

## New Vessel Program Funding – PT/Key Route – Steel Electric Vessels – Safe Harbor Leases

# Where have we been?

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## New Vessel Program Funding

There are two key points in history that significantly impacted funding for Washington State Ferries (WSF). The first is the loss of the motor vehicle excise tax (I-695) in 1999, which funded in-part both WSF's capital and operating programs. The second is the failure of Referendum 51 in 2002, which contained funding for new auto-passenger ferries and terminal improvements. Since the loss of these two significant funding sources, WSF has been cobbling together a capital improvement program to preserve and improve our terminals and build new vessels. Funding for the new vessel program was first received in 2003. In 2007, \$347.6 million was approved for building the new vessels. Below are bullets on how funding evolved between 1999 and the present for the new vessel program.

### Overview

- The decision to use \$68 million of preservation funding to help finance the construction of two new auto-passenger ferries was made in the 2003 legislative session. At that time the four Steel Electric vessels and the MV Rhododendron had about \$8 million programmed for preservation during the 2003-2013 Biennia. \$3 million was shifted to new vessel construction. The remaining \$65 million came from projects to preserve the MV Hyak and the MV Evergreen State and various passenger-only projects. Since 2003, 2003-2013 biennia preservation funding for the Steel Electric vessels, MV Rhododendron and MV Evergreen State decreased by \$1 million. Preservation funding for the MV Hyak increased by \$11 million.
- The recent history of preservation funding for the Steel Electric Class vessels and MV Rhododendron is intertwined with preservation funding for the MV Hyak and the MV Evergreen State and funding for new vessel construction. Bullets
  - In the 1999-2009 OFM Ten-Year Capital Plan (October 1998), WSDOT proposed to allocate substantial preservation funding to all seven of the above vessels. The Steel Electric vessels and the MV Rhododendron were allocated \$47 million. The MV Hyak and Evergreen State were allocated \$56 million.
  - This situation soon changed. The adverse financial impacts of I-695 and the Todd Shipyard settlement for the Jumbo Mark II contract reduced funds available for preservation. In the 2001-2011 Ten-Year Plan (September 2000). The Steel Electric vessels and the MV Rhododendron

were allocated \$49 million. The MV Hyak and Evergreen State were allocated \$11 million.

- In the 2003-2013 Capital Improvement and Preservation Program (November 2002), WSDOT proposed to use new law revenue to build new vessels to replace the Steel Electric vessels and the MV Rhododendron. This resulted in the reallocation of preservation funds from the Steel Electric vessels and MV Rhododendron to the MV Hyak and Evergreen State. The Steel Electric vessels and the MV Rhododendron were allocated \$8 million and the MV Hyak and Evergreen State were allocated \$54 million.
- During the 2003 legislative session, WSDOT proposed to use preservation funding to provide \$68 million toward the construction of two new auto-passenger ferries. Based on the distribution of preservation funding previously proposed, the preservation funding shifted to new vessel construction came from the MV Hyak (\$30 million), various passenger-only projects (\$23 million), the preservation of the MV Evergreen State (\$21 million) and preservation of the four Steel Electric vessels and the MV Rhododendron (\$3 million), less funds shifted to the Keystone Terminal project (\$9 million). This resulted in shifting \$68 million from preservation to new vessel construction. This amount plus \$83 million in operating transfers were expected to fund two new vessels costing \$151 million.
- The Legislature's 2003 LEAP Project List for the 2003-2013 ten-year period provided \$152 million current law funding for two new vessels and limited preservation funding to \$4 million for the Steel Electric vessels and the MV Rhododendron and \$4 million for the MV Hyak and Evergreen State.
- Following the 2003 legislative session, the Legislature approved changes in preservation funding for the Steel Electric vessels, the MV Rhododendron, the MV Evergreen State and the MV Hyak. The last project list approved by the Legislature (the 2007 LEAP Project List) increased preservation spending on the MV Hyak by \$11 million and reduce preservation spending on the other six vessel by \$1 million compared to the Legislature's 2003 LEAP Project List over the 2003-2013 ten-year period.

#### Documentation

- In 1997, the "WSF Ten Year Vessel Needs" paper noted that the Steel Electric Class vessels had been refurbished (one in 1981 and three in 1987) but they might have to be replaced by new vessels in the future due to regulatory issues.
- In October 1998, WSF's OFM Ten-Year Capital Plan (1999-2009) was approved by Transportation Commission Resolution 574 and transmitted through OFM to the Legislature. It included a current law budget request of preservation funding for the four Steel Electric vessels and the MV

Rhododendron (\$47 million) and for the MV Hyak and the MV Evergreen State (\$56 million).

- In November, 1998, the Transportation Commission submitted to OFM the “WSDOT 1999-2005 Washington’s Transportation Plan Budget Proposal and Referendum 49 Budget Proposal.” The document included the WTP’s proposal to replace/displace three Steel Electric Class ferries with maneuverable ferries, but the ill-fated Referendum 49 proposal did not include funding for this project in the 1999-2005 Six-Year Plan.
- In September 2000, WSF’s OFM Ten-Year Capital Plan (2001-2011) was approved by Transportation Commission Resolution 608 and transmitted through OFM to the Legislature. It included a current law budget request of preservation funding for the four Steel Electric vessels and the MV Rhododendron (\$49 million) and for the MV Hyak and the MV Evergreen State (\$11 million). The reduction in preservation funding for the MV Hyak and Evergreen State reflected the adverse financial impacts of I-695 and the settlement with Todd Shipyard on the Jumbo Mark II contract, and reconsideration of how WSF would use these vessels in the future.
- In November 2002, WSDOT submitted the 2002 Capital Improvement and Preservation Program (CIPP) to OFM and the Legislature. The program request restored preservation funding for the MV Hyak and Evergreen State (to \$54 million) and reduced preservation funding for the four Steel Electric Class vessels and the MV Rhododendron (to \$8 million). This reduction in preservation funding assumed that the construction of new vessels would permit the retirement of the MV Nisqually in FY 2004, the MV Illahee, MV Klickitat and MV Quinault in FY 2009 and the MV Rhododendron in FY 2010.
- During the 2003 legislative session, WSDOT proposed funding two new vessels, in part, from \$68 million preservation and other savings identified from the project list in the 2002 CIPP. WSDOT believed that these two self-financed vessels plus two additional vessels (one Nickel Tax-financed and one self-financed) allowed retirement of the MV Evergreen State in FY 2006 and the MV Hyak in FY 2008, in addition to the four Steel Electric vessels and the MV Rhododendron.
- In 2002, WSF believed that the \$33 million allocated for the preservation of the MV Hyak could be reduced to \$3 million, the \$21 million allocated for preservation of the MV Evergreen State could be reduced to nearly \$0 million, and the \$8 million allocated for the preservation of the four Steel Electric Class vessels and the MV Rhododendron could be reduced by \$ 3 million. This conclusion was based on planned retirement dates for these vessels and the exceptionally high life cycle ratings for category 1 (vital) systems of all the vessels except the MV Hyak which would be limited to reserve service. The preservation savings of \$68 million and ferry operating transfers of \$83 million were expected to fund two new vessels costing \$151 million.
- The Legislature’s 2003 LEAP Project List for the 2003-2013 ten-year period provided \$152 million current law funding for two new vessels and limited

preservation funding to \$4 million for the Steel Electric vessels and the MV Rhododendron and \$4 million for the MV Hyak and Evergreen State.

- Following the 2003 legislative session, the Legislature approved changes in preservation funding for the Steel Electric vessels, the MV Rhododendron, the MV Evergreen State and the MV Hyak. The last project list approved by the Legislature (the 2007 LEAP Project List) increased preservation spending on the MV Hyak by \$11 million and reduce preservation spending on the other six vessel by \$1 million compared to the Legislature's 2003 LEAP Project List over the 2003-2013 ten-year period.
- In 2005, TPA funds were approved for a fifth new vessel.
- In 2006, the Legislature removed funding for a fifth new vessel due to budget considerations.
- In 2007, \$347.6 million was approved for building the new vessels.

## **Port Townsend – Keystone Route**

The Port Townsend-Keystone route carries 3 percent of the system ridership (778,000 total riders and 370,000 vehicles). Traffic on this route is primarily recreational and commercial, with a very small base of regular commuters.

WSF had originally proposed to replace the two, 65-car Steel Electrics on the Port Townsend-Keystone route with one mid-sized Issaquah class vessel (similar to the new vessels being built today) that were interchangeable throughout the ferry system. Below is a history of considerations for service and terminal configurations.

### 2002-2003

Feasibility study indicated that “out of harbor” options for the Keystone Terminal were feasible from a construction standpoint.

### 2004-January 2005

A major study of options for this route, including different vessel sizes, was conducted in 2004-2005. This report, called the Keystone Harbor Study, recommended that WSF study three vessel sizes to replace the Steel Electrics.

### October-November 2005

Started SEPA Checklist for the Port Townsend ferry terminal (included extensive public outreach). Proposed action included extending the dock to accommodate future growth. WSF said that all improvements would accommodate any vessel size.

### March-April 2006

WSF began an EIS for Keystone that looked at a 65-car, 100-car and 124-144-car vessels. Alternatives included relocating Keystone terminal, modifying the harbor to accommodate a larger vessel and building a smaller, special vessel that could operate in the existing harbor.

### Fall 2006

WSF prepared to issue a SEPA Determination of Non-Significance for the Port Townsend project (stating that the project would not have significant impacts). Before the DNS was issued, WSF received over 300 emails, phone calls or written letters expressing concerns related to the proposal to put new vessels on the route. Community members voiced specific concerns about traffic impacts, the size and scale of the terminal expansion, and environmental impacts of modifying Keystone Harbor.

Technical reports and traffic modeling showed that vessels that carry more than 100 cars would have significant impacts on local streets (SR 20) near the Port Townsend and Keystone terminals.

#### November 2006

WSF Executive Director met with Senator Haugen and Representative Kessler to discuss constituent concerns about the plans for Port Townsend and Keystone. WSF announced it would suspend work on both projects and work with the community to find a path forward that addressed citizen concerns.

#### January 2007-May 2007

WSF held regular “partnership” meetings with community leaders and local elected officials (Mayor of Coupeville, City Council members, ferry advisory group members, City and County staff, WSDOT traffic engineers, etc) from Port Townsend and Whidbey Island to discuss community concerns and a solution for replacing the Steel Electrics. The group met four times between January and May 2007. The discussed community values and constraints as they relate to issues such as vessel and terminal size, traffic on local streets, possible reservations programs, and remote holding.

#### May-June 2007

WSF announced that it will remove the largest vessel from consideration and proceed with plans to replace the Steel Electrics with vessels that carry 100 cars or less and can fit in Keystone Harbor. A comprehensive vessel planning study will begin in July 2007. WSF issued a Determination of Significance (DS) for the Port Townsend project on June 19 in compliance with relevant Washington State Environmental Policy Act (SEPA) procedures. The DS is based on a SEPA Checklist and supporting technical studies that concluded that there would be significant adverse impacts related to traffic along SR 20 in the City of Port Townsend if a 124-to-144 car vessel were used on the Port Townsend-Keystone route. The DS triggers an EIS and further environmental documentation. Combined route planning process and joint EIS for Port Townsend and Keystone begins.

## Steel Electric Class Vessels - Incident Chronology 2007

Since the first discovery in March 2007, WSF has worked very closely with the U.S. Coast Guard (USCG) on a hull inspection and repair plan for the Steel Electric Class Vessels leading up to the vessels being removed from service on November 20.

### March - June

- (1) March 10 – 6-inch crack in hull of the *Klickitat* (64-car) discovered during routine inspection
- (2) May 18 - a pinhole<sup>1</sup> was discovered in the *Quinault* (59-car) in the steering gear compartment above the waterline.
- (3) June 23 - A pinhole<sup>2</sup> in the hull of the *Illahee* (59-car) was found during regular inspection
- June 27 - *Nisqually* (59-car) was inspected by USCG
- June 29 - *Klickitat* (64-car) was inspected by USCG
- June 29 - *Illahee* (59-car) taken to Dakota Creek Shipyards for repair

### July - September

- July 2007 - WSF hired a third-party inspection company, International Inspection, Inc. to conduct comprehensive hull surveys of all four Steel Electric (SE) Class Vessels
- (4) July 1- *Quinault* (59-car), a small puncture<sup>3</sup> resulted below the waterline from de-scaling paint due to corrosion.
- July 2- Met first USCG requirement for an immediate internal examination of the SEs.
- July 5- WSF received a letter from the USCG Marine Inspection Division indicating that “the current preventative maintenance and inspection schedule is not sufficient for this class of ferry” and “as the current continuing trend of hull failures indicates, additional measures are needed.”
- July 10 – WSF sent a letter in response to the USCG’s June 26 letter
- July 12 – WSF meets with USCG representative, Mr. Dwyer, at his office
- July 13-19 - *Illahee* inspected by International Inspection, Inc.
- July 20 – USCG inspects the *Klickitat* and allows WSF to defer the concrete removal until the next scheduled drydock in April 2009. Vessel goes back into service on the Port Townsend-Keystone route.
- July 27-Sept 13 - *Quinault* inspected by International Inspection, Inc.
- July 29 – *Illahee* inspection is complete at Dakota Creek Shipyard and vessel returns to service on the Port Townsend-Keystone route.

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<sup>1</sup> Pinholes/punctures range from 1/8-1/4 inch in diameter.

<sup>2</sup> Pinholes/punctures range from 1/8-1/4 inch in diameter.

<sup>3</sup> Pinholes/punctures range from 1/8-1/4 inch.

- (5) July 29 – Crack<sup>4</sup> in stern tube<sup>5</sup> of *Illahee* discovered after 6 hours of service. Vessel removed from service.
- July 30 – *Quinault* to Todd Shipyard with *Illahee* for concrete removal and repair of initial findings from USCG inspections (double-drydock).
- July 31 – USCG accepts WSF’s request to extend the *Nisqually*’s inspection and concrete removal requirement until August 14. Extension comes with provisions that there are hull integrity checks by the vessel’s engineers every four hours, and a Coast Guard marine inspector conducts an inspection on August 7/8.
- USCG inspection team inspects the *Illahee* and *Quinault* at Todd Shipyard.
- Aug. 14 – USCG accepts WSF’s request to keep the *Nisqually* in service until September 9. Extension comes with provision that USCG inspectors conduct weekly internal inspections.
- Aug. 15 –WSF submits a letter to the USCG outlining a proposed long term repair and maintenance plan for the SEs. The plan includes three parts: 1) Increased vessel crew internal inspection frequency; 2) Increased frequency for USCG internal structural exams; 3) Third party surveyor hired to conduct comprehensive internal hull surveys of each vessel.
- Aug. 17 – WSF learns of additional repairs needed on the *Quinault* and both stern tubes need to be replaced.
- Aug. 20 – Inspection report for the *Illahee* confirms that both stern tubes need to be replaced.
- Aug. 30-Sept 5 - *Klickitat* inspected by International Inspection, Inc.
- Sept. 9 – *Nisqually* taken out of service to comply with USCG inspection requirements. Port Townsend-Keystone route on a one-boat schedule.
- Sept. 14 – Launch *Quinault* and *Illahee*. *Quinault* to WSF’s Eagle Harbor Maintenance Facility. *Illahee* to San Juan Islands.
- Sept. 14 - October 14 – *Quinault* at Eagle Harbor. Ongoing crew maintenance and inspections (de-scale paint inside of hull)
- Sept. 25-29 - *Nisqually* inspected by International Inspection, Inc.

### October

- Oct. 15 – *Quinault* returns to drydock in Todd Shipyard for completion of stern tube replacement
- Oct. 15 - A long-term inspection, maintenance and repair plan submitted to the U.S. Coast Guard. The plan is based in part on analysis from the hull survey reports.
- Oct. 25 - Ferry Advisory Committee Executive Meeting; SE update provided
- Oct. 30 - Executive summary of International Inspection draft reports presented to Joint Transportation Committee (JTC) Ferry Policy Group

### November

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<sup>4</sup> Crack is 1" deep (the wall thickness of the stern tube), approximately 20" in length, and 1/16th"-1/8th" wide

<sup>5</sup> Inspectors believe that the crack may have been caused by stress on the hull when the vessel was in drydock.

- Nov. 6 - Hull pitting discovered along keel of *Quinault* as part of WSF's continued inspections outlined in the USCG plan
- Nov. 6 – Nov. 20 - Ongoing discussions with U.S. Coast Guard about status of vessels and approach to repairs
- Nov. 7 – Tour of Quinault at Todd Shipyards with USCG inspector, vessel staff chief, and Senior Port Engineer Tim Browning
- Nov. 8 - Tour of *Quinault* at Todd Shipyards with Legislative representation; pitting of *Quinault* discussed
- Nov 14 – Received proposal from Todd Shipyards to add a “double bottom” to *Quinault* as a repair alternative
- Nov 15 – Discussion with USCG about above mentioned option and “grandfather status” with proposed amount of steel work in hull
- Nov. 16 - Inspection of *Klickitat's* hull while in service by Senior Port Engineer Tim Browning; spot checks indicated a few areas of concern that warrant further investigation
- Nov. 16 - Inspection of *Illahée's* hull while in service by Preservation Project Engineer Dave Nye, Fleet Maintenance Port Engineer Chris Blasko, and Staff Chief Mike Fagernes; spot checks indicated a few areas of concern that warrant further investigation
- Nov. 16 - Port Townsend/Keystone Community Partnership Community Group met and received update on *Quinault*
- **Nov. 20 – After assessing the accumulation of data, WSDOT Secretary of Transportation Paula Hammond pulled Steel Electric Class vessels from service after last sailing of the day**

## **Safe Harbor Leases**

**We've been hearing a lot of about Safe Harbor Leases. What are they? And, what are the implications to the Steel Electric Class vessels?**

There are currently nine vessels subject to Safe Harbor Leases, with 4 separate companies. Between 1983 and 1995, the department entered into Tax Benefit Transfer Agreements to generate new revenue for WSF, pursuant to the IRS Tax Code provisions (now expired). Essentially the depreciation rights were sold, but the department still owns the vessel. These leases generated payments to WSF equal to \$24.8 million.

Each agreement and vessel has a lease end date association for fulfillment of the agreement. If a vessel is officially retired, sold, or permanently taken out of service before that date, WSF will be obligated to a payout or stipulated loss liability, adjusted to the loss date.

The department has not anticipated a stipulated loss liability to date, as we expected to fulfill the agreement by continuing to operate through at least 2014. If circumstances change that expectation, a loss liability may be incurred or the rights potentially transferred to another vessel.