

PASSENGER VESSEL ASSOCIATION

WSF Governance Study

Prepared for: Washington State Office of Financial Management
• Olympia, Washington

December 21, 2010



Passenger Vessel Association
901 N. Pitt Street, Suite 100
Alexandria, VA 22314

System Name	Washington State Ferries	The Steamship Authority	Golden Gate Ferry	Bridgeport & Port Jefferson Steamboat Company	New York Waterway/Port Imperial Ferry	BC Ferries	North Carolina Ferry System
Governance	Division of Washington State Department of Transportation	Independent Authority under the Commonwealth of Massachusetts	Division of the Golden Gate Bridge and Transportation District	Privately Held	Privately Held Using Publically Owned Terminals	Publicly Owned Corporation	Division of State Department of Transportation
Director or General Manager	David Moseley	Wayne Lamson	Jim Swindler	Frederick Hall	Armand Pohan	David Hahn	Jim Westmoreland
Title	Assistant Secretary - WSDOT Ferries Division	General Manager	Deputy General Manager, Ferry Division	General Manager	Chairman	Executive Director	Deputy Secretary for Transit
Fleet Information							
Number of Vessels	21	9	7	3	33/16	36	21
Number of Terminals	20	5	3	2	13	47	13
Number of Routes	9	3	3	1	16	25	7
Passengers Carried Annually	23,000,000	2,700,000	2,100,000	1,000,000	7,800,000	21,000,000	2,100,000
Vehicles Carried Annually	10,000,000	590,000		380,000	-	8,300,000	1,000,000
Annual Number of trips	180,000	21,445					
Age of oldest vessel	63	55	35	24		54	
Age of youngest vessel	12	3	12	7		1	
Financial Information							
Total Annual Budget	\$ 359,530,770	79,063,000	\$ 96,859,000	\$ 30,000,000	\$ 33,100,000	\$ 732,300,000	\$ 43,500,000
Capital Budget - Vessels	\$ 85,568,976		\$ 27,000,000				
Capital Budget - Terminals	\$ 45,773,000	7,856,000	\$ 45,000,000				
Total Operating Budget	\$ 228,188,794	\$ 79,063,000	\$ 24,859,000		\$ 21,400,000	\$ 660,000,000	
Operating Budget - Vessels	\$ 174,921,654	41,426,000	\$ 13,000,000				
Operating Budget - Terminals	\$ 39,476,079	15,425,000	\$ 3,359,000				
Operating Budget - Overhead	\$ 13,791,061	22,212,000	\$ 8,500,000				
Farebox Recovery (%)	70.5%	100%	44%	100%	100%	51%	6%
Sample Fare Information							
Route	Seattle to Bainbridge	Woods Hole to Vineyard Haven/Oak Bluffs	Larkspur to San Francisco	Bridgeport to Port Jefferson	Weehawken to Manhattan Midtown	Tsawwassen to Swartz Bay	Cedar Island to Okracoke
Route Length (n.m.)	7.5	8	11.25	17	1	24	
Crossing Time	35 minutes	45 minutes	30/45	1 hour 15 minutes	7 minutes	1 hour 35 minutes	2 hours 15 minutes
Season	Summer, any day	Year round	Year round	All			
One-way passenger	\$ 3.95	\$7.00	\$ 7.85	\$ 17.00	\$ 8.50	\$ 13.75	\$ 1.00
One-way vehicle & driver	\$ 11.85	\$74.50	N/A	\$ 51.00		\$ 59.50	\$ 15.00
Frequent User Discount (%)	20%		30%		17%	None	None

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EXECUTIVE SUMMARY

There is no doubt that Washington State Ferries (WSF) faces multiple challenges, among them the following:

- The lack of a stable, dedicated funding source, in the absence of which WSF must compete with other priorities of statewide significance, including social and health services, education, other transportation services, natural resources, corrections, and general government services in order to meet its basic needs in terms of maintaining its aging assets in a state of good repair and maintaining service.
- A mixed mission as an agency in terms of the various functions served by the different routes for which WSF is responsible. The market mix for WSF is one of the most complex of any ferry system in North America. On many of the routes, the market not only changes from weekdays to weekends, but also by time of day. While some routes serve primarily commute functions during the weekday morning and evening commute periods, carrying passengers to their jobs (and for which there are overland alternatives), other routes function as a lifeline in that they provide the only transportation access to island communities. All routes serve as an extension of the highway system, providing either the only transportation link or more direct access for commuters, tourists, freight movement, and discretionary travelers. On a single day a route can start with a commuter focus, evolve to tourists and freight, shift back to commuters, and end up serving the more discretionary traveler. Weekend service is often weighted towards the tourist and discretionary user, but residents of island communities have ferries as their main transportation link. An additional level of complexity for WSF is that the number of vehicles (cars, trucks and trailers, buses, carpools, vanpools, motorcycles, and bicycles), vehicle passengers, and walk on passengers are all significant segments of the system's ridership. Resource allocation and schedule service decisions are influenced by the demands of each market segment as they vary by route over the course of a day, week, season, and year. That the agency's mission is mixed makes it difficult to achieve broad-based consensus as to the public sector's role in supporting ferry service.
- A low level of control over key operational decisions. No other ferry system operator interviewed for this study has as little control over key aspects of their operations, including labor relations and development and application of management tools as WSF. The degree and specificity of legislative involvement with the management of WSF assets is unheard of among its peers. The Legislature has passed multiple bills that direct WSF to develop, for instance, terminal design standards and to refine its existing Life Cycle Cost Model in specific ways.
- A governance structure that reflects the underlying structural problems just listed—one in which multiple, competing political agendas are brought to bear on virtually every aspect of policy, planning, and day-to-day operations.

As a result of these challenges, the Passenger Vessel Association (PVA) was approached by the Office of the Governor of the state of Washington to assemble an expert advisory panel. PVA is the national trade association for operators of passenger vessels in the United States, including many ferry operators. As such it is in a position to coordinate legislative and regulatory input on issues that affect the industry. PVA also provides its members with services such as information on best practices in operations and security, as well as links to vendors through its associate members.

The charter of the PVA expert panel was to review the operations of WSF and to make recommendations where the panel members felt that WSF's practices could be improved. The PVA WSF Expert Panel Report¹ was delivered to Governor Christine Gregoire on September 8, 2010. The first recommendation in that report was "The Panel recommends that the state consider studying the ferry governance model to determine if opportunities exist for positive change. The Panel feels that the current governance model for WSF is outside of the norm for public ferry operators and that WSF suffers from excessive oversight."

In response to that recommendation Governor Gregoire asked PVA to undertake a follow-up study. The focus of the study was to "identify and outline the governance models used in ferry systems in North America...and how they would apply to the operations of the Washington State Ferries Division." The full text of the Governor's letter to PVA may be found in Appendix A.

The report examines six governance models used by ferry operators in North America, each of which offers a role for the public sector in important ways distinct from WSF. One thing that quickly becomes clear is the degree to which each system's form of governance—which encompasses the means by which policy is established, the sources from which resources are drawn, and how decisions about any and every aspect of operating the system are made—is particular to that system's unique history, geography, demographics, and culture. In every case, in nearly every respect, the system of governance that has evolved goes back decades, and in several cases, over a hundred years.

That said, there are insights to be drawn by taking a comparative look at other systems of governance. As demonstrated by BC Ferries, it is possible for a government entity to radically restructure their ferry service. Likewise, the public-private partnership model that has built new terminal infrastructure for the reemergence of privately owned and operated passenger ferries in the New York metropolitan area demonstrates a means of the public sector supporting service without being wholly responsible for all of the costs and liabilities it entails.

There are, of course, other governance structures, but these six models are representative of successful operations. The models selected for study, and their associated ferry systems, are as follow:

¹ "WSF Expert Panel Report", Passenger Vessel Association, Alexandria, Virginia, September 2010.

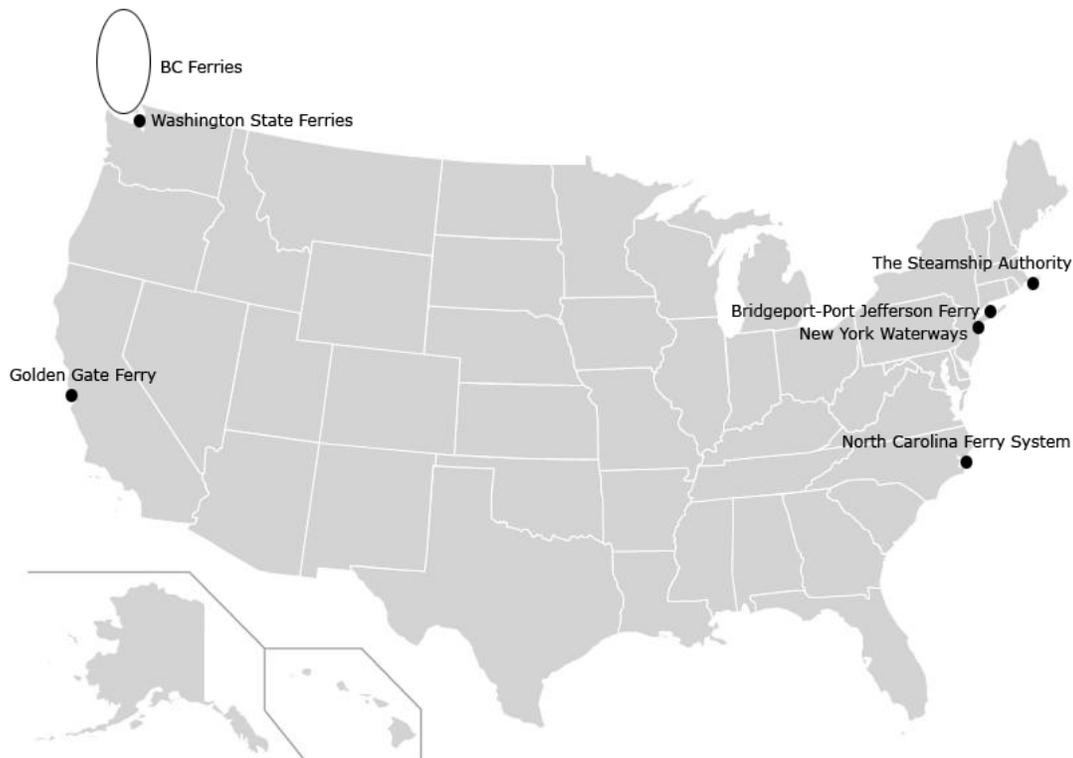


Figure 1 – Location of Selected Ferry Systems

- Pure Private Operation – Bridgeport & Port Jefferson Steamboat Company

A private company, owning the vessels and the terminals, is free to establish schedules, rates, and business practices that create financial return within the regulatory constraints. They operate with no assistance from state, city or federal government, nor do they receive funds from those entities. Private ferry companies are common in Europe, both as publicly traded companies such as Moby Lines and SNCM, as well as privately held companies such as Stena Lines and P&O. There has been significant interest in recent years for private equity companies to invest in established ferry companies².

Private ferry companies are uncommon in the United States. One of the few is the Bridgeport and Port Jefferson Steamboat Company which was established in 1883. The company is currently owned by a privately held family business, McAllister Towing and Transportation which is headquartered in New York City. With a fleet of three vessels,

² Private equity fund investment in the European ferry industry, Alfred J. Baird, Transport Research Institute (TRI), Edinburgh Napier University, Scotland, 2009

the ferry company provides year-round daily service between Long Island and the Connecticut shore for both passengers and vehicles.

- Public/Private Partnership – NY Waterway

A private company, operating vessels that are either owned or leased by the operator, works with public agencies to develop routes and their associated terminals. The company pays for use of the public facilities that they use, but is free to establish schedules, rates, and business practices for the operation that creates financial return within the regulatory constraints associated with operating passenger vessels.

NY Waterway is a joint operation of two ferry companies, Port Imperial Ferry and BillyBey Ferry. As NY Waterway, they operate a fleet of 32 vessels between terminals along the New Jersey side of the Hudson River and the island of Manhattan. The vessels are privately owned while the terminals are publicly owned. NY Waterways both pays fees for using the terminals and receives payment to manage some of the terminals. Both public agencies and the private ferry companies cooperate to coordinate the ferry services with other transit modes such as buses, subways, and trains.

- Independent Authority – Woods Hole, Martha's Vineyard and Nantucket Steamboat Authority

A public authority, financially independent of local or state government, which owns and operates ferries and terminals for the benefit of the local communities. The authority is responsible for operating efficiently and balancing revenues with expenses while meeting regulatory constraints. They answer to a Board of Directors, that represents the communities that the ferry services. The authority receives no subsidy under normal operating conditions.

The Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority (SSA) was created by an act of the Massachusetts legislature in 1960. The Authority provides year-round daily service from the ports of Wood's Hole and Hyannis to the islands of Martha's Vineyard and Nantucket. The fleet of nine vessels carries vehicles, freight, and passengers.

- Publicly Owned Corporation – BC Ferries

A corporation whose business is to provide transportation services with some level of subsidy from the regional government. The corporation is governed as a commercial entity with a Board of Directors, but has its shares held on behalf of the public. The corporation owns the vessels and leases terminals from the government.

The origins of BC Ferries are very similar to WSF where the provincial government took over private ferry operations in order to guaranty a basic level of transportation to its citizens along the coast. In 2003 the Province of British Columbia turned over the vessels and the operations to a new entity that was structured to run as a private

corporation whose sole shareholder was the government. BC Ferries operates 36 vessels on 25 routes and carries 21 million passengers annually.

- Transportation District – Golden Gate Ferry

A public entity operating multiple modes of transportation along a major corridor for the economic benefit of a defined geographical area. Ferry operations are one portion of the larger transportation entity that is designed to work together to serve the communities and may be subsidized by the other modes or by taxation within the geographical area. The vessels and terminals are owned by the district.

Golden Gate Ferry was created in 1970 as a division of the Golden Gate Bridge and Transportation District. It operates a fleet of seven passenger-only vessels which connect two terminals on the north side of San Francisco Bay to a ferry terminal on the downtown San Francisco waterfront. Both the ferry division and a bus division are subsidized by tolls from the bridge and receive their capital funding from bonds issued by the bridge district.

- State Transportation Division – North Carolina Ferry System

A separate division within a state department of transportation benefiting from statewide revenue. The ferry system owns and operates vessels and terminals as part of a mandate to provide basic transportation infrastructure. Public revenues may be supplemented by tolls or other revenue sources.

The North Carolina Ferry System is a division within the State's Department of Transportation. It provides ferry service to the islands of the Outer Banks and across portions of Pamlico and Currituck Sounds, operating 21 vessels from 13 terminals. The system benefits from a high level of subsidy to moves both vehicles and passengers on seven routes.

The study team gathered information on these models through desktop research and telephone interviews with senior managers. Of interest to the team were specifics on how policies were established, what were the sources of revenue for both operations and capital projects, who had the authority to set schedules and fares, and establishment and organization of the governance structure. From this information, the team identified each model's advantages and disadvantages, a summary of which follows:

Table 1: Summary of Governance Models

Form of Governance	Key Features	Advantages	Disadvantages
Pure Private Operator		Little or no financial impact to public transportation agencies	Service provision is dependent on economic viability for the private operator, making long-time sustainability uncertain
Example: Bridgeport & Port Jefferson Steamboat Company	"For profit" corporation	Little or no political risk to elected officials	Little or no public influence over service or routing decisions
	Typically owns vessels and terminals	Reliability and sustainability of public service is not highly susceptible to political forces	May depend on access to public resources for landside infrastructure and connections
		Private operators often see the highest return on investment	May be subject to regulations from bodies such as utilities and transportation commissions
		Service levels and routing can be adjusted relatively quickly in response to changing market conditions	Service is structured around routes with highest ROI, as opposed to those with the highest payoff in terms of public interest goals including social equity and greenhouse impacts. Cannot and will not sustain a route or service schedule that is not profitable.
		Potential for some public oversight through a utilities commission without incurring public staffing and administrative costs	In the absence of public subsidy, fares may be at a premium. May not be able to leverage capital costs without a larger entity/public entity to back loans or bonds.
Private Operator Using Publicly Owned Assets		Allows for sharing of financial burden and risk between private "for-profit" companies and public agencies	May require public subsidy to fund capital or operating costs

Form of Governance	Key Features	Advantages	Disadvantages
Example: NY Waterway	"For profit" corporation	Reduces public fiscal commitment	New public revenue sources may be needed, depending on chosen subsidy levels
	Typically owns vessels and leases terminal rights	Provides access to public funding that can reduce financial barriers for private operators enough to make service viable	Could result in lost public investment should the private operator decide to back out
		Allows public sector to participate in service planning	Public sector may have limited ability to exercise quality control over private operators
		Leverages revenue via docking fees and or development fees	To the extent that the private operator is allowed to use assets for revenue generating activities such as sightseeing excursions during off-peak hours, freedom around service expansion and changes for the public sector is limited
		Maximizes flexibility in service funding, development and delivery	
		Public contributions can come in many forms—investment in capital infrastructure (e.g., vessels, docks, terminals), in-kind permitting assistance, and even in providing access to fuel cooperative agreements	
Independent Authority			
Example: SSA	Independent public entity	System is directly responsive to the communities it serves	Increased financial burden for the communities

Form of Governance	Key Features	Advantages	Disadvantages
	Owns vessels and terminals	Access to government sources of capital including bonds, grants, or federal funds	Generally higher fares since there is no source of subsidy
		Planning and funding are isolated from other government demands or programs	Inability to spread risk, such as rapid rise in fuel prices, over a larger population
Publicly Owned Corporation			
Example: BC Ferries	Operates as a private "not-for-profit" entity	Management is isolated from outside influence	Key stakeholders such as customers or employees may feel marginalized
	Owns vessels but leases land and terminals	Capital projects can move on a commercial basis with reduced costs	Transportation costs and their impact on regional economics are not part of a larger economic strategy
		Can respond quickly to changing economic environments by altering levels of service or toll structures	Public may feel that compensation for management is out of line with their expectations for basic services
		Can develop long-term capital and operating strategies to improve efficiency	Requires on-going subsidies from government to provide basic transportation to isolated communities
		Finances are transparent and subject to periodic approvals by the public shareholders	High fares on unsubsidized routes may adversely impact economy or pose a greater burden to some sectors
		Can continue to operate on routes that are unprofitable	

Form of Governance	Key Features	Advantages	Disadvantages
Transportation District			
Example: Golden Gate Ferry	Ferries are one of several transportation modes managed by the district	System is accountable to its customers and regional citizenry	Constrained by district regulations for procurement and employment, which may hinder the systems ability to change
	Owns vessels and terminals	Funding sources are clearly defined and aligned with the mission	The economic burden may not be equitably divided among differing modes and customer groups
		Management is more isolated from outside influences	Should the regional economy suffer, the district would be susceptible to financial stress
		Finances are transparent and subject to periodic approvals by the governing board	
State Transportation Division			
Example: North Carolina Ferry System	Division of a state department of transportation	Responsive to public through election of the Governor as chief executive	Subject to inefficiencies as part of a large bureaucracy
	Owns vessels and terminals	Benefits from having a broad funding base	Needs to contend with other divisions for funding and support
		Can provide vital transportation links to geographically isolated communities that have low ridership but high importance	May require high levels of subsidy

The team also looked at WSF's current governance to identify areas to contrast with the other models. WSF is characterized by having key aspects of its operation subject to control by outside entities. Examples of this include labor negotiations (handled by the state Office of Labor Relations), fare setting (responsibility of the Transportation Commission), and capital funding (subject to biennial appropriations by the Legislature). This fractured governance hinders long-term planning, prevents control of expenditures, and absorbs valuable time from senior management.

In order for Washington State to alter its current governance, action will be required from the executive and legislative branches, and possibly the voters. Depending upon the form of governance selected there could be judicial challenges, transportation policy will need to be debated, the state constitution may require revision, and additional revenue sources will need to be established. The Washington State Transportation Commission examined the latter in a report titled "Long-Term Ferry Funding Study."³ The revenue sources they examined may be subject to a recently passed citizen's initiative (Initiative 1053), that limits tax increases unless approved by a super majority in the Legislature. Solving the finances of the ferry system, regardless of governance, will be challenging.

Several management best practices were identified as a result of this study and are worthy of consideration in the future governance of any successful ferry operation:

- A clear vision and mission for the system facilitates governance.
- Setting performance goals and giving authority over revenues and expenses to the management team facilitates operational efficiencies.
- If the system operates with a subsidy, there needs to be a predictable, long-term funding source identified for both operations and capital construction.
- Oversight of the ferry service functions best when there is a dedicated board that is free from day-to-day political influence.
- The optimal size of a governing board is 15 to 20 members.
- Matching the governance structure to the complexity of the operation is vital for success.
- Any change in governance should be part of a broader discussion on transportation policy and the role of government.

The study team did not identify any one governance model as superior to the others. Tradeoffs, advantages and disadvantages are associated with each. If the state determines a change in governance is appropriate, there will need to be additional evaluation of the full scope of requirements.

³ "Long-Term Ferry Funding Study", prepared for the Washington State Transportation Commission by Cambridge Systematics, Oakland, California, February 2009.

PURPOSE

This report was developed by the PVA at the request of Governor Gregoire (Appendix A). The purpose is to gather information on various governance models for ferry systems operating in North America. These models can then be compared to the current governance system for WSF in order to identify practices or structures that may be of benefit to Washington State.

METHODOLOGY

The report team identified seven basic governance models that represent the spectrum of ferry operations in North America. Each governance model was then linked to an existing operator to provide factual information about how the governance operates and how it reflects the scope and nature of the ferry operations that employ that particular governance method.

Interviews

Telephone interviews were conducted with the senior manager for each of the ferry systems. The people interviewed, and the associated ferry systems, were as follows:

- Wayne Lamson, General Manager - Woods Hole, Martha's Vineyard and Nantucket Steamboat Authority
- Fred Hall, General Manager - Bridgeport & Port Jefferson Steamboat Company
- Armand Pohan, Chairman of the Board – Port Imperial Ferry Corp.
- Paul Goodman, President – BillyBey Ferry
- Jim Westmoreland, Deputy Secretary for Transit, NC Department of Transportation - North Carolina Ferry System
- Jim Swindler, Assistant Secretary – Golden Gate Ferry
- David Hahn, Executive Director, and Rob Clarke, Chief Financial Officer – BC Ferries
- David Moseley, Assistant Secretary of Transportation – Washington State Ferries

Desktop Research

Information from the telephone interview was supplemented by various reports, articles, and budget documents provided by the interviewees and from searching the web.

GOVERNANCE MODELS

Any of the governance models and their associated ferry systems would be worthy of an extensive analysis. In this report, the team has tried to briefly describe each model as viewed through an actual ferry operation. Basic facts about each system may be found at the beginning of each section and in Appendix B. Where possible, additional sources of information have been identified in footnotes should the reader wish to explore further.

All of the ferry operators, whether in the US or Canada, operate in a highly regulated environment, subject to strict safety, security and environmental protection standards and

inspection by federal agencies. At the state and provincial levels they are impacted by permitting, taxation, business reporting requirements, and environmental issues. At the local level, they must work with the community leaders with regard to zoning, traffic regulations, noise impacts on other businesses, and local ordinances.

WSF Current Structure

General

- Form of governance: Oversight through the Executive branch of state government with key functions subject to oversight by other agencies and legislative committees
- 22,400,000 Passengers carried annually
- 10,000,000 Vehicles carried annually
- 20 Terminals
- 21 Vessels
- 9 Routes ranging in length from 2 to 35 nautical miles
- Typical Fare: \$11.85 for car and driver, one way
- Farebox Recovery: 70.5% for Fiscal Year 2010 operations

Description

Management of WSF is complex, with multiple entities involved in operational and capital decisions. Trying to coordinate these groups, with their diverse priorities, has presented significant challenges to WSF. For these reasons, the PVA Expert Panel recommended that alternative governance structures be examined. Some specific examples of governance challenges are as follow:

1. As a result of funding by the Legislature, lawmakers can impose budget provisos that require actions by the ferry system. These budget provisos have included requirements to conduct specific studies or provide reports to the Legislature. This is expensive in terms of senior staff time and detracts from the core mission. Appendix A of the Final Long-Range Plan contains a list of recent budget provisos.⁴
2. As part of the funding mechanisms, WSF must justify any improvements to the fleet. For example, if WSF needs to replace obsolete radars, new radars are seen as an improvement and WSF must prepare documentation to justify why new equipment is needed.
3. Because WSF's funding is tied to biennial state budgets, it is difficult for WSF to make long-range plans since their budgets are subject to change. This is especially acute with regard to capital needs for the system. These require multi-year commitments and may be tied into federal funding given the large sums involved. Without predictable sources of capital, WSF will continue to be challenged in dealing with aging infrastructure.
4. WSF often has to respond to requests by specific legislators. For example, after the withdrawal from service of the steel-electric ferries, WSF intended to provide passenger-only ferry service between Port Townsend and Keystone. However, the

⁴ Appendix A – Summary of Legislative Requirements, Final Long-Range Plan, Washington State Department of Transportation, Ferries Division, June 30, 2009.

Legislature directed WSF to provide vehicle service. This led to WSF leasing the STEILACOOM II from Pierce County at a cost of \$100,000 per month.

5. WSF tries to meet diverse needs of its customers. Some routes are oriented to urban commuters with strong needs for intermodal connections, such as the Seattle to Bainbridge Island route. Other routes, such as the inter-island service in the San Juan Islands, provide essential connections to less populated communities. WSF sometimes is challenged to allocate their resources without regard to costs or efficiencies.

- Governance

Prior to 2006, Washington State Department of Transportation (WSDOT), including WSF, was overseen by the Washington State Transportation Commission (Commission), whose members are appointed by the Governor but are not subject to executive direction. The Commission is no longer responsible for the overall operation of WSDOT or the approval of the department's budget and legislative policy package. However, the Commission has retained many of its other functions, including the setting of ferry fares and highway tolls. They also review the performance and outcome measures of state and local transportation related agencies such as WSF and are required under current law to conduct surveys of ferry customers every two years. The Commission holds regular public hearings in Olympia and at sites across the state.

Currently WSF is a division of WSDOT, which has been a cabinet agency since July 2006. WSF is led by an Assistant Secretary of Transportation, David Moseley, who reports to the Secretary of Transportation, Paula Hammond. The Governor appoints the Secretary.

The ferry system depends upon the Legislature for funding for both operating and capital needs. Consequently, the Transportation Committees in both the House and Senate have significant influence on WSF operations and long-range planning. The House and Senate Joint Transportation Committee (JTC) was created by the Legislature in 2005. The JTC is charged with reviewing and researching transportation programs within WSDOT, with the intent of informing state and local government policymakers, including other legislators. The executive committee of the JTC consists of the chairs and ranking members of the House and Senate committees. Other members are appointed by the executive committee.

In the 1980's, the Legislature authorized a network of Ferry Advisory Committees (FACs) to be appointed by local governments where ferry terminals exist. These advisory groups consist of representatives of an established ferry-user group or of frequent users of the ferry system, a representative of a commercial firm dependent on the ferry system, and a member of a local government-planning agency or its staff. Every member must reside in the local county, and not more than three can belong to a major political party. The chairman of several FACs serves on an executive committee of the WSF users. FAC often advises WSF directly, as well as the Commission and the JTC.

The Washington State Utilities and Transportation Commission (WSUTC), a separate entity as well as a transportation oversight provider, is responsible for the registration and regulation of

common carrier ferry vessels. This means that any carrier who wants to start up a new service, such as passenger-only service across the Sound, must apply for registration by the Commission. They may have a role in any change in WSF's governance.

The Washington State Auditor's Office conducts periodic audits of government agencies, including WSDOT. The Office of Financial Management (OFM) is responsible for tracking and achieving audit resolution and reporting to appropriate legislative committees by the end of each year, prior to the budget process. As part of the shift in governance in 2006, the authority for labor negotiations was removed from the ferry system and transferred to OFM.

The WSF management team has limited control over revenues or expenses. With regard to operating expenditures, the two largest expense items, labor (59% of the total) and fuel (21% of the total), are largely outside of management's control. That leaves only 20% of the budget that can be managed for cost efficiencies.

One tenet of good management is to set clear goals for the management team and then allow them to develop strategies and tactics to achieve those goals. This means that oversight of management should be periodic, not continuous.

The current organization chart for WSF is shown below.

- Competition

Commercial ferry operations are subject to approval by the WSUTC, which has the authority to grant a Certificate of Public Convenience and Necessity as provided in Chapter 81.84 RCW and Chapter 480-51 WAC. These permits restrict the tolls that can be charged, the percentage of profit that can be made, and obligate certain performance levels, and serve to protect WSF from inequitable competition. In 2005, the WSUTC approved passenger-only ferry service from Bremerton to Seattle and from Kingston to Seattle, both of which have since been suspended. (Kingston to Seattle service was reinitiated in October 2010). The state restricts operation of private ferries that would directly compete with WSF.

The primary alternative to using the ferries for persons with vehicles is to drive around, crossing Puget Sound via the Tacoma Narrows bridges, or driving all the way South to Olympia. Drivers using the international route from Sydney, British Columbia have the choice of either taking the Black Ball Transport ferry COHO between Port Angeles and Victoria or the BC Ferry system between Swartz Bay and Tsawwassen. For passengers without a vehicle there are some passenger-only ferry services such as King County's service between the northern end of Vashon Island and downtown Seattle as well as Clipper Navigation's service between Victoria and Seattle.

- Assets

WSF owns and operates a diverse fleet of 21 vessels. The vessels range in size from the HIYU with a capacity of 34 vehicles to the TACOMA with a capacity for 202 vehicles. The oldest ferry was built in 1947 while the newest vessel entered the fleet in November 2010.

WSF also owns 16 terminal properties and leases property for five others. The terminals range in size from the small dock on Shaw Island to the main terminal at Pier 52 in Seattle, commonly known as Colman Dock.

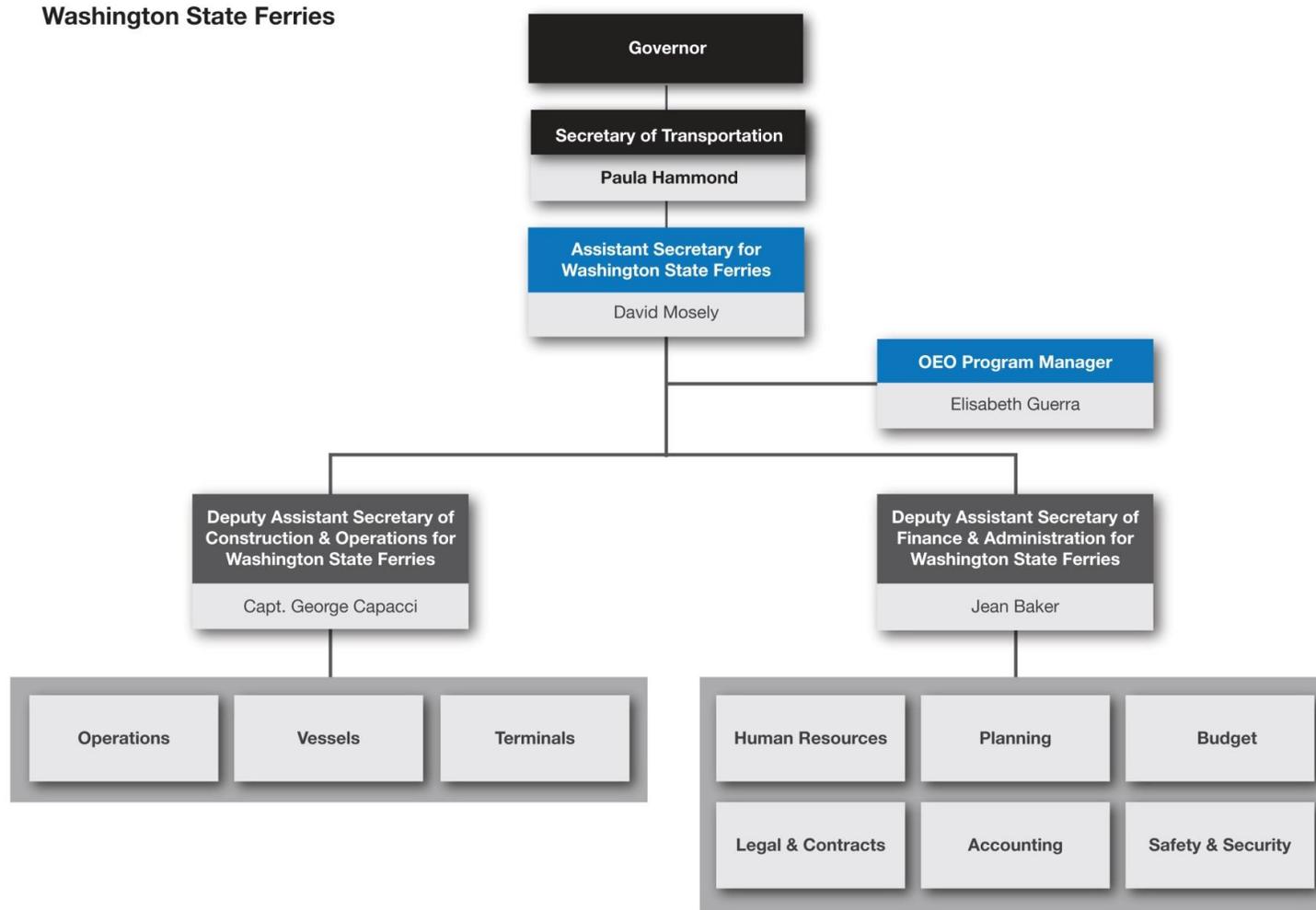


Figure 2 – WSF Organization Chart
PASSENGER VESSEL ASSOCIATION
WSF Governance Study

- Finance

With an annual operating budget of approximately \$228 million, WSF is substantially larger than all of the other ferry systems examined as case studies in this report, except for BC Ferries (see below).

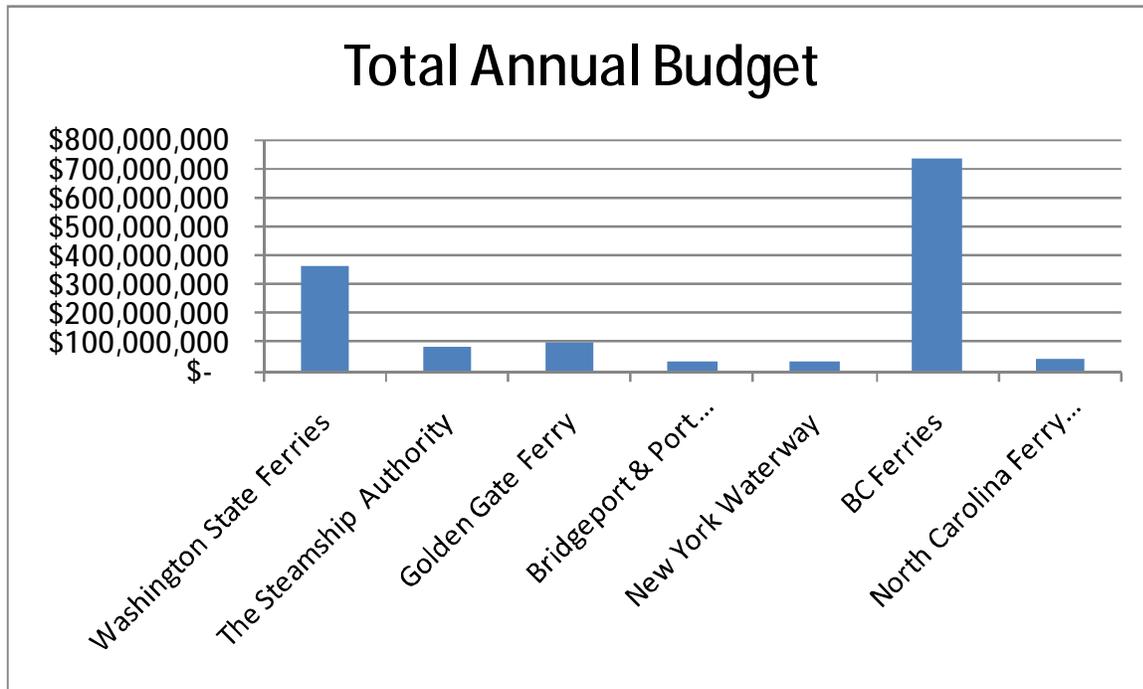


Figure 3 – Budget Comparisons

WSF lost 20% of its operating support and 75% of its dedicated capital funding when voters approved I-695 in 1999 and the legislature enacted the Motor Vehicle Excise Tax (MVET) tax reductions during the 2000 legislative session. Since that time, funding gaps have been filled with transfers from general transportation resources. In the 2011-13 bienniums, dedicated ferry accounts are \$83 million short without transfers from other transportation accounts. Washington State's General Obligation Bonds have a rating of Aa1 from Moody's Investor Services so WSF benefits from the state's good credit rating.

As the largest ferry system in the nation, WSF would likely be successful in competing for federal ferry funding projects, including Congress, the Federal Transit Administration, and the Federal Highways Works Administration. Currently WSF is challenged in pursuing federal grants that require matching funds because WSF cannot commit to the expenditures since the Legislature might not allocate the funds. This has eliminated WSF from some vital sources of capital funding.

- Scheduling

The level of service provided by WSF is developed by ferry system management in conjunction with the Ferry Advisory Committees and WSDOT. This is another example where WSF is subject

to outside authority for a key aspect of its operation. WSDOT's responsibilities are defined in a recently passed bill:

"The department of transportation, in consultation with local governments, shall set level of service standards for state highways and state ferry routes of statewide significance. Although the department shall consult with local governments when setting level of service standards, the department retains authority to make final decisions regarding level of service standards for state highways and state ferry routes of statewide significance. In establishing level of service standards for state highways and state ferry routes of statewide significance, the department shall consider the necessary balance between providing for the free inter-jurisdictional movement of people and goods and the needs of local communities using these facilities. When setting the level of service standards under this section for state ferry routes, the department may allow for a standard that is adjustable for seasonality."⁵

- Labor

OFM's Labor Relations Office negotiates most state union contracts. Since Washington State is set up on a biennium budget cycle, contracts can only be handled in two-year cycles, with negotiations beginning many months prior to the expiry of each contract. WSF managers participate in all negotiations but do not have the ultimate authority to direct the negotiations. Prior to 2006, Human Resources at WSF had been in charge of all labor relations, along with all other HR responsibilities.

- Customer Interactions

With ferry operations, service issues arise daily due to the nearly 24/7 service 365 days a year. WSF has historically had a vigorous dialogue with the Ferry Advisory Committees around Puget Sound to hear and respond to the concerns of the customers.

- Fares

The Commission is designated the State Tolling Authority and as such, sets all state highway and bridge tolls as well as setting fares for WSF. The Commission approved a 2.5% overall fare increase at their November 15, 2010 meeting in Seattle. An additional 2% increase was added to the inter-island fares to achieve route equity. The 20% peak season surcharge for passenger fares in the San Juan Islands was eliminated, as was the day-of-week pricing.

One of the recommendations from the PVA Expert Panel Study was to give WSF more control over their revenues:

⁵ Engrossed Substitute House Bill 2358, 2007.

"The Panel recommends that WSF institute a policy of automatic fare increases tied to the start of the fiscal calendar and that WSF have authority to set fares. If WSF's fares rise predictably, then the region can plan and adapt accordingly."

Advantages

- Legislators representing affected citizens may be able to avoid fare increase by negotiating for other funding sources.
- Long-range transportation planning could coordinate the ferry system with other transportation modes.

Disadvantages

- Every time there is an election in Washington, it affects the ferry system. Every new state representative and senator coming to Olympia has the power to affect the system; regardless of their district in the state or their knowledge of ferry operations. These factors make continuity a challenge.
- Washington State owns all the right of way for highways, but WSF is currently leasing the property for their terminals at Kingston and Anacortes. The Legislature has blocked attempts by WSF to purchase these properties with the result that WSF is more subject to conditions imposed by those communities on their terminals, such as whether WSF can provide services to waiting customers, such as food services.

Legal Issues

WSF is not a separate legal entity, but is instead an administrative division of WSDOT. (RCW 47.01.081(1)) WSDOT is a "department of state government" (RCW 47.01.031(1)). WSDOT is managed by a Secretary of Transportation who is appointed by the Governor, with the advice and consent of the state Senate, and who serves "at the pleasure of the governor." (RCW 47.01.041) There is an Assistant Secretary of Transportation for WSF, who is appointed by the Secretary. (RCW 47.01.081(2))

The Transportation Commission (TC) is primarily an advisory body consisting of seven voting members appointed by the Governor with the consent of the Senate, for six-year terms, plus a non-voting member who is either the Governor or a designee of the Governor. (RCW 47.01.051)

WSDOT runs WSF (RCW 47.56.030(1)(a)), however, the TC sets ferry tolls and charges. (RCW 47.56.030(1)(b))

Pure Private Operator (Bridgeport & Port Jefferson Model)

General

- Form of governance: Privately held company
- Passengers carried: 1,000,000
- Vehicles carried: 380,000
- Terminals: Two
- Vessels: Three
- Routes: Single with a distance of 17 n.m.
- Typical Fare: \$51.00 for a car and driver, one-way
- Farebox Recovery: 100% for operations and capital

Description

The Bridgeport & Port Jefferson Steamboat Company (BPJ) was founded in 1883 by the renowned showman P.T. Barnum. His goal was to connect the agricultural products of Long Island with Bridgeport, the largest city in Connecticut. In 1982 the ferry company operated a single vessel and carried approximately 200,000 passengers and 35,000 vehicles. The modern era started in 1983 with the first new build vessel since 1898. Since 1984, the system has operated 365 days a year on the 17-nautical mile route between the two communities. Additional new vessels were added to the fleet in 1986, 1989 and 2003.

The company's peak year for traffic was in 2005 when they transported 460,000 cars and a million passengers. The company currently operates three vessels on the 75-minute crossing. The traffic varies seasonally with the greatest traffic in the summer months.

- Governance

BPJ is a wholly owned subsidiary of McAllister Towing and Transportation Company, a New York based tug and barge company whose origins date to 1864. BPJ is lead by a General Manager, Fred Hall, who reports directly to the President of McAllister, Capt. Brian A. McAllister (see Figure 5 below).

BPJ owns a portfolio of property on the New York side of their route, including their terminal in Port Jefferson. Their terminal is located at the end of NY 25A and is some 1 miles north of the Port Jefferson terminal of the Long Island Railroad. The company also leases some land from the Town of Brookhaven to supplement the terminal property. Approximately 60% of the total vehicle traffic originates on the New York side, including some bus traffic to carry Long Island residents to the casinos in Connecticut.

On the Connecticut side of their route, they lease the entire terminal property from the Bridgeport Port Authority. The Bridgeport terminal is located close to the train station and Bridgeport Bus terminal. It also has substantial parking facilities in close proximity. BPJ operates a shuttle bus service in Bridgeport to link the ferry terminal to satellite parking areas. Consequently, 60% to 65% of the walk-on traffic originates on the Connecticut side of the route.

Bridgeport & Port Jefferson Steamboat Company

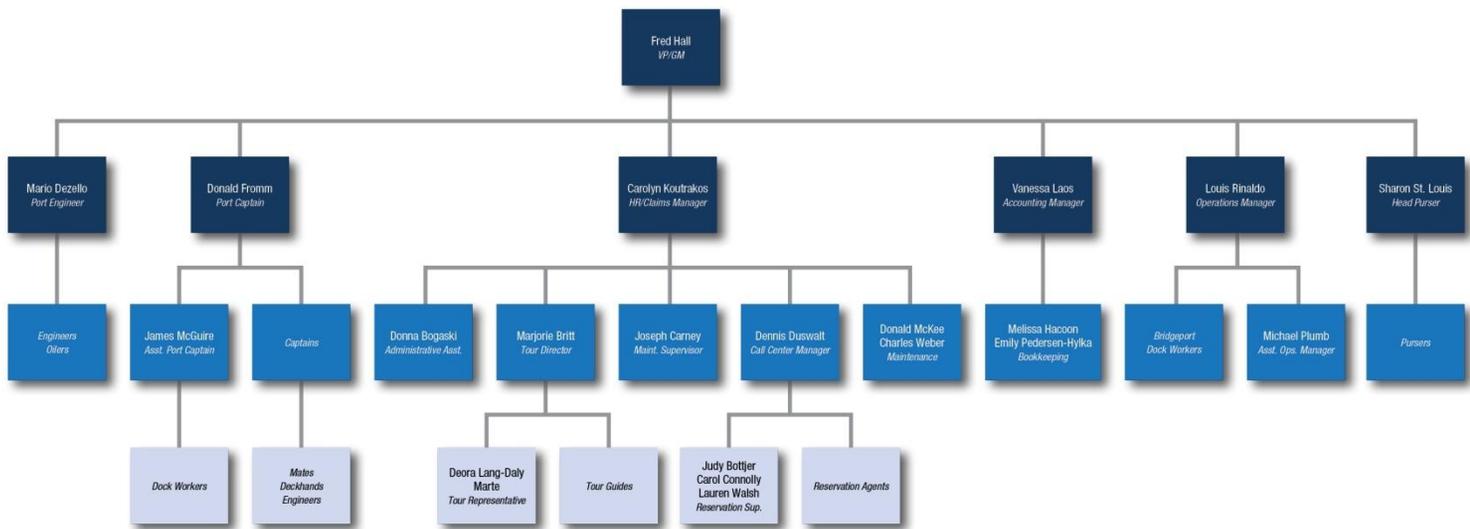


Figure 4 – BPJ Organization Chart

BPJ's relationship with the Bridgeport Port Authority has been contentious due to the latter's decision to impose a head tax on ferry customers. The goal and objective of the city when they established the port authority was to create an economic development tool. BPJ successfully sued the Port Authority on the basis that the head tax was being used to fund activities not directly related to the ferry or the ferry customers

- Competition

BPJ's New York terminal is located approximately half way along the north shore of Long Island. Customers wishing to go to Connecticut or further into New England have a choice of either driving down I-495 on Long Island, across the Throgs Neck Bridge, and up I-95 on the Connecticut shore or going east on I-495 until it ends and then on to Route 25 to Orient Point. From there, customers can take another privately operated ferry, Cross Sound Ferry, to New London, Connecticut, and then getting on I-95. BPJ shares approximately 25% of the market with Cross Sound Ferries.⁶ Congestion on I-95 is a key reason why the ferry services across Long Island Sound can compete with the road system.

- Assets

The three vessels operated by BPJ are the PARK CITY, the P.T. BARNUM, and the GRAND REPUBLIC. The former has a capacity of approximately 95 automobiles while the latter two have capacities of approximately 120 automobiles. All are certified for up to 1000 passengers. Each vessel has a food service area, a lounge serving alcoholic beverages, indoor seating areas, and outdoor areas.

BPJ conducts the majority of their maintenance at their terminal in Port Jefferson. Work items that involve drydocking or extensive topsides work is bid out to local shipyards ranging from New London to Staten Island. There is a new drydock facility at the Derecktor Shipyard in Bridgeport that will be a benefit to BPJ. At a minimum, when the vessels are away at a shipyard, BPJ has the port captain and the port engineer in attendance.

- Finance

Annual revenues for BPJ exceed \$25 million. As a private company, BPJ has little access to federal funds so they primarily rely upon commercial banking for debt financing. Their General Manager, Fred Hall, has stated: "We will use any mechanism that makes sense at the time." One creative method BPJ has employed was to tap into industrial revenue bonds backed by Suffolk's County, New York. They were able to find a bank willing to buy the bonds at a rate below a standard commercial loan. The vessel depreciation remains with BPJ, so they get the tax benefits.

On the terminal side, BPJ has traditionally worked with the City of Bridgeport. The city, however, realized that creating a port authority would yield advantages in terms of grant

⁶ "Connecticut-Long Island Case Study," Project H-40: *Guidelines for Ferry Transportation Services—A National Overview*, Transit Cooperative Research Program (TCRP) May 2010.

funding. Consequently, dock improvements to the Bridgeport terminal were the result of a public-private partnership whereby the port authority was able to bring federal Ferry Boat Discretionary Fund money to Bridgeport.

On the Long Island side, the last government interaction BPJ had in capital construction was an \$800,000 grant in the late 1980s to rebuild a pier in Port Jefferson. This was a tripartite deal with the Town of Brookhaven, the state of New York, and BPJ. The term of the deal is 35 years, which reflects the estimated service life of the pier materials.

- Scheduling

BPJ are entirely free to set its own schedule. As part of the grant conditions to rebuild the piers on the New York side, BPJ did agree to operate daily, weather and equipment permitting. Their demand is greatest whenever public schools are not in session, and they are able to flex their schedule accordingly, adding extra sailings on Fridays and Saturdays to accommodate traffic demands. This is due to the primarily recreational traffic that they carry. Sixty percent (60%) of their market originates on Long Island, so they bias their schedules to suit that demand. They carry almost no commuters and relatively little freight.

To boost traffic they are trying to attract walk-on passengers from Connecticut to Port Jefferson. The boat becomes a way for folks to get out of New York City for recreation. BPJ has experimented with fares and schedules to promote this effort, including allowing children to ride free. Being privately held gives them great flexibility to experiment and adapt to changing customer preferences.

- Labor

BPJ employs 110 staff year-round with up to an additional 60 during the summer season. All employees of the BPJ ferry, management, crews and staff enjoy the same benefit package as the company believes that there is one common focus and goal for all, that of customer service. The Captains are the on-board representatives of the company with both the discretion and responsibility for meeting performance standards in respect of schedules, cleanliness and customer service.

BPJ has six full time crews which are supplemented by a pool of part-time employees. For the use of part-time employees to be successful, BPJ has developed a very nimble and focused HR team. Their crews work a 6.5-hour shift one day and a 9.5 shift the next day, followed by a 24-hour break.

- Customer Interactions

BPJ is customer focused and believes they have a good reputation with their customers for on time service as well as a pleasant customer-focused means of travel. BPJ conducts numerous surveys with their customer group and have an active email program with the few commuters they carry.

Good relations with local politicians and agencies are the biggest part of the BPJ manager's job, which he views as critical in controlling risk from regulations or local ordinances.

- Fares

BPJ sets their fares based on customer demand and market conditions. BPJ used to have to file fares with the Interstate Commerce Commission for approval. Since that organization has been eliminated, the responsibilities for fare regulation were handed to the Surface Transportation Board (STB). The STB is a federal economic regulatory agency within the US Department of Transportation, primarily charged with resolving freight railroad rate and service disputes, reviewing proposed rail mergers, rail line purchases, constructions and abandonments. The STB basically leaves the ferry industry alone, so BPJ is free to set rates.

BPJ have experimented with creating a fuel surcharge, but mistimed the introduction of the surcharge. Their customers complained about a rate increase when fuel prices were falling so BPJ has learned to get in early and get out early with any surcharge. They will also likely share the surcharge formula with their customers, so there is transparency and customers do not believe BPJ is being arbitrary or capricious.

Advantages

- BPJ can work with their parent company, McAllister Towing & Transportation, to negotiate commercial insurance directly on the London market. They can also access services such a payroll, accounting, and legal.
- If they decide to add new features to their existing vessels, or make investments in crew training, they can do so quickly.
- As a private company, they are not bound by the elaborate regulations associated with public agencies. This allows them freedom in negotiating contracts, selecting suppliers, and adjusting their staffing.
- They can take advantage of private sector service delivery expertise and efficiencies in operations.
- Service levels and routing can be adjusted relatively quickly in response to changing market conditions.
- Service is not susceptible to political interference.
- Very minimal financial burden on public sector in terms of costs associated with vessels , and terminals.

Disadvantages

- Public interest is subject to economic viability of private operator, making long-term sustainability uncertain.
- Service is structured around Return on Investment, as opposed to public interest goals
- Service and routes are structured around private sector's profit motive, as opposed to public interest, however defined.
- New York and Connecticut have no control over the level, allocation, and quality of ferry service, which may indeed constitute a crucial "public good."

- Since the village of Port Jefferson dislikes truck traffic that simply transits through their community, BPJ has agreed to not solicit such traffic, thereby denying themselves a potential source of additional revenue. As a private company, BPJ cannot force public agencies to cooperate with their business objectives they can only persuade them.
- New York and Connecticut are considering designating Long Island Sound as a zero discharge zone. Currently, BPJ uses onboard US Coast Guard-certified systems for treatment of black and gray water. If the designation proceeds, BPJ will be forced to modify their vessels to retain waste onboard for discharge ashore. This is an example of costs associated with new regulations and requirements being outside of the control of BPJ, whereas, however BPJ will have to bear all costs of such modifications will have to be borne by BPJ.
- Being a private operator limits BPJ's ability to seek federal funding. Consequently, they actively look for public-private partnership opportunities. For example, they were able to access some Ferry Boat Discretionary funds for their Bridgeport terminal by working in concert with the local port authority who also received funding for new bulkheads and waterfront beautification.
- New York and Connecticut have no control over the level, allocation, and quality of ferry service, which may indeed constitute a crucial "public good."
- In the absence of a public subsidy, fares are at a market rate, reflecting the convenience of taking the ferry compared to driving around. This makes the service unaffordable to some citizens.
- Public interest is subject to economic viability of private operator, making long-term sustainability uncertain.
- Service is structured around Return on Investment, as opposed to public interest goals
- Service and routes are structured around private sector's profit motive, as opposed to public interest, however defined.

Legal Issues

BPJ is incorporated in the state of Connecticut.

Private Operator Using Publicly Owned Assets (NY Waterway Model)

General

- Form of governance: Public-Private Partnership in which public sector develops a and provides terminal infrastructure and in which private, for-profit ferry companies operate service, using their own vessels
- 7,800,000 passengers carried annually
- Passenger-only service, no vehicles or trucks carries
- 13 terminals (10 on the New Jersey side and 3 in Manhattan)
- 33 vessels
- 16 routes, ranging in length from just under a n.m. to several n.m.s
- Typical Fare: Single round-trip ticket from Hoboken to Midtown Manhattan is \$10
- Farebox Recovery: 100% for operations and capital (vessels only)

Description

- History

NY Waterway is a privately owned and operated company that runs ferry and bus service on 16 routes between New Jersey and lower and midtown Manhattan. NY Waterway is headquartered in Weehawken, New Jersey. It was selected as a case study because it represents a form of public-private partnership in which the public sector provides the landside terminal infrastructure, while the private operator supplies the vessels and operates the service without any public operating subsidy.

While it is not the only private ferry operator in New York Harbor, it is by far the largest, carrying 30,000 passengers per day (8 million annually) on 16 routes. It is also the longest operating (since 1986). It is instructive as a case study because its ownership and management have done more than any other operator to influence and benefit from the development of over \$350 million over the last several decades of publicly funded terminal infrastructure investment.⁷

The New York metropolitan area is unique as a transit market. The population density throughout the five boroughs, across the Hudson River in New Jersey, and into Connecticut, combined with one of the world's highest employment densities on Manhattan, have both contributed to and reflect a highly productive multimodal transit network that comprises subways, light and heavy commuter rail lines, buses, and ferries. One indication of the region's

⁷ Although the focus in this case study is on NY Waterway, because of the size and longevity of its operations, it is important to note that NY Waterway was not the only ferry operator active between the reemergence of ferries in the region in the late 1980s. In fact, between 1986 and 2006, many private operators tried their hands at providing service among the five boroughs. In all, 22 different operators tried 46 different ferry routes. Of these routes, fewer than half have panned out and are still in operation, and only four operators, largest among them NY Waterway, are still in business.

transit richness is the fact that one in three transit users in the country lives in the metropolitan area. A related characteristic is the lowest rated of vehicle ownership of any U.S. city.

The region's ferry system is unique in North America in that, with the notable exception of the Staten Island Ferry,⁸ it is privately owned, and operations are entirely self-sustaining from farebox revenues. Elsewhere in the U.S. and in Canada, ferry systems are operated under a variety of governance and funding models, but virtually all receive operating support from public sources. The region is also unique in terms of the complexity and number of agencies and organizations with an interest in ferry service as an element of the public transportation system. Listed in the table below are the public sector agencies that have some role in facilitating ferry service within the region.

The history of ferry operations in the New York City metropolitan region has much in common with other urban areas, including San Francisco, Seattle, and Vancouver, BC. In all of these cities, privately owned and operated ferries flourished until bridges and tunnels were built, which had radical effects on the key parameters of travel mode choice—cost and travel time—and which led to the rapid demise of ferries as a means of mass transit. Whereas nearly 300,000 ferry trips across the Hudson per day were estimated in 1922, the number had declined to 113,000 a day following an expansion of the Lincoln Tunnel, and by 1967, the last two ferries across the Hudson had gone out of business.

Privately operated ferries were absent from the region until 1986, when the company that would become NY Waterway was founded by Arthur E. Imperatore, Sr., who viewed ferry service from a property he had recently acquired in New Jersey to Manhattan as a way of making that real estate more accessible and thus more valuable. Initially, his vessels called on temporary terminals on both sides of the Hudson. Since then, NY Waterway has worked closely with public sector transit and transportation agencies to integrate NY Waterway's ferry service with other transportation modes, including park and ride facilities, bus transit, heavy rail, and light rail, through joint development at terminals on both sides of the Hudson.

The public sector interest in facilitating ferry transit is driven in part to overcrowding on existing land-based transit systems. The Port Authority of New York and New Jersey, for instance, which operates Port Authority Trans-Hudson (PATH) commuter rail, which connects the Newark Airport and cities in New Jersey to Manhattan, faces increasingly serious overcrowding on its Hoboken service. Alleviating the crowding would require lengthening station platforms at both sides of the route so that longer trains carrying more passengers could be used.

⁸ The Staten Island Ferry, which is owned and operated by the New York City Department of Transportation, and which runs a single route between lower Manhattan and Staten Island, is completely subsidized; no fares are collected. This situation is in part a function of the fact that the borough of Staten Island is unique among the five boroughs in that it has no subway network connecting it to Manhattan or any of the other boroughs. For this reason, the Staten Island Ferry serves a critical transit function for Staten Island. The Staten Island Ferry carries 22 million passengers per year, or about 60,000 per day.

Table 2. Public Sector Players and the Nature of Their Involvement in Ferries in the New York Metropolitan Region

Entity	Description and Major Functions	Relationship to Regional Ferry Service.
<ul style="list-style-type: none"> Port Authority of New York and New Jersey (PANYNJ) 	<ul style="list-style-type: none"> Bi-state quasi-governmental agency with a wide-ranging economic development and transportation mandate Operate the six Hudson River crossings, including the Holland Tunnel; Operates PATH, the 14-mile rapid transit railroad that runs beneath the Hudson between New Jersey and Manhattan that links Newark Airport, Harrison, Jersey City, and Hoboken with lower and midtown Manhattan. Operates the region's three major airports. Operates Port Newark and Port Elizabeth. The Port Authority is financially self-supporting and receives no tax revenue from either state. 	<ul style="list-style-type: none"> First became interested in ferry service in the 1980s as a possible alternative to costly expansion of the PATH rail system linking New Jersey and lower and midtown Manhattan Has taken a lead role in planning and coordinating ferry service in the region, including sponsorship of an interagency study of private ferry services that is considering, among other issues, whether ferry service should be publicly subsidized.
<ul style="list-style-type: none"> New York City Economic Development Corporation (NYCEDC) 	<ul style="list-style-type: none"> The NYCEDC is the city's official economic development organization. Develops real estate, leveraging partnerships between the public and private sectors. Manages city properties and assets, including waterfront infrastructure. 	<ul style="list-style-type: none"> EDC's job is to develop ferry facility projects, while it is the NYCDOT's job to build and maintain them EDC cannot build or maintain ferry facilities because it is not a formal NYC department, but a separate corporation Have taken the lead in planning and coordinating ferry service, including sponsorship of an interagency
<ul style="list-style-type: none"> New York City Department of Transportation (NYCDOT) 	<ul style="list-style-type: none"> In addition to owning and operating the Staten Island Ferry, the NYCDOT operates and maintains several ferry terminals. 	<ul style="list-style-type: none"> Now in charge of Pier 11, 90th Street, 34th Street, Brooklyn Army Terminal, Battery Marine Terminal, and Yankee Stadium, and the two termini of the Staten Island Ferry Collects landing fees from private ferry operators. These fees go to maintain the facilities Provides "license" for use of these slots, but do not regulate operations or fares Does not provide operating subsidies for privately owned ferry operations (SIF is wholly subsidized, and collects no fares)

Entity	Description and Major Functions	Relationship to Regional Ferry Service.
		<ul style="list-style-type: none"> • Manages ferry-related grants from the federal government, including discretionary grants funded through legislation and Congressional earmarks—from New York State perspective • Have worked jointly with the Metro North Railroad in the development of two trans-Hudson ferry routes in the Hudson Valley, including provision of limited operating and capital funding • Do not regulate ferry service
<ul style="list-style-type: none"> • New Jersey Department of Transportation 	<ul style="list-style-type: none"> • State department of transportation with responsibility for all modes, including highways. 	<ul style="list-style-type: none"> • Also manages ferry-related grants from the federal government—from New Jersey State perspective • Also do not regulate ferry service
<ul style="list-style-type: none"> • New Jersey Transit 	<ul style="list-style-type: none"> • Statewide transit agency that operates the commuter rail and light rail network within the state and most of its bus operations. 	<ul style="list-style-type: none"> • Responsibilities for serving interstate riders between New Jersey and New York have fueled their interest in an effective transit network that includes ferries • This has led them to support capital projects for ferries in Weehawkn and Hoboken • Although they have not supported ferries with operating funds, they have support NY Waterway by allowing the piggybacking of fuel contracts and joint-ticketing arrangements. • Concerned about the ferry services that would compete with their rail services.

Such improvements would be extremely costly, and the Port Authority has viewed Trans-Hudson ferry service as a less costly means of increasing capacity. As a result, the Port Authority has been an active contributor to the development of new permanent terminals on north side of the Hudson.

The events of 9/11 had profound effects on the region's ferries in the region as they were pressed into service as a means of evacuating lower Manhattan in the immediate aftermath of the attacks, and as they experienced huge jumps in ridership due to the destruction of the World Trade Center PATH rail station, a major transportation node carrying tens of thousands of commuters to Wall Street jobs daily. Following the attacks, 20 new ferry routes, 14 operated by NY Waterway, emerged to meet the sudden demand. The vessels procured to operate the routes were underwritten in part by federal emergency funding. NY Waterway expanded its fleet quickly to provide needed capacity and an additional landing site at the Battery was built by the Port Authority to receive ferries. Peak average weekday ridership reached 70,000 by October 2002, a 95% increase. However, the region's new reliance on ferry service was short-lived, and once the PATH station near what had been the World Trade Center reopened, in December 2003, ridership fell, and only four of the new services created in the aftermath of 9/11 survived. NY Waterway struggled to make payments on the vessels and buses it had acquired to meet the higher volumes of demand, and in February 2005, they entered into an agreement with BillyBey Ferry Company, whereby BillyBey took ownership of a portion of NY Waterway's service in exchange for assumption of \$19 million of NY Waterway debt. Today BillyBey controls the Hoboken operations and those from Liberty Harbor and Port Liberte, which combine to carry 9,900 passengers. Meanwhile, Port Imperial Ferry Corporation, doing business as NY Waterway, retains ownership of the Weehawken routes, among others. Both companies continue to operate under the NY Waterway flag and brand.

Port Imperial and BillyBey have continued to face financial struggles, even as they retain their status as the largest and most successful privately operated ferry service in the region. A relatively recent indication of the company's distress was a March 15, 2009 article in *Crain's New York Business* that interviewed company founder and CEO Arthur Imperatore, Sr., and that reported that the "company could go bankrupt this year." The article cited diminished ridership and revenues and the bank's failure to renew a 3-year equipment loan as contributors to the company's financial condition. Imperatore was also reported as expressing the wish that a public agency, such as New Jersey Transit or the Port Authority of New York and New Jersey, acquire the company, based on his contention that "the ferry business is part of the mass transit system and should be supported by public funds."

Although the company has not since filed for bankruptcy, the Port Authority of New York and New Jersey has convened a Working Group of representatives of public transportation agencies from both New York and New Jersey to consider whether, and under what circumstances, a more substantial public sector role in ferry service, including operating subsidies, would be

justified.⁹ The working group's deliberations and findings will be captured in a study report that is expected within the next several months.¹⁰ That study, too, is exploring alternative operating and governance models from North America.

- Governance

The basic "model" for public-private partnerships around ferry service in the New York City metropolitan area is one in which the public sector develops and owns ferry terminal facilities. Terminal operations are often contracted to the private sector and terminal maintenance is funded in part by landing fees paid by private operators.

Since reinstatement of ferry service in the Region in the late 1980s, public entities have invested in excess of \$350 million in ferry docking facilities. Most of these funds have been spent in four locations—two in New Jersey and two in Manhattan. Under this model, the public sector has provided "patient" capital investment, that is, a durable source of funds not captive to an immediate return on investment.¹¹ Under this model, the public sector makes no contributions made to private operators' vessel fleets or to subsidization of operating costs. In fact, across the board, public sector agencies have resisted private operators' calls for public subsidies.

On the New Jersey side, the public investments have been focused at Weehawken and Hoboken, and on the New York side they have been focused at new terminals at the World Financial Center and at Pier 79, in Midtown Manhattan. Funding has generally been pieced together from agencies at local, regional, state and federal levels, including the Federal Transit Administration, the Federal Highway Administration, the New York Department of Transportation, the New Jersey Department of Transportation, the Port Authority of New York and New Jersey, the Metropolitan Transportation Authority, the New York City Council, and the Hoboken City Council.

The private entities own and operate the vessels and pay to use the public facilities. For an example of the organizational structure of a private entity see Figure 7 below.

⁹ Working Group members include the Port Authority of New York and New Jersey, the New York City Department of Transportation, the New York City Economic Development Corporation, the Metropolitan Transportation Authority, the New York State Department of Transportation, the New Jersey Department of Transportation, and New Jersey Transit.

¹⁰ Among the issues being explored in the Port Authority work are the following: How can the investment in ferry service operations be justified from a public interest perspective, especially with the current fiscal realities faced by all the other transportation providers? In order to answer the foregoing, how should the public benefit be measured to justify the public investment? Once measurement of public benefit has been detailed, what should the public role in expanding ferry service in the Region be?

¹¹ Ferries in the Region: Challenges and Opportunities, by Jeff Zupan, Regional Plan Association (2009).

- Competition

NY Waterway's service is best characterized as a "premium" transit alternative, used by passengers who are willing and able to pay a fare that is several times more expensive than the public transit alternative. While the NY Waterway fare between Hoboken and Midtown Manhattan is \$10, the same trip can be made on a PATH train trip for \$1.75. While PATH trains are frequently crowded and noisy, the NY Waterway trip affords passengers ample personal space, harbor views, more comfortable seating, and on-board restrooms and concessions.

- Assets

Port Imperial and BillyBey split what had been a 32-vessel fleet in 2005, when NY Waterway was divided. The companies must cover the entire cost of maintaining existing vessels and acquiring new ones, which are financed through commercial loans. The companies also own a fleet of buses which are used to carry passengers into Manhattan from the somewhat remote terminals on the island's west side. They are likewise responsible for all capital and operating costs associated with these buses. NY Waterway vessels call on publicly owned and operated terminals in New Jersey and New York.

Port Imperial Ferry Corp.

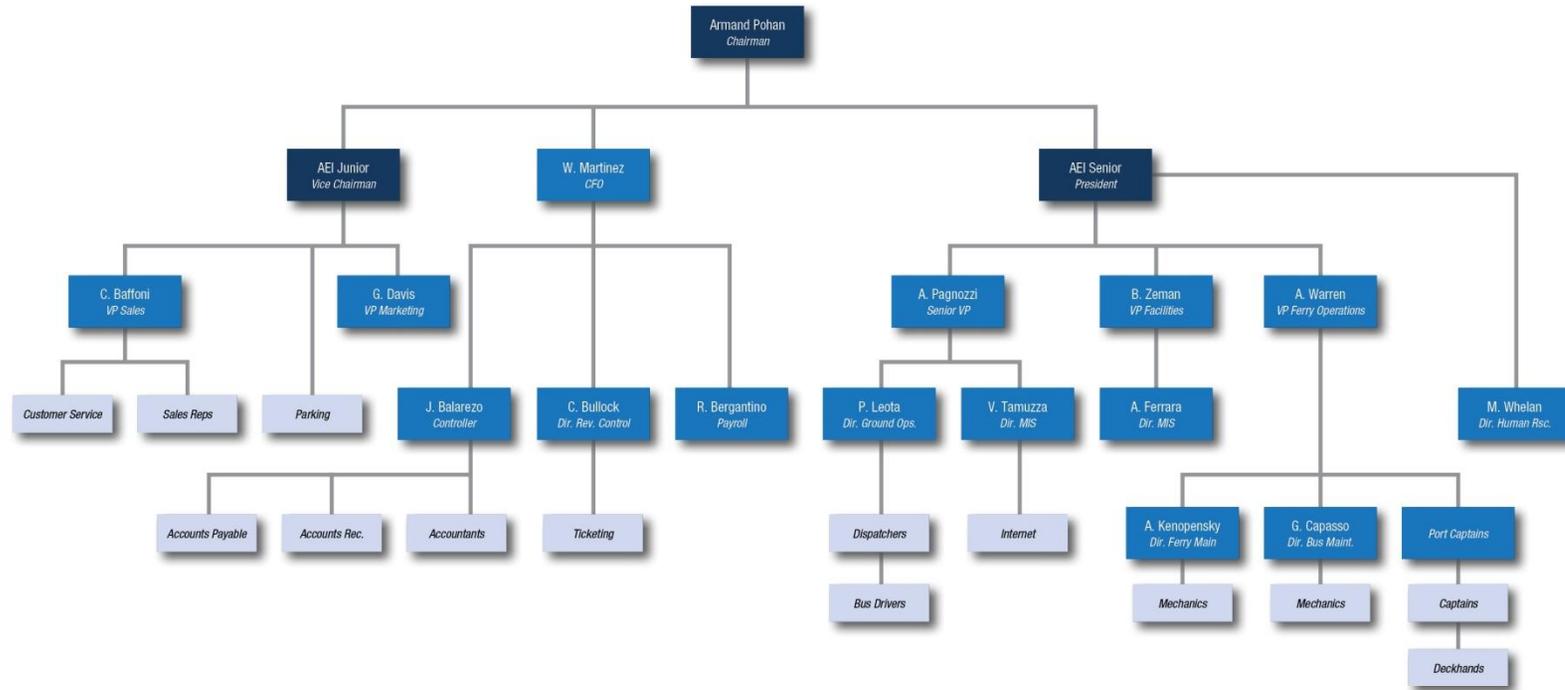


Figure 5 – Port Imperial Ferry Corp. Organization Chart

Examples of the Public Private Partnership in New York City—Four Terminal Projects

Port Imperial Weehawken Ferry Terminal

The Port Imperial Weehawken Ferry Terminal, built by and owned by New Jersey Transit, opened in May 2006. The modern facility, which offers views of Manhattan through a massive glass curtain, functions as an intermodal hub, bringing together light rail, bus, and ferry service. NY Waterway leases the facility from New Jersey Transit. NY Waterway operates more than 100 sailings per weekday from the terminal, which is equipped to serve four vessels simultaneously and 12,000 passengers per hour. The new facility replaces an aging and undersized terminal that had been used since ferry operations from Weehawken were initiated in 1986.

The project was approved by the New Jersey Department of Transportation under the State's Public Private Partnership Act of 1997, which provides funding for demonstration projects involving the private sector that enhance public transportation and related services in New Jersey. An early project plan estimated the total cost of the facility at about \$25 million, with 83% of the funding to be provided by federal sources and the remainder to be provided by state funding, including the State Transportation Trust Fund. The new facility has over 20,000 square feet, which includes space for passenger waiting and concessions.



Figure 6. Port Imperial Weehawken Ferry Terminal

Hoboken Ferry Terminal

Among the most exciting public investments in ferry infrastructure in the New York metropolitan area is the historic renovation of the Hoboken Terminal, now underway. This terminal, located on the Hudson River waterfront, is one of the New York Metropolitan area's major transportation hubs. In addition to serving as a terminal for NY Waterway's service to Manhattan, it is served by nine New Jersey Transit commuter rail lines, a Metro-North Railroad

line, various New Jersey Transit buses and private bus lines, the Hudson-Bergen Light Rail line, and the PATH rapid transit system. More than 50,000 people use the terminal daily.

Renovation of this century-old multimodal terminal will include restoration of its original ferry slips, long in disuse, which were built in 1907. The existence of six original slips attests to the importance of ferry transit in the early history of the Hoboken Terminal. At the time the terminal was built, and for the first several decades of its operation, ferries were the only means of crossing the Hudson. As tunnels and PATH rail system were built beneath the Hudson, ferry service died off. Between 1967 and the reemergence of ferry service brought about through creation of NY Waterway in 1989, there was no ferry service at all from the Hoboken Terminal. Since 1989, NY Waterway has been running its vessels from a temporary floating dock at the south end of the station.

In early 2003, New Jersey Transit and the Port Authority entered into an agreement to allow for the restoration of the Hoboken Terminal ferry slips and supporting infrastructure, with the goal of returning ferry service to its original location, while protecting and enhancing the historic assets of the terminal. The overall project, which also includes improvements to other parts of the terminal, will restore all six of the terminal's original ferry slips. In addition to restoring the slips, the project will provide a new ferry passenger waiting room and ticket offices with restored historical details. It also includes structural repairs, roof repairs, skylight restoration, and interior finishing work. The overall project, which began in 2004, is estimated at \$119 million and is being led by New Jersey Transit.

The project has received major infusions of federal funding, including a \$10 million earmark authorized under the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFE-TEA LU). The Port Authority of New York and New Jersey will also be contributing approximately \$43 million from its own sources, as well as bringing \$17 million worth of Federal Transit Administration funding.



Figure 7. The original ferry slips at the historical Hoboken Terminal, pictured above, will be restored for service in 2011 by private ferry operators.

West Midtown Ferry Terminal

In October 2005, the West Midtown Ferry Terminal, located at Piers 78 and 79 in Hudson River Park, adjacent to the West Side Highway at West 39th was opened to the public, replacing a makeshift slip created some 20 years ago. The new terminal, equipped with seven slips, has 30,000 square feet, and features an indoor passenger waiting area, a café, and office space being leased NY Waterway (at a rate of about \$13,000 per month) as the base of its New York operations.

The lead agency for the project's development was the New York City Economic Development Corporation, and funding for the \$56 million project was cobbled together from sources including Federal transportation funding (\$38.4 million); city funding (\$12.3 million); and a state contribution (\$3.3 million). In addition, the Federal Emergency Management Administration covered the costs of dredging necessary to ensure that the facility could accommodate vessels of various drafts.¹² NY Waterway contributed \$2 million in a deal reached prior to its 2005 financial crisis that forced the company to sell off a portion of its service and assets to BillyBey. NY Waterway is the only current user, though the facility envisioned as eventually serving various private ferry operators.

¹² The attacks of 9/11, as well as NY Waterway's effective and heroic rescue efforts during the "Miracle on the Hudson," in which all passengers from the US Airways jet forced to land on the Hudson were saved, demonstrated the important emergency response and recovery role played by waterborne transit in New York Harbor.



Figure 8. The West Midtown Ferry Terminal was built with \$56 million worth of federal, local, state, and private funding. Located at West 39th Street in midtown Manhattan, it is used by NY Waterway.

World Financial Center Terminal

In March 2009, The Port Authority of New York and New Jersey opened a new floating ferry terminal with a striking modern design just north of Battery Park City and adjacent to the World Financial Center. The World Financial Center is a major new development that comprises 8 million square feet of office, retail and public space spread across 14 acres. Ironically, the new terminal opened during the same week in which the article about NY Waterway's threatened bankruptcy appeared. The new facility replaces a "temporary" tent-based terminal and float that had been in place for 20 years. The terminal's design, which features open breezeways and ample glass, is intended to preserve views of the Hudson from adjacent properties and to integrate with surrounding public space. Up to five vessels can dock at this facility at one time, either bow loading or side loading. The project's "hard" costs are reported at \$50 million; although "soft" costs, including fees and interest, brought the total to \$91.5 million.¹³

¹³ "Downtown Gets a New Ferry Terminal," *New York Times*, March 17, 2009.



Figure 9. NY Waterway vessel calls on the new ferry terminal funded by the Port Authority of New York and New Jersey adjacent to the World Financial Center.

- Finance

Both NY Waterway and BillyBey are privately held companies for which annual reports or other forms of financial documentation are not publicly available. However, a CATO institute article from January 2009 entitled "NY Waterway: A Private Transit Success Story," reported that the company earned \$33.1 million on \$21.4 million of expenses in 2007, according to a posting in the National Transit Database.

- Scheduling

NY Waterway may adjust their schedules as they see fit to retain the company's profitability. They are not regulated by any utilities commission or similar regulatory body.

- Labor

The Seafarers' International Union represents vessel employees of NY Waterway, and the Amalgamated Transit Union represents their bus transit employees. Labor relations are among the areas in which executives of NY Waterway feel that the private sector can negotiate much more efficiently than the public sector, for reasons including unions' greater ability to exert political influence within the context of public agencies.

- Customer Interactions

NY Waterway staffs a call center for customer inquiries seven days a week. In addition, social media including Facebook and Twitter is used to elicit comments and input from customers and to disseminate information ranging from traffic and service alerts to special offers and promotions. The company's Facebook site also features a forum for regular ferry commuters.

- Fares

Fares from Hoboken and Jersey City to Midtown and lower Manhattan run \$10 for a single, one-way trip, and monthly passes can be purchased for \$282. This compares to a single, one-way fare on the PATH rail system of \$1.75, and a monthly pass cost of \$54.

Advantages

- Takes advantage of private sector service delivery expertise and efficiencies in operations.
- Service levels and routing can be adjusted relatively quickly in response to changing market conditions.
- Service is not susceptible to political interference.
- Minimizes financial burden on public sector in terms of costs associated with vessels and operations.

Disadvantages

- Limited control over the level, allocation, and quality of ferry service, which may indeed constitute a crucial "public good."
- In the absence of a public subsidy, fares may be at a premium, making services unaffordable to many, calling into question the appropriateness of public investment in terminal infrastructure.
- Public interest is subject to economic viability of private operator, making long-term sustainability uncertain.
- Service is structured around ROI, as opposed to public interest goals such as reduction of greenhouse impacts, social equity, etc.
- Could result in lost public investment should private operator(s) back out for whatever reason, including bankruptcy.
- Service and routes are structured around private sector's profit motive, as opposed to public interest, however defined.
- Some members of the public have questioned the appropriateness of public funding of a facility intended for the use of a single operator. This in the case of New Jersey Transit funding the Port Imperial Weehawken Ferry Terminal.¹⁴
- From a transportation equity perspective, some may also question the appropriateness of using public funding to support a "premium" transit mode that is affordable to a relatively small percentage of the tax-paying population.
- Because responsibility for policy and funding is shared among states, coordination is an issue.
- Despite the fact that the New York Metropolitan region is among the world's most conducive to mass transit, NY Waterway has struggled over the past five years to remain

¹⁴ Mobilizing the Region, Weekly Bulletin for the Tri-State Transportation Campaign, Issue 429, September 15, 2003.

in business. If the unsubsidized model of government is going to work anyplace, it would seem to be in New York City. However, the ultimate financial viability of private ferry service even in this market remains questionable.

- May miss out on maximum opportunities for state, regional federal funding due to private sector focus.

Legal Issues

NY Waterway is incorporated in the state of New Jersey.

Independent Authority (SSA Model)

General

- Form of governance: Local Authority
- 2,700,000 Passengers carried annually
- 450,000 Vehicles and 133,000 Trucks carried annually
- 5 Terminals
- 9 Vessels
- 3 Routes ranging in length from 8 to 26 nautical miles
- Typical Fare: \$74.50 for car and driver, one way from Falmouth to Martha's Vineyard
- Farebox Recovery: 100% for operations and capital

Description

SSA is a public instrumentality created by the Massachusetts Legislature to provide adequate transportation of persons and necessities of life for the islands of Nantucket and Martha's Vineyard. Their enabling legislation empowers SSA to acquire, maintain and operate a boat line between the mainland ports of Woods Hole (Town of Falmouth) and Hyannis (Town of Barnstable) and the islands of Martha's Vineyard and Nantucket. SSA's statutory mission is to serve as the "Lifeline to the Islands," and it is the only ferry service for the islands that carries both passengers and vehicles, including commercial freight trucks.

SSA's clientele includes year-round island residents, a significant seasonal population and tourist group, and the communities that serve as ports through which all traffic to the islands pass. The popularity of the islands for both residential and recreational purposes has been reflected in increasing traffic and demands for service. SSA currently operates nine vessels (including a high-speed passenger-only ferry) carrying passengers, automobiles and freight trucks. The SSA employs 650 people (peak season) with a workforce that is almost totally unionized, with eight bargaining units represented by four different unions.

Since 1962, SSA has had only four annual operating deficits. They have not had to assess the taxpayers of the participating communities for monetary support since 1963. Additionally, SSA has an on-time performance record of nearly 100 % with service interruptions generally caused only by inclement weather.

SSA's operating costs are 100% funded by their farebox. Any operating deficits flow back to the five communities that govern SSA, so they are under tight fiscal constraints. Their board has wide discretion to set rates; these are adjusted annually to ensure sufficient income to meet the projected cost of service.

- Governance

The SSA is governed by a five-member board: A Nantucket resident appointed by the Nantucket County Commissioners; a Martha's Vineyard resident appointed by the Dukes County Commissioners; a Falmouth resident appointed by the Falmouth Selectmen; a Barnstable resident appointed by the Barnstable Town Council; and a New Bedford resident

appointed by the Mayor of New Bedford, with the approval of the New Bedford City Council. Each of the island board members has 35% of the members' combined vote, and each of the mainland board members has 10% of the members' combined vote. The board members are independent of the appointing authority and can only be recalled for malfeasance or incapacity.

Each board position is voluntary with a 3-year term. The chairmanship rotates among the board members. The Board holds monthly public meetings, rotating the meetings among the five communities. They have no independent staff. Any assistance to the board is provided by SSA. The board is responsible for oversight of the General Manager. They have overall authority for setting rates, creating policies, and approving the annual budget.

Besides the governing board, SSA also works with a Port Council, which is composed of representatives from each port they serve: Nantucket, Oak Bluff, Vineyard Haven, Hyannis, Woods Hole, New Bedford, and Fairhaven (where SSA has a vessel maintenance facility). The council members have equal votes and function in an advisory role to the governing board. The Port Council also holds public meetings, so there are many opportunities for public input to the operation of SSA.

SSA is subject to outside audit as part of their enabling legislation. Currently, Deloitte and Touche provide an annual review and report on SSA. In addition to the commercial audit, SSA can be subject to state audit by the Commonwealth of Massachusetts. The state team reviews capital budget requests, the operating budget, and all SSA policies.

The SSA's General Manager receives an annual performance evaluation by the governing board. The evaluation is based on goals that the General Manager sets for the authority, usually including creation or revision of 8-10 policies and definition of the capital projects. Prior to the performance review, the General Manager puts together a report for the board, each member of which prepares a separate evaluation. The seven members of the Port Council also prepare a combined evaluation. One of the board members compiles the separate evaluation form, the board members and the Port Council into a consensus report that is the basis for feedback to the General Manager.

SSA

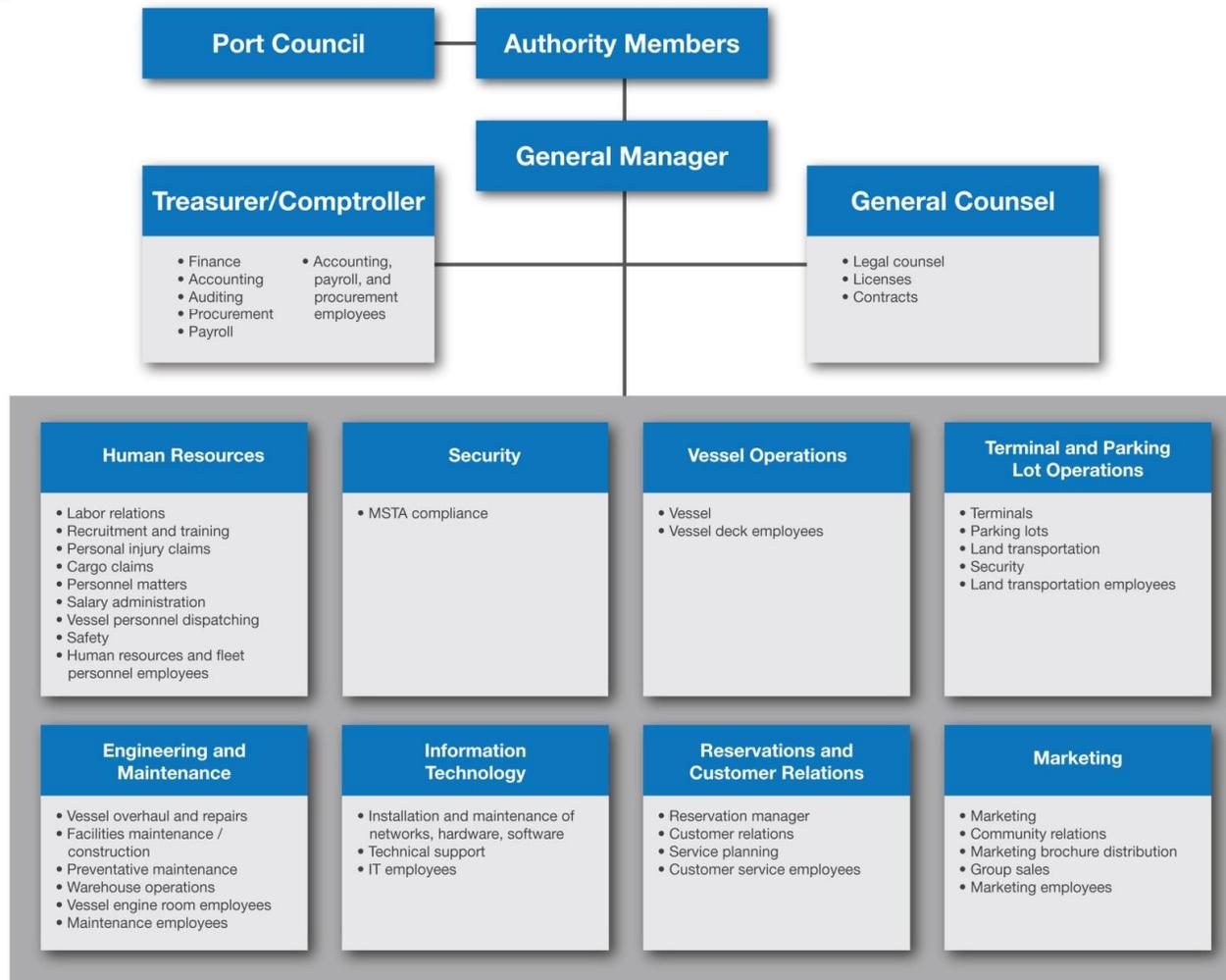


Figure 10 – SSA Organization Chart

- Competition

There are other passenger-only ferry lines serving the islands from Rhode Island, New Bedford, Falmouth, and Hyannis, though some of these only operate during the summer season. There are also air transport connections with both islands. Occasionally construction materials are moved to the islands via commercial tug and barge services.

- Assets

The SSA owns numerous properties including its principal office and terminal in Woods Hole, ferry terminals at Hyannis on Cape Cod, Vineyard Haven and Oak Bluffs on the island of Martha's Vineyard, and a terminal on the island of Nantucket. SSA owns and operates year-round parking lots in Woods Hole and Hyannis, and operates seasonal off-site parking lots in Falmouth, Bourne and Hyannis. They also have a vessel maintenance facility in Fairhaven and a receiving warehouse in Falmouth. In addition, SSA rents property in Edgartown and Mashpee for its two reservation offices.

The SSA has a fleet of nine vessels: one high-speed passenger-only ferry, five passenger-vehicle ferries, and three roll on-roll off vessels, which primarily carry trucks. The passenger-vehicle ferries range from 3 to 55 years of age and are all certificated as Subchapter H passenger vessels by the US Coast Guard. The passenger-only ferry was added to the fleet in 2007; she is an aluminum catamaran certified as a Subchapter T vessel by the US Coast Guard.

SSA will typically take their vessels to Connecticut, either New London or Bridgeport, for haul out, which requires a day sailing either way. For major work, SSA bids the project nationwide and the vessels may be out of service for 4 to 6 months depending upon the shipyard and scope of work.

- Finance

SSA has an annual operating budget of approximately \$79 million. They prepare a capital budget each year, which includes a rolling 5-year capital-planning component. They develop a list of major projects annually and identify long lead issues such as funding, permitting, environmental studies and design efforts. The funding for capital projects comes from a variety of sources including their own bonding authority and Replacement Fund, the Federal Ferry Boat Discretionary Fund, and other federal grant programs. These federal agencies also bring regulations that increase the management effort required for capital projects. SSA has a facilities engineer who is responsible for managing all facilities projects. For vessel projects they rely upon two port engineers to control capital expenditures. The facilities engineer and the two port engineers report to a Director of Engineering and Maintenance.

SSA monitors their progress against the budget on a monthly basis. They can make a mid-course correction should there be a variance between actual expenditures and budgeted expenditures, as they did in 2008 to deal with high fuel prices. They have the authority to make changes in fares and service levels if needed to balance the accounts. There is a dynamic with such decisions in that the more SSA increases the fares, the more it negatively impacts traffic

volume, which may result in a net decrease in revenue. How much SSA can achieve by simply raising fares is thus limited. They have to show their customers that they are also running the system in an efficient manner.

SSA has the authority from the Commonwealth of Massachusetts to issue up to \$75 million in revenue bonds. Their bonds are currently rated Aa2 by Moody's Investor Service. The enabling legislation states: "Steamship bonds issued under the provisions of this act shall not be deemed to constitute a debt of the commonwealth, nor a pledge of the faith and credit of the commonwealth, but the bonds shall be payable solely from the funds herein provided therefore."¹⁵ SSA has a sinking fund to repay their bond obligations with a strict financial formula to ensure regular contributions are made to the fund. SSA also has a reserve fund and a replacement fund where they can accumulate limited amounts of revenue to cover contingencies and depreciation. They are currently paying off the bonds at a rate of \$5 million annually with a balance of approximately \$60 million outstanding. The details on the structure for transfer of revenues to their capital obligations are outlined in the enabling act.

SSA has received some funding from federal programs such as the Ferry Boat Discretionary Fund and direct congressional appropriations. They do not rely on federal funding to any significant extent.

- Scheduling

SSA has free reign to make the business case to the board for changes in service levels or for adding routes. On a rolling basis they set schedules and fares. In October of 2010, they approved the schedules for the summer and fall of 2011. This degree of advance planning is necessary given the demand for preferred slots in their vehicle reservation system. They do have the flexibility to add extra runs, or to shuffle their vessel deployment to some extent during the year to suit changing demand.

- Labor

SSA has a total of 650 employees represented by four unions including the United Auto Workers for their licensed deck officers, MEBA for their licensed engineers and unlicensed vessel employees, SEIU for their reservation clerks and the Teamsters for many of their maintenance, terminal, parking lot and security personnel. The labor contracts are negotiated by the system's General Manager and are not subject to board approval except as part of the budget process.

- Customer Interactions

SSA believes that they provide a high level of customer satisfaction, and respond to the concerns of their customers in a timely manner. Currently, SSA's customer interaction is limited to the public meetings of the governing board or the Port Council. They are looking to expand

¹⁵ Resolutions and Acts 1960, Chapter 701, Section 2
PASSENGER VESSEL ASSOCIATION
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their customer outreach and would like adopt a system similar to WSF with ferry advisory committees and on-line surveys.

- Fares

The General Manager of SSA is responsible for annually preparing a business case for fares as part of the overall budget process. This is presented to the board for review and approval. There is no oversight by state licensing groups or revenue commissions. There is a provision in their legislation that allows a minimum quorum of 10 residents to petition the Department of Public Utilities for a fare review. This has occurred only once since 1972. In that instance, the Department of Public Utilities upheld the authority members' latitude to set fares as they see fit. One challenge in fare setting is to balance out the cost allocations by route. Since any financial loss would impact the two islands equally, there are adjustments during the budget process to ensure that Martha's Vineyard is not subsidizing Nantucket or vice versa.

Advantages

- SSA is an example of a small government entity where public can have direct involvement, both through regular meetings and through voting in their local communities.
- Because SSA has such a local focus, changes can happen quickly. Residents, county commissioners, or selectmen do not hesitate to pick up the telephone and express their concerns. SSA avoids the political challenges associated with top-down governance by state governmental entities whereby the needs of the ferry system are balanced against other interest groups.
- The five communities recognize the need for compromise. One island member cannot get a policy change passed without the help of the other island member or two of the mainland members. There is recognition that it is in everybody's best interest to try to work together and keep the Commonwealth government in Boston out of it.
- As a public authority, SSA has access to government sources of funds including grants, federal funds, and economic development bonds.

Disadvantages

- Even though it is an independent entity, SSA must comply with rules set by the Commonwealth of Massachusetts for fiscal responsibility and transparent governance.
- The five member board, being relatively small, can become dysfunctional unless all five members are capable and committed, with common views as regards the policies of SSA. If there are different visions for the ferry system, the General Manager has a challenge in putting together plans and budgets.
- As capital costs escalate, SSA must work with the Legislature to ensure their bonding limits are aligned with inflation.
- Fares are high since there is no source of subsidy.
- There is an inability to spread risk, such as increased fuel prices, over a larger population base.

Legal Issues

SSA's enabling act provides licensing authority to regulate the carriage of freight by water by private operators between the Massachusetts mainland and the islands, as well as to regulate vessels certified by the US Coast Guard to carry in excess of 40 passengers in their operation between the Massachusetts mainland and the islands. Such provisions, however, do not apply to so-called "grandfathered" services operating prior to May 1973. The SSA currently licenses private ferry operators to provide passenger service between New Bedford and Oak Bluffs (seasonal), New Bedford and Vineyard Haven (seasonal), Falmouth and Edgartown (seasonal), Hyannis and Oak Bluffs (seasonal), Hyannis and Nantucket (both seasonal and year-round), and Harwichport and Nantucket (seasonal).

SSA enabling legislation is Resolutions and Acts 1960, Chapter 701 titled: "An act creating the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, defining its powers and duties, abolishing the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and transferring its assets and liabilities to said newly created authority." See Appendix C for details.

Publicly Owned Corporation (BC Ferries Model)

General

- Form of governance: Publicly Owned Corporation
- 21,000,000 Passengers carried annually
- 8,300,000 Vehicles carried annually
- 47 Terminals
- 36 Vessels
- 25 Routes
- Typical Fare: \$59.50 car and driver, one way Tsawwassen to Swartz Bay
- Farebox Recovery: 51% system wide (100% on major routes; 36% on Northern Routes; and 47% on Other Routes)
- Other Income: Retail concessions are a significant source of income—accounting for some \$81 million CDN annually

Description

- History

As in Puget Sound, ferry services have been operated between the mainland British Columbia and the islands off its coast for over 150 years. In the mid-1800s, the Hudson's Bay Company operated initial service between Vancouver Island and the Vancouver metropolitan area. By 1901, Canadian Pacific Railway had taken over ferry service across the Strait of Georgia and continued transporting passengers and vehicles on a five-hour journey between downtown Vancouver and downtown Victoria until the 1960s. Meanwhile in the 1950s, Black Ball Ferry Line, which also operated ferries in Puget Sound, began service between West Vancouver and Nanaimo, as well as to the Sunshine Coats and Jervis Inlet south of the Powell River.

As was the case with WSF, a strike led to the government takeover of coastal ferry service in British Columbia. The British Columbia Government formed BC Ferries in 1958 in reaction to a strike by employees of private carriers that crippled coastal ferry service and convinced the premier at the time, W.A.C. Bennett, that ferry services were an essential government service that needed to be owned and operated by government.

BC Ferries' first route, commissioned in 1960, was between Swartz Bay, north of Sidney on Vancouver, and Tsawwassen, using just two vessels. The early 1960s saw a dramatic growth of the BC ferry system, as it took over operations of the Black Ball Ferry Line and other major private companies providing vehicle ferry service between Vancouver Island and the Lower Mainland. As the ferry system expanded and started to service other small coastal communities, BC Ferries built more vessels, many of them in the first five years of its operations, to keep pace with demand. Eleven ships were built in the 1960s. The route between Port Hardy and Prince Rupert was initiated in 1966. Fleet and service expansion continued in the 1970s with the growth of BC's coastal economy.

At its 1958 inception, BC Ferries was a division of the British Columbia Toll Highways and Bridges Authority. It became a Crown Corporation in 1977, and this legislation remained in place until amendments were instituted in 2000 to provide sustainable funding. As a Crown Corporation, provincial government had the authority to direct BC Ferries' actions in the following areas, to name but a few:

- Provincial government appointed the Board of Directors;
- Provincial government provided BC Ferries with an annual grant to cover operating losses;
- Provincial government had to review and approve capital expenditures in advance;
- Provincial government had direct control over tariff increases and service planning, including implementation of new routes and cancellation or changes in the level of service on existing routes.

The vast majority of the vessels in the fleet were built in BC waters, with only two foreign purchases and one domestic purchase. In the mid-1980s, BC Ferries took over the operations of the saltwater branch of the BC Ministry of Transportation and Highways, which ran ferry services to very small coastal communities. This action dramatically increased the size of BC Ferries' fleet and its geographical service area.

BC Ferries has undergone a remarkable transformation in governance, funding and business practice over the past ten years, with the organization's restructuring in 2003 as a major milestone in its evolution. In 2003, BC Ferries was substantially "reinvented" as a government-related entity with considerable independence from provincial and federal government. The catalyst for BC Ferries' transformation was the "Fast Ferry Fiasco", as it is referred to locally. In the mid-1990s, the provincial government decided to use BC Ferries to advance the Province's goal of supporting BC's foundering shipbuilding industry by building a "Pacifcat Class" fleet of custom designed, high-speed catamaran ferries, the first of which were for BC ferries. The Government was attempting to emulate the success of Australian shipbuilders such as Incat in Tasmania and Austal Shipbuilding in the global fast ferry market.

Three new vessels were intended to improve service between Horseshoe Bay on the mainland and Departure Bay, in Nanaimo, by providing more frequent service (travel time reduced by 30 minutes), with smaller-capacity ships (250 cars vs. 365). Moreover, trucks were to be banned from the terminals and moved to an alternate ferry route, and a 100% reservation system was to be implemented, eliminating the need for long queues. The three new Pacifcat vessels were built by local shipyards between 1998 and 2000. The project ran into multiple difficulties, as the budget ballooned to \$453 million from its original \$270 million, and as delivery lagged behind schedule by almost three years. Moreover, during the brief period in which the vessels operated, they were beset by problems, including high fuel consumption, susceptibility to mechanical breakdowns, speed reductions brought on by complaints about wake damage to waterfront property and longer than usual loading times due to balancing issues.

Ultimately, the three Pacificat Class vessels were placed for sale and were auctioned for \$19.4 million to the Washington Marine Group, resulting in a write-down of a \$400 million CDN provincial government investment. Repercussions of this politically driven project led to significant institutional changes at BC Ferries, prompted by objectives including the protection of provincial taxpayers from other similar poorly conceived and executed management decisions. Government administrations changed in 2001, leading to an independent review of BC Ferries, its history, and its strategic plan. An excerpt from one such review concluded that,

"BC Ferries is entangled in a web of formal and informal accountability to various government ministry personnel and politicians that it is powerless to change. Its enabling legislation provides that the Province, not BC Ferries' board, make all significant decisions. As a result, the Province's policy imperatives, can at times, conflict with BC Ferries' primary goal of serving its customers. This was most notably the case when the public policy priority to rejuvenate BC's shipbuilding industry, through the export of aluminum ferries, overrode BC Ferries' objective to provide cost-effective, customer-focused ferry service. However, political interference is not limited to such a high profile example. It pervades every important decision whether it involves service levels, tariffs, labour negotiations or the purchase of new vessels." ¹⁶

The report's author, Fred Wright, went on to recommend,

"... that the Province amend the BC Ferries enabling legislation to vest its powers in an independent Board of Directors with responsibility for governing, exempt from political and bureaucratic interference. Under this model, BC Ferries would receive a clear mandate and understanding of the Province's expectations and would annually present its Business Plan, through the Minister of Transport, to the Legislature and would report quarterly on the results of its operations."

These recommendations were consistent with the findings of the Province's Auditor General, George L. Morfitt, who had completed his own review of the Pacificat project two years earlier.¹⁷ Selected conclusions from the Morfitt Report, as it is known, included the following:

- BC Ferries should be fundamentally restructured, with the goal of better separating public policy imperatives and operating decision making; provision of more competitive ferry and transportation services for customers; and less financial exposure for taxpayers.

¹⁶"Review of BC Ferry Corporation and Alternative Uses for the Fast Ferries," Fred R. Wright, FCA, December 2001.

¹⁷ "A Review of the Fast Ferry Project: Governance and Risk Management," British Columbia Office of the Auditor General, George L. Morfitt. 1999/2000 Report 5.

- Restructuring BC Ferries along more commercial lines was expected to result in cost savings, and "...the primary source of cost savings realized by commercializing operations worldwide, as a result of an arm's length relationship with government, derives from the clearer operational focus, reduced overhead, improved operational efficiency, and increased labour productivity."

Ultimately, the Morfitt Report recommended "that the Province review alternative approaches to the delivery of ferry services with the objective of commercializing to the greatest extent possible, the provision of ferry services."

- Governance

The Coastal Ferry Act of 2003, the provincial enabling legislation, created the new governance framework in which BC Ferries was restructured, and remains governed. It was written to strengthen the governance and long-term sustainability of the ferry system by allowing it to operate commercially, and with a minimum of political interference. The Coastal Ferry Act of 2003 is a complex piece of legislation, with dozens of sections specifying details on issues ranging from the respective roles and responsibilities of the Province, BC Ferries and the independent regulator; capital program planning; and the transfer of assets. However, it is based on six clearly stated guiding principles:

1. Priority is to be placed on the financial sustainability of the ferry operators;
2. Ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
3. Ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
4. Ferry operators are to be encouraged to minimize expenses, without adversely affecting their safe compliance with core ferry services;
5. Cross-subsidization from major routes to other designated ferry routes is to be eliminated within the first performance term of the first contract to be entered into under this Act, and before its elimination to be minimized; and
6. The designated ferry routes are to move toward a greater reliance on a user pay system to reduce over time, the service fee contributions by the government.

While the Coastal Ferry Act establishes the governance framework for BC Ferries, the specific terms and conditions between the Province and the operating entity spelled out in the Coastal Service Contract, a 60-year agreement between the Province and BC Ferries. The Coastal Service Contract is the chief means by which provincial government expresses its policy directions with regard to ferry service, including the level of service it wishes to be provided, and in terms of the level of subsidy it is willing and able to provide to make that level of service happen. In sharp contrast to the situation prior to the restructuring, the Coastal Service Contract has become the only direct means via which the Province may exert its direction – and

this now occurs in the context of a financial negotiation over terms and conditions, in short, a fee for service discussion.

Key elements of the contract, including service levels required and the service fees to be paid under this long-term contract are reviewed each four-year performance term. The next review is due in 2012.

Through this contract, the Province pays BC Ferries a specified service fee (approximately \$125 million a year) in return for providing defined numbers of ferry sailings during specified hours on all BC Ferries system routes. The three routes between Vancouver Island and the lower mainland, known as the major routes, are collectively self-supporting and receive no service fee from provincial taxpayer funds. BC Ferries also receives some subsidization from Canadian federal government. The combined federal-provincial subsidy to BC Ferries in 2010 was \$178,052,000, up from \$140,929,000 in 2007, and \$129,856,000 in 2004, the year after the restructuring. Additional research would be required to determine how and whether the level of subsidization has changed since the 2003 restructuring, though this would certainly be worthwhile in assessing the potential applicability of this model to WSF.

Depicted in Table 3 is the basic framework for BC Ferries governance.

BC Ferries

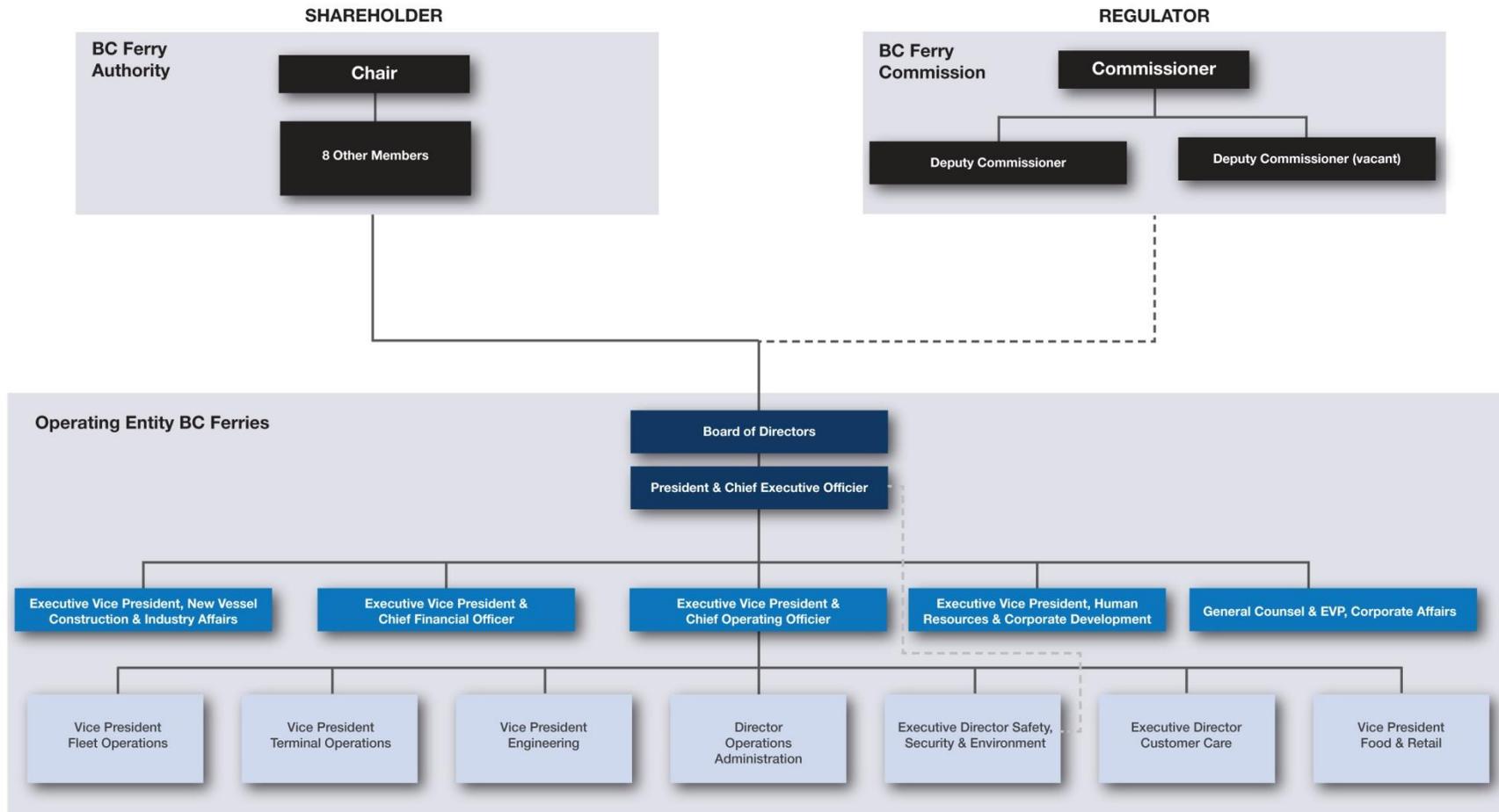


Figure 11 – BCF Organization Chart

Table 3. Key Roles and Functions Under BC Ferries' Current Governance Structure

Role	Entity and Key Functions	Key Interface with BC Ferries Governed by
Shareholder	British Columbia Ferry Authority <ul style="list-style-type: none"> • Owns BC Ferries common share (voting) • Appoints BC Ferries Board of Directors 	Ownership control
Government of British Columbia	British Columbia Ministry of Transportation and Infrastructure <ul style="list-style-type: none"> • Owns BC Ferries preferred shares (voting) • Holds debenture • Owns terminals • Provides service fees (form of subsidy) for specified numbers of sailings on the 22 of 25 BC Ferries routes that are not self-sustaining • Appoints two members to the BC Ferry Authority 	Coastal Ferry Act of 2003 as Amended 60-Year Service Contract
Operating Entity	BC Ferries <ul style="list-style-type: none"> • Governed by Board of Directors • Operated by executive management • Provides all aspects of ferry service, including concessions 	
Regulator	BC Ferry Commission <ul style="list-style-type: none"> • Regulates fares • Regulates service levels • Conducts independent probes at its own discretion 	Coastal Ferry Act of 2003 as Amended

In this model, BC Ferries is controlled by the BC Ferry Authority through the Authority's ownership of the single common voting share of BC Ferries. The BC Ferry Authority is a corporation without share capital that owns the single issue common voting share in the operating company, BC Ferries. As sole shareholder in this operating company, the Authority is responsible for appointing its Board of Directors.

The BC Ferry Authority is governed by a 9-person Board, members of which are selected/appointed as follows:

- Four members are appointed by sitting Authority Board members from among nominations submitted by geographic service area. Each of four geographic service areas may nominate between three to four nominations.
- One member is appointed by sitting Authority members from among three to five nominations advanced by the trade union representing employees of BC Ferries.
- Two members are directly appointed to the Authority by the Province's Lieutenant Governor.
- Two members are appointed "at large" by sitting Authority members.

Any person appointed to the Authority Board must meet the statutory qualifications set forth in the BC Ferry Authority Skills and Experience Profile, Schedule A, as amended, August 2010. Specifically, to qualify, an individual

- may not hold elected public office of any type;
- is not an employee, steward, officer, director, elected official or member of any union representing of BC Ferries;
- is not an employee of a municipality, regional district, trust council or greater board within the appointment area; and
- is not an employee, director, officer or executive of BC Ferries.

The Board of Directors is subject to bylaws of the BC Ferry Authority.

BC Ferry Commissioner

BC Ferries is regulated by the Ferries Commission, which exists to ensure that rates are within the fare price caps set by the Commission and to monitor that service levels comply with the Contract. The Commission comprises a Commissioner and up to two deputy commissioners, who are appointed by the Province as independent statutory officers. Their independence is a critical element of the BC Ferries' governance model. They do not answer to the Premier, the Cabinet, the Minister of Transport, the Attorney General, or the BC Ferry Authority. They are free to say publicly what they think about ferry services and related matters. Their decisions cannot be appealed, except on a question of law. The Coastal Ferry Act contains provisions to ensure their independence, as follows.

- They may be terminated only for mental infirmity; conviction for an indictable offence under Canada's criminal code; or a judicial finding of conflict of interest or material breach of duties.
- The Act prohibits them from having a beneficial interest in a financial security of a ferry operator, or in its construction contracts. They cannot have a significant beneficial interest in competitors to BC Ferries, or in equipment or processes that ferry operators use.
- Their remuneration or terms of appointment cannot be changed without their approval.

The Commission regulates the service provided on a ferry route in a number of ways. It monitors BC Ferries' adherence to its contract with the Province, which commits BC Ferries to provide a specific number of sailings per day on each of its 25 routes. The Commission requires BC Ferries to report quarterly on its on-time performance for each route, and on the number of overloaded sailings. BC Ferries cannot stop serving a route or cut back service on a route without the Commission's permission.

The Operating Entity: BC Ferries

BC Ferry Services, Inc., commonly known and branded as BC Ferries, is the operating entity. Within this operating entity, decisions are made by the executive team, which comprises of the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Executive Vice President and Chief Operating Officer, and the Executive Vice President Human Resources and Corporate Development.

The Articles of BC Ferries Services allow up to 20 board members. Currently, there are 8 listed on the BC Ferries website. BC Ferries Board of Directors exercises its strategic and oversight functions through ongoing document review, discussions with executive management, and regular quarterly meetings of the entire board (although additional meetings may be called as necessary). The Board's efforts are organized and conducted through four standing committees:

- Safety, Health, Environment and Security Committee
- Human Resources and Compensation Committee
- Audit and Finance Committee
- Governance and Nominating Committee

The British Columbia Ministry of Transport and Infrastructure

The role of the British Columbia Ministry of Transport and Infrastructure is purposely circumscribed in the BC Ferries governance model. The ministry's chief interactions with the operating entity center on negotiation of amendments to the Coastal Ferry Services Contract, which occurs once every four years, per performance term; payment of approximately \$150 million CAD annually, an amount adjusted annually per the Consumer Price Index; and the right to appoint two of nine members to the BC Ferry Authority. In addition, the Ministry of

Transport and Infrastructure is paid a little over \$6 million in preferred share dividends by BC Ferries, an amount that has remained constant since the 2003 restructuring.

- Competition

Beginning in 2009, BC Ferries began operating new "Drop Trailer" service that allows commercial customers to drop off their semi-trailers at one of several designated BC Ferries terminals along major routes between the mainland and Vancouver Island, picking them up on the other side. This new line of business, which has proven lucrative for BC Ferries, puts the company into direct competition with two private sector companies: Seaspan Coastal Intermodal Company (Seaspan), and Van-Island Barge Services, Inc. (VIBS).

These firms have complained to the BC Ferry Commissioner that BC Ferries is engaged in unfair competition, given BC Ferries' receipt of public subsidization and exclusive use of ferry terminals. While BC Ferries contends that the new service makes efficient use of unused deck space, Seaspan's economic consultant contends that BC Ferries' pricing structure is "seriously flawed in that no portion of the costs of BC Ferries' ferry vessels have been allocated to the cost of providing drop trailer service. As a result the costs attributed to the service and the resulting rates, do not reasonably or fairly reflect the actual costs of providing the service."¹⁸

A detailed inquiry by the BC Ferry Commissioner is underway, although it brings to light a possible deficiency in governance model earlier noted by the provincial Ministry of Finance's Comptroller, who noted in her 2009 Report on Governance, that BC Ferries' governance model, "...provides no regulation of service BC Ferries may provide that compete directly with private enterprise."¹⁹ Discussing the very issue raised by BC Ferries' drop trailer service, the report goes on to say, "To avoid the possibility that passenger fares could be allocated an unfair portion of the costs, and to ensure that there is no perception of unfair advantage, it is important that the allocation of costs between such commercial services and passenger/vehicle services be transparent and subject to independent oversight. To this end, the Commission should regulate such competitive services separately from its regulation of the transportation of vehicles and passengers in order to avoid impacting regulated fares under the price cap model."

Increasing the scope of the BC Ferry Commissioner's role to encompass regulation of such service would require amendment of the Coastal Ferry Act. Such legislation was introduced by the Province on April 29, 2010, in the form of Bill 20—Miscellaneous Statutes Amendments Act (No. 3), 2010. According to BC Ferries 2009/2010 Annual Report, this legislation is still pending while BC Ferries assesses its potential impacts on the organization's operations and profitability.

¹⁸ Report of Joe N. Linxweiler, Jr., on Behalf of Seaspan Coastal Intermodal Corporation Regarding Section 45.1(1) of the Coastal Ferry Act and Drop Trailer Service, November 24, 2010.

¹⁹ "Report on Review of Transportation Governance Models," Office of the Comptroller General, Ministry of Finance, British Columbia, October 2009.

- Assets

BC Ferries lists the value of its assets at \$1.807 billion, which includes its 36-vessel fleet, the largest vehicle-carrying ferry fleet in the world. The Province retains ownership of the system's 47 terminals, which are leased to BC Ferries under the terms of which BC Ferries may use them for any ferry-related purpose, including development of concessions.

While the vessels in the fleet (and the associated outstanding liabilities) were transferred to the new operating entity, the provincial government retained ownership of what are viewed as the system's most strategic assets—the terminals—comprising the buildings, the land on which they are built, and associated water rights. Relative to the terminals, vessels are both more modular and replaceable. Meanwhile, losing ownership or control of the terminals to a creditor would strike a blow to the province's ability to ensure continued service from which it might never recover. Following is a synopsis of how the system's terminal assets were handled under the administratively and legally complex terms of the restructuring.

- Finance

Working within the parameters established through this governance structure, that is the terms and conditions of the Coastal Ferry Services Contract negotiated with the province's Ministry of Transport and Infrastructure (which sets service levels), and within the tariff caps established and monitored by the BC Ferry Commission, BC Ferries is free to plan and execute a full range of operating decisions, examples of which include the following:

- Development of vessel procurement strategies, including access to capital on the private market, negotiation of design and construction contracts, and vessel deployment by route.
- Development of non-farebox revenues. Concessions on board the vessels and at terminals generate significant revenues for BC Ferries. According to BC Ferries' 2009/2010 Annual Report, retail sales generated \$81 million CDN or 11% of total revenues.
- Development of new lines of business, such as BC Ferries' new "drop trailer" service, wherein commercial customers at two of their major routes can drop their trailers at one terminal and pick them up at another. BC Ferries notes in their annual report that this "service has been well received and improves our overall productivity by utilizing otherwise unused capacity." However, private sector competitors have lodged a complaint with the BC Ferries Commissioner and an inquiry is underway.

BC Ferries' annual operating budget is \$660 million per year, up from \$624 million in 2009, and from \$570 million in 2008.

The restructuring of BC Ferries from a Crown Corporation into an "independent marine transportation company" entailed a complex series of transactions including those governing the ownership and structuring of the Crown Corporation's shares and the transfer of vessel and

terminal assets. For simplicity, we will refer to the pre-2003 version of BC Ferries as the "Crown Corporation."

As the successor to the Crown Corporation, BC Ferries was converted into a "commercial entity" subject to the Canadian Business Corporations Act. This meant that it was no longer an agent of government and as such, no longer required the provincial Ministry of Finance to act as its financial agent. Repositioning BC Ferries as a self-financing company gave it the ability to access commercial capital markets directly; moreover, it allowed the province to offload several hundred million worth of debt from its own balance sheet to the new company.

In fact, a key part of the rationale for establishing BC Ferries as a commercial entity was to allow the company to manage its own finances, which continue to pose significant challenges. At the time of the restructuring estimates were that BC Ferries would need to invest \$2 billion over the next decade and a half to replace aging vessels and attend to deferred maintenance on terminals. In the wake of the \$400 million write-down associated with the Fast Ferry Fiasco, it was thought by the Liberal Party majority that the restructuring was the "only way to reduce the risk to taxpayers of higher government debt."

Political critics, provincial officials including the Comptroller General, and academics have struggled to capture and explain the series of transactions and their implications in anything approaching a concise and understandable summary. The closest approximation of such a narrative can be found in the Crown Corporation's final Annual Report, which was produced in 2003. The following text draws directly on this document.

"On April 1, 2003, in anticipation of the transfer of share ownership to the newly established BC Ferry Authority, ownership of the land and structures comprising the system's terminals under the Crown Corporation were transferred to the British Columbia Transportation Financing Authority. In exchange, the Crown Corporation received recognition of prepayment of terminal leases for a period of 60 years. The next day the Corporation converted from incorporation under the previous enabling legislation (the Ferry Corporation Act) to incorporation under the Company Act (a British Columbia statute with general application that sets forth the basic requirements that must be met for a company to be recognized as such under provincial law)."

BC Ferries then amended its Memorandum and Articles to revise the number and classes of authorized shares. The new authorized share capital consisted of 1 million Class A voting common shares, without par value; a single Class B voting common share, without par value; and 80,000 Class C non-voting 8% cumulative shares, with a par value of \$1,000 per share. The Class C preferred shares are convertible to Class A shares upon the sale of the outstanding Class B share by the original shareholder. Special share rights attached to the Class C shares restrict BC Ferries' ability to issue shares and to declare dividends.

A debenture in the amount of \$427.7 million was issued in favor of the Province of British Columbia. This debt bears interest payable semi-annually. At the time of the restructuring it was set at 5.33%. The debenture is secured by a registered mortgage on vessels and the leasehold interest under the terminal lease and by a general security agreement on property.

BC Ferries then redeemed 100% of its outstanding shares previously held by the Minister of Finance in exchange for preferred shares and cash of a combined amount equal to the Crown Corporation's equity value of \$503.2 million as of March 31, 2003. Immediately thereafter, BC Ferries issued one new Class B share in favor of the BC Ferry Authority, in exchange for \$1,000."

The level of Provincial/Federal subsidy has increased since the 2003 restructuring. Although complex formulas are used to negotiate and regulate the subsidy level, in a three-way process involving the provincial Ministry of Transportation and Infrastructure, the BC Ferry Commission, and BC Ferries (on a route group basis) it is nonetheless useful to consider the level of provincial/federal subsidy in aggregate over time, to understand how the level of government outlay has increased. The overall subsidy was \$129,856,000 CDN in 2004. By 2010 it had risen to \$178,052,000 CDN, a 37.11% increase.

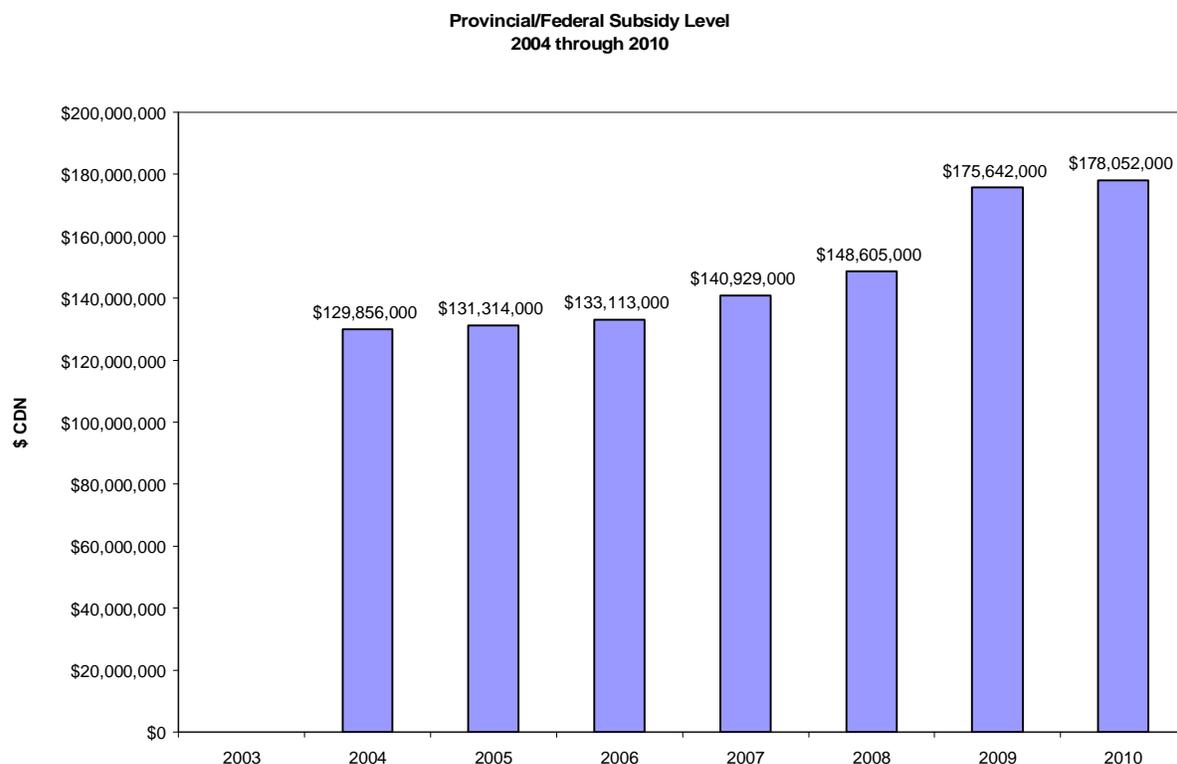


Figure 12 – Provincial/Federal Subsidy Level, 2004 to 2010

- Scheduling

Service scheduling is constrained by the Coastal Ferries Services Contract, which specifies levels of service on each route. Although the Coastal Ferry Act was intended in part to commercialize operations, and to reduce the burden on provincial taxpayers, service levels on the minor routes have changed very little since the restructuring of BC Ferries.

- Labor

All 4,500 union employees of BC Ferries are represented by a single union, the BC Ferries and Marine Workers Union (BCFMWU), under a single contract, which is currently negotiated on a nine-year cycle. However, as will be mentioned shortly, the implications of a recent labor relations development, a decision to allow BC Ferries to remove certain senior level licensed officer from the union, remain to be seen.

That there is a single union and a single contract, as opposed to the multitude of unions and contracts at WSF, is a function of the fact that BC Ferries came into existence in 1960 as the result of a major service disruption caused by strikes among both private companies operating between the mainland the Vancouver Island at the time.

When the provincial government stepped in to take over, establishing BC Ferries under the umbrella of the BC Highway and Bridges Toll Authority, all ferry workers became British Columbia government employees. In 1977, provincial government reorganized BC Ferries as Crown Corporation, which moved BC Ferries closer to a privatized model (though not nearly to the extent of the 2003 restructuring). This development had implications for ferry workers' collective bargaining status, as they were now under the scope of the province's Labour Code, which paved the way for formation of the British Columbia Marine BCFMWU that was founded in 1977.

For the first two years of its existence, it represented unlicensed ferry employees; and in 1979, following two years of legal battles, the BCFMWU was made the sole bargaining agent for all ferry workers, including licensed officers. A recent and controversial development at BC Ferries is a mediator's recent ruling (September 9, 2010) that the company can pull out of the labor union employees with significant on-board management functions, including captains, chief engineers, and chief stewards. The decision, which the union is appealing to the Labour Relations Board, would not apply to those working on vessels serving the minor routes.²⁰

The BCFMWU opposed the Coastal Ferry Act of 2003, and the restructuring of BC Ferries that it entailed on several grounds. These grounds included: the emphasis on outsourcing service and the focus on "sustainability," or, alternatively, "profitability," which the union sees at odds with the provision of essential public service. The union continues its campaign against BC Ferries' current organizational structure and the enabling legislation that underlies it through its Save Our Ferries advocacy group.

- Customer Interactions

Specified as part of the Coastal Ferry Contract, is that BC Ferries must arrange for customer satisfaction surveys to be carried out by an independent third party at least once a year. The results of these surveys must be submitted to the BC Ferry Commission for review. BC Ferries

²⁰ "BC Ferries Can Remove Captains, Chief Engineers, Chief Stewards from Union, Mediator Rules," *The Province*, September 9, 2010.

has maintained its customer satisfaction scores at a consistently high level over the past five years, and this is among the performance metrics on which BC Ferries reports each year. Since the 2003 restructuring, customer surveys have shown that 82% to 89% of passengers have been satisfied or very satisfied with their BC Ferries experience. The figures for the 2009/2010 year are somewhat higher, at 91%, according to BC Ferries' most recent annual report.

BC Ferries also reports that they have undertaken specific customer service initiatives over the past several years, including implementation of Smart Media, which reduces the "hassle factor" associated with paying fares; reservation system improvements, and installation of television monitors in on-board passenger seating areas.

- Fares

The BC Ferry Commission regulates ferry fare levels on BC Ferries. The system's 25 routes are divided into four groups, each organized around common characteristics. For instance, the "major route group" comprises the three busiest routes, which connect the BC Lower Mainland with Vancouver Island.²¹ Every three months BC Ferries must report to the Commission the actual average level of fares paid by its customers, reporting a single figure for each of the four route groups. The figure is a weighted average for all the routes in the group, combining all the different traffic types (passengers, autos, trucks, buses etc.), the different times of the week (weekend vs. midweek), the different peak/shoulder/off peak fares charged in that quarter, and other variables. This is a complex calculation and the Commission specifies the raw data, formulas and assumptions that BC Ferries must use in computing its weighted averages.

While BC Ferries has freedom to restructure the fares within a route group (e.g. offering special discounts, charging premiums, making package offers), it is the weighted average of all these fares (for a given route group) that matters for the purposes of regulation. The BC Ferry Commission computes a maximum permitted level of average ferry fares for each route group. This ceiling is called the price cap. The manner in which the price cap for each group is determined goes back to the initial implementation of the Coastal Ferry Act in 2003. Initial caps were set at that time, and provisions were made in the legislation that allowed the price cap to rise by specified percentages through the first performance terms. Fares have changed significantly since the 2003 restructuring as discussed below.

The third performance term begins in 2012, and the Commission has already begun considering the data that will be used in setting the new price caps. That data will include ridership and revenue forecasts, along with cost accounting data and projections. The BC Ferry Commission considers these data, including determinations of what are to be considered "allowable" and "unallowable" costs in setting the fare caps. Preliminary caps are expected to be established by the end of the first quarter of 2011. These preliminary numbers will be used in conjunction with BC Ferries/Provincial negotiation around the terms of the next four-year performance term, a process that is scheduled to be completed by the end of the second quarter of 2011.

²¹ British Columbia Ferry Commission Website. http://www.bcferrycommission.com/regulation_of_fares.html

The price caps for the performance term are expected to be finalized by the end of the third quarter of 2011. They will take effect in conjunction with other all other aspects of the contract, including the number of trips and service fees, at the beginning of the second quarter of 2012.

The Commission can make adjustments in the price cap under certain circumstances (e.g. if fuel prices take an extraordinary jump and BC Ferries applies to the Commissioner for relief). To date, BC Ferries has made several such applications, starting with an application for a fuel surcharge in June 2005.

The average level of the ferry fares, and of the price cap, are expressed as indexes which had a value of 100 when the Coastal Ferry Act became effective (April 2003). BC Ferries must not allow the index of actual ferry fares for a route group to rise above the index of its price cap for more than three consecutive quarters. If it does, the Commissioner can order BC Ferries to reduce its fares. If it fails to do so, the Commissioner can reduce the price cap as a penalty to BC Ferries.

Major Routes. Since the 2003 restructuring, fares on the major routes have risen by 37.75%. The growth in rates in this group, and the two others reported on below, is expressed in the figure below in terms of the index used by the BC Ferry Commission, which computes the weighted average of fares on a route group and compares the percentage difference relative to the baseline. The baseline for the BC Ferry Commission's purposes, is the suite of fares in effect at the time of the restructuring. More simply put, the 2003 fare is set at 100, and the percentage increase over that baseline is added to 100.

The Major Route group includes the three routes between the Vancouver metropolitan area and the Victoria metropolitan area (Swartz Bay to Tsawwassen; Horseshoe Bay to Nanaimo; and Tsawwassen to Duke Point). Combined, these routes account for 51% of the system's passenger traffic; 45% of its vehicle traffic, and 58% of its revenues. The routes in this group are distinguished from other in the BC Ferries system in that they are economically self-sustaining, and as such, BC Ferries receives no subsidy for operating them. A sample route for this group, the Tsawwassen to Swartz Bay route, illustrates the actual change in fare. Whereas a one-way fare for a passenger vehicle plus driver was \$44.75 CDN in April 2003, the current level is \$59.50 CDN (December 1, 2010).

Northern Routes and Other Routes. The rate of increase in fare levels has been greater on BC Ferries' Northern Routes and Other Routes, compared to the Major Routes. The Northern Routes comprise three regulated routes on the British Columbia coast north of Port Hardy on Vancouver Island, including the route from Port Hardy to Prince Rupert. Fares on the Northern Routes have increased over 2003 levels by 51.97%. As a sample frame of reference, the combined vehicle plus driver fare on the Port Hardy to Prince Rupert route has increased from \$332.00 in 2003 to its current level of \$560.00 (December 1, 2010).

Table 4. Sample Vehicle Plus Driver Fares by Route Group: 2003 Through 2010

Route and Group	Apr-03	Apr-04	Apr-05	Apr-06	Apr-07	Apr-08	Apr-09	Apr-10
Tsawwassen-Swartz Bay (Major Route)	\$44.75	\$46.00	\$48.95	\$52.25	\$53.80	\$61.40	\$58.50	\$59.50
Port Hardy/Mid Coast/Prince Rupert (Northern Route)	\$332.00	\$344.00	\$375.25	\$424.30	\$441.30	\$475.30	\$500.00	\$560.00
Powell River - Texada Island (Other Route)	\$19.50	\$20.25	\$22.35	\$25.55	\$26.60	\$32.40	\$27.60	\$29.65

BC Ferries' Other Routes encompass 18 other routes operated directly by BC Ferries serving the north and south Gulf Islands and the Sunshine Coast. Fares on these routes have risen 59.11% over 2003 levels. As a sample frame of reference, the fare on one of these routes, from Powell River to Texada Island, for a vehicle and driver combined, increased from \$19.50 in 2003 to its current rate of \$30.10.

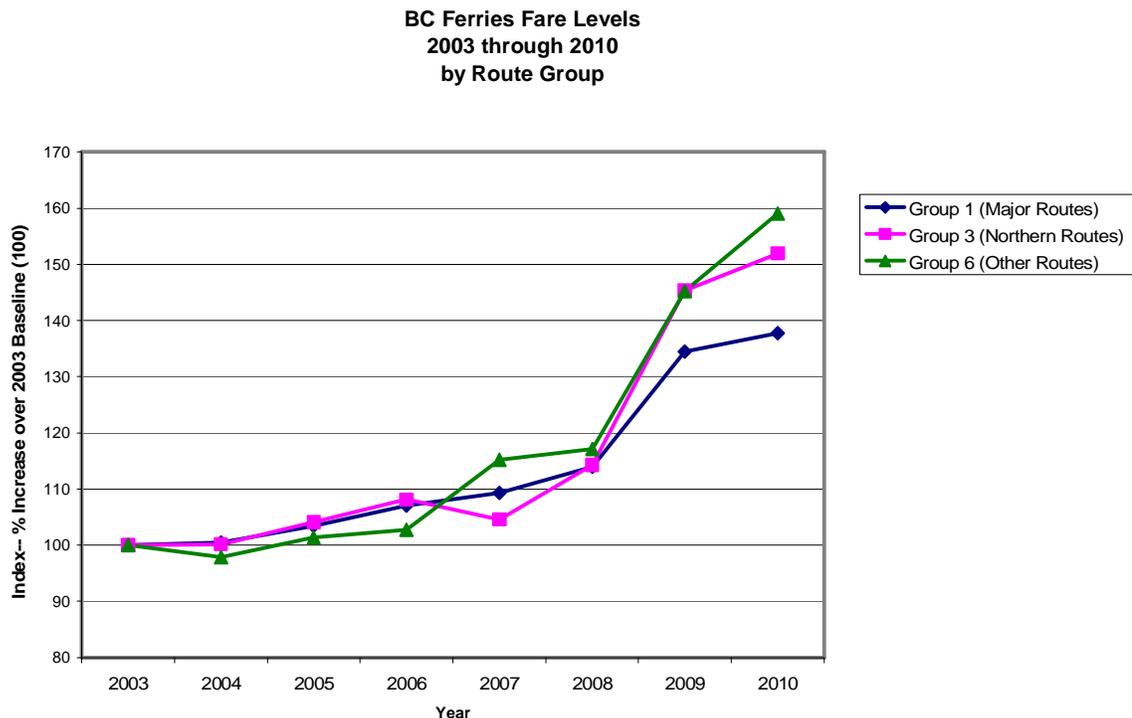


Figure 13 – BC Ferries Fare Levels, 2003 to 2010

Advantages

- According to BC Ferries Chief Executive Officer, David Hahn, the separation of BC Ferries from the direct control of provincial government allows the organization to develop long-term capital and operating strategies that are most efficient in terms of providing service at the least cost to taxpayers. It is notable, however, that in the absence of a detailed financial analysis, it would be impossible to ascertain the precise areas in which such efficiencies have been realized, in which areas there are no change, and in which areas taxpayer costs may actually have increased.
- Due to the restructuring there is a sharp contrast in the efficiency of vessel procurement before and after the 2003 restructuring (an area of critical importance to the organization, given the aging asset base). Since the reorganization, BC Ferries has procured three new Coastal Class vessels (the largest double-ended ferries in the world), along with the NORTHERN EXPEDITION (a new vessel designed for service on BC Ferries' Inside Passage route), the NORTHERN ADVENTURE (a refurbished European ferry), and the ISLAND SKY (a double-ended ferry designed and built in BC). All were built reportedly within schedule and within budget. A notable departure in the overall strategy is that four of the new vessels were built in Germany rather than restricting the work to Canadian shipyards.
- Cited among BC Ferries most recent accomplishments are the upgrading of the organization's long-term credit rating by two rating agencies. DBRS upgraded BC Ferries rating to A from A (low), citing "BC Ferries' tight management of service offerings and expenses and important factors contributing to this upgrade." Meanwhile, Standard and Poor's also upgraded their rating, to A+ from A-. BC Ferries debt is not backed by provincial government, although ratings agencies consider it to be a "government related entity," and as such, likely to receive governmental support in financial crisis, given the significant government interest in maintaining critical transportation service. This designation has a beneficial effect on BC Ferries' long-term credit rating.
- Between BC Ferries (which publishes its reports jointly with the BC Ferry Authority) and the BC Ferry Commission, the volume and quality of public reporting is high, though there are some exceptions.²² A great deal of information is available in the financial reports, annual reports, efficiency plans, and performance metrics reported on regular bases by both BC Ferries and the BC Ferry Commission. As the Office of the Comptroller General noted, "BC Ferries' cyclical planning and reporting processes include clear accountabilities, ongoing monitoring and reviews, and reporting to executive management and the Board of Directors."

²² BC Ferries is not subject to the Canadian equivalent of the Freedom of Information Act, and as such is not obligated to disclose information including the financial model it uses to allocate costs (on the basis of which tariffs are developed) among routes. BC Ferries reported to the Comptroller General that they are reluctant to make this information public on the grounds that doing so would give too much information to potential alternative ferry service providers and could result in conflicts among ferry user groups.

- BC Ferries has demonstrated effective cost containment through initiatives including a systematic fuel hedging program, elimination of some 70 management and administrative positions in 2008, and introduction of technology improvements including an electronic fare system that replaced a more expensive paper-based ticketing system.
- BC Ferries' administrative and overhead costs are relatively low, and are trending downward. The 2010 administrative and overhead costs for BC Ferries were reported at around 5%, down from 7% in 2009, and much lower than the 14.5% reported for 2003, the first year of the reorganization. This information is from BC Ferries most recent annual report, which would have been more helpful if it had also reported these costs for years preceding the restructuring.

Disadvantages

- BC Ferries executive compensation is significantly higher than that paid to executives at virtually any other type of government-related entity within the province. Chief Executive Officer David Hahn's total 2008/09 compensation was \$1,035,000, more than double that paid to executives of Canadian utilities with higher revenues and larger numbers of employees. Executive compensation is not regulated by the BC Ferry Commissioner. Rather, it is authorized by the BC Ferry Authority, which is intended to serve in a shareholder oversight function. However, questions have arisen as to the BC Ferry Authority's independence because of its members' practice of appointing themselves to the operating entity's Board of Directors (for which they are compensated).
- There has been an 37.75% increase in fares on the major routes since the restructuring of BC Ferries. There is some speculation that higher fares have reached the point of diminishing returns since vehicle traffic has declined 6% since 2004 while passenger traffic has declined by 5%²³
- While fares have risen, so has the level of provincial subsidy. Developing metrics for a comparative analysis of the efficiency of service delivery prior to and post-restructuring is well beyond the scope of this analysis; however, it would be a useful (if not critical) exercise in understanding tradeoffs in financial outcomes and public accountability associated with the new form that BC Ferries has taken. There is no easy way to compare the organization's financial or service performance prior to and post-restructuring, and to the researcher's knowledge, and through a limited search, no such study has yet been attempted.
- In the view of the Province's Comptroller General, legislation that defines the governance structure for BC Ferries, the Coastal Ferry Act of 2003, defined the role of the Ferry Commission, the independent regulator, too narrowly. The six principles that comprise the regulatory function focus on commercialization and sustainability from the

²³ "Low ridership triggers BC Ferries Layoffs", Vancouver Province, January 20, 2009
PASSENGER VESSEL ASSOCIATION
WSF Governance Study

operator's perspective at the expense of BC Ferries' function as provider of a critical public service.²⁴ In a recent report, the Comptroller General noted, "There is a risk that a focus on the profitability or sustainability of the ferry operator exclusively could be at the expense of the ferry system. For example, short-term decisions, focused on maximizing profit to the operator, could comprise the public service goals of the ferry system by not considering fully the interests of users of the ferry system, local communities, and taxpayers." In particular, the Comptroller General recommended that the enabling legislation be amended to empower the Commission to consider and rule on the following aspects of BC Ferries operations:

- The appropriateness of service levels, as opposed to simply monitoring whether contract terms governing the service are being adhered to by the operating entity.
- The reasonableness of BC Ferries' operating and capital costs, the effectiveness of their cost control efforts and efforts to generate revenues from sources other than fares.
- The fairness of the specific methodology used to allocate costs among routes.
- Regulation of reservation fees, which are not currently regulated as are fares in that they are seen as ancillary revenues.
- Regulation of commercial services that compete with the private sector (e.g., BC Ferries recently implemented drop trailer service).

Legal Issues

A copy of the Coastal Ferry Act of 2003 may be found at:

http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_03014_01

²⁴ The six stated principles underlying the Coastal Ferry Act of 2003 are listed on page 52.

Transportation District (Golden Gate Ferry Model)

General

- Form of governance: One of several transportation modes operated by a regional district.
- 2,100,000 Passengers carried annually
- 0 Vehicles carried
- 3 Terminals
- 7 Vessels
- 2 Routes
- Typical Fare: \$8.25 one-way cash, Larkspur to San Francisco
- Farebox Recovery: 44% on operations

Description

- History

The Golden Gate Ferry is one of three operating divisions of the Golden Gate Bridge, Highway and Transportation District (the District). The other two divisions are the Bridge Division and the Bus Division. The District is unique among ferry systems in that its origins, evolution, and continued operations are directly tied to a single major transportation asset, in this case, the transportation corridor defined by the Golden Gate Bridge.

The District was incorporated as a political subdivision of the state of California in 1928 with the express purpose of financing, designing, building, and operating the Golden Gate Bridge. Its mission remains, "to provide safe and reliable operation, maintenance and enhancement of the Golden Gate Bridge, and to provide transportation services, as resources allow, for customers along the US Highway 101 Golden Gate Corridor." What this means in practice is responsibility for the Golden Gate Bridge itself, including all engineering related to bridge maintenance, operations and improvements, plus bus and ferry transit across the strait between Marin County and the City of San Francisco. The bus and ferry transit service is intended to provide a direct alternative to driving a vehicle across the Golden Gate Bridge.

Ironically, opening of the Golden Gate Bridge in 1937 led directly to the demise of the many privately-owned ferry operators then providing service from Marin County to the city. It was not until 1970 that the District brought ferry service back, in conjunction with bus shuttles to the ferry, as a means of mitigating traffic congestion on the bridge and thus avoiding the need for costly bridge expansion. The District's first ferry route was between Sausalito and the Ferry Building in San Francisco, and the first bus service comprised shuttles bringing passengers to the ferry terminal on the Sausalito side. Many regional bus routes throughout the District's service area, which bring passengers to the ferry crossing, were added in the early 1970s; and a second fixed ferry route, from Larkspur to the Ferry Building, was added in 1976. The District currently operates 25 regional bus routes, the two fixed ferry routes just mentioned, and special event ferry service to AT&T Park.

- Governance

The District was formed under authorization of the Golden Gate Bridge and Highway Act of 1923 and was incorporated in 1928 to include the City and County of San Francisco, Marin, Sonoma, and Del Norte counties, most of Napa County, and part of Mendocino County. The boundaries of the District remain unaltered to this day.

A 19-member Board of Directors, comprised of District representatives allocated and appointed as follows, sets policy for the District. These cities and counties are directly affected by the operation of the Transportation District.

- City and County of San Francisco (9 Directors): 1 Director is appointed by the Mayor, 4 Directors are elected members of the San Francisco County Board of Supervisors, and 4 Directors are non-elected public members appointed by the San Francisco County Board of Supervisors.
- County of Marin (4 Directors): 2 Directors are elected members of the Board of Supervisors, 1 Director is an elected member of the Marin County Council of Mayors and Councilmember's and is appointed by the Marin County Board of Supervisors, and 1 Director is a non-elected, public member appointed by the Marin County Board of Supervisors.
- County of Sonoma (3 Directors): 1 Director is an elected member of the Sonoma County Board of Supervisors, 1 Director is an elected member of the Sonoma County Council of Mayors and Councilmember's and is appointed by the Sonoma County Board of Supervisors and 1 Director is a non-elected, public member appointed by the Sonoma County Board of Supervisors.
- County of Napa (1 Director): the Director is a non-elected, public member appointed by the Napa County Board of Supervisors;
- County of Mendocino (1 Director): the Director is a non-elected, public member appointed by the Mendocino County Board of Supervisors.
- County of Del Norte (1 Director): the Director is a non-elected, public member appointed by the Del Norte County Board of Supervisors.

All members of the Board of Directors serve renewable two-year terms. Their terms are renewed by their respective Board of Supervisors, with the exception of one member who is appointed by the Mayor of the City and County of San Francisco. Some members have a long history of service. The current Board president, for instance, was first appointed in 1992.

To assist the Board in implementing policy, there are five Officers of the District:

- General Manager/Chief Executive Officer
- Secretary of the District
- Auditor-Controller/Chief Financial Officer
- District Engineer

- Attorney

In addition, a Deputy General Manager heads each operating division of the District:

- Deputy General Manager, Bridge Division
- Deputy General Manager, Bus Division
- Deputy General Manager, Ferry Division
- Deputy General Manager, Administration and Development²⁵

The District's Board is extremely active, and its organization into working subcommittees ensures close involvement with all policy aspects of District operations. The structure of subcommittees is shown in Table 5. The Board and each subcommittee deals with each of the three operating divisions—Bridge, Bus and Ferry—in an integrated fashion. The Board of Directors as a whole meets twice monthly, the subcommittees meet once or twice monthly.

²⁵ The Administrative Division includes functions such as finance, information systems, environmental health and safety, human resources, planning and marketing.

Golden Gate Ferry District

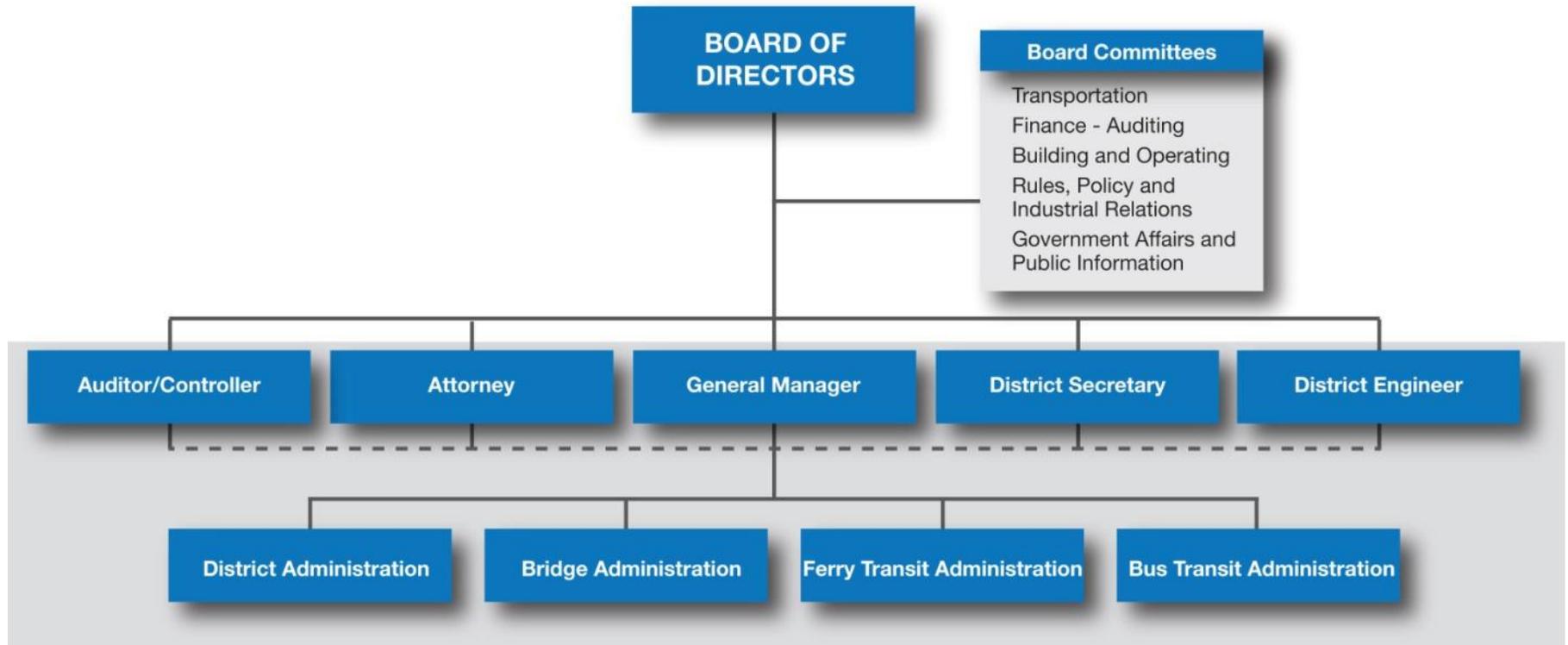


Figure 14 – GGF Organization Chart

Table 5. Subcommittee Structure of Golden Gate Bridge, Highway and Transportation District Board of Directors

Subcommittee	Meets	Areas of Focus
<p>Transportation 8 members</p>	<p>Monthly</p>	<ul style="list-style-type: none"> • Reviews and oversees all matters affecting the Bridge traffic and bus and ferry transit systems, including transit equipment, routes and services. • Reviews performance metrics (e.g. volumes, ridership, farebox recovery) monthly, as presented by staff.
<p>Finance-Auditing 8 members</p>	<p>Twice monthly</p>	<ul style="list-style-type: none"> • Reviews all fiscal matters, including revenues, expenditures, investments, and all other related fiscal matters. • Reviews and monitors the annual operating and capital budget. • Reviews financial reports, auditing reports and accounting practices. • Reviews applications for federal and state grant funding. • Provides general stewardship of the District's funds. • Reviews all insurance programs. • Reviews, analyzes, and assesses, in conjunction with the Attorney, all claims, and litigation matters, as well as potential exposures of the District, and reports periodically on said matters to the Board of Directors. • Settles District liability claims, including workers' compensation claims, within the \$50,000 settlement authority of the Committee.
<p>Building and Operating 9 members</p>	<p>Monthly</p>	<ul style="list-style-type: none"> • Reviews and oversees the planning, design and construction programs for Bridge and transit facility capital improvement projects. • Reviews and oversees Bridge and transit facility maintenance, repair and research projects.

Subcommittee	Meets	Areas of Focus
<p>Rules, Policy and Industrial Relations Subcommittee 9 members</p>	<p>Monthly</p>	<ul style="list-style-type: none"> • Reviews and updates the Rules of the Board, Human Resources Guide and Procurement Manual. • Reviews, develops and oversees personnel policies and employer-employee relations. • Reviews and oversees the Equal Employment Opportunity/Affirmative Action and Disadvantaged Business Enterprise programs.
<p>Government Affairs and Public Information Subcommittee 8 members</p>	<p>Monthly</p>	<ul style="list-style-type: none"> • Reviews and evaluates all federal, state and local legislation affecting the District's operations. • Reviews and develops programs and procedures for public information, press relations, marketing, advertising and community participation.

- Competition

The personal automobile is the primary modal competition for the Golden Gate Ferry, and in fact, it was to lessen capacity demands on the Bridge that the ferry service was initiated. The average ferry fare, at \$5.54, is comparable to the bridge toll (at \$5.21), and advantages of taking the ferry over driving one's own car, include not having to pay for parking within San Francisco, and a more predictable travel time, in that the ferry route is in essence "grade separated" from vehicle traffic. As such, the ferry is an attractive alternative, particularly for commuters who work in downtown San Francisco. Moreover, parking at the Larkspur terminal, which has capacity for 1,600 vehicles, is free of charge.

- Assets

The District's most recent annual report lists the value of its Ferry Division capital assets at \$97,878,000, which includes the fleet's five active vessels, and the land and facilities associated with the terminals at Larkspur and Sausalito.²⁶

- Finance

The Fiscal Year 10/11 budget for the District is \$170.6 million of which \$23.66 million is for the ferry system²⁷.

In contrast to the vast majority of transit systems throughout the country, the District is unique in that its operations are not supported by direct sales tax measures or dedicated general funds. In fact, it has no taxing authority. Rather, primary sources of revenue are derived from the operation itself (Bridge tolls and transit fares) supplemented by grant assistance programs, investments, and capital contributions, along with revenue programs such as transit advertising and Bridge and GGF concessions (Table 6).

Table 6. Funding Sources for the Golden Gate Bridge, Highway, and Transportation District for Year Ending June 30, 2010

Source	Amount	Percentage
Bridge Tolls	\$100,569,000	51.78%
Transit Fares	\$22,447,000	11.56%
Marin County Transit Revenues	\$15,638,000	8.05%

²⁶ Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2010 and 2009, Golden Gate Bridge Highway and Transportation District.

²⁷ PowerPoint Presentation prepared by Golden Gate Ferries General manager, Jim Swindler, September 2010.

Source	Amount	Percentage
Other Operating Revenues	\$1,734,000	0.89%
State Operating Assistance	\$9,858,000	5.08%
Local Operating Assistance	\$3,039,000	1.56%
Federal Operating Assistance	\$50,000	0.03%
Interest on Investments less interest expense	\$5,455,000	2.81%
Capital Contributions from FTA and state of CA ²⁸	\$35,419,000	18.24%
Total	\$194,209,000	100.00%

Source: *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2010 and 2009, Golden Gate Bridge, Highway and Transportation District. Prepared by the Accounting Department, Office of the Auditor-Controller.*

For decades, operation of the Golden Gate Bridge produced "surplus" toll revenues, which were used to initiate and maintain bus and ferry service. However, the softening of the economy, along with the rising costs of operating transit service have contributed to financial duress for the District, which has responded by developing strategies that are set forth in its *2004 Strategic Plan for Achieving Long-Term Financial Stability*. This Strategic Plan constitutes an overarching framework for the *District's Short-Range Transit Plan*, with its detailed, rolling ten-year operating and capital plan. Both documents reference the District's Core Goal: to provide "productive, effective and cost-efficient regional transportation within available resources."

The District currently faces an operating deficit, and has set forth options to both increase revenues and reduce expenses. Opportunities to increase revenues include an increase in the Golden Gate Bridge vehicle toll (implemented in 2003), charging for parking at the Larkspur Ferry Terminal, a 1,600-space facility that is frequently near capacity, increasing the parking program at the Bridge, and a series of fare increases. The District's Board of Directors is authorized to control both toll rates and fares. Meanwhile, the District is also considering

²⁸ The District has grant contracts with the US Department of Transportation through the Federal Transit Administration for certain capital improvements. FTA's funds are used to replace and improve the District's buses, ferries and transit facilities. The District also has contracts with CalTrans for State Transportation Program funds and with the Bay Area Air Quality Management District for Carl Moyer funds, which are used to either match FTA grants or to fund transit improvement projects.

strategies to reduce expenses such as wage freezes for non-represented employees, technology improvements, labor relations efforts with represented employees, and service reductions.

The District uses a well-developed suite of performance measures to assess the relative productivity of its ferry and bus transit routes. These include passengers per trip, operating costs per revenue hour, and farebox recovery, among others. The Ferry Division's service productivity rates are generally higher than the Bus Division's.

- Scheduling

Authority over service scheduling lies within the District's Board of Directors, which is currently having to contemplate cuts on the system's less productive transit routes (primarily bus at this point), due to operating deficits associated with lower than projected toll revenues and reductions in levels of state operating assistance.

- Labor

The Ferry Division's 75 represented employees are divided among four unions:

- Inland Boatmen's Union of the Pacific (deckhands, ticket agents, and terminal assistants);
- International Association of Machinists and Aerospace Workers (mechanics and storekeepers);
- International Brotherhood of Teamsters (ferry operations supervisors);
- Marine Engineers' Beneficial Association and Vessel Masters (vessel masters).

In addition to the four labor unions representing Ferry Division employees, many other unions represent employees in other divisions. The District takes a consolidated approach to negotiating wages and benefits across the enterprise. The District negotiates wages and benefits with over two dozen different labor groups as a coalition, in what the Ferry Division General Manager described as a complex, drawn out process that takes five to six months per three-year contract cycle.

Staff responsibility for executing this aspect of labor relations is handled by the District's Administrative Division. In this process, District staff work in conjunction with a six- to-eight member Board committee, which establishes the parameters around negotiations. Parameters include the prospect of increasing fares or reducing service, depending on the extent to which wage and benefit demands would entail operating deficits. Meanwhile, a detailed follow on phase, focused on work rules, follows, in which each Division Deputy General Manager, works directly with the individual unions representing employees in his or her Division.

- Customer Interactions

The District monitors and tracks customer complaints as part of its comprehensive performance management system. For the Ferry Division, the goal is 99.9% customer satisfaction, which

translates to 100 or fewer complaints per 100,000 boardings. The District regularly achieves this goal, with under 25 complaints per 100,000 boardings over the past several years. These are categorized by Service, Administration, Facilities Maintenance, and Vessel Maintenance.

The District supports three passenger advisory committees, with members drawn from their customer base, each of which meets quarterly:

The Advisory Committee on Accessibility, which crosses bus and ferry operations; The Bus Passengers Advisory Committee; and The Ferry Passengers Advisory Committee. Like the other two committees, the Ferry Passengers Advisory Committee is a forum in which the District elicits the participation of its customers on operational issues, including service allocation; capital projects; and in which the staff report on the District's performance against metrics including farebox recovery and on-time performance.

In addition to these activities, the District maintains an electronic ferry comment form on its website, which facilitates passengers' ability to offer compliments or complaints of any kind.

- Fares

Average ferry fares for the Golden Gate Ferry are \$5.54. This compares to an average bridge toll of \$5.21, and an average bus fare of \$3.46. Fare levels are established by the District's Board of Directors.

Advantages

- The Board is professional and functions well, in part due to its balanced geographic representation with 19 members. The Board is organized into working subcommittees where most of the District's work is accomplished. The Board members represent citizens that are served by the ferry, and answer to those citizens. Deputy General Manager of the Ferry Division, Jim Swindler, reports that the board and its subcommittees function "without a hiccup," which he attributes in part to the board members' professionalism.
- The Golden Gate Bridge, Highway and Transportation District benefits from dedicated funding (bridge tolls and transit fares, which make up over 70% of total funding) upon which no other entity or policy priority has a claim. In addition, the mission of the District is clearly defined, both functionally and geographically, which also reduces the potential for resource allocation debates and tends to keep the focus squarely upon operating and maintaining the bridge and the bus and ferry systems within the designated Golden Gate Bridge District corridor. It is notable that when the San Francisco Bay Area Water Transportation Authority (WTA) was created, in 1999 by the state of California, with the purpose of bringing all regional ferry services under a single umbrella, there was initially an effort to bring the Golden Gate Ferries under its umbrella. However, this move was strongly resisted by the Board and area politicians,

who feared that the resources of the District would be tapped to help support ferry operations outside the District boundaries and mission, and that such a development would be a slippery slope. The District was successful in maintaining its independence, and remains separate from WETA.

- The District operates in a transparent manner. Their website offers a great deal of concise, easily accessible information on Board activities, including detailed agendas, meeting minutes, reports from each of the five subcommittees, financial statements and performance metrics. For three years running, the Government Finance Officers Association of the United States and Canada has awarded its Certificate of Achievement for Excellence in Financial Reporting to the District. To be awarded a Certificate of Achievement, the District must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR). This report, along with many others, is available on the District's website.²⁹

Disadvantages

- As a division of the District the ferry system is subject to public agency regulations regarding procurement and employment. The former has led to more expensive overhauls and new vessel purchases due to the contracting requirements and added time. The employment constraints make it challenging to promote a crew member due to the union seniority system or shrink the workforce due to budget shortfalls.
- The economic burden may not be equitably divided among differing modes and customer groups. The need to commute to work cuts across all demographics. The businesses on both sides of the Golden Gate benefit from having the bridge, buses, and ferries but a significant portion of the costs is paid for by the commuters.
- Since the funding for the system is based upon the economic vitality of the region, disruption of that economy will be directly reflected in the budget. If the employment demand in San Francisco sharply decreased, due to a natural disaster or another burst technology bubble, fewer customers would ride the ferries or pay tolls on the bridge. By

²⁹ The Bay Area's metropolitan planning organization, the Metropolitan Transportation Commission, in addition to developing and updating the regional transportation plan, has been empowered to allocate state funding sources to transit operators; this is part of its mandate under the state's Transportation Development Act (TDA). A related function is the MTC's role in monitoring the performance of the region's transit operators, including the Golden Gate Bridge, Highway and Transportation District. This takes the form of monitoring the extent to which transit operators have progressed in implementing the recommendations set forth in their respective Triennial Audits, which are regularly conducted by the Federal Transit Administration. Among the Golden Gate Bridge and Highway District's most recent triennial audit findings were recommendations that the District establish a set of quantifiable performance standards and system to monitor achievement thereof. As evidenced by the MTC's own correspondence, meeting minutes from the District's Board of Director's Transportation Subcommittee, and the District's *Short-Range Transit Plan*, these efforts are underway.

contrast, if the system relied more on state funding, there would be less impact due to regional issues.

State Transportation Division (North Carolina Ferry System Model)

General

- Form of governance: Division of the State Department of Transportation
- 2,100,000 Passengers carried annually
- 1,000,000 Vehicles carried annually
- 13 Terminals
- 21 Vessels
- 7 Routes ranging in length from 1.75 to 26 nautical miles
- Typical Fare: \$5 for car and driver, one way from Southport to Fort Fisher
- Farebox Recovery – 6% of operating costs

Description

- History

The state of North Carolina has a long history of using ferries as a form of transportation, especially in areas that are otherwise inaccessible by roads or are lacking easy road access. The first ferry route to eventually become part of the state's ferry network connected Oregon Inlet with Whalebone Junction. This began as a private tug and barge conveyance system and later as a wooden trawler ferry connecting the land on either side of the inlet. In 1934, the North Carolina State Highway Commission (Commission) began subsidizing the crossing to reduce the toll rates. Over time, the crossing gained in popularity and users and, in 1942, the Commission instituted fixed reimbursement for the ferry operator so as to discontinue tolls completely.

New ferry routes came on line during the 1940s and 1950s, both by private operators and by the Commission. Concurrent to the expanding ferry system, the paving of Highway 12 allowed for greater access to the Outer Banks area, leading to increased demand on the ferry system. During the early 1940s, ferry service across the Croatan Sound was first operated by a private entity before being acquired by the state in 1946. The Croatan Sound service continued until 1956, when the Governor Umstead Bridge was completed, thereby ending the Croatan Sound Ferry Operation. The new Outer Banks Highway 12 brought new demand for a ferry service between Hatteras and Ocracoke Island. The new ferry service was started by a private operator before being purchased by the state in 1957. The Alligator River crossing, the first ferry service constructed and operated by the state, began in 1947 and operated until 1962, when the Alligator River Bridge was built.

Between 1940 and 1977, the North Carolina Ferry System (NCFS) expanded and evolved as new services were added and ended when new bridges replaced existing ferry service. During that 30-year span, ferry services were started and retired at Croatan Sound, Alligator River, Oregon Inlet, and Bogue Sound. In 1960, the Commission created a State Ferry Operations office independent of the Highway Division Administration in the town of Manteo. The State Ferry Operations department was charged with maintaining the ferry fleet, as well as all personnel.

By 1964, the fleet had grown to a point where the state created the Marine Maintenance Facility, separate from ferry operations, to more efficiently manage the two divisions. The Operations office moved to Morehead City to be more centrally located. In 1974, on the recommendation from a specially-formed committee, the governor combined the State Ferry Operations and the Marine Maintenance Facility under one department, the Ferry Division, which would exist at the Highway Division level and be responsible for all aspects of the state ferry system.

Currently, North Carolina is the second largest state-owned ferry system in the country, with service operating 365 days a year and offering over 200 daily departures during the summer season and 150 daily departures during the winter season. The system has seven ferry routes providing service to nearly 1 million vehicle and 2.1 million passenger trips during the 2008-2009 fiscal years. While operated by the state, the routes are a mix of free and tolled crossings. Most of the shorter crossings are free for all users, with longer-distance routes charging one-way fares. The state has discouraged the implementation of tolling across all routes except for the long-distance routes with the understanding that NCFS is part of the state highway system and thus is provided free to all users. The access provided by the NCFS is critical in supporting tourism in the coastal areas of North Carolina. The contribution of the NCFS operations to tourism in North Carolina is estimated to be approximately \$325 million.

- Governance

The Ferry Division is a separate entity within the North Carolina Department of Transportation (NCDOT). All funding sources, budgetary decisions, and operational service for the ferry service are approved at the state's highest level through NCDOT and by the governor. Legislative influence extends to yearly budgets and federal and state funding sources. The governor has the ultimate approval through the annual state budget process.

The North Carolina Board of Transportation is the NCDOT's advisory body and is responsible for assisting in the transportation decision-making process and approving fund allocation. The nineteen Board members are appointed by the governor. Each member represents a specific Transportation Division or at-large area of interest and works with NCDOT staff members to make decisions about transportation priorities. The board meets monthly in Raleigh, typically the first Thursday of each month, with subcommittee meetings held the first Wednesday. There are 14 standing committees with a subcommittee for ferries under the Multi-Modal Committee.

NCDOT's operations are led by the Secretary of Transportation, a member of the governor's cabinet. The Secretary has the responsibility of coordinating NCDOT activities with policies set by the Board of Transportation. Management of the NCDOT is handled by a Chief Operating Officer who has five main groups as direct reports. One of these groups is the Transportation Program and Asset Management group whose purpose is to "Provide central management and

expertise to ensure consistency of multi-modal transportation programs being managed by NCDOT."

Within the Transportation Program and Asset Management group there are two leadership positions. The first is the State Highway Administrator and the second is the Deputy Secretary for Transit. The ferry division manager reports to the latter along with managers responsible for rail, aviation, public transportation, and bicycles and pedestrians. Currently, the ferry division manager position is vacant.

- Competition

The coast of North Carolina is characterized by a string of barrier islands along the Atlantic Ocean with shallow sounds oriented east-west that extend deep inland. The alternatives to taking the ferries, where there are alternatives, involve extensive driving around the western ends of the sounds. One of the barrier islands, Ocracoke, may only be reached by ferries.

- Assets

North Carolina owns and operates all of its waterside facilities and vessels. Water landings and vessels were either purchased or built during the state ferry expansion. Some vessels were purchased directly from private operators and were folded into the agency, while others were acquired in conjunction with the United States Department of the Interior, which had established the Cape Hatteras National Seashore Park. Still other vessels were commissioned directly by the state to satisfy increasing ferry service demand.

North Carolina operates roll-on/roll-off ferries on all of their routes. The vessels are a mix of "River-Class" and "Sound-Class" ferries. The latter have specially-designed hulls and propulsion systems to handle tricky sea conditions and shallow waters found in Pamlico and Currituck Sounds. In total, the system has 21 vessels in its fleet. They also have two ferries under construction at Conrad Shipbuilding in Orange, Texas.

In addition to the ferries, the ferry division also owns and operates ten support vessels, including tugs, a dredge, and a crane barge, for dredging and piling work. The state works closely with the United States Army Corps of Engineers to determine the optimal time for dredging allowance. When the dredging season is over, maintenance crews work to improve pilings and other waterside improvements and maintenance.

North Carolina maintains all of its vessels at its central maintenance facility located at Manns Harbor. The facilities include a Syncrolift, a shore side transfer system, shops, warehouses, and offices. Maintenance is conducted by in-house engineers and technicians. They complete all required haul-outs, engine repowers, painting, and emergency repairs. There are three satellite facilities to handle light-duty repairs located at Cherry Branch, Cedar Island, and Hatteras.

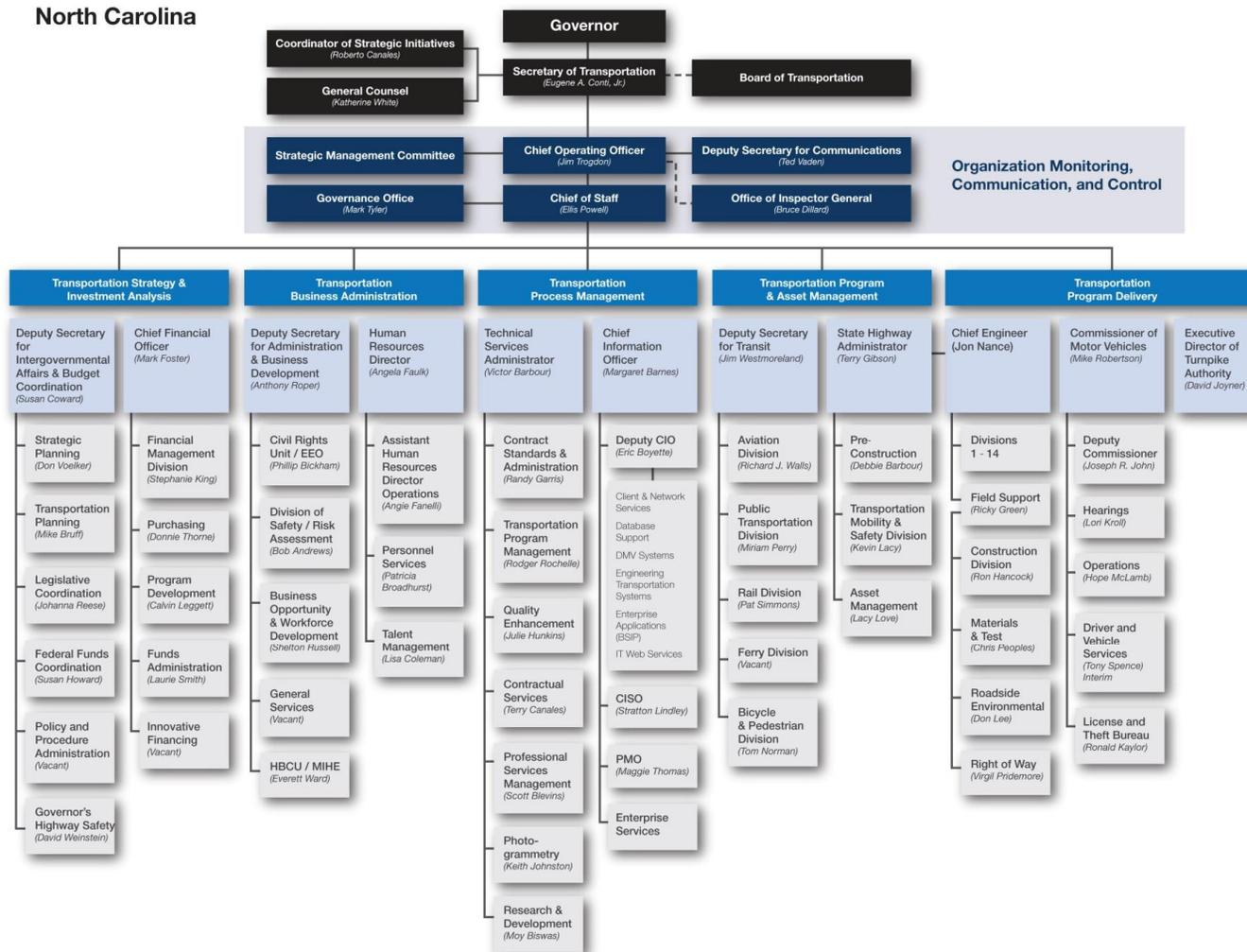


Figure 15 – NCDOT Organization Chart

- Finance

In 2009, the ferry system reduced service as a response to budget shortfalls and increased expenses. A US Coast Guard mandate requiring additional crew aboard vessels forced North Carolina to remove some vessels from service to redistribute staff to the more heavily patronized routes. The Governor's 2010 transportation budget rejected a proposal in the House's budget plan that would have prompted the Ferry Division to raise user fees in order for the Division to become largely self-sustained. Instead, the transportation budget increased the amount appropriated to the Ferry Division from the Highway Fund by \$11.3 million, bringing the total subsidy required to cover the Ferry Division's operating costs to \$43.5 million supported with an expected \$2.3 million in toll collections from the three routes with tolls.

North Carolina receives its ferry funding through a combination of state revenues and federal funds or grant monies. North Carolina has a bond rating of AAA from Moody's Investor Services. The annual ferry budget is set through NCDOT which portions out the state revenues accordingly. Federal grants and funds are applied for on a year-to-year basis based on the type of funding available. Most of the federal funds received are applied to capital projects rather than operating needs. A typical federal grant size is \$1.8 to \$1.9 million, with a needs-matching grant from the state required.

The Ferry Division sets the operating and capital budget priorities. They have been afforded a good level of support from General Assembly. Major capital needs are determined by the ferry division, working in concert with the Contract Standards and Administration unit within the NCDOT. They are incorporated into the State Transportation Improvement Plan (STIP), which is reflected in the state transportation budget. NCFS has some flexibility in managing capital funds so all capital programs are not subject to oversight by the General Assembly.

In terms of the financial sustainability and longevity of the NCFS, the adoption of a system-wide tolling structure to generate a Capital Replacement Fund for ferry vessels has been recommended in a 2009 study titled "Benchmarking and Optimization of the North Carolina Ferry System" conducted by the Institute for Transportation Research and Education at the North Carolina State University. Revenues generated by such a tolling structure could provide a reasonably stable long-term source of funding to ensure the timely replacement of the aging ferry fleet.

Overall, NCDOT provides and pays for fuel for all of its departments, the Ferry Division included. The state spends \$6 million annually on fuel, and the rapid rise in fuel prices in 2008 wiped out its "rainy day" fund for that year. The state indicates that there likely will be no change in operating procedure for purchasing and distributing fuel among the different NCDOT departments and individual departments will not be responsible for purchasing or budgeting for their own fuel.

- Scheduling

Schedules are entirely the responsibility of the ferry division. They do not need Transportation Board approval to change schedules, eliminate runs, or expand service. The operating schedule

for each ferry route is oriented to meet local community needs, such as the Bayview – Aurora route where the schedule aligns with the changes in shift at the local phosphate mine. Two of the routes (Cedar Island – Okracoke and Swan Quarter – Okracoke) have a reservation system.

- Labor

The ferry system has approximately 400 staff covering all positions, including administrative, maintenance, and vessel crew. Administrative staff is split between Manns Harbor, where the main maintenance facility is located, and Morehead City, where the previous State Ferry Operations department was located. All of the staff are state employees; there are no collective bargaining units. Employee benefits, pay scale and work rules are based on other state workers. NCFS periodically assess the prevailing commercial wages for different job classifications to ensure their pay scales are comparable.

Vessel crews report directly to their route locations. Crews work seven-on/seven-off shifts, with two crews per vessel. US Coast Guard recently adjusted the minimum number of crew members that are required to be on board at any one time, which has forced North Carolina to increase its crew staffing to meet with regulations.

As a majority of the ferry routes serve the Outer Banks, a well-known vacationing part of the state, the cost of living levels that staff faces are significantly higher than in other parts of the state, especially the interior. Due to the condition of the state's resources and the Ferry Division's budget, salaries have not been able to keep pace with the cost of living in the Outer Banks. The Ferry Division has been having difficulty attracting the necessary workforce due to the lack of affordability. In response, the Ferry Division has completed a staff dorm at Cherry Branch where staff and crew can live during the work week. Room and board is provided free of charge. The intent is to reduce the cost for staff traveling from home in the interior part of the state and to also entice prospective workers with a benefit.

The NCFS's shipyard and the field maintenance facilities are facing a critical shortage of skilled and certified shipyard workers. The shipyard is having a difficult time attracting certified workers due to the high cost of living in coastal communities and competition from shipyards in Norfolk, Virginia.

- Customer Interactions

Reservations are only offered on the Cedar Island-Ocracoke and Swan Quarter-Ocracoke routes. All other routes are offered on a first-come/first-serve basis. Motorists with reservations must claim their reservation at least 30 minutes prior to departure or it will be canceled.

A survey of ferry riders in 2009 suggested a high level of satisfaction with NCFS. Of respondents, 72% were extremely satisfied. The greatest priority expressed by riders was to have sufficient levels of service to avoid overloads. The survey showed that 22% of the trips were work related while 61% were related to tourism or recreational activities. Interestingly,

63% of respondents indicated a willingness to pay for service received but the majority of those believed that tolls should cover only 25% of the operating costs.

- Fares

Of the seven routes operated by NCFS, three have tolls and the rest are free. Those routes that have tolls are: Southport to Fort Fisher (35 minute crossing), Cedar Island – Okracoke (2.25 hour crossing), and Swan Quarter to Okracoke (2.5 hour crossing). A one-way fare for a car and driver on the first route is \$5.00 and \$15 for the latter two routes.

Changes in the fare structure or adding fares to existing routes would be initiated by the Ferry Division through the Secretary of Transportation, working with the Ferry Subcommittee on the Board of Transportation. Approval would be required by the full board. While tolling changes were not part of the 2009 to 2011 budget, the state is considering seasonal tolling or increased tolling prices.

Advantages

- Responsive to the public through election of the Governor as the chief executive.
- Benefits from having a broad funding base.
- Ferry system is a fully integrated division within NCDOT and is regarded as an integral part of the state transportation network, thus providing vital transportation links to geographically isolated communities.
- All of the staff are government employees which eliminates the need for labor negotiations specific to the ferry system. Labor cost growth is thus in line with other governmental agencies.

Disadvantages

- Subject to challenges as part of a large bureaucracy, that has a primary focus on roads and bridges. A smaller, independent, focused agency should be more efficient.
- There is a high level of subsidy. With pressure on the state budget, some legislators are questioning whether new toll revenues are needed to offset the costs.
- The ferry system has little direct input from the communities they serve. Should tolls be imposed and/or increased, NCFS will have to develop closer ties to their key stakeholders.
- Needs to contend with other divisions within the NCDOT for funding.

Legal Issues

The enabling language for NCFS may be found in North Carolina General Statutes 136-82, Article 6, which is given below:

"The Department of Transportation is vested with authority to provide for the establishment and maintenance of ferries connecting the parts of the state highway system, whenever in its discretion the public good may so require, and to prescribe and collect such tolls therefore as may, in the discretion of the Department of Transportation, be expedient.

To accomplish the purpose of this section said Department of Transportation is authorized to acquire, own, lease, charter or otherwise control all necessary vessels, boats, terminals or other facilities required for the proper operation of such ferries or to enter into contracts with persons, firms or corporations for the operation thereof and to pay therefore such reasonable sums as may in the opinion of said Department of Transportation represent the fair value of the public service rendered.

The Department of Transportation, notwithstanding any other provision of law, may operate, or contract for the operation of, concessions on the ferries and at ferry facilities to provide to passengers on the ferries food, drink, and other refreshments, personal comfort items, and souvenirs publicizing the ferry system. (1927, c. 223; 1933, c. 172, s. 17; 1957, c. 65, s. 11; 1973, c. 507, s. 5; 1977, c. 464, s. 7.1; 1989, c. 752, s. 101; 1995, c. 211, s. 1.)"

TRANSITION

Two fundamental questions merit consideration as part of any discussion on altering WSF's current governance structure:

1. Is there consensus around the desirability of creating a governance structure for WSF that would allow a higher level of independence and authority? If so, the creation of an independent board and entity should be considered, and the entity should be put in charge of its own capital budget, operating budget, labor relations, and management practices, subject to independent audits.
2. Is there a willingness to link the governance change to a stable source of funding? In the absence of such a funding source, long range capital budgeting for ferry acquisition and terminal development would be very difficult for an independent board or entity. In order for a board to be effective in setting policy, authorizing spending, entering into contracts, and implementing programs, it must be assured of continued funding at some consistent level. A stable and realistic funding source combined with an organizationally valued independence could create an incentive to live within the means provided, for the need to return to the Legislature for funds would cost the entity's management its independence. A stable funding source could be a long-term contract (subsidy) to provide ferry service, such as in the BC Ferries example; the dedication of a revenue stream, such as a portion of gas tax or motor vehicle tax revenues; or creating an entity with its own taxing authority.

If these questions could be answered in the affirmative, then it would make sense to start sorting out the mechanics of establishing a new form of governance. Captured in Table 1 is a compilation of aspects of our case studies' governance structures that appear to be working well in one or more important ways. Listed along with these positive features are notes about their potential applicability to WSF, along with notes on what might be required for WSF to move in that direction. Some of these considerations are captured in Table 7.

Table 7. Governance Features from Case Studies with Potential Application to WSF—Advantages, Disadvantages, and Transition Issues

Governance Feature	Case Study	Advantages	Disadvantages/Transition Issues for WSF
Board of Directors Policy, strategic, and in some cases operational oversight provided by a Board of Directors	Golden Gate Bridge, Highway, and Transportation District, Steam Ship Authority, North Carolina Department of Transportation, BC Ferries	<ul style="list-style-type: none"> • All of the public sector case studies reviewed in this study, as well as the partially privatized case study (BC Ferries), rely on Boards of Directors to provide varying levels of direction, management and support. • This is in sharp contrast to WSF, which has no intermediary governing body between itself and the Governor's Office (which oversees it as part of its status as a cabinet agency), and the State Legislature, which provides its funding and which exercises its authority to manage the system through manages the system through numerous legislative provisos. • Operators interviewed for each case study reported well functioning relationships with their boards, which was substantially backed up through the desktop research effort • Advantages provided by a Board of Directors include creation of a dedicated cadre of professionals who can focus squarely on the ferry system as their chief concern and a simpler chain of accountability for ferry system staff, which allows them to focus on operating the system efficiently, in accordance with Board direction. 	<ul style="list-style-type: none"> • Creating a Board of Directors would entail a loss of influence on the part of legislators representing ferry-served communities—as such, it may prove challenging politically. • Ascertaining the appropriate board composition would require first defining the service area geographically (i.e., its boundaries), which could call into question the appropriateness of drawing on statewide resources for system support. • Determining board composition, that is, the basis for representation, would likely require extensive discussion and could be contentious. • Creating a board with political independence would entail specification of details such as the following: <ul style="list-style-type: none"> ○ Terms longer than the four-year election cycle, with board members' terms staggered; ○ Board members may not be elected or state or local officials ○ Board members may not be removed from office except under limited, specified circumstances such as malfeasance or misfeasance.
Partial Privatization of Ferry Operations	BC Ferries	<ul style="list-style-type: none"> • In the wake of the Pacificat project³⁰ of the late 1990s, the government of British Columbia moved to increase the efficiency of its ferry system and disentangle politics from operations by restructuring what had been a Crown Corporation into a "government-related entity" with much more independence and autonomy from provincial politics. • While determining the extent to which BC Ferries has succeeded in providing an equal or higher level of service at comparable or less cost to taxpayers would require a major financial analysis beyond the scope of this study, there are multiple indications that BC Ferries is run efficiently. These include recent bond upgrading, a clean Comptroller report, and successful recent vessel procurements. 	<ul style="list-style-type: none"> • The move from BC Ferries' previous organizational structure (as a Crown Corporation) to its current structure was less drastic than what WSF would experience if a similar strategy were adopted. There is no close equivalent to a Crown Corporation in US government. As such, issues surrounding state divestiture of high-value assets such as large vehicle-carrying vessels (just one of many issues that would have to be addressed) would be complex, may require amendment of the state constitution, would require substantial new enabling legislation, and would likely engender widespread public debate. • Any effort to partially privatize WSF would likely be opposed by labor. The BC Ferries and Marine Workers Union, has explained the relatively uncontroversial passage of the 2003 Coastal Ferry Act, as a function of its being incompletely understood by members of parliament. This would not be the case if WSF were to undergo a similar transformation. Because of the BC Ferries experience, the

³⁰ The "Fast Ferry Fiasco" refers to the unsuccessful procurement of three fast ferries in the late 1990s by BC Ferries in its earlier incarnation as a Crown Corporation. The procurement, inspired by a desire to rebuild the province's shipbuilding industry by building the vessels locally, was plagued by ballooning construction costs, schedule delays, and a final product (three vessels) that performed so poorly that they were eventually sold off at a fraction of their design and construction cost. Provincial taxpayers were left with a \$400 million (CDN) writedown.

Governance Feature	Case Study	Advantages	Disadvantages/Transition Issues for WSF
			<p>reaction at WSF would likely be more vigorous than it was in British Columbia.</p> <ul style="list-style-type: none"> • Along with freedom from the burden of operating ferry service would come a loss in the degree of government's ability to influence and control what is still a service of critical importance to key constituencies. • As a recent British Columbia Ministry of Finance Comptroller's report indicates, careful thought must be given to enabling legislation in order to preserve government's legitimate interest in ensuring that a critical public service is maintained at acceptable levels of service. This has implications for structuring the roles of the BC Ferry Authority (which functions as BC Ferries' sole shareholder) and the BC Ferry Commissioner, which regulates BC Ferries. Examples are (1) a Comptroller's finding that the Ferry Authority must remain independent from BC Ferries (there is now commingling among the Boards of Directors); and (2) a finding that the BC Ferry Commissioner should have been given a broader role, beyond monitoring of compliance with the contract between the Ministry of Transportation and Infrastructure and BC Ferries. • An adaptation of the BC Ferries model would probably require the adoption of an amendment to the Washington State Constitution because Section 9 of Article XII of the constitution appears to forbid the state from owning a corporation: "The state shall not . . . subscribe to, or be interested in the stock of any company, association or corporation." If a BC Ferries state-owned corporation is authorized, it must be a corporation created under one of the state's general corporation statutes, or its creation would need to be authorized by constitutional amendment. Section 1 of Article XII of the state constitution says: "Corporations may be formed under general laws, but shall not be created by special acts." In addition depending upon the selected model, Section 28.3 of Article II of the state constitution may be need to be amended as well in the implementation of the model, because it says: "The Legislature is prohibited from enacting any private or special laws in the following cases: . . . 3. For authorizing persons to keep ferries wholly within this state."
<p>Limitation of Public Sector support to provision of landside terminal infrastructure</p>	<p>NY Waterway</p>	<ul style="list-style-type: none"> • With the notable exception of the Staten Island Ferry, which is 100% subsidized by the New York City Department of Transportation, all passenger ferry service in the metropolitan region is provided by the private sector on a for-profit basis. • Public support of ferry service in this region has been limited to developing landside terminal infrastructure. Over the past decade, funding for some \$350 million worth of terminals in New Jersey and New York has been cobbled together from a range of 	<ul style="list-style-type: none"> • This model, in its totality, is of limited applicability to WSF. The only service provided under this model is that which allows the private operator to make a profit. While some WSF routes generate more revenue than it costs to operate them, others, including those that are in the truest sense an extension of the highway system, are not self-sustaining, and none cover both operating and capital expenses. • Ferry service under the WSF model is provided as a critical public good, and dropping those routes that would be unprofitable would be at odds with WSF's

Governance Feature	Case Study	Advantages	Disadvantages/Transition Issues for WSF
		<p>sources at local, regional, state, and federal levels. Public sector agencies have drawn a line in the sand against providing operating subsidies, despite private operators' contentions that they will be unable to continue to operate without it.</p> <ul style="list-style-type: none"> The advantage of this model is that it has allowed ferry service to develop as a modal alternative in the region—with a manageable level of public investment (that also allows the region to tap federal sources). This has taken pressure off capacity-challenged landside systems, which would be extremely costly to improve—with a manageable level of public investment. 	<p>(and WSDOT's) core transportation mission.</p> <ul style="list-style-type: none"> Moreover, it is extremely unlikely that any private operator would be able to afford either the risk or cost of acquiring vessels of sufficient size to serve existing markets. The costs of market entry are prohibitive for the private sector. One piece of this model; that is, public sector development and ownership of terminal infrastructure, perhaps the key strategic asset in any ferry system, may be worth considering in conjunction with other models for acquiring and operating vessels. The rate approval function of the Washington Transportation Commission would be found to constitute fare control, and would thus preserve the ability of WSF to participate in the FBD. Depending on the nature of an alternative governing structure that may be selected, the operator may be subject to fare control by the Washington Utilities and Transportation Commission ("WUTC") under current law. To allow participation in FBD, the enabling legislation would need to deal with this fare control issue, possibly placing the entity under WUTC or Transportation Commission jurisdiction, or, if a public board oversees the entity and approves its rates, first confirming with the Federal Highway Administration that this board's approval of rates satisfies the public fare control requirement. Recent FBD award determinations have made it clear that if terminals are state-owned and that only private ferries will operate from them, the Federal Highway Administration will only allow the terminals to receive funding under this program if the ferries are subject to fare control. It is possible that Congress could earmark funds or otherwise modify the fare control requirement so that both the terminal and the private ferry could receive FBD awards even if the private ferry's fares are not controlled. Also, the U.S. Secretary of Transportation can waive the fare control requirements. Nonetheless, as options for WSF governance are considered, the entity's eligibility for federal funding under the FBD and other federal funding programs should be considered.
<p>Public Subsidy to Support Basic Transportation Needs</p>	<p>BC Ferries, NCDOT</p>	<ul style="list-style-type: none"> WSF provides critical transportation links to island communities such as Vashon and the San Juan Islands. To assist the economic livelihood of such communities is arguably a state function, analogous to building roads to remote farming areas. Without public subsidies, WSF would be forced to abandon routes and reduce service levels. If WSF is given taxing power, or the power to issue bonds, or 	<ul style="list-style-type: none"> The type of financial support given by the state to private, or public-private ventures needs to pass a careful constitutional muster, as these structures are often tested (and frequently upheld) in court. Section 5 of Article VIII of the state constitution states as follows: "The credit of the state shall not, in any manner be given or loaned to, or in aid of, any individual, association, company or corporation." Section 8 of Article XII has a similar provision, and Section 7 of Article VIII has a similar prohibition that applies to local government entities.

Governance Feature	Case Study	Advantages	Disadvantages/Transition Issues for WSF
		<p>whether the entity could benefit from industrial revenue bond financing, there would be a dedicated funding source. Under the BC Ferries model or a private operator model, the entity would receive revenue from payments under a contract to provide ferry service that are essentially subsidies. Such long-term subsidies would benefit planning and capital projects.</p> <ul style="list-style-type: none"> WSF has a higher percentage of commuter based routes than BC ferries which leads to a higher farebox recovery rate (70% versus 51%) and conversely a lower subsidy requirement. 	<ul style="list-style-type: none"> IF WSF has bonding authority, the state must consider the ultimate source of backing for those bonds. Should WSF experience financial distress, those bonds may have an impact on the credit rating and borrowing capacity of the state itself. A careful legal analysis would be needed before providing subsidies, with respect to the terms of transfer and the legal nature and identity of the contractor. There would need to be a transparent financial transfer to counter any concerns about use of state funds.
Transfer of Public Assets	BC Ferries	<ul style="list-style-type: none"> If the ferries and terminals were privately owned, it would remove a major capital budget issue from future state planning. A private agency would be able to move more quickly to identify capital needs, develop procurement packages, and negotiate the contract. BC Ferries was able to go to the commercial capital markets through the issuance of bonds. They also successfully pushed the shipyard bidders to cover the construction financing. 	<ul style="list-style-type: none"> A careful legal analysis would need to be done with respect to transfer of existing WSF assets to any new entity, with respect to the terms of transfer and the legal nature and identity of the transferee. There would need to be a transparent financial transfer to counter any concerns about gifting of state funds. It should be noted that if the state retains ownership of vessels which are operated by another party, it will not necessarily escape all liability for accidents and pollution. An owner is strictly liable for pollution emanating from a vessel even if the vessel is operated by another party under a bareboat or demise charter, which makes it important to select a responsible and well-insured operator whose insurance coverage extends to the state, and who provides contractual indemnification to the state. Also, an owner of a chartered vessel can be liable for accidents that occur on the vessel under some circumstances – another reason to pay attention to the vessel operator's insurance and for having indemnification clauses in favor of the state from the operating entity.
Fare Regulation by External Entity	North Carolina Department of Transportation, BC Ferries	<ul style="list-style-type: none"> WSF has been a consistent recipient of federal funding, including funds under the Federal Highway Administration's Ferry Boat Discretionary Fund ("FBD") and other federal programs. To receive funds under the FBD, federal law requires that the recipient's rates be regulated by a public body, and that all such revenues be used for the ferry purposes or for a reasonable rate of return on the investment in the ferry operation. If WSF has regulated fares, it will continue to be eligible for FBD funds. The statute says: <i>"The operating authority and the amount of fares charged for passage on such ferry shall be under the control of the state or other public entity, and all revenues derived therefrom shall be applied to actual and necessary costs of operation, maintenance, and repair, debt service, negotiated management fees, and, in the case of a privately operated toll ferry, for a reasonable rate of return."</i> 23 U.S.C. 129(c)(4) 	<ul style="list-style-type: none"> The Washington Utilities and Transportation Commission regulates common carrier rates for passengers, although it defers to the jurisdiction of the Transportation Commission over WSF's rates under R.C.W. 47.56.030(1)(b), and WUTC as a matter of practice does not regulate rates of government operators. If an external entity is to establish rates, whether by the Transportation Commission or, by the WUTC, or by some other entity, WSF will have to justify the financial necessity of any change in their toll structure.

CONCLUSION

Six different governance models have been presented above along with a description of the current governance for WSF. Each of the governance models is successful from the standpoint that they are used by ferry operators. However, not all governance models will necessarily work in all situations.

For example, the Public – Private Partnership represented by NY Waterway has put the capital cost burden for the vessels on the vessel operator. The ferries used by NY Waterway are relatively small and inexpensive, and do not carry vehicles; they are of a type that could be used in other ferry markets, and New York City has a high volume of commuters so there is confidence in the projected revenue stream. These factors made such an arrangement financially feasible. The financial feasibility of this model may be different if a private operator had to finance vessels of the size and complexity of WSF's double-ended ferries where they are suited for a unique market.

Another example is the Independent Authority model represented by the SSA. They are 100% self-financed and support two island communities that have similar needs and can be served by similar vessels. The customers have a clear understanding that they need to pay the high fares for the benefit of residing on the islands or visiting there. For WSF to use this model fares would have to increase and a debate would need to occur over how to allocate costs across nine routes and 20 terminals and whether communities such as Tacoma or Sydney, BC would be willing to share the financial risk of budget shortfalls.

Reviewing the governance models, the study team found some examples of best practices that could apply to any revised governance for WSF. The best practices are as follows:

- A clear vision and mission for the system facilitates governance. The SSA's statutory mission is to serve as the "Lifeline to the Islands." This focus helps their five-person board manage issues of cost, revenue, service level, and long range planning.
- Setting performance goals and giving authority over revenues and expenses to the management team facilitates operational efficiencies. BC Ferries has been able to contain costs and meet their financial targets because they control fares, negotiate their own labor agreements, and can move expediently on capital projects, from planning through construction.
- If the system operates with a subsidy, there needs to be a predictable, long term funding source identified. Golden Gate Ferry benefits greatly by having the toll revenue from the Golden Gate Bridge to support their operations. Commuters traveling from the counties north of San Francisco have to take the bridge, take a bus, or ride the ferry, all of which is controlled by the Golden Gate Bridge Transportation District. The ferries and busses are tools to reduce congestion on the bridge and to maximize total transit revenue.

- The oversight of the ferry service is best when there is a dedicated board that is free from day-to-day political influence. Three of the public operators (SSA, BC Ferries, Golden Gate Ferries) and the two private operators (Bridgeport & Port Jefferson Steamboat Company and NY Waterway) have governance teams that are not subject to political recall or changes due to a turn-over in civic government. This allows them to make decisions that are in the long-term best interests of their system.
- The size of the governing board seems to be worth considering. A small board can be efficient but if some of the members are less cooperative it can quickly become unmanageable. Overly large boards make consensus difficult to achieve and slow to obtain. The most effective boards seem to have approximately 15 to 20 members as evidenced by NCDOT, the Golden Gate Bridge Transportation District, and BC Ferries.
- Different governance structures seem to make sense for different operations. North Carolina Ferry System for example is primarily focused on providing basic transportation to the tourism areas on the Outer Banks, with 61% of its customers travelling for tourism or recreational purposes. The high levels of subsidy are justified on the basis of its estimated economic contribution to tourism of \$325 million annually. Conversely, the Public-Private Partnership model represented by NY Waterway seems to work well in an urban environment where significant volumes of commuter traffic generate sufficient revenue to be attractive to a private operating company.
- Changing WSF's governance should be part of a broader discussion on transportation policy and the role of government. Washington State needs to question the roles of WSF as a provider of mass transit, a vital lifeline to communities, a facilitator of economic activity, and an icon of the state. Since taxpayers are paying for transportation subsidies throughout the Puget Sound area, government has the obligation to coordinate those funds and their associated operations for the public good. As an example, NY Waterway operates in one of the largest metropolitan areas in the US. There are numerous organizations involved in regional transit planning including the states of New York and New Jersey, the cities of New York, Newark, Hoboken, Bayonne, Jersey City, as well as the Port Authority of New York and New Jersey, the Metropolitan Transportation Authority, Amtrak, New Jersey Transit. Reportedly there are some 80 agencies involved with some aspect of transportation in the area. NY Waterways is a major player in the small piece of the transportation pie that is labeled ferries. However, most other modes of transportation have numerous barriers to expansion of service which makes the ferry services attractive due to the guaranteed right of way on navigable waters.

The study team did not identify any one governance model as superior to the others. All have their advantages and disadvantages. To apply any of them to WSF will require action by the Legislature and likely by the voters. Changing the governance structure may facilitate the creation of funding sources for capital needs (potentially a combination of local, state, and

federal funds) and possibly for operational subsidies. If the governance structure is well aligned with the mission for WSF, both the state and its' citizens will benefit thereby.

Appendix A

Governor Gregoire's Letter dated September 13, 2010

CHRISTINE O. GREGOIRE
Governor



STATE OF WASHINGTON
OFFICE OF THE GOVERNOR

P.O. Box 40002 • Olympia, Washington 98504-0002 • (360) 753-6780 • www.governor.wa.gov

September 13, 2010

John Groundwater
Executive Director
Passenger Vessel Association
901 N. Pitt Street, Suite 100
Alexandria, VA 22314

Dear Mr. Groundwater

A handwritten signature in cursive script, appearing to read "Christine", written over the typed name "Christine O. Gregoire".

Thank you for the Passenger Vessel Association's (PVA) report on the Department of Transportation Ferries Division operations. The report provides a strong examination of our ferry system and the best practices of systems across the country, as well as a roadmap for continued improvement.

One of the report's recommendations was to review how the state ferry system is governed to determine if opportunities exist for positive change. During the worst economic crisis of the last 80 years, every option must be on the table. When I launched the Transforming Washington's Budget process, I indicated, as part of our transformative thinking, that privatization of some state services should be considered. To that end, I am again requesting the assistance of the PVA as the premier passenger vessel association in the country that represents most public and private ferry systems.

I ask that the PVA identify and outline the governance models used in ferry systems in North America, including the structure and funding mechanisms of the various models, and analyze the advantages and disadvantages of the models and how they would apply to the operations of the Washington State Ferries Division. I further request that the PVA consider governance models beyond those already in existence and analyze their application to Washington State Ferries. I would appreciate receiving this report by December 1, 2010.

Thank you for your consideration. If you have questions, please feel free to contact Paula Hammond, Secretary of the Washington State Department of Transportation, at (360) 705-7054 or HammonP@wsdot.wa.gov or David Moseley, Ferries Division Assistant Secretary at (206) 515-3401 or MoseleD@wsdot.wa.gov.

Sincerely,

A handwritten signature in cursive script, appearing to read "Christine", written over the typed name "Christine O. Gregoire".

Christine O. Gregoire
Governor

*Thanks again for
a very helpful report!*



Appendix B

Ferry System Comparison Table

Appendix C

Enabling Legislation for SSA

Resolutions and Acts 1960

Chap. 701. An Act creating the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, defining its powers and duties, abolishing the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and transferring its assets and liabilities to said newly created authority.

Be it enacted, etc., as follows:

Section 1. The Woods Hole, Martha's Vineyard and Nantucket Steamship Line.—As used in this act the word "Authority" unless the context shall indicate another or different meaning or intent, shall mean the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority created by section three of this act, or if said Authority shall be abolished, the board, body or commission succeeding to the principal functions thereof, or to whom the powers given by this act to the Authority shall be given by law. In order to provide adequate transportation of persons and necessities of life for the islands of Nantucket and Martha's Vineyard, the Authority is hereby authorized and empowered to purchase, construct, maintain and operate necessary vessels, docks, wharves, other vessels, equipment, furniture and supplies and to issue its revenue bonds payable solely from revenues, or funds as hereinafter authorized in section nine of this act.

Section 2. Credit of the Commonwealth not Pledged.—Steamship bonds issued under the provisions of this act shall not be deemed to constitute a debt of the commonwealth, nor a pledge of the faith and credit of the commonwealth, but the bonds shall be payable solely from the funds herein provided therefore. All such bonds shall contain on the face thereof a statement to the effect that neither the Authority nor the commonwealth shall be obligated to pay the same, or the interest thereon except as herein provided, and that the faith and credit of the commonwealth are not pledged to the payment of the principal or of the interest on such bonds.

Section 3. The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.—There is hereby created a body corporate to be known as the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, which shall be deemed to be a public instrumentality for the purpose of this act, and by that name the Authority may sue and be sued, plead and be impleaded, contract and be contracted with, and shall have an official seal and may alter the same at pleasure.

The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority shall consist of three persons to be appointed as follows: one resident of the town of Nantucket by the selectmen thereof; one resident of the county of Dukes county by the county commissioners thereof; and one resident of the town of Falmouth by the selectmen thereof, each of whom shall serve for a term of three years and until his successor has been appointed and qualified. The successor of each member shall be appointed in a like manner for a like term, except that any person appointed to fill a vacancy shall serve only for the period of the unexpired term. Any member

may be removed for cause by the selectmen of the town or the commissioners of the county of which he was a resident at the time of his appointment.

The chairmanship of said Authority shall rotate every year in the following order: first, the member from Nantucket; second, the member from the county of Dukes county; and third the member from the town of Falmouth.

The Authority shall elect one of the members as vice-chairman and as secretary, and shall also elect a treasurer who need not be a member of the Authority. Two members of the Authority shall constitute a quorum, and the vote of two members shall be necessary for any action taken by the Authority. No vacancy in the membership of the Authority shall impair the right of a quorum to exercise all the rights and perform all the duties of the Authority. Before the issuance of any steamship bonds under the provisions of this act, each member of the Authority shall execute a surety bond to the commonwealth, with a surety company authorized to transact business in this commonwealth as surety in the penal sum of ten thousand dollars, and the treasurer shall execute such a bond in the penal sum of twenty thousand dollars conditioned upon the faithful performance of the duties of his office. Each such surety bond shall be approved by the attorney general and filed in the office of the state secretary. The members of the Authority shall serve without compensation. Each member shall be reimbursed for his actual expenses necessarily incurred in the performance of his duties. All expenses incurred in carrying out the provisions of this act shall be paid solely from funds provided under the authority of this act, and no liability or obligation shall be incurred by the Authority hereunder beyond the extent to which moneys shall have been provided under authority of this act.

Section 4. General Grant of Powers.—The Authority is hereby authorized and empowered—

(a) To acquire, maintain, repair and operate a steamship line.

(b) To issue bonds of the Authority payable solely from the funds herein provided for such payment for the purpose of paying for replacements and new construction or acquisition of vessels and other facilities required to provide adequate service, the total amount to be outstanding at any one time, including refunding bonds but excluding the bonds to be refunded thereby, not to exceed six million dollars.

(c) To fix, from time to time, such rates of fare and charges for service furnished or operated as in the judgment of its members are best adapted to insure sufficient income to meet the cost of the service, as hereinafter defined. Rates so fixed shall be and remain in effect until changed by the Authority unless the department of public utilities shall upon petition and after a public hearing disapprove them. Such disapproval, if any, shall not be retroactive in effect.

The cost of the service shall include (1) operating expenses, (2) taxes, (3) rentals, (4) interest on all indebtedness of the Massachusetts Steamship Lines, Incorporated and the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, created by section three of chapter five hundred and forty-four of the acts of nineteen hundred and forty-eight, if any,

(including amortization of discount or premium) assumed by the Authority and still outstanding, (5) interest and amortization (including amortization of discount or premium) on bonds or notes of the Authority issued under this act, (6) such allowance as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed or abandoned, (7) salaries and wages of all officers and employees appointed or employed by or subject to the supervision of the Authority, and, to the extent authorized by the Authority, pensions and retirement allowances, if any, to present and former employees of said Massachusetts Steamship Lines, Incorporated and said New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and employees of the Authority, (8) all other expenditures and charges which are properly chargeable against income or surplus.

(d) To adopt by-laws for the regulation of its affairs and the conduct of its business.

(e) To acquire, hold and dispose of real and personal property, including additional vessels and fixtures, for its corporate purposes; to lease or charter any of its vessels when in the opinion of the Authority they are not required for the purposes of this act; and to contract by license, lease, charter or other arrangement for the provision of excursion service by other persons to and from the islands of Martha's Vineyard and Nantucket from any point on the mainland of the commonwealth, when it shall be deemed necessary or desirable to serve the purposes of this act.

(f) To make and enter into all contracts and agreements necessary or incidental to the performance of its duties and the execution of its powers under this act, and to employ consulting engineers, superintendents, managers, accounting experts, attorneys and such, other employees and agents as may be necessary in its judgment, and to fix their compensation, provided that all such expenses shall be solely from the proceeds of bonds issued under the provisions of this act or of chapter five hundred and forty-four of the acts of nineteen hundred and forty-eight, as amended, or from the revenues of the operation of the steamship line.

(g) To receive and accept from any federal agency grants for or in aid of the acquisition or operation of the steamship line, and to receive and to accept contributions from any source of either money, property, labor or other things of value, to be held, used and applied only for the purposes for which such grants and contributions may be made; and to do all acts and things necessary or convenient to carry out the powers expressly granted in this act.

(h) To employ, in so far as may be practicable, the regular employees of said New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, and to recognize such seniority and pension benefits as the said employees currently enjoy under any health, sickness or retirement program.

(i) To insure its employees under the provisions of the Employment Security Law and to become liable for payments (sic) instead of contributions as provided in subsection (o) of section fourteen of chapter one hundred and fifty-one A of the General Laws.

Section 5. Steamship Bonds.—The Authority is hereby authorized to provide by resolution at one time or from time to time for the issuance of bonds of the Authority for the purpose of paying for replacements and new construction or acquisition of vessels and other facilities required to provide adequate service. The principal and interest of such bonds shall be payable solely from the funds herein provided for such payment. The bonds of each issue shall be dated, shall bear interest at such rates not exceeding four and a half per centum per annum, shall mature at such time or times not exceeding forty years from their date or dates as may be determined by the Authority, and may be made redeemable before maturity at the option of the Authority, at such price or prices and under such terms and conditions as may be fixed by the Authority prior to the issuance of the bonds. The Authority shall determine the form of the bonds, including any interest coupons to be attached thereto, and the manner of execution of the bonds, and shall fix the denomination or denominations of the bonds and the place or places of payment of principal and interest, which may be at any bank or trust company within the commonwealth. In case any officer whose signature or a facsimile of whose signature shall appear on any bonds or coupons shall cease to be such officer before the delivery of such bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until such delivery. All bonds issued under the provisions of this act shall have and are hereby declared to have all the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The bonds may be issued in coupon or in registered form, or both, as the Authority may determine, and provision may be made for the registration of any coupon bonds as to principal alone, and also as to both principal and interest, and for the reconversion into coupon bonds of any bonds registered as to both principal and interest. The Authority may sell such bonds in such manner, either at public or at private sale, and for such price, as it may determine to be for the best interests of the Authority, but no such sale shall be made at a price so low as to require the payment of interest on the money received therefore at more than four and a half per centum per annum, computed with relation to the absolute maturity of the bonds in accordance with standard tables of bond values, excluding, however, from such computation the amount of any premium to be paid on redemption of any bonds prior to maturity.

The proceeds of such bonds shall be used solely for replacements and new construction or acquisition of vessels and other facilities required to provide adequate service and shall be disbursed in such manner and under such restrictions, if any, as the Authority may provide. The Authority may also provide for the replacement of any bonds which shall become mutilated or shall be destroyed or lost. Bonds may be issued under the provisions of this act without obtaining the consent of any department, division, commission, board, bureau or agency of the commonwealth, and without any other proceedings or the happening of any other conditions or things than those proceedings, conditions or things which are specifically required by this act.

The Authority is hereby authorized to provide by resolution for the issuance of refunding bonds of the Authority for the purpose of refunding any bonds that are outstanding and issued under the provisions of this act or of said chapter five hundred and forty-four of the acts of nineteen hundred and forty-eight, as amended, including payment of any redemption premium thereon

and any interest accrued or to accrue to the date of redemption of such bonds, and, if deemed advisable by the Authority, for the additional purpose of purchasing additional vessels or equipment. The issuance of such bonds, the maturities and other details thereof, and the duties of the Authority in respect to the same, shall be governed by the provisions of this act in so far as the same may be applicable.

While any bonds issued by the Authority or by said New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority remain outstanding, the powers, duties or existence of the Authority shall not be diminished or impaired in any way that will affect adversely the interests and rights of the holders of such bonds.

Except as provided in this act no person shall operate a vessel of more than one hundred gross tons for the carriage of passengers, vehicles or freight for hire by water between the mainland of the commonwealth and the island of Martha's Vineyard or the island of Nantucket or between said islands unless licensed or permitted in writing so to do by the Authority. The superior court shall have jurisdiction, on a petition in equity by the Authority, to enjoin any such operation.

Section 6. Exemption from Taxation.—The exercise of the powers granted by this act will be in all respects for the benefit of the people of the commonwealth, for the increase of their commerce and prosperity, and for the improvement of their health and living conditions, and as the operation and maintenance of the steamship line by the Authority will constitute the performance of essential governmental functions, the Authority shall not be required to pay any taxes or assessments upon any property acquired or used by the Authority under the provisions of this act or upon the income therefrom, and the bonds and refunding bonds issued under the provisions of this act, their transfer and the income therefrom (including any profit made on the sale thereof), shall at all times be free from taxation within the commonwealth.

Section 7. Section 12 of chapter 63 of the General Laws is hereby amended by inserting after paragraph (s) the following:—

(t) Bonds issued by the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.

Section 8. Trust Agreement.—In the discretion of the Authority such bonds or refunding bonds shall be secured by a trust agreement by and between the Authority and a corporate trustee, which may be any trust company or bank having the powers of a trust company within the commonwealth. Such trust agreement may pledge or assign the revenues to be received, but shall not convey or mortgage the vessels, equipment or property. Either the resolution providing for the issuance of bonds or such trust agreement may contain such provisions for protecting and enforcing the rights and remedies of the bondholders as may be reasonable and proper and not in violation of law, including covenants setting forth the duties of the Authority in relation to the acquisition, improvement, maintenance, operation, repair and insurance of the project, and the custody, safeguarding and application of all moneys.

It shall be lawful for any bank or trust company incorporated under the laws of the commonwealth to act as depository of the proceeds of bonds or of revenues and to furnish such indemnifying bonds or to pledge such securities as may be required by the Authority. Such trust agreement may set forth the rights and remedies of the bondholders and of the trustee, and may restrict the individual right of action by bondholders as is customary in trust agreement or trust indentures securing bonds and debentures of corporations. In addition to the foregoing, such trust agreement may contain such other provisions, including a provision for a sinking fund, as the Authority may deem reasonable and proper for the security of the bondholders. All expenses incurred in carrying out the provisions of such trust agreement may be treated as a part of the cost of the operation of the steamship line.

Section 9. Revenues.—The revenues derived from the operation of the steamship line shall be set aside at regular intervals in the following order, in the following amounts and for the following purposes, all as may be provided in the resolution authorizing the issuance of bonds:

First: to an operations fund, an amount sufficient to pay the cost of maintenance, repair and operation of the steamship line and to maintain working capital for such purposes, in an amount not exceeding two hundred thousand dollars;

Second: to the sinking fund, an amount sufficient to provide for the payment of the interest on and for the amortization and payment of the principal of all bonds as the same shall become due and payable;

Third: to a replacement fund, if so provided in such resolution, such amount, if any, as the Authority may deem necessary or advisable for depreciation of property and for obsolescence and losses in respect to property sold, destroyed or abandoned;

Fourth: to the reserve fund, an amount sufficient to maintain said fund at the amount of two hundred thousand dollars; and

Fifth: to the sinking fund, all of the remaining revenues, to be used within a reasonable time for the purchase or redemption of bonds.

Whenever the income of the Authority is insufficient to meet the cost of the service, as denned in section four, the reserve fund shall be used as far as necessary to make up said deficiency.

If as of the last day of December in any year the amount remaining in the reserve fund shall be insufficient to meet the deficiency hereinbefore referred to, the Authority shall notify the state treasurer of the amount of such deficiency, less the amount, if any, in the reserve fund applicable thereto, and the commonwealth shall thereupon pay over to the Authority the amount so ascertained and the Authority shall apply the amount so received from the commonwealth in payment of such deficiency. Pending such payment, the Authority shall borrow such amount of money as may be necessary to enable it to make all payments as they become due.

If as of the last day of December in any year the reserve fund shall exceed the amount established therefore, the Authority shall apply any excess so far as necessary to reimbursing the commonwealth for any amounts which it may have paid to the Authority under the provisions hereof and the commonwealth shall thereupon distribute the amounts so received to the towns assessable for a deficiency, as provided in this section, in proportion to the amounts for which they may be so assessed.

In order to meet any payment required of the commonwealth under this section, the state treasurer may borrow at any time, in anticipation of the assessments to be levied upon the towns hereinafter specified, such sums of money as may be necessary to make said payments and he shall repay any sums so borrowed as soon after said assessments are paid as is expedient.

In case the commonwealth shall be called upon in the calendar year nineteen hundred and sixty-one to pay the Authority any amount under this section on account of any such deficiency for the calendar year nineteen hundred and sixty, such amount with interest or other charges incurred in borrowing the money for the purpose, except such amounts as may be appropriated by the general court therefore, shall be assessed on the city of New Bedford and the towns of Falmouth and Nantucket and the county of Dukes county, in the following proportions, viz.: forty per cent on the city of New Bedford; ten per cent on the town of Falmouth; twenty per cent on the town of Nantucket; and thirty per cent on the county of Dukes county. The county commissioners of the county of Dukes county shall allocate such assessment upon said county to be paid severally by the towns in said county, excepting the town of Gosnold, in the same proportions as in the assessment of the county tax.

In case the commonwealth shall be called upon in the calendar year nineteen hundred and sixty-two or in any subsequent calendar year to pay the Authority any amount under this section on account of any such deficiency for the calendar year nineteen hundred and sixty-one or any subsequent calendar year, such amount with interest or other charges incurred in borrowing the money for the purpose, except such amounts as may be appropriated by the general court therefore, shall be assessed on the towns of Falmouth and Nantucket and the county of Dukes county, in the following proportions: ten per cent on the town of Falmouth; forty per cent on the town of Nantucket; and fifty per cent on the county of Dukes county. The county commissioners of the county of Dukes County shall allocate such assessment upon said county to be paid severally by the towns in said county, excepting the town of Gosnold, in the same proportions as in the assessment of the county tax.

If at any time the Authority has not sufficient cash to make the payments required in the course of its management and operation of the steamship line and other properties under its control, the Authority may temporarily borrow money and issue notes of the Authority therefore.

Section 10. Trust Funds.—All moneys received pursuant to the authority of this act, whether as proceeds from the sale of bonds or as revenues, shall be deemed to be trust funds, to be held and applied solely as provided in this act. The Authority shall, in the resolution authorizing the issuance of bonds or in the trust agreement, provide for the payment of the proceeds of the

sale of such bonds, and all revenues to be received, to any officer who, or to any agency, bank or trust company which, shall act as trustee of such funds and shall hold and apply the same to the purposes hereof, subject to such regulations as this act and such resolution or trust agreement may provide.

Section 11. Bonds Eligible for Investment.—Bonds and refunding bonds issued under the provisions of this act are hereby made securities in which all public officers and public bodies of the commonwealth and its political subdivisions, all insurance companies, trust companies in their commercial departments and within the limits set by section forty of chapter one hundred and seventy-two of the General Laws, banking associations, investment companies, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of a similar nature may properly and legally invest funds, including capital in their control or belonging to them, and such bonds are hereby made obligations which may properly and legally be made eligible for the investment of savings deposits and the income thereof in the manner provided by paragraph 2 of section fifty of chapter one hundred and sixty-eight of the General Laws. Such revenue bonds are hereby made securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the commonwealth for any purpose for which the deposit of bonds or other obligations of the commonwealth now or may hereafter be authorized by law.

Section 12. Remedies.—Any holder of bonds or refunding bonds issued under the provisions of this act or of any of the coupons appertaining thereto, and the trustee under the trust agreement, if any, except to the extent the rights herein given may be restricted by such resolution or trust agreement, may, either at law or in equity, by suit, action, mandamus or other proceeding, protect and enforce any and all rights under the laws of the commonwealth or granted hereunder or under such resolution or trust agreement, and may enforce and compel the performance of all duties required by this act or by such resolution or trust agreement to be performed by the Authority or by any officer thereof, including the fixing, charging and collecting of tolls and charges for the use of the project.

Section 13. Report.—On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operating expenses. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws.

Section 14. Finance Advisory Board.—There is hereby created and established a board to be known as the finance advisory board of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority which shall consist of three members; one member to be elected by the voters of the town of Falmouth for a term of one year; one member to be elected by the voters of the county of Dukes county for a term of two years; one member to be elected by the voters

of the town of Nantucket for a term of three years. Upon the expiration of the term of a member a successor shall be elected in like manner for a term of two years. Said board shall have the power to review the annual budget of the Authority and advise the Authority members concerning any financial aspect of the operation of the Authority, and may limit or modify any advertising expenditures. It shall have access to such books, records and files of the Authority it may deem necessary or desirable for the exercise of its powers. The members of the board shall serve without compensation but shall be reimbursed from the funds of the Authority for any actual expenses necessarily incurred in the performance of their duties.

Section 15. Miscellaneous.—If transportation of passengers on the steamship line of the Authority is interrupted by reason of any group of employees calling a strike or going out on strike, or causing any such stoppage or slow down, or by reason of any other labor dispute, the provisions of chapter one hundred and fifty B of the General Laws shall apply, in so far as they are applicable.

Any member, agent or employee of the Authority who contracts with the Authority or is interested, either directly or indirectly in any contract with the Authority, other than a contract relating to labor or wages, shall be punished by a fine of not more than one thousand dollars or by imprisonment for not more than one year or both. No member of the Authority shall be in the employ of, or be in any way, directly or indirectly, financially interested in any person, partnership, corporation or association having any business or financial transactions with the Authority, or which is furnishing any transportation of freight or passengers in the area of the Authority, or rendering any service similar to that performed by the Authority.

Section 16. Abolition of New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and transfer of its assets and liabilities to Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.—Said New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is hereby abolished; and all its assets, including its real property, shall, without further conveyance and by virtue of this act, be and become vested in said Woods Hole, Martha's Vineyard and Nantucket Steamship Authority; and all its outstanding indebtedness and liabilities shall, without further action and by virtue of this act, be assumed by said Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.

When used in any instrument acknowledging indebtedness or other obligation the words "New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority" shall mean said Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.

All books, records and papers in the possession of the said New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority shall, upon the effective date of this act, be turned over to said Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.

Nothing contained in this act or in said chapter five hundred and forty-four of the acts of nineteen hundred and forty-eight, as amended by chapter one hundred and forty-two of the acts of nineteen hundred and forty-nine, chapter four hundred and forty-nine of the acts of nineteen hundred and fifty-four, chapter six hundred and twenty-two of the acts of nineteen

hundred and fifty-four, and chapter seven hundred and forty-seven of the acts of nineteen hundred and fifty-six, shall be deemed or construed to require that said Woods Hole, Martha's Vineyard and Nantucket Steamship Authority provide ferry runs or transportation of passengers, vehicles or freight to or from any point on the mainland of the commonwealth to or from any other such point or to or from the islands of Martha's Vineyard or Nantucket; provided, however, that except in cases of emergency or necessity ferry runs or such transportation shall be provided to and from the port of Woods Hole to and from said islands.

Section 17. Act Liberally Construed.—This act, being necessary for the welfare of the commonwealth and its inhabitants, shall be liberally construed to effect the purposes thereof.

Section 18. Constitutional Construction.—The provisions of this act are severable, and if any of its provisions shall be held unconstitutional by any court of competent jurisdiction, the decision of such court shall not affect or impair any of the remaining provisions.

Section 19. Inconsistent Laws Inapplicable.—All other general or special laws, or parts thereof, inconsistent herewith are hereby declared to be inapplicable to the provisions of this act.

Section 20. Effective Date.—This act shall take effect on January first, nineteen hundred and sixty-one.

Approved October 18, 1960.