

State of Alaska
FY2014 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 35 ports along 3,500 route miles from Bellingham, Washington and out the Aleutian Island chain to Unalaska.
- Shore operations include a central reservations office, 16 state-owned terminals and their staff that provides shelter and book passage for 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 shoreside employees, including terminal operators that 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 RDU Accomplishments in 2012

- Kept eleven AMASS vessels crewed and in service by completing annual overhauls and meeting federal certification requirements.
- Continued 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.
- Worked with the USCG in SE Alaska and Prince William Sound regarding deck officer pilotage acquisition and retention.
- Terminal facilities were kept safely and reliably operating.
- Continued a proactive and aggressive marketing effort. For example, round trip discounts are offered during the winter months to stimulate ridership during that historically slow time of the year.
- Carried an all-time record number of vehicles in calendar year 2011 at 114,100 (the last complete year of data available).
- 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 shore side facilities including engineering work for Haines, Kodiak, Pelican, Petersburg, Wrangell, Prince Rupert, and Skagway terminals. 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 M/V Aurora. Also completed the first federally sponsored engine overhaul of the fast

- ferry Chenega. State sponsored overhauls were conducted in Ketchikan and Seward, Alaska.
- Continued the engineering process for federally sponsored projects which include, fleet electrical generation upgrades, Columbia repower, vessel lifesaving systems upgrade, and fast ferry repower projects.
- Continued to integrate the Automated Time and Labor Advanced Scheduling (ATLAS) system with Alaska's computerized payroll system (AKPAY) for streamlined payroll reporting and tracking.
- Installed satellite systems and hardware aboard AMHS vessels which will allow for 24/7 communications with shore side 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 two Fast Vehicle Ferry's (FVF) now have satellite communications and the FVF systems are planned to be installed during winter 2013.
- Continue to work towards the implementation of the new Chef Tech food ordering and accountability system, which will also meet the requirements of food calorie tracking of the food served. Implementation of the new system will result in efficiencies and cost savings within the vessel food services group.

Key RDU Challenges

- AMHS is in the process of designing a new class of shuttle ferry.
- AMHS continues to evaluate the total cost of providing service while increasing rider-ship and revenues to offset those operating costs.
- As fleet vessels age, challenges include additional maintenance requirements.
- The system will also need to look towards new classes of vessels capable of operating between Ketchikan and Juneau, and a new vessel as a replacement to the Tustumena capable of operating efficiently between Homer, Kodiak, and the Aleutian Island chain. The Aleutian Island chain routes will require a vessel with overnight accommodations and ocean going capability. Several older ferries will require mid-life engine replacements costing approximately \$25 million per vessel along with the ever increasing demand for maintenance and especially costly steel replacement work which also comes along as the vessels age.
- AMHS continues to be challenged with the FVF engine degradation situation. The state has filed a lawsuit against the German engine manufacturer and the shipyard that built the fast ferries. 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 FY2014

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 increase, AMHS continues to operate and fine tune a program of power management and fuel savings system's aboard our vessels. Management has elected not to equip the M/V Lituya or the two fast ferries due to the nature of their operating and service routes. The AMHS has also commenced a new port efficiency policy, which will allow a vessel to bypass a port, under very specific guidelines, should the vessel have no passenger activity scheduled for that port call. It is assumed that this new policy will save the system fuel costs.

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 realized 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. The addition of a 511 smart phone system also gives our customers real time voice arrival and departure information. Going forward, the fast ferries are still scheduled for satellite system installation and when this installation is completed and running, management will then 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).

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

All dollars shown in thousands

	FY2012 Actuals				FY2013 Management Plan				FY2014 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	111,792.1	391.3	0.0	112,183.4	114,614.9	0.0	0.0	114,614.9	115,592.5	0.0	0.0	115,592.5
Marine Vessel Fuel	38,083.6	0.0	0.0	38,083.6	30,312.6	0.0	0.0	30,312.6	30,312.6	0.0	0.0	30,312.6
Marine Engineering Overhaul	1,622.0	1,412.7	0.0	3,034.7	2,003.2	1,636.7	0.0	3,639.9	2,058.3	1,637.1	0.0	3,695.4
Reservations and Marketing	1,633.3	0.0	0.0	1,633.3	1,647.8	0.0	0.0	1,647.8	1,647.8	0.0	0.0	1,647.8
Marine Shore Operations	2,480.3	0.0	0.0	2,480.3	2,862.6	0.0	0.0	2,862.6	2,862.6	0.0	0.0	2,862.6
Vessel Operations Management	8,176.9	0.0	0.0	8,176.9	7,964.2	0.0	0.0	7,964.2	7,964.2	0.0	0.0	7,964.2
	4,323.5	127.9	0.0	4,451.4	4,426.9	131.5	0.0	4,558.4	4,528.8	131.6	0.0	4,660.4
Totals	168,111.7	1,931.9	0.0	170,043.6	163,832.2	1,768.2	0.0	165,600.4	164,966.8	1,768.7	0.0	166,735.5

**Marine Highway System
Summary of RDU Budget Changes by Component
From FY2013 Management Plan to FY2014 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>
FY2013 Management Plan	111,264.4	52,567.8	1,768.2	0.0	165,600.4
Adjustments which will continue current level of service:					
-Marine Vessel Operations	895.1	-145.0	0.0	0.0	750.1
-Marine Engineering	0.0	55.1	0.4	0.0	55.5
-Vessel Operations Management	0.0	101.9	0.1	0.0	102.0
Proposed budget increases:					
-Marine Vessel Operations	227.5	0.0	0.0	0.0	227.5
FY2014 Governor	112,387.0	52,579.8	1,768.7	0.0	166,735.5