

**JEFFERSON COUNTY
BOARD OF COUNTY COMMISSIONERS**

AGENDA REQUEST

TO: Board of County Commissioners
Philip Morley, County Administrator

FROM: Leslie Locke, Deputy Clerk of the Board

DATE: June 20, 2011

SUBJECT: Update re: Washington State Ferry Update

STATEMENT OF ISSUE:

Tim Caldwell, Ferry Advisory Committee has requested an update be scheduled on the WSF. WSDOT Ferries Division Assistant Secretary David Moseley will be attending from the State.

RECOMMENDATION:

No action is needed at this time.

REVIEWED BY:


Philip Morley, County Administrator

6/16/11

Date



**Washington State
Department of Transportation**



AGENDA JUNE 2011 COMMUNITY MEETINGS

- Welcome, Review Agenda
- Progress at WSF
 - Legislative session update
 - New vessel construction
- Route specific topics
- Fare proposal issues and process
- Questions & Comments

Account Balance Summary (in thousands)	09-11	11-13	13-15	15-17	17-19	19-21	21-23
Ending Balances - 2011-13 Governor's Proposed Budget (November 2010 Forecast)	Projected	Projected	Projected	Projected	Projected	Projected	Projected
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FARE REVIEW CYCLE 2011

Potential 2011 Fare Proposal Elements

June 2011

WSF is currently in the process of developing its 2011 fare proposal, which includes the fare changes that WSF is considering for implementation on Oct. 1 and some elements required by recently passed legislation. WSF will present a proposal to the Washington State Transportation Commission on June 29 at a special public meeting in Seattle.

POTENTIAL FARE PROPOSAL ELEMENTS

General Fare Increase

1. **General Fare Increase.** The 2011-13 Washington state transportation budget assumes 2.5 percent across-the-board fare increases in October 2011 and October 2012 to reach a fare revenue target of \$310 million, which is a 5.6 percent increase in fare revenue as compared to the current biennium. The revenue target is the amount the legislature has required us to achieve through fares.

Budget-related Fare Surcharges

2. **Capital Surcharge.** The Legislature passed a bill that requires WSF to impose a 25-cent surcharge on each ferry ticket system-wide with revenues placed in a new account dedicated to building new vessels. Multi-ride products will be adjusted to reflect the appropriate per-ticket surcharge amount. Monthly passes will also be charged 25 cents per ticket based on the pass pricing rule of 16 tickets per month
3. **Fuel Surcharge.** WSF is considering a system-wide, formula-based fuel surcharge during times when fuel costs are higher than those funded in the budget. This is part of a fuel cost mitigation strategy that includes better budgeting, fuel conservation, and fuel price hedging.

Fare Structure Adjustments

4. **Vehicle-to-Passenger Fare Ratio.** The 2009 Long-Range Plan identified increasing the vehicle-to-passenger fare ratio to encourage mode shift from drive-on to walk-on. The 25-cent capital surcharge puts a greater burden on passengers, so a slightly higher vehicle increase is being considered together with a slightly lower passenger increase to achieve the revenue target.
5. **International Route Fares.** Since the Sidney route serves primarily tourists and faces direct competition from BC Ferries and Black Ball Ferry Lines, fares on this route are set separately from the general fare increase. This year WSF is considering:
 - a. Increasing Sidney fares by the general fare increase, or
 - b. Increasing Sidney fares by a moderately higher amount (5-10 percent) to bring them closer to BC Ferries fares.

Fare Review 2011

6. **Vehicle Categories Under 30 Feet.** Encouraging customers to travel in smaller vehicles allows us to fit more cars on the vessel and reduces or delays the need to build larger vessels. WSF is considering restructuring the current vehicle categories under 30 feet as follows:

- **Standard Motorcycles.** Same as current definition.
- **Vehicles 14 Feet and Under.** New category for all vehicles less than 14 feet, except standard motorcycles.
- **Vehicles 14-22 Feet.** The adjusted standard vehicle category (currently 0-20 feet) would include most standard passenger vehicles and trucks used for personal travel.
- **Vehicles 22-30 Feet.** The adjusted oversize vehicle category (currently 20-30 feet) would capture smaller commercial vehicles, recreational vehicles, and cars with trailers.

Fares would be set in proportion to the deck space used by each vehicle.

7. **Bicycle Surcharges and Passes.** Bicyclists pay a per-trip surcharge in addition to the passenger fare. The annual bicycle permit exempts bicyclists from the per-trip surcharge on all routes except those serving the San Juan Islands. WSF is considering the following changes to bicycle fares to coordinate with the bicycle tollbooth changes at Colman Dock:

- Eliminate the annual bicycle permit and allow passengers paying with monthly passes, multi-ride cards, or ORCA ePurse to bring bicycles without charge. (In the San Juan Islands, only multi-ride card users could bring bicycles without charge).
- Eliminate the bicycle surcharge altogether to encourage bicycling.

If WSF retains a bicycle surcharge, it may be increased to adjust for inflation increases and/or revenue losses from eliminating the annual bicycle permit.

8. **Out-of-state Resident Surcharge.** Since out-of-state residents contribute less to ferry operations through taxes, a surcharge would achieve a better balance between in-state and out-of-state customers. WSF is analyzing potential legal and operational issues.

FARE REVIEW CYCLE 2011

Fuel Cost Mitigation Strategy and the Fuel Surcharge

June 2011

INTEGRATED FUEL COST MITIGATION STRATEGY

In 2011, WSF released the Updated Fuel Cost Mitigation Plan, which presents an integrated set of strategies to improve WSDOT's budgeting practices and reduce exposure to fuel price volatility. The strategy consists of four tools designed to work together to achieve these goals:

- (1) Improved fuel budgeting and forecasting techniques,
- (2) Fixed price hedging,
- (3) Fuel conservation techniques, and
- (4) A fuel surcharge.

FUEL SURCHARGE IS LAST RESORT

- The fuel surcharge is the strategy of last resort
- It will only be used to cover unexpected fuel costs that exceed budgeted fuel costs.
- Improved forecasting techniques and fixed price hedging will minimize the risk of WSF exceeding its fuel budget.

HOW WILL A FUEL SURCHARGE WORK?

- The fuel surcharge would be automatically triggered if actual costs exceed budgeted costs
- The need for a fuel surcharge will be reviewed quarterly and if triggered, customers would be notified 30 days before any fare change
- The surcharge will need to be at least 2.5% to be implemented (which would happen if actual costs exceed budgeted costs by 6%)
- The surcharge would be applied as a fixed percent to all fares and rounded to nearest nickel
- There will be a hard cap in the rules. The cap has been suggested at 20% in the Fuel Cost Mitigation Report
- Actual costs (after accounting for hedging) must exceed budget costs – any under budget savings will be put toward rises in costs before a surcharge is triggered
- The surcharge mechanism would be reset to zero as part of the budgeting process

FOR MORE INFORMATION

For background information on the fuel surcharge implementation process visit www.wsdot.wa.gov/Ferries/commuterupdates/pub_meetings.htm

Fare Review 2011

**FUEL PRICES AND POTENTIAL FUEL SURCHARGE IMPACTS
PORT TOWNSEND-COUCHEVILLE**

\$3.86 Budgeted fuel price per gallon

Actual Price of Fuel	Pct over Budget	Calculated Surcharge	Surcharge Amount	Car & Driver Surcharge	Total Car & Driver FF	Passenger Surcharge	Total Passenger FF	Notes
\$3.86	0.0%	0.0%	0.0%		\$11.70		\$2.75	Current fare & budget price of fuel
\$3.96	2.5%	1.1%	0.0%	\$0.00	\$11.70	\$0.00	\$2.75	No surcharge
\$4.05	5.0%	2.2%	0.0%	\$0.00	\$11.70	\$0.00	\$2.75	No surcharge
\$4.08	5.7%	2.5%	2.5%	\$0.30	\$12.00	\$0.05	\$2.80	Minimum threshold
\$4.15	7.5%	3.3%	3.3%	\$0.40	\$12.10	\$0.10	\$2.85	
\$4.25	10.0%	4.4%	4.4%	\$0.50	\$12.20	\$0.10	\$2.85	
\$4.63	20.0%	8.8%	8.8%	\$1.05	\$12.75	\$0.25	\$3.00	
\$4.74	22.8%	10.0%	10.0%	\$1.15	\$12.85	\$0.25	\$3.00	10% cap suggested by FAC-I
\$5.02	30.0%	13.2%	13.2%	\$1.55	\$13.25	\$0.35	\$3.10	
\$5.40	40.0%	17.6%	17.6%	\$2.05	\$13.75	\$0.50	\$3.25	
\$5.79	50.0%	22.0%	20.0%	\$2.35	\$14.05	\$0.55	\$3.30	20% cap in Fuel Report

Notes: Table is for illustrative purposes only and is based on current fares. Actual surcharge impacts would depend on final adopted rules

Fares are rounded to the nearest nickel after applying the surcharge amount

The surcharge amount would be shown separately on receipt

Actual price of fuel is the overall average price including gallons purchased using fixed price contracts and gallons purchased at spot prices



FUEL SURCHARGE PROCESS

Background Information

June 1, 2011

FARE REVIEW CYCLE 2011

Fuel Surcharge Process

June 2011

APPROACH TO FUEL SURCHARGE IMPLEMENTATION

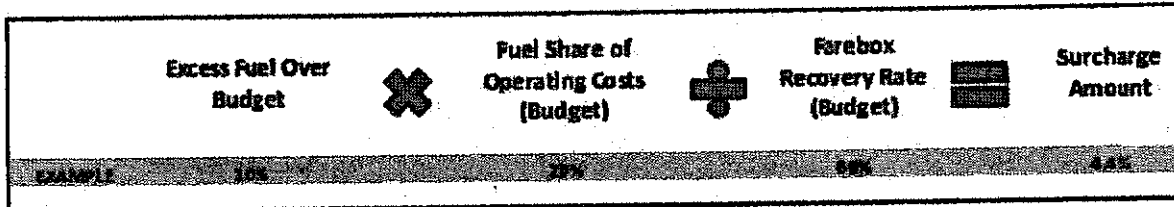
The process outlined below reflects WSF's draft fuel surcharge process. WSF is requesting the public's input to help develop the final rules for implementing the surcharge.

The concept for the fuel surcharge mechanism is that at the end of each quarter, WSF will compare its actual biennium to-date fuel costs to its budgeted fuel costs for the same period and implement a surcharge only if there are excess costs that need to be recovered.

The process for determining the fuel surcharge each quarter would be:

1. **Determine excess fuel costs for the quarter.** One week before the end of each quarter, WSF will estimate its actual fuel costs for the quarter and compare this to the budgeted fuel costs for that quarter to determine its Quarterly Excess Fuel Cost. This will occur one week before the end of the quarter to minimize the time between the end of the quarter and surcharge implementation. Any deviation from actual fuel costs, once finalized, will be taken into account in the next quarter's calculation.
2. **Adjust Quarterly Excess Fuel Cost for fuel surcharge revenues and reconciled fuel costs from the previous quarter.** WSF will adjust the balance from Step 1 for fuel surcharge revenues collected during the previous quarter to reflect that customers may have already covered some of the excess cost. The balance will also be adjusted to reflect finalized fuel cost reconciliations from the previous quarter. This will result in the Net Quarterly Excess Fuel Cost.
3. **Calculate the Cumulative Fuel Balance.** WSF will add together the Net Quarterly Excess Fuel Cost for the current quarter and all previous quarters in the biennium to arrive at the Cumulative Fuel Balance. This is the biennium to-date difference between budgeted fuel costs and actual fuel costs.
4. **Calculate the fuel surcharge amount.** If the Cumulative Fuel Balance is negative (i.e. WSF's actual fuel costs are less than its budgeted fuel costs), a fuel surcharge would not be implemented and any existing surcharge would be removed. However, if there is a resulting positive value, meaning fuel costs are higher than budgeted, a fuel surcharge amount would be calculated using the method shown in Exhibit 1. In this example, fuel costs have risen 10 percent over the budgeted amount.

**Exhibit 1
Example Fuel Surcharge Calculation**



(\$ In millions)

Expenses:	Adopted Budget Expenses	10% Fuel Increase	Budget with higher fuel cost	
Beginning budget	472.0		472	
Extra fuel cost (10%)*	0.0	13.5	13.5	
Total Expenses	472.0	13.5	485.5	

Revenues:	Adopted Budget Revenues	Additional Fares needed due to fuel	Revenues with Surcharge	
Taxes	162.0		162.0	
Fares needed	310.0		310.0	
Additional fares needed	0.0	13.5	13.5	= 4.4%
Total Revenues	472.0	13.5	485.5	Increase

* Adopted fuel budget = \$135 million

The Updated Fuel Cost Mitigation Plan suggests that a fuel surcharge would not be implemented or adjusted unless the resulting surcharge amount or change to the existing surcharge was at least 2.5 percent. This increment was chosen because it represents the minimum surcharge change that would affect all fare categories, given WSF's nickel rounding policy.

The Plan also suggested a maximum surcharge amount of 20 percent. The Ferry Advisory Committee on Tariff, which advises WSF during fare proposal development, has suggested that WSF adjust the limit to 10 percent.

FARE REVIEW CYCLE 2011

Fuel Cost Mitigation Strategy

June 2011

SUMMARY OF FUEL COST MITIGATION STRATEGY

The 2011 Updated Fuel Cost Mitigation Plan presents an integrated set of strategies to improve WSDOT budget protocols and reduce WSDOT's exposure to fuel price volatility. The following four tools are designed to work together to create a comprehensive fuel cost mitigation strategy:

1. **Improved Fuel Budgeting and Forecasting.** The strategy recommends that WSDOT move to a consensus average method, which takes into account more major forecasting sources than WSF's previous method. This new method was used to develop the proposed 2011-13 Budget.

While using a consensus of forecasts will not remove all risk from the fuel budget, it will reduce the risk relative to relying on two forecasts as before, and will contribute to an overall reduction in fuel price risk when combined with the strategies below.

2. **Fixed Price Hedging Program.** WSDOT can establish fixed price contracts with fuel distributors that would allow for specified quantities of fuel to be purchased at a fixed price for up to 18 months. No more than 90% of WSF's fuel consumption in any biennium would be purchased through fixed price contracts. WSF would purchase any remaining fuel needs at market prices.

While hedging reduces the risk of dealing with fuel cost volatility, WSF acknowledges it would be foregoing the opportunity to have lower fuel costs if market fuel prices were to drop below the contract price.

3. **Fuel Conservation Techniques.** In addition to managing the price of its fuel, WSF also plans to mitigate fuel costs by managing its fuel consumption. Strategies being pursued include: (1) operating on fewer engines; (2) slowing boat speeds while meeting schedules; (3) implementing passive restraint systems at the dock; (4) loading and unloading more quickly to enable slower boat speeds; and (5) exploring use of Liquid Natural Gas (LNG).

Changes in operating practices could result in a 2% - 6% reduction in fuel use for the fleet. If LNG is determined to be a feasible fuel option, savings would be about 30% per equivalent diesel gallon.

4. **Fuel Surcharge based on Total Budget Differential.** The Legislature has given WSTC permission to implement a fuel surcharge any time after July 1, 2011. Prior to implementing a fuel surcharge, WSTC must adopt a fuel surcharge methodology and revise the WAC through the regular rulemaking process, including giving the public and Ferry Advisory Committees opportunities to review the proposed methodology and offer comment prior to adoption.

FARE REVIEW CYCLE 2011

Fixed Price Hedging Process

June 2011

APPROACH TO FIXED PRICE HEDGING

As part of developing the 2010 WSF Fuel Cost Mitigation Plan, WSF evaluated multiple hedging strategies and identified the distributor-controlled hedging strategy (also referred to as fixed-price hedging) as the preferred option given the ease of implementation, zero start-up costs, and fit with current budget policies and schedule.

Legislative Status

The 2011-13 transportation budget that was adopted by the Legislature includes the following language:

For the 2011-2013 fiscal biennium, the department of transportation may enter into a distributor controlled fuel hedging program.

Fixed Price Hedging Process

WSF's plan to implement fixed price hedging consists of five main elements:

- 1. Legislative Budget Authority.** At the end of each legislative session, the Legislature will adopt a WSF service plan and provide WSF with the budget authority to purchase fuel and enter into fixed price fuel contracts.
- 2. Committee-established Guidelines.** A Fuel Steering Committee will be established, consisting of members from WSF, the state Office of Financial Management, and the Department of General Administration. This Committee will help establish fixed price contracting guidelines for WSF, and will also be involved in the regular review process.
- 3. Department Contracting Decisions.** WSF will have a Hedging Advisor that will help WSF's Department of Finance and Administration administer fixed price hedging, and make decisions within the Steering Committee's guidelines. While WSF will have authority on when to purchase fuel and how much fuel to purchase, the budget authority given by the Legislature places a ceiling on how much fuel can be bought under fixed price contracts.
- 4. Quarterly Status Reviews.** Each quarter, WSF and the Fuel Steering Committee will review the current status of WSF's fixed price contracting and review the established guidelines.
- 5. Annual Status Reports.** Each year, WSF and the Fuel Steering Committee will prepare a report for the Governor and Legislature summarizing the fixed price hedging activity for the previous year.

FARE REVIEW CYCLE 2011

Fuel Surcharge Process Overview and Timeline

June 2011

LEGISLATIVE DIRECTION AND MILESTONES

December 2008 – The Draft Long Range Plan introduced the notion of a fuel surcharge as one of the pricing mechanisms WSF should pursue in the short term to help meet revenue requirements.

February 2009 – Washington State Transportation Commission and WSF issue Joint Recommendations on Adaptive Management Strategies which include a fuel surcharge in to mitigate operating cost risk.

Spring 2009 – 2009-11 Transportation Budget

If the commission considers implementing a ferry fuel surcharge, it must first submit an analysis and business plan to the office of financial management and either the joint transportation committee or the transportation committees of the legislature.

If, after the department's review of fares and pricing policies, the department proposes a fuel surcharge, the department must evaluate other cost savings and fuel price stabilization strategies that would be implemented before the imposition of a fuel surcharge.

Fall 2009 - Working with the Transportation Commission, WSF developed a Fuel Cost Mitigation Plan (<http://www.wstc.wa.gov/CommissionLibrary/FerryFuelSurchargeReport.pdf>) that:

- Described WSF's fuel conservation plan.
- Detailed a potential hedging plan that would be aligned with WSF's fuel purchasing and budgeting processes.
- Provided a business plan for how a fuel surcharge might be applied to fares, if necessary.

December 2009 – Governor's Supplemental Budget proposal included a recommendation to the Commission to implement a fuel surcharge by May 1, 2010.

Winter 2010 - WSF presented the Fuel Cost Mitigation Plan to the 2010 Legislature. The Legislature's budget gave the Commission the flexibility to implement a fuel surcharge by July 2011 but required the department to provide more information on the implications of pursuing the strategies outlined in the Fuel Cost Mitigation Plan.

Spring 2010 – 2010 Supplemental Transportation Budget

The commission may impose a ferry fuel surcharge effective July 1, 2011. When implementing a ferry fuel surcharge, the commission must regard ferry fuel surcharges as fare policy changes and thus, ferry fuel surcharges should be included in all public procedures and processes currently used for fare pricing per RCW 47.60.290. [Note: RCW reference is to the following: "... the department shall develop fare and pricing policy proposals that must: ... (c) be developed with input from affected ferry users by public hearing and by review with the affected ferry advisory committees..."]

The department shall report to the legislature and transportation commission on its progress of implementing new fuel forecasting and budgeting practices, price hedging contracts for fuel purchases, and fuel conservation strategies by November 30, 2010.

Fall 2010 – WSF prepared an updated report on the Fuel Cost Mitigation Plan and presented it to the Commission

(http://www.wstc.wa.gov/Meetings/AgendasMinutes/agendas/2010/December14/documents/20101215_BP12B_FuelCostMitigation.pdf) and the Legislature. This update:

- Described in detail how a hedging program could work given WSF's purchasing and budgeting constraints.
- Documented new reporting that would be required.
- Presented several "what-if" scenarios that show what the implications (fuel cost and ferry fares) would have been over the past several years had the hedging and fuel surcharge program been in place during this period of significant price volatility.
- Identified key decision points like how much of the total expected fuel purchases should be locked in at a fixed price and at what points in time should these decisions be made.

December 2010 – In transmitting the Transportation Budget for 2011-13, the Governor's budget message included a recommendation "that the Commission adopt a fuel surcharge to provide additional revenues should fuel costs rise above budgeted levels". (Proposed 2011-13 Budget and Policy Highlights, Transportation, Capital and Economic Development)

Spring 2011 – 2011-13 Transportation Budget does not include any explicit direction on a fuel surcharge, though draft versions of the Senate Budget had included revenue assumptions associated with a potential surcharge mechanism. Further, Ferries has now completed all of the legislative proviso requirements that were necessary prior to implementing a fuel surcharge mechanism.

Spring/Summer 2011 – As it represents a fare policy change, a potential fuel surcharge mechanism is discussed as part of the tariff 2011 review cycle. WSF is seeking input from FAC-T members, the FAC Executive Council, and with ferry communities at the May/June round of public meetings as it develops its fare proposal to the Commission to be presented at the end of June.

FARE REVIEW CYCLE 2011

2011-13 Budget and Fuel Surcharge Considerations

June 2011

The Transportation Budget has been passed by the Legislature and signed by the Governor. Exhibit 1 shows a high level summary of the operating budget for Ferries and highlights the impact of fuel costs and shows how the Legislature has funded the program.

Exhibit 1 2011-13 Operating Budget Highlights

	2009-11	2011-13	Change	%Chg
Total expenditures	446,961	467,773	20,812	4.7%
Fuel budget	97,053	135,248	38,195	39.4%
Non-fuel expenditures	349,908	332,525	(17,383)	-5.0%
Total revenues	449,323	466,136	16,813	3.7%
Fare revenues	293,923	310,279	16,356	5.6%
Non-fare operating	6,551	7,096	545	8.3%
Total taxes	148,849	148,761	(88)	-0.1%
Administrative transfers	91,000	89,500	(1,500)	-1.6%
Dedicated taxes and fees	57,849	59,261	1,412	2.4%
Farebox recovery	65.8%	66.3%		
Fuel percent of operating budget	21.7%	28.9%		

* The revenues included in the 2011-13 Transportation Budget are based on March 2011 projections by the Transportation Revenue Forecast Council (TRFC). A new revenue forecast will be available in June, prior to the Department finalizing its fare proposal

Highlights

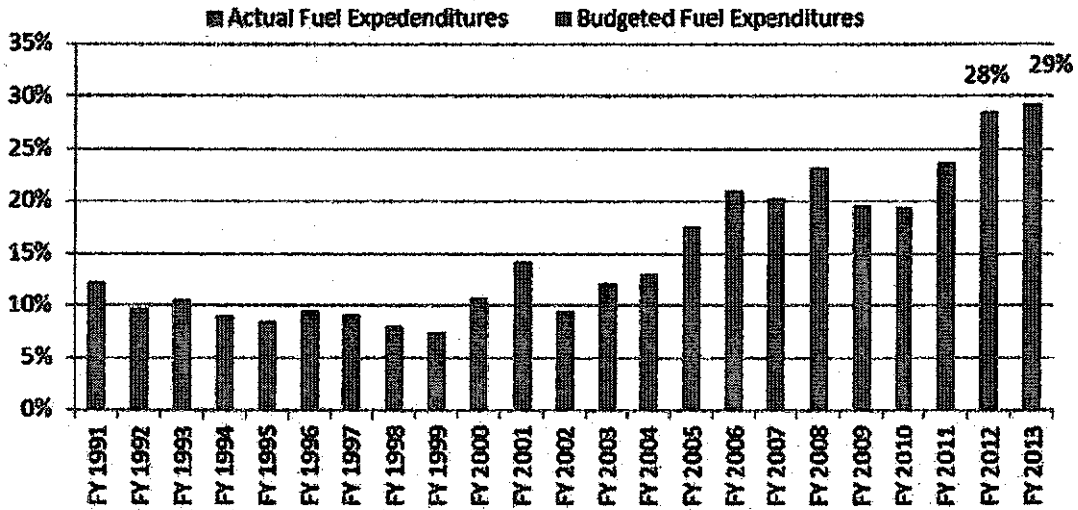
- Budget fully funds current service levels, plus a second boat at Port Townsend-Coupeville for part of the year.
- Fuel costs are expected to be 40% higher than the current biennium, an increase of \$38 million
- The operating program is funded with the same level of state tax support as the current budget (\$149 million), with almost \$90 million in transfers from other transportation accounts
- The increase in fuel costs have been funded primarily by a combination of higher fare revenues (increase of \$16.4M) and savings elsewhere in the operating budget (\$17.4 M of mostly labor savings)
- Fuel as percent of the operating budget increases to almost 29%
- The fare revenue target represents a 5.6% increase which is a combination of expected ridership growth and increased fares

FARE REVIEW CYCLE 2011

History of WSF Fuel Costs and Context for Fuel Surcharge

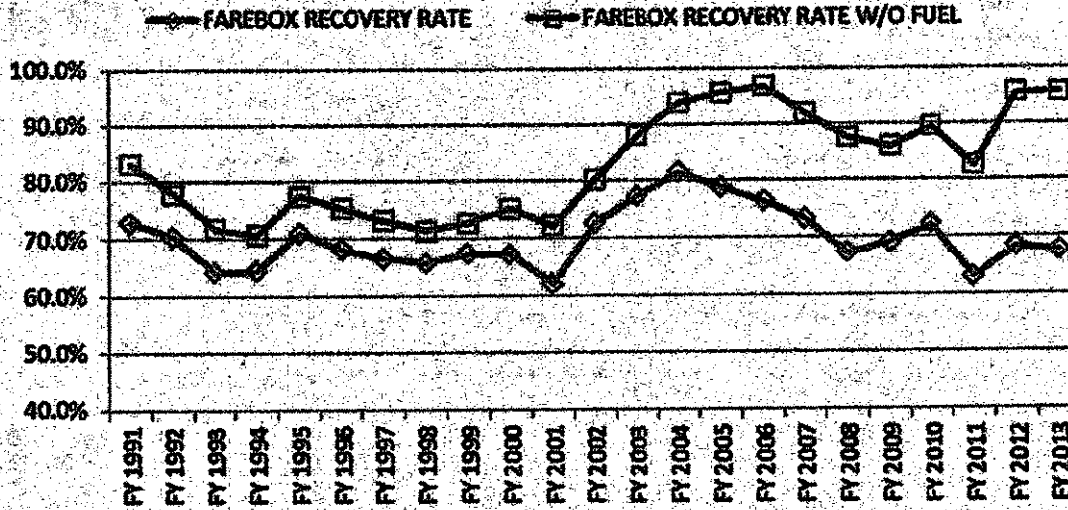
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Exhibit 1
WSF Fuel Costs as % of Total Operating Costs (FY 1991 – FY 2013)



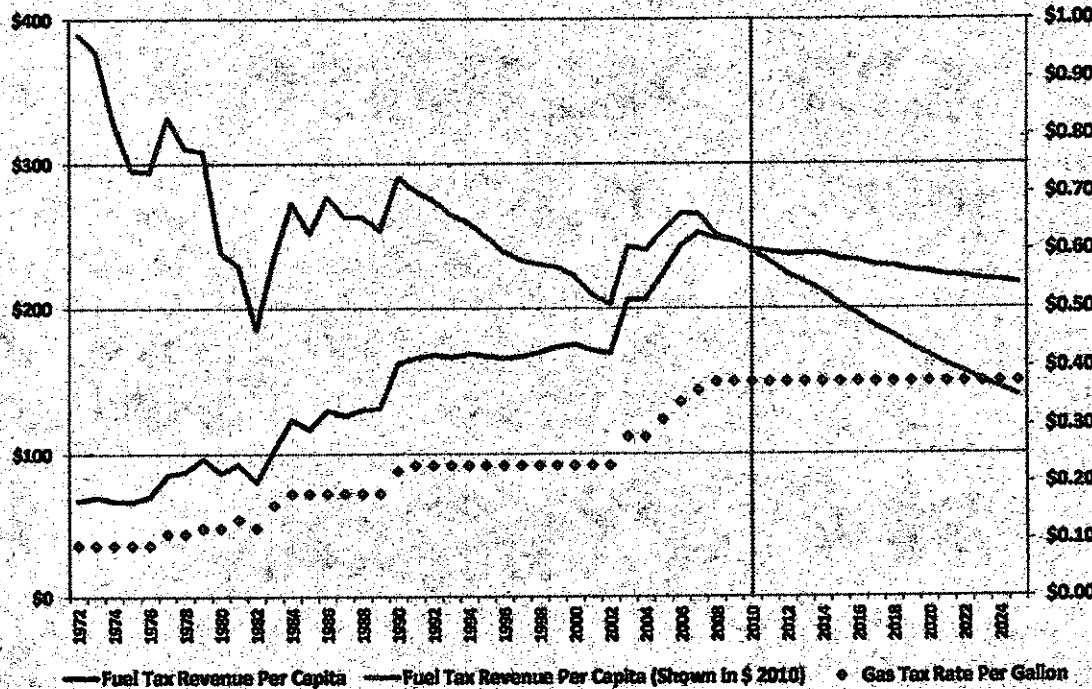
- Fuel Costs, as a percentage of WSF's operating budget, are at an all-time high.

Exhibit 2 WSF Farebox Recovery Rate Comparison



- After substantial fare increases in the early 2000's, farebox recovery rates are back to where they were prior to those increases. This is largely due to fuel costs.

Exhibit 3 Historical and Projected Fuel Tax Revenue Per Capita



- On a per capita basis, tax payers are contributing less than they have in recent history to the State's transportation funds.

Exhibit 4

Ending Balances – 2011-13 Governor's Proposed Budget (November 2010 Forecast)

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- The 2011-13 Transportation Budget shows future unfunded needs across all accounts. There is no longer any flexibility to move funds to cover unexpected fuel cost increases.