

PREFILED TESTIMONY
ON
EXISTING FARES AND EXPENSES; REVENUE REQUIREMENTS AND PROPOSED
RATE INCREASES
OF FERRY BOAT COMPANIES
BY
AVERY WILLIAMS
TECHNICAL CONSULTANT TO FERRY COMPANIES
JANUARY 5, 2025

I. STATEMENT OF QUALIFICATIONS

Q: PLEASE STATE YOUR NAME AND QUALIFICATIONS FOR THE RECORD

A: My name is Avery Williams, and the Ferryboat companies engaged me to serve as their Technical Consultant to develop a report and prepare testimony on their existing fares and expenses, as well as the revenue requirements to cover expenses and provide a reasonable return in accordance with applicable law.

By way of background, I have a bachelor's degree in accounting and an MBA in Finance. I spent 20 years as an officer in the Navy in various positions ranging from supply chain operations to finance. I have been doing financial consulting for 30 years, and I have previously worked as a technical consultant for the PSC on waste management and ferry matters.

II. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

The PSC initiated the legally mandated rate investigation to be conducted not less frequently than every 5 years, under Title 30 V.I.C. Sec. 20(b), and appointed a Hearing Examiner. The Hearing Examiner established a schedule to conduct the required investigation, including a requirement to Pre-file testimony on the subject of the mandatory investigation. My testimony addresses both the conduct of the investigation generally, my conclusions on the results of a detailed review of the Companies operations, and the need for an increase in rates to cover

reasonable expenses, as currently being incurred, and as projected over the next 5 years, and to allow a return to the Companies as required by law. My testimony will present the findings of a review undertaken to determine the extent to which the revenue requirements have been met under current fares, as well as the increases required to achieve coverage of reasonable expenses and a fair return to the Companies as owners and operators, as mandated by statute.

III. ORGANIZATION OF TESTIMONY

Q: PLEASE PROVIDE AN OVERVIEW OF THE ORGANIZATION OF YOUR TESTIMONY?

A: My testimony is organized into the following sections:

- STUDY OBJECTIVES
- STUDY APPROACH
 - Assumptions
 - Procedures and Data Analysis
- MAJOR FINDINGS
 - Impact of Existing Rates on Revenue – (Appendices A to D)
 - New adjusted gross revenue requirement:
- SUMMARY
 - Significant Revenue Producers
 - Gross Revenue Levels Achieved versus Gross Revenue Requirement
- CONCLUSION
 - Methodology to provide Allowable Earnings on New Vessels
 - New Gross Revenue Requirement
- RECOMMENDATIONS
 - Methodology to provide Allowable Earnings on New Vessels.
 - Recommended New Rates

IV. STUDY OBJECTIVES

Q: PLEASE DESCRIBE THE OBJECTIVES OF THE STUDY WHICH YOU UNDERTOOK ON BEHALF OF THE FERRY COMPANIES

A: The objectives of this study were focused on answering the following questions:

1. What was the relative performance of passenger traffic and operating revenues for the 24-month period January 2023 through December 2024?
2. What has been the impact of existing fares on gross revenues over that period?
3. How should fares be adjusted based on the findings of the investigation?

V. STUDY APPROACH

Q: PLEASE DESCRIBE YOUR APPROACH TO CONDUCTING THE RATE REVIEW

A: The following are the essential considerations that went into determining the approach for the Rate Review.

1. The last rate increase took effect at the end of September 2013. The study aimed to determine the financial viability of those rates. We excluded data from January 2020 through December 2022 due to the COVID-19 pandemic. Data before 2020 was deemed not reflective of current conditions.
2. Two new vessels were brought into service in July 2014 under a lease from the Government of the Virgin Islands. This represented a significant change in the operation of the Ferry Companies, as rates were previously reviewed and instituted. A third new vessel was brought into service in late 2025 under a lease from the Government, which further resulted in material change in the revenue requirements applicable to the franchise.
3. An assessment of other factors affecting the companies' earnings was conducted to determine whether a rate increase was needed.

- 4 . Considerable focus was given to historical passenger ridership and to forecasting future ridership, as ridership has a significant impact on revenue.

VI . MAJOR FINDINGS

Q: PLEASE SUMMARIZE THE MAJOR FINDINGS OF YOUR STUDY

A: The following is a summary of the significant findings of this rate review:

1. Gross Revenues: The existing fares, which went into effect at the end of September 2013, enabled the Ferry companies to achieve revenues of \$6,630,820 in 2023 and \$6,981,318 in 2024, with an average of \$6,806,071 and a total of \$13,612,143 for the 24 months from January 2023 through December 2024. (Appendix A)
2. Significant Revenue Producers: The significant revenue producers for the ferry companies are Non-Residents, Adults, and Luggage. Together, they accounted for 82.5% of revenues for the 24-month period January 2023 through December 2024, with Non-Resident traffic contributing 50.7% of revenues, Adults contributing 19.8%, and Luggage contributing 12.0%. (Appendix E)
3. Understatement of Gross Revenue Deficiency: Based on actual revenues realized for the observed period, the franchise earned significantly less than the minimum legally required rate of return. In fact, over the two years, the franchise lost \$262,328. In 2023, the franchise realized a loss of \$856,863. For 2024, the franchise realized a gain over expenses of \$332,208.but still fell short of achieving its legally required rate of return under the applicable statute – Act 7893, Section 9(b)..

Q: YOU MENTIONED THE MATTER OF PROVISION FOR ALLOWABLE EARNINGS FOR THE COMPANIES IN CONNECTION WITH THEIR MANAGEMENT AND OPERATION OF THE NEW VESSELS LEASED FROM THE GOVERNMENT. PLEASE EXPLAIN THE NEED FOR THIS EARNINGS ALLOWANCE?

A: The following are the considerations bearing on this matter:

- 1 The applicable statute providing guidance on allowable earnings to the Ferry Companies is based on applied assets employed in the execution of the franchise agreement. The required rate of return is based on these applied assets, including both leased and company owned vessels devoted to serving the franchise.
- 2 Appendix F lists the value of the applied assets used by the Ferry Companies in execution of the franchise agreement.

VII . CONCLUSION

Q: WHAT CONCLUSIONS DID YOU DRAW FROM THE FINDINGS RESULTING FROM YOUR REVIEW

A: The following are the conclusions growing out of the rate review that I conducted:

1. Based on the findings of this rate review, fares need to be increased to generate enough revenue to provide the mandated rate of return.
2. Based on the projected ridership for the five-year period starting in 2026, if the current rates are maintained, the franchise will lose an average of \$300,000 a year. A rate adjustment, as presented in Appendix C, is needed to avoid persistent losses.

VIII . RECOMMENDATIONS

Q: DO YOU HAVE ANY RECOMMENDATIONS YOU WOULD LIKE TO MAKE TO THE COMMISSION ON BEHALF OF THE FERRY COMPANIES?

A: I recommend:

1. Based on the new gross revenue requirement of \$8.6 million, displayed below, to maintain reliable ferry service and provide a reasonable return on assets, it is recommended that the proposed fare adjustments be adopted.

	Amount (USD)
Applied Assets	\$17.7 million
Target ROI (8%)	\$1.4 million
Average Operating Expenses (Combined)	\$7.3 million
Average USVI Government Subsidy	\$200,000
Required Revenue to Meet Target	\$8.5 million

APPENDIX A

CONSOLIDATED FERRY BOAT ACTIVITY
FOR JANUARY 2023 TO DECEMBER 2024
REDHOOK AND DOWNTOWN COMBINED

(This chart summarizes the operating activity of the ferryboat companies and the combined franchise for the 24-month period January 2023 through December 2024.)

	<u>2023</u>	<u>2024</u>	<u>Projected</u>
Revenue:			
Franchise Income	6,630,824	6,981,319	6,806,071
Total Operating Revenue	6,630,824	6,981,319	6,806,071
Expenses:			
Salaries	1,905,286	1,784,731	1,845,009
Payroll Taxes	217,804	262,574	240,189
Benefits	393,084	375,228	384,156
Fuel and oil	1,526,537	1,500,840	1,513,689
Insurance	396,298	598,207	497,253
Office expense	21,674	7,869	14,772
Depreciation and Amortization	155,196	0	155,196
Repairs & Contract maintenance	377,907	365,471	371,689
Gross Receipt Taxes	331,531	322,617	327,074
Excise Tax	0	13,510	13,510
Parts & Supplies	20,716	331,815	176,266
Docking fees and licenses	481,551	331,675	406,613
Loss on Destruction of Property	0	0	
Boat expense	440,257	71,226	255,742
Security expense	0	8,446	8,446
Casual labor	3,275	70,594	36,934
One Ticketing Expenses	216,600	377,064	296,832
Other Expenses	1,196,537	406,728	686,799
Direct Operating Expenses	7,684,254	6,828,596	7,256,425
General & Administrative Expenses	0	229,668	229,668
Total Operating Expenses	7,684,254	7,058,265	7,371,259
Operating Income/(Loss)	-1,053,430	-76,945	-565,188
Other Income (Expense):			
Government Subsidy - Note 13	218,750	427,500	323,125
Interest Expense	-22,183	-18,346	-20,265
Total Other Income (Expense)	196,567	409,154	302,860
Income before Income Tax	-856,863	332,208	-262,328

APPENDIX B
 CONSOLIDATED REDHOOK AND DOWNTOWN RIDERSHIP
 2023 AND 2024

(This Chart looks at the changes in traffic (Passengers and Luggage))

	<u>2023</u>	<u>2024</u>
Downtown		
Adults	398	840
Bags	8,412	15,125
Bulk	0	0
Child	653	1,090
Commuter	6	0
Infant	0	91
Compliment	11	24
Non-Resident	9,823	19,329
Seniors	176	317
Subtotal - Downtown	19,479	36,816
Red Hook		
Adults	237,302	268,471
Bags	102,680	233,183
Bulk	36,873	36,569
Child	38,591	43,454
Commuter	214,799	219,023
Compliment	1,870	546
Infant	0	3,428
Non-Resident	354,146	399,029
Seniors	76,127	79,412
Students	42,773	43,259
Teachers	9,858	9,961
Subtotal - Red Hook	1,115,019	1,336,335
 Grand Total	 1,134,498	 1,373,151

APPENDIX C
PROJECT REVENUES BASED ON EXISTING RATES

(This chart looks at projected revenues based on current rates based on the various classes of service.)

	Projected Revenues				
Red Hook	2026	2027	2028	2029	2030
Adults	1,486,638	1,501,504	1,516,519	1,531,684	1,547,001
Bags	658,144	664,725	671,372	678,086	684,867
Bulk	125,927	127,186	128,458	129,743	131,040
Child	40,193	40,595	41,001	41,411	41,825
Commuter	743,838	751,276	758,789	766,377	774,041
Compliment	0	0	0	0	0
Infant	0	0	0	0	0
Non-Resident	3,007,130	3,037,201	3,067,573	3,098,249	3,129,231
Seniors	114,296	115,439	116,593	117,759	118,937
Students	136,975	138,345	139,728	141,125	142,536
Teachers	38,836	39,224	39,616	40,012	40,412
Subtotal					
Downtown					
Adults	7,272	7,345	7,418	7,492	7,567
Bags	46,124	46,585	47,051	47,522	47,997
Bulk	0	0	0	0	0
Child	2,989	3,019	3,049	3,079	3,110
Commuter	21	21	21	21	21
Compliment	0	0	0	0	0
Infant	0	0	0	0	0
Non-Resident	185,653	187,510	189,385	191,279	193,192
Seniors	1,452	1,467	1,482	1,497	1,512
Subtotal					
Total	6,595,486	6,661,440	6,728,053	6,795,334	6,863,287
age Operating Expenses	7,266,766	7,266,766	7,266,766	7,266,766	7,266,766
Operating Profit / (Loss)	(671,280)	(605,326)	(538,713)	(471,432)	(403,479)
USVI Subsidy	200,000	200,000	200,000	200,000	200,000
Aggregate Profit / (Loss)	(471,280)	(405,326)	(338,713)	(271,432)	(203,479)

APPENDIX D
PROJECT REVENUES BASED ON PROPOSED RATES

(This chart looks at projected revenues based on proposed rates based on the various classes of service.)

		Projected Revenues				
		2026	2027	2028	2029	2030
Red Hook						
Adults	\$8.00	1,982,184	2,002,006	2,022,026	2,042,246	2,062,668
Bags	\$5.00	822,680	830,907	839,216	847,608	856,084
Bulk	\$3.50	125,927	127,186	128,458	129,743	131,040
Child	\$1.00	40,193	40,595	41,001	41,411	41,825
Commuter	\$3.50	743,838	751,276	758,789	766,377	774,041
Compliment	\$0.00	0	0	0	0	0
Infant	\$0.00	0	0	0	0	0
Non-Resident	\$11.00	4,058,703	4,099,290	4,140,283	4,181,686	4,223,503
Seniors	\$1.50	114,296	115,439	116,593	117,759	118,937
Students	\$3.25	136,975	138,345	139,728	141,125	142,536
Teachers	\$4.00	38,836	39,224	39,616	40,012	40,412
Subtotal						
Downtown						
Adults	\$13.00	7,878	7,957	8,037	8,117	8,198
Bags	\$5.00	57,655	58,232	58,814	59,402	59,996
Bulk	\$10.00	0	0	0	0	0
Child	\$3.50	2,989	3,019	3,049	3,079	3,110
Commuter	\$7.00	21	21	21	21	21
Compliment	\$0.00	0	0	0	0	0
Infant	\$0.00	0	0	0	0	0
Non-Resident	\$15.00	214,215	216,357	218,521	220,706	222,913
Seniors	\$6.00	1,452	1,467	1,482	1,497	1,512
Subtotal						
		8,347,840	8,431,319	8,515,632	8,600,787	8,686,794
Average Operating Expenses		7,266,766	7,266,766	7,266,766	7,266,766	7,266,766
Projected Operating Profit / (Loss)		1,081,074	1,164,553	1,248,866	1,334,021	1,420,028
USM Subsidy		200,000	200,000	200,000	200,000	200,000
Aggregate Profit / (Loss)		1,281,074	1,364,553	1,448,866	1,534,021	1,620,028

APPENDIX E
 PROPORTION OF ADULT TRAFFIC AND REVENUES GENERATED BY NON-RESIDENT CLASS OF
 SERVICE
 JANUARY 2023 TO DECEMBER 2024

(This chart compares the relative proportion of passengers in the Adult- Resident and Adult-Non-Resident classes of service and the associated revenues derived from these categories.)

Adult Class of Service	Passengers	Revenues	Percent of Passengers	Percent of Revenues
Adult-Resident	507,011	\$ 3,556,505	39.3%	28.1%
Adult Non-Resident	782,327	\$ 9,098,702	60.7%	71.9%
Total Adult	1,289,338	\$ 12,655,297	100.00%	100.00%

APPENDIX F
COMPANY ASSETS APPLIED TO FRANCHISE SERVICE

(This chart details the assets in service, including those currently completing repair or restoration.)

Varlack Ventures, Inc.

<u>Vessel Name</u>	<u>Value</u>
Capitol Venture	395,000
Lady Venture	1,390,000
Venture Pride	875,000
<u>Red Hook 1</u>	<u>3,850,000</u>
Total	6,510,000

Transportation Services USVI

<u>Vessel Name</u>	<u>Value</u>
Spirit of 1733	7,806,397
Cruz Bay 1	2,275,000
Carib Tide	780,000
<u>Caribe Cay</u>	<u>375,000</u>
Total	11,236,397

Grand Total Assets 17,746,397

Return on Investment 1,419,712 8.0%

Avg Operating Expenses (2023/2024) 7,266,766

Revenue Target 8,686,477

USVI Subsidy (less) 200,000

Revenue Target (net of USVI subsidy) 8,486,477