

SUFFOLK COUNTY LEGISLATURE



Gail Vizzini
Director

BUDGET REVIEW OFFICE

June 4, 2012

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

Dear Legislators:

The enclosed report presents the Budget Review Office analysis of the financial and statistical data presented by South Ferry Company, Inc. in support of its petition for a rate increase in 2012. Procedural Resolution No. 10-2012 authorizes the public hearings for the rate approval, and if adopted, Introductory Resolution No. 1400-2012 would approve the requested rate increases.

The Budget Review Office conducted a thorough review of the certified and audited financial statements which were prepared by an accountant with satisfactory peer review status. South Ferry Company, Inc. last received a rate increase in 2008. Rate increases are requested in almost all fare categories; the average increase is 12.02%. The largest requested increase, of 18.2 %, is for the coach bus fare, which increases from \$55.00 to \$65.00. The casual traveler and commercial truck traffic continue to subsidize resident travel as they have historically, and as is typical for ferry and bridge travelers in the region; the petition raises resident rates, but raises casual traveler fares more.

The Budget Review Office recommends that the applicant's request for a rate increase be approved. Given the company's financial statements and projections, the rate increase is reasonable, especially given rising costs for fuel, personnel and health insurance expenses, attrition in ridership, and the need for capital improvements to the vessels and landings. We do however, believe that the passenger surcharge should be either granted separately, or that the revenues from this new fare should be dedicated to the capital improvements.

Our summary of findings highlights those areas we believe to be most relevant and necessary for legislative deliberation. My staff and I are available should you have questions regarding this report.

Very truly yours,

Gail Vizzini

Gail Vizzini, Director
Budget Review Office

Review of **South Ferry Company, Inc.**

**Petition for 2012
Rate Increase**



June 4, 2012

**Prepared for the Suffolk County Legislature
by Craig Freas, Senior Legislative Analyst**

**Budget Review Office
Suffolk County Legislature
Smithtown, New York 11787**

Analysis of South Ferry Company, Inc.

Petition for Rate Alteration

Summary of Findings

- South Ferry Co., Inc. continues to provide a vital transportation service in a professional manner between North Haven, NY and Shelter Island Heights, NY.
- South Ferry Co., Inc.'s cash control system is sufficient to safeguard the company's assets and protect the public's interest.
- South Ferry Co., Inc. has complied with the provisions of Chapter 455 of the Suffolk County Code including submission of the required certified audited financial statements by an accountant providing proof of satisfactory peer review.
- The last time South Ferry Co., Inc. received approval for a rate increase was 2008.
- South Ferry Co., Inc. filed a petition dated April 17, 2012 seeking an alteration to car fare rates and to add a \$1.00 per passenger charge to the rate schedule. The requested rate relief increases fares an average of 12.02%, and also restructures the truck rates to accommodate more vehicles below 21' in the standard truck rates.
- According to the audited financial statements and financial projections submitted by the petitioner, a combination of rising fuel costs, declining traffic, and a need to assure safe and continuous service through capital improvements have resulted in increasing year over year financial losses in 2010 and 2011.
- The rate relief should be granted, based on the operating losses from continuing volatility in fuel costs, decreasing ridership, increasing costs of sales and a need to assure safe and continuous service through capital improvements.
- Revenues from the new passenger-in-vehicle fee should be dedicated to the capital program.

Scope of Report

All ferry service operators who transport passengers and/or freight across bodies of water within the boundaries of Suffolk County are required to obtain a license and rate approval from the Suffolk County Legislature in accordance with Chapter 455 of the Laws of Suffolk County as authorized by Section 131-g of the Highway Law, Article 8 of the Navigation Law and Article 6 of the Transportation Corporations Law.

South Ferry Co., Inc. submitted a petition dated April 17, 2012 to the Suffolk County Legislature seeking authorization for an increase in its rates as provided for by Section 131-g of the New York State Highway Law and detailed in Introductory Resolution 1400-2012. The County Legislature is the governmental agency responsible for action on this request. The Budget Review Office is responsible for reviewing the application and presenting its findings in a report to the Legislature for their consideration.

The intent of the Suffolk County Ferry Law is to assure “continuous and adequate ferry service in Suffolk County”. The license granted by the County is not exclusive; non-exclusive licenses may be granted to as many service providers as it deems necessary.

Pursuant to Chapter 455 of the Laws of Suffolk County, applicants must submit audited financial statements for the previous two years of operation. South Ferry Co., Inc. has submitted audited financial statements and supplementary information for two years operations occurring from January 1, 2010 through December 31, 2011. Markowitz, Fenelon & Bank is the accounting firm that audited the financial statements. They have provided documentation indicating that they have been peer reviewed within the last five years, in accordance with Chapter 455-3 (D) of the Suffolk County Code.

Audited financial statements are intended to provide an independent, competent, and objective presentation of operations. Any financial forecasts presented in this report are based upon assumptions of future events and should not be construed as facts.

The methodology used in our review includes an evaluation of the assumptions used in the applicant’s forecast of revenue and expenses and an analysis of the submitted financial statements and revenue projections, records of ridership volume, and comparisons with the current rates. We also toured the petitioner’s fixed place of business on Shelter Island, and the petitioner reviewed cash control procedures with us.

Analysis of South Ferry Company Incorporated

The findings presented here are intended to aid the Legislature in its deliberations on the rate alterations requested by South Ferry Co., Inc.

The Petition Seeking Rate Relief

The petition submitted by South Ferry Co., Inc. dated April 17, 2012, indicates that the company is a for-profit transportation corporation that has been organized under the Transportation Corporation Law of the State of New York. It has been and remains in good standing under the law and is authorized and licensed to operate a vehicle and passenger ferry between North Haven, New York and Shelter Island, New York. The petitioner is applying for alteration of its present fare structure as previously authorized via Resolution No. 145-2008, approved March 27, 2008. The current petition seeks to increase and restructure rates for most of the trips provided.

According to the April 2012 petition, the operating and capital needs of the Company have led the petitioner to request rate relief. The Company has stated that the combination of rising fuel costs, declining traffic, and a need to assure safe and continuous service through capital improvements have resulted in increasing year over year financial losses in 2010 and 2011.

South Ferry has submitted a five year capital plan with the petition, which proposes approximately \$1.3 million in various improvements to its vessels and sites, including rebuilding of the North Haven Ramps; additional parking at the North Haven landing; installation of a fuel tank for vessel fueling; purchase of a backup engine, and refit of another backup; replacement of an obsolescent generator used to power the Shelter Island platforms and as backup power for the office; and large scale refit and repair to the ferry boats themselves. More than half of the proposed capital improvement budget includes projects critical enough to be scheduled for execution in 2012 and 2013.

The Company believes they will continue to suffer operating losses in 2012 and beyond without rate relief, and that the risk of service interruptions in the absence of the planned capital improvements is significant enough to warrant the requested rate increase.

Comparison of Current and Proposed Rates

The following table illustrates proposed alterations to the ferry rates and fares as included in the current petition. Included below are rate changes that effect more than 84% of sales.

PROPOSED FARE STRUCTURE

| CATEGORY | CURRENT FARE | PROPOSED FARE | PERCENTAGE CHANGE |
|---|---------------------|----------------------|--------------------------|
| <u>Cars, vans & 4-wheeled pickup trucks under 21'(*)</u> | | | |
| One way | \$12.00 | \$14.00 | 16.66% |
| Round trip (same day) | \$15.00 | \$17.00 | 13.33% |
| <u>10 round trip car book</u> | | | |
| General public | \$85.00 | \$98.00 | 15.29% |
| Shelter Island resident(*) | \$52.00 | \$60.00 | 15.38% |
| <u>10 one way car book</u> | | | |
| General public | \$70.00 | \$80.00 | 14.28% |
| Shelter Island resident(*) | \$50.00 | \$57.00 | 14.00% |
| <u>Workers commutation ticket(*)</u> | | | |
| 5-day | \$22.00 | \$25.00 | 13.63% |
| 6-day | \$26.00 | \$30.00 | 15.38% |
| 7-day | \$31.00 | \$36.00 | 16.12% |
| <u>Passengers(*)</u> | | | |
| In vehicles without a Shelter Island resident ticket(*) | \$0 | \$1.00 | New fare (*) |
| 30-trip book (general public) | \$25.00 | \$22.00 | -12% |

The average non-weighted rate increase for all fares is 12.02%. The maximum increase is 20%; the minimum increase is a 7.69%. There is a reduction of 12% on the 30 trip non-resident book. South Ferry's petition requests rates "not to exceed" the requested rates, to maintain some price flexibility.

The petitioner's current fare structure contains 52 different rates among 16 categories (Exhibit A). In the petition, truck rate categories are simplified, and the standard truck rates are increased. There are also increases to nine rates within the Cars and Commuter rates fare categories; the increase averages 14.9%, shown above; the weighted average within these categories is approximately 12%. A \$1.00 per passenger charge is added to the rate schedule in the petition; Shelter Island residents are exempt. According to the South Ferry Co., Inc. projections, the total of these proposed increases would equate to additional revenue of approximately \$820,000 annually based upon 2011 revenues of approximately \$4.46 million.

Financial Statements

South Ferry Co., Inc. submitted audited financial statements for the years ending December 31, 2010 and December 31, 2011. The financial statements were audited by Markowitz, Fenelon, and Bank, LLP; their last peer review was in 2009.

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 the forecasted results.

The Company's most recent balance sheet for the year ended December 31, 2011 shows assets and liabilities of \$3,845,025. The assets consist of current assets, property, plant, and equipment (net of accumulated depreciation), and deferred taxes and deposits. Property, plant, and equipment represent the majority of assets at about \$2.65 million. Liabilities and stockholder equity consist of current liabilities, long term liabilities and stockholder equity of which the vast majority is mortgage notes payable of \$1.6 million, and retained earnings of a little more than \$2 million since the last rate relief petition.

The Statements of Income for South Ferry Co., Inc. show operational losses in both 2011 and 2010, with a net income loss in 2011 of approximately \$71,000, and a commensurate decrease in equity. Note that 2010 net income was \$4,423 on more than \$4.6 million in sales.

Without rate relief, and assuming that the critical portions of the capital plan moved forward, operating losses may be expected to be continue in 2012, with greater annual losses in 2013 and beyond, even without continuing volatility in fuel prices.

Cash Controls

South Ferry Co., Inc. continues to utilize the cash controls in place in 2008, when they last petitioned for rate relief, using a duplex ticketing system. The company attempted to institute an electronic system for ticketing, but found the physical ticket receipts for passengers were not robust enough for the weather conditions on an open deck ferry. As in the previous review, cash controls were found to be sufficient to safeguard both the company's assets and the public's interest.

Introductory Resolution 1400-2012 and Procedural Motion 10-2012

As part of the rate setting process, one Introductory Resolution and one Procedural Motion are before the Legislature concerning South Ferry. Procedural Motion Resolution No. 10-2012 sets the public hearing for the granting of the rate alterations, and Introductory Resolution No. 1400-2012 approves the new rates. Introductory Resolution No. 1400-2012 contains the entire rate schedule for all fare categories including both the current and proposed rates for the rates the petitioner seeks to modify.

Conclusion and Recommendation

Our analysis of South Ferry Co., Inc.'s petition for rate relief encompasses several perspectives. Rates should reasonably reflect operation costs without being excessive and should provide sufficient revenue for the business to be a going concern. Typical margins for ferry businesses range from 10-20% worldwide. If ridership is maintained at 2011 levels, the increase in revenue projected from the requested rate increase is in this range. If ridership improves significantly, to pre-recession levels, profit may be in excess of this range with the new rates.

While we support the request for rate relief, we believe that revenues from the surcharge on vehicle passengers should be dedicated to capital plan. The requested rate increase, which we support, does not eliminate the risk of loss but significantly mitigates the risk for loss. Our support for the requested rate increase should in no way be deemed as validation that the petitioner's requested changes are optimal.

It should also be noted that South Ferry, like its counterpart on the northern crossing to Shelter Island, acts as an extension of a public road (NYS Route 114) and is intrinsic to the economic life of Shelter Island. New York State, and particularly Suffolk County, is unusual in the use of fully private companies for ferry service; most of the ferries in the United States are public services, public benefit corporations, or concessionaires operating along a public route. No Suffolk County Ferry receives any public augmentation to farebox revenues to support capital improvements or to mitigate costs for the proprietors. Although the ferries of the County, especially the two Shelter Island Ferries, are run to a significant public benefit, the proprietors of these companies bear all the risk.

Appendix A—Proposed 2012 Rates for South Ferry

SOUTH FERRY PROPOSED 2012 RATES

| <u>CATEGORY</u> | <u>CURRENT FARE</u> | <u>PROPOSED FARE</u> | <u>PERCENTAGE CHANGE</u> |
|---|--------------------------------|---------------------------------|-------------------------------------|
| <u>Cars, vans & 4-wheeled pickup trucks under 21'(*)</u> | | | |
| One way | \$12.00 | \$14.00 | 16.66% |
| Round trip (same day) | \$15.00 | \$17.00 | 13.33% |
| <u>10 round trip car book</u> | | | |
| General public | \$85.00 | \$98.00 | 15.29% |
| Shelter Island resident(*) | \$52.00 | \$60.00 | 15.38% |
| <u>10 one way car book</u> | | | |
| General public | \$70.00 | \$80.00 | 14.28% |
| Shelter Island resident(*) | \$50.00 | \$57.00 | 14.00% |
| <u>Workers commutation ticket(*)</u> | | | |
| 5-day | \$22.00 | \$25.00 | 13.63% |
| 6-day | \$26.00 | \$30.00 | 15.38% |
| 7-day | \$31.00 | \$36.00 | 16.12% |
| <u>Passengers(*)</u> | | | |
| Walk-on (each way) | \$1.00 | \$1.00 | 0% |
| In vehicles without a Shelter Island resident ticket(*) | \$0 | \$1.00 | New fare |
| 30-trip book (general public) | \$25.00 | \$22.00 | (-)12% |
| 30-trip book (Shelter Island resident walk- ons) | \$17.00 | \$17.00 | 0% |
| <u>Two-wheeled</u> | | | |
| <u>Motorized</u> | | | |
| One way | \$7.00 | \$7.00 | 0.00% |
| Round trip | \$8.00 | \$9.00 | 0.00% |
| <u>Bicycle</u> | | | |
| One way | \$4.00 | \$4.00 | 0% |
| Round trip | \$6.00 | \$6.00 | 0.00% |
| <u>Standard trucks</u> | | | |
| <u>Under 18'</u> | | | |
| One way | Auto rates | Auto rates | 16.66% |
| Round trip | Auto rates | Auto rates | 13.33% |
| <u>18'-under 21'(*)</u> | | | |
| One way | \$13.00* | \$14.00* | 7.69% |
| Round trip | \$18.00/ 26.00 | \$20.00 | 11.1%/(-)23.07% |

SOUTH FERRY PROPOSED 2012 RATES

| <u>CATEGORY</u> | <u>CURRENT FARE</u> | <u>PROPOSED FARE</u> | <u>PERCENTAGE CHANGE</u> |
|--|---------------------------------|--------------------------------|------------------------------|
| <u>21' and over (each way)*</u> <u>Dual-wheeled pickups</u> | \$13 +\$.50 per ft. over 20' | \$14 + \$1 per ft. over 21' | |
| <u>18'-under 21'(*)</u> | | | |
| One way | \$13.00 | \$14.00 | 7.69% |
| Round trip | \$18.00 | \$20.00 | 11.11% |
| <u>Towed items(*)</u> | | | |
| <u>Up to 10'</u> | | | |
| One way | Standard truck rates | \$6.00 each way | N/A |
| Round trip | Standard truck rates | \$6.00 each way | N/A |
| <u>10' - under 21'</u> | | | |
| One way | Standard truck rates | \$12.00 each way | N/A |
| Round trip | Standard truck rates | \$12.00 each way | N/A |
| <u>21' and longer</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |
| <u>Boom, Tag-Along & 3-Axled</u> | | | |
| <u>Under 30,000 MG VW</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |
| <u>Over 30,000 MG VW</u> | | | |
| One way | \$40.00 | \$45.00 | 12.50% |
| Round trip | \$60.00 | \$70.00 | 16.66% |
| <u>Block, stone, lumber or sheetrock</u> | | | |
| One way | \$65.00 | \$75.00 | 15.38% |
| Round trip | \$105.00 | \$120.00 | 14.28% |
| <u>Buses</u> | | | |
| <u>Under 22'</u> | | | |
| One way | \$15.00 | \$17.00 | 13.33% |
| Round trip | \$30.00 | \$34.00 | 13.33% |

SOUTH FERRY PROPOSED 2012 RATES

| <u>CATEGORY</u> | <u>CURRENT FARE</u> | <u>PROPOSED FARE</u> | <u>PERCENTAGE CHANGE</u> |
|--|-------------------------|--------------------------|------------------------------|
| <u>22' - under 30'</u> | | | |
| One way | \$25.00 | \$30.00 | 20% |
| Round trip | \$50.00 | \$60.00 | 20% |
| <u>30' - under 45'</u> | | | |
| One way | \$35.00 | \$40.00 | 14.28% |
| Round trip | \$70.00 | \$80.00 | 14.28% |
| <u>Coach</u> | | | |
| One way | \$55.00 | \$65.00 | 18.18% |
| Round trip | \$110.00 | \$125.00 | 13.63% |
| <u>Concrete pumper</u> | | | |
| <u>Small</u> | | | |
| One way | \$40.00 | \$45.00 | 12.50% |
| Round trip | \$60.00 | \$70.00 | 16.66% |
| <u>Large</u> | | | |
| One way | \$70.00 | \$80.00 | 14.28% |
| Round trip | \$140.00 | \$160.00 | 14.28% |
| <u>Garbage truck</u> | | | |
| <u>Under 30'</u> | | | |
| One way | \$60.00 | \$60.00 | 0% |
| Round trip | \$90.00 | \$90.00 | 0% |
| <u>30' and over</u> | | | |
| One way | \$65.00 | \$65.00 | 0% |
| Round trip | \$110.00 | \$110.00 | 0% |
| <u>Hazmat (requiring dedicated boat)</u> | | | |
| Each way | \$65 | \$75.00 | 15.38% |
| <u>Motorized crane</u> | | | |
| One way | \$70.00 | \$80.00 | 14.28% |
| Round trip | \$140.00 | \$160.00 | 14.28% |
| <u>Redi-mix / Volumetric mixer</u> | | | |
| One way | \$65.00 | \$75.00 | 15.38% |
| Round trip | \$105.00 | \$120.00 | 14.28% |
| <u>Standard tank truck (non hazmat)</u> | | | |
| <u>2,000 gallons and under</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |

SOUTH FERRY PROPOSED 2012 RATES

| <u>CATEGORY</u> | <u>CURRENT FARE</u> | <u>PROPOSED FARE</u> | <u>PERCENTAGE CHANGE</u> |
|---|-------------------------|--------------------------|------------------------------|
| <u>Over 2,000 gallons</u> | | | |
| One way | \$35.00 | \$40.00 | 14.28% |
| Round trip | \$45.00 | \$50.00 | 11.11% |
| <u>Modular home</u> | | | |
| One way | \$60.00 | \$70.00 | 16.66% |
| Round trip | \$120.00 | \$140.00 | 16.66% |
| <u>Tree spade</u> | | | |
| <u>Under 30'</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |
| <u>30' and over</u> | | | |
| One way | \$65.00 | \$75.00 | 15.38% |
| Round trip | \$105.00 | \$120.00 | 14.28% |
| <u>Vacuum / pump-out truck</u> | | | |
| One way | \$65.00 | \$75.00 | 15.38% |
| Round trip | \$130.00 | \$150.00 | 15.38% |
| <u>Tractor trailer (non-dump)</u> | | | |
| <u>Less than 18 wheels</u> | | | |
| One way | \$40.00 | \$45.00 | 12.50% |
| Round trip | \$60.00 | \$70.00 | 16.66% |
| <u>All other excluding hazmat & modular homes</u> | | | |
| One way | \$60.00 | \$70.00 | 16.66% |
| Round trip | \$110.00 | \$125.00 | 13.63% |
| <u>Dump truck / Roll-off</u> | | | |
| <u>Under 23' (including low sided)</u> | | | |
| One way | \$13.00 | \$15.00 | 15.38% |
| Round trip | \$26.00 | \$30.00 | 15.38% |
| <u>23' - under 30'</u> | | | |
| One way empty | \$30.00 | \$35.00 | 16.66% |
| One way full | \$60.00 | \$70.00 | 16.66% |
| <u>30' and over / tractor trailer dump</u> | | | |
| One way empty | \$45.00 | \$50.00 | 11.11% |
| One way full | \$65.00 | \$75.00 | 15.38% |

SOUTH FERRY PROPOSED 2012 RATES

| <u>CATEGORY</u> | <u>CURRENT FARE</u> | <u>PROPOSED FARE</u> | <u>PERCENTAGE CHANGE</u> |
|--|-------------------------|--------------------------|------------------------------|
| <u>Low-sided dump truck 23' and over</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |
| <u>Back hoe / pay loader</u> | | | |
| <u>Light (under 18' auto rate)</u> | | | |
| One way | Standard truck rates | Standard truck rates | |
| Round trip | Standard truck rates | Standard truck rates | |
| <u>Heavy</u> | | | |
| One way | \$35.00 | \$40.00 | 14.28% |
| Round trip | \$70.00 | \$80.00 | 14.28% |