

WASHINGTON STATE FERRIES

Both a part of the state highway system and a mass transit provider



Foot passengers and vehicles disembarking the Bainbridge Island-to-downtown-Seattle ferry



Off Lopez Island in San Juan Islands



Port Townsend pay station, terminal and ferry landing



Bainbridge Island vehicle loading/unloading area



Foot passengers walking into Seattle downtown from ferry

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UPDATE STUDY OF LEAGUE OF WOMEN VOTERS OF WASHINGTON TRANSPORTATION POSITION WITH A FOCUS ON THE WASHINGTON FERRY SYSTEM

2007

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Ferry salon mid-morning

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Introduction

Tourists visiting Puget Sound take a ride on a ferry—perhaps the number one tourist attraction in Washington, pictured on brochures and postcards, and as much of an icon as the Space Needle. Farmers from across the state send their produce to island communities by ferry. Thousands commute to work by ferry, many walking or biking on, leaving cars at home or in park and ride lots. But it is mainly those residing in ferry communities who are aware of the precarious financial situation facing the Washington State Ferries. This study is intended to serve as a first look at the Washington State Ferries System as it exists today and how we arrived at this place.

Washington State Ferries (WSF) is designated an official Highway of Statewide Significance along with interstate highways and other principal arterials connecting major communities.

With nearly 500 daily sailings, the ferries provide a mass transit system carrying thousands of workers across Puget Sound and to the San Juan Islands. Ferries play a significant role in the state's tourism industry. Freight is another important component of ferry service.

WSF receives part of its funding from user fees. Vehicle and passenger fares cover 76% of operating costs with plans to increase to 83%. Walter Elliott, on the executive board of the state's Ferry Advisory Committee, reports that a 76% farebox recovery is higher than 99% of all other transit systems in the nation. Additional operating expenses and capital expenses are funded by state appropriations and dedicated tax revenues.

Fare increases of 62% over the last five years, followed by a drop in ferry traffic, suggests that fare structure may be an increasing factor for travel, intrastate trade, business decisions, and pending major capital improvements. Increased interest from regional governments for passenger-only (P/O) vessels, as part of a regional

mass transit system, also have raised the profile of ferry issues.

Continuing policy decisions by the Governor and state Legislature include: budget and financing decisions in the face of increasing operating costs, establishing clear direction for tariff setting, addressing geographic and equity concerns, improving multimodal transit connections, improving transparency in planning for both operations and capital projects, providing the most appropriate governance and organizational structure, revising operating fund policies, and aligning future spending with goals and performance measures.

While ferry policy is set at the state level, local and regional government officials in ferry-dependent and coastal counties have a keen interest in this issue. The *San Juan Islander* website posted the following:

“WSAC agrees on ferries as priority legislative issue – February For the first time in its history, Washington State Association of Counties agreed ferries are a statewide issue, according to San Juan County councilmember Kevin Ranker. The WSAC legislature steering committee adopted a position calling for retaining affordable ferry user fees; giving local

governments a seat at the table to address shortfall in operations; and asking for comprehensive analysis...between ferry fares and local economic drivers in coastal communities.”

The need for WSF to work closely with regional stakeholders is underscored by recent efforts to improve cross-sound P/O ferry service through partnerships with private providers or other government providers.

History of Washington State Ferry Service

Originating in the early 1900s, Puget Sound ferry service was initially provided by a number of companies using small steamers known as the “Mosquito Fleet.” By 1929 the ferry industry had consolidated into two companies: Puget Sound Navigation Company and Kitsap County Transportation Company. A strike in 1935 forced Kitsap County Transportation Company out of business and left the Puget Sound Navigation Company, commonly known as the Black Ball line, with primary control of ferry service on Puget Sound.

After World War II, increasing labor costs made private operation of the ferry system increasingly challenging. In the late 1940s, ferry workers’ labor unions succeeded in securing higher wages from the Puget Sound Navigation Company. The ferry service provider petitioned the State Highway Department to allow a 30% fare increase to meet new operating costs. When the State refused its request, the Puget Sound Navigation Company tied up its boats, bringing much of cross-sound ferry service to a halt.

Creation of Washington State Ferries

Washington State recognized that the ferries were a lifeline for many communities and there was a need for reliable ferry service to meet growing demand. In 1951, after numerous discussions with the State Legislature over fares and service, the Puget Sound Navigation Company sold all of its terminal facilities and ferries (with the exception of the Seattle/Port Angeles/Victoria, B.C. route) for \$5 million to a newly created Washington Toll Bridge Authority, now known as Washington State Ferries (WSF).

The Toll Bridge Authority set fares and controlled the system’s finances, including long-term indebtedness, while the operation of the ferry system was controlled by the Highway Commission. In 1977, the two agencies were combined under the existing Washington State Department of Transportation (WSDOT).

The ferry system was originally intended to provide temporary service until a network of bridges could be built connecting the west and east sides of Puget Sound. In 1959, however, the legislature rejected the plan to build numerous cross-sound bridges. At that time, the responsibility for managing the ferry system was shared by the Toll Bridge Authority and the State Highway Commission.

The Governor relinquished power over the Department of Highways when, in 1951, the same year the state took over WSF, the first 5-member Washington State Highway Commission was appointed. The Legislature passed extensive administrative changes and funding increases, and, the Commission started appointing the director for the State Department of Highways. Commissioners served staggered 6-year terms, were bipartisan, and were geographically representative along the line of east or west of the Cascades.

Regional transportation studies over the years prompted intergovernmental cooperation.

Development of the Fleet

In its first year of service the State-operated ferry system carried approximately four million passengers. The boats the State purchased from the Puget Sound Navigation Company included a number of steel diesel-electrics from San Francisco, the Illahee, Klickitat, Nisqually, Quinault, Enetai, and Willapa; wooden diesel-electrics including the Chetzemoka, Kehloken, and Klahanie; steamers such as San Mateo and Shasta; wooden diesel-powered boats built in the Northwest such as the Rosario, Kitsap, Crosline, Leschi, Skansonian and Vashon; and a former Great Lakes steamer, the Chippewa.

The new ferry system's first challenge was to add boats to meet growing demands for service, relieving backups that had started occurring at terminals. Two former Chesapeake Bay ferries, the Rhododendron and the Olympic, were purchased from Maryland. In 1953, the State commissioned the Puget Sound Dredge and Bridge Company (subsequently Lockheed) to build the first Evergreen State-class vessel, which could carry 100 vehicles and 1000 passengers. Over the next 13 years, the ferry system responded to growing demand by rebuilding and expanding the existing fleet. However, the Evergreen State-class ferries could not keep pace with the demand. In 1967, the Super-class ferries Hyak,

Kaleetan, Yakima and Elwha were built. Each carried 160 cars and 2500 passengers. Within several years even the Super-class ferries were unable to handle the demands of the system. The Jumbo-class Spokane and Walla Walla ferries, with a capacity of 2000 passengers and 206 vehicles, were built in 1973. The Issaquah-class Issaquah, Kittitas, Chelan, Kitsap, Cathlamet and Sealth ferries were added in the early 1980s to improve operations and replace aging boats. These ferries initially carried 1200 passengers and 100 cars. Five have since been modified to carry 130 cars.

The fleet expanded during the 1997/99 biennium with the arrival of the Jumbo Mark II-class vessels, Tacoma, Puyallup and Wenatchee. Built by Todd Shipyards in Seattle, each vessel carries 2500 passengers and 212 vehicles. Construction of a new high-speed passenger-only class ferry, the Chinook, was also completed this biennium. The Snohomish, the Chinook's sister ship, was received in the 1999/2001 biennium.

Outside of Puget Sound, Washington State Department of Transportation Eastern Region operates the toll-free Keller Ferry for vehicles on the Columbia River. Regional authorities and commercial operators also provide ferry service on other Washington waterways.

Financial History

The State first purchased the ferry system from the Puget Sound Navigation Company with the intention that all costs would be funded by passenger and vehicle fares. The original bonds issued by the Toll Bridge Authority in 1951 for the purchase of the ferry system required that the system generate net revenues. The ferry routes sustained revenues in excess of operating expenses until 1960. The entire ferry/bridge

system generated net revenue until 1974 because of the financial success of the Hood Canal toll bridge.

Tax support of the ferry system began in 1957 when the State Legislature brought ferry system employees into the State Retirement System. In 1959, the State Legislature created an account, funded by 0.25 cents per gallon of the State's gasoline

sales tax, to help pay debt service on revenue bonds issued by the Toll Bridge Authority if costs exceeded revenues. In 1960, the ferry system failed to meet the annual debt service requirements, and the ferry system received \$672,000 from the State's motor vehicle fuel tax to cover the bond payments. Additional ferry system/Hood Canal Bridge bonds were issued in 1963. Since the early 1970s, all of the debt service payments for the ferry system bonds have come from motor vehicle fuel taxes rather than ferry system operating revenues.

Over time, Washington State has continued to provide tax support for ferry system operating and capital costs as a supplement to WSF-generated revenues from fares and other miscellaneous income. Since the 1970s State tax sources have included a gasoline sales tax and motor vehicle registration fees. Additionally, WSF pursues federal and local

funds for specific projects. The use of public funds for ferry system purposes is strictly regulated, and taxes imposed for operating and capital expenses are levied and tracked separately. The taxes used to fund operating and capital expenses have been raised over the years in order to cover growing operating and capital costs. In fiscal years 1998 and 1999 the ferry system generated revenue to cover 65% and 66% of its operating costs, respectively. In keeping with the State's Blue Ribbon Commission on Transportation Recommendations 2000, to seek a 90% farebox recovery for ferry system operational costs within 20 years, the Washington State Transportation Commission mandated that the ferry system farebox generate a minimum of 60% of the system's operating expenses. The remaining percentage is provided by tax support from the State.

Washington State Ferries Today

Today, WSF is the largest ferry system in the United States. WSF serves eight counties within Washington and the Province of British Columbia in Canada. Counties served include Pierce, King, Snohomish, Kitsap, Skagit, Island, San Juan, and Jefferson Counties. WSF existing system has 10 routes and 20 terminals that are served by 28 vessels. In fiscal year 1999, the peak passenger year, WSF carried over 26 million people and 11 million vehicles--over one million more walk-on and vehicle passengers and 500,000 more vehicles and drivers than in fiscal year 1997.

WSF has identified major freight routes to be the Anacortes-San Juan domestic run as well as the Edmonds-Kingston and Mukilteo-Clinton routes. Bainbridge Island also receives a lot of truck traffic in the early mornings, with freight comprising up to 80% of vehicles on the 5:30 AM sailing.

The following tables summarize WSF system ridership for 2005. The categories are separated, showing the San Juan Islands first, since they represent many trips by tourists and visitors.

Route	Vehicles	Veh. Passengers	Foot Passengers
Anacortes – Lopez	146,910	105,316	39,920
Anacortes – Shaw	13,828	10,846	3,706
Anacortes - Orcas	276,274	238,362	62,560
Anacortes - Friday Harbor	309,576	260,596	173,016
Inter-Island	97,274	Free*	free*
Total above	843,862	615,120	279,202
Anacortes- Sidney	37,731	61,383	14,389
Inter-Island/Sidney	7,103	10,582	5,493
Sidney Total	44,834	71,965	19,882
Port Townsend – Keystone	370,585	305,102	102,576

* As there is no charge for inter-island passengers, there is no count taken. Number shown is for fare charges for westbound vehicles only. Eastbound vehicles are not charged.

The next 2 tables show ridership for cross-sound and Vashon Island routes which carry

substantial numbers of commuters in addition to travelers and tourists.

Route	Vehicles	Veh Passengers	Foot Passengers
Seattle Bremerton	706,431	462,922	1,149,730
Seattle – Bainbridge Island	2,106,504	1,619,964	2,660,102
Edmonds – Kingston	2,268,927	1,426,554	579,673
Mukilteo- Clinton	2,214,222	1,337,966	504,800

Route	Vehicles	Veh Passengers	Foot Passengers
Seattle - Vashon			175,269
Faunt. –Vashon	1,160,632	597,564	292,888
Faunt. - Southworth	559,129	266,210	154,387
Southworth - Vashon	121,208	31,590	47,944
Tahl. - Pt Defiance	404,862	203,526	92,214

Operations and Long-Term Planning

Under the leadership of Chief Officer Mike Anderson, WSF employs more than 1800 people. The majority of ferry workers are hired through union contracts with the Inlandboatmen’s Union, the Marine Engineers’ Beneficial Association and the

Metal Trades Union. Ninety-two percent of the total workforce represents 11 different unions. WSF itself hires for only management, engineering and administrative positions.

Ferry management faces numerous challenges in long-term planning for ferry operations. Management must conduct financial forecasting in the face of unpredictable, but likely substantial, fuel cost increases; as well as plan for labor costs which are subject to union negotiation. Major capital investments in both vessels and facilities will be required to respond to service demands. These projects all require complex decision-making about timing and design, and funding must be found. WSF plans improvements to terminal facilities in a complex environment where local governments and ferry users expect a collaborative process and projects take place in shoreline environments with significant Federal and State environmental planning requirements.

A few examples illustrate the complexity of the planning challenges.

Significant improvements have been proposed for many terminals. Coordination with local community planning and regional mass transit development is a key part of all projects, including the City of Seattle and the Colman Dock improvements, the Port of Kingston and its property, with Whidbey Island residents about changes to the Keystone dock and holding area, the Mukilteo and Anacortes multimodal terminal projects and the Bainbridge Island terminal. The much smaller cities of Friday Harbor and Port Townsend on the north ferry corridor are currently negotiating the same terminal and local issues with WSF. Local communities have concerns relating to traffic congestion, pedestrian and non-motorized transportation access, and impact on local business, the environment and residents. Citizen and stakeholder participation related to changes in vehicle holding areas and vessel size is important to small communities. Participation by 300 citizens helped lead to the selection of the Port Townsend-Keystone run to test a pilot ferry reservation system.

Ferry officials must also decide whether to keep the existing system-wide maintenance yard at Eagle Harbor on Bainbridge Island, or move it to another location. A consultant's study in 2001 concluded that moving the yard would save money, but ferry executives disputed that finding, mentioning costs not considered by the consultant, such as new night security, and the cost of tugs needed to bring ferries in and out of Pier 90/91 on Elliott Bay (the consultant's recommended option). WSF Stores are on the Seattle side of Puget Sound. Complicating the decision making is the fact that the City of Bainbridge Island wants WSF to complete a State Environmental Impact Statement for its current work at Eagle Harbor. This study could raise additional mitigation issues and associated costs.

Even communities not directly served by WSF have significant financial impacts from ferry service. The Port Angeles Regional Chamber of Commerce on the Olympic Peninsula reports that one-half million visitors, using ferries in 2005, contributed a record \$28 million in tourism revenue.

While commuter ridership and freight contributes to the Central Puget Sound economy, at this time little information on the volume of recreational travelers is available. To help gather this information and inform cost-benefit analysis of future ferry capital investment and fare structures, a new origin and destination survey is recommended in the January 2007 Ferries Financing Study commissioned by the State Legislature Joint Transportation Committee.

Planning for population growth is another consideration for ferry administrators. Ray Deardorf, ferry planner for WSF, says population growth in Kitsap County will outpace job growth, meaning more commuters will travel to King County, where jobs are predicted to grow faster than population. In part due to this anticipated future demand, passenger-only ferries have been part of WSF planning for several years.

After several years of shifting support and disappointing fare revenues the Legislature directed WSF to conduct an appraisal and sell two passenger-only boats and put the proceeds, estimated at between \$5 and \$10 million, in a passenger-only ferry fund to be administered by WSDOT.

WSF will collaborate with new and potential P/O ferry service providers and use the passenger ferry fund for operating or capital grants to these providers. Kitsap Transit has expressed an interest in operating a P/O ferry from Bremerton to Seattle, Southworth to Seattle, and Kingston to Seattle. Kitsap Transit would provide boat/bus coordination for customers. These routes are designed to contribute steady and stable growth on the Kitsap Peninsula. In February 2007, a Kitsap County ballot measure to give Kitsap Transit the funding for these P/O ferries via a sales tax increase was turned down by the voters. Metropolitan King County may assume the Vashon to Seattle P/O route from WSF (Senate Bill 5862) and has also expressed an interest in funding the routes that Kitsap Transit had proposed. Private stakeholders and regional publicly-funded groups have also invested time and resources studying P/O services.

In May 2007 the Metropolitan King County Council adopted an ordinance creating a passenger ferry district, which includes all of King County. The law that allows counties to create ferry districts gives them the right to impose a property tax of 75 cents for every \$1,000 of assessed value. The current plan calls for only a Vashon/Seattle route.

Any new P/O ferries used for all of these sailings will be designed to be fuel-efficient and to produce minimal wake.

Reported advantages of supporting these P/O services are: cost-savings from access to state facilities, shorter trip times, lower fuel consumption and lower emissions from smaller vessels, higher boat speeds producing new low wake, reduced demand

for terminal expansion and vehicle holding areas in rural and urban communities, and reduced traffic on state roads. Local land management and regionally coordinated multimodal transportation agreements would fit current WSF plans. Concerns about P/O service include: costs associated with addressing community plans, safety related to smaller vessels and trained employees, and potential environmental impacts from the vessels.

Legislators continue to be divided over the appropriate role of state government in P/O ferry operations. Federal funds are available for P/O boats (as mass-transit). However, using these limited Federal funds for P/O service would divert them from other uses, such as expanded bus service. With non-WSF operation of P/O service, the WSF could potentially experience both a reduction in federal funds and a reduction in fare-paying passengers at the same time--a double hit in the pocketbook. For example, P/O service between Southworth and downtown Seattle would lead to a loss of revenue to WSF estimated at \$1.9 million per biennium. (*Ten-Year Passenger Strategy for Washington's Multimodal Ferry Transportation System*)

In discussing management's responsibilities and challenges it is also important to note that the leadership of WSF has been accused of mismanagement. In 2006 the *Kitsap Sun* editorial board took the system to task for failing financial audits for 16 years because of "sloppy" accounting and handling of cash. At least six ferry employees were fired, arrested or prosecuted for mishandling money. "If ferries officials had taken their public mission more seriously, that wouldn't have happened." Since the thefts were discovered, and in response to the audit findings, WSF has undertaken an extensive electronic fare collection project and altered its cash handling procedures.

WSF utilizes a variety of tactics to reach out to the public, both regular commuters and occasional users, including a website. WSF

has established Community Advisory Groups, conducted “all aboard” outreach discussions on vessels for four days in May 2006, and has an on-line customer form.

WSF is working to be a better environmental steward. In 2004 the system switched to low sulfur diesel for the entire fleet, which reduced sulfur dioxide emissions 90% and is testing ultra-low-sulfur diesel on some runs. An attempt was made to use biodiesel, but it proved to clog engine filters and has been temporarily abandoned. WSF has been removing

creosote pilings at all docks and working with the University of Washington to minimize the impact of the Clinton dock expansion on eelgrass.

Increased awareness of the ferries as potential terrorist targets has required WSF to work jointly with the Washington State Patrol and the U.S. Coast Guard on a comprehensive security plan that meets requirements of the Maritime Transportation Security Act of 2002.

Washington State Ferries Funding

The Washington State Constitution, Amendment 18 (passed November, 1944) Article 2, Section 40, specifies that “All fees collected by the State of Washington as licenses fees for motor vehicles and all excise taxes collected by the State of Washington on the sale, distribution or use of motor vehicle fuel and all other state revenue intended to be used for highway purposes, shall be paid into the State treasury and placed in a special fund to be used exclusively for highway purposes. Such highway purposes shall be construed to include the following: a) The necessary operating, engineering and legal expenses connected with the administration of public highways, county roads and city streets; b) The construction, reconstruction, maintenance, repair, and betterment of public highways, county roads, bridges and city streets; including the cost and expense of (1) acquisition of rights-of-way, (2) installing, maintaining and operating traffic signs and signal lights, (3) policing by the state of public highways, (4) operation of movable span bridges, (5) operation of ferries which are a part of any public highway, county road, or city street...” This amendment indicates clearly that the Washington State Ferries System is a part of the highway system and is funded accordingly.

In 2006, a Joint Transportation Committee of the Washington Legislature conducted a finance study of the Washington State Ferries System. The legislature appointed a special bi-partisan Ferry Finance Committee, with two members from the House and two from the Senate, plus a representative from the Transportation Commission and a member of the Governor's staff. The committee hired a consultant to examine ferry operations. Recommendations from this effort are found in Washington State Ferries Financing Study of January 2007. The purpose of the study was to facilitate policy discussions and decisions by members of the legislature regarding the Washington State Ferries System. Legislators recognize the need for predictable cash flows, transparency in decision-making, assessment of organizational structure, verification that the WSF System is operating at maximum efficiency, and better labor relations. The committee reported their findings to the House of Representatives and Senate Transportation committees in January 2007. (Source: Substitute Senate Bill 6241, Section 205).

The 2005-2006 WSF Budget is \$620,094,000. The WSF Budget is

comprised of a Capital Budget and an Operating Budget. The budgets are separate because each is funded from different sources. (2005-2007 Revised Transportation Budget (2006 Supp)).

The 2005-2006 Capital Budget for the WSF system is \$244,180,000 (39% of the total budget). This revenue is used to improve the WSF system, which includes vessel construction, major and minor vessel preservation, and terminal preservation, construction, and improvements. One of the sources of revenue for this Capital Budget is State Appropriations (about 75%) from the Puget Sound Capital Construction Account, the Multimodal Transportation Account and the Transportation 2003 Account (Nickel Account). State Appropriations include revenue from the gas tax (about 15%), the Motor Vehicle Fund Transfer (about 25%), Bonds (about 13%), transfer from Operating Account (about 19%). The other main source of revenue for the Capital Budget is Federal Appropriations for the Puget Sound Capital Construction Account (about 25%). (Source: Substitute Senate Bill 6241, Section 307; and Washington State Ferries Financing Study, p.57).

The 2005-2006 Operating Budget for the WSF system is \$375,914,000 (61% of the total). This revenue is used for the operation and maintenance of the WSF system. Sixty percent of WSF operating costs are for the workforce. Fuel represents the second highest cost. The main source of revenue for the Operating Budget is customer tariffs or fares, which in 2005 made up about 76% of the revenue. Vehicles provide 75% of current fares. Some runs generate revenue in excess of their operating costs. For example, Seattle-Bainbridge Island returns 111% and Edmonds-Kingston returns 106% while Seattle-Vashon P/O ferry returns 23%.

Other sources of revenue for the Operating Budget are the State Appropriations including direct gas tax (about 11%), licenses, permits and fees (about 4%), Motor Vehicle Fund Transfer (about 4%),

Multimodal Account and miscellaneous revenues (about 2%). (Source: Substitute Senate Bill 6241, Section 227; and Washington State Ferries Financing Study, p.45).

WSF has been involved in the on-going assessment of fares since 1991. Fare changes during the 1997/99 biennium included across-the-board fare increases of 2.3% and 2.2% in FY 1998 and FY 1999, respectively, to adjust for inflation and several fare policy changes such as fare rounding, revised commuter discounts, and a revision to the peak season vehicle/driver surcharge.

Customer fares have increased steadily since 1999 when Initiative 695 eliminated the Motor Vehicle Excise Tax (MVET). Even though this initiative was overturned by the courts, the Washington State Legislature passed a bill during the 2000 Session to eliminate the MVET. Between 2001 and 2006, fares have increased 62%. As would be expected, people who depend upon the WSF System for transportation to work feel the biggest impact from this increase. A 2.5% fare increase is scheduled for 2007.

Fare increases have been accompanied by a drop in ridership. WSF reduced service from 2000 levels, while fares rose. There has been an 11% drop in ridership, nearly three million fewer vehicles and passengers. Some cross-sound routes have not had an increase in ridership even though the potential user population has increased. Customers may be using alternate routes (such as driving around, when that is an option), telecommuting and flex-time options, or not traveling to the Seattle area as often.

In the face of rising operating and capital expenses, WSF plans indicate that fares are projected to increase to cover 80% of the Operating Budget by 2007, 100% of the Operating Budget by 2015, and 109% of the Operating Budget by 2030. According to the Ferry Financing Study consultants, WSF contemplates that earned revenue in excess

of operating and maintenance costs would be transferred to the capital budget. Given projected labor costs, the consultants do not believe that such transfers will be available. (Washington State Ferries Financing Study, p. 45).

The Washington State Ferries Financing Study included the following recommendations:

1. Use the ferry finance decision model to frame legislative reviews and authorizations.
2. Recognize travel shed differences.
3. Separate operating and capital finances.
4. Recognize the importance of fares to generate revenue and affect demand.
5. Encourage off-peak ridership increases.
6. Conduct an independent review of projected ridership.
7. In the interim, use the econometric model projections of ridership for capital decisions.
8. Require a market survey of recreation users and vehicle drivers.
9. Require a review of the level-of-service standard for vehicles.
10. Conduct an independent review of the proposed level of service standard for vehicles.
11. Require a review of operational and pricing strategies.
12. Conduct an independent review of operating and pricing strategies.
13. Tie vessel acquisition decisions to ridership.
14. Clarify capital project definitions.
15. Revise terminal preservation program.
16. Condition terminal improvement on the independent reviews of ridership, vehicle level-of-service standard, and pricing and operational reviews.
17. Conduct independent review of terminal design standards.
18. Require a pre-design study on terminal improvement projects.
19. Require WSF to identify costs to meet local concerns and to provide joint use transit facilities.
20. Revise operating fund policies.
21. Revise tariff setting directions and policies.
22. Recognize likely shortfall in capital funding.

(Washington State Ferries Financing Study, p. 4)

Governance

Until 2006, WSDOT, including the WSF System, was under the direction of the Transportation Commission. During the 2006 session the State Legislature changed the law in order to place the WSDOT under the Governor's direction. Based on the recommendations of several recent studies, some reorganization is underway.

In 2006 the head of WSDOT became the Secretary of Transportation and now reports directly to the Governor. Among his many

duties, the Secretary oversees WSF. Secretary Douglas MacDonald has mentioned a number of problems with the system including funding and management. The Transportation Commission's roles and responsibilities were changed in 2006 by legislative action. The Commission is no longer responsible for the overall operation of WSDOT or the approval of the department's budget and legislative policy package. However, it has retained many of its other functions, among which are the

review of performance and outcome measures of state and local transportation-related agencies and the setting of ferry fares and highway tolls. The Commission holds regular public hearings in Olympia and at sites across the state.

The Washington State Utilities and Transportation Commission, a separate entity as well as a transportation oversight provider, is responsible for the registration and regulation of common carrier ferry vessels. This means any carrier who wants to start up a new service, such as passenger-only service across the Sound, must apply for registration by the Commission. Recently, such applications have been held up pending a decision regarding WSF operation of passenger-only service.

The Joint Transportation Committee was created by the legislature in 2005 as the major legislative entity to deal with WSDOT, particularly related to the budget. The Committee is mandated to review and research transportation programs within WSDOT with the intent of informing state and local government policymakers, including other legislators. The executive committee of the Committee consists of the chairs and ranking members of the House and Senate committees and other members are appointed by the executive committee.

The Washington State Auditor's Office, one of the transportation oversight providers, independently promotes accountability,

fiscal integrity and openness in state and local government, working with governments and citizens striving for proper use of public resources. Transportation Performance Audits are due to the Governor June 30, 2007. The Office of Financial Management is responsible for tracking and achieving audit resolution and reporting to appropriate legislative committees by the end of each year prior to the budget process.

In the 1980's, the Legislature authorized a network of Ferry Advisory Committees (FAC) to be appointed by local governments where ferry terminals exist. These advisory groups consist of representatives of an established ferry-user group or of frequent users of the ferry system, a representative of a commercial firm dependent on the ferry system and a member of a local government planning agency or its staff. Every member must reside in the local county and not more than three can belong to a major political party. The chairman of the several FACs shall serve on an executive committee of the WSF users. FAC often advises WSF directly, as well as the Transportation Commission and the Joint Transportation Commission.

The Puget Sound Regional Council's transportation policy board has initiated a study, due in 2008, to determine the feasibility and advisability of a regional passenger-only ferry district. The Council has representatives from King, Snohomish, Pierce and Kitsap Counties.

Appendix A:

British Columbia Ferry System

BC Ferries was set up in 1960 to provide a substantially better service than those provided by the Black Ball Line and the Canadian Pacific Railway, which were affected by frequent periods of job action. BC Ferries has become the largest ferry line in North America and the second largest in the world, boasting a fleet of 35 vessels with a total passenger and crew capacity of over 27,000 serving 48 locations on the BC coast, compared to Washington State Ferries, the largest ferry system in the United States with 28 vessels serving 20 ports of call on 10 routes.

At its inception, BC Ferries was a vision of the British Columbia Toll Highways and Bridges Authority, a provincial Crown corporation. As BC Ferries provides an essential link from mainland Canada to the various islands on its routes, it is subsidized by Transport Canada. The subsidy for 2004-2005 was CAD \$25 million and is adjusted annually to keep pace with the rate of inflation.

In 2003, the Government of British Columbia announced that BC Ferries, which had been in debt and needed to reform the delivery of ferry transportation services, was going to be reorganized into a private company. This was accomplished through the passage of the Coastal Ferries Act. The Act required that the Province of British Columbia established the BC Ferry Authority, an independent, no-share capital corporation that holds the single issued voting share of the new British Columbia Ferry Services Inc. The purpose of the Authority is to govern British Columbia Ferry Services Inc. and to appoint its Board of Directors. By its structure, the Authority ensures that the operations of BC Ferries are independent from the government.

The British Columbia Ferry Commission was also established under the province's Coastal Ferry Act of 2003. The Commission regulates fares and service levels of the ferry operator British Columbia Ferry Services Inc. The Commission is independent of both the government and of BC Ferries. It is obliged to follow six principles in protecting the public interest, which are set up in the Act:

- (a) priority is to be placed on the financial sustainability of the ferry operators;
- (b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
- (c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
- (d) ferry operators are to be encouraged to minimize expenses without adversely affecting their safe compliance with core ferry services;
- (e) cross subsidization from major routes to other designated ferry routes is (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under the Act, and (ii) before its elimination, to be minimized;
- (f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

The Financial Plan for BC Ferries reported a profit of \$39.8 million CAD for 04/05 and projected \$49.8 million for 05/06. Revenues were expected to grow by 3.8% for 05/06. BC Ferries revenues for 2005/06 were based on the following components: Fare Revenues 63%, Provincial Service Fees 18%, Non Fare Revenues 15% and Federal Subsidy 4% .

Appendix B:

Persons Interviewed and Surveyed

Caldwell, Tim – executive director, Port Townsend Chamber of Commerce; Washington State Passenger-Only Ferry Task Force 2005

Carrell, Mike – Senator 28th District

Drewel, Bob - director, Puget Sound Regional Council

Flannigan, Dennis – Representative 27th District

Franklin, Rosa – Senator 29th District

Green, Tami – Representative 28th District

Haugen, Mary Margaret – Representative 10th District

Howard, Jr., Charles – director, Transportation Planning, Puget Sound Regional Council

Kastama, Jim – Senator 25th District

Kessler, Lynn – Representative 24th District

Kirby, Steve – Representative 29th District

McDonald, Joyce – Representative 25th District

Morrell, Dawn – Representative 29th District

Regala, Debbie – Senator 27th District

Schoesler, Mark – Senator 9th District

Woods, Beverly* – Representative 23rd District

*Former representative

Appendix C :

Resources

British Columbia Ferries, www.bcferries.com
City of Port Townsend, www.cityofpt.us
International Longshore Warehouse Union Newsletter, www.ipdgroup.com
Jefferson Transit Authority, www.jeffersontransit.com
Kitsap Sun
KUOW/The Conversation
League of Women Voters of Washington, www.lwvwa.org
Moving Washington Timeline: The First Century of the Washington State Department of Transportation, 1905-2005, Walt Crowley, Kit Oldham & The HistoryLink Staff, distributed by University of Washington Press
Peninsula Daily News
Port Angeles Regional Chamber of Commerce
Port Townsend Chamber of Commerce
Port Townsend-Jefferson County Leader
Puget Sound Council of Governments
Puget Sound Regional Council, www.psrc.org
San Juan Islander www.sanjuanislander.com/ferries
Seattle Post-Intelligencer
Seattle Times
Washington North Sound Passenger Ferry Opportunities Study, www.discovery.org/sc
Washington State Passenger-Only Ferry Task Force, www.wsdot.wa.gov/CTR_Report_05
Washington State Department of Transportation, www.wsdot.wa.gov
Washington State Ferries Advisory Committee, www.wsdot.wa.gov/ferries/fac
Washington State Ferries System, www.wsdot.wa.gov/ferries
Washington State Legislature, www.leg.wa.gov
Washington State Legislature Joint Transportation Committee, www.1.leg.wa.gov/JTC

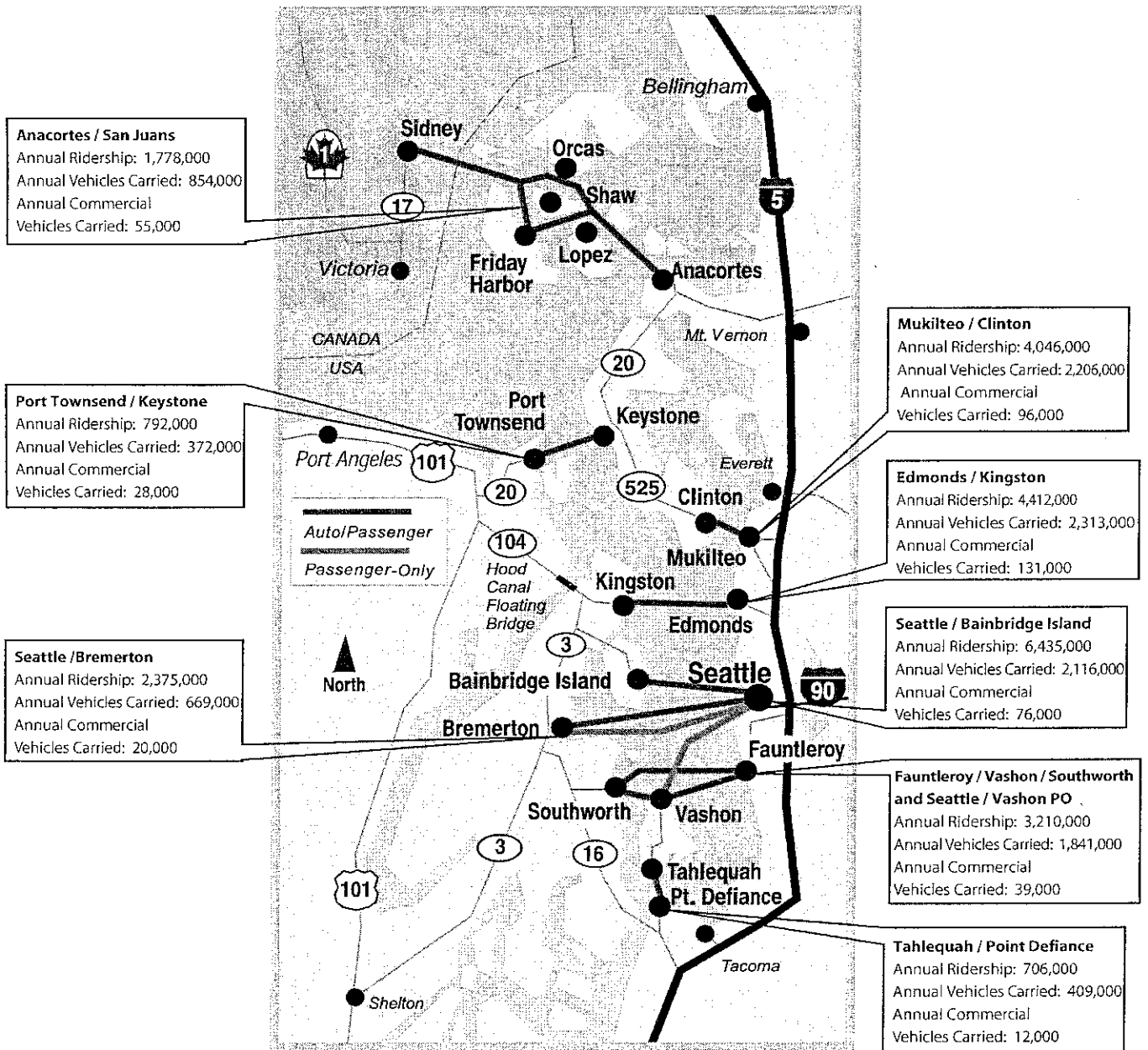
- Ferries Financing Study
- Report on Alignment of Benchmarks and Goals for Dept. of Transportation

Washington State Tariff Policy Committee, www.wstc.wa.gov/
Washington State Transportation Commission, www.wstc.wa.gov

- Comprehensive Tolling Study, www.wstc.wa.gov/Tolling

Washington State's Public Affairs Network, www.tvw.org
U.S. Department of Transportation, Federal Highway Administration, *Toll Facilities in the United States: Bridges-Roads-Tunnels-Ferries*, Washington, DC, www.fhwa.dot.gov/tolls

Washington State Ferries



* Ridership numbers are based on 2004 statistics.



**Washington State
Department of Transportation**

Washington State Transportation Commission
Richard Ford, Chair
Ed Barnes
Carol Moser
Robert Dieler
A. Daniel O'Neil
Elmira Fomer
Dale Stehman

**Citizens of Washington State
Governor Christine Gregoire**

Secretary
D. MacDonald

Douglas B. MacDonald

10/13/06
Date

Chief of Staff
P. Hammond

Audit Office
S. Mckerney

Attorney General
B. Brown, AG

Equal Opportunity Office
B. Mizani

Washington State Ferries
M. Anderson

Finance & Administration
B. Ford

Engineering & Regional Operations
J. Conrad

Aviation J. Stobid	Ombudsman K. Colburn
Communications L. Brown	Public Trans. & Rail J. Ginger
Freight Strategy & Policy B. Harou	Strategic Planning & Programming B. Smith
Governmental Relations S. Remmuth	Public-Private Partnerships J. Doyle
Highways & Local Programs K. Davis	

Eastern Region J. Lenzi	Environmental & Engr. Programs D. Nelson
North Central Region D. Sonn	Mail & Ops. Programs C. Christopher T. Tressinger
Northwest Region L. Eng	Project Control & Reporting K. Metcalf
Olympic Region R. Hain	Research L. Citran
South Central Region D. Whitehouse	
Southwest Region D. Wagner	
Urban Corridors D. Dye	

Board of Pilotage Comm. H. Dudley	Operations T. Brewer-Rogstad
Finance & Administration S. Kuntz	Human Resources C. Bates
Vessel Preservation & Maintenance P. Brodeur	Terminal Engineering Vacant
	Vessel Engineering L. Zubovoy

Accounting M. Yates	Administrative M. Bowman
Budget D. Vaughn	Human Resources K. Woodson
Information Technology D. Hamrick	Risk Management M. Henselman

Bills Passed by Washington State Legislature (2007)

HB 1693 Modifying time periods for collective bargaining by state ferry employees.

To bring time periods in line with other state employee collective bargaining with the addition of a process for choosing arbiters along with changing the time frames.

HB 1858 Regarding imposition of fees by transportation benefit districts.

Permits city or county transportation benefit districts to impose up to \$20 vehicle impact fees without voter approval to be distributed county-wide by interlocal agreement.

Vehicle fees may be used for passenger-only ferry transportation if approved by a voter majority in the district.

ESHB 2358 Regarding state ferries.

Requires a survey on ferry users—recreational, vehicle customers, freight and goods movement demand, reactions to operational and pricing strategies, and impacts on local communities.

Fares and pricing must be adopted by rule, by the commission, according to annual Washington State Ferries (WSF) reports, with recommendations for the following year.

Before substantial changes to ferry service levels, WSF shall consult with affected ferry users by public hearing, by review with affected ferry advisory committees, and other methods.

Review preservation and improvement cost for 2009.

SHB 2378 Expediting new vessel construction for Washington state ferries.

WSF consider and accept or reject a single proposal, make revisions to request, and may negotiate a fair-value contract with the proposer or joint proposers.

SB 5412 Realigning goals and objectives of certain transportation agencies.

Clarify existing goals, objectives and responsibilities related to preservation, safety, mobility, environment, and stewardship through inventories, long-term financing tools, balance of safety and convenience, reduction in vehicle miles traveled, efficiency, multimodal planning, and sustainable, context-sensitive transportation systems.

SB 5862 Addressing passenger-only ferry service funding.

Provides public transportation benefit area grant funding for passenger-only ferry routes between Kingston and Seattle after submitting a business plan by November 1, 2007.

Requires that WSF Snohomish and Chinook be made available for sale with proceeds deposited into a passenger-only ferry account.

Requires level of service be maintained for Vashon-Seattle passenger-only ferry route until assumed by another entity.

Provides a sales and use tax exemption if fuel used for public transportation benefit area or county-owned district passenger-only ferries.

