

State of Alaska
FY2004 Governor's Operating Budget

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

Marine Highway System Budget Request Unit

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BRU Mission

To provide safe, secure, 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

The Alaska Marine Highway System (AMHS) operates nine 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 nine 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. This BRU coordinates these activities and provides some of the funding for them.

Operations services provided:

- 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 transporting people, goods and vehicles to/from 34 separate ports.
- Using 20 state-owned terminals to shelter and book passage an average of over 350,000 passengers and stage over 100,000 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 under 100 shoreside employees including terminal operators.
- Under the standardized safety program of International Safety Management (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 Standards for Training, Certification, and Watch-keeping for Seafarers (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 20 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.
- Achieve a 95% customer satisfaction by training AMHS employees in customer relations.

- Improve our reservations services by reducing caller wait time and increasing public use of the AMHS website for scheduling information, reservations, and payment. Fully implement the online reservations system (OARS).
- Increase revenue and passenger traffic through better marketing and pricing of available space.
- Provide more frequent ferry service on a regular schedule and by implementing a fast vehicle ferry system beginning with the M/V Fairweather in spring 2004.
- 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 110,000 vehicles at our ferry terminals by performing semiannual preventive maintenance of the shoreside infrastructure.
- Introduce the Metlakatla shuttle ferry to operational service between Metlakatla and Ketchikan in the spring of 2004.

Key BRU Issues for FY2003 – 2004

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 Sitka - Juneau (Auke Bay) shuttle ferry will be delivered in late 2004; and 2) the ferry, MV Chenega, will be delivered in 2005 to serve Valdez, Cordova and Whittier, in 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 that will run between Metlakatla and Ketchikan. As a result of the new Sitka-Juneau shuttle, the Aurora will be transferred to the Prince William Sound area and the Bartlett will be surplus. The addition of the new ferries will require many changes in how we do business. 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 guidance on security procedures for ferries certified to carry more than 500 passengers and the terminals they service mandates enhanced security inspections and screening. Local USCG have stated that it is appropriate that this guidance be applied fleet-wide and terminal-wide. In other words urging its broadest application. The security inspections and screening for MARSEC Levels II & III will be unattainable without additional equipment and personnel.

Major BRU Accomplishments in 2002

- Kept nine 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.
- Developed and managed an innovative Computer Based Training (CBT) program coupled with practical certification sessions to bring existing maritime employees in to compliance with STCW regulations. Vessel employees were certified meeting our scheduled deadline.
- Successfully trained all vessel employees to the highest international standards of Basic Safety Training and Ship Familiarization set by federal 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.
- Maintained AMHS vessels through a combination of federally funded and state funded overhauls. State overhauls were conducted in Ketchikan (6 vessels) and Seward (2 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.
- Implemented a proactive 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 in FY02.

Key Performance Measures for FY2004

Measure:

The percentage of times that vessels depart on time.

Sec 151(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

FY00 77%
 FY01 79%
 FY02 71%

The AMHS goal is to exceed the nationwide on-time airline departure benchmark of 75.1%. On-time is within 20 minutes of the scheduled departure time. AMHS vessels has experienced departure delays due to heightened security resulting from the September 11, 2001 terrorist attack.

Benchmark Comparisons:

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 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.

Our strategy is to review our performance by vessel and route for FY 02 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, safety concerns will not be compromised.

Measure:

The revenue per rider mile divided by the operational costs per rider mile, calculated including and excluding fuel cost.

Sec 151(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

	With Fuel	Without Fuel
FY00	.51	not available
FY01	.48	not available
FY02	.51	.56

It is important to see what drives the changes to these ratios. The following reflects those.

Revenues

FY00 .62
 FY01 .64
 FY02 .64

Expenditures

FY00 1.22
 FY01 1.34
 FY02 1.27

The FY02 ratio was obtained by dividing the revenue per rider mile of \$.64 by the cost per rider mile that was \$1.27.

Benchmark Comparisons:

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. However, their revenue per mile is much higher since they adjust their tariffs to reflect increased expenditures.

Background and Strategies:

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 implemented a tariff increase effective May 1, 2001 and an additional summer increase effective May 1, 2003. This performance measure is influenced by several variables, i.e., seasonal demand, service routes, number of voyages per week between ports and the fluctuation in fuel prices.

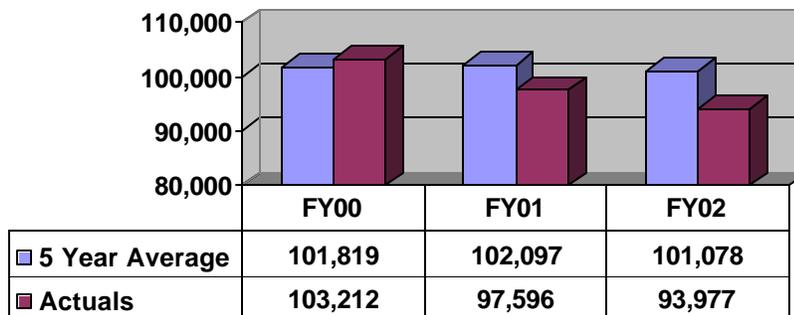
Measure:

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

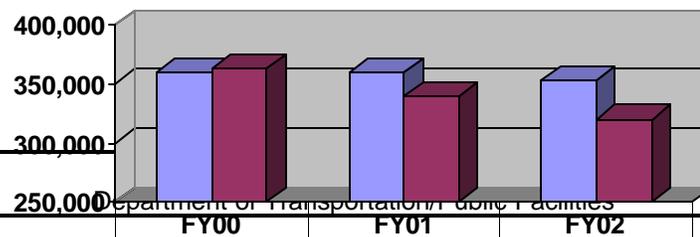
Sec 151(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Vehicles



Passengers



The AMHS established a goal to increase ridership by 3% per year. The System experienced a passenger decrease of 9.2% and a vehicle decrease of 7.0% in FY02. Of this decrease, 3% on the passenger side and 3.8% on the vehicle side is directly attributed to AMHS turning the Hollis route over to the Inter-Island Ferry Authority.

Benchmark Comparisons:

There is no good benchmark for this performance measure. The BC Ferries and Washington State Ferries carry substantially more passengers and vehicles because 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 FY99. This measure is a ridership comparison with a nine vs. eight-vessel fleet. A marketing manager was hired in FY 01 to increase ridership. Many marketing efforts are being undertaken to promote Marine Highway ridership. Unfortunately, there are events beyond the Department's control that can and have resulted in ridership reductions (e.g., blockades, strikes, fires, etc.).

Measure:

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

Sec 151(b)(4) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

FY00 \$20.89
FY01 \$21.19
FY02 \$25.97

The AMHS goal is to increase onboard revenue by 5% from the three-year per passenger average of \$21.49, calculated from FY97 to FY99. The FY02 increase is attributed to the return of the Columbia and having two vessels on the Bellingham run during the peak summer demand.

Benchmark Comparisons:

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. 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.

Measure:

The percentage of persons served who are satisfied customers.

Sec 151(b)(5) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Good Ratings (ratings of very good to excellent):

FY00 75%
FY01 83% An independent analysis of onboard comment cards performed by a marketing class under the supervision of a University of Alaska, Fairbanks marketing professor.
FY02 92% The McDowell Group surveyed 297 Alaska onboard travelers in late August and early September.

Our goal is to continue to increase the percentage of very satisfied customers annually.

Benchmark Comparisons:

Unfortunately, there is no good benchmark for this performance measure. 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 McDowell study is the first comprehensive look at the AMHS customer base in the 37-year history of the Marine highway System. Moreover, the study will serve 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 the reservation staff, completed stateroom renovations and provided onboard cook skills training in FY02. This strategy is directly tied to our goal to increase the level of very satisfied customers in FY03.

Measure:

Development of a reservation and pricing system that prioritizes use by Alaska residents.

Sec 151(b)(6) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Alaska Resident Passenger Traffic		
FY01	92,784	
FY02	94,639	2% increase

This is a new measure for FY03. The AMHS goal is to increase the number of Alaskan residents on the ferries by 3% during the fall, winter and spring.

Benchmark Comparisons:

There is no good benchmark for this performance measure. The Washington State Ferries and the BC Ferries draw from a much denser population base. Further, they carry considerably more passengers and vehicles because they are short haul and commuter type systems.

Background and Strategies:

The AMHS has strategically launched a number of initiatives aimed at increasing use of the ferries by Alaskans. For example, a 49% discount was offered for travel between Alaska ports last April, when Alaskans rely heavy on the AMHS. Similar promotions were offered with the same objective in mind. Additional strategies include allowing drivers to ride free during fall, winter and spring, PFD specials and creating the On-line Alaska Reservation System (OARS). OARS will allow reservations to be made and paid for on-line.

Marine Highway System
BRU Financial Summary by Component

All dollars in thousands

	FY2002 Actuals				FY2003 Authorized				FY2004 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
<u>Formula Expenditures</u>												
None.												
<u>Non-Formula Expenditures</u>												
Marine Vessel Operations	0.0	0.0	0.0	0.0	0.0	0.0	73,578.4	73,578.4	0.0	0.0	73,366.3	73,366.3
Marine Engineering Overhaul	0.0	0.0	1,896.4	1,896.4	0.0	0.0	2,201.0	2,201.0	0.0	0.0	2,143.5	2,143.5
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	1,872.5	1,872.5	0.0	0.0	2,121.6	2,121.6	0.0	0.0	2,178.4	2,178.4
Southeast Vessel Operations	0.0	0.0	2,895.8	2,895.8	0.0	0.0	3,073.1	3,073.1	0.0	0.0	3,021.2	3,021.2
Southwest Shore Operations	0.0	0.0	56,465.7	56,465.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Southwest Vessel Operations	0.0	0.0	1,036.2	1,036.2	0.0	0.0	1,110.4	1,110.4	0.0	0.0	1,154.7	1,154.7
Southwest Vessel Operations Management	0.0	0.0	10,426.6	10,426.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Vessel Operations	0.0	0.0	1,271.9	1,271.9	0.0	0.0	1,380.2	1,380.2	0.0	0.0	1,561.2	1,561.2
Totals	0.0	0.0	77,563.5	77,563.5	0.0	0.0	85,163.1	85,163.1	0.0	0.0	85,123.7	85,123.7

Marine Highway System

Proposed Changes in Levels of Service for FY2004

Reduction in authorization of \$212.5 will reduce the operational flexibility of management to develop a comprehensive ship schedule and may reduce overall vessel service. Cost saving measures will be pursued in an attempt to decrease the impact on services.

The new fast vehicle ferry (FVF) Port Captain will coordinate the introduction of the fast vehicle ferries into operational service in Alaska.

The new Training Specialist will ensure vessel employees are trained and qualified to meet U.S. Coast Guard standards to operate AMHS vessels.

Marine Highway System

Summary of BRU Budget Changes by Component

From FY2003 Authorized to FY2004 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	0.0	0.0	85,163.1	85,163.1
Adjustments which will continue current level of service:				
-Marine Vessel Operations	0.0	0.0	-212.1	-212.1
-Marine Engineering	0.0	0.0	-57.5	-57.5
-Reservations and Marketing	0.0	0.0	56.8	56.8
-Southeast Shore Operations	0.0	0.0	-51.9	-51.9
-Southwest Shore Operations	0.0	0.0	44.3	44.3
-Vessel Operations Management	0.0	0.0	181.0	181.0
FY2004 Governor	0.0	0.0	85,123.7	85,123.7