WASHINGTON STATE TRANSPORTATION COMMISSION

Special Joint Work Session with the Tacoma Narrows Bridge Citizen Advisory Commission
Olympia, Washington
November 16, 2011

The Special Meeting of the Washington State Transportation Commission was called to order at 9:00 a.m., on Wednesday, November 16, 2011, at WSDOT Headquarters Building, Commission Boardroom, 310 Maple Park Avenue SE, Olympia, Washington.

CHAIRMAN WELCOME AND INTRODUCTIONS

Chairman Ford opened the meeting noting that today's meeting will be an interactive conversation to get background information and a status update on current traffic volume and revenue. Today's meeting is a work session only – there will be no public comment.

Representative Larry Seaquist thanked the Commission for kicking off the toll setting process with the CAC.

Members of the CAC introduced themselves to the Commission:

Chris Myers, Gig Harbor
Ron Jones, Gig Harbor
Jim Pasin, Gig Harbor
Alan Weaver, Gig Harbor
Melody Grigg, Gig Harbor
Amy Matsuno, Port Orchard
Ted Hilliard, Tracyton

Chairman Ford noted that the Commission will expect a recommendation from the CAC during its March meeting in order to meet the requirements of the administrative rule filing process.

TOLLING UPDATE

Dave Dye, Chief Operating Officer and Craig Stone, Director, Toll Division, WSDOT, opened the meeting with a tolling update. Mr. Dye explained that today's meeting is setting up what the challenges are going forward.

Mr. Stone provide an overview of the rate setting history and the finance plan for new members of the Commission and the CAC. The original finance plan called for a $3 initial cash toll on all two-axle vehicles, increasing to $6 in three $1 increments occurring in 2012, 2013 and 2016. A policy decision was made to give a $1.25 discount as incentive for transponder users. The reasoning behind this decision was to help prevent backups at the toll booths and allow for free flow traffic. Since the initial rate setting the Legislature deferred the project sales taxes with repayment to begin in December 2012. $5.288 million was loaned from the Motor Vehicle Account in 2007 to help cover start-up costs. Repayment will be from civil penalties and will begin this biennium with no distinct end point for repayment.

Representative Seaquist noted that the $1.25 is a differential rate between cash and the electronic toll. The decision to implement the differential rate was based on extensive conversation between the Commission and the CAC.

Chairman Ford commented that it is important to note that the Commission and the CAC made this decision to encourage the use of a Good To Go transponder. In hindsight transponder use has been very successful which reduces revenue.

Commissioner Haley questioned that if in fact, the differential rate is an incentive then how long will it be in place?

Reema Griffith, Executive Director, WSTC, explained that the logic to the incentive was directly tied to the cost of cash collection vs. electronic collection. ETC incentives are nationally recognized on toll facilities

CAC member noted that the CAC agreed that the ETC rate was an effective way to deal with the diverse requests for special rates.

Mr. Stone moved on to explain that traffic and revenue are below the forecast. Like all revenue forecasts, travel has fallen due to the economy. He noted that getting the new customer service center up and running is not a contributing factor.

When the debt service payment schedule was set it was predicted that traffic would grow, and the payments and toll rates to increase over time. There is no loss in traffic, but it has not continued to grow as predicted. In March 2011 it was recognized that traffic volumes had flat lined as the economy continued to slow.

Currently the statute declares that rates must be sufficient to meet debt service obligations as per the Commission's policy to impose a sufficient fund balance of 12.5 percent of the annual debt service and expenditures. Prior forecasts suggested that a toll rate increase might not be needed before July 1, 2012. The rate increase was deferred in 2011, reflecting a conscious decision to lower fund balance to the 12.5 percent sufficient balance policy level.

Representative Seaquist noted that he and Senator Kilmer have encouraged, that given the economy, that toll increases should be delayed as long as possible. We have now reached a point where this needs to be rethought. There were a number of steps taken to try to lower the cost of using the bridge for the users during these economic difficult times.

Dave Dye, Chief Operating Officer, WSDOT, noted that the reserve has been drawn down to the point where if continued at this rate it will go negative by fiscal year 2013. He briefly touched on the effects of the new back office and new transponder readers noting that there were many issues in the transition. Going into the 2013 legislative session the Department will make a recommendation on removing the TNB cash toll booths depending on traffic flow and revenue. The new ETC system is currently being tested to make certain that functionality is working well. He pointed out that more and more states' have gone to all electronic tolling and pay by mail.

The new back office vendor contract will cost less than the previous one. In the new contract the per-transaction cost will be decreased as fixed vendor costs are shared by rate-payers using SR 520 and other toll facilities.

Alan Weaver, CAC member, asked if there is enough cost built into pay-by-mail to cover administrative costs.

Mr. Dye responded that the pay-by-mail option includes $1.50 administrative fee. The key will be what the traffic volumes are when operations begin as to what the actual costs are.

Action/Follow-up: policy discussion regarding incentive rate

Tolling Update

TACOMA NARROWS BRIDGE (TNB) REVENUE AND ECONOMIC CHALLENGES

Jeff Caldwell, Assistant Director, Financial Planning and Bob Covington, Director, Division of Accounting & Financial Services, WSDOT, provided an overview of the TNB Annual financial statements for the close of the last fiscal year. Comparing FY10 ($45.3M) tolling revenue vs. FY 11 ($44M) tolling revenue is inline. As of June 30th there are aged out transactions from lost tolls as a result of ETCC actions amounting to $396K is being recovered and another $11K is being recovered through the lane vendor. From an operating revenue perspective we are on target in comparison to FY10. The bottom line on total operating revenue for FY11 is $46M as compared to FY10 $46.6M. Operating expenditures for FY11 were $9.8M as compared to $11.1M in FY10.

Action/Follow-up: None

TNB FINANCIAL STATEMENTS, QUARTERLY REVENUE FORECAST AND ANNUAL FINANCIAL PLAN

Mr. Covington explained that a significant point to look at is the change in the fund balance. In FY10 there was an increase in fund balance by $313K in contrast to FY11 where $8.6M was consumed from the fund balance moving from a beginning fund balance of $16.8M down to $8.1M. If we continue down this path with the same type of activity as FY10 and FY11 without any type of change or action, without the increase in debt service or the repayment to the Motor Vehicle Fund, we would see ourselves on a decline until a deficit is reached. Commissioners and Mr. Covington held a lengthy discussion on the delay in payment of Notice of Infractions from Pierce County Court and the impact that it has on the TNB financial statements. He reassured them that when we transition over to civil penalties that we shouldn't have the delay.

Mr. Dye noted that the Department is holding a series of briefings leading up to the Secretary's certification of the photo tolling. This is a transition period that must be timed correctly so there are no overlaps in NOI and photo tolls.

Mr. Caldwell provided an overview of preliminary revenue on the TNB based on the current toll rate. The forecast brings down the base toll revenue by about $3M based on the delay in bringing photo tolling on board as well as other issues. If the toll were to remain at the current rate the account would become negative at the end of 2013. At the end of June 2012 the sufficient minimum fund balance would be at 7.1 percent as opposed to the targeted 12.5 percent.

Action/Follow-up: None

Comparative statement of revenues, expenses and challenges in the fund balance

[Project and reported traffic and revenue](#)
[Tacoma Narrows Bridge account](#)

<u>2012 RATE SETTING: FINANCIAL OUTLOOK</u>

Noah Crocker, Senior Financial Analyst, WSTC, explained that his presentation looks at the big picture and covers four things:

- Fund Balance
- Revenue and Expenses
- Debt Service
- Challenges over the next five years

The Tacoma Narrows Bridge fund balance from 2008 to 2012 reflects an interesting picture. In FY 2008 ending fund balance was roughly $10 million by the end of FY 2009 the fund balance had significant growth to $16.5 million which was a reflection of the first full year of the rate increase. The fund balance remained stable through 2010 at which point a policy decision was made by the Commission to spend down the fund balance rather than raise rates to meet expenses. At that point in time the Commission set a Funding Balance target of 12.5% of annual O&M and Debt service. The fund balance has continued to be drawn on and is now projected to be 8% by the end of FY 2012.

Revenue and expenses from 2008 thru 2012 reflect a similar story. Revenue remained consistent from 2009 thru 2012 as traffic remained relatively flat. Revenue consistently met expenses thru FY 2010. However, in FY2011 expenses exceeded revenue and is expected to do so in FY 2012. The primary reason for the increases in expenses is due to an increasing debt service schedule. While debt service has been increasing each fiscal year, operations and maintenance has been going in the opposite direction as the Department is becoming more efficient and effective--driving the costs down. With revenues remaining flat and debt service increasing, the only way the account can continue to be financially solvent is to spend the fund balance, and that is what we have been doing. Debt service as a percentage of the toll revenue is 102 percent. The toll rates are not set at a level that meets the debt service due in the current fiscal year.

Observing traffic volume and revenue on the bridge it was noted that for FY 2011 ETC customers were responsible for generating 65 percent of the overall Toll Revenue whereas the cash customers generated 35 percent of the overall Toll Revenue. Furthermore, in observing the Traffic volume in 2011, the ETC customer represented 72 percent of traffic volume and the cash customer represented 25 percent of the volume with 3 percent of the traffic volume consisting of violators. To summarize 72 percent of the volume is responsible for 65 percent of the revenue. This will need to be taken into consideration as we look to increase rates in the coming months.

As we look forward the challenge is the steepness of the debt service curve. The debt service has an incredibly steep slope over the next 7-10 years. In addition, current toll rates are insufficient to generate enough revenue to meet the debt service requirements. Debt Service grows by 6% in FY 2013 and by 19% in 2014 to a level of $54 million. Debt Service will peak at $87 million in the year 2029. The challenge is that the toll revenue is currently generating approximately $44 million per year and is not keeping pace with the growing debt service level without including O&M and a SMB.

Chairman Ford asked when the debt service could be restructured. Mr. Crocker responded that the bonds are zero coupon bonds and cannot be refinanced.

Mr. Caldwell responded that two of the bonds could be refinanced within the next five years, but it equates to less than 10 percent of the total debt and the Commission has no control over whether those particular bonds do get refinanced.

Mr. Crocker provided an overview of future funding requirements noting that there are two ways to address the issue; one is through the ending fund balance and the other is toll revenue. Most importantly as we prepare for the next rate increase as we look ahead to FY 2013 the Funding need is estimated to be roughly $70 million. He noted that currently the beginning fund balance for FY 2013 is projected to be approximately $4 million; which means the remainder of the $66 million funding need will be addressed through toll rate increases.

Action/Follow-up: None

2012 Rate Setting Financial Overview

POTENTIAL 2012 RATE SETTING SCHEDULE

Mr. Dye commented that a schedule should be set for the Department, Commission and CAC moving forward with rate setting in order to meet the filing timeline of the administrative rule.

DISCUSSION/NEXT STEPS

Commissioners and Mr. Dye discussed the process and public outreach moving forward.

CAC member, emphasized that the Good To Go customer service center needs to be more customer friendly. She personally had a bad experience on the phone with a representative.

Mr. Dye responded that the Department has been working towards a better experience for customers.

Mr. Pasin, CAC member, requested that the Department provide him with the cost for collections.

TRANSPORTATION COMMISSION

DICK FORD, Chairman	PHILIP PARKER, Vice-Chairman
TOM COWAN, Member	DAN O'NEAL, Member
JERRY LITT, Member	ANNE HALEY, Member
JOE TORTORELLI, Member	
TERESA BERNTSEN, Ex-Officio Member Governor's Office	PAULA HAMMOND, Ex-Officio Member Secretary of Transportation

ATTEST:

REEMA GRIFFITH, Executive Director	DATE OF APPROVAL