

Ferry Outsourcing RFP Summary

New FAQs identified below.

The HMC Board has the responsibility to ensure that we continuously examine expenses within our budget as they directly drive member assessments. As demand for ferry service grows, costs have increased and service levels have maxed out, as seen in our recently released report on ferry traffic.

Over the past six years, HMC Management has received two unsolicited ferry management proposals, which gave us reason to believe that outsourcing ferry operations could possibly result in a budget savings. After issuing a Request for Information (RFI) to explore this possibility and receiving responses from two firms, the board issued a Request For Proposal (RFP). The goal of the RFP was to evaluate alternatives for providing safe and efficient ferry transportation, while addressing increasing the transportation needs and affordability concerns of our members. The working hypothesis of the board was that we could save money by outsourcing.

The board established RFP evaluation criteria in advance of reviewing RFP responses. The criteria included business standing, experience, price, references, contract, current crew considerations, and customer service. We received two responses, only one of which was deemed valid. However, this proposal from HMS does not indicate a budget savings. That said, the board believes that some members may find the HMS proposal compelling and have decided to bring it forward for a membership vote.

FAQ

New

Q. How much will crew housing really cost the membership?

A. We have considered the cost of housing but there are many variables to consider. Can we utilize an existing HMC property? A bunkhouse or a nice RV? What about the septic considerations, etc. At this time we are only able to come up with very rough estimates. It's not something that would affect overall ferry costs in the long run. In the short term we will continue to provide housing for standby crew members utilizing the accommodations available from members today, for which we reimburse directly to the member.

New

Q. What is the average pay of ferry employees in Washington compared to what our ferry employees receive. It would be helpful to find out what pay ferry employees receive on average in Washington State, including benefits, etc.

A. Regarding crew pay, we have done comparisons between Washington State ferry crews and Pierce County ferry crews. They are very different with the State ferry system paying much higher than Pierce County does. Our crew's pay is actually closer in line with the State's pay rates but HMS Ferries' union contract mirror's the County rates. As reported in our Q&A document, the crew pay would be lower but the benefit package has broader opportunities for training and advancement than we are able to offer. Their health benefits are better since they are able to realize economies of scale with a bigger employee base.

New

Q. What are the contractors escalation costs going to be?

A. There are no "escalation" costs called out in the proposal. Our contract with them will be for 2 years and the **only** fixed cost is their management fee, which is (\$110K/year or \$9,166 per month.) Everything else is a direct pass through with NO mark-up, which will vary as the economy changes. At the end of the two years a new contract will be negotiated with the possibility of a raise in their management fee, which would be subject to negotiation.

New

Q. Do we know how many captains and deckhands HMS employs currently? How many would be available for standby or emergency duty at any given time?

A. HMS stated that they currently employ about 20 crew members in the South Sound to support their contract with Pierce County at Steilacoom.. They stated that those employees would be made available to us if needed.

New

Q. Did HMS provide references?

A. Yes, and those references are being checked.

New

Q. What training is afforded HMS staff and would be made available to our crew if they joined HMS?

A. What follows is a direct quote from HMS:

"All employees are required to satisfactorily complete relevant and thorough in house training prior to becoming a crew member onboard vessels HMS Ferries operates and to advance within their operation. Employees are eligible for advancement only after qualifying to the next marine position (Deckhand to senior deckhand, senior deckhand to watch engineer, etc.).

The cost of this training is a pass through to the client. The training systems are in place and established so associated **costs are seen primarily in payroll.**

In addition to internal training, using PCF as an example, recognized full time vessel employees (union member in good standing) through Masters, Mates & Pilots Union

(MM&P) vocational training centers (MI-TAGs/PMI), have access to most if not all necessary training needed for:

- Entry into the merchant marine industry at the support and operational levels
- Advancement within the merchant marine industry"
- MITAGS/PMI also provides continuing education courses that meet the regulatory and industry demand for advanced training.

MITAGS/PMI training is paid for through employee union dues."

New

Q. Will our ferry crew be asked to serve some of their time on the Steilacoom ferry?

A. There is no plan to ask our crew to rotate with the Steilacoom ferry crew on any kind of a regular basis. If our crew exceed their regular hours HMS will bring in other crew to pick up where they left off and try to hold down overtime. Advancement training will be conducted at an HMS facility.

New

Q. What does the \$10K housing cost currently budgeted cover and is that enough to cover crew housing if we outsource?

A. That is the cost of housing standby crew who do not live on the island. We currently have some members who offer overnight accommodations for standby crew and we reimburse those members directly. The 10K is not intended to cover the cost of a permanent housing solution. As the Board President made very clear at the April 14th meeting, this proposal does not include a permanent housing solution, which would be for HMC to house off-island crew in a dwelling intended for that purpose. It could be a nice RV or a small cabin.

New

Q. Why is there such a big difference in marine insurance rates? Would HMC own the policy?

A. There will be insurance costs for both HMC and HMS Ferries. They of course carry sufficient insurance to cover their risks. And since we are retaining ownership of the Charlie Wells, there are insurance costs that we will also have to carry. These are being worked out.

New

Q. Why won't the Board provide a recommendation going forward?

A. The Board has an obligation to oversee the financial health of the association and make recommendations that may result in costs savings through the assessment process or to protect and improve the assets of the island. Sometimes this obligation results in changes to the status quo that may or may not be embraced by the membership. Outsourcing our ferry operations is a very significant and sensitive issue and the Board sought to bring the facts to the forefront of the issue so the membership

could make an informed decision. Our personal opinions in this area should not sway a vote either way.

New

Q: What will our new assessment be if we outsource ferry operations? What will it be if we do not outsource?

A. The Finance committee has been working hard to prepare the new FY18-19 budget for approval by the Board and the membership. **PRELIMINARY** estimates show that with outsourcing our annual assessment may increase by \$50 over last year. If the membership chooses not to outsource, the annual assessment may increase by \$30 over last year. (Only \$20 difference between the two choices.) Again, these are preliminary estimates and subject to change (up or down) when the final numbers are known. It's important to remember that there are many other parts of the budget besides Ferry expenses that are subject to change. And increases in revenues go a long way towards offsetting expenses.

Q: If we don't expect a cost savings, why would the membership consider outsourcing?

A: Risk Mitigation. HMS Ferries is an organization with depth of expertise in managing ferry operations and a breadth of scope that would reduce our risk of ferry service interruptions based on crew availability.

Q: Does outsourcing provide any long-term advantages?

A: Scalability. Outsourcing would give us increased medium- and long-term flexibility to operate an expanded ferry schedule based on member needs due to HMS talent pool and their ability to attract, train, and retain crew.

Q: How can members be confident that costs wouldn't skyrocket if we decide to outsource?

A: The proposal consists of a fixed monthly rate plus pass-through charges for maintenance and materials. HMC would negotiate a multi-year contract with cost escalation and exit provisions.

Q: What additional costs would HMC be responsible for?

A: HMC would need to provide crew housing – either permanent or temporary – for crewmembers that do not live on the island. We would need to explore all options, including provisioning an HMC owned bunkhouse to hold costs to a minimum. Considering comfortable housing requirements for two persons could be costly.

Q: Does outsourcing affect our ferry maintenance?

A: Yes. HMS would assign a maintenance engineer to our contract, providing an increased focus on the operational health of the vessel. Since our ferry is 30 years old and starting to show its age, this is a way to proactively ensure its continued service for many years to come.

Q: What role would HMS play in our annual dry dock?

A: HMS would help develop dry dock worksheet, oversee the work, and provide crew to transport the ferry to and from shipyard.

Q: What other benefits might members experience?

A: HMS currently uses an enhanced form of ticketing which could be developed for HMC.

Q: How would outsourced ferry operations impact the HMC Office?

A: There would be significantly reduced labor/overtime for HMC Office manager as there would be no requirement to handle and reconcile daily receipts and prepare deposits. This would also give us the opportunity to reconsider the need for a part time-receptionist.

Q: How would the Island Manager's role be impacted?

A: Outsourced ferry operations would enable the Island Manager to shift focus to other priorities ensuring that as an association we are meeting the current needs of the membership while protecting the island assets and acting in compliance with all Federal, State, and County regulations. The Island Manager is currently accountable for recruiting and scheduling crew and engaging with union. This has proven to be an increasing challenge over time.

Q: What happens with our current ferry crew?

A: Page 3 of our RFP reads "It is HMC Management's desire and preference to retain its current ferry crew, assuming they meet the contractor's employment standards." HMS has expressed that they hope to retain our current crew.

Q: HMC has a contract with the IBU. How would that be affected?

A: If we were to negotiate an agreement with HMS to outsource ferry operations, we would end our contract with IBU. HMS is under contract with a different maritime union to which any employees would be required to join.

Q: Crew costs are lower in the HMS RFP than current HMC costs. Why?

A: Crew compensation follows a different rate structure by role that is lower than our current crew rates. Additionally, HMS' approach would eliminate overtime pay that is prevalent in the current HMC model.

Q: What other impacts would there be to current crew if they joined HMS?

A: At HMS, employees share in their premiums for health care, as is the case with most organizations. Under the IBU contract, HMC pays 100% of crew healthcare

premiums. (As of 2016, only 9% of Fortune's 100 Best Companies to Work For pay 100% of employee's healthcare premium, down from a peak of 34% in 2001.)

Q: What career benefits would HMS offer their crew?

A: Cross training paid for by HMS allowing crew members to be promoted to higher ranks while getting experience on other vessels. (Steilacoom)

Q: Would we sell the Charlie Wells to HMS?

A: We have no intention of selling the Charlie Wells. If we move to outsource ferry operations, HMC will retain ownership of the Charlie Wells.

Q: Is the Board endorsing outsourcing our ferry operations?

A: No. We have discussed the outsourcing option at length and believe there is no clear-cut answer. Given our evaluation of the pros and cons, the Board has made every attempt to provide the membership with the facts as we found them to be. As it has been clear from the outset of this process, the final decision rests with you the members.