SUFFOLK COUNTY LEGISLATURE

Gail Vizzini
Director

BUDGET REVIEW OFFICE

February 13, 2008

Honorable William J. Lindsay, Presiding Officer
and Members of the Suffolk County Legislature
William H. Rogers Building
725 Veterans Memorial Highway
Smithtown, New York 11787

Dear Legislators:

The enclosed report presents the Budget Review Office's analysis of the financial and statistical data presented by South Ferry, Inc. in support of its petition for rate increases.

The petition was submitted to the Suffolk County Legislature in conformance with the provisions contained in Section 131-g of the New York State Highway Law and Local Law No. 7-1982. In complying with these laws, the petitioner included the required financial statements audited by Certified Public Accountants, who have submitted satisfactory proof of peer review.

Since its last rate increase in 2004, South Ferry, Inc. has completed the $1,000,000 of payments on the first boat and has paid $899,057 of the $1,400,000 due on the second boat and has paid $302,328 on the account for the purchase of the third ferry.

The current application, which affects all categories other than the minimal walk on passenger fares, will generate approximately $764,500 in additional annual revenue, an annual 17.0% increase. The application seeks funds for the financing of a new $1,900,000 ferry, approximately $1,150,000 in capital projects and increased operating costs. Since March of 2004, the consumer price index has increased 14.66% through December 31, 2007.

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The Budget Review Office believes that rate relief is needed but that the South Ferry, Inc.'s proposal seeks to continue the practice of having the casual user bear a disproportionate share of the fare increase. We believe that the one-way fare should be increased $1.00 per trip and not the $2.00 per trip as requested. To compensate for this loss of revenue, the Resident Book of ten round-trip tickets should be increased not the twenty cents per ride as requested, but sixty five cents per ride. The five, six, and seven day commuter tickets which have the greatest use are increasing twenty to twenty five cents per ride. The per ride cost averages $2.20. The Budget Review Office recommends that the average per ride cost be increased fifty five cents to $2.75 per ride.

The report includes a summary of findings which highlights those areas we believe to be the most relevant and necessary for legislative deliberations. It is the opinion of the Budget Review Office based on the discussion in the report that Introductory Resolution No. 1029-2008 should be amended to delete the "not to exceed" language and COLA provision.

Very truly yours,

Gail Vizzini

Gail Vizzini, Director
Budget Review Office

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Review of

South Ferry, Incorporated

Petition for 2008

Rate Increase

February 13, 2008

Budget Review Office
Suffolk County Legislature
Hauppauge, New York

SOUTH FERRY, INCORPORATED
2008 RATE INCREASE

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Budget Review Office has reviewed South Ferry, Inc.'s petition for a rate increase in accordance with Part IV, Chapter 287 of the Suffolk County Code (Local Law No. 7-1982). The findings presented in this report are intended to aid the Legislature in its deliberations leading to an equitable decision for both the owners and the ridership of South Ferry, Inc. A summary of the most significant findings, conclusions and recommendations is presented below:

- South Ferry, Inc. continues to provide dependable and professional service to the Shelter Island community.

- South Ferry, Inc.'s duplex cash control system is sufficient to safeguard both the company's assets and protect the public's interest. The new electronic ticket system is not yet operational because of computer hardware issues.

- Petitioner has complied with the provisions of Chapter 287 of the Suffolk County Code (Local Law No. 7-1982) and has submitted the required certified audited financial statements made in accordance with generally accepted auditing standards. Proof of satisfactory peer review of the accountant has also been submitted.

- The company's overall financial condition continues to be good. Since 1997, South Ferry, Inc. has purchased two new ferries at a cost of $2,400,000. The "Southern Cross" was built in 1998 at a cost of $1,000,000 and the "Sunrise" was built in 2002 at a cost of $1,400,000. As part of this request, South Ferry, Inc. is seeking funds for a third new ferry with an estimated cost of $1,900,000. Once the third boat enters service in 2008, the company plans to retire one or two of their three remaining smaller boats. The two boats that the Company is considering retiring are the Captain Ed Cartwright built in 1932 and the North Haven built in 1948.

- South Ferry, Inc.'s ferry fleet will then consist of four vessels. Three 18 car boats and the Captain Bill Clark, a 12 car boat, which was refurbished as part of the 1997 rate increase.

- In accordance with established policy, the "Southern Cross" and the "Sunrise" are being depreciated using straight-line depreciation with a 20-year life.

- The petitioner's request to alter fares provides for an average total increase of approximately 17 percent above the current rates, which will provide approximately $764,500 in additional revenue.

- The last rate increase for South Ferry, Inc. was approved by Resolution No. 260-2004. Since March of 2004 through December 31, 2007 the consumer price index has increased 14.66%.

- When petitioner submitted the rate request petition in December 2007, there was insufficient information available on 2007 revenue and expenses. The unaudited 2007 revenue and expense data submitted by the South Ferry, Inc.'s accountant, projects a $100,000 loss from 2007 ferry operations.

- Petitioner's request seeks to continue the language in the rate structure that provides that fares are "not to exceed". South Ferry, Inc. is the only ferry of the seven ferries that the Legislature regulates that still has "not to exceed" language in its rate structure. The use of "not to exceed" language establishes only a ceiling for fares. The Budget Review Office recommends that the Legislature set a sum certain rate not merely an upper limit.

- The South Ferry, Inc. has also requested authority under Chapter 287 of the Suffolk County Code to alter its ferry rates by applying the Transportation Component of the Consumer Price Index. It is a Legislative policy decision whether or not to grant this request. However, the Budget Review Office cautions against permitting the application of any automatic increases, even if such increases are correlated to the CPI, because they are difficult to monitor. We believe rate increases should be made directly to the Legislature with appropriate justification.

- The extent of the rate relief granted is dependent upon the policy decisions made by the County Legislature.

REVIEW SCOPE

South Ferry, Inc. has submitted a petition to the Suffolk County Legislature to authorize an increase in its rates as provided by Section 131-g of the New York State Highway Law. The County Legislature is the governmental agency responsible for action on these requests. As staff to the Suffolk County Legislature, the Budget Review Office has been assigned the responsibility for reviewing the application and presenting its findings to the Legislature for consideration.

Pursuant to Chapter 287 of the Laws of Suffolk County, South Ferry, Inc. has submitted audited financial statements for the years ending December 31, 2005 and December 31, 2006, as attested to by a certified public accountant. For the years December 31, 2003 through December 31, 2004 the company has submitted reviewed financial statements. In accordance with Resolution No. 708-1994, the accountant has submitted documentation that his audit work has been reviewed and found satisfactory under the peer review requirements of the American Institute of Certified Public Accountants (AICPA).

The audited financial statements are intended to provide an independent, competent and objective presentation of South Ferry, Inc.'s past operating results and current financial standing. In addition to the audited financial statements, the company's outside auditor has provided this office with book estimates for 2007 revenue and expenses. For 2008, the company has provided projections of income and expenses.

The financial forecasts presented in this report are based on assumptions of future events and should not be construed as facts. During our review, we analyzed information we considered necessary and appropriate in evaluating the assumptions used in these forecasts. The assumptions may be affected favorably or unfavorably by future events. Therefore, the actual results achieved during the forecasted fiscal year may vary from forecasted estimates.

BACKGROUND AND ORGANIZATIONAL HISTORY

South Ferry, Inc. connects Shelter Island to the South Fork of Long Island by providing ferry service between Shelter Island and the Village of North Haven, a distance of approximately one-half mile. The corporation is privately owned by the Clark family, which has provided this ferry service since 1800.

On December 9, 2003, the County passed Resolution No. 1052-2003 which extended South Ferry, Inc.'s ferry license through the year 2008. The Legislature last granted a rate increase to the Company in 2004 (Resolution No. 260-2004). Unlike most other ferry companies, South Ferry, Inc. has a simple corporate structure. There are no subsidiary corporations. South Ferry, Inc. owns its ferryboats, docks, repair facilities, office, and land. This simplified

corporate structure avoids the payment of intercompany revenue and expenses and avoids any question as to whether or not transactions are at arm's length basis. South Ferry, Inc. has never paid a dividend to its shareholders.

South Ferry, Inc.'s management has demonstrated a commitment to reinvest in its business. Since the last rate increase, the Company has acquired two new 100-foot vessels the "Southern Cross" and the "Sunrise", and has contracted to purchase a third vessel. Management considers the Company to be its family legacy to be passed down from one generation to the next. Because of this philosophy, the officers of the corporation are involved in all aspects of the day-to-day operation of the business. The employees of the Company, who are not unionized, are, for the most part, long-term Shelter Island residents.

REVENUE AND EXPENSE ANALYSIS

Resolution No. 260-2004 granted South Ferry, Inc. a rate increase in March of 2004. During the period 2003 through 2006, South Ferry, Inc.'s total revenues from ferry operations showed continued growth. Revenue rose $730,805 or 21.7% from $3,357,699 in 2003 to $4,088,504 in 2006. There were two large increases $436,857 or 13.0 % between 2003 and 2004 when revenues increased from $3,357,699 to $3,794,556. This was due to both the 2004 rate increase as well as increased ridership. The 2005 revenues increased $552,279 or 16.4 % from the 2003 base. This large increase was due to the rate increase being in effect for a full year and increased ridership. While 2007 audited financial statements are not yet available, South Ferry, Inc. estimates that 2007 revenue will increase $91,991 to $4,180,495 because of increased ridership.

Operating expenses for ferry operations during the period 2003 through 2006 rose $573,632 or 16.4 % from $3,499,543 to $4,073,175. The Company, which is not unionized, continues the practice of having crews work nine hour shifts or forty-five hours per week. This policy results in five hours per week of overtime or premium salary even during the off-season. It does, however, allow the Company to have two shifts rather than three for each working day. It is the Company's position that this flexibility is needed for a smooth ferry operation. During the review period, salary expense increased $812,410 or 54 % from $1,500,312 to $2,312,722. This 54 % increase in salary was due to a number of items which included the hiring of three additional captains, consolidating officers and office salaries as part of wages, and cost of living increases.

The cost of fuel increased $126,327 or 126 % from $100,435 to $226,762. Depreciation increased $76,740 from $213,032 to $289,772. The majority of the increase in depreciation is due to the two new ferryboats. Depreciation is a non-cash item, reducing reportable income, which is used to expense the cost of assets having a useful life of more than one year. An applicant may use any approved method of depreciation for their financial statements and for income tax

purposes. Starting in 1988, the Legislature implemented a policy for rate setting proceedings requiring that ferry applicants use straight-line depreciation on capital assets and that the asset life of a vessel be at least 20 years. South Ferry, Inc. has complied with these requirements.

During the review period, income from operations, which is operating revenue less, operating expenses, was a loss of $141,844 in 2003; income of $92,368 in 2004; income of $59,531 in 2005; and income of $15,329 in 2006.

Reported net income from operations, after taxes, was a loss of $94,371 in 2003; income of $146,277 in 2004; $164,371 in 2005; $48,213 in 2006. In 2005, $105,209 of the net income is attributable to a tax refund of prior year's income taxes.

For 2007, the company projects total expenses of $4,281,375, which is $212,877 or a 5.2% increase over 2006 expenses of $4,068,498. Based upon the company's estimated 2007 revenue of $4,180,495, the company will show a $100,880 loss of which $222,944 is depreciation.

For 2007, the company estimates that ridership increased 2.25% and projects increased revenue of $91,991 or 2.3%. We concur with the company's cost and revenue projections for 2007.

POLICY ISSUES

There are a number of policy issues that the Legislature should consider in its deliberations on the rate request that South Ferry, Inc. has submitted. The issues include:

- Casual User Bears Disproportionate Share of Ferry Expense
- Thirty Percent (30%) Resident Truck Volume Discount
- New Ferry Boat
- Capital Projects
- Road Maintenance
- Dredging Expense
- Unearned Income
- Dead Heads
- Introductory Resolution No. 1029-2008

Casual User Bears Disproportionate Share of Ferry Expense

The company's proposed rate schedule continues three distinct discounted fares. These discounts are based on volume, residency, and commutation. The company estimates that the average actual cost per ride in 2006 was $5.05. Under the proposed rate structure, resident volume discounts for one-way tickets are at cost; non-resident volume discounts are 38.6% above

cost. The volume discounts for the resident round trip are 48.5% below cost and the non-resident volume discount is 15.8% below cost. The discounts for commutation tickets range from 56.2% to 57.0% below cost. These discounts are being subsidized by the one-way fare. The cost of a one-way fare under the proposed rate will increase $2.00 or 20.0% to $12.00. Based on a per ride cost of $5.05 each one-way ride provides a $6.95 subsidy and/or profit to the company. The cost of a one-way fare on the six-day commutation ticket will rise twenty five cents or 11.5% to $2.17, which requires this fare to be subsidized $2.88.

Thirty Percent (30%) Resident Truck Volume Discount

The proposed rate structure continues the 30% volume discount for trucks introduced in 2004. To qualify for a ten round-trip 30% discounted truck book, the business must meet all of the following requirements: 1) the corporate headquarters must be located on Shelter Island, 2) the corporate owner must be a full-time Shelter Island resident, 3) vehicles must have Shelter Island registration, 4) vehicles must be owned by the corporation meeting requirements in 1 and 2 above, and 5) tickets must be purchased through the South Ferry, Inc. Corporate Office.

This was a company policy decision to create a discount fare for trucks. The shift from a full fare to a discounted fare will affect revenues by an undetermined amount.

New Ferry Boats

South Ferry, Inc.'s 1997 rate increase was predicated upon the purchase of a new ferry. South Ferry, Inc. has not only purchased a $1,000,000 ferry, "The Southern Cross" it has paid off the note and now owns the boat outright. In 2002, the company built a second ferry the "Sunrise" for $1,400,000 on which the company has paid $899,057 through 2007. South Ferry, Inc. has entered into a contract dated April 26, 2007 for the construction and purchase of a third new ferry for $1,900,000. In addition to the purchase price, South Ferry, Inc. will be required to pay sales tax of 8.625% or $163,875. Contract payments on account for the purchase through 2007 total $302,328. The company believes that the construction of this new boat will help meet increased traffic and vehicle and truck size.

There is state legislation pending that, if approved, would exempt ferry companies from sales tax on the purchase of new boats because they are part of the public transportation system. Legislation was passed several years ago exempting ferries that were built because of 9/11 from sales tax, but this legislation has been narrowly interpreted and applies only to New York Waterways.

The acquisition of these two ferries and the building of a third ferry were business decisions of the company. The new boats have increased per trip carrying capacity of the South Ferry, Inc. fleet by approximately 60%. The design and extra horsepower of the new vessels has improved service in severe winter weather. As was discussed in our 1997 report, when ice clogged the channel, the three-minute crossing could take as long as three hours. With the new boats joining the fleet, the winter ice delays are a thing of the past.

With the addition of a third new ferry in 2008, South Ferry, Inc. plans to retire one or two of their three remaining smaller boats. The two boats that the company is considering retiring are the captain Ed Cartwright built in 1932 and the North Haven built in 1948.

Capital Projects

In addition to the purchase of a new ferry, South Ferry, Inc has submitted a five year Capital Plan which would provide approximately $1,150,000 in capital work as part of its rate request package. The proposed Capital Program includes the following:

Replace existing underground fuel tank – estimated cost $300,000. Since the 1950's, the company has maintained in-house fuel storage for its operation to avoid service interruptions during shortages and to order in bulk which has resulted in fuel cost saving. Because of an amendment in New York State regulations, the single walled fiberglass tank which the company installed in the 1980's must be replaced with double walled tank by January 1, 2010. The company has started the permit process and is in contract for the installation of a replacement tank in October 2008.

Maintenance Facility – estimated cost $400,000. As part of its 2004 rate proposal, the company had proposed replacement of the unheated 1800 cow barn and several outbuildings that are currently used for maintenance. Rising costs required South Ferry, Inc. to postpone undertaking this project. The company performs in-house repairs to boats, vehicles, equipment and facilities more cost effectively than out-sourcing the same service.

Expand & Roof Ferry Office – estimated cost $220,000. Funds will be used for a 20 x 30 foot extension and replacement of the existing roof. Office is used as a ticket office, customer service center and provides employees with rest rooms, storage space, lockers, and lunch room.

Rebuild Platforms - estimated cost $100,000 per platform. A vertically adjustable platform connects the road to the ferry boats in each slip. All four platforms will be rebuilt during the next decade to deal with the wear and tear of vehicle traffic and the corrosive salt water environment.

Spare Reverse Gear – estimated cost $25,000. The company has spare engines for all vessels. It does not have a spare reverse gear transmission for the Sunrise. This gear would also be compatible with the new boat under construction. An eight to 12 week delivery time delay is unacceptable.

Parking – estimated cost $30,000. Increased staff and customer base has created the need for additional parking and has become a safety issue which the company plans to address.

Replace Dump Truck – estimated cost $40,000. As part of its rate request, the company wants to replace 1980 dump truck that was used for hauling dredge, construction, brush removal, and general maintenance. The truck was scrapped because it was beyond economical repair.

Emergency Power Generator - estimated cost $30,000. The existing generator at the Shelter Island terminal can no longer provide sufficient power to operate the office, lights, platform, and gates. The company believes that there must be sufficient power to operate all emergency systems.

Road Maintenance

South Ferry, Inc. owns the land on both sides of Shelter Island Sound, which is used as part of its ferry operations. The channel between these two parcels of land is approximately ¼ of a mile over which the ferry carries cars. The ferry contends that this carrying of cars is a continuation of the highway, NYS Route 114, for which it receives no state or local funding. The state maintains the road up to the ferry docks.

Dredging Expense

As part of its operation, South Ferry, Inc. does its own dredging every year or two at a cost of $10,000 to $15,000. The company dredges the slips and the channel to provide safe navigable waters. This expense has always been allowed as part of the rate base and the company is able to dredge in a very cost-effective manner since it uses its own personnel, boats, and dredging equipment. In general, public funds may not be used to benefit a private individual or business. An argument could be made that South Ferry, Inc. provides public transportation and, as such, could meet the criteria for county dredging. However, the county could not dredge for as low a cost as the ferry company.

Unearned Income

In previous reports, unearned income was an issue. That is no longer the case; South Ferry, Inc. has discontinued its Christmas Prepaid Ticket Sales. Unearned income is no longer shown on the company's financial statements.

Dead Heads

The phrase “dead head” is a term of art in the transportation industry referring to those individuals who use the service and are not charged a fare. South Ferry, Inc. has two classes of “dead heads”. The first are the employees of South and North Ferry, Inc. of which there are approximately 40, and ten other individuals, which either have a business or personal relationship with South Ferry, Inc. South Ferry, Inc. estimates that this policy causes an estimated $6,000 loss in revenue annually.

Introductory Resolution No. 1029-2008

As part of its rate request application, South Ferry, Inc. has submitted a resolution implementing the company’s proposed rate request. The resolution contains language that the fares should “not exceed” a stated rate amount. Since 1998, the Legislature has not approved such language in an adopted resolution other than South Ferry, Inc. because such language sets a ceiling on what an operator could charge rather than a specific rate. The resolution should be amended to delete the “not to exceed” language eliminating any discretion as to what the rates should be.

INTERNAL CASH CONTROLS

- For many years the company has used a duplex ticket system. South Ferry, Inc. has been exploring the use of an automated cash collection system which will incorporate hand carried bar code readers and printers, similar to what is used at car rental agencies. The company believes that eliminating the charge for passenger fares was the first step to such a plan. Not charging for passengers simplifies the control of cash since it is easier to account just for vehicles. The company argues that it is selling space on the boat and a car with six passengers takes up the same amount of space as a car with only the driver.

- The new electronic ticket control is not yet operational because of computer hardware issues. The company is still trying to perfect a system that can function given the harsh elements that its boats must operate in.

CURRENT RATIO

The current ratio is a measure of liquidity and is the ratio of current assets to current liabilities. In order to assist the Legislature in its deliberations, an analysis of the current ratio is set forth in the attached Exhibit C. As can be seen from this schedule, the company’s financial position continues to be strong.

COLA PROVISION

As part of its petition, South Ferry, Inc. has requested authority to invoke the Cost of Living Adjustment (COLA) provision of Chapter 287(3) (I). Local Law No. 10-1986 amended Chapter 287 of the Suffolk County Code to provide for a COLA for the ferry companies regulated by the Legislature. The Law became effective April 1986. It provides that "Those ferry companies which elect to exercise the right to alter fares by applying the transportation component of the Consumer Price Index for all urban consumers - New York and Northeastern New Jersey must so notify the Clerk of the County Legislature in writing at least 60 days prior to the actual utilization of such index, or of such intention to use the index." The law was not specific as to the procedures that were to be used in approving a COLA adjustment.

The proceedings of the Legislature show that more than the passage of Local Law No. 10-1986 was needed to invoke the COLA provision. During 1987, two ferry companies were granted the right to invoke the COLA provision as part of their rate alteration resolutions. Resolution No. 220-1987 granted Fire Island Ferries, Inc. the right to use the COLA, and Resolution No. 1074-1987 granted Davis Park Ferry Co., Inc. COLA relief. The procedure utilized in 1987 was that as part of the ferry company's rate relief request, the company would request the right to use the COLA provision. If the Legislature agreed, a provision would be included in the resolution granting rate relief to permit COLA relief. It is our understanding that although Davis Park Ferry Co., Inc. had not requested the COLA provision, it was granted the privilege.

In 1988, there was a change in the Chairmanship of the Public Works Committee which was assigned the responsibility for reviewing ferry rate relief requests. The Chairman did not believe that ferry companies should be allowed to use a COLA provision. When South Ferry, Inc. filed a request for rate relief dated March 22, 1988, in the 12th paragraph they requested COLA relief. Resolution No. 671-1988 which approved their rates refers to Local Law No. 10 - 1986 in the 1st "Whereas Clause" but did not grant COLA relief in the resolved clauses.

In 1989, there were allegations that there were serious financial control problems at Fire Island Ferries, Inc. Because of these allegations, Fire Island Ferries, Inc. lost its COLA provision and cash controls became a legislative priority in the review of ferries. Davis Park Ferry Co., Inc.'s COLA provision was taken away when the Budget Review Office discovered in 1994 that the Davis Park Ferry Co., Inc. had raised their rates six times without notifying the Clerk of the Legislature as required. Since 1989, the Legislature has not granted COLA relief to any of the ferry companies that it regulates.

The COLA legislation is vague and since it has never been properly invoked, there are no procedures in place to address how the Legislature can

react to the filing of the 60 day notice. South Ferry, Inc. sought to invoke the COLA in December 2005 by filing the 60 day notice. This election, however, was not effective since there was no COLA provision in either company's license or rate structure.

The Legislative intent of Local Law No. 10-1986 indicates that the normal rate making procedure remains available if the Legislature finds it necessary to require the ferry company to document expenses. Since the Legislature can only act by resolution, if a legislator objected to the notice of a proposed fare increase, the remedy would be to file a resolution rejecting the COLA increase. If the resolution were approved, the COLA election would not be effective. If the ferry wanted an increase, a rate proceeding would be required. A rate proceeding requires a ferry to file a petition, and provide audited financial statements for the last two years and be subject to a public hearing as required by Chapter 287 of the Suffolk County Code

It is not clear if Local Law No. 10-1986 contemplated some other type of review. There is no explanation as to what the review would entail. The legislation is silent and does not define: 1) the extent of the review, 2) whether certified financial statements are required, 3) whether a public hearing is required and 4) the time frame of the review. There needs to be a consensus on these issues prior to the Legislature considering a COLA provision so that both the ferry and the Legislature are cognizant of the consequences

The theoretical merits of a COLA provision are offset by the problems of implementation and enforcement. The Budget Review Office does not support granting South Ferry, Inc.'s request for COLA relief. South Ferry, Inc. had tried in 2005 to implement the COLA increase and had collected approximately $6,000. When informed by Legislative Counsel, that they did not have the authority to implement the COLA, the company discontinued its use.

REQUESTED RATES

South Ferry, Inc.'s rate petition involves an approximate 17% increase in revenues. The company proposal continues elimination of charging for vehicle passengers and continues to charge a flat fare for all cars no matter how many passengers they contain. This change in methodology in 2004 was a major policy decision by the company. In order to continue to provide funding for the approximate $350,000 loss in passenger revenue and the revenue needs described above, the company requested a $2.00 or 20.0 % increase in the one-way fare, increasing it to $12.00. In addition, the cost of a book of ten one-way resident tickets would increase by $5.00 or 11.1% to $50.00 and the ten one-way non-residents would increase $8.00 or 12.9% to $70.

The round trip car and driver fare would increase by $3 or 25 percent to $15. Discounted roundtrip booklets are also increased. A book of ten resident

round trips would increase $5.00 or 10.6% to $52.00. A book of ten, non-resident round trips would increase by $13 or 10.4% to $85.

In addition, a commuter five-day ticket is increased by $2 to $22 or 10.0%, and the six-day ticket is increased by $3 to $26 or 13.0%. The seven-day commuter ticket increases $3 to $31 or 10.7%.

The company has also requested increases in its commercial vehicle rates ranging from a 55 percent decrease to a 37.5 % increase (see Exhibit A). The company has requested the continuation of the resident truck discount book, which provides for a 30 % discount. The company has also proposed a three year phase in of the increase for small Haz-Mat, Gas, propane etc. In our view it would be a bad precedent to provide an automatic increase in rates because of the passage of time. If the Legislature accepts this precedent, there is the potential for entire rate structures to be based on the passage of time. In addition, if South Ferry, Inc. succeeds in keeping the “not to exceed” language, they would be able to phase in an increase without legislative approval.

The requested rate structure continues to charge the one-way casual user disproportionately more. Under the proposed 2008 rate structure, a one-way trip with the six-day commuter ticket will cost $2.17 per trip, while the one-way ticket would cost $12.00.

The rate request also increases the fares for bicycles and motorcycles. The one-way fare for a bicycle increases $1.00 or 33.3% to $4.00 and the motorcycle rate increases $1.00 or 16.7% to $7.00. Round trips for bicycles increase $1.00 or 20% to $6.00 and round trips for motorcycles increase $1.00 or 14.3% to $8.00.

There should be a defined relationship between the cost of a commuter ticket, the one-way fare, and the round-trip fare. Individuals should be entitled to a discounted fare for volume purchases, but there should be a direct relationship between the benefit and cost. The following table compares the per ride cost of the company’s proposed rate request for the various car and driver categories. The chart also details the contribution of revenue and the volume of each category. As can be seen from the table below, there are four fare categories which constitute 83.0% of all revenues; 36.3% is from the one-way cash sale, 23.9% is from the cash round-trip ticket, 10.6% is from trucks, and 12.2% is from commutation tickets. The table shows that the cash one-way car constitutes the largest percentage of revenue, 36.3%, with a potential volume or trips of 148,413. The cash round-trip constitutes 23.9% of the revenue and 166,192 of the potential volume or trips. The three commutation tickets constitute 12.2% of the revenue, or a little less than 1/3 of the cash one-way fare and with 251,710 trips are almost twice the potential volume or trips of the cash one-way ticket.

There has been much discussion on Shelter Island as to the need for additional ferries because of the bridge traffic. Bridge traffic is one of the elements of the congestion but both round trips and commutation tickets have a greater volume. The traffic associated with commuter tickets is concentrated during rush hour between 7 to 9 in the morning and 5 to 7 in the evening.

Fare Category	2006 Revenue	2006 % of Revenue	Volume	Proposed Rates	Per Ride
ONE WAY					
Car	$1,484,127	36.30%	148,413	$ 12.00	$12.00
Book 10 Non-Resident	49,062	1.20%	7,913	70.00	7.00
Book 10 Resident	102,214	2.50%	22,714	50.00	5.00
Same Day Round Trip					
Car	977,153	23.90%	166,192	15.00	7.50
Book 10 Non-Resident	220,779	5.40%	57,345	85.00	4.25
Book 10 Resident	286,195	7.00%	121,785	52.00	2.60
Commutation Tickets					
Five-Day	347,524	8.50%	173,762	22.00	2.20
Six-Day	106,301	2.60%	55,464	26.00	2.17
Seven-Day	44,974	1.10%	22,484	31.00	2.21
Foot Passengers					
Each Way	4,088	0.10%	4,088	1.00	1.00
30 trip Non-Resident	4,088	0.10%	4,920	25.00	0.83
30 trip Resident	4,088	0.10%	7,230	17.00	0.57
Bicycles					
One Way	4,088	0.10%	1,363	4.00	4.00
Round Trip	4,088	0.10%	1,636	6.00	3.00
Bumper Rack 1 way	-	-	-	2.00	2.00
Motorcycles					
One Way	8,177	0.20%	1,168	7.00	7.00
Round Trip	8,177	0.20%	2,044	8.00	4.00
Trucks					
One Way & Round Trip	433,381	10.60	-	Various	25.43
TOTAL	$4,088,504	100.0%			

An approved ferry rate is the maximum rate that the company may charge a ridership class. All members of a class should be charged the same fare. Any discounted fare is a subsidized fare. As has been discussed in previous Shelter Island Ferry, Inc. reports, the one-way casual user is heavily subsidizing ferry operations. Since 1988, the cost of the one-way fare will have increased $7.50 or 166.6 percent from $4.50 to $12.00 if the revised fare structure is approved. A one-way trip on the six-day commuter ticket will increase $.25 from $1.92 to $2.17 or 13 percent. The one-way trip on the round-trip ticket will increase from $6.00 to $7.50 or 25 percent. As the above chart shows, there are more than sufficient discounted fares available to the frequent user of the service.

CONCLUSIONS AND RECOMMENDATIONS

The rate application of South Ferry, Inc. should be judged on its merits. The company continues to provide a vital public service in a professional manner. The 17 percent in rate relief is justified by the company's decision to purchase a third $1.9 million ferry, its planned approximately $1,150,000 in capital projects, and the increase in costs that have occurred since the company was last granted relief in 2004. Although the request of 17 percent may seem excessive, it must be reviewed in the context of South Ferry, Inc.'s objectives. Since March of 2004 through December 31, 2007, the consumer price index has increased 14.66%. Our concern with the request is with the source of the revenues.

In 2004, the Budget Review Office supported the concept of eliminating the passenger fare for vehicles but we did not concur with distributing the cost primarily to the cash one-way fare and holding harmless the other fare categories. All fare categories benefited by not being charged for passengers but only the one-way fare bore the brunt of the cost. This equity issue needs to be addressed.

In 2006, the car and driver categories which consist of the one-way, same day round-trip, and commutation tickets represented 88.5% of total company revenue. The fare structure should provide an equitable distribution of costs to these three categories because they require the same amount of deck space and vary only to the extent to which the fares are discounted. The Budget Review Office makes the following recommendations: 1) the one-way cash fare be increased $1.00 instead of the $2.00 requested, 2) the per trip cost for the book of ten resident round-trip tickets be increased $.65 to $3.00, 3) the per-trip cost of the three commutation tickets be increased approximately $.58 to $2.75 per ride. As shown on the above table, we believe these tickets at the proposed level are deeply discounted.

The company estimates that the cost to transport a car and driver is $5.05. Based upon this estimated cost, the proposed ten round-trip resident book is contributing only $2.60 towards the average actual $5.05 cost and is subsidized $2.45. Increasing this per trip cost to $3.00 will reduce the subsidy to $2.05 which is still 40 percent below the cost to provide the service. Based on the Budget Review Office recommendation, the cost of the Shelter Island Resident Ten Trip book would be increased an additional $8.00 to $60.00 for a $13.00 total increase from the $47.00 now charged. Based upon the 2006 rider ship the BRO fare would generate $79,160 more in revenue from the $286,195 that was collected in 2006 and $48,714 more than the company request.

The proposed commutation per trip cost ranges from $2.17 for the six day, $2.20 for the five day, and $2.21 for the seven day commutation ticket. It is our opinion that these three commutation tickets should be increased to $2.75 per ride. This would generate $139,879 in additional income. The commutation tickets should be increased as follows: Five Day Commutation Ticket by $7.50 to $27.50, Six Day Commutation Ticket by $10.00 to $33.00 and Seven Day Commutation Ticket by $10.50 to $38.50. Although the percentage increases range from 37.5 % to 43.5%, the increases per ride are a minimal 58 cents for

the six day, 55 cents for the five day, and 54 cents for the seven day. The reason that the percentage increase seems so high is that the base fare is very low and any increase is a large percentage increase.

The one-way casual fare should not continue to be used to subsidize an inequitable fare structure. We believe it would be more equitable to raise this fare $1.00 and to increase the Shelter Island ten trip resident book and the five, six, and seven day commuter tickets. By increasing these fare categories, the $1.00 reduction to the one-way ticket is more than offset.

For the reasons stated in the report, Introductory Resolution No. 1029-2008 should be amended to delete the “not to exceed” language, the three year phase in of the “Small Haz-MAT, Gas, Propane, Etc. Truck Rate”, and the “COLA” provision. In addition to the reasons set forth in the report, the “not to exceed” language is inequitable because only one ferry would have the ability to unilaterally charge less than the adopted rate schedule.

At the time the South Ferry, Inc. had prepared its rate alteration petition, the 2007 revenue and expense information was not available. At our request the company’s independent accountant has submitted estimates of the total revenue and expenses for 2007. Based upon the data, there is an estimated increase of 11.6% in expenses and ridership will remain at their current levels. We concur that the accountant’s estimates are reasonable.

The specific rate increases requested by the petitioner and recommended by the Budget Review Office are summarized in Exhibit A." Our recommended fare structure will provide the company with approximately $40,000 in additional revenue.

EXHIBIT A

SOUTH FERRY, INC. RATE SCHEDULE

Category	Current	Petitioner's Request	Percent Increase	BRO Recommended	Percent Increase
ADULT					
One Way					
Car	$10.00	$12.00	20.0%	$11.00	10.0%
Book 10	$62.00	$70.00	12.9%	$70.00	12.9%
Book 10 –R	$45.00	$50.00	11.1%	$50.00	11.1%
Round Trip					
Car and Driver	$12.00	$15.00	25.0%	$15.00	25.0%
Book 10	$77.00	$85.00	10.4%	$85.00	10.4%
Book 10 –R	$47.00	$52.00	10.6%	$60.00	27.7%
Foot Passenger					
One Way	$1.00	$1.00	0.0%	$1.00	0.0%
30 One Way	$25.00	$25.00	0.0%	$25.00	0.0%
30-One Way – R	$17.00	$17.00	0.0%	$17.00	0.0%
Commuter Tickets					
5-Day	$20.00	$22.00	10.0%	$27.50	37.5%
6-Day	$23.00	$26.00	13.0%	$33.00	43.5%
7-Day	$28.00	$31.00	10.7%	$38.50	37.5%
Bicycles					
One Way	$3.00	$4.00	33.3%	$4.00	33.3%
Round Trip	$5.00	$6.00	20.0%	$6.00	20.0%
On Bumper Rack – Each Way	NEW	$2.00	-	$2.00	-
Motorbikes					
One Way	$6.00	$7.00	16.7%	$7.00	16.7%
Round Trip	$7.00	$8.00	14.3%	$7.00	14.3%
Other Vehicles					
Standard Trucks					
Up to 20'-one way	$10.00	$13.00	30.0%	$13.00	30.0%
Round trip	$15.00	$18.00	20.0%	$18.00	20.0%
20' to under 40' One Way	$10.00 + .50 per foot	$13.00 + .50 per foot	21.2%	$13.00 + .50 per foot	21.2%
40' & longer - 1 way	Tractor trailer rates	Tractor trailer rates	Varies by length	Tractor trailer rates	Varies by length
Dump Truck					
Under 23 feet					
One Way	$12.00	Standard Truck Rate	8.3%	$12.00	8.3%

Category	Current	Petitioner's Request	Percent Increase	BRO Recommended	Percent Increase
Round Trip	$24.00	Discontinued	N/A	$24.00	N/A
23' to under 30'					
One Way - Full	$50.00	$60.00	20.0%	$60.00	20.0%
One Way – Empty	$25.00	$30.00	20.0%	$30.00	20.0%
Round Trip	$80.00	Discontinued	N/A	Discontinued	N/A
30' & up					
One Way - Full	$60.00	$65.00	8.3%	$65.00	8.3%
One Way – Empty	$35.00	$45.00	28.6%	$45.00	28.6%
Round Trip	$95.00	Discontinued	N/A	Discontinued	N/A
Over 23' Empty					
One Way	$25.00	Discontinued	N/A	Discontinued	N/A
Round Trip	$50.00	Discontinued	N/A	Discontinued	N/A
Low Sided	Standard Truck Rate	Standard Truck Rate	8.3%	Standard Truck Rate	8.3%
Roll-off Carting					
One Way	$50.00	Discontinued	N/A	Discontinued	N/A
Round Trip	$80.00	Discontinued	N/A	Discontinued	N/A
Tractor-Trailer or Flatbed in Tow					
< 40 feet	Standard Truck Rates	Standard Truck Rates	8.3%	Standard Truck Rates	8.3%
40' & > Heavy					
One Way	$55.00	$60.00	9.1%	$60.00	9.1%
Round Trip	$85.00	$110.00	29.4%	$110.00	29.4%
40' & > Light					
One Way	$35.00	$40.00	14.3%	$40.00	14.3%
Round Trip	$50.00	$60.00	20.0%	$60.00	20.0%
Under 40'	Standard Truck Rates	Standard Truck Rates	8.3%	Standard Truck Rates	8.3%
Tankers					
Fuel/Heating					

Category	Current	Petitioner's Request	Percent Increase	BRO Recommended	Percent Increase
Oil; Non-Hazmat, Waste Oil; Septic, etc.					
One way	$50.00	$55.00	10.0%	$55.00	10.0%
Round Trip	$75.00	$85.00	13.3%	$85.00	13.3%
Water					
One way	$60.00	$60.00	0.0%	$60.00	0.0%
Round Trip	$95.00	$110.00	15.8%	$110.00	15.8%
Gasoline/Propane					
One way	$55.00	$65.00	18.2%	$65.00	18.2%
Round Trip	$110.00	Discontinued	NA	Discontinued	NA
Standard Bulk					
Non-Hazmat; Fuel; Heating Oil Septic, etc.					
>2,000 gallons					
One way	$25.00	$30.00	20.0%	$25.00	0.0%
Round Trip	$40.00	$45.00	12.5%	$45.00	14.3%
< 2,000 gallons					
One way	$25.00	$13.00	-48.0%	$13.00	-48.0%
Round Trip	$40.00	$18.00	-55.0%	$18.00	-55.0%
Hazardous Cargo					
One way	$35.00	$45.00	28.6%	$45.00	28.6%
1 year Anniversary		$55.00			
2 year Anniversary		$65.00			
Round Trip	$70.00	Discontinued	NA	Discontinued	NA
Buses					
a) Coach					
One Way	$50.00	$55.00	10.0%	$55.00	10.0%
Round Trip	$80.00	$110.00	37.5%	$110.00	37.5%
Others					
Under 22'					
One Way	$15.00	$15.00	0.0%	$15.00	0.0%
Round Trip	$25.00	$30.00	20.0%	$30.00	20.0%
22' to under 30'					
One Way	$20.00	$25.00	25.0%	$25.00	25.0%
Round Trip	$40.00	$50.00	25.0%	$50.00	25.0%
30' & over					
One Way	$40.00	$35.00	-12.5%	$35.00	-12.5%
Round Trip	$60.00	$70.00	16.7%	$70.00	16.7%

Category	Current	Petitioner's Request	Percent Increase	BRO Recommended	Percent Increase
Specialty Trucks					
Redi-mix; Sheetrock; Block; Roll –On Large Loaded Lumber Truck, etc					
One Way Full	$55.00	$65.00	18.2%	$65.00	18.2%
One Way Empty	$30.00	$40.00	33.3%	$40.00	33.3%
Round Trip	$85.00	Discontinued	-	Discontinued	-
Under 30" & over 30,000 MGVW					
One Way	$35.00	$40.00	14.3%	$40.00	14.3%
Round Trip	$50.00	$60.00	20.0%	$60.00	20.0%
Motor crane; Concrete; Pumper					
One Way	$60.00	$70.00	16.7%	$70.00	16.7%
Round Trip	$120.00	Discontinued	NA	Discontinued	NA
Heavy Back Hoe Payloader Etc.					
One Way	$30.00	$35.00	16.7%	$35.00	16.7%
Round Trip	$60.00	Discontinued	NA	Discontinued	NA
Light Back Hoe Payloader, Etc. Concrete Forms Truck : No Boom					
One Way - Full	$30.00	$35.00	16.7%	$35.00	16.7%
One Way – Empty	$15.00	Standard Truck Schedule	8.3%	Standard Truck Schedule	8.3%
Round Trip	Standard Truck Schedule	Discontinued	-	Discontinued	-

EXHIBIT B

SOUTH FERRY, INCORPORATED

COMPARATIVE INCOME STATEMENT

	2006	2005
Operating Revenue	$4,088,504	$3,909,978
Other Income	11,085	5,632
Gain on Sale of Assets	128	14,009
Insurance Income	-	3,875
Cruise Income	25,695	12,583
Rental Income	8,914	7,368
Interest & Dividend Income	26,209	19,588
Tax Refund	-	105,209
Total Income	$4,160,535	$4,078,242
Cost Of Operations:		
Cost of Goods Sold	2,539,484	$2,326,047
Deferred Compensation Insurance	10,981	10,981
Operating Expenses	1,533,691	1,524,400
Total	4,084,156	3,861,428
Income Before Taxes	$76,379	$216,814

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EXHIBIT C

SOUTH FERRY, INCORPORATED

CURRENT RATIOS

	December 31, 2006	December 31, 2005
Current Assets (a)	$706,711	$860,764
Current Liabilities	$485,189	$244,971
Working Capital	$221,522	$615,793
Current Ratio	0.5 to 1	2.5 to 1

(a) Assets are shown as presented on the company's audited financial statements.

EXHIBIT D

SOUTH FERRY, INCORPORATED
2008 REVENUE PROJECTION

	2006 Actuals	Petitioner 2007 Estimated Income	Petitioner 2008 Requested Rates	BRO 2008 Recommended Rates
Revenue**/a**	$4,088,504	$4,180,495	$4,735,456	$4,775,636
Other Income//**b**	72,031	50,000	50,000	50,000
Total Income	4,160,535	4,230,495	4,785,456	4,825,636
Expenses**/c**				
Operating	1,243,919	987,225	1,011,905	1,011,905
Cost of Goods Sold	2,539,484	2,433,371	2,494,205	2,494,205
Deferred Compensation				
Insurance	10,981	10,981	10,981	10,981
Depreciation	289,772	222,944	352,352	352,352
Total Expenses	4,084,156	4,281,375	4,781,987	4,781,987
Income (Loss)	$76,379	($50,880)	$3,469	$ 43,649

a/ 2007 estimated revenue projected growth is 2.25%. No growth is projected for 2008. Rates for 2008 anticipated going into effect on May 1, 2008.

b/ Other income in 2008 includes interest, rental income, and sundry income. .

c/ The Expenses for 2008 include $352,352 of depreciation and $208,390 of interest expense. For illustrative purposes, depreciation, which is a non-cash item, is shown as a separate item. Depreciation on the three ferries has become a material item it is not a cash outlay but is used to pay debt service payments.