

STAFF SUMMARY

Date: September 10, 2008

File # A-499



TO:		FOR:		FROM:	
X	General Manager		Vote	Dept.:	Accounting
				Author:	Robert B. Davis
X	Board Members	X	Information	Subject:	Preliminary Draft of Proposed 2009 Operating Budget

PURPOSE: To present a preliminary draft of the staff's proposed 2009 Operating Budget for the Board's review and comments.

BACKGROUND: Attached please find a preliminary draft of the staff's proposed 2009 Operating Budget including a statement of projected revenues and expenses, a statement of detailed operating expenses with comparisons to 2007 actual, the 2008 budget and an updated estimate for 2008 using 7 months actual and 5 months budget.

COST OF SERVICE: The Authority's total operating expenses in 2009 are expected to approach \$79,835,000. This projected cost of service for 2009 represents a 0.3% increase in total operating expenses versus the most recent estimate for 2008 (based on 7 months actual expenses and 5 months budgeted expenses).

Total operating expenses in 2009 are projected to increase by approximately \$270,000 over the estimated 2008 operating expenses. The most significant variances in projected cost are attributed primarily to the following cost categories:

EXPENSE DESCRIPTION	2008 ESTIMATE	2009 BUDGET	VARIANCE	% CHANGE
DEPRECIATION	\$8,110,842	\$9,305,505	\$1,194,663	14.7%
MAINTENANCE	11,429,179	9,945,714	-1,483,465	16.5%
VESSEL FUEL OIL	10,183,510	9,700,000	483,510	3.8%
WAGES	28,407,578	28,669,007	261,429	4.0%
HEALTH & WELFARE	6,882,307	7,105,102	222,795	3.2%
PAYROLL TAXES	2,178,730	2,288,802	110,072	7.5%
TOTAL	\$67,196,054	\$67,771,020	\$574,966	0.9%

Vessel fuel oil expense is projected to decrease 3.8% over the current year's estimate. In the development of the 2009 Operating Budget we have reviewed the methodology used in our assumption. In the past we have based the assumption on crude oil prices and have applied an index and supplier ratios to the calculations. After discussions with industry experts, it was determined that the Authority's fuel cost more closely tracks versus the heating oil index. During the past three and a half years there is a 95% correlation to prices paid for vessel fuel oil versus the NYMEX heating oil index.

As a result of this information, we have reviewed the methodology of our budget calculations and have developed a revised formula. To confirm that our revised calculations are a better measure in which to base the operating budget upon, we used both methods against the historical prices for the past 3 year. In each year the new method tracked closer to actual prices paid.

We are exploring different strategies such as (1) the use of a financial hedge based on NYMEX heating oil futures pricing, (2) the option to lock in a fixed price with the Authority's fuel oil contract for 2009, or (3) a combination of both in order to protect ourselves from significant volatility in the price we pay for nearly 3,000,000 gallons of fuel oil each year.

Depreciation expense is expected to increase 14.7% as a result of the full year addition of the M/V Nantucket mid-life refurbishment, Phase I of the Oak Bluffs Pier Reconstruction project and the Fairhaven bulkhead and pier reconstruction, including dredging. In addition, depreciation expense will include a partial year of depreciation on Phase II of the Oak Bluffs Pier Reconstruction project.

The projected cost of service for 2009 is based on the approved operating schedule through May 18, 2009 and an operating schedule similar to this year's schedule for the remainder of the year.

OPERATING REVENUES: The projected operating revenues for 2009 are generally based on actual traffic statistics for the 12-month period ending July 31, 2008. The Authority's traffic statistics over the past few years are as follows:

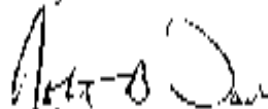
	2007 Actual	2008 Budget	2008 Estimate	2009 Budget
No. of Passengers carried	2,692,366	2,703,319	2,721,838	2,714,664
No. of Automobiles carried	482,757	455,423	458,522	456,592
No. of Trucks carried	146,444	147,733	147,341	146,387
No. of Cuts Parked	163,031	162,189	175,769	175,769
No. of Trips	21,991	22,712	22,497	21,672
No. of Miles Traveled	316,484	346,608	342,028	332,744

Projected operating revenues of \$85,206,282 in 2009 represents an increase of \$2,311,000, or 2.8%, versus the estimate for 2008. Currently, it is not anticipated that any rate increases will be needed to cover next year's estimated cost of service including generating sufficient cash flow from operations to meet the Authority's Sinking Fund transfer requirements and to make transfers to the Authority's Replacement Fund.

The Authority's Sinking Fund requirements for 2009 include estimated bond interest payments of \$1,157,176 on September 1, 2009, \$1,157,176 on March 1, 2010 and bond principal payment of \$4,490,000 due on March 1, 2010.

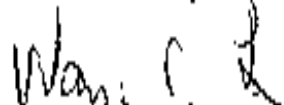
Based on our estimate of revenues and expenses for 2009, the Authority's net operating income next year is expected to be approximately \$4,325,334.

RECOMMENDATION: This information is being forwarded for review and discussion by the Board Members. No action is being requested at this time. A vote to adopt the recommended Operating Budget will be requested at the Authority's October meeting.



Robert B. Davis
Treasurer/Comptroller

APPROVED:



Wayne C. Lamson
General Manager