

Memorandum

TO: Casco Bay Island Transit District Board of Directors

FROM: Jennifer Lavanture, Treasurer and Finance Committee Chair

DATE: April 24, 2024

RE: **Casco Bay Island Transit District Tariff Proposal**

In response to a trend of increased operating loss due to rising expenses without corresponding increase in revenue, a proposal to restructure the Casco Bay Island Transit District's ("CBITD") rate schedule (the "Rate Proposal") for passenger service to Peaks Island, Little Diamond Island, Great Diamond Island, Diamond Cove, Long Island, Great Chebeague, and Cliff Island has been developed. This proposal has been workshopped at the Finance committee and is the subject of a public hearing to be held during the April Board of Directors ("Board") meeting, following which the Board may consider and act regarding the Rate Proposal.

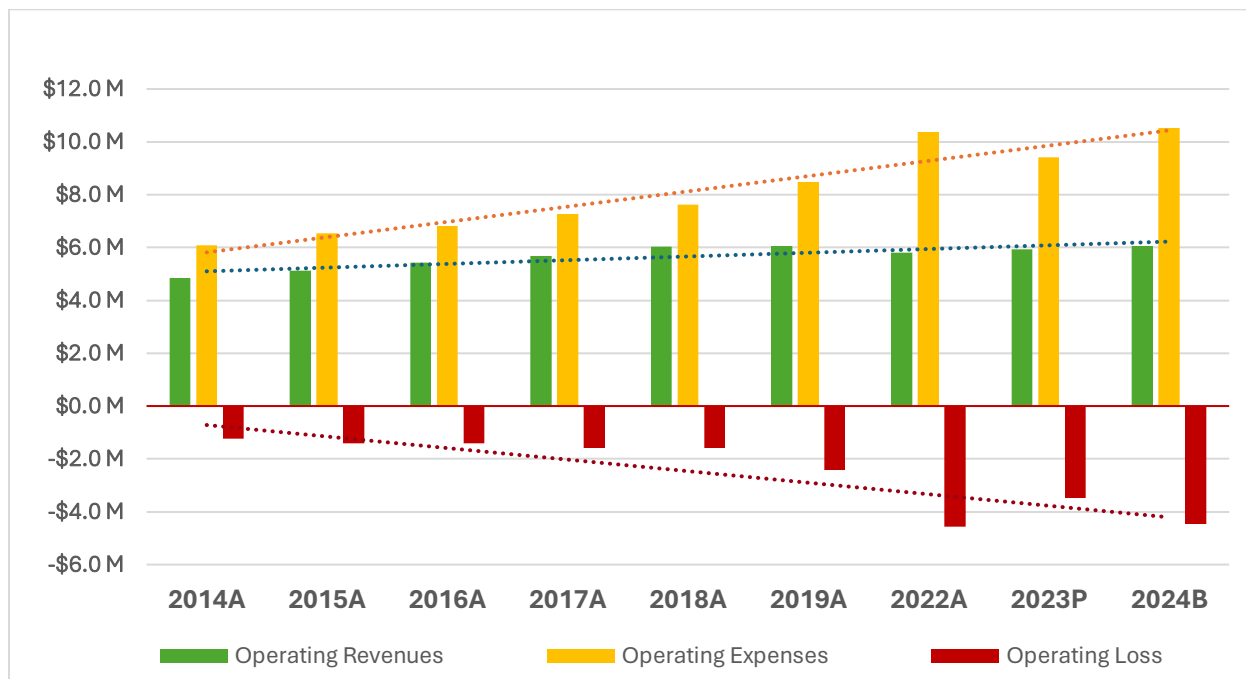
Background

CBITD provides passengers with ferry service to islands that are not otherwise accessible by any means other than water taxi or personal watercraft and has an obligation via its enabling statute to maintain reasonable and adequate service to the islands of Casco Bay. This statute also requires the Board to fix rates of fare to assure sufficient income to meet the cost of the service.

Operating Loss at the District has increased significantly since 2019 (even excluding 2020 and 2021 which were impacted by the COVID-19 pandemic). This trend of increasing loss is resultant from generally flat operating revenues and significantly increasing operating expenses. The tariff that governs passenger, vehicle, and freight rates has not been updated in 15 years. At the same time, operating expenses have increased significantly, at rates outpacing inflation. **Figure 1** presents a summary of financial operating performance from 2014 to 2024.

When approving the FY 2023 budget in September 2022, the Board had directed management to reduce the operating loss, and again when setting the FY 2024 budget, requested management present revenue increase and expense reduction options. Ultimately, the FY 2024 budget was passed by the Board of Directors with a \$4.3 M operating loss, such loss to be brought neutral through grant revenue, but with the requirement to reduce the amount of the operating loss by 25%, or approximately \$1M, through management adjustments, via a mix of both expense reduction and revenue increase. The Finance committee initiated direct action to develop a proposal to increase revenue via restructuring of the tariff in February 2024, in the absence of a proposal from staff. In parallel, as prompted by the Finance committee, staff identified areas of expense reduction in the magnitude of ~\$300k and is proceeding to implement accordingly. The Finance committee has acknowledged need to also review vehicle and freight tariffs in the future.

Figure 1: Operating Revenue, Expenses, and Operating Loss, 2014-2024

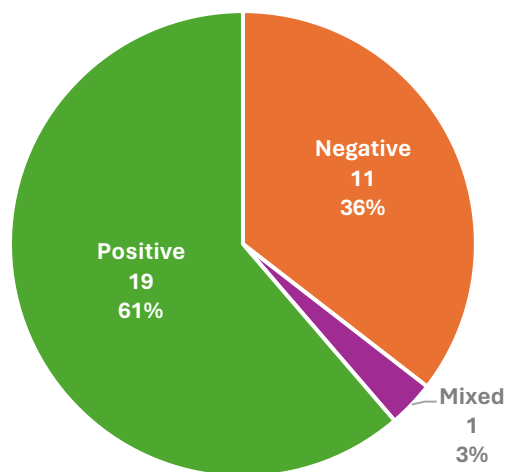


Process

Members of the Finance committee initiated data analysis and modeling in February 2024, followed by a series of three public workshops of the Finance committee (March 13, April 10, and April 16, 2024). A report from the committee was also provided at the March 28, 2024 Board of Directors meeting. Public participation and input has been welcomed in all Finance committee meetings. Additionally, a dedicated page was established on the Casco Bay Lines website that provided information on the process and proposal ([link](#)).

As of the morning of April 24, 2024, a total of 31 individuals have provided written public comment, with 19 in support, 11 against, and 1 mixed (**Figure 2** at right). A copy of all written comments received to-date accompanies this memo as Attachment A. Additionally, a legal analysis of the Rate Proposal was requested from CBITD’s counsel (included as Attachment B). The analysis did not identify any potential legal violations, though noted that rate change may be subject to Maine Public Utilities Commission (MPUC) investigation.

Figure 2: Tabulation of Written Feedback Sentiment



A public hearing has been noticed for April 25, 2024 to be held during the scheduled Board of Directors meeting. The agenda for this meeting includes an item of business of consideration and action by the Board on restructuring of the rates. Should the Board vote to approve the proposal, or any other change to the rate schedule, the District must file such rate schedule with the MPUC. Notice of any rate change must also be published at least 30 days in advance of the effective date of the changes.

Modeling Approach

To develop the proposal for rate restructuring, a multi-phased approach was utilized that included:

- 1. Analysis of CBL ticket purchasing data:** A detailed review of ticket purchase data was conducted¹. Two key findings from this analysis informed proposal development:
 - **High dependency on Peaks Island passenger revenue and single ticket purchases. 66% of tickets sold are Peaks single tickets. ~70% of passenger revenue derived from Peaks.** As such changes to Peaks prices will be key lever.
 - **Only ~45 annual passes purchased (2% of revenue) and ~800 monthlies to all islands.** This data does not align with island populations and frequent ridership (e.g., regular commuters), suggesting financial structure of these rates may not be providing intended benefit to islanders and frequent riders such as those who work at island businesses.
- 2. Assessment of Inflation Rates:** As rate structure had not been updated in 15 years, an important component of the analysis was to compare to what rates would be if they had tracked with rates of inflation². ***If rates had been adjusted at the rate of inflation, a Peaks single ticket would be ~\$12.***
- 3. Comparable Research:** Rates at other ferry systems were reviewed, including Maine State Ferry and the Chebeague ferry (Chebeague Transportation Company). ***Of note, the Maine State Ferry current proposal for a ticket to Islesboro (~20min ride) is \$15 for an adult single ticket, and Chebeague ferry is \$18 round-trip. In the Rate Proposal, the single ticket price is still below these two comparables.***
- 4. Development of Scenarios and Recommendations:** Utilizing the data inputs described above, dozens of scenarios were developed with the aim of increasing revenue from passengers, while also preserving accessibility and affordability for islanders and frequent users of the service (e.g., those who work on the islands), and equity amongst islands served. Analysis of financial impact (i.e., revenue forecast and comparison to 2023) was assessed, and sensitivity analyses also conducted, to evaluate how impacted the forecast would be to a change in assumptions (e.g., more/fewer people transition to monthly or annual passes from commuter books)

Passenger, Animal & Bicycle Tariff Rate Proposal

Based on the modeling approach described above a proposal for restructuring of the fares was developed and workshopped at the Finance committee. The Rate Proposal equalizes CBITD's rates for all passengers by imposing a single flat fare for passenger service to any of the Casco Bay Islands served by CBITD. Specifically, for all islands, the Rate Proposal:

- Establishes flat-fare full- and half-price passenger rates for service to service to any island;
- Maintains peak and off-peak season rates for service;
- Increases single-ticket pricing and eliminates commuter books, which were subject to abuse and unenforceability of the use policy for non-transferability and expiration;
- Addresses the current deficiency in the structure of monthly and annual passes by restructuring and creating new flat-rates (both full and new half-price) for passes as 30-day, 90-day, and annual passes.

The Rate Proposal is depicted in **Figure 3**. Additionally, a summary of the proposal with island by island comparison vs. current rates is included as **Attachment C**, and a draft of Tariff Rate Schedule and Terms reflecting the Rate Proposal is included as **Attachment D**.

¹ Source RocketRez. Summary data available in April 16th Finance committee presentation.

² Summary data available in April 16th Finance committee presentation.

Figure 3: Proposed Structure - Round-Trip Rates for Passengers, Domestic Animals, and Bicycles

PROPOSED ROUND-TRIP PASSENGER FARES		PROPOSED DOMESTICATED ANIMAL RATE	
PEAK SEASON		Flat Fare: ALL ISLANDS	Proposed
ADULT		\$14.00	SINGLE TICKET \$4.50
HALF PRICE (senior/child/disabled)		\$7.00	
30-DAY PASS		\$48.00	
30-DAY PASS - HALF PRICE (senior/child/disabled)		\$24.00	
OFF SEASON		Flat Fare: ALL ISLANDS	Proposed
FULL PRICE		\$7.20	SINGLE TICKET - ADULT \$7.00
HALF PRICE (senior/child/disabled)		\$3.60	SINGLE TICKET - CHILD \$3.50
30-DAY PASS		\$32.00	
30-DAY PASS - HALF PRICE (senior/child/disabled)		\$16.00	
ANNUAL		Flat Fare: ALL ISLANDS	
ANNUAL		\$432.00	
ANNUAL - HALF PRICE (senior/child/disabled)		\$216.00	

Note: Annual and monthly passes also include transportation of one bicycle and/or one domesticated animal (dog/cat) along with the pass holder.
 Half-Price Fare Eligibility:
 Children aged 5-13 are eligible for half price fare. There is no charge for children under 5.
 Adults 65 years of age or over are eligible for half price fare
 Those with transportation disabilities are eligible for half price fare. A Medicare Card, METRO Reduced Fare card or an out of state disability card issued by a transit agency of that State may be presented at the Ticket Office to validate half fares for persons with transportation disabilities.

Financial Analysis

The rate proposal is projected to provide increased to CBITD, based on extrapolation analysis using 2023 revenue data (Figure 4). Additionally, the Rate Proposal is robust to sensitivity analysis, showing projected increases in revenue, albeit of less magnitude, when assumptions are changed (Figure 5). Of note, the Rate Proposal increases income even in an unlikely scenario with a 20% decrease in purchases of tickets of all types.

Figure 4: Forecasted Revenue Impact Scenario - Passenger Rates

Full Year	2024 Proposal - Revenue	Peaks Island	Little Diamond	Great D. Island	Diamond Cove	Long Island	Great Chebeague	Cliff Island	Total
	Full Price	\$2,024,740	\$38,135	\$73,264	\$170,228	\$204,986	\$53,906	\$46,559	\$2,611,818
	Half Price	\$482,079	\$24,068	\$35,550	\$39,216	\$93,703	\$8,565	\$18,789	\$701,970
	Commuter	-	-	-	-	-	-	-	-
	Monthly Pass*	\$121,315	\$2,699	\$8,236	\$17,633	\$22,799	\$776	\$2,650	\$176,109
	Annual Pass	\$28,370	-	-	-	\$432	-	\$432	\$29,234
		2,656,504	64,902	117,050	227,078	321,920	63,248	68,430	3,519,131
Full Year	Current Pricing - Revenue	Peaks Island	Little Diamond	Great D. Island	Diamond Cove	Long Island	Great Chebeague	Cliff Island	Total
	Full Price	\$1,117,637	\$22,711	\$51,812	\$131,789	\$162,377	\$43,177	\$39,591	\$1,569,093
	Half Price	\$265,585	\$14,397	\$25,320	\$30,721	\$75,020	\$6,843	\$16,090	\$433,976
	Commuter	\$282,847	\$8,968	\$29,015	\$42,796	\$88,977	\$3,322	\$13,014	\$468,938
	Monthly Pass	\$53,483	\$98	\$2,912	\$18,128	\$5,096	\$115	-	\$79,832
	Annual Pass	\$49,743	-	-	-	\$1,231	-	\$1,377	\$52,350
		1,769,296	46,173	109,060	223,434	332,700	53,457	70,071	2,604,190

* 2024 Proposal estimates assume that existing Commuter tickets convert to Monthly Pass.
 * Estimates based on 2023 Ticket Sales Data

Figure 5: Forecasted Revenue Impact - Sensitivity Analysis

Sensitivity Scenario #1: Negative - Decrease in Full-price and Half-Price Single Tickets Sold by 20%				Sensitivity Scenario #2: Negative 20% decrease in all tickets sold by 20%			Sensitivity Scenario #3: Positive. -20% increase in all tickets sold			
Full Year # of Tickets	2023 Actual	Proposal Total	ange 2023--> Proposal Total	Full Year # of Tickets	2023 Actual	Scenario 6 Total	Scenario 6 Total	Full Year Revenue \$	2023 Total	Scenario 6 Total
Full Price	204,594	163,675	(40,919)	Full Price	204,594	163,675	(40,919)	Full Price	\$1,569,093	\$2,089,455
Half Price	115,611	92,489	(23,122)	Half Price	115,611	92,489	(23,122)	Half Price	\$433,976	\$561,576
Commuter	20,017	-	(20,017)	Commuter	20,017	-	(20,017)	Commuter	\$468,938	-
30-Day Pass	873	4,149	3,276	30-Day Pass	873	3,319	2,446	30-Day Pass	\$80,200	\$141,014
Bike	11,477	11,477	-	Bike	11,477	9,182	(2,295)	Bike	\$71,617	\$57,294
Annual Pass	940	940	-	Annual Pass	940	752	(188)	Annual Pass	\$52,350	\$23,387
Other Passes	5,661	5,661	-	Other Passes	5,661	4,529	(1,132)	Other Passes	-	-
Total	359,173	278,391	(80,783)	Total	359,173	273,945	(85,228)	Total	\$2,676,175	\$2,928,149
										▲ \$251,974
										▲ \$196,550
										▲ \$1,632,912

Suggested Changes following April 16 Finance Committee Meeting

The Finance committee conducted a public workshop on April 16, 2024, with focus on several topics identified in response to input and comments received from members of the board, staff, and public. The workshop topics and discussion are summarized below for the benefit of the board. No formal recommendations were made during the workshop, but two suggested changes are detailed below.

1. Inclusion of 90-day pass option

The Finance committee discussion acknowledged that the 90-day option would provide some benefit to operational efficiency at the point of sale, and would also provide some incremental convenience to customers, and therefore generally was supportive in a straw poll but not strong in conviction of need to include the 90-day pass option.

2. Support for flat-fare to all islands

The Finance committee discussed various approaches to structure, with analogies to other transportation modalities (e.g., regional rail where fares may increase with distance vs. metro/bus/subway which is a flat

fare per trip). A focus of the committee discussion was how CBITD can equitably serve all islands. Additionally, committee members commented that the rates are already higher 'down-bay' such that there is less ability to absorb increases without impacting overall affordability and accessibility. Additionally, because of the relatively small contribution to overall passenger revenue from non-Peaks islands, relative contribution of any differentiated pricing is less material. Therefore, in straw poll following discussion, committee was supporting of the flat fare for all islands.

3. Magnitude of impact for traveling infrequently, with focus on seniors

The Finance committee discussion focused on aggregate impact to cost. Discussion acknowledged the % magnitude increase for single tickets, but also noted the continued availability of half-price single tickets, as well as creation of half-price passes. An example was put forth for a senior rider who travels only 2x per month; total monthly cost for such a rider would be \$14. Additionally, the availability of support programs administered by various communities and organizations (e.g., Peaks Island Council, Town of Long Island, Loretta Voyer fund) were discussed for those who may be experiencing financial hardship.

4. Magnitude of increase (\$14 vs. \$12 for adult single ticket)

During the 2nd Finance committee workshop on April 10th, both board and members of the public suggested that an increase to \$12 vs. \$14 for a single adult ticket be considered. Members of the Finance committee ran that scenario and discussed at the April 16th meeting. Due to the contribution of Peaks single tickets (66% of ticket sales), increasing the single-ticket price to \$12 would provide only 1/3 the amount of projected revenue increase, relative to the Rate Proposal.

5. Cost for visiting family

Another theme of feedback received was related to cost for family to visit island residents, particularly for family that may visit with some frequency but without regularity. This was identified as an important aspect of maintaining overall accessibility, sustainability, and vibrancy of the island communities served by the district. Based on a recent discussion with CBITD counsel, my recommendation as Finance committee chair is that we evaluate with all reasonable expediency, the potential to create a program whereby residents could access discounted tickets that could be supplied to members of their family or possibly their guests. Any such program will need further deliberation and the Finance committee and further legal analysis prior to consideration by the board.

6. SUGGESTED CHANGE: Rationalize child age limits for half-price eligibility

The current structure for children's fares is that children under five (5) years of age ride for free, and children 5-13 are transported at the children's fare (half). Children 14 and older are ticketed as adults.

These eligibility criteria were discussed, and specifically, merits of considering a change contemplated. Following such discussion, a change to increase the children's fare eligibility to 17 years of age is suggested. This change would reduce financial burden on families traveling on single tickets. Additionally, this would align with the state of Maine definition of child, and with the policies of Maine State Ferry.

Should the board consider and act on such suggestion, section 121 of the tariff should be updated as follows below:

121

Children under five (5) years of age will be transported free. Children five (5) or more years but, under eighteen (18) years of age will be transported at the children's fares named herein.

7. SUGGESTED CHANGE: Pilot implementation

The Finance committee discussed that the Rate Proposal represents a significant change to the rate structure, and the first change of any kind in 15 years. The committee further discussed that good practice would include evaluation and assessment of implementation of this proposal should it be approved, and more frequent reviews of the rate structure generally. Comments were made stating that opportunities for further adjustments would likely be identified. Additionally, I commented that this regular review and optimization is a muscle that CBITD needs to develop and exercise. Therefore, there was general supportive in a straw poll of Finance committee members for a pilot implementation. A suggestion for framing of a potential structure for pilot implantation is below, should the board proceed to act to implement the Rate Proposal or any other change to the Rate Structure.

Pilot Implementation

The [Rate Proposal] be approved on a pilot basis for a period of [18 months], with the intent that its implementation will be reviewed by the Board of Directors following the first [12 months] of implementation. Absent further action from the Board of Directors at such time, the [Rate Proposal] will be adopted on a permanent basis.

Cruise Rate Proposal

In addition to farebox revenues, CBITD offers various specialty cruises and charters, which contribute to operating revenue. Given the initiative underway to assess the tariff/passenger rates, a proposal for revision to the Cruise Rates was also workshopped at the Finance committee and is presented below in *Figure 6*. Cruise rates were last updated in 2020.

Figure 6: Proposed Structure - Cruises

MAILBOAT / SUNRISE / SUNSET				DIAMOND PASS			
	Current Tariff	Proposed	% Change		Current Tariff	Proposed	% Change
ADULT	\$17.00	\$21.00	▲ 24%	ADULT	\$16.00	\$19.50	▲ 22%
SENIOR	\$14.50	\$17.50	▲ 21%	SENIOR	\$13.50	\$16.00	▲ 19%
CHILD	\$8.50	\$12.00	▲ 41%	CHILD	\$8.00	\$10.50	▲ 31%

Conclusion

CBITD provides passengers with ferry service to islands that are not otherwise accessible by any means other than water taxi or personal watercraft and has an obligation via its enabling statute to maintain reasonable and adequate service to the islands of Casco Bay. This statute also requires the Board to fix rates of fare to assure sufficient income to meet the cost of the service. It is therefore imperative for the Board to take action to address the trend of growing operating losses.

CBITD's costs to provide ferry service to the Casco Bay Islands are considerable, and as reflected in reports from the Finance committee as well as audited financial statements, operating expenses are rising at a rate that is far exceeding revenue from operations. This is therefore increasing CBITD reliance on grant income to maintain its operations. CBITD was fortunate to be a recipient of CARES and ARPA act funding to blunt the impact of the COVID-19 pandemic, however such funds are being exhausted. If the current trajectory of operating losses persists, reliance on other forms of grants would increase, with no guarantee that grant funding will continue at such levels in the future, presenting risk to the district. Furthermore, grant revenue often requires the district to supply local matching funds, and CBITD has limited sources of funds to fulfill local match obligations (i.e., farebox cannot be utilized for local match).

The Rate Proposal is intended to reduce CBITD's operating losses by overhauling the current rate structure to create additional revenue from ticket sales. This additional revenue will help offset the costs to provide service to the islands, which have been increasing due to increased expenses for personnel, fuel, and dry dock. This change in fare structure is designed to be reasonable both in relation to the benefits provided via ferry service to the islands, and to preserve affordability of passenger service all passengers.

Attachments

Attachment A: Compilation of written comments received as of April 24, 2024;

Attachment B: Memorandum - CBITD Tariff Proposal Legal Analysis;

Attachment C: Rate Proposal vs. Current, by Island;

Attachment D: Draft Tariff Rate Schedule and Terms