

REPORT

File: T03 Amherst Island
Ferry - Budget

TO: Diane Pearce, CAO

FROM: David C. Thompson, P.Eng.
Director of Engineering Services

CC: Alida K. Moffatt, CA, Director of Finance
Ed Adams, Transportation and Solid Waste Manager

DATE: March 25, 2011

SUBJECT: Proposed Increase to 2011 Amherst Island Ferry Rates

Refer to: Township Council Administration Committee Closed Session
 Administrative Budget

Origin:

Loyalist Township has an agreement with the Province of Ontario to operate the Amherst Island Ferry pursuant to Section 99(2) of the Public Transportation and Highway Improvement Act, R.S.O. 1990. Chapter P.50 as amended.

Under this agreement the Province contributes a subsidy in regards to eligible ferry operating expenses as specified in the agreement. Loyalist Township is responsible to raise the balance of funding needed to cover expenses.

The subsidy is primarily 90% for most expenses but is only 73.28% for fuel expenses. With the on-going increase in fuel prices being well above basic standard of living indexes over the past few years as well as other increased expenses, the current Amherst Island Ferry fare structure has been unable to generate sufficient revenue to fund the expenses not balanced by MTO subsidy.

Loyalist Township Council has attempted to address these concerns with Ministry officials for several years. Township officials met with Minister James Bradley in February 2008 and were encouraged by his words; "*The Ministry understands current conditions in which municipalities find themselves and can appreciate the need for your township to apply appropriate passenger fees to ensure the operations of Amherst Island Ferry. Since our meeting I have asked ministry staff to review the present legal agreement with a view to developing a subsidy arrangement to ensure a ferry service that is safe, convenient and as reasonably priced as possible.*"

It was a great disappointment that Minister Bradley's letter dated August 7, 2009, included "regarding the proposed revisions to the Amherst Island Ferry Agreement, since our last discussions in August 2008, the economic situation in the province has changed drastically. As a result we cannot reopen the legal agreement." Attached to this report are copies of letters from the Minister of Transportation.

There is a legal requirement for municipalities to prepare balanced operating budgets. With fuel prices escalating as they have and peaking in 2008, the ferry rates should have been increased at that time but staff were reluctant, based on the initial response from MTO.

In prior years, there were sufficient financial reserves to cover minor shortfalls. Unfortunately there is no longer any reserve.

Relaxation in fuel prices in 2009 until late 2010, combined with the excellent efforts of the captains to reduce fuel consumption, resulted in lower than budgeted expenditures. However, as reported in earlier budget meetings, the current fiscal position is not sustainable and as such the following resolution was made at the February 17, 2011 budget meeting:

OB2011.37 Section 27 – Amherst Island Ferry - Moved by Councillor Ibey and seconded by Councillor Ashley that the Transportation and Solid Waste Manager's report, February 7, 2011 re: Fare Increase – Amherst Island Ferry, be received and that:

1. Council considers the proposed fare structure as seen below:

Recommended Fare Structure (* indicates fare change)

***Car/Truck (under 1 Ton)**

\$9.00

Motorcycle

\$1.50

***RV, or car/trailer**

\$18.00

Bicycle

\$1.00

***Large vehicles (requiring more than 2 spaces)**

\$27.00

***Bulk Tickets (25 tickets \$4.00 per ticket)**

\$100.00

2. That Council provide staff with direction on how to proceed with the proposed fare structure increase.
3. That the proposed fare structure be forwarded to the Loyalist Township Ferry Committee for consideration and comment.

Motion carried.

The Ferry Committee has reviewed the report and is supportive of the proposal in principle, with some minor revisions. The following report is intended to finalize financial discussions and propose an implementation plan and schedule.

Report:

In 2009 and 2010, the Director of Finance was instructed by Council to apply an interest free loan to the Amherst Island Ferry Service Area budget in an effort to balance the budget since reserves are not available. This has been achieved by reducing the Administration Allocation charged to the service area. The outstanding amount of interest free loans for these two years is \$45,900.

In anticipation of the MTO amending the operating agreement in a manner favourable to Loyalist Township, fare rates were not increased in either 2008 or 2009 even though expenses supported this move. Also, it is preferred that fares not be adjusted in small increments because of the inefficiencies associated with handling small denominations of cash on the vessel and the costs of printing and issuing new tickets.

Fuel costs have escalated 30% in the past 6 months. Fuel represents approximately 20% of the operational costs and is supported by only 73% of the subsidy. Labour and benefits represent 68% of the operational costs and are supported by 90% of the subsidy. Labour increases are pre-determined through union negotiations. Other expenses remain relatively stable. These realities demand that Council establish a fare structure for the Amherst Island Ferry Service that balances its expenses and revenue.

Fuel costs are extremely volatile resulting in costs of \$540,209 in 2008, \$355,468 in 2009, and \$401,802 in 2010. A budget of \$460,000 has been estimated for 2011.

Without an increase in fares, staff are anticipating a 2011 operating budget deficit of \$37,500. In 2010, there was a small operating surplus estimated at \$5,700, however the administration allocation was reduced when the budget was established. *(Note – The 2011 financial results are not finalized so all 2011 revenue and expenses should be considered estimated actual as opposed to final values.)*

The fare structure presented at the February budget meeting (Alternative Fare #1) and noted above will raise an additional \$46,545 based on a whole calendar year. With the implementation date for the proposed fare increase anticipated for May 1 2011, only 8 months will be available to collect the increased fares which will result in a shortfall for 2011. The increased fares will raise an additional \$32,800 based on the implementation date and recent traffic volumes. This leaves an operating budget shortfall of \$4,700.

Staff recommends that a more detailed and longer term review of the ferry service revenue options takes place to establish rates that will provide fiscal stability to the

service area prior to year end. The current fare increase does not address the current loan deficit of \$45,900. Loyalist Township should continue to negotiate with the MTO in an effort to obtain an improvement in the current subsidy agreement.

Prior to implementing the May 1, 2011 fare increase, staff will prepare and distribute a notice to residents and will have more detailed information available on the website or upon request. The usual newspaper and sign advertising will also be completed. A public meeting will be held in the Council Chambers as part of the regular meeting of Council on Monday April 11, 2011 to announce the proposed increase and to receive comments.

Financial Consideration:

The Ferry Committee suggested that all rates be adjusted therefore as such, the schedule of fares in Alternative #1 is slightly modified from the proposed fees presented during the budget meeting.

Alternative Fare Option #1

The proposed rates approved by the ferry committee are as follows:

- *Car/Truck (under 1 Ton)**
\$9.00
- Motorcycle
\$2.00
- *RV, or car/trailer**
\$18.00
- Bicycle
\$1.50
- *Large vehicles (requiring more than 2 spaces)**
\$27.00
- *Bulk Tickets (25 tickets \$4.00 per ticket)**
\$100.00

The proposed rates will raise an additional \$32,800, based on a May 1 implementation date or \$48,800 annually. The Ferry Committee felt that this rate increase may have to be supplemented by a second increase next year if fuel prices continue to rise as expected or consider some alternative form of revenue.

If "Alternative Fare Option #1" is selected the following action is recommended:

- a) The Director of Finance be instructed to utilize the 2010 operating surplus such that the budget is balanced.

This will result in an approximate 2011 operating surplus of which \$1,000 can be applied against the non-interest bearing loan.

Alternative Fare Option #2

Alternatively the following rate schedule would raise \$49,200 in additional revenue in the 8 months following a May 1, 2011 implementation date or an additional \$73,400 on an annual basis.

***Car/Truck (under 1 Ton)**

\$9.50

Motorcycle

\$2.00

***RV, or car/trailer**

\$19.00

Bicycle

\$1.50

***Large vehicles (requiring more than 2 spaces)**

\$28.50

***Bulk Tickets (23 tickets \$4.35 per ticket)**

\$100.00

Under "Alternative Fare Option #2", expenses should balance revenue for 2011.

If "Alternative Fare Option #2" is selected the Director of Finance seeks direction with respect to the small operating surplus anticipated for 2010 and recommends that the surplus be applied to the non-interest bearing loan that was created when the Administration Allocation was reduced in 2009 and 2010.

"Alternative Fare Option #2", if left in place beyond 2011 and all other expenses are relatively static would have the potential to reduce the loan deficit over a few years.

This fare structure would have to be reviewed prior to year end to confirm the need/adequacy of increased fares.

Recommendation:

1. That the Ferry Committee be authorized to continue discussions with the MTO with the objective of improving the subsidy agreement.
2. That notice be given of a Public Meeting to be held at the April 11th, 2011 Loyalist Township Council meeting for the purpose of increasing the Amherst Island Ferry fares.

Council can select the following recommendations based on "Alternative Fare Option #1":

3. That the following fare structure for the Amherst Island Ferry be implemented on May 1, 2011:

***Car/Truck (under 1 Ton)**

\$9.00

Motorcycle

\$1.50

***RV, or car/trailer**

\$18.00

Bicycle

\$1.00

***Large vehicles (requiring more than 2 spaces)**

\$27.00

***Bulk Tickets (25 tickets \$4.00 per ticket)**

\$100.00

4. That the Director of Finance be directed to adjust the 2011 Amherst Island Ferry budget to reflect the proposed fees and by utilizing the 2010 operating surplus to the extent that the 2011 Operating Budget is balanced after consideration of the proposed fare increase.
5. That the Director of Finance be directed to include a \$1,000 repayment of the non-interest bearing loan.

Alternatively, Council could select the following recommendations based on "Alternative Fare Option #2":

3. That the following fare structure for the Amherst Island Ferry be implemented on May 1, 2011:

***Car/Truck (under 1 Ton)**

\$9.50

Motorcycle

\$2.00

***RV, or car/trailer**

\$19.00

Bicycle

\$1.50

***Large vehicles (requiring more than 2 spaces)**

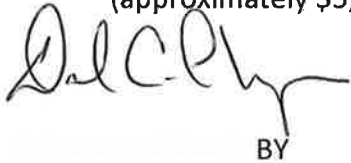
\$28.50

***Bulk Tickets (23 tickets \$4.35 per ticket)**

\$100.00

4. That the Director of Finance be directed to repay a portion of the non-interest

bearing loan of \$45,900 by the amount of the 2010 operating surplus (approximately \$5,700).



BY

ORIGINAL SIGNED
David C. Thomson

Director of Engineering Services
Attachments

ORIGINAL SIGNED BY Diane Pearce, CAO



APPROVED BY CAO

Ministry of
Transportation

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Alida, Dave ✓
and Diane

Ontario

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www.mto.gov.on.ca

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Mr. Clayton McEwen
Reeve
Loyalist Township

263 Main Street
Odessa, Ontario
K0H 2H0

I was pleased to have the opportunity to meet with you at the OGRA/ROMA combined

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Ontario

LOYALIST TOWNSHIP
RECEIVED

AUG 07 2009

AUG 07 2009

Mr. Clayton McEwen
Reeve
The Corporation of Loyalist Township
PO Box 70
263 Main Street
Odessa, Ontario
K0H 2H0

BY CAO'S DEPARTMENT

Dear Mr. McEwen:

Thank you for your letter regarding my ministry's review of the Amherst Island Ferry service

ipalities
of

As
earlier this week, I am pleased to advise you that

the ministry is now in a position to assume ownership of these docks.

Ministry staff in Eastern Region will contact you in order to begin the process of transferring ownership of the docks to the ministry. Subject to environmental approvals, we will also work with the Township to upgrade the docks to modern standards compatible with the ministry-owned end-loading ferries used in the Amherst Island Ferry Service. As you are aware, both the transfer of ownership to the ministry and the proposed upgrade will improve the operational efficiency of both the docks and the Amherst Island Ferry Service as a whole.

I am also pleased to advise you of the approved operating allocation for municipal ferry operations for this year. Your 2009-10 allocation is \$1,500,000. For 2009, the ministry will provide equal monthly payments of \$125,000 to the maximum of your subsidy allocation.

As in past years, the balance of your entitlement will be processed upon submission of your affidavit of expenditures, which must be received by your local Ministry of Transportation regional office by February 15, 2010. The same processing of the affidavit will apply. As usual, that expenditures made thereunder will be in accordance with your municipal ferry agreement. Should you have any questions, please contact Todd Comfort, Manager of Operational

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Regarding the proposed revisions to the Amherst Island Ferry Agreement, since our discussions in August 2008, the economic situation in the province has changed drastically. As a result, we are not in a position to incur any additional operating costs and we cannot reopen the legal agreement.

Again, thank you for your letter and please accept my personal best wishes.

Yours sincerely,



Jim Bradley
Minister