

June 8, 2007

Washington State Utilities and Transportation Commission
1300 South Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, Washington 98504-7250
Attn: David C. Gomez

Via email: dagomez@wutc.wa.gov

Dear Sirs and Madames,

The purpose of this letter is to describe for you the general plan that Kitsap Transit (KT) has, in concert with its private operator partner, Aqua Express (AE), and the public partner, the Port of Kingston to resume passenger only ferry (POF) service within the next two years.

The course of action I will describe, in terms of a service plan, is still based on KT's 2007 POF Plan, whose major premise is that service can only succeed if operated under a public-private partnership model, with the local government providing all the capital and between 30-40% of operating funds year in and year out. It is an unfortunate fact that the private operator experience in Kingston and in Bremerton clarifies this premise, especially the part about the requirement for the public agency to provide a substantial subsidy for operating costs.

KT does not expect that either AE, or Kitsap Ferry Company in Bremerton, will be able to resume service on their own without this additional level of support. In its turn, KT will not be able to provide this level of support until it is able to win an election for ongoing POF support funds for both capital and operations, at a level of at least three-tenths of a cent of sales tax. It is another unfortunate fact, after two failed sales tax elections, KT, as it is currently configured (in countywide form), would probably never be able to win an election to provide this level of funding for POF support.

KT's plan, at this point, which is shared with other local governments interested in providing POF service and with its private partners, is to seek legislation that facilitates the formation of an entirely separate POF district. KT and our partners believe that this effort will likely be able to come to fruition during the next session of the state Legislature, in early 2008. Drawing a smaller and almost exclusively urban POF-specific district should allow for ballot-box success.

Our analysis of the 2007 POF sales tax election, which we lost by a margin of 54% to 46% on a county wide basis, indicates that drawing service district lines more narrowly around cities and the other currently urbanized areas would produce a victory, by about that same eight percent margin. This analysis is based on election results, not poll results.

Our narrower, more near-term interest in this pleading is to be able, along with AE and the Port of Kingston, to keep in place the POF terminal in Kingston, which was built with a combination of public and private funds during the last effort to provide cross-Sound service from Kingston. The facility cost approximately \$1.5 million but with increases in the difficulty of obtaining approvals to build over-water facilities, any removal of the existing facility now, through the dissolution of the public-private partnership or otherwise, would lead later to a cost of at least as much as the original \$1.5 million to restore just the barge, pilings and gangway. In addition, there would be a multi-year delay in obtaining the needed permissions to restore the facility. Therefore, it is essential in our minds that the partners continue to collaborate with the blessings of all regulatory agencies to keep this set of dock assets in place.

I will readily grant you that the Kingston POF dock appears to be a simple, humble facility, but it is an extremely valuable to further POF service plans, in terms of both dollars and time.

Continuation of with AE's franchise rights does help in the continuation of this partnership structure and therefore the preservation of this dock facility.

AE and its partners could, at this point, sell the barge and gangway to salvage what value remains, but the success of the franchise guards its role in the partnership and works to preserve its investment, therefore helping all of us keep this facility in place.

We realize that this more complex arrangement may not meet the test of WUTC standards for simple resumption of franchise service by a private operator entirely with its own resources. However, we do have a partnership relationship with AE and we are quite satisfied that it meets the reasonable tests for a qualified private operator under the terms of our Joint Development Agreement partnership plan. AE was successful as an operator during its trial operating period, except for sufficient funds for continued operations, and AE will require the levels of subsidy for operations prophesied from the beginning. For external support as witness to our plan's premises, we would refer you to the San Francisco Bay Area, where several excellent programs (most notably the Vallejo to San Francisco POF service) have run under essentially the same model for as many as a dozen years. Again this is not a pure franchise model, but rather a partnership approach using the talents and assets of both the public agency and the private operator.

We are aware that AE has volunteered to step aside if another operator with sufficient financial backing to succeed in this venture in the interim (without a public partner) steps forward. We need to make it very clear that we do not see such a private partner on the horizon. Further, we do not, from our understanding of the industry, expect any such partner to ever appear.

There is another group that wishes to offer Kingston-Seattle POF service; the Kingston Express Association (KEA), but we do not view them as having anywhere near the strengths, in terms of

operating capability and financial backing, that AE has. We would therefore ask you to disregard the comments from the KEA group regarding AE. The KEA group has neither the operating experience nor the financial backing to be regarded as a legitimate alternative.

As we put these comments into the record, we also wish to offer that one or more of our principals will be at the June 14 pre-hearing on this subject and will be available to answer questions about the plans that we are describing here.

We apologize for not providing this information earlier. We had thought that the commission's focus was narrower than the scope of our entire partnership and plan and I believe that was simply a misunderstanding on our part. We stand ready to provide you with whatever additional information you may need to better consider AE's and KT's request.

Sincerely,

Richard M. Hayes
Executive Director
(360) 478-6230