

SUFFOLK COUNTY LEGISLATURE



Robert Lipp
Director

BUDGET REVIEW OFFICE

May 30, 2014

DuWayne Gregory, Presiding Officer
and All Suffolk County Legislators
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 North Ferry Company, Inc. in support of its petition for a rate increase in 2014. Procedural Resolution No. 12-2014 authorizes the public hearings for the rate approval, and if adopted, Introductory Resolution No. 1485-2014 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. North Ferry Company, Inc. last received a fare rate increase in 2011. Rate increases are requested for twenty three fares and average 6.79%. The petitioner's current rate structure contains 34 different fares in nine categories; this petition proposes the addition of two new fares for Greenport Village residents. The largest requested increase of 16.6% is to the motorcycle one way including driver fare from \$6.00 to \$7.00. The petition seeks no increase to 11 of the current fares including passenger fares. It is important to note that many of the proposed fares remain significantly discounted when compared to North Ferry Co., Inc.'s average cost of \$6.39 to provide passage across the bay by car. The casual traveler and commercial truck traffic continue to subsidize resident travel as they have historically.

The Budget Review Office recommends that the applicant's request for a rate increase be approved. While the average rate increase is 6.79%; this compares favorably with the rate of inflation of 13.99% since 2011. Given the company's financial projections, the rate increase is reasonable, especially given their decision to defer maintenance and capital expenditures in order to maintain current service levels.

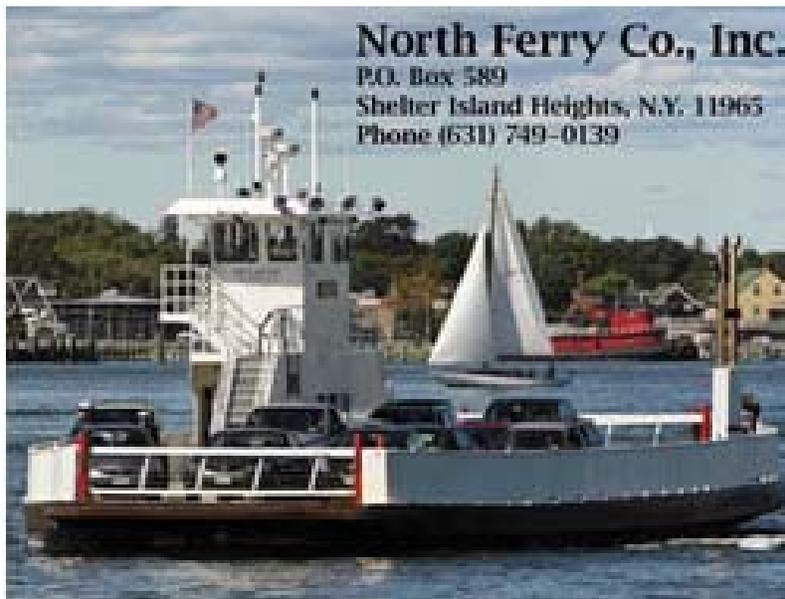
Our summary of findings highlights those areas we believe to be most relevant and necessary for legislative deliberation. My staff and I are available should you have questions regarding this report.

Very truly yours,

Robert Lipp, Director
Budget Review Office

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

**Petition for 2014
Rate Increase**



May 30, 2014

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

Analysis of North Ferry Company, Inc.

Petition for Rate Alteration

Summary of Findings

- North Ferry Co., Inc. continues to provide a vital transportation service in a professional manner between Greenport, NY and Shelter Island Heights, NY.
- North Ferry Co., Inc.'s cash control system is sufficient to safeguard the company's assets and protect the public's interest.
- North 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.
- North Ferry Co., Inc. filed a petition dated April 15, 2014 seeking an alteration to fare rates. The requested rate relief increases 23 fares by an average of 6.79%. The rate of inflation for the transportation component of CPI was 13.99% compounded from 2011-2013.
- According to the audited financial statements and financial projections submitted by the petitioner, the current rate structure is insufficient for the company to meet the costs of its capital and operating expenses.
- The rate relief should be granted. North Ferry Co., Inc. has experienced operating losses for six consecutive years beginning in 2008 necessitating the current petition for rate relief.

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.

North Ferry Co., Inc. submitted a petition dated April 15, 2014 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 No. 1485-2014. The County Legislature is the governmental agency responsible for action on this request. The Budget Review Office (BRO) 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. North Ferry Co., Inc. has submitted audited financial statements and supplementary information for three years of operations occurring from January 1, 2011 through December 31, 2013. Leonard, Mulherin & Greene, P.C. is the accounting firm that audited the financial statements. Documentation has been provided 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, comparisons with the current rates, and the most current labor contract. BRO toured the petitioner’s fixed place of business on Shelter Island to observe operational compliance with the terms of the license issued to North Ferry Co., Inc. by the Suffolk County Legislature that was last extended via Resolution No. 535-2013 through June 2023.

Analysis of North Ferry Company Incorporated

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

The Petition Seeking Rate Relief

The petition submitted by North Ferry Co., Inc. dated April 15, 2014, 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 Shelter Island Heights, New York and Greenport, New York. The petitioner is applying for alteration of its present fare structure as previously authorized via Resolution No. 739-2011 effective September 30, 2011. The last ferry rate alteration requested by the petitioner, and granted by the Legislature in 2011, increased nine car fares by an average of 12.05% and eliminated two other fares in their entirety. No increase to passenger fares, bicycle fares, or construction trailer fares is sought in the

current petition and a new Greenport Village resident prepaid one way and round trip ten ticket discount book for cars rate is proposed.

According to North Ferry, the operating and capital needs of the Company have led the petitioner to request rate relief. The Company has stated that they have been operating at a loss since the economic downturn in 2008, which is confirmed via the financial statements provided to BRO in connection with North Ferry's last rate increase in 2011 and those financial statements submitted in conjunction with the current petition to alter their rates.

The petitioner has indicated that they have deferred various capital improvements and maintenance projects due to financial constraints in order to maintain their service commitment. North Ferry is planning several projects in anticipation of their return to positive cash flows.

- They are in the process of procuring the required NYS DEC permits in order to rebuild the bulkhead that supports the Greenport ramps and passenger terminals at an estimated cost of approximately \$140,000.
- Each of the four ramps connecting the shore side approaches with the ferry requires refurbishment at an estimated cost of \$80,000.
- Approximately sixty slip pilings should be replaced at a cost of approximately \$180,000.
- Improvements to their offices, paving of the plazas, and improvements to fare collection equipment at the passenger terminals in Greenport approach \$70,000 in the aggregate.
- North Ferry is in the process of developing an electronic fare collection system that requires approximately \$50,000 in additional hardware prior to implementation.

Comparison of Current and Proposed Rates

The following table illustrates the proposed alterations to the ferry rates and fares as included in the current petition.

PROPOSED FARE STRUCTURE			
<i>Fare Category</i>	<i>Current Rate</i>	<i>Proposed Rate</i>	<i>Percent Change</i>
CARS			
One Way Car & Driver	\$10.00	\$11.00	10.0%
Round Trip Car & Driver	\$15.00	\$16.00	6.67%
PREPAID 10 TICKET DISCOUNT BOOKS (For Cars)			
Resident One Way	\$49.00	\$52.00	6.12%
Resident Round Trip	\$52.00	\$55.00	5.76%
Non-Resident One Way	\$62.00	\$66.00	6.45%
Non-Resident Round Trip	\$78.00	\$82.00	5.12%
Greenport Village Resident One Way	n/a	\$60.00	n/a
Greenport Village Resident Round Trip	n/a	\$68.00	n/a

WEEKLY COMMUTER TICKETS			
5-day Resident Commuter	\$26.00	\$27.00	3.85%
5-day Non-Resident Commuter	\$32.00	\$34.00	6.25%
6-day Non-Resident Commuter	\$38.00	\$40.00	5.26%
MOTORCYCLES			
One Way Including Driver	\$6.00	\$7.00	16.66%
Round Trip Including Driver	\$8.00	\$9.00	12.50%
TRUCKS-One Way			
Two Axle (includes boat and light duty trailers)	\$11.00 first 18 ft. \$1.00 per ft. over 18 ft.	\$11.50 first 18ft. \$1.10 per ft. over 18 ft.	4.54% / 10.00%
More Than Two Axles	\$18.00 first 18 ft. \$1.00 per ft. over 18 ft.	\$19.00 first 18 ft. \$1.10 per ft. over 18 ft.	5.55% / 10.00%
Dump Trucks Under 18,000 lbs. GVWR	\$11.00 first 18 ft. \$1.00 per ft. over 18 ft.	\$11.50 first 18ft \$1.10 per ft. over 18 ft.	4.54% / 10.00%
Dump Trucks Over 18,000 lbs. GVWR & Loaded	\$10.00 base + \$2.00 per ft.	\$10.50 base + \$2.10 per ft.	5.00%
Heavy Truck	\$75.00	\$80.00	6.66%
BUSES			
Mini Bus	Car Rate	Truck Rate	variable
Full Size School Bus One Way	\$45.00	\$48.00	6.66%
Full Size School Bus Round Trip	\$55.00	\$58.00	5.45%
Coach Bus One Way	\$70.00	\$75.00	7.14%
Coach Bus Round Trip	\$95.00	\$100.00	5.26%
HAZARDOUS MATERIALS			
Aboard Small Ferry	\$100.00	\$105.00	5.00%
Aboard Large Ferry	\$250.00	\$265.00	6.00%

The petitioner's current fare structure contains 34 different rates among nine fare categories (Exhibit A). The proposed fare structure adds two new rates (Greenport Village Resident One Way and Round Trip) and seeks increases to 23 existing rates within seven fare categories averaging 6.79%. North Ferry Co., Inc. estimates that the proposed increases would equate to additional revenue of approximately \$328,000 annually based upon 2013 ridership volume within the fare categories for which increases are proposed at the increased rates. BRO finds North Ferry Co., Inc.'s additional revenue estimate reasonable based upon the data provided.

Financial Statements

North Ferry Co., Inc. submitted audited financial statements for the years ending December 31, 2011-2013. The financial statements were audited by Leonard, Mulherin & Greene, P.C.; their last peer review was in 2013. The independent auditors report contains their opinion that the financial statements present fairly, in all material respects, the financial position of the Ferry.

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, 2013 shows assets and liabilities of \$4,747,366. 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 vast majority of assets at \$3.8 million. Liabilities and stockholder equity consist of current liabilities, long term liabilities and stockholder equity, of which, the vast majority is mortgage notes payable for three vessels of \$3.4 million.

The Statements of Income for North Ferry Co., Inc., provided to BRO in conjunction with North Ferry's past 2011 rate request, illustrated growing losses year over year beginning in 2008 with a modest net loss of \$6,608 and growing in magnitude through 2010 when the net loss at years end was \$215,555. The most current Statements of Income for North Ferry Co., Inc., for year ends 2011-2013 illustrate losses once again, ranging from \$344,533 in 2011, to \$82,606 in 2013. Stockholder's Equity reflects the net losses as well, decreasing from \$545,433 as of December 31, 2011 to \$194,514 as of December 31, 2013.

Procedural Resolution No. 12-2014 and Introductory Resolution No. 1485-2014

As part of the rate setting process, North Ferry Co., Inc. has submitted two resolutions, one for the rate increase and another for the public hearing regarding the rate increase. Procedural Resolution No. 12-2014 sets the public hearing for the granting of the rate alterations, and Introductory Resolution No. 1485-2014 approves the new rates. Introductory Resolution No. 1485-2014 contains the entire rate schedule for all nine fare categories, including both the current and proposed rates for the 23 rates the petitioner seeks to modify.

Conclusion and Recommendation

Our analysis of North 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. The fare increase proposed by North Ferry Co., Inc. averages 6.79% over 23 fares. In comparison, if the fares were increased to keep pace with inflation since their last increase in 2011, by utilizing the transportation component of the consumer price index for all urban consumers-New York and northeastern New Jersey as indicated in Suffolk County code Chapter 455 FERRY SERVICE sub-section 455-3(l), the increase would be 13.99%.

The largest requested increase of 16.6% is to the motorcycle one way including driver fare from \$6.00 to \$7.00. No increase has been requested for 11 of the existing fares including all passenger fares. It should be noted that the proposed Prepaid 10 Ticket Discount Books (for cars) rates remain significantly discounted at the proposed rates ranging from \$2.75 to \$4.10 each way based upon same day round trip rates per passage. In comparison, North Ferry Co., Inc.'s average cost is \$6.39 to provide passage across the bay for a car.

The casual traveler and commercial truck traffic continue to subsidize resident travel, as they have historically, at a rate well below cost; however, the current rate structure puts the viability of this business at risk.

Our support for the requested rate increase should in no way be deemed as validation that the petitioner's requested changes are optimal. The financial projections submitted by the petitioner posit positive net income on an annual basis of approximately \$246,000 at the proposed rates, based upon their 2013 experience. This would help defray the \$520,000 estimated cost for five capital projects mentioned on page 3 of this review. Operating losses experienced by North Ferry Co., Inc. for the last six consecutive years in conjunction with their decision to defer maintenance and capital expenditures in order to maintain their service commitment lend support to the Ferry's assertion that they require fare rate augmentation in order to continue their operation.

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EXHIBIT A

**REGULAR SCHEDULED SERVICE BETWEEN
SHELTER ISLAND HEIGHTS, NEW YORK AND GREENPORT, NEW YORK:**

<u>CATEGORY</u>	<u>CURRENT RATES</u>	<u>PROPOSED RATES</u>
<u>CARS</u>		
One Way Car and Driver	\$ 10.00	\$ 11.00
Round Trip Car and Driver	\$ 15.00	\$ 16.00
<u>PREPAID 10 TICKET DISCOUNT BOOKS (FOR CARS)</u>		
Resident One-Way	\$ 49.00	\$ 52.00
Resident Round Trip	\$ 52.00	\$ 55.00
Greenport Village Resident One-Way		\$ 60.00
Greenport Village Resident Round Trip		\$ 68.00
Non-Resident One-Way	\$ 62.00	\$ 66.00
Non-Resident Round Trip	\$ 78.00	\$ 82.00
<u>WEEKLY COMMUTER TICKETS EXPIRING ON SUNDAY NIGHT</u>		
5 Day Resident Commuter	\$ 26.00	\$ 27.00
5 Day Non-Resident Commuter	\$ 32.00	\$ 34.00
6 Day Non-Resident Commuter	\$ 38.00	\$ 40.00
<u>PASSENGERS</u>		
In Cars or Walk-Ons	\$ 2.00	\$ 2.00
In Commuter Cars	\$ 2.00 (one way)	\$ 2.00 (one way)
	\$ 3.00(round trip)	\$ 3.00(round trip)
In Resident Cars	\$ 2.00 (one way)	\$ 2.00 (one way)
	\$ 3.00(round trip)	\$ 3.00(round trip)
10 Tokens, Resident	\$ 15.00	\$ 15.00
<u>MOTORCYCLES</u>		
One-Way including Driver	\$ 6.00	\$ 7.00

Round Trip including Driver	\$ 8.00	\$ 9.00
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BICYCLES

One-Way including Rider	\$ 3.00	\$ 3.00
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Round Trip including Rider	\$ 5.00	\$ 5.00
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5 Day Bicycle Commuter Rate	\$15.00	\$ 15.00
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TRUCKS

All rates are One Way unless noted

Two Axle (includes Boat Trailer, Light Duty Trailer)	\$ 11.00 first 18' \$ 1.00 / ft. over 18'	\$ 11.50 first 18' \$ 1.10 / ft. over 18'
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More Than Two Axles	\$ 18.00 first 18' \$ 1.00 / ft. over 18'	\$ 19.00 first 18' \$ 1.10 / ft. over 18'
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Dump Trucks under 18,000 lbs. GVWR	\$ 11.00 first 18' \$ 1.00 / ft. over 18'	\$ 11.50 first 18' \$ 1.10 / ft. over 18'
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Dump Trucks over 18,000 lbs. GVWR	Truck Rate By Axle	Truck Rate By Axle
Empty	\$ 10.00 + \$ 2.00 / ft.	\$ 10.50 + \$ 2.10 / ft.
Loaded		

Construction Trailer (more than 4 tires)	\$ 2.00 per foot	\$ 2.00 per foot
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Heavy Truck (transit mix, sheet rock, log, cinder block, tank/water/fuel, dumpster, roll-off, or other heavy vehicle)	\$ 75.00	\$ 80.00
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BUSES

Mini Bus	Car Rate	Truck Rate
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Full Size School Bus One-Way	\$ 45.00	\$ 48.00
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Full Size School Bus Round Trip	\$ 55.00	\$ 58.00
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Coach Bus One-Way	\$ 70.00	\$ 75.00
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Coach Bus Round Trip	\$ 95.00	\$100.00
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HAZARDOUS MATERIALS

Aboard Small Ferry	\$100.00	\$105.00
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Aboard Large Ferry	\$250.00	\$265.00
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