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# A Study Of The Casco Bay Ferry Services

## FINAL REPORT

Office of Public Advocate  
Maine Public Utilities Commission  
Maine Department of Transportation

December 1988

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A STUDY OF THE  
CASCO BAY FERRY SERVICES

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## I. INTRODUCTION

In 1987, the Legislature directed the Department of Transportation, in cooperation with the Public Utilities Commission and the Public Advocate, to study transportation service in Casco Bay and provide the Governor and Legislature with a report presenting joint conclusions and recommendations by January 1, 1989.

The objective of this study was to compile and analyze the data required by the three agencies to develop their report. As directed by the Legislature, the scope of the study encompassed the following:

- The possible effect on the annual revenues and service of the Casco Bay Island Transit District if the present regulation of entry for all ferry services in Casco Bay were replaced by the deregulation of unscheduled service, such as water taxis and on-demand freight service, while granting an exclusive franchise by law to the Casco Bay Island Transit District for scheduled passenger and freight service.
- Possible modes of continued regulation of entry for ferry service in Casco Bay, including regulation by the Public Utilities Commission, the Department of Transportation, the Casco Bay Island Transit District, the Cumberland County Commissioners, the City of Portland or other alternatives.
- The question of whether or not the daily year-round scheduled freight and passenger service in Casco Bay would require a General Fund subsidy and an estimate of the cost of such a subsidy under continued regulation of all ferry service and under deregulation of unscheduled service.
- The anticipated effect on the annual revenues of the Casco Bay Island Transit District of tour, charter and catering revenues. The study shall recommend a definition to clarify the authority granted by Private and Special Law 1981, Chapter 22, the District to engage in "incidental tour and charter service".



- The appropriate limits on the service which can be provided by other carriers, including unscheduled carriers and tour and charter operators, consistent with the franchise of the District.
- The anticipated effect on tourism-related revenues in the Portland area of additional tour, taxi and unscheduled service in Casco Bay.
- The anticipated effect on State administration of piers and wharves from allowing additional carriers to use them for additional freight and passenger service.

This report is organized into five chapters. Chapter II reviews the current transportation services operating in Casco Bay. Chapter III reviews the operations and financial performance of the Casco Bay Island Transit District. Chapter IV presents the results of a public opinion survey, which included public meetings, interviews and a telephone survey. Chapter V contains the study findings and conclusions.

## II. WATERBORNE TRANSPORTATION IN CASCO BAY

### A. HISTORICAL PERSPECTIVE

The Casco Bay Island Transit District (CBITD) was legislated into existence on April 17, 1981.<sup>1</sup> CBITD's formation was an emergency measure designed to ensure transportation to residents of the Casco Bay islands subsequent to the bankruptcy of Casco Bay Lines, the privately-owned predecessor company of CBITD. The enabling legislation defined the purpose of CBITD as:

"...providing ferry service among and between the islands of Casco Bay and the mainland, Cumberland County. The District so formed shall be a body politic and corporate...and do things necessary to furnish waterborne transportation in this area, including incidental tour and charter service, for public purposes in the interest of public health, safety, comfort and convenience of the inhabitants of the islands comprising the district."<sup>2</sup>

Given this legislative directive, the CBITD has adopted the following mission statement:

#### CBITD's Mission

-----  
To provide safe, reliable, clean, on-time, courteous, reasonably-priced marine transportation.

The law that created the CBITD also made it subject to regulation by the Public Utilities Commission (PUC), which has regulated transportation in Casco Bay since 1919. Although the PUC had general jurisdiction over water transportation starting in 1913, it was not until 1919 that P.L. 1919, Ch. 94 specifically gave the PUC entry regulation jurisdiction for transportation in Casco Bay, prohibiting any other ferry service between Portland and Peaks Island from landing on certain portions of Peaks Island without the written consent of the PUC. Any ferry service authorized to serve in Casco Bay was also a public utility subject to the general jurisdiction of the Commission by virtue of the definitions of public utility and common carrier.<sup>3</sup>

<sup>1</sup>Private and Special Laws, 1981, Chapter 22

<sup>2</sup>Ibid, Sec. 1.

<sup>3</sup>A Report of the Joint Standing Committee on Audit & Program Review, 1984 Agency Reviews, Department of Environmental Protection, Department of Marine Resources, Public

In 1953, P.L. 1953, Ch 116 broadened the PUC's entry regulation to provide that no ferry could operate between Portland and a number of specified islands in Casco Bay without the written consent of the Commission.<sup>4</sup> The PUC's authority to regulate entry of other ferries was reaffirmed by P & SL 1963, Ch. 174, which required any ferry providing transportation services in Casco Bay to obtain a permit from the PUC and to abide by PUC regulation.<sup>5</sup>

## **B. CURRENT SITUATION**

### **1.) Scheduled Passenger and Freight Services**

CBITD is the only carrier providing scheduled passenger and freight service between the mainland and six islands in Casco Bay--Peaks, Little Diamond, Great Diamond, Long, Chebeague and Cliff. CBITD operates all of its services from a recently-completed terminal in Portland, which it leases from the City of Portland. On each of the six islands, the CBITD has exclusive use of State-owned piers.

Although CBITD provides the only scheduled passenger and freight service between the mainland and the islands, and between the islands, a number of other privately-owned companies have been granted permits by the PUC allowing them to provide unscheduled passenger and freight services in Casco Bay.

It should be noted that Chebeague Transportation Company, which provides scheduled passenger and freight service between Cousins and Chebeague islands, does not require a PUC permit because it does not provide service to or from the mainland nor does it provide service between the islands served by CBITD. Given that Cousins Island is connected to the mainland by a bridge, Chebeague Transportation is able to provide transportation which effectively is to the mainland while avoiding the requirement for a PUC permit.

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Utilities Commission, Independent Agencies

<sup>4</sup>Ibid.

<sup>5</sup>Ibid.

## 2.) Unscheduled Passenger Services

In all cases, the unscheduled passenger services are on-demand water-taxis allowed to carry a maximum of six passengers. The companies holding permits to provide these services are:

- Casco Bay Charters, Inc.;
- Lionel Plante Associates; and
- Long Island Charter and Support Services<sup>6</sup>

Rates charged by the water taxis are levied either on a per-trip or per-hour basis, regardless of the number of passengers aboard. Given the current rates, which range from \$20.00 to \$40.00 per trip or hour, rates per passenger range from \$20.00 to \$40.00 with a single passenger aboard and from \$3.33 to \$6.66 when the full complement of six passengers is carried. Accompanying passenger baggage is the only freight allowed to be carried on the water taxis.

## 3.) Unscheduled Freight Services

Three carriers hold PUC permits allowing them to provide unscheduled freight services, as follows:

- General Marine Construction Corporation;
- Hillside Lumber Company, Inc.; and
- Lionel Plante Associates.

Permits for two of these carriers, Hillside and Plante, limit them to Roll-on/Roll-off (Ro/Ro) service to and from beaches. The permits further limit these Ro/Ro operators, in the case of Peaks Island, to vehicles that cannot be handled on a CBITD vessel, and, in the case of the other islands, to vehicles other than four wheel trucks and cars of ten or less gross tons. In providing the Ro/Ro services, one carrier uses a deck barge and the other a Landing Craft, Men (LCM).

General Marine, the third unscheduled freight carrier holding a PUC permit, is limited to the transportation of heavy equipment and materials. This operator uses a deck barge equipped with a crane.

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<sup>6</sup>Operates from May 1st to October 15th.

Clearly, the permits issued by the PUC for unscheduled freight services have been designed to minimize competition with CBITD's scheduled services. For Peaks Island, other carriers are limited to vehicles that cannot be handled by CBITD. In general, these are vehicles weighing more than 56,000 pounds.<sup>7</sup> For islands other than Peaks, other carriers are specifically excluded from carrying four-wheel trucks or cars of ten gross tons or less, which are the only vehicles that CBITD can carry to these islands.

#### TOUR AND CRUISE SERVICES

The legislation that created the CBITD specifically permitted it to provide "incidental tour and charter service". Although the term "incidental" was not defined, the PUC ruled in 1984 that CBITD's tour and charter business was incidental since some tours were sold on normal commuter voyages and other tours and charters utilized a spare boat that was maintained by the District so that essential services could be continued if one of the other boats was unable to operate.

With the exception of CBITD, none of the tour and cruise services operating in Casco Bay carry passengers between the mainland and the islands, or between the islands, and, thus, are neither considered to be ferries nor required to obtain PUC permits. Furthermore, in a ruling issued on August 28, 1986, the PUC stated the following:

"...operators of tour boats which offer round trip excursions in Casco Bay with stops at the named islands for tour related activities, and which do not offer service to commuters or tourists who remain on the mainland or island any longer than the regularly scheduled tour activity or excursion, and which pick up and drop off all passengers at the same point for a round trip excursion are not subject to Commission regulation"<sup>8</sup>

<sup>7</sup>The 56,000 pound limitation reflected the capacity of the Rebel, CBITD's Ro/Ro ferry. The Machigonne II, which now is in service, is capable of handling individual loads up to 96,000 pounds. The transfer bridges at Peaks and in Portland are capable of handling any road-legal vehicles.

<sup>8</sup>Advisory Ruling, Docket No. 86-96, Longfellow Cruise Line's Request for Advisory Ruling on Whether Excursion Boat Operations Require Certificate of Public Convenience and Necessity, August 28, 1986, State of Maine, Public Utilities Commission.

Although the PUC's advisory ruling indicated that excursion boats do not require a permit to carry passengers to the islands for tour purposes, the legality of this ruling has not been tested in the courts. Regardless of the legality of transporting people to the islands for tour purposes, excursion boat operators are precluded from using the islands' State-owned piers, which currently are reserved for the exclusive use of the CBITD.<sup>9</sup> The Maine Department of Transportation has indicated that it could allow other operators to use these piers. Such use could not interfere with CBITD's operations and MDOT would levy user fees to recover the costs of the additional maintenance and repair that would be required because of increased usage. Tourboat operators currently can use private piers or wharves or the floats adjacent to the State piers to embark or disembark passengers on the islands.

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<sup>9</sup>Originally, the island piers used by the CBITD were owned by Casco Bay Lines. Prior to CBL's bankruptcy, the State of Maine agreed to take over ownership and necessary maintenance of these piers but agreed to allow CBL (CBITD's predecessor company) to continue to have exclusive use of them.

### III. REVIEW OF CBITD'S OPERATIONS AND FINANCIAL PERFORMANCE

#### A. CBITD'S OPERATIONS

##### 1.) CBITD'S FLEET

CBITD currently owns 5 ferries, as shown in the following table.

Table III-1

CBITD Fleet As Of September 1988

Ferry	Type of Service Provided	Passenger Capacity
Abenaki	Passengers/Freight/Auto (1)	230-259 <sup>*</sup> /
Island Holiday	Passengers/Freight	300
Island Romance	Passengers/Freight	299
Machigonne II	Passengers/Vehicles (Ro/Ro)	350
Rebel	Passengers/Vehicles (Ro/Ro)	72-174 <sup>**</sup> /
Source: U.S. Coast Guard Certificates of Inspection		
<sup>*</sup> 230 with one car; 259 without a car		
<sup>**</sup> 72 with 5-9 cars; 109 with 1-4 cars; 174 without cars		

The Machigonne II, the newest ferry in the fleet, was put into regular service on August 12, 1988 as a replacement for the M/V Rebel. This new ferry, which will operate between Portland and Peaks Island, has passenger accommodation far superior to the limited accommodations aboard the Rebel and, therefore, will be especially attractive to the elderly, the handicapped and families with small children.

The Machigonne II will have higher crew, fuel, insurance and capital costs than the M/V Rebel, but it will provide operating cost savings during the summer months. During times of heavy demand, CBITD previously had to operate a passenger ferry between Portland and Peaks Island to supplement the small passenger capacity available on the M/V Rebel. With the 350-passenger capacity of the Machigonne II, it will no longer be necessary to operate a second ferry between Portland and Peaks. The savings resulting from operating a single boat will more than offset the higher fuel and crew costs associated with the Machigonne II.

At the current time, the Machigonne II cannot carry vehicles to islands other than Peaks because of pier limitations. Consequently, CBITD has retained the Rebel in its fleet in order to provide car service to the down-bay islands, particularly Long Island. However, given the high cost of retaining this boat, CBITD intends to sell the Rebel in the near future and subcontract down-bay vehicle service to another permitted operator when necessary.

## 2.) OPERATING ENVIRONMENT

Five of the islands served by CBITD--Peaks, Little and Great Diamond, Long and Cliff--are located within the city of Portland. The sixth island, Chebeague, is located within the Town of Cumberland. In 1980, as shown in the following table and graphically in Exhibit III-1, the permanent population of the Portland Islands was 1,064, which comprised 1.7 percent of the City of Portland's total population.

Table III-2

1980 Population of the  
Islands Served by the CBITD

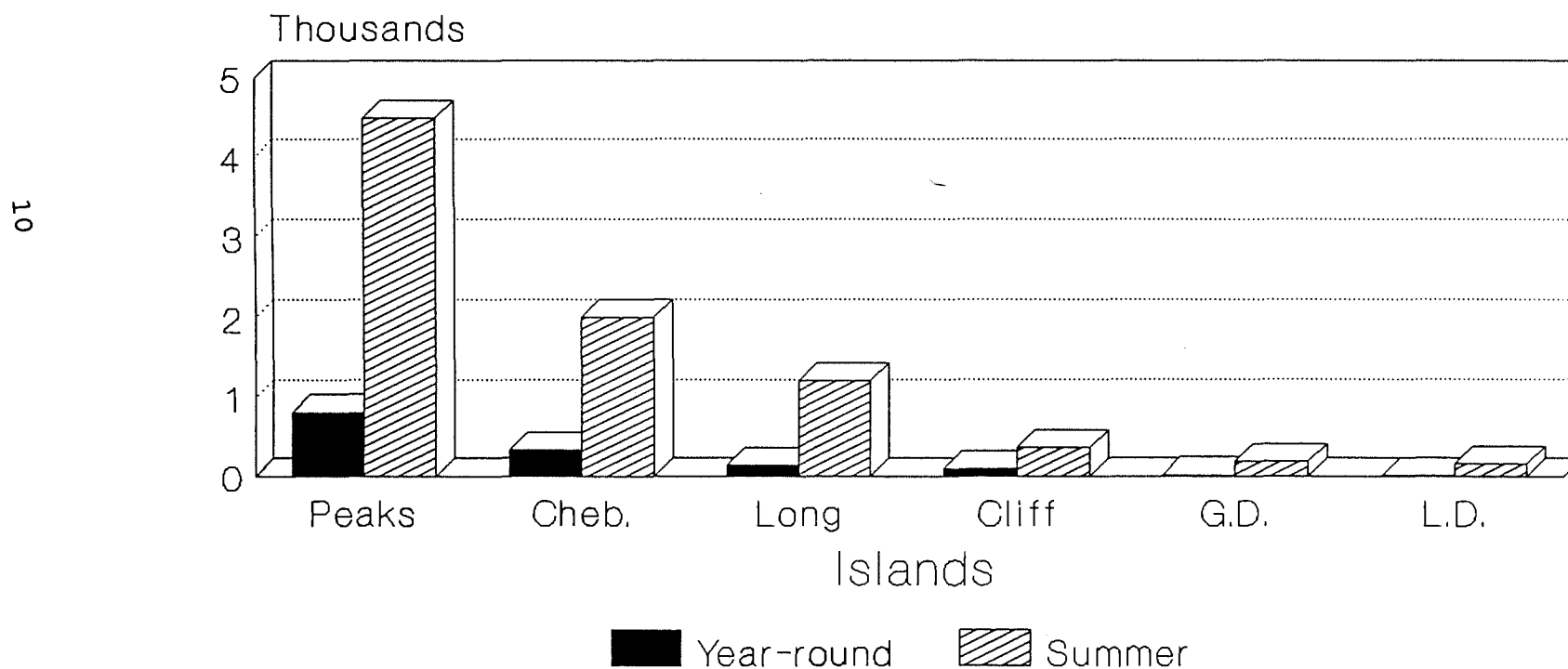
Island	Permanent	Summer
Peaks	812	4,500
Long	136	1,200
Cliff	93	360
Great Diamond	14	180
Little Diamond	9	150
Portland Islands	1,064	6,390
Chebeague	333	2,000
TOTAL:	1,397	8,330
Source: 1980 Census		

An analysis and projection of the population of the islands was recently completed as an input to CBITD's planning.<sup>9</sup> This analysis estimates a 1985 island population ranging from 1,505 to 1,707, which translates to compound growth rates ranging from 1.5 to 4.1 percent per year. Between 1985 and 1990, the island population is projected to grow at a compound annual rate ranging from 1.6 to 3.3

<sup>9</sup>Population Projection, Tracy Perez, February 17, 1988.



# Year-round and Summer Population of Islands 1980



Source: 1980 Census

percent. Further, between 1989 and 1993, growth in the number of permanent residents is projected to range from one to two percent per year while growth in the number of seasonal residents is projected to range from two to three percent per year. The Greater Portland Council of Governments' population projection is shown in Table III-3, following. The projected high-range population growth is shown in Exhibit III-2.

Table III-3

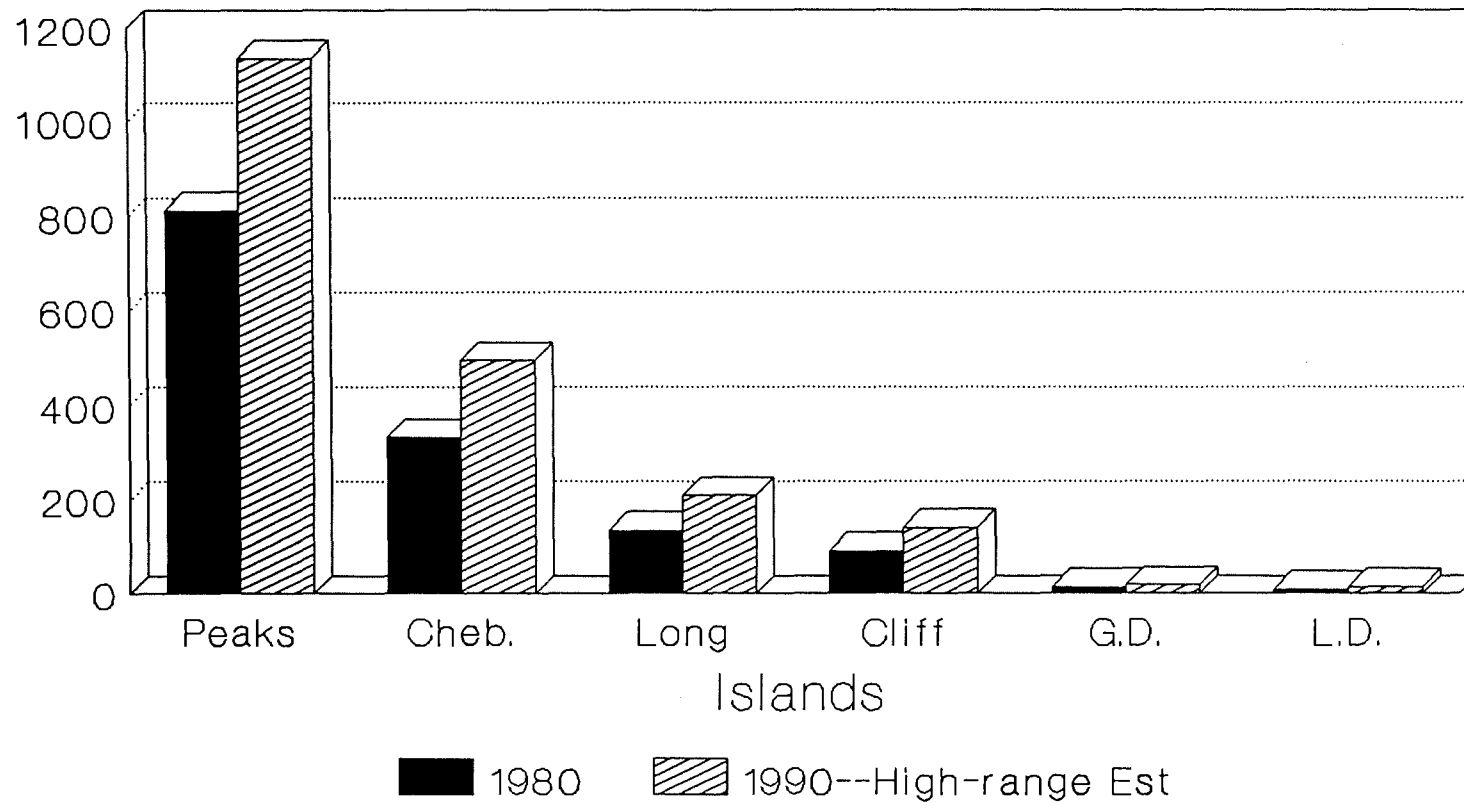
Projection of the Casco Bay  
Islands' Permanent Population

1980-1990

1970 to 1980 Growth Rate: 12.9 percent							
			The Diamonds				
Year	Peaks	Long	Great	Little	Cliff	Cheb- eague	Total
----	-----	----	-----	-----	-----	-----	-----
----- Households -----							
1980	350	60	6	4	41	142	603
1985(Est)	407	72	7	5	49	171	711
1990(Est)	473	87	8	6	59	206	839
----- Population (Persons) -----							
<u>Actual:</u>							
1980	812	136	14	9	93	333	1,397
<u>Low Estimate:</u>							
1985	862	148	15	10	101	362	1,498
1990	935	163	16	11	111	397	1,633
<u>High Estimate:</u>							
1985	977	173	17	12	118	410	1,707
1990	1,135	209	19	14	141	494	2,012

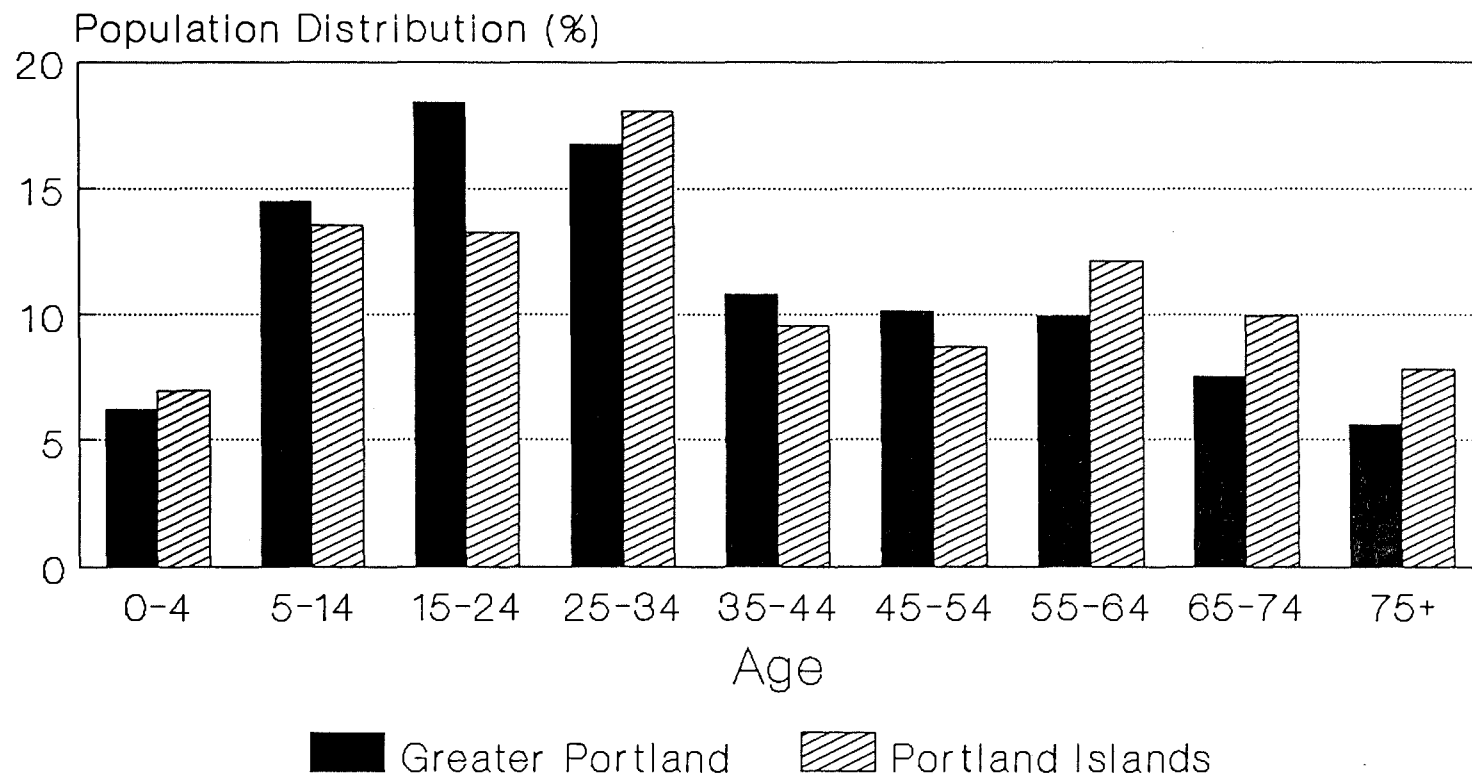
Two other demographic characteristics of the islands are of particular interest. First, as shown in the following table and in Exhibit III-3, the average age of island residents in 1980 was higher than that of the average resident of the greater Portland area. This reflects the fact that a large number of retirees lived on the islands; 17.8 percent of island residents were 65 or older whereas only 13.1 percent of the people in greater Portland were in this age group.

## Year-Round Population of Islands 1980 and Estimated 1990



Source: 1980 Census; Tracy Perez,  
Greater Portland Council  
of Governments

# Analysis of Age Distribution Greater Portland vs. Portland Islands 1980



Source: 1980 Census

Table III-4

Comparison of Population Distribution by Age  
Greater Portland and the Portland Islands

1980

Age	Greater Portland		Portland Islands	
	No. of People	% of Total	No. of People	% of Total
0-4	11,433	6.2%	74	7.0%
5-14	26,674	14.5	144	13.5
15-24	33,812	18.4	141	13.3
25-34	30,740	16.7	192	18.0
35-44	19,818	10.8	102	9.6
45-54	18,670	10.2	93	8.7
55-64	18,301	10.0	129	12.1
65-74	13,813	7.5	106	10.0
75+	10,364	5.6	83	7.8
Total:	183,625	100.0%	1,064	100.0%
Source: 1980 Census				

Given the higher proportion of retirees on the islands, combined with the fact that many island jobs are seasonal, it is not surprising that household income on the islands was well below that in greater Portland. As shown in Table III-5, and graphically in Exhibit III-4, 52.1 percent of island households had income of less than \$10,000 in 1980 while only 31.0 percent of greater Portland households had income that low. At the high income end of the spectrum, only 8.7 percent of island households had income of \$25,000 or more in 1980 while 22.3 percent of greater Portland households had income that high. On average, household income on the islands in 1980 was only 62 percent of that in greater Portland.

Table III-5

Comparison of Distribution of Household Income  
Greater Portland and the Portland Islands

1980

1979 Income (000)	Greater Portland		Portland Islands	
	House- holds	% of Total	House- holds	% of Total
<5	8,783	12.8%	133	28.8%
5-7.49	6,224	9.1	57	12.3
7.5-9.9	6,220	9.1	51	11.0
10-14.9	12,086	17.7	81	17.5
15-19.9	10,957	16.0	73	15.8
20-24.9	8,868	13.0	27	5.8
25-34.9	9,507	13.9	35	7.6
35-49.9	3,762	5.5	5	1.1
50+	1,996	2.9	0	0.0
Median:	\$15,373	100.0%	\$ 9,510	100.0%
Mean:	\$18,036		\$11,209	
Per Capita	\$ 6,809		\$ 5,060	
Source: 1980 Census				

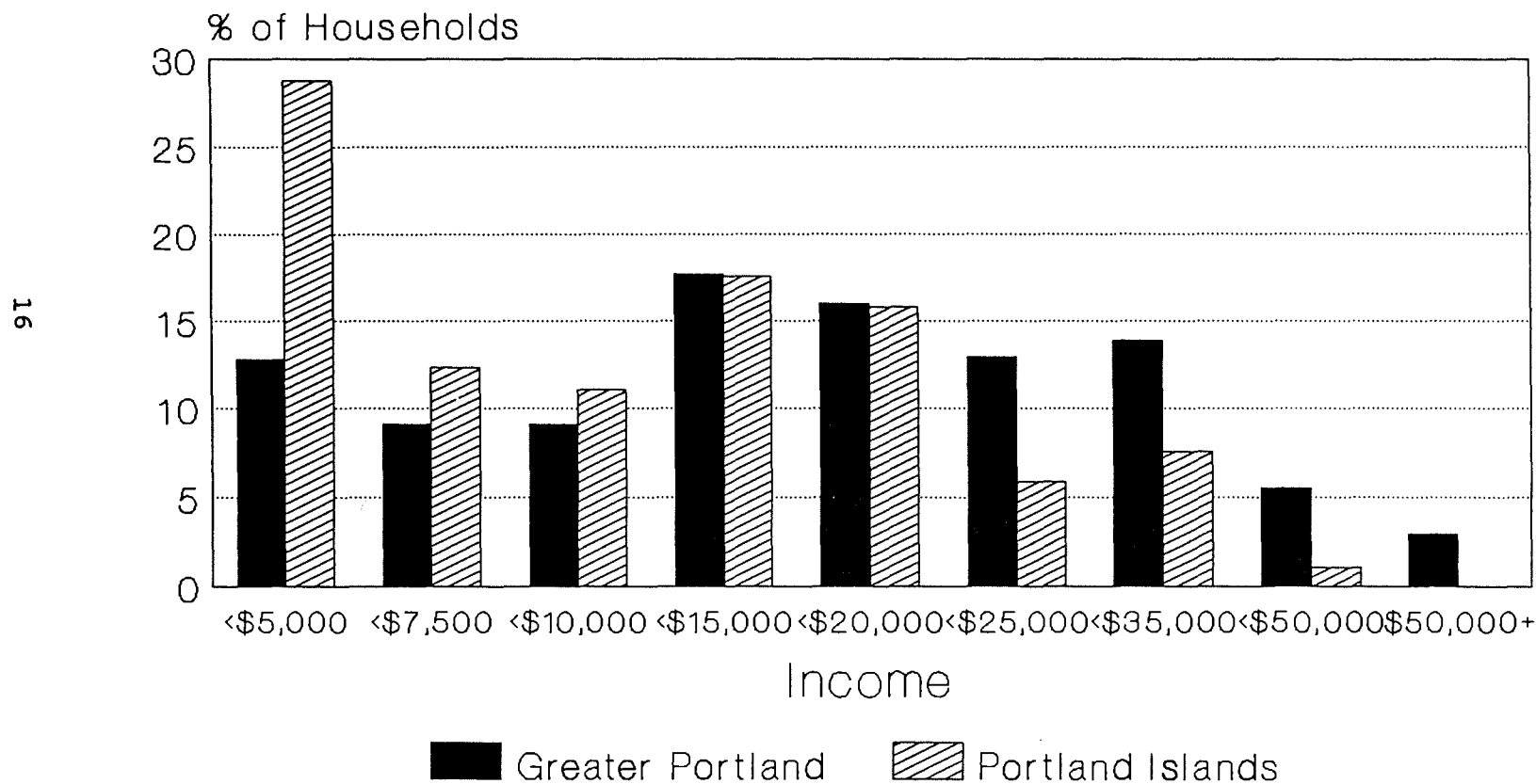
## 3.) SCOPE OF SERVICE

The CBITD provides daily service to each of the six islands served. Because few residents live on Little Diamond and Great Diamond islands during the winter months, calls at these islands, although scheduled, are made only on a demand basis. In total, the CBITD scheduled a total of 6,774 individual ferry runs during the 1987/88 season, which averaged 18.6 voyages per day. CBITD's scheduled services are changed four times each year, in conformance with the season and level of ridership, as follows:

# Household Income - 1980

## Greater Portland vs. Portland Islands

(Income Ranges are Non-cumulative)



Source: 1980 Census

Table III-6

CBITD's Seasonal Schedules  
September 1987 to September 1988

Season	Dates Effective	Number of Days	Number of Voyages Scheduled
Fall	9/8-10/23	46	844
Winter	10/24-4/22	182	2,938
Spring	4/23-6/17	56	968
Summer	6/18-9/5	80	2,024
Total:		364	6,774
-----			
Source: MOA Analysis of CBITD's Schedules.			

During Fiscal Year 1988, CBITD operated four primary services, with a number of variations depending on day-of-the-week and season. The first was a shuttle between Portland and Peaks Island. This service was provided with either a car ferry (previously the M/V Rebel and now the M/V Machigonne II) or a passenger boat, or both. The second and third services were a "down-bay" service that called at each of the islands, with or without a call at Peaks. The fourth service was an "inner-bay" service that called at Peaks, Little and Great Diamond and Long Island. In addition, CBITD occasionally scheduled an "inner bay" run, to Little and Great Diamond and Long Island, without a call at Peaks. The number of runs made in each service during FY 1988 is shown in Table III-7, following.



Table III-7

Number of Runs Scheduled  
Per Week By Service, FY 1988

Itinerary	Number of Runs Scheduled per Week			
	Fall	Winter	Spring	Summer
Peaks Passenger	57	77	57	67
Peaks Vehicle	43	9	36	49
Peaks, Inner Bay	1	2	1	28
Peaks, Inner/Down Bay	0	19	21	1
Inner/Down Bay	27	6	6	27
Inner Bay	0	0	0	5
Total:	128	113	121	177
Average Runs/Day:	18	16	17	25
Source: MOA Analysis of CBITD's Schedules				
Note: Inner Bay refers to Little Diamond, Great Diamond and Long Island. Down Bay refers to Chebeague and Cliff Islands				

Based on the runs it scheduled during FY 1988, the CBITD provided a minimum of 101 calls per week at Peaks Island, 27 calls per week at Little Diamond, Great Diamond and Long islands, and 25 calls per week at Chebeague and Cliff islands, as shown in Table III-8.

Table III-8

Number of Calls Scheduled  
Per Week at Each Island, FY 1988

Island	--- Number of Calls per Week ---			
	Fall	Winter	Spring	Summer
Peaks	101	107	115	145
L.D., G.D., Long	28	27	28	61
Cheb., Cliff	27	25	27	28
Source: MOA Analysis of CBITD's Schedules				

As shown in Table III-8, the number of calls scheduled during the summer of 1988 for Peaks Island was 43.6 percent greater than the number scheduled in winter; for Little Diamond, Great Diamond and Long islands the number of summer calls was 125.9 percent greater than in winter; and, for Chebeague and Cliff islands, the number of summer calls was 12.0 percent greater than in winter.

Table III-9 displays the average number of riders to different islands during each season of the year. On average, summer ridership to peaks was 42.5 percent higher than during winter; summer ridership to Little Diamond, Great Diamond and Long islands was 116.9 percent higher than during winter; and, summer ridership to Chebeague and Cliff islands was 3,316.7 percent higher than during winter (when there were only 1.2 riders per scheduled call, on average.)

Table III-9

Average Number of Riders  
Per Scheduled Call, FY 1988

Island	---- Average Riders per Call ----			
	Fall	Winter	Spring	Summer
Peaks	91.6	65.4	94.8	93.2
L.D., G.D., Long	62.9	32.6	84.0	70.7
Cheb., Cliff	20.1	1.2	22.6	41.0
Source: Table III-8 and CBITD's Ridership Statistics				

Now that the Machigonne II is operational, it is CBITD's intention to use it primarily to serve Peaks Island's passenger and vehicular transportation needs. In general, inner bay and down bay boats will no longer stop at Peaks while the Machigonne II is in operation.

#### 4.) RIDERSHIP

CBITD's ridership has been increasing at a steady, albeit relatively slow, pace. Between 1972 and 1981, when CBITD was formed, ridership of Casco Bay Lines, the predecessor company, increased at a compound annual rate of 3.6 percent. Subsequent to the formation of CBITD, ridership increased at a rate of 4.5 percent per year between 1981 and 1987. As shown in Table III-10, however, ridership has increased more slowly in recent years. In

fact, ridership to the islands declined during 1987 and total ridership also would have declined if tours, cruises and charter ridership had not increased by 85 percent.

Table III-10

Trends in CBITD's  
Annual Ridership

(Calendar Years 1981 through 1987)

Year	Islands		Tours & Charters		Total	
	No. (000)	% Inc.	No. (000)	% Inc.	No. (000)	% Inc.
1981					496	6.8%
1982					534	7.7
1983					566	6.0
1984					589	4.0
1985	592		26		618	5.0
1986	608	2.7	27	3.7	635	2.8
1987	601	-1.2	50	85.5	651	2.4%
-----						
Source: CBITD Ridership Statistics						

Future increases in ridership are likely to be dependent on population increases, which, in turn, will be dependent upon further development of the islands. The financial projections of CBITD<sup>10</sup>, recently-completed by John Duncan of the Greater Portland Council of Governments (COGS), included a projection of the islands' population developed by Tracy Perez, also of COGS. This projection, which was based on an analysis of the likely development on the islands, estimated year-round population growth of one to two percent a year and summer population growth of two to three percent per year during the period 1989 through 1993. Taking this projection and other factors into account, Mr. Duncan assumed a one percent annual growth in CBITD's ridership during the next five years.

MOA also developed a forecast of CBITD's ridership, based on monthly data for the ten-year period 1978 through 1987. MOA's forecast, which was generated with the Wisard forecasting methodology, indicates compound annual growth

<sup>10</sup>1989 to 1993 Financial Projection for the Casco Bay Transit District, John Duncan, Greater Portland Council of Governments, June 1988.

rates of 0.7 percent and 2.3 percent for calendar years 1988 and 1989, respectively. CBITD's historical and forecast ridership are shown in Exhibit III-5, which also clearly displays the large seasonal variations in ridership that CBITD must accomodate.

Two factors pertaining to ridership are pertinent to an understanding of CBITD's operations: seasonality and distribution by island. Each of these is discussed in the following paragraphs.

### Seasonality

Seasonality of ridership has a severe impact on CBITD. Ridership during the peak summer months of July and August typically is three times as high as it is during the slow winter months of January and February. During the last five years, ridership during the months of July and August comprised 30 percent of total annual ridership. At the other extreme, ridership during January and February comprised only 10 percent of total ridership.

CBITD's riders can be divided into three categories, each of which responds to different stimuli. Year-round island residents are dependent upon the ferries for basic transportation needs; these people frequently refer to CBITD as "the lifeline of the islands." Summer residents are somewhat less dependent upon CBITD than the year-round residents but they also are regular riders while residing on the islands. Tourists and charter passengers are in the third category; these riders are not dependent on the ferries and ride them once or only occasionally.

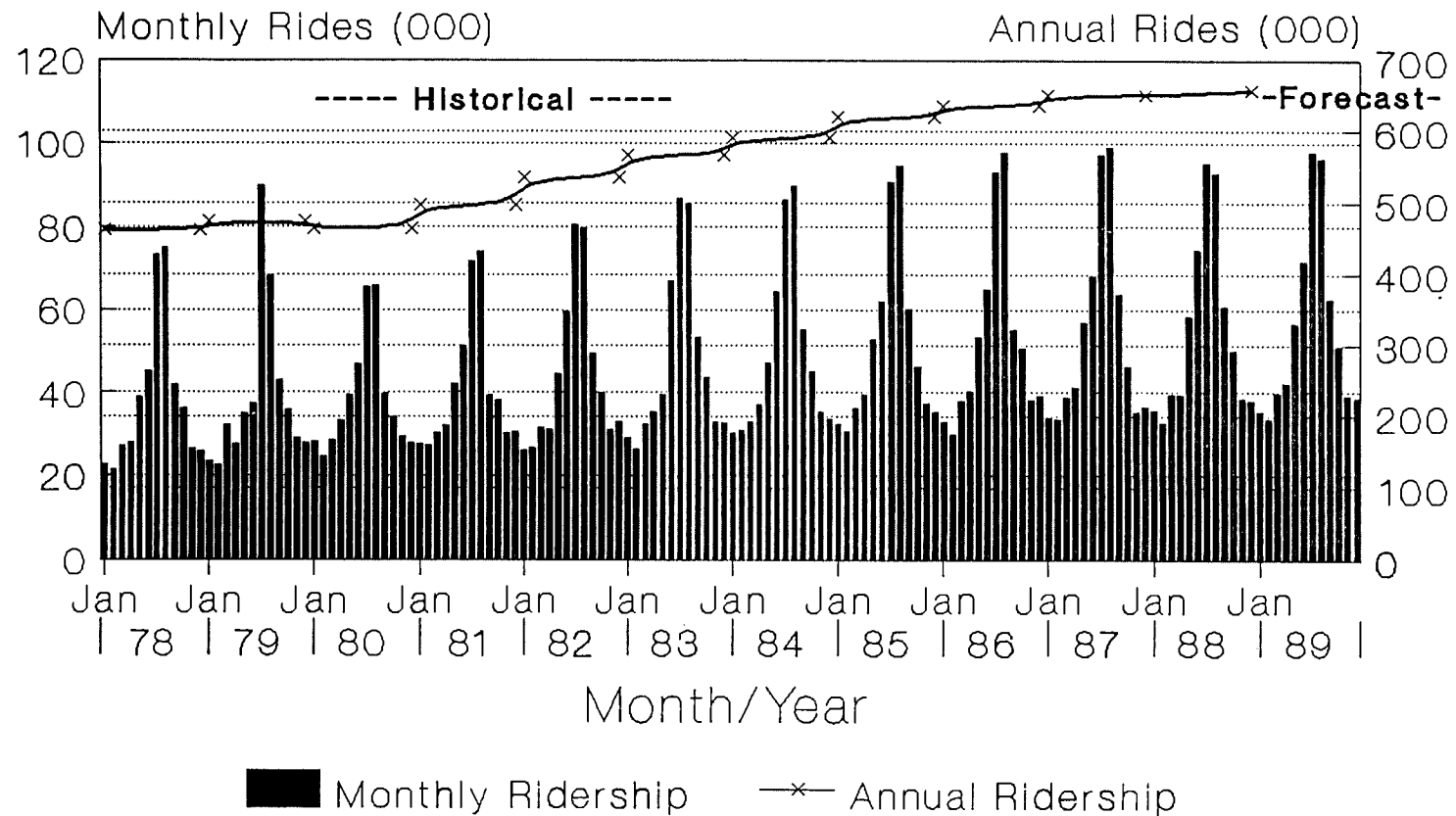
Exhibits III-6 through III-9 show the annual percentage change in ridership from the previous year for the total year, summer and winter<sup>11</sup>, respectively. Whereas winter ridership can reasonably be expected to be limited primarily to year-round island residents (and their visitors), summer ridership includes all categories of riders. Changes in summer and winter ridership tended to follow the same general trend during the 1973 through 1988 period, although the magnitude of change for each season varied.

Because the declines in summer ridership appear to be cyclical and occur during times that oil prices were increasing, it appeared that CBITD's summer ridership might be affected by energy prices. Therefore, MOA compared changes in summer ridership to total U.S. gasoline consumption, as shown in Exhibit III-10. While a strong

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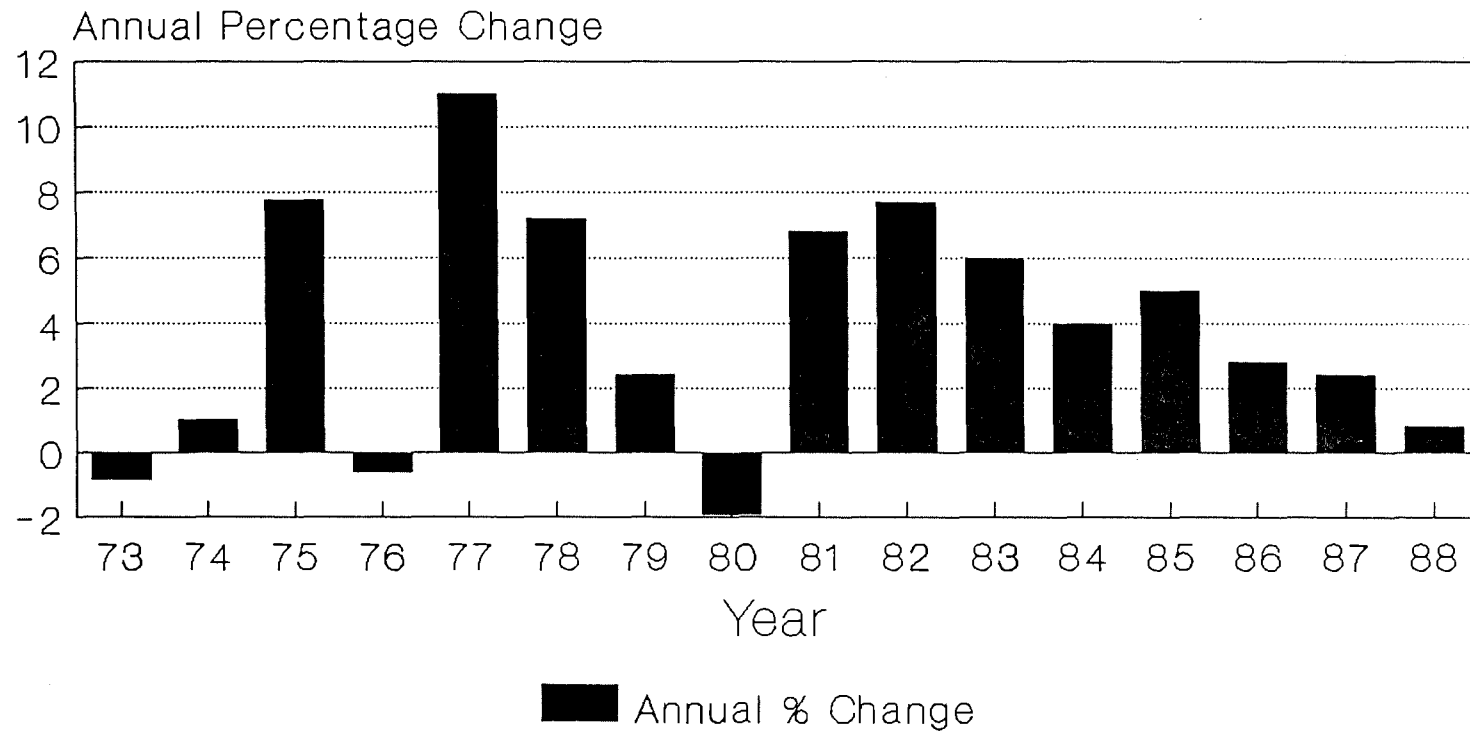
<sup>11</sup>For the purpose of these exhibits, summer was defined as the seven-month period, April through October, inclusive and winter was defined as the five-month period November through March, inclusive.

# CBITD's Monthly Ridership Historical (1/78-9/88) and Forecast (10/88-12/89)



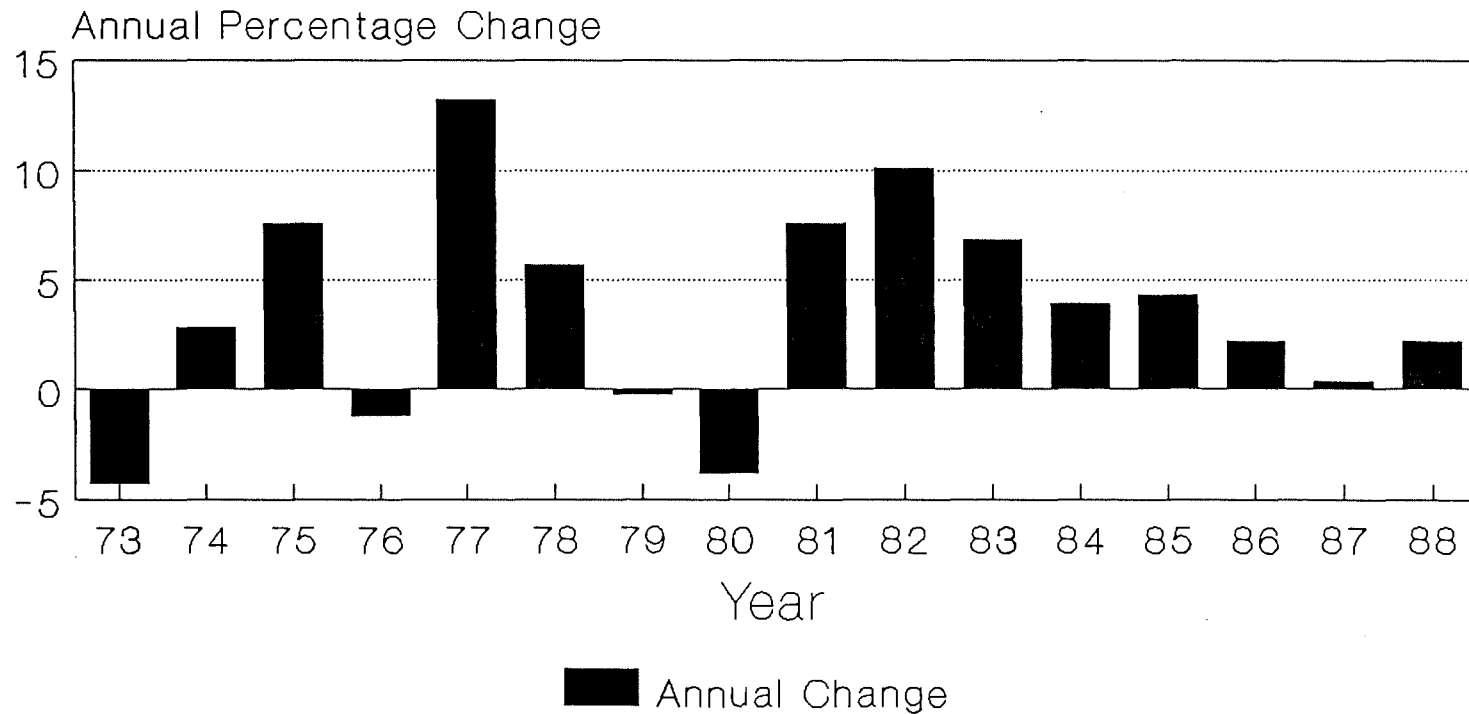
Source: CBITD Statistics and MOA

# Annual Percentage Changes In CBITD's Ridership 1973-1988 (1988 Estimated Based on 9 Months)



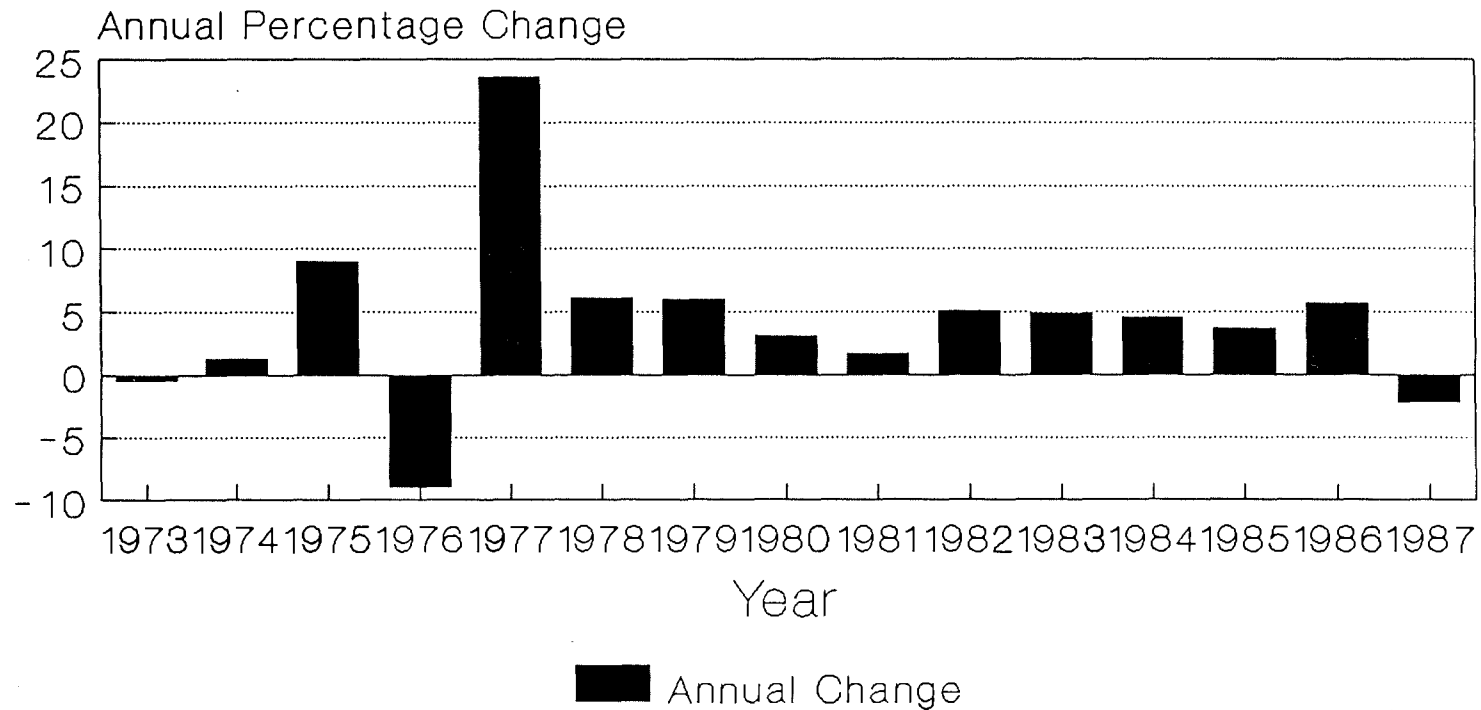
Source: John Duncan, Greater Portland  
Council of Governments, 6/88; MOA

# Annual Percentage Changes In CBITD's Summer Ridership 1973-1988



Source: John Duncan, Greater Portland  
Council of Governments, 6/88; MOA

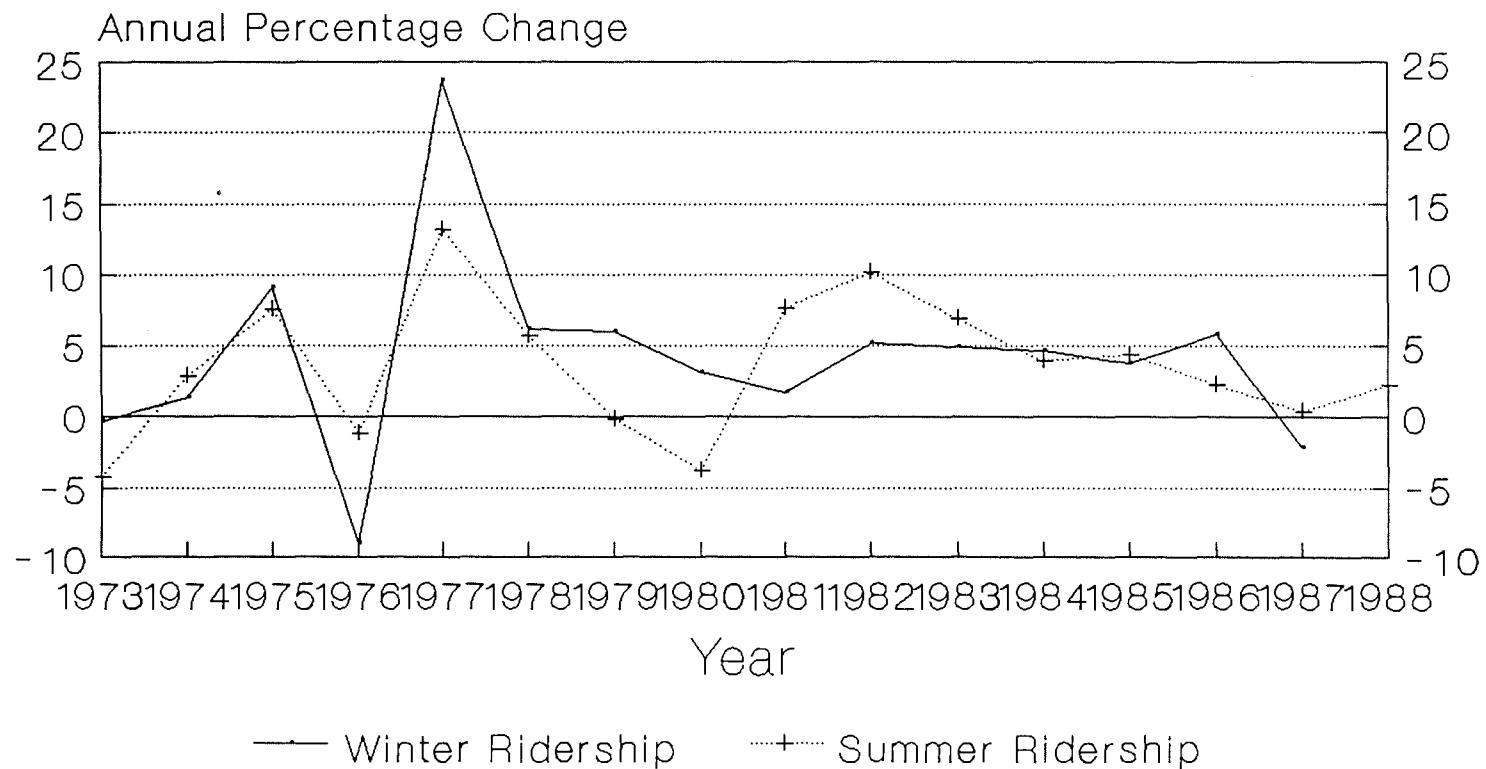
# Annual Percentage Changes In CBITD's Winter Ridership 1973-1987



Source: John Duncan, Greater Portland  
Council of Governments, 6/88

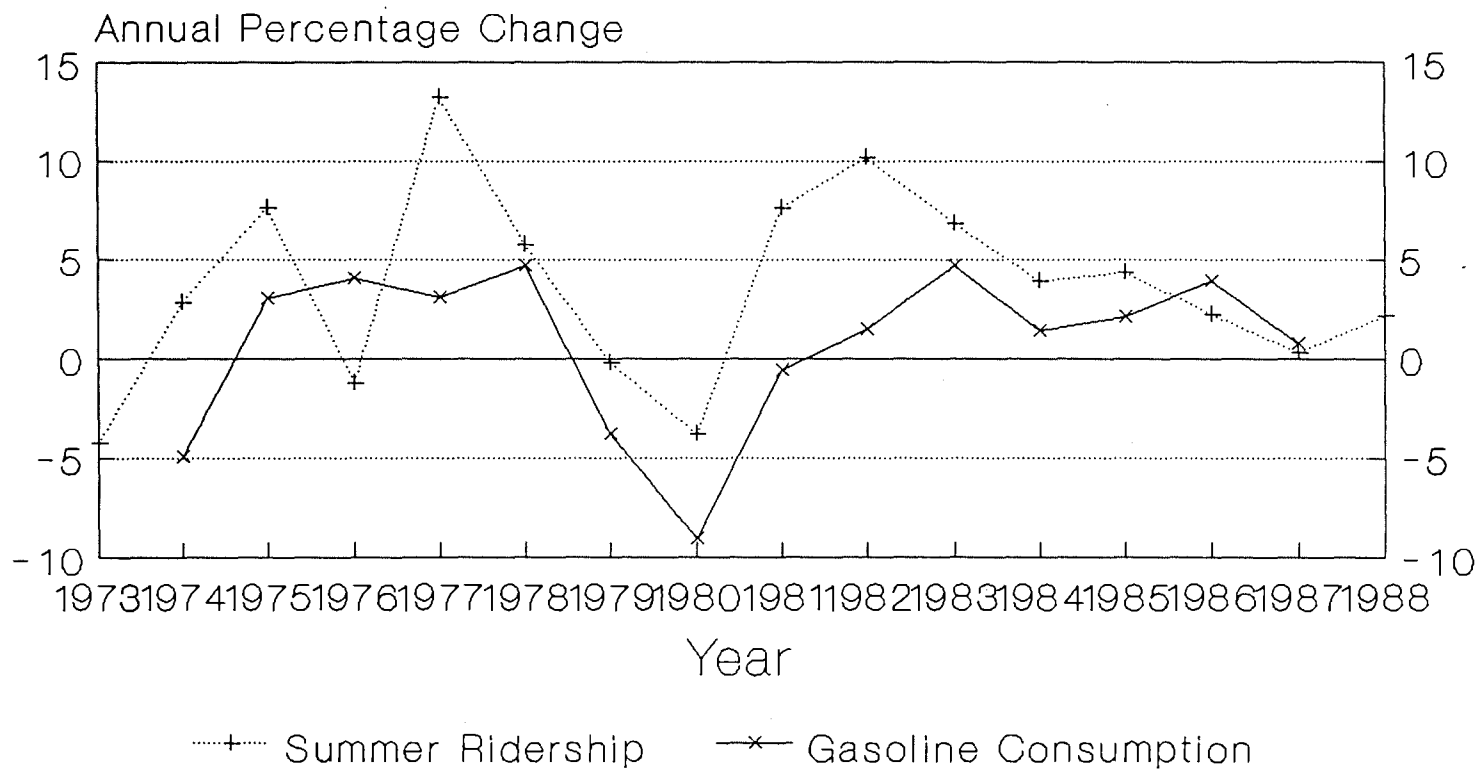


# Comparison of Annual Percentage Changes In CBITD's Winter And Summer Ridership 1973-1988



Source: John Duncan, Greater Portland  
Council of Governments, 6/88

# Comparison of Annual Pct. Changes-- CBITD's Summer Rides & Gasoline Consump 1973-1987



Source: John Duncan, Greater Portland  
Council of Governments, 6/88

correlation appears to exist, gasoline consumption increased slightly in 1976 when CBITD's ridership declined. This type of relationship could be explored more fully as a way to improve CBITD's ability to forecast summer ridership, which is an important factor in its operational and financial planning. Any increases in fuel prices signal a problem for CBITD because cost increases likely will be accompanied by a decline in ridership. Thus, expenses will increase at the same time that revenues decline.

#### Distribution by Island

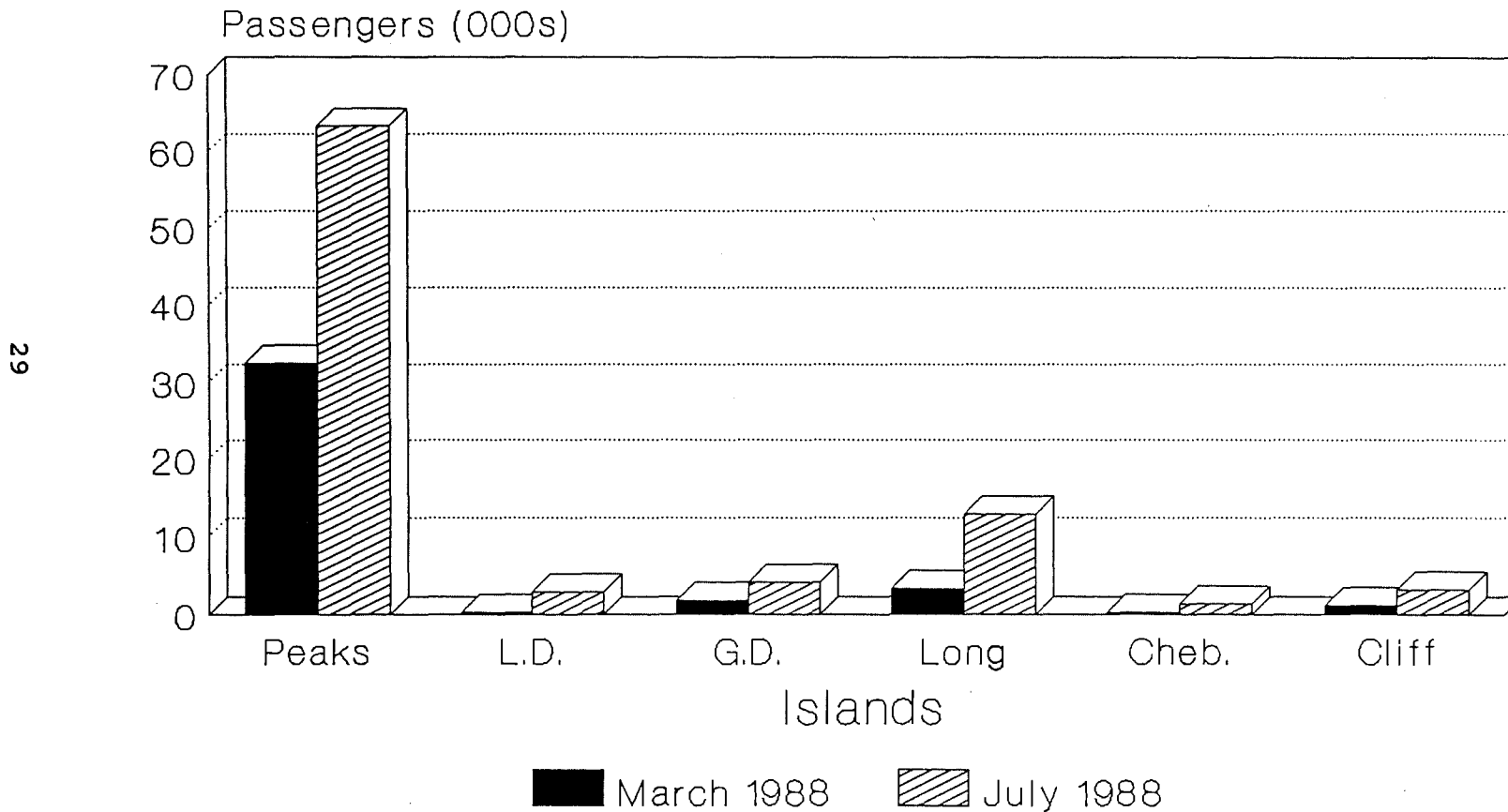
The distribution of passenger ridership by island is an important factor in CBITD's operations. As shown in Exhibits III-11 and III-12, Peaks Island's passengers comprised 83 percent of all riders in March 1988 and 72 percent in July 1988. For the year 1987, Peaks accounted for 78 percent of CBITD's total ridership. Exhibit III-11 also shows the substantial difference between winter and summer ridership for each of the islands. Outlying islands, especially Cliff Island, are expensive for CBITD to serve on a cost-per-passenger basis because they require a relatively long voyage and have relatively few riders.

#### 5.) VEHICLES AND FREIGHT

CBITD's charter allows it to carry all scheduled freight and vehicles between the mainland and the islands it serves. In addition, three other carriers operate unscheduled freight services. Through negotiations between CBITD and each of these carriers, a system has evolved that allows the unscheduled operators to carry freight that would not normally be carried by CBITD. For example, the tariffs of two of the operators specify that only vehicles weighing more than 56,000 pounds will be carried to Peaks Island. In total, revenues earned by these unscheduled operators is estimated to be less than \$50,000.

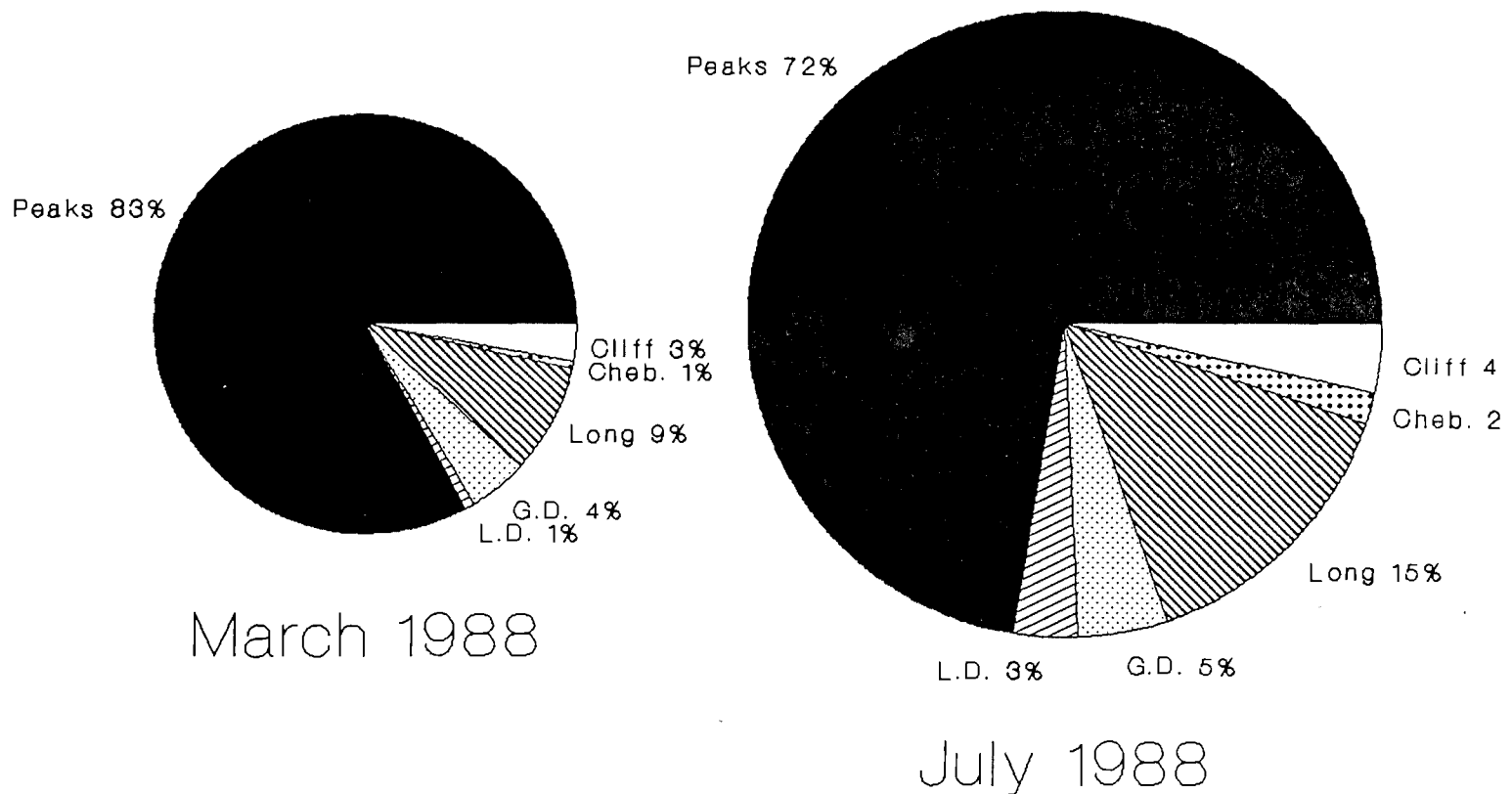
The majority of vehicles move between Portland and Peaks Island. Between 1983 and 1987, the number of vehicles transported declined by 30.4 percent while vehicle revenues increased by 70.8 percent as a result of fare increases. During the same period, freight revenues increased by 39.3 percent. No data exists on the volume of freight handled by CBITD but rates were increased by 19.7 percent between 1983 and 1987, indicating that freight volumes increased by 19.6 percent. This assumes that the mix of commodities stayed the same during the period; if the mix changed substantially, volumes could have declined or increased more than 19.6 percent. CBITD's vehicle and freight revenues in recent years are shown in the following table:

# Passenger Counts by Island March and July 1988



Source: CBITD's Dally Passenger Reports

## % Distribution of Passengers by Island March and July 1988



Source: CBITD's Daily Passenger Reports

Table III-11

CBITD's Vehicle and Freight Revenues  
1983-1987 Fiscal Years

Year	----- Vehicles -----			---- Freight ----	
	Number	--- Revenue --- Amount	% Inc.	Freight Revenue	% Inc.
1983	13,578	\$ 76,366	--	\$101,729	
1984	13,750	94,272	23.5%	119,722	17.7%
1985	13,087	125,532	33.2	137,673	15.0
1986	10,915	107,163	(14.6)	127,233	(7.6)
1987	9,445	\$130,448	21.7%	\$141,675	11.4%

-----

Source: CBITD's Income Statements and Ridership Stats.

The type of freight most likely to be diverted from CBITD in the event of deregulation includes loaded trucks, heavy equipment, cargoes moved in large volumes and the seasonal movement of autos to and from inner and down bay islands. Small-volume, freight--whether moving on a regular or irregular basis--would not likely be attractive to unscheduled operators.

In the case of truckload shipments currently handled by CBITD, the high cost of providing service on a dedicated unscheduled vessel, compared to the relatively low prices charged by CBITD, most likely would limit the attractiveness of such services only to shippers of time-sensitive cargoes willing to pay the additional cost. Removing the current limitations on unscheduled freight operators would improve service for shippers of time-sensitive cargoes by allowing them to choose the level of service they require.

Currently, a user who desires to move a truck loaded with time-sensitive cargo to one of the islands may have to wait for the availability of a CBITD ferry. The cost of such a delay, which might include a cost for the truck and driver, as well as inventory carrying costs, may exceed the differential in rates between CBITD and the unscheduled freight operator. Also, a delay in transporting materials for construction or in moving household goods may result in substantially increased costs for island residents. For these shippers, which probably represent a small portion of the market, deregulation would provide more flexibility and result in lower costs.

Although deregulating the unscheduled freight market would have a negative impact on CBITD, it is unreasonable to require shippers to use CBITD if, by doing so, resultant delays will cost them more than it would to use an unscheduled freight service. Deregulating unscheduled freight services would force CBITD to become more responsive to time-sensitive shippers. Furthermore, because it now has the Machigonne II in regular operation between Portland and Peaks Island, CBITD should be able to handle most freight and vehicular transportation requirements to and from that island in a timely fashion and on a cost effective basis. Thus, the potential for diversion of cargoes from CBITD is reduced, if not entirely eliminated, in the case of Peaks Island. For other islands, deregulation of unscheduled freight services would have a negative impact on CBITD, but not a severe one, as discussed in Chapter V.

## B. FINANCIAL PERFORMANCE

### 1.) BALANCE SHEETS

After 6 full years of operation, CBITD is in a reasonable, slowly-improving financial condition. As shown in Exhibit III-13, CBITD's balance sheets for the years 1983 through 1987, retained earnings increased only slightly, from \$115,175 in 1983 to \$264,657 in 1987. However, during this period CBITD's total assets doubled from \$1.2-million to \$2.3-million. Although one-half of this increase was accounted for by UMTA grants, the other half of this increase resulted from operations.

CBITD's financial ratios, shown in Exhibit III-14, indicate that CBITD generally improved its financial condition during the 1983 through 1987 period, as follows:

- Current Ratio, a measure of CBITD's liquidity, increased from 0.88 in 1983 to 3.3 in 1987; (CBITD's Acid-Test Ratio, a more demanding test of current financial strength, improved from 0.72 to 1.3).
- Debt to Total-assets Ratio, which indicates CBITD's reliance on debt, decreased from 0.90 to 0.56, largely as a result of the UMTA grant for the M/V Machigonne II.
- Debt to Equity, (long-term debt to stockholders' equity), a measure similar to debt to total assets, improved from 5.86 in 1983 to 4.02 in 1987.
- Times Interest Earned Ratio, a measure of CBITD's ability to meet interest payments out of current earnings, is at a marginal level, but improved slightly from 1.05 in 1983 to 1.37 in 1987.
- Fixed-asset Turnover Ratio, a measure of how well CBITD is using its capital equipment (ferries) to generate revenue, improved from 1.35 to 2.24.
- Total-assets Turnover Ratio, a measure of how well CBITD is managing its fixed and financial assets to generate revenues, increased slightly between 1983 and 1986 then decreased as a result of the total assets increasing (UMTA grant and bonds payable).



## Exhibit III-13

CBITD'S BALANCE SHEETS  
FY 1983-1987

(fiscal years ending September 30th)

	1983	1984	1985	1986	1987
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	254,807	229,301	305,787	304,414	257,611
Cash (restricted)	42,519	75,806	98,056	102,266	421,764
Accounts receivable	28,727	18,913	14,649	15,706	35,746
Capital grants receivable	0	0	6,912	23,351	21,715
Interest receivable	1,244	1,635	1,561	1,131	4,090
Prepaid expenses	21,522	26,051	25,053	28,535	44,404
Total current assets	348,819	351,706	452,018	475,403	785,330
<b>PROPERTY, PLANT, AND EQUIPMENT</b>					
(at cost)					
Land	12,000	12,000	12,000	12,000	12,000
Vessels	751,152	751,152	751,152	785,493	831,369
Equipment	8,185	8,185	8,185	21,909	33,908
Total PP&E at cost	771,337	771,337	771,337	819,402	877,277
Accumulated depreciation	(61,126)	(113,712)	(166,298)	(222,002)	(282,910)
Total property, plant, and equipment (net)	710,211	657,625	605,039	597,400	594,367
<b>OTHER ASSETS</b>					
Prepaid bond expense	81,317	91,356	88,950	78,306	71,821
Cash (restricted)	50,000	65,709	74,404	84,030	113,190
Construction in progress	0	0	8,640	18,349	758,106
Total other assets	131,317	157,065	171,994	180,685	943,117
<b>TOTAL ASSETS</b>	<b>1,190,347</b>	<b>1,166,396</b>	<b>1,229,051</b>	<b>1,253,488</b>	<b>2,322,814</b>
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Bonds payable (current)	0	35,000	55,000	60,000	100,000
Notes payable	225,000	0	0	0	0
Accounts Payable	27,381	24,368	21,289	40,255	53,647
Accrued & withheld payroll taxes	68,231	3,917	4,008	4,505	5,146
Accrued interest	29,509	32,934	36,375	34,641	42,035
Accrued payroll & vacati	6,158	10,615	24,643	26,876	16,862
Accrued pension	36,171	30,550	36,218	35,714	15,709
Accrued expenses (other)	5,820	7,051	2,825	2,932	4,266
Total current liabilities	398,270	144,435	180,358	204,923	237,665
<b>LONG-TERM DEBT</b>					
Bonds payable (noncurrent)	675,000	880,000	825,000	765,000	1,065,000
Total liabilities	1,073,270	1,024,435	1,005,358	969,923	1,302,665
<b>CONTRIBUTED CAPITAL:</b>					
UMTA grant	0	0	6,912	45,362	640,765
Islanders' contributio	1,902	2,002	10,307	10,457	10,457
Maine DOT grant	0	0	0	0	104,270
Total Contrib. Cap.	1,902	2,002	17,219	55,819	755,492
<b>EQUITY</b>					
Retained earnings	115,175	139,959	206,474	227,746	264,657
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,075,172</b>	<b>1,026,437</b>	<b>1,022,577</b>	<b>1,025,742</b>	<b>2,058,157</b>

# Exhibit III-14

## CBITD'S FINANCIAL RATIOS FY 1983-1987

(fiscal years ending September 30th)

Financial Ratios	1983	1984	1985	1986	1987
Current assets	348,819	351,706	452,018	475,403	785,330
Current liabilities	398,270	144,435	180,358	204,923	237,665
Total Debt	1,073,270	1,024,435	1,005,358	969,923	1,302,665
Total Assets	1,190,347	1,166,396	1,229,051	1,253,488	2,322,814
Long-term debt	675,000	880,000	825,000	765,000	1,065,000
Stockholders' equity*	117,077	141,961	216,781	238,203	275,114
EBIT	72,229	95,313	134,818	81,008	94,979
Interest expense	(85,374)	(87,733)	(87,504)	(84,066)	(99,133)
Income avail for fixed	115,938	147,899	194,512	147,117	167,005
Fixed charges	43,709	52,586	59,694	66,109	72,026
Sales	961,532	1,082,931	1,200,785	1,198,323	1,330,743
Fixed assets (NET)	710,211	657,625	605,039	597,400	594,367
Total operating expense**	845,594	935,032	1,006,273	1,051,206	1,163,738
Net income	4,201	24,784	66,515	21,272	36,911
*Retained earnings	115,175	139,959	206,474	227,746	264,657
*Total equity	1,902	2,002	17,219	55,819	755,492
 RATIOS	 1983	 1984	 1985	 1986	 1987
Current	0.88	2.44	2.51	2.32	3.30
Debt to Total Assets	0.90	0.88	0.82	0.77	0.56
Debt to Equity	5.86	6.29	4.00	3.36	4.02
Times Interest Earned	1.05	1.28	1.76	1.25	1.37
Fixed-Assets Turnover	1.35	1.65	1.98	2.01	2.24
Total-Assets Turnover	0.81	0.93	0.98	0.96	0.57
Net Operating Margin (%)	12.06	13.66	16.20	12.28	12.55
Profit Margin on Sales (%)	0.44	2.29	5.54	1.78	2.77
Return on Total Assets (%)	7.53	9.65	12.53	8.40	5.86
Return on Equity (%)	3.65	17.71	32.21	9.34	13.95

- Net Operating Margin, a measure of profitability resulting from operations, remained above 12 percent throughout the period.
- Profit Margin on Sales ranged from a low of 0.44 percent to a high of 5.54 percent during the period; this relatively poor performance can be attributed to CBITD's policy of setting rates at the marginal level required to cover costs.
- Return on Total Assets, a measure of the profitability resulting from the resources controlled by CBITD, ranged from a low of 5.86 percent to a high of 12.53 percent.
- Return on Equity, (stockholders' equity), ranged from 3.65 percent to 32.21 percent during the period and averaged 15.37 percent.

## 2.) INCOME STATEMENTS

Exhibit III-15, CBITD's income statements for the fiscal years 1983 through 1988, indicate a relatively steady growth in revenues and expenses and a small profit in each year. CBITD's revenues increased from \$961,532 in 1983 to \$1.53-million in 1988, reflecting an average compound annual rate of growth of 9.8 percent. Growth was not steady, however; CBITD's revenues increased 12.6 percent in 1984, 10.9 percent in 1985, declined 0.2 percent in 1986, then increased 11.1 percent in 1987 and 15.1 percent in 1988. During the first 11 months of FY 1988, CBITD's revenues increased 14.8 percent above the prior year, as shown in the following table.

## Exhibit III-15

CBITD'S INCOME STATEMENTS  
FY 1983-1988

(fiscal years ending September 30th)

	1983	1984	1985	1986	1987	1988*
<b>OPERATING REVENUE</b>						
Passenger	467,791	505,971	540,350	593,524	658,545	771,074
Vehicles	76,366	94,272	125,532	107,163	130,448	175,205
Freight	101,729	119,722	137,673	127,233	141,675	162,230
Mail contract	54,162	57,232	59,289	60,981	62,024	62,210
Parking	13,936	19,904	25,359	21,448	19,125	9,208
Tours and cruises	152,721	127,584	137,606	105,046	122,650	105,682
Charters	52,501	71,741	70,596	75,460	89,729	89,455
Catering	36,681	57,868	95,194	98,412	97,643	102,179
Miscellaneous	5,645	28,637	9,186	9,056	8,904	53,850
Total operating rev.	961,532	1,082,931	1,200,785	1,198,323	1,330,743	1,531,092
<b>OPERATING EXPENSES</b>						
Salaries and wages	362,352	413,949	474,159	496,701	536,619	624,873
Payroll taxes	32,129	37,837	40,347	42,426	46,654	54,278
Advertising	30,624	37,107	39,193	37,786	30,811	40,187
Auto expense	4,121	7,100	4,615	2,500	2,198	106
Catering	36,782	43,628	67,586	65,370	62,711	58,863
Dues and subscriptions	5,143	3,255	4,578	4,985	4,045	2,364
Repairs and maintenance	65,833	91,379	83,441	93,500	163,972	123,249
Fuel expense	74,465	73,369	69,793	54,829	50,341	58,218
Heat and utilities	7,460	7,625	7,855	7,996	9,043	12,802
Injuries and damages	2,757	5,889	3,279	5,598	10,745	4,640
Professional fees	44,231	23,900	19,481	32,676	20,898	28,403
Mail agent	2,030	2,033	2,030	2,040	2,470	2,520
Office expense	16,760	24,956	23,624	19,203	28,376	29,255
Pension expense	36,607	30,550	35,686	35,714	17,520	50,933
Postage	1,741	1,520	2,878	2,614	1,781	2,640
Rent expense	11,958	11,860	12,500	13,464	14,820	14,302
Security	15,374	15,998	16,159	16,683	16,781	17,774
Telephone	5,276	6,404	6,193	8,642	8,646	8,075
Employee benefits	20,098	26,185	28,897	30,109	31,503	39,673
Terminal expense	7,684	11,526	4,962	4,861	18,631	20,340
Travel	3,055	4,125	3,766	6,623	4,503	5,467
Penalties	5,140	0	0	0	0	0
Insurance	52,472	50,958	53,885	64,638	80,518	111,056
Miscellaneous	1,502	3,879	1,366	2,248	152	7,088
Total operating exp.	845,594	935,032	1,006,273	1,051,206	1,163,738	1,317,106
Operating income before other operating exp.	115,938	147,899	194,512	147,117	167,005	213,986
<b>OTHER OPERATING EXPENSES</b>						
Depreciation	43,709	52,586	52,586	55,704	60,908	75,600
Amortization	0	0	7,108	10,405	11,118	11,161
Total other operating expenses	43,709	52,586	59,694	66,109	72,026	86,761
Operating income	72,229	95,313	134,818	81,008	94,979	127,224
<b>OTHER INCOME (EXPENSES)</b>						
Interest income	17,346	17,204	19,201	24,330	41,065	37,445
Interest expense	(85,374)	(87,733)	(87,504)	(84,066)	(99,133)	(93,200)
Total other (expense)	(68,028)	(70,529)	(68,303)	(59,736)	(58,068)	(55,755)
<b>NET INCOME</b>	<u>4,201</u>	<u>24,784</u>	<u>66,515</u>	<u>21,272</u>	<u>36,911</u>	<u>71,470</u>
	=====	=====	=====	=====	=====	=====

\*Note: FY 1988 data is based on CBITD's unaudited, preliminary financial data and is subject to change.

Table III-12

Comparison of CBITD's Revenues  
October-August, FY 1987 and 1988

(dollars in thousands)

Category	FY1987	FY1988	% Change
-----	-----	-----	-----
<u>Revenues:</u>			
Passenger	\$ 599	\$ 701	17.1%
Vehicles	112	150	34.6
Freight	129	144	11.8
Mail	57	58	
Tour/Cruise	105	96	(8.7)
Charter	60	79	32.1
Catering	81	91	12.6
Other	56	55	(1.8)
-----	-----	-----	-----
Total Rev:	\$1,199	\$1,375	14.8
Expenses:	1,218	1,324	13.0
-----	-----	-----	-----
Profit(Loss):	\$ (19)	\$ 52	371.4%
=====	=====	=====	=====

During the past five years, CBITD has had to increase its tariff rates an average of eight percent per year in order to cover rising expenses. Exhibit III-16 displays the absolute and percentage changes in each income statement line item between 1983 and 1988. From a review of Exhibit III-16, the following observations can be made about CBITD's increases in expenses during the 1983 to 1988 period:

- Revenue growth slightly outpaced expenses, which reflects CBITD's policy of raising rates to cover expenses. The most significant change is that Tours and Cruises revenue declined by 30.8 percent.
- The largest absolute expense changes were Salaries and Wages (up 72.4 percent), Repairs and Maintenance (up 87.2 percent) and Insurance (up 111.6 percent). Together, these three line items accounted for 80.3 percent of the total increase in expenses. Although not large in absolute terms, terminal expense increase by 164.7 percent.

## Exhibit III-16

COMPARISON OF CBITD'S 1983  
AND 1988 INCOME STATEMENTS

(fiscal years ending September 30th)

	1983	1988	change	%
OPERATING REVENUE				
Passenger	467,791	771,074	303,283	64.8
Vehicles	76,366	175,205	98,839	129.4
Freight	101,729	162,230	60,501	59.5
Mail contract	54,162	62,210	8,048	14.9
Parking	13,936	9,208	(4,728)	-33.9
Tours and cruises	152,721	105,682	(47,039)	-30.8
Charters	52,501	89,455	36,954	70.4
Catering	36,681	102,179	65,498	178.6
Miscellaneous	5,645	53,850	48,205	853.9
Total operating revenue	961,532	1,531,093	569,561	59.2
OPERATING EXPENSES				
Salaries and wages	362,352	624,873	262,521	72.4
Payroll taxes	32,129	54,278	22,149	68.9
Advertising	30,624	40,187	9,563	31.2
Auto expense	4,121	106	(4,015)	-97.4
Catering	36,782	58,863	22,081	60.0
Dues and subscriptions	5,143	2,364	(2,779)	-54.0
Repairs and maintenance	65,833	123,249	57,416	87.2
Fuel expense	74,465	58,218	(16,247)	-21.8
Heat and utilities	7,460	12,802	5,342	71.6
Injuries and damages	2,757	4,640	1,883	68.3
Professional fees	44,231	28,403	(15,828)	-35.8
Mail agent	2,030	2,520	490	24.1
Office expense	16,760	29,255	12,495	74.6
Pension expense	36,607	50,933	14,326	39.1
Postage	1,741	2,640	899	51.6
Rent expense	11,958	14,302	2,344	19.6
Security	15,374	17,774	2,400	15.6
Telephone	5,276	8,075	2,799	53.1
Employee benefits	20,098	39,673	19,575	97.4
Terminal expense	7,684	20,340	12,656	164.7
Travel	3,055	5,467	2,412	79.0
Penalties	5,140	0	(5,140)	-100.0
Insurance	52,472	111,056	58,584	111.6
Miscellaneous	1,502	7,088	5,586	371.9
Total operating expenses	845,594	1,317,106	471,512	55.8
Operating income before other operating expenses	115,938	213,987	98,049	84.6
OTHER OPERATING EXPENSES				
Depreciation	43,709	75,600	31,891	73.0
Amortization	0	11,161	11,161	
Total other operating expenses	43,709	86,761	43,052	98.5
Operating income	72,229	127,226	54,997	76.1
OTHER INCOME (EXPENSES)				
Interest income	17,346	37,445	20,099	115.9
Interest expense	(85,374)	(93,200)	(7,826)	9.2
Total other (expense)	(68,028)	(55,755)	12,273	-18.0
NET INCOME	4,201	71,471	67,270	1601.3
	=====	=====	=====	=====

\*NOTE: FY 1988 data is based on CBITD's preliminary, unaudited data.

- A number of significant reductions also occurred during the period. On an absolute basis, the largest reductions were Fuel (down 21.8 percent as a result of lower prices) and Professional Fees (down 35.8 percent).
- Employee-related line items--Salaries and Wages, Payroll Taxes, Pension Expense and Employee Benefits--in aggregate increased by 70.6 percent and accounted for 67.6 percent of the increase in operating costs.
- Interest Income increased by 115.9 percent, largely as a result of the receipt of UMTA funds for the Machigonne II.

Another way of viewing trends in revenue and expenses is provided in Exhibit III-17, which displays each line item as a percentage of revenue. This exhibit shows that the increases in personnel-related costs have been a relatively steady trend, but that the increase in Repairs and Maintenance costs was unusually high in 1987, then declined in 1988.

Despite the increases in CBITD's costs, comparisons with other operators indicated that costs are in line with those of other ferry operators. For example, CBITD's personnel-related expenses comprised 55.3 percent of its total 1987 operating costs. A survey of other ferry operators revealed personnel-related costs ranging from 50 to 58 percent of total operating costs, indicating that CBITD's costs are reasonable.

Exhibits III-18 and III-19 compare CBITD's costs to those of two other New England ferry operators. Chebeague Transportation has personnel costs that comprise 54.7 percent of total operating costs (as compared to CBITD's 55.3 percent). The other operator is the Maine State Ferry Service, which has personnel costs that comprise only 39.4 percent of total operating costs. However, personnel costs are a relatively low percentage of total costs only because the Maine State Ferry Service has an extremely high Repairs & Maintenance expense, amounting to 32 percent of total expenses. This high M&R expense resulted from implementation of a new preventative maintenance program. If this M&R expense were reduced to a level equivalent to 14 percent of expenses, personnel-related costs then would comprise 47.6 percent of total costs.

## Exhibit III-17

**CBITD'S INCOME STATEMENTS  
AS A PERCENTAGE OF REVENUE  
FY 1983-1988**

(fiscal years ending September 30th)

	1983	1984	1985	1986	1987	1988*
<b>OPERATING REVENUE</b>						
Passenger	48.65%	46.72%	45.00%	49.53%	49.49%	50.36%
Vehicles	7.94%	8.71%	10.45%	8.94%	9.80%	11.44%
Freight	10.58%	11.06%	11.47%	10.62%	10.65%	10.60%
Mail contract	5.63%	5.28%	4.94%	5.09%	4.66%	4.06%
Parking	1.45%	1.84%	2.11%	1.79%	1.44%	0.60%
Tours and cruises	15.88%	11.78%	11.46%	8.77%	9.22%	6.90%
Charters	5.46%	6.62%	5.88%	6.30%	6.74%	5.84%
Catering	3.81%	5.34%	7.93%	8.21%	7.34%	6.67%
Miscellaneous	0.59%	2.64%	0.76%	0.76%	0.67%	3.52%
Total oper. rev.	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>OPERATING EXPENSES</b>						
Salaries and wages	37.68%	38.22%	39.49%	41.45%	40.32%	40.81%
Payroll taxes	3.34%	3.49%	3.36%	3.54%	3.51%	3.55%
Advertising	3.18%	3.43%	3.26%	3.15%	2.32%	2.62%
Auto expense	0.43%	0.66%	0.38%	0.21%	0.17%	0.01%
Catering	3.83%	4.03%	5.63%	5.46%	4.71%	3.84%
Dues and subscript.	0.53%	0.30%	0.38%	0.42%	0.30%	0.15%
Repairs and maint.	6.85%	8.44%	6.95%	7.80%	12.32%	8.05%
Fuel expense	7.74%	6.78%	5.81%	4.58%	3.78%	3.80%
Heat and utilities	0.78%	0.70%	0.65%	0.67%	0.68%	0.84%
Injuries and damages	0.29%	0.54%	0.27%	0.47%	0.81%	0.30%
Professional fees	4.60%	2.21%	1.62%	2.73%	1.57%	1.86%
Mail agent	0.21%	0.19%	0.17%	0.17%	0.19%	0.16%
Office expense	1.74%	2.30%	1.97%	1.60%	2.13%	1.91%
Pension expense	3.81%	2.82%	2.97%	2.98%	1.32%	3.33%
Postage	0.18%	0.14%	0.24%	0.22%	0.13%	0.17%
Rent expense	1.24%	1.10%	1.04%	1.12%	1.11%	0.93%
Security	1.60%	1.48%	1.35%	1.39%	1.26%	1.16%
Telephone	0.55%	0.59%	0.52%	0.72%	0.65%	0.53%
Employee benefits	2.09%	2.42%	2.41%	2.51%	2.37%	2.59%
Terminal expense	0.80%	1.06%	0.41%	0.41%	1.40%	1.33%
Travel	0.32%	0.38%	0.31%	0.55%	0.34%	0.36%
Penalties	0.53%	0.00%	0.00%	0.00%	0.00%	0.00%
Insurance	5.46%	4.71%	4.49%	5.39%	6.05%	7.25%
Miscellaneous	0.16%	0.36%	0.11%	0.19%	0.01%	0.46%
Total oper. exp.	87.94%	86.34%	83.80%	87.72%	87.45%	86.02%
Operating income before other oper. exp.	12.06%	13.66%	16.20%	12.28%	12.55%	13.98%
<b>OTHER OPERATING EXPENSES</b>						
Depreciation	4.55%	4.86%	4.38%	4.65%	4.58%	4.94%
Amortization	0.00%	0.00%	0.59%	0.87%	0.84%	0.73%
Total other operating expenses	4.55%	4.86%	4.97%	5.52%	5.41%	5.67%
Operating income	7.51%	8.80%	11.23%	6.76%	7.14%	8.31%
<b>OTHER INCOME (EXPENSES)</b>						
Interest income	1.80%	1.59%	1.60%	2.03%	3.09%	2.45%
Interest expense	-8.88%	-8.10%	-7.29%	-7.02%	-7.45%	-6.09%
Total other (exp.)	-7.07%	-6.51%	-5.69%	-4.98%	-4.36%	-3.64%
<b>NET INCOME</b>	<u>0.44%</u>	<u>2.29%</u>	<u>5.54%</u>	<u>1.78%</u>	<u>2.77%</u>	<u>4.67%</u>
	=====	=====	=====	=====	=====	=====

\*NOTE: FY 1988 data is based on CBITD's unaudited, preliminary data.



Exhibit III-18

COMPARISON OF FINANCIAL RESULTS  
FOR SELECTED FERRY OPERATORS

1987

	Chebeague Transport =====	% REV ===	CBITD =====	% REV ===	Maine State =====	% REV ===
<b>REVENUES</b>						
Water Taxi/Passengers	188,552	72.3	658,545	50.2		
School/Mail Contracts	19,480	7.5	62,024	4.7		
Cruises/Charters/Catering	1,950	0.7	310,022	23.6		
Barge/Freight	50,880	19.5	272,123	20.7		
Miscellaneous	0	0.0	8,904	0.7		
<b>TOTAL REVENUES</b>	<b>260,862</b>	<b>100.0</b>	<b>1,311,618</b>	<b>100.0</b>	<b>918,312</b>	<b>100.0</b>
<b>OPERATING EXPENSES</b>						
Salaries & Wages	97,756	37.5	536,619	40.9	623,551	67.9
Payroll Taxes	8,736	3.3	46,654	3.6	0	0.0
Advertising	0	0.0	30,811	2.3	0	0.0
Auto	0	0.0	2,198	0.2	0	0.0
Catering	0	0.0	62,711	4.8	0	0.0
Employee Benefits	4,586	1.8	31,503	2.4	52,358	5.7
Retirement/Pension	0	0.0	17,520	1.3	104,416	11.4
Travel	2,297	0.9	4,503	0.3	29,826	3.2
Repairs & Maintenance	7,468	2.9	163,972	12.5	666,555	72.6
Professional fees	27,154	10.4	20,898	1.6	138,218	15.1
Utilities	262	0.1	9,043	0.7	6,525	0.7
Rent	840	0.3	14,820	1.1	0	0.0
Insurance	38,177	14.6	80,518	6.1	133,519	14.5
Injuries & Damages	0	0.0	10,745	0.8	0	0.0
Licenses and Fees	30	0.0	0	0.0	0	0.0
Fuel/Diesel	9,649	3.7	50,341	3.8	130,628	14.2
Telephone	853	0.3	8,646	0.7	0	0.0
Office/Postage/Printing	2,744	1.1	30,157	2.3	176,895	19.3
Miscellaneous/Contributions	1,865	0.7	152	0.0	11,058	1.2
Property & Other Taxes	321	0.1	0	0.0	0	0.0
Contract Services	445	0.2	2,470	0.2	0	0.0
Dues & Subscriptions	0	0.0	4,045	0.3	0	0.0
Security	0	0.0	16,781	1.3	0	0.0
STA-CAP	0	0.0	0	0.0	11,158	1.2
<b>OPERATING EXPENSES</b>	<b>203,183</b>	<b>77.9</b>	<b>1,145,107</b>	<b>87.3</b>	<b>2,084,707</b>	<b>227.0</b>
Depreciation	42,292	16.2	60,908	4.6		
Amortization	0	0.0	11,118	0.8		
<b>TOTAL OPERATING EXPENSES</b>	<b>245,475</b>	<b>94.1</b>	<b>1,217,133</b>	<b>92.8</b>	<b>2,084,707</b>	<b>227.0</b>
<b>INCOME FROM OPERATIONS</b>	<b>15,387</b>	<b>5.9</b>	<b>94,485</b>	<b>7.2</b>	<b>(1,166,395)</b>	<b>-127.0</b>

	Chebeague Transport =====	% REV ===	CBITD =====	% REV ===	Maine State =====	% REV ===
<b>OTHER REVENUE &amp; EXPENSES</b>						
Interest Income	3,732	1.4	41,065	3.1		
Interest Expense	(26,070)	-10.0	(99,133)	-7.6		
Allocated Overhead	18,443	7.1	0	0.0		
<b>EARNINGS BEFORE TAXES</b>	<b>11,492</b>	<b>4.4</b>	<b>36,417</b>	<b>2.8</b>		
<b>TAXES</b>						
Federal Income Taxes	25	0.0	0	0.0		
State Income Taxes	1,128	0.4	0	0.0		
<b>NET EARNINGS</b>	<b>10,339</b>	<b>4.0</b>	<b>36,417</b>	<b>2.8</b>		

Note: These figures DO NOT reflect parking revenues and expenses or terminal expenses. For the Maine State Ferry, all revenue is added into "Passengers," which includes credits for non-paying vehicles.

Exhibit III-19

COMPARISON OF OPERATING EXPENSES  
FOR SELECTED FERRY OPERATORS

1987

	Chebeague Transport =====	% EXP ===	CBITD =====	% EXP ===	Maine State =====	% EXP ===
OPERATING EXPENSES						
Salaries & Wages	97,756	48.1	536,619	46.9	623,551	29.9
Payroll Taxes	8,736	4.3	46,654	4.1	0	0.0
Advertising	0	0.0	30,811	2.7	0	0.0
Auto	0	0.0	2,198	0.2	0	0.0
Catering	0	0.0	62,711	5.5	0	0.0
Employee Benefits	4,586	2.3	31,503	2.8	52,358	2.5
Retirement/Pension	0	0.0	17,520	1.5	104,416	5.0
Travel	2,297	1.1	4,503	0.4	29,826	1.4
Repairs & Maintenance	7,468	3.7	163,972	14.3	666,555	32.0
Professional fees	27,154	13.4	20,898	1.8	138,218	6.6
Utilities	262	0.1	9,043	0.8	6,525	0.3
Rent	840	0.4	14,820	1.3	0	0.0
Insurance	38,177	18.8	80,518	7.0	133,519	6.4
Injuries & Damages	0	0.0	10,745	0.9	0	0.0
Licenses and Fees	30	0.0	0	0.0	0	0.0
Fuel/Diesel	9,649	4.7	50,341	4.4	130,628	6.3
Telephone	853	0.4	8,646	0.8	0	0.0
Office/Postage/Printing	2,744	1.4	30,157	2.6	176,895	8.5
Miscellaneous/Contributions	1,865	0.9	152	0.0	11,058	0.5
Property & Other Taxes	321	0.2	0	0.0	0	0.0
Contract Services	445	0.2	2,470	0.2	0	0.0
Dues & Subscriptions	0	0.0	4,045	0.4	0	0.0
Security	0	0.0	16,781	1.5	0	0.0
STA-CAP	0	0.0	0	0.0	11,158	0.5
OPERATING EXPENSES	203,183	100.0	1,145,107	100.0	2,084,707	100.0

### 3.) CBITD'S FARES

CBITD's fares have increased at a compound annual rate of eight percent since 1982. These fare increases have been necessitated by rising costs, as described previously in this chapter. One measure of the reasonableness of fare levels is a riders' willingness to pay. As described in Chapter IV, following, a survey of CBITD's passengers indicated that 45.9 percent of respondents thought fares were "just about right", 39.8 percent thought they were high and 14.2 percent thought they were low.

Exhibit III-20 compares CBITD's fares per passenger mile with those charged by the Maine State Ferry Service (MSFS). The MSFS does not operate on any routes as short as the Portland-Peaks or Portland-Little/Great Diamond runs. However, for runs of six miles, which is the shortest distance for which a comparison can be made, CBITD's fares are slightly more than double those charged by the MSFS. In comparing the two services, however, it is important to consider that the MSFS's total revenues cover only 44.1 percent of its operating costs and none of its capital costs. In comparison, CBITD must use the farebox to cover all of its operating costs and all of its capital costs that are not covered by UMTA.

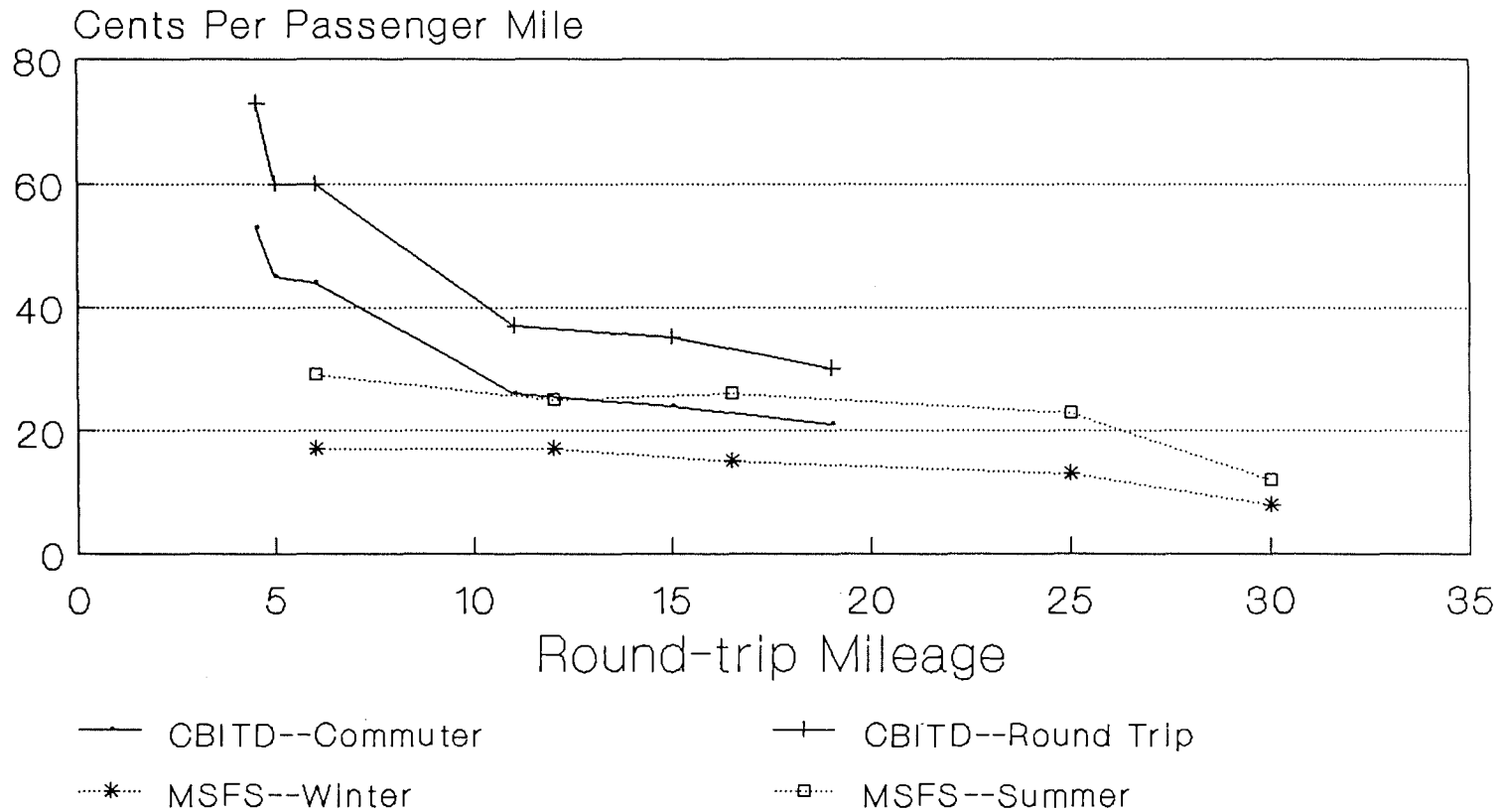
It also is important to note that the MSFS's rates are very flat, which does not reflect the additional costs of serving a short route. Because time at the pier is higher on a short run than a long one, rates must be proportionately higher to cover costs.

On routes of 10 miles or more, CBITD's rates are only about 30 percent higher than the MSFS's rates--a substantial accomplishment given the relative degree of financial support each carrier receives from outside sources.

The CBITD fleet is well-suited to providing reliable year-round service to the islands of Casco Bay. The ferries are large enough to accommodate the large numbers of passengers desiring transportation during the busy summer months of July and August yet are very cost-efficient. On average, the three passenger ferries consume approximately 10 gallons of fuel per operating hour and can be operated with a crew of two to four--a captain and one, two or three deckhands, depending on the number of passengers aboard and the route. Given the demand that exists, it appears that CBITD's itineraries and sailing frequencies provide an adequate level of service for each of the islands served, while allowing CBITD to keep costs at a reasonable level.

# Comparison of Fares Per Passenger Mile CBITD -vs- Maine State Ferry Service August 1988

45



Source: MOA Analysis

CBITD has indicated that it will investigate the possibility of purchasing a higher-speed boat in the future to improve service to down bay islands. Given the relatively high fuel consumption of a faster boat, fares likely would have to increase for this expedited service. A number of proposals also have been made for CBITD to buy or charter smaller boats for use during winter months when ridership is low. Smaller boats would not reduce CBITD's operating costs because it would have to pay for the smaller boats in addition to its existing boats. Furthermore, given its very low operating costs, fuel and crew costs would not likely be significantly lower.

#### IV. PUBLIC OPINION SURVEY RESULTS

##### A. OVERVIEW

The questionnaire used to conduct the telephone survey of island residents is provided in the Appendix to this report. Two of the primary purposes of the survey were to determine how sensitive CBITD users were to fare increases and whether the CBITD could increase discretionary ridership.

To determine sensitivity to fares, the survey was structured to allow respondents to bring up the subject of fares before any fare-related questions were asked. The question posed was:

"Are there any changes that CBITD could make that would make you use the ferry more often."

Fifty-two percent of respondents said there were no changes that would encourage them to use the ferry more often and only six percent mentioned lower rates.

A second question asked if respondents would prefer a 10 percent fare increase or the loss of one trip per day to their island. Fifty-seven percent of respondents indicated that they would prefer a fare increase to a loss in service.

Finally, respondents were asked how high they considered current fares to be. Forty-five percent of respondents considered them to be "about right", 40 percent considered them to be "high" or "very high", nine percent considered them to be "low" or "very low" and five percent had no opinion.

In general, survey respondents indicated that they were much more concerned about service factors--frequency of service, speed of transit and reliability--than they were about the cost of service. However, down bay residents that pay relatively higher fares were more concerned about costs as were large families that incur a relatively high cost each time the family is transported.

As to the question of increasing discretionary trips, 47.6 percent of respondents indicated that they would use the ferry more if changes were made. Conversely, responses to other questions indicate that most islanders would not be likely to significantly increase their usage of the ferry. One exception is that residents of the down-bay islands probably would increase their number of trips if fast, frequent service were available. However, given the

relatively small number of residents on these islands, the likely increase would not have a significant impact on CBITD's ridership or revenues.

## B. SAMPLE SIZE AND DISTRIBUTION

A total of 105 telephone interviews were completed, distributed by island as follows:

Table IV-1  
Distribution of Survey Respondents

Island	Estimated Winter Population <sup>1</sup> /	Number of People in Respondents' Households	Percent of Total
Chebeague	410	19	4.6%
Cliff	80	50	62.5
Great Diamond	17	17	100.0
Little Diamond	12	19	158.3
Long	173	32	18.5
Peaks	977	113	11.6%
Totals:	1,669	250	15.0%

The following section of this chapter presents the results of the survey.

## C. SURVEY RESULTS

### • Primary method of transport:

--CBITD = 82.9 percent  
 --Chebeague Ferry = 9.5 percent  
 --Own Boat = 7.7 percent (summer only)

--Of the 11 Chebeague Island respondents, 10 said that Chebeague Transportation was their primary method of transport. Of the ten people who said they used their own boat, six lived on Cliff Island, two on Peaks Island, and one each on Long and Little Diamond islands..

<sup>1</sup>Population estimates based on Tracy Perez's 1985 high-range estimates; Cliff population estimated by islanders.

- Number of months each year lived on the island:

Months	Respondents	Pct of Total
-----	-----	-----
12	71	67.6%
7-11	4	3.8
4-6	16	15.2
1-3	12	11.4
Less than 1	2	1.9
-----	-----	-----
Total:	105	100.0%

- Number of people in household:

People in Household	Number of Households	Pct of Total Households
-----	-----	-----
1	30	28.6%
2	39	37.1
3	12	11.4
4	17	16.2
5+	7	6.7
-----	-----	-----
Total: 250	105	100.0%

Average: 2.4 people per household

- Percentage of senior citizens and children under the age of 10:

--40.4 percent (101/250)

- People living in households a portion of year:

--Number = 23 people  
 --Average stay = 3.8 months

- People commuting to jobs on mainland:

--Number of People Commuting = 48  
 --Percentage of survey population = 19.2%  
 --Number of households with commuters = 36  
 --Percentage of households w/commuters = 34.3%  
 --Total round-trips/week by commuters = 237  
 --Average round-trips/week/commuter = 4.7



● Round-trips per week for other than commuting:

	Total	Peaks	Other Isl.
	-----	-----	-----
--Total Round-trips =	326	190	136
--Average/Person =	1.3	1.7	1.0
--Average/Household =	3.3	4.1	2.3

● Households' current use of CBITD relative to last few years:

Usage	Number of Households	Pct of Total Households
-----	-----	-----
A Lot More	10	9.9%
A Little More	17	16.8
About the Same	54	53.5
A Little Less	13	12.9
A Lot Less	7	6.9
-----	-----	-----
Totals:	101	100.0%

● Could CBITD make any changes that would increase ferry usage?

--By respondent:    Yes = 47.6%  
                              No = 52.4%

--By others:        Yes = 57.7%  
                              No = 42.3%

--Suggested Changes:

-More frequent/later/earlier boats = 37.8%

-Put Machigonne II into service    = 15.6

-Run a separate freight boat        = 6.7

-Faster boats/express service       = 6.7

-Lower fares                          = 6.7

-Improve professionalism of crew    = 4.4

-All other suggested changes        = 22.2

-----

100.0%

● Preference as to 10 percent fare increase or loss of one trip:

	10% Fare Increase -----	Loss of One Trip -----	Could/Would Not Decide -----
-- <u>Total</u> :	57.0%	29.0%	14.0%
<u>--By Island:</u>			
-Chebeague	66.7%	0.0%	33.3%
-Cliff	90.9	0.0	9.1
-Great D.	57.1	42.9	0.0
-Little D.	66.7	16.7	16.7
-Long	46.2	23.1	30.8
-Peaks	41.3%	47.8%	10.9%

--By Size of Household:

-1 Person	59.3%	25.9%	14.8%
-2 People	64.1	23.1	12.8
-3 People	54.5	27.3	18.2
-4 People	43.8	43.8	12.5
-5+ People	42.9%	42.9%	14.3%

● Would members of household make more trips if CBITD rates were reduced?

--By 10 percent:      Yes = 19.4%  
                                     No = 80.6%

--By 25 percent:      Yes = 31.6%  
                                     No = 66.3%

--The response to this question indicates that island residents are not particularly sensitive to rate levels. The majority of respondents indicated that they travelled when they wanted to or had to and that fares were not a primary factor in their travel decisions.

--Also, when asked whether CBITD could make any changes that would increase usage, only five respondents mentioned lower fares. All of these respondents were year-round residents, had four or more people in the household, and had one or two commuters. Obviously, these households were heavy users of CBITD.

● Perception of reasonableness of current passenger fare levels:

	Total	Peaks	Other Isl.	Household of Four Or More
	-----	-----	-----	-----
Very High	11.2%	8.7%	13.5%	10.5%
Somewhat High	28.6	26.1	30.8	63.2
Just About Right	45.9	43.5	48.1	21.1
Somewhat Low	7.1	8.7	5.8	0.0
Very Low	2.0	4.3	0.0	0.0
No Opinion	5.1	8.7	1.9	5.3
	-----	-----	-----	-----
Totals:	100.0%	100.0%	100.0%	100.0%

--As might be expected, people living down the bay and, therefore, paying higher fares, perceived fares to be higher than did people living on Peaks Island. Also, members of large households (4 people or more) considered fares to be high, probably because the cost of transporting the family was relatively high.

● Which category of fares would you prefer that CBITD increase?

	Total	Peaks	Other Isl.	Commuter
	-----	-----	-----	-----
Commuter	9.1%	11.1%	7.4%	0.0%
Round-trip	29.3	40.0	20.4	32.4
Vehicles	29.3	15.6	40.7	45.9
Freight	15.2	17.8	13.0	16.2
No Opinion	17.2%	15.6	18.5	5.4
	-----	-----	-----	-----
Totals:	100.0%	100.0%	100.0%	100.0%

--In general, people who preferred an increase in round-trip tickets perceived that these were purchased by day-trippers or tourists that could afford to pay more.

--People who preferred an increase in vehicle fares either did not move cars, wanted to limit the number of cars on their island, or both.

- Use of water taxis by households in last year:

--Household using: Yes = 35.6%  
No = 64.4%

--Total trips = 121

--Average trips per household for those using water taxis = 3.3

--Even those respondents that had not used water taxis in the last year thought that they were an important asset to the islanders. Some suggested that CBITD should operate water taxis itself.

- Should CBITD have an exclusive franchise for scheduled passenger and freight services?

Yes = 60.0%  
No = 33.3  
Don't Know = 6.7

-----  
Total: 100.0%

--Respondents who thought that CBITD should have an exclusive franchise believed that reliable year-round service could be provided only if no competition existed.

--Conversely, respondents that thought CBITD should not have an exclusive franchise believed that service would be improved and fares lowered if competition existed.

- Have the number of day-trippers visiting your island increased in recent years?

Yes = 70.2%  
No = 12.8  
Don't Know = 17.0

-----  
Total: 100.0%

- Should CBITD be allowed to charter ferries for private parties and operate special tour boats?

	Charters	Tours
	-----	-----
Yes =	84.8%	91.4%
No =	1.0	1.1
Don't Know =	14.3	7.5
	-----	-----
Total:	100.0%	100.0%

--Respondents were overwhelmingly in favor of allowing CBITD to continue these services, primarily because revenues earned by CBITD for these services could be used to offset the high cost of providing year-round service.

- Should CBITD provide service between South Portland and Portland?

Yes =	39.1%
No =	29.3
Don't Know =	31.5
	-----
Total:	100.0%

--Generally, respondents that opposed operating a South Portland service were concerned that it would affect existing operations (delays) or that the increased capital required would cause rates to be increased.

- Should CBITD's board be expanded to include a representative from South Portland?

Yes =	24.4%
No =	45.6
Don't Know =	30.0
	-----
Total:	100.0%

--Generally, people thought that if CBITD were to provide a South Portland service, a representative should be added to the board. Otherwise, people thought that only islanders could appreciate the unique problems they faced.

- Keep a car on the mainland?

	Yes	No	Average Monthly Cost
	-----	-----	-----
Chebeague	90.9%	9.1%	\$16.60 <sup>2</sup> /
Cliff	68.2	31.8	56.00
Great Diamond	100.0	0.0	53.30
Little Diamond	100.0	0.0	70.00
Long	53.8	46.2	68.80
Peaks	55.6	44.4	51.10
	-----	-----	-----
Total:	66.3%	33.7%	\$47.10

- Cost to park on mainland:

--Average per month = \$47.10

- Automobile round-trips per month between the island and the mainland:

--Use auto ferry = 23.8%  
Never use = 76.2

-----  
Total: 100.0%

--Average round-trips per month  
for those that do move cars = 0.5

<sup>2</sup>All but one of the Chebeague Island respondents pay \$150. per year to park on the mainland; the remaining respondent pays \$60.00 per month in Portland.

## V. POTENTIAL IMPACTS ON CBITD

### A. METHODOLOGY

To understand the potential impact of various forms of deregulation on CBITD's revenues, the differences in the services CBITD offers must be considered. In addition to its scheduled passenger and vehicle services, CBITD offers:

- Tours and Cruises on Scheduled Runs;
- Freight Services on Scheduled Runs; and
- Special Cruises (e.g. Baileys Island or Portland Head Light), Charters and Catering.

Tours and Cruises, with the exception of the Bailey's Island cruise, are offered on CBITD's regularly-scheduled ferries. In this way, CBITD gains revenues for capacity that otherwise would be unutilized. Furthermore, most of this revenue flows through to net profit, the only associated expense being the cost of promoting Tours and Cruises. Conversely, if this business were to cease, CBITD would not realize any significant cost reduction. Thus, the loss of this business would have a significant negative impact on CBITD's profitability.

Freight services are analogous to Tours and Charters services in that most of the freight moves on CBITD's regularly-scheduled ferries. Termination of freight services could result in some labor savings, but such savings would be small in comparison to the revenues lost.

Special Cruises, Chartering, and Catering--unlike the Tour and Cruise revenues and most freight revenues, which are earned by selling excess space on regularly-scheduled ferries, require the dedication of resources, such as the sailing of additional voyages, purchase of catering services or the hiring of additional labor.

For the purpose of computing the relative profitability of each type of service to CBITD, MOA developed an incremental cost analysis. MOA's approach assumed that certain base costs must be incurred whether the additional service is provided or not. For example, to operate its basic passenger ferry business, CBITD must maintain a terminal in Portland. The costs associated with the terminal must be paid whether or not any tour tickets are sold. Therefore, rather than attempting to apportion costs among services, only those incremental costs incurred by

each service were considered; any revenues earned in excess of the incremental costs provided a contribution to CBITD's overhead and profit.

A review of CBITD's expense categories, as discussed in Chapter III, indicates that very few expense items can be considered to be incremental. The following are the expenses that could be reduced or eliminated if particular types of services were terminated.

- Boat crew costs, including Payroll, Payroll Taxes, Medical Insurance, and Pension, could be reduced if special cruises and charters were eliminated.
- Sales Director, Tour Guides and Bartenders could be eliminated if special cruises and charters were eliminated.
- Freight Agents could be eliminated if freight were not carried.
- Fuel costs would be reduced in proportion to the service operating hours eliminated.
- Vessel Repairs might decline slightly if boats were not used for cruises and charters.
- Advertising could be eliminated if tours, cruises and charters were to be eliminated.
- Catering expense could be eliminated if this service were to be terminated.

Although the loss of different types of service would affect CBITD to varying degrees, it is clear that the loss of any revenues would have a significant negative effect on its ability to fulfill its mission. Any loss of revenues--and the associated profits--must result in an increase in the rates charged by CBITD.

## **B. ANALYSIS BY SERVICE**

CBITD's revenues earned by type of service during FY 1988 are shown in Exhibit V-1. The percentage distribution of costs is shown in Exhibit V-2. Total labor costs, including Salaries and Wages, Payroll Taxes, Pension and Employee Benefits, totalled \$769,757 in FY 1988, or 50.3



percent of CBITD's Operating Revenue. Exhibit V-2 also shows the distribution of costs by functional area within CBITD.

To develop Exhibit V-2, direct labor costs were allocated to each functional area based on salaries or wages earned by individuals within that area. The Operations Manager, Operations Supervisor, Freight agents, Ticket Agents and Maintenance staff all were allocated to Boat Operations. The Sales Agent, Bartenders and Tour Guides were allocated to Marketing. All other shoreside staff were allocated to administration. In aggregate, Payroll Taxes, Pension and Employee Benefits equalled 23.2 percent of Salaries and Wages. Because no breakdown of these labor-related expenses was available by functional area, MOA increased the direct wages allocated to each functional area by 23.2 percent to account for Payroll Taxes, Pension and Employee Benefits.

Four of CBITD's services could be affected by deregulation. They are Tours and Cruises (9.2 percent of revenues), Charters (6.7 percent of revenues), Catering (7.3 percent of revenues) and Freight (10.7 percent of revenues<sup>1</sup>.) The potential impact of deregulation on these services is reviewed in the following paragraphs.

#### 1.) TOURS, CRUISES, CHARTERS AND CATERING

MOA conducted a combined analysis of Tours, Cruises, Charters and Catering. This analysis indicated that these additional services generated a \$127,119 contribution to CBITD's overhead and profit in FY 1987, as shown in Table V-1.

---

<sup>1</sup>In addition to its freight revenues, a portion of CBITD's vehicle revenues are freight-related in that it earns revenue on the trucks that carry freight. The portion of vehicle revenues that are freight-related could not be determined.

Table V-1

Analysis of Profitability of CBITD's  
Tours, Cruises, Charters and Catering

FY 1987

<u>Revenues</u>			
--Tours and Cruises	\$122,650		
--Charters	89,729		
--Catering	97,643		
Total Revenues:		\$310,022	
<u>Incremental Costs</u>			
--Sales Manager	\$ 22,176		
--Boat Crews	41,188		
--Fuel	6,017		
--Advertising	30,811		
--Catering	62,711		
--Miscellaneous	20,000		
Total Incremental Costs:		\$182,903	
Contribution to Overhead & Profit:		\$127,119	

Each of the individual services also appears to have been profitable in FY 1987 on an incremental cost basis, as shown in the following table.

Table V-2

Analysis of Profitability of CBITD's  
Tours, Cruises, Charters and Catering

FY 1987

Incremental Cost Category	----- Type of Service -----			
	Tours	Cruises	Charters	Catering
Sales Manager	\$ 4,386	\$ 4,386	\$ 6,418	\$ 6,986
Boat Crews		16,722	24,466	
Fuel		2,443	3,574	
Advertising	6,094	6,094	8,917	9,706
Catering				62,711
Miscellaneous	3,956	3,956	5,788	6,300
Incremental Costs:	14,436	33,601	49,163	85,703
Revenues:	61,325	61,325	89,727	97,643
Contribution:	\$46,889	\$27,724	\$ 40,566	\$11,940

Exhibit V-1

Distribution of CBITD's Revenues  
By Type of Service

FY 1988 (preliminary)

Category	Revenue			
	Passenger	Freight	Vehicles	Other
Peaks	\$524,181	\$ 68,072		
Little Diamond	17,206	2,713		
Great Diamond	40,155	6,100		
Long	116,828	43,094		
Chebeague	15,149	18,717		
Cliff	51,590	17,388		
		6,147		
Animals	5,966			
Tours	105,682			
Charter	89,455			
Mail		62,210		
Auto Ferry			136,362	
Trucks			38,843	
Catering				102,179
Commissions				1,572
Maintenance				713
Advertising				10,034
Interest				37,445
Parking				9,208
Miscellaneous				4,086
Totals:	\$966,212	\$224,441	\$175,205	\$165,237
	Passenger	Freight	Vehicles	Other
Pct. of Total:	63.1%	14.7%	11.4%	10.8%
Total Revenue:	\$1,531,095			

Exhibit V-2

CBITD's MAJOR EXPENSE CATEGORIES

(FY 1988, Preliminary)

Personnel:	Costs
-----	-----
Payroll	\$ 624,873
Payroll Taxes	54,278
Medical Benefits	39,673
Pension Plan	50,933
Mail Agents	2,520
-----	-----
Total Personnel:	\$ 772,277

Summary-Personnel Costs

-----	-----	-----
Total Personnel:	\$ 772,277	51.6%
All Other Expenses:	724,791	48.4
-----	-----	-----
Total:	\$1,497,068	100.0%

Costs by Functional Area

Fleet/Terminal Costs:		General and Administrative:	
-----	-----	-----	-----
Shipboard Labor	\$ 455,571	Labor	\$ 87,770
Shoreside Labor	201,220	Vehicle Expense	106
Vessel Fuel	58,218	Telephone	8,075
Vessel Repairs	123,249	Office	29,255
Insurance	111,056	Postage	2,640
Heat & Utilities	12,802	Professional Fees	28,403
Rent	14,302	Travel	5,467
Terminal	20,340	Miscellaneous	7,088
Security	17,774	-----	-----
Damage Self-insurance	4,640	Total G&A:	\$168,804
Bond/Note Interest	93,200		
Depreciation	75,600		
Amortization	11,161		
-----	-----		
Total Flt/Term:	\$1,199,133	Marketing/Promotion:	
		-----	-----
		Labor	\$ 27,717
		Advertising/Printing	40,187
		Dues and Subscriptions	2,364
		Catering	58,863
		-----	-----
		Total Mktng/Prom	\$129,131

Summary--Costs by Functional Area

-----	-----	-----
Total Fleet/Terminal:	\$1,199,133	80.1%
Total Administration	168,804	11.3
Total Mktng/Promotion	129,131	8.6
-----	-----	-----
Total:	\$1,497,068	100.0%

CBITD should be allowed to continue to offer tour, cruise, charter and catering services. Without these services, CBITD would lose a significant contribution to overhead, which would have to be made up by increasing rates for passenger, freight and vehicle services. However, CBITD should not have an exclusive franchise for any of these services, including transporting passengers to and from the Casco Bay islands solely for tour- or catering-related services.

## 2.) FREIGHT

Although freight comprised only 10.6 percent of CBITD's revenues in FY 1987 and 1988, a portion of that cargo moved on trucks that provided additional revenues (truck revenues were 2.5 percent in FY 1988). CBITD's charges for freight moved during the months of March and July, 1988 totalled \$32,461. As shown in Exhibit V-3, two islands, Peaks and Long, accounted for 65 percent of CBITD's total freight charges. It is also interesting to note that freight traffic is one-way, with 96.7 percent of traffic moving from the mainland to the islands.

To determine how much of CBITD's cargo would be subject to diversion if unscheduled freight services were deregulated, MOA analyzed CBITD's freight charge account customers for the months of March and July 1988. Unfortunately, no records exist for cash customers that would allow the cash freight revenues to be assessed for potential divertibility. We assume however, that the profile of customers either is similar to that of the charge account customers, or that cash shipments move on a sporadic basis.

The analysis of charge customers indicated the following:

- average shipment volumes were small and the average monthly freight revenue per charge customer was only \$73, as shown in Exhibit V-4;
- freight to each of the islands was dominated by a few large customers, such as island stores or contractors;
- the largest single charge customer on each island accounted for 18.3 to 37.5 percent of freight carried to that island, as shown in Exhibit V-4; and
- the largest single freight charge account customer to all islands accounted for only 5.1 percent of CBITD's total freight revenues.

Exhibit V-3

CBITD'S TOTAL FREIGHT REVENUES BY ISLAND

March and July, 1988

To: -----	March 1988		July 1988		Total	
	Rev- enue -----	% of Total -----	Rev- enue -----	% of Total -----	Rev- enue -----	% of Total -----
Peaks	4,947	49.6%	6,436	28.6%	11,383	35.1%
Little Diamond	55	0.6	609	2.7	665	2.0
Great Diamond	949	9.5	961	4.3	1,910	5.9
Long	1,548	15.5	8,064	35.9	9,611	29.6
Chebeague	1,268	12.7	3,026	13.5	4,294	13.2
Cliff	847	8.5	2,689	12.0	3,535	10.9
Portland*	358	3.6	705	3.1	1,063	3.3
-----	-----	-----	-----	-----	-----	-----
Totals:	9,971	100%	22,490	100%	32,461	100%

Source: CBITD's Monthly Statistics

\*Up freight, from all islands to Portland.

Exhibit V-4

CBITD'S AVERAGE MONTHLY FREIGHT  
PER CHARGE CUSTOMER BY ISLAND

July 1988

Island	Number of Charge Customers	Average Freight Per Charge Customer	Largest Single Customer As A Percentage of Total Revenues
-----	-----	-----	-----
Peaks	50	\$ 59	26.9%
Little Diamond	12	12	18.3
Great Diamond	11	30	37.5
Long	41	82	34.4
Chebeague	22	111	17.0
Cliff	23	107	33.6
-----	-----	-----	-----
Total:	159		5.1%
Average:		\$ 73	

Source: MOA's analysis of CBITD's  
monthly freight charges.

The results of the analysis indicated that in the event of deregulation, unscheduled freight service operators are unlikely to capture a significant share of the cargoes currently carried by CBITD because they are comprised of numerous small shipments and it would be uneconomic for an unscheduled operator to compete for these cargoes. The large shippers that account for the majority of CBITD's revenues tend to ship on a frequent basis. Small shippers do not have the volume required to make the use of unscheduled services economic. Thus, the cargo flows are compatible with the regular daily service offered by CBITD and incompatible with the services offered by competing unscheduled freight carriers. For this reason, the deregulation of unscheduled freight services should not have a significant impact on CBITD.

Whether the Legislature deregulates Casco Bay ferry services or not, CBITD will remain undercapitalized. Consequently, if CBITD were to lose revenues as a result of deregulation, and it were to encounter a cyclical downturn at the same time, there would be a significant deterioration in CBITD's financial condition. CBITD has no significant base of retained earnings from which it can draw to weather difficult times. If revenues are not sufficient to cover costs, rates must be raised immediately to insure adequate cash flow. If rates continue to be raised more rapidly than the rate of inflation, as they have been in recent years, usage is likely to decline. A decline in usage would create a downward financial spiral for CBITD because it would have to continue to raise rates to offset the revenue shortfall.

### 3.) WATER TAXIS

The total revenues earned by existing water taxis is estimated to be less than \$50,000 per year. The amount of revenue lost by CBITD is only a fraction of this total. Water taxi utilization is low except during busy summer weekends. Because of the relatively high fares charged, water taxis do not compete directly with CBITD and, if deregulated, would not compete directly with CBITD as long as the maximum number of passengers remained low and the fares relatively high. If unscheduled passenger services were deregulated entirely, however, with no limit on the number of passengers carried nor on the fares charged, it is likely that private operators would enter the business, especially during the summer months and on the high-volume routes. Any such competition could have a significant negative affect on CBITD's revenues and profitability.



## VI. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter is organized into seven sections relating to the seven questions posed by the Legislature. Each section contains a brief summary.

### A. DEREGULATION OF UNSCHEDULED PASSENGER AND FREIGHT SERVICES

As indicated in Chapter IV, the results of the survey of island residents indicated that an overwhelming majority (61.5 percent) of respondents favored a continuation of CBITD's franchise<sup>1</sup> for scheduled passenger and freight services in Casco Bay. Attendees at the public meetings held on the islands and in Portland were in favor, by an even wider margin, of a continuation of CBITD's franchise. Operators of existing water taxis and unscheduled freight services were unanimously in favor of continuing CBITD's franchise as they thought it provided a stabilizing influence and also afforded them protection from unbridled competition.

Any form of deregulation enacted by the Legislature could have a negative impact on CBITD's revenues. However, if the recommendations presented herein are adopted by the Legislature, the negative impact on CBITD should be minimal. To ensure that CBITD is not adversely affected by changes initiated by the Legislature, CBITD's performance and competition for ferry services in Casco Bay should be reviewed in two years. If it is determined at that time that CBITD has not been negatively impacted, further deregulation can be pursued. The following sub-sections of this chapter review the potential benefits and risks associated with deregulation of unscheduled passenger and freight services.

---

<sup>1</sup>CBITD currently is the only operator permitted by the PUC to offer scheduled freight and passenger service between the mainland and the islands on Casco Bay. Although the law that established CBITD did not give it an exclusive franchise for scheduled service, no other operators have requested permits from the PUC for such service. If another operator were to apply to the PUC for a permit to offer scheduled service in competition with CBITD, it is unlikely that a permit would be granted unless the proposed service would provide a significant benefit to island residents.

## 1.) UNSCHEDULED PASSENGER SERVICES

The only unscheduled passenger services allowed to operate to the Casco Bay islands are water taxis, which are limited to a maximum of six passengers. Water taxis fulfill an important role in Casco Bay. They provide on-demand service for time-sensitive or emergency passenger transportation to and from the islands; they are not permitted to carry any cargo except passenger's hand baggage. Although the water taxis do draw passengers away from CBITD, the amount of revenue lost to CBITD is small and the water taxis provide a valuable service to island residents and visitors.

Given the economics of boat ownership and operation, if the maximum number of passengers is retained at a low level, the fares will be relatively high due to economic necessity. Another way to regulate the use of water taxis would be to require that they charge a minimum per passenger. For example, for a six-passenger water taxi that charges \$30.00 per trip, the per person fares currently range from \$5.00 to \$30.00 depending on the number of passengers carried.

Unlike CBITD's scheduled passenger services, which under past Commission decisions have been protected from direct competition, no barriers to entry exist for the unscheduled passenger services provided by water taxis. Any boat operator can apply to the PUC and be granted a permit to operate as an unscheduled, on-demand water taxi. Although the entry of a new operator during the busy summer season would not have an impact on CBITD, it would divert revenues from and have a negative impact on the existing water taxi operators. However, because passengers are not dependent upon the services offered by water taxis as primary transportation, MOA does not believe these services should be protected by statute from competition. Demand for these services and the economics of the marketplace will constrain the number and size of these services.

Recommendation: Unscheduled water taxi services should be deregulated as to market entry. The existing six-passenger limit should be retained to avoid direct competition with CBITD. However, as discussed in this chapter's Section E, Appropriate Limits on Service, governmental oversight should be retained in order to consider future requests for water taxis carrying over six passengers. Monetary penalties for exceeding the specified passenger capacity should be imposed and be severe enough to act as a deterrent. Although the U.S. Coast Guard monitors compliance with the certificate it issues to each operator, the Portland Police also could be asked to use its boat to monitor compliance on a spot basis.

## 2.) UNSCHEDULED FREIGHT SERVICES

CBITD's charter allows it to carry both scheduled and unscheduled freight between the mainland and the Casco Bay islands it serves. In addition, three other carriers operate unscheduled freight services. In total, revenues earned by these unscheduled operators is estimated to be less than \$50,000.

The type of freight most likely to be diverted from CBITD in the event of deregulation includes loaded trucks, heavy equipment, cargoes moved in large volumes and the seasonal movement of autos to and from inner and down bay islands. Small-volume, freight--whether moving on a regular or irregular basis--would not likely be attractive to unscheduled operators.

In the case of truckload shipments currently handled by CBITD, the high cost of providing service on a dedicated unscheduled vessel, compared to the relatively low prices charged by CBITD, most likely would limit the attractiveness of such services only to shippers of time-sensitive cargoes willing to pay the additional cost. Removing the current limitations on unscheduled freight operators would improve service for shippers of time-sensitive cargoes by allowing them to choose the level of service they require.

Currently, a user who desires to move a truck loaded with time-sensitive cargo to one of the islands may have to wait for the availability of a CBITD ferry. The cost of such a delay, which might include a cost for the truck and driver, as well as inventory carrying costs, may exceed the differential in rates between CBITD and the unscheduled freight operator. Also, a delay in transporting materials for construction or in moving household goods may result in substantially increased costs for island residents. For these shippers, which probably represent a small portion of the market, deregulation would provide more flexibility and result in lower costs.

Although deregulating the unscheduled freight market would have a negative impact on CBITD, it is unreasonable to require shippers to use CBITD if, by doing so, resultant delays will cost them more than it would to use an unscheduled freight service. Deregulating unscheduled freight services would force CBITD to become more responsive to time-sensitive shippers. Furthermore, because it now has the Machigonne II in regular operation between Portland and Peaks Island, CBITD should be able to handle most freight and vehicular transportation requirements to and from that island in a timely fashion and on a cost effective basis.

Thus, for the Peaks Island trade, the potential for diversion of cargoes from CBITD has been reduced, if not entirely eliminated. For other islands, deregulation of unscheduled freight services would have a negative impact on CBITD, but not a severe one.

The results of the analysis of CBITD's freight customers, as detailed in Chapter V, indicated that in the event of deregulation, unscheduled freight services are unlikely to capture a significant share of the cargoes currently carried by CBITD. The large shippers that account for the majority of CBITD's revenues tend to ship on a frequent basis during the month. Small shippers do not have the volume required to make the use of unscheduled services economic. Thus, the cargo flows are compatible with the regular daily service offered by CBITD and incompatible with the services offered by competing unscheduled freight carriers.

Recommendation: Unscheduled freight services should be deregulated as to entry into the market and to the cargoes that can be carried. These operators should be free to compete with CBITD for all cargoes, regardless of weight or size. As long as the unscheduled operators' current practice of carrying cargoes only for a single shipper or consignee on each voyage continues, the deregulation of unscheduled freight service cannot be expected to affect CBITD's revenues substantially. However, if deregulation has a significant negative impact on CBITD's revenues, it will be necessary for the regulatory agency to revisit the issue.

## **B. POSSIBLE MODES OF CONTINUED REGULATION**

There are three possible modes of regulation that have been mentioned as possibilities for CBITD:

- the Public Utilities Commission could continue to regulate it;
- the Maine Department of Transportation could regulate it; or
- the City of Portland could regulate it.

The pros and cons of each of these alternatives are listed in Exhibit VI-1. As shown, the alternative that appears to make the most sense is to have CBITD regulated by the City of Portland. Two potential problems exist with this

Exhibit VI-1

PROS AND CONS OF SELECTED MODES OF  
REGULATION FOR CASCO BAY FERRY SERVICES

Pros	Cons
----- <u>Public Utilities Commission</u> -----	
--Has knowledge of Casco Bay regulatory issues.	--Has no ferry expertise.
--Has mechanism in place for settling disputes.	--Has no technical expertise in maritime safety matters.
	--Is geographically distant from Casco Bay.
	--Full rate and entry regulation of CBITD has proven to be a time-consuming use of available resources.
----- <u>Maine Department of Transportation</u> -----	
--Has knowledge of ferry systems operations (i.e., State Ferry).	--Is geographically distant from Casco Bay.
--Has knowledge of maritime safety matters.	--Has no mechanism in place for settling disputes.
	--Would require additional resources to regulate CBITD.
	--Regulation by CBITD might increase pressure for state subsidy to achieve parity with Maine State Ferry.
----- <u>City of Portland</u> -----	
--Has knowledge of transit system and taxi operations.	--May be unwilling to regulate CBITD if any additional financial commitment is required.
--Has mechanism in place (City Council) to settle disputes.	
--Five of the six-island served by CBITD are within the City of Portland.	
--Has knowledge of maritime safety matters (i.e., Harbor Master and Portland City Police Harbor Patrol.)	
--Has expertise in waterfront planning and administration (i.e., Portland Waterfront Department, Harbor Commission and Harbor Master.	

alternative. First, the City of Portland may be unwilling to accept regulation of Casco Bay ferry services if by doing so it would become financially responsible for CBITD. Second, because Chebeague Island is not within the City of Portland, island residents might oppose having CBITD regulated by the City of Portland. However, because Chebeague Island also is served by Chebeague Transportation, opposition from residents probably would be limited.

In any case, regulation of entry for unscheduled passenger and freight service would cease, leaving only regulation of CBITD's franchise for scheduled passenger and freight service with respect to enforcement and rate levels. It makes sense for regulation and any necessary enforcement efforts to be undertaken by an entity which, unlike the PUC, is physically located near Casco Bay or has some maritime expertise. It will continue to be important, however, that the regulatory authority retain specific powers now available to the PUC--such as the power to order CBITD to undertake, if necessary, a management audit. Competition for unscheduled services will itself put some pressure on CBITD to operate efficiently and to be responsive to the market but the regulatory authority should be prepared to investigate improvements in this area as well.

Recommendation: Discussions should be held with the City of Portland to determine if it would be willing to regulate ferry services within Casco Bay.

#### C. POSSIBLE REQUIREMENT FOR A GENERAL FUND SUBSIDY

Since its inception, CBITD has been able to operate profitably. To do so, however, it has had to raise its fares steadily. In the last five years, fares have increased at eight percent per year, on average. Over the next 10 years, fares probably cannot continue to be raised at a rate substantially higher than inflation (as they have been in recent years) without having a negative affect on ridership and, consequently, on CBITD's revenues and profitability.

CBITD is operating an efficient fleet of ferries but is burdened with the expense of maintaining the M/V Rebel. With the exception of the savings that will result from removing the M/V Rebel from the fleet, there do not appear to be any cost savings that CBITD can realize while maintaining service at current levels. No substantial savings would be realized if CBITD were to discontinue its cruises (i.e., Portland Head Light and Bailey's Island cruises) and its charter and catering services. CBITD's new

ferry, the M/V Machigonne II, will improve service and reduce CBITD's operating costs during the peak summer season, but will increase CBITD's costs during off-season months.

In the near term, CBITD has planned two changes that will increase revenues. First, CBITD plans to install a new computerized ticketing system and a one-way fare collection system. These improvements should decrease the number of non-paying riders (common to any transit system) and increase revenues. Second, CBITD plans to institute an increased fare during summer months to offset the higher cost of providing service during these months. The rationale for higher fares during summer months is that CBITD must maintain sufficient capacity year-round to accommodate the peak summer demand. As is the norm in most seasonal businesses, customers will be charged higher rates during the peak season.

In the long term, CBITD's need for a subsidy will be dependent on two factors--increases in the cost of providing service and increases in usage. CBITD's major operating costs are for shipboard and shoreside labor, fuel and vessel-related costs such as insurance and maintenance and repair. Capital costs, which include payments on the bonds used to purchase Casco Bay Lines and establish CBITD, as well as bonds for the M/V Machigonne II also are a significant expense. Without changes in service, a very small percentage of costs are controllable by CBITD. Costs that essentially are outside CBITD's control include crew costs, fuel, insurance and maintenance and repair.

If CBITD's operating costs increase less rapidly than the rate of inflation in future years, an unlikely scenario, CBITD could accumulate a modest surplus. However, if CBITD's operating costs increase more rapidly than inflation in future years, and if the two percent increase in ridership projected for future years proves to be accurate, CBITD will be faced with three alternatives:

- CBITD could continue to increase rates but, if rates increase faster than inflation, this could have a negative effect on usage and result in lower, rather than higher, revenues.
- CBITD could reduce service, either by reducing the number of boats operated and trips offered or by terminating service to one or more of the six islands it serves.
- CBITD could receive an operational subsidy from local, State or federal governments.

Although CBITD is not likely to reach a point at which it will require subsidy for at least five years, a rapid increase in fuel prices could create a financial crisis. CBITD is in a precarious financial position because it does not have any significant surplus or retained earnings to draw on in times of crisis. MOA's analyses indicate that there is a strong correlation between consumer purchases of gasoline and CBITD's ridership. When gasoline purchases decline, so does CBITD's ridership. Since declines in gasoline purchases are driven primarily by increases in the price of gasoline, CBITD's fuel costs can be expected to increase at the same time that its ridership (and revenues) are declining.

One alternative to providing an operating subsidy to CBITD, would be for the State or local government to provide a one-time payment to reduce CBITD's bond costs; this would reduce annual capital costs and increase CBITD's profitability.<sup>2</sup> Such a payment could be contingent on a requirement that CBITD use the resultant surplus from operations to accumulate a contingency fund. Under the terms of such an agreement, CBITD would not be allowed to use excess funds to avoid normal rate increases. Rather, they would be accumulated as retained earnings to provide a cushion in the case of a cyclical downturn in the market and to accumulate the capital required for the replacement of existing older boats.

In any case, the Legislature should be sensitive to the fact that changes in the current regulatory structure could have an unexpectedly severe negative impact on CBITD's financial condition. Thus, any changes should be accompanied by a program to monitor the impact of the changes on CBITD and to make adjustments if necessary.

Recommendation: CBITD will not require a regular operating subsidy in the foreseeable future--assuming that its new ticketing and fare collection procedures result in a significant increase in revenues. Therefore, no further operating subsidies should be considered at this time.

#### **D. ANTICIPATED EFFECT ON CBITD'S TOUR, CHARTER AND CATERING REVENUES**

Tour, chartering and catering services are not currently regulated. Two issues have been raised relative

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<sup>2</sup>CBITD currently is attempting to reduce capital costs by retiring its more expensive bonds.



to tour operations. First, it is CBITD's position that the carriage of passengers to and from the islands as part of a tour package (e.g., for an island clambake) is forbidden by statute. At the conclusion of a regulatory hearing requested by Captain Rodney Ross of Longfellow Cruise Line, the PUC ruled that tour boat operators can carry passengers to and from the islands as part of--and solely for the purpose of--tours. Although it appears that no tour operator has yet taken advantage of this administrative ruling, CBITD has taken the position that it will test the ruling in court should a tour operate land passengers on one of the islands.

Second, Captain Ross and other tour boat operators contend that CBITD should not be allowed to compete in the tour and charter segment of the market because it is subsidized. These operators contend that the capital subsidies CBITD has received from UMTA, the PACTS funds it has received and MDOT's ownership and maintenance of the island piers all are public funds. Further, they believe that since CBITD is receiving public funds, it has an unfair advantage and should not be allowed to compete with private operators in the tour and charter segment of the market.

While both of these arguments may have merit, MOA believes that the transportation of passengers to and from the island solely for tour purposes does not conflict with, nor divert revenues from, CBITD. Thus, MOA recommends that the PUC's advisory ruling be adopted by the Legislature. We also believe that CBITD should be allowed to continue to provide "incidental" tour, charter and catering services to allow it to offset the costs of maintaining a spare boat. Given the fact that CBITD does not have any retained earnings on which to draw during a downturn in business, loss of any profits could be a problem during a downturn in the market. The relatively small profits it derives from tour and charter services are not, however, of critical importance to CBITD, nor are they likely to have a significant negative impact on competing tour boat operators..

The primary factor used to determine whether or not these service are "incidental" should not be the percentage of CBITD's revenues they represent. Rather, these services should be considered to be "incidental" as long as they utilize the capacity of a spare boat, which CBITD must have if it is to maintain reliable service. CBITD should not be allowed to add additional vessels to its fleet solely for use in the tour and charter business. This single stipulation not only will allow CBITD to offset the cost of maintaining a spare boat, but also will ensure that tour and charter revenues will remain "incidental" to CBITD's mission of providing transportation between the mainland and the Casco Bay islands.

Recommendation: The Legislature should adopt the PUC's advisory ruling that allows tour boat operators to carry passengers to and from the Casco Bay islands solely for the purpose of tours. CBITD should be allowed to continue to provide tour and charter services as long as CBITD limits its fleet capacity to a single spare boat.<sup>3</sup> CBITD should not be allowed to add capacity to its fleet solely for the purpose of increasing its ability to offer tours and charters.

#### E. APPROPRIATE LIMITS ON SERVICE

As indicated in the foregoing sections of this chapter, the following limits on services should apply to waterborne services in Casco Bay:

- Water taxis should be limited to the carriage of six people. However, this limit should be reviewed in two years.
- Limiting unscheduled freight operators to carriage of a single shipper's cargo on each trip should be considered, if necessary in the future. No other limits should be placed on the unscheduled freight operators' ability to compete freely for cargoes.
- Private tourboat operators should be allowed to carry passengers to and from the Casco Bay islands solely for tour purposes. Under no circumstances should tour operators be allowed to carry passengers between the mainland and the islands solely for the purpose of transportation. Any such diversion of revenues from CBITD would compromise its ability to provide year-round service to the islands.

<sup>3</sup>CBITD currently has two spare boats because it has not yet decided on the disposition of the M/V Rebel. However, this is a temporary situation caused by the inability of the Machigonne II to serve some of the Casco Bay islands and does not reflect any attempt on the part of CBITD to increase the fleet capacity available for tour and charter business.

- Any changes made by the Legislature should be monitored for impact. If experience indicates that the CBITD has not been negatively impacted by the changes proposed herein, further deregulation can be pursued.

**F. ANTICIPATED EFFECT ON  
TOURISM-RELATED REVENUES**

Enacting a statute that allows tour boat operators to carry passengers to and from the Casco Bay islands solely for tour purposes should have a positive impact on tourism in the Portland area. Because such services do not currently exist, it is difficult to predict whether demand for such services would be significant.

**G. ANTICIPATED EFFECT ON STATE ADMINISTRATION  
OF PIERS AND WHARVES**

None of the regulatory changes recommended herein would have an impact on the State's administration of piers and wharves on the Casco Bay Islands. The one change that would have an impact would be allowing private tour boat operators to use these piers, which now are reserved for the sole use of CBITD. We do not recommend that other operators be allowed to use these piers because of the possible conflicts that would occur and the resulting potential for disruptions of CBITD's scheduled services.

The Maine Department of Transportation, however, has indicated its willingness to discuss the possibility of allowing other operators to use these piers. In such a case, other operators would have to agree not to interfere in any way with CBITD's preferential use of the piers and wharves. Further, operators would be charged a fee for the use of the piers and wharves to compensate MDOT for the additional maintenance and repair costs that would result from additional use of the piers. At this time, without any knowledge of the size of boats or the frequency of use, it is not possible to develop estimates of the cost of the additional maintenance and repair that would be required. Consequently, the level of fees that MDOT would have to charge other users of the piers and wharves cannot now be estimated.

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**A Study of the  
Casco Bay Ferry Services**

**APPENDIX**

Exhibit A-1

Casco Bay Island Transit District  
User Survey

Callback:\_\_\_\_\_ Callback:\_\_\_\_\_ Date:\_\_\_\_\_  
Name:\_\_\_\_\_ Tel. \_\_\_\_\_ Island:\_\_\_\_\_

Hello, I am calling from Martin O'Connell Associates, a transportation consulting firm hired by the State of Maine to determine the potential impact of deregulating unscheduled ferry services in Casco Bay. I would like to ask you a few questions about your use of CBITD's service.

The first set of questions is about your household:

1. Is CBITD your primary method of transport to and from the island? Y(1Y)\_\_\_\_\_(Skip to 3)  
N(1N)\_\_\_\_\_(Continue)
2. What is your primary method of transport? Water Taxi(2W)\_\_\_\_\_  
Chebeague Ferry(2C)\_\_\_\_\_  
Own Boat(2B)\_\_\_\_\_  
Other(2O)\_\_\_\_\_
3. How many months or weeks a year do you live on the island? Months(3M)\_\_\_\_\_  
Weeks(3W)\_\_\_\_\_  
Weekends(3D)\_\_\_\_\_
4. How many people are in your household? Number(4)\_\_\_\_\_
5. In total, how many of the people in your household are over age 65 or are children under the age of 10? Number(5)\_\_\_\_\_
6. Do any members of your family, such as college students, live on the island for only part of the year? Y(6Y)\_\_\_\_\_(Continue)  
N(6N)\_\_\_\_\_(Skip to 9)
7. How many people in your household live on the island only part of the year? Number(7)\_\_\_\_\_
8. How many months does each of them live on the island? Number(8A)\_\_\_\_\_  
(8B)\_\_\_\_\_  
(8C)\_\_\_\_\_
9. How many people in your household commute to a job on the mainland? Number(9N)\_\_\_\_\_(Continue)  
None(9O)\_\_\_\_\_(Skip to 12)

10. How many round-trips each week do they take to commute to and from work?

11. What boats do they normally take?

----- Question 10 -----  
Number

----- Question 11 -----  
A.M. Boat P.M. Boat

Commuter A(10A) \_\_\_\_\_  
Commuter B(10B) \_\_\_\_\_  
Commuter C(10C) \_\_\_\_\_

(11AA) \_\_\_\_\_ (11AP) \_\_\_\_\_  
(11BA) \_\_\_\_\_ (11BP) \_\_\_\_\_  
(11CA) \_\_\_\_\_ (11CP) \_\_\_\_\_

The next questions are about how often you use CBITD's ferries.

12. In total, how many trips a week do members of your household make for purposes other than commuting? Number(12) \_\_\_\_\_

13. On Average, how many trips each week do members of your household make for the following purposes: (READ)

Visiting Friends(13F)	_____
Entertainment(13E)	_____
Shopping(13S)	_____
Medical(13M)	_____
Travel(13T)	_____
Other(Specify)(13O)	_____ (13X) _____

14. Compared to the last few years, do members of your household currently use the ferry: (READ)

A Lot More	A Little More	About the Same	A Little Less	A Lot Less
(141) _____	(142) _____	(143) _____	(144) _____	(145) _____

15. Why? (15A) \_\_\_\_\_  
\_\_\_\_\_

16. Are there any changes that CBITD could make that would make you use the ferry more often? Y(16Y) \_\_\_\_\_ (Continue)  
N(16N) \_\_\_\_\_ (Skip to 18)

17. What changes? (171) \_\_\_\_\_  
(172) \_\_\_\_\_  
(173) \_\_\_\_\_

18. Are there any changes that CBITD could make that would make other people use the ferry more often? Y(18Y) \_\_\_\_\_ (Continue)  
N(18N) \_\_\_\_\_ (Skip to 20)

19. What changes? (191) \_\_\_\_\_  
(192) \_\_\_\_\_  
(193) \_\_\_\_\_

The Next Questions are about CBITD's Service and Fares.

20. The CBITD has raised its passenger fares several times since 1982 and has maintained the amount of service to the islands at a constant level. If you had to choose between another ten (10) percent rate increase or the loss of one daily trip to your island, which would you prefer?  
10% Fare Increase(20F) \_\_\_\_\_  
Loss of Trip(20T) \_\_\_\_\_
21. If it became necessary to permanently cancel one of the daily trips to your island, which one would it be?  
(21) \_\_\_\_\_
22. If CBITD fares were to be lowered by 10 percent, would members of your household make more trips each week?  
Y(22Y) \_\_\_\_\_ (Skip to 24)  
N(22N) \_\_\_\_\_ (Continue)  
No Effect(22E) \_\_\_\_\_ (Continue)
23. If fares were lowered by 25 percent?  
Y(23Y) \_\_\_\_\_  
N(23N) \_\_\_\_\_  
No Effect(22E) \_\_\_\_\_
24. Why? (24) \_\_\_\_\_
25. At the current time, would you describe CBITD's passenger fares as: (READ)  
Very High(25VH) \_\_\_\_\_  
Somewhat High(25H) \_\_\_\_\_  
Just About Right(25R) \_\_\_\_\_  
Somewhat Low(25L) \_\_\_\_\_  
Very Low(25VL) \_\_\_\_\_
26. If the CBITD were going to raise its rates again, which of the following would you prefer they raise? (READ)  
Commuter(26C) \_\_\_\_\_  
Round-trip(26R) \_\_\_\_\_  
Vehicles(26V) \_\_\_\_\_  
Freight(26F) \_\_\_\_\_
27. Why did you answer the last question as you did?  
(27) \_\_\_\_\_
28. How many times have you used Water Taxis during the last year?  
Number(28N) \_\_\_\_\_  
None(28O) \_\_\_\_\_

We are almost at the end of the survey. The final few questions are about the question of deregulation.

29. Do you think that CBITD should have an exclusive franchise to provide scheduled passenger and freight services to the islands?  
Y(29Y) \_\_\_\_\_ (Continue)  
N(29N) \_\_\_\_\_ (Continue)  
Don't Know(29D) \_\_\_\_\_ (Skip to 31)
30. Why? (27) \_\_\_\_\_



CBITD Survey-Page 4

31. Do you think that CBITD should be allowed to charter ferries for private parties? Y(31Y)\_\_\_\_\_ (Continue)  
N(31N)\_\_\_\_\_ (Continue)  
Don't Know(31D)\_\_\_\_\_ (Skip to 33)
32. Why? (32)\_\_\_\_\_
33. Do you think that the number of day-trippers visiting your island has increased in recent years? Y(33Y)\_\_\_\_\_ (Continue)  
N(33N)\_\_\_\_\_ (Continue)  
Don't Know(33D)\_\_\_\_\_
34. Do you think that the CBITD should continue to run special tour boats, such as those to Bailey's Island during the summer? Y(34Y)\_\_\_\_\_ (Continue)  
N(34N)\_\_\_\_\_ (Continue)  
Don't Know(34D)\_\_\_\_\_ (Skip to 36)
35. Why? (35)\_\_\_\_\_
36. Do you think that CBITD's Board should be expanded to include representatives from off-island areas such as South Portland? Y(36Y)\_\_\_\_\_ (Continue)  
N(36N)\_\_\_\_\_ (Continue)  
Don't Know(36D)\_\_\_\_\_ (Skip to 38)
37. Why? (37)\_\_\_\_\_
38. Do you think that CBITD should provide commuter services between South Portland and Portland? Y(38Y)\_\_\_\_\_ (Continue)  
N(38N)\_\_\_\_\_ (Continue)  
Don't Know(38D)\_\_\_\_\_ (Skip to END)
39. Why? (39)\_\_\_\_\_

END---Thank you very much for helping with our survey!!

Exhibit A-2

CASCO BAY STUDY  
UNSCHEDULED PASSENGER QUESTIONNAIRE

1.) Company: \_\_\_\_\_

Respondent's name: \_\_\_\_\_

Telephone No.: \_\_\_\_\_

2.) Annual One-way Trips and Passenger Counts by  
Island for Calendar Year 1987, or Most Recent  
Fiscal Year (If fiscal year, please specify  
ending date \_\_\_\_/\_\_\_\_/\_\_\_\_).

Island	Number of One-way Trips	Number of Passengers Boarded
-----	-----	-----
Peaks	_____	_____
Little Diamond	_____	_____
Great Diamond	_____	_____
Chebeague	_____	_____
Long	_____	_____
Cliff	_____	_____
Totals:	_____	_____

3.) Total Revenue earned from above trips: \$ \_\_\_\_\_

Please Return to  
Martin O'Connell Associates  
462 Washington Street  
Wellesley, MA 02181

**CASCO BAY STUDY  
UNSCHEDULED FREIGHT QUESTIONNAIRE**

1.) Company: \_\_\_\_\_  
 Respondent's name: \_\_\_\_\_  
 Telephone No.: \_\_\_\_\_

2.) Annual One-way Trips, Number of Vehicles and Tonnage by Island for Calendar Year 1987, or Most Recent Fiscal Year (If fiscal year, please specify ending date \_\_\_\_/\_\_\_\_/\_\_\_\_).

Island	Number of One-way Trips	Number of Vehicles Transported	Tonnage
-----	-----	-----	-----
Peaks	_____	_____	_____
Little Diamond	_____	_____	_____
Great Diamond	_____	_____	_____
Chebeague	_____	_____	_____
Long	_____	_____	_____
Cliff	_____	_____	_____
Totals:	_____	_____	_____

3.) Total Revenue earned from above trips: \$ \_\_\_\_\_

Please Return to  
**Martin O'Connell Associates**  
**462 Washington Street**  
**Wellesley, MA 02181**