

## 2010 BUDGET POLICY STATEMENT

### 2010 OPERATING BUDGET

The following guidelines are to be used in the preparation of the Authority's 2010 Operating Budget:

#### **Operating Revenues**

Projected Traffic Levels - Estimated operating revenues for the 2010 budget will be based primarily on actual traffic statistics for the most recent 12-month period. (It is anticipated that we will be using the actual traffic statistics from August 1, 2008 through July 31, 2009.)

Attached, please find graphs showing the total number of passengers, automobiles and trucks carried on a rolling 12-month basis since January 2004. A graph showing the total number of cars parked for the comparable time period is also included.

#### **Operating Expenses**

Operating Schedule - The proposed 2010 operating budget will be based on the to be approved winter and spring operating schedules plus an operating schedule from May 20<sup>th</sup> through the end of the year similar to this year's schedule.

Maintenance and Repairs - The Authority's vessels, terminals, vehicles and equipment shall be properly maintained in order to ensure the continuation of a safe and reliable transportation system.

Each of the Authority's vessels will be scheduled for an approximate 3-6 week overhaul period, not including any required dry-dockings. All vessels will be required to undergo their annual maintenance overhauls, including mandatory dry-dockings if required, between mid-September and mid-May.

The vessels which will require scheduled dry-dockings in 2010 are the M/V Eagle, the M/V Nantucket, the M/V Sankaty, and the M/V Iyannough.

Each of the Authority's terminals will continue to be properly maintained and the anticipated expenses to do so will be incorporated into the 2010 maintenance budget.

Levels of Employment - No new positions are expected to be added during the Authority's 2010 fiscal year. Vessel manning levels are now in large part contractually set for the next year. The number of employees is not expected to change for maintenance, terminal and parking lot operations, reservations and administration.

Training - The Authority will continue to provide training to its personnel at levels which ensure safe and efficient operations, including the "Standards of Training, Certification and Watchkeeping for Seafarers (STCW) Basic Safety Training" for its vessel crews. This STCW training program began in the winter of 2006. Annually, 50- 60 vessel crew members are trained in STCW in order that over a five year period the entire fleet personnel will have participated. This training includes 1) personal survival, 2) fire prevention and fire fighting, 3) elementary first aid, and 4) personal safety and social responsibilities.

The cost of customer service training, sensitivity training and other appropriate courses, such as additional radar training, Purser and Bosun training, rescue boat training, oil spill response training and bridge resource management, will also be included in the proposed 2010 Operating Budget.

Use of Information Systems Technologies - The Authority will continue to use information systems technologies to improve customer services and reduce net operating costs where possible. Operational efficiencies gained by greater use of e-mails to reduce the need for printing and mailings, as well as further expansion of ticket kiosks capabilities and enhancement to the "E-Ticketing" system will be incorporated into budget forecasts.

Health Care - The 2010 Operating Budget will reflect the continuation of employee contributions equal to 5%-10% of the expected annual cost of the employee's medical coverage depending upon bargaining unit.

Insurance - As the Authority's marine and non-marine insurance policies are issued on a June 30<sup>th</sup> renewal basis, insurance expense for the first half of 2010 will be known. An allowance will be made for any projected increase in insurance premiums for the policy year beginning June 30, 2010.

Advertising - While the Authority will continue to maintain the same types of advertising placements currently used, we will re-evaluate the core emphasis of the advertising program to determine the appropriate mix of media usage. These include billboards (Boston on Route 938 and on I-195 in the Fall River area), television, radio, newspapers, magazines, internet and regional Chamber of Commerce guide books.

Vessel Fuel Oil - Currently, the barrel price for crude oil is trading in the \$60-\$65 range. The 2009 operating budget assumption for the barrel price of crude oil was approximately \$105.00. Since the preparation of the 2009 operating budget, the Authority has initiated a hedge program for vessel fuel. As a result, fuel oil requirements for the first half of 2010 are capped at an average cost of \$3.05 per gallon. As we extend our fuel oil hedge program to the second half of 2010 it is anticipated that the effective cap price will increase into the \$3.35 to \$3.50 per gallon range as market conditions are on the upswing. The budgeted cost of vessel fuel oil in 2010 will be based on the projected forecasts plus the premium or cost of any hedging program.

The Authority will continue to make fuel and energy conservation a priority in both land and sea operations.

**Utilities** – The Authority will pursue not only energy conservation measures, but also opportunities to reduce the cost for electric supply charges. In addition, a review of telephone usage and calling plans will be conducted to determine the prospect for any potential savings.

**Debt Administration** – After the conversion of the outstanding bond anticipation notes to a bond issue, the Authority is currently not anticipating any need to issue additional bonds or notes to fund capital improvement projects during 2010.

### **Other Income**

Projections will be made for anticipated license fee income from all licensed carriers.

The Authority will continue to pursue or explore other potential income sources including revenue from website "click thru" advertising, information video displays, the display of publications, merchandising and video game operations.

### **Fund Transfers and Use of Special Purpose Funds**

The Authority will maintain sufficient fund balances to meet the currently scheduled debt service requirements (of \$1,058,103 due September 1, 2010 and \$5,318,102 due March 1, 2011) plus any additional debt schedule requirements associated with the conversion of the outstanding bond anticipation note to a bond issue.

In addition, the Authority will endeavor to fund next year's cash transfers to the Replacement Fund in an amount not less than this year's anticipated transfer of approximately \$7,500,000 but in an amount not to exceed the Authority's projected depreciation expense for 2009, currently estimated at \$9,305,000.

### **Fares and Rates**

As a last resort, the 2010 Operating Budget will include additional revenues needed from proposed rate increases in order for the Authority to adequately cover next year's projected cost of service.

**PROJECTED STATEMENT OF NET ASSETS (BALANCE SHEET), STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (INCOME STATEMENT) AND CASH FLOW STATEMENTS FOR THE YEARS 2011 - 2015**

The Authority will update it's 5 year operating budget based on anticipated annual growth rates in traffic volume and projected increases in operating expenses. The budget will provide an indication of additional revenue increases (rate increases) that will be needed to generate sufficient cash flow to meet the projected cost of service, including cash requirements of the special-purpose funds, based on the assumptions used.