

## Evaluation of Ferry System Funding Sources

The Washington State Transportation Commission (WSTC) is conducting a study to identify stable, long-term funding sources to ensure the continued operation of the Washington State Ferry system. This discussion paper presents an initial list of funding sources that could support Washington State Ferries (WSF) capital and/or operating expenses, and several criteria for evaluating the general suitability of any of the sources. Both the list of funding sources and the evaluation criteria were presented in the January 2008 Phase I funding study report. The Long-Term Ferry Funding Study will conduct an initial screening of this list of sources using these criteria, followed by a more comprehensive evaluation that will include detailed revenue modeling. The purpose of presenting the proposed evaluation criteria and long list of funding sources to the Transportation Commission and others at this stage is to solicit feedback as to whether all reasonable funding candidates have been included, and to determine whether any of the candidate funding sources can be removed from further consideration at this time, prior to the initial screening.

After incorporating feedback on the list of sources and evaluation criteria, the study team will conduct the initial screening, assessing both quantitatively and qualitatively how each source would perform according to each of the evaluation criteria. From this process a “short list” of candidate funding sources will be presented for Commission approval prior to moving ahead with more detailed evaluation and revenue modeling.

### 1. Evaluation Criteria

The following primary evaluation criteria are proposed to be used to evaluate the long list of funding sources:

**Yield.** The yield of a funding source is the amount of revenue it is capable of generating.

Yield depends on the level of the proposed tax or fee, but is constrained by several factors, including:

- Size of the entity being taxed (e.g. the population of the state of Washington, number of households or businesses in a defined district served by ferry, etc.). Potential yield increases with the number of entities being taxed.
- Public acceptance (see below) sets the upper bound of the tax or fee level.
- Administrative effectiveness (see below) sets the lower bound of the tax or fee level; as the cost of collecting revenue approaches the potential revenue yield, the source is less viable.

Initially estimating yield will require making assumptions about the level of the tax or fee; how it is applied; on what basis or frequency it is collected; and other factors. For existing funding sources, these assumptions will be guided by the history of the application of the tax or fee in Washington State. That is, the amount of a proposed increase in an existing tax or fee will be guided in part by how that tax or fee has been increased in the past. For new funding sources,

the amount of the tax or fee will be guided in part by the levels of similar taxes or fees in other states.

**Reliability.** Reliability refers to the stability of the funding stream over time.

Reliability depends both on the nature of the funding source and on the entity to which it is applied. A flat gasoline tax is less reliable over time because it depreciates with inflation, whereas an indexed gas tax is more reliable because it varies with inflation. If the tax is applied to an entity in flux (e.g. tax applied to vehicle sales when the number of vehicles being sold is falling) it will be less reliable.

Estimating the reliability of the funding source will require analyzing trends that may have implications for reliability, such as the implications of ferry ridership trends for future fare revenues.

**Administrative Effectiveness.** This is the cost and ease of administering the fee or tax; that is, the degree to which evasion and bureaucracy can be minimized. The easiest fee-collection systems are those that piggyback on other payments at the point of sale, including fuel taxes and sales taxes. Strategies that require the taxed entity to make a unique payment solely for the purpose of paying the fee or tax are considered less administratively effective. Those that require completely new and untested collection systems (e.g. a tax on vehicle miles traveled) are considered the least administratively effective.

In gauging administrative effectiveness, it will also be important to consider the extent to which it will be necessary to provide tax or fee rebates for a given funding source, since providing such rebates is common practice in Washington State and is an added administrative burden.

**Economic Efficiency.** Economic efficiency is the extent that a strategy provides clear pricing signals. Strategies with high economic efficiency are those that help make the marginal prices of goods and services reflect their true costs. Strategies with low economic efficiency are those that distort the market by collecting fees that are unrelated to the services they help fund.

Fees on ferry users would be more economically efficient because they send a direct price signal to consumers of ferry service. A statewide sales tax, by contrast, has no direct link to the ferry system, and would not signal to ferry users the true cost of the ferry system.

The following are supplemental evaluation criteria that are proposed to be used in evaluating the long list of funding sources:

**Public Acceptance.** While any new taxes or fees may be objectionable to the public, funding sources that are somewhat removed from the transportation project or service they are supporting tend to be particularly unpopular.

Public acceptance will be gauged through the results of the ferry user survey and through discussion with the Transportation Commission and a variety of other groups or advisory bodies.

**Equity.** The extent to which a funding source (tax or fee) equitably burdens different groups of people. Equity considerations may be geographic (e.g. the extent to which citizens living in different parts of the state must pay for the ferry system); income-related (e.g. the extent to which the tax or fee burdens different income groups); and user-group related (e.g. the extent to which the tax or fee burdens ferry users versus non ferry-users).

The majority of ferry operating costs are currently funded through fees on ferry users. Capital costs are funded primarily through fees on those who own and operate a vehicle in the state (i.e. through gas taxes, vehicle registration and licensing fees), regardless of whether or not they use the ferry system. Federal grants have also historically provided a substantial percentage of capital revenue.

## **2. “Long List” of Funding Sources**

The following draft list is intended to cover a wide range of sources that could be used to support the ferry system, including taxes, fees, and ferry system revenues. Many of these sources are already in place, but could have potential to produce additional revenue. Others have not yet been implemented in Washington State, and may require enabling legislation. (see next page)

| Funding Source                              | Possible Area of Application | Comments / Examples / Options  |
|---|------------------------------|--|
| <b>Taxes</b>                                |                              |  |
| Fuel tax                                    | Statewide, sub-state*        | Examples: raise fuel tax; index fuel tax; sales tax on fuel; county fuel tax (counties are currently authorized to charge additional fuel taxes).  |
| Vehicle property tax                        | Statewide, sub-state         | Note: similar to motor vehicle excise tax. Counties are currently authorized to levy a percentage on assessed value annually.  |
| Sales taxes                                 | Statewide, sub-state         | Examples: general sales tax increase; on vehicle parts, on vehicle sales.  |
| Statewide tax on tourism-related businesses | Statewide                    | Examples: rental car tax; hotel tax; other forms of tourism-related taxes.   |
| Special assessment districts                | Sub-state                    | Examples: Special tax (property, sales, real estate excise, parcel, hotel, restaurant) in areas benefiting from ferry service. County Ferry Districts (funded by property or ad valorem taxes) are a specific example currently authorized in law. |
| Commercial parking tax                      | Sub-state                    | Note: counties / cities / districts can levy taxes on commercial parking.  |
| Transit district tax                        | Sub-state                    | Note: transit districts may levy household utility taxes and business and occupation taxes.  |
| <b>Charges and Fees</b>                     |                              |  |
| Vehicle fees                                | Statewide                    | Examples: vehicle license, registration, and weight fees.  |
| Tolls                                       | Statewide, sub-state         | Note: state law currently does not authorize use of toll revenues outside the tolled facility.   |
| Development or transit impact fees          | Sub-state                    | Example: one-time fee on new development with purpose of maintaining or improving transit service.   |
| <b>Ferry System Earned Revenue</b>          |                              |  |
| Increase revenue from fares                 | Ferry system                 | Examples: flat fare increase; peak pricing; route-pricing; seasonal pricing; fuel surcharge; vehicle size/space surcharge; eliminate or reduce certain discounts.  |
| Increase revenue from concessions           | Ferry system                 | Examples: increase revenue from parking, advertising, on-board and terminal concessions.   |
| Fees on new offerings                       | Ferry system                 | Examples: reservation system fees; preferred loading lane fees.  |

\* "Sub-state" means the tax or fee may be applied either at the city level, the county level, or on a combination thereof. Some taxes or fees (such as special assessment districts) may also be applied on portions of cities or counties.