

## IV] Strategic Plan



**F**inancially speaking, there has been little good news in recent years for Washington State Ferries. First impacted in 1999 when the voters and the legislature approved Initiative 695, the financial challenges continue.

## Financial Challenges

- 1999 Voters Approve Initiative 695
- 2000 The Legislature Adopts the Provisions of Initiative 695. The cost to the ferry system is approximately 25% of the Operating budget (\$31 million) and virtually all of the Capital budget (\$120 million).
- 2000 The Legislature approves transfers from the Motor Vehicle Account for capital funding. Service changes coupled with a series of fare increases and transfers from the Motor Vehicle Account stabilizes operating budget.
- 2001 Ferry System proposes a plan to produce new revenue with initiatives in advertising and marketing.
- 2002 Voters reject Referendum 51 that would have provided critical funding for capital projects including four new ferries, preservation and maintenance and new ferry terminals.
- 2003 Legislature approves the “Nickel Package,” a \$4.2 billion package of transportation improvements across the state funded primarily from a 5¢ increase to the gas tax and other license fees. For the ferry system, \$300 million was authorized for vessel and terminal construction activities around the Sound.

## Strategic Plan

In the fall of 2002, Washington State Ferries unveiled a new Strategic Plan comprised of four goals and the Business and Capital Funding Plan to achieve them. Acknowledging that any new resources would be limited, the Strategic Plan provides a sustainable future for the state ferry system through a focus on refining our business practices, broadening our revenue base and investing in our capital infrastructure.

### Washington State Ferries Strategic Goals

1. Continually Improve and Refine Our Business Processes
2. Broaden Our Revenue Base and Reduce Costs
3. Promote and Assist in the Planning of Regional Transportation Centers
4. Re-define Who We Are

## WSF 5+5+5 Business Plan (Increasing Operating Funds)

In order to achieve the Strategic Goals, WSF developed the 5+5+5 Business Plan. The 5+5+5 Business Plan means that the ferry system is responsible for reducing costs by 5%, capping ferry fare increases at 5%, and generating 5% in new revenues with a comprehensive retail, marketing, and advertising program. Under this new plan, the ferry system will be able to recover 90% of its operating costs by 2008 with revenues generated by the ferry system (currently the ferry system cover approximately 73%).

## Capital Funding Plan (Increasing Capital Funds)

The Capital Funding Plan builds on the 5+5+5 Business Plan to address the ferry system's urgent capital needs. The plan provides funding for much-needed major preservation projects and new vessel construction. With aging terminals and four vessels in the fleet that were built when Calvin Coolidge was president, WSF needed to find a way to fund infrastructure improvements without new state revenue.

Without money for new vessels, WSF is faced with the potential of pouring millions of dollars into four of the oldest vessels in the fleet just to keep the current level of service for a few years. If these aging vessels are not replaced and our terminals not maintained properly, we will no longer have a viable ferry system.

The Capital Funding Plan is based on a straightforward formula:

$$\begin{aligned} \text{Service reductions} + \text{vessel retirements} &= \text{less preservation work} \\ \text{Less preservation work} &= \text{funding for critical capital investments} \end{aligned}$$

The service reductions were selected to affect the fewest number of riders, leave no one without a transportation alternative and ultimately ensure a viable ferry system. At a time when public agencies must do more with less, Washington State Ferries had to focus on investing in its own capital needs to ensure a sustainable ferry system for years to come.

## Phase One of the Capital Funding Plan (2003–2005)

Implementation of the Capital Funding Plan began in Fall 2003. The first step of the plan, discontinuation of passenger-only ferry service from Seattle to Bremerton and Vashon Island, was slated for June 15, 2003. However, the state legislature granted a three-month grace period for the Seattle-Bremerton service; and funded a two-year extension in service to the Vashon-Seattle route. The Legislature will decide the long-term future of WSF's role in passenger only service during the 2005 legislative session.

## Phase Two of the Capital Funding Plan (2005–2013)

Phase Two includes building four new boats and upgrading an existing terminal. These capital projects are critical to the ferry system infrastructure. The money the ferry system saves from implementation of Phase One will provide funds for the work scheduled through 2013. Phase Two of the plan spans the period from 2005 – 2013.

During this phase, WSF expects to construct and take delivery of the new vessels, retire four old Steel Electric auto ferries, and begin service at a new terminal in Keystone.

During this eight-year timeframe, WSF plans to implement cost-saving service changes, including discontinuing service to Sidney, B.C. for 12 weeks during the winter season when service demands are low, and eliminating a third vessel during weekend service on the Fauntleroy-Vashon-Southworth route. The possibility of auto ferry service between Vashon and Southworth into Pier 52 (downtown Seattle) will be explored. WSF will also consider a new focused approach to the maintenance facility located at Eagle Harbor, by studying alternative sites for the facility as suggested in a recent legislative oversight committee report.

## On the Brink...

### New Concessions Model Means More Options

In Fall of 2003, Washington State Ferries issued a Request for Proposals (RFP) for concession services. A key component of the RFP is a totally new approach to concession services.

The new concessions model provides for greater flexibility in the range and type of services for passengers and it allows WSF to be more responsive to change so that the organization can meet customer interests and needs.

In 2004, WSF will begin the review process of bids submitted by interested vendors for onboard and shoreside food, beverage and retail services. Potential vendors will then conduct negotiation discussions with the Inlandboatman's Union (IBU), the union that represents ferry galley workers.

### New Seattle Terminal

Colman Dock (Pier 52) is located along the Seattle waterfront and is the heart of the ferry system. It is an inter-modal transportation terminal accommodating pedestrians, autos, trucks, buses, bicycles, and emergency vehicles. Of the approximately 25 million riders who use the ferries annually, 36% or 9 million of those riders come through Pier 52.

Pier 52 is an extension of the highway system allowing Interstate 5 and Interstate 90 to connect across Puget Sound to Bainbridge and Vashon Islands, and Kitsap Peninsula to the west. On the busiest commuter route, Bainbridge to Seattle, WSF carries approximately 18,000 people in an average day, and approximately 700 vehicles per hour during peak travel hours.

Washington State Ferries plans to remodel Colman Dock to include space for vendors and retailers inside the terminal. Construction of the new terminal at Pier 52 in Seattle is slated to begin in 2004.



# V] Security and Safety



**F**ollowing the tragic events of September 11, 2001, WSF tightened overall security and partnered with federal regulators and law enforcement agencies to coordinate threat mitigation and emergency response efforts.

## Security

### Background

September 11, 2001

The WSF Security Committee was formed to facilitate appropriate implementation of security measures, accurate/timely communications and reaction to pertinent emerging security issues. In July 2002, WSF's CEO, USCG Captain of the Port, and the Chief of the Washington State Patrol (WSP), signed the charter governing this joint security committee. Formal meetings have been held at least on a monthly basis to develop procedures and contingency plans aimed at ensuring the secure operation of Washington State Ferries during regular and heightened states of security threats.

The Committee agreed to the implementation of a number of new security measures during 2001-2002, all aimed at enhancing security while maintaining system viability.

During the 2001-2002 legislative sessions, the Washington State legislature took steps to fund temporary night watch personnel and a new security coordinator position for WSF. The WSP also received a \$1.8 million supplemental budget from the state legislature to enhance security measures dedicated to ferry operations.

## 2002

### First Introduction to Passenger Security Standards from U.S. Coast Guard

In September 2002, the Coast Guard published the "Guidance on Security Procedures for Ferries Certificated to Carry More than 500 Passengers and the Terminals They Service." These guidelines included recommended security measures aboard ferries and at terminals.

Ferry officials, along with Congressional and state legislative representatives, met with Coast Guard officials to examine the intent of these guidelines as well as highlight the possible financial, operational, legal and consumer implications of implementation.

### U.S. Legislation

In November 2002, President Bush signed into law the Maritime Transportation Security Act (MTSA) of 2002. The Act contained broad directions to the USCG concerning the establishment of security regulations in the maritime transportation arena. The legislation mandated a very aggressive timeline for regulatory implementation.

## International Regulations

In December 2002, the International Maritime Organization (IMO) (of which the United States is a signatory nation) adopted the International Ship and Port Facility Security (ISPS) Code, aimed at enhancing maritime security across the international spectrum. These standards mandate that security measures be put into place by July 1, 2004 and are applicable to ferries on the WSF international route to Sidney, B.C.

### 2003

In late December 2002, the U.S. Coast Guard issued a notice of its intent to publish new security rules mandated by the MTSA, soliciting industry feedback, and announcing a schedule of public meetings.

In February 2003, the U.S. Coast Guard held a public meeting in Seattle to discuss new requirements for security assessments, plans, and specific measures as they apply to ports, vessels, and waterfront facilities. Discussions focused on how to align domestic maritime requirements mandated by the Maritime Transportation Security Act (MTSA) with the International Ship and Port Facility Security (ISPS) code.

WSF provided detailed comments regarding cost, resources, labor, operational, and legal implications to the Coast Guard docket, which was open through the end of February 2003.

In March 2003, the Federal Transit Administration (FTA) sponsored a safety and security/vulnerability assessment of Washington State Ferries, as one of the 100 key transit systems in the nation, identifying security strengths and weaknesses.

## MTSA Interim Final Rules

On July 1, 2003 the U.S. Coast Guard published the MTSA Interim Final Rules.

The comprehensive maritime industry rules required vessel and facility operators to complete security assessments and develop security plans by Dec. 31, 2003, with full implementation of the security measures and procedures contained in the plan by June 30, 2004.

The rules are based on the premise that increased threat equals increased security. Specifically, the rules establish three levels of security, allowing the industry to increase and decrease measures based on threat conditions.

Generally, the rules require the implementation of appropriate security measures. Accounting for varying security levels and other factors, the rules require implementation of measures such as passenger, vehicle, and baggage screening procedures; security patrols; establishing restricted areas; personnel identification procedures; access control measures; installation of surveillance equipment; and designation of security personnel. The rules require designation of, and requirements for, security officers for vessels and/or facilities, and training for security personnel, as well as training for all personnel so that they are ready and able to implement the security plan components.

The rules also provide for Alternative Security Programs, which permit flexibility and encourage innovation by allowing industry to submit, for Coast Guard approval, alternative security programs that provide a level of security equal to that required in the regulations.

July 1, 2003	Publish Interim Final MTSA Security Rules
Oct. 22, 2003	Publish MTSA Final Rules
Dec. 31, 2003	Security Plan and Assessment Submission Deadlines
June 30, 2004	Full Security Plan implementation



## Security Grants

As the need for security investments became clearer, more federal grants have been made available to operators/organizations for use in their security programs.

Washington State Ferries applied for and was awarded a number of grants to help fund its security needs; such as capital costs associated with surveillance and other security equipment, as well as emergency drills and training.

### 2002

- \$50,000 from Federal Transit Administration to fund Emergency Preparedness Drills - one multi-agency terrorist drill and one fire drill aboard our vessels.
- Federal Port Security Grant Program – Round 1 - \$110,000 from USDOT Maritime Administration to develop a mitigation and response strategy for a chemical, biological or radiological release aboard a ferry.

### 2003

- Federal Port Security Grant – Round 2 – Total award of \$9.4 million dollars. The grant, although submitted prior to publication of regulations, will support some of the elements of WSF's final security plan.

#### \$9.4 Million Divided

\$2.5 million from the Office for Domestic Preparedness for terminal monitoring, physical enhancements and access control.

\$6.9 million from the Transportation Security Administration for vessel physical security and access control.

## The Plan Forward...

In December 2003 Washington State Ferries submitted for approval a comprehensive security plan aimed at addressing applicable provisions of the final rules.

Washington State Ferries' challenge is balancing its number one priority of safe and secure transport of our ferry riders and employees, and commitment to security, against its goal of being an efficient mode of mass transit.



## Safety

### Background

#### WSF Addresses New Lifesaving Rules

Security has received considerable attention at Washington State Ferries since the terrorist attacks of September 11, 2001. However, prior to the events of 9/11, WSF had embarked on a comprehensive set of safety enhancements in response to new Coast Guard requirements regarding lifesaving measures.

Title 46, Code of Federal Regulations, Subchapter W stipulates the required lifesaving equipment, arrangements, plans, and training for all vessels, including all WSF vehicle ferries. Subchapter W became effective in 1996 and incorporated a phased-in compliance timeline, with completion of select items by October 1, 1999, and all elements by October 1, 2003.

WSF conducted, and submitted to the Coast Guard, a comprehensive Safety Risk Assessment. In turn, WSF formulated and submitted an Alternative Compliance Strategy to satisfy these new Subchapter W lifesaving rules. In early 2002, WSF gained full Coast Guard approval of its final Subchapter W Safety Risk Assessment and Alternative Compliance Plan.

The compliance plan incorporated a holistic approach to safe ferry operations, identifying those personnel/training elements, organizational components, procedural modifications and/or additions, and equipment upgrades that successfully dovetail together to satisfy the regulatory intent. Collectively, these elements address both the prevention and response aspects of ferry operations, with the goal of providing safety dividends day in and day out, as well as in an emergency.

## Key Elements of the Alternative Compliance Plan

### Personnel Training

Training of personnel is considered critical to the success of this important safety program. WSF is in full compliance with the minimum personnel training and drilling standards spelled out in the regulations. Furthermore, WSF incorporated training beyond these minimums, which were designed to ensure employees are taught to be proficient in the use of the new/modified equipment.

All Subchapter W specific personnel training elements have been fully completed, with all existing personnel receiving the requisite training, and with set procedures in place for all new employees to receive the appropriate training.

### Organization

The creation and maintenance of the organizational elements listed below address in large part the safety management aspects of an effective safety program and are considered essential pieces of WSF's best business practices and a vital part of the Subchapter W compliance strategy.

- Adoption of Safety Management System (SMS) fleet wide (international and domestic routes) to provide a means to enhance the safety culture throughout the organization and systematize the process for continuous improvement;
- A centralized operations center, including automated dispatch support system, to ensure trained and qualified crewmembers;
- A WSF emergency operations center (EOC), to ensure a means to respond in a responsible manner in the event of an incident;
- A safety systems manager/DP position and a Safety Coordination Team that will utilize a matrix management concept to oversee WSF's safety systems.

All organizational elements of the plan have been fully implemented. The vessel engine department automated dispatch process (similar to that process already in use by the vessels Deck Department) is complete and is undergoing final beta testing.

## Procedures

The system-wide application of the Safety Management System (SMS), plus publication of Subchapter W related emergency response SMS procedures and the Emergency Operations Center (EOC) Manual were important components of WSF's compliance strategy. The procedural elements incorporate the following topics:

- Modified Muster Lists
- Marine Evacuation Slide Usage
- Operational readiness, maintenance, and inspection
- Shipboard Safety Management and Contingency Plan
- Damage stability capabilities
- Towing procedures

All Subchapter W related emergency response SMS procedures, with the exception of the Emergency Operations Center (EOC) procedures and those for emergency towing, are complete and published. The EOC procedures are currently in final form, have been published, and are being distributed with an effective date of October 15, 2003. The towing procedures are being drafted and will be published to coincide with the equipment deployment discussed below.

## Equipment

The main equipment additions/modifications integral to the Subchapter W compliance plan include:

- Four 150-person marine evacuation slides (MES) on each auto ferry
- New rescue boats on all operating vehicle ferries
- Additional 150-person inflatable buoyant apparatus (IBAs) on the Jumbo Mark II vessels (the vessels with the highest passenger capacity)
- Towing equipment, towing bridle for each car/passenger ferry

This equipment forms the basic physical elements of the Subchapter W compliance strategy and was necessarily and appropriately coupled with attendant procedures and training. The fleet wide cornerstones of equipment - MES and rescue boat installations - have been completed on all operating vessels. The IBA installations on the Jumbo Mark II vessels are also complete. All pieces of the towing equipment have been purchased, with all pieces now in WSF possession. Final assembly and full deployment is scheduled to be complete by the end of 2003. In summary, WSF continues to maintain a commitment to the principles of safety that formed the basis for the Subchapter W compliance plan. This expansive effort is clearly representative of the WSF commitment to being a national leader in the consistently safe and secure transport of passengers. The Coast Guard praised WSF for its comprehensive approach to safe operations, indicating that collectively the elements of the WSF compliance plan met or exceeded the regulatory intent.



## VI] Capital/Operating Budgets



**W**SF's Capital and Operating programs are financed from different sources. The Capital program is financed primarily through state fuel taxes. The Operating program is funded primarily through user fees.

### Capital Program

The Legislature accesses WSF's Capital Program to make investments in the Ferry System's infrastructure. During the 2001-2003 Biennium, ferry capital investments were financed through the Motor Vehicle Fund, the Puget Sound Capital Construction Account and the Passenger Ferry Account.

During the 2001-2003 Biennium, State Fuel Taxes provided the largest revenue source for Ferry System investments. This source accounted for \$135.1 million or 62.8% of capital sources of funds. State Fuel Tax distributions to the Motor Vehicle Funds accounted for \$100.4 million or 74.3% of fuel taxes supporting ferry capital investments.

State Fuel Tax distributions to the Puget Sound Capital Construction Account accounted for \$34.7 million or 25.7% of fuel taxes supporting investments. In contrast to the 1999-2001 Biennium, Motor Vehicle Excise Taxes did not support ferry investments, as this source of revenue was abolished by Initiative 695. Bond sales accounted for \$50 million or 23.2% of capital sources of funds. In contrast to preceding biennia, the bonds sold in the 2001-2003 Biennium were authorized by Referendum 49. They are not ferry bonds. As a result ferry capital sources of funds are not responsible for their debt service.

Federal grants accounted for \$24.1 million or 11.2% of capital revenues. Funds carried forward from the prior biennium into the 2001-2003 Biennium accounted for 2.6% of capital sources of funds. Miscellaneous revenues, local funds and transfers accounted for \$0.5 million or 0.2% of capital sources of funds. Taken together, all of these sources of funds amounted to \$215.2 million.

## Capital Funds Spent on Key Activities

### Spending for Vessel Construction

Total amounted to \$84.1 million or 39.8% of total expenditures. Almost two-thirds of Vessel Construction spending went to projects that had biennial expenditures greater than \$5 million. These investments involved eight of WSF's 28 vessels. They included the *MV Walla Walla* (\$9.3 million), the *MV Tillikum* (\$7.9 million), the *MV Cathlamet* (\$7.9 million), the *MV Spokane* (\$6.7 million), the *MV Sealth* (\$6.5 million), the *MV Hyak* (\$5.9 million), the *MV Klahowya* (\$5.9 million), and the *MV Issaquah* (\$5.3 million).

### Spending for Terminal Construction

Total amounted to \$68.2 million or 32.3%. Over 50% of Terminal Construction spending went to projects that had biennial expenditures greater than \$5 million. These projects involved four of WSF's 20 major shoreside facilities. They included the Clinton Ferry Terminal (\$15 million), the Anacortes Ferry Terminal (\$7.8 million), the Southworth Ferry Terminal (\$7.5 million) and the Fauntleroy Ferry Terminal (\$5.9 million).

### Spending for Ferry Debt Service and WSDOT/Other Agency support

Total amounted to \$52.1 million or 24.7%

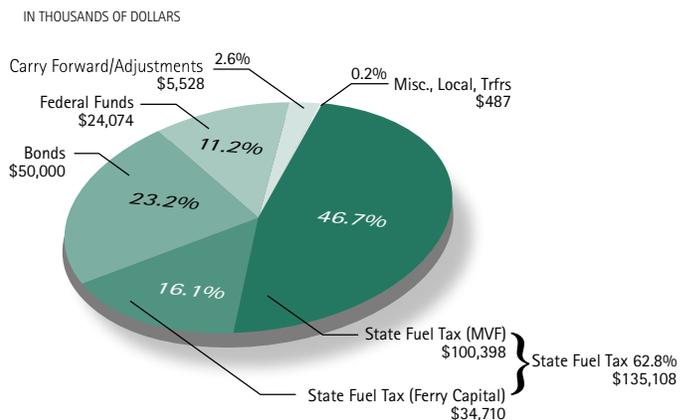
### Spending for Emergency Repairs of Terminals and Vessels

Total amounted to \$6.7 million or 3.2%

Taken together, these biennial expenditures totaled \$211.1 million. \$4.1 million was carried forward to support capital investments in the 2003-2005 Biennium.



## WSF's Capital Program Revenue



## Capital Program

	1999/01 Biennium (1000s)	2001/03 Biennium (1000s)
<b>Revenue</b>		
State Fuel Tax Distribution to the Motor Vehicle Fund*	3,339	100,398
State Fuel Tax Distribution For Ferry Capital	34,151	34,710
State Motor Vehicle Excise Tax Distribution For Ferry Capital	29,172	(14)
Bond Proceeds**	27,183	50,000
Federal Funds	40,472	24,074
Private/Local Funds	0	110
Transfers	79,756	(77)
Miscellaneous Revenues***	1,056	454
<b>Capital Program Revenue</b>	<b>\$215,129</b>	<b>\$209,655</b>
Previous Biennium Cash Carryforward	1,744	5,527
Fund Balance Adjustments****	3,042	1
<b>Total Biennium Capital Funds Available</b>	<b>\$219,915</b>	<b>\$215,184</b>
<b>Capital Program Expenditures*****</b>		
Emergency Repair	6,955	6,694
Terminals	48,045	68,198
Vessels	104,192	84,101
Ferry Debt Service Withholding and WSDOT/Treasurer Support Programs	55,196	52,094
<b>Total Biennium Capital Expenditures</b>	<b>\$214,387</b>	<b>\$211,087</b>
<b>Cash Carryforward</b>	<b>\$5,527</b>	<b>\$4,097</b>

\* The 1999-01 Operations Report did not show State Fuel Tax Distributions to the Motor Vehicle Fund used to support ferry debt service.

\*\* 2001-2003 Biennium bond proceeds are derived from the sale of Referendum 49 bonds not ferry bonds.

\*\*\* The 1999-2001 Biennium fund balance adjustment was not reported in the 1999-2001 Operations Report.

\*\*\*\* The Motor Vehicle Fund supported emergency repairs, terminal construction, vessel construction in the amount of \$159,192,000 in the 2001-2003 Biennium; ferry debt service withholding in the amounts of \$3,338,500 in the 1999-2001 Biennium and \$12,618,000 in the 2001-2003 Biennium, and WSDOT/other agency support in the amount of \$2,971,000 (estimated) in the 2001-2003 Biennium.

## Executive and Administrative Support

(Total Amounted to \$40.8 million)

This activity includes executive and administrative support such as program oversight, accounting, human resources, contract administration, public relations, and audit functions. Also included are rents, leases, insurance and other costs of business.

## Other State Support

(Total Amounted to \$16.3 million)

Includes charges from other state agencies in support of WSF, including charges from the Attorney General, self insurance premiums, information technology costs and other support activities.

Following the passage of Initiative 695, the Governor's Blue Ribbon Panel on Transportation and the legislatively created Joint Task Force on Ferries directed WSF to take actions to increase farebox recovery to 80%. Acting on the recommendations, WSF embarked on a series of tariff increases in the spring of 2001. WSF's Strategic Plan, however, concentrates on removing the burden of these increasing fare increases, by capping them at just 5% annually, and plans to increase revenue through alternative sources, such as concessions and amenities.

## Operating Program

WSF's operating program is funded primarily through user fees. Tariffs, concession fees, and other revenues generated from customers covered 73% of operating and maintenance costs for fiscal year 2003.

## Operating Funds Spent on Key Activities

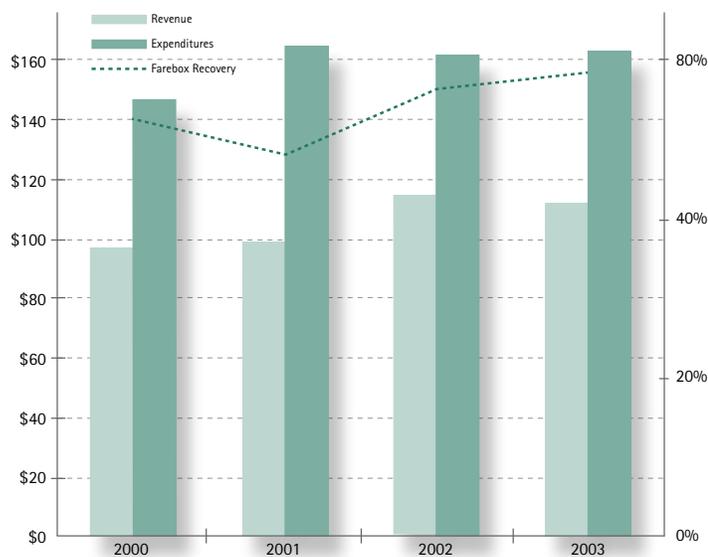
### Daily Operations of Terminals and Vessels

Total Amounted to \$226.5 million. This activity directly supports the legislatively approved service schedule and service hours. It includes labor, fuel and materials for deck and engine operations of the fleet. Daily operations also include revenue collection costs, traffic control costs, operations training, and vessel and terminal operations management and support.

### Maintenance of Terminals and Vessels

Total Amounted to \$44 million. Maintenance includes labor, materials, repair contracts and miscellaneous costs associated with terminal and vessel maintenance. Vessel maintenance is accomplished by WSF at its dedicated maintenance facility at Eagle Harbor. Larger vessel maintenance contracts and drydockings are performed at commercial shipyards around Puget Sound. Terminal maintenance includes routine asset maintenance and inspection performed by Eagle Harbor staff and contracted maintenance for major maintenance needs.

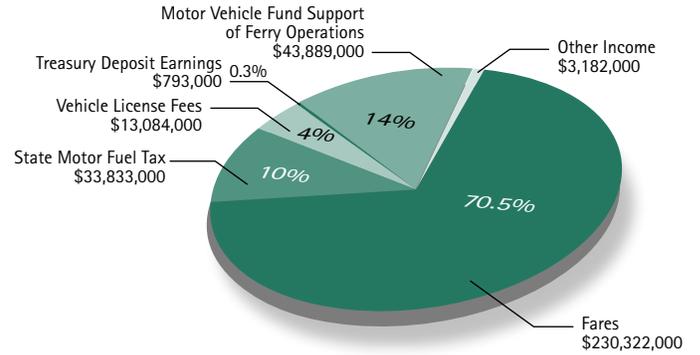
## Expenses and Farebox Recovery for 2000 – 2003



## Breakdown of Operating Program

### Revenue 2001-2003

Fares	230,322,000
State Motor Fuel Tax	33,833,000
Vehicle License Fees	13,084,000
Treasury Deposit Earnings	793,000
Motor Vehicle Fund Support of Ferry Operations	43,889,000
Other Income	3,182,000
<b>Total</b>	<b>325,103,000</b>



### Expenses 2001-2003

Operations	240,595,000
Maintenance	51,970,000
M and S	18,708,000
WSDOT Support	16,307,000
<b>Total</b>	<b>327,580,000</b>

