

SUFFOLK COUNTY LEGISLATURE



Lance Reinheimer
Director

BUDGET REVIEW OFFICE

March 11, 2022

Honorable Kevin McCaffrey, 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 attached report is the Budget Review Office analysis of the financial and supporting documents presented by Hampton Jitney, Inc., DBA Peconic Jitney Inc., in their application to obtain a franchise and ferry license to start a new ferry service between Greenport and Sag Harbor. Pursuant to Chapter 455 of the Suffolk County Code, Introductory Resolution Nos. 1218-2022 and 1219-2022 would approve the requested ferry license and franchise for the five-year period through November 1, 2027 and establish rates for the company's operations.

The Budget Review Office conducted a review of the certified and audited financial statements, which were prepared by an accountant with satisfactory peer review status. This is the initial licensing review for the requested ferry operation, however in 2012 this company did provide seasonal ferry service between Greenport and Sag Harbor.

The Budget Review Office recommends approving the rates included in the petition submitted by Hampton Jitney, Inc., DBA Peconic Jitney Inc., once the landing agreements are finalized. The Legislature may want to consider granting the license for a period less than five years to provide an opportunity to review the financial viability of the ferry operations prior to 2027.

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,


Lance Reinheimer, Director
Budget Review Office

Review of
**Hampton Jitney, Inc. DBA
Peconic Jitney Inc.**

**2022 Petition for
Franchise, License & Rates**

March 11, 2022

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

Analysis of Hampton Jitney, Inc. D/B/A Peconic Jitney Inc.

Petitions for Franchise, License & Rates

Summary of Findings

- The petition submitted by Hampton Jitney, Inc., DBA Peconic Jitney Inc. to obtain a franchise and ferry license to provide ferry service between Greenport, NY and Sag Harbor, NY for a duration of five years was filed with the Clerk of the Legislature on February 8, 2022, and subsequently a petition for the establishment of rates was filed on February 14, 2022.
- This ferry business operated a pilot program under the umbrella of Hampton Jitney, Inc. for eighty-three days in 2012 over which time it made 1,272 trips and carried 18,590 passengers.
- The audited financial statements submitted by the petitioner pertain to the last three years of operations therefore, none of the financial activity, assets, and liabilities reported for Hampton Jitney, Inc. relate to the pilot ferry operation a decade ago.
- The methodology employed in our review includes an evaluation of the assumptions used in the applicant's forecast of revenue and expenses pertaining to the proposed ferry operation in conjunction with the petitioner's proposed business plan.
- Any financial forecasts presented in this report are based upon assumptions of future events and should not be construed as facts.
- The proposed ferry service between Greenport and Sag Harbor is based upon recommendations of the *Sustainable East End Development Strategies (SEEDS) 2005* study in which a consensus finding was that a seasonal Peconic Bay water taxi passenger service should be considered as an option to help to reduce vehicle traffic.
- The petitioner proposes to operate a ferry service on a summer seasonal schedule beginning in May and ending in October.
- The proposed passenger fare rate schedule ranges between \$15.00 and \$37.00, pets are \$1.00, and bikes/scooters are \$5.00. Freight fares range between \$15.00 and \$40.00.
- The petitioner will use a modified version of their proprietary on-board ticketing/fare collection system employed on the motor coaches of Hampton Jitney to accept cash, pre-paid tickets, or credit/debit cards for payment on board the ferry.
- The ticketing/fare collection system proposed by the petitioner meets the criteria to provide independently verifiable financial information to the County.
- The proposed rates appear reasonable based upon projections provided within the petitioner's business plan.

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 Suffolk County Code.

Hampton Jitney, Inc., DBA Peconic Jitney Inc. submitted a petition to the Suffolk County Legislature seeking to obtain a license to operate ferry service between Greenport, NY and Sag Harbor, NY and to establish rates and a schedule for this service. The County Legislature is the governmental agency responsible for action on this request. The Budget Review Office is responsible for reviewing the rate petition and application, and presenting its findings in a written 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, for a term not exceeding five years, is not exclusive; non-exclusive licenses may be granted to as many service providers deemed necessary.

Pursuant to Chapter 455 of the Suffolk County Code, applicants petitioning for the establishment of rates must submit audited financial statements for the previous two years of operations. Hampton Jitney, Inc. submitted three years of audited financial statements, 2018 through 2020. The financial information pertains to the passenger motor coach service that the applicant operates. The applicant will operate the ferry business under the umbrella of this corporation. Konner, Harbus and Schwartz, P.C. is the accounting firm that audited the financial statements. This accounting firm has been peer reviewed within the last five years, in accordance with sub-section 455-3 (D) of the Suffolk County Code.

Audited financial statements are intended to provide an independent, competent, and objective presentation of operations. This business operated a pilot ferry program under the umbrella of Hampton Jitney, Inc. for eighty-three days in 2012 over which time it made 1,272 trips and carried 18,590 passengers. The financial disclosures submitted by the petitioner pertain to the last three years of operations therefore, none of the financial activity, assets, and liabilities reported for Hampton Jitney, Inc. relate to those ferry operations a decade ago.

The methodology used in our review includes an evaluation of the assumptions used in the applicant’s forecast of revenues and expenses pertaining to proposed ferry operations in conjunction with the petitioner’s proposed business plan. Any financial forecasts presented in this report are based upon assumptions of future events and should not be construed as facts.

Analysis of Hampton Jitney, Inc., DBA Peconic Jitney Inc.

The findings presented here are intended to aid the Legislature in its deliberations on the licensing and rate setting functions requested by Hampton Jitney, Inc., DBA Peconic Jitney Inc.

Petitions Seeking a Ferry License and Franchise and the Establishment of Rates

The petition submitted by Hampton Jitney, Inc., DBA Peconic Jitney Inc., to obtain a franchise and ferry license to operate ferry service between Greenport, NY and Sag Harbor, NY, for a duration of five years, was filed with the Clerk of the Legislature on February 8, 2022, and subsequently a petition for the establishment of rates was filed on February 14, 2022. The petitions state that the company is a motor coach corporation organized under the Transportation Corporation Law of the State of New York with its principal office located at 395 County Road 39A, Southampton, NY 11968 for the

general purposes of carrying passengers, baggage, and transportable matter for hire between New York City and Montauk Point. The Petitioner desires to provide a new passenger ferry service to transport passengers, baggage, bicycles, merchandise, and transportable matter for hire, within Peconic Bay. The petitioner contracted with Response Marine Inc. to provide relative practical and technical marine transportation experience. Hampton Jitney, Inc. contracted with Response Marine Inc. in 2012 as well for the pilot ferry program.

The proposed service would connect and transport passengers and freight between Mitchell Park Marina in the Incorporated Village of Greenport, NY and Long Wharf Pier in the Incorporated Village of Sag Harbor, NY. The vessel is Coast Guard and Homeland Security documented and inspected, 101 passenger, 33-gross-registered-ton, passenger boat with a low wake catamaran hull design. The boat, *Mickey Murphy* (Official No. 1129770), is a sister ship of the ferry utilized in 2012. The proposed ferry service is based upon the recommendations in the *Sustainable East End Development Strategies* (SEEDS) 2005 study in which a consensus finding was that a seasonal Peconic Bay water taxi passenger service should be considered as one option to help reduce vehicle traffic.

The petitioner proposes to operate this ferry service on a summer seasonal schedule beginning in May and ending in October. The proposed service will operate seven days a week during July and August and provide weekend service, Friday through Sunday, in May, June, September, and October. Weekday service will include twelve trips daily, while weekend service will include fourteen trips daily in May, June, July, and August and twelve trips daily in September and October (see attached Exhibit A). The petitioner proposes the identical routes as the 2012 pilot program, around the eastern or western shoreline of Shelter Island; traveling approximately 13.8 nautical miles between destinations and averaging approximately 45 minutes travel time depending on wind, tide, and passenger count.

The fare rate schedule for passenger ferry service between Greenport and Sag Harbor is included with the petitions (see attached Exhibit B). The fare rate schedule includes an adult one-way passenger fare of \$20.00, a round-trip adult passenger fare of \$37.00, accompanied child, age 12 and under, one-way passenger fare of \$15.00 and accompanied child, age 12 and under, round trip passenger fare of \$27.00. The fare for all pets is \$1.00 one-way, except for service dogs that ride for free. The bikes/scooters fare is \$5.00 one-way. The unattended packages and/or freight fare one-way is based upon weight; up to and including five pounds is \$15.00, greater than five pounds and up to and including 20 pounds is \$30.00, greater than 20 pounds and up to and including 50 pounds is \$40.00. Packages weighing greater than 50 pounds, flammable liquids, fireworks, and freight requiring mechanical devices to load will not be accepted. The petitioner states that the fare rate schedule will be posted at each entrance to the ferry in accordance with Chapter 37, Article 8, Section 113 of New York State Navigation Law.

Analysis of Proposed Rates and Cash Controls

The proposed business plan provided by the petitioner includes projected profit and loss for the first six years of Peconic Jitney Inc. operations. Any financial forecasts presented in this report are based upon the petitioner's assumptions of future events in conjunction with their business plan and should not be construed as facts. The petitioner anticipates ridership growth of 15% annually that results in more than doubling of ridership between year one and year six with slightly better results anticipated for operating revenues. Operating costs are projected to grow at a much slower rate in years one through six of operations, totaling 13% growth in the aggregate, during the same time frame.

The petitioner projects operating revenues to exceed direct operating costs in each of the 6 years included within their projections. Gross operating margins grow from \$115,388 in year one to \$556,882 in year six. Total administrative costs affiliated with Peconic Jitney operations are estimated to be \$79,900 in year one and gradually decline to \$72,599 in year six resulting in operating profits of \$35,488 in year one, increasing to \$484,283 in year six. Operating profits are further diminished in the petitioner's projections when ferry boat lease costs and startup costs (amortized over the six-year time horizon) are considered resulting in negative net income in years one and two, which turn positive in year three to \$8,561, increasing to \$321,283 in year six. The audited financial statements submitted by Hampton Jitney, Inc. in conjunction with their petition for the establishment of ferry rates, under which Peconic Jitney Inc. will operate, indicate that adequate financial resources exist to sustain the ferry operations.

The Budget Review Office is unable to offer an opinion on the underlying assumptions employed in the petitioner's business plan with respect to ridership levels and the affiliated revenues due to the fact that there are no existing companies offering a similar service at this time and that the pilot program run by the petitioner for a similar operation took place nearly a decade ago. It is notable that projected peak ridership of 35,199 passengers, in year six, represents approximately 24% of their maximum operational capacity in conjunction with the proposed ferry service schedule. The petitioner assumes 15% growth in ridership annually in deriving the peak ridership projection in year six. Underlying assumptions employed for fuel cost growth appear conservative at 2% annually given recent trends and global factors influencing supply chains in recent history. However, given the volatility of fuel costs and the fact that a six-year time horizon is considered, (the cost of a barrel of oil has traded between \$22.30 and \$139.13 during the last two years) it is not unreasonable. **The proposed rates appear reasonable based upon projections provided within the petitioner's business plan.**

The petitioner states that they will use a modified version of their proprietary on-board ticketing/fare collection system employed on the motor coaches of Hampton Jitney. Employees on the ferry will utilize the proprietary on-board ticketing/fare collection system to collect passenger information and process transactions, allowing passengers to book a trip in advance or on a "walk on" basis. The ticketing/fare collection system will allow Peconic Jitney Inc. to accept cash, pre-paid tickets, or credit/debit cards for payment on board the ferry. An electronic receipt will be issued to each passenger upon payment. If a passenger is unable to accept an electronic receipt, the option to receive a printed receipt will be available. The proprietary on-board ticketing/fare collection system works via cellular service allowing for the real time generation of passenger manifests that are relayed to their land-based operations ensuring accurate record keeping and the safety of its passengers.

Cash collected on board will be deposited and secured on board the ferry using a smart safe. This safe looks very much like an ATM machine, however employees whom collect cash fares will deposit the cash into the safe utilizing a unique access code. The smart safe provides network connectivity enabling remote access to advanced reporting functions. Upon commencement of passenger ferry service, daily summary of sales reports will be generated by the Hampton Jitney Accounting Department based on real-time receipts generated from the day's vessel operations. The smart safe will allow the accounting department to reconcile cash receipts along with credit/debit card purchases at the conclusion of each shift.

The primary purpose for the requirement of an adequate ticketing/fare collection system is to establish an auditable accounting system, which provides verifiable information pertaining to the

number of passengers carried and revenues received. This verifiable information can be used as the basis for the establishment of an equitable fare structure moving forward. The ticketing/fare collection system proposed by the petitioner appears to meet the criteria of the ability to provide independently verifiable financial information to the County.

Landing Sites for Ferry Service

The proposed landing site in Greenport is Mitchell Park Marina, owned by the Village of Greenport, and in Sag Harbor is Long Wharf Pier, owned by the Village of Sag Harbor. The petitioner has appeared before both Village Boards and is in the process of negotiating the procurement of landing agreements however, no formal Village agreements are in place as of this time.

Conclusion and Recommendation

The start-up of a ferry business is no simple task. In addition to securing a boat and landing agreements, a number of requirements from regulatory agencies and local governments, in addition to the County licensing requirements, must be met. All necessary agreements, permits, and licenses should be in place prior to beginning operations.

The petitioner provided plans for the operation of a ferry service between Greenport, NY and Sag Harbor, NY. The requested rates and proposed cash controls appear to be reasonable and adequate based upon its proposed business plan and based upon the audited financial statements, the parent company has sufficient capital to subsidize the start-up of the proposed new ferry service.

Once the petitioner has all the required permits and landing approvals, the Budget Review Office recommends approving the rates specified in the petition and application. We also recommend granting a license for three years rather than five years to provide the opportunity to review the ferry's financial operations with respect to the reasonableness of the fares.

The Legislature has four options:

- Approve Introductory Resolution Nos. 1218-2022 and 1219-2022 to grant a 5-year license ending November 1, 2027 to Hampton Jitney, Inc., DBA Peconic Jitney Inc., and setting fare rates as contained in the petition filed February 14, 2022.
- Table Introductory Resolution Nos. 1218-2022 and 1219-2022 to delay action on the approval of the franchise and license until all required documents, landing agreements, permits, and approvals are in place.
- Amend Introductory Resolution 1218-2022 to reduce the term of license to a period less than 5 years to provide an opportunity to review the financial viability of the ferry operations prior to 2027.
- Reject the license application by not approving Introductory Resolution Nos. 1218-2022 and 1219-2022.

* * *

Exhibit A

Seasonal/Daily Passenger Ferry Departure Schedule to be
Posted at Each Boarding Location:

Winter Passenger Ferry Schedule:

November 1st Through April 30th: No Service

Months of May and June Passenger Ferry Schedule:

Friday, Saturday and Sunday Service ONLY:

<u>Greenport, NY</u>		<u>Sag Harbor, NY</u>	
9:00	AM	10:00	AM
11:00	AM	12:00	PM
1:00	PM	2:00	PM
3:00	PM	4:00	PM
5:00	PM	6:00	PM
7:00	PM	8:00	PM
9:00	PM	10:00	PM

Months of July and August Daily Passenger Ferry Schedule:

<u>Greenport, NY</u>		<u>Sag Harbor, NY</u>	
9:00	AM	10:00	AM
11:00	AM	12:00	PM
1:00	PM	2:00	PM
3:00	PM	4:00	PM
5:00	PM	6:00	PM
7:00	PM	8:00	PM
9:00	PM*	10:00	PM*

(* Denotes Friday and Saturday Evening Only)

Months of September Through October 31st

Friday, Saturday and Sunday Service ONLY:

<u>Greenport, NY</u>		<u>Sag Harbor, NY</u>	
9:00	AM	10:00	AM
11:00	AM	12:00	PM
1:00	PM	2:00	PM
3:00	PM	4:00	PM
5:00	PM	6:00	PM
7:00	PM	8:00	PM

Exhibit B
Proposed Peconic Jitney Passenger Ferry Rate Schedule
Between Mitchell Park, Greenport, NY & Long Wharf, Sag Harbor, NY

Adult One-Way Passenger Fare:	\$20.00
Adult Round-Trip Passenger Fare:	\$37.00
Accompanied Child, 12 and Under, One-Way Passenger Fare:	\$15.00
Accompanied Child, 12 and Under, Round-Trip Passenger Fare:	\$27.00
All Pets:	\$1.00 (Service Dogs Free)
Bikes/Scooters:	\$5.00 (Each Way)

Unattended Packages and Freight for One-Way Delivery Rate Schedule:

Envelopes/Packages 5 lbs. or less:	\$15.00
Packages Weighing Greater than 5 lbs. And Up-To 20 lbs.:	\$30.00
Packages Weighing Greater Than 20 lbs. And up-To 50 lbs.:	\$40.00

Peconic Jitney Passenger Ferry Service *Will Not* transport the following unattended packages for hire:

- Packages Weighing Greater than 50 lbs.
- Flammable Liquids Such as Gas and/or Diesel Fuel.
- Fireworks of any kind.
- Freight requiring mechanical device, such as a dolly, to load onto passenger ferry.