

## **M E M O R A N D U M**

**TO:** Toby Rickman

**FROM:** David McGoldrick and Ed Stephenson

**COPY TO:** Dick Muri, Debbie Lowe, Chuck Hinds and Leslie Swalley

**DATE:** May 9, 2007

**RE:** Anderson Island Ferry Rates 2008-2009 – An analysis based on the County’s removing depreciation from its operation and maintenance budgets for purposes of analyzing farebox revenue as a percentage of maintenance and operations of the Pierce County ferry system. This analysis justifies keeping passenger and vehicle <20 feet rates the same through 2009, but raising rates for vehicles >20 feet.

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**PART I: Removing depreciation from County’s costs of maintenance and operations:**

1. Total projected vessel and non-vessel operations and maintenance expenses for 2008 and 2009, including depreciation, is \$7,202,000.00. The average cost for each of the two years is \$3,601,000.00.
2. The average depreciation of vessel and facilities for 2008 and 2009 is \$666,000.00.
3. If average depreciation was eliminated from the average costs of operations for 2008 – 2009, the net average operation and maintenance expenses would be \$2,935,000.00.
4. In recent years when fares were not raised, ridership has risen approximately 4%. In 2006, the farebox revenue was \$1,878,337.00.
5. In 2008 – 2009, assuming fares remain the same (except for vehicles greater than 40 feet in length, see Paragraph 6), farebox collections should be as follows:

2008	\$ 2,099,375.00
2009	\$ 2,183,350.00
Average	\$ 2,141,362.00

6. **Additional collections for vehicles greater than 20 feet:** These vehicles are less affected by increases in price as the ferry fares are passed on by contractors and haulers or persons driving recreational vehicles that have no alternative, such as to walk on. Statistical analysis of changes in ridership for larger vehicles shows that this category is relatively unaffected by price increases. Using the County's proposed rate increase for these vehicles, based on its proposed rate for 2008-2009, if ridership increases 4%, the County should collect an average of \$22,095.00 annually.
7. **Additional Collection for vehicles greater than 80 feet:** Statistics regarding vehicles greater than 80 feet in length show that they are either totally inaccurate or that there is wide spread cheating. For instance, on a typical morning, there may be four tandem 80+ trucks hauling rock to the Island. I have been advised that they are not hauling for the County. This has been going on for, at least, the past year. In 2005, 304 of these vehicles were charged. In 2006, only 4 such trucks allegedly entered the ferry. Using 2005 ridership numbers, the County lost \$44,438.00 in 2006 revenue. There appears no increase in any other truck categories to account for this dramatic loss of revenue in 2006. Therefore, there should be added to additional collections of \$44,438.00 for each of the years 2008 and 2009, assuming that no increase in ridership for these vehicles.
8. When the additional revenues set forth in Paragraphs 6 and 7 are added to the average fare revenue set forth in Paragraph 5, the average annual farebox collection is \$2,207,895.00.
9. As a percentage of operations and maintenance (excluding depreciation), the average farebox for 2008 will be 75.2% of total collections.
10. We propose that the rate of the County's recovery of costs of operations (excluding depreciation) increase starting after 2009 at 75%, increases 1% a year thereafter, finally achieving the Washington State's level of recovery in 2015. Monies already set aside for ferry and facilities depreciation should be returned to the ferry system, and held in a "rainy day" fund to meet unforeseen short falls in future years.

**PART II: Justification for not increasing ferry rates on passenger and vehicle <20 feet and removing depreciation from County's calculation of the maintenance and operation expenses and gradually increasing farebox's recovery rate to 80% at 1% a year commencing in 2010:**

1. Washington State does not factor in depreciation in its recovery rate. Replacement of ferries and docks is a capital expense and should not be included in maintenance and operations. Depreciation schedules are presently based on a 40 year life span for dock facilities and 50 years for its vessels. Will the County even be operating a ferry to

Anderson Island 50 years from now, and if so, how much will a new ferry then cost?  
Does the current set aside policy make any sense?

2. Anderson Island rates are already as high or higher than comparable new State of Washington's rates which are to remain in effect for the next two years:

	<u>Pt. Defiance to Vashon</u> <u>Rates for Next 2Years</u>	<u>Current Anderson</u> <u>Island Rates</u>
Adult Passenger	\$ 4.30	\$ 4.60
Youth	\$ 3.45	\$ 3.35
Senior	\$ 2.15	\$ 2.35
Commuter	\$ 3.44	\$ 3.65
Month's Pass	\$ 55.05	\$113.15*
		*Not available but what the most equivalent commuter ticket would cost
Vehicle	\$ 18.50	\$ 18.75
Senior	\$ 16.50	\$ 15.50
Commuter Vehicle	\$ 11.84	\$ 13.05

**Summary:** This proposal is in line with our mutual discussions in your office on May 8<sup>th</sup>. We all agreed that the present system of simply raising rates to cover increased costs and at the same time, trying to reach an 80% farebox recovery, is not attainable.

Anderson Island Ferry Committee desires that the County receives as much revenue as possible from the ferry system. We believe, however, that raising rates may well produce less revenue, not more. Hopefully Councilman Muri can convince enough of his fellow Councilmen to go along. Otherwise, we will either have a system with the County chasing fewer and fewer riders with higher and higher rates or a reduction in ferry service which will also produce less revenue.