

A meeting of the Maine State Ferry Service Advisory Board was held at 10:30am on June 20, 2019, at the Rockland Ferry Terminal.

List of attendees:

Eva Murray, chairperson
Mark Higgins, Manager MSFS
Joanne O'Shea, Business Manager MSFS
John King, Islesboro
Gabe Pendleton, Islesboro
Phil Seymour, Islesboro
Jon Emerson, North Haven
Rick Latimer, North Haven
Phil Crossman, Vinalhaven
Mike McKenna, MDOT
Bill Pulver, COO DOT
Sonny Sprague, Swan's Island
Jeff Diggins, Islesboro
Kathy Clark, Swan's Island
Maggy Wilcox, Islesboro Island News
Tom Groenig, The Working Waterfront

Eva: No specific agenda.

John King handed out a document/analysis that was referenced throughout the meeting.

Gabe: Brief introduction, stating there's been a lot of work on rate issue. Initially thought biggest concern was an unfair apportionment of rates. The bigger problem is that costs are out of control, and the budget will not work if costs continue at the current rate. Breaking point where ridership is going down and costs are going up.

Bill: disagrees that budget is out of uncontrol and that costs are explainable. Says MSFS is fortunate that it hasn't had to make a rate change for so long and it would have been better to have incremental increases. Gabe excused himself for any inflammatory language.

Jeff: has a business background, working in "troubled situations" in businesses, deconstructing where the issues lie and then helping businesses reconstruct their financial picture. He says the information he's been provided is at a very summarized level—nothing granular.

Eva: FSAB does not have a history of an "audit" of the MSFS. The MDOT may be able to provide it, but historically the FSAB hasn't been this involved. Jeff responded saying we need a lot more info as he had to cobble together a model that looks at tariffs and vehicle/ridership data. More transparency and disclosure would make analysis much easier

Jeff: Islesboro is different than other islands, being so close to the mainland. Most people bring their vehicles, and this is a much higher dollar ticket item. When tariff 8 went into effect, people's behavior is evolving. Customers are getting accustomed to not taking their cars, resulting in a drop in vehicles ticket sales. Vehicle traffic is down about 20%.

This is a multi-dimensional problem where revenue shortfall, containing costs and capital all need to be considered. There is agreement that imposed rates resulted in an increase of demand destruction. He drew an economic theory graph on the board. Demand destruction -- all things being equal if you charge more demand goes down. This does not occur when there is destruction. We've been raising prices but losing revenue. Islesboro does a better job of covering costs than other islands. When that revenue is lost, it impacts the other locations. It's preferable that people go back to taking their vehicle since vehicles generate more revenue.

Recommendation: how to stimulate demand? Identify goods and services that exhibit inelastic demand—people will pay despite the cost. People are far less price sensitive walking on the boat or making reservations—see the handout.

Jon: It depends on which island you are on... islands have unique situations.

Jeff: Reservations and other variables can be changed to generate revenue.

Mark: Asks if there was an analysis of demand destruction of other islands? Apple to apple comparisons needs to be made.

Jeff: There is no easy answer, but the model was working reasonably well in 2017. The model has outliers.

Mark: Discussed the number of car spaces available, saying it's not a like comparison

Kathy: Increasing ridership depends on the size of the boat, especially seasonally.

Jeff: The boats are not full, other than peak times. Other companies use peak season rates and longer/shorter run rates.

Gabe: He'd expect demand destruction on other islands from raising vehicle tickets from \$30 to \$45.

John: He tried to show how difficult it is to get to the necessary revenue target..the \$45 isn't what they suggest we should do, it demonstrates the difficulty in trying to balance costs.

Sonny: There's not enough space on the boats. If we increase the number of reservations, the public can't walk onto the boats. It's apples to oranges trying to compare Islesboro to other islands...example, Frenchboro has far fewer chances to get back and forth. Customers have to wait half a day, especially if there are truck reservations. Islesboro has about 48% of car spaces, Frenchboro has about 18%.

Eva: With all the metrics it's safe to assume that the outlier islands may not even have daily boats—it should be understood that there is a social difference between the islands.

Sonny: It's much more expensive to live on an island—you can't truly compare one island to another

John: Started presentation: page 19. Money is made on vehicles. The Smith carries almost half of the vehicle traffic. We don't want to have demand destruction on vehicles on IB and VH.

Jon: There's not a lot of play on the cost of the vehicle reservations. He agrees on the demand graph but that individuals have a "tipping point" which relates to the benefit of the ticket and that is different on each island—it buys you more mainland time for some islands vs. others. Each island is individual—where is that point? We count on Islesboro to carry the heavy load because there is "more benefit to the ticket" because of the proximity to the mainland. We can't just be numbers; there's a social/practical reality that goes into the price of the tickets.

Gabe: He agrees that there needs to be a difference in prices for the different islands. Everyone knows the ferries are different in terms of capacity, distance, etc. He suggests that increasing cost and amount of reservations for Islesboro will increase revenue...though this may not work for other islands. Reservations are discretionary for some islands like Islesboro but necessary for other places where the capacity is lower, or if there's an emergency.

Sonny: we need to consider poor people when discussing reservation prices. Gabe says overall, someone may cut in line with a reservation and that may be upsetting, but that person should be grateful that the fare is low/reasonable.

John: page 14: cars and light truck traffic

Page 32: 2017 and 2018 expenditures and budget presented to the legislature.

Bill reminds the group that there is a two-year budget.

Mike: this budget was presented in 2017, as a projection for 2018 and 2019. The legislature sees it as 2 one year snapshots.

John questions personal services (personnel). Budget process is critical to rate structure.

Mike says comparing budget to actual is not a like comparison.

John converted personnel costs to how many boat rides it would take to cover that. John also questions vessel diesel/vehicle expense—2019 budget is \$459k higher than actual in 2018. He also converts to that to number of ferry rides.

Mark stated the cost of gas/diesel fuel going up—largest shipping company in the world passes this cost off to the customer. Current events indicate diesel market will continue to go up. He says we are paying under market for fuel.

Bill: when the budget is set, we need to make projections. Personnel projections are up—HR/State sets classifications of employees—it's not set by MSFS...healthcare costs are up, wages are adjusted according to the economy etc.

John says there's no transparency on wage info. Operations have not changed in years, he doesn't understand why personnel has risen so much.

Mark: 85 FTE available, 78 are full right now. There are 117 total positions, including seasonal, PT and intermittent. 100 positions are full, 78 FTE right now. There are 2 people in Augusta on payroll.

Eva reminds the group that the State pays less than companies.

Mark: There are no administrators. Top Engineers make \$24.88/hr. Everyone was just re-classified to grade 8. Port Engineer makes \$70k. Top Captain makes \$68k/yr. Port Engineer at Steamship Authority makes \$108k. Lowest paid captain at Steamship Authority makes \$100k. MSFS staff is aging. Every employee is in operations.

John says FSAB should have input on revenues, costs, and budget that they should be able to see more details. He says info is readily available, that the board should be able to see it.

Bill says we can share the info to the FSAB.

Eva, says that as volunteers, they welcome more information but don't want to take on considerably more work.

Jeff calculates that the average wage is \$82k, which includes salary, benefits, etc. —is this accurate?

Eva: bottom line is there's not enough money—enough to pay wages, hire more, repair and buy boats, etc. There's not anything left for belt-tightening. She sounds like she's advocating for a rate increase.

Jeff: Continues with the report at Phil's request. Fuel (heating oil) 2019 budget is \$100k more than the previous year. Repair 2019 budget is \$1M lower—he asks about the overall budget process.

Mark: Actual costs are based on inspections, repairs, coast guard, etc.

John thinks we should have a more historical actual report to make a future budget. He refers to p. 33 report. He doesn't suggest we pay minimum wage but says that operations haven't changed over the years—the same number of ferry trips, no new offerings. He doesn't understand why costs are changing so much when not much else has changed.

Jon: if costs keep increasing, ferry service is in trouble—very expensive tickets.

Bill: under Commissioner Van Note, MDOT has a reputation for penny-pinching and continuous improvement. Showed a business plan from 2010 with similar concerns. Labor, fuel, costs increase.

Mike: “High hanging fruit”—cutting trips to islands.

Gabe: Asked for an update on the ticketing system. Is the goal to get rid of ticket takers? Mark—we are looking at vendors, doing demos and will be putting out RFPs.

Mike: Talked about monthly bills, complexity in something as simple as maintaining the message boards. It's important to have human capital.

Eva: we still need humans to answer questions. Need a happy medium. The overall consensus is that human ticket takers should remain.

Gabe: Main concern is to keep tickets affordable for the community—domino effect if people can't afford to stay on the island, keep the school open, etc

Eva: Everyone is concerned about long term sustainability. How do we deal with it—many variables? Criehaven is an example.

Gabe: We're here about the budget. There's no low hanging fruit. We can't raise rates (strictly) to balance the budget. 10% unsustainability now will snowball.

Sonny: we all fight for a year-round community. The discussion should be with representatives and how to get federal government funding.

Jon: Operations have not changed, but costs are up—he says “this animal” is different now than before because of rate structure...how much money are we leaving on the table by having made that change? Depends on the island.

Bill: MSFS/MDOT is very open to working with the board to make changes

Gabe: Doesn't support a four year plan like what Van Note suggests. He says it should be an annual discussion. There should be gradual changes. There is agreement around the table.

Mark: We are part of the Ferry Coalition. Lots of signatories to go into lobby for federal funds. We do get some federal money for predictive and preventative maintenance program (\$150k). New boats being built is a long-term solution too. The average boat is 33yrs old. Our engineers do the best they can with the reality of the boats. Some federal money goes to infrastructure capital funds—about \$20M over the next three years.

Jeff would like to see capital money plan.

Mark: Federal money used to be exponentially more than now. This is a lobbying effort by Washington State. We signed on in Feb.

Jon: asks if Fed money would be for capital expenses, not operations?

Mark: Capital expenditures, this doesn't help with operations.

John: page 9 recommendations of input of MSAB. Mark can provide capital plans at the next meeting.

Sonny: Senators and representatives should be made aware of the need for federal funds.

Mark: MSFS is active in Passenger Vessel Association. There was a “congressional fly-in,” and they met with Senator Collins in April.

Phil: bylaws require FSAB to give an annual report to DOT to make wishes known, regarding budget or otherwise. The report is due June 30 though there is not a deadline to have anything complete.

Mark: Agenda will be sent out tomorrow for next Thursday's meeting.

Jeff: would like to see General Ledger detail. Mike says audit is online.

Adjourned at 12:31