

November 9, 2007

To: The Edgartown Board of Selectmen
Re: Chappy Ferry Options

Our committee's initial charge was to recommend whether or not the town should buy the ferry. At the request of the committee, the selectmen approved an expansion of that charge. Without any financial information from the present owner and without accurate ticket counts, the task was difficult, and the committee spent a great deal of time discussing the charge and how to move forward.

Over the course of these past six months, we debated issues and models, and had input from the Edgartown Finance Committee, Town Counsel, Angela Grant, the VTA Director, and two public meetings.

In keeping with a commitment to reach a conclusion that benefits the public, we, the undersigned, strongly endorse the VTA as the best Chappy Ferry management model. We make this endorsement because we believe that it has the best chance of providing optimal service and at the same time reducing ticket prices. The VTA could either buy the operation or lease it from the town or the town could gift it to the VTA to manage.

The attached recommendations and opinions are derived from meetings, research into comparable ferry systems, and recognition of the need to develop a plan for the public good, most specifically all of Edgartown. We are concerned about private ownership in today's business climate because of the risk of spiraling rates necessitated by the cost of purchase, paying down debt, buying new ferries, and no competition.

The explanations for the preceding statements are in the following pages which should be read in order to understand our reasoning behind our recommendations.

We look forward to the opportunity to discuss this report with you.

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IMPORTANT INFLUENCES AND RISKS

The picture of Chappaquiddick has changed since the town and Roy Hayes signed the current Chappy ferry contract.

DEMOGRAPHIC INFLUENCES

- Many more homes have been built.
- Summer people are staying longer.
- The year-around residency has grown.
- Service demands on Chappy have significantly increased the pressure on the ferry.

NATURES' INFLUENCE on the alternate route to Chappy.

- The early 1990's state and federal bird protection acts have required the beach route to be closed sometimes for months during the busy summer months.
- The 2007 breach has completely eliminated the alternate route.

THE RESULT—anyone traveling to and from Chappy is now forced to rely 100% on the ferry 100% of the time.

There are now new and greater risks to the public and to the town which we believe can not be effectively addressed unless the contract between the town and the owner/operator of the ferry is significantly changed.

RISKS TO THE PUBLIC

- Increased number of delays.
- Increased duration of delays.
- Insufficient government checks and balances over a monopoly operation which controls the travel of 100% of the people leaving or going to Chappy.
- Unreasonably high ferry prices.
- Inadequate schedules.
- Public safety – only one boat when the other is in dry dock or out for repairs.

RISKS TO THE TOWN OF EDGARTOWN

- Since the ferry operation is a monopoly, and if there is less than strong oversight, there is the significant risk of an expensive legal challenge against the town.
- Another consideration is the role of the U.S. Coast Guard and the fact that it has to approve the ferry boats and the new owner. That process could be time-consuming as well as a possible judgment that the present boats do not pass inspection.
- If the owner/operator fails, the town will be forced to provide emergency services on short notice. This unexpected obligation will be an expensive burden on the town.

**RECOMMENDATIONS TO THE EDGARTOWN BOARD OF
SELECTMEN**

The input from the two summer public meetings made very clear that whatever the future ownership is, the need for reliability and fairness is of paramount importance. Because the present ownership is a monopoly and the breach gives us no alternative way to access Chappy, we recommend that the selectmen take the following actions that would be necessary for an equitable and stable operation, and in the best interests of the whole community of Edgartown.

1. The selectmen should immediately provide for a Chappy ferry advisory board, the make up of which could be three Chappaquiddick residents and two Edgartown residents. This board would reduce the risks inherent in a monopoly operation. It would advise the selectmen regarding all ferry issues as well as providing an accessible means of communication for the community. Its role would be advisory only. Members would be appointed by the selectmen upon review of applications submitted by interested citizens. Suggested guidelines for the application would be a description of the expectations for the role of the board, the applicant's expertise, any other board experience, and an explanation of why the applicant wants to serve.
2. We recommend that any contract agreement between the owner and the town of Edgartown includes the following measures.
 - The selectmen should require in their contract a prior review and approval of rates in every rate category.
 - The selectmen, prior to signing a contract with the new operator, should review the rate structure as a whole and specifically consider requiring a process change in the way residents on Chappy are awarded a discount. There has been a great deal of controversy created by the method currently used to calculate the discount given to 10 ½ month Chappy residents compared to less than 10 ½ month Chappy residents. See Appendix 1.
 - The selectmen should require in their contract a reasonable system of logging vehicle counts for their review when needed. The VTA may have suggestions for that process.
 - The selectmen should require in their contract a reviewable accounting system which is acceptable to the town accountant or auditor. All of the financials of the ferry operation should be open to the public.
 - The selectmen should require in their contract some broad causes for permit or license revocation. Examples:
 - Unsafe and unaddressed or avoidable unsafe conditions.

Avoidable egregious accidents.
Failure to conform to the contract.
Fraud or otherwise unlawful acts.

- The selectmen should require in their contract a periodic review of profit, loss, and a balance sheet prior to permitting rate increases. They should review the balance sheet quarterly or request the advisory board to do so.
- The selectmen should review and approve the ferry schedule periodically.
- The selectmen should require in their contract some very broad minimum standards of performance. Example—Language in the contract referring to “reasonable levels of performance”.
- The selectmen should require in their contract a conflict resolution process.
- The selectmen should require in their contract language requiring that the operator keep his boats and slips operating until replacements are available should the contract be terminated.
- The selectmen should require in their contract a periodically approved continuity plan in the event of the operator’s death or disability.
- The selectmen should require in their contract a periodically approved emergency/rapid response plan.

THE VTA OPTION

We all embrace the concept of small business and free enterprise and what a powerful force it has been in achieving the highest quality of services while at the same time reducing prices to the public.

When we closely looked at the Chappy ferry operation, we soon realized that this small business is no longer a player in our free enterprise system. Land is extremely scarce in Edgartown and therefore the market is not open to a competing ferry service. The ferry service is still a small business, but it has become essentially a monopoly without the forces of competition to reduce prices to reasonable levels. Please note that the posted price and the discounted, non-resident book tickets prices have totally outstripped inflation in recent years.

When trying to decide which model best served the public as a whole, we kept running into the risk that in the near future, ferry prices were likely to continue to skyrocket if the current private ownership model were to continue.

We were naturally first drawn to private ownership for all the obvious reasons, but we know now that a new owner would be saddled with expenses far greater than the current owner. The new owner will have the additional expenses of recovering the ferry purchase price, the interest pending on that purchase price, the cost of at least two new boats and all the expenses of the current owner. A private owner has nowhere to go to recover these huge additional expenses but to the public in the form of rate increases.

Many of us who have served on this committee did so hoping that we could be helpful in recommending a business model which would at the very least, maintain the current level of service plus decrease the cost of ferry tickets. We strongly endorse the VTA as the best Chappy ferry management model to serve the public. We make this endorsement because we believe that the VTA has the best chances of providing optimal services and at the same time reasonably reducing ticket prices. The following are some of the advantages and disadvantages to having the VTA manage the ferry.

ADVANTAGES TO HAVING THE VTA MANAGE THE CHAPPY FERRY

The VTA believes that there is a VERY GOOD chance that the government will pay for new ferry boats. They now pay for all of the VTA busses. The cost estimates we received per boat range from \$500,000-\$1,000,000.

The VTA is a tax free organization. They pay no fuel taxes. They pay no income taxes.

They can take advantage of economies of scale. Examples would be fuel purchasing programs and coops, parts warehousing expenses, service vehicle expenses, personnel expenses, facility rent, communication equipment expenses, etc.

They are already in the business of applying for state and federal aid. They know how to submit the paperwork and they know where to go for aid.

Net revenues can come back to the ferry in terms of reduced ticket prices.

They currently enjoy modern office and service facilities.

They have the financing available to inventory an appropriate quantity of major component parts.

The prospect of employee technician cross training is greater at the VTA because they currently have a staff of trained vehicle technicians.

There is a management structure at the VTA which should better serve the public during emergencies. There are five managers available who could react: the VTA administrator, the VTA assistant administrator, and the VTA management company general manager, and two VTA management company assistant general managers. If a manager is sick or on vacation, there is a significant level of backup management.

The VTA is currently in the people moving business. They handle over \$1,000,000 in cash from fares annually. They are very likely to bring better internal cash handling controls to the ferry business.

The VTA doesn't have to make a profit. They are therefore unlikely to hold back on ferry maintenance or the needed purchase of new equipment.

The VTA is very flexible in the way they could come to manage the ferry. The town could buy the ferry and gift it to the VTA. The town could buy the ferry and lease it to the VTA. The VTA could buy the ferry.

In our opinion, the major share of the savings discussed here will likely return to the ferry in the way of rate reductions or future lower rate increases.

DISADVANTAGES TO HAVING THE VTA MANAGE THE CHAPPY FERRY

The government is likely to pay for the boats, but there is no guarantee.

The VTA will only pay appraised value for the Chappy ferry. The current owner could hold out for a higher price.

The paperwork to get the VTA in place could be somewhat time consuming. If the current owner sells to a private party before the VTA is in a position to take over the management, this option will be lost until the next sale.

It is unlikely, but the VTA advisory board could vote to take excess Ferry revenues to reduce Martha's Vineyard town assessments.

The advisory board views the VTA as a service for the benefit of the whole of Martha's Vineyard. Edgartown has about a 26% vote on that board.

WHY THE ADVANTAGES GREATLY OUTWEIGH THE DISADVANTAGES

When we compared the advantages with the disadvantages we concluded that this management model is the one option that we can strongly recommend to the selectmen. There are no models of management that come with no risks to the public. This option appears to us to have fewer risks and much greater opportunities to serve the best interests of our community.

In the unlikely event that the government will not pay for the boats, the public will still benefit from a tax free status, economies of scale and all the other advantages.

The current ground lease agreement expires on July 7, 2008 and the license expires on August 17, 2008. We are reasonably confident that this amount of time should give the town and the VTA time to make the transition.

If the VTA buys the ferry, they too will have to repay their debt, interest, and make capital expenditures. But, during that time, they would hope to reduce ferry rates and retain some earnings. It will be years before any excess earnings would be realistically available to be shifted to reduce Martha's Vineyard town assessments.

The VTA advisory board, because of its regional view, is interested in the well being and good will of all of the Martha's Vineyard towns. The likeliness is that any board vote on Chappy ferry business, if at all possible, would support Edgartown's wishes.

For all of the above reasons we enthusiastically recommend the VTA management model to the Edgartown selectmen for your approval.

PRIVATE OWNERSHIP OPTION

There is no question that America's history of economic success can be greatly attributed to the small business people who have embraced our free enterprise system. Freedom to operate creatively, efficiently, and without a great degree of government intervention has served our country well.

ADVANTAGES TO PRIVATE OWNERSHIP OF THE CHAPPY FERRY

A private owner can buy the ferry and commence operations quickly without the red tape and other contemporaneous processes required of a public utility.

Because this particular business is small and uncomplicated, a dedicated owner can maximize profits with the relatively simple tools of work ethic, listening, and initiative. He/she can make decisions and changes quickly. He/she is capable of responding effectively to reasonable requests of the Edgartown selectmen. He/she can resolve complaints quickly.

Private ownership is a workable option as long as he/she is allowed to raise rates to a level which covers debts and expenses.

This is a small community. Small businesses flourish in small communities. An atmosphere in which many customers, the owner, and employees are on a first name basis drives good communication between customer, owner, and employees. This environment is an extremely helpful tool used to maximize customer satisfaction and efficiency.

Most small business people are proud. There is an extra incentive to maximize services and customer satisfaction when everyone in the community knows who the owner is.

If the selectmen create an active advisory board, a single owner could use the advisory board to help him/her take advantage of any new technologies, government subsidies, fuel discounts, etc. In addition, that board could help maximize communication between selectmen, the owner, and the community.

DISADVANTAGES OF PRIVATE OWNERSHIP OF THE CHAPPY FERRY

Healthy competition, to a great degree, has been a successful alternative to government supervision of small businesses. Competition drives up efficiency, and innovation. Competition drives prices down.

The Chappy ferry is now THE ONLY way to get on and off Chappy. The expanded Chappy community and their required service providers can no longer look to a less expensive or more efficient travel alternative. Today, a small business which has a monopoly on Chappy transportation introduces unreasonable risks to the community. A monopoly essentially eradicates many of the favorable elements in the free enterprise system which benefits the consumer. Without competition or government oversight,

nothing drives up efficiency or innovation. Nothing drives down prices. Today, the prices to travel to and from Chappy are VERY HIGH.

There is an argument that states that the Chappy community knew the risks of a barrier beach breach before they moved to Chappy. They knew that there was only one ferry service. However, the size and scope of the development on Chappy during the last five years has been unprecedented. A great percentage of long term Chappy home owners now face huge demands for a monopoly ferry service designed to move traffic levels of 15 to 20 years ago. The quality of life of these citizens, to a great degree, is today at the mercy of a small business owner who operates a monopoly.

The current ferry service has no competition to drive down competitive pricing. Therefore, if the current owner is allowed to sell his business to a new owner for a commensurately inflated price, the cost basis to the new owner will most likely drive prices even higher. The citizens will have no other option but to pay an unreasonably high price.

WHY THE DISADVANTAGES OUTWEIGH THE ADVANTAGES

We believe that the lack of competition and the acquisition costs to a future owner will most assuredly drive ticket prices even higher. We believe that these higher prices can be avoided or at least abated by adopting the VTA model and, therefore, by adopting this private ownership model we would do a disservice to the community.

Appendix 4

Some Highlights of Legal Review of Lease and License

1. The Town can terminate the ground lease for any reason or for no reason.
2. The Town can terminate the ferry license for good cause shown. Further the Town can decide not to renew the license for just cause. Just cause is not limited to finding the licensee at fault, but may include other legitimate reason, such as the Town's decision that the public interest would be better served by having a different licensee.

Sources: License, Ground Lease and Legal Opinion from Palmer Dodge.

Appendix 3

Martha's Vineyard Regional Transit Authority (VTA) Operation of the Chappy Ferry

The VTA (<http://www.vineyardtransit.com/Pages/index>) is a well run public transit authority. It provides year-round public transit service to the six towns of Martha's Vineyard: Aquinnah, Chilmark, Edgartown, Oak Bluffs, Tisbury and West Tisbury. The VTA's transportation services consist of both fixed route and paratransit services (known as the "Lift").

VTA fixed route service varies throughout the year, depending on the seasonal travel demand. The VTA's peak season of operation typically runs from May to October, with thirteen routes that travel Island-wide.

During 2006, its revenues and expenses were as below:

MVTA - 2006			%
Revenues	Federal	426,539	12.6%
	Local	722,929	21.3%
	State	1,153,859	34.0%
	Brokerage, other	97,257	2.9%
	Farebox and other	996,042	29.3%
		3,396,626	100.0%
Expenses	Fixed Routes	2,616,954	77.0%
	Admin, Debt	222,327	6.5%
	Demand Response	461,543	13.6%
	Brokerage, etc.	97,257	2.9%
		3,398,081	100.0%

