240 West 35th Street ■ Suite 302 ■ New York, New York 10001

Testimony on NYC Ferry

Delivered to the New York City Council Committees on Transportation and Infrastructure and Economic Development

September 22, 2022

Sean Campion, Director of Housing and Economic Development Studies, Citizens Budget Commission

Good afternoon. I am Sean Campion, Director of Housing and Economic Development Studies at the Citizens Budget Commission (CBC), a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services and finances of New York City and New York State. Thank you for the opportunity to testify.

Today, I will discuss both NYC Ferry's finances and the effect that overseeing the ferry has had on the budget of the New York City Economic Development Corporation (EDC).

CBC's research has documented that NYC Ferry is highly subsidized, both relative to New York's other transit systems and other ferries nationally. Reducing the subsidy will allow public resources to be put to other, higher-impact uses and help stabilize EDC's fiscal outlook.

EDC has taken some welcome steps to address the high subsidy needed to run NYC Ferry, including shifting to variable pricing and issuing a Request for Proposals (RFP) for a new operating agreement. These may modestly improve the ferry system's financial footing, but they do not go far enough to reduce the need for costly subsidies.

To reduce the total subsidy, CBC has called on EDC to eliminate the lowest-ridership routes, avoid money-losing expansions, target subsidies to those in the greatest need of affordable transit options, and increase fares for other riders to match those of comparable premium transit services, like the MTA's express bus system.

The NYC Ferry subsidy is high for two reasons: high-cost routes and low fares. Operating costs are high because the City runs long routes, many of which attract a low number of regular riders. Meanwhile, fare revenue is low because, until this month, City policy pegged the fare at $2.75—the subway and bus fare—despite NYC Ferry's high operating costs and a highly seasonal and leisure-oriented ridership base.

High costs and low fare revenue require a comparatively high subsidy. In fiscal year 2021, the most recent year for which data is available, the average per-trip subsidy for NYC Ferry was at least $9.85, including both payments to the private operator and EDC's internal costs. The subsidy is higher on some routes and lower on others, depending on the length and ridership.

EDC has recently taken steps to improve NYC Ferry's financial outlook by reducing service levels and increasing fares.

At the onset of the pandemic in 2020, EDC reduced operating expenses by eliminating redundant routes and cutting back service on lines with low ridership and high fixed operating costs. EDC reduced ferry revenue hours by 15 percent between fiscal years 2019 and 2021, which resulted in a 28 percent reduction in operating expenses per revenue hour. The per-trip subsidy fell 14 percent over the same period, even with ridership 33 percent below pre-pandemic levels.

In July of this year, EDC released the *Ferry Forward* plan, which outlined a new fare policy and EDC's plans to increase transparency into the system's finances and operations. In line with CBC's recommendation to implement variable pricing—first published three years ago—EDC now charges $4 for single ferry trips while offering a 10-trip pass for regular riders at the original $2.75 fare, and reduced fares for eligible low-income riders.

While positive, these actions do not go far enough towards reducing the subsidy. The fare increase still falls short of the fares charged by other premium transit services, like the MTA express bus service, which charges $6.75 per ride. EDC also should structure the discounted 10-ticket package so that it can only be used by individual commuters and not by groups. Furthermore, the City still has not reconsidered costly routes that attract low ridership. EDC is proceeding with a proposed (albeit delayed) expansion to Coney Island, which could require a subsidy in excess of $25 per trip. Also, this summer, EDC ran an additional, higher-priced express ferry to the Rockaways; while data are not available, the service likely required a significant subsidy to support leisure travel.

As part of *Ferry Forward*, EDC also pledged to publish annual financial information, including NYC Ferry's total revenues and operating expenses. For the first time, EDC will report total City capital commitments and its internal spending on the ferry service. As with fare policy, this is a welcome step that does not go far enough. The supplementary financial data should also include the cost of debt service on City capital spending related to the ferry system.

Reducing the ferry subsidy is vitally important to EDC's capacity to meet its core economic development mission. Since the launch of NYC Ferry, the City has directed EDC to tap its own-source revenue and cash on hand to fill the gap between NYC Ferry's revenues and expenses. In fiscal year 2019, the last full fiscal year before the pandemic, fare revenues covered just 20 percent of NYC Ferry's operating expenses, requiring EDC to divert $40 million in revenue and $25 million in cash reserves to fill the gap. As a result, in 2019 EDC operated at a loss perhaps for the first time in its history. In fiscal year 2022, the City used $30 million of federal COVID-related aid to support ferry operations. While this reduced the cost to EDC, it did not address the high subsidy level and only temporarily reduced the burden on EDC's budget. The choice to fund NYC Ferry through EDC may inhibit EDC's ability to fulfill its core mission, as the diverted revenue reduces the funds available to EDC for economic development and job creation programs.

The current NYC Ferry operating agreement between EDC and its private partner, Hornblower, expires in October 2023. Earlier this month, EDC released an RFP to seek bids from prospective private partners. (Media reports suggest that Hornblower likely will bid to continue as the operator.) In the RFP, EDC asked respondents for ideas to raise additional revenue and to reduce the need for operating subsidies. It remains to be seen whether a revised operating agreement will improve EDC's bottom line. EDC's private partner may identify new revenue streams or ideas to operate more efficiently, but the best and simplest way to reduce the subsidy remains to increase fares and avoid running low-ridership routes that are expensive to operate.

Ultimately, the success of both the *Ferry Forward* plan and the new operating agreement should be evaluated by whether and how much the subsidy—per ride and in total—is reduced, with evidence that the remaining subsidy above what is provided to other transit users is well targeted to those in the greatest need of transit options and affordability. Reducing this subsidy is important and would free up funds that could be put to better use to achieve EDC's core mission of creating well-paying jobs and growing the economy. The choice to subsidize a costly ferry system at the expense of other economic development programs has had significant negative impacts on EDC's bottom line in recent years and may hinder its ability to contribute to New York's economic recovery.

Thank you, and I look forward to answering any questions you may have.