



JOINT TRANSPORTATION COMMITTEE FERRIES FINANCING STUDY II

LONG-RANGE FINANCES REVIEW

Washington State Transportation Commission
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Legislative Direction 2007 Session

Joint Transportation Committee

- Make recommendations regarding capital financing strategies for consideration in the 2009 session, including confirming Ferries' estimates of future capital requirements. This work must include
 - confirming the department's estimate of future capital requirements based on a long-range capital plan, and
 - the department's development of a plan for co-development and public-private partnership opportunities at terminals

Recognize State's Financial Constraints

- Consultants drew two types of conclusions
 - Recommendations – Actions we recommended the legislature take
 - Alternatives – Actions the legislature could take that would reduce costs while preserving current service levels

Focus on Scenario A – Ferries Draft Long-Range Plan

- Current level of service with limited improvements

Focus on 16-Year Financial Plan Horizon

- Legislative financial plan 2009-2025

Recommendations on Draft Long-Range Plan

The legislature should

1. Monitor Ferry ridership, in light of recent declines.
2. Consider funding a marketing initiative.
3. Not plan on transfers from the operating budget to support the capital budget.
4. Endorse Ferries' proposed percentage of sailings filled to capacity approach to vehicle level of service.
5. Endorse Ferries' proposed operational and pricing strategies, including transit enhancements and fare incentives to increase walk-on use of ferries and no-surcharge vehicle reservations to level peak vehicle demand.
6. Use the pre-design process to more thoroughly review the implementation of Ferries' proposed transit enhancements and reservation strategies.

Financial Summary - Capital

(\$ YOE millions)	Scenario A	Recommended	Alternatives (Cost Reduced)
Vessel Construction	\$1,473.8	\$514.0	(313.0)
Vessel Preservation	820.3	620.8	(19.3)
Vessel Improvement	60.9	53.7	(1.0)
Terminal Preservation	860.3	672.7	(2.1)
Terminal Improv.	390.9	165.0	(55.7)
Emergency Repairs	77.3	46.0	
Admin & Indirect	225.4	181.9	
Debt Service	212.1	212.1	
Total	4,121.0	2,466.2	(391.1)
Funding Gap (Nov. revenue forecast)	(2,188.8)	(534.0)	(142.9)

Financial Summary - Operations

(\$ YOE millions)	Scenario A	Recommended	Alternatives (cost reduction)
Fuel (Nov. forecast)	\$747.5	\$720.9	
Fixed Vessel Costs	1,072.7	1,034.6	(39.1)
Variable Vessel Costs	1,125.2	1,119.2	
Terminal Costs	717.0	717.0	
Mmgt. & Support	640.8	556.7	(80.8)
OFM Charges	0.8	0.8	
MEC	4.1	4.1	
Total	4,308.1	4,153.3	(119.9)
Funding Gap (Nov. revenue forecast)	(261.0)	(106.2)	13.7

Vessels

- **Vessel Construction (\$959.8 million)**

- Build 5 instead of 9 vessels
 - Retire vessels when due
 - Build 4 rather than 3 small vessels
- Do not add a 4th vessel to the Triangle route
- Modify inflation assumption to reflect staff costs
- Alternatives (also reflected in vessel preservation & improvement)
 - 1 fewer Island Home: 1 vessel summer & shoulder Keystone
 - 1 fewer 144 car vessel: Either consolidate Sidney service with San Juan service, procure a used foreign flagged vessel for Sidney, or rebuild a Super class ferry

Vessels

- **Vessel Preservation (\$199.5 million)**

- Reduction in fleet size from 23 to 22 (due to triangle)
- Reduction in size of vessels
- Constructability reduction of 15% of costs
- Add allowance for faster topside painting / 10 year cycle
- Modify passenger space preservation to 12 year cycle
- Change inflation assumption to ship repair index

- **Vessel Improvement (\$7.2 million)**

- Modify inflation rate to ship repair
- Smaller fleet
- Eliminate some fuel efficiency improvements
 - Super class – out of service time/constructability issue
 - Issaquah class – proposed improvements not recommended

Terminals

- **Terminal Preservation (\$187.6 million)**
 - Reduce estimated cost for terminal preservation projects
 - Reduce Category 2 (uplands and tie-up slips) preservation to be closer to performance goal
- **Terminal Improvement (\$225.9 million)**
 - Reduce cost estimate for Mukilteo terminal re-location
 - No bow loading
 - Dwell time and transit improvements not recommended
 - Need to see ridership response to operational and pricing strategies
 - Need to know transit service capacity
 - Reduce reservations and other programmatic projects
 - Alternatives
 - Re-roof Anacortes terminal rather than building a new terminal
 - Preserve Mukilteo terminal in place rather than re-locate

Emergency Repairs and Capital Overhead

- **Emergency Repairs (\$31.3 Million)**
 - Modify inflation rate to ship repair from ship building
 - Adjust for retirement of Evergreen State and Rhododendron
- **Administration, Terminal and Vessel Project Control (\$43.6 Million)**
 - Reductions in carry-over and projects
 - Terminal Indirect (\$30.7 million)
 - Vessel Indirect (\$9.7 million)
 - Administration (\$3.3 million)

Summary of Operations Recommendations

- **Fuel: (\$26.6 million)**
 - Vessel construction and deployment recommendations
 - Slowing vessels on average 0.5 knots in the summer
- **Fixed Vessel Costs (\$38.1 million)**
 - Vessel construction and deployment recommendations
 - Alternative
 - Reduction of 1 Island Home vessel alternative
- **Variable Vessel Costs (\$ 6.0 million)**
 - Vessel construction and deployment recommendations

Summary of Operations Recommendations

- **Operations Management and Support (\$ 84.1 million)**
 - Adjust insurance to recommended vessel program
 - Adjust credit card fees to 1% of revenue
 - Adjust salary costs to actuals
 - Delete Program C and S charges no longer being charged to Ferries Operation Account
 - Adjust reservations operation reserve
 - Alternatives
 - Delete property coverages for terminals and vessels
 - Fund marketing initiative

Vessel Policy Recommendations

- Require pre-design report for vessel construction and improvement projects and for vessel preservation projects over \$5.0 million.
- Require as part of the pre-design process for new vessel construction a projection of out-of-service time and a life-cycle cost analysis of alternatives that would reduce planned out-of-service time. The life-cycle cost analysis should consider the impact on fleet size.
- Consider existing designs prior to launching new designs for vessels, consider third party management of new vessel design and construction, and ensure that the design-build process is integrated with the pre-design report process and used effectively to expedite vessel design and construction at a minimum cost to the state.

Terminal Policy Recommendations

- Endorse the findings of the *Analysis of Joint Development Opportunities at Washington State Ferry Terminals: Final Report* and provide funding to pursue the identified development opportunities.
- Consider third party management of major terminal projects, defined as those that exceed \$50.0 million.