

# JOINT TRANSPORTATION COMMITTEE POLICY GROUP FERRY SYSTEM REVIEW PHASE II STATUS REPORT

December 2008

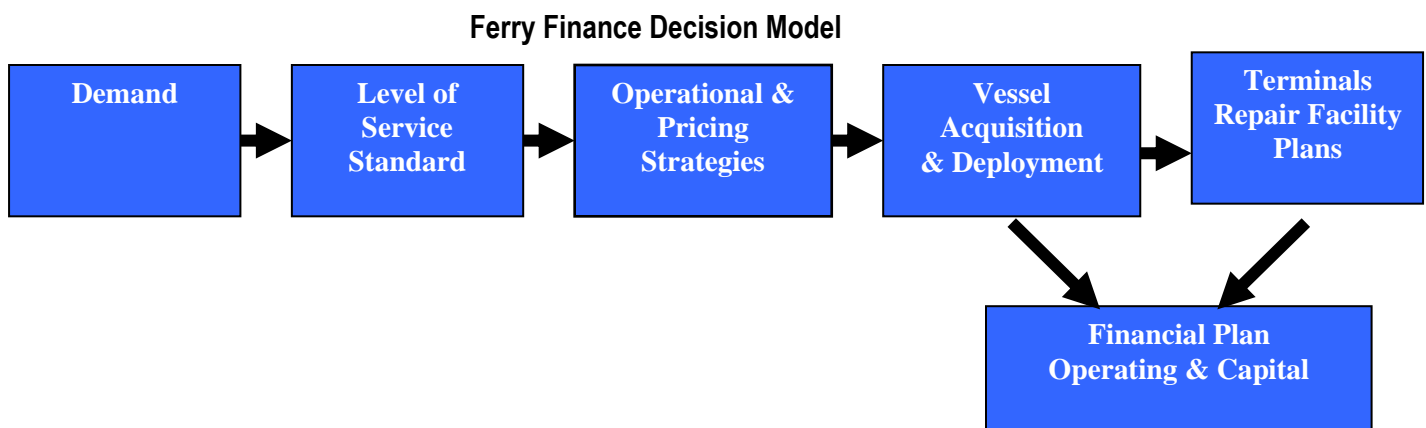
Beginning in 2006, the Joint Transportation Committee (JTC) began an extensive review and evaluation of the Washington State Ferry System (WSF). The ferry system has been described as unsustainable because of the gap between currently allocated funds and what is required to preserve the system in its current form. The JTC Ferry Study goal is to provide the Legislature with the information it needs to plot a course for the future of the ferry system.

## ***I. Background***

Phase I of the JTC ferry financing study was conducted during the 2006 interim. The legislature directed the JTC to evaluate WSF's operating and capital programs, including: ridership, revenue, and cost forecasts; and capital project scoping, prioritization, and cost estimating (Chapter 370, Laws of 2006 (SSB 6241)). WSF had just released its 2006 *Draft Long-Range Strategic Plan* as the phase 1 study was being undertaken.

Phase I evaluated the 2006 WSF *Draft Long-Range Plan* and found that there was not sufficient reliable data to evaluate and craft a long-range plan. The study raised fundamental questions about WSF's assumptions on future ridership, customer needs, planned terminal improvements, terminal preservation costs, and operating costs. The information necessary to address those questions was not available at the time of the phase I study. Accordingly, the legislature directed further analysis.

The JTC study proposed a ferry financing decision model as a framework for legislative ferry investment decisions. Under the model, ridership demand, level of service standards, and pricing and operational strategies are the basis for long-range vessel and terminal capital and operating financial decisions:



Utilizing the ferry finance decision model required gathering and analyzing new data and modifying assumptions, which led to phase II of the JTC ferry study.

## **JTC Ferry System Review – Phase II**

ESHB 2358 (2007) and related budget provisos identified and funded phase II of the JTC ferry study. Based on the recommendations of phase I of the study, the Legislature directed WSF to adopt adaptive management practices<sup>1</sup> in its operating and capital programs in order to keep costs as low as possible while continuously improving the quality and timeliness of service. The legislation required coordinated actions by WSF, the Washington State Transportation Commission (WSTC), the Office of Financial Management (OFM), and the JTC to conduct a comprehensive analysis of the Washington State Ferry System. This work informed the revised *Draft Ferries Long-Range Plan* issued December 2008.

The JTC, pursuant to budget provisos, appointed a Policy Workgroup to oversee implementation of ESHB 2358 (see attached list of members). The Policy Workgroup met regularly during the 2007 and 2008 interims to review and provide direction to the study.

## **II. Summary**

All tasks assigned in ESHB 2358 and associated budget provisos have either been completed or are underway.

- Demand Analysis: In order to develop a long-range plan, WSF needed better information about riders and projected future demand.
  - Customer Survey: The WSTC's customer survey has provided the first comprehensive view of Ferries' customers – enhancing understanding of ridership patterns and of customer satisfaction, concerns, and likely response to new initiatives.
  - Ridership Forecast: WSF and its technical team have developed a revised and greatly improved ridership forecast. This improvement allows a higher level of confidence when assessing the system's future needs.
- Level of Service: Phase I of the study identified a risk of overbuilding the system in response to a level of service standard focused on peak traffic periods. WSF has proposed revising the level of service measure to capture demand system-wide rather than just during peak period service. This provides a more reliable measure of future service needs.
- Operating and Pricing Strategies: WSF's capacity issues are driven by vehicle capacity during peak sailings. Phase I of the JTC study recommended using operating and pricing strategies to ease the strain on peak vehicle capacity by increasing walk-on use of ferries and shifting vehicle demand to non-peak sailings. WSF's *2008 Draft Long-Range Plan* proposes the following strategies:

---

<sup>1</sup> Adaptive management means a systematic process for continually improving management policies and practices by learning from the outcomes of operational programs. (ESHB 2358, Section 3 (1))

- Increasing walk-ons: WSF proposes to increase walk-ons by: (1) improving coordination with transit; and (2) increasing walk-on fares at half the rate of vehicle fares.
- Leveling Vehicle Demand: WSF recommends using vehicle reservations to level peak vehicle demand. The fare would be pre-paid when reserved, with no additional charge for the reservation.
- Vessel Acquisition and Deployment: The JTC's studies recommended WSF prioritize vessel preservation and acquisition over terminal improvements. WSF's revised *Draft Long-Range Plan* reflects that shift by including a 22 year plan for retiring, acquiring, and deploying vessels and reducing proposed investments in terminal expansions.
- Terminal Plans: The 2006 Legislature placed the extensive terminal improvement projects included in WSF's 2006 long-range plan on hold. The lower ridership projections and demand management strategies developed under phase II of the JTC ferry study have allowed WSF to reduce the scope of its terminal projects. Of three originally proposed terminal re-locations, only moving the Mukilteo terminal remains in the plan. Better data and more reliable assumptions from the study have allowed a reduction in the scope of the Anacortes, Bainbridge, Port Townsend, and Seattle terminal projects.
- Cost Analysis: Phase II of the JTC study required a comprehensive review of WSF's operating and capital program costs. This review produced a series of cost reduction recommendations. WSF and the Washington State Department of Transportation (WSDOT) have largely concurred with these recommendations. The recommendations range from reducing capital staffing and administration costs to reducing vessel insurance costs, modifying vessel deployment to decrease operating costs, and increasing vessel fuel efficiency.

WSDOT and WSF leadership have come a long way in rethinking their understanding of ferry riders, how WSF provides service to the state, and implementing the adaptive management practices required by ESHB 2358. Without this work, WSF and the Legislature would face an even more daunting task planning the future of the ferry system in the current economic climate.

### ***III. Implementing the Ferry Finance Decision Model***

In phase II of the JTC Ferry Study, WSF, the JTC, and the WSTC gathered and analyzed the data necessary to implement the ferry finance decision model.

#### **Step1. Demand**

Understanding user needs and projecting future ridership is the critical first step in ferry planning. To improve understanding of WSF's key markets and customers, the Legislature required the WSTC to conduct a customer survey, to be repeated every two years. WSF was directed to work with the JTC to improve its ridership projections.

### ***Why is this important?***

#### Survey

The customer survey conducted by the WSTC:

1. Contradicts some prior assumptions about ferry customers (that the vast majority are commuters) and the cause of recent declines in ridership (that rising fares were the primary cause of people no longer riding ferries).
2. Provides a basis for gauging potential reactions to operational and pricing strategies before they are implemented.
3. Provides a foundation for adaptive management practices, the essence of which is to consistently monitor the impact of changes on customer behavior and satisfaction and adapt as needed.

#### Improved Ridership Projection:

1. The revised ridership forecast shows projected ridership increasing at almost half the rate of the prior forecast. The prior model projected a 68 percent increase by 2030. The revised model projects a 36 percent increase.
2. The ridership projection provides a more realistic basis for planning service and capital investments. For example, expected passenger and vehicle ridership is the basis for determining the size of vessels, terminals, and vehicle holding areas.
3. WSF can set a reasonable ridership goal that can be monitored. If WSF's ridership varies from the projections, on-going customer survey information will help identify the causes and provide a basis for management and legislative response.

#### ***Market Survey – Methodology & Results.***

“Accurate user and market information is vital in order to find ways to maximize the ferry systems’ current capacity and to make the most efficient use of citizens’ tax dollars” (ESHB 2358, Section 1). Prior to the enactment of ESHB 2358, the state had limited information on WSF's riders and markets.

WSTC's customer survey provides a robust source for in-depth information on rider characteristics and needs. The survey included focus groups, a quantitative survey of 13,000 riders on-board Washington State ferries, a general customer area and infrequent rider telephone survey of 1,200 Puget Sound residents, and a freight customer survey. In addition, two on-line surveys were completed to understand ferry customers' response to potential pricing and operational strategies.

In November 2008 the WSTC issued its' final market survey report. The extensive survey findings provide the most complete and comprehensive understanding of ferry riders to date. Significant findings include:

- *WSF's regular riders are :*
  - Somewhat older (median age 51) than the general population in the ferry-served communities (median age 45)

- Generally more affluent (median household income \$80,703) than the general population in ferry-served communities (median household income \$58,159).
- Diverse, with occasional riders (less than 7 one way trips a month) accounting for 44 percent of all riders, regular riders (7 to 24 one-way trips per month) totaling 28 percent, and frequent riders (25 or more one-way trips per month) representing 28 percent.
- *Most ferry system trips are non-commute trips* (70 percent of year-round trips). Commuters are an important part of WSF's ridership, but they are not the majority.
- *Riders have some flexibility in their schedules.* Sixty percent (60%) of respondents said they could take an earlier or later boat, including 8 percent of peak period drivers who said they could shift out of the peak period.
- *Riders are mostly satisfied with Washington State Ferries*, with 68 percent satisfied or very satisfied, 12 percent neutral, and 20 percent either dissatisfied or very dissatisfied.
- *Most riders believe that Washington State Ferries is a good value* (56 percent), with 30 percent neutral and 14 percent saying that ferries are a poor value.
- *Reductions in ferry use are driven more by changes in life circumstances than by fare increases.* Despite the fact that fares have risen by an average of 62 percent between 2000 and 2006, a relatively small percentage of people in the general customer survey cited price as the primary reason for reducing their ridership.
  - Of the riders surveyed who had not ridden a ferry in the last three months:
    - Fifty-three percent had not changed their ridership.
    - Four percent had increased their ridership.
    - Twelve percent had stopped riding completely. One hundred percent of these riders stated the primary reason they stopped riding is because they no longer do what they used to do and thus no longer need to ride. Seventeen percent of them cited fares as a secondary reason for stopping.
    - Thirty-one percent say they are riding less but have not stopped entirely. Of this 31 percent, 59 percent said the primary reason for their reduced ridership was that they no longer have a need to ride the ferry and 38 percent said the fares are too high.
- *Most Puget Sound residents use the ferry system.* Ninety-one percent of Puget Sound residents have used the ferry system. This includes 90 percent of East Sound residents, 98 percent of West Sound residents, and 100 percent of Island residents.
- *Most people think the ferry system is important.* Ninety-five percent of all Puget Sound residents responded that ferries are either very important (70 percent) or somewhat important (25 percent). More residents share that view in ferry-dependent communities (98 percent of West Sound residents, and 100 percent of Island residents) than in the East Sound non ferry-dependent communities (95 percent).

***Revised ridership projection:***

Phase I of the JTC study identified the lack of clarity caused by WSF's use of two different forecasting models, one for capital planning and one for short term revenue forecasts, which had widely varying results.

Pursuant to ESHB 2358, WSF worked with a technical team, including a JTC representative, to develop a revised forecasting model. The new model cuts forecasted growth almost in half. Instead of the 68 percent growth projection used in WSF's 2006 plan, the improved forecast projects a 36 percent growth in overall system ridership between 2006 and 2030.

**Step 2. Vehicle Level of Service Standard**

The vehicle level of service standard set by WSF triggers requests to the Legislature for increased vessel and terminal capacity. Under the 2006 planning process, when the level of service falls below the standard, WSF requests funding for capacity increases to meet the standard. The system's vehicle capacity is the primary limitation on level of service, and hence the primary driver to increase vessel or terminal capacity.

The Legislature required WSF to review the basis for measuring vehicular level of service, which since 1994 has been based on a boat-wait measure (i.e. the number of boats a customer would miss due to capacity constraints before being able to board). WSF focused planning on the delivery of weekday peak period service (3PM to 7PM) when vehicles could not get on the first available ferry.

To more accurately reflect overall demand, WSF has revised its vehicle level of service standard to focus on the capacity of the system throughout the day and the year. The revised measurement is proposed to be the percentage of sailings throughout the day filled to capacity seasonally (spring, summer, and winter).

***Why is this important?***

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

**Step 3. Operational and Pricing Strategies**

In an effort to get the most out of existing capacity, ESHB 2358 directs WSF to adopt adaptive management practices in its operating and capital programs, a critical component of which is to review operational and pricing strategies that might level peak vehicle demand and shift ridership from vehicles to walk-on. The primary recommendation from this effort is to adopt a reservation system, though the legislation recognizes that strategies may vary between routes and travel sheds.

***Why is this important?***

1. Encouraging customers to walk-on will use existing system capacity more fully.

2. WSF is asking its vehicle customers to interact with the system in a new way – by coming to the terminal near the time of departure instead of coming in advance (sometimes hours in advance) during peak periods to get on a sailing. The on-time arrival of vehicles to the terminal means that there will be less space required to hold vehicles at or near the terminal and less congestion on area roads.
3. A reservation system should increase the use of off peak sailings. Customers will know in advance which sailing they can get on and can plan accordingly. This will allow WSF to expand service by increasing the service hours of existing vessels to times that, absent a reservation system, might not be filled.

***Review of operational and pricing strategies.***

WSF reviewed potential operational and pricing strategies including all those specifically identified in ESHB 2358. The review included presentations to, and input from, the JTC Ferry Policy Workgroup, Ferry Advisory Committees, members of the public at regular public meetings and through the WSF web site, and local officials. WSF relied on this input and the results of the customer survey to assess rider response to various operational and pricing strategies. Out of all the strategies reviewed, two types were selected:

**• *Strategies to Increase Walk-On Use of Ferries***

- ***Transit enhancements.*** WSF proposes encouraging riders to walk-on the ferry by increasing the connection between ferries and local transit. Three gaps in transit coverage dominated riders’ decision to drive-on rather than walk-on the ferry: (1) availability of transit and/or parking at the terminal (30 percent); (2) amount of time to take the total trip walking-on compared to driving-on (25 percent); and (3) the availability of transit to get from the ferry to their final destination (18 percent).
  - ***Fare incentives for foot-passengers.*** WSF proposes to encourage walk-on ridership by growing fares over time at half the rate for passengers as for vehicle drivers. While the customer survey did not specifically address this proposal, it did find that increasing vehicle fares by 20 percent while maintaining walk-on fares could potentially increase walk-on ridership by 15 percent.
- *Strategies to Level Peak Vehicle Demand and Encourage Use of Available Vehicle Capacity on Non-Peak Sailings***
- ***Vehicle reservations.*** WSF proposes to implement a vehicle reservation system – expanding and updating the reservation system now used on the Sidney and Port Townsend routes and for freight on the Anacortes-San Juans route. The survey tested riders’ opinion on reservation policies. Customer responses indicate that the reservation system should be dynamic and inform people how much capacity is reserved (70 percent of respondents); should penalize people that do not arrive on time (66 percent); and that frequent riders should be able to book a full week’s travel at a time (56 percent).

- **No charge for vehicle reservations.** WSF proposes that no additional charge be imposed for making a reservation to discourage people from lining up for stand-by capacity to avoid the fee.

#### **Step 4. Vessel Acquisition and Deployment**

Vessel acquisition and deployment is driven by the level of ridership anticipated as modified by operating and pricing strategies. The Legislature directed the JTC to review vessel preservation costs and to make recommendations regarding the most efficient timing and sizing of future vessel acquisitions beyond those authorized by the 2007-09 biennium budget.

##### ***Why is this important?***

1. Improving vessel preservation and replacing aging vessels is critical to WSF's ability to provide stable service.
2. Vessel acquisition represents a significant portion of WSF's capital plan. Less out of service time means acquiring fewer vessels, saving significant acquisition costs.
3. WSF's 2006 plan called for standardization of the fleet with all new vessels carrying 144 autos, which resulted in the need for major terminal renovations and replacements. The new plan calls for building boats within current terminal capacities.
4. Basing deployment decisions on the percentage of auto capacity used, percentage of sailings in which the auto capacity is sold out or fully reserved (proposed vehicle LOS), and the variable costs per auto carried will help reduce WSF's operating costs.

##### ***Changes in Vessel Acquisition, Preservation, and Deployment.***

WSF has adopted a number of the JTC study recommendations to change fleet management strategies.

- ***Focus on Vessel Preservation.*** The 2007 emergency retirement of four Steel Electric class vessels due to hull steel deterioration highlighted the need to focus on vessel preservation. The retirement led to Coast Guard inspections and subsequent repairs to other vessels. The JTC consultant's report *Auto-Passenger Vessel Repair and Replacement Final Report* recommended that WSF develop and maintain a vessel rebuild and replacement plan as part of its capital plan and implement an improved vessel maintenance and preservation program. The 2008 legislature adopted SSB 6932 directing WSF to implement those recommendations.
- ***Planning for Vessel Acquisition.*** The consultant's draft *Vessel Sizing and Timing Report* incorporated the revised ridership projections, and made the following draft recommendations:



- **Fleet size.** WSF should plan on a 21-vessel fleet to deliver the baseline 2030 service hours<sup>2</sup> with the existing deployment configuration. This is the same service hours and deployment planned in WSF's 2008 *Draft Long Range Plan*.
- **Reduce out-of-service time.** In order to deliver the baseline service hours with a 21-vessel fleet, WSF should reduce average out-of-service time per vessel from seven weeks per year to six. Reducing out of service time would require revisions in WSF's approach to vessel preservation and maintenance.
- **New vessel acquisitions.** For the baseline service and deployment, WSF should plan to acquire 10 new vessels between 2006 and 2030 including four 64-auto Island Home vessels in the 2009-2012 time period and six new 144-auto vessels in the 2020-2030 time period.
- **Open vessel acquisition to national competition.** The legislature should consider revisions to the procurement statutes to allow national competition for the construction of new vessels for WSF. Current law requires that vessels be built in the State of Washington which has resulted in WSF's receiving only one bid on each of two vessel construction bids let in 2008.
- **Vessel Deployment Decisions.** Deployment of vessels among routes is the most financially significant operational decision made by WSF. Nearly 60 percent of WSF's total operating costs are attributable to vessel operations. Of the vessel operating costs, approximately 50 percent are variable costs for deck labor and fuel that will change by where and for how long a vessel is deployed. The JTC's *Vessel Sizing and Timing Draft Report* included the following cost-saving deployment recommendations:
  - **Deploy smaller vessels on some routes.** The consultants recommended deploying smaller vessels on the Pt. Defiance, Interisland, Sidney, and Bremerton routes.
  - **Deploy smaller vessels on the less utilized evening sailings.** The consultants recommended deploying a smaller vessel from the Bremerton route to the evening Bainbridge sailings. The study also recommended using the smaller vessels assigned to the Kingston, Mukilteo and Triangle routes in the evenings.

SSB 6932 passed in the 2008 legislative session requires WSF to include a vessel deployment plan in their capital plan.
- **WSF's Draft Long-Range Plan Alternative A Incorporates Some Cost-Saving Recommendations.** WSF's Draft Long-Range Plan Alternative A incorporates some of the JTC's cost-saving recommendations. WSF proposes:
  - A 22-vessel fleet for the delivery of the baseline service, with 10 new procurements (three Island Homes and seven 144s). By contrast, WSF's 2006 plan called for the acquisition of 14 new vessels.

---

<sup>2</sup> Baseline service hours are 114,728 hours across Ferries nine auto-passenger routes.

- Later retirement of a renovated Super Class vessel (*Hyak*) than had previously been planned.

## **Step 5. Terminal and Repair Facility Plans**

WSF terminal needs are determined by ridership, implementation of pricing and operational strategies, and the size of vessels planned for the routes. Budget provisos and ESHB 2358 directed WSF to: 1) review and update its terminal life cycle cost model (LCCM); and 2) to develop pre-design studies for terminal preservation projects over \$5 million and for all terminal improvement projects before the legislature appropriates project design and construction funds.

### ***Why is this important?***

1. The revised terminal life cycle cost model provides a reliable basis for planning and legislative understanding of terminal preservation needs.
2. The reduction in terminal expansions and relocations represents a significant savings to WSF's capital program. Smaller terminals will also have lower future operating costs.
3. Pre-design studies allow OFM and the legislature to have more information about projects before committing to design and construction funding. The major terminal projects in WSF's *Draft Long-Range Plan* will be subject to the pre-design process, which will allow the legislature to have fuller information on the projects before appropriating design and construction funding. This will be particularly important for new initiatives, such as a reservation system, where the costs can be more fully vetted through the pre-design study process.

### ***Changes in Terminal Plans Resulting from JTC Study.***

Implementation of JTC terminal planning recommendations has resulted in significant savings in WSF's proposed terminal program.

- ***Need for major terminal expansions and multi-modal terminals reduced.*** The 2007-09 transportation budget placed WSF's major terminal projects on hold, pending the outcome of ESHB 2358 planning. Major terminal expansions placed on hold include Anacortes, Bainbridge, Port Townsend, and Seattle. Plans to relocate terminals at Keystone, Mukilteo, and Edmonds were also placed on hold. WSF's 2008 *Draft Long-Range Plan* reduces the scope of all of these projects and, in some cases, eliminates the project. The only terminal relocation included in the 2008 *Draft Long-Range Plan* is at Mukilteo. The Bainbridge, Anacortes, Port Townsend and Seattle projects have been reduced in scope.
- ***Terminal life cycle cost model update*** has been completed. The update of the LCCM included a review of the standard life cycles of structures, condition updates of all inventory elements, and the deletion of items that do not have a standard service life. The financial result of the review is a \$106 million reduction in needed terminal preservation projects over the 2007-23 16-year financial plan.

- **Pre-design studies** have been completed and presented to the legislature for the Orcas Island and Vashon Island dolphin replacement projects. The JTC consultant reviewed the pre-design studies and concurred with the conclusion of each study.

## Step 6. Financial Plan

WSF's financial plan is a product of improved planning and strategies, cost analysis and reduction, and projections of future funding. The improvements in the ridership forecast, operating and pricing strategies, and terminal and vessel plans driven by the JTC study lowered projections of costly future enhancements. In addition to the improvements in planning and strategies, the JTC conducted a series of detailed cost reviews with resulting cost reduction recommendations to ensure WSF is being run efficiently. Finally, the Legislature directed an examination of strategies to secure more stable funding for WSF. Those strategies included a public/private partnership study, and the WSTC study of ways in which future financing might be provided for WSF.

### *Why is this important?*

1. Understanding ridership and operating costs will allow the legislature to set a reasonable target for needed fare revenue when adopting WSF's operations budget.
2. Focusing on WSF's capital staffing, administration, and indirect project costs will help ensure cost-effective delivery of WSF's capital program.
3. Distributing indirect and administrative costs to terminal and vessel capital projects will enable the legislature to understand the total cost of these projects.
4. Ensuring the right balance between capital and operating budget expenses based on cost-benefit analysis will enable WSF to be more strategic in its spending.
5. Reliable estimating of the magnitude of the gap in WSF's capital and operating funding will allow decision makers to determine the system's long-term direction.

**Operating Budget Reviews.** The JTC has reviewed WSF's operating costs in five studies that have looked at the full range of WSF's costs including labor, fuel, and other costs.<sup>3</sup> Key findings of the reviews are:

- **Operating labor costs are difficult for WSF's management to contain.** Labor accounts for 59 percent of all of WSF's operating costs. Labor costs for vessel operations, terminal operations, and maintenance are largely subject to labor agreements and Coast Guard requirements, which make it difficult for management to contain these costs. The *Draft Vessel Sizing and Timing Report* shows that utilizing smaller vessels on routes as appropriate can reduce labor costs.

---

<sup>3</sup> The five studies are: (1) *Washington State Ferries Financing Study Final Report, Technical Appendix 5: Operating Budget Review* December 2006; (2) *Auto-Passenger Vessel Preservation and Replacement Final Report*, January 2008; (3) *Management and Support Costs Final Report*, July 2008; (4) *Non-Labor, Non-Fuel Operating Cost Final Report*, July 2008; and (5) *Vessel Sizing and Timing Draft Report*, November, 2008.

- ***Fuel costs can be reduced.*** Fuel accounts for 21 percent of WSF’s operating costs. While WSF cannot control the price it pays for fuel, there are ways in which fuel can be conserved to reduce operating costs. The JTC’s *Vessel Sizing and Timing Draft Report* reviews fuel conservation efforts already underway at Ferries and recommends that WSF reduce the speed of vessels and modify docking procedures to further reduce fuel consumption. Reducing speed and modifying docking procedures may require modifications to the existing schedule. Using smaller, more fuel efficient vessels as appropriate on routes will also reduce fuel costs.
- ***Operations management and support labor costs are reasonable.*** WSF’s operating management and support positions account for 10 percent of Ferries’ operations FTEs (full time equivalent positions) and 9 percent of Ferries’ operations labor costs. This a reasonable level of administrative expense for the complexity of WSF’s operation.
- ***Management and support operations non-labor expenses can be reduced.*** The JTC’s reports on management and support made 19 recommendations for operating costs reviews, which WSDOT largely concurs with. The reviews are now underway, with the greatest potential savings from a review of WSF’s marine insurance program.
- ***Fares reflect WSF’s operating costs.*** ESHB 2358 provides new policies for setting ferry fares, including that fares should generate the amount of revenue required by WSF’s legislatively adopted operations budget (ESHB 2358, Section 5). The legislation also states that WSF’s operating costs need to be as low as possible. Ferries 2008 *Draft Long Range Plan* proposes a fuel charge to help stabilize funding during periods of fuel price volatility.
- ***Higher ridership offsets costs.*** WSF has a high fixed cost of operation with little or no marginal cost from additional riders. The greater the ridership the less each rider must pay to cover WSF’s projected operating cost.

***Capital Costs Review.*** The JTC reviewed WSF’s capital staffing and administrative expenses costs in two studies<sup>4</sup>. Key findings and results of the reviews are:

- ***Capital program staffing costs should be reviewed and reduced.***
  - ***Capital staffing should be based on the final Long-Range Plan.*** In the 2008 session the legislature directed WSF to maintain capital staffing levels at or below the level of staffing on January 1, 2008 (Section 309, (11)).
  - ***Capital program staff should focus on preservation.*** In the 2008 session, the legislature directed WSF to review its capital engineering divisions to ensure core competency in, and a focus on, terminal and vessel preservation, with staffing sufficient to implement the preservation program in the capital plan (Section 309, (11)).

---

<sup>4</sup> The two studies are: (1) *Capital Program Staffing and Administration Cost Final Report*, April 2008; and (2) *Systemwide Capital Projects Final Report*, July 2008.

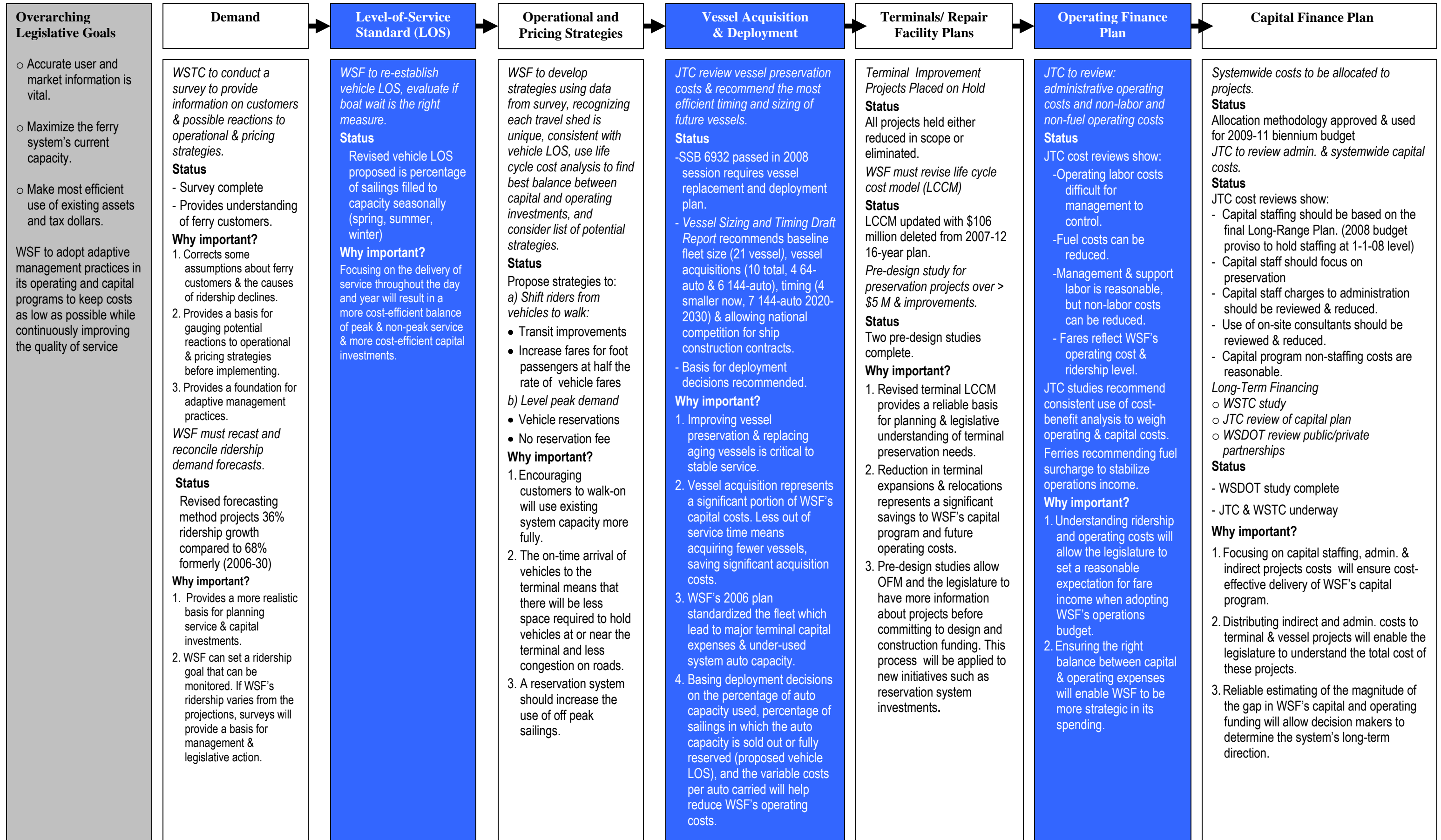
- ***Capital staff charges to administration should be reviewed and reduced.*** The JTC's *Capital Program Staffing and Administration Final Report*, April 2008 found that 23 percent of WSF capital staff charges were to administrative overhead. The charges were not consistent with WSF's internal policy, with many more staff than authorized charging to administration.
- ***Use of on-site consultants should be reviewed and reduced.*** The JTC's *Capital Program Staffing and Administration Final Report*, April 2008 found that WSF spent \$12.2 million or 7 percent of all capital expenses on on-site consultants in the 2005-07 biennium. Most of the expense for on-site consultants was in the Terminal Engineering division. Terminal Engineering has substantially reduced the costs for on-site consultants in the 2007-09 biennium.
- ***Capital program non-staffing administrative costs are generally reasonable.*** The JTC study found that non-staffing costs for community relations, legal affairs, accounting, and other administrative costs were generally reasonable. The exception were costs attributed to implementation of a capital program scheduling system. In the 2008 session the legislature directed WSF to review the costs and benefits of continued use of the primavera scheduling system in state ferries marine division and include that review with its 2009-2011 budget submittal.
- ***Allocation of indirect and administrative costs to capital projects.*** ESHB 2358 requires WSF to distribute indirect and administrative systemwide project costs to terminal and vessels projects. WSF has proposed and the JTC has reviewed and approved a method of allocating indirect and administrative costs to these projects.

***Cost-benefit analysis: right balance between capital investments and operating costs.***

The JTC reports have recommended that WSF consistently undertake a cost-benefit analysis of its actions and consider the total implications for the capital and operations budget. For example, the JTC study found that WSF has done a good job of holding down capital preservation costs on its vessels by breaking up work so that some work is done during expensive drydock periods and others is done later. While these actions reduce the per-vessel preservation and maintenance budget, they increase the amount of out-of-service time required for vessels which leads to the need for additional vessels in the system.

***Long-term financing.*** The WSTC has issued a preliminary *Long-Term Ferry Funding Study Preliminary Report*, November 2008. This report is based on WSF's September 2008 assessment of funding needed to provide baseline service. The *Long-Term Funding Study* will be updated in February 2009 to reflect WSF's December 2008 *Draft Long-Range Plan*. The JTC will review WSF's costs included in the 2008 *Draft Long-Range Plan* and report to the Transportation Committees by March 2009.

## FERRY FINANCE DECISION MODEL: STATUS ESHB 2358 PLANNING



**MEMBERS**  
**STATE FERRY SYSTEM REVIEW – PHASE II**  
**POLICY WORKGROUP**

**Senators:**

Mary Margaret Haugen  
Harriett Spanel  
Derek Kilmer  
Curtis King

**Representatives:**

Judy Clibborn  
Christine Rolfes  
Larry Seaquist  
Norma Smith

**Governor's Office:**

Jill Satran