
RECOMMENDED DECISION

SUBJECT: MSFS RATE CHANGES

DATE: APRIL 6, 2018

BACKGROUND

23 M.R.S.A. § 4401 provides that “It is the duty of the Department of Transportation to operate a ferry route or routes between the mainland and towns of North Haven, Vinalhaven, Islesboro, Matinicus Isle and Swan’s Island for the purpose of transporting vehicles, freight and passengers to and from these towns, and the department may operate the ferry route or routes to and from Frenchboro.” This section of the revised statutes goes on to designate the ferry routes collectively as the “Maine State Ferry Service.”

Historically, operating costs of the Maine State Ferry Service (MSFS) were funded through a state taxpayer subsidy from the General Fund of somewhere near 50%, with the remaining half generated through user fares and other fees. In 2005, the Legislature established the Marine Highway account (23 M.R.S.A. § 4210-C) and shifted the 50% subsidy payment to be from the Highway Fund. Section 2 of the enabling statute specifically provides the purpose of the account is “to provide support to the Maine State Ferry Service...because ferries are an integral part of the highway system and carry motor vehicles and are the only methods of vehicular transportation available to and from the island...”

Over the years, MaineDOT and MSFS leadership negotiated the user rates needed to meet the 50% user fee portion of the operating budget with the Maine State Ferry Advisory Board, established in 23 M.R.S.A. § 4301. Ticket prices and subsequent fare increases varied greatly over the years – from island to island, and from mainland to island ticket sales.

About two decades ago, a discounted island rate ticket was implemented, with the intent to mitigate increasing costs for year-round island residents. However, even

during peak summer months, up to 80% of MSFS ticket sales are generated at the island terminals (indicating widespread exploitation of the current ticket system originally created to help sustain year-round island communities).

The last rate increase was done in 2009 and was the fifth increase in the six-year period prior. At that time, rates were raised on the existing island/mainland structure. After the 2009 rate increase, MSFS worked to contain its operating budget to prevent rate increases, in large part by implementing efficiencies and with the good fortune of decreased fuel costs over several years.

The complexities and variations in rates that have evolved over the years are difficult to understand. The large volume of ticket sales at the island terminals versus the mainland terminals also indicates the intent of the island discount ticket is not being met. Furthermore, the operational burden to maintain the current rate structure does not satisfy the long-term goals of the MaineDOT and MSFS in operating a safe, efficient, and technologically advanced service for all customers.

Attached to this recommended decision are the new rate sheet, tariff no. 8, and rate data. Approval of this recommended decision by the Commissioner shall constitute final agency action.

DEPARTMENT GOALS

When the Department started looking at how to raise an additional \$700k in ticket sales necessary to meet MSFS operating projections, it set several goals, including:

1. Collection of the necessary revenue;
2. Creation of a rate structure that simplifies the ticketing system (to produce more efficiencies in the system in future years, specifically moving towards advanced technology use and online ticketing options); and
3. Based on input from the state legislative delegation representing the island communities, maximizing revenue collected during the peak season to minimize rate increases on year-round residents.

COMMENTS

The Department held public hearings to receive comments about the proposed changes to the ferry rates as follows: January 23 on Vinalhaven (with video links with Matinicus and North Haven); January 29 on Islesboro; and February 20 on Swan's (with notice to Frenchboro to attend). We had previously noticed hearings on Swan's for January 30, but we were stormed out, and we had to re-notice the hearings, which explains the 3-week delay.

I presided as hearings officer, and Mark Higgins spoke for the proposed changes at each hearing, to set out the reasons for the changes. We then asked for other speakers to comment in favor of the proposed rate changes, and there was not a single person on any of the 3 separate hearing dates that spoke in favor of the proposal.

We next took comments from those opposed to the proposed changes, and finally, we took comments from those who were neither for nor against, per se, but who wanted to be heard on the issue. We have transcripts from each hearing, and I have reviewed those and classified the general point of the comments regarding the proposed fare structure.

From Vinalhaven/North Haven/Matinicus: 3 speakers commented that the child rate is too high; 7 commented that the truck rate is too high, and that increases in the truck rate trickle down to everyone because the islanders are dependent on trucks to bring everything to the islands (including fuel); 8 spoke against the resident/non-resident distinction (the general tenor of these comments is that it is unfair, likely to cause a rift, or is counter to promoting tourism); 4 spoke against decreasing the nonresident car rate from the mainland car rate while trying to increase revenue; 2 spoke against continuing the excursion tickets; 4 spoke of considering other sources of revenue (selling ads, increase weekend daily parking fees, or charging a much higher price for bikes, which many islanders see as a nuisance on their roads); 9 commented that the resident/non-resident distinction was too complex to implement (these comments included a good deal of resistance to having to show identification, but also pointed out that doing so would slow the boarding process down significantly); 3 commented that we should just increase the existing fee structure by a uniform percentage across the board; 3 commented that Islesboro doesn't pay enough; and 1 commented that there was a disproportionate increase for islanders.

From Islesboro: 2 speakers commented that the child rate is too high; 11 commented that the truck rate is too high, and that increases in the truck rate trickle down to everyone because the islanders are dependent on trucks to bring everything to the islands (including fuel); 5 spoke against the resident/non-resident distinction (the general tenor of these comments is that it is unfair, likely to cause a rift, or is counter to promoting tourism); 3 spoke of considering other sources of revenue (selling ads, increase weekend daily parking fees, or charging a much higher price for bikes, which many islanders see as a nuisance on their roads); 7 commented that the resident/non-resident distinction was too complex to implement (these comments included a good deal of resistance to having to show identification, but also pointed out that doing so would slow the boarding process down significantly); 1 commented that we should just increase the existing fee structure by a uniform percentage across the board; 7 commented that Islesboro

pays too much (this appears to be based on some data that suggests that Islesboro comes the closest to covering its operational costs, approximately 66%); 2 spoke in favor of a commuter type discount for frequent users; and 1 spoke in favor of having a seasonal rate structure where more is charged in the peak season.

From Swan's: 6 spoke against the resident/non-resident distinction (the general tenor of these comments is that it is unfair, likely to cause a rift, or is counter to promoting tourism); 4 commented that the resident/non-resident distinction was too complex to implement (these comments included a good deal of resistance to having to show identification, but also pointed out that doing so would slow the boarding process down significantly); 4 commented that we should just increase the existing fee structure by a uniform percentage across the board; 2 spoke in favor of a commuter type discount for frequent users; and 1 spoke in favor of each of the ideas of a means test for fare rates and that the reservation rate was increasing too much (although this person was admittedly using an outdated rate chart and didn't know it only went to \$10).

In addition to the comments at the public hearings, I also have about an inch and a half stack of written comments. Based on the weather-related delay in holding the Swan's Island public hearing, the written comment period was held open until March 2, 2018 (ten days after the Swan's hearing on February 20). I've reviewed these written submissions, and overall, they reflect similar concerns as the oral comments presented at the public hearings.

Based on all of this, as well as identifying our organizational goal of simplifying the fare structure, the Department personnel involved in the fare decision met and had extensive discussions. Based on the public input, all were in agreement that the resident/non-resident fee structure should be abandoned. Also, there was general agreement to greatly simplify the fare structure by having one rate for any trip that can be used on any ferry. There was some concern that this places a large portion of the increase on Islesboro, but it was pointed out that: Islesboro receives a subsidy from the ferry service that none of the other communities does: school children from the mainland get free passage back and forth to the charter school and school functions; they have the largest vessel; and they have the most trips offered each day. Even after increasing rates to equalize across the service, Islesboro's rates remain in line with other rates for similar service on Casco Bay (for example, Peak's Island when the extra charges for baggage are included).

FINDINGS

1. The old ferry service rate structure is antiquated, and it needs an overhaul.
2. Keeping truck rates as low as possible benefits not only the businesses who utilize the ferry service to transport large trucks, but also benefits all island

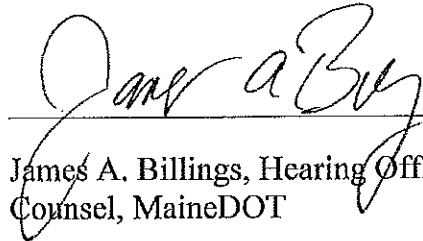
- residents whose goods and services must come from the mainland (including oil deliveries, construction equipment, and groceries).
3. Gamesmanship to avoid paying the mainland ticket price is rampant—people “in the know” simply buy tickets on the island side at a discount and use them. This was originally implemented to try and give year-round residents a discount, which was also one of the primary reasons for the previously proposed (and now rejected) resident/non-resident structure. It has been so eroded that it no longer justifies the operational effort it requires.
 4. The islanders see themselves as a community and they do not want island residents who are not year-round Maine residents to be treated differently than other islanders.
 5. Operationally, moving to a flat rate is the best system for efficiency and simplicity (both for sales and boarding), and it is the best at achieving stated goals.
 6. A flat rate will make online sales a reality much sooner, bringing us into the 21st century.
 7. Online sales and simplified ticketing and pricing will allow the ferry service to better track and accumulate data on ferry usage patterns.
 8. The ferry service is part of the overall statewide highway system. The ferry service is akin to a regional traffic collector for the state highway system.
 9. Each ferry route is not a separate entity—it’s one ferry service.
 10. Viewing what percentage of its operating costs that any one ferry route generates ignores capital costs that DOT pays.
 11. We do not charge residents a higher per gallon gas tax who live near expensive bridges, or who live in towns that get more snow, or need more road maintenance. Those costs are spread out statewide through the highway fund and the taxes that fund it. We see the ferry service in the same light. The old system of distinguishing fares based on the island route is out dated.
 12. Moving to a flat rate will make future increases more straightforward, and makes the ferry service and DOT more flexible in dealing with the volatility of fuel costs.
 13. Getting rid of the excursion tickets is in the best interest of the ferry service and is in the interest of fairness.
 14. A commuter discount deserves further analysis and study, but the Department will move forward with the rate change without a commuter discount at this time. Although there is some support for a commuter discount, that is typically seen for a business model where repeat and frequent customers are given an incentive to continue to use a product or service. That rationale does not apply in a situation where 50% of the operating costs of the organization are paid by a subsidy apart from user

- fees. That is, it does not make immediate organizational sense to give a volume discount where the user is not even covering costs of operation.
15. Commuter discounts may be warranted where the commuter pass actually reduces overhead or increases operational efficiency, such as monthly laminated passes that can be reloaded electronically or online or yearly passes that could be paid up front.
 16. There are many outstanding tickets sold under prior rates. The treatment of those tickets shall be as set forth in tariff no. 8, item 1.

CONCLUSIONS/RECOMMENDATIONS

The attached rate structure and tariff no. 8 best achieve the goals for the MSFS and the Department, are in the best interest of the MSFS and the Department and the people of Maine, and shall be implemented effective May 21, 2018.

April 6, 2018

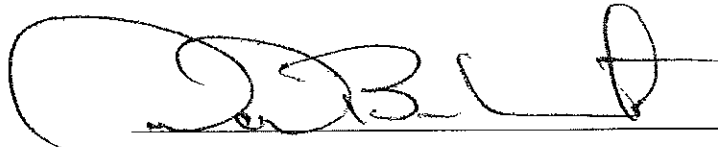

James A. Billings, Hearing Officer and Chief Counsel, MaineDOT

APPROVED

DENIED

APPROVED AS MODIFIED: _____

April 13, 2018



David Bernhardt, Commissioner, MaineDOT

MAINE STATE FERRY SERVICE TARIFF NO. 8 RATES EFFECTIVE MAY 21, 2018:

Adult Round-Trip Passenger	\$ 11.00
Child Round-Trip Passenger	\$ 5.50
Vehicle, Less Than 20ft, Round-Trip (Includes Ticket for Driver)	\$ 30.00
Truck One-Way Per Foot	\$ 2.50
Truck Round-Trip Per Foot	\$ 2.50
Adult Bike Round-Trip	\$ 20.00
Child Bike Round-Trip	\$ 10.00
Reservations	\$ 15.00