



Washington State Transportation Commission

Long-Term Ferry Funding Study Findings and Final Recommendations

presented to the
**House and Senate
Transportation Committees**

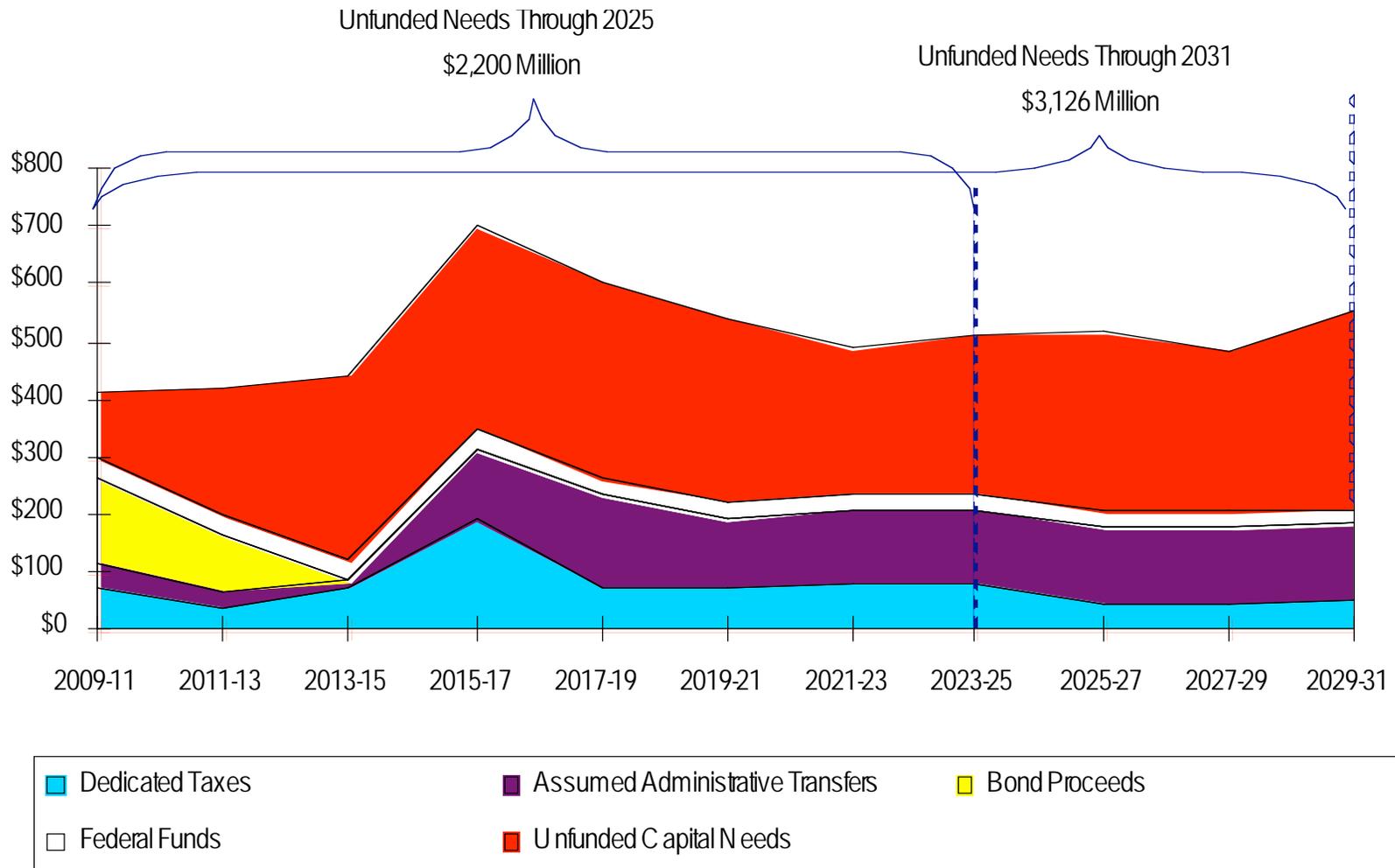
March 2, 2009



Presentation Agenda

- **Long-Term Capital and Operating Needs of WSF Proposed Scenario A**
- **Findings from Analysis of Major Funding Options:**
 - **Operating Revenues (Fares)**
 - **Local Funding Options**
 - **State Funding Options**
- **Recommendations for Long-Term Ferry Funding**

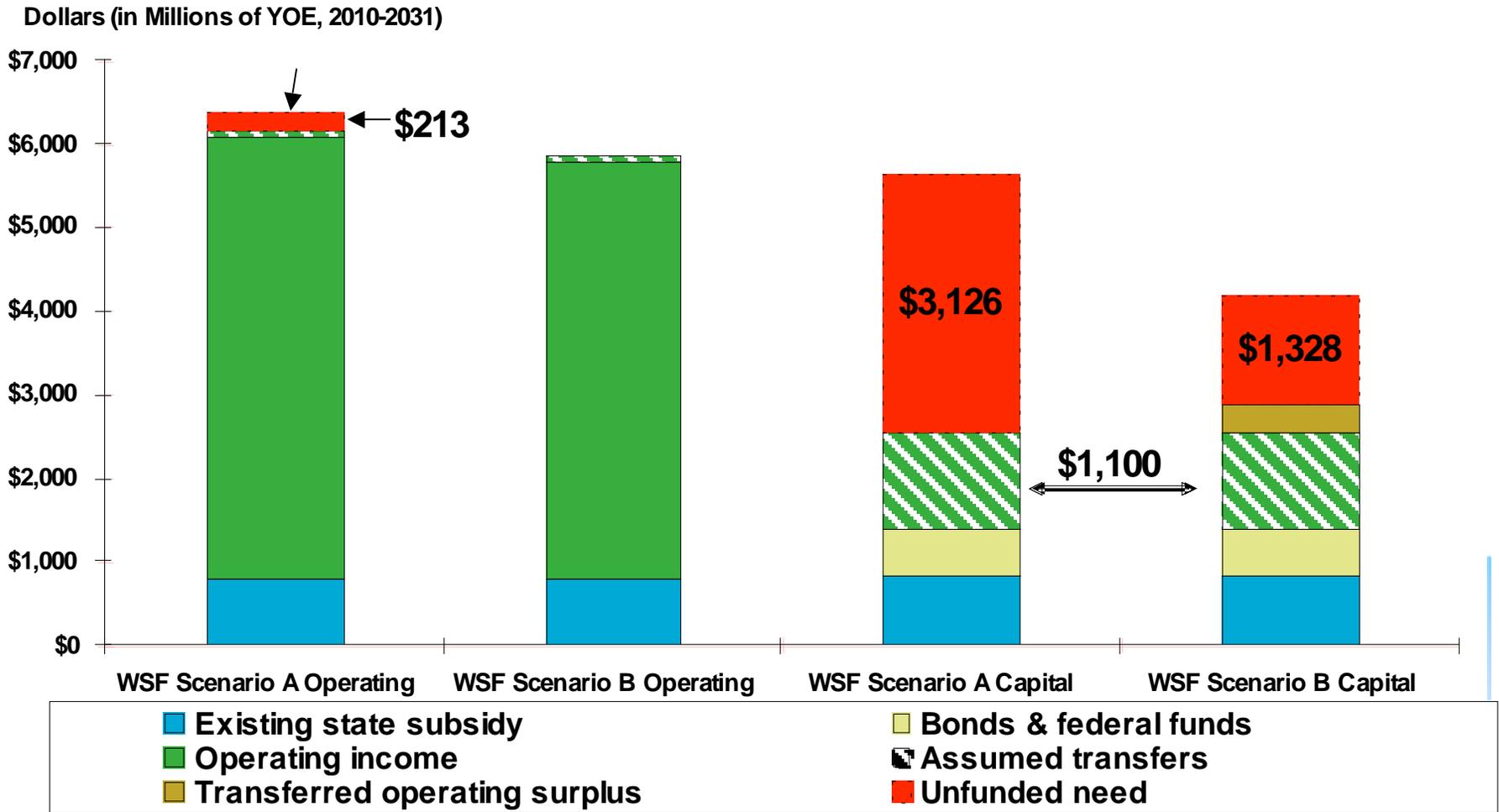
Capital Revenue and Unfunded Capital Need WSF Scenario A



Long Range Plan Funding Needs

WSF Scenarios A and B, Operating and Capital

22-Year Plan Horizon



Source: WSF Draft Revised LRP Data, 1/30/09

Long-Term Funding Needs

- **Funding the ferry system long-term will require state and local participation to sustain operating and capital needs**
- **No single approach will provide a reliable, long-term fix for the ferry system – it will take a combination of efforts**
- **While the Commission encourages local governments to participate in funding the ferry service, we believe fares are the most realistic, effective and fair form of local participation**
- **All new revenue generated for WSF should be dedicated to the purpose for which it was raised – long-term sustainability requires full commitment to this notion**

Fares and Other Operating Income

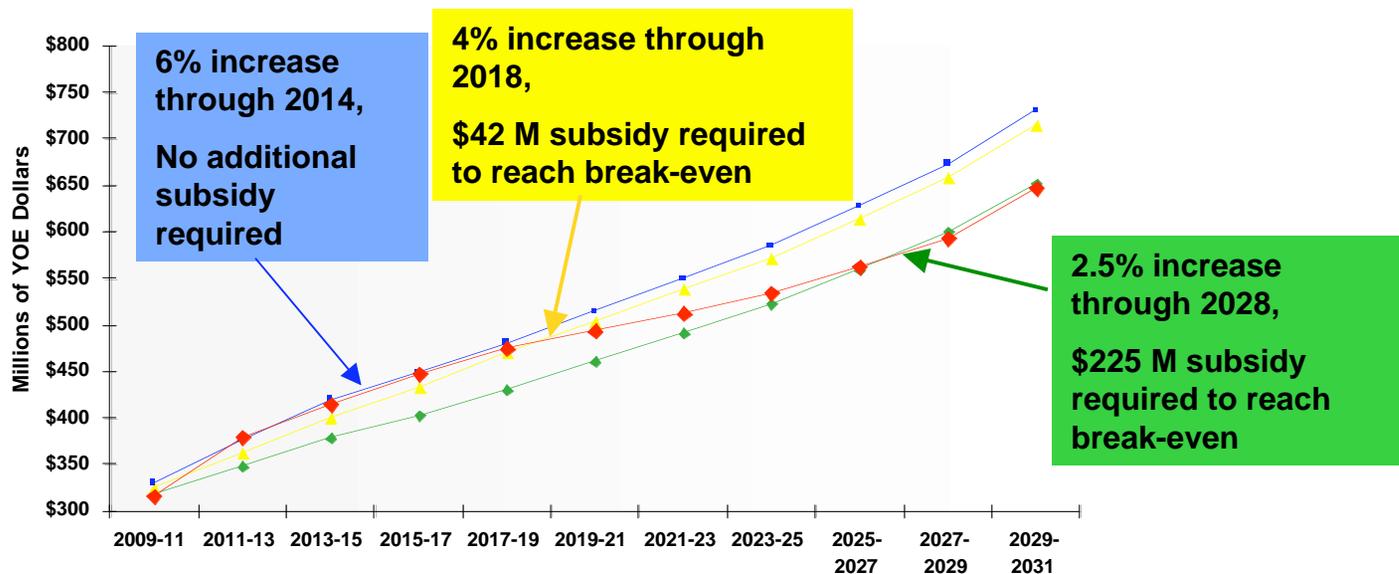


Fare Increases Can Offset, But Not Fully Address Total Ferry Funding Needs

- **Major area of ferry funding need is in capital program**
 - **Scenario A, 94% of funding need (\$3.1 billion) is in capital program, remainder (\$213 million) is in operating program**
 - **Scenario B, 100% of funding need (\$1.3 billion) is in capital program**
- **Even very aggressive fare increases are not a viable capital funding source for WSF**
- **Fare increases higher than the 2.5% per year assumed by WSF are necessary to close Scenario A operating gap**

Example Fare Revenue Scenarios For Illustrative Purposes Only

Fare Revenue per Biennium and Amount of Additional Operating Subsidy Required Until Operating Revenue Needs Are Met



“Revenue target” (red) is fare revenue required to cover WSF Scenario A operating needs in each biennium such that no additional state subsidies are needed beyond dedicated revenues and \$88m in administrative transfers expected by WSF.

“2.5% Increase” – (green) Revenue estimate in WSF Long Range Plan Scenario A (January 31st, 2009.) Assumes 2.5% per year fare increase plus variable fuel surcharge. Chart shows point of “breakeven” in FY2028.

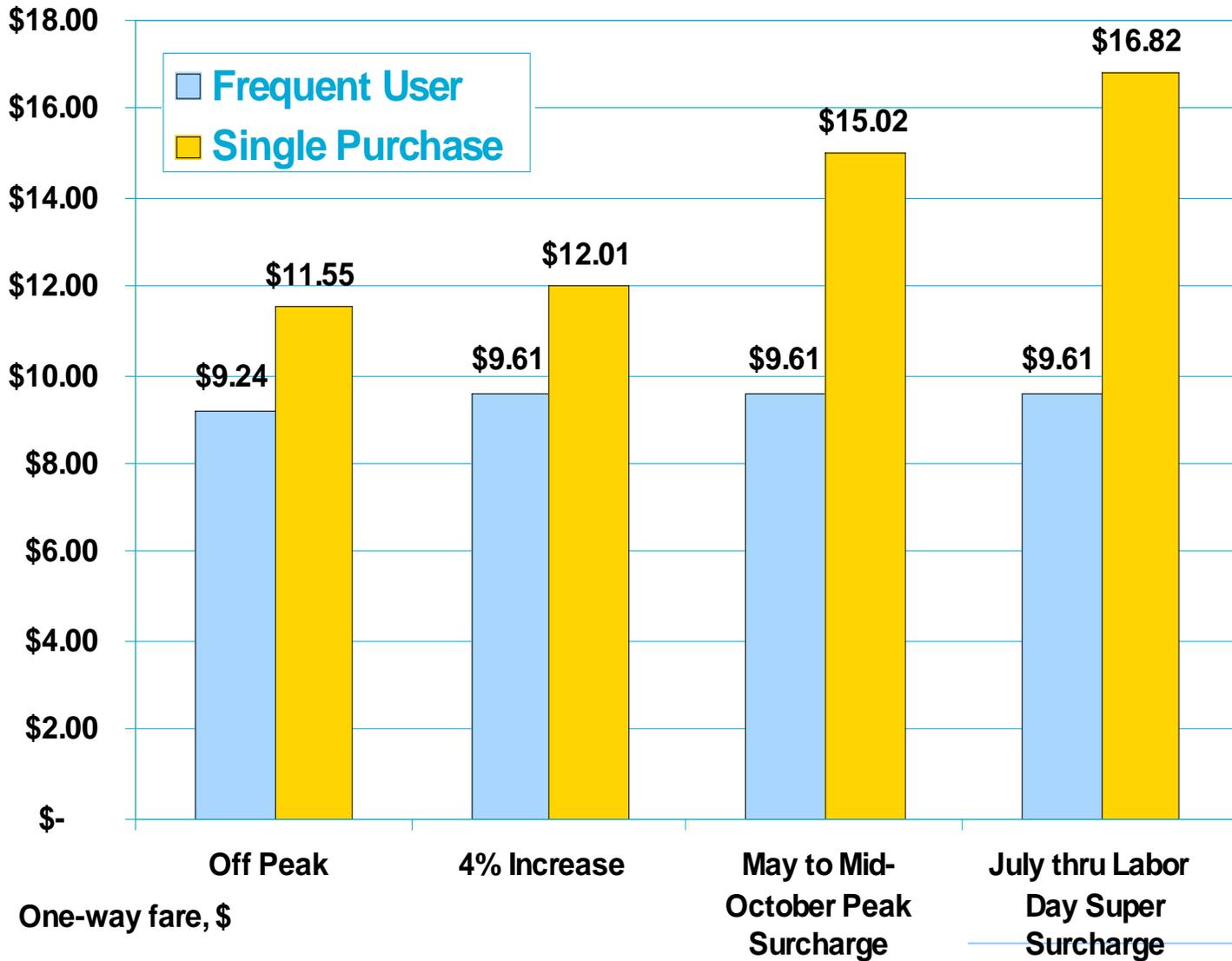
“4% Increase” – (yellow) Fares increased at up to 4 percent per year, plus fuel surcharge and super summer surcharge until no additional increases are needed to meet biennium revenue target. Fares increased thereafter at 2.5% / year.

7 **“6 % Increase” – (blue)** Same as 4% but increase capped at 6% / year until revenue target met, thereafter at 2.5% / year.

Example Fare Increments

4% Base Increase plus “Super Summer Surcharge”

Existing and Example One-Way Fares, Central Sound Routes



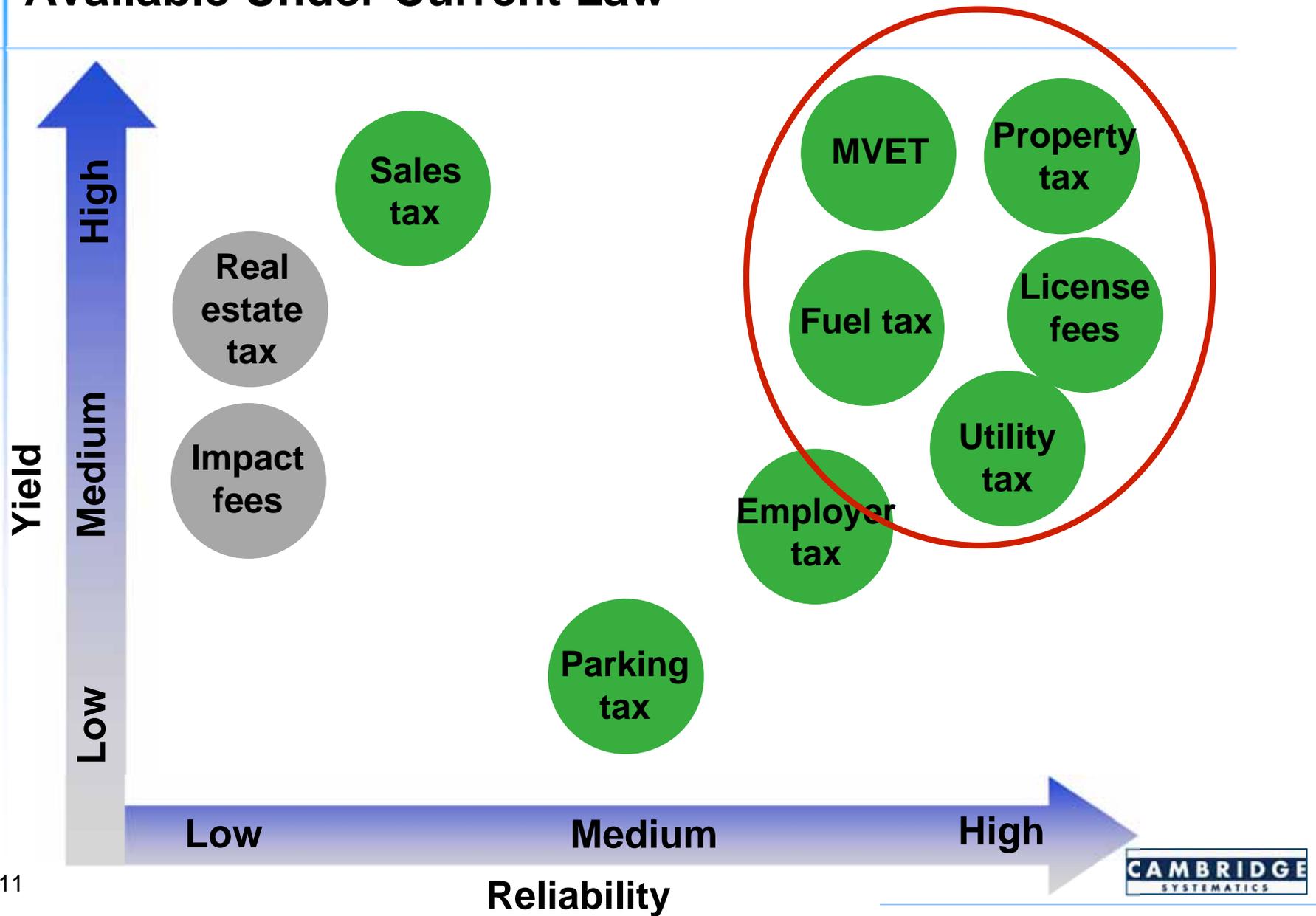
Local Sources of Revenue



Possible Local Governmental Structures

- **Some form of local participation is needed to meet the long-term needs of the ferry system**
 - **But must this form necessarily be through a government entity?**
- **Governmental structures that could be employed to raise funds**
 - **County by County – independent / separate action**
 - This authority exists in current law
 - **Transportation Benefit District – multi-county approach**
 - This authority exists in current law
 - **New District – “Ferry District” – multi-county approach**
 - This would require legislation to set boundaries, governance structure, and establish taxing authorities.
- **All of these approaches require substantial effort and cost at the local level**

Possible Local Funding Sources Available Under Current Law



Local Government Funding Presents Significant Challenges

- **A new local “ferry district” would either have to be very large (i.e., 8 ferry counties) or the local tax rate would need to be set very high at the four county level**
- **A new “ferry district” would require establishment of a multi-county administrative body approved by participating counties**
- **Risks that agreement would not materialize and/or a public vote would fail**
- **Local taxing authority under current law not well utilized**
- **Any local tax initiative would compete with other local funding priorities**
- **May be difficult to obtain participation from those who do not depend on the ferry system**

Local MVET Rate Needed to Meet Ferry Funding Gaps

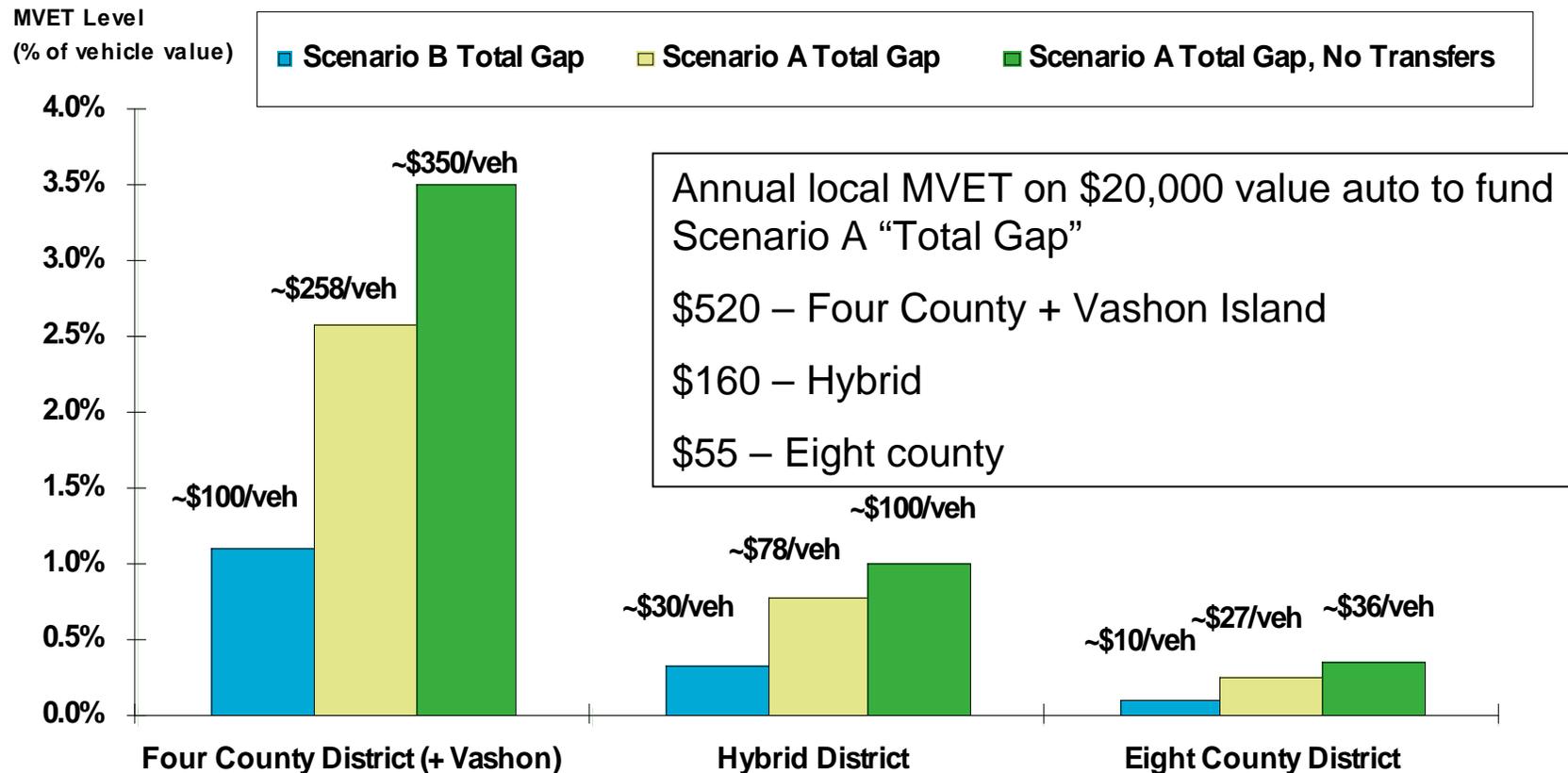


Chart reflects *local* MVET level necessary to fill 22-year total funding gaps for full Scenario A, Scenario A without administrative transfers, and Scenario B. Amounts shown are the approximate MVET paid on a vehicle worth \$10,000, the current average value of vehicles in Washington State private fleet. Fee levels are shown for:

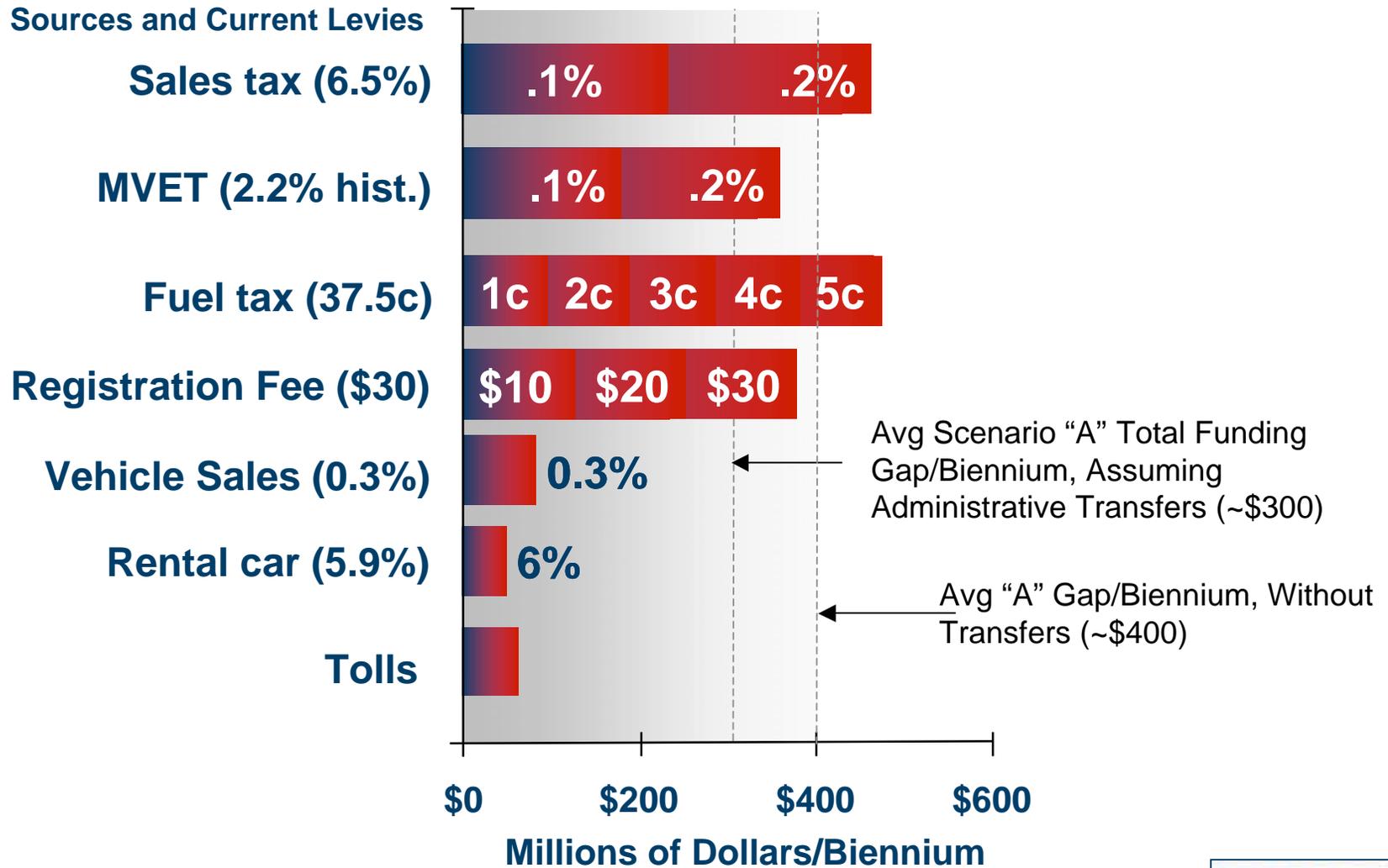
- four county district - Island, Jefferson, San Juan, and Kitsap Counties, and Vashon Island
- hybrid district - four county plus portions of King and Snohomish counties adjacent to Puget Sound, and
- eight county district - Island, Jefferson, San Juan, Skagit, Pierce, Snohomish, King, and Kitsap.

State Revenue Sources



Potential Yield of State Funding Sources

Average Yield of Incremental Tax/Fee Relative to Average Total Funding Gap



Figures are approximate

Statewide Tax or Fee is Most Feasible Means of Meeting Long-Term Capital Needs

- **State taxes have necessary revenue-generation potential to support the ferry system's significant funding needs**
 - Neither local taxes nor fares have adequate yield
 - Collecting taxes at the state level is cost effective and efficient from an administrative standpoint
- **Statewide excise tax based on vehicle value is more stable and reliable over long term than motor fuel tax**
 - Has potential for large yield - sufficient to meet ferry capital needs
 - Reliability, administrative ease, and nexus make MVET-like tax preferable to other high-yield sources
 - Past concerns over State MVET-like tax may be lessened through modified depreciation schedule and a lower tax rate

Commission Recommendations



Increase Fare Revenues to Close the Operating Gap

- **Strive for full coverage of operating expenses from fares, other operating revenue and dedicated state subsidies**
 - Increase fare revenues by adopting fare schedule that is higher than the WSF Long-Range Plan assumption of 2.5% per year
- **With 4% annual increase in fares, rather than 2.5%, the unfunded needs would be cut from \$225M to \$50M or less**
- **Reduce impacts of fuel price volatility by implementing fuel surcharge per WSF plan**
 - Variable add-on to base fare, instated only in years when fuel prices exceed historical average
- **Implement a super summer surcharge on single fare purchases during the busiest traffic period.**
 - 15 percentage points added to base fares July 1- Labor Day

Increase Ancillary Operating Revenues

- **WSF projects ancillary revenues to increase about 6%-7% per year and to account for just over 2% of operating income over 22-year LRP period**
- **WSF should increase ancillary operating revenue through more comprehensive advertising sales, expanded on-board and terminal concessions, and lease of naming rights**
 - **Advertising generates in the low hundreds of thousands a biennium; contracts are in place to increase advertising**
 - **Similar examples indicate sale of naming rights could generate in the hundreds of thousands per vessel per year**
 - **WSF generates about \$5 million per biennium through on-board food and beverage concessions**

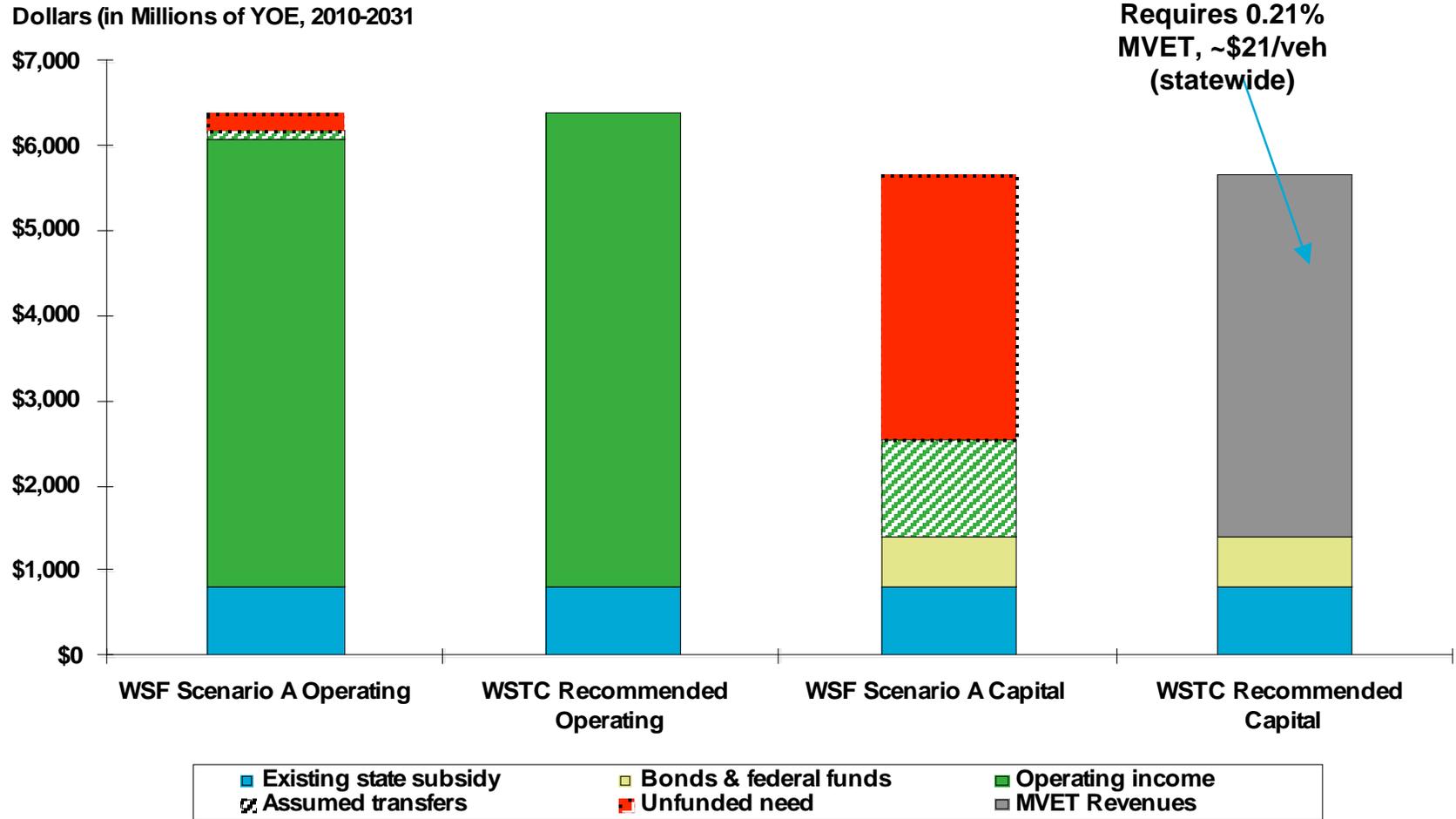
Treat Fare Revenue as Local Contribution to WSF Funding Need

- **Fare increases are a logistically simpler means of achieving local participation vs. a local funding district**
- **Fare collection mechanisms are already in place with relatively low administrative cost**
- **Realistic (e.g., inflation plus 2%) increases could generate revenues similar to a four-county ferry district, enough to eliminate the Scenario A operating gap over the next 5-10 years, at much lower administrative cost**
- **Fares provide a direct nexus between payment and benefits received, and allow the seasonal and out-of-state rider to contribute more directly to funding operations than do local taxes**

Fund Ferry Capital Needs With A Statewide Vehicle Value-Based Excise Tax

- **Fund capital preservation, improvement, and replacement needs with statewide tax based upon vehicle value**
 - **Consider bundling ferry funding with larger transportation funding measure**
- **Without new revenue for capital needs, increased administrative transfers would be required to meet capital needs of Scenario A**
- **22-year capital needs (Scenario A) can be met with a 0.15% MVET (\$30 on \$20,000 vehicle) assuming administrative transfers continue to capital program**
- **A 0.21% MVET (\$42 on \$20,000 vehicle) will allow elimination of administrative transfers to capital program**

Commission Team Preferred Approach to Funding Ferries Scenario A



Discussion

