

Harbor Rate Setting and Broader Community Impacts

Should Communities Contribute to Harbor Funding, and How Much?

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2024 AAHPA Winter Admin Conference

February 27, 2024



Introduction

- Most harbors need to replace aging infrastructure to maintain operations
- How should the cost of maintaining harbors be allocated between users and the general public?

User Fees	Beneficiary Pays
“User fees can be designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users above and beyond what is normally provided to the public. By charging the costs of programs or activities to identifiable beneficiaries, user fees can promote economic efficiency and equity just as prices for private goods and services can do in a free and competitive private market.”	“the extent to which a program benefits users or the general public is not usually clear cut. This is known as the beneficiary-pays principle. Under this principle, if a program primarily benefits the general public (e.g., national defense), it should be supported by general revenue, not user fees”

Source: Quoted from United States Government Accountability Office. 2008. *GAO-08-386SP Federal User Fees: A Design Guide*. <https://www.gao.gov/assets/gao-08-386sp.pdf>. Accessed January 19, 2024.

Agenda

- Steps to Allocate Funding Between General Funds and User Fees
- Pros and Cons of User Fees vs General Public Funding
- Estimating Public Benefits
- Data Needs
- Mike's Considerations for Determining the User/Public Mix
- Q&A and Discussion
- Appendix: Considerations for Each Stage

Steps to Allocate Funding Between General Funds and User Fees

Source Referenced in the Presentation

GAO

United States Government Accountability Office
Report to Congressional Requesters

May 2008

FEDERAL USER FEES

A Design Guide



GAO-08-386SP

- A lot of content in this presentation is based on the United States Government Accountability Office's GAO-08-386SP Federal User Fees: A Design Guide, published in 2008.
- The slides primarily contain summaries or interpretations of the report, rather than direct quotes. (The source is repeated at the bottom of the page where it is quoted verbatim.)
- You can access the document at <https://www.gao.gov/assets/gao-08-386sp.pdf>

Ten Steps for Allocating Costs

- 1. Identify the Beneficiaries:** The first step is understanding who benefits from the facility. Is it solely for a specific group of identifiable users, or does it benefit the general public as well? This helps in determining the funding.
- 2. Evaluate the Benefits:** If it's found that the facility benefits both a certain group and the public, assess what proportion of the benefit is specific to the users and what proportion benefits the general public.
- 3. Use the Beneficiary-Pays Principle:** If the facility mostly benefits the general public, it should majorly be funded by general revenues. If the facility largely benefits a certain group of users, it should primarily be funded by user fees.
- 4. Consider Ability to Pay:** If user fees are deemed appropriate, consider factors such as income levels and ability to pay of the specific user group. This could influence decisions about whether to vary fees based on income, or potentially create exemptions for certain groups.
- 5. Define the Program Costs:** Ascertain the total cost of the program or service to be provided.
- 6. Assign Costs to Users:** Decide how the costs will be proportionally shared among users, using the beneficiary-pays principle. For example, each user could be charged a fee that matches the cost of the services they benefit from.
- 7. Adjust Over Time:** Regularly review the costs and assigned user fees to ensure they still align with the benefits provided and continue to cover the intended portion of program costs. This will account for factors like inflation or changes in operating expenses.
- 8. Set up a Maintenance of Effort Requirement:** If fees are being used to supplement funding from general revenues, ensure existing sources of funding remain stable.
- 9. Transparency:** Clearly communicate to users about how and why fees are being charged to promote understanding and acceptance of the fee.
- 10. Constant Evaluation:** Regularly review the fee structure, taking into consideration aspects such as economic efficiency, equity, revenue adequacy, and the administrative burden of the fee. Adjust as necessary to maintain balance between all these aspects. Make sure fee collection doesn't result in unintended consequences like capital losses or operational inefficiencies.

Questions to Consider in Each Stage

Setting User Fees

1

- Who benefits from the program?
- What mechanisms help ensure the fee will cover the intended share of costs over time?
- How should program costs be determined and assigned?
 - How much does the program cost?
 - How should program costs be divided among users?

Collecting User Fees

2

- At what point should the fees be collected?
- Can leveraging existing collection or compliance systems decrease administrative costs?

Reviewing User Fees

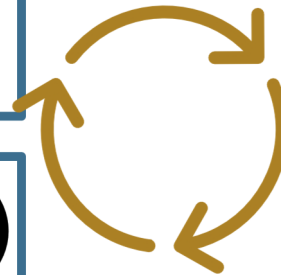
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- How is the fee updated?
- How often is the fee reviewed and what information is included in the review?
- What role do stakeholders play in the fee reviews?

Using User Fees

3

- To what extent is agency access to fee collections limited?
- To what extent are the activities for which the agency may use fee collections limited?



Source: Quoted from United States Government Accountability Office. 2008. *GAO-08-386SP Federal User Fees: A Design Guide*. <https://www.gao.gov/assets/qao-08-386sp.pdf>. Accessed January 19, 2024.

Pros and Cons of User Fees vs General Public Funding

Pros and Cons of Using General Funds

Pros

- **Shared Burden:** The cost of harbor operations is shared among all taxpayers, irrespective of direct use, since presumably many taxpayers benefit.
- **Accessible Services:** Harbor services would be more accessible to all members of the public to the extent that user fees are reduced.
- **Stability in Revenue:** Harbor operations funded through general funds tend to have more predictable and stable funding which may facilitate long-term planning.
- **Minimal Administrative Costs:** There are usually lower administration costs associated with collecting taxes (typical source for general funds) as opposed to maintaining a user fee infrastructure.

Cons

- **Lack of Efficiency:** As users are not directly charged for using the harbor, they might use it inefficiently or excessively without considering the actual costs involved in maintaining it.
- **Inequity:** General fund financing may be seen as less equitable as the burden of cost is put on all taxpayers, including those who never use the harbor services.
- **Insufficient Funding:** Harbors could face budget shortages if other services are prioritized in the allocation of the general funds. Likewise, use of funds for the harbor could take away from other public uses.
- **Diminished Accountability:** The direct link between service usage and service cost is generally less transparent when funded through general funds, possibly reducing accountability and the incentive to reduce operating costs.

Pros and Cons of Using User Fees

Pros

- **User-based Revenue:** The users who benefit directly from the harbor facilities bear the cost, ensuring that those who do not use the services are not obliged to pay.
- **Efficiency:** By linking payment to usage, user fees might promote more efficient and judicious use of harbor services by discouraging overuse.
- **Increases Revenue:** User fees can provide an additional source of revenue, which may help in budget planning and in carrying out necessary maintenance and upgrade works.
- **Greater Accountability:** Charging directly for the harbor services can increase the accountability of the service provider. Users paying fees may demand better service, which can result in improved efficiency and management of harbor operations.

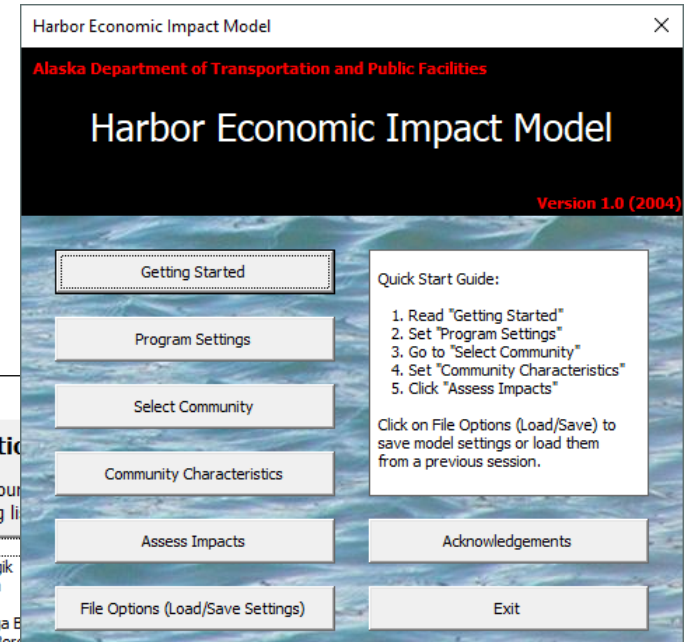
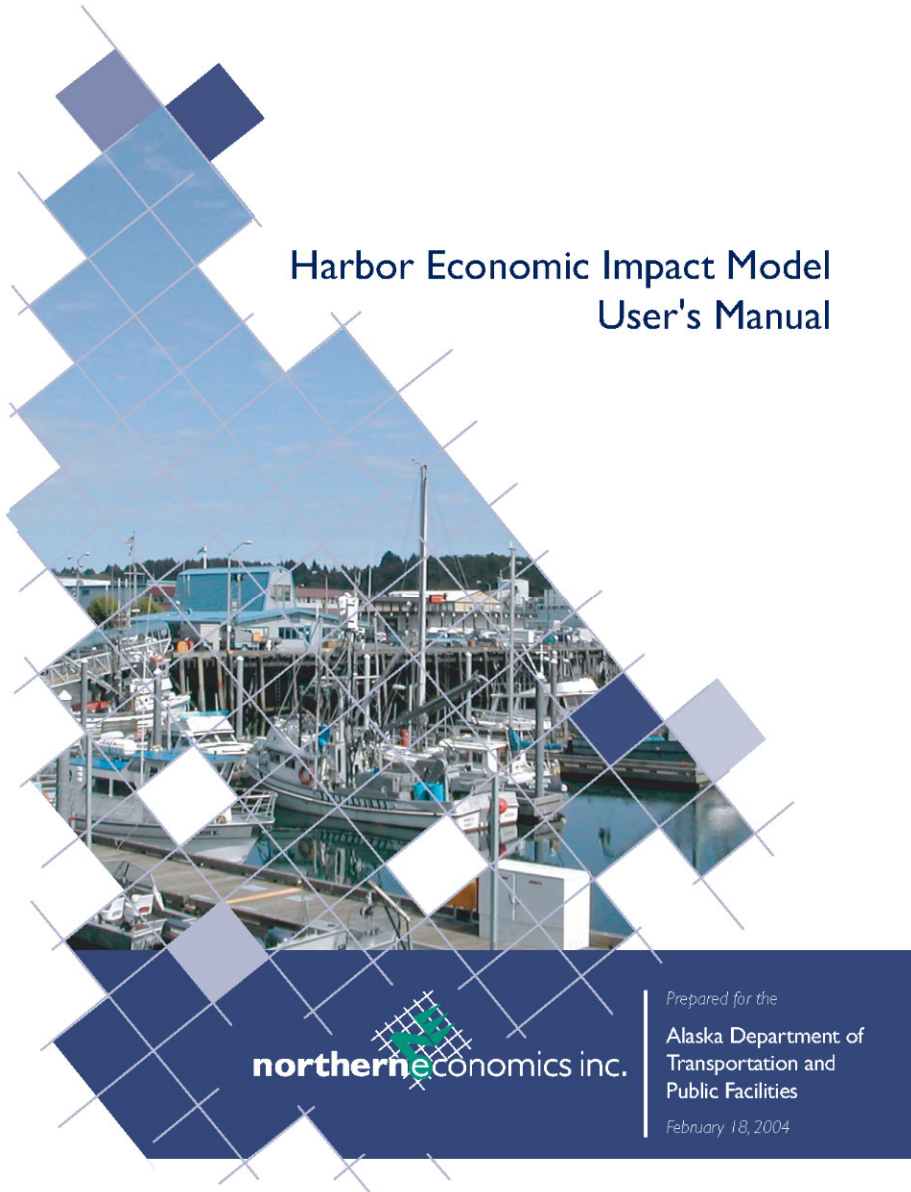
Cons

- **Equity Concerns:** User fees might create access barriers for smaller businesses or individuals that can't afford high fees.
- **Administrative Costs:** Collecting user fees can require a comprehensive administrative system, leading to increased operating costs.
- **Reliability of Revenue:** Depending on user demand, the revenue from fees might be volatile and make it harder to predict future funds for budgeting purposes.
- **Difficulty in Fee Calculation:** Determining the appropriate fee level could be complex and contentious, especially where the benefits gained aren't exclusively private but also provide broader societal benefits.

Estimating Public Benefits

Harbor Economic Impact Model (2004)

Harbor Economic Impact Model User's Manual



Community Selection

Please specify the community in which this harbor is located by selecting a community name below. This information is used to set up default tax rates and other characteristics for your community, and is also used to determine the harbor's impacts to your borough and the entire state.

If your community is not listed, please select the borough in which it is located or the nearest community of similar size. Please report missing communities to ADOT&PF.

Select your community from the following list:

- Adak
- Aleknagik
- Angoon
- Bethel
- Chenega Bay
- City & Borough of Anchorage
- City & Borough of Sitka
- City & Borough of Yakutat
- Coffman Cove
- Cold Bay
- Cordova
- Craig
- Dillingham
- Edna Bay
- Elfin Cove
- Gustavus
- Haines

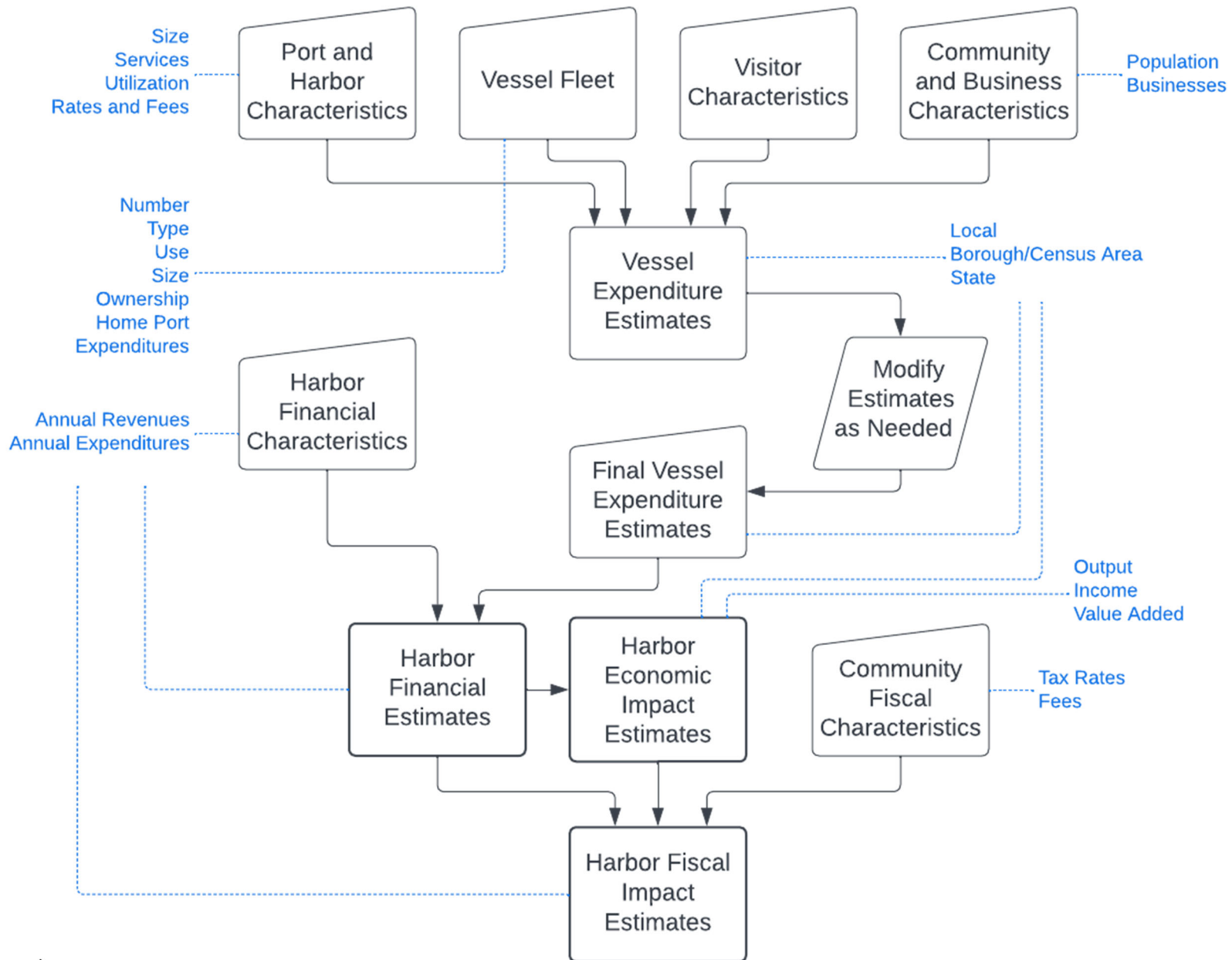
Select Community

Item	Unit	Annual Collections
Utilities not included in moorage		
Water & Sewer		5000
Electricity		75000
Other		135000
Equipment rentals		
Equipment other than boats lifts		90000
Travel lift		75000
Property Tax: Local		
Vessel and other gear		125000
Commercial property leasing <i>(includes buildings and land, but excludes storage, gear, and vessels previously listed)</i>		
		750000
Fuel for resale (fee)		
		0
Other		
		75000

Note: In this step and subsequent steps, if an item does not apply to your harbor, enter a 0 instead of leaving it blank.

Back Next

Generalized Process



Data Needs by Category

User Surveys for Vessel Spending

- Type of moorage
- Trips to harbor each year for transients
- Trips out of harbor each year for permanent
- Per-stay expenses (e.g., lodging, groceries)
- Per-trip expenses (e.g., fuel)
- Ongoing expenses (e.g., maintenance, supplies)
- Their customers' spending (e.g., lodging, meals, party size, etc. for sightseeing cruisers)

Port/Harbor

- Moorage space, utilization, and rates
- Storage space, utilization, and rates
- Harbor employment and salary/wage information
- Services available, utilization, and rates
- Revenues by source (e.g., moorage, storage, lifts/cranes)

Community

- Local government revenues
- Local business establishments
- Construction costs

Mike's Considerations for Determining the User/Public Mix

Direct Economic Benefits

- These benefits are directly identifiable
 - Example: shared fish taxes received by the community from the state, based on landings in the borough or city
- The money is probably already being spent
 - Diverting (additional) funds to harbor facilities could mean cuts to something else in the community
 - Sudden changes to general funding could have a larger impact
 - Think about how to grow the pie; can harbor improvements bring additional economic activity to the community?
- There may be costs associated with the revenues
 - Fish processing activities tied to harvests could result in additional wear and tear on generally funded public infrastructure like roads and services like public safety

Indirect and Induced Benefits

- These benefits are not directly identifiable
 - Example: Sales tax generated by additional economic activity
 - Example: Household spending from employees affected by economic activity
- These economic impacts are predicted by models
 - While the models are based on real data and historical patterns, the impacts are still estimates
 - IMPLAN works at the borough/census area level
 - Think in orders of magnitude, not exact numbers

Mix of Permanent/Transient and Local/Non-local Users

- To what extent are you allowed to treat them differently?
- To what extent should you treat them differently, and how?

Thank You!

Q&A and Discussion

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Appendix: Considerations for Each Stage

Considerations When Setting User Fees

- **Determine who primarily benefits from a program:** If a program mainly benefits the general public, it should be funded by general revenue, but if it primarily benefits specific users, it should be funded by fees. If it benefits both, it should be partly funded by both.
- **Implement the beneficiary-pays principle:** Users who benefit from a service should cover its costs. This helps maintain equity and economic efficiency.
- **Calculate the cost of the program:** This involves identifying all direct and indirect costs, taking into account future program costs, checking whether fees are to cover average or marginal costs, and maintaining reliable and detailed cost accounting processes and procedures.
- **Allocate costs across users:** One can consider a user-specific fee or a system-wide fee depending on factors such as policy goals, cost variation among users, and the size of the fee. The approach can affect equity and efficiency.
- **Consider exemptions, waivers, and caps:** These provisions can promote certain policy goals and can affect how program costs are shared among users. However, they may also increase cross-subsidies between users and raise equity and efficiency concerns.
- **Regularly review fee arrangements:** Regular updates of the fee are necessary to ensure that it remains aligned with program costs over time.
- **Assess the transparency and equity of fee allocations:** Fee arrangements should be transparent and understood by users. They should also ensure equity in that those who bear the burden of the fee are those who benefit from the program.
- **Consider limits and restrictions:** Abrupt changes or increases in user fees could have unintended consequences, such as surges in service requests made in anticipation of fee increases or decreases in the value of privately owned assets.
- **Evaluate exemptions and subsidies:** Exemptions can promote equity by considering users' ability to pay, but they may also result in certain users cross-subsidizing others. The benefits of exemptions should be balanced against their administrative costs, inefficiencies, or equity concerns.

Considerations When Collecting User Fees

- **Determining the point of collection:** Fees can be collected before the service is provided, at the point of the service, or after the service is provided. The preferred method should strike a balance between ensuring compliance and reducing administrative costs.
- **Leveraging existing collections or compliance systems:** To decrease administrative costs, it can be beneficial to coordinate the fee collection or audit function with a third party. Also, when multiple user fees are assessed to a same entity, one agency could collect on behalf of others.
- **Considering prepayment systems:** Using prepayment systems can reduce administrative tasks and costs for both the agency and the payer, making the fee collection process more efficient.
- **Consolidating similar program fees:** If multiple federal agencies administer similar programs, consolidating fee collection may lead to lowered administrative costs and increased efficiency.
- **Establishing compliance systems:** These can involve audits to monitor and enforce compliance with fee remittance requirements. Other tools like bond requirements and rewards and penalties can also promote compliance.
- **Reviewing the full cost of the program:** To set fees that cover the intended share of program costs, a precise estimation of total program costs is necessary, including both direct and indirect costs.
- **Conducting regular reviews and updates:** To ensure that the fee remains aligned with program costs and responds to factors such as inflation, regular reviews and updates of the fee are essential.
- **Considering equity:** The design of a fee should consider the ability of a user to pay, by exempting low-income users or scaling fees by some measure of ability to pay. This ensures that fees are not overly burdensome for certain groups.
- **Mitigating potential adverse effects of new fees:** Abruptly imposing new or substantially increased user fees can have unintended consequences (e.g., surges in applications leading to backlogs). Transitional measures like grandfather clauses and phased-in increases can alleviate potential issues.

Considerations When Using User Fees

- **Level of harbor department flexibility:** The extent of control the local government maintains over the use of fee collections determines the department's flexibility. Permanent spending authority or pre-payment mechanisms allow for more flexibility to respond quickly to changing conditions.
- **Definition of authorized uses for the fee collections:** The level of specificity the local government provides on how the fees can be used impact the department's flexibility.
- **Multiyear budget considerations:** If a program has large up-front costs, such as investing in infrastructure, the collected fees could need to be transferred to the general fund or saved for future large expenditures.
- **Matching costs to collections:** Permanent collection authority allows agencies to carry forward unexpended collections to subsequent years to match fee collections to average program costs. At the local level, this could mean operating as an enterprise fund. This can give support for establishing reserves for situations where program costs do not decline proportional to a decrease in fee collections.
- **Use of fee collections:** Fee collections can be kept by the agency, in which case, they have to be received directly or on a reimbursement basis. Direct reception ensures immediate availability while reimbursement could take longer, reducing agency flexibility.
- **Monitoring changes:** Adjustments may be necessary over time to address changes in program needs or operations, or to address discrepancies between authorized fee use and actual program activities.

Note that the specific limitations and levels of flexibility may differ between federally-owned and municipally-owned facilities based on their individual statutes and the laws governing each entity. It is also important to consider that local regulation can add layers of complexity to the implementation of user fees, especially in terms of more granular day-to-day administrative tasks and the proper allocation of revenues.

Considerations When Reviewing User Fees

- **Regular review:** Harbor departments and the local government should conduct regular reviews of user fees to ensure they remain properly aligned with program costs and activities.
- **Fee update method:** Determine how and by whom the fee is adjusted.
- **Comprehensive review:** The review should be substantive and detailed, providing complete information about changing program costs and whether authorized activities align with program activities.
- **Transparency in reporting:** Harbor departments should clearly report on methods for setting the fees, provide an accounting of program costs, and share assumptions used to project future program costs and fee collections.
- **Stakeholder engagement:** Harbor departments should seek and facilitate meaningful stakeholder input in the reviews, as it can affect the level of support and acceptance for the fees, aiding in understanding how the fees work and what activities they may fund.
- **Establish a clear and structured process:** There should be a clear and structured process for obtaining and reviewing pertinent information on potential members regarding potential conflicts of interest and points of view, and prescreening prospective members using a structured interview.
- **Consider sunset provision:** Including a sunset provision (most applicable if you are adjusting rates to cover a specific cost) might force regular review and adjustment of the fee, but it does not guarantee that a fee will be adjusted to reflect changes in program costs.
- **Be wary of potential conflicts of interest:** Care should be taken to ensure that fee programs do not become solely beholden to stakeholder interests.