Ferry System Governance Model Review

This document is an excerpt from a report prepared by KPFF Consulting Engineers for Chebeague Transportation Company in May 2012.

CTC wishes to select a governance model that strikes a balance between independence or local control and access to governmental financial aid and tax-exempt financing. To some extent, these are contradictory objectives. To gain access to federal financial aid, an organization must assume a governance structure that is more governmental in nature and less like a private, for-profit organization. Typically this means that management of the organization is accountable to elected officials instead of stockholders or members. It can also mean that the organization will dedicate more resources to public process and compliance with administrative and reporting requirements.

US ferry operators are organized under an array of governance models that CTC might look to in deciding upon a model that best meets its unique needs. The three models employed today, one with two variations, are described below.

PUBLIC OWNERSHIP AND OPERATION

Examples

- Washington State Ferries
- Alaska Marine Highway System
- Golden Gate Ferry
- Casco Bay Lines

Key Features

- Public owner/operator plans, finances, designs, builds, operates, manages, and delivers all aspects of service, including fares and schedules.
- Local or regional organization is more appropriate for passenger-only ferry service, which functions much like a transit operation with frequent, shorter trips.
- Local or regional structures are more politically viable because policy and financial decisions are not influenced as strongly by statewide concerns.
- Coordination among overlapping jurisdictions and agencies can be an issue.
- Publicly-owned operators access a full range of federal, state, and local governmental funding sources to subsidize capital and operating needs.
Advantages

- The public organization has full control over the level of service and allocation and quality of service.
- The public operator determines cost recovery rates and fares.
- Federal, state, and regional funding opportunities are maximized.
- Ferry service is structured around the public interest as opposed to a profit motive.
- Public subsidies result in a more affordable fare structure.
- A regional structure may allow fuller integration of travel modes, better interjurisdictional coordination, and some possible sharing of overhead and administrative costs.

Disadvantages

- The financial risk to the public is higher than with a private operator.
- New and higher revenue sources may be required, including general tax support.
- The opportunity to realize private sector expertise and efficiencies is lower.
- Operating and administrative costs may be higher due to both public employment service and governmental reporting costs.
- When multiple governmental entities provide service in the same region, it may lead to competition over scarce funding resources and competition for riders.
- Shifting political direction may impact service level, reliability, and fares.
- The organization may not be as nimble in responding to new or changing service needs.

PUBLIC OWNERSHIP WITH CONTRACTED OPERATION

There are two variations on the contract operation model:

1. Public owner owns vessels; or
2. Contract operator owns vessels.
PUBLIC OWNERSHIP WITH CONTRACTED OPERATIONS - VESSELS OWNED (OR LONG-TERM LEASE) BY AGENCY

Examples
- Vallejo Baylink
- Massachusetts Bay Transportation Authority (Quincy routes)
- King County Ferry District
- Water Emergency Transportation Authority

Key Features
- The public agency owns the vessel but contracts with a private company for operation of the service.
- The public agency may choose to contract out for maintenance or develop an in-house maintenance function.
- The public agency leverages all available forms of federal, state, and local funding to subsidize capital and operating needs.

Advantages
- Public agencies have access to governmental financial aid for acquisition of ferry vessels.
- The agency can exercise control over the selection of vessel, including operating characteristics such as seating, passenger amenities, speed, fuel consumption, and other cost drivers.
- The agency has greater control over vessel maintenance work and standards.
- The danger of service disruption due to the private operator’s business failure is much lower; it is far easier to replace just a crew than both the vessel and crew.
- It is easier for the public agencies to re-tender operating contracts to ensure favorable terms and good value.
- The public agency is in a better position to control service planning when it owns the vessel (e.g., extending operating periods, altering schedules, adding special and one-time service).

Disadvantages
- The agency must have or acquire naval architecture and operating expertise to build or purchase the right vessel in a timely fashion and at a fair price.
- The public agency is responsible for securing and maintaining landing rights and space for vessel moorage.
- The initial costs of acquiring a vessel are higher than simply contracting for both crew and vessel.
- Ensuring proper treatment and maintenance of the vessel is the agency’s responsibility. This may be accomplished by establishing maintenance criteria and protocols in the operator’s contract.
PUBLIC OWNERSHIP WITH CONTRACTED OPERATIONS - VESSELS OWNED BY CONTRACTOR

Examples
- King County Ferries (Start-up)
- Massachusetts Bay Transportation Authority (most routes)

Key Features
- Contractor provides a turnkey service supplying and maintaining the vessel operating the service.
- The King County Ferry District employed this model as an interim strategy until it could lease vessels and employ its own crews. The King County Ferry District is currently in the process of evaluating design criteria for construction of its own vessels.

Advantages
- This model can save time and minimize initial capital investment where there are contractors that already own suitable vessels.
- The public agency’s risk is reduced when the contractor assumes all responsibility for the vessel.

Disadvantages
- The rate charged by the operator may be very high to recoup the cost of the vessel over the relatively short term of most operating contracts.
- Fares charged to riders may be higher to reflect the operator’s higher costs and risk.
- A long-term contract locks the public agency into this model and may lessen agency control over service quality and vessel appearance and operating condition. The contract operator has a high degree of leverage and could disrupt service.

PUBLIC PRIVATE PARTNERSHIP OR JOINT DEVELOPMENT

Examples
- Kitsap Transit from 2006-2008
- New York Waterway
- New York Water Taxi

Key Features
- With a public private partnership (PPP) or joint development, both the private operator and the public agency share in the risk and potential rewards of the operation.
The private operator might provide some of the capital, such as the ferry vessels, with the public agency providing some or all of the shore-side real estate and terminal infrastructure.

The public agency benefits from the use of the private partner’s vessel during regular service, affording the private operator an opportunity to generate additional revenue through sightseeing and other cruise trips during off-peak hours.

**Advantages**

- With this model, the public agency can share the risk and financial burden with a private operator while still allowing the public agency to participate in service planning.
- The public fiscal commitment is less than under the pure public ownership/operation or one of the contract operation models.
- The private operator gains access to public financing for some of the infrastructure, thereby reducing the overall financial burden.
- The public agency can enhance revenue through docking or development fees.
- There is an array of opportunities for public contributions, such as infrastructure, in-kind permitting assistance, and access to governmental cooperative fuel agreements.

**Disadvantages**

- Public subsidies may be required to fund capital and/or operating costs.
- New revenue sources may be needed if the subsidy level is high enough.
- The public investment may be at risk in the event the private partner backs out.
- Quality control over the private partner’s operating decisions may be limited.
- The public and the private operator’s mission or priorities may be in conflict over availability of asset use for higher revenue generating services, such as sightseeing, rather than expansion of regular service.