

From: Jeff Monsen
Sent: Wednesday, December 22, 2010 7:36 AM
To: fabart@co.wahtcom.wa.us; rocknraz@aol.com
Cc: Walt Olsen
Subject: county ferry revenue

The following is intended to address recent questions from you. If you have any followup questions, please do not hesitate to contact me.

In Washington State, four counties operate auto ferries (Whatcom, Skagit, Pierce, and Wahkiakum), and one county a passenger-only ferry (King). Since a passenger-only ferry is, by definition, not part of the county road system, my comments below pertain only to the four auto ferries.

The legal authority to operate auto ferries by counties is granted by the State of Washington. From a financial standpoint, the most significant result of this authority being granted is that (1) it gives the counties the authority to charge tolls as a part of the operation of the ferries, and (2) provides access to supplemental state funding. The Franchise Agreement and a separate Interagency Agreement between WSDOT and the counties jointly provide the administrative framework for accessing these funding sources. The Interagency Agreement is the basis for counties to receive what is commonly referred to as "ferry deficit reimbursement" payments, which is the only state provided operating revenue dedicated to the operation of a county's ferry.

The only other state revenue dedicated to county ferries is a grant program, administered by CRAB, for capital expenditures. This is a discretionary program which has very limited availability. This is the program which was utilized to support the financing of a new boat for Whatcom, with Whatcom later withdrawing its request.

One of the administrative tasks of CRAB each year is to update information pertaining to county road system inventory that is utilized in distributing that portion of the Motor Vehicle Fuel Tax (MVFT) dedicated to counties, also known as the county "general distribution". The factors influencing the share of the MVFT each county receives is based on each county's road system inventory, which includes the county ferry systems. Even though every unique element of the county road system (ferry, bridges, roads) influences the amount of MVFT counties receive, the payment from the State Treasurer (based on the CRAB calculation) is a single payment to the county and deposited directly into the Road Fund. Due to the high value of capital assets and annual operating costs, county ferry operations obviously generate a greater share of the MVFT revenue than any other unique element of the County's road system.

Within the context of implementing the "ferry deficit reimbursement" agreements by WSDOT, CRAB provides a separate calculation to WSDOT, Whatcom, Skagit, and Pierce that generates what is known as the amount of the MVFT which is "attributable" to the ferries. This calculation compares the amount of MVFT a county actual received during the previous year with a theoretical amount the county would have received if the county ferry systems did not exist in the County's inventory. The difference between the actual general distribution of MVFT received and the amount that would have been received without a vehicle ferry operation is the amount of MVFT "attributable" to the ferry. This amount is used as a part of the "ferry deficit reimbursement" distribution formula administered by WSDOT.

Relative to "ferry deficit reimbursement", Whatcom, Skagit, and Pierce share up to \$500,000 per year. The source of these funds comes from the MVFT county "general distribution" prior to the State Treasurer applying the CRAB distribution formula to the remainder for the benefit of all counties. Since Wahkiakum operates an interstate ferry, it has a separate financial relationship with WSDOT, with the source of funding for their "ferry deficit reimbursement" coming from WSDOT's share of the MVFT.

While the above is intended to describe basic county ferry financing for all four ferry systems, the terminology may be applied slightly differently in each county as a part of their ferry rate setting policies and/or fund management:

- Skagit and Wahkiakum perform ferry financial functions within their County Road Fund, as did Whatcom County prior to establishing a Ferry Fund
- Pierce County deposits the "ferry deficit reimbursement" into their Ferry Fund and it appears that they also transfer an estimated MVFT amount "attributable" to the ferry from the Road Fund to the Ferry Fund at the time their Road Fund MVFT "general distribution" arrives from the State Treasurer
- While it appears that Pierce includes MVFT "attributable" to the ferry as a specific ferry revenue, it does not directly affect application of their rate setting policy
- Skagit makes specific use of both the MVFT "ferry deficit reimbursement" and MVFT "attributable" to the ferry as a part of applying their rate setting policy
- It is unclear whether Whatcom County Code (WCC 10.34.030) includes MVFT "attributable" to the ferry, in addition to the "ferry deficit reimbursement" amount, when applying the rate setting policy

For Whatcom County specifically (due to my personal knowledge), the intent of the creation of the Ferry Fund was to separate the ferry cost and revenue fluctuations from the Road Fund in order to improve the transparency of ferry financial management. The establishment of the Ferry Fund was also intended to more clearly identify all revenue and costs associated with operation of the Lummi Island Ferry.

At the same time the Ferry Fund was established, the County Code was amended to specifically require a 55% fare box recovery rather than the "approximately 55%" as had previously been the case. This means that the remaining 45% share would have, by default, included both the MVFT "ferry deficit reimbursement" and MVFT "attributable" amounts, as well as the balance of the County's share from the Road Fund. The separate listing of these amounts in the 14-year ferry plan at that time was to ensure their relative financial significance was noted, including specifically showing the additional Road Fund contribution needed. At that time, it was intended to make sure the Ferry Fund was financially capable of handling the projected cost of operating the ferry during the next budget year through an interfund transfer from the Road Fund.

An additional amendment occurred to WCC 10.34.030 after the fund was established (and after my departure), modifying what is and is not included in the 45%-55%

share calculation. It is also important to note that the financial situation relative to the ferry, as well as in general for the county, has changed dramatically since the Ferry Fund was conceived and established.

Summary:

- Ferry Fares are dedicated ferry revenues
- The "ferry deficit reimbursement" is a dedicated state MVFT ferry revenue
- The MVFT "attributable" to the ferry is not a dedicated state MVFT ferry revenue, but can be declared as a dedicated revenue by Whatcom County if it chooses to do so for their own purposes

Jeff Monsen, P.E.
Intergovernmental Policy Manager
County Road Administration Board
2404 Chandler Ct, Ste 240
Olympia, WA 98504