Washington State Transportation Commission

Long-Term Ferry Funding Study
Findings and Final Recommendations

presented to the
House and Senate Transportation Committees

March 2, 2009

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Presentation Agenda

- **Long-Term Capital and Operating Needs of WSF Proposed Scenario A**
- **Findings from Analysis of Major Funding Options:**
  - **Operating Revenues (Fares)**
  - **Local Funding Options**
  - **State Funding Options**
- **Recommendations for Long-Term Ferry Funding**

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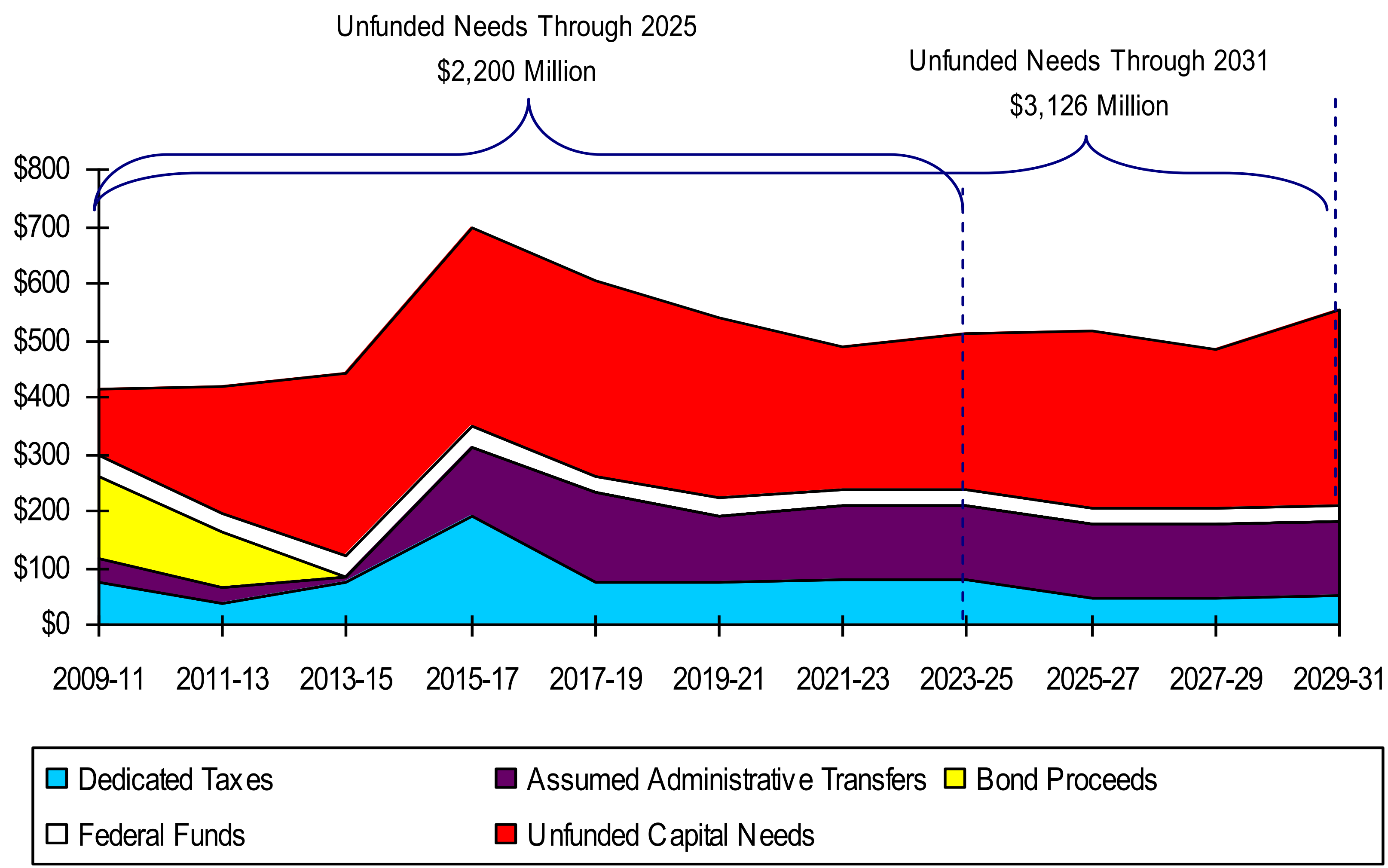
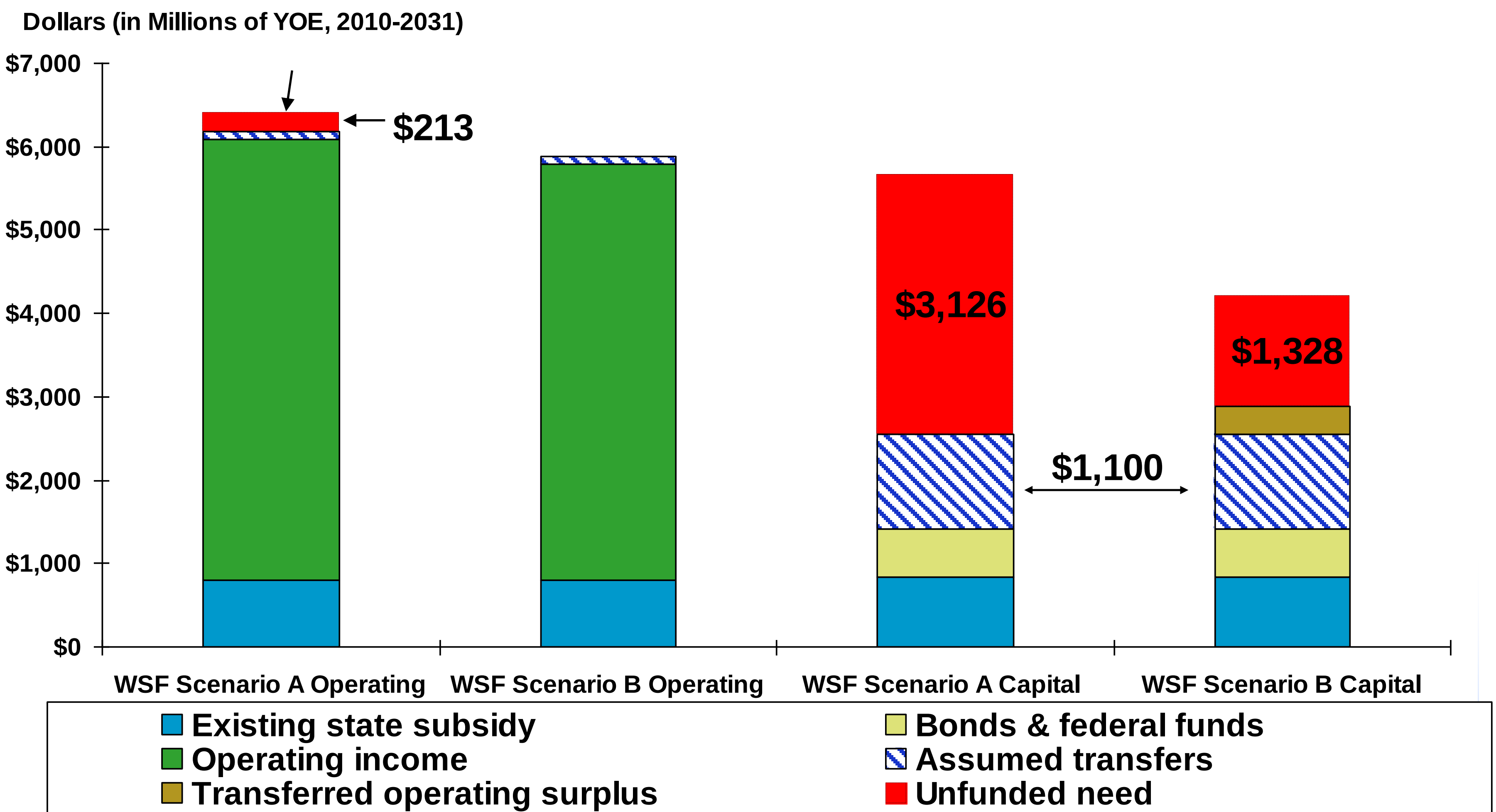
Capital Revenue and Unfunded Capital Need
WSF Scenario A



Long Range Plan Funding Needs
WSF Scenarios A and B, Operating and Capital
22-Year Plan Horizon



Source: WSF Draft Revised LRP Data, 1/30/09

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Long-Term Funding Needs

- Funding the ferry system long-term will require state and local participation to sustain operating and capital needs
- No single approach will provide a reliable, long-term fix for the ferry system – it will take a combination of efforts
- While the Commission encourages local governments to participate in funding the ferry service, we believe fares are the most realistic, effective and fair form of local participation
- All new revenue generated for WSF should be dedicated to the purpose for which it was raised – long-term sustainability requires full commitment to this notion

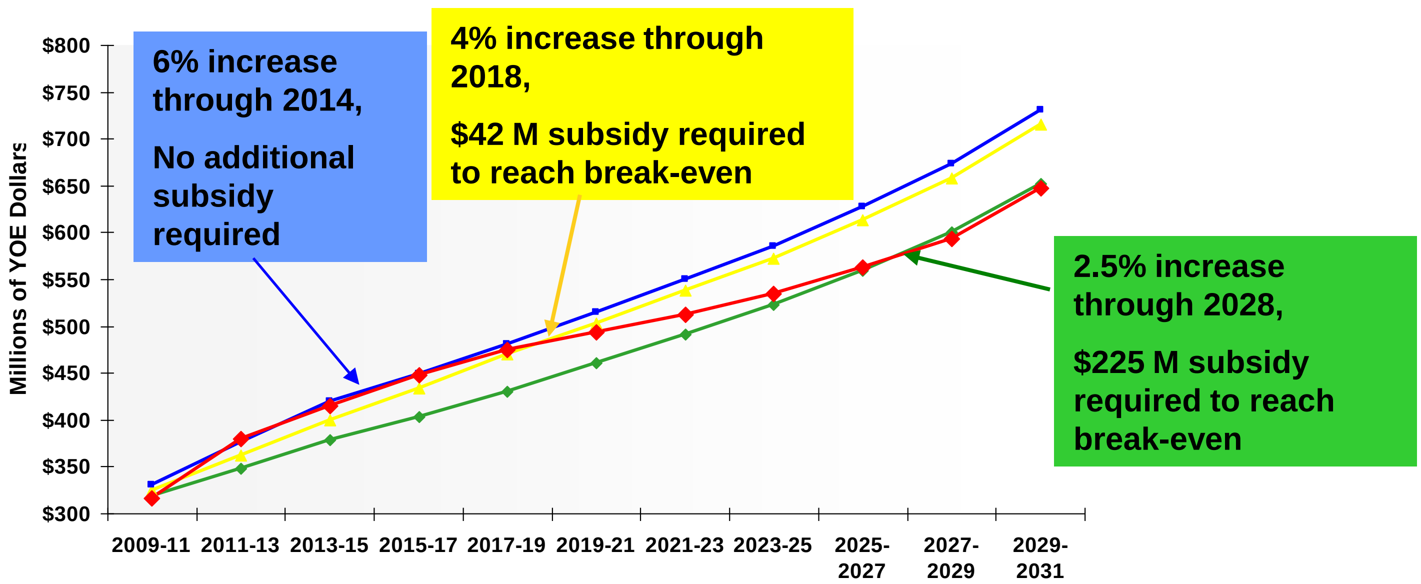
Fares and Other Operating Income

Fare Increases Can Offset, But Not Fully Address Total Ferry Funding Needs

- **Major area of ferry funding need is in capital program**
  - **Scenario A, 94% of funding need ($3.1 billion) is in capital program, remainder ($213 million) is in operating program**
  - **Scenario B, 100% of funding need ($1.3 billion) is in capital program**
- **Even very aggressive fare increases are not a viable capital funding source for WSF**
- **Fare increases higher than the 2.5% per year assumed by WSF are necessary to close Scenario A operating gap**

Example Fare Revenue Scenarios
For Illustrative Purposes Only

Fare Revenue per Biennium and Amount of Additional Operating Subsidy Required Until Operating Revenue Needs Are Met



"Revenue target" **(red)** is fare revenue required to cover WSF Scenario A operating needs in each biennium such that no additional state subsidies are needed beyond dedicated revenues and $88m in administrative transfers expected by WSF.

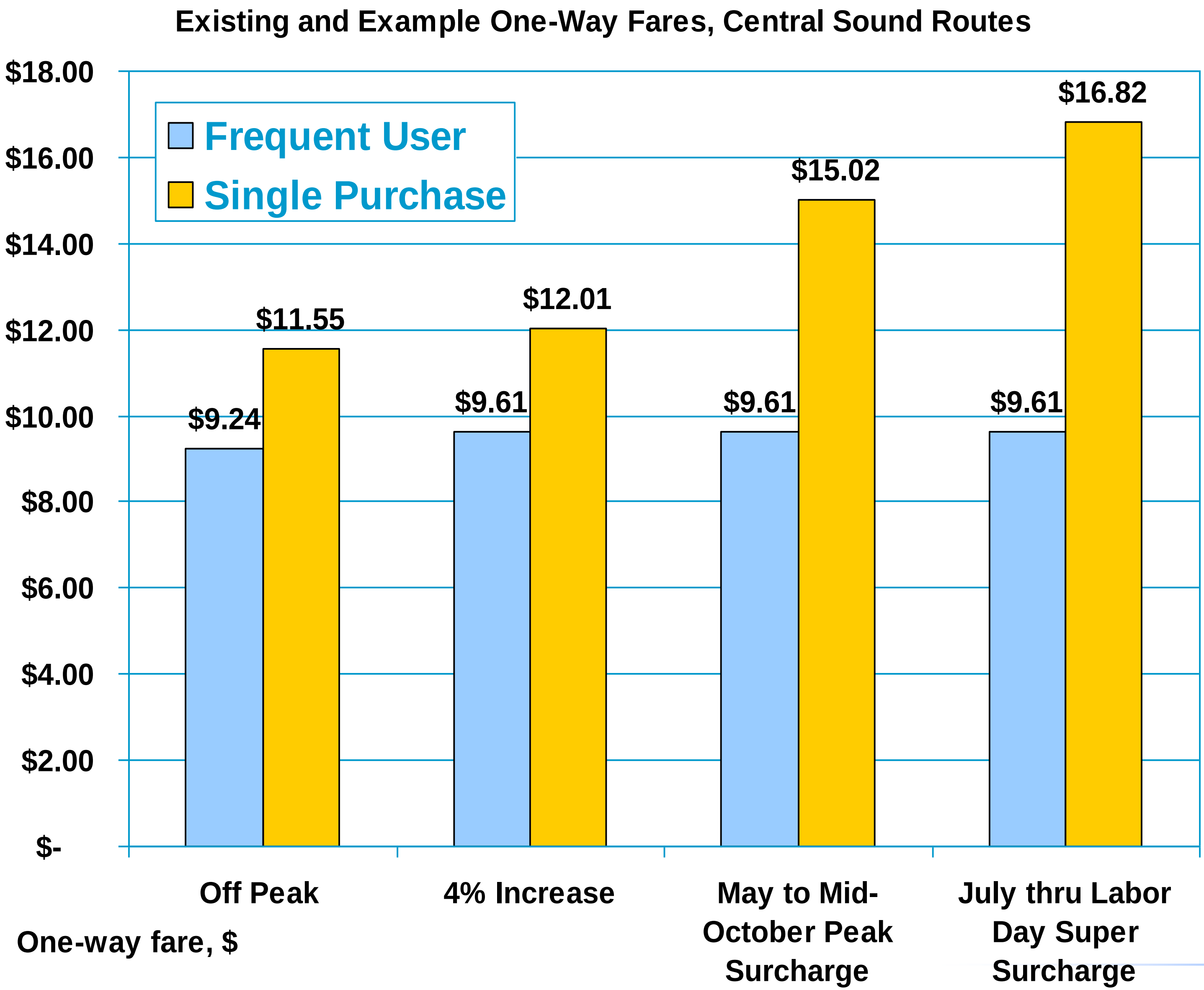
"2.5% Increase" – **(green)** Revenue estimate in WSF Long Range Plan Scenario A (January 31st, 2009.) Assumes 2.5% per year fare increase plus variable fuel surcharge. Chart shows point of "breakeven" in FY2028.

"4% Increase" – **(yellow)** Fares increased at up to 4 percent per year, plus fuel surcharge and super summer surcharge until no additional increases are needed to meet biennium revenue target. Fares increased thereafter at 2.5% / year.

"6 % Increase" – **(blue)** Same as 4% but increase capped at 6% / year until revenue target met, thereafter at 2.5% / year.

Example Fare Increments

4% Base Increase plus "Super Summer Surcharge"



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Local Sources of Revenue

Possible Local Governmental Structures

- Some form of local participation is needed to meet the long-term needs of the ferry system
  - But must this form necessarily be through a government entity?
- Governmental structures that could be employed to raise funds
  - County by County – independent / separate action
    - This authority exists in current law
  - Transportation Benefit District – multi-county approach
    - This authority exists in current law
  - New District – “Ferry District” – multi-county approach
    - This would require legislation to set boundaries, governance structure, and establish taxing authorities.
- All of these approaches require substantial effort and cost at the local level

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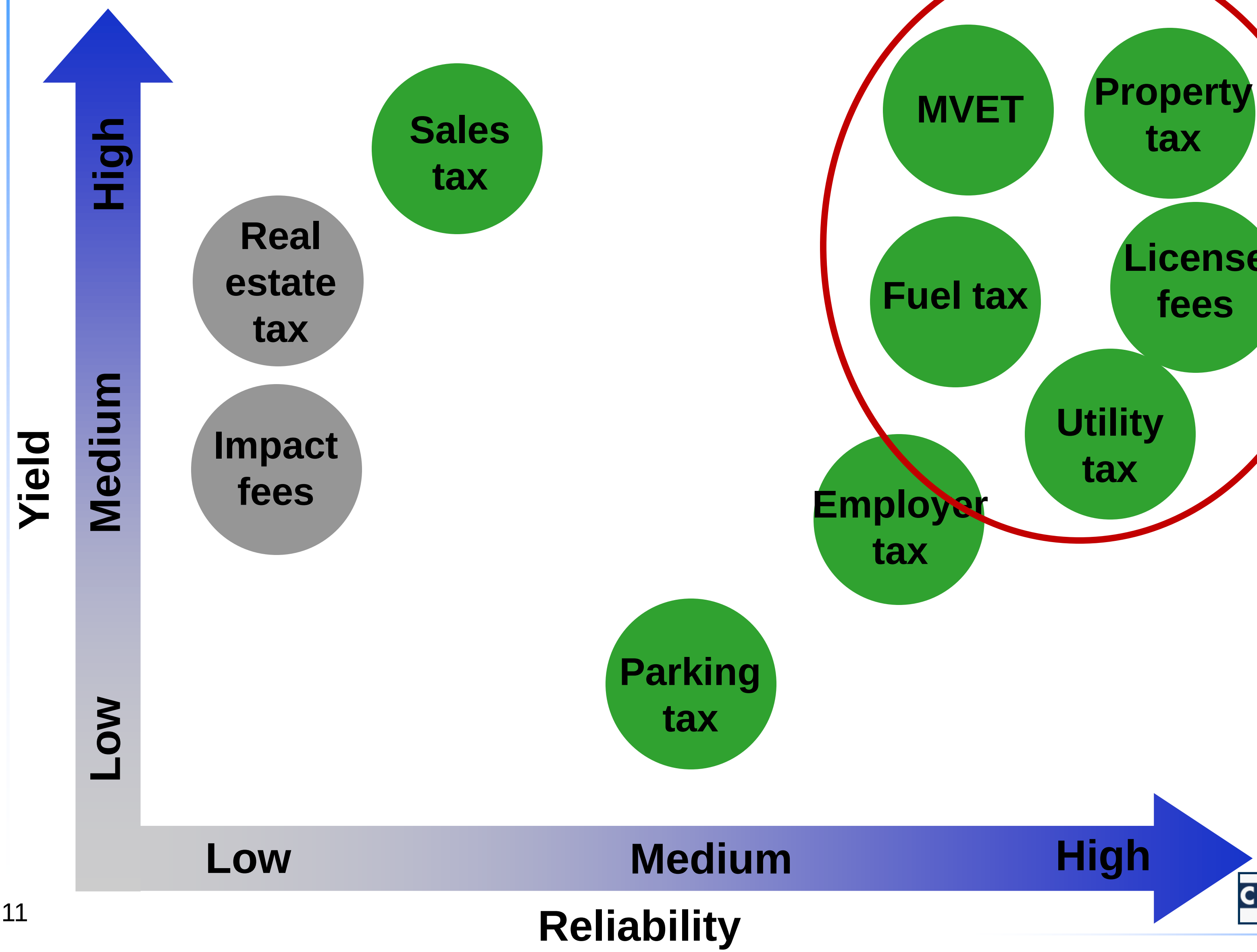
Possible Local Funding Sources
Available Under Current Law



Local Government Funding Presents Significant Challenges

- A new local "ferry district" would either have to be very large (i.e., 8 ferry counties) or the local tax rate would need to be set very high at the four county level
- A new "ferry district" would require establishment of a multi-county administrative body approved by participating counties
- Risks that agreement would not materialize and/or a public vote would fail
- Local taxing authority under current law not well utilized
- Any local tax initiative would compete with other local funding priorities
- May be difficult to obtain participation from those who do not depend on the ferry system

Local MVET Rate Needed to Meet Ferry Funding Gaps

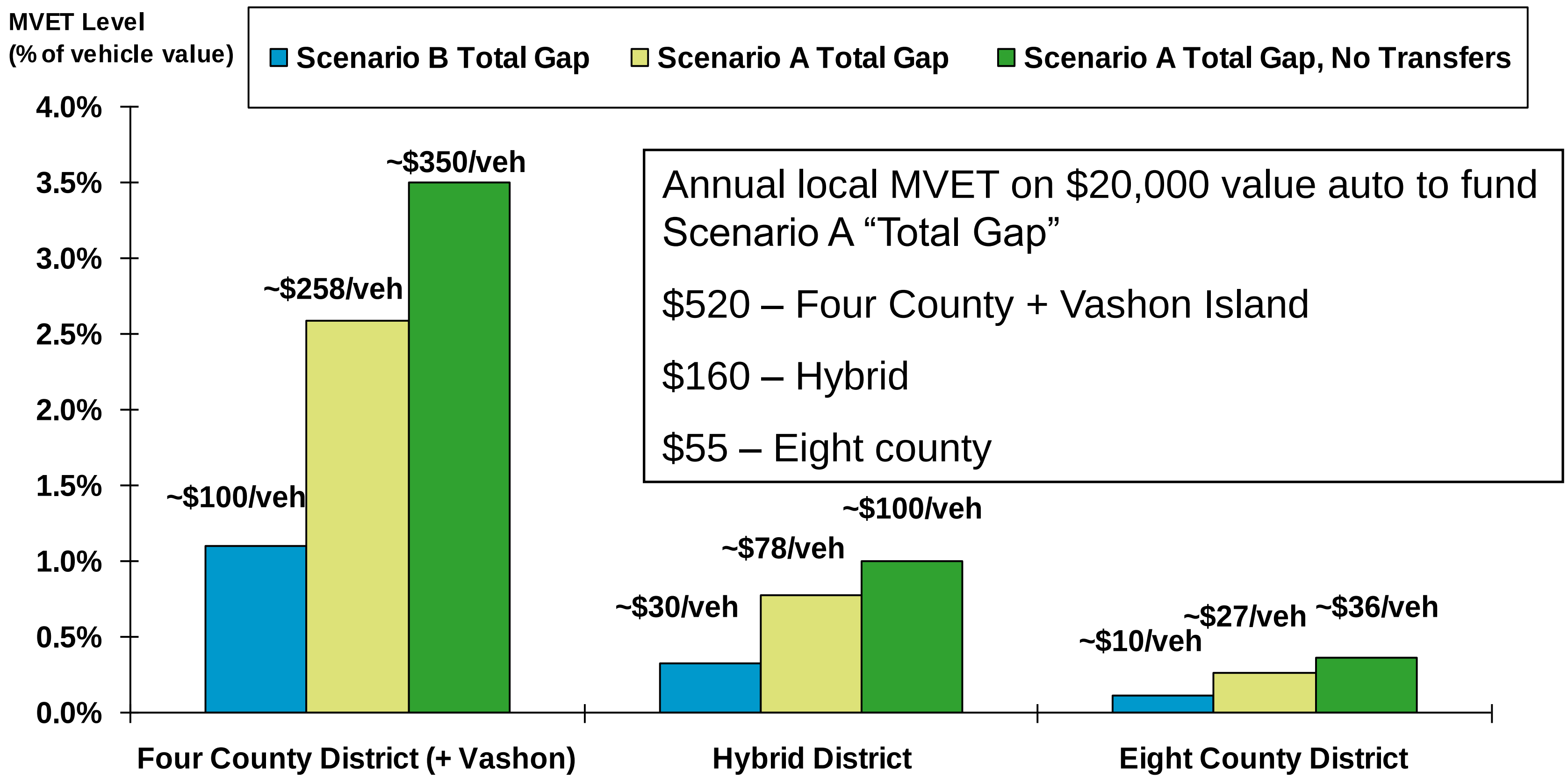


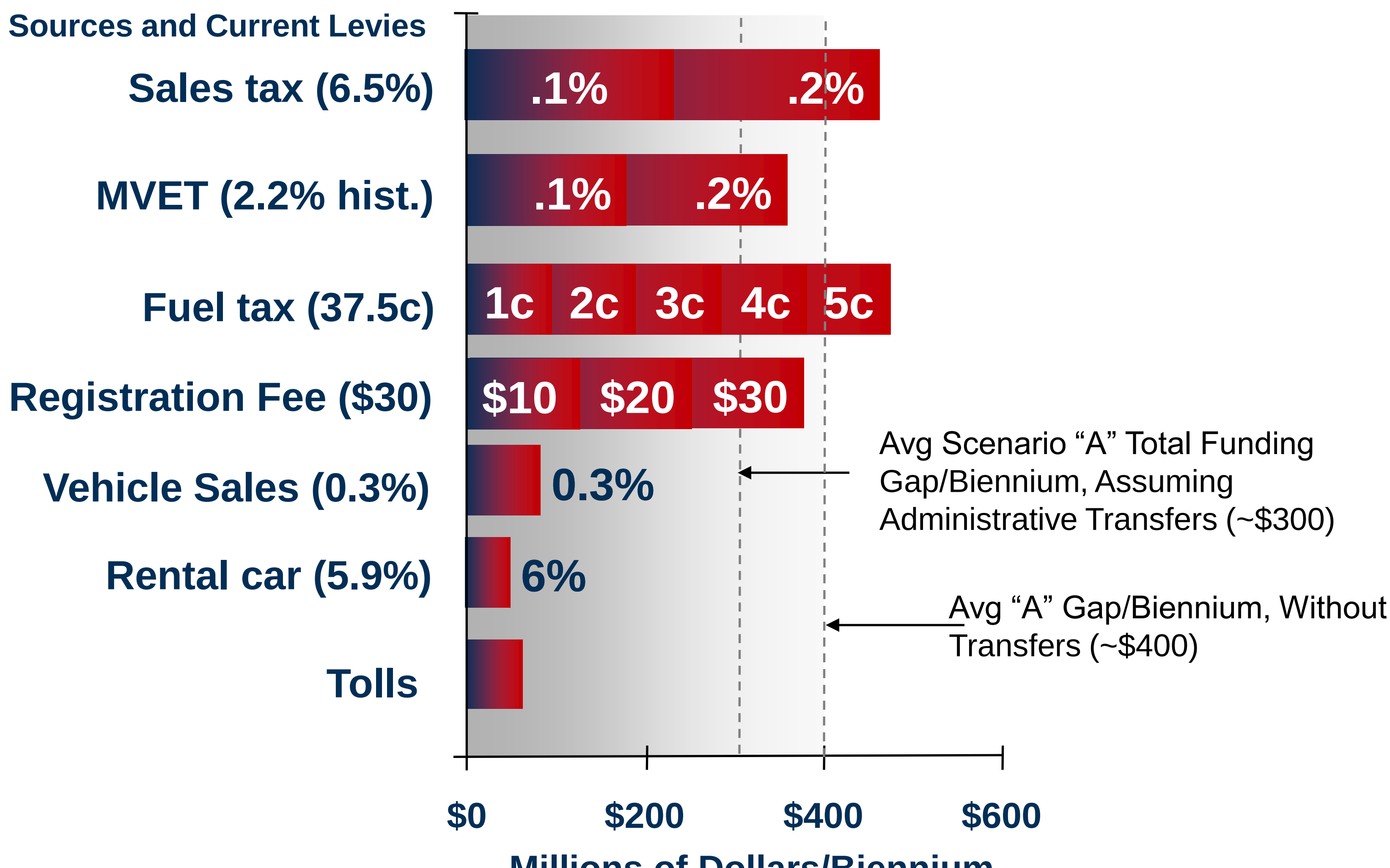
Chart reflects *local* MVET level necessary to fill 22-year total funding gaps for full Scenario A, Scenario A without administrative transfers, and Scenario B. Amounts shown are the approximate MVET paid on a vehicle worth $10,000, the current average value of vehicles in Washington State private fleet. Fee levels are shown for:

Source: Cambridge Systematics

- <u>four county district</u> - Island, Jefferson, San Juan, and Kitsap Counties, and Vashon Island
- <u>hybrid district</u> - four county plus portions of King and Snohomish counties adjacent to Puget Sound, and
- <u>eight county district</u> - Island, Jefferson, San Juan, Skagit, Pierce, Snohomish, King, and Kitsap.

State Revenue Sources

Potential Yield of State Funding Sources
Average Yield of Incremental Tax/Fee Relative to Average Total Funding Gap



Figures are approximate

Statewide Tax or Fee is Most Feasible Means of Meeting Long-Term Capital Needs

- **State taxes have necessary revenue-generation potential to support the ferry system's significant funding needs**
  - **Neither local taxes nor fares have adequate yield**
  - **Collecting taxes at the state level is cost effective and efficient from an administrative standpoint**
- **Statewide excise tax based on vehicle value is more stable and reliable over long term than motor fuel tax**
  - **Has potential for large yield - sufficient to meet ferry capital needs**
  - **Reliability, administrative ease, and nexus make MVET-like tax preferable to other high-yield sources**
  - **Past concerns over State MVET-like tax may be lessened through modified depreciation schedule and a lower tax rate**

Commission Recommendations

Increase Fare Revenues to Close the Operating Gap

- **Strive for full coverage of operating expenses from fares, other operating revenue and dedicated state subsidies**
  - **Increase fare revenues by adopting fare schedule that is higher than the WSF Long-Range Plan assumption of 2.5% per year**
- **With 4% annual increase in fares, rather than 2.5%, the unfunded needs would be cut from $225M to $50M or less**
- **Reduce impacts of fuel price volatility by implementing fuel surcharge per WSF plan**
  - **Variable add-on to base fare, instated only in years when fuel prices exceed historical average**
- **Implement a super summer surcharge on single fare purchases during the busiest traffic period.**
  - **15 percentage points added to base fares July 1- Labor Day**

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Increase Ancillary Operating Revenues

- WSF projects ancillary revenues to increase about 6%-7% per year and to account for just over 2% of operating income over 22-year LRP period
- WSF should increase ancillary operating revenue through more comprehensive advertising sales, expanded on-board and terminal concessions, and lease of naming rights
  - Advertising generates in the low hundreds of thousands a biennium; contracts are in place to increase advertising
  - Similar examples indicate sale of naming rights could generate in the hundreds of thousands per vessel per year
  - WSF generates about $5 million per biennium through on-board food and beverage concessions

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Treat Fare Revenue as Local Contribution to WSF Funding Need

- Fare increases are a logistically simpler means of achieving local participation vs. a local funding district
- Fare collection mechanisms are already in place with relatively low administrative cost
- Realistic (e.g., inflation plus 2%) increases could generate revenues similar to a four-county ferry district, enough to eliminate the Scenario A operating gap over the next 5-10 years, at much lower administrative cost
- Fares provide a direct nexus between payment and benefits received, and allow the seasonal and out-of-state rider to contribute more directly to funding operations than do local taxes

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Fund Ferry Capital Needs With A Statewide Vehicle Value-Based Excise Tax

- **Fund capital preservation, improvement, and replacement needs with statewide tax based upon vehicle value**
  - **Consider bundling ferry funding with larger transportation funding measure**
- **Without new revenue for capital needs, increased administrative transfers would be required to meet capital needs of Scenario A**
- **22-year capital needs (Scenario A) can be met with a 0.15% MVET ($30 on $20,000 vehicle) assuming administrative transfers continue to capital program**
- **A 0.21% MVET ($42 on $20,000 vehicle) will allow elimination of administrative transfers to capital program**

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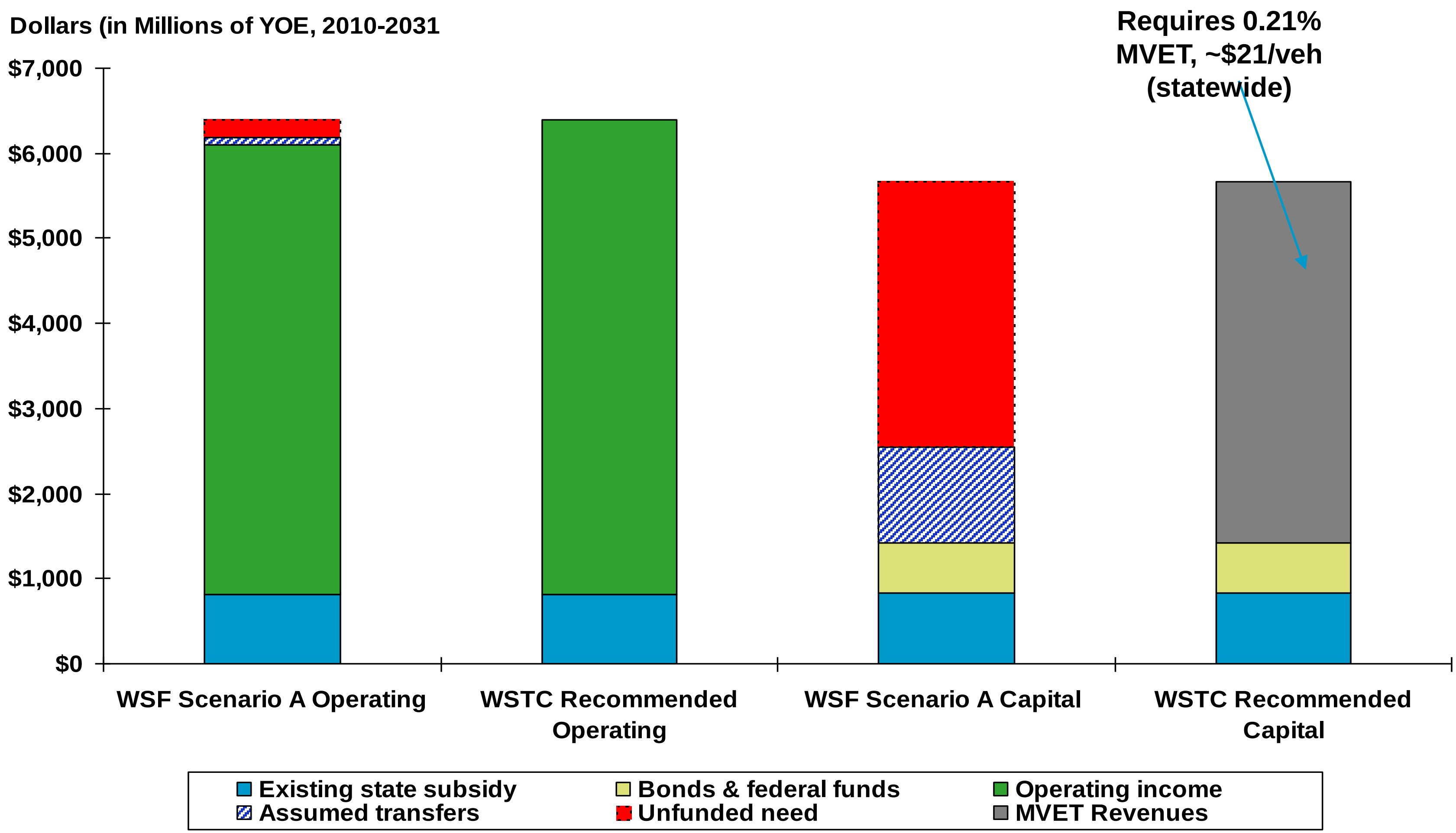
Commission Team Preferred Approach to Funding Ferries Scenario A



Discussion