Washington State Transportation Commission

Long-Term Ferry Funding Study
Findings and Final Recommendations

presented by
Cambridge Systematics, Inc.

February 18, 2009
Long-Term Funding Study Products

- February 08: Part I Report – Financial Background and Summary of Previous Studies
- July 08: Part II Technical Memorandum: Initial Screening of Funding Sources
- November 08: Long-Term Ferry Funding Study Preliminary Report
- February 2009: Findings and Final Recommendations
Presentation Agenda

- Major Findings and Recommendations for Long-Term Ferry Funding
- Alternative Funding Scenarios
- Adopt Recommendations
Overview: System Funding is a Long-Term Challenge

- Leadership is required to address not only current budget crisis but long-term needs in a fiscally responsible manner.
- A viable funding solution must be identified to address the long-term funding needs of WSF while recognizing the need to constrain costs.
- Capital preservation and replacement costs in particular must be met through a major, sustainable revenue source.

22-Year Capital Improvement and Replacement Costs
2009-2031

Dollars (in Millions, Inflated to YOE)

Source: WSF Draft Revised LRP Data, 1/30/09
Overview – Long Range Plan Funding Needs, Scenarios A and B

Dollars (in Millions of YOE, 2010-2031)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Existing state subsidy</th>
<th>Bonds &amp; federal funds</th>
<th>Operating income</th>
<th>Unfunded need</th>
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</thead>
<tbody>
<tr>
<td>WSF Plan A Operating</td>
<td>$213</td>
<td></td>
<td></td>
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<tr>
<td>WSF Plan B Operating</td>
<td></td>
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<tr>
<td>WSF Plan A Capital</td>
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<td>$3,126</td>
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<tr>
<td>WSF Plan B Capital</td>
<td></td>
<td></td>
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<td>$1,328</td>
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Source: WSF Draft Revised LRP Data, 1/30/09
Finding
Fare Increases Can Offset, but Not Fully Address 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

- Fare increases (even aggressive) are not a viable capital funding source for WSF

- However, fare increases higher than the 2.5% assumed by WSF are necessary to close Scenario A operating gap
Recommendation
Increase Fares and Ancillary Revenues to Close the Operating Gap

- Work towards 100% coverage of operating expenses from combination of fares and other operating revenue and current dedicated state subsidies (e.g. from fuel tax and licenses, permits, and fees)

- Allow currently planned administrative transfers to operations ($88m) to sunset after 2013-15 Biennium
Recommendation
Implement Fare Increases through Fuel and Summer Season Super-Surcharge

- Reduce impacts of fuel price volatility by implementing fuel surcharge per WSF plan

- Increase fare revenues by adopting fare schedule that is higher than the WSF Long-Range Plan assumption of 2.5% per year

- Implement a summer season super-surcharge on single fare purchases to provide revenue gains during the busiest traffic period.
  - Infrequent users & out of state travelers have lower elasticity and thus are less price sensitive, as per results of recent WSF ferry user survey
  - Given impact of summer travelers on fixed WSF capacity, an incremental increase in fares impacting this user-group seems appropriate.
Sample Fare Revenue Scenarios
For Illustrative Purposes Only

Fare Revenue in a Biennium Under Different Fare Increase Scenarios

“2.5% Increase” – Reflects revenue estimated in WSF’s Long Range Plan A Scenario (January 30th version). Estimates assume fares increase annually at 2.5% per year, plus a fuel surcharge.

“4% Increase” – Modified Plan A scenario where fares are increased at up to 4 percent per year, plus a fuel surcharge and a peak of the peak surcharge, until no additional increases are needed to meet biennium revenue target, and increased thereafter at 2.5%.

“6% Increase” – Same as 4% increase but increase capped at 6% per year.

“Revenue target” is the amount of fare revenue that would be required under Scenario A to cover WSF’s operating needs in each biennium such that no additional state subsidies are needed (beyond dedicated revenues and $88 million in administrative transfers expected by WSF).
Recommendation
Increase Ancillary Revenues

- Increase ancillary revenues through more aggressive advertising, on-board concessions, naming rights
  
  - Advertising – Generates in the low hundreds of thousands a biennium. WSF has contracts in place to increase scope of advertising.
  
  - Naming rights – Similar examples indicate sale of naming rights could generate in the hundreds of thousands per vessel per year
    - One company paid $1 million to name one vessel over a 15-year period
    - Value to company related to exposure to potential customers - requires coordination with on-board and web-site advertising.
  
  - Food and beverage sales – WSF generates ~$5 million a biennium through on-board concessions. Revenues largely a function of concessions contracts and ridership.
    - Possible greater revenue could be raised through system privatization (e.g. similar to BC Ferries).
  
  - Altogether, ancillary revenues are expected to account for about 2% of WSF operating income over LRP period.
Finding
Logistical Impediments to Local Funding are Significant

- Local district would either have to be very large (e.g., 8 ferry counties) or local tax rate would need to be set high to meet funding need
  - All fee revenues would be dedicated to WSF

- Would require establishment of a multi-county administrative body approved by ferry counties
  - Risk of balkanization of planning and governance for Ferry System

- Would likely require a public vote

- Risk that agreement would not materialize and/or the public vote would fail
Local MVET Fee Needed to Meet Ferry Funding Gaps

Chart reflects MVET level necessary to fill 22-year total funding gaps for Scenario A, Scenario A without administrative transfers, and Scenario B. Dollar values shown are the equivalent MVET amount paid by a vehicle worth $10,000. Fee levels are shown for:

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

Source: Cambridge Systematics
Finding
Political Impediments to Local Funding are Significant

• May be difficult to obtain participation from those who do not depend on the system
  • East sound counties not as dependent as those on the west sound and the islands
  • Most population (and potential revenue) in east sound county. Revenue generation potential is limited in a four-county district

• Currently-approved local funding authority not well utilized
  • Record of failed multi-county districts in Puget Sound

• Competing transportation priorities
  • Local passenger-only ferries (King County, property tax)
  • Sound transit (0.3% MVET)
  • Viaduct proposal (would raise King County vehicle fees)
Recommendation
Fare Increases Serve as Local Funding Contribution

- Fare increases are a logistically simpler means of raising local contribution than a local funding district
- Collection mechanism already in place for fares
- Fare increases (6% a year for about 5 years, plus ongoing fuel surcharge, summer season super-surcharge, and inflation adjustments) could generate similar revenues to a four-county ferry district; enough to close the Scenario A operating gap
- Direct nexus between payment and benefits received
Finding
Statewide Tax or Fee is Most Feasible Means of Meeting Long-Term Capital Needs

- State taxes have revenue-generation potential to support the ferry system’s significant funding needs long-term
  - Local taxes do not have adequate yield, unless the local district is very large or taxes and fees are set very high
  - Even high, sustained ferry fare increases could not cover capital needs

- State taxes already support the ferry system; minimal administrative barriers exist

- Ferry funding crisis is in large part a result of the removal of a state tax (the MVET); restoring state support would address that cause
Finding
A Vehicle-Value Based Tax (e.g. MVET) Has Attractive Features

- Statewide MVET 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 (fuel tax or sales tax)
  - Sales tax has no connection to transportation usage
  - Fuel tax less reliable and sustainable in long run regardless of recent price volatility

- Past concerns over MVET may be lessened through a modified depreciation schedule and a lower tax rate
Potential Yield of State Funding Sources
Average Yield of Incremental Tax/Fee Relative to Average Total Funding Gap

Sources and Current Levies

- Sales tax (6.5%): 
  - Avg Scenario “A” Total Funding Gap/Biennium, Assuming Administrative Transfers (~$300)
  - Avg “A” Gap/Biennium, Without Transfers (~$400)

- MVET (2.2% hist.): 
  - .1%
  - .2%
  - Avg Scenario “A” Total Funding Gap/Biennium, Assuming Administrative Transfers (~$300)
  - Avg “A” Gap/Biennium, Without Transfers (~$400)

- Fuel tax (37.5c): 
  - 1c
  - 2c
  - 3c
  - 4c
  - 5c
  - Avg Scenario “A” Total Funding Gap/Biennium, Assuming Administrative Transfers (~$300)
  - Avg “A” Gap/Biennium, Without Transfers (~$400)

- Registration Fee ($30): 
  - $10
  - $20
  - $30

- Vehicle Sales (0.3%): 
  - 0.3%

- Rental car (5.9%): 
  - 6%

- Tolls

Figures are approximate
Recommendation
Fund Ferry Capital Needs with a Statewide MVET or Similar Tax/Fee

- Fund capital preservation, improvement, and replacement needs with statewide tax based upon a vehicle’s value – such as MVET or similar tax

- Consider bundling ferry funding with larger transportation funding measure backed by MVET or similar tax

- Phase out ad hoc legislative administrative transfers over time and replace with dedicated source to ensure investment in capital preservation and replacement
Recommendation
Fund Ferry Capital Needs with a Statewide MVET or Similar Tax/Fee (continued)

- 22-year capital needs (Scenario A) can be met with a 0.15% MVET ($15 on $10,000 vehicle)
  - Ad hoc legislative transfers must continue at this tax rate
  - Assumes all revenues go to WSF

- A 0.21% MVET ($21 on $10,000 vehicle) will allow elimination of administrative transfers to capital program
  - Assumes all revenues go to WSF
Reduce or Eliminate “Build it in Washington Requirements”

- Increase availability of Federal capital funds and reduce vessel construction costs by eliminating “Build it in Washington” legal requirements

- Cedar River Group *Vessel Timing & Sizing Report* compared recent bids for two similar 50-auto ferries, one in Washington State and one North Carolina – found out-of-state bid to be about 20% lower.
Alternative Funding Plan Scenarios Assessed in Study – Operating Gap

Commission considered several alternative ways of funding WSF the $213 million in unmet operating needs in “Scenario A” through different combinations of state taxes, fares, and local districts.

Methods of Funding Scenario A Operating Needs ($213 Million)

<table>
<thead>
<tr>
<th>Increase State Tax</th>
<th>Institute Local District</th>
<th>Raise Ferry Fares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap could be filled by <del>0.01% of a state-level MVET (</del>$1 on a $10,000 vehicle)</td>
<td>Gap could be filled by a 0.17% MVET (~$17 on a $10,000 vehicle) assessed in four-county district (Island, San Juan, Jefferson, Kitsap)</td>
<td>Gap could be filled by ferry fare increases of about 6% per year for about 5 years</td>
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Alternative Funding Plan Scenarios Assessed in Study

Methods of funding Scenario “A” capital needs

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<tr>
<td>Gap could be filled by <del>0.15% of a state-level MVET (</del>$15 on a $10,000 vehicle)</td>
<td>Gap could be filled by a 2.5% MVET (~$250 on a $10,000 vehicle) assessed in four-county district (Island, San Juan, Jefferson, Kitsap).</td>
<td>Fares cannot raise sufficient funds to meet capital needs (would require 60% revenue increase). Fare revenues could be used to offset capital needs somewhat.</td>
</tr>
</tbody>
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Example: increasing fares by 6% per year for 5 year, followed by inflation adjustments and a peak-of-peak and fuel surcharge, would produce $311 million in excess operating revenues over the life of the plan that could be transferred to capital.
Commission Team Preferred Funding Scenario: Fares for operating and state taxes for capital

- Places the burden for funding operations on users
  - Increase fares at 6 percent per year for about five years, followed by annual adjustments for inflation
  - Implement a summer season super-surcharge (from end of June through day after labor day) on single fare purchases (15% higher than regular peak fares), along with a system-wide, year round fuel surcharge

- Raise capital funds through MVET or similar. Raise sufficient capital to eliminate need for administrative transfers

- Local funding – not recommended for operating
  - Simpler/easier to raise similar amount of revenue through fare increases

- Local funding – not recommend for capital
  - Tax/fee would have to be very high to fund all Scenario A capital need; or all 8 ferry served counties would need to be involved
Commission Team Preferred Approach to Funding Ferries Scenario A

Dollars (in Millions of YOE, 2010-2031)

- **WSF Scenario A Operating**
  - Existing state subsidy
  - Assumed transfers
  - Bonds & federal funds
  - Unfunded need
  - Operating income
  - MVET Revenues

- **WSTC Recommended Operating**

- **WSF Scenario A Capital**

- **WSTC Recommended Capital**

Requires 0.21% MVET, ~$21/veh (statewide)
WSF “Scenario B”

- Represents a downsized system
  - Service reductions on domestic routes
  - Eliminate Sydney route

- Significant funding gap remains ($1.3 billion over 22 years)

- Small operating surplus

- Entire gap is in the capital program
Funding the WSF “Scenario B” Alternative

Dollars (in Millions of YOE, 2010-2031)

WSF Plan B

Plan B - Local Sources

Plan B - State Sources

Requires 1% local MVET, ~$100 vehicle (4 County)

Requires 0.12% MVET, ~$12/veh (statewide)

Legend:
- Existing State Subsidy
- Bonds & Federal Funds
- Operating Surplus
- Assumed Transfers
- Unfunded Need
- Local MVET-4 County
- State MVET
Summary of Findings and Recommendations

Meeting operating needs

- Raise fares at 6% per annum for ~5 years, plus a fuel surcharge, summer season super-surcharge, and ongoing inflation adjustments

Meeting capital needs

- Preserve the current ferry system at Scenario Level “A”
- Institute a statewide MVET, 0.21% of MVET revenues to cover WSF’s capital needs and allow elimination of ad-hoc transfers
- MVET value over 0.21% to meet other state transportation needs.
- Remove “build it in Washington” requirement to reduce vessel expenditures and increase opportunity for federal funding

Investigate an additional scenario with limited service reductions

- Suggest further investigation of service reductions to reduce costs – compromise between service levels in Scenario A and B