

# SUFFOLK COUNTY LEGISLATURE



**Gail Vizzini**  
Director

## BUDGET REVIEW OFFICE

June 30, 2011

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 North Ferry Company, Inc. in support of its petition for a rate increase in 2011. Introductory Resolution No. 1487-2011 authorizes the public hearings for the rate approval, and if adopted, Introductory Resolution No. 1448-2011 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 car rate increase in 2004. Rate increases are requested for nine car fares and average 12.05%. The petitioner's current rate structure contains 34 different rates in eight categories; most of which remain unchanged from 2008. The largest requested increase of 18.2% is to the car prepaid ticket 5 day resident commuter fare which is proposed to increase by \$4.00 from \$22.00 to \$26.00. It is important to note that the proposed fare remains significantly discounted at \$2.60 per passage based on North Ferry Company's average cost of \$7.16 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 12.5% this compares favorably with the rate of inflation of 19.6% since 2004. Given the company's financial projections, the rate increase is reasonable, especially given rising costs for fuel, personnel and health insurance expenses as well as attrition in ridership. The company was required to borrow from the parent company in order to address cash flow concerns. Even if the requested rate increase is approved, we project negative net income.

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.

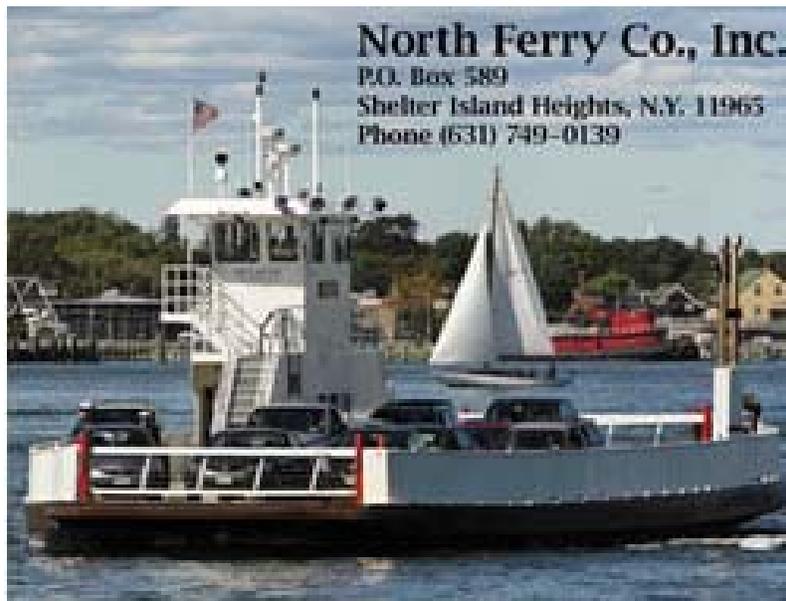
Very truly yours,

*Gail Vizzini*

Gail Vizzini, Director  
Budget Review Office

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

## **Petition for 2011 Rate Increase**



**June 30, 2011**

**Prepared for the Suffolk County Legislature  
by Robert Doering, Legislative Analyst**

**Budget Review Office  
Suffolk County Legislature  
Hauppauge, New York 11788**

## **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 287 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 May 16, 2011 seeking an alteration to car fare rates. The requested rate relief increases nine car fares an average of 12.05% and eliminates two other fares in their entirety. Most fares remain unchanged from the previously approved rate schedule.
- 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 operating expenses.
- The rate relief should be granted. Rising costs for personnel, healthcare, and fuel in conjunction with attrition in ridership have necessitated North Ferry Co., Inc. to petition for rate relief. The rates charged for car fares have not been increased since 2004 and the Company has experienced growth in annual financial losses since 2008.

## **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 287 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 May 16, 2011 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 1488-2011. 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 287 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 four years operations occurring from January 1, 2007 through December 31, 2010. Leonard, Mulherin & Greene, P.C. 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 287-3 (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. We also toured the petitioner’s fixed place of business on Shelter Island.

## **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 May 16, 2011, 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. 1187-2008 approved December 22, 2008. The last ferry rate alteration requested by the petitioner, and granted by the legislature in

2008, established a new 10 token resident passenger fare category which represented a rate reduction. North Ferry car fares were last increased in 2004. No increase to passenger fares is sought in the current petition.

According to the May 2011 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, healthcare, and expenses in general combined with attrition in ridership have resulted in increasing year over year financial losses since 2008. Boat fuel costs alone are projected to increase in excess of 30% from 2010 to 2011. In 2010, the Company's cash flow turned negative resulting in their borrowing from their parent company in order to continue operations and sustain service levels. The Company believes they will be unable to fund themselves through spring 2012 without rate relief.

**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.

<b>PROPOSED FARE STRUCTURE</b>			
<i>Fare Category</i>	<i>Current Rate</i>	<i>Proposed Rate</i>	<i>Percent Change</i>
<b>CARS</b>			
One Way Car & Driver	\$9.00	\$10.00	11.1%
Round Trip Car & Driver	\$13.00	\$15.00	15.4%
SUV Surcharge	\$1.00	Discontinued	n/a
<b>PREPAID 10 TICKET DISCOUNT BOOKS (For Cars)</b>			
Resident One Way	\$45.00	\$49.00	8.9%
Resident Round Trip	\$48.00	\$52.00	8.3%
5-day Resident Commuter	\$22.00	\$26.00	18.2%
6-day Resident Commuter	\$26.00	Discontinued	n/a
Non-Resident One Way	\$57.00	\$62.00	8.8%
Non-Resident Round Trip	\$72.00	\$78.00	8.3%
5-day Non-Resident Commuter	\$28.00	\$32.00	14.3%
6-day Non-Resident Commuter	\$33.00	\$38.00	15.2%

The petitioner's current fare structure contains 34 different rates among eight fare categories (Exhibit A). The proposed fare structure eliminates two rates (SUV Surcharge and 6-day Resident Commuter) and seeks increases to nine rates within the Cars and Prepaid 10 Ticket Discount Books (for cars) fare categories averaging 12.05%. North Ferry Co., Inc. asserts that the proposed increases average 7.8% of their revenue which would equate to additional revenue of approximately \$408,000 annually based upon 2010 revenues of approximately \$5.2 million.

### **Financial Statements**

North Ferry Co., Inc. submitted audited financial statements for the years ending December 31, 2007-2010. The financial statements were audited by Leonard, Mulherin & Greene, P.C.; their last peer review was in 2010.

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, 2010 shows assets and liabilities of \$6,144,696. 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 \$5.3 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 \$4.2 million.

The Statements of Income for North Ferry Co., Inc. illustrate 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 is \$215,555. The petitioner projects net losses in excess of \$450,000 for 2011 at the current rate structure based upon year-to-date actual data through May 2011. Stockholder's Equity reflects the recent net losses as well, decreasing from \$1,414,780 as of December 31, 2008 to \$989,966 as of December 31, 2010.

The financial statements contain a note regarding events occurring subsequent to the balance sheet date of December 31, 2010. The note states that as of May 2011, North Ferry Co., Inc. entered into an agreement with their parent company to borrow \$250,000 at a 5.5% interest rate to meet current cash flow needs. Interest payments are due monthly and any unpaid interest and the entire principal balance are due December 31, 2011.

### **Introductory Resolutions 1487-2011 and 1488-2011**

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. Introductory Resolution No. 1487-2011 sets the public hearing for the granting of the rate alterations, and Introductory Resolution No. 1448-2011 approves the new rates. Introductory Resolution No. 1488-2011 contains the entire rate schedule for all eight fare categories including both the current and proposed rates for the 11 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 12.05% over nine fares. In comparison, if the fares were increased to keep pace with inflation since the last increase in 2004, the increase would need to be 19.6%.

The largest increase of 18.2% is to the car prepaid 10 ticket 5 day resident commuter fare from \$22.00 to \$26.00. It is important to note that this proposed resident rate remains significantly discounted at \$2.60 per passage based upon North Ferry Co., Inc.'s average cost of \$7.16 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.

The requested rate increase, which we support, does not eliminate the risk of loss but it does help mitigate the risk of failure for the business. 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 negative net income in 2011 of approximately \$455,000 at current rates. If the proposed rates were in place for all of 2011 and all other assumptions for 2011 remained the same; we project negative net income of approximately \$50,000.

\* \* \*

**EXHIBIT A  
NORTH FERRY CO., INC. RATE SCHEDULE**

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

<b><u>CATEGORY</u></b>	<b><u>CURRENT RATES</u></b>	<b><u>PROPOSED RATES</u></b>
<b><u>CARS</u></b>		
One-way Car and Driver	\$9.00	\$10.00
Round Trip Car and Driver	\$13.00	\$15.00
SUV Surcharge	\$1.00	\$ Discontinued
<b><u>PREPAID 10 TICKET DISCOUNT BOOKS (FOR CARS)</u></b>		
Resident One-Way	\$45.00	\$49.00
Resident Round Trip	\$48.00	\$52.00
5-Day Resident Commuter	\$22.00	\$26.00
6-Day Resident Commuter	\$26.00	\$Discontinued (Use Resident Round Trip Discount Tickets)
Non-Resident One-Way	\$57.00	\$62.00
Non-Resident Round Trip	\$72.00	\$78.00
5-Day Non-Resident Commuter	\$28.00	\$32.00
6-Day Non-Resident Commuter	\$33.00	\$38.00
<b><u>PASSENGERS – See Definition</u></b>		
In Vehicles or Walk-Ons	\$2.00	\$2.00
In Commuter Cars	\$2.00 (one-way) \$3.00 (round-trip)	\$2.00 (one-way) \$3.00 (round-trip)
In Residents Cars	\$2.00 (one-way) \$3.00 (round-trip)	\$2.00 (one-way) \$3.00 (round-trip)
10 Tokens, Resident	\$15.00	\$15.00
<b><u>MOTORCYCLES</u></b>		
One-Way including Driver	\$6.00	\$6.00
Round Trip including Driver	\$8.00	\$8.00
<b><u>BICYCLES</u></b>		
One-Way including Rider	\$3.00	\$3.00
Round Trip including Rider	\$5.00	\$5.00
Round Trip for Work	\$3.00 per day	\$15.00 per 5 days
<b><u>TRUCKS</u></b>		
Each Way:		
Two-Axle (includes Boat Trailer, Light duty Trailer, Limousine and Driver)	\$11.00 for 1st 18' +1.00 per foot over 18'	\$11.00 for 1st 18' +1.00 per foot over 18'

