



JOINT TRANSPORTATION COMMITTEE FERRIES FINANCING STUDY II

CAPITAL AND OPERATING COST ANALYSIS REPORTS PRESENTATION

**JTC FERRY POLICY GROUP
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Legislative Direction – 2006 SSB 6241

The legislature recognizes there is a need within Washington State Ferries for predictable cash flows, transparency, assessment of organizational structure, verification that the system is operating at maximum efficiency, and better labor relations.

Study: Review and evaluate the ferry system's financial plan, including current assumptions and past studies on:

- *Operating program* – including ridership, revenue & cost forecasts, and the accuracy of those forecasts
- *Capital program* – including project scoping, prioritization and cost estimating, project changes (including legislative input regarding significant changes), and performance measures.

Legislative Direction

2007 – ESHB 2358/2008 – SSB 6932 & Budget Provisos

Areas of JTC Focus

Ferries' Planning – Participation & Independent Review

- Ridership forecast
- Market Survey
- Level of service standard
- Pricing and operational strategies

Ferries' Vessel Studies

- Vessel preservation and replacement
- Vessel sizing and acquisition

Ferries' Finances – Operating & Capital

- Capital - staffing & admin, systemwide, LCCM, pre-design
- Operating – management and support, non-labor, non-fuel

Long-Range Plan – Participation & Independent Review

- Capital finance – confirm Ferries estimates of future capital
- Long-Range Plan – participate & review

Ferry Finance Model – Recommended 2006



Operating Cost Reviews – 2005-07 Expenditures

2007 Ferry Finance Study

- Labor & Fuel

2007 Auto-Passenger Vessel Preservation & Replacement

- Vessel Repair and Maintenance
- Engine Room Staff
- Eagle Harbor

2008 Management & Support Costs (Presented Today)

- Operations Management & Support
- Maintenance Management & Support
- Finance & Administration
- Executive Management
- WSDOT Prog. C (Info. Tech.), S (Exec), U (Insurance)

2008 Non-Labor, Non-Fuel Costs (Presented Today)

- Terminal Operations & Maintenance
- Vessel Operations & Maintenance

Operating Cost Reviews – 2005-07 Expenditures

Program X Ferries Operations	Studies			
	2007	Vessel	Non-Labor	Mgmt & Support
X1 – Vessel Operations	x	x	x	
X2 – Terminal Operations	x		x	
X3 – Operations Mgmt.	x	x		x
X4 – Vessel Maintenance	x	x	x	
X6 – Terminal Maint.	x		x	
X7 – Maintenance Mgmt.	x	x		x
X8 – Finance & Admin	x			x
X9 – Exec. Mgmt.	x			x
WSDOT Program C, U, S				x

Management and Support

Legislative Direction - Review Ferries operating administrative costs (ESHB 1094 §205(1)(b)(iii))

Purpose - Inform

- Long-range plan farebox recovery projections
Farebox recovery = (fares + earned income)/operating costs
- JTC and Transportation Commission finance studies
- Future Ferries fare policies

Farebox Recovery

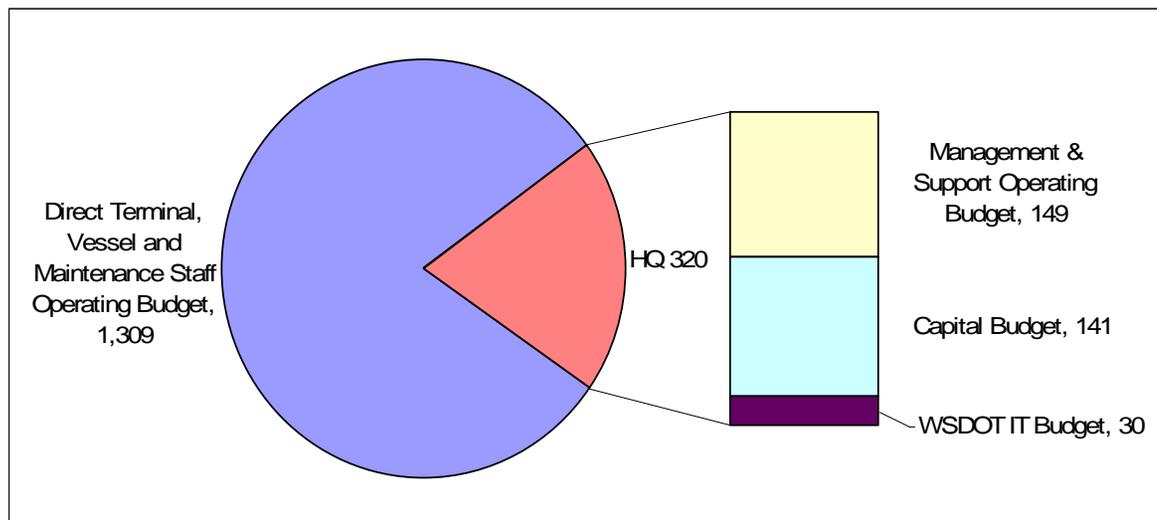
- FY 06 – 74 percent farebox recovery rate
- Expenses FY 06 - \$191.4 million
 - Direct vessel - \$113.6 million – 59%
 - Management and support - \$31.9 million – 17%**
 - Direct maintenance - \$23.4 million – 12%
 - Direct terminal - \$22.5 million – 12%

2005-07 Management and Support Expenses

Total Management & Support - \$68.4 million

Ferries Labor	32%
Ferries Non-Labor	43%
Other State Support	25%

Ferries Management & Support Labor - \$21.8 million/149 positions



➤ **Reasonable** – 10% operating positions, 9% operating labor costs

Insurance Related Expenses - \$17.3 million

25% of all management and support costs or 4% of total biennium operating expenses (part Ferries non-labor, part WSDOT)

Insurance Related Expense	\$ (millions)
Marine Insurance Program Premium - Ferries & U	9.7
Ferries Tort Claims Payments – U	3.7
Ferries Tort Claims Defense – U	2.4
Risk Management Administration Fee - U	0.9
Ferries Risk Management Charge from OFM - U	0.3
Two Tort Claims Investigators – S2	0.2
Ferries Payment for Broker Fee – Fund 546 - Ferries	0.1
Total	\$17.3

Marine Insurance Program – Premium \$9.7 million

- Ferries not part of State self-insurance program
- Coverages
 - ✓ Vessel
 - Hull & machinery – 50% of value
 - Protection & indemnity - \$250 million/occurrence
 - ✓ Terminal
 - Property damage
 - Operators liability
 - Earthquake – \$50 million/occurrence & per location
 - Deductible -\$1 million per accident
 - War Risk – 13 out of 20 vessels
- Claims - \$10.2 million collected 1990-2007
 - ✓ Hull \$0.4 out of \$4.5 million in losses
 - ✓ Terminals \$5.5 million out of \$11.3 million in losses
 - ✓ \$4.3 million – protection & indemnity (\$3 million POF)

Marine Insurance Program Recommendations

1. OFM, WSDOT, and Ferries review the marine insurance program
- is it cost-effective versus being self-insured?

2. If the marine insurance program is cost-effective - review the coverages and deductibles (i.e.)

Terminals – Property necessary with concrete and steel?

Machinery & hull – on inactive and older vessels?

\$1 million deductible since 1991 – self-insurance \$10 million

3. Ferries needs

full understanding of the coverages provided

to distinguish direct labor from overhead costs for claims

Other Insurance Expenses - \$7.6 million

\$6.1 million – WSDOT Program U Charges*

\$0.9 million – Risk Management Administration**

\$0.2 million – WSDOT Program S Charges

\$0.4 million – Payment to OFM and for Broker Fee

Recommendations

- 14.** Do not include risk management administration fees in farebox recovery – no longer charged by WSDOT
- 15.** WSDOT, OFM, and Ferries review range of costs incurred by the State in providing insurance, risk management services, and claims defense & reduce if possible

*Program U also pays \$0.5 million of the marine insurance premium

**Included by Ferries in farebox recovery but not charged by WSDOT

Other Major Ferries Non-Labor Management & Support

Ferries total non-labor - \$29.5 million

31% - Insurance

15% - Rent & Leases

13% - Services

9% - Merchant Discount Fees (Credit card fees)

7% - Management & Organizational

Recommendations

4. Ferries, WSDOT, and OFM review Ferries' temporary employment expenditures (\$1.1 million) - determine which should be permanent positions.
5. Ferries should consider accepting only Visa and MasterCard, which have lower merchant discount fees.
6. Ferries should review its use of long-term on-site consultants.

WSDOT Management & Support - Policy

- No clear policy on WSDOT costs in farebox recovery
- 3 types of WSDOT costs included in farebox recovery
 - Motor Vehicle Account expenses charged to the Puget Sound Ferry Operations Account - \$9.7 million (Program C & S)
 - Motor Vehicle Account expenses not charged to the Puget Sound Ferry Operations Account - \$7.5 million (Program U)
 - WSDOT expenses charged to the Ferries Operating Budget - \$0.3 million (OEO)
- 1 WSDOT cost not included in farebox recovery (or charged to capital)
 - Electronic fare system – program C4 – IT Technology \$1.4 million
- Consideration – circular flow of funds - Discretionary Motor Vehicle Account transfers are made to, in part, cover charges to the Puget Sound Operations Account from the Motor Vehicle Account

WSDOT Policy Recommendations

- 7.** Legislature & WSDOT develop a consistent policy on expenses to be charged from the Motor Vehicle Account to the Puget Sound Ferry Operations Account.
- 8.** If WSDOT administrative indirect expenses are charged to the Puget Sound Ferry Operations Account, such charges should be distinguished from direct ferry service delivery costs.
- 9.** Legislature and WSDOT develop a consistent policy on expenses to be charged directly to the Ferries operating budget.

WSDOT Specific Charges

S program – Executive Management

S1 – Executive Management Allocation \$1.1 million
Same amount since 1997-98

OEO Officer \$0.3 million

Recommendations

10. WSDOT should not charge the Puget Sound Ferry Operations Account for S1 Executive Management if such charges are not made to other transportation related accounts. If continue – update amount.

11. WSDOT should review the consistency of its practice in charging for OEO officers - should not charge unless other WSDOT budgets are also being charged.

Management Communication & Oversight

Farebox Recovery Calculation - Policy

Legislative Direction

- Exclude security costs
- Recognize each travel shed is unique/different recovery rates
- Fares generate the amount of revenue required by the budget

Recommendations

16. Ferries and the legislature develop policy on costs to include in farebox recovery

Recommendation All costs charged to the Puget Sound Ferries Operations Account be included in farebox recovery - tie to the level of fares needed to meet the 16-year financial plan

17. Legislature clarify intent in excluding security costs so WSDOT expenses can be properly included or excluded - Program C security plan expenses included

Management Communication & Oversight

Legislative Oversight Communication

Ferries uses inconsistent definitions of management & support in reports to legislature

Farebox recovery calculated on an annual not biennial basis

Recommendations

18. To provide consistent communication with the legislature, Ferries should use a uniform definition of management and support costs based on farebox recovery model

19. Ferries should provide a biennium farebox recovery calculation - aligned with the State's budget periods

Non-Labor, Non-Fuel Costs

Legislative Direction To review all non-labor, non-fuel operating costs (ESHB 1094 §205(1)(b)(iii)) - 2007 study found **80%** labor & fuel

Reviewed

- \$79.5 million in non-labor, non-fuel costs in 2005-07 biennium
 - \$33.0 million – vessels (part in 2007 Vessel Study)
 - \$29.5 million – management & support (not repeated)
 - \$17.0 million – terminals

Costs Related to Labor and Fuel -2%

- \$9.6 million of the \$79.5 million in “non-labor, non-fuel” expenses
 - Labor related** \$7.9 million – examples
 - \$3.3 million – private auto mileage
 - \$1.2 million – uniforms
 - \$1.1 million – maintenance and care payments
 - Fuel** - \$1.7 million – used during repairs

Non-Labor, Non-Fuel Costs

Expense	%	\$ (millions)
Maintenance Repairs	32%	25.3
Insurance	12%	9.2
Supplies & Materials	10%	8.3
Services	7%	5.6
Rent & Leases	7%	5.5
Management & Organizational	6%	4.6
Utilities	5%	3.9
Private Auto Mileage	4%	3.3
Merchant Discount Fees/Bank Charges	3%	2.6
Misc.	14%	11.2
Total		79.5

Non-Labor, Non-Fuel Costs

- With 82% of costs related to labor agreements and fuel – management has little opportunity to control costs

Terminal Agents

- \$2.5 million spent on terminal agent contracts at San Juan Island terminals
- Contracts have not been regularly bid
 - Orcas – contract since 1977
 - Lopez – contract since 1986
 - Sidney – bid 2004
 - Shaw – assigned 2004 without competitive process
 - Friday Harbor – assigned 2002 – last bid 1991

Recommendation - Enter into a competitive process for terminal agent services as contracts expire to ensure receiving the best combination of value and service

Capital Cost Reviews – 2005-07 Expenditures

2007 Ferry Finance Study

- Terminal capital projects
- Capital project planning and prioritization

2007 Auto-Passenger Vessel Preservation & Replacement

- Vessel capital projects – exclude new vessels

2008 Capital Program Staffing and Administration

- Administrative overhead
- Vessel Engineering
- Terminal Engineering
- Other staff charges to capital projects

2008 Systemwide Capital Projects (Presented Today)

- Terminal systemwide projects
- Vessel systemwide projects
- Cost Allocation Methodology

Operating Cost Reviews – 2005-07 Expenditures

Program W (Ferries Capital)	Studies		
	Vessel	Staffing & Admin	Systemwide
Vessels – Preservation & Systemwide	x	x	x
Terminals – Preservation, Improvement & Systemwide		x	x
Emergency Repairs	x		

Systemwide Projects

Legislative Direction

- Review systemwide capital projects (ESHB 1094 §205(1)(b)(iii))
- Allocate systemwide and administrative program costs to specific capital projects using a cost allocation plan developed by the department (ESHB 2358 §9(3))
- JTC to review Ferries' proposed cost allocation plan (ESHB 1094 §225(8)(d) and §205(1)(b)(iv))

Purpose

- Improve the transparency of systemwide & administrative costs
- Ensure that costs are fully allocated for economic analysis

Scope

- 35 systemwide projects (13 vessel, 22 terminal) in 2007-13 plan
- Cost allocation methodology

Systemwide Projects

- 2005-07 - \$47.8 million 26% of total capital expenditures
 - Vessels \$ 18.6 million
 - Terminals \$ 29.2 million
- 2007-23 - \$150.6 million 7% of total planned capital
 - Vessels \$ 48.8 million
 - Terminals \$ 101.8 million

Location Systemwide Projects – 60% of 07-23 Planned Expenses

- Projects that occur at a particular location – managed as program

Vessel examples

Communication/Navigation/Life Saving
Vessel Project

Terminal examples

Operations Construction Support
Terminal Physical Security Infrastructure

Systemwide Support Projects – 40% of 07-23 Planned Expenses

Vessel examples

Vessel Planning/Design

Vessel Work Orders by Auditor

Terminal examples

Terminal Project Controls

Miscellaneous Terminal Projects

Project List

- Two requirements of ESHB 2358
 - ✓ Use OFM/leg definition of improvement & preservation
 - ✓ Distribute, but separately identify
 - Administrative costs
 - Systemwide costs
- Project list 07-09
 - ✓ Eliminate systemwide projects
 - ✓ Improvement & preservation PINS for each terminal/vessel

Cost Allocation

- Systemwide location projects
 - ✓ To vessel/terminal preservation or improvement projects
- Systemwide project support projects
 - ✓ Allocated to vessel/terminal preservation/improvement projects
 - ✓ Identified as “indirect costs”
- Administrative work order costs (admin. work order)
 - ✓ Allocated to vessel/terminal preservation/improvement projects
 - ✓ Identified as “administrative costs”

Ferries Cost Allocation Method

- Developing zero-based indirect & administrative cost budgets
- Developing project level indirect & administrative cost budgets
- Allocating actual indirect & administrative expenses to projects
- Monitoring and reporting indirect & administrative expenses
- Develop benchmarks or performance measures for indirect & administrative expenses

Consultant Findings – Ferries Cost Allocation Methodology

- Responsive to legislative direction
- Will provide more transparency
- Will provide a better basis for economic analysis
- Permit improved Ferries capital program management