

Rate Setting Survey of AAHPA 2011 Conference Attendees

A White Paper by Mike Fisher, Northern Economics

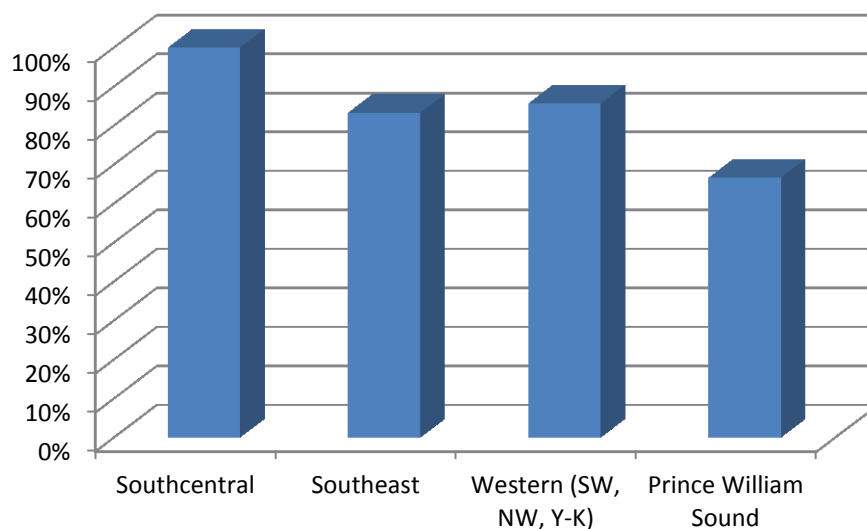
Following my presentation at the October 2011 conference of the Alaska Association of Harbormasters and Port Administrators, I distributed a survey to attendees asking about rate setting practices. This brief white paper presents the results of the survey and a few discussion points.

In line with the Alaska Regional Ports study completed in early 2011, I have divided responses into four regions: Southcentral, Southeast, Western, and Prince William Sound. I combined responses from the Southwest, Northwest, and Yukon-Kuskokwim regions to ensure that each region presented has at least three responses.

My hope is that the survey results will be interesting and informative. Please note that this was not a statistically significant survey, nor is it a census of all ports and harbors.

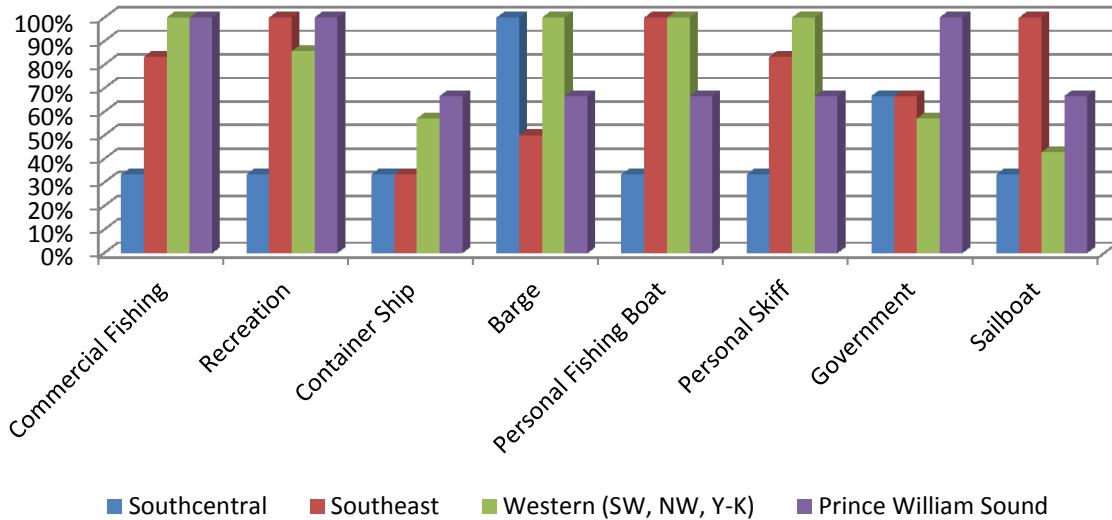
Do you have a published rate sheet or tariff available on the internet?

Most ports and harbors reported having a published tariff or rate sheet available online.



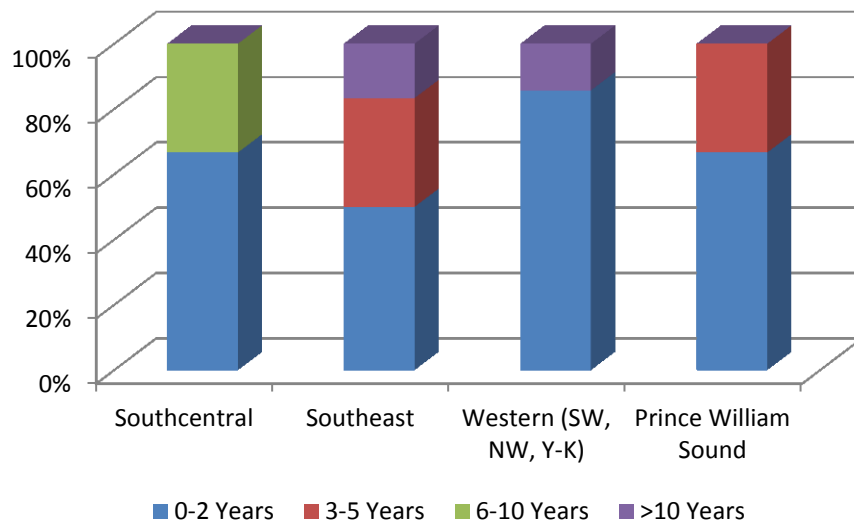
What types of vessels use your port or harbor?

Each port and harbor serves a different set of users. Within each region, communities serve commercial fishing vessels, recreational craft, container ships, barges, personal fishing boats, personal skiffs, government vessels, and sailboats. Other vessel types mentioned by survey respondents include bulk carriers (both liquid and dry bulk), charter fishing vessels and water taxis, cruise ships, AMHS ferries, landing craft, and dredgers.



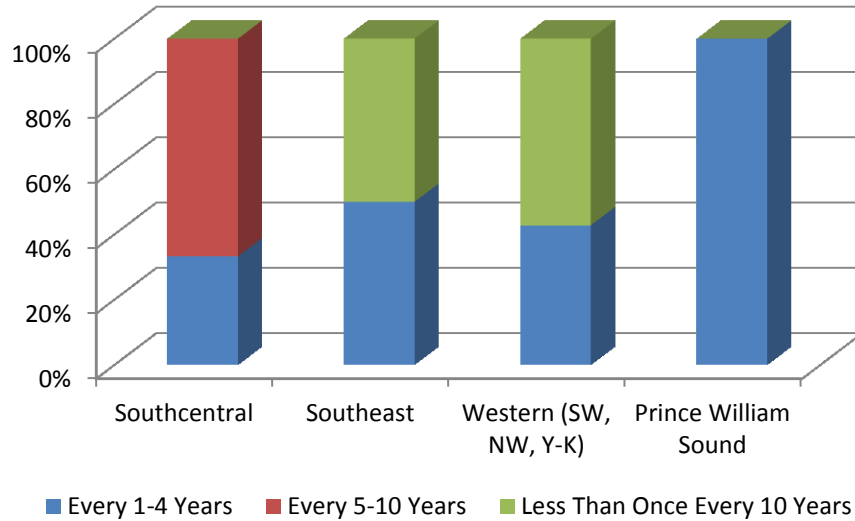
When was your most recent update to your rate sheet or tariff?

Responses to this question varied from annually to never. Western ports and harbors were most likely to have updated their rates within the last one to two years, and the majority of rates across all regions were updated within the last five years.



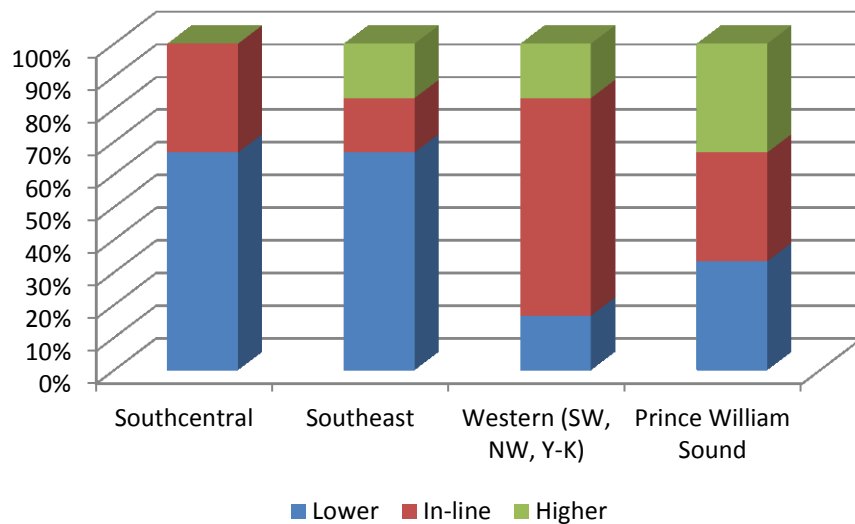
How frequently do you update your rate sheet or tariff?

While the question shown above asked about the most recent update, this question asked about the frequency of updates. More than one-half of Southeast and Western respondents reported rate increases occurring less frequently than once per decade.



How do you feel your rates compare with other facilities in your region?

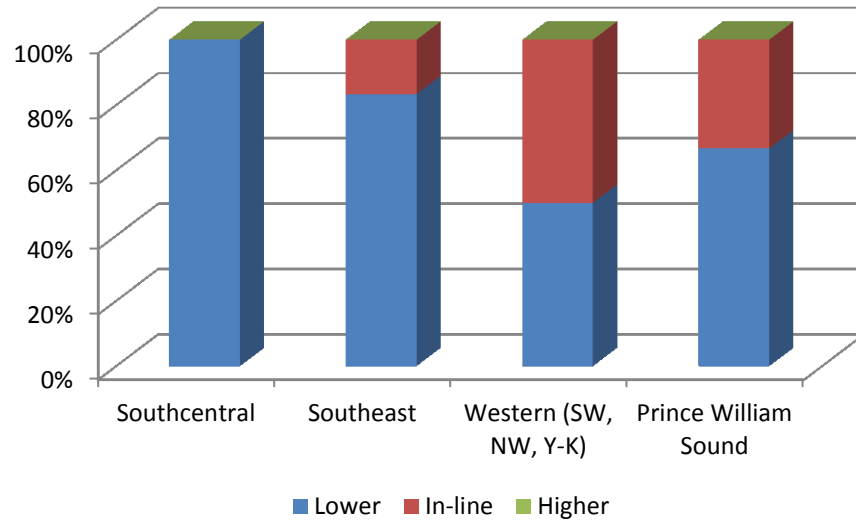
Responses to this question varied. Of those ports and harbors responding to the survey, most Southcentral and Southeast respondents indicated that their rates were lower than others in their region. Most Western respondents suggested that rates were in-line with other facilities in the region. Respondents in the Prince William Sound region were split evenly among lower, in-line, and higher.



How do you feel your rates compare with the cost of operating and maintaining your facilities?

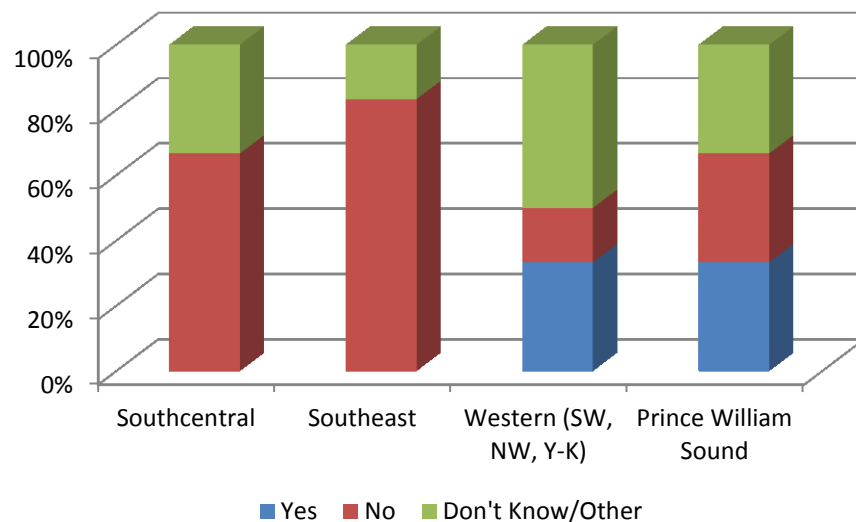
All respondents felt that that rates were in line with or lower than their costs. Given that all responses were from public facility operators, it makes sense that no one felt their rates exceed their costs since public entities usually don't have a profit motive. What is interesting, though not surprising, is that the majority of

responses indicate that rates are lower than needed to cover costs. We have seen this consistent theme in our work; many communities have rates that are too low to cover the full costs of their port and harbor facilities. This is not always a negative situation, however, since many communities choose to offer lower rates at marine facilities due to the profound social and economic impacts the facilities have on their communities.



Do your rates include the cost of depreciation?

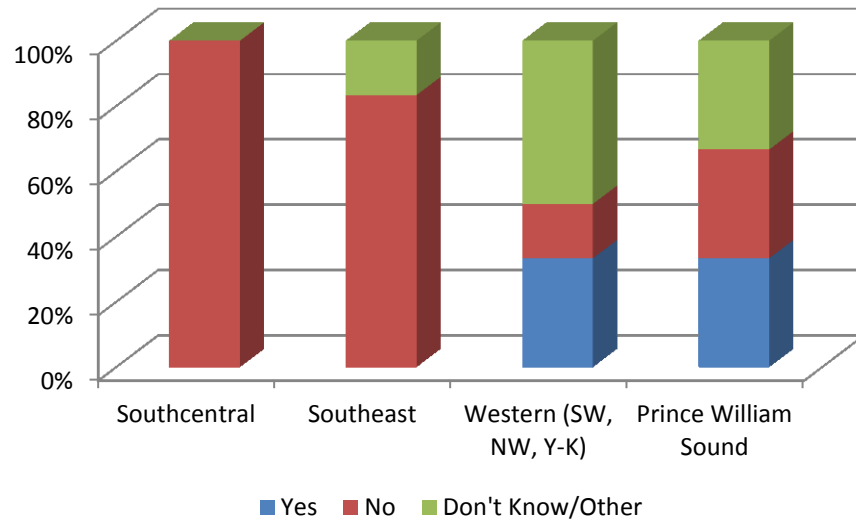
The majority of respondents do not include the cost of depreciation in their rates. However, a few of the Western and Prince William Sound communities indicated that they include do depreciation in their rate calculations. The rates do not necessarily include the full depreciation amount, but it is considered in the rate-setting decision¹.



¹ Including depreciation in rates is different than including depreciation in your financial statements. GASB Statement 34 requires municipalities to recognize depreciation in their financial statements.

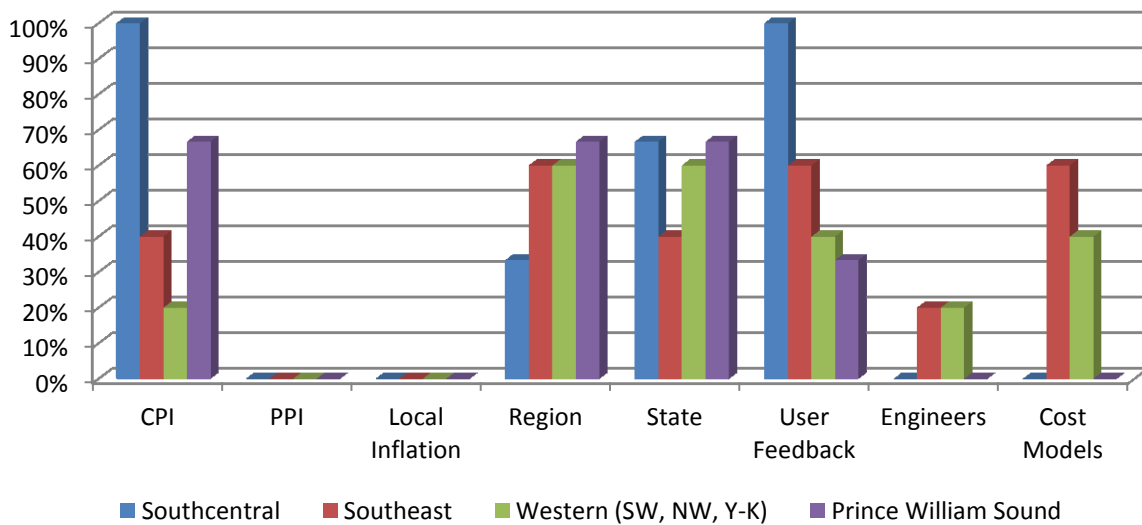
Do your rates include the cost of replacement?

Replacement cost is usually excluded from rates as well, and is left out more frequently than depreciation. A major reason for this omission is that replacement costs exceed depreciation costs; depreciation is based on the original cost of a facility, whereas the replacement cost is much higher due to construction cost inflation over a facility’s 20–30-year life. Many communities also choose not to include replacement costs because the facilities are constructed with borrowed money (municipal bonds, loans from state and federal agencies, etc.) or grants and the intent is to continue to borrow for facility replacement in the future.



What factors do you consider when making changes to your rates?

Respondents indicated the use of a wide variety of factors in determining rates. Notably absent from the responses are the use of a Producer Price Index (PPI) or a local inflation measure. I anticipate an increasing use of a PPI over time due to the development of port and harbor-specific indices for operations. Engineers and other consultants use construction-related PPIs to estimate replacement costs, so PPI use by ports and harbors may be indirect rather than explicit.



Other Comments and Discussion

Respondents raised a number of additional issues in written responses, including:

- Depreciation is becoming a big issue, especially for communities in the process of receiving ownership of their harbors from the Alaska Department of Transportation and Public Facilities.
- Rates are often increased during the application process for a Municipal Harbor Facility Grant from the State of Alaska, as a way to show sustainability and commitment.
- Rate setting efforts can be difficult in communities with a lot of turnover in harbor staff, city staff, and elected officials. Rate increases are also hard to adopt in communities where users are accustomed to artificially low rates.
- Some harbors are working to educate their users to explain how rate increases support maintenance and development of harbor facilities. When users have understood the need for rate increases, they have been supportive of them.