

State of Alaska FY2007 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 ten 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 vessels and 16 terminal facilities. Hard use in a marine environment and the stringent regulations (state, federal, and international) of passenger-carrying marine vessels determine the need for these activities.

Operations services provided:

- Transport of people, goods and vehicles to and from 32 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.
- 16 state-owned terminals and their staff provide shelter and book passage for an average of over 300,000 passengers and stage over 90,000 vehicles per year to board AMHS vessels.
- 745 shipboard employees crew AMHS ships based upon U.S. Coast Guard (USCG) requirements and 115 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.
- Complete required annual overhaul, maintenance and inspection requirements in conjunction with USCG, and classification entities.
- Implement Maritime Transportation Security Act (MTSA) guidelines, this includes crew and terminal training, and infrastructure changes. MTSA is a federal security agency comparable to Transportation Security Administration (TSA), but for maritime transportation.
- Certify all shipboard employees under the Standards for Training, Certification, and Watch-keeping for Seafarers (STCW) program.
- Certify Fast Vehicle Ferry (FVF) crew under the International High Speed Code requirements

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 departments 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 16 terminal facilities.
- Purchase support services and goods for the necessary annual overhaul of each vessel.

End Results	Strategies to Achieve Results
<p>A: Improve mobility of people and goods.</p> <p><u>Target #1:</u> Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency. <u>Measure #1:</u> Percent satisfied AMHS customers based</p>	<p>A1: Provide reliable, convenient and efficient service on the AMHS.</p> <p><u>Target #1:</u> Meet or exceed industry standard for on-time departures.</p>

upon user surveys.	<p><u>Measure #1:</u> Percent of on-time departures compared to total departures.</p> <p><u>Target #2:</u> Increase the frequency of port calls by 5% from the prior year.</p> <p><u>Measure #2:</u> Percent change in number of port calls as compared to prior year.</p>
End Results	Strategies to Achieve Results
<p>B: Improve AMHS performance.</p> <p><u>Target #1:</u> Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.</p> <p><u>Measure #1:</u> Percent change in revenue per rider mile to cost per rider mile.</p>	<p>B1: Increase AMHS revenues.</p> <p><u>Target #1:</u> Increase onboard sales per passenger by 5% over the previous 3-year average.</p> <p><u>Measure #1:</u> Onboard sales per passenger compared to average of previous 3 years.</p> <p><u>Target #2:</u> Increase passenger capacity utilization by 3%.</p> <p><u>Measure #2:</u> Percent change in passenger capacity utilization compared to a 3-year average.</p>

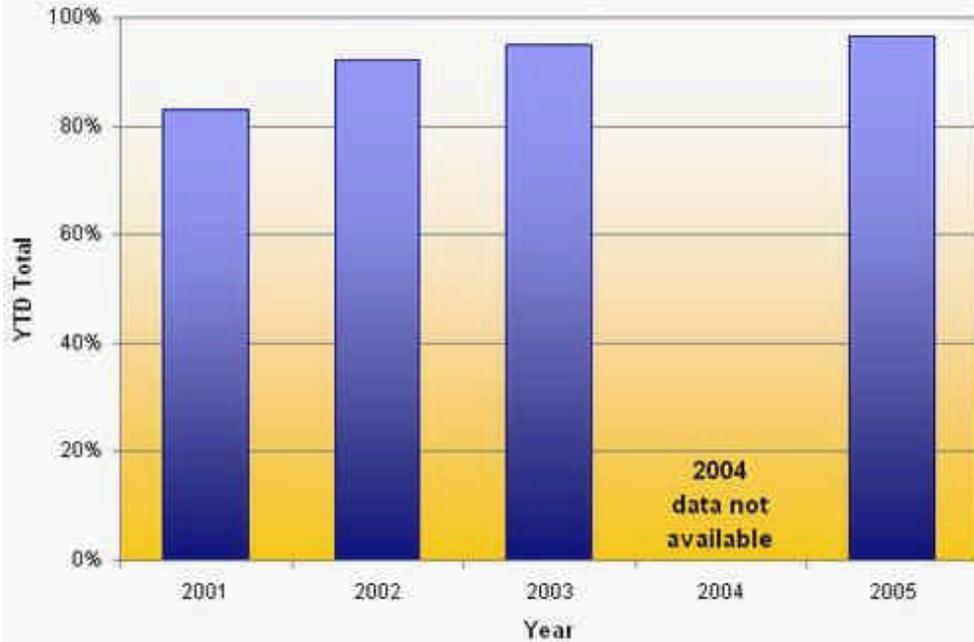
Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Design, procure and employ lighter, faster vessels • Implement a ticket scanning system • Develop separate and secure staging areas of passenger loading • Optimize schedules • Lease space to private providers • Utilize lease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

FY2007 Resources Allocated to Achieve Results							
<p>FY2007 Results Delivery Unit Budget: \$135,883,300</p>	<p>Personnel:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Full time</td> <td style="text-align: right;">691</td> </tr> <tr> <td style="padding-left: 20px;">Part time</td> <td style="text-align: right;">193</td> </tr> <tr> <td style="padding-left: 20px;">Total</td> <td style="text-align: right; border-top: 1px solid black;">884</td> </tr> </table>	Full time	691	Part time	193	Total	884
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Performance Measure Detail

A: Result - Improve mobility of people and goods.

Target #1: Meet or exceed 95% satisfied customers with AMHS reliability, convenience and efficiency.
Measure #1: Percent satisfied AMHS customers based upon user surveys.

Percent of satisfied customers

Analysis of results and challenges: Independent surveys are conducted onboard AMHS vessels at various points throughout the summer season. 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 management.

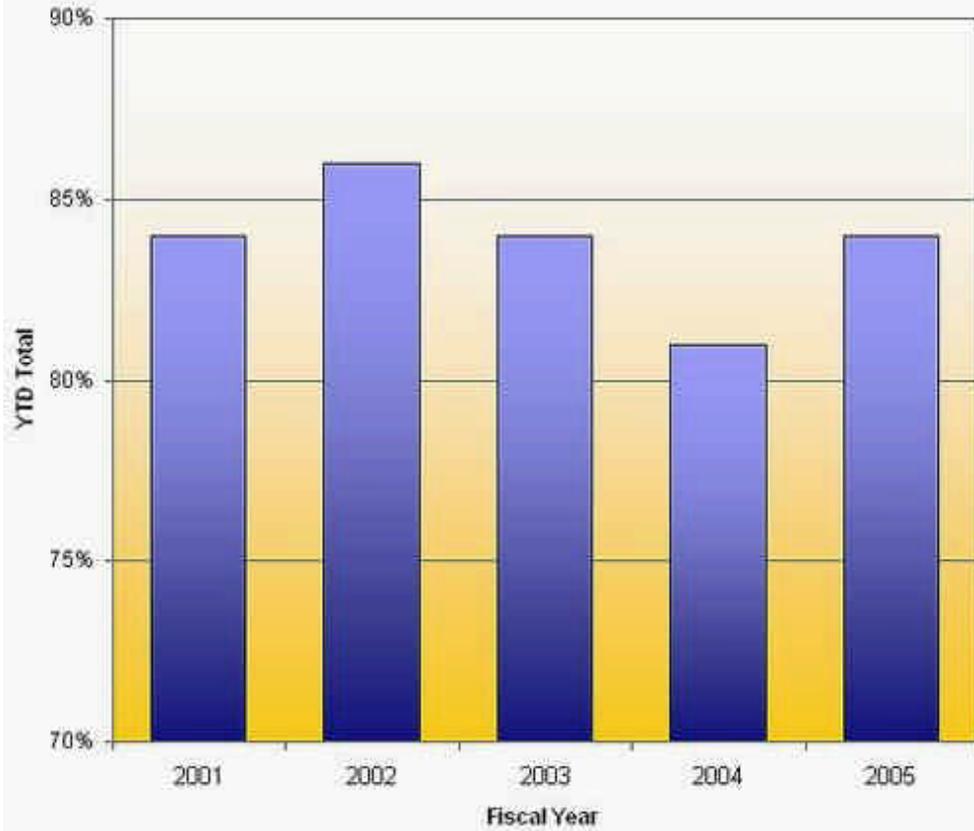
There are two questions regarding the quality of the reservation experience, three questions regarding the appearance of the terminals and personnel, and 16 questions regarding their experience on the ship, ship cleanliness and ship personnel. The questionnaires span the entire system, and come from all of the ships. In all, there were 4,349 individual check marks on several hundred forms for the period of Winter/Spring of 2005, which is the latest period that has been compiled. There are five categories of answers: excellent, good, satisfactory, unsatisfactory and poor. Of the 4,349 check marks, 4,193 fell into the categories of excellent, good and satisfactory, for an average of 96.41%.

A1: Strategy - Provide reliable, convenient and efficient service on the AMHS.

Target #1: Meet or exceed industry standard for on-time departures.

Measure #1: Percent of on-time departures compared to total departures.

Percent of on-time departures



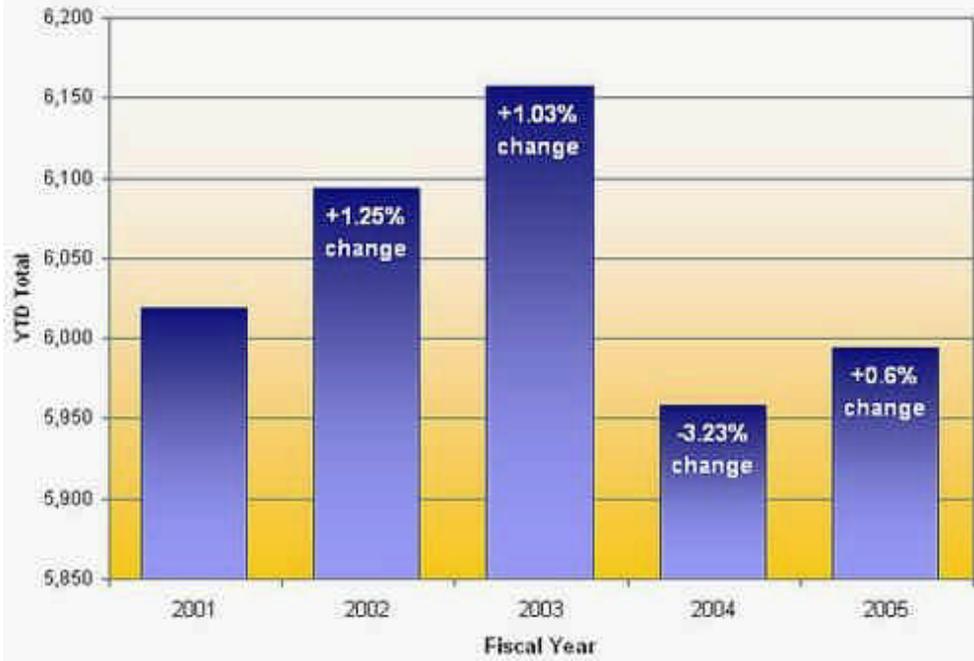
Analysis of results and challenges: The target is for the Alaska Marine Highway System (AMHS) to consistently exceed the on-time airline departure benchmark of 75.1%. An on-time ferry departure is within 30 minutes of the scheduled departure time.

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 #2: Increase the frequency of port calls by 5% from the prior year.

Measure #2: Percent change in number of port calls as compared to prior year.

Number of port calls to Alaska communities



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.

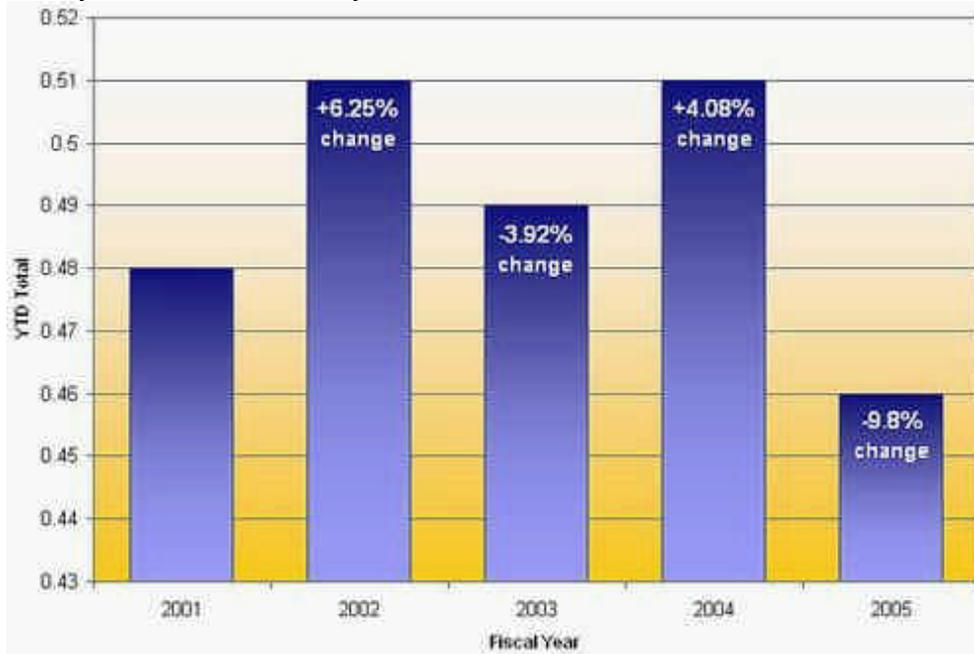
This measure reflects the service level provided to communities dependent upon the Marine Highway. The speed and efficiency of fast vehicle ferries will allow AMHS to increase service to ports. These FVF's are not encumbered by tide driven schedules like traditional AMHS vessels. Although the FVF's are designed for efficient point to point service, going forward with increased port calls without the additional passenger volume will weigh against the high fuel burn rate. 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.

B: Result - Improve AMHS performance.

Target #1: Increase the ratio of revenue per rider mile to the cost per rider mile by 2%.

Measure #1: Percent change in revenue per rider mile to cost per rider mile.

Ratio of revenue per rider mile to cost per rider mile



Analysis of results and challenges: The Alaska Marine Highway System (AMHS) is on par when compared to 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, a \$4 flat fee for each item booked, a 10% fuel surcharge, a 1.9% CPI increase, additional summer fare increases, and booking fees. These aggressive tariff increases are a direct result of soaring fuel costs and increasing operating expenses. Moreover, the sharp increase in combined operating expenses is preventing AMHS from making more noteworthy improvements. It is evident that steep price increases have reduced ridership, the ridership volume may have reached a resistance point, therefore a new discount and pricing approach is necessary to attempt to recoup revenue with increased ridership through reduced pricing during the shoulder and winter seasons.

AMHS is in the process of upgrading the fleet with the addition of economical passenger/vehicle ferries. For example, a new Haines Skagway shuttle vessel project has been started. This vessel will be very economical, and should allow a more efficient mainline scheduling in North Lynn Canal to be developed. In turn, this increased efficiency is intended to reduce the cost per mile to operate 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.

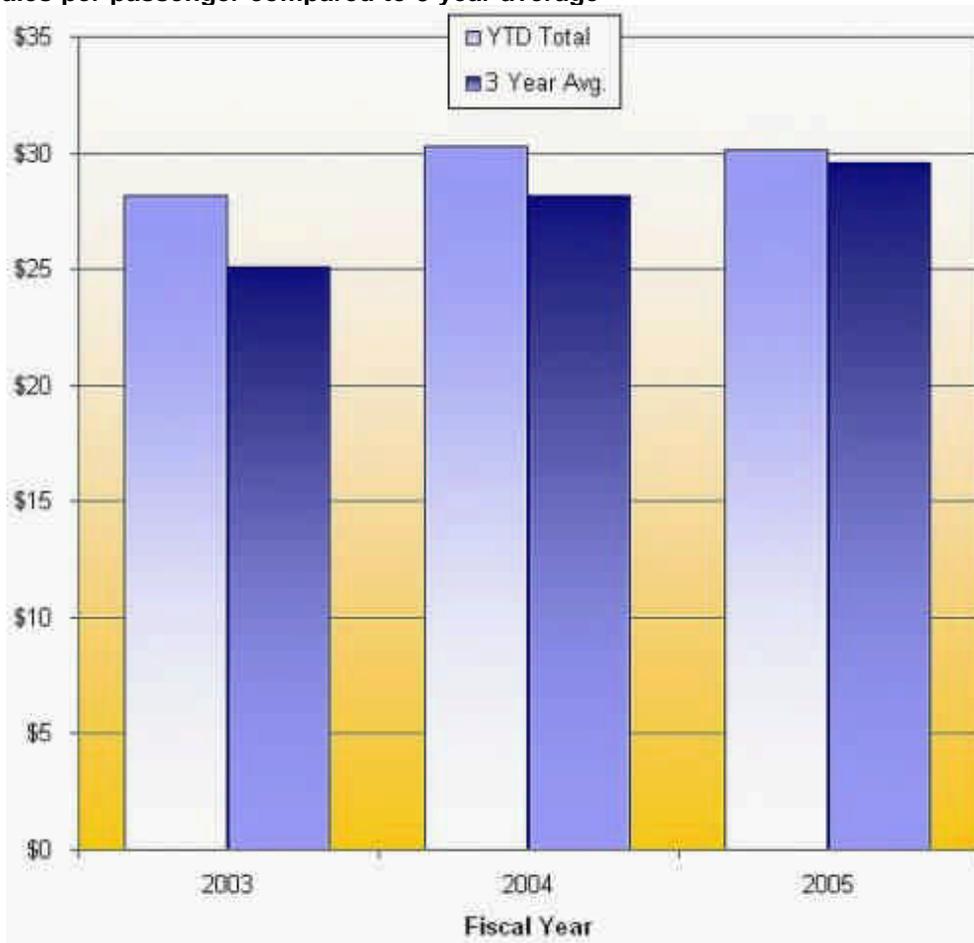
New labor contract language will allow out-sourced operations in the Northern Panhandle ports, which could also increase efficiency.

B1: Strategy - Increase AMHS revenues.

Target #1: Increase onboard sales per passenger by 5% over the previous 3-year average.

Measure #1: Onboard sales per passenger compared to average of previous 3 years.

On-board sales per passenger compared to 3 year average



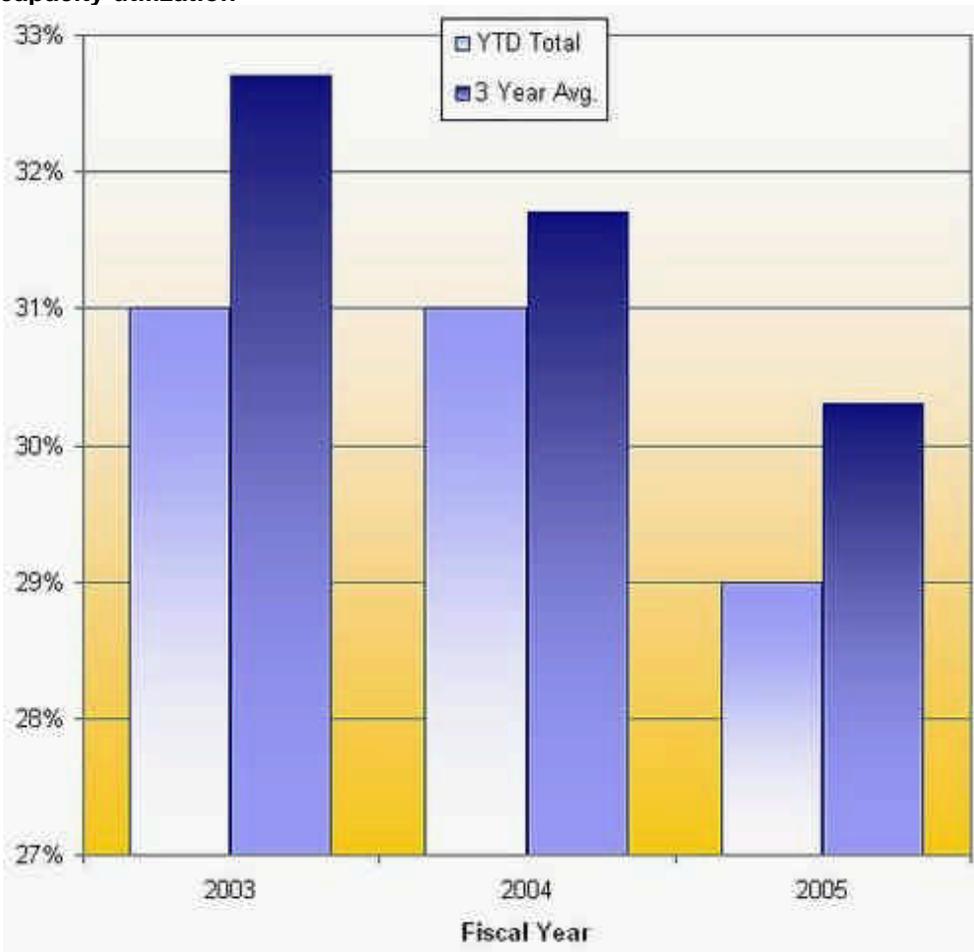
Analysis of results and challenges: Onboard revenue per passenger includes cabin occupancy, food, beverage, and other sources of revenue.

AMHS has made steady progress increasing its onboard sales revenue. The progress can be attributed in part to two areas. First, a marketing and tariff study was conducted by the McDowell Group. 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. Recommendations from this study were followed accordingly.

Second, AMHS has increased cabin tariffs. These increases have had the most significant impact on capturing more onboard sales revenue in FY05.

Target #2: Increase passenger capacity utilization by 3%.

Measure #2: Percent change in passenger capacity utilization compared to a 3-year average.

Passenger capacity utilization

Analysis of results and challenges: The AMHS realigned its vessels for greater efficiency and to meet rider demand. The capacity utilization data has been a useful tool to allow AMHS to better match vessels to routes. This data is also useful for yield management.

The analysis converts capacity data into passenger miles by taking the sum of each trip's passenger capacity and multiplying it by the distance the ship travels. This produces the capacity number.

Next, the analysis considers the actual sum of passengers that were on board and multiplies that number by the distance they traveled. This produces the utilized number. Finally, the utilized number is divided by the capacity number to produce the utilization percentage.

With capacity utilization on a down trend the system has reached price resistance. New promotional specials and round trip discounts are being implemented in attempt to gain back ridership and reverse the capacity utilization trends.

Key RDU Challenges

The fast vehicle ferry M/V Fairweather and the fast vehicle ferry M/V Chenega are the first high-speed ferries constructed in the U.S. to the International Maritime Organization's High Speed Craft (HSC) Code. The USCG required all licensed crewmembers to have significant vessel and route knowledge and training. Under the new day boat operational strategy, the crews depart the vessel each evening at which time maintenance and provisioning take place by shore-based staff. Implementation of this commercial airline industry model is a significant management challenge. It is anticipated that the improved customer service and operating hours, plus reduced crewing costs will justify this major departure from traditional AMHS operating methodology.

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 were submitted for approval to the USCG. The required security inspections and screening suggested for MARSEC Levels II & III will present additional challenges to the system. 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.

Recruitment of replacement Vessel Construction Managers and Port Engineers, primarily due to retirement and transfer from state service, will continue to be challenging. Hiring qualified candidates that have specialized skills and experience normally requires nationwide recruitment and at least six months lead-time. It is anticipated that the current level of marine engineering service will be maintained and will accomplish both the Department of Transportation and Public Facilities (DOT&PF) State Transportation Improvement Plan (STIP) and AMHS Operating Plan as currently written.

Significant Changes in Results to be Delivered in FY2007

The Alaska Marine Highway System operating plan must be developed based on anticipated system revenues, general fund subsidy and AMHS fund balance. Based upon the anticipated FY06 supplemental and FY07 budget requests, the AMHS will continue to provide year round safe, reliable and efficient transportation of people, goods and vehicles on Alaska's Marine Highway.

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

Major RDU Accomplishments in 2005

- Kept up to ten 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 (6 vessels) and Seward (1 vessel).
- 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 Permanent Fund Dividend (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.

Contact Information

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

All dollars shown in thousands

	FY2005 Actuals				FY2006 Management Plan				FY2007 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	0.0	0.0	87,978.6	87,978.6	57,693.7	0.0	31,835.0	89,528.7	84,503.0	0.0	35,822.4	120,325.4
Marine Engineering Overhaul	0.0	0.0	1,879.2	1,879.2	0.0	0.0	2,452.1	2,452.1	0.0	0.0	2,593.1	2,593.1
Reservations and Marketing	0.0	0.0	1,685.9	1,685.9	0.0	0.0	1,698.4	1,698.4	0.0	0.0	1,698.4	1,698.4
Marine Shore Operations	0.0	0.0	1,770.6	1,770.6	0.0	0.0	2,759.9	2,759.9	0.0	0.0	2,847.9	2,847.9
Vessel Operations Management	0.0	0.0	0.0	0.0	0.0	0.0	5,106.4	5,106.4	0.0	0.0	6,242.4	6,242.4
Southeast Shore Operations	0.0	0.0	1,574.4	1,574.4	0.0	0.0	1,997.4	1,997.4	0.0	0.0	2,176.1	2,176.1
Southwest Shore Operations	0.0	0.0	3,286.2	3,286.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Totals	0.0	0.0	99,339.8	99,339.8	57,693.7	0.0	45,849.2	103,542.9	84,503.0	0.0	51,380.3	135,883.3

**Marine Highway System
Summary of RDU Budget Changes by Component
From FY2006 Management Plan to FY2007 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2006 Management Plan	57,693.7	0.0	45,849.2	103,542.9
Adjustments which will continue current level of service:				
-Marine Vessel Operations	5,842.5	0.0	20.6	5,863.1
-Marine Engineering	0.0	0.0	119.8	119.8
-Reservations and Marketing	0.0	0.0	75.1	75.1
-Marine Shore Operations	0.0	0.0	160.7	160.7
-Vessel Operations Management	0.0	0.0	103.1	103.1
Proposed budget decreases:				
-Marine Vessel Operations	-688.0	0.0	-230.7	-918.7
Proposed budget increases:				
-Marine Vessel Operations	21,654.8	0.0	4,197.5	25,852.3
-Marine Engineering	0.0	0.0	21.2	21.2
-Reservations and Marketing	0.0	0.0	12.9	12.9
-Marine Shore Operations	0.0	0.0	975.3	975.3
-Vessel Operations Management	0.0	0.0	75.6	75.6
FY2007 Governor	84,503.0	0.0	51,380.3	135,883.3