SR 99 Tunnel Rate Setting Update

Presented by:

Carl See
Senior Financial Analyst, WSTC

Based on analysis by Stantec Inc. and WSP USA Inc.
What Has Changed Since Rate-Setting Began

• WSDOT updated cost and revenue assumptions, including
  – Costs updated to reflect new toll vendor contracts
  – Net revenues updated to include net civil penalty revenues

• Legislature took action during the 2019 session
  – Approved budget proviso providing FY 2019 rate-setting and funding direction.
  – Proposed legislation with specific financing direction did not pass.

• Stantec & WSP completed gross and net revenue analysis for Commission’s requested toll rate scenarios.
  – All requested toll rate scenarios maintain initial toll rates between financial plan scenario’s range of $1.00-$2.50.
Toll rate options proposed for detailed analysis by the WSTC Tolling Subcommittee

• Financial Plan Scenario (IG-0)
  
<table>
<thead>
<tr>
<th></th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>$1.00</td>
</tr>
<tr>
<td>Off-Peak</td>
<td>$1.50</td>
</tr>
<tr>
<td>AM Peak</td>
<td>$1.75</td>
</tr>
<tr>
<td>PM Peak</td>
<td>$2.50</td>
</tr>
</tbody>
</table>

- 11 PM-5 AM Nights & All Day on Weekends
- 5-6 AM, 9 AM-3 PM, & 6-11 PM Weekdays
- 6-9 AM Weekdays
- 3-6 PM Weekdays

• Option 1a
  - Tolls initially same or lower than Scenario IG-0
  - 3% toll increases every 3 years, starting FY 2023 thru FY 2059
  - Toll increases include overnight and weekends

• Option 2a
  - Peak tolls same as Scenario IG-0
  - Peak shoulder period ± adjustments and lower midday and evening tolls
  - No toll escalation
Toll rate options proposed for detailed analysis by the WSTC Tolling Subcommittee (cont.)

• **Option 3a**
  - Tolls initially same or lower than Scenario IG-0
  - **3.5% annual increases FY 2021 thru FY 2025**
  - Toll increases exclude overnight and weekends
  - No toll escalation after FY 2025

• **Option 5a**
  - Tolls initially same or lower than Scenario IG-0 except 6-7 PM shoulder
  - **5% increases in FY 2025 and FY 2030**
  - Toll increases include overnight and weekends
  - No toll escalation after FY 2030

• **Option 6**
  - Peak period tolls similar to Scenario IG-0, with peak shoulder tolls added
  - **Lower midday/evening tolls and no overnight tolls**
  - 5¢ (2%) toll increase in FY 2025; includes weekends
  - No toll escalation after FY 2025
Comparison: Annual Traffic Forecasts for Financial Planning
SR 99 Tunnel — Financial Plan Scenario (IG-0) + Rate Setting Options

Initial year forecasts are lower to account for ramp-up and mid-year tolling start date

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Ramp-Up Assumption</th>
<th>Forecast Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (4 months)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>2020</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>2021</td>
<td>97%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Option 6 toll traffic is lower than Scenario IG-0 only because there is no toll assumed overnight between 11 PM – 5 AM.
Comparison: Annual Traffic Forecasts Excluding Ramp-up
SR 99 Tunnel — Financial Plan Scenario (IG-0) + Rate Setting Options

Option 6 toll traffic is lower than Scenario IG-0 only because there is no toll assumed overnight between 11 PM – 5 AM.

FY 2019-21 forecasts shown with ramp-up and partial year effects removed
Comparison: Annual Traffic Forecasts Excluding Ramp-up
SR 99 Tunnel – Financial Plan Scenario (IG-0) + Rate Setting Options – FY 2019-28

FY 2019-21 forecasts shown with ramp-up and partial year effects removed

Option 6 toll traffic is lower than Scenario IG-0 only because there is no toll assumed overnight between 11 PM – 5 AM.
Summary of Net Revenue Analysis

- Options assessed for ability of annual net revenues \textit{after toll R&R reserve account deposits} to exceed debt service costs by and assumed 15% each year (1.15x debt service coverage ratio) as a financial “cushion”.
  - The annual coverage “cushion” hedges against forecast uncertainty, and once realized, can subsequently be available to fund additional uses (subject to Legislative direction).
  - The Commission will determine the final method and amount for a cushion with consultation with WSDOT and OST.

- With one exception (Option 6), all options pay for expected costs (including debt service) but provide differing levels of financial “cushion”.

<table>
<thead>
<tr>
<th>Option</th>
<th>Above/Below Target Debt Service Coverage*</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario IG-0</td>
<td>Generally At or Above Preliminary Coverage Target (1.15x or more)</td>
<td>Drops below target 1.15x in FY 2044 only</td>
</tr>
<tr>
<td>Option 1a</td>
<td>Below Preliminary Coverage Target (less than 1.15x)</td>
<td>Net revenue remains above 1.15x target in every year and modest toll escalation allows for faster funding of toll R&amp;R reserve account and/or higher coverage</td>
</tr>
<tr>
<td>Option 2a</td>
<td>Below Preliminary Coverage Target (less than 1.15x)</td>
<td>Maintains 1.10x coverage thru FY 2041, decreasing in FY 2042, and just covering debt service in FY 2044 (1.00x)</td>
</tr>
<tr>
<td>Option 3a</td>
<td>Generally At or Above Preliminary Coverage Target (1.15x or more)</td>
<td>Net revenue remains above 1.15x target in every year</td>
</tr>
<tr>
<td>Option 5a</td>
<td>Below Preliminary Coverage Target (less than 1.15x)</td>
<td>Maintains 1.06x coverage thru FY 2041, decreasing in FY 2042, and falling short of covering debt service in FY 2044 (0.99x)</td>
</tr>
<tr>
<td>Option 6</td>
<td>Below Preliminary Coverage Target (less than 1.15x)</td>
<td>Maintains 1.06x coverage thru FY 2041, decreasing in FY 2042, and falling short of covering debt service in FY 2044 (0.99x)</td>
</tr>
</tbody>
</table>

* A shortfall ranging from $6.2 to $7.0 M by option is projected in FY 2019, requiring a loan to pay for R&R costs and/or other expenses. A $6.5 M loan is already provided in the current budget. The loan amounts are assumed to be repaid in FY 2020-21.
By April, the Commission seeks to settle on key financing assumptions, and determine if other scenarios are needed:

**Key Finance Assumption Decision Points:**

- Apply legislative action for what expenses toll rates need to cover
  - Session concluded March 8th
- Obtain updated debt service requirements for $200m in capital funding from Office of State Treasurer (OST)
- Define sufficiency requirements
  - Commission will determine definition of sufficiency, the period of time for consideration, and amount of funds assumed for other uses or cushion.
- Clarify what reserves should be required, when payments should begin, and on what schedule.
# Next Steps

Comparison of Financing Requirements by Facility for Key SR 99 Finance Assumption Decision Points:

<table>
<thead>
<tr>
<th>Requirement / Assumption</th>
<th>TNB</th>
<th>SR 520 Bridge</th>
<th>SR 99 Tunnel (Original Proposal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uses of Toll Revenues</td>
<td>Debt Service + O&amp;M and all R&amp;R costs</td>
<td>Debt Service + O&amp;M and all R&amp;R costs</td>
<td>Debt Service + O&amp;M and toll R&amp;R costs</td>
</tr>
<tr>
<td>Debt Service Structure</td>
<td>Steeply escalating debt service</td>
<td>Generally level debt service</td>
<td>Level debt service</td>
</tr>
<tr>
<td>Term of sufficiency</td>
<td>Annual</td>
<td>Thru FY 2051: 25 year maximum bond maturity 35 year TIFIA loan maturity</td>
<td>Thru FY 2046: 25 year maximum bond maturity assumed</td>
</tr>
<tr>
<td>Coverage/Reserves</td>
<td>No reserves. Sufficient minimum balance req.</td>
<td>R&amp;R reserves, debt service and sum sufficient coverage requirements</td>
<td>Toll R&amp;R reserves, debt service and sum sufficient coverage req’s.</td>
</tr>
</tbody>
</table>
Next Steps (cont.)

By April, the Commission seeks to (1) settle on key financing assumptions, and (2) determine if other scenarios are needed:

**Determining Additional Scenarios:**

- Determine if changes to key finance assumptions merit additional toll scenario analysis requests
- Consider interest in merging elements of existing toll scenarios
- Review and confirm Commission rate-setting priorities
- Continue to assess stakeholder feedback and priorities
- Seek and apply changes to costs and operational assumptions
Tentative Timeline
SR 99 Tunnel Rate Proposal

March – April
• Commission & WSDOT staff continue stakeholder discussions.

➢ April Commission Meeting (April 17-18)
• Commission decides on finance assumptions and, if needed, additional toll scenario analysis requests.

April – June
• Continue stakeholder outreach and host public input meeting(s)
• Stantec, Inc. and WSP model additional toll scenario requests, if needed

➢ June Commission Meeting (June 19-20)
• Commission reviews Tolling Subcommittee recommended toll scenario options
Tentative Timeline
SR 99 Tunnel Rate Proposal

June – July
• Continue stakeholder outreach and host public input meeting(s)

➢ July Commission Meeting (July 17-18)
• Commission approves proposed rule for public input

July – September
• Continue stakeholder outreach and host public input meeting(s)

➢ September Commission Meeting (September 11)
• Public hearing & Commission adopts final rule
System-Wide Exemptions & Fees Proposal Update

Presented by:

Carl See
Senior Financial Analyst, WSTC
Status of Exemptions Proposal

• Proposed rule (WAC) language is being written to:
  – Standardize exemptions across facilities
  – Address transit, vanpool and rideshare exemptions for TNB
    • Considering changes required by FAST Act language extending transit toll and HOV exemptions to “over the road” buses.
    – Replace the “bona fide emergency” requirement for emergency vehicles with a broader exemption (TBD)
    – Clean up language to make it cleaner and clearer

• Changes include:
  – Eliminating facility-specific exemptions sections
  – Writing one simple exemption section for all facilities
  – Rewriting express toll lane exemptions section to be specific to HOVs
System-Wide Fees: Why Discuss Now?

1. Align rule-making with planned proposal for system-wide exemption changes.

2. WSDOT is scheduled to switch to the new Customer Service Center (CSC) vendor at the end of 2018.
   
   1. Changes made to rate or fee structures are best included with initial system requirements, as possible.

   2. Now possible to assess whether there will be potential changes to cost and leakage differentials between payment methods with the new system vendor, though preliminary.
## Current Fee and Rate Differentials

<table>
<thead>
<tr>
<th>Type of Charge</th>
<th>Payment Method</th>
<th>How we charge</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toll Rate</td>
<td>Good To Go! Pass</td>
<td>This is the base toll rate</td>
<td><em>Good To Go!</em> is the lowest cost payment method with the lowest leakage rate*</td>
</tr>
<tr>
<td></td>
<td>Good To Go! Pay By Plate</td>
<td>Additional 25 cent <strong>fee</strong> per transaction</td>
<td>Approximately 10% of license plates cannot be read correctly causing leakage</td>
</tr>
<tr>
<td></td>
<td>Pay By Mail</td>
<td>Additional <strong>toll increment</strong> of $2 over <em>Good To Go!</em> toll rate</td>
<td>Requires cost of invoicing and processing; leakage from license plates, address lookups, non-payment</td>
</tr>
<tr>
<td>Fee / Discount</td>
<td>Short Term Accounts</td>
<td><strong>Discount</strong> of 50 cents off the Pay By Mail toll rate</td>
<td>Less leakage than Pay By Mail because we have customer payment identification</td>
</tr>
<tr>
<td>Toll Rate</td>
<td>Cash Payments at Toll Booths</td>
<td>Additional <strong>toll increment</strong> of $1 over <em>Good To Go!</em> toll rate</td>
<td>Higher cost collection due to need for staffing toll booths. TNB only.</td>
</tr>
</tbody>
</table>
Proposed Principles for Fee Assessment

• **Identify fee changes** that have no impact on toll rates.
  – Changes should be revenue-positive or neutral.

• Inform Commission decisions on differentials for both fees and future toll rates.
  – Review anticipated **cost and leakage information** from the new vendor
  
  – As possible, assess **customer preferences** about payment methods.
    • Do some customers use higher cost payment methods because of the convenience?
    
    • Do some customers use higher cost payment methods due to barriers to entry for lower cost options?
Tentative Timeline: Exemptions & Fee Proposals

March – April
- Commission & WSDOT staff continue exemptions research and stakeholder discussions.
- WSDOT prepares fee assessment information.

➤ April Commission Meeting (April 17-18)
- Commission staff presents Tolling Subcommittee’s draft proposed rule

April – May
- Continue stakeholder outreach and host public input meeting(s)

➤ May Commission Meeting (TBD)
- Commission approves proposed rule for public input

May – July
- Continue stakeholder outreach and host public input meeting(s)

➤ July Commission Meeting (July 17-18)
- Public hearing & Commission adopts final rule (file CR 103)
Questions?

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