



Washington State Transportation Commission

# Long-Term Ferry Funding Study Findings and Final Recommendations

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

**March 2, 2009**

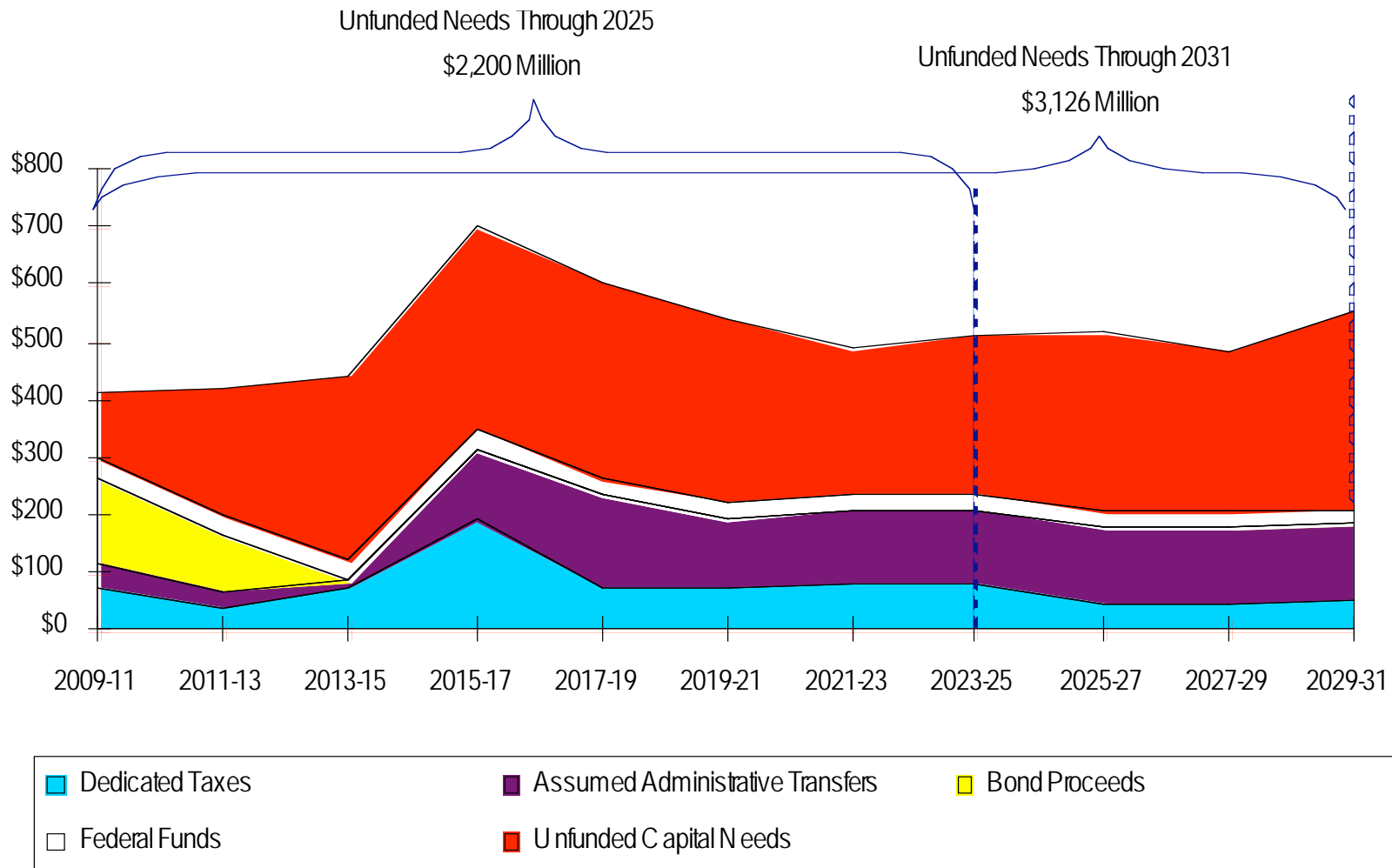


# Presentation Agenda

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- **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**

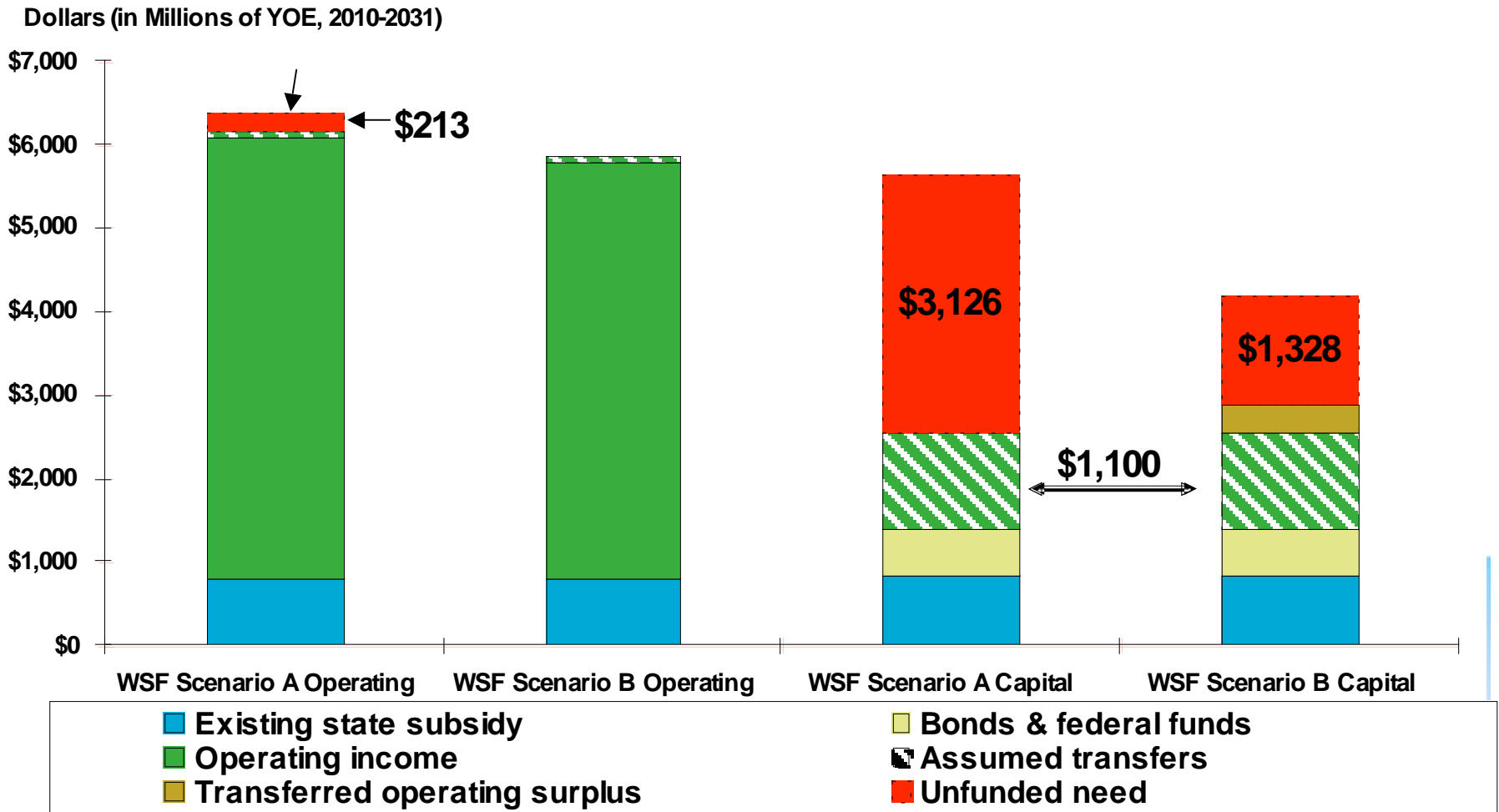
# Capital Revenue and Unfunded Capital Need WSF Scenario A



# 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

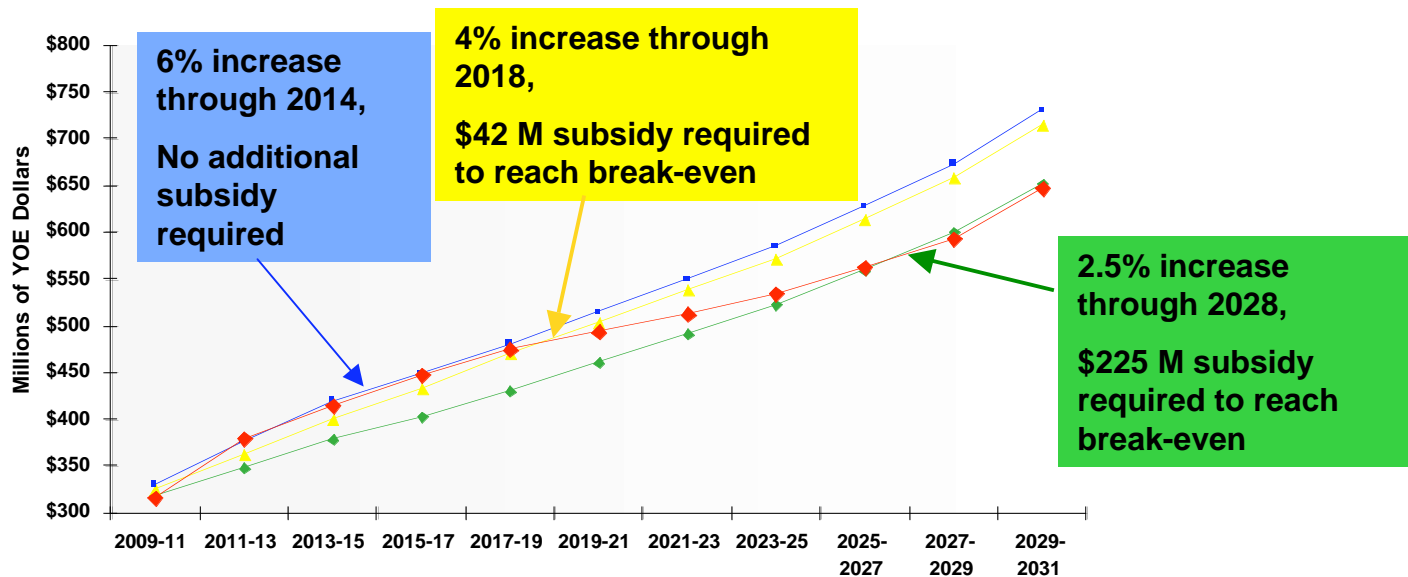


# Fare Increases Can Offset, But Not Fully Address Total Ferry Funding Needs

- **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 31<sup>st</sup>, 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.

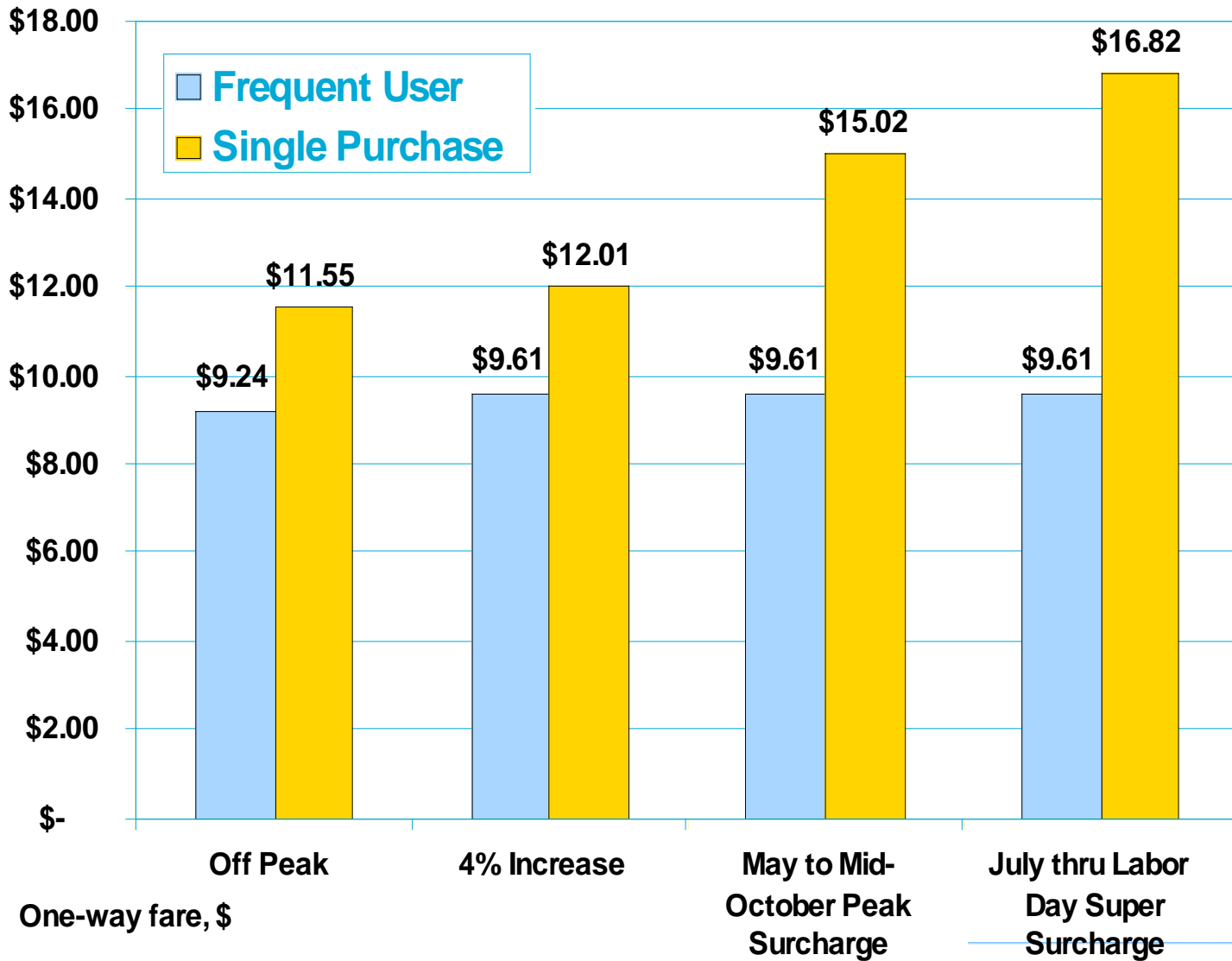
7 “**6 % Increase**” – (blue) Same as 4% but increase capped at 6% / year until revenue target met, thereafter at 2.5% / year.



# Example Fare Increments

## 4% Base Increase plus “Super Summer Surcharge”

Existing and Example One-Way Fares, Central Sound Routes



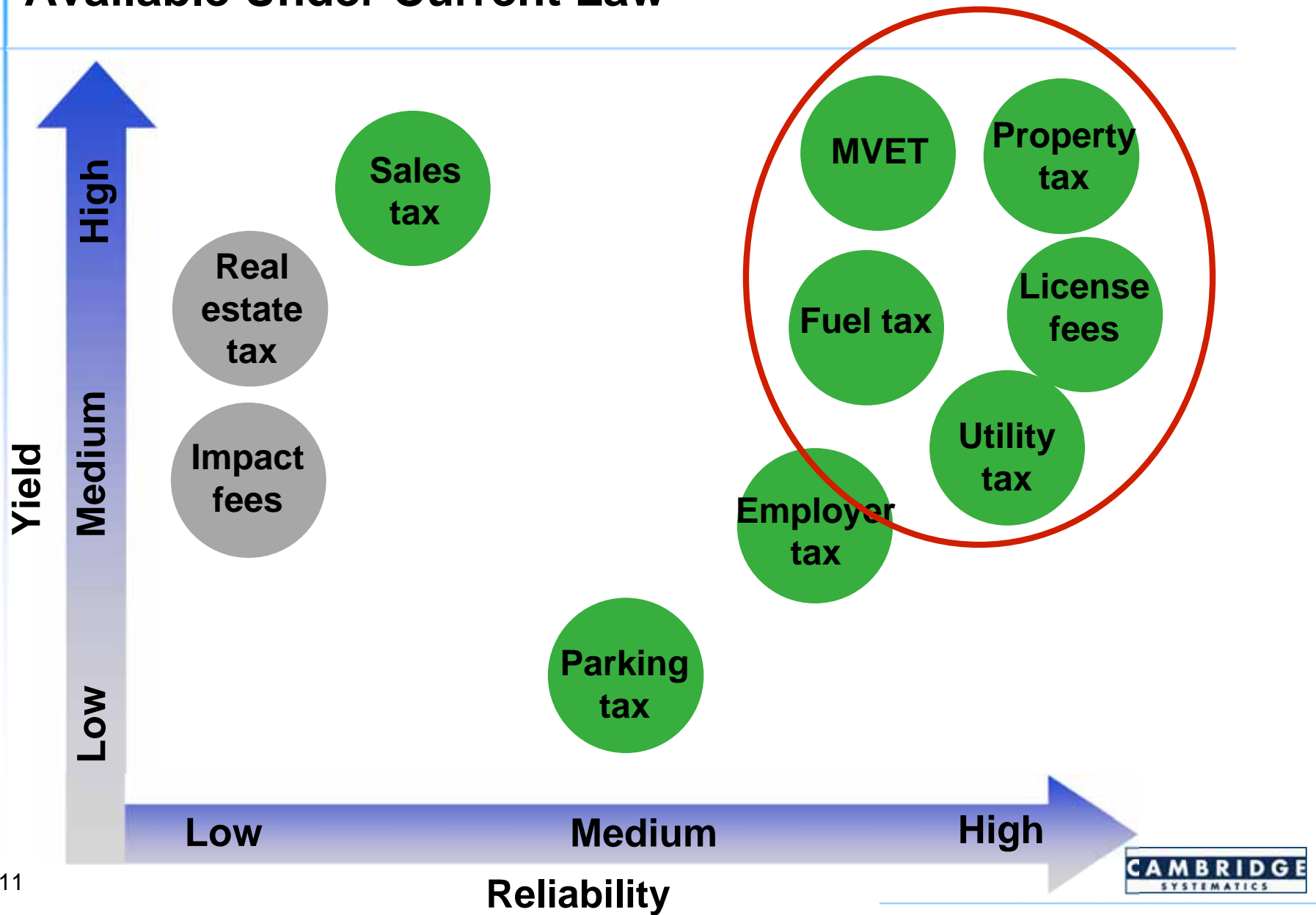
# Local Sources of Revenue



# 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

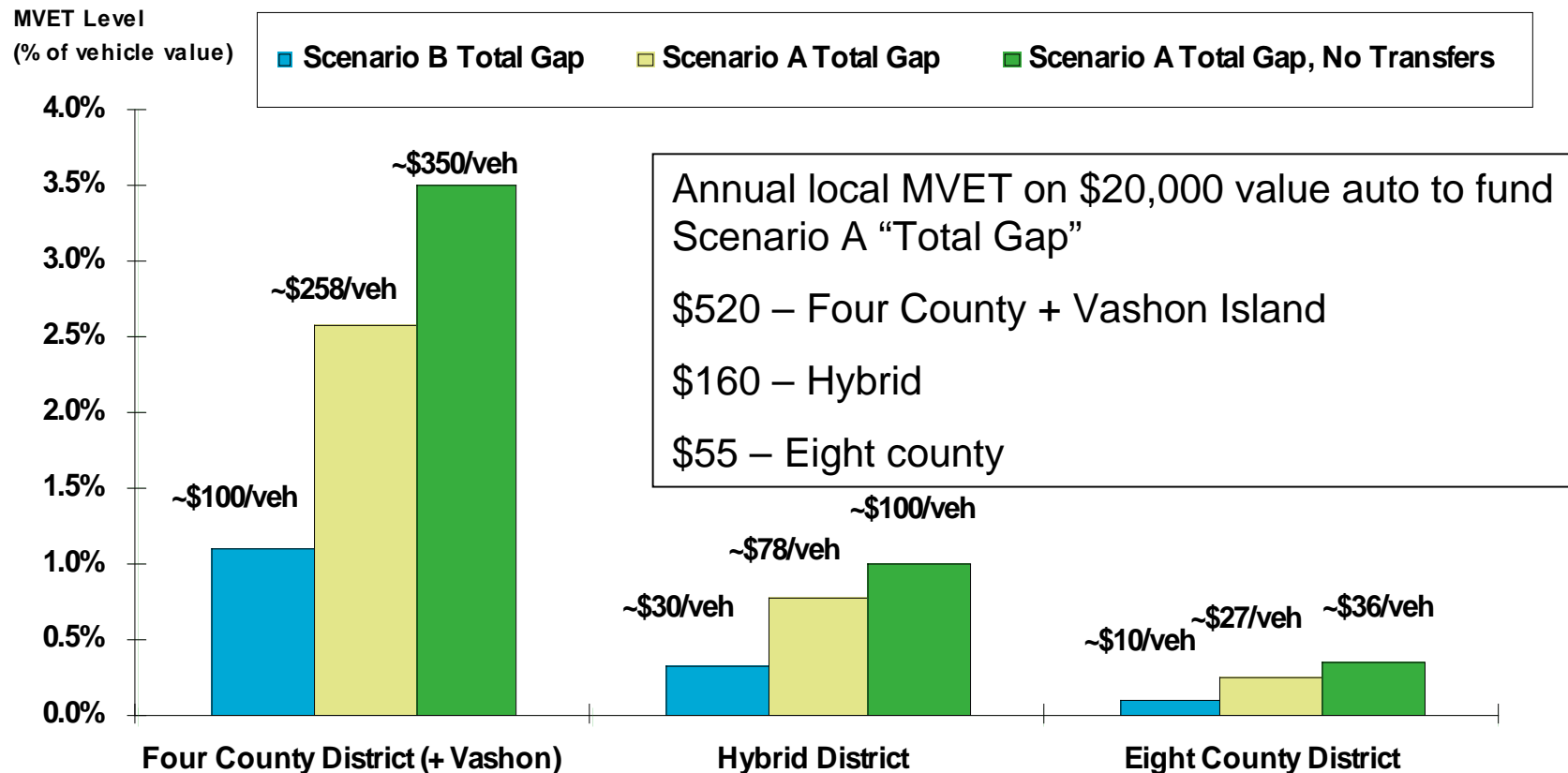


Chart reflects *local* MVET level necessary to fill 22-year total funding gaps for full Scenario A, Scenario A without administrative transfers, and Scenario B. Amounts shown are the approximate MVET paid on a vehicle worth \$10,000, the current average value of vehicles in Washington State private fleet.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

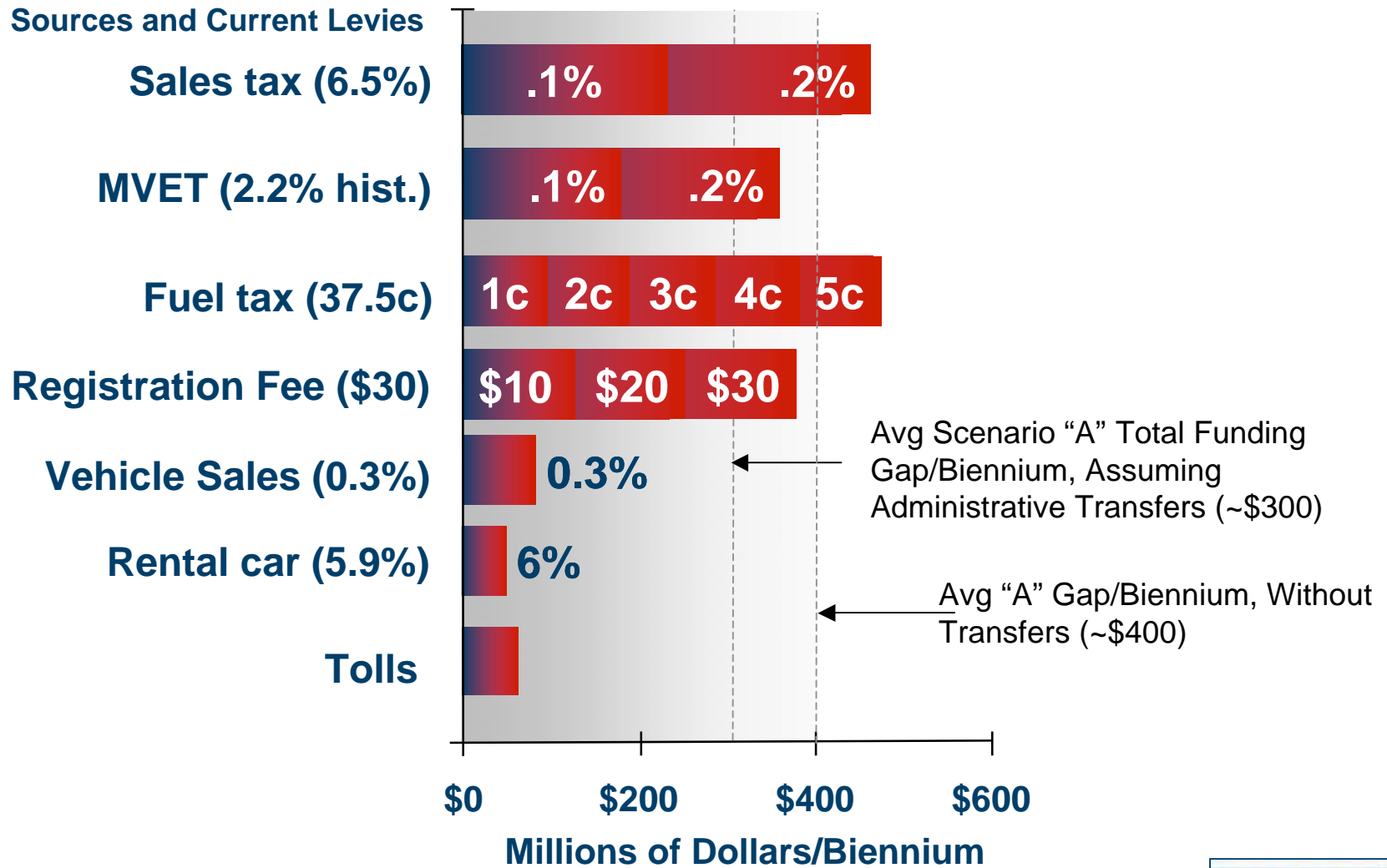
- four county district - Island, Jefferson, San Juan, and Kitsap Counties, and Vashon Island
- hybrid district - four county plus portions of King and Snohomish counties adjacent to Puget Sound, and
- eight county district - Island, Jefferson, San Juan, Skagit, Pierce, Snohomish, King, and Kitsap.

# 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**

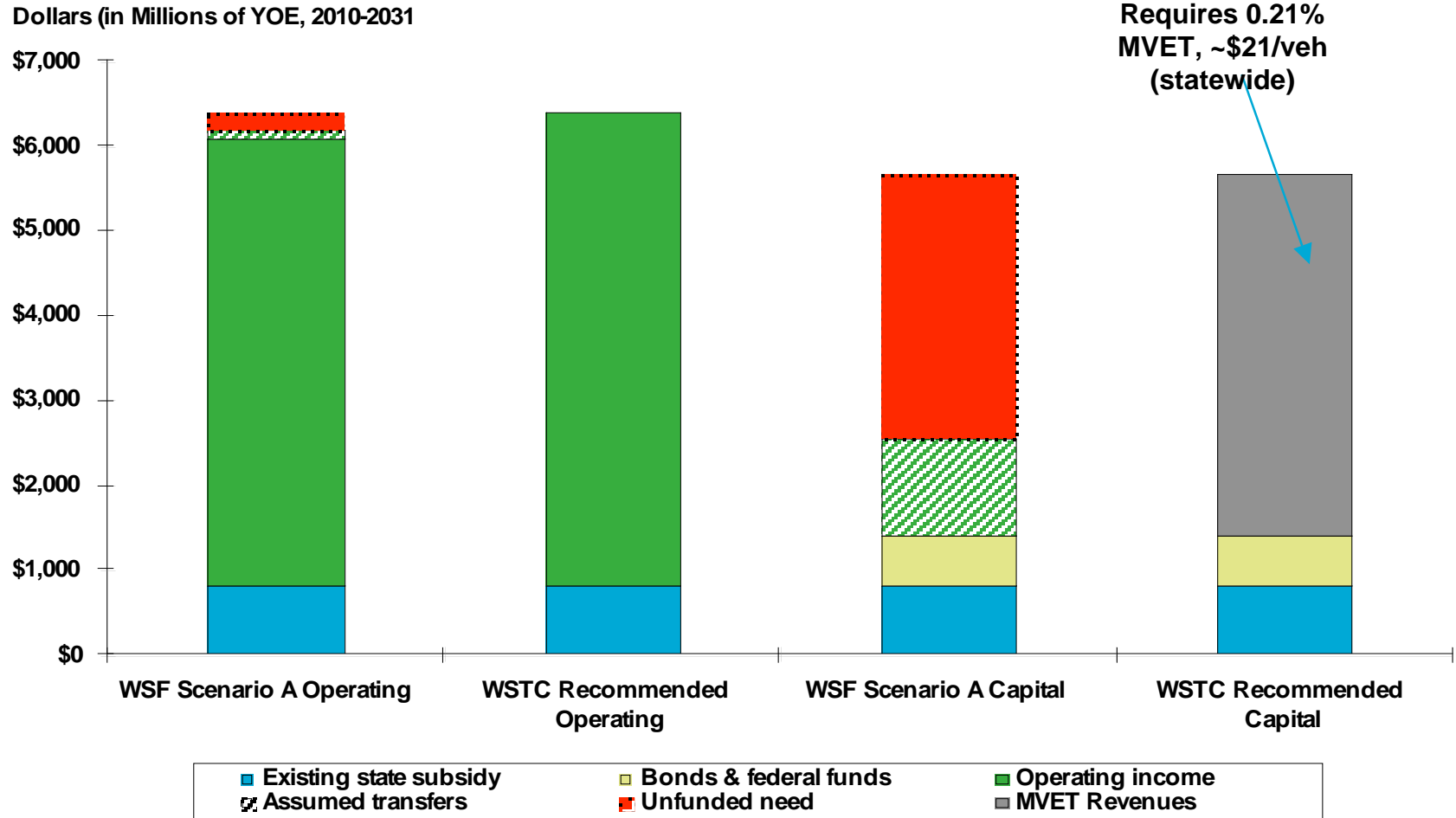
# Treat Fare Revenue as Local Contribution to WSF Funding Need

- **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

