

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Washington State Ferries: Vessel Construction Costs (January 3, 2013)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on January 23, 2013

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Title: Washington State Ferries: Vessel Construction Costs

Audit Scope and Objectives:

SAO reports that it engaged a consultant to conduct this performance audit in order to answer the following questions:

1. How do the construction costs of Washington State Ferries (WSF) ferries compare with those of comparable ferries built elsewhere?
2. What factors affect the cost of constructing ferries and to what extent do those factors affect total construction spending?
3. Does WSF use leading practices to develop, manage, and monitor its ferry construction contracts?

SAO indicates it collected information on 39 ferries built in the United States by eight U.S. ferry operators, including WSF, in the last 20 years, adjusting all ferry construction costs to 2011 dollars. The agency says it then analyzed this data to help identify and control for those factors that drive ferry construction costs and to estimate the additional amount WSF pays to construct its ferries compared to other ferry purchasers.

SAO reports it also reviewed relevant Washington laws and regulations, interviewed BC Ferries in British Columbia, and compared WSF's ferry construction practices to a set of 15 leading practices SAO developed based on a review of industry literature, construction industry leading practices, interviews with ferry purchasers and shipyards, and the advice of the panel of experts SAO worked with. SAO says that, at SAO's request, OFM used its Input-Output economic model to estimate the effect WSF's new vessel construction program has on the state's economy.

SAO Findings:

- WSF’s ferries are among the largest and most expensive vessels to build compared to those bought by other ferry operators;
- WSF spent more when we compared two ferries with comparable designs;
- Our analysis takes into account ferry design characteristics;
- Regulatory factors limit competition for WSF ferry procurements;
- Effectively implementing ferry construction leading practices could reduce WSF vessel construction cost.

SAO Recommendations:

- SAO recommends that the Legislature address the regulatory barriers that limit competition on WSF vessel procurements by:
 1. Allowing WSF to use alternative strategies to encourage competition for its ferry procurements when insufficient interest exists or higher-than-expected bids are received from Washington shipyards. One possible strategy to ensure an adequate level of competition could be to allow WSF to invite out-of-state shipyards to bid on new vessel construction contracts in these instances.
 2. Undertake a study of the Apprenticeship Act to identify and resolve potential barriers for prospective applicants, in particular shipyards with established apprenticeship training programs.
- SAO recommends that WSF continue to improve its vessel construction program by determining whether adopting the leading practices and suggestions for improvement provided in this report would result in program improvements and/or cost savings, and implementing those with the greatest potential for benefit to the program.

Agency Responses in Audit Report?	Yes, beginning on page 49
Legislative Action Requested?	Yes; the first recommendation above is directed to the Legislature.

Agencies Testifying:

The Washington State Department of Transportation (David Moseley, Assistant Director of the Ferries Division)

The Office of Financial Management (Marc Baldwin, Assistant Director)

Summary of Testimony from Audited Agencies:

We are not commenting on the policy issues raised in the audit; those are the purview of the Legislature. Our agency is focusing on the leading best practices identified in the audit. We are pleased the audit pointed out the improvement the Department has made since we built the Jumbo Mark IIs in the late 1990s. The audit identifies that we currently use eight of the 15 best practices and partially use five others. The audit says that we do not use two of the practices, one of which we disagree with, as explained in our written response. Since the audit was undertaken, the agency has begun the construction of the Olympic class boats. We are using a

fixed price contract; design was complete before construction began; and the owner is responsible for the quality as per the contract. The first boat is on schedule and under budget. We are in substantial agreement with the audit, although we are not speaking to the legislative findings. We appreciate the audit's recognition of the progress the Department has made. We are working with the agency to make further progress.

Other Parties Testifying:

John Adams

Representative Larry Seaquist

Summary of Testimony from Other Parties:

Every time we build a new one, we pay for two. The Department needs to be empowered to fix the problem, by giving it real competitive bidding. We have a shipyard in Anacortes that could match the lower price that it cost the company in Mississippi to build a ferry, but the Anacortes shipyard is not allowed to bid. Unless we fix this policy, we will be throwing money away.

I am concerned that this audit is deeply flawed, and I was astonished to learn that it cost more than \$1 million. Beginning several years ago, legislators and members of the Governor's staff became alarmed at the ferry system's construction processes. Over the course of four years, I met with the State Auditor and his staff as new concerns emerged, and we discussed launching an audit. We furnished staff with materials and insights into our concerns about costs. The focus needed to be on the questions, "What happened to our money? Why were these ferries turning out to be inadequate?"

Here are the problems with this audit: 1) wrong focus – the audit did not focus on the question of where our money was going; 2) wrong comparison – the original idea for the audit was to compare our shipbuilding with big industry, but instead the audit compared us to little ferry construction programs which are not directly relevant; 3) wrong conclusions – we found out nothing about where the money went and how those ferries were constructed; and 4) wrong recommendations – these recommendations divert us to talking about factors with no relevance as to why the ships were over cost, late, listing, having problems with fuel consumption, etc. We need to think about how we charter audits. I and other members have sent a letter to the new State Auditor asking for this work to be re-done.