

Memorandum  
September 26, 2016

To: HMC Transportation Committee  
From: HMC Board

The Board has reviewed the "HMC – Ferry Services White Paper Analysis" as submitted. While we appreciate the efforts of the committee, the paper failed to address in an adequate manner the basic question. Rather the committee has submitted an opinion.

The committee was to look into the concept of contracting out the ferry operations. To provide a "white paper" that would include background, pros/cons and analysis that would result in a recommendation to the board and provide the membership with a critical analysis of the question so that "The Membership" can make an informed decision regarding contracting ferry operations. All statements made in the paper should first have focused on the subject, "The Pros and Cons of Contracting Out Ferry Operation", and second they must be supported by fact. A statement, which is not supported by fact, should not be included in a White Paper. The reviewers have used these guidelines in preparing their comments. Second, the "white paper" would have also been used to write an RFP to determine the viability of the concept.

It is noted that the Island Manager was not interviewed. As a key part of ferry operation management the IM comments and observations should have been considered. Ignoring first hand and critical sources of information is not a good business practice. It was also noted that the committee wants to start gathering data regarding ferry operations. All Captains' log books for the last 25 years are stored at the community building and are available for review. You just needed to access the records.

As you read our comments you will note our concerns regarding your attempt to compare our ferry crew cost to government funded operations that receive taxpayer funds. This impacts the credibility of the document. An attempt should have been made to compare similar ferry operations that are privately funded such as ours.

While we enjoyed reading the historical information contained in several pages of the document, these pages are not relevant to the discussion and should be removed.

Another concern is the committee's obvious support for the union and the negative bias towards HMC management. This also impacts the credibility of the document. The committee was charged with presenting both sides, unbiased.

Attachment 11 is worth a comment on its own. Your "Detailed Budget Analysis" shows a "Net Ferry Costs" of \$584,187 or \$1562 for 374 assessments. What you fail to do is look at the original unsolicited proposal and see the offer of \$1100 per day or \$401,500 per year. Using the numbers contained in Attachment 11, this computes to \$1074 per assessment. This is a savings of \$488 per assessment. The budget contains all the expenses associated with ferry operations, which also should include IM time and OM time. The Transportation Committee was

provided proposed cost and services from a potential vendor. While the Board never intended to award a contract based on a single proposal, we felt it could be used as a basis for cost comparison. By rejecting the premise and the analysis based on this proposal the committee has shown a clear bias, which also further impacts the credibility of this document. In addition, the committee does not have the authority to reject the proposal. Only the Board or membership can reject a proposal. Only the membership can accept a proposal valued at over \$10,000.

A number of questions remain unresolved which should have been addressed by the committee;

- How many companies provide boat-staffing services?
- What are the experiences of private ferry or ship companies, which use these companies?
- What are the costs as well price escalations over time?
- Are there labor problems and how are they resolved?
- How quickly are replacement crewmembers made available when needed to cover illness and vacations?
- If there are few private companies in Washington state that use these staffing companies, out of state ferry and possibly shipping companies should be researched and reviewed.

The Board cannot use this document to write an RFP in its current form. Nor can the Board ask the Transportation Committee to write an RFP with the current built-in bias against contracting and its pro crew stance. The Board cannot overlook a potential cost savings of this magnitude to the membership without abrogating its fiduciary responsibilities. If the Transportation Committee wishes to be involved in the process then the Board needs to see a revised "White Paper" that address these deficiencies within 30 days. If the Committee is uninterested in revising this document the Board will publish this document with the Board comments. The Board will then write a "White Paper" and RFP and proceed with determining if this concept should be presented to the membership for consideration.

The following is a compilation of the feedback from three members of the Board. Two members either elected not to participate or respond. Board responses are in red.

Page 2 – Paragraph 2

"The ferry also supports the Herron Island economy by providing a means for vacationers to visit the Island". **The ferry is an expense, not a profit generator.**

"Ferry management is clearly an important consideration for all these reasons." **Ferry Management was not part of the task given to the committee.**

Page 2 – Paragraph 4

"The top argument in support of employing a service provider are that it relieves the island management of having to maintain staffing of employees."

Incorrect. The main argument is cost. Can a service provider deliver the service the island needs at a reduced cost to the membership? This includes all cost of personal.

Page 2 – Paragraph 5

“The primary argument for keeping the management of our ferry “in house” and under our control is simple.” Assumption is made that HMC loses control of the ferry operations by contracting out. This is not supported by fact.

“The cost for our ferry service will increase with a service provider.” This is an assumption not supported by fact. See attachment 11. Your current numbers support contracting.

“Belief is that this will be the natural effect of moving from a “nonprofit” operation to a “for profit” operation.” Not supported by facts. No basis in law for this claim.

“By moving to a crew that is not vested in ownership it will result in reduced maintenance, and a crew with a reduced understanding of the factors indicating trouble.” Not supported by fact. This is an assumption.

“Security is our third factor supporting “in house” management.” Not supported by fact. No reason to assume security will be compromised.

Page 3 – Paragraph 3 & 4

“In late 1999 the attitudes show a marked change concerning the ferry. The accidental death of Rose McGinn woke up the island and this brought about significant change. The incident involved Ms. McGinn’s vehicle rolling off the ferry and into Puget Sound. Prior to her death the HMC Board appointed a Transportation head to oversee issues with the ferry, including the hiring and firing of staff. Comments in the “Beachcombers” pointed the blame towards employee turnover and a lack of training. Employee unhappiness was evident in the days around this tragedy and it is said we went through five captains in a very short time.

This all changed following the catastrophe. The HMC Board was recalled, the office staff resigned, and the ferry crew went through significant changes. The cause was never shared with the members, but it was widely acknowledged that there was negligence by the crew due to a lack of chocks, which would have prevented vehicle movement, and lack of training.” Both paragraphs support the need to have a professional and qualified staff on the ferry. They do not support contracting or not contracting ferry crew services. It does support having a detailed contract, either with the union or a contractor. For the purpose of this white paper it does not add value unless tied into costs. History. Not relevant to the discussion. Should be deleted.

Page 4 – History. Not relevant to the discussion. Should be deleted.

Page 5 – History. Not relevant to the discussion. Should be deleted.

Page 6 – History. Not relevant to the discussion. Should be deleted.

Page 7 – Paragraph 4

“On March 27, 2000, the HMC Board hired its first island manager, Doug Allen.” This is the result of the lawsuit. The Island Manager was hired to oversee the ferry operations. This is a direct cost to the island and needs to be reflected in a cost comparison. Not relevant to the discussion. Should be deleted.

Page 8 – History. Not relevant to the discussion. Should be deleted.

Page 9 – History. Not relevant to the discussion. Should be deleted.

General comment: HMC still does not have manuals or documents regarding maintenance or crew safety/operation instructions. Safety inspections are not in full compliance under current situation. This supports either IBU contract issues or being written into a supplier contract. Under both conditions it is a cost and should be included in the cost analysis, which has not been done. Second no volunteers worked on the water project. Third, you should replace “Claudia” with Island Manager. You are talking about the position, not the person.

Page 10 – Priority 4. “Outsourcing will lesson responsibilities of HMC Board so that more members may step up to serve on our board.” **HMC board will still have the same responsibilities.**

Page 10 – Priority 5. “IM and HMC Board no longer responsible for handling or resolving crew complaints.” **HMC board and IM will still be responsible for handling or resolving crew complaints against Island members.**

Page 10 – Priority 8. **Remove the word alleged. Throwing gas on a fire. Not needed.**

Page 10 – Priority 9. “Personality conflicts with crew and their island neighbors would no longer be Island business.” **Assumption not supported by fact. Should be deleted.**

Page 10 – Priority 10. **Remove. Throwing gas on a fire. Not needed.**

Page 10 – Priority 11. **Assumption. Not supported by fact. Throwing gas on a fire not needed. Should be deleted.**

Page 11 – Note #1. “Reduced risk to HMC membership of ferry cancellations due to staff shortages. Whether or not this is a true statement is to be determined. Please refer to the metrics compiled by the Pierce Co ferry system. On first glance, the numbers do seem to reflect that there are more cancellations than we have experienced with our services and crew. We are not aware that tracking of this nature has taken place and recommend that we begin to accumulate these statistics that can be used to make comparisons in the future.” **Assumption not supported by fact. Should be deleted.**

Page 11 – Note #3. “No extra costs for health care coverage, no costs for union negotiations and no legal expenses for union business and grievances. Again, more numbers to start measuring. What were the costs of the original union negotiations? What were the costs for healthcare coverage? How many grievances have we experienced throughout the past contract and what have been the costs? Has this information been collected?” **Should have been included in the cost comparison that was not done.**

Page 11 – Note #4. “Outsourcing will lesson responsibilities of HMC Board so that more members may step up to serve on Board. What is the time reduction? What are the old duties that will be reduced? What new duties with a service provider will be added? Will this have an impact on potential HMC volunteers?” **Should have been included in the cost comparison that was not done.**

Page 12 – Costs Priority 1. “Increased cost in liability and replacement insurance. This would be in the event of contractor negligence. This would be needed for all assets: ramps, dolphins, ferry and passengers.” **No supporting documentation. Making a statement does not make it a fact.**

Page 12 – Costs Priority 2. “Assumption is that the life of the ferry would be shortened, due to having a staff that no longer has a vested interest in proper care of the ferry, therefore accelerating replacement costs for the membership.” **No supporting documentation and no PM schedule to support this assumption.**

Page 12 – Costs Priority 3. “Outsourcing would be at an increased expense (assumption when transitioning from nonprofit operation to a for-profit operation).” **False assumption. No supporting documentation.**

Page 12 – Costs Priority 4. “Hidden costs and legal costs to produce RFI and RFP documents.” **No supporting documentation. All bills are reviewed by the board and are available to the membership to review. Nothing is hidden.**

Page 12 – Costs Priority 7. “HMC Board will have increased budgeting efforts to determine how costs will be shared with membership. This will eventually lead to increased dues or ferry fees.” **No supporting documentation. With a service contract, budgeting would be simplified with fewer line items.**

Page 12 – Costs Priority 8. “No guarantees of the price of ferry fees. They could go up anytime and at any price. \*\* Assumption was that HMC Board would still regulate the ferry fees”. **HMC would retain control of ferry fees, not a contractor.**

Page 12 – Control Priority 1. “Leaves Certificate of Inspection (COI) vulnerable (Stays with ferry ownership—even if blemished by contractor).” **Assumption. No supporting documentation. Why would the risk change?**

Page 12 – Control Priority 2. “Loss of oversight/control by HMC in enforcing hiring standards (running background checks, validating experience and insuring licensing). Loss of control of scheduling crews, training and insuring on-call coverage.” **Assumption. Contract would set standards.**

Page 12 – Control Priority 3. “Loss of control in trip scheduling - changes wouldn't be instantaneous, may have increased cost, etc. (Once contract in place no flexibility to change schedule without contract change.)” **Assumption. Contract sets schedules.**

Page 12 – Control Priority 4. “Once the crew is outsourced, there would be no turning back to hiring our own crew again. No one would be available to hire or, at best, the crew would have to start from scratch.” **Assumption. No supporting documentation. Current crew is reaching retirement age. Hiring new captains will most likely be from off island as it is currently.**

Page 12 – Control Priority 5. “Difficult to go back to in-sourcing.” **Assumption. No supporting documentation.**

Page 12 – Control Priority 6. “Dependent on Service Provider.” **What is dependent on the contractor? We are currently dependent on our crew. No difference.**

Page 12 – Control Priority 7. “Loss of motivation/ability to make technology improvements. Would now be at mercy of service provider.” **Assumption. No supporting documentation. Contractor would have motivation to improve and reduce costs also. Contractors are cost reduction driven.**

Page 12 – Control Priority 8. “Loss of security and delinquent list management.” **Assumption. No supporting documentation. No change from current security situation. Management of assessments and delinquencies remains with HMC.**

Page 13 – Cont./Service Priority 2. “Outsourcing crews would just do their job and not care about the passengers or the maintenance of the ferry. No loyalty to maintain service or assets.” You are condemning all contractors. One member of the Board states he “spent a quarter of his working life as a contractor running other people’s equipment. It was in his best interest to maintain the equipment. Without it he did not have a job.” Maintenance would be addressed in a contract.

Page 13 – Cont./Service Priority 3. “Increased possibilities of schedule cancellations much like the State and Pierce County ferry systems.” Private versus government cannot compare. Assumption. Would be part of contract.

Page 13 – Cont./Service Priority 5. “We would lose the asset of having trained captains and deckhands as part of Membership and emergency resources supporting our island community.” Assumption. Would be part of contract.

Page 13 – Cont./Service Priority 6. Susceptible to provider’s risks of bankruptcy; financial loss etc. As is HMC. Need to show relevance.

Page 13 – Cont./Service Priority 7. Familiarity will be lost with Members and with the operation. That is already occurring according to ferry crew and member complaints. Need to show relevance and impact. Hiring new crew due to medical and or retirement of current would be the same.

Page 13 – Cont./Service Priority 8. No say as to quality of labor. False assumption. Would be part of contract.

Page 13 – Cont./Service Priority 9. No control of labor (can’t fire over personality conflicts, rudeness, or violation of the rules of conduct, etc.). False assumption. We currently can’t do these things under the union contract. Would be part of contract.

Page 13 – Our Crew Priority 1. “Creates possible legal problems with current Member crew.” Current contract allows HMC to replace crew. This sounds like a threat and should be dropped.

Page 13 – Our Crew Priority 2. “Displaces current Member Crew.” Current proposal calls for current crewmembers to be offered positions if they meet contractor standards. Provider crews are part of the union. Current crew is either going to retire due to age or for medical reason. Change is coming.

Page 14 – History. Not relevant to the discussion. Should be deleted.

Page 15 – Paragraph 1 & 2. “Attached is the current Prevailing Wage for Inland Boatman. This is the scale that the Pierce County system must base their pay rates upon. Please note that the rates are including the costs of Fringe benefits. Our island labor costs are considerably lower than these rates and we are a much smaller operation. The crew employed by a service provider subject to paying rates based on this scale will prefer and expect equivalent rates. This will have an impact on the costs charged by a service provider.” Comparing private operation to government-funded operation is not comparable. Why wasn’t a local private ferry operation used as a comparison? Once again you ignored the proposal in hand. If an RFP shows no savings no change is contemplated. Also, displaying the prevailing wages in direct comparison to HMC wages is not an accurate comparison. The prevailing wages were shown fully burdened whereas the HMC wages were not.

Page 15 – Paragraph 3. “Security is the next major concern because history shows us the impact of poor safety practices. We lost an island member before and



that should never happen again. Our crew has these practices engrained in their performance. Within the last few months, we have heard them say “no” to potential staffing arrangements where there are two untrained employees.” This event occurred under a HMC ferry crew and HMC management. We currently have two open accidents this year from the HMC ferry crew regarding private vehicles and a reportable Coast Guard incident when the ferry captain ran the ferry into the dolphin and failed to report it as required.

Page 15 – Paragraph 4. “Many parents have also felt secure knowing that their neighbor, a crew member, would never allow their child to leave the island with someone unknown.” False assumption. If the Island Manager had been interviewed and this question asked you would have found that reports have been turned into the office showing that this assumption is false.

Page 15 – Paragraph 5. “Lastly, is the attention paid to emergency calls? The current crew drops everything when the call is received. They don’t initially know who is involved, but it’s one of their neighbors and they take it seriously. This attention can’t be compromised.” Why would a contractor not take it seriously? False assumption. Would be part of contract.

Page 15 – Paragraph 6. “Annually we see the breakdown of income and expenses of the HMC membership and it is voted upon. There is a lot of information that we do not see, especially with the ferry system. Do we have the breakdown of the total cost per trip, fuel usage per trip, and what is the most efficient speed? What are the prime usage times, the passenger counts by day, per month, annually? How many emergency calls do we have a year? Is September really the best month to take the ferry out of service or would March maybe be the better time considering the reduction in user fees?” These questions should have been addressed in this white paper, as it was its purpose. All this information can be extracted from the current budget and from the captains logs located at the office.

Page 16 – Paragraph 1. “Attached is a copy of the data retained by the Pierce County ferry systems. Information like this would help our community in making informed decisions. This 8-page monthly document captures the performance indicators maintained by the Pierce County system. Comparing a private operation to a government-funded operation is not comparable. And doesn’t support your argument. Why wasn’t a local private ferry operation used as a comparison?

Page 17 – Paragraph Conclusions. “Based on the information gathered herein it is our conclusion that more research is needed before a definitive solution can be recommended.” This was the purpose of this paper. Why was it not done?

“We do not believe that the time is right for a change of this magnitude.” Not relevant to the discussion. Opinion only. Should be deleted. The membership will decide.

Page 17 – Summary Item 3. “Understand that having a union crew does not cost the membership more.” No cost analysis to support this conclusion in this paper. Crew inaction cost the island an extra \$3834 in medical coverage premiums or \$10.25 per assessable unit. There are added costs for negotiating union contracts and managing disputes.

“HMC and the crew, even when not unionized, have had a wage and benefit agreement. Having a union contract only puts in writing that which was already in

place.” Not relevant to this discussion. No supporting documentation. Should be deleted.

“After the first year it moved to a three-year period at which time the terms are negotiated. A union crew offers experience, stability, pride, safety and knowledge.” Not relevant to this discussion. No supporting documentation. Should be deleted. Also a false assumption. The proposal was with union members.

Page 18 – Summary Item 4. “The crew deserves respect. This is visible in our safety records and stable crew environment that has existed since the death of an Island member almost 20 years ago.” Not relevant to this discussion. Should be deleted.

Page 18 – Summary Item 5. “Safety needs to be Concern #1, not the union contract, or petty issues”. Not relevant to this discussion. Should be deleted.

Page 18 – Summary Item 7. “Get our ‘ducks’ in order. Start gathering metrics, counts, etc so that if the decision is to outsource we have measurable information.” This was the purpose of this paper. Why was it not done? This repeated refrain appears to be nothing but a delaying tactic. The information is available. The committee failed to access the information.

Page 18 – Summary Item 8. “The island has not sought out full-time crew in many years. The island has not been very successful in acquiring part-time crew, so the fear is that full-time options do not exist. This has not been proven.” Not relevant to this discussion. Should be deleted.

Page 18 – Summary Item 10. “Consider creating a new position designed to perform ferry operational tasks currently assigned to Island Manager and Senior Captain – to act as a conduit between island management and the ferry and therefore doing away with the need for the island manager to have “maritime” experience.” No cost analysis documentation in this paper. The Island Manager position is the result of a lawsuit settlement. Where is the legal matrix to support this concept? We are looking to keep cost down not add a new layer of management.

Page 18 – Summary Item 11. “If the Board believes outsourcing is still a valued direction, it is recommended that the Board explore the possibility, including pros and cons, of releasing ownership of the Ferry and Docks to Pierce County as an alternative to outsourcing”. This was the purpose of this paper. Why was it not done?

Page 19 – Members Comments. Not relevant to the discussion. There are 375 opinions on this island. The Board has been told that there were comments in opposition to these posts. Why did you not include them? It matters not, except it makes this document look bias. Should be deleted.