

Review of
H2O LIMO, INC.

2021 Petition for Rates & Licensing

March 22, 2021

**Budget Review Office
Suffolk County Legislature
Hauppauge, New York 11788**

Analysis of H2O LIMO, INC. Petition for Rates & Licensing

Summary of Findings

- H2O LIMO, INC. submitted a petition for licensing, dated December 8, 2020, to the Suffolk County Legislature seeking to obtain a license to operate ferry service between the Long Island mainland and Fire Island and laterally along the Long Island mainland and various Fire Island communities. The proposed service is an “on-demand” transportation service to be provided around the clock throughout the entire year. Subsequently, a petition for the establishment of rates dated January 12, 2021 was submitted in accordance with Chapter 455 Ferry Service of the Suffolk County Code.
- H2O LIMO, INC. is a new company that was incorporated on October 21, 2020, which precludes them from submitting audited financial statements for the previous two years of operation as required per Chapter 455 Ferry Service of the Suffolk County Code.
- The petitioner would be operating as an Operator of Uninspected Passenger Vehicle (OUPV) or “6-pack” as defined by the U. S. Coast Guard (USCG) and therefore, is limited to a maximum of six passengers.
- The petitioner has no formal business plan. Conceptually, the water limo’s method of operation is to provide service for those people who, for one reason or another, choose not to or are unable to use scheduled ferries. The user can travel at their convenience, but must pay a premium for the service.
- The Budget Review Office is unable to express any opinion with respect to the reasonableness of the proposed rates to sustain a viable business because there is no history of operations.
- Should the petitioner be granted a license and franchise by the Legislature, it is imperative that H2O LIMO, INC. establish an auditable accounting system that will leave no doubt as to the number of passengers carried and revenues received. Internal controls for cash receipts must be implemented.
- The petition requests the Legislature grant the petitioner a ferry license and franchise for three years. Should the Legislature grant a ferry license and franchise to the petitioner, it may consider doing so for a shorter duration than requested, perhaps two years, allowing for the preparation of certified audited financial statements, in order to perform an assessment of the operations with respect to the appropriateness of the approved rates.
- The primary policy issue for the Legislature to consider, with respect to this petition, is whether it should expand ferry service by granting a license and franchise to a new one-vessel start-up ferry company with limited financial resources and if so, then for what duration, one to three years.

Scope of Report

All ferry service operators who transport passengers and/or freight across bodies of water within the boundaries of Suffolk County are required to obtain a license and rate approval from the Suffolk County Legislature in accordance with Chapter 455 Ferry Service of the Suffolk County Code as authorized by Section 131-g of the New York Highway Law, Article 8 of the New York Navigation Law and Section 71 of the New York Transportation Corporations Law.

H2O LIMO, INC. submitted a petition for licensing, dated December 8, 2020, to the Suffolk County Legislature seeking to obtain a license to operate ferry service between the Long Island mainland and Fire Island and laterally along the Long Island mainland and various Fire Island communities. The proposed “on-demand” service will be provided around the clock throughout the entire year. Subsequently, a petition for the establishment of rates dated January 12, 2021, was submitted in accordance with Chapter 455 Ferry Service of the Suffolk County Code. The County Legislature is the governmental agency responsible for action on these petitions. The Budget Review Office is responsible for reviewing the rate petition and presenting its findings in a report to the Legislature for their consideration.

The intent of the Suffolk County Ferry Law is to assure “continuous and adequate ferry service in Suffolk County”. The license granted by the County is not exclusive; non-exclusive licenses may be granted to as many service providers as it deems necessary.

Pursuant to Chapter 455 Ferry Service of the Suffolk County Code, applicants must submit certified audited financial statements for the previous two years of operation. Audited financial statements provide an independent, competent, and objective presentation of operations. H2O LIMO, INC. is a new company that was incorporated on October 21, 2020, therefore making it impossible for them to submit audited financial statements for the previous two years of operation. The Budget Review Office has waived this requirement in the past, when circumstances warranted, due to little or no financial history as is the case for H2O LIMO, INC.

H2O LIMO, INC. submitted a balance sheet, statement of income and retained earnings, and statement of cash flows for the year ending December 31, 2020, which represents the two months since the formation of the corporation. Leaf, Miele, Manganelli, Fortunato, & Engel PLLC. is the accounting firm that prepared the financial statements. We are in receipt of documentation verifying that they have been peer reviewed within the past five years, in accordance with subsection 455-3 (D) of the Suffolk County Code.

Analysis of H2O LIMO, INC.

The findings presented here are intended to aid the Legislature in its deliberations on the licensing and rate setting functions requested by H2O LIMO, INC.

The Petition Seeking a Ferry License and Franchise

The petition submitted by H2O LIMO, INC., dated December 8, 2020, seeks to obtain a franchise and ferry license, valid for a duration of three years, to operate an on-demand ferry service between the Long Island mainland and Fire Island and laterally along the Long Island mainland and various Fire Island communities utilizing one vessel, a 35-foot 1993 Contender side console named "The Ghost". The petitioner has provided vessel documentation and proof of insurance for The Ghost. The petition for licensing states that the petitioner intends on providing "taxi service" in the traditional sense, not pursuant to any fixed schedule or fixed termini, but on an "on-call" basis between any of the locations identified within the petitioner's proposed rate schedule (Attachment I) as requested by the passenger(s).

H2O LIMO, INC. operations

The petitioner has no formal business plan. Conceptually, the water limo's method of operation is to provide an alternative transportation option for those people who, for one reason or another, choose not to or are unable to use scheduled ferries. The user can travel at their convenience, but must pay a premium for the service. While it is impossible to predict demand for this type of operation, the petitioner believes it exists and is willing to try to meet the demand.

The petitioner intends to provide service on a 24/7 basis throughout the entire year. The business will be operated initially by the petitioner and one other employee whom is also a licensed Captain. The petitioner plans to operate the business primarily utilizing social media, word of mouth, and phone bookings. Currently, the petitioner plans on accepting electronic (Venmo) and cash payments only. All travel reservations will be recorded electronically and within a log kept on the vessel and will include details such as the time, number of passengers, travel origination and destination, and payment. This log will be used to reconcile fare revenue for reporting purposes.

The petitioner would be operating as a "6-pack" as defined by the U. S. Coast Guard (USCG) and therefore, will be limited to carrying a maximum of six passengers at a time. The USCG has performed a general safety inspection of the boat and it meets the safety guidelines for a 6-pack however, no paperwork was issued in conjunction with this inspection. Vessels that carry more than six passengers must be built in accordance with rigid USCG Commercial Vessel Inspection standards that do not apply to vessels being operated under the 6-pack designation. The petitioner is currently seeking certification from the USCG for his vessel to be used as an "inspected" vessel, which would allow him to carry more than 6 passengers at a time. The petitioner has stated that he possesses a 100-Ton Master license that allows him to operate "inspected" vessels.

H2O LIMO, INC. has submitted a balance sheet, statement of income and retained earnings, and statement of cash flows for the year ended December 31, 2020, which represents the approximate two months since the formation of the corporation. The balance sheet includes total assets of \$127,705, of which \$122,917 is property and equipment. Cash and receivables of only \$4,688 warrant some concern with respect to the company's viability should it encounter some unanticipated demands upon its financial resources. It is our opinion that the company may be under-capitalized.

Landing Sites for Ferry Service

The fee schedule proposed by the petitioner, in conjunction with their petition for rates, includes 20 locations (towns, villages, and communities), both on Fire Island and the Long Island mainland. The petitioner is either in-process or in receipt of landing agreements with the Village of Ocean Beach; Cherry's on the Bay, Cherry Grove; Town of Islip marinas, both the Long Island mainland and Fire Island; U.S. Department of the Interior National Park Service, Lighthouse Dock, Sailors Haven, Watch Hill and Barrett Beach; The Oar House, Patchogue; Flynn's Fire Island, Ocean Bay Park; Blue Whale, The Pines; Water Island; Dunewood; Fair Harbor; Saltaire; and the Kismet Inn. Since the petitioner intends on providing taxi service in the traditional sense, not pursuant to any fixed schedule or fixed termini, but on an on-call basis between any of the locations (towns, villages, and communities) identified within the petitioner's proposed rate schedule, it would be impracticable for him to have landing agreements in place for private property or residences owned by those whom opt to utilize his services.

Analysis of Proposed Rates and Cash Controls

A petition for the establishment of ferry rates was submitted on January 12, 2021. The submitted fee schedule (Attachment 1) includes three sub sections as follows; Taxi services between Fire Island locations, Cross-Bay Fees, and Taxi services between Long Island (mainland) locations. There was an error in the fee schedule submitted by the petitioner in which an inadvertent entry under the Islip embarkation point showed the fee to Islip as the destination. This error has been amended by the attached letter (Exhibit 1) from the petitioner's attorney to Oakdale at \$15.00. The petitioner has not submitted a proposed fee schedule for freight. Fees for taxi services between Fire Island locations and Long Island mainland locations are stated per person with a two person minimum charge. There is a flat fee of \$250 for all cross-bay travel except to or from Bellport Village, which is \$350 due to the Village's remote location. The per person fees for lateral travel along the various Fire Island communities range between \$10 and \$55. Fees for lateral travel along the Long island mainland locales range between \$15 and \$60 per person.

When establishing rates for the first time, comparisons are made with existing companies offering similar services. Presently, the per person fees being charged for lateral travel along the various Fire Island communities range between \$10 and \$30 (2-person minimum) and Cross-Bay base fees range between \$175 and \$250. Additional charges may apply depending on seasonality, time of day, freight, eligible discounts. etc.

The Budget Review Office is unable to express any opinion with respect to the reasonableness of the proposed rates to support the business because of the petitioner's lack of a business plan. Since H2O LIMO, INC. is a new business there are no internal cash controls or verifiable accounting records that will allow us to reconstruct ridership figures. The petitioner has not made any projections with respect to anticipated ridership, fare revenues, or expenses.

Should the petitioner be granted a license and franchise by the Legislature, it is imperative that H2O LIMO, INC. establish an auditable accounting system that will leave no doubt as to the number of passengers carried and revenues received. Internal controls for cash receipts must be implemented. A sequentially numbered duplex ticketing system is one example of a simple system that has been employed successfully by other ferry operators for this purpose. The purpose of

the system is to provide verifiable information which would form the basis for establishing an equitable fare structure.

Procedural Resolution No. 3-2021

Procedural Resolution No. 3-2021, laid on the table March 2, 2021, set the public hearing regarding the authorization of a ferry license and the setting of rates for H2O LIMO, INC. at the regular meeting of the Suffolk County Legislature on April 20, 2021 at 2:00 p.m.

Conclusion and Recommendation

The start-up of a ferry business is no simple task. In addition to securing boats and landing agreements; the fulfillment of all requirements from regulatory agencies and local governments, including meeting the County's licensing requirements, must be met prior to beginning operations.

The petitioner is proposing the operation of on-demand ferry service between and along Fire Island and mainland Long Island. The requested rates are generally higher than those being charged currently by similar type operations however; since this is a new undertaking, it is difficult to determine to what degree they are reasonable and appropriate.

The petition requests the Legislature grant the petitioner a ferry license and franchise for three years. Should the Legislature grant a ferry license and franchise to the petitioner, it may consider doing so for a shorter duration than requested, perhaps two years, allowing for the preparation of certified audited financial statements in order to perform an assessment of the operations with respect to the appropriateness of the approved rates.

The primary policy issue for the Legislature to consider, with respect to this petition, is whether it should expand ferry service by granting a license and franchise to a new corporation of this size that may not have resources (capital) needed to operate indefinitely. As is often the case with many small business ventures, there are significant financial risks to operating successfully that this legislature may wish to consider while deliberating on the issuance of a ferry license and franchise to H2O LIMO, INC.

* * *

Exhibit 1

BRIAN J. DAVIS, P.C.

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NICOLE VENDITTI
ASSOCIATE

March 17, 2021

Suffolk County Legislature
William J. Lindsay County Complex
William H. Rogers Building #20
725 Veterans Memorial Highway
Smithtown, NY 11787
Attn: Amy Ellis, Clerk

RE: H2OLimo Ferry License application

Dear Ms. Ellis:

As per your request, with regard to the rate petition and the attachment detailing all rates, I am confirming that there was a mistake in setting forth the rate from the Islip embarkation point. The rate schedule lists from Islip (embarkation) to Islip (destination) at \$15.00. This should be amended to Oakdale as the destination at the same rate of \$15.00.

If there is anything else required, please let me know and I will forward it.

Brian J. Davis, Esq.

CC: Robert Maag

ATTACHMENT 1

FEES and LOCATIONS

Prices are Per Person. All Locations have a two-person minimum.

1. Taxi services between Fire Island locations:

Origin: Watch Hill to:

Davis Park \$10
Water Island \$15
F.I. Pines \$20
Cherry Grove \$25
Sailors Haven \$30
Ocean Bay Park \$35
Ocean Beach \$40
Dunewood \$45
Fair Harbor \$45
Saltaire \$50
Kizmet Inn \$50
F.I. Lighthouse \$55

Origin: Davis Park to:

Watch Hill \$10
Water Island \$15
FI Pines \$20
Cherry Grove \$25
Sailors \$30
Ocean Bay Park \$35
Ocean Beach \$40
Dunewood \$45
Fair Harbor \$45
Saltaire \$50
Kizmet Inn \$50
FI Lighthouse \$55

Origin: Water Island to:

Watch Hill \$15
Davis park \$15
FI Pines \$15
Cherry Grove \$20
Sailors Haven \$25
Ocean Bay Park \$30
Ocean Beach \$35
Dunewood \$40
Fair Harbor \$40
Saltaire \$45
Kizmet Inn \$50
FI Lighthouse \$55

Origin: FI Pines to:

Watch Hill \$25
Davis Park:\$20
Water Island \$15
Cherry Grove \$10
Sailors Haven \$15
Ocean Bay Park \$20
Ocean Beach \$25
Dunewood \$30
Fair Harbor \$30
Saltaire \$35
Kizmet Inn \$35
FI Lighthouse \$45

Origin: Cherry Grove to:

Watch Hill \$35
Davis Park \$25
Water Island \$20
FI Pines \$10
Sailors Haven \$10
Ocean Bay Park \$20
Ocean Beach \$25
Dunewood \$30
Fair Harbor \$30
Saltaire \$35
Kizmet Inn \$35
FI Lighthouse \$40

Origin: Sailors Haven to:

Watch Hill \$35
Davis Park \$30
Water Island \$25
FI Pines \$15
Cherry Grove \$10
Ocean Bay Park \$10
Ocean Beach \$15
Dunewood \$25
Fair Harbor \$25
Saltaire \$30
Kizmet Inn \$30
FI Lighthouse \$35

Origin: Ocean Bay Park to:

Watch Hill \$40
Davis Park \$35
Water Island \$30
FI Pines \$25
Cherry Grove \$20
Sailors Haven \$10
Ocean Beach \$10
Dunewood \$15
Fair Harbor \$15
Saltaire \$20
Kizmet Inn \$25
FI Lighthouse \$30

Origin: Ocean Beach to:

Watch Hill \$40
Davis Park \$35
Water Island \$35
FI Pines \$30
Cherry \$25
Sailors Haven \$20
Ocean Bay Park \$10
Dunewood \$15
Fair Harbor \$15
Saltaire \$20
Kizmet Inn \$20
FI Lighthouse \$30

Origin Dunewood to:

Watch Hill \$45
Davis Park \$40
Water Island \$40
FI Pines \$30
Cherry \$25
Sailors Haven \$20
Ocean Bay Park \$15
Ocean Beach \$10
Fair Harbor \$10
Saltaire \$20
Kizmet Inn \$20
FI Lighthouse \$30

Origin: Fair Harbor to:

Watch Hill \$45
Davis Park \$40
Water Island \$40
FI Pines \$30
Cherry \$25
Sailors Haven \$20
Ocean Bay Park \$15
Ocean Beach \$10
Dunewood \$10
Saltaire \$20
Kizmet Inn \$20
FI Lighthouse \$30

Origin: Saltaire to:

Watch Hill \$50
Davis Park \$45
Water Island \$45
FI Pines \$35
Cherry \$30
Sailors Haven \$25
Ocean Bay Park \$20
Ocean Beach \$15
Dunewood \$20
Fair Harbor \$20
Kizmet Inn \$10
FI Lighthouse \$20

Origin Kizmet Inn to:

Watch Hill \$50
Davis Park \$45
Water Island \$45
FI Pines \$40
Cherry Grove \$35
Sailors Haven \$20
Ocean Bay Park \$\$25
Ocean Beach \$20
Dunewood \$20
Fair Harbor \$20
Saltaire \$10
FI Lighthouse \$10

Origin: FI Lighthouse to:

Watch Hill \$55
Davis Park\$55
Water Island \$55
FI Pines \$45
Cherry Grove \$40
Sailors Haven \$35
Ocean Bay Park \$30
Ocean Beach \$25
Dunewood \$20
Fair Harbor \$20
Saltaire \$15
Kizmet Inn \$10

2. Cross-Bay Fees

From any of the locations set forth above, all of which are on Fire Island, to any of the “cross bay” Long Island (mainland) locations set forth below there is a flat fee of \$250. If the origin or destination to or from Fire Island is Bellport Village the flat fee is \$350, due to Bellport’s remote location.

3. Taxi services between Long Island (mainland) locations:

Long Island Locations

Origin: Bellport Village

Patchogue \$25
Blue Point \$30
West Sayville \$35
Oakdale \$40
Islip \$50
Bayshore \$60

Origin Patchogue

Bellport Village \$25
Blue Point \$20
West Sayville \$25
Oakdale \$35
Islip \$45
Bayshore \$55

Origin: Blue Point

Bellport Village \$30
Patchogue \$20
West Sayville \$20
Oakdale \$30
Islip \$40
Bayshore \$40

Origin: West Sayville

Bellport Village \$35
Patchogue \$25
Blue Point \$20
Oakdale \$20
Islip \$25
Bayshore \$30

Origin: Oakdale
Bellport Village \$40
Patchogue \$35
Blue Point \$30
West sayville \$20
Islip \$15
Bayshore \$20

Origin: Islip
Bellport village \$50
Patchogue \$45
Blue Point \$40
West Sayville \$25
Oakdale \$15
Bayshore \$20

Origin Bayshore
Bellport Village \$60
Patchogue \$55
Blue Point \$40
West Sayville 30
Oakdale \$25
Islip \$15