

Issue Paper #9

Date: February 22, 2008

To: City of Hillsboro Ad-Hoc Transportation Finance Committee

cc: Tom Arnold, Public Works

From: DJ Heffernan, Project Manager

Re: Transportation Utility Fee (TUF) - Program Oversight and Rate Indexing

This memorandum reviews two issues related to the management of a Transportation Utility Fee. These issues are:

- Program responsibility and accountability, especially for adjusting rates; and
- Whether or not to adjust rates using an index formula?

Program Oversight

Ultimate responsibility for adjusting the TUF utility rates would rest with the City Council. The ordinance establishing the TUF allows the city to adjust rates by council resolution. But oversight responsibility for monitoring whether or not the utility is generating sufficient revenue to meet its service obligations may rest with a separate body. We explore three options. Two options would keep oversight responsibility for rate adjustments in city hands, either with the city's Utility Commission or with the Transportation Committee. A third option would contract monitoring responsibility with a third-party, for example with the Oregon Public Utility Commission, to ensure rate reviews are conducted impartially. The following table lists pros and cons with these approaches.

Table 1 – Program Oversight Options

Review Factors:	Hillsboro Utility Commission	Transportation Committee	Oregon PUC
Expertise	High – the members regularly deal with cost recovery and rate issues	Moderate – Members have budget experience but maybe not rate setting experience	High – the entity would be selected based on professional qualifications

Review Factors:	Hillsboro Utility Commission	Transportation Committee	Oregon PUC
Impartiality	High	High	High
Standing	Limited – May require a charter amendment to enable oversight, which is no limited to water	Clear – The enabling ordinance could designate this oversight role to the Transportation Committee	Clear – The enabling ordinance could designate this oversight role to a third party
Staff Cost	Moderate/high – Additional staff time required to develop and present utility reports and recommendations to Council and Budget Committee	Moderate/high - Additional staff time required to develop and present utility reports and recommendations to Council and Budget Committee	Moderate – Staff time required to manage contractor and coordinate meetings with Council and Budget Committee
City Governance Time Impact	Moderate – Would add another duty to Commission agenda; likely to increase required meetings	Moderate – Would add another duty to Committee’s agenda; likely to increase required meetings	Low – No additional city meetings other than presentations to Council that also occur with other options.

Recommendation: Keep the rate setting function in Hillsboro and assign oversight responsibility to the Transportation Committee.

Rate Indexing

Indexing is a method for adjusting fees, salaries, wage rates, and other monetary values using a formula that approximates a cost change over time. Perhaps the best known index that often is used for this purpose is the US Department of Commerce’s Consumer Price Index (CPI), which measures average changes in the cost to purchase goods and services related to daily living expenses in the US. But there are many other indices used by public and private entities to monitor changes in the cost of goods and services.

For a utility, the benefit of indexing the rate structure is that it helps ensure rates keep pace with inflationary trends so that revenues stay in balance with the cost to deliver services. Indexing is never perfect because the index measure is only a proxy for the actual cost of services. Periodically, the utility will need to conduct a cost of service analysis to ensure the index adjustments have been in line with actual costs. Indexing also helps insure against large jarring increases in utility rates that often become necessary when rates are not indexed and adjustments are deferred for long periods of time. These adjustments are unpopular with rate payers.

We considered four indexing options for Hillsboro’s TUF. We did not consider the CPI because the cost to overlay or rebuild streets has nothing in common with the cost to buy bread, butter, and milk. The four indices are described in the following table; ENR stands for Engineers News Record – an industry publication.

Table 2 – Indexing Options

Comparison Factor	ENR Seattle, WA Construction Cost Index	ENR US 20-City Construction Cost Index	ODOT Four-Quarter Moving Average Construction Cost Index	Washington County Transportation Engineering Cost Index
Comparison for 3 rd QTR-'07 (annual change)	+ 0.5%	+ 2.7%	+ 4.1%	
Local Sensitivity	Low - Moderate	Moderate	High	High
Transportation Sensitivity	Moderate	Moderate	High	High
Timeliness	High	High	Moderate (1 QTR Lag)	Low
Accessibility	High	High	High	Moderate
Credibility	High	High	High	Moderate

Recommendation: Use ODOT 4-quarter moving average because of its accessibility and sensitivity to local roadway construction conditions.

Discussion Summary:

- The city has not had enough experience with the utility to know if it will need to raise rates every year.
- The ODOT index seems appropriate given the utility is all about road construction, not general construction, but in the absence of information for how well city cost increases compare with ODOT cost increases, it is difficult to recommend that index.
- There needs to be accountability and an opportunity for people to comment on proposed rate increases and the use of revenue.
- Rather than impose rate increases automatically, require that the Transportation Committee consider the need for an increase and that it obtain comments from interested parties.
- Add a business representative to the Transportation Advisory Committee.

Decision Summary:

- Include a provision in the ordinance that places responsibility for utility oversight with the Transportation Committee;
- authorize adoption of an indexed rate structure but delay its use for one year;
- require that the Transportation Committee review the capital program and utility rate increases prior to council adoption.

DRAFT