

Ferry Finances 101: Part 1

Ferry Funding and Fare Revenue

Whatcom County Code Chapter 10.34



January 25, 2024

**Whatcom County Ferry
Advisory Committee**

Ferry Fund, Ferry Revenue and Code Language

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- 1) What is the Ferry Fund?
- 2) Who pays for operating the ferry?
- 3) What are the funding sources for the ferry?
- 4) Have fares paid enough?
- 5) What are the issues that warrant considering amending existing code language?
- 6) What other code amendments should be considered?

In WA State, Ferry Systems are Roads and Bridges

- Four counties in Washington State operate ferries. One crosses the Columbia River to Oregon and is funded somewhat differently.
- All County and the WA State ferry systems have **large gaps between what fares pay and what the operating costs are.**

Ferries Are Very Expensive Compared to Most Roads and Bridges

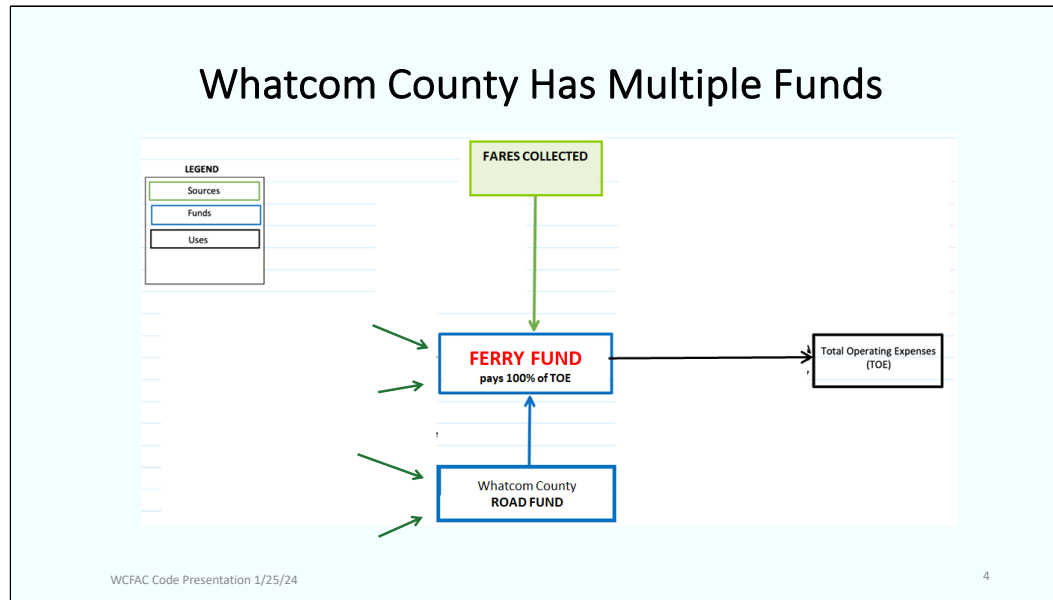
County Road Administration Board (CRAB) Year 2014 Ferry Systems Report (data from county financial reports)								
County	Total County Road Centerline Miles	Number of County Bridges	Length of Ferry Route (miles)	Ferry Docks Included in Bridge Inventory	Ferry system as a rough proportion of County Roads and Bridges	Total County Road Related Expenditures	Total County Ferry Related O&M Expenditures	County Ferry O&M Expense as a % of Total Road Expenses
Pierce	1557	102	3.5	3	0.4%	\$100,899,000	\$4,089,892	4.1%
Skagit	801	105	0.7	2	0.3%	\$23,206,000	\$2,504,800	10.8%
Wahkiakum	139	20	1.5	1	1.6%	\$6,757,000	\$848,988	12.6%
Whatcom	940	136	0.9	2	0.3%	\$32,320,000	\$2,332,562	7.2%

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Each County has a different way of looking at costs and revenues, so although the totals can be compared, the calculations are different. For example, Whatcom County includes the costs of dock and ramp maintenance, but has only done so since 2001, and not all counties do.

Whatcom County Has Multiple Funds



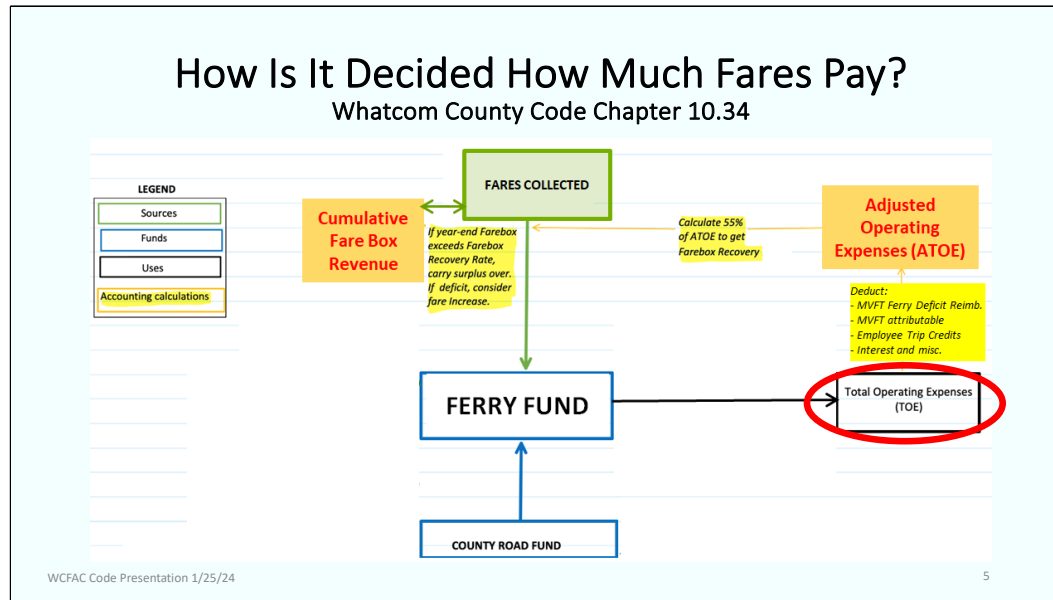
The Ferry System Fund was created by the Whatcom County Council in 2006 as an enterprise fund to account for all revenue and expenses related to ferry operations. Before that time, the ferry expenses and revenue had been part of the Road Fund.

The Ferry System Fund was started with an initial deposit that functioned as an operating reserve to weather the varying costs and amounts of fare revenue from year to year.

Accounting for all the different responsibilities of County government has resulted in many different funds that allow good reporting back to elected officials and the public. One of the odd things about the Ferry System Fund being created as an enterprise fund is that it does not own the money making part of the enterprise – the ferry itself. Instead, the ferry is owned by the Equipment Rental and Revolving Fund. The Ferry System Fund pays an annual rental fee to the ER&R Fund, a major part of the Total Operating Expenses.

How Is It Decided How Much Fares Pay?

Whatcom County Code Chapter 10.34



At the same time as the Ferry Fund was created, the County Council included definitions and procedures in the Whatcom County Code Chapter 10.34 for how much fare revenue was to pay. The yellow and orange notes you see are math operations that happen within the Ferry Fund.

One of the definitions in Chapter 10.34 was what is included in **Total Operating Expenses** for the purpose of setting fares. The large debate ongoing from last year is this definition, as it is not identical to the generally accepted accounting definition.

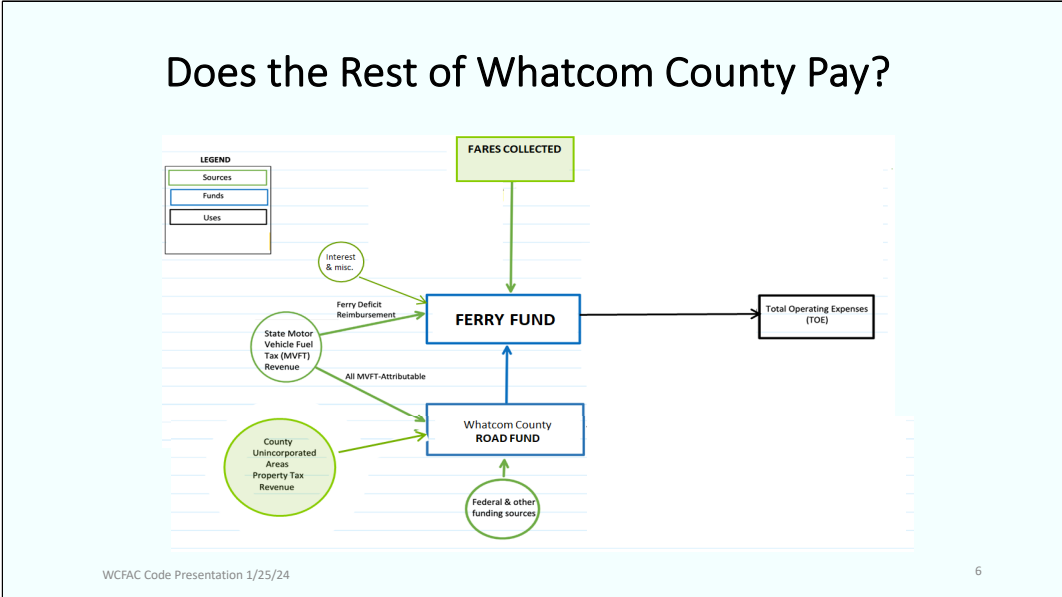
Adjusted Total Operating Expenses (ATOE): TOE minus other revenues; in other words, the net amount that either fares or the Road Fund must pay. This was somewhat unclear in the current Chapter 10.34 wording, and one of the proposed amendments to Chapter 10.34 is to make sure it can't be misunderstood again.

Fare Box Recovery Rate: This is set in Chapter 10.34 and since 2001 has been 55% of ATOE

All of these definitions and procedures are a **policy choice** by County government. That is why different counties can calculate how much fares pay differently. For example of a policy change, at one time, Whatcom County policy was that fares paid nothing towards the docks, instead paying 75% of the costs of operating the vessel.

Chapter 10.34 wording is County policy become law, and wording changes may represent just clarifications, or they may make substantial policy changes.

Does the Rest of Whatcom County Pay?



The largest revenue source for the County Road Fund is the County Road property tax on unincorporated area property. The County also receives grants from the state and federal governments that typically go towards major projects, but some can be used for maintenance and operation of roads and bridges, including ferries.

City property owners do not pay this tax.

There are multiple Road Improvement Districts in Whatcom County, where property owners pay a local tax.

It is possible to have a Ferry District, where all properties in a county (including those within the cities) are taxed to support a ferry system, but no county has done this yet.

How Much Does It Cost?

- The owner of a property in the unincorporated area valued at \$500,000 in 2022 paid about **\$37** in Whatcom County Road Fund taxes. (Including Lummi Island properties).
- **By comparison - one passenger vehicle with driver for one round trip is \$14.00.**
Ferry fares for 5 days per week commuting over 48 weeks would be **\$2,256.**
The cost of having a partial load of concrete delivered is **\$600.**

Another way to look at it:

- Ferry operations in 2021 cost the equivalent of **\$13.78** per year per resident of unincorporated Whatcom County.
- The equivalent cost for city residents would have been **\$0.**

Capital costs paid by the County Road Fund or by grants vary hugely from year to year. We would like to understand the average annual impact on local Road Fund taxes and have requested information from Public Works on capital costs related to the ferry over the past decade.

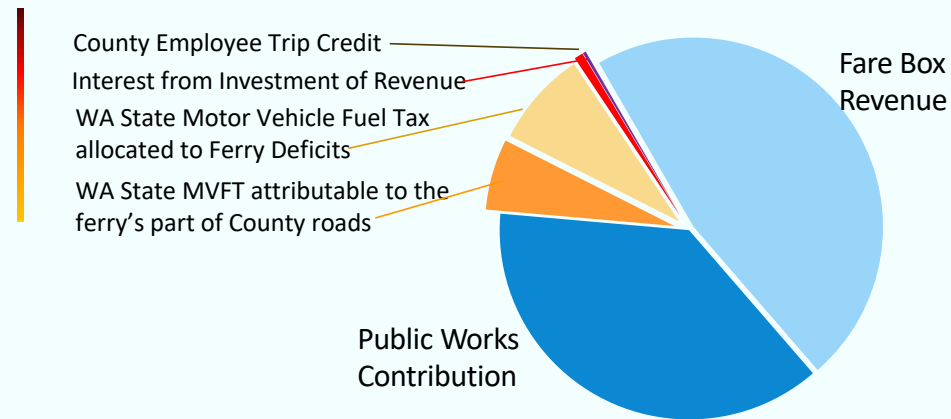
The Specifics of What the County Council Will Be Considering Changing

Whatcom County Code Chapter 10.34
FERRY RATES

Sections:

- 10.34.005 Definitions.
- 10.34.010 Effective date for ferry user fees.
- 10.34.020 Interpretation of rate schedule.
- 10.34.030 Use of ferry user fee revenues.

Revenues that Fund the Ferry Total Operating Expense



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Motor Vehicle Fuel Tax - MVFT

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

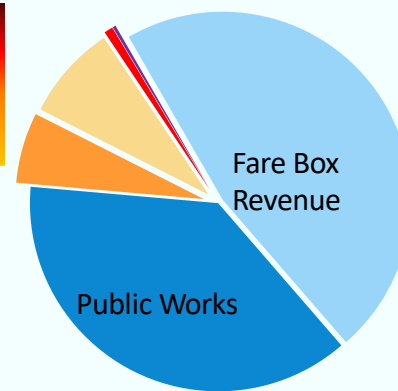
MVFT/Attributable. This revenue is distributed by the Washington State County Road Administration Board (CRAB), a portion of which is calculated for the ferry because the ferry is a road and two bridges.

MVFT/Ferry Deficit Reimbursement. This funding source was established by the legislature to go solely to the four counties that operate a ferry system.

Adjusted Total Operating Expense (ATOE)

Over the past two decades, these four sources (plus a tiny miscellaneous amount) were about 15% of the Total Operating Expense.

$$\begin{array}{l} \text{Total Operating Expense} \\ \text{minus these revenues} \\ \hline = \text{Adjusted Total Operating} \\ \text{Expense (ATOE)} \end{array}$$



Using the ATOE and the Fare Box Recovery Rate to Calculate the Amount of Fare Box Revenue Needed

Chapter 10.34.005 D.

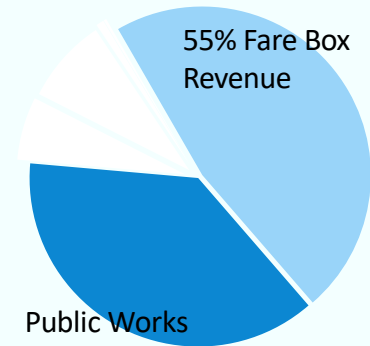
(Goal)

"Fare Box recovery rate" means the calculated percentage of total revenue generated through ferry user fees in comparison to total actual operating costs for the same period of time minus any revenue from the motor vehicle fuel tax meant for ferry operations, or from interest.

Chapter 10.34.030

Beginning January 1, 2006, a 55 percent fare box recovery rate shall be applied and evaluated continuously from that time forward....

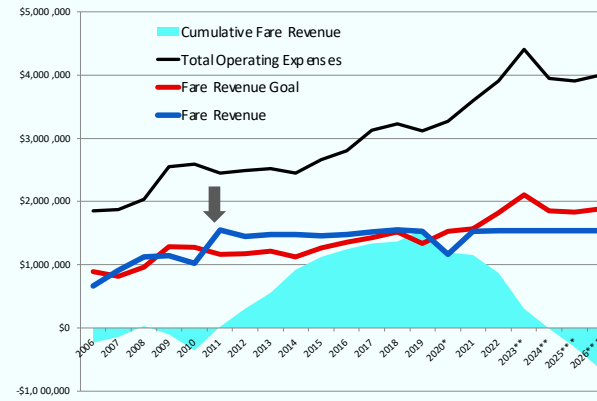
Beginning January 1, 2007, any interest income or income from state motor vehicle fuel tax for ferry operation will be deducted from the actual operating costs before the actual 55 percent fare box recovery rate is calculated.



Has Fare Box Revenue Met the 55% Rate?

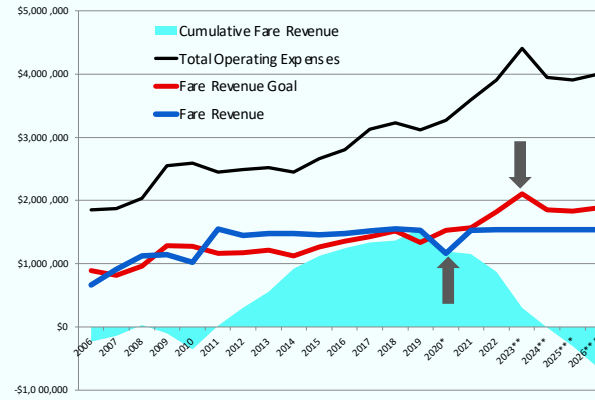
Total Operating Expenses gradually increased between 2006 and 2020.

Since the 2010 fare surcharge was implemented, Fare Box Revenue in excess of 55% accumulated over a \$1 million surplus.



Has Fare Box Revenue Met the 55% Rate?

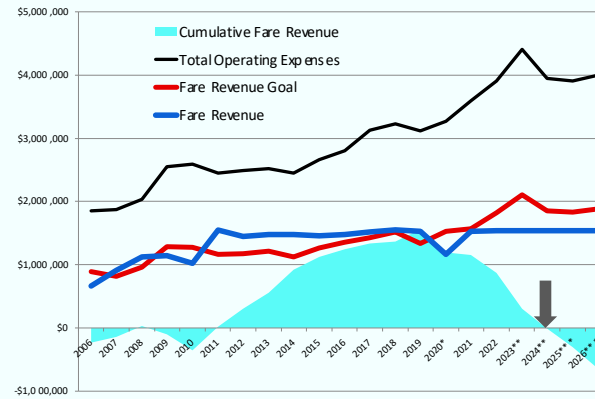
- In 2020, COVID restrictions on travel and fare collection, decreased Fare Box Revenue by \$358,000.
- In 2022 and 2023 a large gap between Fare Box Revenue and ATOE was created by extraordinary costs to improve/replace/repair part of the dock infrastructure (dolphins).



Has Fare Box Revenue Met the 55% Rate?

Projections for 2023 and 2024 indicated that:

- without the County Council approving ARPA funds to replace the lost COVID revenue, **and**
- Public Works removing the extraordinary costs in 2022 and 2023, the Cumulative Fare Box surplus will be exhausted mid-2024.



Whatcom County Code Chapter 10.34 Issues That Were Controversial Last Year

Issue 1. What expenses should be included in the Total Operating Expenses and the Adjusted Total Operating Expenses (fares pay 55% of ATOE)?

Issue 2. What happens when there is a surplus or deficit in Fare Box Revenue (more or less than 55% of ATOE is collected)?

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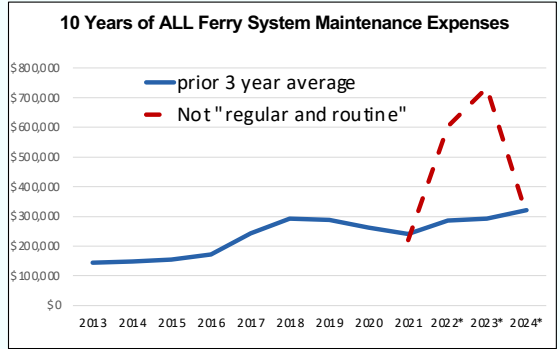
The County Executive vetoed code changes that were adopted by the County Council last summer on the basis that citizens needed to have the opportunity to work with Public Works on code language dealing with certain issues of great concern to both.

The County Council then revised the code creating the Whatcom County Ferry Advisory Committee. Public Works is going to give the Committee a revised version of what was vetoed so that we can work with them to find a mutually acceptable solution to these two issues.

Issue 1: What Expenses Should be Included in TOE?

Chapter 10.34.005 B.

“Operating cost” means all actual daily running expenses and all actual regular and routine maintenance and administrative expenses associated with the use and operation of all physical elements of the ferry system.



Most Expensive 10 Items out of 1,033 maintenance entries over the past decade

Account	Cost Center	Amount	Year
Repairs & Maintenance	Lummi Island Dock	\$428,427.00	2023
Repairs & Maintenance	Lummi Island Dock	\$248,817.80	2022
Repairs & Maintenance	Lummi Island Dock	\$54,719.20	2022
Repairs & Maint-Interfund	Gooseberry Dock	\$43,682.15	2018
Repairs & Maint-Interfund	Lummi Island Dock	\$37,279.56	2018
Repairs & Maint - Interfund	Gooseberry Dock	\$33,968.82	2022
Repairs & Maint - Interfund	Gooseberry Dock	\$33,612.31	2020
Repairs & Maint - Interfund	Gooseberry Dock	\$32,765.34	2019
Repairs & Maintenance	Gooseberry Dock	\$30,467.29	2017

Question: how to define expenses that should be included for the purpose of setting fares?

- 1) The vetoed amendments substituted “**not capital**” for “**regular and routine maintenance expenses.**”
- 2) Use descriptive lists in **state agreements** with counties.
- 3) Set an absolute **dollar limit** or a **rolling average** of past maintenance expenses on what can be charged to Adjusted Total Operating Costs.
- 4) Set a **percentage limit** of the Total Operating Expenses as the maximum that can be added to the ATOE in any year, or over a limited number of years.
- 5) **Other.** Public Works is working on new wording; WCFAC may also have ideas.

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If the County continues with the past 18 years of the limitation to “**regular and routine**” expenses to be used in setting fares; then any extraordinary expenses would continue to be paid in the same way as other road or bridge expenses are – local tax dollars or grants from the state or federal government.

Two compelling problems in resolving this issue:

- 1) There are many competing projects that the Road Fund has to prioritize each year, and unexpected expenses mean projects can’t be done, or other sources of funding have to be found.
- 2) Unpredictable large spikes in the cost of fares heavily impact island residents and property owners who make long term housing and job decisions based upon travel costs, and they also complicate the administration of the fare system.

Issue 2: What happens when there is a surplus or deficit in 55% of ATOE by Fare Box Revenue?

WCC Chapter 10.34.030 Use of ferry fee revenue

“In any given year the actual fare box recovery rate exceeds 55 percent, the excess revenue shall be retained in the ferry system fund and applied only to future operating costs.

In any given year the actual fare box recovery rate is below 55 percent, the difference shall be recovered in a future ferry user fee increase unless there is adequate excess ferry user fee revenue remaining in the ferry system fund collected during prior years.”

Question: What Are the Limitations on Use of the Cumulative Fare Box Revenue Balance?

Chapter 10.34.030 amendments to consider

1. Only use Fare Box surpluses to fund Fare Box deficits?
2. Just last year? after multiple years? include future projections?
3. Only after no surplus remains, or use some each year?
4. A minimum when a fare increase would be proposed?
5. A maximum when a fare reduction would be proposed?

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1. Clarify that fare box surplus funds can only be used to fund fare box deficits and not used to defray expenses in excess of actual deficits.
2. Determine over what period of years deficits or surpluses may be allowed to grow before fares are adjusted, to prevent having to make annual changes in fares.
3. Consider whether a deficit from only the *previous year* can be recovered by a fare increase - or whether *projected* deficits allow fare box surplus funds to be used to alleviate the size of future fare increases.
4. Consider setting a minimum amount of surplus funds that would lead to a fare increase proposal. The minimum could be based on the COVID drop in revenue, or some percentage of annual Fare Box Revenue, or some number of years of consecutive fare surpluses.
5. Consider setting a maximum amount of surplus funds that would lead to a proposal to decrease fares. It could be based on an absolute dollar amount, or on a percentage of annual Fare Box Revenue, or on some number of years of consecutive fare deficits.

Other Chapter 10.34 Amendments to Consider

Chapter 10.34.005 Definitions Improved

- Adjusted Total Operating Expenses
- Fare Box Recovery Rate and Goal
- Cumulative Fare Revenue Balance
- Employee trip fare credits
- ARPA funds allowed

Chapter 10.34.020 K, L, M, N: Needs-based fares emphasized; punch card exchanges allowed when fares change, other 'housekeeping'

Chapter 10.34.005 Definitions:

- Add definition for Adjusted Total Operating Expenses specifying what is deducted before the 55% is calculated.
- Clarify what is the Fare Box Recovery Rate versus what is the Fare Box Recovery Goal.
- Add definition for the Cumulative Fare Revenue Balance as distinct from the Ferry System Fund.
- Clarify how the employee trip credit is applied.
- Add language that clearly allows the County to add ARPA funds to the fare box revenue in order to recover what was lost with COVID restrictions.

Chapter 10.34.020 K: Revise some of the language about special needs discounted fares.

Chapter 10.34.020 L & N: Revise language to be in accord with current County procedures.

Chapter 10.34.020 M: Revise how existing multi-ride fare cards are treated when fares change.

Chapter 10.34.030: Add specific requirements for annual reviews of the ferry system.

Questions or comments?

Two locations have WCFAC information available via the internet. Paper copies will be kept at the Island Library.

Visit the Lummi Island website sponsored by LICA to follow ferry issues and important dates, for links to A-V presentations, to explore background information, and for a fantastic history of past ferries .

WCFAC/LIFAC: <https://ourlummiisland.org/info/org/wcfac/>

Ferry Work Group: <https://ourlummiisland.org/lica/c-r/liwg>

Visit the Whatcom County website for information about ferry service, Public Works and County Council documents, agendas/documents/minutes from WCFAC meetings, and information that WCFAC has posted.

Ferry information: <https://www.whatcomcounty.us/382/Lummi-Island-Ferry>

WCFAC: <https://www.whatcomcounty.us/521/Whatcom-County-Ferry-Advisory-Committee>

WCFAC agendas: <https://www.whatcomcounty.us/AgendaCenter/Whatcom-County-Ferry-Advisory-Committee-8>

Appendix A. Ferry Systems are Roads and Bridges with both Operating and Capital Expenses

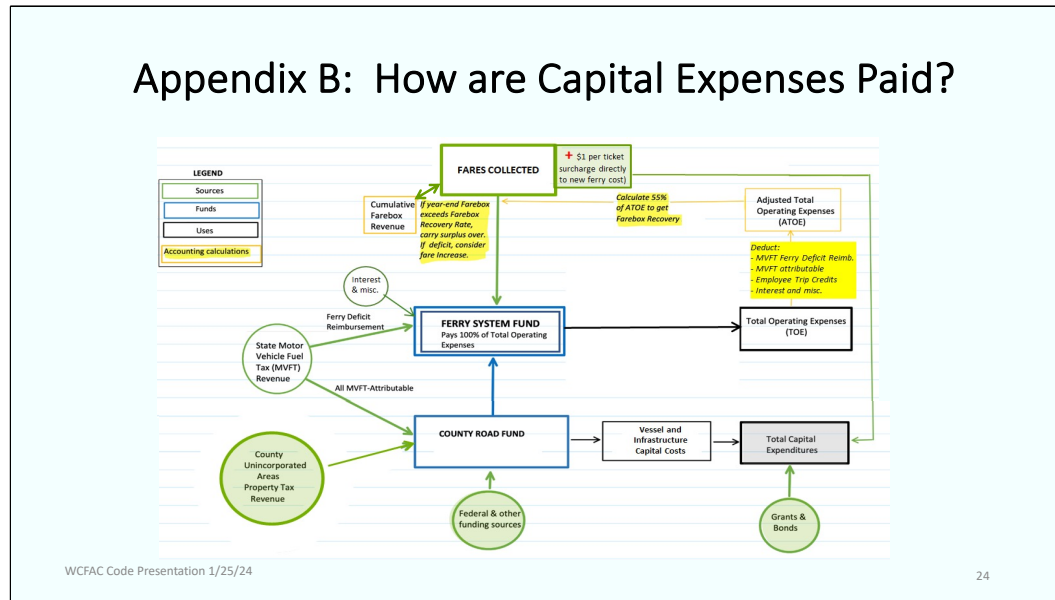
- The State and the counties have traditionally separated funding for operating costs and capital costs, and different contracts and agreements describe what can be counted as operating versus capital costs in different ways.
- GAAP (Generally Accepted Accounting Principles) have refined the definitions of maintenance and capital over the years in accordance with I.R.S. rules for businesses. The definition for auditing purposes is not necessarily used for management (or policy) purposes.
- Most County and State road and bridge capital projects (and ferry system projects) are funded from many sources, but primarily from state and federal grants.

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- Four counties in Washington State operate ferries. One crosses to Oregon and is funded somewhat differently.
- The State and the counties have traditionally separated operating costs and capital costs.
- GAAP (Generally Accepted Accounting Principles) have refined the definitions of maintenance and capital over the years in accordance with I.R.S. rules for businesses.
- Washington State and counties in their intergovernmental agreements have described what can be included as operations versus what can be included as capital somewhat differently.
- Most Whatcom County road and bridge capital projects are funded from many sources, but primarily from state and federal grants. Large capital projects may be funded by a local government issuing a bond for investors to buy that will be paid back over many years.

Appendix B: How are Capital Expenses Paid?



Whatcom County and other local governments compete for grants from state and federal funding programs to pay for major projects, such as the \$25 million awarded for the new electric ferry from the federal RAISE program. Local governments also issue bonds to be paid over multiple years to pay for current capital projects.

The 2011 Citizens' Task Force for the Lummi Island Ferry recommended that a portion of the fare revenue be set aside annually, accumulating over 40-60 years towards the cost of a new ferry. In 2021, the Whatcom County Council instead enacted a surcharge to the fares, keeping the definition of what fares pay unchanged.

10.34.020 Interpretation of rate schedule.

O. A capital surcharge of \$1.00 shall be collected for all fares except for student multi-ride cards (subsection G of this section), special needs-based fares (subsection K of this section), and special senior/disabled fares (subsection L of this section). The capital surcharge shall be used exclusively for the construction of a new ferry vessel and terminal improvements. (Ord. 2021-012)

Many people understood this to be dedicated towards a future ferry; however, Ordinance 2021-012 specified that it would be spent on the currently planned ferry.

WHEREAS, the Action Plan instructs the design and construction of a 34-car vessel with flexibility for future electric conversion, and terminal improvements; and,

WHEREAS, on November 11, 2020 the Lummi Island Ferry Advisory Committee unanimously proposed a \$1.00 fare capital surcharge for the new vessel and terminal improvements; and,

Appendix C: Example of Code Amendment Format

Underlined text is new text that is being proposed to be added

Text that is crossed through is being proposed to be eliminated.

Line numbers are used to make it easier to discuss changes

94 K. A special needs-based discount is provided for Lummi Island residents who meet the very low
95 income levels set annually by the Department of Housing and Urban Development (HUD). The
96 special needs-based discount shall always be higher than any other discount. The current year's
97 levels will be posted on the Whatcom County public works ferry web page. The reviewing
98 authority will screen all applicants to determine eligibility. ~~The number of needs-based~~
99 ~~applications processed annually, regardless of approval, will depend on the constraints of the~~
100 ~~ferry operations budget for each year.~~ These special needs-based tickets will only be sold ~~at the~~
101 ~~by~~ Whatcom County Public Works Administration ~~building in Bellingham~~ and will require a valid
102 voucher issued from the reviewing authority and valid photo ID. Eligibility will be reviewed at least
103 annually by the reviewing authority. Forms and procedures will be developed by the Whatcom
104 County public works and the reviewing authority.

105 L. Eligibility for a special "senior/disabled" discount is available to all Lummi Island residents who |
106 currently hold property tax exemptions or deferral as defined under
107 RCW 84.36.381 and 84.38.030 and WAC 458-16-020 and 458-18-020, and as these may be
108 hereafter amended. These special needs-based tickets will only be sold ~~at the~~ by Whatcom
109 County Public Works Administration ~~building in Bellingham~~ and will require valid photo ID.