Washington State Transportation Commission

Long Term Ferry Funding Study Status Update

presented by Cambridge Systematics, Inc.

September 2008
Major Study Products

- **JULY 08**: Preliminary Screening Report
- **NOV 08**: Draft Funding Plan
- **JAN 09**: Final Funding Plan

**September**

Currently in between preliminary report and draft funding plan
Impact of Loss of MVET on Operating Budget

1. MVET – Motor Vehicle Excise Tax
2. Includes a portion of the motor fuel tax and revenues from licenses, permits, and fees.
3. Predominantly fare revenue but also includes income from terminal and on-board concessions, parking, advertising, etc.
4. Ad hoc transfers from Motor Vehicle and Multimodal accounts. These vary year to year and are not guaranteed or dedicated for ferry use.
Other state sources of revenue have been tapped to fill gap created by loss of MVET.
Factors Affecting Capital Needs Estimates

- **Timing of preservation expenditures**
  - Deferred preservation from previous years spread out over several future years

- **Number and timing of vessel acquisitions**
  - Current plan has majority of new vessel acquisition costs in second half of plan, i.e., FY2021 to FY 2031

- **Construction cost escalation**
  - Uncertainty in long-term vessel construction costs

- **Terminal enhancements beyond “replacement in kind”**

- **Financing costs**
Notes: The 05-07 Biennium represents actual revenues/expenses. The 07-09 Biennium represents actual FY08 revenues/expenses plus projected FY09 revenues/expenses. The 09-11, Average, and Final Biennia represent revenues/expenses projected in the Washington State Ferries Baseline Needs Analysis, released August 2008.
Capital Need Over Time
Year of Expenditure Dollars, Millions

Notes: Capital need figures from WSF Adjusted Baseline Needs Analysis, released September 2008
**Estimated Future Capital Need**

**Projected Average Annual Capital Funding Gap**

- **Funding gap of $155m in average year**
- **Capital Needs Funding Gap**

- **Bond proceeds**
- **Nickel and TPA***
- **Federal Funds**
- **Fuel tax**

Average annual capital program over 22 years, in year of expenditure $.

*Nickel and Transportation Partnership (TPA) Accounts are funded through the fuel tax and other sources. Funds needed to pay debt service are included.*
Factors Affecting Operating Needs Estimates
Uncertainty Exists on Both Cost and Revenue Side

- Fuel cost: “Pessimistic” projection assumes near term decline followed by longer-term increase in cost

- Labor cost: Based on long-term averages, lower rate of increase than most recent biennia

- Ridership: Assumes approx. 1.5% per year increase with no corresponding expansion in fleet capacity

- Fares: Assumes 2.5% average annual fare increase

- Fare elasticity: More analysis required to gauge ridership and revenue impacts of any significant fare increase
Operating Revenue and Expenses
Year of Expenditure Dollars, Millions

Notes: The 05-07 Biennium represents actual revenues / expenses. The 07-09 Biennium represents actual FY08 revenues / expenses plus projected FY09 revenues / expenses. The 09-11, Average, and Final Biennia represent revenues / expenses projected in the Washington State Ferries Baseline Needs Analysis, released August 2008. Operating revenue assumes a 2.5 percent annual fare increase and about a 1 percent per year growth in ridership.
Fare revenue growth from 2.5% per year assumed fare increase and 1.5% per year projected ridership increase.
Operating Funding Need
Projected Average Annual Operating Funding Gap

Projected annual operating funding gap of ~$20m

Fares

Current fare revenue approx $160m/year

Projected fare revenue assumes 2.5% p/a fare increase and ~1.5% p/a ridership increase

*Vehicle licenses, permits, and fees
Operating Funding Need
Projected Out-Year (FY2031) Operating Funding Gap

- Fares
- Other operating income
- Fuel tax
- LPFs*

Projected fare revenue assumes 2.5% p/a fare increase and ~1.5% p/a ridership increase

Current fare revenue approx $160m/year

~$37m Gap

Average annual operating need, million $, year of expenditure

*Vehicle licenses, permits, and fees
Screening and Analysis of Future Funding Sources

“Long list” of funding sources evaluated for

- Yield
- Reliability
- Administrative Effectiveness
- Political Acceptability
- Equity
- Economic Efficiency

Identified short list of sources to retain for further analysis

“Long List” of Funding Sources from July 2008 Screening Report
State Sources of Funds Considered

State Sources

- Fuel tax
- LPFs*
- Rental car tax
- Vehicle sales tax
- MVET
- Tolls
- General sales tax

Support ferries (Several accounts)

Support ferries (Multimodal account)

Not used to support ferries

*Vehicle licenses, permits, and fees
Potential Yield of State Funding Sources
Yield of Incremental Tax/Fee Relative to Funding Gap

Sources and Current Levies

<table>
<thead>
<tr>
<th>Source</th>
<th>Yield of Incremental Tax/Fee Relative to Funding Gap</th>
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<tbody>
<tr>
<td>Sales tax (6.5%)</td>
<td>.1% .2%</td>
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<tr>
<td>MVET (2.2% hist.)</td>
<td>.1% .2% .3% .4%</td>
</tr>
<tr>
<td>Fuel tax (37.5c)</td>
<td>1c 2c 3c 4c 5c</td>
</tr>
<tr>
<td>LPFs* (varies-$30)</td>
<td>Reg &amp; wt fees - $30**</td>
</tr>
<tr>
<td>Vehicle Sales (0.3%)</td>
<td>0.3%</td>
</tr>
<tr>
<td>Rental car (5.9%)</td>
<td>6%</td>
</tr>
<tr>
<td>Tolls</td>
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* Vehicle licenses, permits, and fees

** Indicates revenue generated by adding $30 to both the Vehicle Registration and Weight Fees

Millions of Dollars/Biennium

Figures are approximate

Approximate funding gap
Proposed Three-Legged Funding Structure

Funding Need

Local sources recommended to supplement state sources and operating income
Likely Uses of Funds
Source of Funds and Relative Need

State Funds
Vessel Acquisition & Preservation

Mix of State and Local Funds
Terminal Enhancement & Preservation

State and Local Funds
Fares and Other Operating Income¹
Operations

1. Fares, concessions, parking, advertising, etc.
Local Sources of Funds Considered

Any County can use – general purposes

Explicitly authorized for specific purposes

*This list includes most sources currently authorized for transportation purposes at the local level (except the Real Estate Excise Tax, which is used for general capital purposes). Detail on these sources is listed in the Transportation Resource Manual.
Transportation Benefit Districts are an Existing Mechanism

- Few restrictions on geography or use of funds
- District has bonding authority
- Voter approval required
- Sunsets after improvement is complete and debt is paid

By current law, TBDs may be funded by:

- Sales and use tax
- License fee
- Property tax
- Tolls
- Other limited sources
Closing the Funding Gap

- Define preferred state revenue sources for addressing the large capital funding gap

- Pursue incremental operating revenues to reduce subsidy
  - Index fares to inflation, implement fuel cost surcharge
  - Advertising, food and beverage sales, naming rights
  - Reservation fees

- Determine appropriate mix of state and local sources to close operating gap

- Define appropriate role for local funding
  - Use of funds, amount of contribution, source