

MEMORANDUM

PUBLIC WORKS DEPARTMENT

To: Board of Commissioners
From: Jim Voetberg, Public Works Director
Date: November 26, 2007
Subject: Methodology to Calculate Revenue from Ferry Fares

Presently, setting the target amount for ferry operation revenues to be recovered through ferry fares is prescribed in Resolution R20040054, a copy of which is attached. Due to the way in which this resolution was drafted, the yearly ferry fare recovery amount has been an issue of discussion for the past couple of years. Rather than try to interpret the intention and meaning of this resolution, staff recommends simply replacing it with a resolution that is clear and concise.

Through a series of discussions at Ferry Roundtable meetings, two methodologies are being considered. The first methodology is fundamentally based on the approach of Resolution R20040054. The ferry fare revenue target is established to offset ferry crew wages and benefits, fuel, insurance, and other identifiable operating costs, less a percentage of revenues received from the 5-year average of state fuel tax and deficit reimbursement. In order to eliminate any misunderstanding of which costs are to be included in the target revenue calculation, this proposed methodology lists line-item costs as identified in the Public Works budget. Attached for review, (identified as Option A), is a draft resolution that utilizes this approach.

The second approach is to first establish the net revenue necessary to operate and maintain the ferry. The net revenue requirement is determined by taking the 3-year average of overall annual ferry operating and maintenance costs, as detailed in the ferry financial reports. This amount is then reduced by the 5-year average of state fuel tax and deficit reimbursement revenues to determine a net revenue requirement needed to operate the ferry. From this net revenue requirement, a percentage would then be allocated to ferry fares. At this time, a percentage in the 55% to 60% range matches the current fare structure; meaning that 55% to 60% of the net revenue requirement would come from fares, and the balance from the County Road Fund.

The advantage of this second methodology is that it provides an easy and understandable picture of the overall cost/revenue needs of the ferry system. This methodology clearly identifies the total costs to operate and maintain the ferry, and identifies the amount and where the various revenue streams will come from. Of significance, and often overlooked, is the identification of revenue from the County Road Fund that is necessary to operate the ferry. Attached for review, (identified as Option B), is a draft resolution that utilizes this approach.

Public Works is seeking public input on the above-mentioned ferry fare recovery methodologies and/or any additional information relating to the establishment of ferry fare recovery models.

OPTION A

**RESOLUTION NO. _____
RESOLUTION RESCINDING R20040054
AND ESTABLISHING
GUEMES ISLAND FERRY TICKET FARE METHODOLOGY**

WHEREAS, Skagit County operates the Guemes Island Ferry between Fidalgo Island, Washington and Guemes Island, Washington; and

WHEREAS, the Skagit County Board of Commissioners (Board) desires to rescind R20040054, and establish a fair and equitable system for funding operational, maintenance, and capital costs of the Guemes Island Ferry system.

WHEREAS, revenue sources for operating and maintaining the Guemes Island Ferry system include, ferry fares, State Ferry Deficit Reimbursement, State Motor Vehicle Fuel Tax, and County Road Fund.

WHEREAS, it is the desire of the Board, to establish a fare rate that equitably offsets operational costs.

NOW THEREFORE BE IT RESOLVED, THAT

Section 1. Resolution R20040054 is rescinded.

Section 2. Revenue requirement for the calculation of ferry fares shall be determined as follows:

Ferry Fare Requirement (July 1st to June 30th) =

Actual Ferry Wages and Benefits (Fund 117 Division 4, Object Code 510 plus 520), plus

Actual Operating Supplies (Fund 117 Division 4, Object Code 530), plus

Actual Operating Services and Charges (Fund 117, Division 4, Object Code 540-4230 plus 540-4361 plus 540-4410 plus 540-4510 plus 540-4700 plus Object Code 590-9610), less

Ninety (90%) percent of the proceeding five (5) year average of the State Motor Vehicle Fuel Tax received by the County for ferries, less

Ninety (90%) percent of the proceeding five (5) year average of the State Ferry Deficit Reimbursement received by the County, plus

True up of the proceeding year's Ferry Fare Requirement (proceeding year's Ferry Fare Requirement minus the proceeding year's actual fare collected).

Section 3. At the discretion of the Board, the Ferry Fare Requirement calculated pursuant to Section 2 may be reduced though a subsidy paid for by the County Road Fund.

Section 4. Prior to November 30th, the Public Works Department shall calculate total revenues to be received through ferry ticket fares, based on the Ferry Fare Requirement calculated pursuant to Section 2, less any County Road Fund subsidy pursuant to Section 3. The calculated ferry fares shall be presented to the Board. The Board shall review the findings and set fare rates by a separate resolution, which shall become effective January 1st.

BE IT FURTHER RESOLVED, Ten (10%) percent of the proceeding five (5) year average of the State Motor Vehicle Fuel Tax received by the County for ferries, and ten (10%) percent of the proceeding five (5) year average of the State Ferry Deficit Reimbursement received by the County, shall be utilized for maintenance and capital improvements of the ferry system.

OPTION B

**RESOLUTION NO. _____
RESOLUTION RESCINDING R20040054
AND ESTABLISHING
GUEMES ISLAND FERRY TICKET FARE METHODOLOGY**

WHEREAS, Skagit County operates the Guemes Island Ferry between Fidalgo Island, Washington and Guemes Island, Washington; and

WHEREAS, the Skagit County Board of Commissioners (Board) desires to rescind R20040054, and establish a fair and equitable system for funding operational, maintenance, and capital costs of the Guemes Island Ferry system.

WHEREAS, revenue sources for operating and maintaining the Guemes Island Ferry system include, ferry fares, State Ferry Deficit Reimbursement, State Motor Vehicle Fuel Tax, and County Road Fund.

WHEREAS, it is the desire of the Board, to establish a fare rate that equitably offsets operational costs.

NOW THEREFORE BE IT RESOLVED, THAT

Section 1. Resolution R20040054 is rescinded.

Section 2. Revenue requirement for the calculation of ferry fares shall be determined as follows:

Ferry Fare Requirement (July 1st to June 30th) =

Three (3) Year average of the actual ferry operating and maintenance costs, excluding all capital costs, as identified in Fund 117 Division 4 of the Public Works Department, less

The proceeding five (5) year average of the State Motor Vehicle Fuel Tax received by the County for ferries, less

The proceeding five (5) year average of the State Ferry Deficit Reimbursement received by the County, the total of the above

Multiplied by a percentage, (for purposes of discussion, it is estimated the percentage to be in the 55% to 60% range), that is determined annually by the Board through the setting of fare rates.

Section 3. At the discretion of the Board, the Ferry Fare Requirement calculated pursuant to Section 2 may be reduced though a subsidy paid for by the County Road Fund.

Section 4. Prior to November 30th, the Public Works Department shall calculate total revenues to be received through ferry ticket fares based on the Ferry Fare Requirement calculated pursuant to Section 2, less any County Road Fund subsidy pursuant to Section 3. The calculated ferry fares shall be presented to the Board. The Board shall review the findings and set fare rates by a separate resolution, which shall become effective January 1st.

DRAFT

A Resolution Regarding the Establishment of a Policy for Setting the Fare Revenue Requirement of the Guemes Island Ferry

Whereas, Skagit County operates the Guemes Island Ferry between Anacortes, Washington and Guemes Island; and

Whereas, there is a recognized need to define revenue sources to fund this service; and

Whereas, Resolution No. 11939, dated February 27, 1989, established such policy effective February 27, 1989; and

Whereas, the Skagit County Board of County Commissioners (Board) approved Resolution No. R20030074 on March 11, 2003 which established the Guemes Island Ferry Schedule and Fare Task Force (Task Force) to provide recommendations to the Board of County Commissioners pursuant to the Guemes Island Ferry Operations Management; and

Whereas, on December 22, 2003 the Task Force formally presented its recommendations to the Board during a Public Hearing; and

Whereas, the Task Force endorsed three foundational principles setting an equitable fare revenue requirement; to wit,

Equity considerations – The fare revenue requirement policy must address the equity of how cost responsibilities are split between the users of the system and County taxpayers, and

Bridge analogy – The Guemes Island Ferry System should be considered a County bridge, though one with unique features that requires a toll to equitably distribute the cost of providing this service. (The analogy provides a policy basis for supporting both a requirement for fares as well as a basis for the commitment of County Road Fund resources), and

Fare requirement – Taxpayers are responsible for 100% of the cost of the capital and maintenance of bridges in the County. Ferry costs that are not typically associated with a bridge should be recoverable through fares. (This premise is easy to explain, intuitive and has served as the traditional way of explaining which costs are paid with fare revenue.)

Whereas, the Task Force endorsed the concept of the Bridge Analogy and recommended that the current fare revenue requirement formula be changed to be consistent with said analogy; and

Whereas, the Task Force recommended an approach that phases in, over a period of several years, raising the ferry user fare revenue requirement.

Now Therefore Be It Resolved, that Resolution No. 11939 be rescinded, and that the policy goal for setting the fare revenue requirement and fully implementing the Bridge Analogy shall be equal to following formula,

Revenue from ferry fares should be equal to 100% of ferry crew wages and benefits plus 100% of fuel and insurance costs plus 100% of the Ferry Manager's time spent at the dock (excludes administrative time) less the sum of the 5-year average of State funding for ferries (Motor Vehicle Fuel Tax) and the 5-year average of State Deficit Reimbursement.

Be It Further Resolved that the 2004 fare revenue requirement will be Phase 1 in a multi-year implementation of the new fare revenue target policy and will be determined using the following formula,

Revenue from ferry fares should be equal to 88% of ferry crew wages and benefits (less the cost of the 4th crewman) plus 100% of fuel and insurance costs plus 100% of the Ferry Manager's time spent at the dock (excluding administrative time) less the sum of the 5-year average of State funding for ferries (Motor Vehicle Fuel Tax) and the 5-year average of State Deficit Reimbursement.

Be It Further Resolved that subsequent phases that continue the implementation of the fare revenue policy goal will only be enacted through separate resolutions passed by the Board and will be based on recommendations from the Operations and Performance Roundtable and after successful implementation of the Phase 1 fare and schedule recommendations.

Be It Further Resolved that an annual ferry operations and performance report will be delivered to the Board by no later than November 1 of each year, indicating whether collected fare revenue has met the policy target. The report will also identify progress and recommended next steps in the implementation of the fare revenue policy goal. The first of these reports is due November 1, 2005.

WITNESS OUR HANDS AND THE OFFICIAL SEAL OF OUR OFFICE this

9th day of February 2004.

**BOARD OF COUNTY
COMMISSIONERS
SKAGIT COUNTY, WASHINGTON**

Ted W. Anderson
Ted W. Anderson, Chairman

Don Munks
Don Munks, Commissioner

Kenneth A. Dahlstedt
Kenneth A. Dahlstedt, Commissioner

ATTEST: Anne G. Breach
Clerk of the Board

