State of Alaska
FY2012 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 318,000 passengers and stage over 109,000 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.

Major Activities to Advance Strategies

- Design, procure and employ new Alaska Class shuttle vessels that take advantage of new technology, along with mainline vessels on longer routes
- Implement a new reservation and manifest system
- Optimize system schedules
- Develop standard terminal prototypes for construction
- Ensure compliance with Shepard Act
- Standardize system wide security plans
- Provide access to shore excursion businesses
- Review and adjust organizational structure
- Improve fuel efficiency through the use of new fuel management technology
- Purchase Ward Cove property and warehouse facility, so as to consolidate system warehouses, and create vessel layup cost savings
- Analyze AMHS activities to identify cost savings
- Continue to expand marketing capabilities
- Improve efficiency via a 24/7 satellite communication system fleet wide

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 national economic situation the AMHS is still on a hold with regards to tariff increases and corrections. As the AMHS has completed the edit of its old Traffic Manual and created its new Customer Service Manual with associated amended business rules, the AMHS next moves into the process of developing a new reservation and point of sales system. It is at the completion of the reservations system that a much more simplified tariff structure and tariff correction will most likely take place. Implementing this new reservations system, while continuing to do business, will prove challenging.
- The 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.
- The AMHS continues to evaluate the total cost of providing service in addition to fostering a focused marketing

campaign to continue increasing rider-ship and revenues.

- As 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.
- The AMHS continues to be challenged with the situation of major fast ferry engine problems, and the high cost of maintaining those engines. The State has been through a mediation session, which has proven unsuccessful, and has also concurrently filed a law suit against the German engine manufacturers, the shipyard that build the fast ferries and the engine manufactures United States representative. The State has also sent AMHS engineering personnel, the AG's office and consultants to Germany to meet with the engine manufacturer in an attempt to develop a solution to the situation. The challenge continues to be one of attempting to keep the fast ferries running, assuring a reasonable service life of the engines, while also looking after the State's best interest with regards to the investment the State has made in the fast ferries.

Significant Changes in Results to be Delivered in FY2012

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.

Costs 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 power management, fuel savings system's aboard our vessels. The M/V Aurora was used as the initial test platform for this new system and to date, the vessel has seen approximately a 12% savings in fuel consumption. Upon the completion of the 2011 federal overhaul period, a total of 7 vessels will have installed and operating fuel saving systems.

The continued development of the AMHS automated dispatch system will also result in the more efficient dispatch of crew, along with retention of personnel training records, which will yield operational cost savings.

The Alaska Marine Highway System was provided federal highway funding as a capital investment to install satellite communications systems, aboard its ships. 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 Department has purchased adequate bandwidth to implement the operational component intended for the system. With the purchase of the required bandwidth, the Department will realize additional benefits related to safety and dependability, while improving business operations such as reporting updated information, reservations and point of sale status. Going forward the new system will also provide a 24/7 real time tracking capability which will be available to our customers via our AMHS web site. This tracking system will be integrated with the State's 511 smart phone system giving our customers a visual location of the vessels, along with real time arrival and departure information. When all vessels have their satellite communications up and running and vessel communications needs are satisfied the system will analyze the amount of remaining broadband. At this point the system will determine if there is enough remaining broadband to offer wireless internet to the travelling public. If this is the case we will consider offering the wireless service to the public, if there is not enough remaining broadband, the system will consider requesting additional funding which would fund the wireless service to our customers.

During FY2012, the AMHS will be providing additional service from Bellingham and for cross-Gulf sailings to Prince William Sound, requiring additional Marine Shore Operations and Marine Vessel Operations service for the added sailings.

Major RDU Accomplishments in 2010

- 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 retained 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. To date in 2010, both passenger and vehicle ridership show an increase of 5% in ridership numbers from those of 2009.
- Worked with the Marine Transportation Advisory Board, taking into account their input regarding the 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.
- Completed the re-writing of the System-wide Traffic Manual, which are the business rules of the AMHS. The new manual has been renamed the Customer Service Manual.
- 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 Kennicott, and Lituya. Also completed the first federally sponsored engine overhaul of the fast ferry Chenega. 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.
- The State purchased, in Ward Cove, 10 acres of uplands, with a large warehouse facility already in place, and 20 acres of tidelands, The State is currently engaged in the design process of creating office space, machinery room space, and both climate controlled ,and cold storage in the existing warehouse.
- Department of Transportation (DOT) and the Alaska Industrial Development Corporation (AIDEA), signed a Functional Replacement Agreement, in which AIDEA will provide functional replacement for the remaining State owned property within the Ketchikan Shipyard complex. This functional replacement will provide the State with a means to replace its existing climate controlled warehouse, 4000 square feet of office and archive space, land, and the South Berth Complex located within the shipyard, to its newly purchased property in Ward Cove.

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Marine Highway System
RDU Financial Summary by Component

All dollars shown in thousands

	FY2010 Actuals				FY2011 Management Plan				FY2012 Governor			
	UGF+DGF Funds	Other Funds	Federal Funds	Total Funds	UGF+DGF Funds	Other Funds	Federal Funds	Total Funds	UGF+DGF Funds	Other Funds	Federal Funds	Total Funds
Formula Expenditures												
None.												
Non-Formula Expenditures												
Marine Vessel Operations	121,237.2	596.1	0.0	121,833.3	108,403.9	0.0	0.0	108,403.9	108,746.1	0.0	0.0	108,746.1
Marine Vessel Fuel	0.0	0.0	0.0	0.0	27,979.8	0.0	0.0	27,979.8	20,522.8	0.0	0.0	20,522.8
Marine Engineering	1,783.3	1,254.6	0.0	3,037.9	1,948.9	1,563.6	0.0	3,512.5	1,985.9	1,601.8	0.0	3,587.7
Overhaul	1,693.5	0.0	0.0	1,693.5	1,647.8	0.0	0.0	1,647.8	1,647.8	0.0	0.0	1,647.8
Reservations and Marketing	2,433.5	0.0	0.0	2,433.5	2,854.7	0.0	0.0	2,854.7	2,944.2	0.0	0.0	2,944.2
Marine Shore Operations	7,138.6	0.0	0.0	7,138.6	7,563.5	0.0	0.0	7,563.5	7,769.7	0.0	0.0	7,769.7
Vessel Operations Management	3,863.4	91.0	0.0	3,954.4	4,017.2	123.8	0.0	4,141.0	4,145.6	127.9	0.0	4,273.5
Totals	**138,149.5**	**1,941.7**	**0.0**	**140,091.2**	**154,415.8**	**1,687.4**	**0.0**	**156,103.2**	**147,762.1**	**1,729.7**	**0.0**	**149,491.8**

Marine Highway System
Summary of RDU Budget Changes by Component
From FY2011 Management Plan to FY2012 Governor

All dollars shown in thousands

	Unrestricted Gen (UGF)	Designated Gen (DGF)	Other Funds	Federal Funds	Total Funds
FY2011 Management Plan	**102,631.2**	**51,784.6**	**1,687.4**	**0.0**	**156,103.2**
Adjustments which will continue current level of service:					
-Marine Vessel Operations	-2,621.8	0.0	0.0	0.0	-2,621.8
-Marine Vessel Fuel	-9,011.7	0.0	0.0	0.0	-9,011.7
-Marine Engineering	3.9	33.1	38.2	0.0	75.2
-Reservations and Marketing	0.0	89.5	0.0	0.0	89.5
-Marine Shore Operations	0.0	176.2	0.0	0.0	176.2
-Vessel Operations Management	0.0	128.4	4.1	0.0	132.5
Proposed budget increases:					
-Marine Vessel Operations	-2,245.0	5,209.0	0.0	0.0	2,964.0
-Marine Vessel Fuel	802.0	752.7	0.0	0.0	1,554.7
-Marine Shore Operations	0.0	30.0	0.0	0.0	30.0
FY2012 Governor	**89,558.6**	**58,203.5**	**1,729.7**	**0.0**	**149,491.8**