WHATCOM COUNTY
PUBLIC WORKS DEPARTMENT

Elizabeth Kosa
Director

Ferry Division
322 N. Commercial Street, 4th Floor
Bellingham, WA 98225-4042
Phone: (360) 778-6200
Fax: (360) 778-6201

MEMORANDUM

TO: Whatcom County Council

THROUGH: Satpal Sidhu, Whatcom County Executive

FROM: Elizabeth Kosa, Public Works Director

DATE: October 16, 2024

RE: Unified Fee Schedule: Proposed Ferry Rate Changes

This memo provides background on the ferry fund, focusing on fare box revenues, describes the projected gap in fare box revenues, and presents the Executive's recommendation for County Council's consideration. In order to have a balanced budget proposal for the Ferry Fund in the 2025-2026 Biennial Budget, either fare box revenues need to be increased, operating expenses decreased, or alternative funding sources need to be identified.

Background: Ferry Fund – Operations

WCC 10.34.030 *Use of ferry user fee revenues*, requires that 55% of the "adjusted total operating costs"[1] (ATOC) for the ferry system are paid by fare box considered revenues and the remaining 45% of the ATOC paid for via a subsidy from County funds; the Road Fund currently provides that subsidy. The Council is updated annually on the ferry operating budget and in October 2022, the Council was notified of a projected shortfall in fare box considered revenues. At that time, the projected shortfall was about $410,000; today the projected shortfall (see **TABLE 1**) is $413,606 in 2025, increasing to $968,975 by 2029 (average annual projected deficit of $615,000).

TABLE 1: Projected Shortfall in Fare Box Revenues

	2024	2025	2026	2027	2028	2029
Total Projected Operating Costs	4,098,837	4,148,730	4,486,328	4,710,644	4,946,177	5,193,485
ATOC	3,710,114	3,755,647	4,093,245	4,306,240	4,530,111	4,765,409
55% of ATOC Fare Box Revenues must cover	2,040,563	2,065,606	2,251,285	2,368,432	2,491,561	2,620,975
Projected Fare Box Revenues	1,890,512	1,652,000	1,652,000	1,652,000	1,652,000	1,652,000
Projected Fare Box Surplus (Deficit)	(150,051)	(413,606)	(599,285)	(716,432)	(839,561)	(968,975)

[1] To calculate the 55% requirement, you first need to determine the "adjusted total operating costs" (ATOC). To calculate the ATOC you take the total operating expenses for the ferry system, and subtract out a portion of those expenses that are paid for from other revenues as outlined in WCC 10.34.005(G), This includes subtracting the following from the total operating expenses: (1) Motor vehicle fuel tax attributable to ferry operations; (2) Ferry deficit reimbursement funds (RCW 47.56.725(2));(3) Investment income or loss; (4) Ferry passage trips as defined in WCC 10.34.020(I); (5) Other miscellaneous income, such as immaterial amounts due to NSF checks; and (6) Actual NCER expenditures, up to $150,000 in a calendar year. Put another way, the 55% requirement only applies to a portion of the total operating costs for the ferry system.

In addition to the annual projected deficit in fare box revenues, WCC 10.34 includes a “Ferry fund reserve target” that is defined as “50 percent of the average prior three years’ ATOE and will be comprised of 55 percent fare box considered revenue and 45 percent county funds. The ferry fund shall contain the full ferry fund reserve target by 2034.” It is currently estimated that the to meet this requirement there needs to be a reserve of fare box revenues of about $3 million in 2034. When the ferry fund reserve is factored into consideration, the projected gap in ferry fare revenues increases. Any options to address this problem should consider solving both the annual operating deficit and creating an annual surplus in ferry fare revenues, in order to build up this reserve.

Since the discussions in 2022, there have been extensive conversations about the ongoing projected shortfall in fare box revenues, and the need to phase in fare increases (the funding gap is too large to correct in one fare increase). The first move to address this was done via an amendment to the WCC 10.34 *Ferry Rates* in April 2024; this amendment increased all fares by approximately $1 per ride and was implemented through an Executive Order that went into effect June 1, 2024. (*See attachment A: Executive Order 2024-01.)* This fare increase was the first in 12 years and was not intended to fully solve the projected deficit, rather it was acknowledged at that time that this was the first of many fare increases that will be needed to address the projected deficit and build a reserve.

Ferry system expenses are projected to continue to increase annually, worsening the projected deficit over time. The ferry system has maintained a consistent level of service, not enhancing or expanding services, yet program expenses continue to climb as the result of high inflation and increases across a variety of expenses (i.e. salaries and benefits, dry dock expenses, rentals, insurance, maintenance needs, etc.). In addition, reductions in other revenues that support ferry operations are declining. Examples of increased costs and changes in revenues include:

- Increasing costs for maintenance and repair rates enacted through the County Equipment Rental and Revolving Fund (ER&R) (ER&R costs 2020 set at $616k, in 2023 increased to $970k). This is due to:
  - 2024 long and expensive dry dock repairs
  - Fuel costs increased
  - Repairs and maintenance costs rising on an older vessel
- Ferry Insurance almost doubled from $50k to $95k, and is anticipated to continue to increase significantly each year as the vessel ages
- Ridership is decreasing
- State/Federal revenue contributions have decreased

<u>Policy Options</u>

To address the projected deficit, three policy options are identified:

1. Reduce Expenses
2. Amend WCC 10.34.030 to reduce the amount of operating costs fare box revenues must cover, and to allocate other county sources (Road or general fund) to cover a higher percentage.
3. Increase fare box revenues

<u>Option 1:</u>

Current projections assume operating expenses will grow by 5% each year. Some goods and services, specifically ones outside our control, such as insurance and shipyard costs, have grown by more than 50% and continue to rise. Public Works will continue to evaluate service changes to reduce expenses, however, without implementing drastic changes to the level and quality of services, minor service adjustments would be insufficient at resolving the projected deficit and would not result in a legal balanced budget in the 2025-2026 budget. Therefore, Option 1 is not a viable option for this budget cycle.

<u>Option 2</u>:

Option 2 would require identifying new revenues to subsidize ferry users further (beyond the 45% subsidy the

County Road fund already provides). At this time there are no additional County resources available without requiring cuts to critical road, bridge, and drainage infrastructure services. Forming a countywide ferry district or transportation benefit district would help alleviate the road fund impact and could minimize future fare increases. In addition to supporting the operation, establishing a new revenue appears necessary to afford the large capital ferry replacement project. Capital alternatives are still being evaluated and the process and timeline needed to establish a new revenue is not achievable for this budget cycle but it will need to be addressed in the future. For these reasons, Option 2 is not a viable option within the current timeframe and was not analyzed further in this memo.

Although the year is not yet complete, initial receipts indicate the fare increases enacted in June 2024 have increased revenues by approximately 15% on a year-to-year basis. Even with that fare increase and the one-time Council allocation of $358,000 in American Rescue Plan Act funds in May 2024, the projected 55% fare box considered revenue is anticipated to be short $272,880 by the end of 2024, and without any fare increases the fare box considered revenue is projected to be short on average $615,000 per year, over the next five years (see **TABLE 1** presented on pg.1).

<u>*Option 3:*</u>

Option 3- increasing fare box revenues has been identified as the most effective and feasible policy option for this budget cycle. After evaluating many variations of fare increases, the following four rate increase scenarios are presented (see **TABLE 2**).

<u>Fare Box Increase Scenarios</u>

A. ***No annual fare increases*** - Scenario 1 is not a viable choice, because it conflicts with current code language requiring rates to be adjusted at a minimum for inflation on an annual basis, but is shown here to display what the situation would be if no action is taken.
B. ***Annual increase- inflation only (assumes 5% per year)*** - Scenario 2 does not achieve the fiscal goals established by the County.
C. ***Remove punch cards and increase by 10% in 2025, 11% increase in 2026, 8% increase in 2027-2034 -*** Scenario 3, provides a positive fare box fund balance in the biennial budget timeframe and sufficiently contributes to the ferry reserve fund.
D. ***Keep punch cards and increase by 28% in 2025, 9% increase in 2026, 8% increase in 2027-2034 -*** Scenario 4 provides a positive fare box fund balance in the biennial budget timeframe and sufficiently contributes to the ferry reserve fund while maintaining multi-rider passes (punch cards).

TABLE 2 summarizes the projected deficit (surplus) for each fare box increase scenario.

<u>TABLE 2: Farebox Fund Projections</u>

Farebox Projections- Deficit (Surplus) in $		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
A	No annual fare increases	413,600	599,280	716,430	839,575	968,990	1,105,005	1,247,950	1,398,155	1,556,060	1,721,995
B	Annual increase- 5% inflation	336,985	454,190	499,290	546,865	596,970	649,715	705,155	763,565	825,055	889,680
C	No PC + 10% 2025, 11% 2026, 8% 2027-2034	28,600	(9,845)	(71,280)	(140,800)	(219,395)	(307,780)	(406,945)	(517,935)	(641,905)	(780,230)
D	Increase all fares 28% 2025, 9% 2026, 8% 2027-2034	(7,920)	(8,855)	(72,490)	(144,650)	(226,105)	(317,900)	(420,970)	(536,415)	(665,445)	(809,380)

Note: Scenarios 3 & 4 meet the reserve target of $3M by 2034

<u>Executive Recommendation: Option 3D</u>

Initially, Public Works proposed Option 3C as it is consistent with County code, resolves the budget shortfall within the budget timeframe, and demonstrates the system is not able to support discounting the rates for

80% of its customers. However, after significant public feedback, the importance of punch cards became more evident for the convenience they provide and the operational efficiencies generated. Therefore, the Executive's Office is recommending the Council approve Option 3D: **Increase all rates 28% in 2025, 9% in 2026 and 8% annually through 2034**[2]. The reasons for recommending this policy option include:

1. Produces a balanced budget over the 2-year budget
2. Starts contributing to the ferry reserve fund
3. Avoids service impacts
4. Preserves punch cards

Table 3: Option 3D Proposed Unified Fee Schedule

Fare Class (does not include "free" ticket classes)	Proposed Final Price		2024 Applied Pricing	2025 Proposed Pricing	Per Ticket Rate Increase
	Ticket Price with Capital Surcharge	Ticket			
Passenger / Pedestrian					
Passenger/Pedestrian Cash*	**$ 10.00**	**Pedestrian**	*$ 7.00*	*$ 9.00*	***$ 2.00***
Passenger/Pedestrian Multiride	**$ 82.00**	**New**	$ 56.00	$ 72.00	**$ 16.00**
Passenger/Pedestrian Multiride	**$ 164.00**	**New**	$ 112.00	$ 144.00	**$ 32.00**
Needs Based Multiride (25->10)	$ 36.00	Red	$ 28.00	$ 36.00	$ 8.00
Vehicle / Driver					
Bicycle w/Rider	$ 10.00	Bike	$ 7.00	$ 9.00	$ 2.00
Motorcycle w/Driver	$ 11.00	Motorcycle	$ 8.00	$ 10.00	$ 2.00
Motorcycle w/Driver Multiride	$ 90.00	New	$ 64.00	$ 80.00	$ 16.00
Vehicle < 11k W/Driver Cash	**$ 19.00**	**Vehicle**	$ 14.00	$ 18.00	**$ 4.00**
Vehicle < 11k W/Driver Multiride	$ 154.00	Drk Blue	$ 112.00	$ 144.00	$ 32.00
Vehicle < 11k W/Driver Multiride	**$ 308.00**	**New**	$ 224.00	$ 288.00	**$ 64.00**
Needs Based Vehicle W/Driver	$ 72.00	Gold	$ 56.00	$ 72.00	$ 16.00
Vehicle/Driver - small truck < 20,000	$ 55.00	Small Truck	$ 42.00	$ 54.00	$ 12.00
Vehicle - small truck Multiride	$ 550.00	Grey	$ 420.00	$ 540.00	$ 120.00
Vehicle/Driver - med truck < 36,000	$ 126.00	Med Truck	$ 98.00	$ 125.00	$ 27.00
Vehicle - med truck Multiride	$ 1,260.00	Salmon	$ 980.00	$ 1,250.00	$ 270.00
Vehicle/Driver - large truck < 50,000	$ 243.00	Large Truck	$ 189.00	$ 242.00	$ 53.00
Vehicle - large truck Multiride	$ 2,430.00	Purple	$ 1,890.00	$ 2,420.00	$ 530.00
Trailer					
Trailer < 16 feet	$ 28.00	TRL <16ft	$ 21.00	$ 27.00	$ 6.00
Trailer < 16 feet Multiride	$ 140.00	New	$ 105.00	$ 135.00	$ 30.00
Trailer 16-30 feet	$ 52.00	TRL 16-30ft	$ 40.00	$ 51.00	$ 11.00
Trailer 16-30 feet Multiride	$ 260.00	New	$ 200.00	$ 255.00	$ 55.00
Trailer > 30 feet	$ 96.00	TRL >30ft	$ 74.00	$ 95.00	$ 21.00
Special Trips after boat shut-down	$ 807.00	After Hours	$ 630.00	$ 806.00	$ 176.00

Note: Please be aware that due to our system processing dollar amounts are rounded up to nearest whole dollar amount and therefore some may not be exactly a 28% increase.

2 This is based on current projections, however, conditions may change and other work to consider service changes and ticketing efficiencies overtime, or new sources of revenues, could mitigate the annual increases in the future.

Service Reductions

We are in the process of evaluating options for changing the current level of service. Service reductions could entail shortening the sailing time from 20 hours a day to a total of 18 hours (2- 9hr shifts), 16 hours (2- 8hr shifts) or 10 hours (1-10hr shift) per day. We are also considering different schedules for summer/winter and weekdays/weekends, like most other ferry systems. However, reducing the sailing schedule too much does affect the system's ability to generate revenue. In addition, changing the hours and/or wages of Ferry employees requires renegotiating our collective bargaining agreements, which expire in December of 2025, with typical negotiations lasting upwards of 6 months. Due to the timing of the budget and unified fee schedule update, we do not anticipate there being sufficient time to implement service changes in 2025. Service reduction strategies are continuing to be analyzed and may be feasible for implementation in 2026, however, due to these constraints, changing the existing level of service is not proposed at this time.

Future Services

Implementing an electronic ticketing system is an operational improvement we are considering and plan to determine whether there is a positive return on investment. Enhancing our technology resources could help ensure better collection accuracy, provide convenience, and mitigate operational issues. At this time, we are in the early stages of evaluating the available software and hardware products needed for electronic ticketing, gathering information from other ferry operators, and assessing costs and their effectiveness.