

**State of Alaska**  
**FY2005 Governor's Operating Budget**

**Department of Transportation/Public Facilities**  
**Marine Highway System**  
**Results Delivery Unit Budget Summary**

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**Marine Highway System Results Delivery Unit**

**Contribution to Department's Mission**

To provide safe, secure, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System by developing sound policy and procedures for operations, and staffing with well trained professionals who are sensitive to the needs of our customers.

**Core Services**

The Alaska Marine Highway System (AMHS) operates eight roll-on/roll-off 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 traveling public and communities while maximizing revenue and minimizing costs.

AMHS constantly maintains, repairs, refurbishes, and upgrades its eight vessels and 20 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.

Operations services provided:

- Transport of people, goods and vehicles to and from 33 ports along 3,500 track miles from Bellingham, Washington, through Southeast Alaska, across the Gulf of Alaska to Prince William Sound and South Central Alaska, to Kodiak Island, the Alaskan peninsula and out the Aleutian Islands to Unalaska.
- 20 state-owned terminals and their staff provide shelter and book passage for an average of over 350,000 passengers and stage over 100,000 vehicles per year to board AMHS vessels.
- 800 shipboard employees are needed to adequately crew AMHS ships based upon U.S. Coast Guard (USCG) requirements. Less than 100 shoreside employees including terminal operators provide support to the vessels and their crew.
- Implement a standardized International Safety Management (ISM) certification safety program to maintain proficiency in the AMHS fleet and meet International Maritime Organization (IMO) requirements.
- Provide quality service to every customer that is to become the industry standard for maritime travel.
- Complete required annual overhaul, maintenance and inspection requirements in conjunction with USCG.
- Certify all shipboard employees under the Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) program.

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 20 terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

End Results	Strategies to Achieve Results
<p><b>(1) Improve mobility of people and goods.</b></p> <p><u>Target:</u> Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency.</p> <p><u>Measure:</u> Percent satisfied AMHS customers based upon user surveys.</p> <p><b>(2) Improve DOT&amp;PF efficiency.</b></p>	<p><b>(1) Provide reliable, convenient and efficient service on the AMHS.</b></p> <p><u>Target:</u> Meet or exceed industry standard for on-time departures.</p> <p><u>Measure:</u> Percent on-time departures compared to total departures.</p>

End Results	Strategies to Achieve Results
<p><u>Target:</u> Reduce the cost per mile to maintain the Marine Highways by 3%.</p> <p><u>Measure:</u> Percent change in cost per mile to maintain the Marine Highways compared to 5-year average.</p>	<p><u>Target:</u> Increase the frequency of port calls to Alaska ports by 5% from prior year.</p> <p><u>Measure:</u> Percent change in number of Alaska port calls as compared to prior year.</p> <p><b>(2) Increase AMHS revenues.</b></p> <p><u>Target:</u> Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.</p> <p><u>Measure:</u> Percent change in revenue per rider mile to cost per rider mile.</p> <p><u>Target:</u> Increase onboard sales per passenger by 5% over the previous 3-year average.</p> <p><u>Measure:</u> Onboard sales per passenger compared to average of previous 3 years.</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> <li>• Design, procure and employ lighter, faster vessels</li> <li>• Implement a ticket scanning system</li> <li>• Develop separate and secure staging areas of passenger loading</li> <li>• Optimize schedules</li> <li>• Lease space to private providers</li> <li>• Utilize lease vessels when doing so reduces costs</li> <li>• Provide end-of-road terminal and shuttle service</li> <li>• Develop alternative vessels</li> </ul>	<ul style="list-style-type: none"> <li>• Develop terminal prototypes for construction</li> <li>• Ensure compliance with Shephard Act</li> <li>• Provide access to shore excursion businesses</li> <li>• Review organizational structure</li> <li>• Improve fuel efficiency through use of new technology</li> <li>• Develop vessels that take advantage of state-of-the-art technology</li> <li>• Develop layup berths and facilities</li> <li>• Analyze AMHS activities to identify cost savings</li> </ul>

FY2005 Resources Allocated to Achieve Results							
<p><b>FY2005 Results Delivery Unit Budget: \$85,339,300</b></p>	<p><b>Personnel:</b></p> <table border="0"> <tr> <td>Full time</td> <td style="text-align: right;">682</td> </tr> <tr> <td>Part time</td> <td style="text-align: right;">178</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>860</b></td> </tr> </table>	Full time	682	Part time	178	<b>Total</b>	<b>860</b>
Full time	682						
Part time	178						
<b>Total</b>	<b>860</b>						

**Performance Measure Detail**

**(1) Result: Improve mobility of people and goods.**

**Target:** Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency.

**Measure:** Percent satisfied AMHS customers based upon user surveys.

Percent Satisfied Customers

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2001	not available	not available	not available	not available	83%
2002	not available	not available	not available	not available	92%
2003	not available	not available	not available	not available	96%

**Analysis of results and challenges:** Independent surveys are conducted onboard AMHS vessels. Passengers are asked to rate a variety of aspects relative to their AMHS experience. The survey data is summarized and the results are presented to AMHS.

The AMHS experience is viewed as unique to Alaska travelers. A fairly recent McDowell study is the first comprehensive look at the AMHS customer base in the 40-year history of the Marine Highway System. Moreover, the study serves as a baseline from which future measures can be made. A study of this nature could be repeated every few years. In the meantime, the AMHS has clearly shortened call waiting times, provided training for reservations staff, completed stateoom renovations and provided onboard cook skills training.

## (2) Result: Improve DOT&PF efficiency.

**Target:** Reduce the cost per mile to maintain the Marine Highways by 3%.

**Measure:** Percent change in cost per mile to maintain the Marine Highways compared to 5-year average.

Cost per Mile to Operate the AMHS

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2003	not available	not available	not available	not available	not available

**Analysis of results and challenges:** AMHS is beginning the process of replacing costly, aging mainliners with economical, efficient fast vehicle ferries. For example, in North Lynn Canal, the M/V Fairweather will capture the revenue of the M/V Taku at a fraction of the operating costs. In turn, this increased efficiency is intended to reduce the cost per mile to maintain the AMHS.

Additionally, AMHS is reviewing required crewing sizes to meet U.S. Coast Guard requirements and to provide appropriate levels of maintenance and operations of the vessels.

Data is being collected to develop the baseline for this measure.

## (1) Strategy: Provide reliable, convenient and efficient service on the AMHS.

**Target:** Meet or exceed industry standard for on-time departures.

**Measure:** Percent on-time departures compared to total departures.

Percent of On-time Departures

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2001	not available	not available	not available	not available	84%
2002	not available	not available	not available	not available	86%
2003	not available	not available	not available	not available	84%

**Analysis of results and challenges:** The target is for AMHS to consistently exceed the on-time airline departure benchmark of 75.1%. An on-time ferry departure is within 30 minutes of the scheduled departure time.

Numerous events can cause delays in ferry departure times, especially weather and tides. An additional relevant factor is the 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. Nevertheless, making schedule modifications in the event of continual and systematic delays are within the Department's control.

**Target:** Increase the frequency of port calls to Alaska ports by 5% from prior year.

**Measure:** Percent change in number of Alaska port calls as compared to prior year.

Number of Port Calls to Alaska Communities

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2001	not available	not available	not available	not available	6,019
2002	not available	not available	not available	not available	6,094
2003	not available	not available	not available	0	0

**Analysis of results and challenges:** This data is collected on a calendar year basis and is contained within the Alaska Marine Highway's Annual Traffic Volume Report.

This measure reflects the service level provided to communities dependent upon the Marine Highway. The speed and efficiency of fast vehicle ferries will allow AMHS to increase service to Alaska ports. These FVF's are not encumbered by tide driven schedules like traditional AMHS vessels. FVF's are designed for efficient point to point service. Travel segments taken over by non-AMHS vessels (such as the Inter-island Ferry Authority) will have an impact on the number of port calls but will not reflect a degradation of service.

## (2) Strategy: Increase AMHS revenues.

**Target:** Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.

**Measure:** Percent change in revenue per rider mile to cost per rider mile.

Ratio of Revenue Per Rider Mile to Cost Per Rider Mile

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2001	not available	not available	not available	not available	.48
2002	not available	not available	not available	not available	.51
2003	not available	not available	not available	not available	.49

**Analysis of results and challenges:** The Alaska Marine Highway System is on par when compared to the other ferry systems. The exception is the AMHS has lower revenue per rider mile when compared to the British Columbia system. Along these lines, the AMHS has implemented tariff increases, additional summer fare increases, and booking fees. Efforts are being taken to reduce the expenditure side of the equation as well.

**Target:** Increase onboard sales per passenger by 5% over the previous 3-year average.

**Measure:** Onboard sales per passenger compared to average of previous 3 years.

On-board Sales Per Passenger

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2001	not available	not available	not available	not available	\$21.19
2002	not available	not available	not available	not available	\$25.97
2003	not available	not available	not available	not available	\$28.19

**Analysis of results and challenges:** Onboard revenue per passenger includes cabin occupancy, food, beverage, and other sources of revenue.

A marketing and tariff study was conducted by the McDowell Group in FY00 by surveying 3,500 customers. The purpose of the study was to find a way to improve the AMHS's revenue earning capability. This study identified the reasons people chose the AMHS to travel to and from Alaska and what they liked and disliked aboard the vessels. One area of recommended improvement was in food services. In FY 01, the food services satisfaction rating was 78%. In FY02, the satisfaction rating increased to 80%. This increase was attributed to the AMHS focus on improving quality control, menu selection and food preparation. Our goal is to increase customer satisfaction in the food service area by 5% per year. Increasing customer satisfaction is a meaningful adjunct toward increasing onboard revenues.

## Key RDU Challenges

Many changes are occurring in the fleet of the AMHS. A contract was awarded and construction has begun on 2 new fast vehicle catamarans: 1) the M/V Fairweather shuttle ferry has been built and will be delivered in February/March 2004; and 2) the shuttle ferry, MV Chenega, will be delivered in 2005 to serve Valdez, Cordova and Whittier in the Prince William Sound.

In addition to these two ferries, during the spring of 2004, the department will take delivery and operate a small, open deck vessel, M/V Lituya, which will run between Metlakatla and Ketchikan. As a result of the addition of the M/V Fairweather and the surplus of the M/V Bartlett, the Aurora will be transferred to the Prince William Sound for the spring and summer of 2004. The addition of the new ferries will require many changes in how we do business. Fast vehicle

ferry (FVF) crews will need to be trained under the demanding High Speed Craft Code.

There is the continual need to improve customer service. It is important to maximize constituent input 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. At the same time AMHS is striving 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. Matching vessel capacity with customer demand is a constant goal. In addition, alternatives have been analyzed that could increase revenues through marketing, tariff adjustments, extending on board services and introducing on line reservations.

Increased shipboard and shoreside terminal security demands are critical to maintain a safe and secure marine transportation system as part of the State of Alaska operated transportation system. Recent USCG rules on security procedures for passenger vessels and the terminals they service mandates enhanced security inspections and screening. In addition, a company security plan, vessel security plan and facility security plan must be submitted for approval to the USCG by December 31, 2003. The required security inspections and screening suggested for MARSEC Levels II & III will be unattainable without additional equipment and personnel. The department was awarded a port security grant for terminal security upgrades from the Department of Homeland Security and will continue to pursue such funding.

## Significant Changes in Results to be Delivered in FY2005

The Alaska Marine Highway System (AMHS) operating plan must be developed based on anticipated system revenues, general fund subsidy and AMHS fund balance. Based upon the anticipated FY04 supplemental and FY05 budget requests, 5.1 weeks of mainline service will be removed from the FY05 operating plan. The impact of this winter service reduction will effect the communities of Sitka, Kake, Angoon, Tenakee and Hoonah. Demand will exceed capacity during this reduction period and 13 vehicles will be left behind each week. Pelican will have no ferry service from January 10, 2003 to March 17, 2003.

Cost saving measures have been pursued aggressively to decrease the impact of transportation service provided to Alaskans and visitors to the state.

Reductions of vessel crew size will occur specific to the stewards area. This will result in reduced staff devoted to cleaning vessel passenger areas.

Reductions in crew benefits will be achieved associated with seasonally-hired crew.

## Major RDU Accomplishments in 2003

- Kept eight AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Successfully served ports in Southeast Alaska with the M/V Kennicott and maintained the cross-Gulf of Alaska service, which links the Southeast and Southwest systems.
- Maintained the ISM Code program certification required for 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 all vessel employees to the highest international standards of basic safety training and ship familiarization set by federal STCW requirements.
- Maintained AMHS vessels through a combination of federally funded and state funded overhauls. State overhauls were conducted in Ketchikan (7 vessels) and Seward (1 vessels).
- Met the federal and international safety requirements for accountability of passengers with the new reservation management system (RMS3) and improved reservations processing time through reprogramming and agent training.
- Kept the terminal facilities safely and reliably operable.
- Continued a proactive and aggressive marketing effort. For example, promotions were offered year round including a PFD special. This marketing effort, combined with a seasonal summer tariff increase and a fall cost of living adjustment, produced noteworthy revenue.
- Assisted in the establishment of the Marine Transportation Advisory Board, relying on their input on AMHS

operations and long-range planning of the System.

- Sold the M/V Bartlett on e-bay.

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**Marine Highway System  
RDU Financial Summary by Component**

*All dollars shown in thousands*

	FY2003 Actuals				FY2004 Authorized				FY2005 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
<b>Formula Expenditures</b>												
None.												
<b>Non-Formula Expenditures</b>												
Marine Vessel Operations	0.0	0.0	73,406.2	73,406.2	0.0	0.0	73,972.0	73,972.0	0.0	0.0	72,757.5	72,757.5
Marine Engineering Overhaul	0.0	0.0	2,115.5	2,115.5	0.0	0.0	2,162.1	2,162.1	0.0	0.0	2,261.8	2,261.8
Reservations and Marketing	0.0	0.0	1,698.4	1,698.4	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	1,818.9	1,818.9	0.0	0.0	2,199.8	2,199.8	0.0	0.0	2,264.0	2,264.0
Southwest Shore Operations	0.0	0.0	2,931.8	2,931.8	0.0	0.0	3,046.5	3,046.5	0.0	0.0	3,368.1	3,368.1
Vessel Operations Management	0.0	0.0	1,110.2	1,110.2	0.0	0.0	1,158.2	1,158.2	0.0	0.0	1,174.9	1,174.9
<b>Totals</b>	<b>0.0</b>	<b>0.0</b>	<b>84,628.6</b>	<b>84,628.6</b>	<b>0.0</b>	<b>0.0</b>	<b>85,813.8</b>	<b>85,813.8</b>	<b>0.0</b>	<b>0.0</b>	<b>85,339.3</b>	<b>85,339.3</b>

**Marine Highway System  
Summary of RDU Budget Changes by Component  
From FY2004 Authorized to FY2005 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2004 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>85,813.8</b>	<b>85,813.8</b>
<b>Adjustments which will continue current level of service:</b>				
-Marine Vessel Operations	0.0	0.0	2,335.5	2,335.5
-Marine Engineering	0.0	0.0	99.7	99.7
-Reservations and Marketing	0.0	0.0	64.2	64.2
-Southeast Shore Operations	0.0	0.0	91.6	91.6
-Southwest Shore Operations	0.0	0.0	16.7	16.7
-Vessel Operations Management	0.0	0.0	76.5	76.5
<b>Proposed budget decreases:</b>				
-Marine Vessel Operations	0.0	0.0	-3,550.0	-3,550.0
<b>Proposed budget increases:</b>				
-Southeast Shore Operations	0.0	0.0	230.0	230.0
-Vessel Operations Management	0.0	0.0	161.3	161.3
<b>FY2005 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>85,339.3</b>	<b>85,339.3</b>