## PROPOSAL FOR COMMERCIAL ACCOUNT REGULATORY LANGUAGE

The current commercial account discount policy is no longer formally included in the WAC. As part of its review of various programs implemented in the years after the loss of Motor Vehicle Excise Tax (MVET) revenues, the Commission has determined that the current approach is consistent with policy intent, WAC provisions, and is working well from an operational point of view.

The Commission proposes that the regulatory language be amended in October 2017, as follows, to codify the existing commercial account program.

### *Proposed WAC Language*

Underlined language represents new text or additions to existing text, and strikeouts represent language proposed to be removed from the WAC.

**WAC 468-300-040** <u>**COMMERCIAL ACCOUNTS**</u> ~~DISCOUNT FROM REGULAR TOLL - Effective June 1, 2005, through fall of 2005, oversize~~ <u>Commercial customers</u> ~~vehicles~~ making 12 or more, one-way crossings per week (Sunday through Saturday) will qualify for a 10% discount from the regular ferry tolls. ~~With the implementation of EFS in spring 2006,~~ WSF will provide a commercial account program that will be prepaid and offer access to volume discounts based on travel, revenue or other criteria in accordance with WSF business rules. On an annual basis, commercial accounts will pay a $50 nonrefundable account maintenance fee.

## Background

WSF offers commercial customers the option of establishing an account to manage their ferry system use. Participating in the commercial account program allows an eligible firm's employees to charge their ferry travel to the account, which WSF then bills to the accountholder monthly, greatly simplifying the process of using the ferry system, particularly for larger fleet operators.

Another feature of the commercial account program has been the ability to earn discounts for frequent use, though the frequency requirement is much higher (6 round-trips per week) compared to other frequent user discounts.

In 2001, when WSF was tasked with dramatically increasing its fare revenues to partially mitigate for lost MVET revenues, the Tariff Policy Committee reviewed all the discounts offered to ensure that they made sense in the new fiscal environment. At the time, commercial account customers that met the frequency threshold enjoyed a 20% discount on their travel, which was on par with the regular vehicle frequent user discount, but lower than the passenger discount of 40%.

Based on its review of discount policies, there was a recommendation to reduce several discounts including the commercial discount, which was proposed to drop from 20% to 10%, phased over two years. The discount was reduced from 20% to 15% in 2001.

During the subsequent Tariff Review cycle, new leadership at WSF introduced a new strategic vision for how the Ferry System would address the increased operating revenue requirements. The 5-5-5 Plan proposed that ferries would increase operating cost recovery by increasing fares by 5%, increase non-fare operating revenue to support 5% of operating costs and reduce operating costs by 5%. The goal was to achieve legislative cost recovery goals while reducing the magnitude of scheduled fare increases – the budget at the time had assumed a 10% and 7.5% increase for the next two years followed by 5% increases thereafter.

One area where WSF expected to generate additional non-fare operating revenue was through an expanded commercial account program that would aggressively market ferry services to freight and other commercial ferry customers. Thus, the 2003 Fare Proposal included changes to the commercial program that would:

> "Replace commercial frequent user discount with a program of negotiated contracts where WSF would enter into agreements with individual commercial account customers, allowing WSF to offer incentives for increased use of the Ferry System or for beneficial changes in customers' usage patterns."

This was part of a larger strategy where WSF would have the flexibility to engage in promotional programs and negotiate individual agreements that would increase overall revenues. Toward this end, the WAC was modified as follows:

- Changed existing language governing promotional tolls and charter fares to shift authority from the WSDOT Secretary to the WSF CEO.
- Removed language limiting promotional discounts to less than 50% of full fare and less than 100 days per year on any one route.
- Provided discretion to adjust markup for charter fares based on market conditions in place of the prior language which required a fixed markup of 50% over the full cost of the chartered trip.
- Added language to allow WSF to negotiate individual contracts with commercial users regarding the factors that qualify a customer for a discount and the amount of discount that would apply.

Qualification for a discount could be based on, but not limited to, any of the following factors: dollar volume, total number or frequency of trips, or time of day of travel. Given this flexibility, WSF would be able to offer incentives to a broader range of customers than is currently the case. For the commercial account program, the intent was to allow WSF to actively engage in negotiations with each existing commercial account customer to determine beneficial travel arrangements and the basis for future discounts, such as frequency of travel, dollar volume of business, and time of travel.

Following these changes, WSF used the newly adopted CEO discretion provisions to continue the commercial account discount program for an interim period to allow time for staff to negotiate agreements with commercial customers. A discount rate of 10% was used, reflecting the original policy decision to complete the phase-in of the new discount policy.

In the years since, for various administrative and policy reasons, WSF has not implemented any commercial account agreements and so the interim discount policy has been continued. Currently, there are 1,286 active commercial accounts. Ridership on these accounts totaled 329,367 in FY16 for a total of $9,486,409 in fare revenue.