AMHS Reform Project
Strategic Business and Operational Plan

Update: September 2017
Project Purpose

• Create a strategic plan for AMHS
  • To provide financially sustainable ferry service that meets the needs of Alaskans

• Two-phase project
  • Phase 1: Mission, Goals, and Governance Recommendations
  • Phase 2: Strategic Operational and Business Plan
Project Team

- Southeast Conference
- Contractors
  - Elliott Bay Design Group
  - McDowell Group
  - KPFF Engineering Consultants
- Statewide Steering Committee
- Offices of the Governor and Lieutenant Governor
Project Steering Committee

• Chair: Dennis Watson - Craig
• Dave Kensinger - Petersburg
• Greg Wakefield - Anchorage
• Elizabeth Bolling - Ketchikan
• Shannon Adamson - Juneau
• Josh Howes - Anchorage
• Will Ware - Juneau

• Sharon Hildebrand - Fairbanks
• John Whiddon - Kodiak
• Dan Kelly - Ketchikan
• Michael Anderson - Cordova
• Dennis Bousson – Skagway
• Ex-officio – Commissioner Luiken
• Staff: Robert Venables
LEGACY CONTRIBUTORS
• City & Borough of Juneau
• City of Ketchikan
• City of Valdez
• First Bank
• Haines Borough
• State of Alaska

BENEFACTORS
• Alaska Committee
• City and Borough of Sitka
• Lynden Inc.

BRONZE SPONSORS
• Best Western Landing Plus
• Central Council Tlingit Haida Indian Tribes of Alaska
• City and Borough of Wrangell
• City of Cordova
• City of Craig
• City of Pelican
• City of Thorne Bay
• City of Unalaska
• Cordova Chamber
• Greater Sitka Chamber

BRONZE SPONSORS cont.
• Huna Totem
• Hyder Community Association
• Inter-Island Ferry Authority
• Madison Lumber & Hardware
• Marine Engineers
• Masters Mates and Pilots Union
• Petersburg Chamber of Commerce
• Petersburg Economic Development Council
• Sitka Economic Development Association
• Sitka Tribes of Alaska
• SouthWest Alaska Municipal Conference (SWAMC)
• Travel Juneau
• Wrangell Convention and Visitors Bureau

SILVER SPONSORS
• City of Kodiak
• Ketchikan Marine Industry Council
• Municipality of Skagway
• Prince William Sound Economic Development District
• Vigor, Ketchikan Alaska
Phase 1 Scope of Work

- Statewide Summit
- Stakeholder interviews
- Case studies of other ferry systems
- Mission statement refinement
- Analysis of alternative governance models
- Recommend governance model for AMHS
AMHS Vision and Mission (draft)

*Developed by Steering Committee, with public input*

- **Vision:** To be the preeminent marine travel experience that exceeds the expectations of the communities and users we serve, while connecting with other intermodal components of state, federal and international transportation systems.

- **Mission:** Deliver safe, reliable, and sustainable marine transportation for Alaska residents, visitors, and commercial customers.
AMHS Values (draft)

*Developed by Steering Committee, with public input*

Values:

- *Safety* as top priority
- Commitment to *excellence* in all aspects of operations
- *Integrity and respect* for customers, colleagues, and all stakeholders
- *Partnerships* with stakeholders
- *Teamwork* to get the job done
Governance Models Considered

• Line Agency of State Government
• Private Corporation
• Public-Private Corporation
• Public Authority
• Public Corporation
• Transportation District
Phase 1 Recommendations

• Consider transitioning AMHS to Public Corporation
• Preserve access to federal & other public funds
• Forward funding
Phase 2 Scope of Work

• Define long-term operating strategy
  • Task 1 - Revenue Analysis
  • Task 2 - Operations Analysis
  • Task 3 - Operations Financial Model
  • Task 4 - Structure and Benefit of Public Corporation
  • Task 5 - Public and Stakeholder Engagement

• Three tasks not funded
  • Household and Business Survey
  • Capital Needs Assessment
  • Transition Plan
Corporate Structure and Benefits

• **Objective:** Describe a governance structure that best empowers management team to operate AMHS economically and meet users needs
Governance - Findings

• Convert AMHS to a public corporation
• Maintains existing benefits
  • Intradepartmental coordination
  • Public purpose
  • Access to federal funding
  • Access to shared services
    • DOTPF
    • Dept. of Administration
    • Dept. of Law
Governance - Findings

• Addresses existing limitations
  • Frequent turnover in senior leadership
  • Indirect labor negotiations
  • Short-term planning horizon
  • Political influence over operational decisions
Governance - Findings

• Additional benefits
  • Align labor and management interests
  • Reduce labor costs strategically
  • Incorporate expertise of board members
  • Operate in more business-like manner
Governance - Structure

• Seven-member board
  • Appointed by Governor
  • Legislative confirmation
  • Five members with expertise in business operations, transportation, finance, economic development
  • One member of a union representing employees
  • Commissioner of DOTPF or designee
Governance – Public Accountability

• Continued compliance
  • Executive Branch Ethics Act
  • Executive Budget Act
  • Open Meetings Act

• Recommended exemptions
  • State Personnel Act
  • State Procurement Act
Governance – Public Interest Protection

• Opportunity to restructure service, rates, costs to reflect true needs
• Public input through annual budget and legislative process
• Additional public access created through corporation’s board and public meetings
Governance – Transition Process

• Legislation required
  • Key changes and examples in report

• Transition would not impair labor contracts in place

• New responsibilities
  • Board appointment and coordination
  • Internal Director of Labor Relations
  • Establish new labor contracts, bylaws, regulations, policies
Public and Stakeholder Engagement

• **Objective**: Guide a process to share information and gather essential input
  - Public Engagement Plan
  - Steering Committee and Sub-Committee input
  - Key stakeholder engagement
    - Residents, employees, community/business leaders, riders
  - Develop and maintain new project website
  - Public meetings
  - Media outreach
Stakeholder Findings

• Public confirmed that AMHS is vital to community economic well-being
• Many suggestions for generating operating revenues and controlling costs
• Continued outreach is essential
  • Inform Alaskans about the statewide benefits of AMHS
  • Educate and engage key stakeholders
Revenue Analysis

• Identify mix of public funding and other revenues for sustainability
• Consider possible changes to tariff rates and structure
• Consider potential partnerships with private, Tribal, municipal, and other entities
Revenue Findings

• AMHS generates $50 million in annual operating revenue
• Bellingham service is an essential source of revenue (44% of total)
  • Bellingham in the top 6 revenue port pairs
• Non-resident travel accounts for 42% of operating revenue
  • Provides critical economies of scale
Revenue Findings

• Price elasticity of demand
  • Reduced fares are not likely to produce sufficient new demand to compensate for loss of revenue
  • Strategic increases in fares would likely result in increased total operating revenues, though with the result of lower traffic
Revenue Findings

• $89 million in GF support in FY17
  • Down 28% from FY13 ($35 million cut)
• AMHS will always rely on public funds to provide safe and reliable transportation
• Transition to a public corporation will not endanger revenue flows from federal government
Revenue Findings

• Best opportunity for revenue growth is through forward funding
  • 18-24 months advance planning window to fully tap Non-Resident (NR) market potential
  • Important community economic benefits
  • Shared marketing benefits
Revenue Findings

• Public corporation could have revenue bonding capacity
  • Leverage farebox and other revenue

• Tribal Transportation Program may provide useful partnership opportunities

• Other funding opportunities examined
Operations Analysis

• Identify basic marine transportation needs for Alaskans
• Examine current system operations to identify strengths, weaknesses, and constraints
Operations Findings

• Complex System
  • 9 Operational Vessels
  • 36 Ports of Call (37 Terminals)
  • Variable service schedules
  • Aging Fleet
  • Terminal/Vessel compatibility
  • Service areas
  • Terminal weight restrictions
  • Traffic requirements
Operations Findings

• Strengths
  • Dedicated personnel at all levels
  • Vital service to communities

• Weaknesses
  • Lack of funding certainty for planning, scheduling, and market development
  • Aging fleet with increasing and unexpected service losses
  • Management - labor alignment
Operations Findings

• Residents, communities, and businesses require reliable, consistent service
Future Operations

• System will continue to consist of a combination of long runs and intermediate stops with short connector routes
• System will require a mix of ocean-going vessels, feeder vessels, and mainline vessels
• Some feeder vessels must be crewed 24/7 given the route lengths and USCG crew rest requirements
Operations Financial Model

• Develop representative model to simulate the system and demonstrate relative impact of proposed/possible changes
• Identify primary cost drivers
Operations Financial Findings

• Model Development & Validation
  • CY2015 Traffic & FY2016 Financial data
  • 11 vessel fleet
  • Route structure approximated from ATVR
  • Some revenue data gaps
  • Overhead/Management same

• General Fund requirement predicted within 10% - $97.5mil vs $91.1mil
Operations Financial Findings

• Primary vessel fleet cost drivers
  • Personnel & Travel –
    54% of system total expenses
    69% of operating expenses
  • Capital improvements & maintenance –
    13% of system total expenses
    16% of operating expenses
  • Fuel –
    10% of system total expenses
    14% of operating expenses
Operations Financial Findings

• Baseline Model
  • Removed TAKU & CHENEGA
  • Adjusted to 350 vessel service weeks
  • Zero AMHS fund starting balance
  • All else identical to validation model
## Operations Financial Findings

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<th>Minimized Fleet &amp; Public Corp Model</th>
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Operations Financial Findings

• Standard Fleet Model w/ Public Corporation
  • 350 vessel service weeks
  • Public Corporation governance
  • Replaced all vessels with Standard fleet
    • Three Mainliners (Bellingham, Rupert, SE, Cross Gulf)
    • Three Day Boats (2 Lynn Canal, 1 Metlakatla)
    • Two 24/7 Feeders (1 PWS, 1 Northern SE)
    • One Ocean (SW/SC)
Operations Financial Findings

• **Standard Fleet Model**
  - Vessel Maintenance estimated from construction estimate & current fleet
  - Crew Costs scaled from existing fleet to new reduced crew size
  - No expensive KENNICOTT/COLUMBIA
  - Terminals unchanged
  - Overhead/Management slightly higher
  - 5% Revenue increase
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Operations Financial Findings

• Minimized Fleet Model
  • Reduced vessel fleet
    • Two Mainliners (Bellingham, SE, Cross Gulf)
    • Two Day Boats (1 Lynn Canal, 1 Metlakatla)
    • Two 24/7 Feeders (1 PWS, 1 Northern SE)
    • One Ocean (SW/SC)
  • 282 vessel service weeks
  • Overhead/Management reduced
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Operations Financial Findings

• If eliminate Bellingham
  (from Minimized Scenario)
  • 4% Cost Savings
  • 51% Revenue Reduction

• If eliminate Bellingham
  (from Standardized Scenario)
  • 2% Cost Savings
  • 49% Revenue Reduction
Operations Financial Findings

• Shifting to a modern fleet and governance system provides more cost effective service

• There are no scenarios whereby all operating costs can be recovered through the farebox

• Bellingham service is required for system viability
Phase 2 Draft Report - Conclusions

• Governance changes are required to realize some operational efficiencies
• Standardizing the fleet will have a significant positive affect on the system
• The linkage to a southern terminus in Bellingham is critical to the system
• AMHS will always require some level of general fund support
Phase 2 Draft Report - Recommendations

• Forward fund AMHS and set performance goals for ferry system management
• Initiate legislative change to Public Corporation this session
• Develop a capital plan for vessels, terminals, and transition costs
• Identify/decide final objectives and develop a Transition Plan
Project Schedule

May - Oct. 2017  Steering Committee and Subcommittee Meetings

May - Oct. 2017  Plan Development & Public Engagement

Oct. 2017  Complete Strategic Plan

Future Efforts

Nov. 2017  Transition and Capital Planning

Jan. 2018  Support Legislative, Administrative Changes
AMHS Reform Project
Strategic Business and Operational Plan

www.amhsreform.com

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Thank you for Participating!