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Washington State Ferries Financing Study

Technical Appendix 5: Operating Budget Review

Prepared For:

Joint Transportation Committee
Washington State Legislature

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Executive Summary

This review of Washington State Ferries' (WSF) operating budget is part of the Washington State Ferries Financing Study. This review was conducted primarily by staff from the Senate Transportation Committee and the House Transportation Committee. The consultants were asked to incorporate the legislative staffs' work into the ferry financing study, and have included additional analysis and consultant recommendations.

Operating Resources

The review of operating resources available to support WSF operations is based on the 2006 legislative plan amended by June 2006 projections of motor vehicle fuel tax and income from licenses, permits, and fees.

Revenues

Earned revenue: The ferry system is supported primarily through farebox revenues. WSF also earns revenue from leases and concessions. In the 2005-07 biennium, earned income provides 77 percent of revenue.

Tax revenues: The Puget Sound Ferry Operations Account receives dedicated tax support from the motor vehicle fuel tax; motor vehicle registration fees; combined licensing fees; and 80 percent of treasury deposit earnings. In 2006 the legislature decided that the fuel taxes and fees collected from the additional gas taxes levied in 2003 and 2005 in San Juan and Island counties would be made available for WSF operations through the 2019-21 biennium rather than being returned to the counties under the Capron laws.

From 1993 through 2005, WSF received additional tax support from direct appropriations and transfers primarily from the Multimodal Transportation Account and the Motor Vehicle Account. However, no tax support beyond the dedicated taxes is anticipated in future years.

Transfers to Capital

The legislative plan anticipates transfers from the Puget Sound Ferry Operations Account to the Puget Sound Capital Construction Account, which supports the WSF capital program. By the 2019-21 biennium, 10 percent of earned revenue is anticipated to be transferred to the capital account, along with 100 percent of the dedicated operations tax support.

Operating Expenses

WSF operating expenses are 97 percent of the expenses supported by the Puget Sound Ferry Operating Account. The account also funds the Marine Employees Commission (MEC); and expenses incurred by the Washington State Department of Transportation (WSDOT) on behalf of WSF. WSF operations are also supported by various expenses incurred by WSDOT and the Washington State Patrol that are not charged to the Puget Sound Ferry Operations Account.

Farebox Revenue

Fares are the most important source of revenue for WSF. Fares fund 75 percent of WSF's operating expenses in the 2005-07 biennium, and are projected to fully fund operating expenses by 2013-15, with additional funds transferred to the capital account. As a result of projected ridership growth and tariff increases, farebox revenue is projected to grow at between 6 percent and 11 percent per biennium through the 2019-21 biennium.

Sources

The most significant source of farebox revenue is vehicle tariffs, accounting for 75 percent of all farebox revenues. Vehicle tariffs include the vehicle and driver, plus "other" vehicles, such as motorcycles and trucks. Passengers account for 24 percent of farebox revenues. Miscellaneous revenues makeup the remaining 1 percent of farebox revenue.

Tariffs

Increases: Tariffs increased 62 percent between 2001 and 2006 in response to the loss of the motor vehicle excise tax (MVET) funding in 2000. Tariffs are projected in the legislative financial plan to increase 2.5 percent per year from 2007 to 2021.

Structure: WSF has a complex tariff structure with more than 2,500 ticket types, including 810 possible fares for the Anacortes/San Juan Islands and Sidney B.C. routes. Passenger fares include three basic categories (full fare, youth, and senior/disabled), with discount books or passes available for frequent users. On the San Juan routes there are also peak fares and weekend premiums. Vehicle fares are more complex. They include: vehicle and driver fares for cars under 20 feet; regular fares, senior or disabled fares at approximately 85 percent of the full fare rate; height surcharges and length fees. All routes have peak season vehicle rates and the San Juan routes also have weekend rates.

Tariff policies: Ferry tariffs are set by the Washington State Transportation Commission (WSTC). State law outlines factors the WSTC may consider in reviewing tariffs. State law also requires WSF to solicit advice from Ferry Advisory Committees in considering tariff changes. The WSTC has created a 20-member Tariff Policy Committee (TPC) to assist it in meeting the statutory obligation to consult with affected ferry users.

The TPC's review in 2005-06 of fare increases and transportation demand management strategies included discussion of the following issues.

- *Fare increase and fuel surcharge:* The TPC recommended and the WSTC adopted a 6 percent general fare increase effective May 2006, but did not recommend a fuel surcharge, because they felt the state should cover the increased fuel cost.

- *Traffic demand management:* The TPC examined traffic demand management, including the passenger/vehicle fare relationship, congestion (time-of-day) pricing, and value pricing, but did not make changes in this tariff cycle.
- *Tariff route equity:* This program is based on the relationship of fares among routes. All riders are expected to contribute equally to the fixed costs of the ferry system, and each rider to contribute proportionally for the space used and the time occupying space on the vessel. Rates are established for the central Sound routes and then distributed based on tariff route equity variables to the other routes.

Electronic Fare System

WSF is implementing an electronic fare system that will be integrated with the regional fare collection program (SmartCard) among seven transit providers. The system will improve cash control and customer service. The TPC has adopted tariff changes to integrate with the electronic fare system. To date, the electronic fare system is in use at the Port Townsend and Keystone terminals and on Anacortes-based routes.

Concessions and Other Revenue

Income from concessions and other leases was 1 percent of revenue available for ferry operations from FY 1993 to FY 2005. In the 2005-07 biennium, this income will be 2 percent of revenue, and is anticipated to grow to 3 percent by the 2019-21 biennium.

From 1995 to 2005, on-board concessions were the largest source of concession revenues. For 2006 through 2015, WSF projects growth in revenue from: on-board food, beverage, and retail sales; wireless communication; and terminal food, beverage, retail, vending, advertising, and parking revenues. WSF is projecting a higher reliance on terminal based revenues, particularly from parking, vending, and concessions.

WSF Expenses: Overview

Labor and fuel costs have historically been 78 percent of WSF operating expenses, and are projected to be 83 percent in future biennia. Labor is the largest expense at 60 percent historically, and projected at 62 percent for future biennia.

The 2006 legislative financial plan assumes a 0.8 percent to 2.2 percent annual increase in WSF expenses to 2021. From the 1993-05 to 2005-07 biennium, the actual average cost increase was 9.4 percent.

WSF Labor Costs

Labor constitutes approximately 60 percent of WSF's operating costs. Labor costs are driven primarily by Coast Guard requirements for minimum staffing levels on vessels, labor contracts, and WSF department heads' decisions within their approved budgets.

Labor Cost and Positions Increase

Over the last ten years, annual labor cost changes have ranged from a 2 percent decrease to an 8 percent increase. This pattern reflects the changes in full time equivalent (FTE) positions as well as service or other cost reductions. The largest labor costs are: vessel staff (67 percent of labor costs from 1996 through 2006); followed by terminal staff (17 percent); maintenance staff (13 percent); and administrative staff (4 percent).

Labor Union Agreements and Collective Bargaining

Ninety-two percent of WSF employees are represented by bargaining units, including eleven separate labor organizations.

Historically, WSF negotiated agreements with maritime labor unions separately from the rest of the state. However, in 2006 the legislature modified the process for entering into labor agreements for WSF maritime employees. Under this legislation, WSF is to use the same timeframe as used in other state labor negotiations. In the event of an impasse, WSF and the bargaining unit must submit to arbitration. Funding to implement an agreement must be certified as financially feasible by the director of the Office of Management and Budget. Once certified, the request is included in the Governor's budget proposal to the legislature. If the legislature rejects or fails to act on the request, either party may reopen the agreement.

Labor Relations

WSF labor relations are subject to the processes conducted by the Marine Employees Commission (MEC) for maritime employees, rather than the Public Employee Relations Commission, which covers other represented state employees and a small group of non-maritime WSF employees. The MEC is responsible for adjudicating complaints, grievances, and disputes; providing for impasse mediation; and conducting salary surveys for maritime employees.

The relationship between WSF and the unions has often been contentious. A 1998 performance audit by Booz Allen found that labor relations bargaining and dispute resolution processes adversely affect the ability of WSF to operate effectively and efficiently, and that the organization experiences an extraordinary number of unfair labor practice charges and grievances.

There are two outstanding labor related lawsuits that could impact WSF operating costs: one involving engine room employees and the other licensed deck employees.

Key Labor Agreement Provisions

The labor agreements that affect WSF operations have a number of provisions that affect WSF cost of operation.

- ***Eight-hour minimum call***: WSF labor agreements provide for a minimum eight hour consecutive day, which means that WSF cannot schedule split shifts or less than eight hour shifts to meet peak demand or other scheduling requirements.
- ***Overtime Pay:*** Overtime pay represents 8 percent of annual total labor wages paid by WSF in FY 1996 through FY 2006. Seventy percent of overtime expense is incurred by vessel staff, followed by maintenance staff at 18 percent, and terminal staff at 10 percent.

- ***Travel Time:*** Travel time pay represents between 2 and 3 percent of annual total labor wages paid by WSF from FY 1996 through FY 2006. Most of the travel time expense is incurred by vessel staff, varying from 81 percent to 91 percent of annual overtime costs from FY 1996 through FY 2006. Employees may receive mileage reimbursement for use of a private automobile during such travel. Mileage reimbursement is a significant cost to WSF and runs over $1 million per year.
- ***Penalty Pay:*** Penalty pay represents 1 percent of the total labor wages paid by WSF in FY 1996 through FY 2006. Seventy-five percent of penalty pay goes to vessel staff, and 25 percent to Eagle Harbor maintenance staff.
- ***Minimum Staffing Provisions:*** Labor agreements require staffing on vessels beyond those required by the Coast Guard to staff the vessels safely, and what WSF would do if not required by the labor agreements. Nine percent of vessel crewing and 7 percent of costs included in this analysis are the result of labor union requirements, at a cost estimated at $4.1 million annually.
- ***Other Provisions:*** Other non-salary provisions that affect WSF's operating costs or represent lost revenues include additional paid holidays, half-price meals on vessels, uniforms and jackets, schooling, crew minimum staffing, and ferry passes. These provisions have an estimated cost of $3.0 million a year, of which $1 million represents foregone revenue.
- ***Scheduling:*** Contracts for some of the maritime bargaining units also affect how WSF schedules staff for vessels, terminals, and the Eagle Harbor repair facility. This can lead to increased overtime and travel pay.

Vessel Labor Costs

Vessel labor is 67 percent of all labor costs and is the most impacted by overtime, travel time, and penalty pay provisions. Overtime, travel time, and penalty pay were 13 percent of total vessel staffing costs from FY 1996 through FY 2006.

Impact of Recent Labor Agreements and Settlements

The transfer of responsibility for labor negotiations from WSF to the Governor's office has resulted in settlement of all outstanding labor agreements. These combined with various arbitration agreements will result in increased labor cost for WSF of $8.9 million in FY 2007 with an ongoing biennial cost of $8.6 million. Additionally, negotiated 2007-09 labor contracts will result in increased labor costs for WSF of $17 million in the 2007-09 biennium with an ongoing biennial cost of $19.1 million.

Fuel Costs

In the 2006 legislative plan, fuel is projected to be 21 percent of WSF expenses from the 2005-07 biennium through the 2019-21 biennium. Fuel expenses were projected to increase by 45 percent from 2003-05 to 2005-07. This projection was based on the February 2006 fuel forecast. However, an updated forecast in September 2006 projects that fuel prices will stabilize and begin to decrease from a peak of $2.47 per gallon in FY 2008 to a low of $1.96 per gallon in FY 2013. Consumption is assumed to be constant at 17.7 million gallons per year.

Impact of Cost Changes on Operating Fund

The labor cost increases and changes in forecast of fuel prices will affect the Puget Sound Ferries Operations Account, reducing its ability to transfer funds to the capital account. The 2006 legislative plan assumed a $518 million transfer to the capital account, but increased labor and fuel costs will likely reduce this transfer to approximately $450 million. This projection depends on all other assumptions regarding costs and revenues remaining constant. It is likely that in reality the operating fund will not be able to contribute even this reduced amount to capital.

Farebox Recovery

Farebox recovery, as used by WSF, shows the percentage of WSF operating costs, including WSDOT costs, that are recovered by earned revenues from the farebox and other income. In FY 2005 recovery is at 76 percent systemwide, ranging from a low of 23 percent on the Vashon-Seattle passenger only ferry service to a high of 111 percent on the Seattle-Bainbridge route.

WSF has not historically calculated the percentage of total earned income against total ferry expenses, including expenses incurred by WSP and MEC, nor shown the percent of direct tax support against operating costs. Legislative staff have calculated these additional recovery percentages on a biennium basis. Their analysis shows that for the 2005-07 biennium, earned income is projected to be 72 percent of WSF operating costs (farebox 70 percent and other income 2 percent) and direct tax support 13 percent. Earned income as a percentage of all ferry operating costs is expected to be 67 percent, with direct tax support providing an additional 12 percent.

Consultant Observations and Recommendations

The consultants have reviewed the legislative staffs' analysis of the WSF operating budget and added some additional analysis. Based on this review, the consultants offer the following observations and recommendations for consideration by the legislature.

Operating Transfers to Capital

The 2006 legislative financial plan and WSF's Draft Long-Range Strategic Plan both assume significant capital funding from operations.

Consultant Findings:

- Rising labor costs and the volatility of fuel costs make it unlikely that surplus operating funds will be available to transfer to the capital account at the forecasted level.
- The decision to transfer surplus operating funds to the capital account makes the operating fund less stable, especially given that WSF is highly dependent on earned income.
- Transferring dedicated tax revenues to capital negates the legislature's intent in dedicating tax revenues to support ferry operations.

- The policy of using revenues from fares and concessions (part of the operating account) to support the capital account, if continued, should be clearly stated by the legislature.
- Providing capital funding from surplus operating funds subjects the capital account to the volatility of operating revenues and expenses.
- WSF's operating account has only a $5 million minimum fund balance, which is 1 percent of its operating funds per biennium. This is insufficient for an enterprise dependent on volatile labor and fuel costs and on farebox and other earned revenue. Traditionally, WSF has been appropriated a 2 percent reserve for labor and a 10 percent reserve for fuel. Both of those reserves were taken out in 2006 to fund their increased labor and fuel.

Consultant Recommendations:

1. Either merge capital and operating accounts, or
2. Do not transfer funds if the accounts are not merged.
3. Maintain a larger operating reserve to balance the volatility of WSF operating expenditures and revenues.

Tariffs and Other Earned Income

WSF earns more than 75 percent of its revenue from farebox, concessions, and other income. The most significant revenue is from the farebox. Tariff policies also play a key role in traffic demand strategies and in the potential to increase revenue by increasing non-peak usage of the ferries.

Consultant Findings:

- The legislature has provided limited guidance on tariff policy. The 2006 legislative financial plan assumed future fare increases of 2.5 percent a year, which may not be sufficient to meet future operating expenses and has been assumed as a directive for the WSF Draft Long-Range Strategic Plan 2006-2030.
- The Tariff Policy Committee (TPC) was created by the WSTC at a time when the WSTC had administrative responsibility for WSDOT. The role of the WSTC was changed by the 2005 legislature, with hiring/firing the Secretary of Transportation and management direction for WSDOT being transferred to the Governor. The TPC includes elected officials, which makes it more difficult to insulate the legislature from tariff decisions. The Legislature has designated the WSTC as the body to set tariffs for both ferries and other transportation tariffs, such as the Tacoma Narrows Bridge, in order to provide separation from the legislative process.
- Public participation requirements may be carried out through hearings in local communities or a survey of affected ferry users. By conducting hearings and not a market survey, the TPC hears from and is affected by organized groups, but has limited information on the broad base of ferry users.
- While the concepts underpinning the tariff route equity program are reasonable, the concept does not recognize the differences in the travel sheds WSF serves. Tariff route equity also affects farebox recovery.

- The TPC has discussed traffic demand management, congestion pricing, and value pricing as ways to improve vehicle occupancy and encourage drive-ons to become walk-ons, but has not explored using these policies to encourage off-peak ridership.
- WSF earns most of its revenue from fares and has a largely fixed-cost operation. There is ample capacity to accommodate increased ridership in non-peak periods.
- Farebox recovery varies between routes based on market characteristics and operating costs. There is little discussion, however, of individual route farebox recovery rate goals or ways to improve recovery on a route-by-route basis.
- Concessions and other revenues are a small portion of WSF's earned revenue. The majority of concession revenue comes from vessel-based concessions, parking, and vending.

Consultant Recommendations:

1. The legislature should consider providing more specific policy direction on tariffs to the WSTC that would give priority to traffic demand management and market considerations of the individual travel sheds. The legislature should also consider being specific on the role it wants dedicated tax support to play in establishing tariffs.
2. The WSTC should examine the role of the TPC in establishing rates, given its new, more limited role, and examine whether elected officials should serve on the Committee if it remains.
3. The legislature should consider requiring a market survey to inform biennial fare decisions.
4. Tariff route equity policies should be re-examined for calibration with regard to traffic demand, value pricing, and farebox recovery goals. The legislature could establish the relative importance of tariff route equity in revising its tariff policy directions.
5. Traffic demand strategies that encourage walk-on riders, discourage single-occupant vehicles, and that might spread demand to non-peak periods should be pursued. Value pricing in comparison to transit system charges within the various travel sheds should also be pursued.
6. To encourage non-peak ridership, the legislature should consider providing funding to WSF to support marketing and programs that promote non-peak ridership.
7. Farebox recovery and ridership goals should be established by route.
8. Priority should be given to increasing non-peak ridership over state capital-investment-based concessions revenue.

Expenses

WSF expenses have grown at an average rate of 9.4 percent per biennium between the 1993-95 and 2005-07 biennia. Full-time equivalent positions have increased by 9 percent over the same time period. Labor and fuel costs account for approximately 80 percent of WSF's expenses.

Consultant Findings:

- Expense projections are understated because the state does not project future labor agreement expenses.

- Fuel and labor account for nearly 80 percent of WSF operating costs. Since 92 percent of WSF's employees are represented, management has limited opportunities to manage and control costs.
- WSF has a high fixed-cost operation. Since Coast Guard and union staffing requirements do not vary with the number of passengers, vessel operation costs the same no matter the number of passengers.
- WSF provides limited cost projections at the route or travel shed level.
- Labor agreements constrain WSF operations and drive additional staffing, overtime, and other costs. The most significant constraints appear to be the required eight-hour minimum shift and consequent inability to operate with split shifts, and the staffing required on vessels beyond Coast Guard requirements.
- WSF might control costs by making service modifications, but the ability to save funds is made more difficult by labor agreement requirements. WSF's analysis found that eliminating one or more round trips in many cases resulted only in fuel savings, since the service time reduction would not be large enough to affect the eight-hour minimum call provisions of the labor agreements.

Consultant Recommendations:

1. WSF should provide expense projections that assume an allowance beyond inflation at 70 percent of IPD for labor costs, for use in setting tariffs and for legislative planning. These projections should be consistent with past increases.
2. Farebox recovery rate goals by route should be established. The legislature should request WSF to provide cost and revenue information consistently by route.
3. Priority should be given in collective bargaining to modifications to the eight-hour shift and the extra vessel staffing provisions of the agreements.

Section One
Introduction

This review of Washington State Ferries' (WSF) operating budget is part of the Washington State Ferries Financing Study. This review was conducted primarily by staff from the Senate Transportation Committee and the House Transportation Committee. The consultants were asked to incorporate the legislative staffs' work into the ferry financing study, and have included additional analysis and consultants' recommendations.

Section Two
Operating Resources

Below is an overview of the resources available to support WSF operations, based on the 2006 legislative financial plan amended by June 2006 projections of the motor vehicle fuel tax and income from licenses, permits, and fees. See also Table 2 on the next page.

A. Earned Revenue

The ferry system is supported primarily through farebox revenues. WSF also earns revenue from leases and concessions. Table 1 lists historical and projected earned revenue.

Table 1. Percentage Earned Revenue

	1993-2005	2005-07 biennium	2007-09 biennium	2009-11 biennium	2011-13 biennium	2013-15 biennium	2015-17 biennium	2017-19 biennium	2019-21 biennium
Farebox Revenue	71%	75%	82%	89%	94%	99%	103%	107%	113%
Income from Property	1%	2%	2%	2%	2%	2%	3%	3%	3%
Total Earned Income	72%	77%	84%	91%	96%	101%	106%	110%	116%

B. Tax Revenues

1. Dedicated Tax Support

The Puget Sound Ferry Operations Account receives dedicated tax support from the motor vehicle fuel tax (2.3283% of net gas tax collections or 0.54 cents of the 23-cent dedicated gas tax); motor vehicle registration fees ($2.02 per new registration, $0.93 per renewal); combined licensing fees (1.411% of collections); and 80 percent of treasury deposit earnings. In 2006 the legislature decided that the fuel taxes and fees collected from the additional gas taxes levied in 2003 and 2005 in San Juan and Island counties would not be refunded to the counties as required by the Capron Refunds law, but instead would be made available for WSF operations. These Capron funds are anticipated to generate $74 million for ferry operations from the 2005-07 biennium through the 2019-21 biennium.

Table 2. Ferry Operating Funds

($000,000s)

	actuals - LEAP & agency data																*forecast*								
	93/95	95/97	97/99	99/01	01/03	03/05	% 93-05	05/07	%	07/09	%	09/11	%	11/13	%	13/15	%	15/17	%	17/19	%	19/21	%	05/21	%
FERRY OPERATING RESOURCES AVAILABLE																									
Puget Sound Ferry Operations Account (Account 109) and Marine Operating Account (Account 519) Revenues:																									
Farebox Revenues *	148.8	157.8	173.6	192.3	230.9	259.4	71%	289.6	75%	321.0	82%	353.5	89%	382.3	94%	410.1	99%	437.3	103%	465.8	107%	496.0	113%	3,155.5	96%
Motor Vehicle Excise Tax	45.4	51.6	59.8	14.4	(0.0)	(0.0)	11%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
Motor Vehicle Fuel Tax **	28.4	30.8	32.7	33.5	34.1	34.7	12%	35.3	9%	37.7	10%	40.0	10%	41.4	10%	42.5	10%	43.4	10%	44.3	10%	45.4	10%	329.9	10%
Motor Vehicle Fuel Tax - Capron**	-	-	-	-	-	-	0%	3.0	1%	8.3	2%	9.5	2%	10.0	2%	10.3	2%	10.6	2%	10.9	3%	11.3	3%	73.8	2%
Licenses, Permits, and Fees **	10.7	11.1	11.8	12.3	13.5	13.7	4%	15.1	4%	15.6	4%	16.3	4%	16.8	4%	17.3	4%	17.8	4%	18.3	4%	18.8	4%	135.9	4%
Income from Property*	1.9	3.6	1.0	2.9	2.7	3.8	1%	6.5	2%	8.5	2%	9.7	2%	9.7	2%	10.4	2%	10.9	3%	11.6	3%	12.3	3%	79.6	2%
Miscellaneous	1.0	2.9	5.0	(4.9)	(6.0)	1.2	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
	236.3	*257.7*	*283.9*	*250.4*	*275.2*	*312.8*	99%	*349.4*	91%	*391.0*	100%	*429.0*	108%	*460.1*	113%	*490.5*	118%	*520.0*	122%	*550.9*	127%	*583.7*	133%	*3,774.8*	115%
Transfers & Direct Appropriations:																									
Multi Modal Transportation Account	-	2.5	-	5.1	-	5.1	1%	3.7	1%	-		-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	3.7	0%
Motor Vehicle Account	-	-	-	-	38.3	31.3	4%	31.0	8%	-		-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	31.0	1%
PS Capital Construction Account**	-		-	(67.0)	-	(22.0)	-5%	-	0%	(1.0)	0%	(30.0)	-8%	(54.0)	-13%	(75.0)	-18%	(95.0)	-22%	(117.0)	-27%	(146.0)	-33%	(518.0)	-16%
General Fund	-	-	-	20.0	-	-	1%	-	0%	-		-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
	-	*2.5*	-	*(41.9)*	*38.3*	*14.4*	1%	*34.7*	9%	*(1.0)*	0%	*(30.0)*	-8%	*(54.0)*	-13%	*(75.0)*	-18%	*(95.0)*	-22%	*(117.0)*	-27%	*(146.0)*	-33%	*(483.3)*	-15%
TOTAL OPERATING INCOME	236.3	260.2	283.9	208.5	313.5	327.2		384.1		390.0		399.0		406.1		415.5		425.0		433.9		437.7		3,291.4	
FERRY OPERATING COSTS																									
Expenditures - actuals/2006 Leg Plan:																									
WSF Operations	220.6	236.0	258.7	302.4	310.3	329.1	97%	375.9	97%	379.1	97%	386.6	97%	395.2	97%	403.6	97%	412.3	97%	421.3	97%	430.4	97%	3,204.3	97%
WSDOT	4.5	7.9	3.8	10.8	11.5	9.1	3%	9.9	3%	10.1	3%	10.2	3%	10.4	3%	10.7	3%	10.9	3%	11.1	3%	11.3	3%	84.5	3%
Marine Employees Commission	0.3	0.3	0.3	0.3	0.3	0.4	0%	0.4	0%	0.4	0%	0.4	0%	0.4	0%	0.4	0%	0.4	0%	0.4	0%	0.5	0%	3.4	0%
TOTAL FERRY OPERATING COST	225.4	244.2	262.8	313.4	322.1	338.6		386.2		389.5		397.2		406.0		414.7		423.6		432.8		442.2		3,292.2	
Estimated PSOA Balance at end of biennium								0.4		0.9		2.7		2.8		3.7		5.1		6.2		1.8			

* 2006 Legislative Plan

** June 2006 Forecast

Source: Legislative Staff

Table 3. WSF Operating Cost Detail

	93/95	95/97	97/99	99/01	01/03	03/05	%	05/07	%	07/09	%	09/11	%	11/13	%	13/15	%	15/17	%	17/19	%	19/21	%	2005-21	%
Labor	152.9	163.5	183.1	202.1	207.3	204.0	67%	226.5	60%	231.3	61%	237.2	61%	243.9	62%	250.6	62%	257.5	62%	264.8	63%	272.3	63%	1,984.0	62%
Fuel	19.7	22.6	20.3	38.2	33.8	52.1	11%	75.3	20%	77.6	20%	80.4	21%	83.6	21%	86.9	22%	90.4	22%	94.0	22%	97.8	23%	686.0	21%
Other	48.0	50.0	55.3	62.0	69.2	72.9	22%	74.2	20%	70.1	18%	69.0	18%	67.6	17%	66.1	16%	64.4	16%	62.5	15%	60.3	14%	534.2	17%
Total	**220.6**	**236.0**	**258.7**	**302.4**	**310.3**	**329.1**		**375.9**		**379.1**		**386.6**		**395.2**		**403.6**		**412.3**		**421.3**		**430.4**		**3,204.2**	

Source: Legislative Staff, using 2006 Legislative financial plan assumptions

2. Supplemental Tax Support

From the 1993-95 through the 2003-05 biennia, WSF received tax support beyond the dedicated taxes. This support included direct appropriations and transfers primarily from the Multimodal Transportation Account and the Motor Vehicle Account, with a distribution from the General Fund in 2000 following the repeal of motor vehicle excise tax (MVET) funding. In the 2005-07 biennium, $31 million was appropriated from the Motor Vehicle Account and $3.7 million from the Multimodal Transportation Account to the Puget Sound Ferry Operations Account. No tax support beyond the dedicated taxes is anticipated in future years.

Table 4 shows the percentage each of these two forms of tax support provides for the Operations Account.

Table 4. Percentage Tax Support: Puget Sound Ferry Operations Account

	1993-2005	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21
Dedicated Tax Support	27%	14%	16%	16%	17%	17%	17%	17%	16%
Supplemental Tax Support	6%	9%							
Total Tax Support	33%	23%	16%	16%	17%	17%	17%	17%	16%

C. Transfers to Capital

From 1993 through 2005, $89 million was transferred from the Puget Sound Ferry Operations Account to the Puget Sound Capital Construction Account, which supports the WSF capital program. During the period 2005-21, the 2006 legislative plan anticipates transferring $518 million to the capital account from the operating account. By the 2013-15 biennium, 100 percent of the dedicated operating tax support is anticipated to be transferred to capital along with 1 percent of farebox revenue. By the 2019-21 biennium, 10 percent of earned revenue is anticipated to be transferred to the capital account, along with 100 percent of the dedicated tax support. Table 5 shows these transfers by biennium.

Table 5. Transfers from Operating Account to Capital Account

($000,000)

	1993-2005	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21
Dedicated Tax Revenue	438	53	62	66	68	70	72	73	75
Transfer to Capital	-89	0	-1	-30	-54	-75	-95	-117	-146
% of Tax Revenue	20%	0%	2%	46%	79%	107%	132%	159%	194%
Net – From Earned Income						5	23	44	71
% of Earned Income Transferred						1%	5%	9%	14%

D. Operating Expenses

The Puget Sound Ferry Operations Account funds WSF operations; the Marine Employees Commission (MEC); Governor's Labor Relations Office activities on behalf of WSF/WSDOT, and the information technology, revenue collection system, and administration expenses incurred by the Washington State Department of Transportation

(WSDOT) on behalf of WSF. WSF operating expenses are 97 percent of the expenses supported by the Puget Sound Ferry Operations Account.

E. Other WSF Support

WSF operations are supported by expenses incurred by WSDOT for torts defense, risk management, and claims; by WSDOT for other information technology and revenue collection system expenses; and by the Washington State Patrol (WSP) for security and traffic control (see Table 6). These expenses are not charged to the Puget Sound Ferry Operations Account, and are projected to grow from $16.7 million in the 2003-05 biennium to $27.2 million in the 2019-21 biennium. (The projection does not include the impact of labor cost changes for the WSF, and so, to that extent, is understated.)

Table 6. Ferry Costs Absorbed by other Agencies/Accounts

($000,000s)

	95/97	97/99	99/01	01/03	03/05	05/07	07/09	09/11	11/13	13/15	15/17	17/19	19/21
WSP - Security & Traffic	1.9	1.9	1.6	3.2	5.6	12.9	15.0	15.0	15.0	15.0	15.0	15.0	15.0
WSDOT - Torts Defense					5.3	6.8	8.7	9.1	9.5	9.8	10.2	10.6	11.5
WSDOT - IT & Revenue			0.2	2.1	5.8	1.9	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Total	1.9	1.9	1.8	5.3	16.7	21.5	24.3	24.7	25.1	25.5	25.9	26.3	27.2

Source: Legislative staff

Section Three
Farebox Revenue

Fares are the most important source of revenue for WSF, providing 75 percent of funding for the Puget Sound Ferry Operations Account in the 2005-07 biennium, and projected to fully fund the operating expenses of that account by 2013-15, with additional funds transferred to the capital account through 2021.

A. Farebox Revenue Growth

Farebox revenues are projected using an econometric model, which is reviewed in the *Washington State Ferries Financing Study Technical Appendix 4: Forecasting Models Review*. As a result of projected ridership growth and tariff increases, farebox revenue is projected to grow at between 6 percent and 11 percent per biennium between the 2007-09 and 2019-21 biennia, as shown in Table 7.

Table 7. Farebox Revenue Growth

($000,000s)

Fiscal Year	Revenue	%
93/95	148.8	
95/97	157.8	6%
97/99	173.6	10%
99/01	192.3	11%
01/03	230.9	20%
03/05	259.4	12%
05/07	289.6	12%
07/09	321.0	11%
09/11	353.5	10%
11/13	382.3	8%
13/15	410.1	7%
15/17	437.3	7%
17/19	465.8	7%
19/21	496.0	6%

Source: Legislative staff

B. Tariff Rates

Tariffs increased 62 percent (79 percent on a compounded basis) between 2001 and 2006 in response to the loss of MVET funding. Tariffs are projected to increase 2.5 percent per year from 2007 to 2021, as stated in the 2006 legislative financial plan. As noted in the *Washington State Ferries Financing Study Technical Appendix 4: Forecasting Models Review*, new tariffs are established each May 1. Tariff rate increases are applied to the central Sound routes and rounded to the nearest nickel. Based on tariff rate equity (see discussion below), rates are then calculated for the other routes and rounded to the nearest nickel. Table 8 shows the past and projected tariff increases.

Table 8. WSF Fare Increases

Year	% Increase
1994	6.0%
1998	2.3%
1999	4.4%
2001*	22.9%
2002*	13.6%
2003*	7.7%
2004*	5.4%
2005*	6.3%
2006	6.0%
2007-21	2.5%
*Increase with nickel rounding	

Sources: Legislative Staff; PB Consult June 19, 2006, Revenue Forecast Presentation

C. Sources of Farebox Revenue

The most significant source of farebox revenue is vehicle tariffs, accounting for 75 percent of all farebox revenues. Vehicle tariffs include the vehicle and driver, plus "other" vehicles, such as motorcycles and trucks. Passengers account for 24 percent of farebox revenues. Miscellaneous revenues from charter cruises, the duty free shop, and reservation deposits makeup the remaining 1 percent of farebox revenue. Table 9 shows the distribution of farebox revenues by biennium.

Table 9. Farebox Revenues

($000s)

109 - PUGET SOUND FERRY OPERATIONS ACCOUNT Transportation Services Accounts	95-97	%	97-99	%	99-01	%	01-03	%	03-05	%
0497 10 Passenger Services	33,799	21%	35,919	21%	39,198	20%	45,269	20%	50,425	19%
0497 11 Passenger Only Express	956	1%	1,833	1%	2,522	1%	3,499	2%	1,008	0%
0497 15 Transit Pass	1,446	1%	2,802	2%	4,229	2%	6,765	3%	10,456	4%
0497 17 WSF Web Pass Sales		0%		0%	26	0%	765	0%	849	0%
Sub-total Passengers	*36,201*	*23%*	*40,554*	*23%*	*45,975*	*24%*	*56,298*	*24%*	*62,738*	*24%*
0497 20 Automobiles	106,004	67%	115,523	67%	126,703	66%	151,380	66%	168,892	65%
0497 40 Other Vehicles	15,274	10%	17,304	10%	19,077	10%	22,624	10%	27,194	10%
0497 50 Freight	168	0%	106	0%	167	0%	235	0%	238	0%
0497 55 Charter Cruises	21	0%	21	0%	73	0%	47	0%	134	0%
0497 65 Duty Free Shop	116	0%	103	0%	126	0%	109	0%	121	0%
0497 97 WSF Reservation Deposit		0%	-36	0%	190	0%	142	0%	122	0%
Total	157,784		173,575		192,311		230,835		259,439	

D. Tariff Structure

WSF has a complex tariff structure with more than 2,500 ticket types, including 810 possible fares for the Anacortes/San Juan Islands and Sidney B.C. routes. "WSF has fares for adult, child, senior, disabled, motorcycle, motorcycle with side car, bicycles, over-height, overwidth, under 20 feet and then in 10 foot increments, frequent users, monthly passes, day-of-week in the San Juan Islands, a different definition of frequent users between the San Juan Islands and the rest of the system, employer vouchers, business accounts, senior convenience tickets, etc." (WSF Electronic Fare System Project and Regional Fare Coordination Project Report to the Legislature, June 30, 2006, p. 8).

Fares by travel shed as of May 1, 2006 are shown in Appendix A and summarized in Table 10, below. The most complex fares are for the San Juan routes with 210 separate fares, followed by the South Sound routes, which have 78 separate fares. Together these routes account for 21 percent of system ridership and 62 percent of the possible fares.

Table 10. Fares and Riders by Travel Shed

	% FY2005 Riders	% Passengers	% Vehicles	Farebox Recovery	# of Fare Types	% of Fares
Central Sound	55%	61%	47%	93%	36	8%
Mukilteo Clinton	17%	14%	20%	97%	36	8%
Pt. Townsend-Keystone	3%	3%	3%	58%	36	8%
South Sound	14%	12%	17%	54%	78	17%
Pt. Defiance-Tahlequah	3%	2%	4%	66%	36	8%
Anacortes-Sidney	1%	1%	1%	73%	39	8%
San Juan Islands	7%	7%	8%	49%	210	45%
Total					471	

1. Passenger Fares

Passenger fares include three categories of fares (full fare, youth, and senior/disabled), with discount books or passes available for frequent users. Children under six ride free. Youth 6-18 pay 80 percent of the regular full fare. Senior and disabled passengers pay 50 percent of the regular full fare. With the exception of the San Juan Island routes, passengers do not pay a seasonal peak fare. On the San Juan Island routes, passengers also pay a higher fare on weekends (Wednesday–Saturday). See Table 11, below.

With the exception of the Port Townsend-Keystone and Anacortes-Sidney routes, passenger fares are sold as round trip tickets at one terminal on each route.

Passengers can purchase frequent user books and passes on all routes except the Anacortes-Sidney route. The frequent user books or multi-ride commute cards include ten round trips and are priced generally at 80 percent of the regular full adult fare (i.e., at the youth fare rate). Monthly passes are available on all routes except the San Juan and Anacortes-Sidney routes. WSF's intention is to have the monthly passes used for no more than 31 round trips, although there is currently no way to enforce this restriction.

Passengers on the Interisland runs in the San Juan Islands ride for free.

Table 11. Passenger Fares (Round Trip)
Effective May 2006

	Full Fare	Youth Fare	Senior Fare	Peak Fare	Weekend Premium	Frequent User	Monthly Pass, per use*
Central Sound	$6.50	$5.20	$3.25	no	no	$5.20	$2.72
Mukilteo Clinton	$3.85	$3.10	$1.90	no	no	$3.08	$1.62
Pt. Townsend-Keystone**	$5.00	$4.00	$2.50	no	no	$4.00	$2.10
South Sound							
Vashon POF	$8.50	$7.20	$4.25	no	no	$7.20	$3.75
Fauntleroy-Southworth	$5.00	$4.00	$2.50	no	no	$4.00	$1.94
Fauntleroy-Vashon & Southworth-Vashon	$4.20	$3.40	$2.10	no	no	$3.36	$1.77
Pt. Defiance-Tahlequah	$4.20	$3.40	$2.10	no	no	$3.36	$1.77
Anacortes-Sidney**	$31.20	$25.00	$15.60	no	no	n/a	n/a
San Juan Islands **				(Adult)			
Anacortes-Lopez	$9.60	$7.70	$4.80	$11.55	yes	$6.93	n/a
Anacortes-Shaw & Anacortes-Orcas	$9.60	$7.70	$4.80	$11.55	yes	$6.93	n/a
Anacortes-Friday Harbor	$9.60	$7.70	$4.80	$11.55	yes	$6.93	n/a
Interisland	$0.00	$0.00	$0.00	$0.00		$0.00	

* Pass fare assumes 31 uses
** Shown as round-trip. Fares collected one-way. Fares shown are Sunday-Tuesday fares.

2. Vehicle Fares

Vehicle fares are more complex than passenger fares. They include: vehicle and driver fares for cars under 20 feet; regular fares; senior or disabled fares at approximately 85 percent of the full fare rate; and height surcharges. See Table 12, below.

Motorcycle rates are available for the regular fare and at senior/disabled fares, which are approximately 70 percent of the regular fare.

Frequent user books or commuter cards are available for vehicles and motorcycles on all routes except the Sidney-Anacortes route. Twenty one-way trips are included in the books or commuter cards (except in the San Juans where ten round trips are included) and are priced at 80 percent of the full fare.

Vehicle-length-based fares include seven increments, then a cost per foot over eighty feet.

Vehicles of all lengths and motorcycles pay a peak season premium on all routes. In the San Juans they also pay a weekend premium. Promotional rates are offered on the Anacortes-Sidney route for vehicles over 30 feet, including recreational vehicles.

Fares are collected one-way on all routes except the San Juan Islands routes, the Vashon Island routes in the South Sound and the Pt. Defiance-Tahlequah route, where they are collected round-trip from one terminal.

Table 12. Vehicle Fares (One-Way)
May 2006

	Regular Fare	Senior Fare	Regular Peak	Senior Peak	Weekend Premium	Frequent User
			Vehicles Under 20"			
Central Sound	$11.25	$9.60	$14.10	$12.45	no	$9.00
Mukilteo Clinton	$6.65	$5.65	$8.35	$7.35	no	$5.32
Pt. Townsend-Keystone	$8.70	$7.45	$10.90	$9.65	no	$6.96
South Sound						
Fauntleroy-Southworth	$8.70	$7.45	$10.90	$9.65	no	$6.96
Fauntleroy-Vashon & Southworth-Vashon*	$7.20	$6.15	$9.00	$7.95	no	$5.76
Pt. Defiance-Tahlequah*	$7.20	$6.15	$9.00	$7.95	no	$5.76
Anacortes-Sidney	$41.90	$34.10	$52.40	$44.60	no	promo fares
San Juan Islands						
Anacortes-Lopez*	$11.68	$9.28	$15.78	$12.88	yes	$9.72
Anacortes-Shaw & Anacortes-Orcas*	$13.98	$11.58	$18.88	$15.98	yes	$11.65
Anacortes-Friday Harbor*	$16.63	$14.23	$22.45	$19.55	yes	$13.84
Interisland*	$7.73	$7.73	$9.68	$9.68	**	$6.18
			Motorcycles			
Central Sound	$4.85	$3.20	$6.10	$4.45	no	$3.88
Mukilteo Clinton	$2.90	$1.90	$3.65	$2.65	no	$2.32
Pt. Townsend-Keystone	$3.75	$2.50	$4.50	$3.45	no	$3.00
South Sound						
Fauntleroy-Southworth*	$3.75	$2.50	$4.70	$3.45	no	$3.00
Fauntleroy-Vashon & Southworth-Vashon*	$3.13	$2.08	$3.93	$2.88	no	$2.50
Pt. Defiance-Tahlequah*	$3.13	$2.08	$3.93	$2.88	no	$2.50
Anacortes-Sidney	$20.90	$13.10	$26.15	$18.35	no	n/a
San Juan Islands						
Anacortes-Lopez*	$6.18	$3.78	$8.35	$5.45	yes	$5.14
Anacortes-Shaw & Anacortes-Orcas*	$6.65	$4.25	$9.00	$6.10	yes	$5.53
Anacortes-Friday Harbor*	$7.18	$4.78	$9.70	$6.80	yes	$5.96
Interisland*	$2.20	$2.20	$2.75	$2.75	**	n/a

* Shown as one way. Fares are collected at one terminal only for the round-trip. Fares shown are Sunday-Tuesday fares.
** Fares may vary depending on destination and day of week.

E. Tariff Policies

Ferry tariffs are set by the Washington State Transportation Commission (WSTC).

1. Legislative Direction

Legislative direction to the WSTC in setting tariffs is reviewed in *Washington State Ferries Financing Study Legislative Concerns and Directions Report*, September 2006.

RCW 47.60.326 states that the following factors may be considered by the WSTC in setting tariffs:

a. The amount of subsidy available to the ferry system for maintenance and operation.
b. The time and distance of ferry runs.
c. The maintenance and operation costs for ferry runs, with a proper adjustment for higher costs of operating outmoded or less efficient equipment.
d. The efficient distribution of traffic between cross-Sound routes.
e. The desirability of reasonable rates for persons using the ferry system to commute daily to work and other frequent users who live in ferry-dependent communities.
f. The effect of proposed fares in increasing walk-on and vehicular passenger use.
g. The effect of proposed fares in promoting all types of ferry use during non-peak periods.
h. The estimated revenues that are projected to be earned by the ferry system from commercial advertisements, parking, contracts, leases and other sources.
i. The pre-purchase of multiple fares, whether for a single rider or multiple riders.
j. Such other factors as prudent managers of a major ferry system would consider (RCW 47.60.326).

RCW 47.60.300 directs WSF to undertake a review of tariffs and charges that shall include, but not be limited to, tariffs for automobiles, passengers, trucks, commutation rates, and volume discounts. The RCW states that the review shall give proper consideration to:

a. time of travel
b. distance of travel
c. operating costs
d. maintenance and repair expenses
e. effect on the debt service requirements
f. allocation of vessels to particular runs
g. the scheduling of particular runs
h. the adequacy and arrangements of docks and dock facilities
i. any other subject deemed by the department to be properly within the scope of the review (RCW 47.60.300).

RCW 47.60.330 states that before increasing ferry tolls, the Department is to consider all possible cost reductions, with full public participation regarding the possible reductions, and also to consider adapting service levels equitably on a route-by-route basis to reflect trends in and forecasts of traffic usage.

2. Tariff Policy Committee

Existing state law requires WSF to solicit advice from Ferry Advisory Committees in considering tariff changes. See *Washington State Ferries Financing Study Technical Appendix 2: Legislative Concerns and Direction*, for discussion of the composition of Ferry Advisory Committees.

RCW 47.60.330 states that before a substantial expansion or curtailment of service or a revision in the schedule of ferry tolls or charges, the Department is to consult with affected ferry users by:

a. Public hearings in affected local communities, or
b. Conducting a survey of affected ferry users, and
c. Review with ferry advisory committees pursuant to RCW 47.60.310.

The WSTC has created a 20-member Tariff Policy Committee (TPC) to assist it in meeting these statutory obligations. The TPC is responsible for:

- Working collaboratively with WSF to conduct an annual review of the ferry system's tariff structure and revenue needs.
- Recommending to the WSTC a schedule of tariffs reflecting adopted principles.
- Recommending administrative clarifications and improvements to the tariff schedule.
- Developing alternative fare scenarios and implementation plans.
- Soliciting and incorporating public and stakeholder comments on tariff proposals.

The current TPC includes representatives from:

- Ferry Advisory Committees – 6 members
- Transit Agencies – 4 members
- King County Labor Council – 1 member
- Washington State Bicycle Advisory Commission – 1 member
- Washington State Senate – 2 members
- Washington State House of Representatives – 2 members
- WSF Chief Financial Officer – 1 member
- Business interests – 1 member
- Chair – 1 member
- WSTC – 1 non-voting member

3. Tariff Issues

In 2005-06 the TPC examined general fare increases and transportation demand management. Discussions were informed by a projection of ferry finances and other analysis provided by WSF. Underlying the discussion was a commitment to the existing tariff route equity policies.

a) Fare increases: fuel surcharge

The TPC recommended and the WSTC adopted a 6 percent general fare increase effective May 2006, which was consistent with the WSF long-range financial plan. The TPC did not recommend a fuel surcharge because they felt the state should cover the additional expense with non-farebox revenue.

b) Traffic demand management

The TPC requested that traffic demand management be an area of focus during the 2005-06 tariff discussions. A TPC analysis of traffic demand management options examined the passenger/vehicle fare relationship and congestion (time-of-day) pricing options. No changes were made in this tariff cycle.

The following discussions of passenger/vehicle fare relationship and congestion (time of day) pricing are excerpted from TPC November 2005 meeting packets:

> *Passenger/vehicle fare relationship:* “The passenger/vehicle fare relationship is often seen as a key issue related to transportation demand Management. The current passenger/vehicle fare relationship dates to 1975 . . . . Over the years, discussions of the passenger/vehicle fare ratio centered around two principal ideas: (1) increase the gap between the passenger and vehicle fares to promote more high occupancy vehicle and walk-on use of ferries, and (2) passenger fares are too low when compared with other public transportation service providers and should be raised based on a value pricing approach” (TPC Transportation Demand Management, Nov. 9, 2005, p. 1).
>
> *Congestion (Time of Day) Pricing:* “In previous tariff review cycles, the TPC examined time of day pricing and came to the conclusion that the only way to implement a time of day surcharge under the electronic fare system (see discussion below) is to limit the surcharge to cash transactions for vehicles only. Essentially a time of day surcharge would amount to a congestion pricing for vehicles, the goals of which would be to increase revenue and achieve transportation demand management goals by shifting more riders out of the vehicle mode and into the passenger mode” (TPC Transportation Demand Management, Nov. 9, 2005, p. 3).

c) Tariff route equity

Appendix B includes a copy of the tariff route equity program, which is based on the relationship of fares among routes. All riders are expected to contribute equally to the fixed costs of the ferry system, and each rider to contribute proportionally for the space used and the time occupying space on the vessel. Rates are established for the Central Sound routes and then distributed based on tariff route equity variables to the other routes. See *Washington State Ferries Financing Study Technical Appendix 4: Forecasting Models Review,* for further information.

4. Electronic Fare System

WSF is implementing an electronic fare system that will be integrated with the regional fare collection program (SmartCard) among seven transit providers (Sound Transit, King County METRO, Kitsap Transit, Pierce Transit, Community Transit, Everett Transit, and WSF).

The electronic fare system was piloted at the Port Townsend and Keystone terminals in the spring and summer of 2006 and is in use on the Anacortes based Sidney and San Juan Island routes as of fall 2006. The system, once fully installed, will improve cash control and customer service. The TPC has adopted tariff changes to integrate with the electronic fare system. These include: (1) a transition from commuter ticket books to multi-ride cards; (2) initiation of advance single-fare ticket sales; (3) alignment of eligibility requirements with regional public transit policies for youth, seniors and disabled; (4) establishment of a first-day-of-the month effective date for new tariffs, to place WSF in line with other public transportation entities; and (5) introduction of a 5 percent surcharge for purchasing multi-ride tickets at the tollbooth (WSF Electronic Fare System Project and Regional Fare Coordination Project Report to the Legislature, June 30, 2006, p. 12).

Section Four
Concessions and Other Revenue

Income from concessions and other leases was 1 percent of revenue available for ferry operations from FY 1993 to FY 2005. In the 2005-07 biennium, this income will be 2 percent of revenue, and is anticipated to grow to 3 percent by the 2019-21 biennium. These projections were developed by WSF and adopted in the 2006 legislative financial plan.

A. Sources of Concessions and Other Revenue

1. Concessions and Other Revenue to 2005

The largest source of concession revenue from 1995 to 2005 was on-board concessions, which, in 2003-05, represented 59 percent of all concessions revenue. All net concessions revenue from FY 1997 to FY 2003 was from on-board concessions. During this period terminal concessions revenue was more than offset by a capital construction credit.

On-board concession revenue was disrupted in 2003-05 when the on-board concessionaire ceased operation and there were delays before other vendors began operation.

Table 13. Concessions and Parking Revenue, 1995-97 to 2003-05

($000s)

	1995-97	%	1997-99	%	1999-01	%	2001-03	%	2003-05	%
0402 16 Parking									640	17%
0402 25 Vending Signing Bonus									2	0%
0402 70 Vessel Concession Revenue	2,919	82%	2,255	233%	2,885	101%	2,690	98%	2,261	59%
0402 72 Marriot Capital Construction Credit	-135		-2,040		-749		-741		-130	
0402 75 Terminal Concession - Marriot	237		307		324		316		437	
0402 76 Terminal Concession Revenue - Other	20		9		1		2		51	
0402 77 Terminal Concession Revenue - McDonalds	326		252		318		260		322	
Net Terminal Concession Revenue	*448*	*13%*	*-1,472*	*-152%*	*-106*	*-4%*	*-163*	*-6%*	*680*	*18%*
0402 85 Advertising Income	190	5%	183	19%	90	3%	211	8%	218	6%
Total	3,557		966		2,869		2,738		3,801	

2. Concessions and Other Revenue Projected 2006-2015

WSF has focused attention on increasing its concessions, advertising, and other sources of revenue. WSF projects growth in revenue from: on-board food, beverage, and retail sales; wireless communication; terminal food, beverage, and retail sales, vending, advertising, and parking revenues. As shown in Table 14, WSF is projecting a higher reliance on terminal based revenues, particularly from parking, vending, and concessions. New revenue from customer use of paid wireless services is also projected.

Table 14. Projected Concessions and Other Revenue, 2005-07 to 2013-15

($000s)

	05-07	%	07-09	%	09-11	%	11-13	%	13-15	%	15-17	%	17-19	%	20-21	%
Vessels																
F&B & Retail	1,052		1,078		1,082		1,073		1,071		1,114		1,181		1,253	
Freight	309		348		370		380		388		406		430		455	
Charter	90		103		108		111		113		120		128		136	
Duty Free	121		125		131		135		137		144		152		160	
WIFI *	92		555		817		0		0		0		0		0	
Sub-total	1,664	25%	2,209	26%	2,508	26%	1,699	18%	1,709	16%	1,784	16%	1,891	16%	2,004	16%
Terminal																
F&B & Retail	933		1,140		1,214		1,207		1,206		1,256		1,331		1,411	
Vending *	1,859		1,991		2,150		2,288		2,373		2,507		2,658		2,818	
Advertising*	764		1,721		2,275		2,804		3,278		3,485		3,693		3,917	
Parking	1,317		1,459		1,576		1,694		1,800		1,902		2,017		2,138	
Sub-total	4,873		6,311		7,215		7,993		8,657		9,150		9,699		10,284	
Total	6,537	75%	8,520	74%	9,723	74%	9,692	82%	10,366	84%	10,934	84%	11,590	84%	12,288	84%
Per capita	$0.14		$0.16		$0.17		$0.17		$0.18		$0.19		$0.20		$0.21	

* Income earned on both vessels and terminals.

Source: WSF

Key assumptions are as follows:

- *Vessel Food, Beverage & Retail:* Continuation of concession agreements with Olympia Cascade, CDX, and Sound Food. Sales are based on 2006 actual revenue adjusted for increases in ridership and inflation.
- *Wireless:* WIFI income is projected based on a five year contract with Parsons Transportation Group.
- *Terminal Food, Beverage & Retail:* Terminal revenues depend on large increases in revenue from Bainbridge Island when the concession is moved indoors and from construction of a new terminal at Anacortes with expanded food service. See *Washington State Ferries Financing Study Technical Appendix 3: Terminal and Repair Facility Project Review* for a discussion of the risks of concession income at Anacortes. WSF anticipates approximately $50,000 more per year in Anacortes concession income from additional investment in concessions-related space, which will require a prolonged payback period to amortize the investment. Seattle, the largest source of concession revenue, is assumed to have no pre-inflation increase in revenue. Table 15 shows the projected concessions revenue at each terminal by year.

Table 15. Terminal Concessions Income Projection

($000s)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Rate
Seattle - WSF	342	377	377	377	377	377	377	377	377	377	
Bainbridge*											
Gross Sales		*284*	*650*	*715*	*780*	*780*	*780*	*780*	*780*	*780*	
WSF %	0	27	62	68	74	74	74	74	74	74	9.50%
Anacortes**											
Gross Sales	*585*	*585*	*598*	*1,084*	*1,101*	*1,110*	*1,117*	*1,125*	*1,132*	*1,138*	
WSF %	53	53	54	98	99	100	101	101	102	102	9.00%
Sidney WSF	27	27	27	27	27	27	27	27	27	27	
Southworth	6	6	6	6	6	6	6	6	6	6	
Total	428	490	526	575	583	584	585	585	586	587	
Adjust***	428	505	546	594	611	603	603	604	603	603	

* Bainbridge - food service move inside 2007

** Anacortes - new terminal building 2009

*** Adjusted for inflation & ridership

- *Parking:* Parking estimates are based on 2006 actual and projected 2007 revenue and then adjusted for inflation and ridership projections. The basis of the calculation is shown in Table 16.

Table 16. Parking Revenue Basis

($000s)

	2006	2007
Bainbridge Island	230	230
Edmonds	36	36
Anacortes	330	331
Southworth	25	75
Kingston	3	8
Mukilteo	0	0
Total	624	680

- *Vending:* The estimate is based on FY 2006 projected revenue of $890,000, with anticipated growth of 3 percent to 5 percent per year adjusted for inflation and ridership factors. WSF has a contract with Sodexho for vending machines.
- *Advertising:* WSF earns approximately $111,000 per year from advertising in its printed materials. This is anticipated to grow to $132,000 by FY 2021 based on inflation. The remaining advertising income is anticipated to come from an advertising RFP, although specifics are not available. Table 17 shows the annual projected revenues.

Table 17. Projected Advertising Revenue

($000s)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brochures - Printed Materials	111	113	115	117	118	120	122	125	128	132
All other		520	650	780	910	1,040	1,170	1,300	1,430	1,495
Total	111	633	765	897	1,028	1,160	1,292	1,425	1,558	1,627
Adjusted Total	111	653	795	926	1,076	1,198	1,334	1,470	1,605	1,673

Section Five
WSF Expenses: Overview

WSF expenses broken down between labor, fuel, and other costs are included in the summary chart of the Puget Sound Ferry Operations Account (see Table 3). Labor and fuel costs have historically been 78 percent of WSF operating expenses, and are projected to be 83 percent of expenses in future biennia. Labor is the largest expense at 60 percent historically, and projected at 62 percent for future biennia.

A. Rate of Growth of Expenses

The 2006 legislative plan assumes a 0.8 percent to 2.2 percent annual increase in WSF expenses from the 2005-07 biennium through the 2019-21 biennium, compared to an actual average cost increase of 9.4 percent from 1993-05 to 2005-07. See Table 18.

Table 18. Annual Expense Increases
2006 Legislative Plan

Biennium	Expense	% Increase	Average
93/95	220.6		
95/97	236.0	7.0%	
97/99	258.7	9.6%	
99/01	302.4	16.9%	9.4%
01/03	310.3	2.6%	
03/05	329.1	6.1%	
05/07	375.9	14.2%	
07/09	379.1	0.8%	
09/11	386.6	2.0%	
11/13	395.2	2.2%	
13/15	403.6	2.1%	
15/17	412.3	2.2%	
17/19	421.3	2.2%	
19/21	430.4	2.2%	

Source: Legislative staff

Section Six
WSF Labor Costs

Labor constitutes approximately 60 percent of WSF's operating costs. Labor costs are driven primarily by the following factors:

- *Coast Guard* – Vessel minimum staffing levels are mandated by the U.S. Coast Guard.
- *Labor contracts* – Wages and benefits are set by labor contracts for 92 percent of WSF's employees. In some cases, marine employee labor contracts also set minimum vessel staffing levels above Coast Guard requirements.
- *Department of Transportation, Ferries* – Terminal, administrative, and support staffing levels are determined by department decision makers, within the department's approved budget. Terminal operating-staff-level decisions are based on sailing schedules, facility and route characteristics, and ridership patterns. Requests for new positions and related expenses must be approved by the Governor's Office of Financial Management (OFM) and included in the budget enacted by the legislature.

A. Labor Cost and Positions Increase

Over the last ten years, annual labor cost changes have ranged from a 2 percent decrease to an 8 percent increase. This pattern reflects the changes in full time equivalent (FTE) positions as well as service or other cost reductions. Table 19 shows the relationship of labor costs and FTEs.

Table 19. Labor Costs and Positions, FY 1996 to FY 2006

($000s)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Costs	81,176	82,312	89,032	94,034	99,071	103,056	104,253	103,082	101,146	102,891	108,286
FTEs	1,486	1,481	1,544	1,648	1,784	1,636	1,744	1,579	1,641	1,633	1,629
% Increase Costs		1%	8%	6%	5%	4%	1%	-1%	-2%	2%	5%
% Increase FTE		0%	4%	7%	8%	-8%	7%	-9%	4%	0%	0%

Source: Legislative staff

WSF labor expenses are divided into four categories: vessel staff, Eagle Harbor repair facility staff, terminal staff, and administrative staff. Appendix C provides a detailed breakdown of labor costs in each of these categories.

The largest labor costs are: vessel staff, representing 67 percent of labor costs from FY 1996 through FY 2006; followed by terminal labor, at 17 percent; maintenance at 13 percent; and administrative at 4 percent. See Table 20.

Table 20. Labor Costs by Type

($000s)

	1996	1997	1998	99	2000	2001	2002	2003	2004	2005	2006	Total
Vessel	54,658	55,818	59,705	64,109	67,517	69,293	69,624	68,909	66,490	66,974	71,881	714,979
Maint.	9,753	9,315	12,018	11,290	12,313	13,261	14,119	13,089	13,273	13,711	14,262	136,405
Terminal	13,690	13,895	14,717	16,200	16,319	17,217	17,181	16,642	16,694	16,986	17,987	177,527
Admin.	3,074	3,284	2,591	2,436	2,922	3,286	3,329	4,441	4,693	5,218	4,155	39,427
Total	81,176	82,312	89,032	94,034	99,071	103,056	104,252	103,082	101,150	102,889	108,285	1,068,339
% Vessel	67%	68%	67%	68%	68%	67%	67%	67%	66%	65%	66%	67%
% Maint.	12%	11%	13%	12%	12%	13%	14%	13%	13%	13%	13%	13%
% Terminal	17%	17%	17%	17%	16%	17%	16%	16%	17%	17%	17%	17%
% Admin.	4%	4%	3%	3%	3%	3%	3%	4%	5%	5%	4%	4%

Source: Legislative staff

B. Labor Union Agreements

Ninety-two percent (92%) of WSF employees are represented by bargaining units, including:

- OPEIU – Office and Professional Employees International Union Local 8 (58 members) – Administrative staff
- Metal Trades Council (97 members) – Eagle Harbor trade and craft staff
- SEIU - Service Employees International Union (6 members) – Custodial staff
- MM&P - International Organization of Masters, Mates and Pilots (167 members) – Licensed deck personnel
- MM&P Operations Watch Supervisors (6 members) – Operations watch supervisors
- MEBA Licensed – Marine Engineers Beneficial Association—Licensed (232 members) – Licensed engine room staff
- MEBA Non-licensed – Marine Engineers Beneficial Association—Unlicensed (166 members) – Unlicensed engine room staff
- FASPAA – Ferry Agents, Supervisors, and Project Administrators Association (37 members) – Terminal supervisors
- IBU – Inlandboatmen's Union of the Pacific, Marine Division, International Longshore and Warehouse Union (804 members) – Unlicensed deck and terminal staff, information agents at 2901 Administration Building, and shoregang at Eagle Harbor.
- WFSE – Washington Federation of State Employees (23 members)– Administrative staff
- IFPTE – International Federation of Professional and Technical Engineers (19 members) – capital engineering staff

In September 2005:

- 60 percent of WSF's employees worked on vessels, represented by four bargaining units;
- 6 percent at the Eagle Harbor repair facility, represented by two bargaining units;
- 20 percent at terminals, represented by three bargaining units; and
- 6 percent in administration, represented by five bargaining units.

See Table 21.

Table 21. WSF Employees: Bargaining Unit Status
(Sept. 2005)

Bargaining Unit Name	# of WSF Employees	%
Merit 1 Non-Union	144	8%
Vessels		
IBU Unlicensed Deck*	481	27%
MEBA Licensed Engine Room	232	13%
MM&P Licensed Deck	167	9%
MEBA Non-Licensed Engine Room	166	9%
Total Vessels	*1,046*	*59%*
Maintenance		
Metal Trades	97	6%
IBU Shoregang*	15	1%
Total Maintenance	*112*	6%
Terminals		
FASPAA Terminal Supervisors	37	2%
SEIU Custodians	6	0%
IBU Terminals	293	17%
Total Terminals	*336*	*19%*
Administrative		
IBU Information Desk*	15	1%
MM&P Marine Ops Watch	6	0%
Merit 1 - WFSE	23	1%
Merit 1 - IFPTE, Local 17	19	1%
OPEIU	58	3%
Total Administrative	*121*	*7%*
Total Employees	1,759	

*All of these groups are represented in the IBU collective bargaining agreement

Source: Legislative Staff/WSF

C. WSF Collective Bargaining

1. Bargaining

Historically, WSF negotiated agreements with labor unions separately from the rest of the state. As discussed in *Washington State Ferries Financing Study Technical Appendix 2: Legislative Concerns and Directions*, the legislature has modified the process for entering into labor agreements for WSF employees.

WSF's labor contracts must be renegotiated each biennium. Substitute House Bill 3178, passed in the 2006 session, contains a number of changes to the labor negotiation process established in 1983. WSDOT submitted a form of the bill as agency request legislation; and WSDOT, the Office of the Governor, and the ferry bargaining units testified in support of the substitute bill.

Previously, WSF began negotiations with its bargaining units in each odd-numbered year immediately following the adoption of the biennial budget. SHB 3178 adopted the timeframe used in other state wage negotiations, meaning an agreement must be completed prior to October 1, 2006, for the 2007-09 biennium. In subsequent biennia, an agreement must be completed prior to September 1st of each even-numbered year. The parties are considered to be at an impasse if they have not reached an agreement by April 1st.

In the event of an impasse, WSF and the bargaining unit must submit to arbitration. Under RCW 47.64.210, the arbitration is conducted in so-called "baseball style," where each party submits each of its proposals to the arbitrator who must choose one of the two proposals. SHB 3178 gives the parties the additional option of agreeing to grant the arbiter the ability to adopt his or her own proposal on each issue. The arbitration award is not binding if funding for the award is not granted by the legislature.

Under the legislation, funding to implement an agreement, whether arrived at through negotiation or arbitration, must be certified as financially feasible for the state by the director of OFM. Upon certification, the request is then included in the Governor's budget proposal to the legislature. The legislature must approve or reject the requested funding for individual agreements as a whole. If the legislature rejects or fails to act on the request, either party may reopen the agreement.

2. Marine Employees Commission (MEC)

As discussed in *Washington State Ferries Financing Study Technical Appendix 2: Legislative Concerns and Directions,* for maritime unions only, WSF labor relations are subject to the processes conducted by the MEC, as opposed to the Public Employee Relations Commission, which covers other represented state employees. The MEC has three members and is charged with adjudicating most complaints, grievances, and disputes between maritime labor and management; providing for impasse mediation; and conducting salary surveys to guide collective bargaining. The following unions must use a private arbiter for grievance resolution, i.e. arbitration: MM&P, Metal Trades, FASPAA, SEIU, and OPEIU. The other unions use MEC as an arbiter.

3. Relationship

The relationship between WSF and the unions has often been contentious. As discussed in *Washington State Ferries Financing Study Technical Appendix 1: Review of Studies and Reports*, a 1998 performance audit by Booz Allen found that: collective bargaining and dispute resolution processes impacted WSF's day-to-day operations and management and its ability to operate efficiently and effectively; grievances and unfair labor practice charges were disproportionately high compared to other state agencies; and the services provided by the MEC were not fully utilized by WSF management and labor unions. The findings that labor relations adversely affect the ability of WSF to operate effectively and efficiently, and that the organization experiences an extraordinary number of unfair labor practice charges and grievances, remain the case.

4. Outstanding Labor Related Lawsuits

There are two outstanding labor related lawsuits that could impact WSF operating costs: one involving engine room employees and the other licensed deck employees.

a) Engine room employees

On January 6, 2006, a Pierce County superior court judge ruled on a motion for summary judgment that approximately 300 WSF engine room employees were entitled to an award for back pay. The employees claimed that they were entitled to fifteen minutes of overtime pay for "off the clock" work time during watch changes in vessel engine rooms.

The court determined that the workers were entitled to be paid for this time, despite the maritime industry practice of not paying for time spent on this type of activity. The court also doubled the amount of the award based on a state law that entitles employees to double the amount of the withheld wages if the employer acted willfully. The total fiscal impact of the back pay, if the court's judgment is upheld, would be approximately $7 to $8 million.

A motion for summary judgment is generally granted only when the court determines that there is no genuine issue of material fact upon which a party can prevail. WSDOT appealed this ruling. The appellate court will hear oral argument on December 8, 2006.

b) Licensed deck employees

A follow-up lawsuit brought on behalf of members of MM&P (licensed deck personnel) has been put in abeyance pending the outcome of the engine room employees' lawsuit. WSF has calculated the potential back pay liability for the class at approximately $275,000 a year, back to February 2003. If there is a finding of willfulness and an award of double damages, the liability potential is approximately $550,000 a year.

D. Key Labor Agreement Provisions

The labor agreements that affect WSF operations have a number of provisions that affect WSF cost of operation. These are outlined below.

1. Eight-hour minimum call

Labor agreements call for a minimum eight-hour shift, which prevents WSF from splitting shifts or using shorter calls to meet peak or other scheduling demands. The result is that schedules are in some cases set to accommodate the labor agreement rather than to best meet customer demand.

2. Overtime Pay

Overtime pay represents 8 percent annual of total labor wages paid by WSF in FY 1996 through FY 2006. Seventy percent of overtime expense is incurred by vessel staff, followed by maintenance staff at 18 percent and terminals at 10 percent. See Table 22.

Table 22. Overtime Costs

($000s)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
OT	5,498	6,295	7,572	7,451	7,929	8,171	8,152	7,378	7,011	7,353	7,644	80,453
Pay	81,176	82,312	89,032	94,034	99,071	103,056	104,253	103,082	101,146	102,891	108,286	1,068,340
% OT	7%	8%	9%	8%	8%	8%	8%	7%	7%	7%	7%	8%
Vessels	3,539	4,258	5,443	5,583	5,892	5,864	5,650	5,260	4,653	5,115	5,316	56,573
Maint.	1,005	1,048	1,265	1,003	1,214	1,496	1,670	1,355	1,549	1,439	1,576	14,620
Terminals	897	897	814	788	695	681	701	616	669	635	640	8,033
Admin.	57	92	49	76	128	130	131	147	141	165	112	1,228
% Vessels	64%	68%	72%	75%	74%	72%	69%	71%	66%	70%	70%	70%
% Maint.	18%	17%	17%	13%	15%	18%	20%	18%	22%	20%	21%	18%
% Terminals	16%	14%	11%	11%	9%	8%	9%	8%	10%	9%	8%	10%
% Admin..	1%	1%	1%	1%	2%	2%	2%	2%	2%	2%	1%	2%

Key provisions of labor agreements that affect WSF's overtime costs include:

- *Double-time pay*: Staff are paid overtime at double their normal rate of pay rather than at time-and-a-half, as other state employees are paid.
- *Triple-time pay*: Triple-time is paid for hours worked past 16 consecutive hours, unless a six-hour break is provided.
- *Pay increments*: Staff are:
    - Staff are paid a full hour of overtime if they work over more than 15 minutes, and 0.25 hour if over by 1 to 15 minutes.
    - Entitled to pay in one hour increments if required to report before the start of a shift or called back to work.
    - Entitled to overtime for eight hours if called back to work after they have completed a scheduled shift and been released prior to starting the next scheduled shift.
- *Days off*: Staff are paid eight hours' overtime if required to work on a scheduled day off. Employees at Eagle Harbor working on a Saturday or Sunday are paid overtime for the hours worked.
- *Mileage reimbursement for use of private automobile*: Employees receive mileage reimbursement for the use of a private automobile for travel.

3. Travel Time

Travel time pay represents between 2 and 3 percent of annual total labor wages paid by WSF from FY 1996 through FY 2006. Most of the travel time expense is incurred by vessel staff, varying from 81 percent to 91 percent of annual overtime costs in FY 1996 through FY 2006. See Table 23.

Table 23. Travel Time Costs

($000s)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
TT	1,727	2,010	2,484	2,489	2,595	2,834	2,943	2,944	2,796	2,729	3,166	28,718
Pay	81,176	82,312	89,032	94,034	99,071	103,056	104,253	103,082	101,146	102,891	108,286	1,068,340
% TT	2%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Vessels	1,403	1,708	2,149	2,189	2,278	2,484	2,631	2,681	2,542	2,456	2,794	25,316
Maint.	208	184	215	179	202	210	170	133	141	153	252	2,046
Terminals	116	118	120	121	115	140	141	130	117	117	118	1,355
Admin.	0	0	0	0	0	0	0	0	0	0	1	2
% Vessels	81%	85%	86%	88%	88%	88%	89%	91%	91%	90%	88%	88%
% Maint.	12%	9%	9%	7%	8%	7%	6%	5%	5%	6%	8%	7%
% Terminals	7%	6%	5%	5%	4%	5%	5%	4%	4%	4%	4%	5%
% Admin.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Key provisions of the labor agreements that affect travel time costs have their basis in the assignment of employees to a home base or terminal.

- *Travel between terminals:* Employees receive travel time and mileage when required to travel between terminals.
- *Relief assignments:* Employees assigned to more than one terminal are assigned a relieving terminal and paid travel time between the relieving terminal and the terminal nearest to the employee's home.
- *Eagle Harbor:* Eagle Harbor employees are paid travel overtime if they travel outside of scheduled work hours and are entitled to travel pay on work days if required for their job or for training.
- *Deadheading:* Employees are entitled to travel pay if not relieved from same terminal of commencement (deadheading).
- *San Juans and Port Townsend-Keystone Routes:* Permanently assigned employees on the San Juan-Anacortes-Sidney or the Port Townsend-Keystone routes are paid travel pay for one round trip per week, calculated from the terminal closest to the employee's residence. In addition, regular employees permanently assigned to the Inter-Island vessel route are paid daily travel time from Anacortes to Friday Harbor. This allowance is three-and-a-half (3½) hours roundtrip per day. Payment is for travel actually performed; employees staying in state-provided facilities in Friday Harbor are not entitled to daily travel pay.
- *Assignment to maintenance yard:* Staff assigned to the maintenance yard for more than 30 days are entitled to one round-trip per week if they elect not to stay in employer furnished quarters.

4. Penalty Pay

Penalty pay represents 1 percent of the total labor wages paid by WSF in FY 1996 through FY 2006. Seventy-five percent of penalty pay goes to vessel staff, and 25 percent to Eagle Harbor maintenance staff. See Table 24.

Table 24. Penalty Pay

($000s)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
PP	768	811	878	999	1,135	1,308	1,408	1,278	1,274	1,323	1,401	12,584
Pay	81,176	82,312	89,032	94,034	99,071	103,056	104,253	103,082	101,146	102,891	108,286	1,068,340
% PP	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Vessels	561	597	663	785	886	981	994	1,034	986	977	1,016	9,480
Maint.	205	212	214	212	247	324	411	241	285	343	383	3,076
Terminals	2	2	2	2	2	3	3	3	4	3	2	28
Admin.	0	0	0	0	0	0	0	0	0	0	0	0
% Vessels	73%	74%	75%	79%	78%	75%	71%	81%	77%	74%	73%	75%
% Maint.	27%	26%	24%	21%	22%	25%	29%	19%	22%	26%	27%	24%
% Terminals	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
% Admin.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Penalty pay, at an additional rate per hour, is paid under the labor agreements when employees are required to perform particular work. Specific examples include:

- *Eagle Harbor:* Employees receive penalty pay if required: to come into contact with asbestos, fiberglass, mineral wool, animal/avian feces; to work in tanks, bilges, or under floor plates where oil or water has accumulated, inside boilers or in sewage tanks; to lift tanks; or to come in contact with sewage.
- *MEBA:* Employees receive penalty pay if working in confined spaces or using power tools.

5. Minimum Staffing Provisions

Labor agreements require staffing on vessels beyond those required by the Coast Guard. There are instances where WSF is required to staff beyond Coast Guard requirements and beyond what WSF would do because of labor agreements. Nine percent of vessel crewing and 7 percent of costs included in this analysis are the result of labor union requirements at a cost estimated at $4.1 million annually.

Labor staffing requirements are established by type of vessel, with 13 of WSF's 23 auto-passenger vessels in active service requiring additional staffing in addition to the only passenger-only ferry still in active service. See Table 25.

Table 25. Labor Agreement Staffing

Route	Vessel Class	Coast Guard	CBA	Total	% CBA	Collective Bargaining Agreement-Required Staffing	Cost * ($000)	Cost
Seattle/Bremerton	Super	11	3	14	21%	2 Ordinary Seaman - IBU/1 Asst. Eng. MEBA	542	19%
Seattle/Bremerton	Jumbo	13	1	14	7%	1 Ordinary Seaman - IBU	52	5%
Seattle/Bremerton	Iss. 130	10	1	11	9%	1Bos'n-IBU Upgrade**	224	8%
Seattle/Bainbridge	Mark II	15	0	15	0%			
Seattle/Bainbridge	Mark II	15	0	15	0%			
Faunt/Vashon/South	Iss. 130	10	1	11	9%	1 Bos'n-IBU Upgrade**	302	8%
Faunt/Vashon/South	Ever.	10	1	11	9%	1 Ordinary Seaman - IBU	195	6%
Faunt/Vashon/South	Ever.	10	1	11	9%	1 Ordinary Seaman - IBU	168	6%
Seattle-Vashon POF	POF	4	1	5	20%	1 Asst. Eng. MEBA	98	21%
Pt. Defiance-Tahl.	Rhod.	8	0	8	0%			
Edmonds-Kingston	Mark II	15	0	15	0%			
Edmonds-Kingston	Jumbo	13	1	14	7%	1 Ordinary Seaman - IBU	195	5%
Mukilteo-Clinton	Iss. 130	10	1	11	9%	1 Bos'n-IBU Upgrade**	286	8%
Mukilteo-Clinton	Iss. 130	10	1	11	9%	1 Bos'n-IBU Upgrade**	228	7%
Pt. Townsend-Key	Steel E.	8	0	8	0%			
Pt. Townsend-Key	Steel E.	8	0	8	0%			
Anacortes-S.J. Islands	Super	11	3	14	21%	2 Ordinary Seaman - IBU/1 Asst. Eng. MEBA	829	20%
Anacortes-S.J. Islands	Super	11	3	14	21%	2 Ordinary Seaman - IBU/1 Asst. Eng. MEBA	699	21%
Anacortes-S.J. Islands	Super	11	3	14	21%	2 Ordinary Seaman - IBU/1 Asst. Eng. MEBA	171	22%
Anacortes-S.J. Islands	Issaq.	10	0	10	0%			
San Juans Interisland	Steel E.	8	0	8	0%			
Anacortes-Sidney	Super	10	2	12	17%	2 Ordinary Seaman - IBU	148	14%
		231	23	254	9%		4,137	7%

* Cost weighted to include overtime, penalty pay and travel time.

** Additional crew member is an ordinary seaman (OS); a Dec. 2005 arbitration decision required additional pay for the most senior able bodied seaman (ab-bos'n). Previous to the decision WSF only used Bos'ns on car carrying ferries that had upper decks. The decision required a Bos'n on all car carrying boats because of responsibility changes determined by the arbiter which apply to all car carrying ferries.

Source: WSF, July 12, 2006

The routes most heavily affected by extra staffing include some of those with the lowest farebox recovery rates, particularly Seattle-Bremerton, the Southworth-Vashon-Fauntleroy, Vashon POF, and Anacortes based routes, as shown in Table 26.

Table 26. Extra Staffing & Effect on Farebox Recovery
(000s)

	Extra Staffing Cost	2005 Farebox Recovery	Est. Rate w/o Extra Staffing
Bremerton	931	51%	54%
Fauntleroy-Vashon-Southworth	700	58%	59%
Vashon POF	98	23%	24%
Edmonds-Kingston	195	108%	109%
Mukilteo-Clinton	575	97%	101%
Anacortes-San Juans	1,699	49%	51%
Anacortes-Sidney	148	73%	76%
Total Systemwide	4,346	76%	77%
Notes: Cost are in 2006 dollars			

6. Other Provisions

Other non-salary provisions in the labor agreements affect WSF's operating costs or represent lost revenues. These include additional paid holidays, half-price meals on vessels, uniforms and jackets, schooling, crew minimum staffing, and ferry passes. These provisions have an estimated cost of $3.0 million a year, of which $1 million represents foregone revenue. See Table 27.

Table 27. Costs of Miscellaneous Contract Provisions
($000s)

Contract Provision	Est. Annual Cost
Two paid holidays in addition to state holidays (all bargaining units).	650
Half-price meals on vessels (for 8 bargaining units)	185
Uniforms and jackets (for 5 bargaining units). *(Note: Costs vary depending on the vendor and on negotiated contract prices. WSF indicates Correctional Industries will handle the uniform contract in the near future.)*	500
Schooling - Includes tuition reimbursement or schooling allowance and paid leave; for licenses and/or qualifications pertaining to WSF operations (5 bargaining units).	540
Crew minimum staffing - If minimum staffing identified in labor contract is not met, the wages of the missing position are divided among the employees performing the work (1 bargaining unit).	38
Ferry passes on a space-available basis - Annual pass for employee and vehicle, spouse, and dependents after six months of employment; additional vehicle pass for spouse after 2 years; annual passes for retirees and family (for all bargaining units). WSF non-maritime union employees are provided ferry passes during their time of employment at WSF. The cost estimate represents the amount of fares that would have been collected if employees and families were charged for trips, based on the frequent user, off-peak fare. WSF does not separately track trips taken by employees during business hours versus trips taken off-duty or by family members or retirees.	1,070

Contract Provision	Est. Annual Cost
Employees may accumulate up to 320 hours of vacation leave (6 bargaining units).	n/a
Total Cost	2,983

Source: WSF, except ferry cost calculated by legislative staff based on WSF data on number of passes per run.

7. Scheduling

Contracts for some of the maritime bargaining units also affect how WSF schedules staff for vessels, terminals and the Eagle Harbor repair facility. This can lead to increased overtime and travel pay.

a) Vessel and terminal staffing

- *Scheduling* – Schedules for terminals and vessels are developed based on individual labor contract specifications. For MMP&P and IBU, WSF develops schedules for permanent positions once each season, or four times a year, which is referred to as a bidding process. For MMP&P and IBU, temporary positions are bid every two weeks. WSF must award positions based on seniority. Employees represented by MM&P and IBU that hold permanent positions with WSF can also bid on temporary positions. MEBA positions are not bid, as employees are assigned permanently to a particular boat; temporary MEBA positions are filled by licensed/unlicensed employees working on the same boat, by reassigning vacation relief employees, or by the use of qualified employees who are dispatched through the MEBA hiring hall.
- *Vacation* – WSF sets vacation schedules for employees represented by MM&P, IBU, and MEBA based on a similar bidding process.
  - *Planned blocks of vacation* - Employees bid for blocks of vacation one year in advance (forty- or eighty-hour blocks, depending on union). Vacation awards are based on seniority.
  - *Individual vacation days* - For MM&P employees, an individual day off can be requested as a compensatory day (compensatory days are received for such things as working holidays in lieu of overtime or working on a scheduled day off). For IBU employees, an individual vacation day can only be taken if an employee is awarded his or her full eighty-hour block of vacation. For both bargaining units, employees who call in sick may turn in a leave slip for vacation time. (Individual vacation days apply to IBU only. MM&P does the vacation schedule for the entire year.)
- *Relief positions* - Relief employees fill shifts left vacant by employees taking vacation, compensatory, or sick leave; or by employees on leave for training or boat moves. Relief positions must be awarded based on seniority. (MEBA employees are not relieved for boat moves as they move with the boat.) Relief employees are paid travel time and mileage from their home port to the job.

b) Eagle Harbor repair facility staffing

WSF's Eagle Harbor repair facility has approximately 115 employees consisting of skilled laborers, craft persons and management staff. The majority of employees are represented by the Metal Trades Council, with approximately 15 employees represented by IBU.

- *Filling permanent positions* - Non-management staff are hired in coordination with the appropriate labor union, based on seniority and a review of qualifications by WSF.
- *Assigning Eagle Harbor staff to vessels and terminals* - Eagle Harbor staff are called out to handle routine maintenance, emergency repairs, and capital work on terminals and vessels. Work assignments are coordinated through two general foremen.
- *Operating and capital cost assignments* - Eagle Harbor staffing costs are charged to WSF's operating or capital program based on the type of work performed. Work requisitions are developed for each scope of work or requested activity. Requisitions categorized as routine maintenance are charged to the operating program, and work for items categorized as emergency repair or capital are charged to the capital program. Over the last two years, WSF has integrated the work requisition process into the budget monitoring process, and developed a process to audit these cost assignments.

E. Vessel Labor Costs

Vessel labor is 67 percent of all labor costs and is the most impacted by overtime, travel time and penalty pay provisions. Vessel labor costs are also increased by the extra staffing required under the labor agreements beyond that required by Coast Guard regulations.

Overtime, travel time and penalty pay were 13 percent of total vessel staffing costs from FY 1996 through FY 2006. See Table 28.

Table 28. Vessel Staffing Costs

($000s)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total
Regular	49,156	49,256	51,450	55,551	58,461	59,964	60,350	59,934	58,310	58,426	62,755	623,611
Over-time	3,539	4,258	5,443	5,583	5,892	5,864	5,650	5,260	4,653	5,115	5,316	56,573
Penalty pay	561	597	663	785	886	981	994	1,034	986	977	1,016	9,480
Travel time	1,403	1,708	2,149	2,189	2,278	2,484	2,631	2,681	2,542	2,456	2,794	25,316
Total	54,658	55,818	59,705	64,109	67,517	69,293	69,624	68,909	66,490	66,974	71,881	714,979
% OT	6%	8%	9%	9%	9%	8%	8%	8%	7%	8%	7%	8%
% PP	1%	1%	1%	1%	1%	1%	1%	2%	1%	1%	1%	1%
% TT	3%	3%	4%	3%	3%	4%	4%	4%	4%	4%	4%	4%
Total	10%	12%	14%	13%	13%	13%	13%	13%	12%	13%	13%	13%

F. Impact of Recent Labor Agreements and Settlements

The transfer of responsibility for labor negotiations from WSF to the Governor's office has resulted in settlement of all outstanding labor agreements, some of which have been outstanding since the 2003-05 biennium. These combined with various arbitration agreements will result in increased labor cost for WSF of $8.9 million in FY 2007 with an ongoing biennial cost of $8.6 million. Additionally, negotiated 2007-09 labor contracts will result in increased labor costs for WSF of $17 million in the 2007-09 biennium with an ongoing biennial cost of $19.1 million.

Table 29. 2007-09 Labor Contract Costs Increases

($000s)

Negotiated Item	2007-09 Costs)	Ongoing Costs
1.6% Salary increase for all bargaining units effective 7-1-2007	3,123	3,123
3.2% Salary increase for all bargaining units effective 7-1-2007	6,346	6,346
2% Salary increase for all bargaining units effective 7-1-2008	2,047	4,093
Marine Employees Commission salary survey adjustment for all bargaining units	5,342	5,390
Increase in shift differential pay for MM&P operations watch supervisors	2	2
Increase in state's contribution to training school for MEBA	50	50
Increase in the amount of meal purchases eligible for discount on vessels for IBU	135	135
Total	$17,045	$19,139

Table 30. 2001-03 through 2005-07 Labor Contract Costs Increases

	2005-07 Costs	Ongoing Costs
Arbitration Decisions		
03-05 IBU - 1.7% wage increase effective July 1, 2004	1,820	1,250
03-05 IBU - comp time in lieu of overtime	570	570
05-07 IBU - 2.4% wage Increase	920	1,860
05-07 IBU - quartermaster wage increase	110	250
05-07 IBU - wage supplement for injuries on vessels (Jones Act)	100	230
Subtotal	*3,520*	*4,160*
Negotiated Agreements		
03-05 MEBA - wage increase for licensed staff chief engineer, and chief engineer, assistant engineer; unlicensed oiler and wiper	2,940	3,160
03-05 Metal Trades - wage Increase 3% effective July 1, 2003	760	400
05-07 Metal Trades - wage Increase 1.2% effective July 1, 2006	80	160
05-07 MM&P - buyback of previously negotiated vacation accrual increase	430	510
MM&P - Staff master wage increase for additional responsibilities	110	110
SEIU - 3% wage increase effective July 1, 2005	10	10
05-07 MM&P - wage increase for operations watch supervisors	40	50
Subtotal	*4,370*	*4,4000*
Other Labor Agreements/Miscellaneous Issues		
Interest on retroactive wage payments	540	
Settlement on MEC case re: galley service	400	
Technical adjustments for previously awarded items for OPEIU		60
Subtotal	*980*	*60*
TOTAL	8,870	8,620

Section Seven
Fuel Costs

Fuel is projected in the 2006 legislative plan to be 21 percent of WSF expenses from the 2005-07 through the 2019-21 biennium. Fuel expenses have grown from $52.1 million in 2003-05 to a projected $75.3 million in 2005-07 as a result of rising fuel prices, a 45 percent increase. This projection was based on the February 2006 fuel forecast.

An updated forecast in September 2006 has modified this budget (see Table 31). The September forecast is that fuel prices will stabilize and begin to decrease from a peak of $2.47 per gallon in FY 2008 to a low of $1.96 per gallon in FY 2013. Consumption is assumed to be constant at 17.7 million gallons per year – assuming that changes such as replacing the Steel Electric vessels with the new 144-vehicle vessels and eliminating POF service will not result in a net change in fuel consumption.

Table 31. Fuel Costs 2006 Legislative Plan & Revised

(millions of $s and gallons)

	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21	2005-21
FY 2006 Legislative Plan	75.3	77.6	80.4	83.6	86.9	90.4	94.0	97.8	686.0
Revised forecast									
Budgeted gallons	35.4	35.4	35.4	35.4	35.4	35.4	35.4	35.4	283.2
Price/gallon Sept. forecast*	$2.21	$2.42	$2.20	$2.07	$1.98	$2.01	$2.05	$2.10	$2.13
Cost before taxes	78.2	85.8	77.8	73.4	70.1	71	72.6	74.4	603.3
Taxes & fees	7.2	7.8	7.1	6.7	6.5	6.6	6.7	6.9	55.5
Revised Fuel Cost	85.4	93.6	84.9	80.1	76.6	77.6	79.3	81.3	658.8
Net	10.1	16.0	4.5	-3.5	-10.3	-12.8	-14.7	-16.5	-27.2
* Average of two years									

Ferry vessel fuel expenditures are calculated as follows:

- WSDOT's Financial Planning Office starts with Global Insight's quarterly producer price index (PPI) for refined petroleum products.
- When WSDOT receives the Global Insight data, it has been adjusted to take out seasonal fuel price factors. WSDOT adds seasonal price sensitivity factors back into the index, using Bureau of Labor Statistics data (for example, wholesale fuel prices are 7.9 percent higher in August and 1.7 percent lower in January).
- The relationship between historical actual monthly fuel prices (provided by WSF) and U.S. wholesale figures is analyzed. Over a twelve year period, Washington wholesale prices have been 5.5 percent higher than U.S. wholesale prices.
- The adjusted Global Insight index is applied to the last U.S. wholesale price.
- The results are then further adjusted by the difference between Washington and U.S. wholesale prices.

- WSF takes the results of the pricing forecast and applies it to forecasted fuel consumption (gallons).
- WSF then applies sales and use taxes to estimate vessel fuel expenditures.

As of September 2006, the Transportation Revenue Forecast includes fuel price forecasts. Prior to September, the fuel price forecasts were calculated somewhat differently: (1) the Global Insight index was not adjusted to put back in the seasonality, and (2) the adjusted index was applied to the last Washington wholesale price.

While these fuel expenditure forecasts have been available for some time, they have not been incorporated in the financial plans of WSDOT, the Legislature, or the Office of Financial Management (OFM). Instead, the fuel appropriation has been inflated by U.S. Department of Commerce, Bureau of Economic Analysis's Implicit Price Deflator for Personal Consumption (IPD-PC).

In the 2006 legislation session, Substitute Senate Bill 6241 directed WSDOT, OFM, and the Washington State Economic Revenue Forecast Council to review and adopt a method of forecasting fuel prices. The WSF Finance Study is to report on the progress and results of this study as it relates to WSF fuel expenditures. While the fuel study group did review the current fuel price forecasting methodology, they did not recommend any changes.

An option identified by legislative staff is to use forecasted fuel expenditures rather than the IPD-PC factor in the financial plan for the Puget Sound Ferry Operations Account because it is tied to predicted fuel costs rather than inflation in general.

Section Eight
Impact of Cost Changes on Operating Fund

The labor cost increases and changes in forecast of fuel prices will affect the Puget Sound Ferries Operations Account, reducing its ability to transfer funds to the capital account. The 2006 legislative plan assumed a transfer to $518 million to the capital account. Taking into account increased labor costs and taxes of $180 million, the operating fund will be able to transfer only approximately $450 million to capital. This projection depends on all other assumptions regarding costs and revenues remaining constant. Since both labor rates and fuel consumption are held constant in the projection, it is likely that in reality the operating fund will not be able to contribute even this reduced amount to capital.

Section Nine
Farebox Recovery

Farebox recovery, as used by WSF, shows the percentage of WSF operating costs that are recovered by earned revenues from the farebox and other income. WSF calculates farebox recovery annually in its route statement summaries. In FY 2005 recovery is at 76 percent systemwide, ranging from a low of 23 percent on the Vashon-Seattle passenger only ferry service to a high of 111 percent on the Seattle-Bainbridge route. See Table 32.

Table 32. Farebox Recovery: WSF Route Statements

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Total	68%	65%	65%	66%	66%	59%	69%	73%	79%	76%
Bainbridge	102%	98%	87%	101%	94%	86%	98%	110%	120%	111%
Bremerton*	56%	51%	57%	53%	47%	44%	45%	41%	47%	51%
Edmonds	92%	94%	93%	99%	110%	95%	115%	121%	121%	108%
Clinton	85%	85%	93%	93%	91%	75%	89%	95%	100%	97%
Pt. Townsend	63%	60%	45%	51%	52%	54%	54%	56%	61%	58%
Triangle**	49%	51%	54%	54%	61%	53%	54%	51%	61%	58%
Vashon POF	18%	14%	18%	16%	18%	15%	21%	24%	2/%	23%
Pt. Defiance	44%	49%	48%	56%	62%	48%	55%	60%	59%	66%
San Juans	42%	39%	40%	36%	34%	32%	46%	55%	52%	49%
Sidney	78%	72%	65%	74%	107%	69%	72%	76%	82%	73%

* Bremerton Auto-Passenger Ferry Only

** Fauntleroy-Vashon-Southworth routes

The farebox recovery rate as calculated in the route summary statements includes most WSF operating costs. (The legislature has directed that WSF not include costs associated with WSF increased security costs.)

WSF has not historically calculated the percentage of total earned income against total ferry expenses including expenses incurred by WSP, MEC, and WSDOT. (Some but not all WSDOT expenses are included in the route summary statements.) WSF has also not shown the percent of direct tax support against operating costs.

Legislative staff have calculated these additional recovery percentages on a biennium basis. Their analysis shows that for the 2005-07 biennium, earned income is projected to be 72 percent of WSF operating costs (farebox 70 percent and other income 2 percent) and direct tax support 13 percent. Earned income as a percentage of all ferry costs is expected to be 67 percent, with direct tax support providing an additional 12 percent. See Table 33.

Table 33. Recovery Rates: WSF and All Ferry Related Costs

	1995-97	1997-99	1999-01	2001-03	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21
% of WSF Operating Costs (2007 labor & fuel projection)													
Farebox	67%	67%	64%	74%	79%	70%	76%	85%	92%	98%	103%	108%	113%
Other Income	3%	2%	-1%	-1%	2%	2%	2%	2%	2%	2%	3%	3%	3%
Total % Earned	70%	69%	63%	73%	80%	72%	78%	87%	94%	100%	105%	110%	116%
Direct Tax %	40%	40%	20%	15%	15%	13%	15%	16%	16%	17%	17%	17%	17%
Total	109%	110%	83%	89%	95%	85%	93%	103%	110%	117%	122%	127%	133%
% Of Total Costs* (2007 labor & fuel projection)													
Farebox	64%	66%	61%	71%	73%	65%	70%	78%	84%	90%	95%	99%	104%
Other Income	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Total % Earned	65%	67%	62%	72%	74%	67%	72%	79%	86%	91%	96%	100%	105%
Direct Tax %	38%	39%	19%	15%	14%	12%	13%	15%	15%	15%	16%	16%	16%
Total	103%	106%	81%	86%	88%	79%	85%	94%	101%	107%	111%	116%	121%

* Includes WSP, WSDOT, and MEC costs

Section Ten
Consultants Observations and Recommendations

The consultants have reviewed legislative staffs' analysis of the WSF operating budget and added some additional analyses. Based on this review the consultants offer the following observations and recommendations for consideration by the legislature. These recommendations are based on the goals established in SSB 6241, which mandated this ferry financing study, and include:

- Creating predictable cash flows for WSF.
- Creating greater transparency for the legislature and members of the public.
- Suggesting performance measures for WSF operations.

Following are consultant observations and recommendations on the transfers of operating funds to the capital account, earned revenue, and expense projections and control.

A. Operating Transfers to Capital

The 2006 legislative financial plan and WSF's Draft Long-Range Strategic Plan both assume significant capital funding from operations. The 2006 legislative plan anticipates $518 million being transferred from operating to capital through 2021. The Draft Long-Range Strategic Plan assumes that $925.5 million will be transferred through 2029, which represents 18 percent of the draft plan's total projected capital funding.

1. Consultant Findings

a) Availability of operating funds for capital

As discussed in Section 9 of this report, the availability of operating funds to support the capital program is impacted by rising labor costs and the volatility of fuel costs. Labor and fuel represent approximately 80 percent of WSF operating expenses. The September 2006 fuel forecast suggests the availability of operating funds in the legislative plan will be reduced from $518 million to approximately $450 million, assuming all other revenues and expenses remain unchanged.

The legislature's 2006 financial plan and WSF's Draft Long-Range Strategic Plan inflates future labor costs at 70 percent of inflation (using the implicit price deflator for personal consumption (IPDPC) rate). The state does not forecast labor expense increases beyond this inflation rate or beyond costs that have been negotiated. The inability to accurately forecast labor means that the operating budget projections are likely significantly understated. This makes it unlikely, absent higher rate increases, service reductions, or the transfer of additional motor vehicle taxes, that surplus operating funds will be available to transfer to the capital account at the forecast level.

b) Operating reserves

The WSF operating account retains a $5 million reserve. This reserve is a minimum fund balance and provides no additional operating reserves. This is approximately 1 percent of ferry operating expenses. The reserve cannot grow when the operating surplus is transferred to fund the capital account. The transfer makes operating funding less stable, since if earned and dedicated tax revenues in one biennium exceed expenses, the surplus is not available to compensate for shortfalls in subsequent biennia. As a matter of policy the legislature has been reluctant to establish reserves because they are hard to maintain during lean budget years. This decision makes for less stable operational funding for ferries which, unlike the rest of WSDOT, is highly dependent on earned revenue.

c) Intent of dedicated tax revenues

The legislature has dedicated a portion of the motor vehicle fuel tax and other license, permit, and fee income to ferry operations. RCW 47.60.326 states that the WSTC may consider "the amount of subsidy available to the ferry system for maintenance and operation" in setting rates. The transfer of dedicated tax revenues to capital would appear to negate the intent of dedicating tax revenues to support operations.

d) Farebox and other earned revenue

As projected in the 2006 legislative financial plan, the amount transferred from operations to capital includes revenue earned from fares and concessions. If farebox and concession revenue is to be used to support capital, this policy should be clearly stated.

e) Uncertainty in capital funding

The intention to transfer funds from operating to capital makes capital funding, which is recognized as underfunded, subject to the volatility of operating revenues and expenses.

2. Consultant Recommendations

a) Merge capital and operating accounts

If the transfer from operating to capital (or vice-versa) is a policy direction supported by the legislature, then consideration should be given to merging the operating and capital accounts. This would include re-designating the dedicated tax revenues that support WSF as being available for either operating or capital expenses.

b) Do not transfer funds if the accounts are not merged

If the legislature wants to maintain a distinction between the operating and capital accounts, the consultants recommend that funds not be transferred between the accounts.

c) Operating reserve

In either event, the consultant recommends that WSF have larger operating reserves. A 1 percent reserve is insufficient for an enterprise with 75 percent or greater earned income and results in less stable operating funding. The consultants do not have a specific reserve recommendation.

B. Tariffs and other Earned Income

WSF earns over 75 percent of its revenue from fares, concessions, and other income. The most significant revenue is from the farebox. Tariff policies, in addition to being critical for revenue generation, also play a key role in traffic demand management and in the potential to increase revenue by increasing non-peak usage of the ferries. Other earned income from concessions, parking, advertising, and other sources generates 1 to 2 percent of WSF operating revenue.

1. Consultant Findings

a) Legislative guidance

The legislature has provided limited guidance on tariff policy. RCW 47.60.326 includes ten considerations that the WSTC may make with regards to setting tariffs, but does not require any of them to be considered. The law also does not prioritize the areas the WSTC may consider. The 2006 legislative financial plan assumed future yearly fare increases of 2.5 percent, which may not be sufficient to meet future operating expenses.

b) Tariff Policy Committee

The Tariff Policy Committee (TPC) was created by the Washington State Transportation Commission (WSTC) at a time when the Commission had administrative responsibility for WSDOT. The role of the WSTC was changed by the 2005 Legislature, with responsibility for hiring and firing the Secretary of Transportation and providing management direction for WSDOT transferred from the Commission to the Governor. The WSTC remains responsible for tolling, preparation of the Washington State Transportation Plan, bond sales, highway classification, freight and goods transportation system designation, and preparation of a ten-year investment program. The TPC includes elected officials which makes it more difficult to separate the legislature from independent tariff decisions by the WSTC.

c) Public Outreach

RCW 47.60.000 establishes public participation requirements for major service reductions or expansions and for tariff changes. The law provides the option of public hearings in local communities or a survey of affected ferry users, and requires consultation with the Ferry Advisory Committees. The TPC has conducted public hearings rather than undertaking a survey of affected ferry users. The result is that the TPC hears from and is affected by organized groups of ferry users, but has limited information on the broad base of ferry users.

d) Tariff route equity/travel shed differences

A key concept that the TPC uses in making fare decisions is tariff route equity. The concepts that underpin the tariff route equity program are reasonable, i.e. that users should share equally in covering the fixed costs of ferry system operation and contribute proportionally for vessel space and time. Under this program, rates are set for the central Sound routes, rounded to the nearest nickel, and then applied on a percentage basis to the other routes.

The tariff route equity concept does not allow for recognition of the differences in the travel sheds served by WSF. Three of the travel sheds, Keystone-Port Townsend, Anacortes-San Juan Island, and Anacortes-Sidney, are heavily dependent on tourists with a limited or non-existent commuter base. In contrast, commuters are the core of riders in central Puget Sound.

Tariff route equity affects farebox recovery. This is most apparent with the Bremerton route, which had a 51 percent farebox recovery rate in FY 2005. As shown in Exhibit C, tariff route equity has been modified to account for travel within travel sheds that have more than one route in the shed. This is done to discourage riders from changing routes within a travel shed. If not modified for the travel shed, rates on the Bremerton route would be 33% higher. If the Bremerton rates were higher, it might cause a transfer of ridership to the Bainbridge or other routes, but it might also improve Bremerton's farebox recovery rate.

Table 34. Tariff Route Equity
Third Step – Travel Shed Adjustment

	One-Way Travel Time	Relation to Bainbridge	One-Way Fare	Distanced Base Fare	Adjust for Travel Shed	% Adjustment
Central Puget Sound						
Edmonds-Kingston	36.5	0.77	$6.50	$5.25	$6.50	24%
Seattle-Bremerton	60	1.46	$6.50	$9.75	$6.50	-33%
Seattle-Bainbridge	47.2	1	6.5	$6.50	$6.50	0%
South Travel Shed						
Southworth-Vashon	25.7	0.54	4.5	$3.75	$4.25	13%
Fauntleroy-Vashon	30.1	0.54	4.5	$4.25	$4.25	0%
Point Defiance-Tahlequah	25.4	0.54	4.5	$3.50	$4.25	21%

Source: Tariff Route Equity Tariff Review 1999-00

e) Traffic demand management

The TPC reviewed tariff based traffic demand strategies during the last tariff review cycle including, congestion pricing, the relationship between vehicle and passenger pricing, and value pricing for passengers based on comparable transit costs. To be most effective, traffic demand and pricing strategies should be tailored to the individual travel sheds, which will require adjustments to tariff route equity. The consultants also note that the TPC has discussed, but not implemented, traffic demand management and pricing policies as ways to improve vehicle occupancy and to transition riders from vehicles to walk–ons. The TPC has not reviewed traffic demand management as a means to encourage off-peak ridership.

f) Non-peak ridership

WSF earns most of its operating revenue from fares and has a largely fixed cost operation, with the cost of operating a vessel the same no matter how many riders are on it. WSF has ample capacity to accommodate increased ridership in non-peak periods. If ridership can be drawn from peak periods it will achieve an important traffic demand goal, and if ridership overall can be increased it will help achieve greater revenues. British Columbia Ferries, for example, engages in promotional partnerships with hotels and other entities to encourage off-peak ridership.

g) Farebox recovery by route

Farebox recovery will vary between routes based on market characteristics and operating costs. Goals for farebox recovery have been discussed on a systemwide basis, with a goal of 80 percent cost recovery recommended by the 2001 Legislative Task Force on Ferries. There is relatively little discussion of individual route farebox recovery rate goals or of ways to improve recovery on a route-by-route basis.

h) Concessions and other revenue

Concessions and other revenues are a small portion of WSF's earned revenue, with the majority of this revenue derived from vessel based concessions, parking, and vending. Some revenue is currently generated from advertising, with WSF assuming more income from an advertising RFP that has not yet been released. In an earlier review of terminal capital projects, the consultants noted investments planned at Anacortes and elsewhere to generate additional concessions income and discussed their inherent risks.

2. Consultant Recommendations

a) Legislative direction

The legislature should consider providing more specific policy direction on tariffs to the WSTC that would give priority to traffic demand management and market considerations of the individual travel sheds. The legislature should also consider being specific on the role it wants dedicated tax support to play in establishing tariffs. The legislature should not set specific fare increase caps but rather focus on tariff policies.

b) Tariff Policy Committee

The legislature has given the authority to WSTC to establish rates. The consultant recommends that the WSTC examine the role of the TPC given the Commission's new, more limited, role and examine whether elected officials should serve on the TPC if it remains.

c) Public outreach

The legislature should consider requiring a market survey to inform biennial fare decisions. The Ferry Financing Study has previously recommended a market survey to provide more detailed information on vehicle and recreational passengers. This survey could be combined with a survey of tariffs and other measures of customer satisfaction that would help inform tariff and other WSF decisions.

d) Tariff rate equity/travel shed differences

Tariff route equity policies should be re-examined for calibration to traffic demand, value pricing, and farebox recovery goals. The legislature could establish the relative importance of tariff route equity in revising its tariff policy directions.

e) Traffic demand management

Traffic demand strategies that encourage walk-on riders and discourage single-occupant vehicles, as well as those that might spread demand to non-peak periods, should be pursued. Value pricing in comparison to transit system charges within the various travel sheds should also be pursued. The legislature could consider including these strategies in their revised directions.

f) Non-peak ridership

To encourage non-peak ridership, the legislature should consider providing funding to WSF to support marketing and the creation of programs that promote non-peak ridership.

g) Farebox recovery by route

Farebox recovery and ridership goals should be established by route. Achieving these goals will be enhanced if WSF can identify specific individuals in charge of monitoring and achieving these route specific goals. If necessary, the legislature should consider funding such positions.

h) Concessions and other revenue

The consultant recommends that priority be given to increasing non-peak ridership over investing state capital dollars in concessions. This recommendation is not intended to affect private sector capital investments that generate income for WSF, but rather to suggest that the state limit its investment. This will necessitate lease terms sufficient to allow private sector investors to amortize their investments. Terms of up to 55 years have been authorized by the legislature in RCW 47.60.140, which should be ample to amortize investments.

3. Expenses

WSF expenses have grown at an average rate of 9.4 percent per biennium between the 1993-95 and 2005-07 biennia. Full time equivalent positions (FTEs) increased by 9 percent during the same time period. Labor and fuel costs account for approximately 80 percent of WSF's expenses.

1. Findings

a) Expense projections

As noted above, expense projections are understated because the state does not project costs of future labor agreements other than the 70 percent of inflation discussed earlier. Fuel costs are projected based on 100 percent of the same inflation factor. Other expenses are also projected to rise at 70 percent of inflation. The understatement of future expenses for labor creates a distorted picture of the likely operating revenue required to sustain existing service levels.

b) Management control of expenses

Fuel and labor account for nearly 80 percent of WSF operating costs. Ninety-two percent of WSF's employees are covered by labor contracts with binding pay provisions. As a consequence, management has very limited opportunities to manage and control costs.

c) Fixed cost operation

As noted above, WSF has a high fixed cost operation. Coast Guard and union staffing requirements do not vary with passenger levels, with the result that vessels cost the same to operate with one or 2,000 passengers. Terminal costs do vary with ridership, but these costs are a relatively minor part of WSF's operating costs.

d) Projection of costs by route

WSF provides projections of costs at the systemwide level, but limited projections at the route or travel shed level. It is important to understand the variations in cost by route in order to analyze route farebox recovery.

e) Labor agreements

Labor agreements constrain WSF operations and drive additional staffing, overtime, and other costs. The most significant constraint to the WSF operation appears to be the required eight hour minimum shift and inability to operate with split or part-time shifts. This makes responding to peak demands on those routes that experience significant AM and PM peaks more difficult. Also significant are the costs from extra vessel staffing required by labor union agreements that are beyond Coast Guard requirements.

f) Service modifications

One of the ways WSF can control costs is to make service modifications, with the ability to save funds constrained by labor agreement requirements.

The consultants asked WSF to provide an analysis of savings from service reductions. WSF notes that: “Elimination of one or more round trips can have varying degrees of impact on the cost to run the system. For example, eliminating one round trip would likely result in the elimination of the cost of fuel for that trip but no cost savings to the above deck (MM&P, IBU) or below deck (MEBA) crews. Eliminating an 8 hour block of time results in the elimination of the cost of fuel and the above deck crew but not the below deck, as vessels are crewed below deck for 24 hours per day. Only by removing a vessel entirely from service can the full cost savings for fuel and all deck crew be achieved” (WSF response to JTC Finance Question B. 6 September 25, 2006).

For the first four routes profiled below, only fuel savings are realized because the service time reduction is not large enough to affect the eight-hour minimum call provisions. The Port Townsend and Anacortes route service reductions include labor savings as well as fuel savings. WSF comments regarding the likely reaction to these profiled reductions are included.

Table 35. Sample Marginal Savings from Service Reductions

Route	Sailings Cut	Net Annual Savings	WSF Comments
Bainbridge	12:15 a.m. and 1:35 a.m. round trips from Seattle. Monday-Thursday nights year-round	$150,000	Likely to be unacceptable due to swing shift/night workers.
Fauntleroy	2:10 a.m. sailing from Fauntleroy. Monday-Thursday nights year-round	$40,000	Likely to be unacceptable due to swing shift/night workers, also late night island access for residents.
Point Defiance/Tahlequah	10:00 p.m. round trip from Pt. Defiance. Monday-Thursday nights year-round	$15,000	Likely to be unacceptable due to earlier service cuts in 2000 which reduced service four hours/day.
Mukilteo/Clinton	1:05 a.m. round trip from Mukilteo. Monday-Thursday nights fall/winter/spring	$42,000	Likely to be unacceptable due to swing shift/night workers.
Keystone	6:45 p.m. and 8:30 p.m. round trips from Port Townsend. Monday-Thursday, winter only	$60,000	Would require additional part-time IBU deck crew positions to achieve full cost savings.
San Juans/Sidney, B.C.	Extension of current 12 week winter schedule to include November and December. Eliminates Sidney service, late afternoon weekday San Juan service, and weekend Interisland vessels for an additional 8 weeks/yr.	$280,000	Would increase the suspension of B.C. service from current 3 months/year to 5 months and create some capacity in the San Juans during the holiday season.

Source: WSF

2. Recommendations

a) Expense projections

The legislature should use expense projections that assume some allowance for increased labor costs. The consultant recognizes that this raises the potential for establishing a minimum threshold for labor negotiations, but the failure to provide a realistic expense projection hampers understanding of the true nature of WSF's likely operating revenue needs. This affects planning for tariff increases as well as, under current policy, the amount likely to be available for transfer to the capital program.

b) Projection of costs by route

The consultants have recommended above that farebox recovery rate goals by route be established. This will require the projection of costs by routes. The consultants also recommend that the legislature request WSF to consistently provide cost and revenue information by route. Often WSF will provide information, for example, by vessel type, which is less meaningful for legislators and the public than information provided by route.

c) Labor agreements

Priority should be given in collective bargaining to modifications to the eight hour shift and the extra vessel staffing provisions of the agreements. These provisions represent the best opportunity for WSF management to gain more control of costs and scheduling.

APPENDIX A
Fares by Travel Shed - Current Tariff Schedule (May 2006)

Travel Shed	Central Puget Sound		Mukilteo-Clinton		Pt. Townsend-Keystone*		South Sound					Pt. Defiance-Tahlequah**		Anacortes-Sidney		
% of FY 05 Ridership	55%		17%		3%		14%					3%		1%		
Passengers	61%		14%		3%		12%					2%		1%		
Vehicles	47%		20%		3%		17%					4%		1%		
% Farebox Recovery	93%		97%		58%		54%					66%		73%		
							Vashon POF	Vashon& Southworth-Vashon**		Fauntleroy-Southworth						
	Non-Peak	Peak	Non-Peak	Peak	Non-Peak	Peak	Non-Peak	Non-Peak	Peak	Non-Peak	Peak	Non-Peak	Peak	Non-Peak	Peak	Promo
Passenger (round-trip)																
Full Fare	$6.50		$3.85		$5.00		$8.50	$4.20		$5.00		$4.20		$31.20		
Senior or Disabled	$3.25		$1.90		$2.50		$4.25	$2.10		$2.50		$2.10		$15.60		
Youth Fare	$5.20		$3.10		$4.00		$7.20	$3.40		$4.00		$3.40		$25.00		
Bicycle Surcharge	$1.00		$1.00		$1.00		$1.00	$1.00		$1.00		$1.00		$8.00	$12.00	
Vehicle & Driver Fares (under 20') (one-way)																
Regular Fare	$11.25	$14.10	$6.65	$8.35	$8.70	$10.90		$7.20	$9.00	$8.70	$10.90	$7.20	$9.00	$41.90	$52.40	
Senior or Disabled Fare	$9.60	$12.45	$5.65	$7.35	$7.45	$9.65		$6.15	$7.95	$7.45	$9.65	$6.15	$7.95	$34.10	$44.60	
Over 7'6" Height Surcharge	$11.25	$14.10	$6.65	$8.35	$8.70	$10.90		$7.20	$9.00	$8.70	$10.90	$7.20	$9.00	$41.90	$52.40	
Frequent User Books & Passes***																
Frequent User Book-Motorcycle	$77.60		$46.40					$50.00		$60.00		$50.00				
Frequent User Book-Vehicle	$180.00		$106.40					$115.20		$139.20		$115.20				
Frequent User Book-Passenger	$52.00		$30.80				$72.00	$33.60		$40.00		$33.60				
WSF Monthly Pass-Passenger	$84.20		$50.30		$65.00		$116.20	$54.80		$65.00		$54.80				
Multi-Ride Commuter Card - Motorcycle					$60.00											
Multi-Ride Commuter Card - Vehicle					$139.20											
Multi-Ride Commuter Card - Passenger					$40.00											
Motorcycle & Driver, Stowage Fee (e.g. canoe, kayak) (one-way)																
Regular Fare	$4.85	$6.10	$2.90	$3.65	$3.75	$4.71		$3.13	$3.93	$3.75	$4.70	$3.13	$3.93	$20.90	$26.15	
Senior or Disabled Fare	$3.20	$4.45	$1.90	$2.65	$2.50	$3.45		$2.08	$2.88	$2.50	$3.45	$2.08	$2.88	$13.10	$18.35	
Motorcycle Trailer/Sidecar Surcharge	$1.60	$2.85	$1.00	$1.75	$1.25	$2.20		$1.03	$1.83	$1.25	$2.20	$1.03	$1.83	$5.30	$10.55	
Vehicle Length Based Fares (one-way)																
20' to under 30' under 7'6" tall	$16.90	$21.10	$10.00	$12.50	$13.05	$16.35		$10.80	$13.50	$13.05	$16.35	$10.80	$13.50	$62.85	$78.60	
20' to under 30' over 7'6" tall	$33.75	$42.20	$19.95	$24.95	$26.10	$32.65		$21.60	$27.00	$26.10	$32.65	$21.60	$27.00	$125.70	$157.15	
30' to under 40'	$45.00	$56.25	$26.60	$33.25	$34.80	$43.50		$28.80	$36.00	$34.80	$43.50	$28.80	$36.00	$167.60	$209.50	$104.75
40' to under 50'	$56.25	$70.35	$33.25	$41.60	$43.50	$54.40		$36.00	$45.00	$43.50	$54.40	$36.00	$45.00	$209.50	$261.90	$130.95
50' to under 60'	$67.50	$84.40	$39.90	$49.90	$52.20	$65.25		$43.20	$54.00	$52.20	$65.25	$43.20	$54.00	$251.40	$314.25	$157.15
60' to under 70'	$78.75	$98.45	$46.55	$52.20	$60.90	$76.15		$50.40	$63.00	$60.90	$76.15	$50.40	$63.00	$293.30	$366.65	$183.35
70' to under 80'	$90.00	$112.50	$53.20	$66.50	$69.60	$87.00		$57.60	$72.00	$69.60	$87.00	$57.60	$72.00	$335.20	$419.00	$209.50
Cost per ft. Over 80'	$1.15	$1.45	$0.70	$0.85	$0.90	$1.10		$0.73	$0.90	$0.90	$1.10	$0.73	$0.90	$4.20	$5.25	$2.65
# of fares	36		36		36		78					36		39		

* Passenger fares collected one-way ** Vehicle fares collected round trip *** Books sold at half of price shown in San Juans with 10 instead of 20 rides.

** Vehicle fares collected round trip

*** Books sold at half of price shown in the San Juans with 10 instead of 20 rides

Travel Shed	San Juan Island Routes
% of FY 05 Ridership	7%
Passengers	7%
Vehicles	8%
% Farebox Recovery	49%

	Anacortes-Lopez Island**				Anacortes-Shaw & Anacortes-Orcas**				Anacortes-Friday Harbor**				Inter-Island	
	Wed-Sat NP	Wed-Sat P	Sun-Tues NP	Sun-Tues P	Wed-Sat NP	Wed-Sat P	Sun-Tues NP	Sun-Tues P	Wed-Sat NP	Wed-Sat P	Sun-Tues NP	Sun-Tues P	Non-Peak	Peak
Passenger (round-trip)														
Full Fare					$10.65	$12.80	$9.60	$11.55					$0.00	$0.00
Senior or Disabled					$5.30	$6.40	$4.80	$5.75					$0.00	$0.00
Youth Fare					$8.55	$10.25	$7.70	$9.25					$0.00	$0.00
Bicycle Surcharge					$2.00	$4.00	$2.00	$4.00					$0.00	$0.00
Vehicle & Driver Fares (under 20') (one-way)														
Regular Fare	$12.95	$17.50	$11.68	$15.78	$15.53	$20.98	$13.98	$18.88	$18.45	$24.93	$16.63	$22.45		
Senior or Disabled Fare	$10.28	$14.30	$9.28	$12.88	$12.85	$17.78	$11.58	$15.98	$15.78	$21.73	$14.23	$19.55	$7.73	$9.68
Over 7'6" Height Surcharge	$12.95	$17.50	$11.68	$15.78	$15.53	$20.98	$13.98	$18.88	$18.45	$24.93	$16.63	$22.45		
Frequent User Books & Passes***					$2.68									
Frequent User Book-Motorcycle														
Frequent User Book-Vehicle														
Frequent User Book-Passenger														
WSF Monthly Pass-Passenger														
Multi-Ride Commuter Card - Motorcycle	$102.75				$110.65				$119.25					
Multi-Ride Commuter Card - Vehicle	$97.15				$116.45				$138.90				$61.80	
Multi-Ride Commuter Card - Passenger	$69.25				$69.25				$69.25					
Motorcycle & Driver, Stowage Fee (e.g. canoe, kayak) (one-way)														
Regular Fare	$6.85	$9.25	$6.18	$8.35	$7.38	$9.98	$6.65	$9.00	$7.95	$10.75	$7.18	$9.70		
Senior or Disabled Fare	$4.18	$6.05	$3.78	$5.45	$4.70	$6.78	$4.25	$6.10	$5.28	$7.55	$4.78	$6.80	$2.20	$2.75
Motorcycle Trailer/Sidecar Surcharge	$1.53	$2.85	$1.38	$2.58	$2.05	$3.58	$1.85	$3.23	$2.63	$4.35	$2.38	$3.93		
Vehicle Length Based Fares (one-way)														
20' to under 30' under 7'6" tall	$19.43	$26.23	$17.53	$23.65	$23.30	$31.45	$20.98	$28.30	$26.68	$36.00	$24.00	$32.40	$11.60	$14.50
20' to under 30' over 7'6" tall	$38.85	$52.45	$35.03	$47.30	$46.58	$62.90	$41.93	$56.60	$53.28	$72.00	$48.00	$64.80	$23.18	$28.98
30' to under 40'	$51.80	$69.95	$46.70	$63.05	$62.10	$83.85	$55.90	$75.48	$71.10	$96.00	$64.00	$86.40	$30.90	$38.63
40' to under 50'	$64.75	$87.43	$58.38	$78.83	$77.63	$104.80	$69.88	$94.35	$88.88	$120.00	$80.00	$108.00	$38.63	$48.30
50' to under 60'	$77.70	$104.90	$70.05	$94.58	$93.15	$125.78	$83.85	$113.20	$106.65	$144.00	$96.00	$129.60	$46.35	$57.95
60' to under 70'	$90.65	$122.40	$81.73	$110.35	$108.50	$146.73	$97.83	$131.20	$124.43	$177.98	$112.00	$151.20	$54.08	$67.60
70' to under 80'	$103.60	$139.88	$93.40	$126.10	$124.20	$167.68	$111.80	$150.95	$142.20	$191.98	$128.00	$172.80	$61.80	$77.10
Cost per ft. Over 80'	$1.30	$1.75	$1.18	$1.58	$1.58	$2.10	$1.40	$1.90		$2.40	$1.60	$2.18		
# of fares	210													

* Passenger fares collected one-way ** Vehicle fares collected round trip *** Books sold at half of price shown in San Juans with 10 instead of 20 rides.

** Vehicle fares collected round trip

*** Books sold at half of price shown in the San Juans with 10 instead of 20 rides

APPENDIX B
Tariff Route Equity Program

Tariff Route Equity

Tariff Route Equity is the relationship of fares among routes

- Fare relationships and route groups have been based on the historical fare structure WSF inherited from the Black Ball system in 1951.
- There is no policy rationale for the current relationship among fares and routes.
- Long-standing customer concern and confusion has existed about the relationship of fares among routes.

The Tariff Policy Committee's challenge

- The Washington State Transportation Commission directed the Tariff Policy Committee to develop a policy rationale to relate routes and fares.
- The Committee has worked since 1998 to develop a methodology.
- The result is the logical next step of the Tariff Policy Committee's work since the early 1990's when **the cube logic** was introduced.
- The first building block, **the cube logic**, was developed to relate fares to the space riders use on the boat.
- The second building block, **tariff route equity**, has been developed to relate fares to the time riders utilize the system.

Current Route Groups

Cross Sound

- Edmonds - Kingston
- Seattle - Bremerton
- Seattle - Bainbridge
- Fauntleroy - Southworth
- Keystone - Port Townsend

Short Routes

- Southworth - Vashon
- Fauntleroy - Vashon
- Point Defiance - Tahlequah
- Mukilteo - Clinton

Fares are common within the route group

San Juan Islands

- Anacortes - Lopez
- Anacortes - Orcas
- Anacortes - Shaw
- Anacortes - Friday Harbor

International

- Anacortes - Sidney
- Islands - Sidney

Fares differ by route

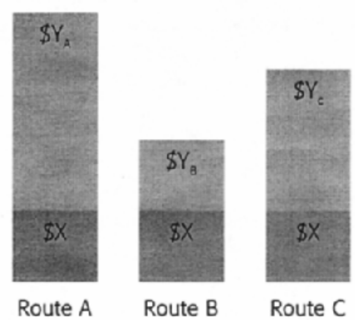
Tariff Route Equity
Principles

Tariffs need to recover both fixed and variable costs

Tariff Route Equity is based on two principles.

1. All riders contribute **equally** to the fixed costs of the ferry system.
2. Each rider contributes **proportionally** for the space used and the time occupying space on the vessel.

Fixed Component:
Analogous to an access charge. Used to recover **non-vessel costs**.



Variable Component:
Based on Distance/Time
Covers **vessel costs**, which vary by route.

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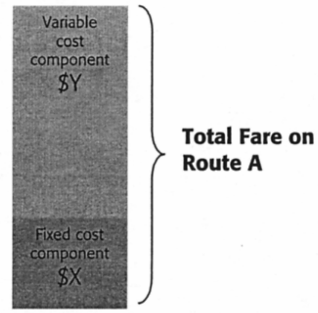
Tariff Route Equity

Three-Step Process

Step 1 of 3
Estimate standard travel time for all routes

- Step 1 sets up the time relationship among routes.
- The fixed component of service (X) is a 15-minute standard of "terminal time" and 5 minutes of acceleration/deceleration time as a proxy for non-vessel costs across the whole system.
- The variable component of service (Y) is the non-stop direct distance of the route using a "standard" vessel traveling an average speed (16.5 knots).
- The distance of the route will vary from the printed schedule because "non-stop direct distance" is used (eliminating stops, such as in the San Juan Islands).
- All routes "pivot" around the base fare of a route set as the backbone of the system.
- The Seattle-Bainbridge route was chosen as the "pivot" route because it has the highest ridership, generates the most revenue, and is "central" in the system in terms of time.



Step 1: Standardized Times and "Pivot" Route

	One-Way Travel Time (minutes)	Relation to Bainbridge
Anacortes - Sidney	146.2	3.10
Anacortes - Lopez	54.2	1.15
Anacortes - Orcas	65.2	1.38
Anacortes - Shaw	65.2	1.38
Anacortes - Friday Harbor	77.6	1.64
Edmonds - Kingston	36.5	0.77
Seattle - Bremerton	69.0	1.46
Seattle - Bainbridge	**47.2**	**1.00**
Fauntleroy - Southworth	36.1	0.76
Keystone - Port Townsend	35.5	0.75
Southworth - Vashon	25.7	0.54
Fauntleroy - Vashon	30.1	0.64
Point Defiance - Tahlequah	25.4	0.54
Mukilteo - Clinton	27.9	0.59

Step 2 of 3
Relate travel time to fares to calculate an unadjusted distance-based fare

- The starting point for Tariff Route Equity uses the time relationship created in Step 1 to arrive at an unadjusted distance-based fare.
- The "Step 2" column uses the "Relation to Bainbridge" column to calculate an unadjusted fare based on the time factor.
- Fares are rounded to the nearest quarter – the same as fares are currently calculated.
- For example, Keystone-Port Townsend's travel time is 75% of Bainbridge travel time, so 0.75 x $6.50 = $4.87, rounded to the next quarter = $5.00.
- Without any other fare considerations, these would be the fares using Tariff Route Equity principles.

Step 2: Calculate Unadjusted Base Fare

Route	Step 1 One-Way Travel Time (minutes)	Relation to Bainbridge	Current One-Way Fare	Step 2 Calculate Unadjusted Base Fare
Anacortes - Sidney	146.2	3.10	$24.75	$20.25
Anacortes - Lopez	54.2	1.15	$6.63	$7.50
Anacortes - Orcas	65.2	1.38	$7.88	$9.00
Anacortes - Shaw	65.2	1.38	$7.88	$9.00
Anacortes - Friday Harbor	77.6	1.64	$8.88	$10.75
Edmonds - Kingston	36.5	0.77	$6.50	$5.25
Seattle - Bremerton	69.0	1.46	$6.50	$9.75
Seattle - Bainbridge	47.2	1.00	$6.50	$6.50
Fauntleroy - Southworth	36.1	0.76	$6.50	$5.00
Keystone - Port Townsend	35.5	0.75	$6.50	$5.00
Southworth - Vashon	25.7	0.54	$4.50	$3.75
Fauntleroy - Vashon	30.1	0.64	$4.50	$4.25
Point Defiance - Tahlequah	25.4	0.54	$4.50	$3.50
Mukilteo - Clinton	27.9	0.59	$4.50	$4.00

Tariff Route Equity

Three-Step Process

Step 3 of 3
Adjust Step 2 fares for travel shed considerations

- Part of Washington State Ferries' mission is to ensure that traffic is reasonably balanced across the system.
- Step 3 recognizes that riders would substitute travel on one route if fares on nearby, comparable routes cost more or less than another. These areas are defined as travel sheds.
- Two travel sheds with more than one route serving them were identified; fares will be the same within these travel sheds.
  - Central Sound
  - Vashon Island
- All other routes are treated independently.

Proposed Route Groupings Based on Travel Sheds

Central Sound Travel Shed	Independent Travel Shed
Edmonds - Kingston	Fauntleroy - Southworth
Seattle - Bremerton	Keystone - Port Townsend
Seattle - Bainbridge	Mukilteo - Clinton
	Anacortes - Lopez
Vashon Island Travel Shed	Anacortes - Orcas
Southworth - Vashon	Anacortes - Shaw
Fauntleroy - Vashon	Anacortes - Friday Harbor
Point Defiance - Tahlequah	Anacortes - Sidney
	Islands-Sidney

Proposed Fares as a Result of Tariff Route Equity

Route	Step 1 One-Way Travel Time (minutes)	Step 1 Relation to Bainbridge	Current One-Way Fare	Step 2 Distance-Based Fare	Step 3 Adjust for Travel Sheds
Anacortes - Sidney	146.20	3.10	$24.75	$20.25	**$20.25**
Anacortes - Lopez	54.20	1.15	$6.63	$7.50	**$7.50**
Anacortes - Orcas	65.20	1.38	$7.88	$9.00	**$9.00**
Anacortes - Shaw	65.20	1.38	$7.88	$9.00	**$9.00**
Anacortes - Friday Harbor	77.60	1.64	$8.88	$10.75	**$10.75**
Edmonds - Kingston	36.50	0.77	$6.50	$5.25	**$6.50**
Seattle - Bremerton	69.00	1.46	$6.50	$9.75	**$6.50**
Seattle - Bainbridge	47.20	1.00	$6.50	$6.50	**$6.50**
Fauntleroy - Southworth	36.10	0.76	$6.50	$5.00	**$5.00**
Keystone - Port Townsend	35.50	0.75	$6.50	$5.00	**$5.00**
Southworth - Vashon	25.70	0.54	$4.50	$3.75	**$4.25**
Fauntleroy - Vashon	30.10	0.64	$4.50	$4.25	**$4.25**
Point Defiance - Tahlequah	25.40	0.54	$4.50	$3.50	**$4.25**
Mukilteo - Clinton	27.90	0.59	$4.50	$4.00	**$4.00**

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APPENDIX C
WSF Operating Labor Costs
($000's)

	SFY94	SFY95	SFY96	SFY97	SFY98	SFY99	SFY00	SFY01	SFY02	SFY03	SFY04	SFY05	SFY06
VESSEL													
regular	46,322	46,044	49,156	49,256	51,450	55,551	58,461	59,964	60,350	59,934	58,310	58,426	62,755
over-time	3,599	3,529	3,539	4,258	5,443	5,583	5,892	5,864	5,650	5,260	4,653	5,115	5,316
penalty pay	665	580	561	597	663	785	886	981	994	1,034	986	977	1,016
travel time	1,411	1,365	1,403	1,708	2,149	2,189	2,278	2,484	2,631	2,681	2,542	2,456	2,794
total	51,997	51,518	54,658	55,818	59,705	64,109	67,517	69,293	69,624	68,909	66,490	66,974	71,881
over-time as a % of total vessel	7%	7%	6%	8%	9%	9%	9%	8%	8%	8%	7%	8%	7%
penalty pay as a % of total vessel	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%	1%	1%	1%
travel time as a % of total vessel	3%	3%	3%	3%	4%	3%	3%	4%	4%	4%	4%	4%	4%
	11%	11%	10%	12%	14%	13%	13%	13%	13%	13%	12%	13%	13%
"other" pay as a % of total WSF	7%	7%	7%	8%	9%	9%	9%	9%	9%	9%	8%	8%	8%
"regular" pay as a % of regular WSF	68%	67%	67%	67%	66%	67%	67%	66%	66%	66%	65%	64%	65%
"other" pay as a % of "other" WSF	71%	72%	69%	72%	75%	78%	78%	76%	74%	77%	74%	75%	75%
MAINTENANCE													
regular	7,192	7,476	8,335	7,871	10,324	9,896	10,650	11,232	11,867	11,361	11,299	11,776	12,052
over-time	898	829	1,005	1,048	1,265	1,003	1,214	1,496	1,670	1,355	1,549	1,439	1,576
penalty pay	206	188	205	212	214	212	247	324	411	241	285	343	383
travel time	158	168	208	184	215	179	202	210	170	133	141	153	252
total	8,454	8,660	9,753	9,315	12,018	11,290	12,313	13,261	14,119	13,089	13,273	13,711	14,262
over-time as a % of total maintenance	11%	10%	10%	11%	11%	9%	10%	11%	12%	10%	12%	10%	11%
penalty pay as a % of total maintenance	2%	2%	2%	2%	2%	2%	2%	2%	3%	2%	2%	3%	3%
travel time as a % of total maintenance	2%	2%	2%	2%	2%	2%	2%	2%	1%	1%	1%	1%	2%
	15%	14%	15%	16%	14%	12%	14%	15%	16%	13%	15%	14%	15%
"other" pay as a % of total WSF	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%	2%
"regular" pay as a % of regular WSF	10%	11%	11%	11%	13%	12%	12%	12%	13%	12%	13%	13%	13%
"other" pay as a % of "other" WSF	16%	15%	18%	16%	15%	13%	14%	16%	18%	15%	18%	17%	18%

	SFY94	SFY95	SFY96	SFY97	SFY98	SFY99	SFY00	SFY01	SFY02	SFY03	SFY04	SFY05	SFY06
TERMINAL													
regular	11,694	11,728	12,675	12,879	13,780	15,288	15,507	16,392	16,336	15,893	15,904	16,231	17,227
over-time	884	827	897	897	814	788	695	681	701	616	669	635	640
penalty pay	2	2	2	2	2	2	2	3	3	3	4	3	2
travel time	102	104	116	118	120	121	115	140	141	130	117	117	118
total	12,682	12,661	13,690	13,895	14,717	16,200	16,319	17,217	17,181	16,642	16,694	16,986	17,987
over-time as a % of total terminal	7%	7%	7%	6%	6%	5%	4%	4%	4%	4%	4%	4%	4%
penalty pay as a % of total terminal	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
travel time as a % of total terminal	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
	8%	7%	7%	7%	6%	6%	5%	5%	5%	5%	5%	4%	4%
"other" pay as a % of total WSF	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
"regular" pay as a % of regular WSF	17%	17%	17%	18%	18%	18%	18%	18%	18%	17%	18%	18%	18%
"other" pay as a % of "other" WSF	12%	12%	13%	11%	9%	8%	7%	7%	7%	6%	7%	7%	6%
ADMINISTRATION													
regular	3,396	3,418	3,017	3,192	2,542	2,360	2,794	3,155	3,197	4,294	4,552	5,053	4,041
over-time	52	52	57	92	49	76	128	130	131	147	141	165	112
travel time	3	1	0	0	0	0	0	0	0	0	0	0	1
total	3,450	3,471	3,074	3,284	2,591	2,436	2,922	3,286	3,329	4,441	4,693	5,218	4,155
over-time as a % of total administration	1%	2%	2%	3%	2%	3%	4%	4%	4%	3%	3%	3%	3%
travel time as a % of total administration	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	2%	2%	2%	3%	2%	3%	4%	4%	4%	3%	3%	3%	3%
"other" pay as a % of total WSF	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
"regular" pay as a % of regular WSF	5%	5%	4%	4%	3%	3%	3%	3%	3%	5%	5%	6%	4%
"other" pay as a % of "other" WSF	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%	1%

VESSEL

	SFY94	SFY95	SFY96	SFY97	SFY98	SFY99	SFY00	SFY01	SFY02	SFY03	SFY04	SFY05	SFY06
<u>DECK</u>													
regular	28,412	28,300	29,847	29,841	31,664	33,865	35,974	35,862	37,188	36,739	35,845	35,924	37,634
over-time	2,287	2,191	2,182	2,530	3,149	3,066	3,390	2,740	2,802	2,717	2,266	2,518	2,875
penalty pay	99	73	71	75	78	87	129	156	175	206	166	97	49
travel time	555	523	551	679	932	1,073	1,147	1,230	1,358	1,373	1,374	1,268	1,492
	31,353	31,088	32,651	33,125	35,822	38,091	40,640	39,988	41,524	41,034	39,651	39,806	42,051
over-time as a % of total deck	7%	7%	7%	8%	9%	8%	8%	7%	7%	7%	6%	6%	7%
penalty pay as a % of total deck	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%
travel time as a % of total deck	2%	2%	2%	2%	3%	3%	3%	3%	3%	3%	3%	3%	4%
	9%	9%	9%	10%	12%	11%	11%	10%	10%	10%	10%	10%	11%
"regular" pay as a % of regular WSF	41%	41%	41%	41%	41%	41%	41%	40%	41%	40%	40%	39%	39%
"other" pay as a % of "other" WSF	37%	36%	35%	36%	38%	39%	40%	34%	35%	37%	34%	34%	36%