Tacoma Narrows Bridge
Citizen Advisory Committee Meeting Agenda

February 8, 2012 - 6:30 – 8:30 p.m.

Gig Harbor Civic Center
3510 Grandview St. | Gig Harbor, Wa

TNB Citizen Advisory Committee:

Alan Weaver (Chair), Gig Harbor
Melody Griggs, Gig Harbor
Ted Hilliard, Tracyton
Ron Jones, Gig Harbor
Amy Matsuno, Port Orchard
Chris Myers (Vice Chair), Gig Harbor
Jim Pasin, Gig Harbor

AGENDA:

6:30 – 6:35 Call to order……………………………………………………………………………………… Alan Weaver

6:35 – 7:55 Financial Plan Update/Discussion………………………………………………….. All CAC Members

7:55 – 8:10 Addition Discussion Items………………………………………….….. All CAC Members and guests

- *Update on HB2394/SB 6073 – deferred sales tax (Senator Kilmer)*
- *Refinancing the debt (memo dated 1/30/12 from Ellen Evans, Deputy Treasurer)*
- *Sufficient Minimum Balance requirement (Transportation Commissioner Dan O'Neal)*

8:10 – 8:25 Public Comment……………………………………………………………………………………… All

8:25 – 8:30 Schedule update/Confirm next meeting……………………………………………………… All

8:30 Adjourn………………………………………………………………………………………………… All

Washington State
Department of Transportation

Responses to: "Analysis – Annual Financial Plan* – 2013 Discussion" CAC Meeting 1/11/12 (Jim Pasin questions handed out at the meeting)

1. Explain the increase of $36,000 Interest Earnings of 2013.

   Response: The interest earnings are formula driven. Changes to the target sufficient minimum balance change the interest earnings.

2. Provide projected traffic counts, percent or per toll rate that makes up the $44,865 M for 2013.

   Response: The November 2011 revenue forecast projected toll revenue without the Pay by Mail option was $44,865,000 for 2013. The projected number of transactions was 14,151,000. 72.3% (10,450,562) was *Good To Go*!, 24.8% (3,578,734) was cash, 0.1% (10,082) was non-revenue transactions and the remaining 2.9% was violations. Two analyses were created – one that included Pay By Mail and one without. The result of the forecast without Pay By Mail was shown on the "Toll Revenues" line. On the "Pay By Mail Impact" line is shown the total revenue forecasted with Pay By Mail included, less the revenue forecasted without Pay By Mail.

   The Toll Revenues and Pay By Mail Impact lines added together are the total toll forecasted toll revenues. Now that Pay By Mail is in place, future forecasts will show total toll revenues only.

3. Pay By Mail Impacts on Revenue: Plan shows $1.738M. What is "Impacts". How is this amount calculated?

   Response: Before WSDOT initiated photo tolling, this line on the financial plan indicated the incremental revenues that would result from photo tolling. The amount was calculated by subtracting forecasted toll revenues assuming no Pay By Mail from the forecast that included Pay By Mail to show the "impact" of adding the Pay By Mail option. Now that Pay By Mail has been initiated, all toll revenues will be consolidated to a single line on future financial plans.

4. Revenue for Deferred Sales Tax-$1.848M. Why is this here and "Use of Funds"? Why $1.848M vs. $5.759M? FY 2014 and 2015 used the $5.759 in both.

   Response: In 2013, the financial plan assumes that $3.9M in existing capital balances will be drawn down to pay for deferred sales taxes first before applying tolls to pay the balance of the $5.7M deferred sales tax payment. So for 2013 only $1.8M in toll revenues is required to cover the deferred sales tax payment. After 2013, the capital balance will be depleted and toll revenues must cover the entire $5.7m.

*All references to the TNB Financial Plan in this document refer to the January 9, 2012 Draft

5. Transponder Sales; Number of units at $5.00 shows an increase of 14,000 units from 2011. How was this estimated?

   Response: The number of transponders (passes) sold surged in FY2011 when the new less expensive transponders went on sale and marketing began for upcoming tolls on SR 520. All existing toll facilities were upgraded to be able to read the new tags.

   Transponder revenues and expenses are shared among the three facilities: 520 Bridge, TNB and SR 167 HOT lanes. WSDOT's accounting allocates transponder-specific revenues (and costs) between facilities based on an established ratio that is roughly equivalent to the daily traffic volumes on each facility, exempting the portion of cash transactions on TNB.

6. Civil penalties revenue of $1.273M would equal 31,825 penalties, which is about 9,000 less than violations. Is this an over-statement of revenue?

   Response: The number of Pay By Mail customers who will fail to pay their bill and contest their charges is unknown, as is the number of contested tolls. In order to be prepared for a potentially high caseload WSDOT estimated the initial adjudication program on the high end. If actual adjudication caseload is lower than expected, staffing will be reduced quickly and proportionately.

   As a result, civil penalty revenues are also probably on the high end of the likely range. In FY 2013, civil penalty revenues will be first assigned to cover adjudication costs, with remaining revenues dedicated to repaying a state loan to TNB construction from the motor vehicle fund. The only impact to toll customers would occur if revenues fail to cover costs. If revenues are below forecast, WSDOT will manage by reducing staffing to be proportionate to caseloads. Post 2014, all civil penalty revenues will be dedicated to repaying the motor vehicle fund loan until it is paid in full and, under current law, toll revenues will be used to pay for adjudication costs. From the toll customer's viewpoint, it would be preferable to have lower than forecast civil penalty revenues because there will be proportionately lower adjudication costs funded from toll revenues.

7. The net revenue from adjudication is about $321,000 less $92,000 for PBM Admin.

   Response: This is interpreted as a comment.

8. Need an explanation of Transfers to/from Other Accounts - $0.00 in 2012, then $302 – 2013 then jumps by $1.177M in 2014, is this the only repayment of the $5.2M loan?

   Response: RCW 46.63.160(9) was revised so that for 2011-13 biennium only the net amount (after adjudication costs) of Civil Penalty revenue must be transferred to the Motor Vehicle Account. In FY14 and beyond, the gross amount of Civil Penalty revenue is to be transferred until the $5.2M loan is paid in full. No timetable for the completion of repayment is specified.

9. Fees - there is a $30K increase in Fees - the footnote seems to indicate this is an expense, not a revenue. How was this calculated?

   Response: Fee revenues reflect fee receipts from toll customers. The footnote refers to NSF checks, and administrative fees outlined in WAC 468-270-300. These are fees charged to customers for bouncing checks, for example, or failing to pay before a second invoice is issued. We will rewrite the footnote to be clearer in future updates to the financial plan.

   In FY2011 actual fees revenues were $76K. Estimated fee revenues are projected at $107K in FY2012 through FY 2015. The approximately $30K ($107,000-$76,000) increase in fee revenues is due to additional fees added by the Transportation Commission associated with new payment methods including Pay By Plate and Pay By Mail.

10. Need a complete explanation of DS (debt service) Payment and DS Withholding lines. And why the DS Payments are changing from one financial plan to the next for the same FY? 2012 increased by about $3M on the current plan from the November 2009 Plan. How is this calculated and by whom?

    Response: Debt service payment is the amount paid by the state within the fiscal year for TNB debt service. Those payments are made from a separate account maintained by the Treasurer's office. Monthly transfers (called withholding) are made from the TNB account to the Treasurer's debt service account monthly to cover those payments. If withholding payments are made during the fiscal year to cover debt service payments in a different fiscal year, those withholding amounts are shown on the debt service withholding line. This process of withholding amounts for debt service from the Motor Vehicle Account is required by RCW 47.10.847.

    In the past the withholding amount has generally reflected amounts needed to withhold in the prior fiscal year for payments due on July 1 of the following fiscal year, so the amount withheld and the amount of debt service paid were equal. Recently, the Office of the State Treasurer has proposed an additional month of withholding for payments due in December of the following year, to be consistent with all other Motor Vehicle Fuel Tax bonds that are withheld on a monthly basis in amount equal to one-sixth of the amount of interest coming due in the next succeeding six months. That has resulted in withholding for debt service payments that don't occur until the subsequent fiscal year, so those withholding amounts are now listed separately.

    On drafts of the financial plan distributed to the CAC in December 2011, the debt service withholding was approximately $4M higher than actual debt service payments planned for FY 2013. However, after discussion between the Treasurer's Office, WSDOT and Transportation Commission staff, the Treasurer has agreed to defer its new withholding process until FY 2014. As a result, the debt service amount shown in FY 2013 has been reduced by approximately $4M, and the amount for FY 2014 increased by a similar amount.

11. WSDOT Oversight – What contributes to the $259,000 increase for 2013? What costs are increasing? The 2009 FP shows $1.348 for 2012 and 2013 vs. the current FP - $2.4M-2012 and $2.698M-2013. Need justification of 100% increase.

    Response: The $259,000 difference between FY 2012 and FY 2013 shown for WSDOT oversight is primarily due to the cost of a cost benchmark study that came from the Legislative Joint Transportation Committee's Expert Review Panel study of the cost of toll collection, and is consistent with legislation to continue to review costs to determine whether the TNB should be considered for cashless operation. Note that the financial plan will be revised with the next two weeks and there will likely be some adjustments made to WSDOT costs that will be presented and explained at the February 22nd CAC meeting.

    Looking back to the 2009 financial plan projections for future fiscal years against the current financial plan does not provide a good comparison or demonstrate how well WSDOT haves managed toll collection costs. The 2009 financial plan was based on TNB's 2007-09 Biennium allotments for FY 2008 and FY 2009 which contained budgeted allotments for the 2007-09 biennium but only planned expenses for future years. Beyond 2009 the legislative plan showed WSDOT oversight costs that would be cut roughly in half over three years. WSDOT oversight and administration includes funds for WSDOT staff and consultants, but also includes expenses for credit card fees and transponders that alone account for half the costs on the WSDOT oversight line in the financial plan. The planned $1.348M funding level would have been insufficient to cover those costs alone.

    This reduction to planned administrative expenses was made to accommodate a proposed 4% across the board cut in operating budgets in the 2009 Legislature. All of the cuts were placed against administrative expenses because other cost categories were comprised of fixed expenses that could not be reduced. This plan was quickly dropped during the subsequent legislative session and subsequent budget numbers were updated to reflect actual costs.

    We understand that WSDOT costs require more explanation than is provided here, so we have also prepared an attachment titled "How Well is WSDOT Managing Toll Collection Costs," which we will be prepared to discuss at this week's CAC meeting.

12. Adjudication Process increases by $625K from 2012. Why? 2012 is $48.15K per month vs. 2013 of $79.33K. This is an increase of $31.23K per month.

    Response: In 2013 adjudication costs are estimated at $337K, rising to $952K in FY 2013. This is because FY 2012 costs were estimated for partial year operations while the FY2013 costs were estimated for a full year.

    The civil penalty process lags the introduction of Pay By Mail by several months. Initially, we assumed a ramp-up in the number of Pay By Mail customers over the first three years. This ramp-up also impacted the estimated number of notice and cost of civil penalties mailed and processed in the first year.

13. The 2013 toll operator contract increases by $500K over 2012 and another $112K in 2014. The “new contract” was to save TNB money, why is there a continuing increase in this cost? What is changing?

    Response: The increase in toll vendor costs between 2012 and 2013 is the result of reduced vendor payments in 2012. In 2013 WSDOT plans to pay the full contract cost for these services. After 2013, annual increases are based on half the rate of inflation (Implicit Price Deflator) consistent to the factor used by the legislature for each year.

14. What is scheduled for the bridge and toll system in 2015 to spend $2.935M? Why is yearly maintenance up by $150K to $200K per year through 2015?

    Response: In addition to regular preservation activities (critical and routine inspections) bridge deck resurfacing (exceeding $2.7 million) is scheduled in FY2015. Maintenance expenses increase with the age of the new bridge. Maintenance work activities involve the operation and maintenance of roadway, bridge structure and electrical/traffic components.

15. PBM Admin.-what goes into this category? 2012 is $9.3K per month vs $7.7 per month for 2013? Why is 2012 higher?

    Response: Pay By Mail (PBM) administration at TNB includes activities related to photo tolling Pay By Mail transactions, including mailing of 1^{st} and 2^{nd} billing statements, license plate verification. The estimated cost of Pay-By-Mail administration is $65K in FY2012 and $92K in FY2013. These amounts will be adjusted in future years based on actual costs.

16. Need Toll Revenue Used for Sales Tax-$1.848M vs. Deferred Sales Tax $5.759M to be explained. 2009 FP shows $5.757M starting in 2013 FY.

    Response: The $1.8m described as Toll Revenue for Deferred Sales Tax is the amount brought down from the Toll Revenue in the Operations and Maintenance portion above to cover the sales tax due in 2013 that is not covered by the $3.9m of Cumulative Balance for Capital Improvements (5.7 – 3.9 = 1.8). After 2013, Toll Revenue must cover the entire $5.7m.

17. Additional Fund Balance needed: $22.635M
    Less: DS Withholding: $4.144M
    $18.491M equals $1.32 per crossing

    Response: We’ve interpreted this as a comment, not a question.

Additional Questions/Comments Received Since the CAC Meeting:

18. What would the scenarios look like if the State sales tax repayment were pushed over to Fiscal '14? My request hopefully assumes that Senator Kilmer will be successful and I do not want to wait to March to see how the figures would work out.

    Response: If it was pushed out until 2014, the total funds needed for 2013 would be reduced by $5.7M. Senator Kilmer's bill goes beyond that and eliminates the requirement to pay for the deferred sales taxes, which would reduce the funding need by $5.7 annually for ten years.

Tacoma Narrows Toll Bridge — **Analysis of Toll Revenue Scenarios 1-10-2012**
Annual Sufficient Minimum Balance Coverage – IF DEFERRED SALES TAXES WERE FORGIVEN — **Draft**
($ in Thousands)

		Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015
12.5% Target Sufficient Minimum Balance Coverage		**6,644**	**7,840**	**8,985**	**9,218**
Baseline Scenario - November Alternative Forecast	Ending Balance	$ 3,899	$ (9,025)	$ (29,785)	$ (48,584)
$2.75 GTG/$4 Cash/$5.50 PBM	SMB Coverage*	7.30%	-14.40%	-41.40%	-65.90%
Adjusted Baseline - January 2012 Analysis	Ending Balance	$ 3,899	$ (9,198)	$ (29,897)	$ (48,651)
$2.75 GTG/$4 Cash/$5.50 PBM	SMB Coverage*	7.30%	-14.70%	-41.60%	-66.00%
Scenario A	Ending Balance	$ 3,899	$ 9,293	$ 7,736	$ 8,675
$4.25 GTG/$5.50 Cash/$7 PBM	SMB Coverage*	7.30%	14.80%	10.80%	11.80%
Scenario B	Ending Balance	$ 3,899	$ 11,494	$ 12,229	$ 15,551
$4.50 GTG/$5.50 Cash/$7 PBM	SMB Coverage*	7.30%	18.30%	17.00%	21.10%
Scenario C	Ending Balance	$ 3,899	$ 10,802	$ 10,790	$ 13,282
$4.25 GTG/$6.00 Cash/$7.50 PBM	SMB Coverage*	7.30%	17.20%	15.00%	18.00%
Scenario D	Ending Balance	$ 3,899	$ 13,004	$ 15,284	$ 20,157
$4.50 GTG/$6.00 Cash/$7.50 PBM	SMB Coverage*	7.30%	20.70%	21.30%	27.30%

* SMB: Sufficient Minimum Balance

19. In one of the handouts (which, unfortunately I neglected to bring home), there was a chart showing three scenarios (in green, I think) in which the projected RMB was 12.5% or better for Fiscal '13. How much would each rate scenario have to be increased so that there was at least one scenario in which the RMB was at least 12.5% or both Fiscal 13 and Fiscal 14? I want to know what the figures would be in case the CAC were to say that we should look at the rate increase over a two year period so that we do not have to bother with the issue next year. I doubt that this would happen but I would like some numbers to counter Dick Ford's strong suggestion of looking at the problem every two years.

    Response: We would need to run an additional scenario to address this. Two alternatives are possible: (1) setting a higher rate that would meet the sufficient minimum balance policy through 2014, and (2) making a two-stage rate-setting that would add an additional increment in July 2013.

20. "Reserves": We, and especially me, are thoroughly confused with the new requirement of the State Treasurer. Do we have two reserve accounts: one being the 12.5% suggested reserve by the Transportation Commission plus the $3 million reserve newly required by the Treasurer? (I realize that the latter would change depending upon the amount owed on the next bond payment.) That would take the effective reserve up to about $9 million and the percentage actually available to pay for serious problems to be about 20%. Or is the Treasurer's $3 million reserve actually considered a part of the Transportation Commission's 12.5% reserve so that the Treasurer would have $3 million

and Fund 511 would have $3 million? When the bond payment is paid, is it paid by the Treasurer out of its $3 million it is holding or does it come out of fund 511? On the $3 million going to the Treasurer, does Fund 511 receive interest on the amount while the Treasurer has it and, if not, why not? Yes. We track the interest and will adjust future transfers accordingly. We would like to see a cash flow as to how this works. It appears to us that an additional $3 million requirement has just been dumped on us.

Response: Neither the Treasurer nor the Department maintains a reserve fund per se. The Commission has endeavored to ensure that revenues exceed costs each year by 12.5% to provide a cushion for contingencies. Those funds are not spent; they become available to help meet the balance requirement for subsequent years.

The Treasurer’s procedure to collect monthly withholding amounts to pay for annual or semi-annual debt service payments is more like the process homeowners use to set aside monthly payments into an escrow fund to cover infrequent mortgage, tax and insurance payments. The debt service fund is not intended as a reserve account.

Commission staff raised this issue recently after noticing that the debt service amount shown on the financial plan was greater for FY 2013 than planned debt service payments. For 2013, Commission, WSDOT and Treasurer’s Office staff agreed to defer a new withholding procedure that would have added $4M to the 2013 funding need. The Treasurer still plans to introduce a different withholding process in 2014, and the Commission will take up whether to reflect withholding when calculating its 12.5 minimum sufficient balance at its March meeting.

21. Oversight and Administration: At our last public meeting Craig indicated that the actual administrative costs were going down. However, I notice that for Fiscal years 2011 through 2014 the administrative costs were $2.260 million (actual), $2.439, $2,698 and $2.754 (projected), respectively. Why the significant upward trend? Is there increased staff time and, if so, what is it?

    Response: Please see the response to question #11 and attached document “How Well is WSDOT Managing Toll Collection Costs?”

22. Vendor Reimbursement: Craig mentioned that $2 million had been withheld from the vendor on the change-over done in connection with State 520. Where does that show up on the spreadsheet: as increased income or as a credit to expense? I couldn’t find it.

    Response: We’ve prepared and attached a side-by-side comparison between the 2010 and current 2011 financial plans. If you examine the item for Toll Operator you will see that the actuals reflect a decrease in vendor payments compared to the original budget that’s reflected in the fund balance.

23. Insurance Costs: Craig advises us that the yearly insurance cost is $1,435,637 plus $31,700 for tax (why tax on insurance?) which would give a total of about $1,467,000. Why for Fiscal 2012 and 2013 does the spreadsheet use $1,600,000 as the insurance cost? That overstates the actual cost by about $133,000 per year (and, correspondingly, increases the reserve requirement by $17,000 per year). If the actual insurance cost is known, then why put in an arbitrary higher number? Were there other like expenses which were estimated on the very high side?

Response: Recent experience purchasing insurance for other bridges suggests that there is an upward trend in bridge insurance costs. We have projected higher future costs to assure we will be able to cover these costs if needed.

24. Projected versus Actual: We would like to see a break down for the last full fiscal year, which would be Fiscal 2011, of the projected income and expenses for the fiscal year versus the actual income and expenses for the year. We want to see how well the DOT predicts the future.

    Response: We've attached a comparison at the end of this document.

25. Financial Planner: If at all possible, we would like the person responsible for establishing the financial plan for the TNB to be present at our meeting so as to answer our questions.

    Response: Jeff Caldwell, WSDOT Assistant Director of Financial Planning will attend.

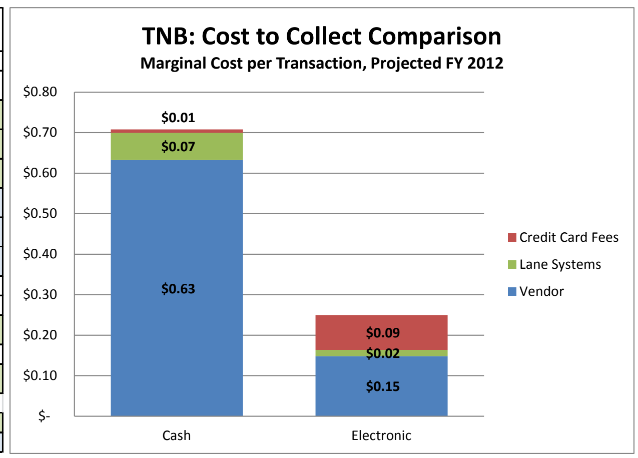
26. What are the collection costs on the toll cash payers versus the Good-to-Go?

    Response: The following table and graph show a 46 cent difference in cost between cash collection and electronic tolling.

Marginal Cost Comparison

	Cash	Electronic
Vendor	$ 0.63	$ 0.15
Lane Systems	$ 0.07	$ 0.02
Credit Card Fees	$ 0.01	$ 0.09
State Operations	$ 0.04	$ 0.04
Maintenance & Preservation	$ 0.03	$ 0.02
Bridge Insurance	$ 0.10	$ 0.10
Total Marginal Cost	$ 0.71	$ 0.25
Difference of Marginal Cost	$0.46	

Marginal costs are those generated by the specific activity
Fixed costs are generally a portion of facility costs that will exist regardless of activity



27. Mailing Costs: Has the DOT developed any feel for the actual mailing costs of the Pay by Mail. Last year we were advised that it would be about $1.63. Has that changed?

    Response: We are currently working on a cost services study and do not have that information available yet.

28. Jim's Questions: We would also like to hear the response to the list of questions which Jim presented at our last meeting.

    Response: Included in this document.

29. If the actual payment for Insurance in FY 2012 is $1,486,315., why does the Financial Plan show $1,600,000? Same question for 2013.

    Response: The allotment for FY 2012 will be adjusted to match the actual cost. In FY 2013 WSDOT anticipates a rise in bridge insurance costs based on recent experience with other bridge insurance policies.

30. What is the additional cost of collection (time/money) if tolls were established at a rate other than a whole $ (i.e.: $5.50)? Is it a "meaningful" difference from the $.71 cost of cash collection currently?

    Response: We asked our cash lane vendor TransCore for their comment on this. While they have some operational concerns, they felt the impacts to operation would be low to moderate.

    In the short term any added cost would be absorbed by the vendor, who is paid using a fixed rate contract. Over the longer term, increased costs borne by vendors are likely to be shared by WSDOT if and when rates are renegotiated or rebid.

31. The Fund 511 Statement for FY 2010 shows an ending fund balance of $16,800,126. The "current" addition of the Financial Plan shows the ending fund balance for FY 2010 as $16,413,000. The difference is $387,000, or an understatement of $387,000 on the FP. The FP plan needs to reflect the Fund 511 ending balance. Otherwise the bridge has lost $387,000 when using the FP to determine toll rates. Can you explain why this is happened?

    Response: This is explained in footnote 6 to the financial plan. The $387 thousand difference is due to the inventory reserve (transponders). The $16,800,126 ending fund balance for TNB in FY 2010 includes $387,239 consumable inventories. The “Unreserved/Undesignated Fund Balance” for FY 2010 was $16,412,887, which matches the number we have in our financial plan.

    The beginning and ending balance in our financial plan is “unreserved”. The practice is consistent with other state accounts. We don’t include “reserve” (such as fuel for ferry operation) as part of beginning balance during budget process.

    Now that transponders can be used at multiple toll facilities we move transponder inventories to a different account. As a result we don’t have any consumable inventory in for TNB at the end of FY 2011 and beyond.

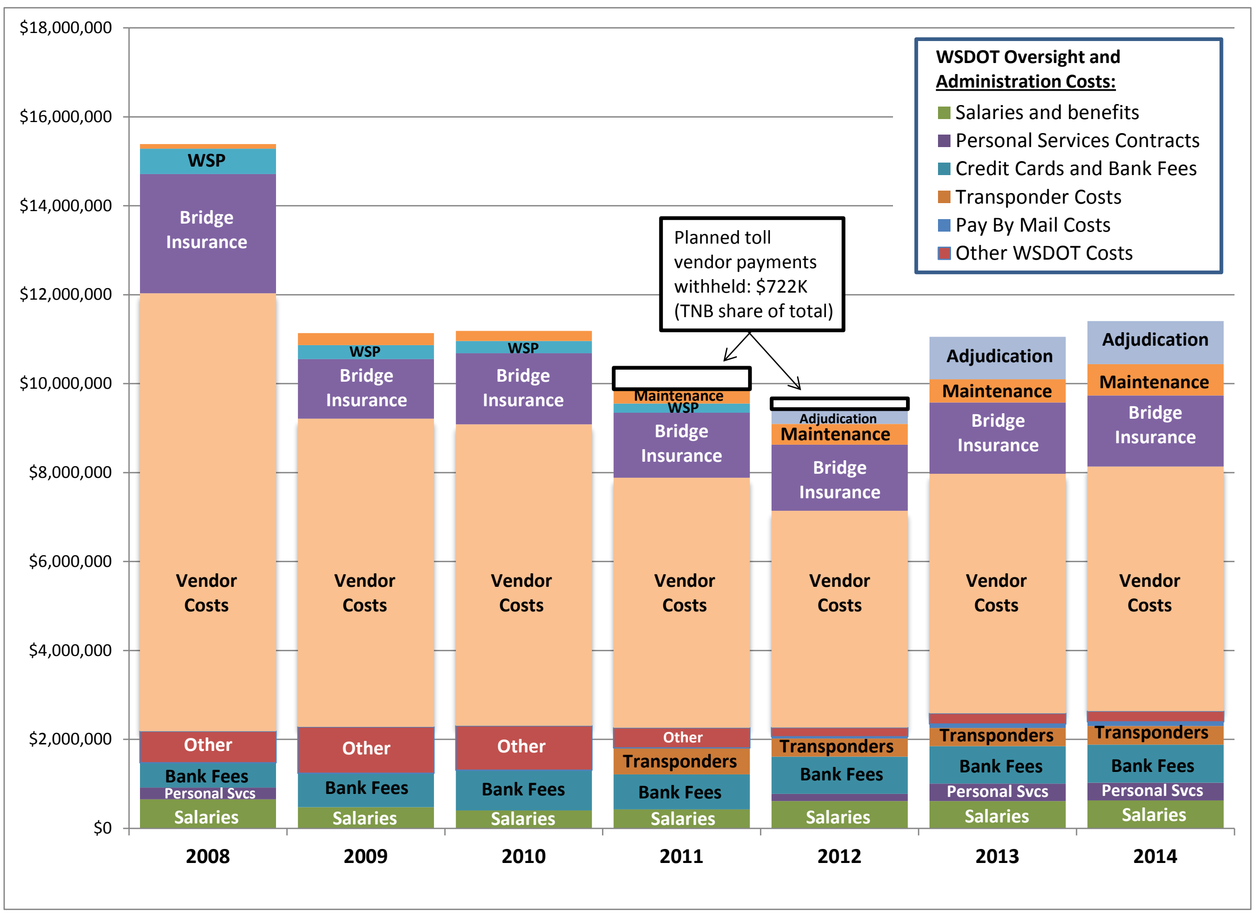
How well is WSDOT managing TNB toll collection costs?

Faced with potential increases in toll rates it is reasonable to ask whether WSDOT is doing everything possible to contain and reduce toll collection costs. Tolls must be set to cover toll collection, bridge operation and maintenance for the new Tacoma Narrows Bridge (TNB) and debt payments for construction loans. Any unnecessary toll collection expense can result in a higher toll.

<u>What are overall trends in toll collection and bridge maintenance costs?</u>

Since the new TNB was opened, WSDOT has sought to reduce the cost of toll collection. Within the first year of operation WSDOT renegotiated the cost for its toll collection vendor and reduced bridge insurance costs significantly. Vendor costs have been further reduced in 2011 and 2012 – partly because the cost of a statewide tolling back office and customer service center is now shared between TNB and SR 520 customers, and partly because some vendor payments were withheld during this period. This is shown graphically in Figure 1. Note that transponder sales in 2008-2010 were included as "Other."

Figure 1
Tacoma Narrows Bridge – Fund 511
Actual and Projected Operating and Maintenance Costs



In 2013, adjudication costs will be paid for from civil penalty revenues, and will not affect the level of funding needed from tolls.

What additional costs and contingencies are included in the financial plan for 2013 and 2014?

Amounts shown in financial statements for previous fiscal years reflect actual costs. For current and projected fiscal years, projections include some contingencies to ensure budgets will be adequate to cover some unforeseen circumstances. In the 2013 and 2014, added costs and contingencies include:

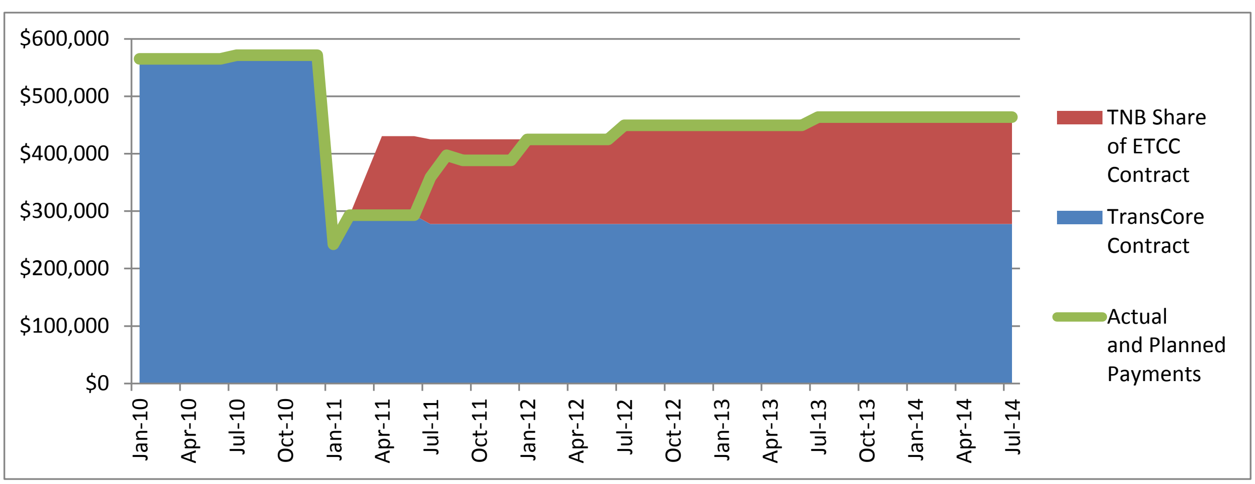
- **Allocation of vendor costs between toll facilities***:* In FY 2013, the vendor cost reflects a 38% share of vendor costs (rather than 34%), in case SR 520 lane volumes are lower than expected.
- **Higher bridge insurance costs***:* Recent WSDOT experience insuring bridges has suggested that prices for bridge insurance will increase, so $1.6M is included. These costs are renegotiated annually.
- **Budget assumes WSDOT will fill existing staff vacancies***:* Some existing staff positions in operations, communications and IT have been vacant in 2012, and future year budgets assume they will be filled.
- **Cost analysis contract***:* The legislature has requested WSDOT fund an annual cost analysis.

How has WSDOT protected TNB ratepayers from costs due to implementing tolls on SR 520?

Overall TNB customers will benefit from lower toll collection costs as a result of SR 520 tolls, since back office and customer service center costs are shared between toll facilities. Also, the cost of procuring the new customer service center, updating the TNB toll readers and delays to 520 tolling were borne by the SR 520 project and funded through federal grants. While there were problems transitioning to the new system and some TNB customers were inconvenienced, improper customer charges have been reversed and rate-payers have not paid for toll collection problems or delays.

The chart in Figure 2 shows the cost of toll collection vendors in the recent past and near-term future. Prior to the introduction of a new statewide toll vendor, a single vendor (TransCore) provided the cash lanes, electronic toll collection and customer service operations. In February 2011 the new statewide back office and customer service center vendor opened (ETCC), and the TransCore contract was reduced to include only the cash lane and electronic toll collection operations. This is the portion of costs shown in blue in the figure.

Figure 2
Actual and Projected Toll Vendor Costs



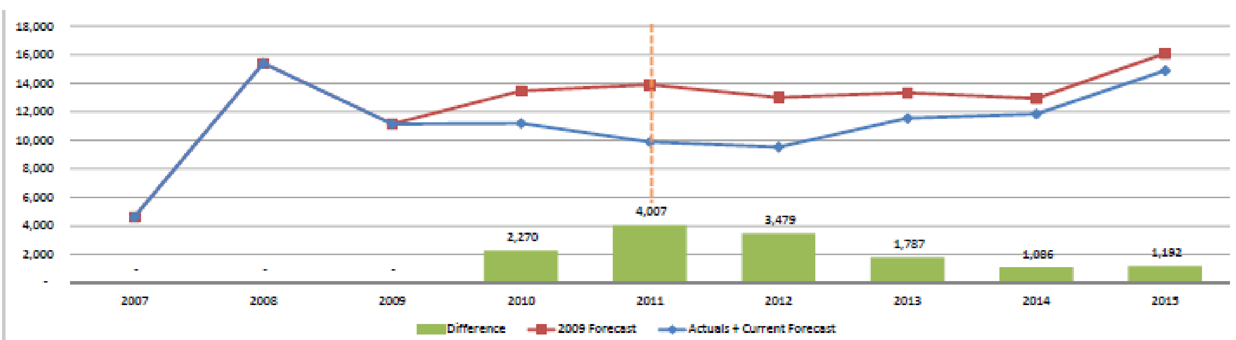
TNB is responsible for approximately 34% of the total cost of the statewide back office and customer service center operation, equivalent to the share of total traffic between tolled facilities (SR 520, SR 167 HOT lanes and TNB). The actual allocation of costs between facilities will be recalculated monthly. Because tolling was delayed on SR 520, the SR 520 Urban Partnership paid for the share of vendor costs that would have been attributed to SR 520 during the period up to tolling commencement at the end of 2011. Delays meeting the requirements of the new toll vendor contract resulted in non-payment and partial payment to the vendor. Planned payments are shown in red below, and the actual payments are shown with a green line. The TNB share of unpaid vendor costs is approximately $722K over 2011 over the two fiscal years 2011 and 2012.

<u>How do current expenses compare to those projected in 2009?</u>

Overall WSDOT has spent less on toll collection than anticipated in the 2009 TNB Financial Plan. The cost of collection per toll transaction has been reduced from $1.11 in 2008 to 70 cents in 2011, with further reductions likely in the future if traffic volumes increase or more toll facilities come on line.

In Figure 3, the red line indicates planned toll collection and bridge maintenance in 2009, and the blue line shows actual and forecast costs that have occurred since. In fiscal year 2011 WSDOT spent over $4M less than planned, although some of those savings occurred because payments to the new statewide customer service center were withheld. The original plan anticipated higher bridge insurance costs, and did not anticipate sharing the cost of a statewide tolling back office with SR 520 customers.

Figure 3
TNB Operating and Maintenance Expenditures
2009 Plan vs. Actuals and Current Forecast ($ in thousands)



In 2009, the Legislature adopted a $13.454M operations and maintenance budget for TNB in 2010 and $13.883 in 2011. WSDOT is held responsible for the overall operation and maintenance total, and has come in well below each year's budget.

MEMORANDUM

TO: Senator Derek Kilmer

FROM: Ellen Evans, Deputy Treasurer, Debt Management
Office of the State Treasurer

DATE: January 30, 2012

Dear Senator Kilmer:

Our office has reviewed alternative strategies to restructure the bonds issued to fund the Tacoma Narrows Bridge, which are largely noncallable voter-approved motor vehicle fuel tax general obligation bonds. Even under "best case" results, a partial restructuring would cost from $250-$500 million. All restructuring strategies examined assume the maturities of the refunding bonds could extend beyond existing maturities. However, current statute states that any refunding bonds issued may not have final maturities that extend beyond the original bonds that they are refunding when the bonds to be refunded are voter approved general obligation bonds. Accordingly, the noncallable TNB bonds cannot be restructured under current statute.

Restructuring Strategies

Our office has recently reviewed options for restructuring the bonds issued to finance the Tacoma Narrows Bridge. The state borrowed approximately $680 million in ten series of bonds issued from 2002 to 2007. At the end of FY 2011, approximately $590 million was still outstanding. More than 90% of the bonds issued for this project were noncallable, i.e. they were structured and sold without call options which enable the state to reduce interest costs by refunding when interest rates decline.

Options for restructuring noncallable bonds include a "tender" and a "defeasance". Neither approach would produce debt service savings for the state. In fact, both would be quite costly. Moreover, both restructuring strategies assume that the new bonds have longer maturities than the existing debt.

A tender involves issuing new tax-exempt debt and using proceeds of the new bonds to buy a portion of the outstanding bonds back from investors. A tender is complicated by the lack of a publically available database showing which individuals, mutual funds, insurance companies or other money managers currently hold the state's bonds. Consequently, tenders are cumbersome and uncommon. In recent years, issuers have been successful in buying back between 25 to 40% of a given bond series. Our analysis assumes investors are paid the current market value of the securities they sell back in the tender plus a premium of 0.25%.

The second alternative, a defeasance, consists of issuing new taxable debt and using the proceeds to buy a portfolio of U.S. Treasuries that produces income sufficient to cover the debt service on the outstanding TNB bonds. The outstanding TNB bonds would then in effect be repaid from income on the defeasance portfolio. While simpler to execute, this strategy is even more expensive. Low interest rates means that a relatively large portfolio of U.S. Treasuries would be needed to repay the TNB bonds.

To illustrate both strategies, we have selected a scenario which only partially adjusts the TNB debt service: FY 2013 debt service on the TNB bonds is reduced to approximately $40 million in 2013, annual debt service increases annually by 6.5% through FY 2022 and annual debt service levels off thereafter. Financial advisors to the Office of the State Treasurer (Montague DeRose) have modeled the following scenarios (see attached chart):

> Tax Exempt Tender (2038): OST issues tax-exempt current interest refunding bonds with a final maturity in 2038. For the next ten years, annual debt service increases by 6.5% and levels off at $70MM.
>
> Tax Exempt Tender (2042): OST issues tax-exempt current interest refunding bonds with a final maturity in 2042. For the next nine years, annual debt service increases by 6.5% and levels off at $64MM thereafter.
>
> CABs Tax Exempt Tender (2037): OST issues tax-exempt Capital Appreciation refunding bonds (CABs) with a final maturity in 2037. Annual debt service increases by 6.5% in the next ten years and levels off once it reaches $70MM. (This scenario is theoretical at best; there may not be a robust market for zero-coupon refunding bonds.)
>
> Taxable Refunding (2041): OST issues taxable current interest refunding bonds with a final maturity in 2041. Annual debt service increases by 6.5% in the next ten years and levels off once it reaches $70MM.

This analysis estimates that the costs on these four strategies ranges from $250 to $550 million, or from $38 to $137 million on a net present value basis. In our opinion, these costs are “best case” results.

Statute restricts the maturities of refundings of voter-approved general obligation bonds

Current statute states that any refunding bonds issued may not have final maturities that extend beyond the original bonds that they are refunding when the bonds to be refunded are voter approved general obligation bonds. The Tacoma Narrows Bridge bonds meet the criteria for this restriction.

Reasoning

RCW 39.53.090, from the Refunding Bond Act, states that, "the various annual maturities of general obligation refunding bonds issued to refund voted general obligation bonds shall not extend over a longer period of time than the bonds to be refunded."
The Tacoma Narrows bonds were all approved to be issued pursuant to RCW 47.10.843 by the State Finance Committee, as described in the State Finance Committee Resolution that authorized each sale for the TNB.

RCW 47.10.843 comes from Chapter 321, Laws of 1998 and Chapter 334, Laws of 2006.

- **Chapter 321, Laws of 1998**: Sections 1-21 and 44-46 of Chapter 321, Laws of 1998 were submitted to the voters as Refendum 49, which was approved by voters in November 1998. Section 19 of Chapter 321 designates that bonds issued under its authority "shall distinctly state that they are a general obligation of the state of Washington" and are first payable from "the proceeds of the state excise taxes on motor vehicle and special fuels". Thus, bonds issued under this authorization are both general obligation and MVFT bonds.
- **Chapter 334, Laws of 2006**: Chapter 334, Laws of 2006 changed some language regarding which agency was authorized to request that bonds be sold. It did not affect the characterization of the bonds.

The TNB bonds authorized by the State Finance Committee are MVFT GO bonds. Because they are authorized in statute by legislation that was approved by voters, they are also voter approved bonds and subject to RCW 39.53.090.

Looking forward

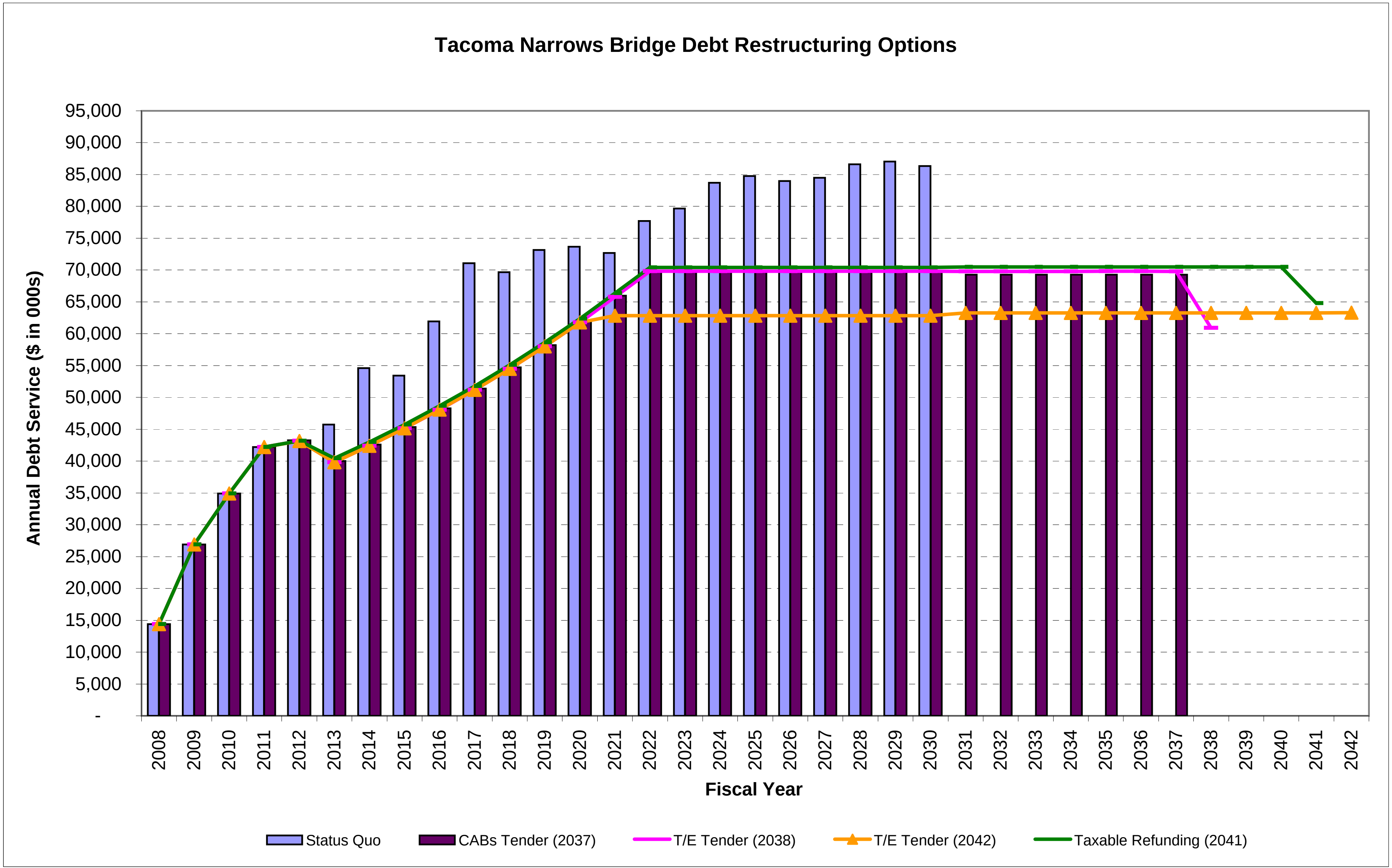
Debt for the SR 520 Corridor Program has been structured within a different framework. Most importantly, debt service on the SR 520 bonds increases only modestly from year to year, in line with projected revenues that assume no toll hikes over time for purposes of repaying the debt. In addition, and consistent with the Treasurer's Principles of Tolling, the bond documents in this financing include a contractual commitment to produce net toll revenues that pay for debt service and meet a specified coverage ratio with a cushion of reserves. All toll backed bonds with maturities beyond ten years are anticipated to be callable.

Sincerely,

Ellen L. Evans
Deputy Treasurer, Debt Management

Enclosure

cc: Clint McCarthy, Senate Committee Services



Financing Option Statistics:

	Total Debt Service	Gross Dissavings	PV Dissavings @ 4.10%	All-In Cost	New Bond Par	Required Fund Deposit	Refunded Par Face Value	New Interest Through 2030
Status Quo	1,491,879,358	-	-	N/A	-	-	-	
Tax-Exempt Tender (2038)	1,806,006,318	(314,126,960)	(59,755,272)	4.10%	445,090,000	504,590,444	644,525,000	409,174,000
Tax-Exempt Tender (2042)	1,950,098,384	(458,219,026)	(83,567,907)	4.19%	560,915,000	631,333,395	816,860,000	515,652,000
CABs TE Tender (2037)	1,742,449,013	(250,569,655)	(37,948,821)	4.46%	182,721,744	181,308,135	234,300,000	-
Taxable Refunding (2041)	2,037,118,368	(545,239,009)	(137,160,993)	4.49%	598,425,000	594,929,323	714,140,000	489,803,000

Assumptions: Restructuring of debt occurs on January 12, 2012 using rates as of the same day. Numbers are preliminary and subject to change.

Tacoma Narrows Toll Bridge Account (511)

Financial Plan Comparison: July 10, 2010 Financial Plan versus Fiscal Year 2011 Actuals

(dollars in thousands)

Fiscal Year	10-Jul-10 Financial Plan FY 2011	Current Financial Plan (Actuals) 2011	Difference 2011
Toll Rate (Good-To-Go)	**$ 2.75**	**$ 2.75**	
Toll Rate (Cash)	**$ 4.00**	**$ 4.00**	
Toll Rate (Pay-By-Mail)			
Beginning Unreserved Fund Balance	**15,355**	**16,413**	**1,058**
Operations and Maintenance			
Sources of Funds [1]			
Interest Earnings from Tacoma Narrows Account (511) [2]	192	145	(48)
Interest Earnings from Toll Collection Account (495) [2]	69	33	(36)
Toll Revenue	46,155	44,049	(2,106)
Transponder Sales Revenue	653	644	(9)
Violations	370	489	119
Civil Penalties Gross Revenue	152	-	(152)
Fees [4]	104	76	(28)
Miscellaneous Revenue [5]	-	768	768
Inventory Reserve [6]	-	387	387
Debt Service Payment [7]	(42,200)	(42,200)	-
Debt Service Withholding [7]	(2,755)	(2,755)	-
Total Sources of Funds for Operations and Maintenance	**2,740**	**1,636**	**(1,104)**
Uses of Funds [8]			
WSDOT Oversight & Admin. of Toll Operations [9]	1,890	2,260	370
WSDOT Oversight & Admin. of Adjudication Process	140	-	(140)
Toll Operator Contract	7,794	5,621	(2,173)
Insurance	2,534	1,463	(1,071)
Washington State Patrol	342	209	(133)
Maintenance of New Bridge	779	211	(568)
Preservation of New Bridge, Roadway & Toll Systems	546	113	(433)
Total Uses of Funds for Operations and Maintenance	**14,025**	**9,876**	**(4,149)**
Current Year Balance for Ops. And Maint. (Sources - Uses)	**(11,285)**	**(8,240)**	**3,045**
Cumulative Balance for Ops. And Maint.	**225**	**4,213**	**3,988**
Capital Improvements			
Uses of Funds			
Capital Expenditures [11]	-	50	50
Prior Period Recoveries	-	(1)	(1)
Total Uses of Funds for Capital	**-**	**49**	**49**
Current Year Balance for Capital (Sources - Uses)	**-**	**(49)**	**(49)**
Cumulative Balance for Capital Improvements	**3,844**	**3,911**	**67**
Ending Unreserved Fund Balance	**4,070**	**8,124**	**4,054**
Days of Expenses Covered by Ending Fund Balance	26	57	30
Sufficient Fund Balance = End Balance / (Costs + Debt Service)	7.2%	15.6%	8.3%
12.5% Sufficient Minimum Balance	7,028	6,516	(513)

[1] For GAAP purposes, Interest Earnings, Donations, Debt Service and Transfers displayed as Operations Sources of Funds are considered to be Nonoperating Activities.

[2] Interest income displayed is net of the cost of investment activities. The interest earning estimates from TNB account in FY13 to FY15 assume the annual ending fund balance will reach the required 12.5% Sufficient Minimum Balance.

[3] The repayment of $5.288m to the Motor Vehicle Account (MVA) is included in enacted 2011-13 transportation budget. As required by RCW 46.63.160 (9), through June 30, 2013, TNB civil penalty revenue that are in excess of amounts necessary to support TNB toll adjudication process must be allocated toward repayment of the $5.288 m MVA loan.

[4] Includes NSF check, Customer Service Center administration fees, and the reprocessing fee associated with the second PBM statement.

[5] Includes contractor liquidated damages for late project delivery, cash over, prior period recoveries, $102k of donations for grand opening in FY08, $2,350 down-payment for the $21,501 sale of surplus right of way in FY10, and the $164 monthly payment for the same real estate sale starting from FY11 for 19 years. The $10,000 in FY09 reflects a transfer to the Health Care Authority Admin. Account for the state insurance accounting system supporting FTEs assigned to the TNB. In FY11, $763,297 was paid by toll vendor as the contractual damages. Among the $763,297, $11,556 was from TransCore and $396,000 was from ETCC due to vendor system issues which caused a decrease in toll revenue; another $355,741 was paid by ETCC to repay related TNB costs.

[6] Inventory Reserve represents the change in consumable inventory of transponders from year to year. For governmental fund financial reporting, inventory balances are recorded as a reservation of fund balance so they are not spendable resources. In 2010, a new law (Chapter 249, Laws of 2010, Sec. 8(3)) authorizes the use of the Toll Collection Account (495) to record transponder inventory upon certification of the new statewide tolling operations center and photo toll system are fully operational. This new tolling system was certified on December 2, 2011.

[7] Debt Service Payment represents Principal and Interest payments paid out of the Highway Bond Retirement Account for bonds sold for TNB Account construction costs. Debt Service Withholding represents the amount transferred in a given fiscal year from the TNB Account, more or less than the Debt Service Payment. RCW 47.10.847 requires the State Treasurer to withhold amounts for as required by the bond proceedings into the Highway Bond Retirement Account, which is on a monthly basis prior the due dates of the debt service payment.

[8] Uses of Funds for Operations in FY12 and FY13 reflect agency proposed 2011-13 allotment plan. Operation and maintenance uses except for insurance, maintenance, preservation is inflated in FY14 and FY15 using half the rate of IPD. Maintenance and preservation are from WSDOT plan updated in Spring 2011.

[9] WSDOT Oversight & Admin. includes Credit Card and Bank Fees, Transponders, Salaries and Benefits, Personal Service Contracts, Travel, and Capital Outlays for use in TNB Operations.

[10] The $677.78m bond net proceeds for Tacoma Narrows Bridge include $681.17m PAR amount, $3.03m premium, and $6.42m underwriter discount/cost of issuance.

[11] In addition to the $718 million capital expenditures from TNB account, $11 million was spent on the TNB capital improvement from MVA account in the 1999-2001 and 2001-2003 Biennia prior to the creation of Tacoma Narrows Toll Bridge Account.

[12] The compensation adjustment is based on the assumption of a 3% salary reduction which is expected to be included in the 2011-13 general fund operations budget. This amount could change.

Tacoma Narrows Toll Bridge Account (511)

Annual Financial Plan

Draft Financial Plan Through 2015 - Updated on January 9, 2012

Revenue estimate is based on Draft November 2011 Transportation Revenue Forecast; expenditure estimates for FY12 and FY13 are based on agency allotment plan

(dollars in thousands)

	Actuals									*Forecast*				Total Through
Fiscal Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**
Toll Rate (Pre-Pay)						**$ 1.75**	**$ 2.75**	**$ 2.75**	**$ 2.75**	***$ 2.75***	***$ 2.75***	***$ 2.75***	***$ 2.75***	
Toll Rate (Cash)						**$ 3.00**	**$ 4.00**	**$ 4.00**	**$ 4.00**	***$ 4.00***	***$ 4.00***	***$ 4.00***	***$ 4.00***	
Toll Rate (Pay-By-Mail, Customer Initiated)										***$ 5.00***	***$ 5.00***	***$ 5.00***	***$ 5.00***	
Toll Rate (Pay-By-Mail)										***$ 5.50***	***$ 5.50***	***$ 5.50***	***$ 5.50***	
Beginning Unreserved Fund Balance	**-**	**36,524**	**34,597**	**17,076**	**44,723**	**17,753**	**9,418**	**16,290**	**16,413**	***8,124***	***3,899***	***(10,870)***	***(37,385)***	
Operations and Maintenance														
Sources of Funds [1]														
Interest Earnings from Tacoma Narrows Account (511) [2]	-	-	-	8	52	232	281	341	145	*82*	*118*	*135*	*138*	1,530
Interest Earnings from Toll Collection Account (495) [2]	-	-	-	-	-	3	115	71	33	*33*	*33*	*35*	*36*	358
Toll Revenue	-	-	-	-	-	29,960	44,323	45,353	44,049	*43,983*	*44,865*	*46,410*	*47,722*	346,665
Pay-By-Mail Impacts on Toll Revenue	-	-	-	-	-	-	-	-		*924*	*1,738*	*1,889*	*1,975*	6,526
Toll Revenue Used for Financing Deferred Sales Tax											*(1,848)*	*(5,759)*	*(5,759)*	(13,367)
Transponder Sales Revenue	-	-	-	-	-	760	608	629	644	*322*	*339*	*341*	*351*	3,994
Violations	-	-	-	-	-	467	598	594	489	*335*	-	-	-	2,482
Civil Penalties Gross Revenue	-	-	-	-	-	-	-	-	-	*318*	*1,273*	*1,479*	*1,510*	4,580
Transfers from/(to) Other Accounts [3]	-	-	-	1,300	5,288	-	(10)	-	-		*(302)*	*(1,479)*	*(1,510)*	3,287
Fees [4]	-	-	-	-	-	1	56	104	76	*107*	*107*	*107*	*107*	665
Miscellaneous Revenue [5]	-	-	-	-	913	279	0	16	768	*2*	*2*	*2*	*2*	1,984
Inventory Reserve [6]					(343)	(234)	380	(190)	387	-	-	-	-	-
Debt Service Payment [7]	-	-	-	-	-	(14,389)	(26,915)	(34,925)	(42,200)	*(43,267)*	*(45,743)*	*(54,599)*	*(53,429)*	(315,467)
Debt Service Withholding [7]	-	-	-	-	-	(300)	0	22	(2,755)	*2,824*	*(220)*	*(3,556)*	*(1,138)*	(5,122)
Total Sources of Funds for Operations and Maintenance	**-**	**-**	**-**	**1,308**	**5,910**	**16,777**	**19,435**	**12,013**	**1,636**	***5,663***	***362***	***(14,995)***	***(9,995)***	**38,114**
Uses of Funds [8]														
WSDOT Oversight & Admin. of Toll Operations [9]	-	-	-	172	1,866	2,180	2,278	2,301	2,260	*2,439*	*2,698*	*2,754*	*2,811*	21,759
WSDOT Oversight & Admin. of Adjudication Process	-	-	-	-	-	-	-	-		*337*	*952*	*972*	*992*	3,253
Toll Operator Contract	-	-	-	490	2,759	9,852	6,932	6,781	5,621	*4,893*	*5,392*	*5,504*	*5,618*	53,841
Insurance	-	-	-	-	-	2,680	1,339	1,602	1,463	*1,600*	*1,600*	*1,600*	*1,600*	13,484
Washington State Patrol	-	-	-	-	-	572	315	271	209	-	-	-	-	1,366
Maintenance of New Bridge	-	-	-	-	-	103	268	229	211	*410*	*450*	*510*	*545*	2,726
Preservation of New Bridge, Roadway & Toll Systems	-	-	-	-	-	-	-	-	113	*182*	*76*	*125*	*2,935*	3,431
Pay-By-Mail Admin.					-	-	-	-		*65*	*92*	*94*	*96*	347
Compensation Adjustment [12]										*(39)*	*(39)*	*(39)*	*(39)*	(156)
Total Uses of Funds for Operations and Maintenance	**-**	**-**	**-**	**662**	**4,625**	**15,387**	**11,132**	**11,184**	**9,876**	***9,888***	***11,221***	***11,520***	***14,558***	**100,052**
Current Year Balance for Ops. And Maint. (Sources - Uses)	**-**	**-**	**-**	**646**	**1,285**	**1,390**	**8,302**	**829**	**(8,240)**	***(4,224)***	***(10,859)***	***(26,515)***	***(24,553)***	**(61,938)**
Cumulative Balance for Ops. And Maint.	**-**	**-**	**-**	**646**	**1,931**	**3,321**	**11,624**	**12,453**	**4,213**	***(11)***	***(10,870)***	***(37,385)***	***(61,938)***	
Capital Improvements														
Sources of Funds														
Interest Earnings [2]	2,125	1,239	774	1,523	1,802	824	400	-	-	-	-	-	-	8,687
Bond Net Proceeds [10]	231,207	197,234	108,634	111,986	16,002	12,716	-	-	-	-	-	-	-	677,780
Capitalized Interest (Debt Service)	-	-	-	(1,792)	(2,580)	-	-	-	-	-	-	-	-	(4,372)
Toll Revenue Used for Financing Deferred Sales Tax											*1,848*	*5,759*	*5,759*	13,367
Charges for Services	-	-	4	2	145	-	-	-	-	-	-	-	-	152
Transfers from Motor Vehicle Account (MVA)	39,000	-	-	-	-	-	-	-	-	-	-	-	-	39,000
Total Sources of Funds for Capital	**272,332**	**198,473**	**109,412**	**111,720**	**15,369**	**13,540**	**400**	**-**	**-**	**-**	***1,848***	***5,759***	***5,759***	**734,613**
Uses of Funds														
Capital Expenditures [11]	235,808	200,400	127,046	84,720	43,623	23,319	2,230	707	50	-	-	-	-	717,902
Deferred Sales Tax					-	-	-	-	-	-	*5,759*	*5,759*	*5,759*	17,278
Prior Period Recoveries	-	-	(113)	-	-	(54)	(400)	-	(1)	-	-	-	-	(568)
Total Uses of Funds for Capital	**235,808**	**200,400**	**126,933**	**84,720**	**43,623**	**23,266**	**1,830**	**707**	**49**	**-**	***5,759***	***5,759***	***5,759***	**734,613**
Current Year Balance for Capital (Sources - Uses)	**36,524**	**(1,927)**	**(17,521)**	**27,001**	**(28,254)**	**(9,726)**	**(1,430)**	**(707)**	**(49)**	**-**	***(3,911)***	**-**	**-**	**-**
Cumulative Balance for Capital Improvements	**36,524**	**34,597**	**17,076**	**44,077**	**15,822**	**6,097**	**4,667**	**3,960**	**3,911**	***3,911***	**-**	**-**	**-**	
Ending Unreserved Fund Balance	**36,524**	**34,597**	**17,076**	**44,723**	**17,753**	**9,418**	**16,290**	**16,413**	**8,124**	***3,899***	***(10,870)***	***(37,385)***	***(61,938)***	
Days of Expenses Covered by Ending Fund Balance								128	57	27	(63)	(190)	(307)	
Sufficient Fund Balance = Ending Fund Balance / (Total Uses of Fund + Debt Service Payment)								35.1%	15.6%	7.3%	-17.3%	-52.0%	-84.0%	
12.5% Sufficient Minimum Balance								5,852	6,516	6,644	7,840	8,985	9,218	
Additional Fund Balance Needed to Reach 12.5% Sufficient Minimum Balance										*2,745*	*18,711*	*46,370*	*71,156*	

See Notes on Reverse

NOTES:

[1] For GAAP purposes, Interest Earnings, Donations, Debt Service and Transfers displayed as Operations Sources of Funds are considered to be Nonoperating Activities.

[2] Interest income displayed is net of the cost of investment activities. The interest earning estimates from TNB account in FY13 to FY15 assume the annual ending fund balance will reach the required 12.5% Sufficient Minimum Balance.

[3] The repayment of $5.288m to the Motor Vehicle Account (MVA) is included in enacted 2011-13 transportation budget. As required by RCW 46.63.160 (9), through June 30, 2013, TNB civil penalty revenue that are in excess of amounts necessary to support TNB toll adjudication process must be allocated toward repayment of the $5.288 m MVA loan.

[4] Includes NSF check, Customer Service Center administration fees, and the reprocessing fee associated with the second PBM statement.

[5] Includes contractor liquidated damages for late project delivery, cash over, prior period recoveries, $102k of donations for grand opening in FY08, $2,350 down-payment for the $21,501 sale of surplus right of way in FY10, and the $164 monthly payment for the same real estate sale starting from FY11 for 19 years. The $10,000 in FY09 reflects a transfer to the Health Care Authority Admin. Account for the state insurance accounting system supporting FTEs assigned to the TNB. In FY11, $763,297 was paid by toll vendor as the contractual damages. Among the $763,297, $11,556 was from TransCore and $396,000 was from ETCC due to vendor system issues which caused a decrease in toll revenue; another $355,741 was paid by ETCC to repay related TNB costs.

[6] Inventory Reserve represents the change in consumable inventory of transponders from year to year. For governmental fund financial reporting, inventory balances are recorded as a reservation of fund balance so they are not spendable resources. In 2010, a new law (Chapter 249, Laws of 2010, Sec. 8(3)) authorizes the use of the Toll Collection Account (495) to record transponder inventory upon certification of the new statewide tolling operations center and photo toll system are fully operational. This certification is expected to take place in FY12.

[7] Debt Service Payment represents Principal and Interest payments paid out of the Highway Bond Retirement Account for bonds sold for TNB Account construction costs. Debt Service Withholding represents the amount transferred in a given fiscal year from the TNB Account, more or less than the Debt Service Payment. RCW 47.10.847 requires the State Treasurer to withhold amounts for as required by the bond proceedings into the Highway Bond Retirement Account, which is on a monthly basis prior the due dates of the debt service payment.

[8] Uses of Funds for Operations in FY12 and FY13 reflect agency proposed 2011-13 allotment plan. Operation and maintenance uses except for insurance, maintenance, preservation is inflated in FY14 and FY15 using half the rate of IPD. Maintenance and preservation are from WSDOT plan updated in Spring 2011.

[9] WSDOT Oversight & Admin. includes Credit Card and Bank Fees, Transponders, Salaries and Benefits, Personal Service Contracts, Travel, and Capital Outlays for use in TNB Operations.

[10] The $677.78m bond net proceeds for Tacoma Narrows Bridge include $681.17m PAR amount, $3.03m premium, and $6.42m underwriter discount/cost of issuance.

[11] In addition to the $718 million capital expenditures from TNB account, $11 million was spent on the TNB capital improvement from MVA account in the 1999-2001 and 2001-2003 Biennia prior to the creation of Tacoma Narrows Toll Bridge Account.

[12] The compensation adjustment is based on the assumption of a 3% salary reduction which is expected to be included in the 2011-13 general fund operations budget. This amount could change.

TNB Projected and Reported Traffic and Revenue

Traffic and Revenue Statistics for Fiscal Year 2012 - Quarter Ending December

February 3, 2012

	Projected Traffic	Reported Traffic		Variance	Projected Toll Revenue	Reported Toll Revenue		Variance	Reported Transponder Revenue	Reported Violation Revenue	Toll Vendor Contractural Damages	Reported Misc. Revenue	Total Reported Revenue
Jul-11	1,327,289	1,251,598	A	(75,691)	$ 4,132,771	$ 2,282,968	B,C	$ (1,849,804)		$ (24,647)		$ 7,178	$ 2,265,498
Aug-11	1,327,555	1,277,207	A	(50,348)	$ 4,148,176	$ 2,549,713	B,C	$ (1,598,463)		$ 24,647		$ 327	$ 2,574,687
Sep-11	1,112,957	1,183,275	A	70,318	$ 3,480,599	$ 6,955,171	B,C	$ 3,474,572	$ 110,037			$ 538	$ 7,065,746
Oct-11	1,167,699	1,190,557	A	22,858	$ 3,639,456	$ 3,691,785	B	$ 52,329		$ 4,830		$ 7,031	$ 3,703,646
Nov-11	1,103,660	1,111,361	A	7,701	$ 3,427,979	$ 3,465,026	B	$ 37,047		$ 22,182		$ 505	$ 3,487,713
Dec-11	1,109,652	1,101,462	A	(8,190)	$ 3,436,497	$ 3,710,783	B	$ 274,286	$ 65,828	$ 19,354		$ 20,549	$ 3,816,514
Jan-12	1,095,642				$ 3,399,417								$ -
Feb-12	1,087,845				$ 3,369,563								$ -
Mar-12	1,210,114				$ 3,744,169								$ -
Apr-12	1,155,271				$ 3,575,295								$ -
May-12	1,214,234				$ 3,787,743								$ -
Jun-12	1,228,113				$ 3,814,554								$ -
FY To Date	**7,148,812**	**7,115,460**		**(33,352)**	**22,265,478**	**22,655,446**		**389,968**	**$ 175,865**	**$ 46,366**	**$ -**	**$ 36,128**	**$ 22,913,804**
FY Totals	**14,140,031**	**7,115,460**		**(7,024,571)**	**$ 43,956,219**	**$ 22,655,446**		**(21,300,773)**	**$ 175,865**	**$ 46,366**	**$ -**	**$ 36,128**	

Notes:

A = Reported Traffic - While we are not aware of any material discrepancies on traffic counts for SFY12, key ETCC reconciliations have not been completed. Final transaction counts will not be known until reconciliations are complete.

B = Toll Revenue - As of February 13, 2011, WSDOT transitioned tolling customer service center operations to a new vendor - Electronic Transaction Consultants Corporation (ETCC). With this transition, the new ETCC system encountered problems in the accuracy and timeliness of recording revenue and other accounting transactions. WSDOT and ETCC have investigated and corrected accounting records for known discrepancies. While we are not aware of any *material* discrepancies in the accounting records, ETCC has not completed key reconciliations which ensure timely and accurate processing of financial transactions. Upon completion of these reconciliations, any discrepancies identified will be addressed and necessary correcting adjustments made.

C = Revenue for months of July and August was understated due to transactions that failed to process within the WSDOT financial system. Upon identifying the transactions were on the WSDOT financial system error file, they were processed in the September 2011. Processes have been put in place to ensure this daily transaction processing validation takes place on daily.

THE TACOMA NARROWS BRIDGE ACCOUNT
WASHINGTON STATE DEPARTMENT OF TRANSPORTATION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
State Fiscal Year 2012, Quarter Ending December 31, 2011

	NOTES	JULY THROUGH SEPTEMBER	OCTOBER THROUGH DECEMBER	YEAR-TO-DATE
OPERATING REVENUES:				
Tolling Revenue	1	11,787,852	10,867,594	22,655,446
Violation Penalty Revenue		0	46,366	46,366
Transponder Sales	2	110,037	65,828	175,865
Miscellaneous Revenue	3	8,043	28,085	36,127
Total Operating Revenues		11,905,931	11,007,873	22,913,804
OPERATING EXPENDITURES:				
Goods and Services				
Toll CSC Operations Vendor Contract		312,041	343,645	655,686
Toll Booth and Lane Vendor Contract		840,511	549,316	1,389,827
Insurance		1,486,315	0	1,486,315
Credit Card and Bank Fees		222,914	188,911	411,825
Transponder Cost of Goods Sold	4	93,204	37,064	130,269
Other	5	40,140	58,433	98,573
Personal Service Contracts	6	3,984	55,115	59,099
Salaries and Benefits		120,036	121,910	241,946
Infrastructure Maintenance & Preservation	7	31,703	36,635	68,339
Total Operating Expenditures		3,150,849	1,391,030	4,541,879
EXCESS OF OPERATING REVENUE OVER EXPENDITURES		8,755,082	9,616,843	18,371,925
NONOPERATING INCOME (EXPENDITURES)				
Prior Period Recoveries		0	44	44
Undistributed Receipts/Suspense	8	(60,126)	(27,436)	(87,562)
Interest Income		17,915	26,219	44,134
Total Nonoperating Income (Expenditures)		(42,211)	(1,174)	(43,384)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		8,712,871	9,615,669	18,328,541
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	9	(10,212,126)	(7,039,209)	(17,251,335)
Total Other Financing Sources (Uses)		(10,212,126)	(7,039,209)	(17,251,335)
NET CHANGE IN FUND BALANCE		(1,499,255)	2,576,460	1,077,206
FUND BALANCE - BEGINNING		**8,123,673**	**6,624,418**	**8,123,673**
FUND BALANCE - ENDING		**6,624,418**	**9,200,879**	**9,200,879**

Toll Financial Statements were prepared in accordance with Generally Accepted Accounting Principles for governmental fund types.

The notes to the financial statements are an integral part of this statement.

Prepared February 6, 2012
by the Division of Accounting and Financial Services

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
State Fiscal Year 2012, Quarter Ending December 31, 2011

Notes:

Backlogged Financial Reconciliations - As of February 13, 2011, WSDOT transitioned tolling customer service center operations to a new vendor – Electronic Transaction Consultants Corporation (ETCC). With this transition, the new ETCC system encountered problems in the accuracy and timeliness of recording revenue and other accounting transactions. WSDOT and ETCC have investigated and corrected accounting records for known discrepancies. While we are not aware of material discrepancies in the accounting records, ETCC has not completed key reconciliations which ensure timely and accurate processing of financial transactions. Upon completion of these reconciliations, any discrepancies identified will be addressed and necessary correcting adjustments will be made.

Deferred Sales Tax Obligation – Beginning December 2012, the Tacoma Narrows Bridge (TNB) Account is required to pay $5.7 million, each December for ten consecutive years, to the Department of Revenue for deferred sales tax related to the construction of the Tacoma Narrows Bridge. This long-term obligation is reflected in the General Long Term Obligations Subsidiary Account.

Motor Vehicle Account Obligation – The TNB Account is obligated to repay $5.288 million loaned from the Motor Vehicle Account during the 05/07 biennium. As directed by legislation, all net TNB Civil Penalty Revenue received under the future Notice of Civil Penalty Adjudication process must be transferred to the Motor Vehicle Account as repayment of the outstanding obligation until the full amount of the original loan ($5.288 million) has been repaid.

Detailed Notes:

1 Tolling Revenue represents the revenue earned, net of any adjustments, from vehicles traveling over the Tacoma Narrows Bridge in an eastbound direction. Tolls are collected either at a toll booth or via an electronic toll account or via pay-by-mail.

2 Transponder Sales represents the sale of transponder devices purchased by potential Good to Go electronic toll account customers.

3 Miscellaneous Revenue includes administrative & statement fees, NSF check fees, and cash over. Miscellaneous revenue also includes payments related to sale of surplus property.

4 Transponder Cost of Goods Sold represents the cost of transponders including the purchase price of transponders, packaging materials, and costs for postage.

5 Other Goods and Services expenditures include items such as supplies, communications, rents, repairs, services provided by outside vendors, etc.

6 Personal Service Contract expenditures are for costs incurred for traffic and revenue forecast consulting and CSC operations consulting.

7 Infrastructure Maintenance & Preservation includes the cost of maintenance and bridge preservation activities on the new Tacoma Narrows Bridge not performed by TNB Toll Operations staff. (These costs include Goods and Services of $27,275 and Salaries and Benefits of $41,064.)

8 Undistributed Receipts includes all suspense revenue. This includes suspense of cash toll revenue that occurs as cash moves in and out of the account. Where applicable, suspense revenue is analyzed and periodically reclassified to the appropriate revenue source or expense item.

9 Operating Transfers Out is a transfer of toll proceeds and cash from the TNB Account to the Highway Bond Retirement Account to facilitate the payment of debt service.

WASHINGTON TOLLING SYSTEM
WASHINGTON STATE DEPARTMENT OF TRANSPORTATION

COMBINING BALANCE SHEET
State Fiscal Year 2012, Quarter Ending December 31, 2011

	NOTES	TNB ACCOUNT	HOT LANES ACCOUNT	CENTRAL TOLL ACCOUNT	COMBINED
ASSETS					
CURRENT ASSETS:					
Cash and Cash Equivalents		9,033,303	823,347	6,953,595	16,810,246
Accounts Receivable	1,2,3	352,023	28,565	1,428,373	1,808,961
Due From Toll Vendor(s)	4	472,851	19,687		492,538
Consumable Inventories	5		459		459
Total Current Assets		9,858,177	872,058	8,381,968	19,112,203
TOTAL ASSETS		9,858,177	872,058	8,381,968	19,112,203
LIABILITIES AND FUND BALANCE					
CURRENT LIABILITIES:					
Accounts Payable		489,734	27,211	125	517,070
Due to Other Funds		1,996	1,751		3,746
Due to Department of Revenue - Taxes				27,861	27,861
Deferred Revenue	6	162,857		8,341,853	8,504,710
Unclaimed Property Refund Liability	7			11,439	11,439
Liability for Cancelled Warrants	8	2,711		690	3,401
Total Current Liabilities		657,298	28,962	8,381,968	9,068,228
TOTAL LIABILITIES		657,298	28,962	8,381,968	9,068,228
FUND BALANCE					
Nonspendable Consumable Inventories	5		459		459
Restricted for Transportation	9	9,200,879			9,200,879
Committed for Transportation	9		842,637		842,637
Total Fund Balance		9,200,879	843,096	0	10,043,975
TOTAL LIABILITIES AND FUND BALANCE		9,858,177	872,058	8,381,968	19,112,203

Toll Financial Statements were prepared in accordance with Generally Accepted Accounting Principles for governmental fund types.

The notes to the financial statements are an integral part of this statement.

Prepared February 6, 2012
by the Division of Accounting and Financial Services

COMBINING BALANCE SHEET
State Fiscal Year 2012, Quarter Ending December 31, 2011 – Draft!

Notes:

TNB Deferred Sales Tax Obligation – Beginning December 2012, the Tacoma Narrows Bridge (TNB) Account is required to pay $5.7 million, each December for ten consecutive years, to the Department of Revenue for deferred sales tax related to the construction of the Tacoma Narrows Bridge. This long-term obligation is reflected in the General Long Term Obligations Subsidiary Account.

TNB Motor Vehicle Account Obligation – The TNB Account is obligated to repay a $5.288 million loan from the Motor Vehicle Account, during the 05/07 biennium. As directed by legislation, all net TNB Civil Penalty Revenue received under the future Notice of Civil Penalty Adjudication process must be transferred to the Motor Vehicle Account as repayment of the outstanding obligation until the full amount of the original loan ($5.288 million) has been repaid.

HOT Lanes Operating Expenditures in Other Accounts - Currently the High Occupancy Toll (HOT) Lanes Account pays most costs associated with operations and maintenance of the HOT Lanes on SR 167. However, the monthly cost associated with Toll Lane vendor warranty as well as some WSDOT staffing has been funded outside of the HOT Lanes Account. Based upon the 2013 biennium budgeted amounts, the additional project costs that are currently estimated to be funded outside of the HOT Lanes Account are approximately $43,500 per quarter ($174,000 per fiscal year).

Detailed Notes:

1 Accounts Receivable in the TNB Account consists primarily of: (a) Crossings that are in the image review process and toll fees have yet to be transferred from customer accounts, (b) Crossings where a Toll Bill has been sent to the customer via Pay-by-Mail, (c) Crossings that are not viable and are awaiting dismissal, (d) Customer payments made by credit card which had yet to settle by December 31, (e) and the TNB Accounts allocated share of NSF fee and transponder sales receivables.

2 Accounts Receivable in the HOT Lanes Account consists of amounts due from customers because their prepaid account had an insufficient balance and HOT Lanes allocated share of NSF fee and transponder sales receivables.

3 Accounts Receivable in the Central Toll Account consists primarily of customer payments made by credit card which had yet to settle by the close of the reporting period.

4 For TNB, Due from Toll Vendors consists of amounts due from the TNB Lane Vendor (TransCore) due to system issues which caused a $11,556 decrease in toll revenue in fiscal year 2011, and $461,295 due from the CSC operations vendor (ETCC) for costs incurred and decrease toll revenue in fiscal year 2011. For HOT Lanes, Due from Toll Vendor consists of amounts due from the CSC operations vendor (ETCC) for costs incurred in fiscal year 2011. For the Central Toll Account amount are due from the CSC operations vendor ETCC due to operational and system errors that have required manual corrections and have resulted in amounts due to WSDOT.

5 Typically, consumable inventory consists of toll transponders. Consumable inventory is valued at cost using the first in, first out (FIFO) method. Due to statutory requirements, transponder inventory was being temporarily held in Fund 108. The WSDOT Secretary has recently certified the new tolling system and the transponder inventory balance will be transferred to the Central Toll Account, Fund 495. Within the HOT Lanes fund, consumable inventory consists of Transponder Disabling Devices (TDDs).

6 Deferred Revenue, in the Central Toll Account, is money collected from customers for prepaid Good to Go electronic toll accounts. No revenue from the prepaid accounts is recognized until the transponder is “read” as the customers’ vehicle crosses the Tacoma Narrows Bridge or enters a HOT Lane on SR-167 as a single occupant vehicle. Until this event, the prepaid toll account balance represents a liability to the state and is owed to the customer. Deferred Revenue, in the TNB Account is directly attributable to items a and c described above in Note #1.

7 After twenty-four months of inactivity, prepaid toll accounts are closed and remaining balances, less any associated fees, are refunded to the customer. In cases where the Good to Go vendor cannot locate the customer, WSDOT remits the prepaid toll account balance to the Department of Revenue’s Unclaimed Property Section. The balance in Unclaimed Property Refund Liability represents amounts that will be remitted to the Department of Revenue.

8 Occasionally, the Department is unable to remit payment for goods or services to a vendor because the vendor cannot be located, such as when the vendor changes addresses without notifying the Department. Since we still owe the vendor for the goods or services provided, we must cancel the original warrant (check), find the vendor, and reissue the warrant (check). This line item represents the liability to the vendors whom the Department owes money but temporarily cannot locate to deliver their funds.

9 The fund balance is considered “restricted” if its usage is limited by creditors, other governments, or through constitutional provisions, and is considered “committed” if usage is limited by the governing authority.

Washington State Department of Transportation

February 2012

Tacoma Narrows Bridge Rate Setting Common Questions

Why is a rate increase needed?

The Tacoma Narrows Bridge construction was funded through bonds and included a payment schedule that was set when the project was originally financed. In December 2012, we must begin repaying deferred sales tax from the construction project. Traffic and revenue is flat and at the current toll rates, we will fall behind in payments.

Who decides what toll rates should be?

The Washington State Transportation Commission, with the advice of the Tacoma Narrows Bridge Citizen's Advisory Committee set toll rates for the state.

When will the new toll rates go into effect?

We anticipate the new toll rates will go into effect July 1, 2012.

Why raise rates during difficult economic times?

We are obligated to make payments to our bond holders and do not have an option to refinance. We already deferred a rate increase in 2011 by dipping into our reserve funds and we can no longer do this. The current *Good To Go!* rate of $2.75 is substantially below the original projection of $4 tolls for all drivers by 2010.

Are we raising rates due to the increasing number of toll facilities?

No –operations and maintenance expenses are gradually declining as per-toll transaction costs are shared across all facilities including Tacoma Narrows Bridge, SR 520, and SR 167 HOT Lanes. We expect our 2012 operation and maintenance costs to be 35 percent lower than our 2008 costs. The new customer service contract is less expensive than the previous contract.

Are we raising rates due to previous vendor service issues?

No – system issues related to 520 tolling do not affect Tacoma Narrows Bridge toll rates.

Upcoming toll rate setting meetings:

CAC Meetings

(held at the Gig Harbor Civic Center)

Feb. 8, 2012	6:30p.m. - 8:30 p.m.
Feb. 22, 2012	6 p.m. - 8 p.m.
Mar. 8, 2012	(if needed)

Washington State Transportation Commission Public Input Meetings

(locations to be determined)

Apr. 18, 2012	Port Orchard	6 p.m. - 8 p.m.
Apr. 19, 2012	Gig Harbor	6 p.m. - 8 p.m.

For more information

Citizen Advisory Committee

www.wsdot.wa.gov/Tolling/TNBTolling/CitizenAdvisoryCommittee

WSDOT Contact:

Patty Michaud
Project Communications Manager
michaup@wsdot.wa.gov
206-716-1133

12-01-1132

Washington State
Department of Transportation

Tacoma Narrows Bridge Photo Tolling

February 2012

What is photo tolling?

Photo tolling is a new payment option for drivers who cross the Tacoma Narrows Bridge and don't have a *Good To Go!* account. Photo tolling includes Pay By Mail and Pay By Plate.

With photo tolling, a photo is taken of the license plate as the vehicle passes through the electronic toll lanes and a bill is mailed to the registered owner of the vehicle. Customers without *Good To Go!* accounts will use the Pay By Mail method. Current *Good To Go!* customers now have a new option to Pay By Plate. This allows vehicles to pay the toll without a pass at a lower *Good To Go!* rate by registering their license plate number with a current *Good To Go!* account.

Will photo tolling affect the cash and *Good To Go!* toll rate?

If you currently cross the Tacoma Narrows Bridge using your *Good To Go!* account, nothing changes. Your toll rate will not change and will be significantly less than the photo toll rate. The cash rate will not change as a result of photo tolling.

Will toll booths be removed?

No, there are currently no plans to remove the toll booths from the Tacoma Narrows Bridge.

What are the benefits of photo tolling?

Photo tolling improves customer service by providing additional payment options. With photo tolling, Tacoma Narrows Bridge users without a *Good To Go!* account will have the option to bypass the toll booth and receive a bill in the mail. Previously, vehicle owners crossing the Narrows Bridge using the electronic toll lanes without a transponder received a $52 infraction notice.

Photo tolling is part of a uniform statewide system that will reduce expenses by enabling Tacoma Narrows to share the burden of administrative costs with the

SR 520 bridge. This will result in an estimated $1.6 to $2.2 million annual savings in operations costs for the Tacoma Narrows Bridge.

How is photo tolling different from the previous system?

Prior to photo tolling there were two options to pay Tacoma Narrows Bridge tolls: cash at the toll booth or electronically with a *Good To Go!* pass. Drivers who cross the bridge without using either of these options are immediately sent into the infraction process managed by Pierce County Courts. Only $12 of the $52 infraction reaches the Narrows Bridge account, with Pierce County Courts keeping the remaining $40.

Under the new system, photo toll customers receive a bill in the mail instead of an infraction. If they do not pay within 80 days, they will receive a notice of civil penalty and be charged $40 in addition to all outstanding toll and fees.

This process will be handled by WSDOT and all money collected will go into the Tacoma Narrows Bridge account.

What are the toll payment options and rates?

(Rates below are based on two axle vehicles)

You can pay the Tacoma Narrows Bridge toll with:

***Good To Go!* pass –** $2.75

***Good To Go!* Pay By Plate –** $3.00

Cash – $4.00

Pay By Mail - $5.50

For more information about toll rate setting, visit www.wstc.wa.gov.

How does Pay By Plate work?

Good To Go! customers with a registered account, but without a pass will use the Pay By Plate option which consists of the *Good To Go!* rate with an additional 25 cents processing fee.

For more information

Website: www.wsdot.wa.gov/tolling

Project contact:
Patricia Michaud,
Project Communications Manager
michaup@wsdot.wa.gov
206-716-1133

12-02-1161