

State of Alaska FY2002 Governor's Operating Budget

Department of Transportation/Public Facilities
Marine Highway System
Budget Request Unit

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BRU Mission

To provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "lower 48" providing opportunities to develop and maintain a reasonable standard of living and high quality of life for Alaskans by meeting social, education, and health needs.

BRU Services Provided

AMHS operates nine roll-on roll-off vehicle-passenger ships during the summer season and as few as four ships during the fall, winter and spring season. Weeks of operation are tailored to meet the needs of the travelling public and communities while maximizing revenue and minimizing costs.

AMHS constantly maintains, repairs, refurbishes, and upgrades its nine vessels and twenty terminal facilities. Hard use in a marine environment and the stringent regulation (state and federal) of passenger-carrying marine vessels determine the need for these activities. This BRU coordinates these activities and provides some of the funding for them.

Operations services are provided:

- Along 3500 track miles to transport people, goods and vehicles to/from 32 separate ports.
- Using 20 terminals to shelter and book passage for 350,00 passengers and stage 110,000 vehicles per year to board AMHS vessels.
- Through 800 shipboard employees needed to adequately crew AMHS ships based upon U.S. Coast Guard (USCG) requirements and 80 shoreside employees.
- Under the standardized safety program of ISM certification to maintain proficiency in the AMHS fleet and meet International Maritime Organization (IMO) requirements.
- As reflected in quality service to every customer that is to become the industry standard for maritime travel.
- In conjunction with USCG required annual overhaul, maintenance and inspection requirements.
- Under the STCW program that requires all shipboard employees to be certified by February 2002. Such a program has been established and implemented through the development of course curriculums and qualification tracking .

The maintenance, repair, refurbishment, and upgrading services provided are to:

- Conduct the surveys, assessments, detailed preliminary engineering, cost estimating, long-range planning, and design for federally funded vessel modernization projects included in the department's needs list and ultimately the State Transportation Improvement Program.
- Initiate, administer, and provide on-site shipyard oversight of contracts for vessel modernization projects.
- Plan and provide preventive maintenance and repair of twenty terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

BRU Goals and Strategies

Operate a safe, reliable, and efficient fleet of vehicle-passenger vessels year round.

- Plan and implement changes to provide more efficient and effective service in the future by laying up vessels in the off season and better matching of traffic demand with service.
- Maintain a 98% customer satisfaction by training AMHS employees in customer relations.
- Improve our reservations services by reducing caller wait time and increasing public use of AMHS's website for scheduling information, reservations, and payment.
- Increase revenue and passenger traffic through better marketing and pricing of available space.

- Provide more frequent ferry service on a regular schedule and at a reduced cost by designing and procuring a fast vehicle ferry.
- Ensure no loss of service by conducting overhauls and vessel upgrades in accordance with extensive regulatory requirements.
- Serve more than 350,000 passengers and stage more than 108,000 vehicles at our ferry terminals by performing semiannual preventive maintenance.

Key BRU Issues for FY2001 – 2002

- There is the continual need to improve customer service. It is important to maximize constituent inputs in schedule implementation and still provide maximum transportation support to Alaska communities. The purpose is to enhance the economic and social fabric of the communities AMHS serves under the constraints of budget reductions.
- AMHS strives to achieve a lower cost per mile of operation by reducing overtime and laying up ships during the off season to save on personnel costs. As general fund support continues to decrease, a greater reliance is placed on the system becoming more self-supporting. Alternatives have been analyzed that could increase revenues through marketing, tariff adjustments, extending on board services and introducing on line reservations.
- The system continues to improve training of all employees to increase professionalism, enhance morale and ensure safety in all operations and emergencies.
- Work to meet the February 1, 2002 deadline to certify over 800 vessel crew members in all areas required by the STCW.
- Continue the overhaul of our vessels and maintenance of our terminals.
- Implement a proactive marketing effort to capitalize on those markets identified in the recent Marketing and Tariff Study.
- Move Reservations and Marketing staff into a newer more customer friendly facility.

Major BRU Accomplishments for FY2000

- Our newest vehicle-passenger ship, the M/V Kennicott, successfully served ports in Southeast Alaska and implemented the cross-Gulf service, which links the Southeast and Southwest systems.
- Acquired the International Safety Management (ISM) program certification required for Alaska Marine Highway System (AMHS) vessels to visit Canadian ports. AMHS is the only U.S. flag, vehicle-passenger vessel fleet with overnight accommodations to have earned this certification. This certification has become the safety standard for the entire AMHS fleet.
- Successfully trained 85 new vessel employees to the highest international standards of Basic Safety Training and Ship Familiarization set by federal Standards for Training, Certification, and Watch keeping for Seafarers (STCW) requirements. Training was accomplished with the first USCG computer based training program developed for AMHS and can be used to conduct training in house.
- Kept all nine AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- The new reservation management system (RMS3) met the federal and international safety requirements for accountability of passengers and improved reservations processing time through reprogramming and agent training.
- Kept the terminal facilities safely and reliably operable.

Key Performance Measures for FY2002

Measure: The percentage of times that vessels depart on time.

(Developed jointly with Legislature in FY2001.)

Current Status:

For the 12 month period ending June 30, 2000, the fleet as a whole had an 77% on-time departure rate. This rate varies between vessel and route from a low of 65% to a high of 90%.

Benchmark:

The benchmark used for this performance measure is the on-time departure data from the airline industry. Nationwide the on-time departure benchmark is 75.1%. This varies by airline and airport.

Background and Strategies:

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional relevant factor is the additional time it takes to load/unload large and/or low slung vehicles (RV's trucks w/trailers, heavy equipment) during busy periods. Most of these factors are out of the control of AMHS. We do have control of making schedule modifications in the event of continual and systematic delays.

Our strategy for FY 02 is to review our performance by vessel and route for FY 00 and 01 to insure that our schedule is more realistic by accommodating for tidal delays and loading restrictions. While departing on time is important to our customers, the safety concerns will not be compromised.

Measure: The revenue per rider mile divided by the operational costs per rider mile.

(Developed jointly with Legislature in FY2001.)

Current Status:

The ratio of revenue per rider mile to cost per rider mile for FY 00 was .51. This was obtained by dividing the revenue per rider mile of \$.62 by the cost per rider mile that was \$1.22.

Benchmark:

The Washington State Ferry System reports a ratio of .60. The British Columbia Ferry Corporation reports a ratio of .81. Their cost per rider mile is about the same as the Alaska Marine Highway System's, but their revenue per mile is much higher in that they adjust their tariffs to reflect increased expenditures.

Background and Strategies:

The Alaska Marine Highway System is in line when compared to the other ferry systems, other than the lower revenue per rider mile when compared to the British Columbia system. Even though the AMHS's revenue per rider mile has increased slightly over the past few years, it has not increased significantly because tariffs have not been adjusted substantially since 1992. This performance measure is influenced by several variables, ie. seasonal demand, service routes, number of voyages per week between ports and the fluctuation in fuel prices. In FY00, fuel prices increased 50% driving the cost per rider mile up 17%. We are planning to raise fares in FY01 that will increase this ratio by generating additional revenue.

Measure: The total ridership, including passengers and vehicles, compared to the five-year ridership average.

(Developed jointly with Legislature in FY2001.)

Current Status:

The five year ridership average for passengers has been 359,068, while for vehicles 101,819. Ridership for both passengers and vehicles increased about 1% in FY 2000 to 362,566 and 103,212 respectively. We anticipate a ridership decline in FY 2001 due to the Columbia being off line for the summer because of fire damage.

Benchmark:

There is no good benchmark for this performance measure other than the 5-year average. Both the BC Ferries and Washington State Ferries carry substantially more passengers and vehicles, but both are short haul and commuter type systems.

Background and Strategies:

The Alaska Marine Highway System brought a ninth vessel on line and introduced cross Gulf service in FY1999. This measure is a comparison of ridership with a nine vs. eight vessel fleet. With the establishment of active marketing by the new AMHS marketing manager hired in FY2001, increased ridership of 3% per year is the Alaska Marine Highway System's goal.

Measure: The average onboard revenue per passenger, including cabin occupancy, food, beverage, and other sources of revenue.

(Developed jointly with Legislature in FY2001.)

Current Status:

The onboard sales per passenger declined slightly in FY 00. This was primarily due to people taking shorter trips, on average, thus spending less on food and entertainment.

Benchmark:

The three-year average per passenger had been \$21.49. In FY 00 the average was \$20.89. It is difficult to find a benchmark in other ferry systems as passengers spend much less time on the ships, hence spend less per person than on the AMHS.

Background and Strategies:

A marketing and tariff study was conducted by the McDowell Group in FY00 by surveying 3,500 customers. Its purpose was to find a way to improve its revenue earning capability. This study identified the reasons travelers chose the AMHS to travel to and from Alaska and what they disliked aboard the vessels. One area of recommended improvement was in the food services which had a 50% approval rating. The AMHS will focus on improving quality control, menu selection and food preparation during FY01. Our goal is to increase customer satisfaction in the food service area 5% per year.

Measure: The percentage of persons served who are satisfied customers.

(Developed jointly with Legislature in FY2001.)

Current Status:

An initial survey was conducted in FY00 in conjunction with the year-long AMHS Marketing and Pricing Study in which 3600 current and potential customers were surveyed. Overall customer service by the AMHS was rated very good by 75% of its customers with only 2% giving poor ratings.

Benchmark:

There is no good benchmark for this performance measure other than the 5-year average. The AMHS passenger ships are long haul and unique in North America. The BC Ferries and Washington State Ferries are short haul and commuter type systems.

Background and Strategies:

The AMHS experience is viewed as unique to Alaska travelers. The recent study is the first comprehensive look at the AMHS customer base in the 37 year history of the Marine highway System and it will be utilized as a baseline from which future measures can be made. Since a study of this nature could be repeated every few years, the AMHS will conduct annual customer satisfaction surveys to track how customer service is doing. Even though the McDowell report found that the number of dissatisfied customers was only 2 percent, our goal is to increase the level of very satisfied customers annually from 75% since that category represents all those who feel the AMHS customer service is very good to excellent. Each of the areas of customer concerns in that report, i.e. reservations, accommodations, service personnel and food service are being addressed with call waiting, stateroom renovations, customer relations training and food service consulting in FY01.

Status of FY2001 Performance Measures

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
• The percentage of times that vessels depart on time.		X			
• The revenue per rider mile divided by the operational costs per rider mile.		X			
• The total ridership, including passengers and vehicles, compared to the five-year ridership average.		X			
• The average onboard revenue per passenger, including cabin occupancy, food, beverage, and other sources of revenue.		X			
• The percentage of persons served who are satisfied customers.		X			

Marine Highway System
BRU Financial Summary by Component

All dollars in thousands

	FY2000 Actuals				FY2001 Authorized				FY2002 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
Formula Expenditures												
None.												
Non-Formula Expenditures												
Marine Engineering Overhaul	0.0	0.0	1,609.9	1,609.9	0.0	0.0	1,905.2	1,905.2	0.0	0.0	2,021.6	2,021.6
Vessel Operations Management	0.0	0.0	1,696.1	1,696.1	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Southeast Shore Operations	0.0	0.0	0.0	0.0	0.0	0.0	1,184.0	1,184.0	0.0	0.0	1,344.4	1,344.4
Southwest Shore Operations	0.0	0.0	0.0	0.0	0.0	0.0	3,043.4	3,043.4	0.0	0.0	3,028.9	3,028.9
Southwest Vessel Operations	0.0	0.0	0.0	0.0	0.0	0.0	959.4	959.4	0.0	0.0	1,045.2	1,045.2
Reservations and Marketing	0.0	0.0	0.0	0.0	0.0	0.0	10,665.5	10,665.5	0.0	0.0	10,669.3	10,669.3
Southeast Vessel Operations	0.0	0.0	0.0	0.0	0.0	0.0	1,899.7	1,899.7	0.0	0.0	2,090.6	2,090.6
Totals	0.0	0.0	3,306.0	3,306.0	0.0	0.0	78,843.9	78,843.9	0.0	0.0	79,395.0	79,395.0

Marine Highway System

Proposed Changes in Levels of Service for FY2002

No changes for this BRU in FY2002.

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Summary of BRU Budget Changes by Component

From FY2001 Authorized to FY2002 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2001 Authorized	0.0	0.0	78,843.9	78,843.9
Adjustments which get you to start of year:				
-Marine Engineering	0.0	0.0	115.5	115.5
Adjustments which will continue current level of service:				
-Marine Engineering	0.0	0.0	-7.4	-7.4
-Vessel Operations Management	0.0	0.0	-2.1	-2.1
-Southeast Shore Operations	0.0	0.0	-14.5	-14.5
-Southwest Shore Operations	0.0	0.0	-4.2	-4.2
-Southwest Vessel Operations	0.0	0.0	3.8	3.8
-Reservations and Marketing	0.0	0.0	-9.1	-9.1
-Southeast Vessel Operations	0.0	0.0	8.3	8.3
Proposed budget increases:				
-Marine Engineering	0.0	0.0	8.3	8.3
-Vessel Operations Management	0.0	0.0	162.5	162.5
-Southwest Shore Operations	0.0	0.0	90.0	90.0
-Reservations and Marketing	0.0	0.0	200.0	200.0
FY2002 Governor	0.0	0.0	79,395.0	79,395.0