Long-Term Ferry Funding Study
Summary of Preliminary Report

presented to the

Washington State Transportation Commission

presented by

Cambridge Systematics, Inc.

November 18, 2008

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Presentation Overview

- Review of study mandate and objectives
- Update on current funding situation
- Ferry investment scenarios and funding needs
- Sources of funding and revenue generation potential
- Conclusions and next steps

Legislative Provisions and Objectives

- ESHB 1094, Section 206 – Transportation Commission
  - Long-term financing alternatives
  - Incorporate findings of customer survey
  - Consider the potential for state, regional, or local financing
- Develop selection of most viable options and requisite actions for stable, long-term funding package
- Assumption is that Commission is seeking funding to sustain something comparable to current service

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Transportation Funding is in State of Flux

- **Oil prices have moderated for now, but forecasts and expectations call for significant future increases**
- **Recent vessel bid opening higher than anticipated**
- **Tax receipts declining; other modes also facing difficult near-term funding picture**
- **Competition with non-transportation needs as well**

Ferry Funding Scenarios

- WSF Baseline Needs Analysis
- WSF ‘Preferred’ or ‘2358’ scenario
- Reduced level of operations and capital investment
- WSTC options to above

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Key Features of Baseline Scenario

- Operate current services
- Maintain, preserve and replace existing capital assets
  - Two Island Home class, three 144s
  - In-kind vessels replacement per retirement schedule
  - Terminal preservation and replacement in-kind
- Core capital investment needs of over $3 billion
- Operating revenue driven by 2.5% annual fare increase and ~1.5% annual ridership increase
- Greatest operating financial risk is fuel prices

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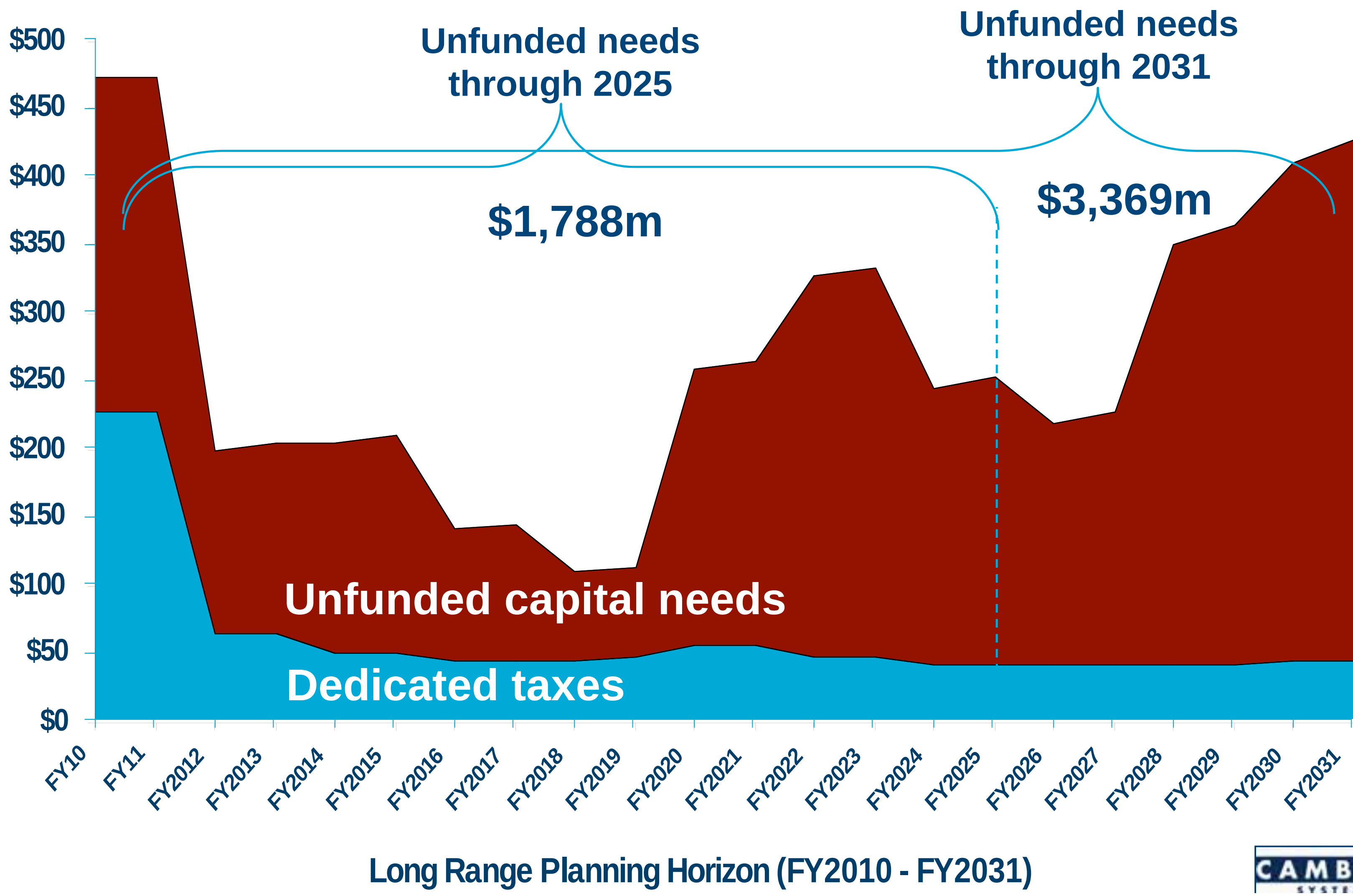
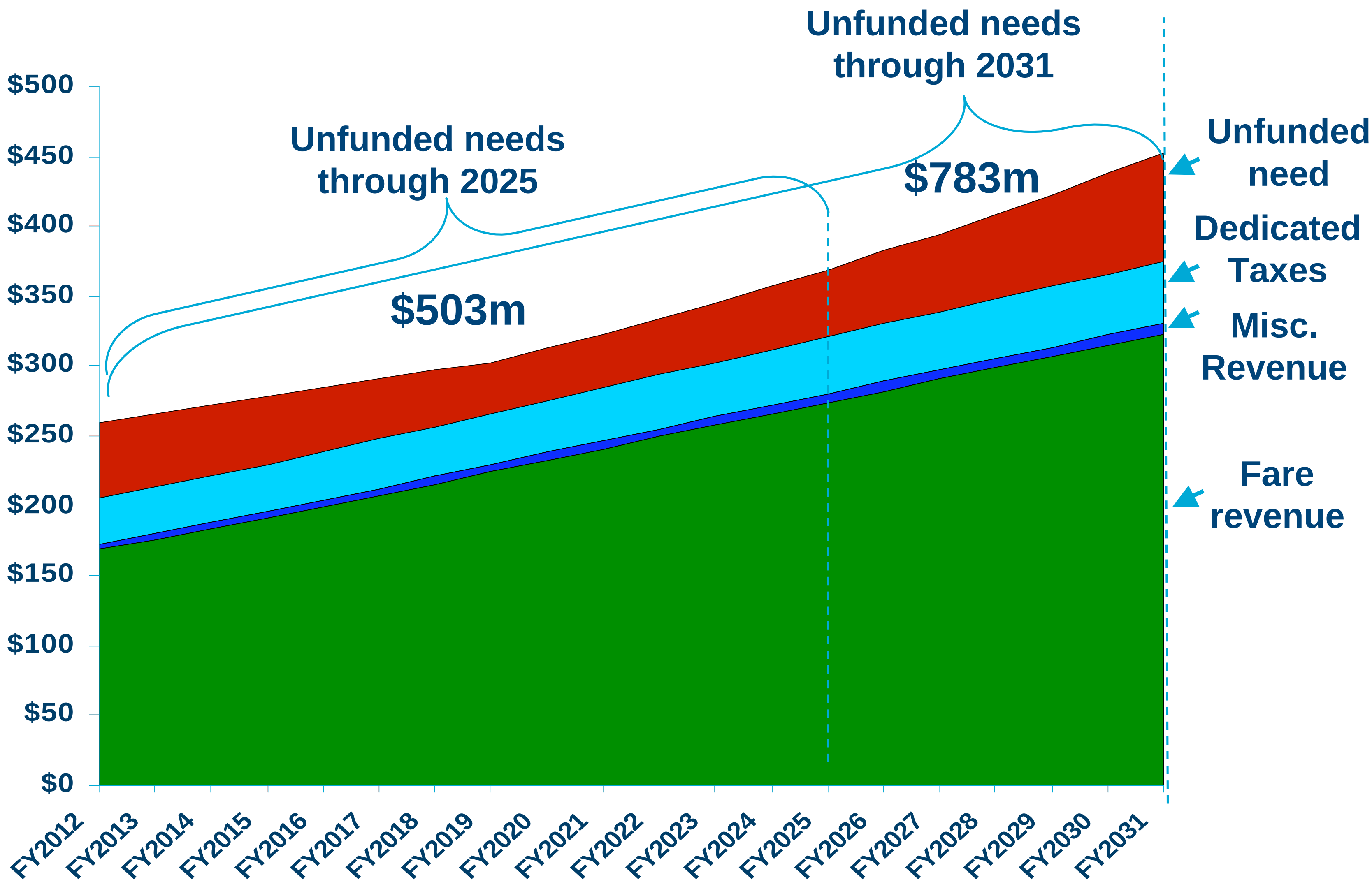
Baseline Capital Need Over Time
Year of Expenditure Dollars, Millions



Notes: Capital need figures from WSF Adjusted Baseline Needs Analysis, released September 2008

Baseline Operating Budget

Year of Expenditure Dollars, Millions



Source: Washington State Ferries Baseline Needs Analysis, September version updated with September fuel forecasts. Fare revenue projections assume ridership growth of about 1.5% per year and fare increases of 2.5% per year.

Other Scenarios' Funding Needs

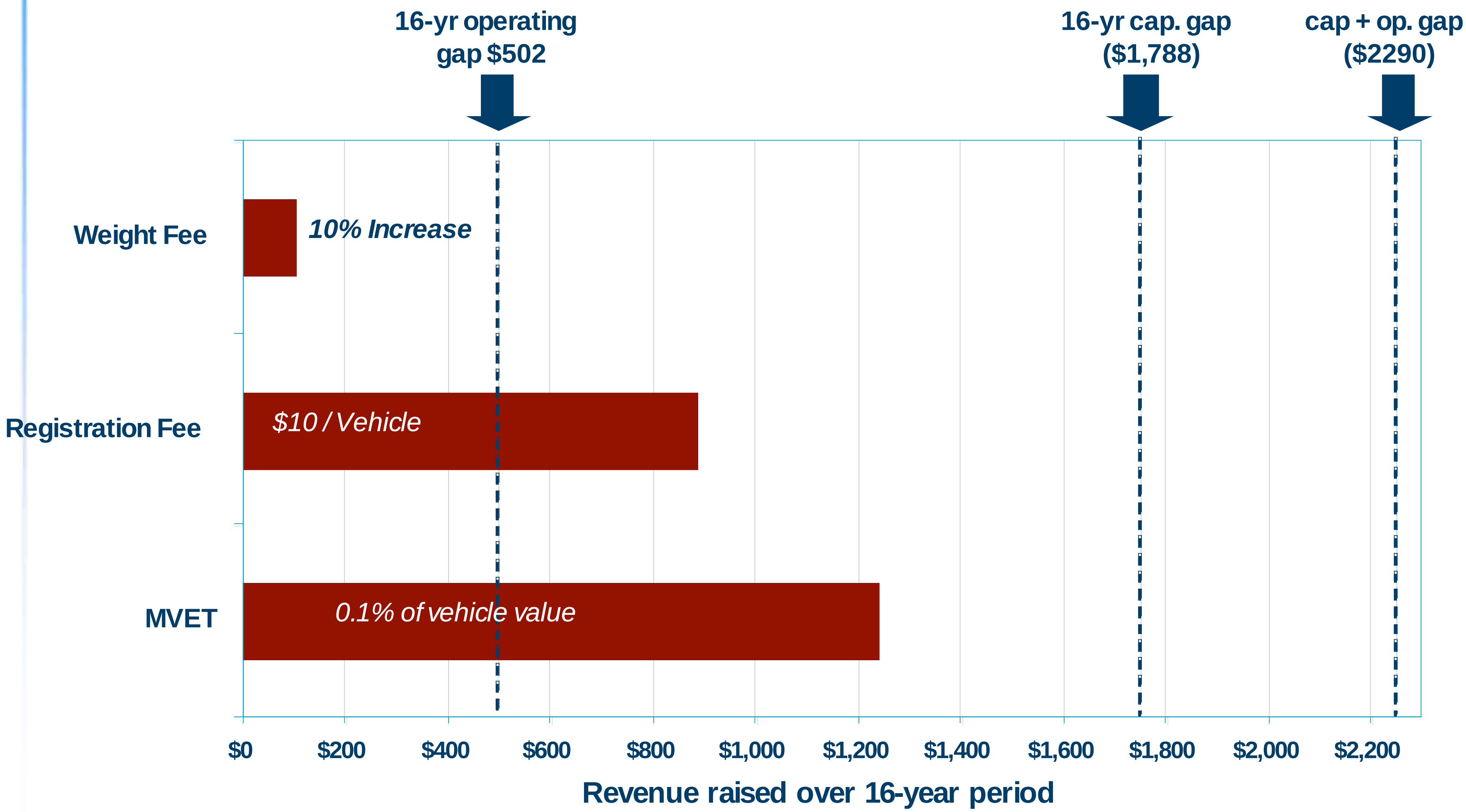
- '2358' scenario costs are roughly $1.2B higher than estimated Baseline costs over 22 years, prior to any extraordinary cost savings efforts (combined capital plus operating, inflated YOE dollars)
- Reduced level scenarios will relate to some level of available funding, e.g., no new state revenue source
- Even reduced scenarios will have significant capital preservation and replacement costs if service is to be sustainable over long term

Comparison of Baseline Needs to Revenue Generation Potential of Statewide Sources

- Primary sources under consideration
  - Vehicle registration fees and weight tax
  - Motor vehicle excise tax
- Compare to 16-year operating and capital funding gaps

Revenue from State Sources

Revenue over 16-year planning period, Year of Expenditure Dollars



Source: Cambridge Systematics estimates.

Revenue from State Sources

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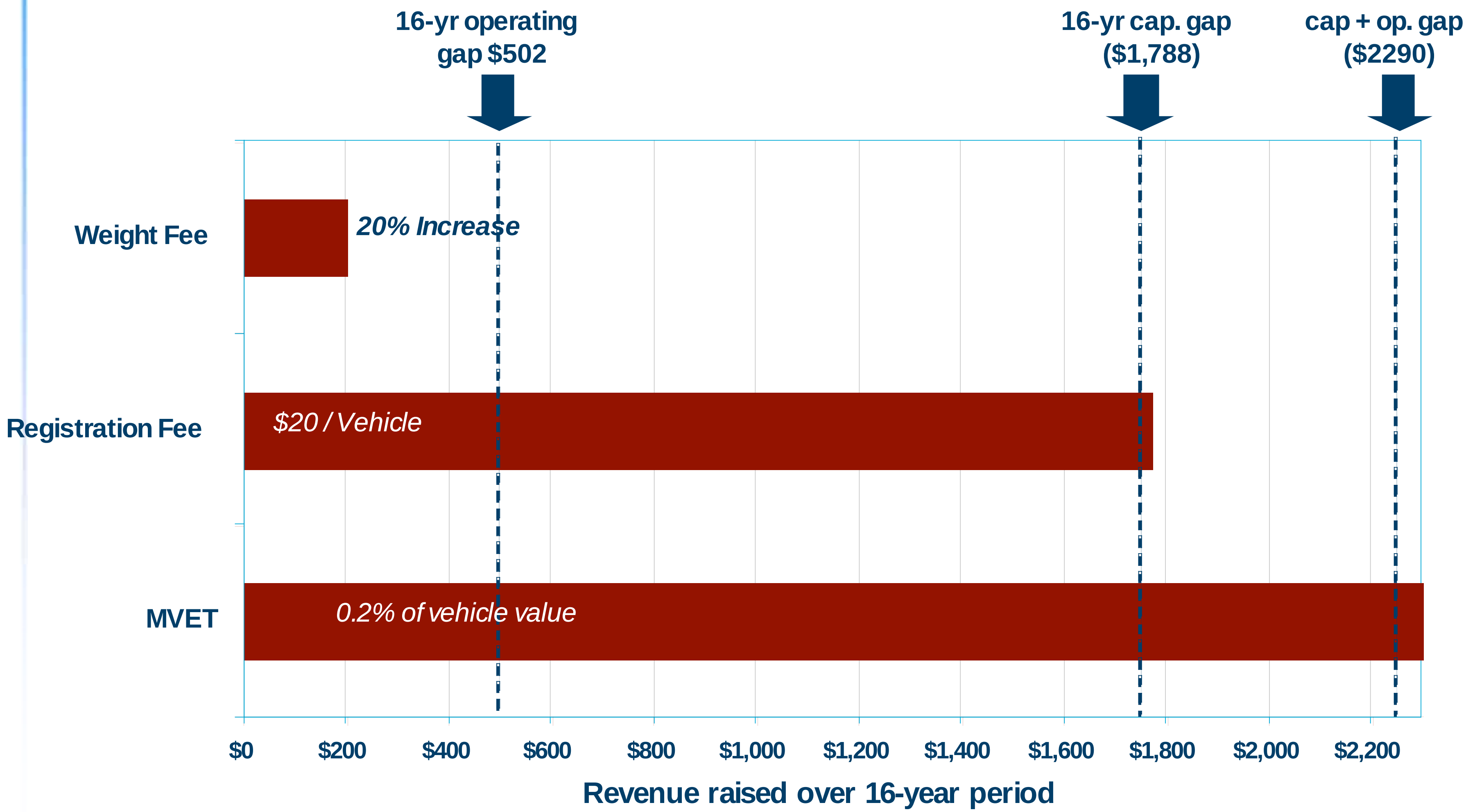

Source: Cambridge Systematics estimates.

Comparison of Baseline Needs to Revenue Generation Potential of Local Sources

- Primary sources still under consideration
  - Utility tax
  - Property tax
  - Vehicle registration fee
  - Motor vehicle excise tax
- Three Ferry Funding Districts considered thus far
  - Four-county plus Vashon Island
  - “Hybrid” district of four-county plus portions of King and Snohomish
  - Eight-county district

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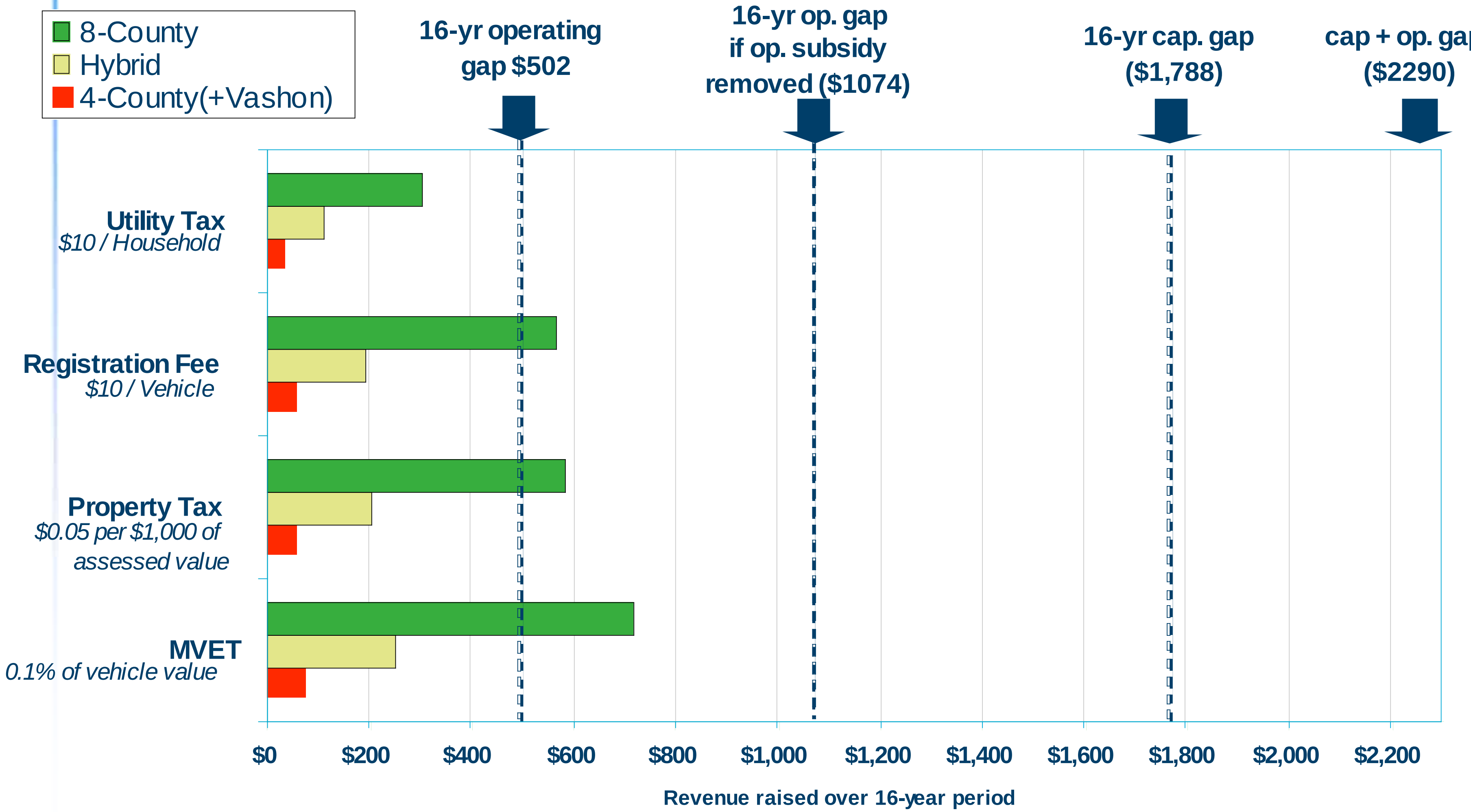
Revenue from Local Sources

Revenue over 16-year planning period, Year of Expenditure Dollars



Source: Cambridge Systematics estimates. An 8-County district would include all eight ferry served counties. A 4- County district would include only Jefferson, Island, Kitsap, and San Juan Counties plus Vashon Island (part of King County). A "hybrid" district would include the 4-County district plus the portions of King and Snohomish Counties lying west of Interstate Five. District boundaries are for illustrative purposes only.

Revenue from Local Sources

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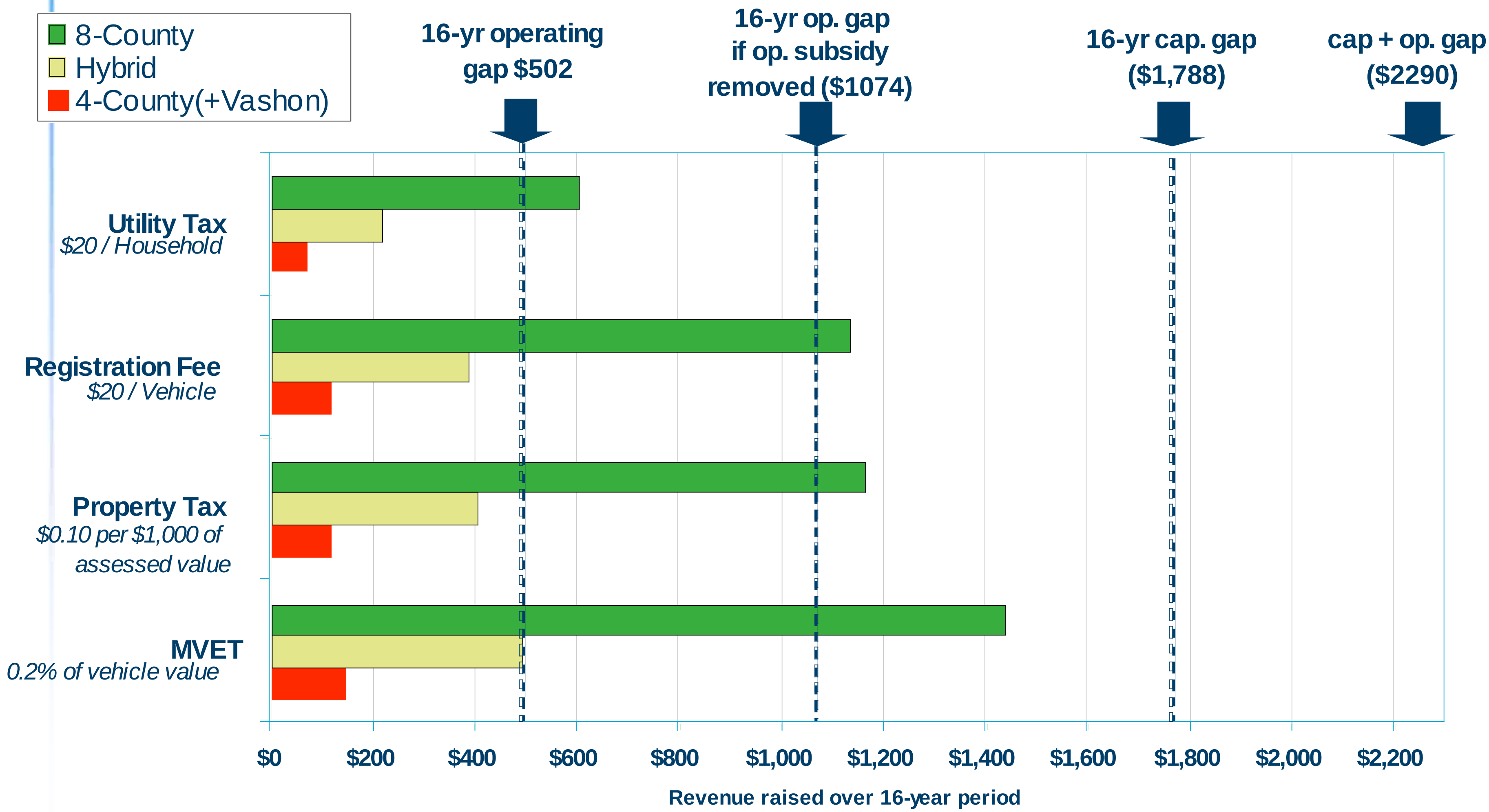

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Local Funding Considerations and Steps

- Set district boundaries
- Gain political support
- Pass legislation
  - May not be necessary
- Devise agreement between localities
  - Funding responsibility and relative shares
- Incorporate localities into WSF governance structure
- Localities determine how to raise funds

Local Funding Examples

- San Francisco Peninsula Commuter Rail, “Caltrain”
  - State operated 1980-1987, then transferred to local level
  - Three-county Joint Powers Agreement
    - Localities fund operating subsidy (share of AM boardings)
    - Localities provide set amount for capital
    - State & federal governments make up the rest
- WMATA
  - Operating subsidy provided by seven local governments and MDOT
    - Share determined by population, usage, and station location
  - Locals also provide capital ‘grants’
  - All localities represented on WMATA board

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Operating Income Strategies

- Fares currently make up ~97% of WSF operating income
- Operating income only covers ~72% of operating costs
- Other source of operating income are important to pursue but not likely to close funding gap
  - Advertising and naming rights
  - Vessel and terminal concessions
  - Joint development of terminal areas
  - Public/private partnerships
- Strategy required to help close operating gap through additional fare revenue

Illustrative Fare Increases Required to Achieve Different Levels of Farebox Recovery

- **75% Recovery**
  - **2.5-5% increases for two years**
  - **2.5% every year thereafter**
- **85% Recovery**
  - **10-15% Increases for two years**
  - **2.5% every year thereafter**
- **100% Recovery:**
  - **15-20% increases for at least two years**
  - **2.5% increase every year thereafter**

Alternatives to Across-the-Board Fare Increases

- Variable fuel surcharge to recover price increases
- Increase in seasonal fare surcharge
- Three-season “off-peak, shoulder, peak season” surcharge structure
- Peak-period fare surcharge
- Reduction in frequent user discounts
- Oversize vehicle surcharge

Conclusions and Recommendations

- Other issues rapidly overtaking ferry funding discussion
- Near-term funding needs to be resolved, but important to focus on funding long-term, sustainable service
- Any new source of revenue will take time to implement
- Even financially-constrained scenarios will have unmet capital funding needs requiring new source of revenue
- Recommend that Commission continue to refine details of state and local funding packages
- Work with WSF to define corresponding fare strategies

Next Steps

- WSF still actively working to define operating and investment scenarios
- Final Commission funding report in early 2009 will incorporate scenario planning framework of WSF Long Range Plan
- Commission to finalize funding recommendations tied to preferred scenario and alternatives