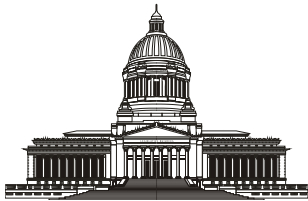


**State Ferry  
Terminals:  
Procedures to  
Account for and  
Request Capital  
Funds Have  
Improved but  
Additional Actions  
Are Needed  
Report 11-6**

**May 18, 2011**



STATE OF WASHINGTON

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## REPORT SUMMARY

### **In 2007, the Legislature Added New Statutory Requirements for Capital Planning for Ferry Terminals**

In 2006, the State Ferries Division of the Washington State Department of Transportation (State Ferries) proposed a \$5.6 billion long-range capital plan. In response, the Legislature directed the Joint Transportation Committee (JTC) to study ferry finances. A consultant report prepared for the JTC identified several concerns about State Ferries' capital cost accounting practices, particularly with regard to budget requests for ferry terminals.

In 2007, the Legislature passed ESHB 2358, which addressed many of the recommendations from the consultant report. The legislation also directed JLARC to assess State Ferries' progress in implementing these new statutory requirements.

### **The Office of Financial Management and State Ferries Have Made Progress in Implementing the 2007 Legislation**

Since the Legislature's action, the Office of Financial Management (OFM) and State Ferries have made progress in implementing provisions of the 2007 legislation. Improvements include the following:

- OFM developed definitions of preservation, improvement, and maintenance for State Ferries;
- State Ferries revised its capital budget request procedures;
- State Ferries developed a new approach for allocating systemwide and administrative costs; and
- State Ferries updated its life-cycle cost model for ferry terminals.

### **State Ferries Has Not Fully Complied with Statutory Requirements for Requesting and Using Preservation Funding**

ESHB 2358 required appropriations made for ferry terminal preservation projects be spent only on preservation and only when warranted by asset condition. SSB 6932, enacted in 2008, added a further requirement for the Department to base its ferry terminal budget requests on a required life-cycle cost model. State Ferries has not fully complied with these statutory requirements.

JLARC reviewed the condition ratings State Ferries' assigned to assets included in the life-cycle cost model for ferry terminals. Of the \$46 million appropriation State Ferries received for the 2009-11 Biennium, only \$13.5 million (29 percent) was for assets judged by the agency to be in poor or substandard condition. In contrast, \$32.5 million (71 percent) was for work on assets in good or fair condition or not rated. State Ferries did not provide OFM or the Legislature with information in its budget request showing that some requested preservation projects included work on structures that were still in good or fair condition or that had not been rated.

## **State Ferries Indicates the Nature of Ferry Terminal Preservation Work Often Requires Early Asset Replacement**

State Ferries provided two justifications for the replacement or renovation of assets that are still in good or fair condition or that have not been rated for condition:

- The Division maintains that early replacement is necessary when some components of a system are due for replacement but other closely related components are not.
- The Division 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.

While these may be reasonable arguments, State Ferries has not documented these factors in its life-cycle cost model, nor has the Division disclosed them in its budget requests.

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

While OFM and State Ferries have improved procedures to account for and request capital funds for state ferry terminal projects, further actions are needed to comply with statute and to enhance transparency and accountability. These actions are necessary to ensure the Legislature receives appropriately detailed information and justification when State Ferries requests funding for ferry terminal preservation projects.

### **Recommendation**

**The Washington State Department of Transportation, in collaboration with the Office of Financial Management, should develop procedures for providing more informative capital budget requests for State Ferry terminal preservation. The new procedures should require the Department to:**

- 1. Modify the condition categories in the life-cycle cost model to include an emergent category that would be used to explain funding requests for assets in good or fair condition that require preservation work to avoid deterioration resulting in structural or safety concerns;**
- 2. Include asset condition ratings with capital budget requests; and**
- 3. Provide justification for exceptions to replace or renovate assets that are not justified solely by asset condition.**