Washington State Transportation Commission

Long-Term Ferry Funding Study
Findings and Final Recommendations

presented by
Cambridge Systematics, Inc.

February 18, 2009

Long-Term Funding Study Products

February 08

Part I Report – Financial Background and Summary of Previous Studies

July 08

Part II Technical Memorandum: Initial Screening of Funding Sources

November 08

Long-Term Ferry Funding Study Preliminary Report

February 2009

Findings and Final Recommendations

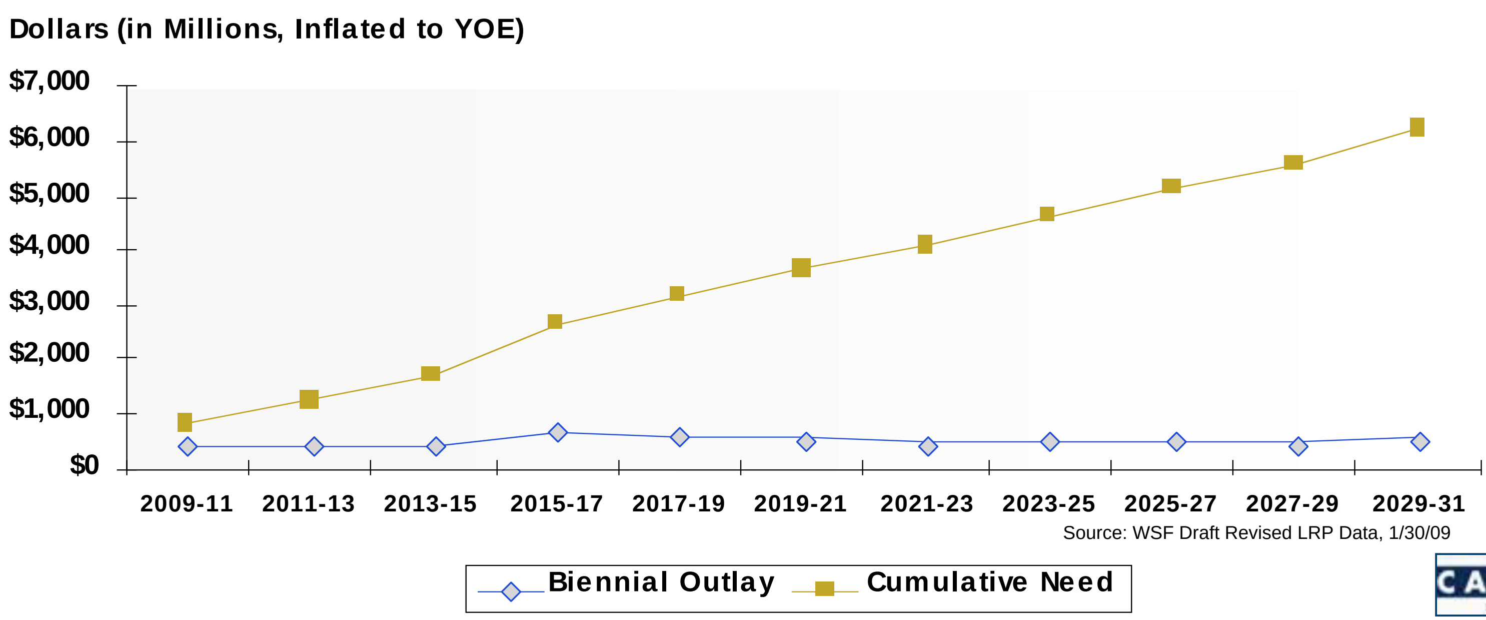
Presentation Agenda

- Major Findings and Recommendations for Long-Term Ferry Funding
- Alternative Funding Scenarios
- Adopt Recommendations

Overview: System Funding is a Long-Term Challenge

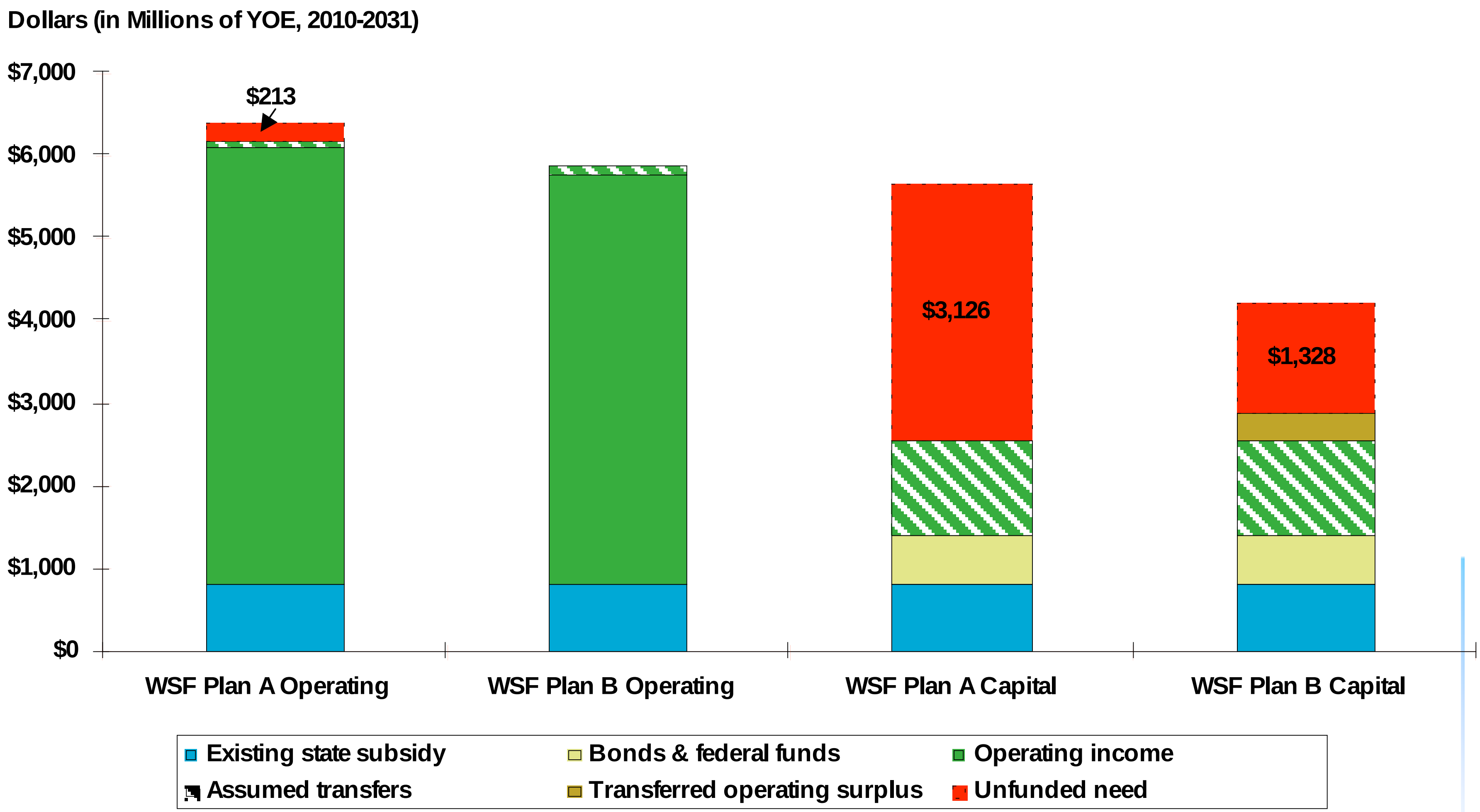
- **Leadership is required to address not only current budget crisis but long-term needs in a fiscally responsible manner.**
- **A viable funding solution must be identified to address the long-term funding needs of WSF while recognizing the need to constrain costs.**
- **Capital preservation and replacement costs in particular must be met through a major, sustainable revenue source**

22-Year Captial Improvement and Replacement Costs
2009-2031



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

Overview – Long Range Plan Funding Needs, Scenarios A and B



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

Finding
Fare Increases Can Offset, but Not Fully Address 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**
- **Fare increases (even aggressive) are not a viable capital funding source for WSF**
- **However, fare increases higher than the 2.5% assumed by WSF are necessary to close Scenario A operating gap**

Recommendation

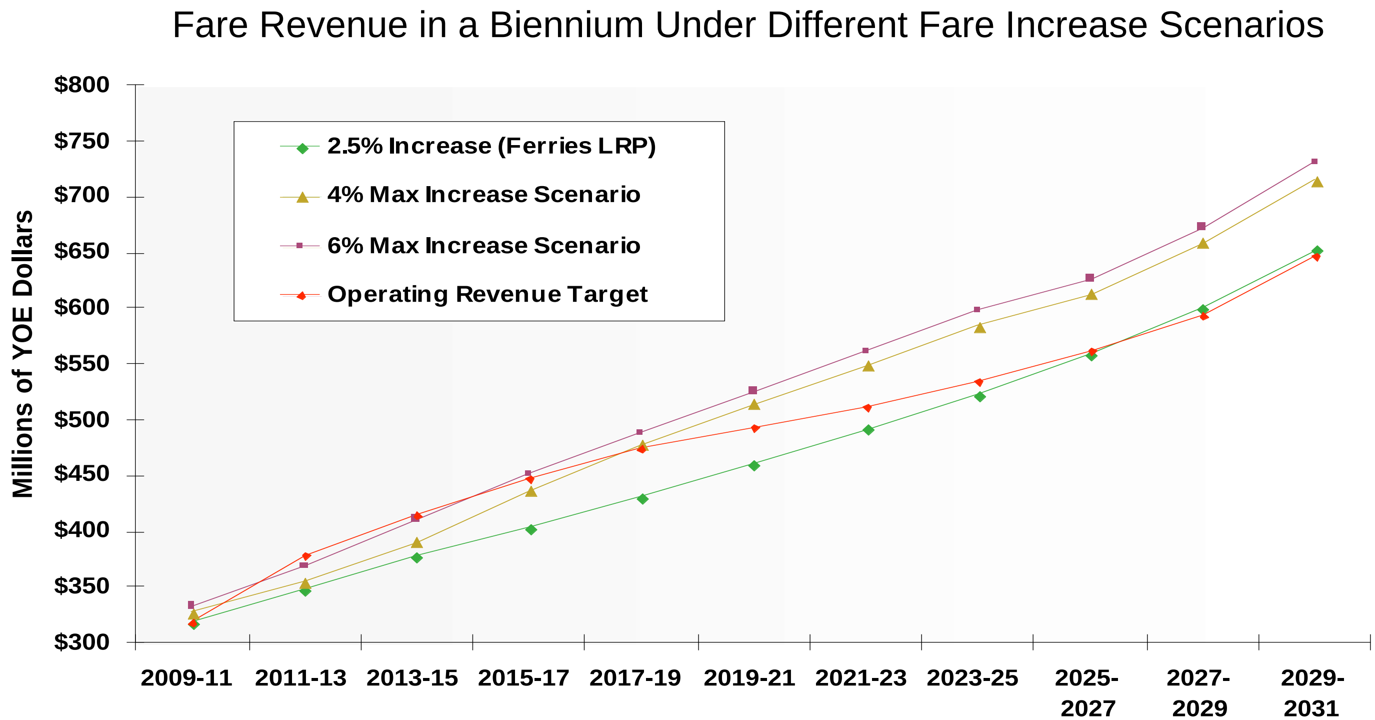
Increase Fares and Ancillary Revenues to Close the Operating Gap

- Work towards 100% coverage of operating expenses from combination of fares and other operating revenue and current dedicated state subsidies (e.g. from fuel tax and licenses, permits, and fees)
- Allow currently planned administrative transfers to operations ($88m) to sunset after 2013-15 Biennium

Recommendation
Implement Fare Increases through Fuel and Summer Season Super-Surcharge

- **Reduce impacts of fuel price volatility by implementing fuel surcharge per WSF plan**
- **Increase fare revenues by adopting fare schedule that is higher than the WSF Long-Range Plan assumption of 2.5% per year**
- **Implement a summer season super-surcharge on single fare purchases to provide revenue gains during the busiest traffic period.**
  - **Infrequent users & out of state travelers have lower elasticity and thus are less price sensitive, as per results of recent WSF ferry user survey**
  - **Given impact of summer travelers on fixed WSF capacity, an incremental increase in fares impacting this user-group seems appropriate.**

Sample Fare Revenue Scenarios
For Illustrative Purposes Only



<u>"2.5% Increase"</u> – Reflects revenue estimated in WSF's Long Range Plan A Scenario (January 30th version). Estimates assume fares increase annually at 2.5% per year, plus a fuel surcharge.

<u>"4% Increase"</u> –Modified Plan A scenario where fares are increased at up to 4 percent per year, plus a fuel surcharge and a peak of the peak surcharge, until no additional increases are needed to meet biennium revenue target, and increased thereafter at 2.5%.

<u>"6 % Increase"</u> – Same as 4% increase but increase capped at 6% per year.

<u>"Revenue target"</u> is the amount of fare revenue that would be required under Scenario A to cover WSF's operating needs in each biennium such that no additional state subsidies are needed (beyond dedicated revenues and $88 million in administrative transfers expected by WSF).

Recommendation
Increase Ancillary Revenues

- **Increase ancillary revenues through more aggressive advertising, on-board concessions, naming rights**
  - **Advertising – Generates in the low hundreds of thousands a biennium. WSF has contracts in place to increase scope of advertising.**
  - **Naming rights – Similar examples indicate sale of naming rights could generate in the hundreds of thousands per vessel per year**
    - **One company paid $1 million to name one vessel over a 15-year period**
    - **Value to company related to exposure to potential customers -requires coordination with on-board and web-site advertising.**
  - **Food and beverage sales – WSF generates ~$5 million a biennium through on-board concessions. Revenues largely a function of concessions contracts and ridership.**
    - **Possible greater revenue could be raised through system privatization (e.g. similar to BC Ferries).**
  - **Altogether, ancillary revenues are expected to account for about 2% of WSF operating income over LRP period.**

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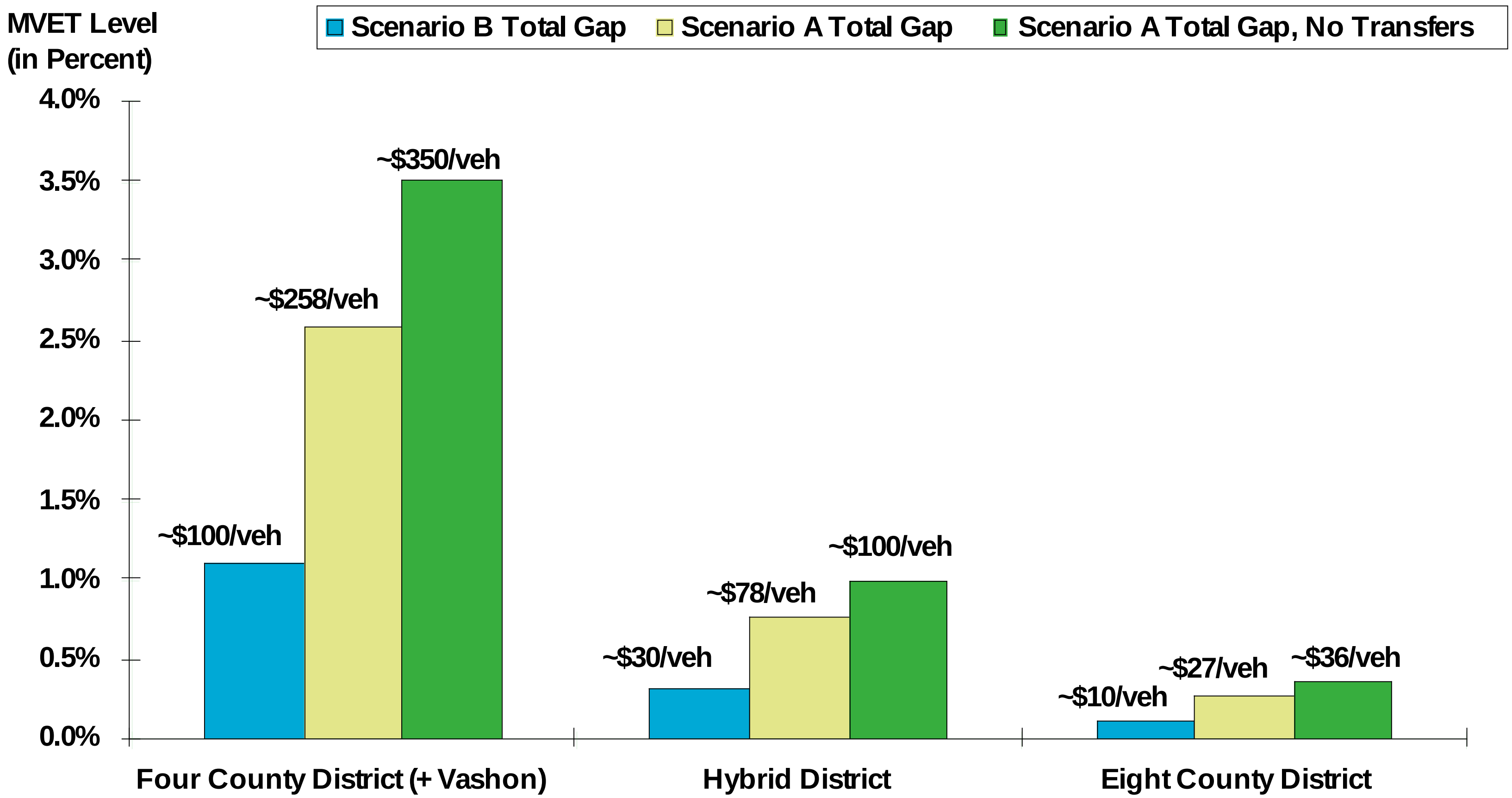
Finding
Logistical Impediments to Local Funding are Significant

- Local district would either have to be very large (e.g., 8 ferry counties) or local tax rate would need to be set high to meet funding need
  - All fee revenues would be dedicated to WSF
- Would require establishment of a multi-county administrative body approved by ferry counties
  - Risk of balkanization of planning and governance for Ferry System
- Would likely require a public vote
- Risk that agreement would not materialize and/or the public vote would fail

Local MVET Fee Needed to Meet Ferry Funding Gaps



Source: Cambridge Systematics

Chart reflects MVET level necessary to fill 22-year total funding gaps for Scenario A, Scenario A without administrative transfers, and Scenario B. Dollar values shown are the equivalent MVET amount paid by a vehicle worth $10,000. Fee levels are shown for:

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

Finding

Political Impediments to Local Funding are Significant

- **May be difficult to obtain participation from those who do not depend on the system**
  - **East sound counties not as dependent as those on the west sound and the islands**
  - **Most population (and potential revenue) in east sound county. Revenue generation potential is limited in a four-county district**
- **Currently-approved local funding authority not well utilized**
  - **Record of failed multi-county districts in Puget Sound**
- **Competing transportation priorities**
  - **Local passenger-only ferries (King County, property tax)**
  - **Sound transit (0.3% MVET)**
  - **Viaduct proposal (would raise King County vehicle fees)**

Recommendation
Fare Increases Serve as Local Funding Contribution

- Fare increases are a logistically simpler means of raising local contribution than a local funding district
- Collection mechanism already in place for fares
- Fare increases (6% a year for about 5 years, plus ongoing fuel surcharge, summer season super-surcharge, and inflation adjustments) could generate similar revenues to a four-county ferry district; enough to close the Scenario A operating gap
- Direct nexus between payment and benefits received

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Finding

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

- State taxes have revenue-generation potential to support the ferry system's significant funding needs long-term
  - Local taxes do not have adequate yield, unless the local district is very large or taxes and fees are set very high
  - Even high, sustained ferry fare increases could not cover capital needs
- State taxes already support the ferry system; minimal administrative barriers exist
- Ferry funding crisis is in large part a result of the removal of a state tax (the MVET); restoring state support would address that cause

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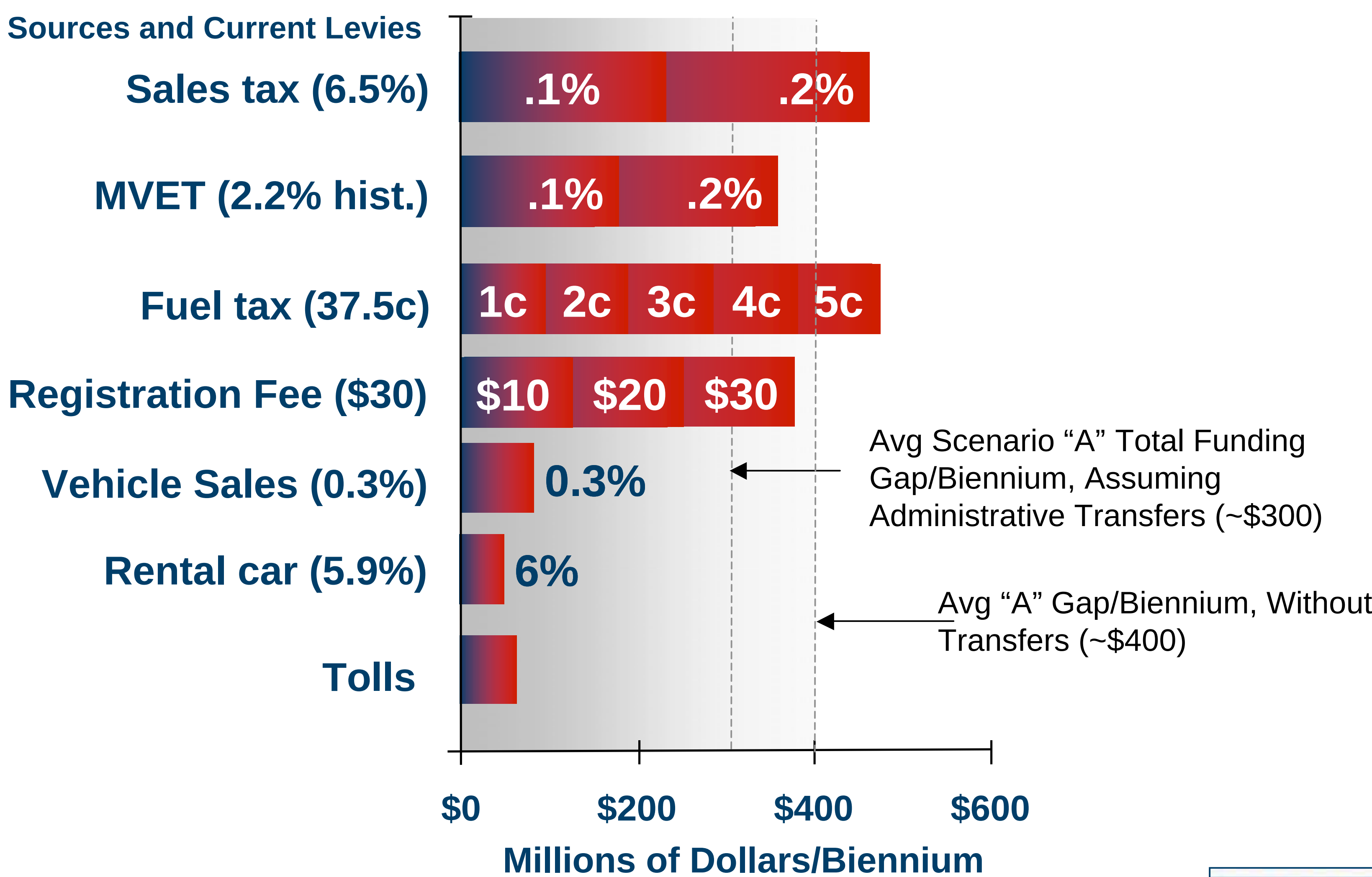
Finding

A Vehicle-Value Based Tax (e.g. MVET) Has Attractive Features

- **Statewide MVET 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 (fuel tax or sales tax)**
  - **Sales tax has no connection to transportation usage**
  - **Fuel tax less reliable and sustainable in long run regardless of recent price volatility**
- **Past concerns over MVET may be lessened through a modified depreciation schedule and a lower tax rate**

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



Figures are approximate

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Recommendation

Fund Ferry Capital Needs
with a Statewide MVET or Similar Tax/Fee

- Fund capital preservation, improvement, and replacement needs with statewide tax based upon a vehicle's value – such as MVET or similar tax
- Consider bundling ferry funding with larger transportation funding measure backed by MVET or similar tax
- Phase out ad hoc legislative administrative transfers over time and replace with dedicated source to ensure investment in capital preservation and replacement

Recommendation

Fund Ferry Capital Needs with a Statewide MVET or Similar Tax/Fee (continued)

- **22-year capital needs (Scenario A) can be met with a 0.15% MVET ($15 on $10,000 vehicle)**
  - **Ad hoc legislative transfers must continue at this tax rate**
  - **Assumes all revenues go to WSF**
- **A 0.21% MVET ($21 on $10,000 vehicle) will allow elimination of administrative transfers to capital program**
  - **Assumes all revenues go to WSF**

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Reduce or Eliminate "Build it in Washington Requirements"

- **Increase availability of Federal capital funds and reduce vessel construction costs by eliminating "Build it in Washington" legal requirements**

- **Cedar River Group *Vessel Timing & Sizing Report* compared recent bids for two similar 50-auto ferries, one in Washington State and one North Carolina – found out-of-state bid to be about 20% lower.**

Alternative Funding Plan Scenarios Assessed in Study – Operating Gap

- **Commission considered several alternative ways of funding WSF the $213 million in unmet operating needs in "Scenario A" through different combinations of state taxes, fares, and local districts**

Methods of Funding Scenario A Operating Needs ($213 Million)

Increase State Tax	Institute Local District	Raise Ferry Fares
Gap could be filled by ~0.01% of a state-level MVET (~$1 on a $10,000 vehicle)	Gap could be filled by a 0.17% MVET (~$17 on a $10,000 vehicle) assessed in four-county district (Island, San Juan, Jefferson, Kitsap)	Gap could be filled by ferry fare increases of about 6% per year for about 5 years

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Alternative Funding Plan Scenarios Assessed in Study

- Methods of funding Scenario "A" capital needs

Increase State Tax	Institute Local District	Raise Ferry Fares
Gap could be filled by ~0.15% of a state-level MVET (~$15 on a $10,000 vehicle)	Gap could be filled by a 2.5% MVET (~$250 on a $10,000 vehicle) assessed in four-county district (Island, San Juan, Jefferson, Kitsap).	Fares cannot raise sufficient funds to meet capital needs (would require 60% revenue increase). Fare revenues could be used to offset capital needs somewhat. Example: increasing fares by 6% per year for 5 year, followed by inflation adjustments and a peak-of-peak and fuel surcharge, would produce $311 million in excess operating revenues over the life of the plan that could be transferred to capital

Commission Team Preferred Funding Scenario: Fares for operating and state taxes for capital

- **Places the burden for funding operations on users**
  - **Increase fares at 6 percent per year for about five years, followed by annual adjustments for inflation**
  - **Implement a summer season super-surcharge (from end of June through day after labor day) on single fare purchases (15% higher than regular peak fares), along with a system-wide, year round fuel surcharge**
- **Raise capital funds through MVET or similar. Raise sufficient capital to eliminate need for administrative transfers**
- **Local funding – not recommended for operating**
  - **Simpler/easier to raise similar amount of revenue through fare increases**
- **Local funding – not recommend for capital**
  - **Tax/fee would have to be very high to fund all Scenario A capital need; or all 8 ferry served counties would need to be involved**

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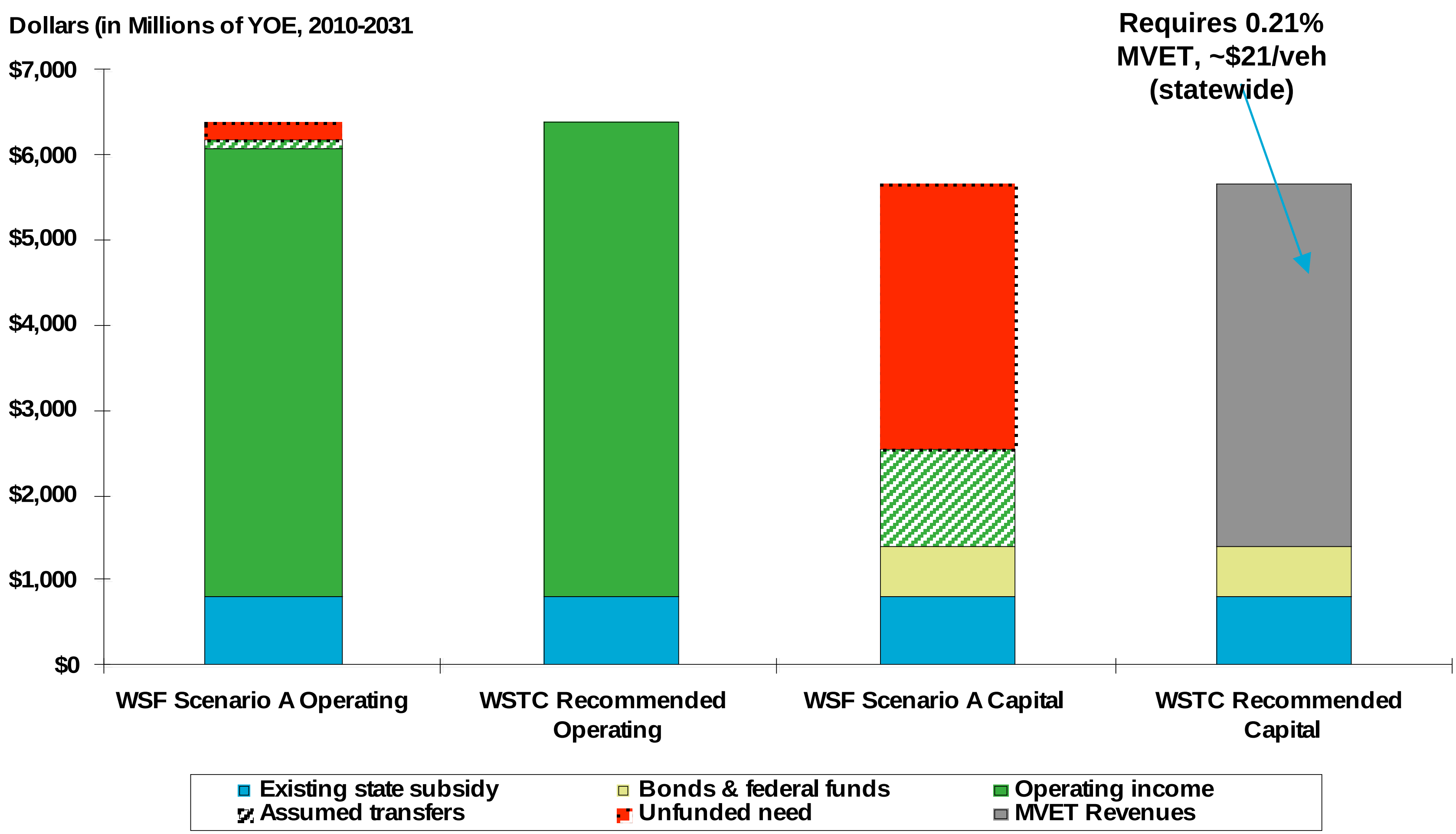
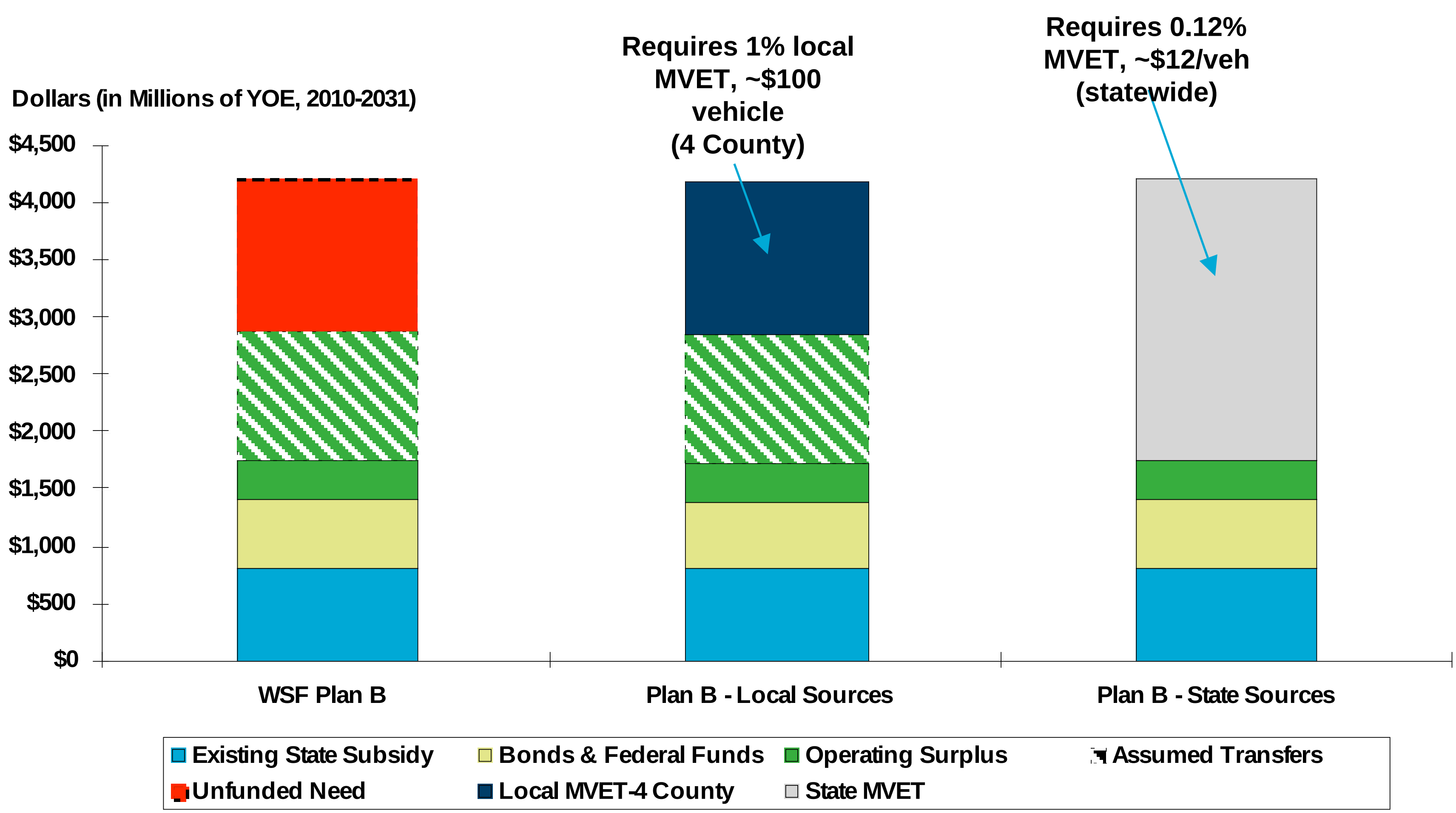
Commission Team Preferred Approach to Funding Ferries Scenario A



WSF "Scenario B"

- Represents a downsized system
  - Service reductions on domestic routes
  - Eliminate Sydney route
- Significant funding gap remains ($1.3 billion over 22 years)
- Small operating surplus
- Entire gap is in the capital program

Funding the WSF "Scenario B" Alternative



Summary of Findings and Recommendations

- **Meeting operating needs**
  - **Raise fares at 6% per annum for ~5 years, plus a fuel surcharge, summer season super-surcharge, and ongoing inflation adjustments**
- **Meeting capital needs**
  - **Preserve the current ferry system at Scenario Level “A”**
  - **Institute a statewide MVET, 0.21% of MVET revenues to cover WSF’s capital needs and allow elimination of ad-hoc transfers**
  - **MVET value over 0.21% to meet other state transportation needs.**
  - **Remove “build it in Washington” requirement to reduce vessel expenditures and increase opportunity for federal funding**
- **Investigate an additional scenario with limited service reductions**
  - **Suggest further investigation of service reductions to reduce costs – compromise between service levels in Scenario A and B**