

Tacoma Narrows Bridge 2011-12 Rate-setting Process

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**Transportation Commission and
Tacoma Narrows Bridge Citizen Advisory Committee
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Presentation Outline

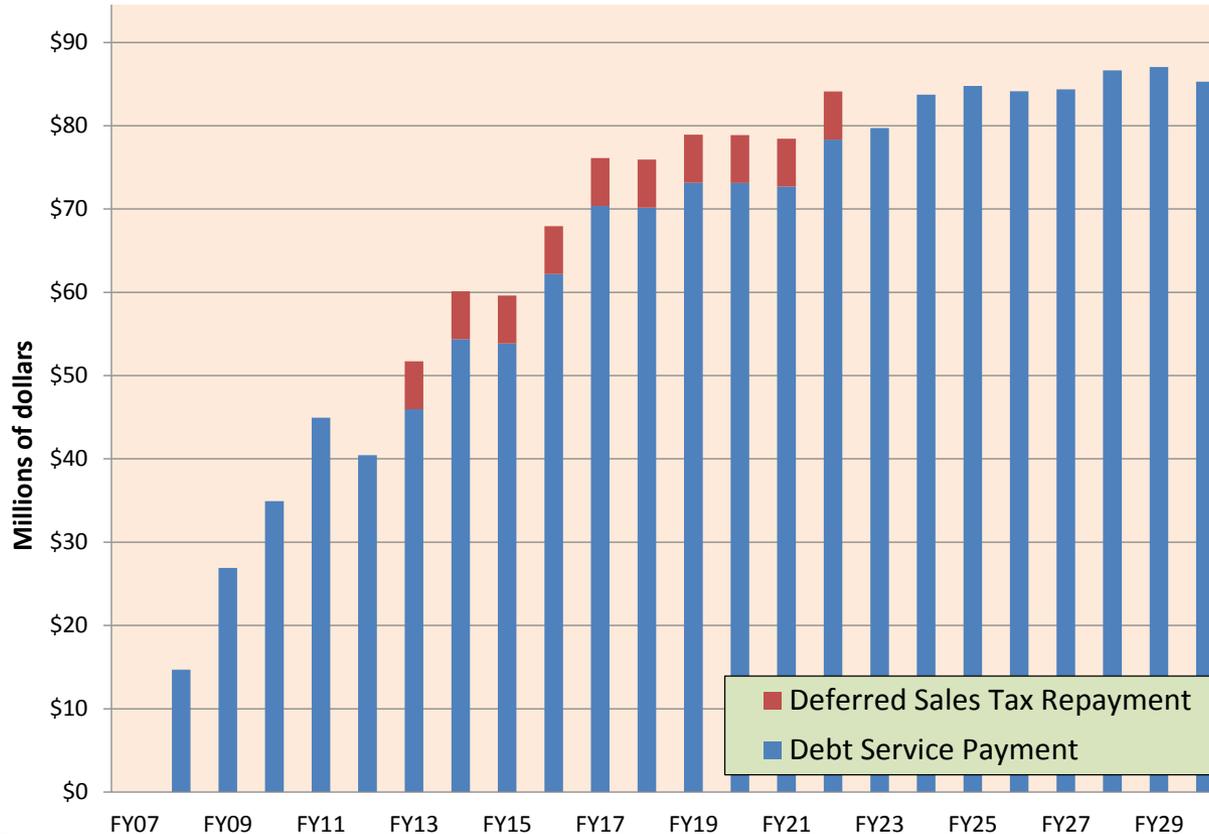
- **Introductions**
- **Rate-setting context**
 - Bond financing commitments
 - Rate-setting history and past practice
 - Big picture – need for new rates in 2012
- **Effect of the economy on the baseline revenue forecasts**
- **FY 2011 Financial Update**
- **Proposed rate-setting process and schedule**
- **Communications and protocols to speed action and avoid surprises**

Rate-Setting History

- **Original finance plan called for \$3 initial toll on all 2-axle vehicles, increasing to \$6 in three \$1 increments occurring in 2010, 2013 and 2016**
- **Since then:**
 - Legislature deferred project sales taxes; repayment to begin in 2012
 - \$5.288 million was loaned from the Motor Vehicle Account in 2007 to help cover start-up costs; will start to be repaid from Civil Penalties during this biennium
 - \$1.25 discount given as incentive for transponder use
- **Traffic and revenue are below forecast, and new short-term forecasts have been lowered**
 - Like all state revenue forecasts, travel has fallen due to the economy
 - Transition to a new customer service center is not a significant factor

TNB Debt Service Schedule

Debt service payments increase for next 12 years

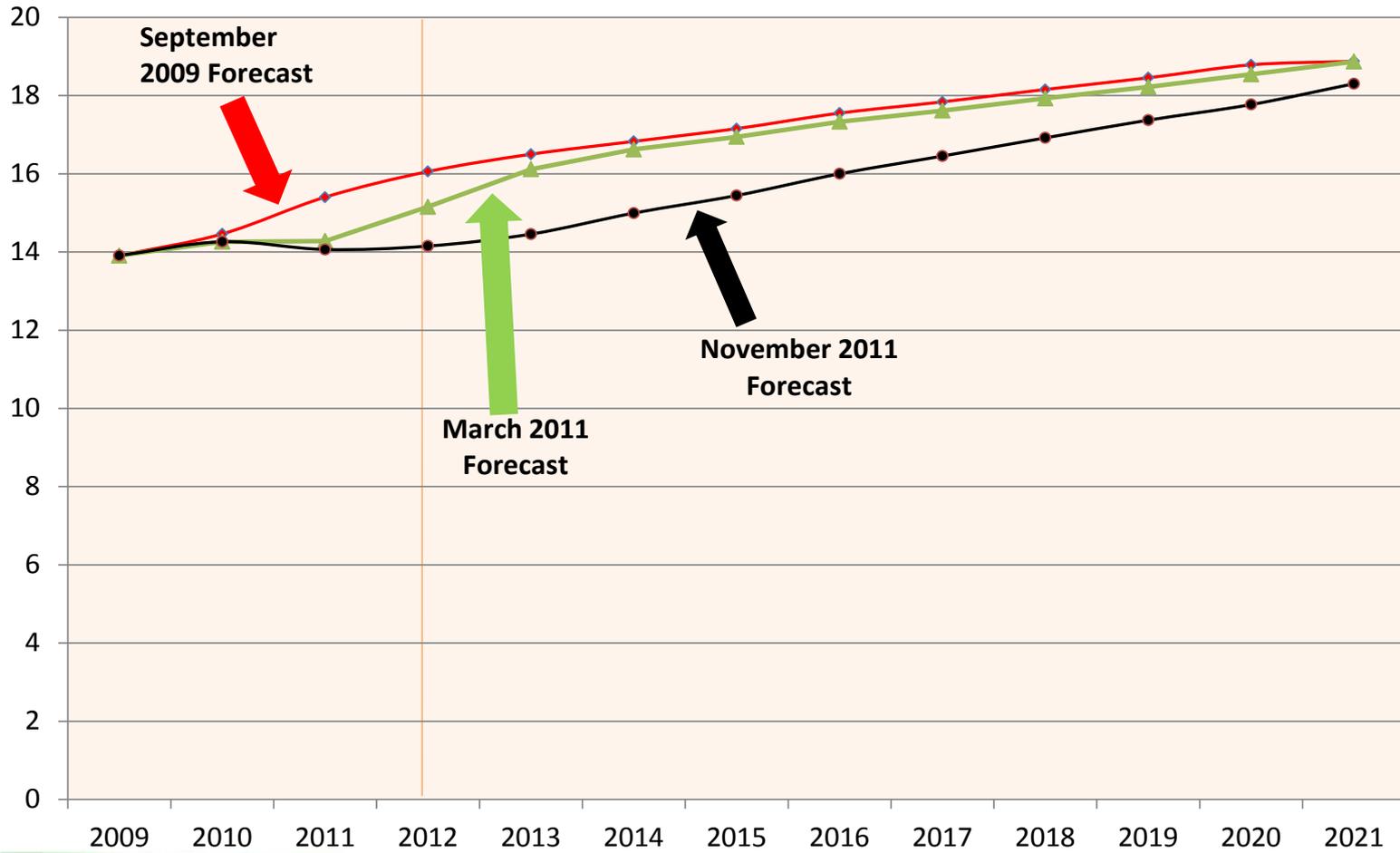


- Debt service payment schedule was set when project was originally financed
- No option to refinance
- Payments and toll rates assumed to increase over time
- Repayment for deferred sales taxes to begin in December 2012 for ten years

2002 plan toll rate	\$3.00	\$4.00	\$5.00	\$6.00
Actual toll rate	N/A	\$1.75/ \$3.00	\$2.75/ \$4.00	

Effect of Economy on Traffic Forecasts

Annual Round Trip Traffic on TNB (in millions)



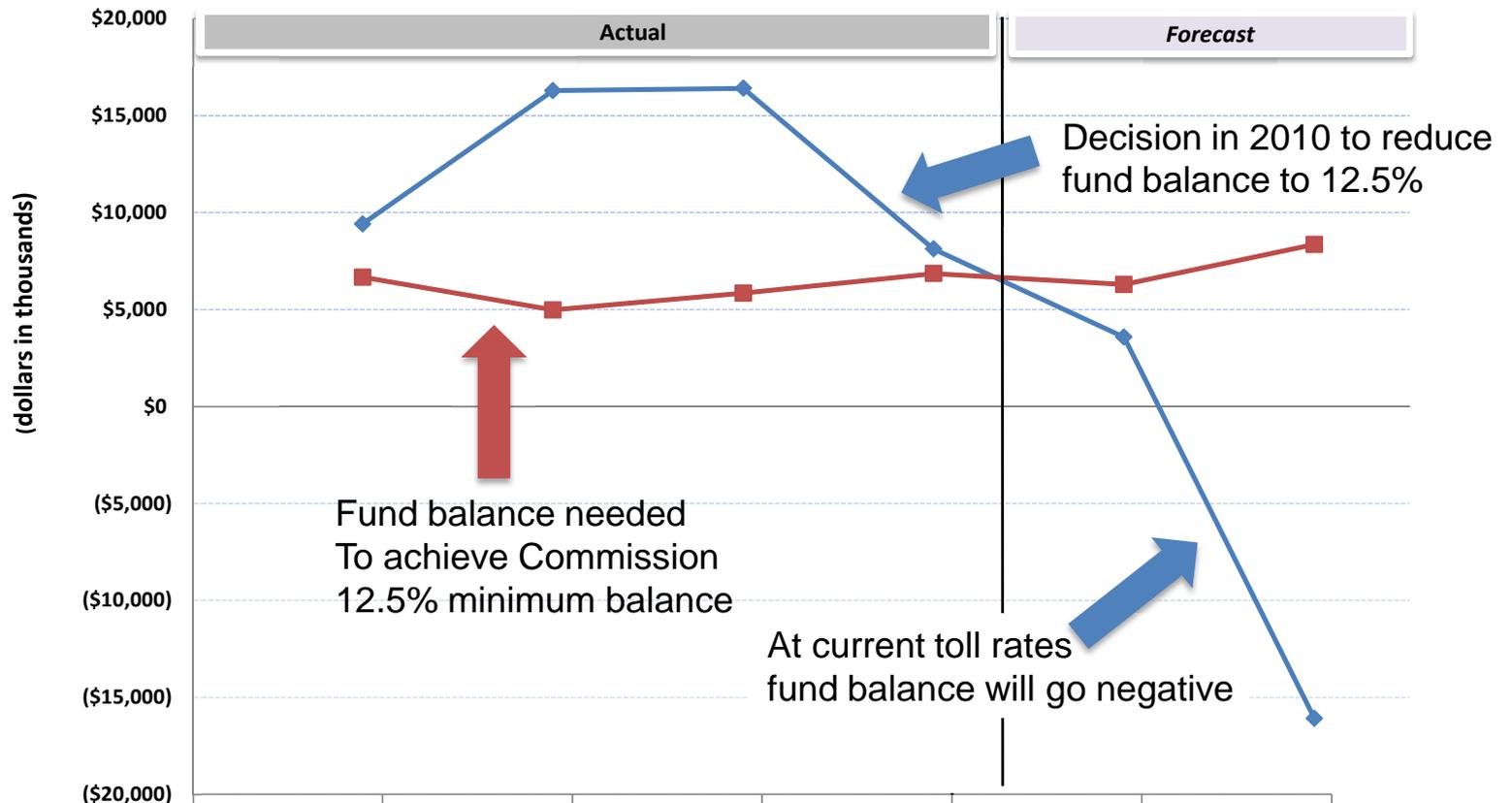
Note: The March 2011 and June 2011 forecasts were the same.

What Rates Are Required?

- Statute declares that rates must be “sufficient” to meet debt service obligations.
- Transportation Commission policy requires that the sufficient fund balance in the Tacoma Narrows Bridge account each year be 12.5% of annual debt service and expenditures.
- Prior forecasts suggested that a toll rate increase might not be needed before July 1, 2012.
- Rate increase was deferred in 2011, reflecting a conscious decision to lower fund balance to the 12.5% sufficient balance policy level.

Why a Rate Increase is Needed

Fund balance will go negative at current toll rates



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Ending Unreserved Fund Balance	9,418	16,290	16,413	8,124	3,581	(16,076)
12.5% Sufficient Minimum Balance	6,668	4,985	5,849	6,860	6,291	8,358

Effect of the New Back Office Contract

Issues affecting customers directly are improved

- **Transition problems affecting customers have been fixed**
 - ☑ Toll readers now read all transponder tags
 - ☑ Now sending alerts to customers with low balances or expired credit cards
 - ☑ Corrected problem with charging cash rate to a few *Good To Go!* customers
 - ☑ Corrected problem with automatic replenishment
 - ☑ Contacted customers to update account information
 - ☑ Dismissed violations sent in error
 - ☑ Notice of Infractions are being sent to violators
- **Implementation of Pay By Mail on TNB is planned in December**
 - Customers who go through toll readers without paying will receive a bill rather than a violation
 - Civil penalties will apply to customers who don't pay within 80 days

Effect of the New Back Office Contract

Transition period costs and losses have occurred

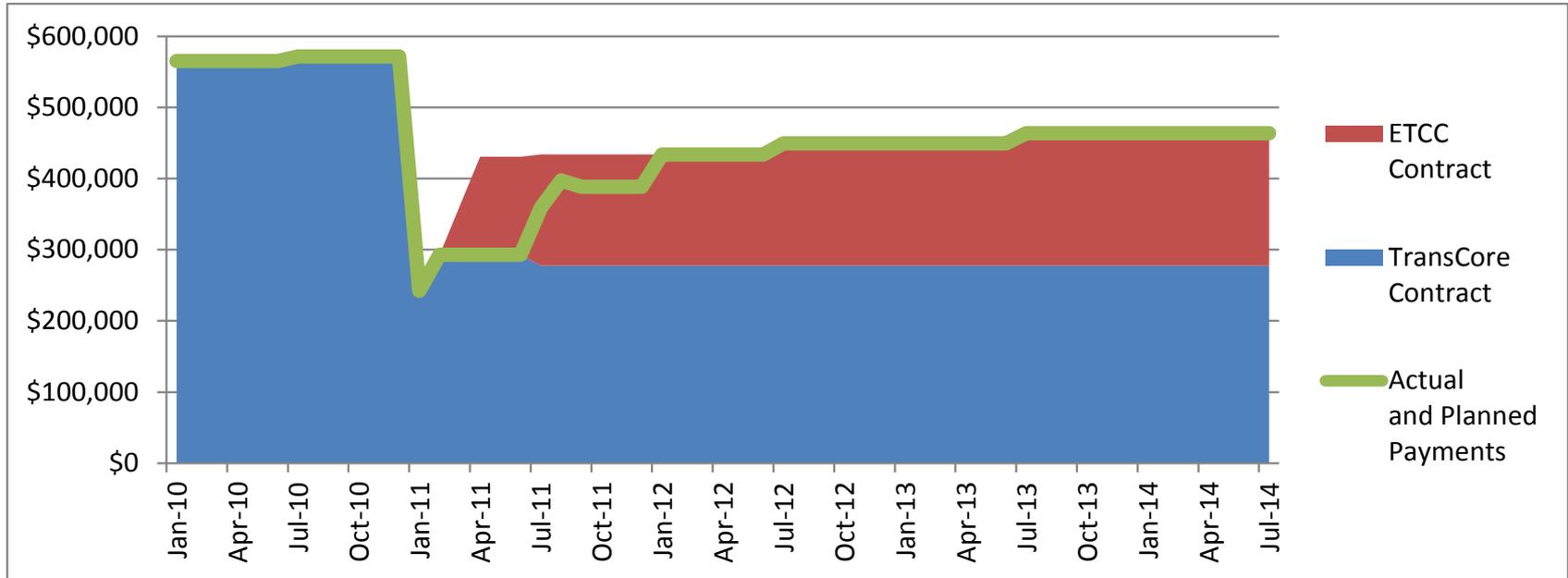
- **Toll reader problems and infraction backlog**
 - TransCore withdrew their offer to install updated toll readers in March, and customers with newer transponders were detected by photo tolling
 - Many existing *Good To Go!* customer transactions were improperly classified as violations
 - Violation processing was backlogged, and many were dismissed
- **The state will hold vendors liable for their share of extra costs and lost revenues**
 - WSDOT will be determining the actual revenue loss due to the NOI issue, however the vendor will dispute being held fully responsible
 - ETCC is reimbursing WSDOT for extending the previous back office vendor contract
 - ETCC is paying for additional State Patrol costs due to delay in the start of photo tolling on TNB
 - ETCC has foregone \$1.5 million of its \$23 million in compensation – this is money they will never recoup

Effect of the New Back Office Contract

Long-term savings

- **TNB ratepayers did not pay for development costs of new back office system or replacement of the toll readers**
 - The Federal Highway Administration's SR 520 Lake Washington Urban Partnership grant paid for development of the new vendor contract
 - The FHWA also paid for the replacement of the toll readers
- **The new contract will result in lower TNB toll collection costs**
 - The new vendor contract is less expensive than the previous one
 - Per-transaction cost will be decreased as fixed vendor costs are shared by rate-payers using SR 520 and other tolled facilities

Vendor Costs with New Contract



- **TransCore now provides lane systems and cash collection only**
- **ETCC customer service center contract has a lower price**
- **No payments made to ETCC between February and June; only partial payments since July until SR 520 tolling is operational**

TNB Quarterly Forecast Update

Changes to preliminary November 2011 Forecast from adopted June 2011 Forecast.

Official November 2011 Forecast to be adopted November 17, 2011

Revenue Update

(dollars in thousands)

	<u>2012</u>	<u>2013</u>	<u>Biennium Total</u>
Base Toll Revenue [#]	(\$3,086)	(\$5,099)	(\$8,185)
Pay-by-mail Impact on Toll Revenue	(\$405)	(\$335)	(\$740)
Transponder/Shield Sales	42	41	83
Violations	335	0	335
Civil Penalties	(417)	0	(417)
Fees	<u>0</u>	<u>0</u>	<u>0</u>
Total Change	(\$3,531)	(\$5,393)	(\$8,924)
Percent Change	-7.1%	-10.0%	-8.6%

[#] Assumes no pay-by-mail impact on toll revenue. Assumes no change on toll rates.

Traffic Update

	<u>2012</u>	<u>2013</u>	<u>Biennium Total</u>
Annual Traffic	(1,006,000)	(1,659,000)	(2,665,000)
Percent Change	-6.6%	-10.3%	-8.5%

Draft Financial Plan Through 2015

Updated on November 15, 2011

Annual Financial Plan

Tacoma Narrows Toll Bridge Account (511)

Draft Financial Plan Through 2015 - Updated on November 15, 2011

Revenue estimate is based on Draft November 2011 Transportation Revenue Forecast; expenditure estimates for FY12 and FY13 are based on agency allotment plan (dollars in thousands)

Fiscal Year	2003	2004	2005	2006	Actuals 2007	2008	2009	2010	2011	2012	2013	Forecast 2014	2015	Total Through 2015	
Toll Rate (Pre-Pay)						\$ 1.75	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75	\$ 2.75	-	
Toll Rate (Cash)						\$ 3.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	358	
Toll Rate (Pay-By-Mail, Customer Initiated)														346,665	
Toll Rate (Pay-By-Mail)														6,526	
Beginning Unreserved Fund Balance	-	36,524	34,597	17,076	44,723	17,753	9,418	16,290	16,413	6,124	3,581	(16,076)	(38,666)		
Operations and Maintenance															
Sources of Funds															
Interest Earnings from Tacoma Narrows Account (511) ¹	-	-	-	8	52	232	281	341	145	62	125	134	140	1,539	
Interest Earnings from Toll Collection Account (456) ²	-	-	-	-	3	3	115	71	33	33	33	35	36	358	
Toll Revenue	-	-	-	-	-	29,960	44,323	45,353	44,049	43,983	44,855	48,410	47,722	346,665	
Pay-By-Mail Impacts on Toll Revenue	-	-	-	-	-	-	-	-	-	924	1,738	1,889	1,975	6,526	
Toll Revenue Used for Financing Deferred Sales Tax	-	-	-	-	-	-	-	-	-	(1,848)	(5,759)	(5,759)	(5,759)	(13,307)	
Transporter Sales Revenue	-	-	-	-	-	760	608	629	644	322	339	341	351	3,994	
Violations	-	-	-	-	-	467	598	594	469	335	-	-	-	2,482	
Civil Penalties Gross Revenue	-	-	-	-	-	-	-	-	-	318	1,273	1,479	1,510	4,580	
Transfers from (to) Other Accounts ³	-	-	-	-	-	(10)	(10)	-	-	(318)	(1,273)	(1,479)	(1,510)	1,998	
Fees ⁴	-	-	-	1,300	-	-	56	104	76	107	107	107	107	665	
Miscellaneous Revenue ⁵	-	-	-	-	913	279	0	16	768	2	2	2	2	1,984	
Inventory Reserve ⁶	-	-	-	-	(343)	(234)	(360)	(190)	397	-	-	-	-	-	
Debt Service Withholdings	-	-	-	-	(14,689)	(28,915)	(34,935)	(44,955)	(40,443)	(49,887)	(54,239)	(54,567)	(54,567)	(320,589)	
Total Sources of Funds for Operations and Maintenance	-	-	-	1,308	5,910	16,777	19,435	12,613	1,638	5,345	(4,528)	(11,671)	(9,993)	33,835	
Uses of Funds															
WSDOT Oversight & Admin. of Toll Operations ⁴	-	-	-	172	1,866	2,180	2,278	2,301	2,260	2,439	2,698	2,754	2,811	21,759	
WSDOT Oversight & Admin. of Adjudication Process	-	-	-	-	-	-	-	-	-	337	952	972	992	3,253	
Toll Operator Contract	-	-	-	490	2,759	9,852	6,932	6,781	5,621	4,893	5,392	5,504	5,618	53,841	
Insurance	-	-	-	-	2,680	1,339	1,602	1,463	1,600	1,600	1,600	1,600	1,600	13,484	
Washington State Patrol	-	-	-	-	572	315	271	209	209	211	410	450	510	3,366	
Maintenance of New Bridge	-	-	-	-	103	269	229	211	113	162	76	125	2,935	2,726	
Preservation of New Bridge, Roadway & Toll Systems	-	-	-	-	-	-	-	-	113	162	76	125	2,935	3,431	
Pay-By-Mail Admin.	-	-	-	-	-	-	-	-	-	65	92	94	96	347	
Compensation Adjustment ¹¹	-	-	-	-	-	-	-	-	-	(39)	(39)	-	-	(158)	
Total Uses of Funds for Operations and Maintenance	-	-	-	662	4,625	15,287	11,132	11,184	9,876	9,888	11,221	11,520	14,558	100,052	
Current Year Balance for Ops. And Maint. (Sources - Uses)	-	-	-	646	1,285	1,390	8,302	829	(8,240)	(4,542)	(15,746)	(22,691)	(24,551)	(63,217)	
Rollulative Balance for Ops. And Maint.	-	-	-	646	1,931	3,321	11,624	12,453	4,213	(229)	(16,076)	(38,666)	(63,217)		
Capital Improvements															
Sources of Funds															
Interest Earnings ⁷	2,126	1,239	774	1,523	1,802	824	400	-	-	-	-	-	-	8,687	
Bond Net Proceeds ⁸	231,207	197,234	108,634	111,986	16,002	12,716	-	-	-	-	-	-	-	677,780	
Capitalized Interest (Debt Service)	-	-	-	(1,792)	(2,580)	-	-	-	-	-	-	-	-	(4,372)	
Toll Revenue Used for Financing Deferred Sales Tax	-	-	-	-	-	-	-	-	-	1,848	5,759	5,759	5,759	23,726	
Charges for Services	-	-	4	2	145	-	-	-	-	-	-	-	-	152	
Transfers from Motor Vehicle Account (MVA)	39,000	-	-	-	-	-	-	-	-	-	-	-	-	39,000	
Total Sources of Funds for Capital	272,332	198,473	109,412	111,720	15,369	13,540	400	-	-	1,848	5,759	5,759	5,759	734,613	
Uses of Funds															
Capital Expenditures ⁹	235,808	200,400	127,046	84,720	43,623	23,319	2,230	707	50	-	5,759	5,759	5,759	717,902	
Deferred Sales Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	17,278	
Prior Period Recoveries	-	-	(113)	-	-	(54)	(400)	-	(7)	-	-	-	-	(568)	
Total Uses of Funds for Capital	235,808	200,400	126,933	84,720	43,623	23,266	1,830	707	49	-	5,759	5,759	5,759	734,613	
Current Year Balance for Capital (Sources - Uses)	36,524	(1,927)	(17,521)	27,001	(28,254)	(8,726)	(1,430)	(707)	(49)	-	(3,911)	-	-	-	
Rollulative Balance for Capital Improvements	36,524	34,597	17,076	44,077	15,822	6,097	3,960	3,911	-	-	-	-	-		
Ending Unreserved Fund Balance	36,524	34,597	17,076	44,723	17,753	9,418	16,290	16,413	6,124	3,581	(16,076)	(38,666)	(63,217)		
Days of Expenses Covered by Ending Fund Balance															
Sufficient Fund Balance = Ending Fund Balance / (Total Uses of Fund + Debt Service)										35.1%	14.8%	7.1%	-24.0%	-54.1%	-64.4%
12.5% Sufficient Minimum Balance										5,849	6,860	6,291	6,356	8,939	9,361
Additional Fund Balance Needed to Reach 12.5% Sufficient Minimum Balance												2,710	24,434	47,605	72,578

¹ For GAAP purposes, Interest Earnings, Donations, Debt Service and Transfers displayed as Operations Sources of Funds are considered to be Nonoperating Activities.

² Interest income displayed is net of the cost of investment activities. The interest earning estimates from TNB account in FY13 to FY15 assume the annual ending fund balance will reach the required 12.5% Sufficient Minimum Balance.

³ The payment of \$5,288m to the Motor Vehicle Account (MVA) is included in 2011-13 Biennium in the 2010 Supplemental Legislative Financial Plan. As required by Chapter 249, Laws of 2010, starting from July 1, 2011, TNB civil penalty revenue must be allocated toward repayment of the \$5,288 m MVA loan.

The enacted Legislative 2011-13 budget specifies the repayment to MVA account is the \$543,000.

⁴ Includes NSF check, Customer Service Center administration fees, and the reprocessing fee associated with the second PBM statement.

⁵ Includes contractor liquidated damages for late project delivery, cash over, prior period recoveries, \$102k of donations for grand opening in FY08, \$2,350 down-payment for the \$21.50 sale of surplus right of way in FY10.

and the \$164 monthly payment for the same real estate sale starting from FY11 for 19 years. The \$10,000 in FY09 reflects a transfer to the Health Care Authority Admin. Account for the state insurance accounting system supporting FTEs assigned to the TNB.

In FY11, \$763,297 was paid by toll vendor as the contractual damages. Among the \$763,297 \$11,556 was from TransCore and \$396,000 was from ETCO due to vendor system issues which caused a decrease in toll revenue; another \$355,741 was paid by ETCO to repay related TNB costs.

Inventory Reserve represents the change in consumable inventory of transponders from year to year. For governmental fund financial reporting, inventory balances are recorded as a reservation of fund balance so they are not spendable resources.

⁶ In 2010, a new law (Chapter 249, Laws of 2010, Sec. 8(3)) authorizes the use of the Toll Collection Account (495) to record transponder inventory upon certification of the new statewide tolling operations center and photo toll system are fully operational. This certification is expected to take place in FY12.

⁷ Uses of Funds for Operations in FY12 and FY13 reflect agency proposed 2011-13 allotment plan. Operation and maintenance uses except for insurance, maintenance, preservation is inflated in FY14 and FY15 using half the rate of IPD. Maintenance and preservation are from WSDOT plan updated in Spring 2011.

⁸ WSDOT Oversight & Admin. includes Credit Card and Bank Fees, Transponders, Salaries and Benefits, Personal Service Contracts, Travel, and Capital Outlays for use in TNB Operations.

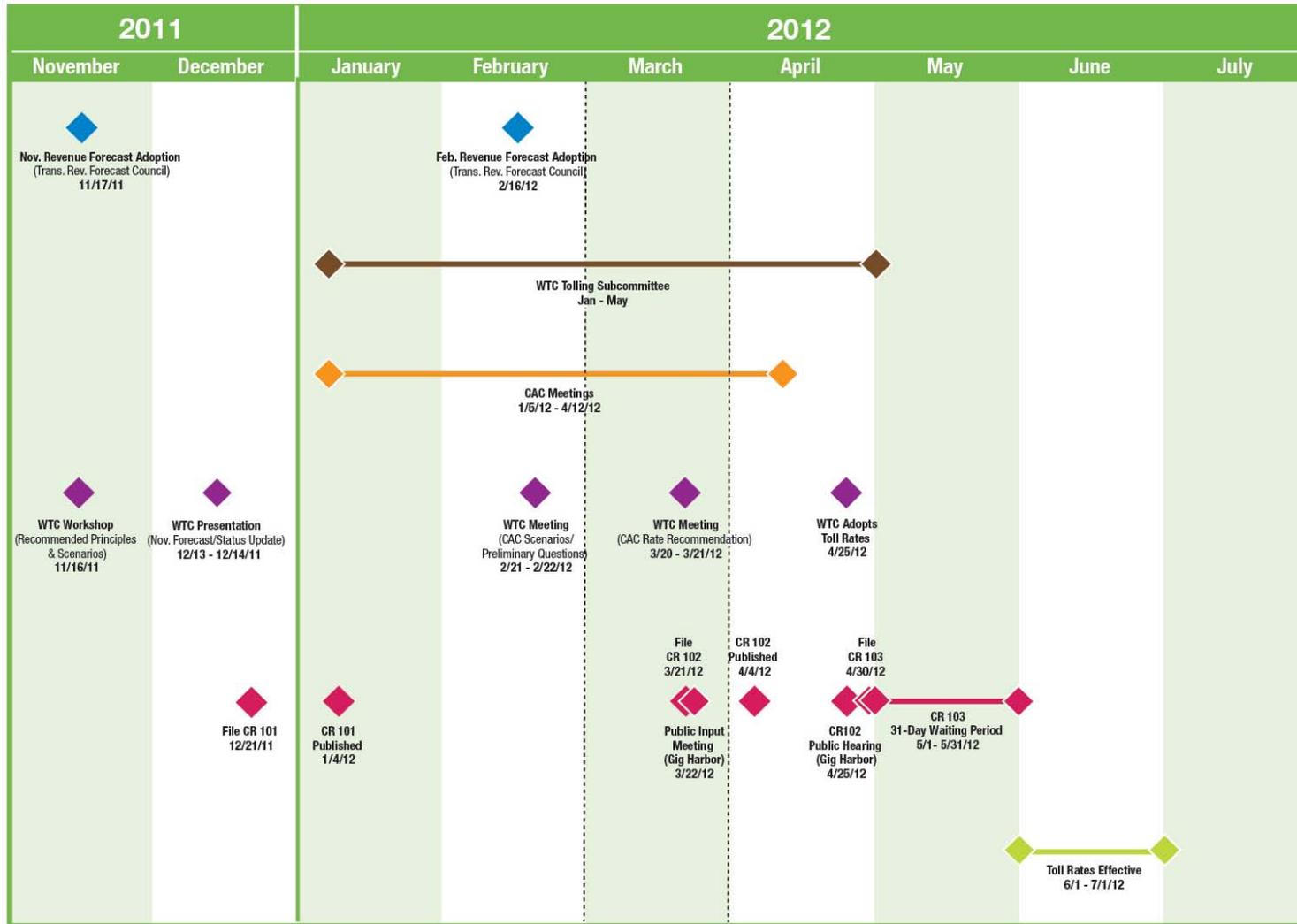
⁹ The \$677.78m bond net proceeds for Tacoma Narrows Bridge include \$681.17m PAR amount, \$3.03m premium, and \$6.42m underwriter discount/cost of issuance.

¹⁰ In addition to the \$718 million capital expenditures from TNB account, \$11 million was spent on the TNB capital improvement from MVA account in the 1999-2001 and 2001-2003 Biennia prior to the creation of Tacoma Narrows Toll Bridge Account.

¹¹ The compensation adjustment is based on the assumption of a 3% salary reduction which is expected to be included in the 2011-13 general fund operations budget. This amount could change.

See Handout

Proposed Rate-setting Process



11/14/11

Communications

- **WSDOT is committed to a “no surprises” approach**
- **Before each CAC meeting:**
 - Commission Tolling Subcommittee will meet
 - WSDOT and Commission staff will brief CAC leadership
 - Draft CAC presentations will be provided to CAC leadership and copied to key legislative offices
- **Dan O’Neal will represent the Transportation Commission at CAC meetings**
 - Will coordinate with Tolling Subcommittee and Commission staff as needed

Questions?

For more information,
please contact

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