



Washington State  
Transportation Commission



# Tacoma Narrows Bridge Fund

## Sufficient Minimum Balance *Analysis & Recommendations*

Commission Regular Meeting  
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December 14, 2016



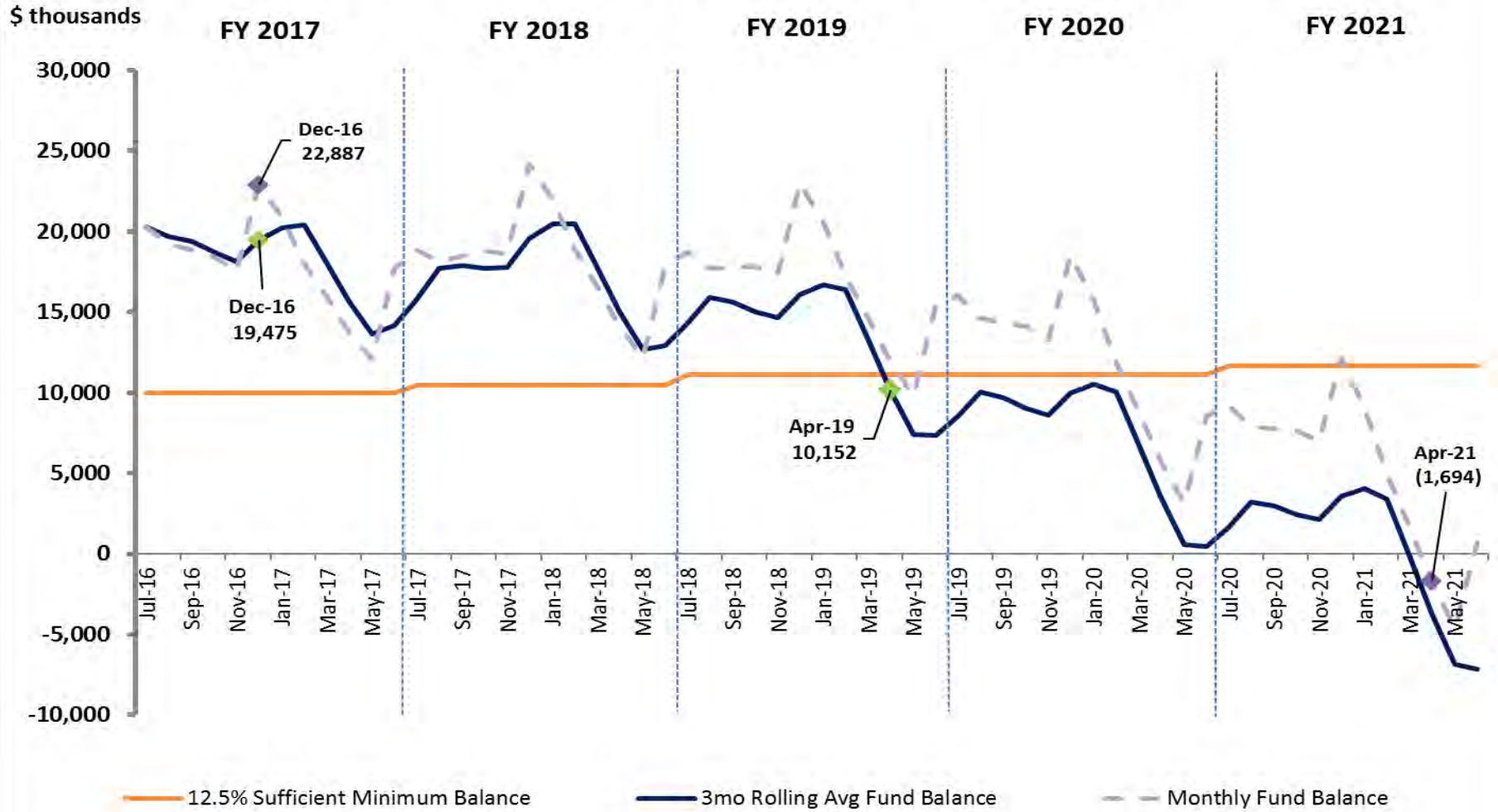
# Intent of Analysis

- Assess risks to TNB fund balance
- Determine impacts of changing current SMB
- Identify if lower SMB could provide toll rate relief
- Inform recommendations to Commission
  - Discussion with Legislature & CAC during 2017
  - Update to Commission's SMB policy
  - Rate setting options

# SMB FAQs

- The SMB is a target minimum fund balance
  - A tool to protect the TNB fund balance from going negative
  - Not an annual expenditure
  - Part of fund balance for TNB fund – not restricted in use
- “Sufficiency Test”
  - Based on 3 month rolling average fund balance
  - Excludes fund balance from Civil Penalty net revenues
- Current SMB = about \$10m (FY 2017)
  - Set at 12.5% of working capital (~45 days)
  - Forecasted at \$10.4m for FY 2018

## Tacoma Narrows Bridge - Current Toll Rate 3-month Rolling Average & Monthly Fund Balances with 12.5% SMB



# SMB FAQs

- Commission implemented policy in March 2010, then updated in February 2013
- Account balance has once fallen below the SMB
  - February 2012
  - Commission addressed with FY 2013 rate setting
- Set SMB with input from Office of State Treasurer and Office of the Attorney General
  - SMB a reasonable interpretation of Commission's duty to set tolls at a level sufficient to pay annual expenditures (OAG)
  - Commission set rate lower than OST recommendation

# TNB Fund FAQs

- Receives all toll revenue from the Tacoma Narrows Bridge
- Fund balance designated for costs of new (eastbound) TNB:
  - Debt service & fees (via Motor Vehicle Fund)
  - Operations & maintenance
  - Costs of tolling
- Beginning fund balances:
  - FY 2017 (July 2016): \$20,267,000
  - FY 2018 (July 2017 – *projected*): \$18,367,000
- No related reserve fund(s) for the Tacoma Narrows Bridge

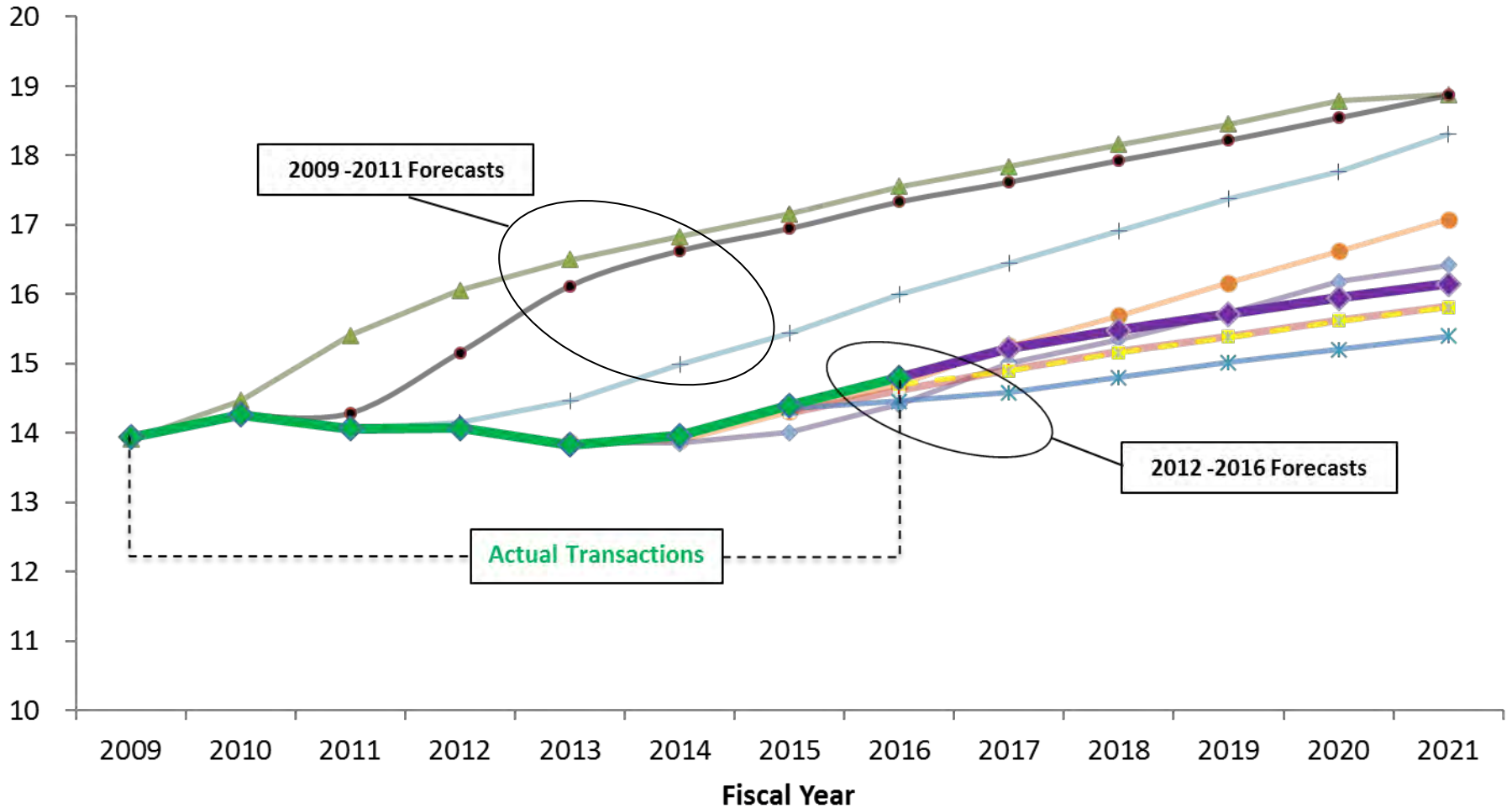


# Assessing Risks: Forecasts

- Costs
  - Debt service unlikely to differ from expectations
  - Other costs are more less certain, with varying impacts to fund balance
    - Customer service center system replacement costs
- Traffic & Revenue
  - 2009-2011: Forecasts exceeded actuals
    - Initial implementation
    - Economic “Great Recession”
  - 2012-Present: Actuals consistently meeting or beating forecasts



# Actual and Forecasted Annual Eastbound Toll Transactions on TNB (in millions)



September 2009 Forecast	March 2011 Forecast	November 2011 Forecast	November 2012 Forecast
November 2013 Forecast	November 2014 Forecast	June 2015 Forecast	November 2015 Forecast
November 2016 Forecast	Actual Transactions		





# Assessing Risks: Revenue Recovery

- SMB one of several tools to maintain or recover fund balance
  - Commission action to raise toll rates
    - Time necessary to coordinate and implement
    - Not a lump sum of revenue
    - Not effective if tolled bridge fully closed
    - Impacts rate payers and local businesses
  - Motor Vehicle Fund loan, if balance negative
    - Future TNB Fund revenue would repay the loan, with interest (variable)
    - No legislative or Commission action needed, but considered a last resort by state
    - Poor impression with bond holders
  - Transfer (grant) of funds to TNB Fund by Legislature
    - No obligation to transfer funds
  - Insurance for loss of revenue

# Insurance Analysis - Summary

Insurance coverage requires loss of revenue to result from physical damage

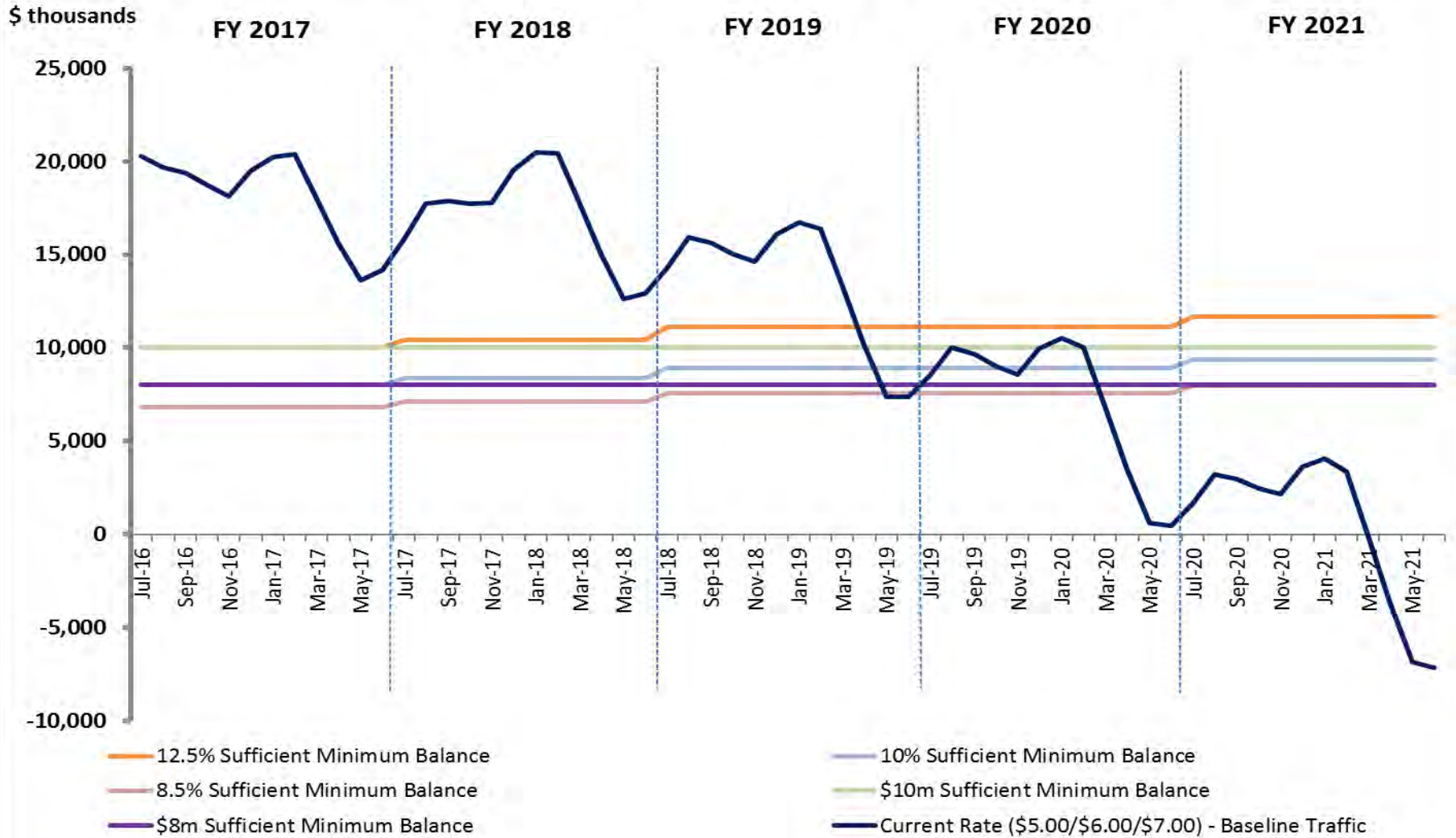
Elements of Insurance	Risk to Fund Balance
<b>Coverage:</b> <ul style="list-style-type: none"><li>• <i>Business Interruption (BI)</i></li><li>• <i>Contingent BI (CBI)</i></li></ul>	<b>Significant.</b> No coverage for loss of revenue from recessions. Coverage requires loss of revenue from <u>physical damage</u> to or near bridge (within 5 miles).
<b>Length of Coverage</b> <ul style="list-style-type: none"><li>• <i>BI: 365 days</i></li><li>• <i>CBI: 146 days</i></li></ul>	<b>Low.</b> Length of coverage long enough to act on other revenue recovery options, if necessary (ex.: rate increase or fund transfer).
<b>Coverage Limits</b> <ul style="list-style-type: none"><li>• <i>BI: Est. Adj. Annual Revenue</i></li><li>• <i>CBI: \$25 million</i></li></ul>	<b>Low.</b> Coverage limits currently reflect anticipated revenue during the length of coverage.
<b>Deductible</b> <ul style="list-style-type: none"><li>• <i>\$10 million</i></li></ul>	<b>Moderate (BI) – High (CBI).</b> \$10 million equates to about 14% or 48 days of anticipated annual toll revenue (FY 2017).
<b>Payments / Cash Flow</b> <ul style="list-style-type: none"><li>• <i>Reimbursements</i></li></ul>	<b>Moderate (BI) – High (CBI).</b> Insurance payments would be delayed for deductible and insurer's approval process.

# SMB Alternatives

- Selected four alternatives to current 12.5% SMB
- Based alternatives on risk assessment and input from Commission's Tolling Subcommittee
- Continue with 3-month rolling fund balance measure
- Values based on Nov 2016 TNB Financial Plan

<b>Alternative SMB Rates &amp; Values</b>						
		SMB as % of Working Capital			SMB as Flat Value	
	Lowest Monthly Fund Balance	12.5% (~45 days)	10% (~36 days)	8.5% (~30 days)	\$10m	\$8m
<b>FY 2018</b>	\$ 10,406,000	\$ 10,438,000	\$ 8,350,000	\$ 7,098,000	\$ 10,000,000	\$ 8,000,000
<b>FY 2019</b>	\$ 4,744,000	\$ 11,138,000	\$ 8,911,000	\$ 7,574,000	\$ 10,000,000	\$ 8,000,000
<b>FY 2020</b>	\$ (2,183,000)	\$ 11,141,000	\$ 8,913,000	\$ 7,576,000	\$ 10,000,000	\$ 8,000,000
<b>FY 2021</b>	\$ (9,878,000)	\$ 11,682,000	\$ 9,345,000	\$ 7,944,000	\$ 10,000,000	\$ 8,000,000

## Tacoma Narrows Bridge - Current Toll Rate 3-month Rolling Average Fund Balance for Alternative SMBs



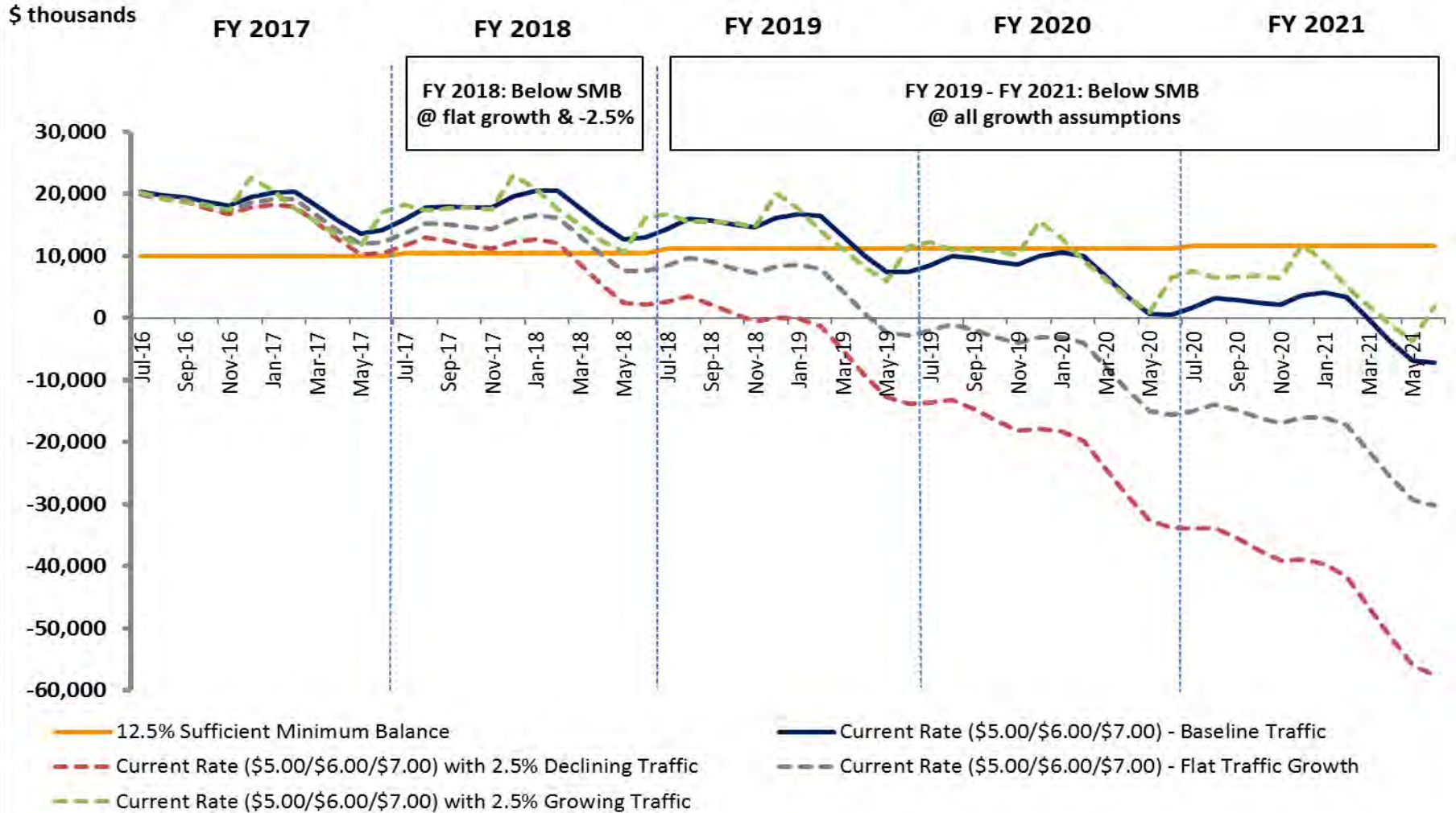
# Alternative SMB Scenarios – Sensitivity Tests

- Tested fund balance with alternative transaction growth rates
  - Assesses likelihood of fund balance remaining above SMB.
  - Most relates to possibility of economic recession
- Tested +/-2.5% annual growth & flat growth
  - Consistent with sensitivity tests used for prior toll rate settings
  - Traffic & revenue forecast tapers from 2.8% growth (FY 2017) to 1% in out years.

FY	Traffic Volume	Percent Change
Actuals		
2015	14,391,928	3.1%
2016	14,800,360	2.8%
November 2016 Forecast		
2017	15,215,000	2.8%
2018	15,482,000	1.8%



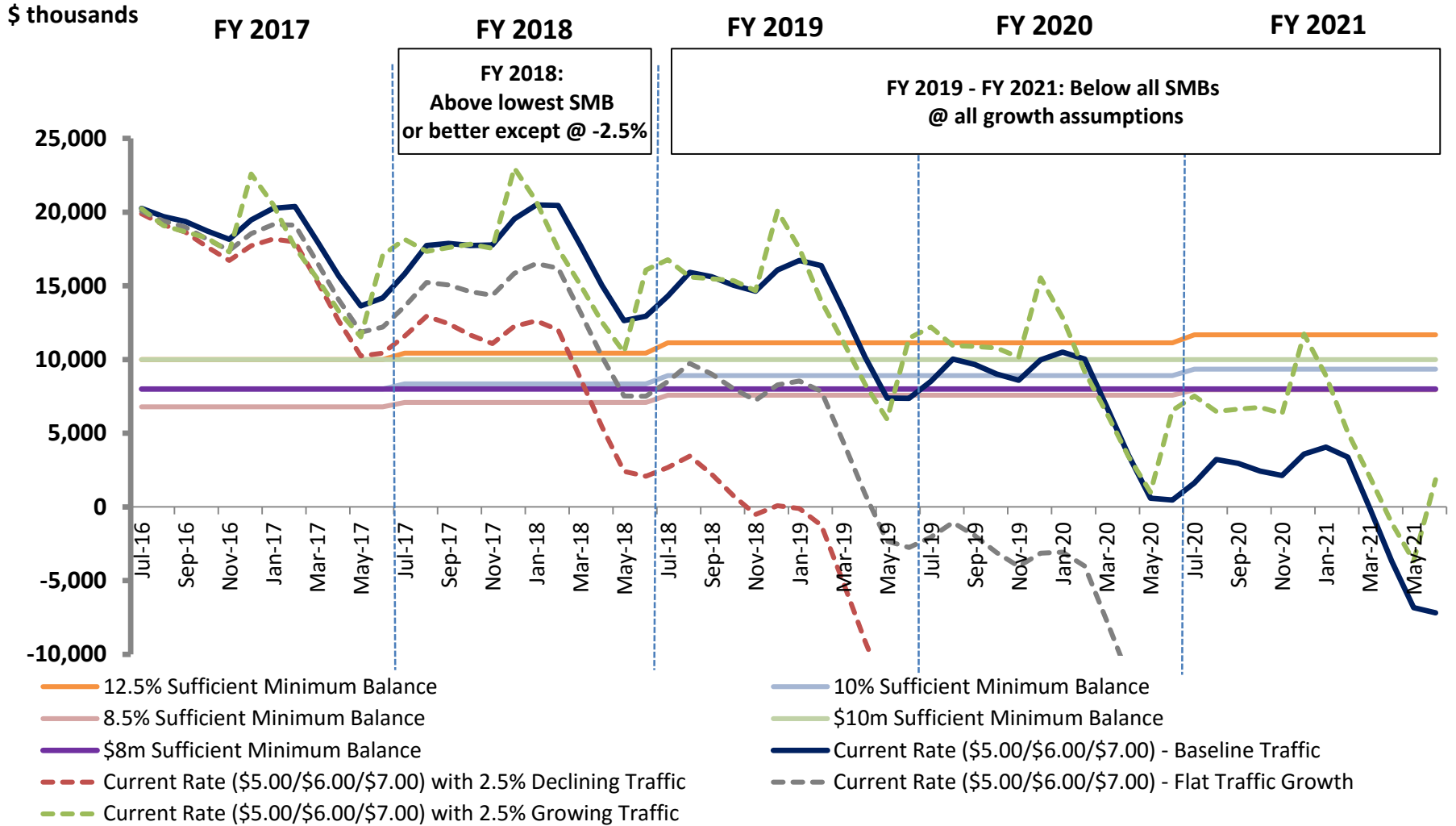
## Tacoma Narrows Bridge - Current Toll Rate w/12.5% SMB 3-month Rolling Average Fund Balance for Alternative Growth Assumptions



\* Expenses are assumed not to vary under the various sensitivity tests.

# Tacoma Narrows Bridge - Current Toll Rate w/SMB Options

## 3-month Rolling Avg. Fund Balance for Alternative Growth Assumptions



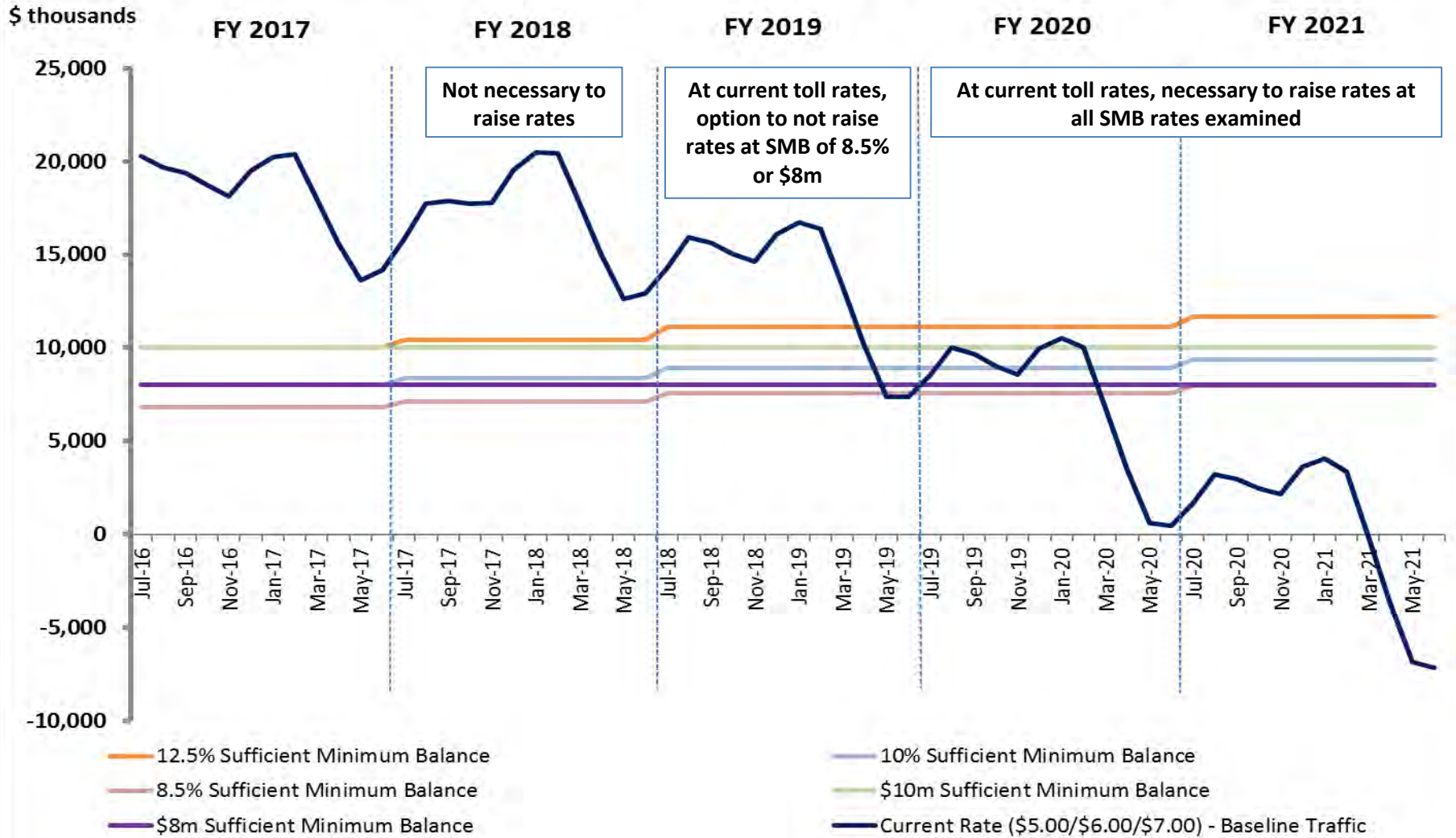
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# Lower SMB: Rate Impacts

- Benefits
  - Lower or deferred rate increase possible for initial rate-setting
    - Assumes greater use of existing fund balance to pay costs during FY(s) of rate cycle
  - Helps address concern that TNB fund balance too high
- Risks
  - Does not change costs necessary to be paid by TNB fund
  - Increases likelihood loss of revenue event results in:
    - future rate increase or need for other revenues
    - possible interests costs from loan for a negative balance
  - Carrying lower fund balance may require higher toll rates than otherwise necessary at end of debt service commitment (FY 2030)

## Tacoma Narrows Bridge - Current Toll Rate 3-month Rolling Average Fund Balance for Alternative SMBs



# SMB Policy: Additional Considerations

- Policy not aligned with current insurance coverage
  - Policy references 10 day waiting period deductible, which was removed (FY 2015)
  - Add reference to current \$10 million deductible and coverage limits
- Rate Adjustment Trigger clarifications

*Current policy: “rate setting process **will be triggered** if there is a significant risk that **the actual SMB** will fall below the established target.”*

  - Could allow Commission **option of** triggering rate setting process
  - “Actual SMB” better stated as “three month rolling average fund balance”

# SMB Policy Recommendations

- Set SMB at \$10 million
  - Ensures coverage for insurance deductible
  - Covers largest expected monthly use of fund balance
  - Maintains SMB at current value
- Alternatives to \$10 million
  - Alt. 1: Set at 10% of working capital. SMB value would grow to nearly \$10 million by FY 2021.
  - Alt. 2: Set at \$8 million and accept risk of potentially relying on \$2 million from alternative source, or toll rate increase.
- Further update SMB policy language:
  - Align with current insurance deductible
  - Clarify the rate adjustment trigger

# Other Recommendations

- Consider including Civil Penalty net revenue when calculating SMB sufficiency
  - Reduces pressure for rate increase
- Work with Legislature on toll rate relief
  - Options to reduce costs paid by TNB fund
  - Options to reduce reliance on SMB for maintaining/recovering fund balance
- Consider no FY 2018 toll rate increase; explore option of increase for FY 2019
  - Fund balance below SMB at current toll rates in FY 2019 & FY 2020
  - Projected negative balance in FY 2021

# Proposed Decision Timeline

- Dec 2016: Commission selects preferred SMB option(s)
  - No change to policy at this time
- Dec 2016/Jan 2017: Submit to Legislature for input & engage CAC
  - Support informed discussion of financing options with Legislature
- TBD 2017/2018: Date for Potential Change to Commission's SMB Policy
  - Enables decision with stakeholder input and more updated traffic trends and costs