



JOINT TRANSPORTATION COMMITTEE FERRIES FINANCING STUDY II

LONG-RANGE FINANCES REVIEW

SENATE AND HOUSE TRANSPORTATION
COMMITTEES
MARCH 2, 2009

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Legislative Direction 2007 Session

Joint Transportation Committee to

- Make recommendations regarding capital financing strategies for consideration in the 2009 session, including confirming Ferries' estimates of future capital requirements. This work must include
 - confirming the department's estimate of future capital requirements based on a long-range capital plan, and
 - the department's development of a plan for co-development and public-private partnership opportunities at terminals

Washington State Transportation Commission to

- Conduct a study of potential revenue sources for the ferry system and make recommendations that will generate revenue equal to or greater than the funding level identified by the JTC finance study

Ferries To Develop a Capital Plan that

- Must adhere to
 - A revised ridership demand forecast
 - A revised vehicle level-of-service standard
 - Operational strategies that ensure that existing assets are fully utilized, and
 - Terminal design standards that choose the most efficient balance between capital and operating investments (ESHB 2358)
- Must include
 - A current vessel preservation plan
 - A current systemwide vessel rebuild & replacement plan
 - A current vessel deployment plan, and
 - A current terminal preservation plan (SSB 6932)
- In planning for vessel acquisitions, ferries must evaluate the long-term operating costs related to fuel efficiency and staffing. (SSB 6932)

Utilize Findings from Ferry Financing Study Reports

- Ferry Financing Study I
- Auto-Passenger Vessel Preservation & Replacement
- Management and Support Costs
- Non-Labor, Non-Fuel Costs
- Capital Program Staffing and Administration
- Systemwide Capital Projects
- Vessel Sizing and Timing Draft Report

Priorities

- In order:
 - Vessel preservation & replacement
 - Terminal preservation
 - Terminal and vessel improvements

Recognize State's Financial Constraints

- Consultants presenting two types of conclusions
 - Recommendations – Actions we recommend the legislature take
 - Alternatives – Actions the legislature could take that would reduce costs while preserving current service levels

Focus on Scenario A – Ferries Draft Long-Range Plan

- Current level of service with limited improvements

Focus on 16-Year Financial Plan Horizon

- Legislative financial plan 2009-2025

Financial Summary - Capital

(\$ YOE millions)	Scenario A	Recommended	Alternatives (Cost Reduced)
Vessel Construction	\$1,473.8	\$514.0	(313.0)
Vessel Preservation	820.3	620.8	(19.3)
Vessel Improvement	60.9	53.7	(1.0)
Terminal Preservation	860.3	724.1	(2.1)
Terminal Improv.	390.9	166.3	(55.7)
Emergency Repairs	77.3	46.0	
Admin & Indirect	225.4	181.7	
Debt Service	212.1	212.1	
Total	4,121.0	2,518.7	(391.1)
Funding Gap	(2,188.8)	(586.5)	(195.4)

Financial Summary - Operations

(\$ YOE millions)	Scenario A	Recommended	Alternatives (cost reduction)
Fuel (Nov. forecast)	\$747.5	\$720.9	
Fixed Vessel Costs	1,072.7	1,034.6	(39.1)
Variable Vessel Costs	1,125.2	1,119.3	
Terminal Costs	717.0	717.0	
Mmgt. & Support	640.8	556.7	(80.8)
OFM Charges	0.8	0.8	
MEC	4.1	4.1	
Total	4,308.1	4,153.4	(119.9)
Funding Gap	(261.0)	(106.8)	13.6

Summary of Capital Recommendations

- **Vessel Construction (\$959.8 million)**
 - ✓ Build 5 instead of 9 vessels
 - Retire vessels when due
 - Build 4 rather than 3 small vessels
 - ✓ Do not add a 4th vessel to the Triangle route
 - ✓ Modify inflation assumption to reflect staff costs
 - ✓ Alternatives (also reflected in vessel preservation & improvement)
 - 1 fewer Island Home: One vessel summer & shoulder at Port Townsend
 - 1 fewer 144 car vessel: Either consolidate Sidney service with San Juan service, procure a used foreign flagged vessel for Sidney, or rebuild a Super class ferry
- **Vessel Preservation (\$199.5 million)**
 - ✓ Reduction in fleet size from 23 to 22 (due to triangle)
 - ✓ Reduction in size of vessels
 - ✓ Constructability reduction of 15% of costs
 - ✓ Add allowance for faster topside painting overtime/10 year cycle
 - ✓ Modify passenger space preservation to 12 year cycle
 - ✓ Change inflation assumption to ship repair index

Summary of Capital Recommendations

- **Vessel Improvement (\$7.2 million)**
 - ✓ Modify inflation rate to ship repair
 - ✓ Smaller fleet
 - ✓ Eliminate some fuel efficiency improvements
 - Super class – out of service time/constructability issue
 - Issaquah class – proposed improvements not recommended
- **Terminal Preservation (\$136.2 million)**
 - ✓ Reduce estimated cost for Seattle terminal preservation
 - ✓ Correct Category 2 (uplands & auxiliary slips) preservation to be closer to performance goal
- **Terminal Improvement (\$224.5 million)**
 - ✓ Reduce cost estimate for Mukilteo terminal re-location
 - ✓ Dwell time and transit improvements not recommended
 - Need to see ridership response to operational & pricing strategies
 - Need to know transit service capacity
 - ✓ Reduce reservations and other programmatic projects

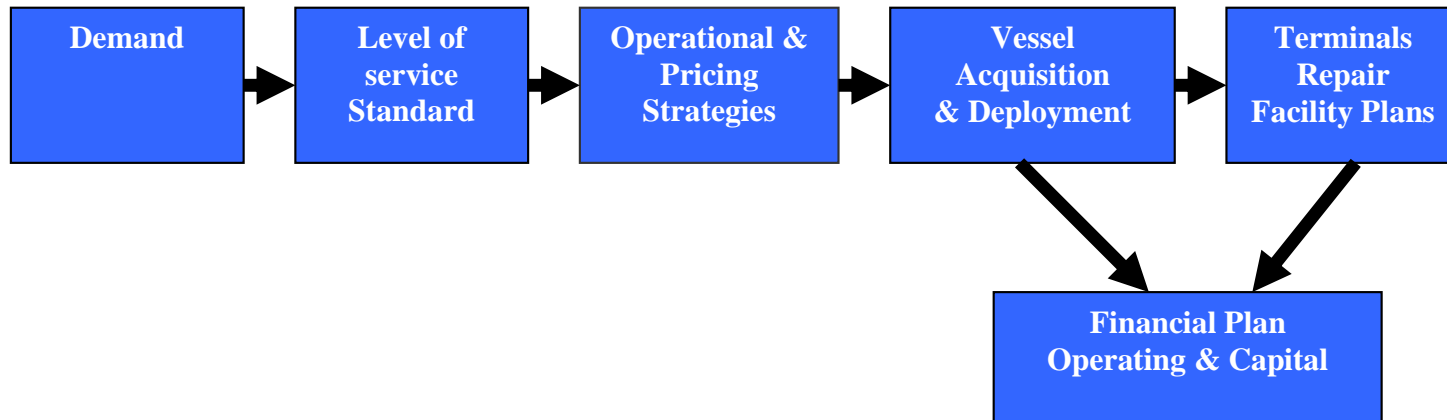
Summary of Capital Recommendations

- **Emergency Repairs (\$31.3 million)**
 - ✓ Modify inflation rate to ship repair from ship building
 - ✓ Adjust for retirement of Evergreen State & Rhododendron
- **Administration, Support & Indirect (\$43.7million)**
 - ✓ Reductions in carry-over and projects funded in:
 - Terminal Indirect (\$30.7 million)
 - Vessel Indirect (\$9.7 million)
 - Administration (\$3.3 million)

Summary of Operations Recommendations

- **Fuel: (\$26.6 million)**
 - ✓ Vessel construction & deployment recommendations
 - ✓ Slowing vessels on average 0.5 knots in the summer
- **Fixed Vessel Costs (\$38.1 million)**
 - ✓ Vessel construction & deployment recommendations
 - ✓ Alternative
 - Reduction of 1 Island Home vessel alternative
- **Variable Vessel Costs (\$ 6.0 million)**
 - ✓ Vessel construction & deployment recommendations
- **Operations Management & Support (\$84.1 million)**
 - ✓ Adjust insurance to recommended vessel program
 - ✓ Adjust credit card fees to 1% of inflation
 - ✓ Adjust salary costs to actuals
 - ✓ Delete Program C and S charges no longer being charged to Ferries Operation Account
 - ✓ Adjust reservations operation reserve

Ferry Finance Decision Model



Demand

- ESHB 2358 - capital plan must be based on new ridership forecast
- Ridership re-forecasted with JTC review and concurrence
- Ridership growth projected in 16-year plan period (FY 2010-25)
 - 21% overall increase
- Ridership has declined FY 2000-08
 - 12% total
- Ridership growth projected 25-year period FY 2000-2025
 - 9% overall increase

Implications for Ferries Finance

- Risk in growth projection
- Operations 16-year revenue gap: \$403.8 if ridership remains at FY 2007 level
- Capital sizing – caution if improvements based on projected growth

Recommendations

- Require reports to legislature on ridership
- Consider marketing initiative
- Do not plan on transfers from operations to capital

Vehicle Level-of-Service Standard

- ESHB 2358 – capital plan must be based on revised vehicle level-of-service standard
- New standard focuses on seasonal, daily system capacity
 - % of sailings filled to capacity summer, spring & winter

Implications for Ferries Finance

- Focusing on the delivery of service throughout the day, season & year will result in a more cost-efficient balance of peak and non-peak service, and more cost-efficient capital investments

Recommendation

- Endorse Ferries' proposed approach to vehicle level of service

Operating & Pricing Strategies

ESHB 2358

- Capital plan must adhere to operational strategies
- Goal – maximize utilization of existing assets

Ferries' Plan

- Proposes two types of strategies
 1. *Strategies to increase walk-on use of ferries*
 - a. Transit enhancements
 - b. Fare incentives for foot-passengers
 2. *Strategies to level peak vehicle demand*
 - a. Vehicle reservations
 - b. No charge for vehicle reservations

Operating & Pricing Strategies

Implications for Ferry Financing

- Encouraging customers to walk-on will use existing capacity more fully
- On-time arrival of vehicles to the terminal means there will be less space required to hold vehicles at or near the terminal & less on-street congestion
- Reservations should increase the vehicle use of off-peak sailings

Recommendations

- Endorse Ferries' strategies
- Pre-design studies
 - ✓ Reservations – include alternative implementation options
 - ✓ Transit improvements – include availability of transit service
- Assess the impact on ridership as strategies are implemented

Vessel Acquisition & Deployment – Capital Costs

Scenario A vessel capital \$2.4 billion – 57% of total capital

Inflation Assumptions

- Shipyard costs are rising faster than general inflation
- Scenario A uses Bureau of Labor Statistics (BLS) Non-Military Shipbuilding index – 4.7% per year inflation
- Governor's budget used WSDOT Construction Cost Index – approximately 2% per year inflation

Recommendations

- Recognize higher rate of inflation for shipyard costs
- Use BLS shipbuilding inflation rate (4.7% per year) for construction
- Use BLS ship repair inflation rate (3.75% per year) for preservation & improvement
- Inflate non-shipyard costs (i.e. staff & consultants) at WSDOT rate

Vessel Construction: Sizing

- Recommendation – Based on Draft Vessel Sizing & Timing Report
- Analyzed key service indicators – including revised level of service standard
- Recommended smaller, more fuel efficient fleet

Size/auto	Scenario A FY 25 Fleet	Scenario A Vessels Built	Rec. FY 25 Fleet	Rec. Vessels Built	Change Built
Jumbo (188-202)	5		5		
Large (144)	8	6	4	1	-5
Medium (124)	5		5		
Mid-Size (87-90)	1		3		
Small (34-64)	4	3	5	4	+1
Total	23	9	22	5	-4

Vessel Construction: Timing & Retirement

Early	Scenario A Build	Scenario A Retire	Rec. Build	Rec. Retire	Retirement Range (Ferries)
09-11	I. Homes (2)		I. Homes (2)		
11-13	I. Home	Rhod.	I. Homes (2)	Rhod. E. State	Rhod -2011 E. State -2010-15
13-15	144	E. State			
15-17	144				
17-19	144	Tillikum			2022-27
19-21	144	Klahowya			2023-28
21-23	144	Elwha			2025-30
23-25	144	Yakima	144	Elwha	Yak. 2028-33
Total	9	6	5	3	

Service Differences: Scenario A and Recommended

Triangle Route: Scenario A – Adds 4th Vessel

- To provide direct service between:
 - Fauntleroy-Vashon
 - Fauntleroy-Southworth
 - Vashon-Southworth

Triangle Route: Recommended – Do not add 4th vessel

- Continue triangle service or
- Break-up triangle with 3 boat service/limited Vashon-Southworth

Bremerton, Triangle Route, Clinton – Defer larger vessels

- Scenario A provides larger vessels during this 16-year plan.
- Recommended plan provides larger vessels in the next 6-year period

Deployment – Bremerton & Bainbridge

- Recommended eliminates Jumbo size ferry in the summer at Bremerton
- Uses smaller vessel on late Bainbridge sailings

Interisland

- Small boat year-round recommended rather than winter only

2025 Route Assignment

		Scenario A 2025 Fleet			Recommended 2025 Fleet		
Route	#	F-W-S	Sh.	Sum.	F-W-S	Sh.	Sum.
Bainbridge & Bremerton	4	2 Jumbo		3 Jumbo	2 Jumbo		
		2 Large		1 Large	2 Large		
Clinton	2	1 Medium		1 Large			
		1 Large			2 Medium		
Kingston	2	2 Jumbo			2 Jumbo		
Pt. Defiance	1	1 Small			1 Small		
Port Townsend	1-2	1 Sm.	2 Small		1 Sm.	2 Small	

2025 Recommended Route Assignment--continued

		Scenario A 2025 Fleet			Recommended 2025 Fleet		
Route	#	F-W-S	Sh.	Sum.	F-W-S	Sh.	Sum.
San Juans & Sidney	4-5	2 Large		3 Large	2 Large		3 Large
		1 mid-size (w)	1 Medium		1 mid-size (w)	1 Medium	
		1 Sm (w)	1 Mid-Size		1 Small		
Vashon-Faunt.	2	2 Medium					
SW-Faunt.	1	1 Medium					
SW-V	1	1 Small					
Triangle	3				1 Medium		
					2 Mid-Size		
Total Assigned		18	19	20	17	18	19

Capital Costs – 16-Year

Capital Costs Associated with New Vessel Construction

(\$ YOE millions)	Scenario A	Recommended	Diff.
Vessel Construction	\$1,473.8	\$514.0 *	(\$959.8)
New Vessel Preservation	117.9	91.0**	(26.9)
New Vessel Impr.	6.4	9.3**	2.9
Terminal Slip – Southworth (Hiyu)	12.4		(12.4)
Total	\$1,610.5	\$614.3	(\$996.2)

* Adds funds for an aluminum superstructure on new 144

** Adjusted for extensions of existing vessels

Operations Cost Impact – Fixed Vessel Costs

- Fixed vessel costs (engine room crews, dry docking, insurance) do not change with deployment
- Scenario A and recommended fleet each have one reserve vessel
 - Scenario A - De-crewed 144-auto vessel
 - Recommended – Partially crewed 34-auto vessel

(\$ YOE millions)	Scenario A	Recommended	Diff.
Direct vessel costs	\$1,072.7	\$1,034.6	(\$38.1)
Insurance*	59.9	53.4	(6.5)
Total	\$1,132.6	\$1,088.0	(\$44.6)
*Part of management & support budget			

Operations Cost Impact – Variable Vessel Costs

- Variable vessel costs (deck crew, deck non-labor & fuel) change with deployment
- Recommended deployment – avoids costs of “hauling empty steel”

(\$ YOE millions)	Scenario A	Recommended	Diff.
Fuel	\$747.5	\$733.7	(\$13.8)
Non-Fuel (deck labor, maintenance)	1,125.2	1,119.3	(5.9)
Total	\$1,872.7	\$1,853.0	(\$19.7)

Vessel Construction Program: Alternatives

• **Port Townsend: Reduce Island Home Construction – 1**

- One-boat service year-round
- Add service hours to one boat in the shoulder & summer (from 16 to 24) to make up sailings
- Similar to summer 08 service schedule

• **Sidney: Reduce 144 Construction - 1**

- Provide with 4-boat San Juan service
- Add service hours to San Juan vessels
- Sailings to Sidney at less prime times
- Summer sailings may need to be reduced to 1 round trip per day (same as spring and fall)

OR

- Purchase used foreign flagged vessel for exclusive use on Sidney

• **Extend Life of Super Vessels – Reduce 144 Construction -1**

- Rebuild 1 Super Class Vessel instead of building new 144

Vessel Construction Alternatives 16-Year Savings

(\$ YOE millions)	Port Townsend	Sidney with San Juans	Sidney Alt. Foreign Flagged	Super Class
Timeframe	2009-13	2021-25		
Vessel Const.	72.9	240.1	235.1	240.1
Vessel Pres.	19.3			(30.0)
Vessel Impr	1.0			
Total Capital	93.2	240.1	235.1	210.1
Fixed Vessel Cost	41.5			
Total Operations	41.5			
Savings from recommended vessel construction program.				

Policy Recommendations – Vessel Construction

- **Pre-Design Process**

- Now required for all terminal improvement projects & for terminal preservation over \$5 million
- Recommend for all vessel construction and improvement projects and for vessel preservation projects over \$5 million

- **Third Party Management**

- Consider third party management of design & construction of new vessels
- Not applicable for current construction of new Island Homes

- **Design-Build**

- Use design-build process more effectively

- **Out-of-Service Time Cost**

- Assess preservation & projected out-of-service time when designing new vessels
 - Examples that affect preservation cost & out-of-service time: furnishings, stainless steel tanks, aluminum structures

Policy Recommendations – Vessel Construction

- **National Competition**

- Consider allowing national competition for new vessel construction

Existing Vessel Preservation

- **Scenario A: \$702.4 million**
- **Vessel Preservation – Critical to Stable Ferry Service**
 - Ferries improving vessel preservation
 - Developing improved bilge & void preservation program
 - Inspecting hull steel more frequently
 - Moved hull steel to a category one priority in the life cycle cost model (LCCM)
 - Exploring revised painting program
 - Ferries needs to reduce vessel out-of-service time for planned preservation & maintenance
 - Recommend reducing by 1 week per year per vessel by 2030 (from average of 7 to average of 6 weeks)
 - Result if achieved:
 - ✓ Fewer vessels needed for given service level
 - ✓ More reserve capacity from fully crewed vessels

- **Ferries is not expending preservation budget**
 - 2005-07 biennium – 77% spent (2005 session budget)
 - 2007-09 biennium – 63% anticipated expenditure (2007 session budget)
- **Reasons for under-expenditure of preservation budget**
 - Emergencies intervene (particularly in 2008)
 - Constructability – LCCM does not review program feasibility
- **Rebuild of Hyak in 2009-11 – Critical project**
 - Rebuild of Hyak allows her to retire in 2032
- **Implications for Financial Plan**
 - Constructability needs to be considered in preservation planning
 - Aggressive program to reduce out-of-service time/speed up preservation work should be implemented
 - Investments that will reduce out-of-service time should be given priority

Existing Vessel Preservation Recommendations

- **Program Constructability**

- Reduce projected spending by 15% due to constructability problems
 - ✓ Example – bienniums with 6 topside paintings projected

- **Topside painting/passenger areas work**

- Long out-of-service time to do work
 - ✓ Example: topside painting 14 weeks
- Expensive
 - ✓ 27% of 16-year preservation budget/\$191.1 million
- Category 2 (non-vital, non-structural) work
- Move topside life cycle to once every 10 years (reflects actual)
 - ✓ Increase topside budgets 30% to allow for expedited painting
- Passenger spaces – 12-year cycle
 - ✓ Determine need based in part on passenger use of cabins on routes

Existing Vessel Preservation Recommendations, cont.

- **Hyak**

- Add funding to rebuild propulsion motor for use in other Super class ferries if needed & adequate project contingency (\$2.9 million)
- Will reduce future out-of-service problems if there are engine problems on other Super class ferries

- **Rhododendron & Evergreen State**

- Allow certificate to lapse at next scheduled drydocking
 - ✓ Evergreen State – May 2010
 - ✓ Rhododendron – January 2011
- Vessels need to be retired and not be retained as standby vessels

Existing Vessel Preservation

(\$ YOE millions)	Scenario A	Recommended*	Change
Existing Vessel Preservation	\$702.3	\$553.9	(\$148.4)
* Includes impact of reduced inflation rate & of extended preservation of existing vessels in recommended fleet.			

Vessel Preservation Policy Recommendations

- Focus on reducing out-of-service time
 - Reconsider double shifts at Eagle Harbor, and
 - Consider other ways to reduce planned lay-up time at Eagle Harbor
- Include vessel preservation in asset management system
 - Link vessel preservation to service
 - ✓ i.e., passenger space renovations need should vary with use of passenger cabin by route

Existing Vessel Improvement

- **Scenario A - \$54.2 million/ 1% of capital program**
- **Fuel Efficiency Improvements**
 - Super Class Yakima & Kaleetan
 - ✓ Planned for 2009-11
 - ✓ Requires 8 weeks out-of-service time for each installation
 - ✓ Estimated payback period 4.4 years
 - ✓ Have one propulsion motor ordered
 - ✓ Do not do others given out-of-service time
 - Issaquah Class – Waste Heat Recovery (\$2.1 million 09-11)
 - ✓ Recommend against
 - ✓ Proven ineffective in short distance voyages
- **Jumbo Mark I & II – Steering Gear Ventilation**
 - Fund analysis of problem only
 - ✓ (09-11 \$50,000 instead of \$1.0 million)

Existing Vessel Improvement

(\$ YOE millions)	Scenario A	Recommended*	Change
Existing Vessel Improvement	\$54.2	\$49.2	(\$5.0)
* Includes impact of reduced inflation rate & of extended improvement of existing vessels in recommended fleet			

Vessel Fuel Cost

- **Fuel**

- Based on November Global Insight Forecast
- Scenario A assumes fuel conservation from slowing vessels
 - ✓ average .75 knot slower fall, winter, spring, shoulder

- **Recommendation**

- Assume slow down in the summer
 - ✓ average .50 knot slower in summer
 - ✓ can reduce speed on non-peak summer sailings

(\$ YOE millions)	.75 knot slower except summer	Recommended + .5 knot slower summer	Change
Fuel	\$733.7	\$720.9	(\$12.8)

Based on recommended fleet.

Risk of Fuel Costs

- Ferries' costs are impacted by volatility in fuel prices
- Draft Long-Range Plan proposes a fuel surcharge as a strategy to deal with this volatility
- Fuel surcharge generates \$42.8 million in Scenario A
 - Surcharge revenue in the 09-11 to 17-19 biennia
 - 2.3% of 5 biennia fare revenue

Recommendation

- Legislature should endorse concept of fuel surcharge provided that:
 - Ferries provides the legislature with a plan describing how the fuel surcharge would be determined & applied
 - Operational strategies are reviewed prior to implementation of fuel surcharge
 - i.e., assess whether it would be better to further slow vessels to save fuel in high price periods rather than automatically implement a surcharge

Terminal Improvement Projects

- **Scenario A: \$390.9 million**
- **Terminal Improvements – Major Change from Previous Plans**
 - One major terminal project remains
 - ✓ Mukilteo – reduced from previous plans
 - Other major expansions or re-locations no longer planned
 - ✓ Bainbridge
 - ✓ Edmonds
 - ✓ Keystone
 - ✓ Port Townsend
 - ✓ Seattle
- **Ferries Cost Estimating May Be High**
 - Good unit prices
 - Applying higher preliminary engineering & construction engineering percentages than WSDOT manuals
 - Applying contingencies inappropriately (i.e., to sales tax)
 - Allowances too high
 - Consultants review – projects 5% to 15% high
 - Result in part of goal of having 100% of projects within budget

Terminal Improvement Programmatic Projects

- **Scenario A:** \$77.2 million
- **Seismic** - \$3.0 million
 - Recommend: Increase to \$9.0 million due to on-going surveys
- **Stormwater** - \$34.1million
 - Recommend: Delete
 - ✓ No specific projects
 - ✓ Stormwater in other preservation/improvement projects
- **Emergency Generators** - \$1.2 million
 - Recommend: Delete
 - ✓ Two small terminals with little need for EFS back-up
- **Reservations** - \$32.8 million
 - Ferries Revised - \$18.0 million

Other Terminal Improvements

- **Scenario A Terminal Improvements**

- All but 2 projects are in the first 12 years of the 22-year plan
- Improvements at same time as major terminal preservation projects
- Ridership reactions to pricing and operational strategies not known

- **Recommend Not Funding**

- Transit Improvements \$58.1 million
 - ✓ Bainbridge, Clinton, Kingston
 - ✓ Need better information on transit service availability
 - ✓ Need to see if strategies to shift to walk-on are working
- Dwell Improvements \$60.7 million
 - ✓ Fauntleroy & Clinton – add overhead loading
 - ✓ Port Townsend, Tahlequah, Pt. Defiance, Keystone, Friday Harbor – other dwell time improvements
 - ✓ Need to more ridership actuals
- Other improvements \$14.4 million
 - ✓ Southworth Hiyu dock, Eagle Harbor, Lopez, Anacortes

- **Alternatives**

- Anacortes - \$27.1 million new terminal building

- ✓ Could delete and add \$0.5 million for a new roof

- Mukilteo - \$138.0 million rebuild at new site

- ✓ Recommendation: No bow loading at new site

- Cost reduced to \$91.8 million (consultants' revised estimate)

- ✓ Alternative: Preserve terminal at existing site

- Cost reduced to \$63.2 million (consultants' revised estimate)

- Cost of Scenario A preservation budget reduced \$2.6 million

Summary Terminal Improvements

(\$ YOE millions)	Scenario A	Recommended	Change	Alternatives* (cost reductions)
Programmatic Terminal Improvements	\$77.1	\$33.1	(\$44.0)	
Other Terminal Improvements	313.8	133.2	(\$180.6)	(\$55.7)
Total	\$390.9	\$166.3	(\$224.6)	(\$55.7)

Alternatives:

- (\$27.1) Anacortes Terminal Building
- (\$28.6) Preserve Mukilteo terminal at existing site

Terminal Preservation

- **Scenario A: \$860.3 million**
- **Terminal Preservation – Improved Preservation Planning**
 - Improved life cycle cost model – reduced preservation cost estimate by \$106 million (2007 \$)
 - Initiated implementation of an asset management program
- **Terminal Preservation Categories**
 - Category 1: Main & Auxiliary Slips, Security - \$651.8 million
 - Category 2: Tie-up Slips & Uplands - \$208.4 million
 - Scenario A – Over-invests in Category 2 preservation
 - ✓ 16 terminals over performance goal at end of 16 years
 - ✓ 3 terminals at the performance goal
 - ✓ Partially the result of replacing terminal buildings when trestles are replaced

- **Category 2 Preservation Recommendations \$48.3 million**

- Reductions to close performance goal - \$34.3 million
- Revise uplands paving program reduce 50% - \$12.5 million
- Eliminate Eagle Harbor POF preservation - \$ 1.5 million

- **Revisions for Items Not Due to be Preserved - \$11.1 million**

- **Seattle Trestle & Terminal Building**

- \$216.6 million – 25% of Scenario A terminal preservation
- Recommendation: \$140.1 million
 - ✓ Reduction if projects are assumed to be built together & with normal preliminary engineering percentage
 - ✓ Reduce cost of building from \$375 per square foot to \$250 (still very high end building)

Summary Terminal Preservation

(\$ YOE millions)	Scenario A	Recommended	Change	Alternatives* (cost reduction)
Terminal Preservation	\$860.3	\$724.1	(\$136.2)	(\$2.1)
* Impact of Mukilteo & Anacortes improvement project alternatives				

Emergency Repairs

- **Scenario A - \$77.3 million 16 Year**

- **Recommended Modifications**

- FY 09-11 \$7 million – used as base to inflate
 - ✓ Modify base to projected 07-09 non-Steel Electric emergencies
 - ✓ Inflate at vessel preservation rate
- Adjust carry forward amount after 09-11 for:
 - ✓ Rhododendron retirement
 - ✓ Evergreen State retirement

(\$ YOE millions)	Scenario A	Recommended	Change
Emergency Repairs	\$77.3	\$46.0	(\$31.3)

Administration & Indirect Costs

- **Total Scenario A: \$225.4 million**
- **Capital Cost Allocation**
 - Ferries has developed a revised capital cost allocation method
 - New method reviewed by consultants and concur
 - Decision packages with details for administration, terminal indirect support and vessel indirect support
- **Administration – \$99.7 million**
 - 3% of Scenario A capital budget
 - Includes: legal, budget, human resources, accounting & communications
 - Recommendations
 - ✓ Eliminate 1 of 2 new positions requested
 - Contract specialist position for new vessels
 - Budget in project if needed
 - ✓ Adjust carry forward from 2009-11 based on one-time expenses

- **Terminal Engineering Indirect Cost - \$86.4 million**

- 7% of proposed terminal preservation & improvement budget
- Recommendations
 - ✓ Share project control section (8 FTE) with vessels
 - Asset management system for both sections
 - ✓ Do not fund Project Management Reporting & Control System
 - Allowance for software licensing in recommended
 - ✓ Adjust amounts carried forward beyond 2009-11 for one-time expenses
 - ✓ Reduce personal service contracts & other administrative expense projections

- **Vessel Engineering Indirect Costs - \$39.3 million**

- 2% of Scenario A vessel & emergency repair capital
- Recommendations
 - ✓ Add ½ project controls group +\$7.1 million
 - ✓ Adjust amounts carried forward beyond 2009-11 for one-time expenses
 - ✓ Reduce studies & other administrative expenses

Administration & Indirect Cost

(\$ YOE millions)	Scenario A	Recommended	Change
Administrative	99.7	96.4	(3.3)
Terminal Indirect	86.4	55.7	(30.7)
Vessel Indirect	39.3	29.6	(9.7)
Total Admin & Indirect	225.4	181.7	(43.7)

Operations Management & Support - \$640.8 million

▪ Operations Management & Support includes

- Legal, accounting, communications, human resources, planning
- Insurance
- Credit card fees
- Reserve for implementing reservations (\$9.2 million)

▪ Recommendations

- Adjust insurance to reflect recommended vessel program
- Adjust credit card fees to 1% of inflation
- Adjust salary costs to reflect actuals
- Delete Program C and S charges no longer being charged to the Puget Sound Ferries Operation Account
 - ✓ Proposed in the Governor's budget
 - ✓ Consistent with recommendation of JTC study
 - ✓ Corresponding adjustment in reservation's reserve

▪ Alternatives

- Insurance – Eliminate property coverage for terminals & vessels
- Marketing initiative - \$1 million per biennium
 - ✓ Based on Alaska State Ferry budget

Operations Management & Support

(\$ YOE millions)	Scenario A	Recommended	Change	Alternatives (Cost Reduction)
Management & Support	\$640.8	\$556.7	(\$84.1)	(\$80.8)

Alternatives:

Insurance \$90.1- Property coverages include base protection & indemnity. It may be necessary to increase the Program U insurance premium which now covers excess protection & indemnity insurance.

Marketing add \$9.3 million

Other Financial Policy Consideration

▪ **Vessel Replacement**

- Largest capital cost
- Predictable based on retirement schedule
- Comes in periodic waves – since vessels are purchased as a class
- Consider funding a vessel replacement account
 - ✓ Essentially fund depreciation

▪ **Operations Budget**

- Consider requiring zero based operations budget for the 2011-13 biennium
- Number of fleet modifications have made tracking changes through decision-packages approach difficult