

State of Alaska FY2013 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 (Ro-Ro) 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 33 ports along 3,500 route miles from Bellingham, Washington out the Aleutian Island chain to Unalaska.
- Shore operations include a central reservations office and 16 State-owned terminals and their staffs who provide shelter and book passage for an average of over 330,000 passengers and stage over 110,000 vehicles per year aboard AMHS vessels.
- 772 shipboard budgeted positions to crew AMHS vessels based upon U.S. Coast Guard (USCG) requirements and 164 shore side employees, including terminal operators, provide support to the vessels and crews.
- AMHS constantly maintains, repairs, refurbishes, and upgrades its vessels and terminal facilities. Hard usage in a marine environment and the stringent regulations (state, federal, and international) governing passenger-carrying marine vessels demand the need for these activities.

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • 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 • Standardize system wide security plans • Provide access to shore excursion businesses 	<ul style="list-style-type: none"> • Review and adjust organizational structure • Improve fuel efficiency through the use of new fuel management technology • Develop the recently purchased 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

- 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 while fostering a focused marketing campaign to continue increasing rider-ship and revenues to offset those operating costs.
- As fleet vessels age, challenges include additional maintenance requirements and possible reductions in 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 should be reduced over many years. The system will also need to look towards new classes of vessels capable of operating between Ketchikan and Juneau, and in the Aleutian Islands, as these routes will require vessels with overnight accommodations and oceangoing capability. 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. The system should continue to operate out of both Bellingham and Prince Rupert as those ports provide options and flexibility to the traveling public and to the system.

- AMHS continues to be challenged with the Fast Vehicle Ferry (FVF) situation. The State has filed a law suit against the German engine manufacturer and the shipyard that built the fast ferries. The State has also sent AMHS engineering personnel, AG's office representatives, 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 keeping the fast ferries running while attempting to ensure a reasonable service life of the engines, and protecting the investment the State has made in the two fast ferries.

Significant Changes in Results to be Delivered in FY2013

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 are developed to 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, or at least control, the cost of providing transportation services to Alaskans and visitors to the State. As fuel prices increased, AMHS 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 2012 federal overhaul period, a total of 10 vessels will have installed and operating fuel saving systems. Management has elected not to equip the M/V Lituya due to the short nature of its operating route and questionable payback (Ketchikan-Metlakatla).

AMHS 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 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. The new system also provides a 24/7 real time tracking capability which is available to our customers via the 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 to determine if there is enough remaining broadband to offer wireless internet to the travelling public. If there is not sufficient broadband, the system will consider third party service providers in an attempt to provide wireless service to our customers at no cost to the state (similar to in-flight internet services).

AMHS will be continuing the popular Bellingham to Whittier Cross-Gulf service which also backfills for the Tustumena in Kodiak and allows twice monthly Aleutian Island chain service (during the summer).

Major RDU Accomplishments in 2011

- Kept eleven AMHS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Implemented Kennicott Bellingham to Whittier Express Cross-Gulf Service which facilitated twice monthly (summer only) Tustumena Aleutian Chain service.
- 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 2011, both passenger and vehicle ridership show an increase over last year's totals by 4% and 5% respectively.

- Worked with the Marine Transportation Advisory Board, taking into account their input regarding AMHS operations and long-range planning.
- Continued the systematic maintenance, upgrade, and new construction process of the AMHS shoreside facilities including major renovations to the Hoonah and Angoon dock structures to make them FVF compatible.
- Continued the process of writing a fleet condition survey which lists the detailed condition of the vessels, and 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 Taku and LeConte. Also completed the first federally sponsored engine overhaul of the fast ferry Chenega. State sponsored overhauls were conducted in Ketchikan and Seward, Alaska.
- Continued to integrate the Automated Time and Labor Advanced Scheduling (ATLAS) system with AKPAY for streamlined payroll reporting and tracking.
- Installed 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. All vessels except the 2 FVF's now have satellite communications, and the FVF Chenega equipment will be installed this coming overhaul season. The FVF Fairweather will have the system installed next year.
- Made significant progress in the implementation of the new Reservations system as well as the Point of Sales cash register infrastructure. The Reservations System RFP will be on the street in November of 2011 and the POS RFP responses are currently being evaluated for bid. It is estimated that the new Reservations system should be operational by October of 2012 and the new POS system should be operational by May of 2012.
- Collective bargaining with the shipboard unions resulted in 3 year agreements with the MMP, MEBA and IBU unions. These agreements commenced in July of 2011 and terminate in June of 2014.

Contact Information
<p>Contact: Captain Mike Neussl, Deputy Commissioner, Marine Operations Phone: (907) 465-6977 Fax: (907) 586-8365 E-mail: Michael.Neussl@alaska.gov</p>

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

All dollars shown in thousands

	FY2011 Actuals				FY2012 Management Plan				FY2013 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	104,408.6	540.3	0.0	104,948.9	112,289.3	0.0	0.0	112,289.3	114,614.9	0.0	0.0	114,614.9
Marine Vessel Fuel	32,851.8	0.0	0.0	32,851.8	34,798.7	0.0	0.0	34,798.7	26,830.3	0.0	0.0	26,830.3
Marine Engineering Overhaul	1,845.1	1,245.3	0.0	3,090.4	1,911.7	1,601.8	0.0	3,513.5	1,921.1	1,636.7	0.0	3,557.8
Reservations and Marketing	1,634.5	0.0	0.0	1,634.5	1,647.8	0.0	0.0	1,647.8	1,647.8	0.0	0.0	1,647.8
Marine Shore Operations	2,547.7	0.0	0.0	2,547.7	2,944.2	0.0	0.0	2,944.2	3,005.6	0.0	0.0	3,005.6
Vessel Operations Management	7,812.8	0.0	0.0	7,812.8	7,939.7	0.0	0.0	7,939.7	7,964.2	0.0	0.0	7,964.2
	4,025.7	112.1	0.0	4,137.8	4,219.8	127.9	0.0	4,347.7	4,349.8	131.5	0.0	4,481.3
Totals	155,126.2	1,897.7	0.0	157,023.9	165,751.2	1,729.7	0.0	167,480.9	160,333.7	1,768.2	0.0	162,101.9

**Marine Highway System
Summary of RDU Budget Changes by Component
From FY2012 Management Plan to FY2013 Governor**

All dollars shown in thousands

	<u>Unrestricted Gen (UGF)</u>	<u>Designated Gen (DGF)</u>	<u>Other Funds</u>	<u>Federal Funds</u>	<u>Total Funds</u>
FY2012 Management Plan	107,866.1	57,885.1	1,729.7	0.0	167,480.9
Adjustments which will continue current level of service:					
-Marine Vessel Operations	1,307.8	0.0	0.0	0.0	1,307.8
-Marine Vessel Fuel	-8,742.4	0.0	0.0	0.0	-8,742.4
-Marine Engineering	2.9	6.5	34.9	0.0	44.3
-Reservations and Marketing	0.0	61.4	0.0	0.0	61.4
-Marine Shore Operations	-170.0	194.5	0.0	0.0	24.5
-Vessel Operations Management	0.0	130.0	3.6	0.0	133.6
Proposed budget increases:					
-Marine Vessel Operations	0.0	1,017.8	0.0	0.0	1,017.8
-Marine Vessel Fuel	0.0	774.0	0.0	0.0	774.0
FY2013 Governor	100,264.4	60,069.3	1,768.2	0.0	162,101.9