

State of Alaska FY2011 Governor's Operating Budget

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

Marine Highway System Results Delivery Unit

Contribution to Department's Mission

Provide safe, secure, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System by developing and implementing 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 11 roll-on/roll-off passenger ships during the summer season and as few as 4 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 transports people, goods and vehicles to and from 32 ports along 3,500 route miles from Bellingham, Washington out the Aleutian Island chain to Unalaska.
- Shore operations includes 16 State-owned terminals and their staff who provide shelter and book passage for an average of over 320,000 passengers and stage over 100,000 vehicles per year aboard AMHS vessels.
- 772 shipboard employees crew AMHS vessels based upon U.S. Coast Guard (USCG) requirements and 163 shore side employees including terminal operators provide support to the vessels and crew.
- AMHS constantly maintains, repairs, refurbishes, and upgrades its vessels and terminal facilities. Hard use in a marine environment and the stringent regulations (state, federal, and international) governing passenger-carrying marine vessels determine the need for these activities.

Results at a Glance

(Additional performance information is available on the web at <http://omb.alaska.gov/results.>)

END RESULT A: Improve mobility of people and goods.

- Customer satisfaction with the Marine Highway System has stayed strong at 96.5% for the 5th year in a row, with a high percentage of respondents giving an excellent rating.

Status of Strategies to Achieve End Result

- On-time departures in 2009 were 92% which is an improvement over the 88% previous 3-year average and well above the industry standard of 75.1%.
- Alaska Marine Highway System port calls increased 1% in FY2009 from 7,019 to 7,110, and fell short of the 7,370 target.

END RESULT B: Improve performance.

- The ratio of revenue per rider mile to the cost per rider mile remained constant between FY2008 and FY2009.

Status of Strategies to Achieve End Result

- Onboard sales per passenger were \$27.64, which is a 2.9% decrease from the previous 3-year average of \$28.46.
- Passenger capacity utilization was 29%, which is a 1.8% increase over the prior 3-year average of 28.1%.

Major Activities to Advance Strategies

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| <ul style="list-style-type: none"> • Design, procure and employ lighter, shuttle vessels that take advantage of state-of-the art technology • Implement a ticket scanning system • Optimize schedules • Lease space to private providers • Utilize lease vessels to reduce costs • Provide end-of-road terminal and shuttle service • Develop terminal prototypes for construction | <ul style="list-style-type: none"> • Ensure compliance with Shephard Act • Provide access to shore excursion businesses • Review organizational structure • Improve fuel efficiency through the use of new fuel management technology • Develop lay-up berths and facilities • Analyze AMHS activities to identify cost savings |
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Key RDU Challenges

- As the cost of providing service has increased, primarily due to negotiated wage increases, pension cost increases

as well as escalating fuel expense, the ability to successfully pass these increases onto the traveling public has been very problematic. The AMHS completed a rate study to evaluate base fares on a mile by mile basis, and looked at fares which could be considered over or under priced. The study indicated there should be modest tariff increases over the next few years, and also pointed out various tariff irregularities, and recommended corrections. Due to the current economic situation in the United States, the AMHS made the decision not to raise tariffs at this time.

- AMHS is in the process of designing a new class of shuttle ferry. It is assumed that three of these new shuttle ferries would eventually replace two of the older mainline vessels in the fleet. These new additions will be designed to reduce costs and provide greater fleet wide flexibility in their use, thus increasing revenue per rider mile while reducing operating expenses per rider mile.
- AMHS continues to evaluate the total cost of providing service in addition to fostering a focused marketing campaign to continue to increase rider-ship and revenues.
- As the fleet vessels age, challenges include additional maintenance requirements, and possible reductions in both state and federal funding to accomplish the increasing maintenance. The combination of reduced funding and increasing maintenance demands will be some of the System's greatest challenges going into the future. With the construction of the new class of shuttle ferry, future maintenance costs on both the state and federal sides would be reduced over many years. Going forward, the System will also need to look towards a new class of vessel capable of operating between Ketchikan and Juneau, as this route will require a vessel with overnight accommodations. Those vessels not replaced by the new Alaska Class ferries will also require mid-life engine replacements which on average at today's pricing is approximately 25 million per vessel. Going forward into the distant future, should the System continue to operate out of Bellingham, the System must consider a new mainliner, or a lengthened Kennicott.

Significant Changes in Results to be Delivered in FY2011

The Alaska Marine Highway System operating plan must be developed based on anticipated System revenues, general fund subsidies, and the AMHS fund balance. Budget requests will allow continued year-round safe, reliable and efficient transportation of people, goods and vehicles on the Alaska Marine Highway.

Cost saving measures have been pursued aggressively to decrease the impact of transportation services provided to Alaskans and visitors to the State. As the price of fuel continues to increase, the AMHS has started a program of installing a power management, fuel savings system aboard our vessels. The M/V Aurora was used as the initial test bed for this new system and to date, the vessel has seen approximately a 12% savings in fuel consumption. Upon the completion of this winters 2010 federal overhaul period an additional 4 more vessels will have had the fuel saving systems installed.

The AMHS continues to work at reducing the premium holdover and early callback overtime which has been experienced aboard all vessels. The change in operating schedules of both the vessels Malaspina, and Kennicott, has delivered positive results. The continued development of the AMHS automated dispatch system will also result in the more efficient dispatch of crew, which will yield operational cost savings.

The Alaska Marine Highway System was provided federal highway funding as a capital investment to install a satellite communications system. In order for the system to become fully operational in "real time" and provide communications from ship to shore on a 24/7 basis, the state must purchase adequate bandwidth to implement the operational component intended for the system. With the purchase of the required bandwidth, the state will realize additional benefits related to safety and dependability, business operations such as reporting updated information, reservations and point of sale opportunities, and the system will provide potential for marketing internet services to travelers with enhanced communications for personal or business reasons while in transit. The FY2011 Governor's budget contains an increment for \$1,000.0 using Marine Highway System funds to implement this operational enhancement.

The increase for the Port of Bellingham lease has been included to accurately align the budget authority with the actual costs associated with this lease in the amount of \$500.0.

Bargaining unit increases for salaries and health insurances costs have been included in the FY2011 Governor's budget for Master, Mates and Pilots (MMP), Marine Engineers Beneficial Association (MEBA), and the Inland Boatman's Union (IBU).

Major RDU Accomplishments in 2009

- Kept up to eleven AMHS vessels crewed and in service by completing annual overhauls and meeting federal

certification requirements.

- Maintained the International Safety Management (ISM) Code program certification required for AMHS vessels to visit Canadian ports and operate outside of inland boundaries. The 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 Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) requirements.
- Successfully maintained qualified officers to operate the fast ferries under the International High Speed Code.
- Met the federal and international safety requirements for accountability of passengers.
- Terminal facilities were kept safely and reliably operating.
- Continued a proactive and aggressive marketing effort. For example, round trip discounts were offered during the winter months to stimulate ridership during that historically slow time of the year. Targeted specials were also continued, along with aggressive targeted advertising, which yielded positive results.
- In 2009 both passenger and vehicle ridership showed an increase in numbers from those of 2008.
- Worked with the Marine Transportation Advisory Board, taking into account their input regarding AMHS operations and long-range planning.
- Continued the process of developing a new generation reservation system. This system will not only improve reservations efficiency, but will also enhance the efficiency of all points of sale, and finances coming on and off our vessels.
- Commenced the re-writing of the System-wide Traffic Manual, which is in essence the business rules of the AMHS
- Furthered the process of the systematic maintenance, upgrade, and new construction process of the AMHS Shoreside facilities.
- Continued the process of writing a detailed fleet condition survey, which lists the detailed condition of the vessels, which is important in determining the order of Federal vessel overhaul projects, and deferred maintenance lists.
- Completed all State capital maintenance, and regulatory vessel periods, along with the federally sponsored major overhauls of the vessels Matanuska and Tustumena. State sponsored overhauls were conducted in Ketchikan and Seward, Alaska.
- Progress continues on the development of the new Automated Time and Labor Advanced Scheduling (ATLAS) system.
- Moved forward with the installation of satellite systems and hardware aboard AMHS vessels which will allow for 24/7 communications with shoreside management, and will be required for the efficient real time operations of the new reservation and point of sale systems being developed.

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

All dollars shown in thousands

	FY2009 Actuals				FY2010 Management Plan				FY2011 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 Vessel Operations	92,612.7	0.0	30,595.9	123,208.6	86,823.4	0.0	33,009.1	119,832.5	80,954.9	0.0	35,244.9	116,199.8
Marine Engineering Overhaul	0.0	0.0	2,908.8	2,908.8	0.0	0.0	3,113.0	3,113.0	0.0	0.0	3,115.2	3,115.2
Reservations and Marketing	0.0	0.0	1,688.3	1,688.3	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Marine Shore Operations	700.0	0.0	1,625.5	2,325.5	700.0	0.0	2,438.3	3,138.3	700.0	0.0	2,438.3	3,138.3
Vessel Operations Management	0.0	0.0	6,557.7	6,557.7	0.0	0.0	6,800.9	6,800.9	0.0	0.0	7,300.9	7,300.9
	0.0	0.0	3,776.6	3,776.6	0.0	0.0	3,850.6	3,850.6	0.0	0.0	3,856.7	3,856.7
Totals	93,312.7	0.0	47,152.8	140,465.5	87,523.4	0.0	50,910.3	138,433.7	81,654.9	0.0	53,654.4	135,309.3

**Marine Highway System
Summary of RDU Budget Changes by Component
From FY2010 Management Plan to FY2011 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2010 Management Plan	87,523.4	0.0	50,910.3	138,433.7
Adjustments which will continue current level of service:				
-Marine Vessel Operations	-5,868.5	0.0	1,235.8	-4,632.7
-Marine Engineering	0.0	0.0	2.2	2.2
-Vessel Operations Management	0.0	0.0	6.1	6.1
Proposed budget increases:				
-Marine Vessel Operations	0.0	0.0	1,000.0	1,000.0
-Marine Shore Operations	0.0	0.0	500.0	500.0
FY2011 Governor	81,654.9	0.0	53,654.4	135,309.3