Ferry Finances 2006-2022
Lummi Island Work Group

Summary

The Ferry System Fund (FSF) was created by the Whatcom County Council in 2006 as an enterprise fund to account for all revenue and expenses related to ferry operations and was funded by an initial contribution of $1.5 million from Public Works.[1] In the creation of the FSF, procedures and processes relating to expenses and revenue were formalized, including creation of the calculation for determining the targeted fare box contribution rate of 55%.

In the years since its inception the FSF has successfully operated as intended. The fare revenue has exceeded the targeted goal by $1,012,397. And, while the Road Fund contribution was deficient by $468,026, there were sufficient reserves from the initial contribution to cover that under contribution for a current balance of $1,087,858. That leaves a combined total of $2,099,858 in reserve at the end of 2022.

The attached analysis of the FSF from 2006 - 2022 is based on current and historical policies and practices for revenue and expenses moving through the FSF. While there are unresolved financial issues that would have significant impact on the FSF, the status at the end of 2022 demonstrates the following:

- The Ferry System Fund is solvent.
- There are sufficient funds to cover projected fare box deficits and expected costs of operation for the next few years.
- Fares have paid the required 55% of the Adjusted Total Operating Costs (ATOE), using surplus to cover deficits in some years.
- The $1.5 million placed in the FSF in 2006 covered the road fund contribution deficit. The balance should be retained in the FSF to continue to buffer future unexpected operating costs.
- No fare increase is warranted at this time.
- There are unresolved financial issues. Once resolved fares should be reevaluated.

All financial data included in the tables below were provided in documents from Whatcom County Public Works.

[1] For more information on the history see Appendix A.

Ferry Finances

Income and Expenses 2006-2022

The Ferry System Fund (FSF) was established in 2006, however, the current method for calculating the 55% owed by the Fare Box was not adopted until 2007. Therefore the Fare Box Revenue Goal must be calculated in two parts: 55% of the Total Operating Expenses (TOE) in 2006 plus 55% of the Adjusted Total Operating Expenses (ATOE) from 2007 onward. The revenue streams into the FSF now recognized by Public Works that are to be deducted from TOE to determine the ATOE are in Table 1.[2]

Table 1: ATOE 2007- 2022	
TOE	**44,238,937**
MVFT Ferry Deficit Reimbursement	**-3,645,329**
MVFT Attributable	**-2,732,496**
Interest Earned	**-359,560**
Employee Trip Credit	**-127,540**
Miscellaneous	**-5,036**
ATOE 2007- 2022	**37,368,976**

The revenue streams are subtracted from TOE for the sole purpose of calculating the 55% Fare Box Recovery Goal.[3] Applying the 55% Fare Box Recovery Rate to the total 2007-2022 ATOE results in a revenue target of $20,552,937. Then 55% of the 2006 TOE, $1,018,643, is added in resulting in a total Fare Box Recovery Goal for the years since the Ferry System Fund was created, 2006-2022. Table 2 shows that the actual Cumulative Fare Box Contribution has exceeded the recovery goal.

Table 2: Total Fares Paid 2006-2022	
Actual Cumulative Fare Box Contribution	**22,583,977**
Calculated Fare Box Recovery Goal	**−21,571,580**
Cumulative Fare Box Contribution Surplus	**1,012,397**

Once the Fare Box Recovery Goal is calculated, that amount plus revenue from all other sources are added together to determine if the full cost of operations has been funded. An important point here to emphasize is that the Fare Box Contributions are solely responsible for 55% of the ATOE. The **total** cost of operations must still be

[2] Definitions of financial terms may be found in Appendix B.

[3] Although these calculations for determining the ATOE are based on revenue beginning in 2007, the actual income in the following tables include amounts from 2006 which was the beginning of the FSF.

recovered from other funding sources. In reality the cost of operations is only covered if the funding that was subtracted from TOE to calculate ATOE is included as revenue to the FSF. The Road Fund is responsible for paying for the total costs of the road to the island not otherwise paid from other sources of revenue.[4] Table 3 demonstrates that the actual Road Fund contribution from unincorporated area property taxes for this time period must be $17,402,019.

Table 3: Total Costs Paid 2006-2022	
TOE	**46,091,015**
MVFT Ferry Deficit Reimbursement	**-3,804,472**
MVFT Attributable	**-2,820,808**
55% Fare Box Recovery Goal	**-21,571,580**
Interest and Miscellaneous Income	**-364,596**
Employee Trip Credit	**-127,540**
Uncovered Expenses paid by Road Fund	**-17,402,019**
Surplus/Deficit TOE	**0**

The FSF receives the MVFT Attributable funds that result from the ferry being a road via the Road Fund. These funds are distributed from the state as part of a lump sum payment into the Road Fund and not as a direct contribution into the FSF. Similarly, the Employee Trip Credit is also included in the Road Fund contribution as it is an internal accounting action and not an actual fare payment, so the total Road Fund contribution included the $2.8 million of MVFT Attributable and $127,000 for Employee Trip Credits.

Table 4: Road Fund Contribution 2006-2022	
Reported Cumulative Road Fund Contribution	**19,882,341**
Subtract MVFT Attributable	**-2,820,808**
Subtract Employee Trip Credit	**-127,540**
Actual Road Fund Contribution	**16,933,993**

The Road Fund Contribution necessary for full funding of the TOE was $17,402,029. However, Table 4 shows the actual contribution was $16,933,993. The deficit of $468,026 was covered by the initial Road Fund contribution.

[4] Except for 2006 and 2007 the Road Fund has reported paying 45% of TOE and likely were including the MVFT-Attributable and Employee Trip Credit as part of that 45%.

Ferry System Fund Status

The initial contribution of $1,587,137 from the Road Fund to the FSF has allowed the fund to operate with a positive balance through annual swings in costs and revenue. In some past years, deficits in Fare Box Contributions have decreased the balance, but currently the Cumulative Fare Box Contribution adds to the FSF balance as it exceeds the targeted 55% for 2006-2022.

Cumulative Fare Box Contribution surpluses are intended to cover Fare Box Contribution deficits and are not available to meet unexpected operational costs, although they are included in the total Ferry System Fund balances. A separate calculation must be made annually to report on the cumulative balance of over or under payment of fares.

Table 5: FSF Actual Cumulative Revenue 2006-2022	
Actual Farebox Contribution	**22,583,977**
MVFT Ferry Deficit Reimbursement	**3,804,472**
MVFT Attributable	**2,820,808**
Interest Income	**359,560**
Miscellaneous	**5,036**
Employee Trip Credit	**127,540**
Actual Net Road Fund Contribution	**16,933,993**
Total Revenue	**46,635,386**

Tables 5 & 6 show the initial contribution to the FSF more than covered the deficit in the annual Road Fund Contribution, leaving a healthy balance for unexpected expenses.

Table 6: Actual FSF Balance 12/31/22	
Total Revenue	**46,635,386**
Subtract TOE	**−46,091,015**
Balance	**544,371**
2006 Initial Road Fund Contribution	**1,587,137**
Calculated Balance	**2,131,508**
Reported Balance as of 12/31/22	**2,099,858**

The difference between the calculated and the actual reported balance is due to $31,650 in unrealized gain reported by Public works. This is a theoretical profit the exists on paper resulting from an investment that has not yet been sold for cash and is a reconciliation that is subtracted in this table. This may include missing expenses or income and rounding errors. While the the Cumulative Fare Box Contribution excess is shown in the total balance in Table 6 it is only available to cover future Fare Box Goal deficits and not operation deficits as shown in Table 7.

Table 7: Is the FSF Balance Sufficient?	
FSF Balance as of 12/31/22	**2,099,858**
Subtract Cumulative Fare Box Contribution Surplus	**1,012,397**
Ferry System Funds Available for Unexpected Costs	**1,087,461**

A portion of the initial contribution has been used to cover operating costs not covered by the Road Fund. The current balance, not including the Fare Box surplus, amounts to about $1.1 million, or three months of operating costs, and Public Works has stated that 3-6 months would be a reasonable operating reserve. For both practical and historical reasons, the balance of the initial contribution should remain in the FSF.[5]

Looking Ahead: Is a Fare Increase Necessary?

Public Works, in recent reports to LIFAC, has presented proposed fare increases beginning in 2024 on the basis of anticipated revenue deficits over the next several years. The proposal is for 15% in 2024; with a possibility of 10% in 2025; and 10% in 2026. This is only a slight variation from an earlier proposal for 38% over 2 years that was withdrawn from Council consideration in April. However, to understand the true picture of a multi year fare increase the total increase is not from the current fare, but the increase compounds year to year. The impact being that a multi year increase as proposed would have an actual result of a 42% increase from the current fare level.

Public Works has estimated a current monthly deficit of $47,000 per month. Using the latest information, along with the projected income used to calculate the ATOE, the deficits in 2023 and 2024 are shown in Table 8.[6] Looking ahead to 2025 and 2026, the source for total expenses was the summer 2022 report to the state on the 14 Year Capital Program; the income levels are simply continued at the same level as in 2022.[7] Predicting expenses and revenue four years into the future is difficult. Public Works projection for TOE into the years beyond 2024 is based on simple percentage increases. However, generally rising costs may outpace these projections, and deficits may be larger than expected. On the revenue side, the MVFT contributions will likely vary and ferry ridership could return to the pre pandemic levels of 2018 or higher, particularly if fares are rebalanced to reflect a distribution similar to Washington state and other county ferries.

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[5] See, Appendix A

[6] The total operating expenses do not reflect any changes in currently announced budgets.

[7] As the Council has not yet made an appropriation of ARPA funds they are not included in this calculation. Should the Council apply $358,000 in ARPA funds for the 2020 pandemic revenue shortfall the deficit for 2023 would only be $163,176.

Another financial issue yet to be resolved are ARPA funds. Should the Council apply $358,000 in ARPA funds for the 2020 pandemic revenue shortfall the deficit for 2023 would only be $163,176. A second financial issue to be resolved is the charge for the Dolphin work. If that expense is properly categorized under the code as not a “routine and regular” maintenance expense and so not included in the TOE, the financial projection is in Table 8 below.

Table 8: Projecting Ahead	2023	2024	2025	2026
55% of ATOE Fare Goal	1,900,498	1,853,093	1,831,858	1,879,158
Fare Revenue Subtracted	1,538,500	1,538,500	1,538,500	1,538,500
Annual Deficit	−361,998	−314,593	−293,358	−340,658

Table 9A below demonstrates the rate at which the accumulated fare surplus is decreased each year with continued deficits. The Cumulative Fare Box surplus balance for 2023 is different than noted previously in Tables 2 and 7 as it includes the ARPA funds and removal of the dolphin charges.

Table 9A: Projecting Deficits	2023	2024	2025	2026
Cumulative Fare Box Surplus	1,370,397	1,008,399	693,806	400,448
Annual Deficit	−361,998	−314,593	−293,358	−340,658
Balance After Covering Deficit	1,008,399	693,806	400,448	59,880

If no adjustments are made for ARPA funds and removal of the Dolphin charges the deficit projection would be as shown in Table 9B.

Table 9B: Projecting Deficits	2023	2024	2025	2026
Cumulative Fare Box Surplus	1,012,397	445,249	130,656	-162,702
Annual Deficit	−567,148	−314,593	−293,358	−340,568
Balance After Covering Deficit	445,249	130,656	-162,702	-503,270

Actual deficits may be larger or smaller than what is shown. Table 9B demonstrates that clearly there is sufficient surplus in excess fares collected in prior years without the need for substantial fare increases immediately. There are still other financial issues not yet resolved that will likely have impact on operating expenses. Until those issues have been resolved calculating a potential fare increase is not possible.

Appendix A

History of the Ferry System Fund

In 2006 Public Works proposed, and the County Council created, the FSF as an enterprise fund. The purpose of which was to deal with operating costs, fare box recovery and all revenue and expenditures associated with the ferry. The intent was to assure stability in financing; receive revenues from different sources; and, maintain any over recovery of fares with that surplus to be used to make up any under recovery, i.e., deficit, in Fare Box Contributions. As part of its creation Public Works contributed $1.5 million into the fund.

At that time Jeff Monsen, Director of Public Works, indicated a fare increase wouldn't be considered until fare box income fell below the goal for between 3-5 years. And, when necessary, any fare adjustments were to be a means of cost recovery for those past deficits and not a means to pre-fund estimated future deficits. For several years prior to the creation of the FSF 55% was an approximate recovery goal, so as part of making that percentage a requirement instead of approximate, the method to calculate the recovery goal was established.[8]

After the 55% was changed from an approximate recovery goal to a fixed requirement in 2001 it took a few years for Public Works to realize that the calculation used was not working correctly. So as part of establishing the FSF in 2006, a method to calculate the recovery goal was developed that reflected all sources of revenue.[9]

To address these issues Whatcom County Code (WCC) section 10.34 was amended and language was included that "any interest income and income from state motor vehicle fuel tax for ferry operation will be deducted from the actual operating costs before the actual 55% fare box recovery rate is calculated." WCC 10.34.030. Minutes from Public Works Committee meetings include statements from Public Works Director Frank Abart that both MVFT revenue streams are included in the FSF. That is supported by the current interpretation and Resolution #AB2023-403 passed by the Council on June 20, 2023, that both funds should be included in the ATOE from 2007.

The FSF was established with an initial balance of $1.5 million. Contrary to the May 2023 proposal from Public Works to move the remaining $1.1 million from the FSF to the Road Fund, there is no indication in the legislative history of the creation of the FSF that this contribution was a loan. There was also no indication that this was considered a loan when the 2011 Citizen's Task Force for the Lummi Island Ferry did a thorough financial analysis in cooperation with Public Works' accountants.

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[8] Prior to the creation of the FSF operation costs included capital and depreciation, but excluded docks, staging and parking. Ultimately capital and depreciation were excluded and docks, staging and parking were included. This information was derived from presentations made by Jeff Monsen at Public Works, Finance Committee and County Council meetings in 2005-2006.

[9] Calculation of Adjusted Total Operating Expenses cumulative income began in 2007, otherwise costs and inclusions are from 2006 unless noted otherwise.

Appendix B

Definitions and Revenue Sources

Total Operating Expenses (TOE): 100% of the operating costs associated with operating the ferry.

Adjusted Total Operating Expenses (ATOE): TOE minus state revenues, Ferry System Fund interest and miscellaneous income.

Fare Box Recovery Rate: Exactly 55% of ATOE

Motor Vehicle Fuel Tax - MVFT

There are 2 revenue streams that come to Whatcom County from the State. Both are derived from the MVFT.

> **MVFT/Attributable**. This revenue is distributed by the Washington State County Road Administration Board (CRAB), a portion of which is calculated for the ferry because the ferry is a road. It is discretionary for counties with ferry systems to apply these funds to ferry operations or simply incorporate into the road budget. There are historical documents as well as Public Works Committee meeting minutes that indicate that Public Works and the Council intended these funds to be included in ferry revenue since 2006. Public Works recently acknowledged that these funds should have been incorporated into the ATOE calculation since 2007. This was affirmed by the Council by resolution passed on June 20, 2023.
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> **MVFT/Ferry Deficit Reimbursement**. This funding source was established by the legislature to go solely to the four counties that operate a ferry system. The source of this funding is also statewide MVFT, and it is intended to cover up to 50% of the deficit in ferry operations. The County must provide CRAB an annual report with the financial status of ferry operations. It is mandatory that this revenue be used to supplement ferry operations costs.

Other sources of revenue that are used to determine the ATOE for calculating the 55% Fare Box Recovery Goal include interest earned from the Ferry System Fund; Employee trip credits for Whatcom County employees who ride the ferry; as well as some miscellaneous revenue.