



## MEMORANDUM

**TO:** Whatcom County Council  
**THROUGH:** Satpal Sidhu, County Executive  
**FROM:** Aly Pennucci, Deputy Executive  
Jill Boudreau, Senior Policy & Project Manager  
**CC:** Kayla Schott-Bresler, Deputy Executive  
Elizabeth Kosa, Public Works Director  
**RE:** Lummi Island Ferry System: Financial Strategy Update  
**DATE:** June 9, 2025

---

This memo outlines the Executive's Office and Public Works strategy and workplan to work collaboratively with the County Council to successfully build a sustainable financial structure for the Lummi Island Ferry system. We believe the time is now for strong leadership focused on creating financial solutions systemwide with increased revenue. This comprehensive approach addresses urgent current operational needs, and looks ahead to 2027 when we will be underway with construction of the new ferry and related infrastructure.

### CAPITAL PROJECT FUNDING

The current capital project to replace the ferry vessel and repair the terminal infrastructure is imperative. It is the Executive's Office opinion that it would be catastrophic to stop the capital project now, and we should continue to press forward.

Whatcom County will maximize efforts to obtain as much grant funding as possible for the project. However, there is always a local match requirement, and most grants have restrictions such as 'construction only' uses. Further, Federal and State grants are generally set up as 'reimbursable' grants, meaning the county will need significant cash on hand to expend and then submit for reimbursement.

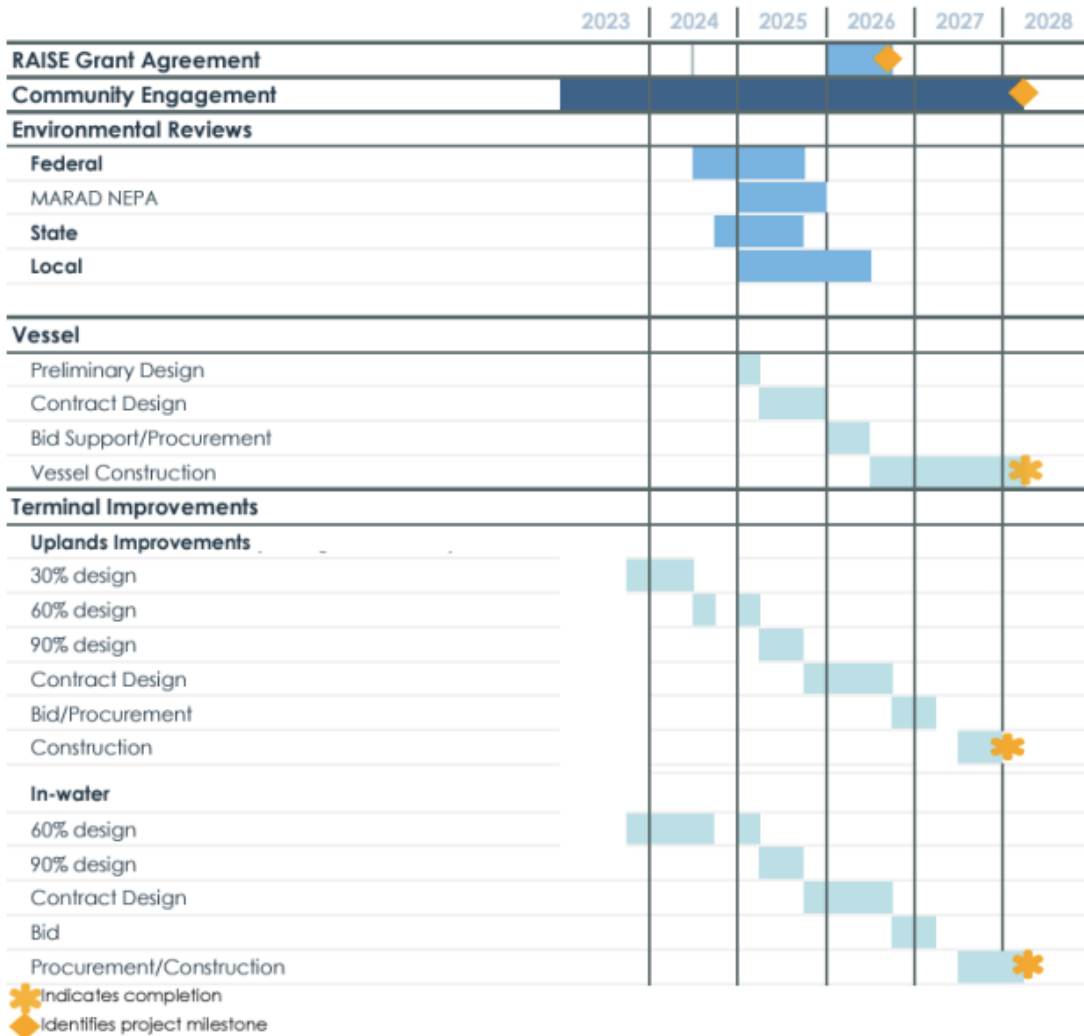
**Table 1: Current project financial position:**

Current Project Budget (May 2025)	<b><u>51,933,000</u></b>
State CRAB (secured)	10,000,000
WSDOT LOCAL PROGRAMs design (secured)	5,300,000
<b>CURRENT NEED</b>	<b>36,633,000</b>
RAISE: per application this can only be used for ferry expense. Reimbursable grant structure. Need cash flow.	25,000,000
<b>OUTSTANDING NEED IF WE SECURE RAISE</b>	<b>11,633,000</b>

## TIMELINE:

Whatcom County Public Works is actively working on design and environmental reviews for the project and following the timeline outlined in “Figure 5’ below:

**Figure 5: Timeline for Project Completion**



This illustrates the need for funding to be identified by April 2026 to be able to place the order for the new ferry vessel. This is a 18-24 month wait time. For the terminal work we need to identify funding by the end of 2026.

## Financing:

There are several tools we have identified that the County could use to finance this project:

### 1. Federal Government financing: USDOT, TIFIA

- Low interest rate, interest does not accrue until proceeds are drawn, Flexible amortization, up to 35-year repayment period (Bipartisan Infrastructure Law allows up to 75 years for some projects), Deferrable for five years after substantial project completion, No pre-payment penalty

#### TIFIA RURAL PROJECTS INITIATIVE:

- Loans for up to 49 percent of the project's eligible costs over 35 years
  - Fixed interest rates equal to one half of the U.S. Treasury rate of equivalent maturity of the loan at the time of closing
  - No fees
  - The maximum allowable Federal share (funding and financing) of project costs is 80 percent.
- Pacific North West Regional Partnership, Infrastructure Accelerator Program – provides technical assistance

### 2. State of Washington, LOCAL program

- Financing option for ferry and passenger only float
- By pooling with the State's Aa1 rated COP issuances, LOCAL participants are able to take advantage of the State's very low tax-exempt interest rates

### 3. General Obligation Bonds

### 4. Short term financing/line of credit. Dependent on timelines, specific terms for grants awarded

## PREPARING FOR ANNUAL DEBT SERVICE PAYMENTS

Until the County receives confirmation of the RAISE grant from USDOT, we do not know how much the County may need to finance, however, we can use projections based on potential dollar amount to finance, term and interest rate.

Table 2 illustrates three scenarios the County may face next year, using what we know from the USDOT TIFIA loan product as compared to traditional bond financing. The essential difference is that the TIFIA may be financed over 35 years with a reduced interest rate as opposed to traditional bond financing of 25 years.

The table shows potential debt service payments ranging from \$388,988 - \$2.4 million. This exercise gives us a baseline to evaluate potential sources of revenue.

**Table 2: Capital Project Financing Scenarios**

	SCENARIO: 1	SCENARIO: 2	SCENARIO: 3
TOTAL PROJECT COST:	\$51,933,000	\$51,933,000	\$51,933,000
Less WSDOT local programs design money	(\$5,300,000)	(\$5,300,000)	(\$5,300,000)
	\$46,633,000	\$46,633,000	\$46,633,000
		(\$25,000,000)	(\$15,000,000)
<b>CAPITAL PROJECT FINANANCING TOTAL:</b>	<b>\$46,633,000</b>	<b>\$21,633,000</b>	<b>\$31,633,000</b>
<b>DEBT SCENARIO 1</b>			
TIFIA LOAN: Estimated debt service annually. 35 years @ 3%	2,235,375	1,036,988	1,516,343
<u>Revenue for debt service:</u>			
CRAB award: \$10M \$500,000 per year for 20 years	(\$500,000)	(\$500,000)	(\$500,000)
\$1 Ferry capital surcharge per passage (2023 actuals)	148,000	148,000	148,000
<b>Shortfall ANNUAL revenue for total capital project debt service</b>	<b>1,587,375</b>	<b>388,988</b>	<b>868,343</b>
<b>DEBT SCENARIO 2</b>			
Traditional financing. Estimated debt service annually. 25 years @4%	3,074,622	1,426,314	2,085,637
<u>Revenue for debt service:</u>			
CRAB award: \$10M \$500,000 per year for 20 years	(\$500,000)	(\$500,000)	(\$500,000)
\$1 Ferry capital surcharge per passage (2023 actuals)	148,000	148,000	148,000
<b>Shortfall ANNUAL revenue for total capital project debt service</b>	<b>2,426,622</b>	<b>778,314</b>	<b>1,437,637</b>

## Potential Grant Funding that would decrease our debt service payments

### State:

- 2026 and/or 2027 State Legislative Session - direct capital project allocation from transportation and/or capital budgets
- County Road Administration Board (CRAB)– Puget Sound Ferry Operations Account: The County receives funding for the ferry from Motor Vehicle Fuel Tax distributed through the CRAB. This amount fluctuates yearly around \$200,000. In early 2024, the Washington State Treasurer's Office worked with CRAB to analyze a methodology enacted in 2006. To resolve the issue, the State sent correction funds to Whatcom County in the amount of \$278,981.06, rectifying the 2023-2025 biennium<sup>1</sup>. They will use a corrected methodology going forward.

## Potential Sources of Revenue to pay annual debt service<sup>2</sup>

1. Lummi Island only or Countywide ferry district: [RCW 36.54](#)
  - a. LEGISLATIVE CHANGE REQUIRED: Lobby for change in RCW 36.54 to allow for a ferry district to serve passenger and car ferry service
  - b. Funding can be used for operations, debt service, capital expenses
  - c. District may be set up for part of or entirety of county.
2. Continued reliance on county road fund
3. Use of other County funds, such as Real Estate Excise Tax
4. Increase capital surcharge within fare structure
  - a. Current \$1 capital surcharge actual collection in 2024 = \$148,000, which leverages approximately \$2,250,000 of debt for 25 years.
  - b. Doubling the surcharge to \$2, would leverage \$4,600,000 in debt
5. Voted Transportation Benefit District
  - a. Not enough revenue to solve any one issue
6. Voted Road Fund Lid Lift
  - a. Unincorporated county ballot measure

Staff researched other potential sources of funding including Local Improvement Districts, Sales and Use Tax laws and other long-term legislative changes in State law that would include ferry services in the legal definition for public transit. Currently, federal law includes ferry services as public transit which is why Whatcom County receives federal ferry operational funding. Current Washington State law restricts transit dollars essentially to busses, motor vehicles and trains. There have been attempts at this effort, and significant opposition from transit organizations statewide.

Scenarios of impact to users and taxpayers is included in Appendix B.

---

1 CRAB Motor Vehicle Fuel Tax: <https://www.crab.wa.gov/news/2024/fuel-tax-refunds-are-coming-counties-january-heres-why-and-what-you-should-know>

2 See Appendix A for calculation tables

## Ferry System Funding

The ferry system in Whatcom County is a public transportation system, just like the services provided by Whatcom Transit Authority or any County road.

Over the years, the financial structure for this system has not included adequate funding to fully fund operations, operational reserves, capital projects, or capital project reserves. Fares were not increased annually for inflation leaving the system extremely vulnerable.

Any system that does not have financial reserves (either capital or operational) is in a state of risk and crisis.

FARES: [Whatcom County Code \(WCC\) 10.34:](#)

- Fares only go to the operational costs of the system.
- Requires that a 55% fare box recovery rate be applied and evaluated continuously, on an annual basis.
- The farebox operational reserves are not adequate and the county code has set a target for fully funded reserves by 2034.
- Two attempts at changing the fare structure to comply with code has failed for various reasons.
- A capital surcharge of \$1 per ticket was enacted. In 2024, this generated \$148,000. The capital surcharge is restricted by code for the ferry replacement project.

The county has not enacted fares that keep up with inflation and to generate revenues annually that meet the 55% Whatcom County Code requirements for fare box recovery.

The county has been unable to set up an adequate ER&R (reserve) fund for ferry replacement or set aside any funding for the 2045 potential Gooseberry Point relocation.

In addition, the County Road Fund has operated for many years with a structural imbalance resulting in reserves being severely depleted.

## Reliance on Road Fund

What isn't fully represented in past conversations has been the significant reliance on the County Road Fund for operations and capital expenses.

	Capital Expense
2020	(354,351.34)
2021	(473,535.88)
2022	(2,877,221.72)
2023	(653,318.67)
2024	(1,608,591.43)
Total	(5,967,019.04)

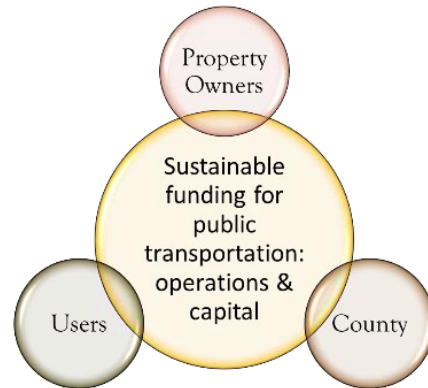
The County Road Fund is used to pay for the remaining 45% of the operating costs and contributes towards the reserve target per the WCC code. In addition, the Road Fund pays for all capital expenses that include dry dock, terminal repairs, ferry dock improvements, breakwater replacement, etc.

In 2024, \$2.8 million of the county road fund was spent on ferry services.

## A COMPREHENSIVE LOOK AT THE BUDGET: “PLAN WITH THE END IN MIND”

The last few years have seen spirited debate about ferry operational expenses, how to pay for the critical capital project and ferry replacement, and how to sustain this service over time. This is in part due to lack of clarity about the role of those involved in these discussion (Whatcom County Ferry Advisory Board, Executive, County Council, and Public Works staff) and what is needed to stabilize the system.

The ferry system needs comprehensive sustainable funding for operations and capital spending, that relieves the County Road Fund. In the recent past, the County has used one-time strategies to address immediate needs, delayed and faced challenges in introducing necessary fare increases, which all has distracted from having a long-term sustainable funding strategy.



In 2024, the County Council courageously agreed to downscale the capital project to continue the feasibility of completing the project. In order to fully fund the scaled-down project, stabilize ongoing operations, and build a capital reserve for future capital needs, and an operational reserve to ensure the system's long-term sustainability and ability to handle unexpected costs or revenue shortfalls, the county needs stable dedicated revenues. Building a healthy reserve will help the County maintain service levels during periods of financial instability, and can influence decisions about the need for future fare adjustments.

The time is now for the County to impartially and objectively make both near- and long-term decisions to generate additional dedicated revenues to stabilize the Ferry system.

### Action steps: Sequencing discussions & decisions

1. Immediately implement a fare structure that complies with the Whatcom County Code [WCC 10.34](#) (at minimum) through 2026 and responds to the motion passed by the council on May 13, 2025 that encouraged “the County Executive to increase ferry fares immediately to ensure solvency of the Ferry system annual operations, provided the rate increase is ample enough to meet the goals set forth in the code for fare box recovery and reserve fund contributions.”
2. Work with Washington State Legislature to amend RCW 36.54, removing the word “passenger”, allowing for the opportunity to form a ferry district
3. IDENTIFY 2027 COMPREHENSIVE BUDGET FRAMEWORK

Absent other changes, staff’s initial analysis to have a fully funded sustainable ferry system that includes county portion of annual operating expenses, capital expenses, debt service, reserves, and future known liabilities, indicates that in 2027, the annual County Road Fund or other county funds contribution could be as high as \$3.7 million. Immediate fare increases in 2025 will address the short-term operational gap but fare increases alone are not sufficient to stabilize the system. To address this, the county must consider other revenue options and changes to the fare structure. This should include additional policy work addressing the following questions:

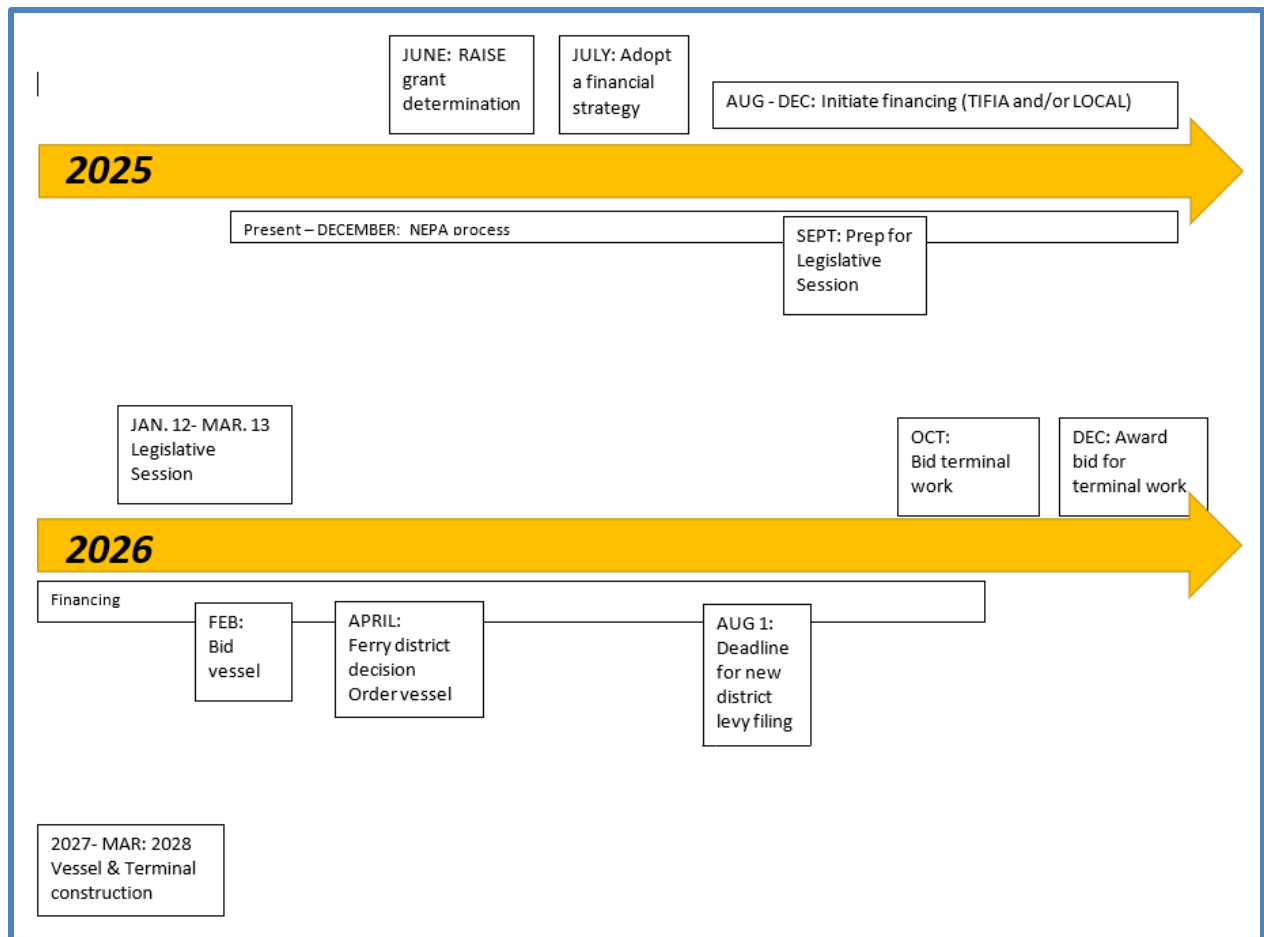
- Does the County want to continue reliance on the road fund at the level projected?

- What long-term sustainable sources of revenue to support a comprehensive budget for the ferry system would Council consider (e.g., a countywide ferry district)?
  - What savings can be achieved through decreasing the level of service to decrease operational costs?
  - What other operational changes and further changes to the fares could help stabilize operational expenses and generate additional revenue? Consider the following:
    - Implementing an electronic ticketing system to allow for more dynamic pricing
    - Include summer seasonal fares or adding a summer surcharge
    - Setting expiration dates on multi ride cards and rebranding as commuter cards
4. Update and finalize debt service projections as capital project progresses. Milestones that must be passed in order to decide for long term funding and sustainable service:
    - Finalize RAISE grant
    - Legislative change
  5. Long term funding decision
  6. Objectively look to budget projections in 2027 and 2028 when the current ferry replacement and infrastructure project is completed and debt service funding is needed.

The Executives Office is committed to a sequence of decision making that will lead us to a responsible comprehensive financial structure.

**Strict adherence to a sequence and schedule will allow us to remain focused on an outcome, and be efficient with time, resources, energy, staff, and taxpayer dollars.**





Thank you for your dedication to the people of Whatcom County.

## APPENDIX A: Debt Service & Operational Funding calculations

### Increased ticket surcharge:

<b>COUNCIL ACTION</b> <i>Increase Surcharge</i> Est. based on current ridership	
1.00	\$ 148,000
2.00	\$ 296,000
3.00	\$ 444,000
4.00	\$ 592,000
5.00	\$ 740,000

### Legislative Change Required: Ferry District: Lummi Island only

<b>LEGISLATIVE CHANGE</b> <b>Council Action: Ferry District</b>			
Lummi Island only ferry district 2024 Assessed Value=	\$590,056,945	\$0.45	\$ 265,525.63
		\$0.75	\$ 442,542.71

**Legislative Change Required: Ferry District: Unincorporated Whatcom County only**

Unincorporated only 2024 Assessed Value=	\$28,059,725,774	\$0.01	\$ 280,597.26
		\$0.02	\$ 561,194.52
		\$0.03	\$ 841,791.77
		\$0.05	\$ 1,402,986.29
		\$0.25	\$ 7,014,931.44
		\$0.75	\$ 21,044,794.33

**Legislative Change Required: Ferry District: Countywide**

Countywide ferry district 2024 Assessed Value=	\$61,508,297,935	\$0.01	\$ 615,082.98
		\$0.02	\$ 1,230,165.96
		\$0.03	\$ 1,845,248.94
		\$0.05	\$ 3,075,414.90
		\$0.25	\$ 15,377,074.48
		\$0.75	\$ 46,131,223.45

## Road Fund:

<b>ROAD FUND</b>		
Road fund levy rate	0.000746921	
Lummi Island only 2024 Assessed Value=	\$ 590,056,945	
Lummi Island only road fund collection		\$ 440,726
Countywide road fund valuation =	\$ 28,059,725,774	
Countywide road fund collection		\$ 20,958,400

Voted lid lift			Increase in collection
0.000746921	\$0.01	\$ 21,238,995.69	\$ 280,595.25
	\$0.02	\$ 21,519,592.95	\$ 561,192.51
	\$0.03	\$ 21,800,190.21	\$ 841,789.77
	\$0.05	\$ 22,361,384.72	\$ 1,402,984.28
	\$0.25	\$ 27,973,329.88	\$ 7,014,929.44

## APPENDIX B: Impact of increased surcharge and ferry district (property) tax

### Increase surcharge:

Increase Surcharge	based on current collection ticket sales		Example for riders			
1.00	\$ 148,000		x8 per mo./annually	\$96	x20 per mo./annually	\$240
2.00	\$ 296,000		x8 per mo./annually	\$192	x20 per mo./annually	\$480
3.00	\$ 444,000		x8 per mo./annually	\$288	x20 per mo./annually	\$720
4.00	\$ 592,000		x8 per mo./annually	\$384	x20 per mo./annually	\$960
5.00	\$ 740,000		x8 per mo./annually	\$480	x20 per mon./annually	\$1,200

### Ferry district (property) tax: Annually

Property Value	\$400,000	\$650,000	\$800,000	\$1,200,000
0.00001	\$4	\$6.50	\$8	\$12
0.00002	\$8	\$13	\$16	\$24
0.00003	\$12	\$19.50	\$24	\$36
0.00005	\$20	\$32.50	\$40	\$60
0.00025	\$100	\$162.50	\$200	\$300
0.00045	\$180	\$292.50	\$360	\$540
0.00075	\$300	\$487.50	\$600	\$900