State Ferry Terminals: Procedures to Account for and Request Capital Funds Have Improved, but Additional Actions Are Needed

Proposed Final Report

Joint Legislative Audit & Review Committee
May 18, 2011
David Dean, JLARC Staff

Presentation Overview

• Background
  – Results of previous study
  – New statutory requirements
• Audit results
  – Progress made in implementing new requirements
  – Additional actions needed
• Recommendations
• Agency responses
Legislature Sought Improved Information on State Ferry Finances

- In 2006, the State Ferries Division of the Washington Department of Transportation proposed a $5.6 billion long-range plan
- In response, the Legislature directed the Joint Transportation Committee (JTC) to study ferry finances
- JTC contracted for work, which focused initially on the capital needs for ferry terminals
JTC Consultant Identified Concerns About Terminal Facility Repair Plans

- Found State Ferries had requested capital funds for terminals that were still in good condition
- State Ferries’ definitions of project categories overlapped & created confusion
- All systemwide projects were allocated to preservation, overstating the true cost of the preservation program
- Life-cycle cost model (LCCM) was not updated for condition

Legislature Responded by Adding New Statutory Requirements

- Required OFM to develop key definitions
- Prohibited the use of capital funds for maintenance
- Directed State Ferries to allocate systemwide and administrative costs to specific capital projects
- Required State Ferries to maintain a LCCM to identify investments needed to ensure terminals are preserved
Legislature Responded by Adding New Statutory Requirements (cont.)

- Specified that appropriations made for preservation may only be spent on preservation and only when warranted by asset condition
- Required State Ferries to use its life-cycle cost model as the basis for preservation budget requests
- Directed JLARC to assess State Ferries’ progress in implementing the new statutory requirements
Several of the New Requirements Have Been Implemented

• OFM:
  – issued required definitions of preservation, improvement, & maintenance

• State Ferries:
  – excluded maintenance from its capital program
  – developed a new approach to allocate systemwide & administrative costs
  – updated its LCCM to reflect asset condition

State Ferries Has Not Complied With All of the New Statutory Requirements

• State Ferries used appropriations provided for preservation to replace or renovate assets that were not justified by asset condition

• WSDOT did not provide information in its project budget requests that clearly identified the condition of the individual ferry terminal assets
71% of Appropriation for Assets in Good or Fair Condition or Not Rated

- **Asset Condition Good, Fair, or Not Rated**: $32.5 M (71%)
- **Asset Condition Poor or Substandard**: $13.5 M (29%)

Total: $46.0 M

Source: JLARC analysis of ferry terminal preservation projects approved for 2009-2011.

State Ferries Suggests Two Primary Justifications for Early Replacements

- State Ferries explains early replacement of some structures is necessary when some components of a system are due for replacement but other closely related components are not.
State Ferries Suggests Two Primary Justifications for Early Replacements

• State Ferries asserts preservation work is warranted on some structures that are still in good or fair condition because allowing further deterioration could result in a structural or safety concern

Conclusions & Recommendations
Overall Conclusions

• Capital planning for terminal preservation has improved in response to legislative requirements
• Additional actions are needed to comply with statute and enhance transparency and accountability
• These actions are needed to ensure the Legislature receives appropriately detailed information when considering funding requests

Recommendation

• WSDOT, working in collaboration with OFM, should develop new procedures for providing more informative capital budget requests for State Ferry terminal preservation
New Procedures Should Require:

- Modifying condition categories in the LCCM to explain funding requests for assets in good or fair condition that require preservation work to avoid deterioration resulting in structural or safety concerns
- Including asset condition ratings with capital budget requests
- Providing justification for exceptions to replace or renovate assets that are not justified solely by asset condition

Agency Responses

- WSDOT and OFM both concur with JLARC’s recommendations
## Contact Information

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>Email Address</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Dean</td>
<td>360-786-5293</td>
<td><a href="mailto:david.dean@leg.wa.gov">david.dean@leg.wa.gov</a></td>
<td><a href="http://www.jlarc.leg.wa.gov">www.jlarc.leg.wa.gov</a></td>
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