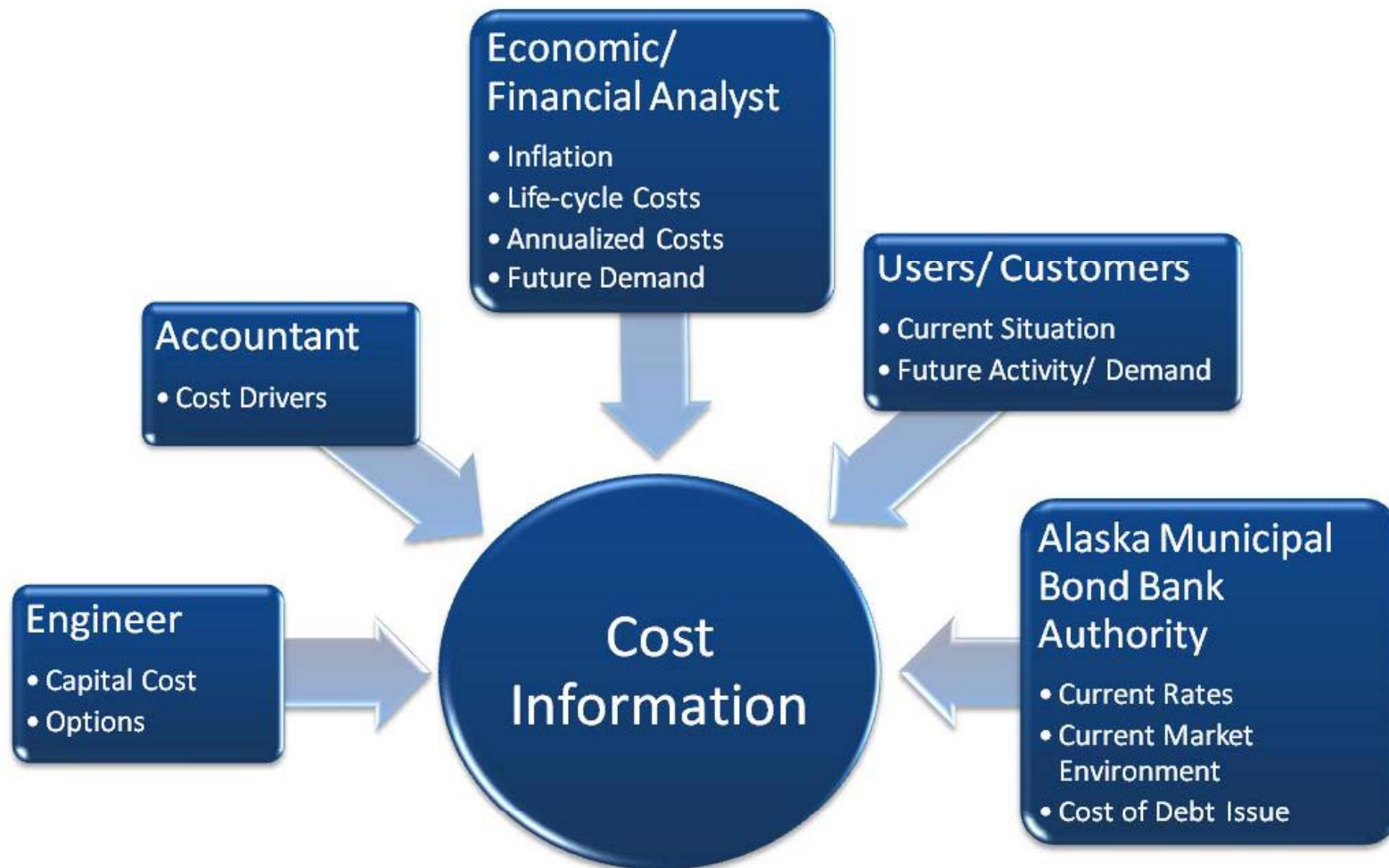
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- Goal: find the annual cost of operations
- Consider present and future costs
- Major cost categories
  - Capital
    - ◆ Harbor infrastructure
    - ◆ Large assets
    - ◆ Don't forget depreciation!
  - Operations
    - ◆ Harbor staff
    - ◆ Materials and equipment
  - Maintenance
    - ◆ Regular
    - ◆ Major, planned
  - Debt service
    - ◆ Current improvements
    - ◆ Future improvements (maintenance and expansion)



# Sources of Cost and Related Information

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# Develop Rates to Cover the Cost of Operations

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- **Two steps (though not necessarily simple)**
  - What is the cost of each activity?
  - What rate needs to be charged to cover the cost of each activity?
- **Challenges**
  - Fixed versus variable costs
  - Different costs based on level of activity
  - Different user types, revenues, and costs
  - Bundled/included costs
- **Across-the-board versus activity-specific changes**

# Biting the Bullet: Setting the rates you need

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- That was the easy part... now you have to set rates!
- Each stakeholder has different needs, motivations
- Challenges you may encounter
  - Large rate increases
  - Catching up from years of being behind
  - Pressure from funding agencies (demonstrating that you have a plan)



# Policy Issues

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## ■ I need big increases... now what?

- Set up a payment plan
  - ◆ Series of moderate increases
  - ◆ Small, gradual increases over time
- Municipal support based on the harbor's contributions
  - ◆ Economic activity
  - ◆ Sales, bed, and property taxes
  - ◆ Fisheries-related taxes
  - ◆ Past and present contributions to the Municipal General Fund





# You're Not Out of the Woods Yet: Inflation

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## ■ Rates need to change over time

### ■ Payroll

- ◆ Wages and salaries
- ◆ Benefits
- ◆ Changes in the number and type of employees

### ■ Materials and equipment

- ◆ Office materials
- ◆ Maintenance materials
- ◆ Transportation costs
- ◆ Equipment leases and purchases

### ■ Utilities

- ◆ Electricity rates (fuel price dependent?)
- ◆ Other utilities (water, sewer, communication, etc.)

# How to Deal with Inflation

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## ■ Questions to ask

- How do you decide how much to change rates?
- What is the process you use to change rates?
- Who has the power to authorize rate changes?

## ■ Best practices

- Establish the expectation of regular rate changes
- Set up an index for automatic increases
- Develop a process to streamline authorization of changes
- Make changes on a regular basis (not all at once)

# Why Go Through All of This?

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- Operate with a profit (or at least break even)
- Have money set aside for future needs (short term and long term)
- Contribute to public resources
- Provide suitable facilities for users
- Provide safe facilities for users
- Gain access to good funding sources if needed in the future (new facilities, changing costs, changing regulations)

# Questions/Comments?

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