

October 4, 2010

Via Hand Delivery

Karen S. Lennard
City Clerk
City of Mackinac Island
City Hall

RE: Shepler's Ferry Service Proposal

Dear Ms. Lennard,

This letter is being submitted to you in response to the September 24, 2010, City Council Resolution inviting Mackinac Island ferry boat operators to submit any proposal or information "for City Council consideration relating to ferry boat services, fares, schedules, franchise fees, winter service and property proposals." As a third generation family owned and operated business, Shepler's, Inc. ("Shepler's") takes great pride in its history and reputation of providing reliable, fast, efficient, first class ferry service, year after year, since 1945. Shepler's is currently the longest continually owned, managed, and operated Mackinac Island ferry service.

My father began with one Hacker speed boat that provided an alternative to the single ferry operator, Arnold Transit. Prior to 1945, Arnold operated as a monopoly, running five trips a day in its large, slow vessel. It has since become apparent that the speed, cleanliness, and first class service provided by Shepler's is a popular experience in and of itself, delivering tens of thousands of guests per year to the doorsteps of Island hotels, restaurants, and stores. Since its founding, Shepler's has set the standard that its competition strives to match. As always, we welcome the opportunity to share our story with your constituents and the traveling public.

Last year, City Council announced that it would be undertaking a complete review and study of the ferry boat service to the Island, and the franchise system itself. While periodic assessment and even questioning of status quo is a healthy exercise, if pursued with motives other than the pursuit of excellence or the desire to change for change's sake, the results can be destructive and irreparable. Indeed, this request for a "proposal" and to submit any information the Council might need relating to ferry service to the Island without any guidelines or areas of concern that need to be addressed supports the speculation that Island officials may be conspiring to, as at least one Council member has publicly stated, turn the clock back seventy years and return to a monopolistic ferry service model.

The use of the three ferry boat operators' responses as the basis for any decision on the issuance of one or more franchises violates City Ordinance Sections 66-461 *et seq* that make very clear that the only prerequisite to the issuance of a non-exclusive franchise is completion of an application that includes corporate information, a description of ferry boats, a schedule of services, and an application fee. This arbitrary approach to governance and its anti-competitive effects is cause for even greater concern. The Shepler family is not the only party who will be

harm if governmental power is wielded indiscriminately. The families of our 150 cast members will be injured, the mainland businesses in Mackinaw City and St. Ignace will suffer losses, and even your constituent businesses and residents on Mackinac Island that have benefited from the millions of dollars spent by Shepler's over the years to promote travel to your Island will be negatively impacted by the banning of Shepler's from the Mackinac Island ferry business.

In spite of our concerns about how City Council has proceeded to date, the following proposals, information, and commitments are being provided to better inform our desired future discussions.

Are There Inefficiencies Leading to Higher Ticket Prices?

No. The City of Mackinac Island's document titled "Some Basic Questions and Answers Regarding the Mackinac Island Ferry Boat Issue" includes false premises and misunderstandings of the intricacies of ferry operations, such as:

- Ferry passenger loads must be considered on a round trip basis, as opposed to the number of passengers on the "average boat on the average run." There are times of day, such as morning and evening for example, when capacity loads are carried one way with few passengers on the return trip. The boat needs to be in the location where the passengers are waiting for a ride, which requires round trip service and low capacity, one-way trips on a few occasions.
- An even more significant flaw in the City's view of "efficiency" improvements is that City communications focus only on running under capacity, implying the need to reduce capacity. **Does the Island want to reduce trips or increase the number of people traveling to Mackinac Island?** A key business strategy of Shepler's has been to invest significant resources to attract more tourists to travel to Mackinac Island. Rather than fight amongst each other, Island businesses and government should join together to market the Island as the tourist destination of choice. **Shepler's will continue to market the Island as the tourist destination of choice and welcomes collaborative marketing proposals.**
- The statement that the average load is "50-60 passengers" on each ferry service is false. The Island does not have a credible source for that statement. The average load varies by season and the weather.
- Schedules are designed to the best of our ability to meet demand and achieve high efficiency. Over the years, Shepler's has adjusted its annual schedule based on passenger data and other factors. Shepler's has worked with Islanders on requests for schedule changes, though not all requests have proven feasible. However, bear in mind that ferry services cannot always adjust their published schedules.
- The Island is focusing all attention on the ferry as the only means of transportation to and from the Island. Airplanes run year-round, including when it is not financially feasible to run low capacity ferry trips and when weather conditions make it unsafe to run ferries. While the airplane tickets cost more than ferry tickets, they are less than the price the ferry boats would have to charge for winter service. Ferry boat services cannot compete

with the cost to run airplanes during the ice season. If the Island wants 10 to 12 months of ferry service, someone will need to purchase an ice breaker, a cost prohibitive proposition.

- The Island all ready subsidizes the company that provides extended season departures by charging a lower franchise rate. The need to provide this subsidy highlights that it is not efficient to have even one ferry service company providing the extended season schedule.

Shepler's Property and Environment

It is our understanding that the City of Mackinac Island is interested in purchasing a dock to lease to a ferry service company. **Shepler's requests the equal, non-discriminatory opportunity to lease any dock property acquired by the City of Mackinac Island.**

First impressions are defining and memorable. To that end, we are committed to continue to:

- Provide modern, attractive, and well-maintained buildings, grounds, and facilities at all ports;
- Maintain clean public areas, including but not limited to guest welcome areas, parking lots, docks and loading areas, ticket offices, waiting areas, and restrooms;
- Provide one of the few public restrooms on the eastern end of Main Street on Mackinac Island; and
- Greet all guests with a big smile and an enthusiastic welcome to our area.

Shepler's Equipment

Shepler's five specially designed hydroplane ferries zip passengers comfortably and safely to Mackinac Island in just 16 minutes. To achieve this experience, we are committed to continue to:

- Operate clean ferries continually throughout the day;
- Make every scheduled departure;
- Follow routine summer and winter maintenance schedules designed to ensure that our fleet will always run on schedule and meet guest demands;
- Satisfy all safety regulations and industry safety standards set by the U.S. Coast Guard and State agencies; and
- Paint and repair the fleet to insure a daily new look.

Over the past seven years, Sheplers has secured long term bank loans, that remain outstanding, to finance the repowering of its ferries with four cycle, fuel efficient, green engines, dramatically reducing environmental pollution. Similarly, Shepler's has incurred great expense to lengthen its ferries to better accommodate the increased amount of baggage carried to the Island. Long term franchises enable banks to commit to finance these costly, but valuable equipment upgrades. For this reason, under a separate letter, Shepler's is applying for a non-exclusive, twenty year ferry service franchise agreement, which was Mackinac Island's practice when it first issued ferry service franchises.

Shepler's Schedule

Departure schedules are designed to meet guests' demands regardless of the time of day and time of the season. In order to ensure that this service standard is satisfied in the future, Shepler's is committed to continue to:

- File a schedule of services with the Council annually and whenever a change is made to the schedule that will last for more than four (4) days;
- Operate in accordance with the schedule of services on file with the Council and the Michigan Public Service Commission; and
- Widely publish our schedule to the general public through print and electronic media so that guests have realistic departure time expectations prior to arrival on our dock.

In addition to these longstanding traditions, Shepler's makes the following new commitments:

- **Provide "ice to ice" transportation and schedules, weather depending, should no other ferry company elect to run during the extended season.** The Island should be aware that Shepler's has been running ferries during the extended season, beginning and ending within days of Arnold Transit.

Shepler's reserves the right to add or temporarily delete departures depending on guest demand and weather conditions.

Shepler's Fares

All businesses struggle to balance the cost of doing business with price charged for goods or services. Shepler's is no different. Shepler's has faced fuel price increases totaling 140% over the past ten years. Health insurance rate increases consistent with industry averages of over 90% in the past ten years. In contrast, the total increase of the regular price of ferry tickets in the past ten years has been limited to 64%.

As a new proposal, Shepler's will, in 2011 will introduce a Season Gold Pass at a discounted rate of \$75.00 for each Island taxpaying resident and their children living at home.

Furthermore, Shepler's commits to continue to:

- Adjust fares and fees to meet or exceed all competitors round trip fares on a daily basis.
- Offer on-line discount specials;
- Offer special discounted fares on selected dates and times to further our service and promote the Island;
- Offer discount coupons for round trip fares to mainland and Island lodging facilities and restaurants; and
- Offer group and tour package discounts with businesses and attractions on the mainland and Island;

- Provide complimentary round trip tickets to the Chamber of Commerce and Tourist Bureau for all of their Island functions;
- Offer a commuter book of passes at deeply discounted rates per trip;
- Provide free overnight and daily parking to all our guests; and
- Seek new and innovative opportunities to provide discount package pricing in a mutually beneficial manner with Island businesses.

Significantly, because of commuter, group, and internet sales, less than 30% of the adult tickets sold by Shepler's are at the posted \$24.00 rate; the average price of an adult ticket sold in 2010 was \$19.50. We welcome new opportunities to extend discounted ticket opportunities to further our efforts to attract more tourists to Mackinac Island.

In setting fares, Shepler's must be keenly aware of the rates charged by the competing boat lines. Our fares have historically been reduced in response to both the competitive marketplace, and to concerns raised by the City itself. In determining a reasonable fare, we must recognize that expenses of operation have escalated dramatically over the last ten years and there is no reason to believe that this trend in sharp increases in the cost of fuel, insurance, and wages will change in the future.

It must also be recognized that the Island itself is creating operational expense by charging the 2.5% on gross receipts as a franchise fee. This year, we estimate that Mackinac Island will likely collect in excess of \$305,000 in franchise fees.

Shepler's has investigated fares and fees charged by similar high speed passenger only ferry services on the Great Lakes and nationally. Following are fare and fee comparisons for your consideration.

| | Fare | Baggage Fare | Parking Fees |
|--|-------------|---------------------|-------------------------|
| Put in Bay to Kelleys Island | \$28.00 RT | \$0.00 | \$10.00/day |
| Long Beach to Catalina Island | \$66.50 RT | Only 2 pcs allowed | \$14.00/day |
| Block Island Ferry Rhode Island | \$35.85/RT | \$0.00 | \$20.00/day-Peak Season |
| Hyannis to Nantucket/Martha's Vineyard | \$75.00/RT | \$0.00 | \$17.00/calendar day |
| Shepler's Mackinac Island Ferry | \$24.00/RT | \$0.00 | Free Parking |

As to setting rates, Shepler's has not and will not participate in a public or otherwise joint or organized effort to set rates, as this would be illegal price fixing.

Shepler's Advertising and Promotions

Sheplers has acted as a Mackinac Island tourism ambassador on a national and international level for decades. We not only transport tourists to Island businesses, we attract tourists to Mackinac

Island and Northern Michigan when they may be considering vacations in other locales. In continuation of these traditions, we commit to continue to:

- Maintain all of our current thirty highway billboards promoting Shepler's service and Mackinac Island;
- Attend seven or more sales market places throughout the United States promoting Shepler's service and Mackinac Island to schools, conventions, and tour groups; and
- Promote Shepler's and Mackinac Island through strong online presence via our own website, www.sheplersferry.com, Facebook, Twitter, and all links to companion services, businesses, and Fort Mackinac.

Shepler's Service Ethic

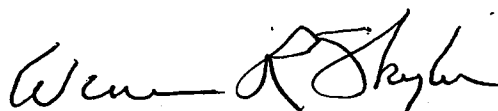
From the early charter boat days to the present time, Shepler's approach to transporting people to Mackinac Island has been one of class and value. Our company operates on the principle of "First Class Service. Every Guest. Every Day." We live up to this standard because, for the Shepler family and our dedicated cast members, Shepler's is about tradition. The Shepler image is not a corporate image, it is a family emblem and source of pride and identity.

These values are passed on to cast members through our rigorous, three-day guest relations service and safety training program for new cast members. As business owners, we seek out and implement best practices through our own participation in continuing education.

During the past sixty-five years of carrying thousands of visiting guests to the Island, Shepler's has been recognized for their culture of value, service and their progressive attitude toward continuous update of equipment, procedures, and policies to ensure a memorable guest experience. These efforts have been keenly recognized by a number of tour groups and associations. In addition, a representative sample of recognition includes the Outstanding Achievement in Michigan Tourism Award from Travel Michigan, the 2003 National Leadership Award presented by House Majority Leader Tom DeLay, NTA's Bob Everidge Lifetime Award, Governor Blanchard appointed Bill Shepler an Ambassador of Tourism, and Shepler's received a Mousecer Award in Service Excellence from Travel Michigan and the Walt Disney Institute.

Under a separate letter, addressed to Mayor Margaret Doud on behalf of City Council and delivered on the same date and time as this letter, Shepler's is applying for renewal of its non-exclusive franchise for a term of twenty years, as permitted on previous franchise agreements and allowed under the City Franchise Ordinance. Mackinac Island residents can have faith that the commitments set forth above are real and attainable, because Shepler's has delivered on these promises for decades. This action requires immediate attention to assure the public, including both commercial and passenger customers of our company, that Shepler's will remain a viable ferry boat company servicing Mackinac Island.

Respectfully submitted,



William R. Shepler