# 07. FINANCE

# Finance

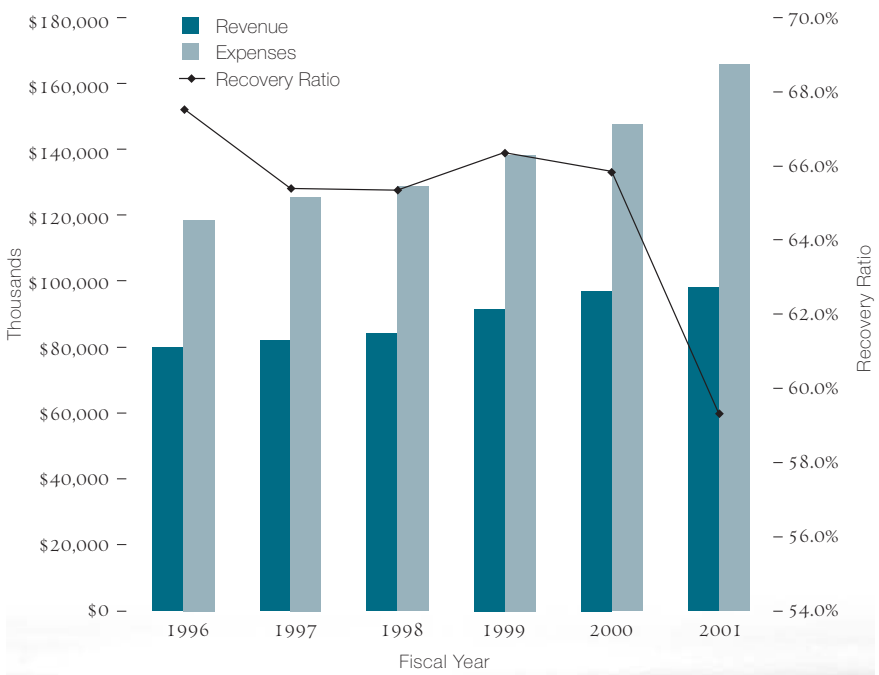
When the ferry system was first purchased by the State from the Puget Sound Navigation Company, it was intended to finance itself solely through the fare box (revenues). The original bonds issued by the Toll Bridge Authority in 1951 required that the system generate net revenues. The ferry system's fare revenues exceeded operating costs until 1960.

Tax support of the ferry system began in 1957 when the State Legislature brought ferry system employees into the State Retirement System. In 1959, the State Legislature created an account, funded by 0.25 cents per gallon of the State's gasoline sales tax, to help pay debt service on revenue bonds issues by the Toll Bridge Authority. In 1960, when operating costs began to exceed revenue received through fares, the ferry system received $672,000 from the State's motor vehicle fuel tax to cover bond payments. Additional ferry system/Hood Canal Bridge bonds were issued in 1963. However, since the early 1970s, all of the debt service payments for the ferry system bonds have come from motor vehicle fuel taxes, not from ferry system operating revenues.

Washington State has continued to provide tax support for the ferry system to supplement revenues from fares and other miscellaneous income. Since the 1970s, state tax sources have included a gasoline sales tax and motor vehicle registration fees. Additionally, WSF pursues federal and local funds for specific projects. The Washington State Transportation Commission mandates that the ferry system fare box generate a minimum of 60% of the system's operating expenses. The remaining expenses are covered by tax support from the State.

In the 1999/01 biennium, WSF's farebox recovery rate was 62.4%. This recovery rate was less than the previous biennium due to a dramatic increase in expenses during fiscal year 2001. The increase was due to three main causes: fuel prices, WSDOT expenditures, and insurance and utilities costs. Fuel prices spiked in 2001 and were $7 million higher than in fiscal year 2000 and even after reducing service hours by 10% in response to I-695. WSF also experienced a significant increase in insurance and utilities costs in fiscal year 2001.

**Expenses and Farebox Recovery for 1996-2001**

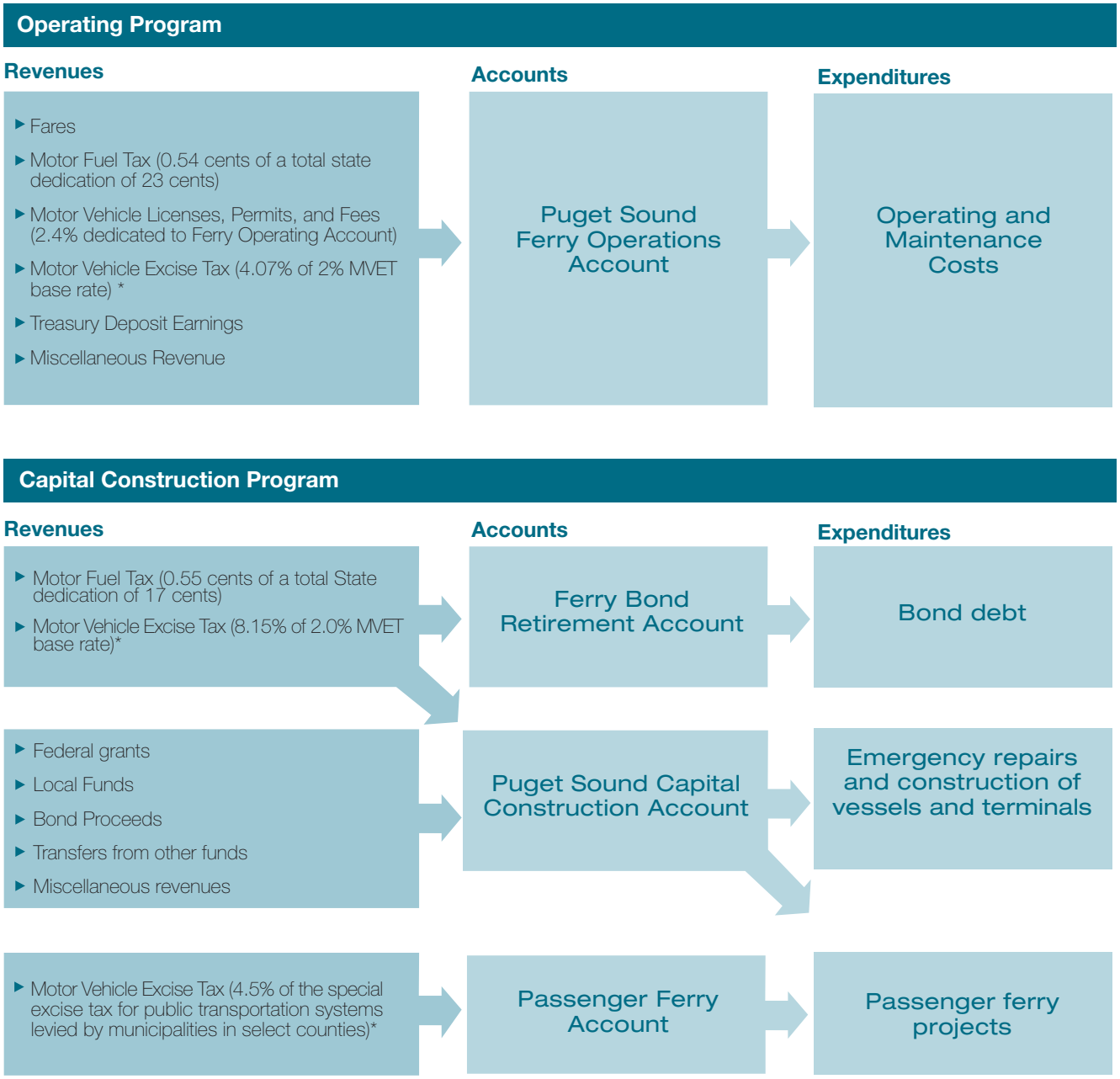


## 1999/01 Operating and Capital Programs

The sudden loss of MVET and Referendum 49 revenues placed a great deal of strain on WSF's operating and capital budgets during this two-year period, as shown in the following revenue history charts. Although WSF did receive final distributions from MVET in the 1999/01 biennium, MVET revenues constituted a much smaller percentage of program budgets. As a stop-gap measure, the Legislature approved a transportation budget in May 2000 that restored much of the funding lost in the wake of I-695. The Legislature authorized a one-time transfer of funds that would allow the ferry system to operate through June 30, 2001.

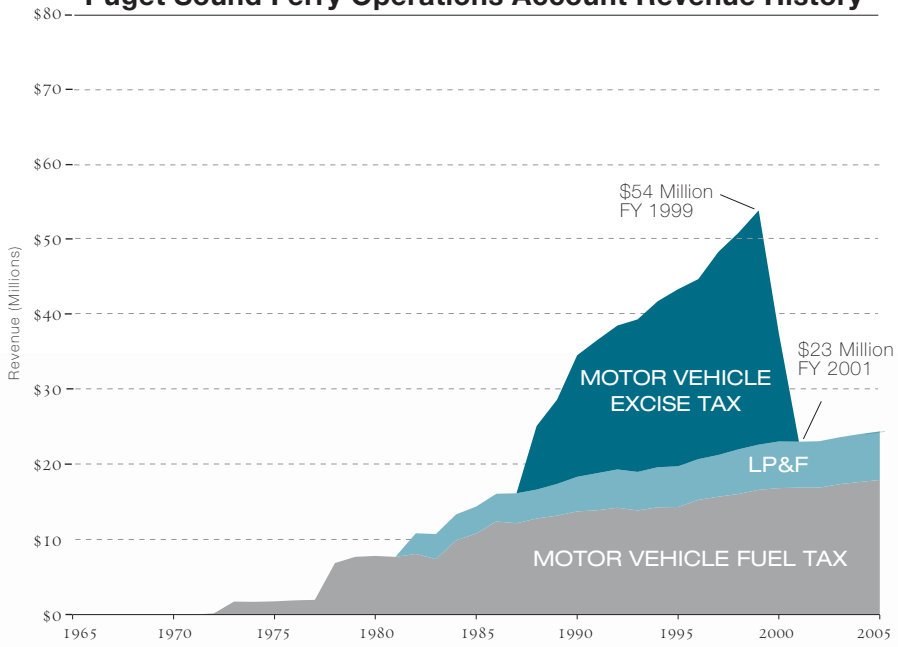
WSF's revenues and expenses are funneled through two programs—the Operating Program and the Capital Program. Both programs are funded through revenues generated by WSF and public subsidies. All of WSF's revenue sources, including federal funding, state funding, bond sales, and fares, are strictly regulated.

### Flow of Funds



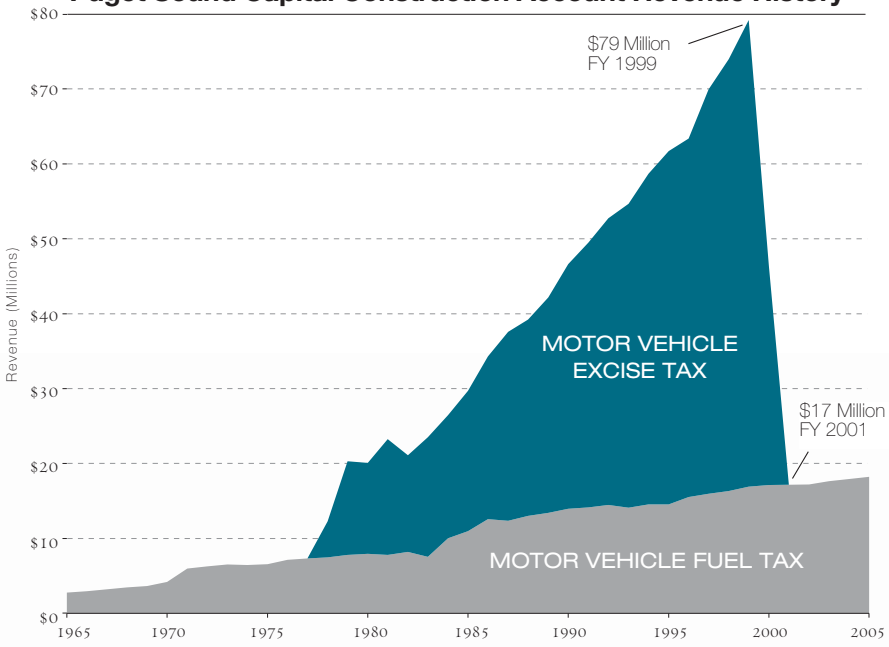

** All MVET distributions and Motor Fuel Tax for Passenger Ferry Account were discontinued in fiscal year 2001.*

## Puget Sound Ferry Operations Account Revenue History




*LP&F = Motor Vehicle Licenses, Permits and Fees*

## Puget Sound Capital Construction Account Revenue History



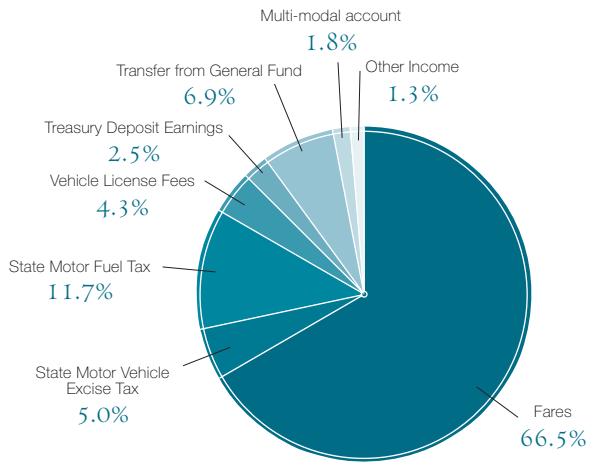
## Operating Program

WSF's Operating Program funds day-to-day fleet and terminal operations and maintenance, and WSF management and support. In the 1999/01 biennium, revenues supporting WSF's Operating Program totaled $219 million. Fares and miscellaneous revenues covered about 62% of WSF's total operating expenses over the two-year period. Although MVET distributions represented 21% of WSF's operating program in the 1997/99 biennium, the MVET covered only 5% of operating expenses in the 1999/01 biennium. The remaining Operating Program expenses were covered by motor vehicle license fees, the State motor fuel tax, treasury deposit earnings, the cash balance available from the previous biennium ($109 million), and supplemental revenues provided by the 2000 Legislature. These included transfers from the General Fund ($20 million) and a transfer from the Multi-Modal Fund specifically appropriated to cover the operating costs of passenger-only ferry service for fiscal year 2001 ($5 million).

### Operating Program

| | 1997/99 Biennium (1000s) | 1999/01 Biennium (1000s) |
|---|---|---|
| **Revenue** | | |
| Fares | $173,400 | $191,783 |
| State Motor Vehicle Excise Tax | 59,900 | 14,414 |
| State Motor Fuel Tax | 32,619 | 33,659 |
| Vehicle License Fees | 11,916 | 12,320 |
| Treasury Deposit Earnings | 10,763 | 7,309 |
| Transfer from General Fund | 0 | 20,000 |
| Multi-modal account | 0 | 5,092 |
| Treasurers Adjustment | 0 | -1,512 |
| Transfer to Capital | 0 | -67,000 |
| Other Income | 1,642 | 3,646 |
| **Total Operating Revenue** | $290,240 | $219,711 |
| | | |
| **Expenses** | | |
| Operations | $202,526 | $240,404 |
| Maintenance | 47,387 | 49,059 |
| Management & Support | 14,314 | 13,856 |
| WSDOT Support | 2,563 | 9,847 |
| **Total Operating Expenses** | $266,790 | $313,167 |

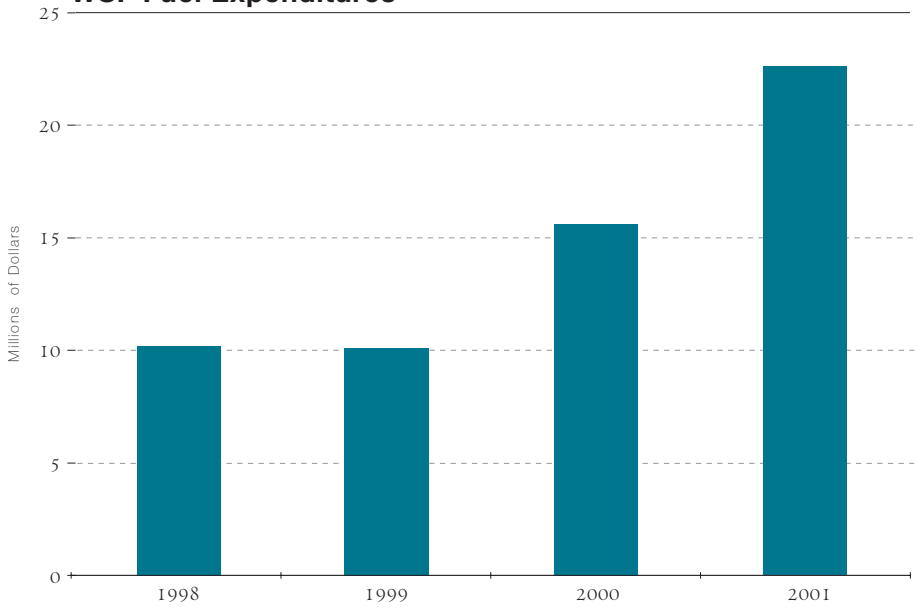
### WSF's Operating Program Revenue Sources-1999/01 Biennium




WSDOT spent a total of $313 million on ferry operations, maintenance, and related support activities in the 1999/01 biennium. This level of spending was considerably lower than the original 1999/01 biennial appropriations of $326 million passed by the 1999 Legislature prior to the passage of I-695. Following the passage of I-695, appropriations were reduced by $11 million including $6 million in service reductions. Approximately 73% of the biennium's expenditures were for operations, 12% for maintenance, and 15% supported management and business expenses. Approximately $16 million in cash was carried forward into the 2001/03 biennium.

WSF's operating costs in the 1999/01 biennium were $46 million higher than in the 1997/99 biennium. Much of the difference is attributed to introducing new ferries part way through the preceding biennium and the rippling effect on capacity throughout the system. Upsizing vessels throughout the system created a large cost obligation for WSF in the 1999/01 biennium. Rising fuel costs during the biennium also contributed to the increased operating expenses. The original 1999/01 biennial appropriation for fuel was set at $29 million, but final fuel costs totaled $38 million. WSF sought and received additional appropriation authority during the 2001 Legislative session to cover soaring fuel costs. Finally, WSF successfully implemented the Legislative-mandated programs to extend the Safety Management System throughout the system and implement a new training program. These programs had a combined cost of about $6 million.

## WSF Fuel Expenditures




## Capital Program

WSF's Capital Program funds all emergency repairs, vessel and terminal improvements, debt service, and interagency support. The Capital Program is financed separately from the Operating Program through various State accounts. Funds available for WSF's Capital Program during the 1999/01 biennium totaled $213.5 million, down from $268.5 million in the 1997/99 biennium, and down from the $287 million budget that was planned prior to the passage of I-695. Revenues included $90.5 million in revenues from current law sources, $80.8 million in transfers and miscellaneous funds, $40.5 million in federal funds, and $1.7 million in cash carryforward.

Because of limited funding, capital expenditures were lower for both vessels and terminals in the 1999/01 biennium as compared to the 1997/99 biennium. It should be noted that WSF's capital program federal revenues almost doubled in the 1999/01 biennium to $40.5 million, up from $21.5 million in the 1997/99 biennium. This increase was due to WSF's aggressive competition for federal grants. Federal agencies participated with WSF in 20 different construction and equipment purchase contracts. However, over three-quarters of the federal funds supported four projects:

- Renovating the *Yakima*,
- Preserving and adding a second auto deck to the *Chelan*,
- Renovating the *Kaleetan*
- Expanding the Clinton ferry terminal.

The federal role in ferry transportation funding is expected to increase in coming years. USDOT is investing $400 million on ferry services nationwide between 2000 and 2004. WSF hopes to secure approximately $41 million for projects during the 2001/03 biennium. Nearly 90% of those funds will go toward preserving vessels in the Jumbo and Issaquah classes; replacing propulsion controls on the *Elwha, Klahowya,* and *Tillikum;* and acquiring a single replacement vessel for the two retiring passenger-only ferries. The remainder of federal funds will support terminal projects to preserve passenger overhead loading structures at three terminals, plan for construction of a multi-modal terminal at Mukilteo, replace dolphins at the Bainbridge Island Terminal, and install customer information equipment for the Anacortes ferry terminal.

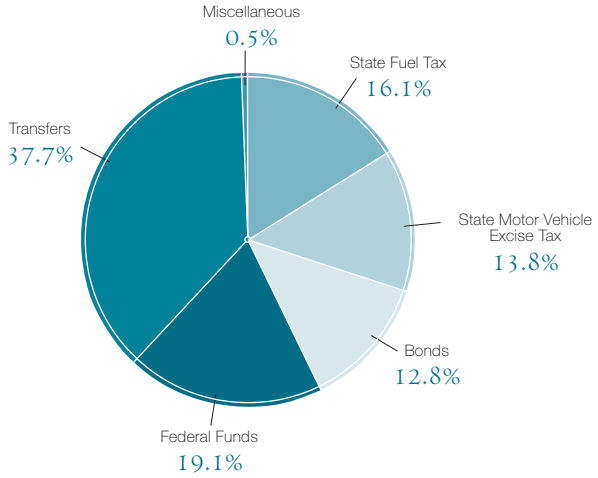
*Dock expansion at Clinton.*

## Capital Program

| | 1997/99 Biennium (1000s) | 1999/01 Biennium (1000s) |
|---|---|---|
| Revenue | | |
| State Fuel Tax | $33,310 | $34,151 |
| State Motor Vehicle Excise Tax | 120,337 | 29,172 |
| Bonds | 73,278 | 27,183 |
| Federal Funds | 21,462 | 40,472 |
| Private/Local | 765 | 0 |
| Transfers | 0 | 79,756 |
| Miscellaneous* | 4,053 | 1,056 |
| Capital Program Revenue | $253,205 | $211,790 |
| Previous Biennium Cash Carryforward | 15,118 | 1,744 |
| Fund Balance Adjustments | 128 | 0 |
| Total Biennium Capital Funds Avaliable | $268,451 | $213,534 |
| | | |
| Capital Program Expenditures | | |
| Emergency Repair | $6,091 | $6,955 |
| Terminals | 61,932 | 48,045 |
| Vessels | 147,683 | 104,192 |
| Debt Service and WSDOT/Treasurer Support Programs | 51,002 | 51,857 |
| Total Biennium Capital Expenditures | $266,708 | $211,049 |
| Cash Carryforward | $1,743 | $2,485 |

** Includes Interest income*

### WSF's Capital Program Revenue Sources-1999/01 Biennium




## Future Funding

The financial challenges presented by the passage of I-695 and the subsequent elimination of the MVET will continue to confront WSF in the coming years. WSF entered the post-695 era with considerable cash reserves ($114 million in operating funds), but those funds have been spent on operating and capital costs in the 1999/01 biennium. WSF enters the 2001/03 biennium with approximately $18 million in cash reserves. Since WSF has already spent down its available cash balances, funding deficits will become more pronounced.

Revenue that is currently earmarked for ferry system operating and capital programs under current state law is not adequate to cover WSF's expenses. Between fiscal years 2001 and 2007, WSF is projected to have approximately $1 billion in expenditures, but only $795 million in revenue. In the budget approved at the end of June 2001 for the upcoming biennium, the Legislature recognized that projected revenues for ferry operations would be up to $30 million less than the $322 million appropriated for ferry operations in the transportation budget. The Legislature indicated that a supplemental appropriation would be required in 2002. Transfers from the General Fund, the Multi Modal Fund, and the Motor Vehicle Fund are all possible.