

# AMHS GOVERNANCE STUDY

## Phase 1 Report

Prepared for: Southeast Conference • Juneau, AK

Ref: 16086-001-000-0

Rev. - September 14, 2016



**PREPARED BY**

Elliott Bay Design Group  
5305 Shilshole Ave. NW, Ste. 100  
Seattle, WA 98107

**GENERAL NOTES**

1. Text

**REVISIONS**

REV	DESCRIPTION	DATE	APPROVED
–	Initial issue	xx/xx/xx	JWW

**NOTES**

Cover photo courtesy of Daily Venture.

## EXECUTIVE SUMMARY

Phase One of the Comprehensive Operational and Business Plan development focused on improving and refining the AMHS mission statement and investigating the benefits, shortcomings and challenges of alternative governance structures.

Input to this report was solicited through a public Transportation Summit, a series of telephone interviews with other ferry system operators and AMHS employees, as well as desk top research into reports and studies that have already been published on the subject matter.

The current mission statement of AMHS is as follows:

**"The mission of the Alaska Marine Highway System is to provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "Lower 48," while providing opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education, and health needs."**

A new mission statement was drafted for consideration with the following goals:

- Highlighting the importance of AMHS as an economic investment and benefit for the entire State of Alaska.
- Making the statement shorter, and easier to remember.
- Expanding the scope of the statement to include an element of financial sustainability.
- Including employees in the statement to underscore their roles as part of the AM

**Our mission is to benefit all Alaskans through delivery of safe, reliable, sustainable and cost efficient marine transportation meeting the basic needs of residents, visitors, commercial customers, and our employees.**

The above draft mission statement will be discussed and refined further at the Annual Southeast Conference.

Three governance model alternatives were investigated in detail, a line agency of State Government, a municipal ferry authority, and a state corporation model.

For AMHS to continue to exist as a line agency, there would be minimal legislative and restructuring challenges but the following recommendations would need to be adopted to ensure the sustainability of the Marine Highway System.

- Forward funding to support operating schedules one year in advance to allow user groups to confidently plan their use of the system.
- Allow AMHS management direct control over the system's largest cost center (labor) by transferring human resource activities from the Department of Administration to AMHS.
- Provide guidance to management on their ability to grow revenue through dynamic pricing, partnering with other tourism businesses, and increased competition with other transportation providers.

The biggest challenge for AMHS becoming a municipal port authority is that a single authority representing the interest of all communities served by AMHS is likely impracticable. The possibility of multiple authorities competing with one another for funding and resources would not be beneficial to Alaska. However, such an authority would greatly benefit from increased management and operational autonomy and a reduced exposure of management to politics.

Advantages from AMHS becoming a state corporation would be a businesslike approach to running the Marine Highway system and the inclusion of private sector expertise, leadership and accountability. A significant barrier to adopting a state corporation is the establishment of an endowment that would sustain the operation of non-revenue generating routes.

Throughout the development of this report, a prevalent finding was that the biggest challenge to AMHS is the lack of predictability in funding, that results in unstable operating schedules at the displeasure of customers and employees, which in turn decreases ridership and morale.

Based on these findings, phase two of the Comprehensive Operational and Business Plan development needs to include a thorough financial review and assessment of funding sources and cost saving measures and optimization of potential fleet standardization, ferry schedules and management processes.



6.4.2	Weaknesses	23
6.4.3	Suitability for AMHS	23
6.5	Private Corporation	24
6.5.1	Strengths	24
6.5.2	Weaknesses	24
6.5.3	Suitability for AMHS	24
6.6	Transportation District	24
6.6.1	Strengths	25
6.6.2	Weaknesses	25
6.6.3	Suitability for AMHS	25
6.7	Analysis	25
6.8	Line Agency of State Government	26
6.9	Municipal Ferry Authority Model	27
6.9.1	Advantages and Challenges of the Municipal Authority Model	28
6.10	State Corporation Model	28
6.10.1	Alaska Railroad Corporation	29
6.10.2	Alaska Gasline Development Corporation	30
6.10.3	Alaska Industrial Development & Export Authority	31
7	Conclusions	32
7.1	Proposed Action Items and Scope of Work for Phase Two	32
8	References	34
Appendix A		36
Transportation Summit Materials		37
Agenda		37
Presentation		38
Transportation Summit Roundtable Discussions		45
Roundtable Discussion Questions		45
Roundtable Discussion Notes		46
Appendix B		52
Mission Statements from Other Organizations		53
Mission Statement Drafts		55

# 1 PURPOSE

This report was developed by Elliott Bay Design Group (EBDG) and McDowell Group to identify alternative governance structures that should be considered for the Alaska Marine Highway System (AMHS) and formally recommend a path forward on how to improve the AMHS for a financially sustainable future.

# 2 BACKGROUND

With decreasing fare box recovery rates (Figure 1) and a major budget shortfall for the State of Alaska (Figure 2), it has become necessary to strategize a future plan for the sustainability of the AMHS.

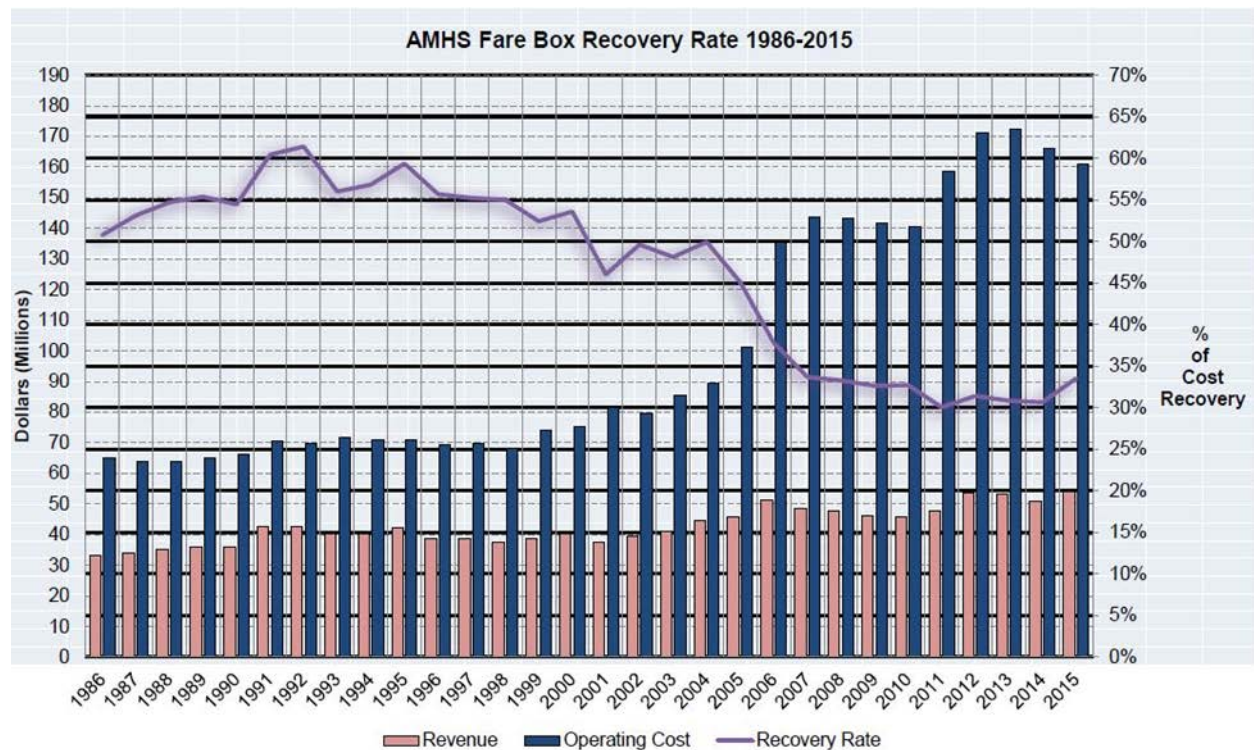


Figure 1 – Fare Box Recovery Rate (Source: AMHS)

EBDG and McDowell Group have been contracted by Southeast Conference for Phase One of the Comprehensive Operational and Business Plan development to research and recommend alternative governance model structures. The project, managed by Southeast Conference, is guided by a steering committee of marine transportation professionals, public officials, user groups and governance experts.

Phase One includes the following scope of work (report section numbers corresponding to the task are identified in parenthesis):

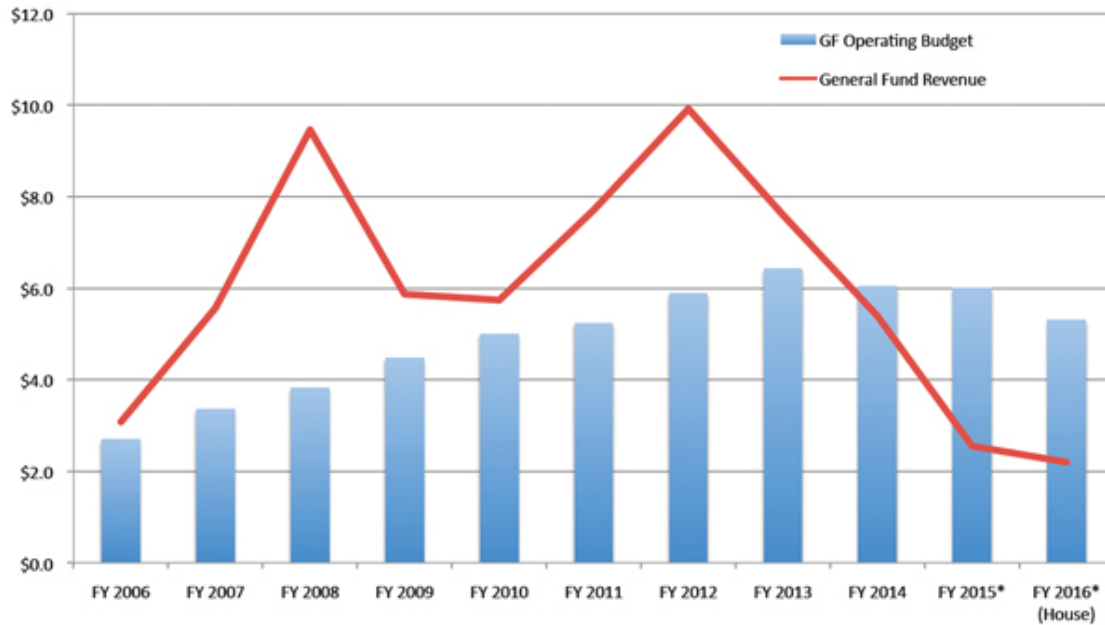


Figure 2 - Alaska Budget Shortfall (Source: State of Alaska)

- Preparation for and attendance/presentations during the Statewide Ferry Summit to solicit public feedback and input. (Section 3)
- Research and summarization of past reports and studies conducted on the AMHS. (Section 4)
- A series of interviews to gain insight into alternative ferry management models and mission statements. (Section 5)
- An investigation of three alternative governance models. (Section 6)
- Conclusion of findings and identifying and recommending the necessary scope of work for phase two. (Section 7, Executive Summary)

### 3 TRANSPORTATION SUMMIT

A Statewide Ferry Summit was held in Anchorage on August 20th at the Robert B. Attwood Building and co-hosted by the Walker/Mallott Administration. The purpose of the summit was to launch a public process to guide the reform of AMHS, and to solicit public input on changes to the mission statement and governance structure. The summit was attended by approximately 50 participants, including and not limited to members of the Marine Transportation Advisory Board (MTAB), AMHS Reform Project Steering Committee, Alaska State Legislature, AMHS Employees, Union Representatives, and members of the Public with Lt. Governor Byron Mallott as the keynote speaker.

Transportation summit materials and guiding questions for public input were posted on the Southeast Conference website alongside a video recording of the event. This was done to ensure that input from those who could not attend the event could be solicited and incorporated into this report.

Materials prepared for the summit, and the notes collected during the summit can be found in Appendix A.



The Transportation Summit began with welcomes and opening remarks by key stakeholders including the Lieutenant Governor. The attendees were divided into three groups for round table discussions, with the morning session focusing on the AMHS vision and mission statement. EBDG's Project Manager, John Waterhouse, gave an overview presentation on six different ferry management models to provide a common knowledge base going into the afternoon discussion topic of alternative governance structures. Each roundtable group was attended by an EBDG or McDowell Group representative to collect feedback, and clarify guiding questions when necessary.

### 3.1 Mission Statement

The morning portion of roundtable discussions focused on the AMHS mission statement. It is important to note that many hours and meetings have already been devoted to the construction of this expression. A great overview of the evolution of the mission statement can be found in Reference [1].

The current mission statement is as follows:

***"The mission of the Alaska Marine Highway System is to provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "Lower 48," while providing opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education, and health needs."***

The existing mission statement demonstrates the very broad and complex nature of operating the AMHS. AMHS serves three distinct customer groups: residents, visitors, and commercial shippers. All three of these groups and subgroups have different needs and desires for how the AMHS should operate. On top of this, the AMHS is tasked with juggling a mixture of day boat service and overnight trips, and a fleet of diversified ships and schedules where each route has different priorities and volumes for vehicle, cargo, and foot traffic. The mission statement is a reflection of how the AMHS must satisfy a diverse customer base and provide some level of service to each user group. Trying to narrow the mission statement is a challenge when AMHS's operation is so broad.

When asked about the mission statement, feedback from the transportation summit included the suggestion that the mission statement should consider the following:

- What do we do?
- How do we do it?
- Whom do we do it for?
- What value do we bring the consumer?

Additionally, phone interviews indicated that no one was able to recite the AMHS mission statement, either from within or outside the organization, whereas other ferry system managers interviewed were able to cite their own mission statements. Interviews with union representatives showed that there was a general lack of awareness of the AMHS mission statement among employees. The AMHS Mission Statement is not being used as a guiding principle for setting policies or for framing discussions within the organization.

More constructive feedback was found through desktop research. For example, Reference [2] correctly identifies that the mission statement fails to address the financial sustainability of the operation. A memorandum [2] from the last time a change in governance was suggested clearly states, "*What is missing so far from the debate regarding establishment of an AMHS authority is enunciation of a clear, widely held explanation or statement of the long-term mission of the System. As part of that effort, there needs to be some clarification of what exactly have been the problems and what exactly is desired in fundamental changes in how the System functions.*"

Based on these recommendations, an alternative mission statement was drafted for consideration at the Annual Conference with the following goals.

- Highlighting the importance of AMHS as an economic investment and benefit for the entire State of Alaska.
- Making the statement shorter, and easier to remember.
- Expanding the scope of the statement to answer "how we do it" by including an element of financial sustainability.
- Including employees in the statement to underscore their roles as part of the AMHS.

The effort to draft an alternative mission statement involved consulting other mission statements from within Alaska and the ferry industry, and creating a diagram of concepts and keywords that could concisely summarize the qualities to strive for, the customer base, and desired outcomes. Mission statements from other organizations that were looked at, and an evolution of mission statements that were considered in the drafting process are included as Appendix B.

It is important to note that many ferry organizations have a succinct mission statement that is supported by various visioning statements for different areas of their operation. Adopting a similar approach would allow AMHS to expand on the issues relevant to their specific user groups without overcomplicating the statement itself.

The mission statement for consideration is as follows:

***Our mission is to benefit all Alaskans through delivery of safe, reliable, sustainable and cost efficient marine transportation meeting the basic needs of residents, visitors, commercial customers, and our employees.***

### **3.2 Governance Structure**

The round table discussions included a lunch break with a presentation on alternative governance structures by John Waterhouse. The slides from the presentation are included in Appendix A, and a video recording of the presentation is available on the Southeast Conference website [3].

<http://www.seconference.org/amhs-updates/amhs-ferry-summit-video>

The presentation covers six governance models and examples listed below. Organizations that were interviewed are identified with an asterisk "\*".

- Government Line Agency (Example: AMHS, Washington State Ferries, North Carolina Ferries)

- A Public/Private Corporation (Example: New York Waterways)
- Public Authorities (Example: Steam Ship Authority\*)
- Public Corporations (Example: British Columbia Ferries\*, Caledonian MacBrayne\*)
- Private Corporations (Example: Bridgeport & Port Jefferson Steamboat Company, Black Ball Ferry)
- Transportation District (Example: Golden Gate Ferries)

These governance models were discussed with guiding questions for the afternoon portion of the roundtable discussions.

### **3.3 Additional Feedback and Findings**

The roundtable discussions at the Transportation Summit included valuable insight on AMHS, which did not necessarily fit in the mission statement and governance structure themes that were discussed above.

Some common themes and suggestions from the summit are summarized below. The full text of notes is available in Appendix A.

1. AMHS must provide access to road-less communities.
2. Reliable scheduled sailings are more important than frequency and ticket price.
3. AMHS management must be given authority and responsibility to plan long range capital projects, and solve financial issues.
4. AMHS funding must be removed from annual political cycle to allow management to produce a reliable sailing schedule and plan long term maintenance and capital projects.
5. AMHS management should establish measurable performance goals that must be met.
6. Bottom-up governance, AMHS management must be able and willing to listen to customer and employee feedback.

## **4 PAST STUDIES AND REPORTS**

There have been many studies and reports on the AMHS since its inception, the most notable and informative reports and studies are summarized and discussed below. Many of the reports discussed are available to the public through the AMHS website; these are identified with an asterisk.

### **4.1 Summation of Reports**

Notable reports are summarized below, where necessary, the summaries are limited as much as practical in scope to what is relevant to the current phase of the project, i.e. the mission statement and governance structure.

#### **4.1.1 The Economic Impacts of the AMHS\* [3]**

The Economic Impacts of the AMHS was prepared by McDowell Group for AMHS in January 2016. This report highlights the importance of AMHS to the whole of Alaska, and how AMHS is a critical lifeline and contribution to the state's economy.

Some key findings in this report were:

- The State of Alaska's General Fund investment of \$117 million resulted in a total economic impact return of \$273 million, a return of more than 2-to-1. Although the state government makes the investment, the local communities receive the economic benefit.
- AMHS accounted for 1,700 Alaska jobs and \$104 million in Alaska wages and benefits in 2014.
- AMHS employees reside in 44 different Alaska communities.
- AMHS carried 319,000 passengers, 108,000 vehicles, and nearly 4,000 container vans in 2014. AMHS plays an integral role in Alaska's visitor industry, carrying over 100,000 non-resident passengers annually and bringing in outside dollars to the state.
- AMHS contributes to a wide variety of business and resident activity in Alaska. Coastal communities are particularly dependent on the ferry for their economic health. AMHS directly spent \$84 million with over 500 Alaska businesses in 2014 in operations and capital expenditures.

The conclusions of this report outline the impacts of reduced AMHS Service to the state of Alaska:

- For every dollar of General Fund money not budgeted to AMHS, there will be \$2.30 less economic activity in Alaska.
- Loss of AMHS employment and wages will hit small towns with relatively high AMHS employment like Ketchikan and Haines hardest.
- Loss of AMHS funding will reduce AMHS spending with local businesses, spending by non-residents, and seafood shipment and income for local fishermen.
- Potential decline in quality of health due to limited access.

#### 4.1.2 Alaska Marine Highway System Analysis \* [1]

The AMHS Analysis report was requested by the legislators in 2006 and prepared by the Alaska University Transportation Center for presentation by 2012. This report is a thorough review of all parts of the AMHS operation and examines the AMHS history, the evolution of the mission statement and current governance structure, the economic benefits that the AMHS brings to Alaska, and methods of making the AMHS financially sustainable. Because of the broad all-encompassing nature of this report, this summary is limited as much as practical in scope to what is relevant to Phase I, the mission statement and governance structure.

As mentioned in Section 3.1, Chapter 1 of this report provides a great overview of the evolution of the mission statement. Many versions of the mission statement included the following paragraph.

***"The AMHS is designed to provide basic transportation services to these communities – transport that allows community access to health services, commodities, legal services, government services and social services; transportation that meets the social needs of isolated communities; and transportation that provides a base for economic development.***

Chapters two through four discuss the history of AMHS, the economic impact of the AMHS, and the establishment of MTAB. Chapter 2 is a great resource that details decision making processes that led to acquisitions of the different vessels that resulted in a "non-standardized

fleet." The establishment of MTAB begins to demonstrate a focus on the continuity of leadership, with an intention that the board "will provide the steadfast command and control for the AMHS, the continuity if you will, that is essential throughout any transition of any new governor or any changes in hierarchy at the DOT/PF."

The latter half of the report predominantly addresses the economic models and a study of different service alternatives and service reductions that could be considered to ensure the financial sustainability of the AMHS. These chapters, with the exception of Chapter six which discusses the challenges faced in restructuring the BC Ferry system, is noteworthy but more relevant to the phase two scope of work.

The report ultimately draws the following five conclusions.

1. The 12 year period from FY95 to FY07 known as the "AMHS Business Paradigm" experienced a 96% growth in total expenses and a 15% growth in revenue that resulted in a 340% increase in State Subsidy.
2. A material reduction in subsidy necessitates service reductions to the point where a ship can be sold.
3. Regular, significant fare hikes are required to increase the systems cost recovery.
4. Ship replacements with one or more existing vessels with Alaska Class ships will increase the subsidy requirement.
5. Service expansion will not generate revenue sufficient to recover added expenditure.

#### 4.1.3 Memorandum by Mark S. Hickey, AMHS Commissioner [2]

The subject memo was written by the commissioner of the Department of Transportation & Public Facilities (DOT&PF) in 1989 to discuss the advisability of creating a public authority or corporation to run AMHS. This document should be read in its entirety if at all possible, it is relatively short at ten pages and the discussion is pertinent to the topic at hand. The following are excerpts that highlight the arguments made in the memorandum.

- The failure of a clear, widely held 'view' being enunciated by authority supporters about what role the AMHS needs to fulfill and why it should pursue that role is easily my largest reservation about the advisability of pursuing creation of an authority at this time.
- The combination of our inability to articulate the comprehensive system plan, and the real and perceived impacts resulting from the growing budget dilemma (including the resulting impact of legislative perceptions about the System's efficiency), has served as the primary impetus for many to support the establishment of a public authority as a way to address existing problems.
- Although an authority may change the politics, it will not remove the System from politics when it needs in excess of \$30million a year in general funds to operate, and the legislature must act annually to appropriate all funds.
- Another argument ...for an authority... is that AMHS could ultimately become a self-sustaining entity. I disagree that it is possible to make the AMHS a self-sustaining entity unless its mission is significantly changed...AMHS is fundamentally a basic transportation system similar to our land highway systems. Highways do not fully pay

for their own existence, nor can or should the AMHS particularly given the high operating costs inherent in its operation.

- One other argument often mentioned in support of an authority is that as part of DOT&PF, the AMHS doesn't have an advocate working solely on its behalf. While I'd agree that the DOT&PF Commissioner institutionally has other considerations and duties that on occasion may moderate AMHS advocacy, the department does act as a System advocate... Taking the AMHS out of the department will also have the effect of allowing the DOT&PF Commissioner freedom to argue more strongly for the other modes with less regard for AMHS needs... One outcome from establishing an authority is that the "subsidy" issue may be viewed as more of a regional issue in the legislative budget debate.
- Many authority proponents argue that what is needed for the AMHS is the same approach as was used in setting up the Alaska Railroad Corporation (ARRC)... This argument fails to recognize there are fundamental differences between these two organizations and their respective missions. The ARRC is basically a freight transportation and real estate development company that provides limited essential or basic surface transportation services to rural areas... while the AMHS is fundamentally a basic transportation serving as the primary means of surface transportation for most users.
- As a practical matter, I question just how autonomous an organization can be created for the AMHS. At some point there is a real risk of effectively establishing just another line agency masquerading as an authority, which should be weighed against the chaos and negative aspects of making the change.
- The actual experience of considering and then pursuing establishment of the ARRC is useful as a possible model. Four separate legislative sessions were spent crafting the legislation establishing the AARC... it will be next to impossible to achieve a good piece of authorizing legislation in only one legislative session.
- The major potential benefit I see is an authority could greatly aid in providing continuity in top management at the System... In this aspect, it can be argued that it minimizes the potential for playing politics.
- Another benefit would be more control over the labor relations functions, particularly with the vessel employees. This benefit will only materialize if there's a willingness to give the authority real control over this function... Given the large percentage of the System's costs attributable to labor, I would argue it's imperative to give direct responsibility over labor relations to the authority if it's going to have a reasonable chance to succeed.
- Removing the AMHS from the department defeats one of the primary purposes for creating an integrated, multi-modal DOT&PF. Having management for all modes under one structure should mean more efficient service delivery, particularly in Southeast where the modes are intricately interlinked.

#### 4.1.4 WSF Governance Study [4]

The Washington State Ferries (WSF) Governance Study was written by the Passenger Vessel Association (PVA) at the request of Governor Gregoire to investigate governance structures of ferry systems in the United States in order to identify best practices that may be adopted at WSF.

The problems facing WSF are similar to those of AMHS; WSF is part of Washington State Department of Transportation and has suffered from a lack of a stable and dedicated funding source. Like AMHS, WSF has a broad mission that must support many different types of clientele from commuters, island residents, to tourists. The traffic volume WSF experiences on any given route fluctuate heavily by season, time of day and special events. Additionally, WSF management has very little control over key operational decisions, starting from tariff rates, labor union negotiations, to their own technological management tools (Information Technology). At its core, WSF is an organization heavily burdened by multiple, competing political agendas that are brought to bear on virtually every aspect of policy, planning and day-to-day operations.

This report studies a variety of US ferry management models and compares their advantages and disadvantages.

The conclusions of this study provided recommendations on the way WSF may be improved, including and not limited to the following:

- A clear vision and mission for the system facilitates governance.
- Setting performance goals and giving authority over revenues and expenses to the management team facilitates operational efficiencies.
- If the system operates with a subsidy, there needs to be a predictable, long-term funding source identified for both operation and capital construction.
- Oversight of the ferry service functions best when there is a dedicated board that is free from day-to-day political influence.
- The optimal size of a governing board is 15 to 20 members.
- Matching the governance structure to the complexity of the operation is vital to its success.
- Any change in governance should be a part of a broader discussion on transportation policy and the role of government.

#### 4.1.5 Sustainability of the Alaska Marine Highway System [5]

The marine highway improvement study was conducted by McDowell Group in 2002. The report identifies problems and a list of broad questions that requires further investigation.

#### **Issues concerning the sustainability of AMHS:**

- The Marine Highway System continues to serve critical infrastructure needs in coastal Alaska. AMHS is the socioeconomic lifeline of a number of smaller communities, in addition to providing the basis for a local seafood market and tourism industry.
- The system is in financial crisis. A continuing gap between operating expenses and funding has required AMHS to consider service cuts and vessel layups. While earned income has been relatively steady at 54% of operating expenditures, general fund appropriations to the Marine Highway have declined from 49% of operating expenditures to 37%.
- The issue on how to make the Marine Highway more financially sustainable has not been resolved. A formal evaluation of alternative financial models and their implications for Alaska has not been performed.

- The current operating model is outmoded. Both vessels and cost structure are inflexible and the system fails to meet user's highest priority need: regular and consistent schedules.
- The Southeast Alaska Transportation Plan holds promise, but leaves many questions unanswered. The plan articulates faster ships, shorter runs, and smaller crews with an explicit goal of regional self-sufficiency. But the plan fails to identify how self-sufficiency will be achieved.
- The existing management structure may not be sufficient for the future, and other modes exist that are worthy of consideration.

### **Recommendations and Questions to be Answered:**

- What entity or combination of entities is most likely to operate the Marine Highway System in a way that achieves the best possible mix of cost control, service provision, and revenue generation?
- What is the financial performance of the SATP as currently conceived likely to be? What capital and operating decisions are most critical to that performance? On what basis and by whom should those decisions be made?
- What mix of public funding and earned income will provide the most stable basis for Alaska's marine transportation infrastructure and how can it be achieved? This is the most pressing issue for the system, since none of the other improvements can be implemented unless this problem is solved.

### **4.2 Common Conclusions and Themes**

- AMHS needs a clearly identified mission statement that will unite the AMHS organization, and the State of Alaska.
- AMHS is not, and will not be, a profit generating operation.
- A stable funding source to plan long term capital projects and cover operational deficits where necessary must come from a dedicated source.
- Removal of management or board of directors from political influence is vital to the success of an organization.

## **5 TELEPHONE INTERVIEWS**

A series of interviews were conducted to gain insight into how the current and other candidate governance models operate and measure their effectiveness. Key points from each of these conversations are summarized below.

Guiding questions for the interviews were prepared as follows:

1. What is the mission statement for your operation?
2. How is your organization structured?
3. How are tariffs set or adjusted?
4. What are the basic revenue flows to cover operating costs?
5. What are the sources of funding for capital expenditures?



6. How do you balance the needs of different user groups/communities?
7. What is the greatest strength of your operation?
8. What key performance metrics do you track?
9. What is the greatest risk to your operation?
10. What is the number one priority for your organization over the next 12 months?
11. What is your major strategic goal over the next 5 years?
12. If you could change one major aspect of your operation, what would that be?

Some common conclusions from the telephone interviews were as follows:

- Simply increasing funding commitments by a year for a bi-annual review would significantly improve schedule stability and allow the system to retain more employees and customers.
- AMHS management needs to have the authority to directly negotiate with labor unions. Removing the Department of Administration (DOA) as a third party negotiator could facilitate communications between employees and management and improve organizational efficiency.
- The biggest issue with AMHS is the schedule instability caused by funding instability. AMHS could gain and retain more customers by being able to plan for the future through forward funding.
- The AMHS mission statement needs to be more succinct and memorable.

## **5.1 David McGibbon, Chairman, Cal-Mac Ferries**

### Background:

CalMac Ferries Ltd (CFL) is a subsidiary of David MacBrayne Ltd, which is wholly owned by Scottish Ministers. Essentially, CFL is a commercial company that is owned by the tax payer, to make money for the tax payer. CFL operates 33 vessels on 28 routes involving 51 terminals. Their average vessel age is 22 years. They employ 1,450 people and move 4.9 million passengers and 1.1 million vehicles annually. Ferries represent approximately 4% of the Scottish Transport budget.

### Governance Structure:

- Previously known as Caledonian MacBrayne Ltd, the Scottish Ministries restructured the organization in 2006 in response to a European Union (EU) requirement that the ferry operation be openly tendered to EU companies. David MacBrayne Limited was created as a holding company with CFL as a subsidiary to operate vessels and ports. David MacBrayne is a commercial company that is solely owned by the Scottish Ministries who also created Caledonian Maritime Assets Ltd (CMAL) as a separate asset holding company for vessels and piers.
- CFL leases vessels from CMAL on a 25 year "Bare Boat" charter basis.
- 50% of the terminals used by CFL are owned by CMAL but operated by CFL. CFL also uses (but does not operate) terminals owned by port authorities (25%), local

municipalities (20%), and private owners (5%). CFL pays berthing fees for every terminal they use.

- The clear division between operating company and asset holding company allows CFL to pursue operating opportunities outside of the UK. Most notably, CFL and a joint partner, GPA Holdings, were just awarded a 35-year contract to run a major port that is owned by the UK Ministry of Defense at Marchwood [7]. The revenue from this contract will flow back to the Scottish Ministries.
- CFL was recently re-awarded an 8-year contract, valued at £1 billion (approximately to continue its life-line service operation with the Clyde and Hebrides Ferries Network. There was competition for this contract by a private firm, Serco Caledonian Ferries Limited.

#### Tariffs and Operational Revenues, Funding:

- Timetables are negotiated with the Scottish Government. CFL will propose an operating cost by routes to the Scottish Minister of Transportation. The government then analyzes fares that would have to be collected to support this cost against the community impact, both financial and social. They then determine the tariff that will be charged. Any difference between CFL's operating cost and the determined tariff is paid to CFL as a subsidy from the government.
- CFL is allowed to retain a 5% return on capital, any profit above this threshold is returned to the government, which effectively decreases the required subsidy.
- Quarterly meetings are held in conjunction with the CMAL and Transport Scotland, to solicit any concerns and feedback from the community.
- Scotland has recently adopted the Road Equivalent Tariff (RET), which ensures that fares are similar to the equivalent cost of travel by road. This has decreased fares on longer routes, and increased ridership, especially tourists.
- Ridership has doubled since the implementation of the RET, which has been a significant challenge for CFL to accommodate.

#### Strengths, Weaknesses and Long Term Plans:

- Scotland has struggled, similar to Alaska, with low oil revenues. As a consequence the Scottish Government fully supports David MacBrayne to pursue opportunities outside of the UK that could generate profits and further reduce required subsidy.
- The Scottish Government is investigating the possibility of allowing CMAL to raise money through corporate bonds to decrease subsidy.
- The biggest strength of the operation is the employees. The retention of qualified personnel and expertise is what enables David MacBrayne to compete for outside business. CFL is a major employer in the Scottish islands and is an essential part of the communities' fabric.
- The biggest risk to the operation is the unknown consequences of Brexit.

## **5.2 Wayne Lamson, General Manager, Steamship Authority, Massachusetts**

### Mission Statement:

- The Steamship Authority (SSA) mission and operational guidelines are clearly outlined in the Enabling Act [4]. In essence, the mission is to provide adequate transportation to residents of Martha's Vineyard and Nantucket.

#### Governance Structure:

- The governance structure requires management to report to a board of directors, and port council that is appointed from local county commissioners and town councils.
- The vote within the board is weighted in such a way that of the five board members, the two island members each have 35% of the vote, and the remaining members each have 10% of the vote. The ability for an island majority supports the primary mission of SSA.
- The chairman of the board automatically rotates through the five counties that are represented.
- The port council is an advisory group to the board with seven members from each town with a SSA port.
- SSA maintains monthly council/town meetings on the first Wednesday of every month, with an additional board member meeting every third Thursday. This allows SSA to resolve and address any arising issues quickly and effectively. Communication from customers and employees can go directly to management with no advisory group to act as a go between.

#### Tariffs and Operational Revenues, Funding:

- The SSA reviews revenue projections each fall based on an assumed schedule and set fuel prices which allow management to set tariffs to ensure a zero based budget. The tariffs, any fare increases and schedule changes are presented to the board for approval. Scheduled changes are announced in the local papers, allowing a 30 day waiting period before the next monthly meeting where feedback can be given by the public.
- There is a provision in the enabling act where a petition can be presented by 10-20 residents to the Commonwealth of Massachusetts Utilities Commission in order to convene a rate hearing. Decisions from the hearing are not retroactive and hearings are very rare, with the most recent hearing occurring in the early 1980's.
- SSA's primary source of revenue is ticket sales; in addition SSA generates income through parking facilities, food sales and advertising space.
- SSA does put its food service concession contract out to bid every 5 years. Boston Culinary Group, Inc., d/b/a Centerplate, has been SSA's food service concessionaire for more than 20 years. It is a very challenging, multi-location operation that requires a substantial investment in off-site kitchen and commissary facilities. WSF recently contracted with Centerplate to help them with their food service operations.
- The concessionaire's employees are not considered part of the crew. These positions are not included on the station bills.
- SSA is a Bonding Authority with clear directions under the enabling act for cash transfers. Under the enabling act, operational funds cannot contain more than two months of operating budget.
- Remaining funds are transferred to a Bond Fund, a Replacement Fund, and Reserve Fund and Bond redemption account for long term capital projects.

- The SSA does not receive any operating subsidy from the State government. Some federal funds are used for capital programs.

#### Strengths, Weaknesses and Long Term Plans:

- SSA's greatest strength is a low employee turnover which allows retention of experienced personnel and quick reaction time to operational issues. Experienced employees reduce the need for excessive oversight and micro management.
- SSA's greatest risk is a lack of physical space and the inability to expand around the terminals which leads to crowd control issues when service interruptions occur.
- SSA's primary priority for the next twelve months is the transition of management with upcoming retirements.
- Over the next five years, the reconstruction of the Woods Hole terminal will be the biggest capital project SSA will undertake.
- SSA's operational and financial reports are available on their website.

#### Additional Notes of Interest:

- Island residents get a 50% discount from ticket fare price.
- SSA purchases fuel in 42,000 gallon contracts with a locked in price, which allows SSA to have confidence in planned expenses.
- The legislature gave SSA licensing power over seasonal excursion boats that could compete with SSA vessels.
- 80-85% of SSA employees are members of eight different bargaining units. The relationships with unions are generally positive, and there is a united front to figure out the path forward and continually improve the service provided.

### **5.3 Mike Corrigan, President, British Columbia Ferry System, BC**

#### Background:

BC Ferries was originally launched in 1958 as the BC Toll Authority Ferry System. The ferry system has a long history as a crown corporation since 1977, however, underwent significant changes in 2000 and 2003 to ensure sustainable funding and establish a private/public corporation. A detailed overview of the challenges BC Ferries faced from this transformation can be found in Reference [1].

#### Mission Statement:

- The mission statement of BC Ferries is to "Deliver safe, reliable and efficient service that consistently exceeds expectations of customers and employees."
- BC Ferries tracks performance metrics such as the employee safety index, passenger safety index, on time performance, and customer satisfaction indices and annually publishes them in a report.

#### Governance Structure:

- The 2003 restructuring from a crown corporation to an independent, commercial organization has been complicated. While BC Ferries is an independent organization, the company has a 60 year contract to provide ferry services to remote areas under a service fee agreement with the government. The contract is currently reviewed every four years.
- BC Ferries has two boards, the authority board and services board. The authority board consists of shareholders that set compensation for service board members, whom run the company.

#### Funding, Fares:

- The fare box recovery rate at BC Ferries is about 75%; the provincial government contributes approximately 25% of the annual capital and operating costs.
- 60% of BC Ferries generated capital funds come from the fare box, the remaining 40% of capital funds come from issuing commercial bonds. BC Ferries has a credit rating of AA- from Standard and Poors and a rating of A from DBRS. They currently have issued five tranches of senior secured bonds as seen below:

*Table 1- BC Ferries Bonds Issued*

Instrument	Amount (\$ millions)	Coupon (%)	Tenor (years)	Maturity Date	Currency
Senior Secured Bonds	250	6.25	30	13-Oct-34	CAD
Senior Secured Bonds	250	5.021	30	20-Mar-37	CAD
Senior Secured Bonds	200	5.581	30	11-Jan-38	CAD
Senior Secured Bonds	200	4.702	30	23-Oct-43	CAD
Senior Secured Bonds	200	4.289	30	28-Apr-44	CAD

- BC Ferries has the authority to set fares; however the BC Ferry Commissioner, who has an interest in both the company and the public, conducts four year performance reviews and provides a price cap. For example, currently BC Ferries is approved for 1.9% average annual fare increases across the system. Fare increase of individual markets and routes are left to the companies' discretion as long as those guidelines are met.
- The BC Ferry Commissioner can and does perform periodic audits. BC Ferries is also internally audited to international financial standards, IFRF.

#### Organizational Complexity and Competition:

- BC Ferries operates a diverse and complex ferry system with northern minor routes that serve remote islands through overnight services, and main line fast ferry routes that are economic lifelines for the BC economy.

- In addition, BC ferries ships commercial freight, a service which is in direct competition with organizations like Seaspan.

#### Strengths, Weaknesses and Long Term Plans:

- The greatest priority and strength at BC Ferries is safety.
- The greatest weakness for BC Ferries is the refurbishing of an aging fleet. A decade worth of capital improvement project progress was lost when the fast ferry project failed – leading to the restructuring in 2003.
- BC Ferries has a 3.11 billion dollar capital plan for the next 12 years, which will include two to three new ships and modifications to terminals, buildings and IT infrastructure.
- The biggest priority over the next 12 months is adopting the new payroll and customer interface system, which will allow BC Ferries to accommodate variable based pricing – such as on and off peak.

#### Additional Notes of Interest:

- Being isolated from the government has significantly helped the process of planning and funding capital projects.
- All BC Ferry employees are represented by one union, which simplifies the labor negotiation process. Contracts are set every five years. Labor relations with the unions have come a long way since the 2003 transformation from a crown corporation to a private company, which resulted in a strike that had to be resolved through a mediated settlement.

#### **5.4 Mike Neussl, Deputy Commissioner, AK DOT&PF & John Falvey, General Manager, AMHS**

##### Thoughts on the Mission Statement:

- The current mission statement is not very succinct, and difficult to memorize. The statement we have is a result of the unique and distinct customer groups AMHS works for: residents, tourists, and commercial shippers.
- All three of these groups and subgroups have different priorities and needs for how the AMHS should operate. The mission statement is a reflection of how AMHS has encompassed a broad scope of work to provide some level of service to each user group.
- Shortening the mission statement when AMHS operations are broad and complex is a challenge.

##### Management Roles:

- A significant challenge for AMHS has been the historically high turnover rate in senior management. This is a direct result of being a political employee; some removal from politics and consistency in management would improve organizational efficiencies. Because of the political pressure, there is a need to have a deputy commissioner that is separate from a general manager.

- While the roles of Deputy Commissioner and General Manager overlap in some areas, there are distinct divisions to the two responsibilities. The Deputy Commissioner is focused on budgeting, acting as an interface with the Department of Transportation, the legislature, and trying to secure funds that will enable day-to-day operations; the General Manager is responsible for organizational management. It would be incredibly difficult for one person to take on both roles.

#### Labor Relations:

- AMHS employs hard working, dedicated employees but the relationships between AMHS and the unions are strained. AMHS senior management spends significant time dealing with labor grievances and negotiation of the collective bargaining agreements every three years.
- Labor is the largest cost item for AMHS, representing \$103.7 million in salaries and benefits out of a total operations cost of \$163.6 million in FY 2014. However, this is somewhat expected since running ships is a more labor intensive endeavor compared to maintaining a highway, for example.
- The labor contracts have evolved into agreements that do not facilitate efficient use of employees. There is significant overhead cost due to the DOA's processes to resolve grievances and comply with convoluted contracts.
- There is very little disincentive for the union to file grievances because there are no consequences to the union when arbitration is lost. Occasionally, grievances are filed with the "ask and maybe we can get" attitude. It is frustrating that sometimes grievances that are not filed by the employee will be filed by the union on their behalf.

#### Funding and Fare Box Recovery:

- The two sources of funding for AMHS are the annual funding provided by the legislature and the money generated through ticket sales.
- Tariffs are the responsibility of the Commissioner as per Department of Transportation regulation 17 AAC 70.040. Tariffs remained the same from 2007 to 2014 but have changed 4 times since. AMHS is implementing the findings of a 2008 Rate Study [8] as part of introducing a new reservation system.
- Annual overhauls are budgeted from capital funds provided by the State; federal funding supports new construction projects.
- AMHS needs consistent and reliable funding that does not change on an annual basis to be able to publish schedules that are reliable and can remain consistent from year to year and enable planning for the future. For example, a schedule was published and tickets were already sold for the summer of 2015 when legislative process significantly slashed funding, resulting in schedule reductions and potential route cancellations.
- Inability to publish schedules in advance deters businesses and visitors from planning a trip on AMHS in the future.
- AMHS has examined the possibility of outsourcing some vessel operations such as food service and housekeeping during a port call. The Alaska Attorney General determined that the collective bargaining agreements required that all jobs onboard the vessels must be handled by one of the three shipboard bargaining units.

Strengths and Weaknesses, Short and Long Term Goals:

- A major strategic goal for AMHS is to change the direction of the fare box recovery curve to ensure sustainability of the system for current and future generations.
- An upcoming goal for AMHS is the ability to track costs by route rather than vessels. Because vessels are shuffled among routes currently, it is difficult to harness route based information to improve the Systems Efficiency. Data collected from the new reservation system will help AMHS in this goal.
- AMHS's greatest strength is the dedicated employees who make the system work day in and day out.
- The biggest challenge to AMHS is funding uncertainty rather than governance structure. AMHS cannot efficiently schedule ship layups and overhauls which results in schedule instability and consequent loss of ridership.

Additional Notes of Interest:

- A key difference between AMHS and other ferry systems is the relative lack of traffic volume combined with the route network extending over 3,500 miles. AMHS cannot be a self-sustaining operation; there simply would not be enough ridership, even if AMHS reduced rates dramatically.
- As a common carrier, AMHS is not allowed to charge visitors more than residents. Indirect fare policies, such as discounts for frequent travelers, can benefit residents.
- The complex mission of AMHS operation is further confounded by eleven different vessels, only some with similarities, and 35 ports that have a variety of configurations. Some vessels can only serve certain ports; a standardized class of vessels and terminal infrastructure would provide AMHS with more flexibility.
- However, there is not enough capital funding that would allow for all docks to be compatible with all ships. AMHS does not own most of the docks it uses for the southwest service out to Dutch Harbor.
- Standardized classes of ships are a worthwhile goal but challenging to achieve given the variety of ports and routes. The new Alaska Class Ferry is not compatible with most of the existing infrastructure. To reduce crewing costs, it is designed to operate with only a single 12 hour crew shift, i.e. a day boat operation. This in turn led to the use of both bow and stern doors to facilitate loading and unloading of vehicles on the Lynn Canal route. Most AMHS ports in Southeast Alaska load vehicle through a side door.
- A significant obstacle for the AMHS is gaining the attention and interest of the public. Residents need to see the benefit of the entire system rather than benefits to specific communities or user groups. It is a challenge to get buy-in from everyone who's impacted, especially when those decisions are small in the grand scheme of AMHS.
- Dividing the system into smaller port authorities, such as the IFA, would result in loss of efficiencies due to the duplication of overhead functions such as purchasing, dispatching, planning, etc.
- AMHS and the Alaskan State Legislature need to strengthen the narrative that the system is for the benefit of all Alaskans rather than an organization that only serves the coastal communities. There is some risk that this message may be lost by removing AMHS from the Department of Transportation.



- AMHS has a large economic impact and contributes significantly more to the state of Alaska beyond transporting people, goods, and vehicles. AMHS is vital for many businesses; this is underscored by the fact that every schedule change can affect businesses dependent upon the existence of AMHS to sustain them.

#### **5.5 Shannon Adamson, International Association of Masters, Mates & Pilots, Ben Goldrich, Marine Engineers Beneficial Association – District 1, & Joshua Stephenson, Inland Boatmen's Union of the Pacific**

- Most union members and employees are aware that there is a mission statement, but do not know what it is.
- Union members are very aware of the state's budgeting crisis, and are mostly aware of how money can be saved in operations. The fact that these ideas and opinions are not solicited is in some ways more frustrating than the funding cuts themselves.
- AMHS has trained personnel that are intimately familiar with the vessels, and stay onboard during the overhaul. However, their technical expertise is not solicited and the work is contracted out to shipyards instead. Keeping the crew onboard the vessel while the work is contracted out to a shipyard is a redundant expense.
- Crew onboard the vessel often have a better idea of what and how maintenance tasks need to be performed compared to management, yet their opinions are not solicited.
- There is a general sense that employees want to be part of the solution; as employees there is a common interest in the future sustainability of AMHS. However, they are currently left out of the process and are an underutilized asset. They would be open to discussions about ways to reduce shipboard positions if it was necessary to reduce costs and keep vessels in operation.
- More effort needs to be put forth in gaining tourist traffic to increase income for AMHS. It was counter-productive for advertising targeted at tourists to be eliminated when budgets were being cut.
- The biggest strength of the AMHS is the highly trained employees that dedicate themselves to running a safe operation.
- The biggest risk to the AMHS is the high turnover rate of employees and the loss of relevant experience and knowledge.
- With airlines becoming more reliable, AMHS's prices are not competitive enough to compensate for the schedule instability. There should be more effort to increase ridership through lowered fares instead of sailing empty.
- The shore-side operation of AMHS seems to be larger than necessary. As an example, the ferry system used to operate nine ships with one port captain, currently there are 11 ships with three port captains. There was not always a deputy commissioner. Shipboard staffs are reduced seasonally while the number of dispatchers remains the same throughout the year.
- An example of unions not being consulted in the decision making process are the Alaska Class Ferries that are under construction. The new ships are not multi-functional, and as day boats are tethered to a 12 hour schedule. The design criteria could have been significantly improved if the decision making process involved the employees that operate the vessels.

- The AMHS management does not make an effort to solicit feedback from unions and employees. While employees can and do attend the public meetings, this seems like an inefficient and indirect way of getting feedback that could be gathered from a shipboard survey.
- Having the DOA act as a bargaining authority between the management and unions is not constructive. The DOA does not necessarily have the required level of understanding or appreciation of ferry operations to make informed decisions.
- From a union perspective, it seems like the DOA is operating the system rather than AMHS management. There is an additional overhead cost associated with going through the DOA that hurts the system.
- The morale of employees at the AMHS, and the relationship between unions and management are at an all-time low.
- AMHS needs to reestablish itself as a viable career for graduates who have the option to go anywhere else in the world. Improved job security and faith in the organization would help retain experienced personnel that are intimately familiar with the vessels and can respond to operational challenges with greater understanding and security.
- AMHS needs a more effective advocate in legislature for the system and community needs. That should be part of the deputy commissioner's job.

## 6 ALTERNATIVE GOVERNANCE MODELS

The six governance structures presented in Section 3.2 above were analyzed for applicability for AMHS. The basic characteristics of each structure are described with a brief summary of the strengths and weaknesses of each. A summary of their suitability for AMHS is included.

- Government Line Agency (Example: Washington State Ferries, North Carolina Ferries)
- Public/Private Corporation (Example: New York Waterways, Pierce County Ferry, Mayport Ferry)
- Public Authorities (Example: Steam Ship Authority\*, Inter-Island Ferry Authority)
- Public Corporations (Example: British Columbia Ferries\*, Caledonian MacBrayne\*)
- Private Corporations (Example: Bridgeport & Port Jefferson Steamboat Company, Black Ball Ferry Line, Hurtigruten Group\*)
- Transportation District (Example: Golden Gate Ferries, Metropolitan Atlanta Rapid Transit Authority)

### 6.1 Line Agency

This management model is based on a separate division within a state department of transportation benefiting from statewide revenue. The ferry system owns and operates vessels and terminals as part of a mandate to provide basic transportation infrastructure. Public revenues may be supplemented by tolls or other revenue sources.

AMHS is currently run as a line agency of a Transportation Division. It relies on fare revenue, state allocations, and federal funding to support its annual operations. The ferry system has a General Manager for day-to-day operations with a Deputy Commissioner of Transportation for liaison with the other transportation modes within the AK DOT&PF. Both the General Manager

and the Deputy Commissioner serve at the pleasure of the Governor. Labor relations are handled by the DOA.

#### 6.1.1 Strengths

- Responsive to public through election of the Governor as the chief executive.
- Legislation and processes are already in place.
- Underlines the message that transportation benefits all Alaskans.
- Facilitates coordination and planning across other transportation modes.
- Access to low cost of capital and to direct federal grants for capital projects.

#### 6.1.2 Weaknesses

- Subject to senior management turnover due to gubernatorial elections.
- Ferries must compete internally for budget before even going to the legislature.
- Labor agreements are not negotiated directly by ferry system management.
- Cannot set schedules or budgets in advance due to annual funding process from legislature.
- Lacks incentives for improvements in efficiency.
- Constrained by public procurement requirements.

#### 6.1.3 Suitability for AMHS

This is a suitable model since the AMHS currently operates under this structure but it may not be the optimal model.

### **6.2 Public/Private Corporation**

A private company, operating vessels that are either owned or leased by the operator, works with public agencies to develop routes and their associated terminals. The company pays for use of the public facilities that they use, but is free to establish schedules, rates, and business practices for the operation that creates financial return within the regulatory constraints associated with operating passenger vessels.

A public/private partnership model could take a number of forms. The one most commonly seen in the marine industry is where a public entity develops assets and then leases them to a private entity for use in their business. For example, the State of Alaska could own the terminals and the ferry vessels. This would allow them continued access to federal funds for modifications, repairs, and new construction of both vessels and terminals. The State could then contract out operation of portions of the system, or even the entire system, to a private maritime company. The private firm would provide management, labor, and invest its own funds into increasing efficiency and driving revenue. The term of the contract would have to be sufficient for a firm to make the investment of time and money. The performance of the operator would be set by contract with tracking measures and periodic reviews.

#### 6.2.1 Strengths

- Government ownership of assets provides access to federal funds and to lower borrowing costs.

- Government can exercise powers of eminent domain to develop new terminals and connecting roads.
- Private operator would have financial incentives to grow non-fare revenue and to improve system efficiencies.
- Public sector has a major role in service planning.

#### 6.2.2 Weaknesses

- The objectives of the public entity (providing transportation to support residents and the economy) are not necessarily aligned with the objectives of the private entity (to make a profit for its shareholders).
- To entice a private operator, government would have to make long term contract commitments.
- If financial incentives are weak, there may be difficulty in attracting qualified private firms.
- Depending upon the contracting requirements, such as requirements to use organized labor, opportunities for efficiency improvements may be limited and costs will increase due to a need for the private firm to make a profit.
- The private operator may not be as responsive to the needs of the communities or may shift resources to routes that are more profitable.

#### 6.2.3 Suitability for AMHS

This is not a suitable model without a long term, guaranteed revenue source to support the cost of operations. A private operator might find enough efficiencies to support its need for profit but there would need to be a detailed contract to produce outcomes that benefit the public, not just the operator.

### **6.3 Public Authority**

In this model, an independent government entity is created to focus on a specific set of objectives. There is enabling legislation that defines the scope and powers of the authority. The management of the authority is handled by leaders hired for their particular expertise. The management is overseen by a governing board that typically includes members elected at large, members appointed by government, and members that represent specific interests such as labor. The authority has the responsibility of managing assets, working within budgets, managing employees, complying with regulations and policies, and planning for the future of the authority. The authority may have dedicated revenue sources such as property taxes, fuel taxes, or a tourism based tax. If so, there are oversight mechanisms on how those funds are established, collected, managed, and disbursed.

#### 6.3.1 Strengths

- Provides management stability.
- Responsible for long range planning for the benefit of the authority and the populace it serves.

### 6.3.2 Weaknesses

- May not be able to react quickly to basic impacts on its mission or funding source.
- The governing board may not reflect some key constituencies.

### 6.3.3 Suitability for AMHS

This is a suitable model with strong checks and balances to achieve the mission.

## 6.4 **Public Corporation**

A corporation whose business is to provide transportation services with some level of revenue support from the regional government. The corporation is governed as a commercial entity with a Board of Directors, but has its shares held on behalf of the public. The corporation owns the vessels and leases terminals from the government.

This management model would create an entity that is run like a business but the shareholders are the citizens of Alaska. The corporation contracts with the state to provide a defined service for a defined fee over a long enough period to allow planning and system changes to be effective. Oversight would be provided by a board appointed by a combination of the shareholders (i.e. the State) and by the management team. The corporation would engage in contracts like any business but would lack the power of eminent domain. Purchasing processes would be defined contractually and it is expected the corporation could incur debt within defined constraints since the debt would ultimately be backed by the credit worthiness of the State. The corporation would be empowered to conduct all employment processes in accordance with commercial standards.

### 6.4.1 Strengths

- Management is insulated from political considerations.
- Capital projects could be tendered along commercial terms and conditions.
- As a corporation owned by the State of Alaska, AMHS would be exempt from federal and state income taxes.
- Employee relations and collective bargaining would be handled directly by ferry system management.
- Finances are transparent and subject to periodic approvals by the public shareholders.

### 6.4.2 Weaknesses

- Key stakeholders such as residents or employees may feel marginalized.
- Transportation costs and their impact on local economies may not be integrated into a larger economic or transportation strategy.
- Public may feel that compensation for management is out of line with their expectations for basic services.
- Requires predictable on-going financial support from government to provide basic transportation to isolated communities.

### 6.4.3 Suitability for AMHS

This is a suitable model for AMHS if the challenges with the current system can be overcome.

## 6.5 Private Corporation

A private company, owning the vessels and the terminals, is free to establish schedules, rates, and business practices that create financial return within the regulatory constraints. They operate with no assistance from state, city or federal government, nor do they receive funds from those entities. Private ferry companies are common in Europe, both as publicly traded companies such as Moby Lines and SNCM, as well as privately held companies such as Stena Lines and P&O. There has been significant interest in recent years for private equity companies to invest in established ferry companies.

The pure private model is seen in companies such as Tote and Northland. These companies use their own capital to purchase assets which they then use to move goods around Alaska and to the Lower 48. These firms operate on narrow margins otherwise there would be new competition since the barriers to entry (tugs, barges, terminals) are relatively low. AMHS has found that there is relatively little price elasticity for increasing revenues by over 50% that would be needed to support a pure private operation. Given the strong seasonal shifts in demand, the low population base, the relatively small communities being served, and the higher operating costs in Alaska, a private operation could only succeed with some significant level of government support.

### 6.5.1 Strengths

- Requires limited support from government.
- More nimble operation due to minimal labor constraints.
- Ability to change service delivery without extensive public input or legislative oversight.
- Sharp reductions in labor costs through reduced number of employees and lower wages/benefits.

### 6.5.2 Weaknesses

- Need for increased revenue would adversely impact some user groups, such as residents, more than others (tourism and freight).
- Some communities would lose service unless there was a government guarantee.
- Would eliminate access to federal funds or state bonds for capital projects resulting in a higher cost of capital.
- Ability to recapitalize fleet is questionable without some certainty in revenue stream for debt repayment.

### 6.5.3 Suitability for AMHS

This is not a suitable model since there is insufficient revenue to support operational or capital needs. Some portions of the AMHS system might be run as a pure private entity, but only on a seasonal basis, similar to other tourism businesses that close in the winter.

## 6.6 Transportation District

This model applies to a public entity operating multiple modes of transportation along a major corridor for the economic benefit of a defined geographical area. Ferry operations are typically one portion of the larger transportation entity that is designed to work together to serve the

communities and may be subsidized by the other modes or by taxation within the geographical area. The vessels and terminals are owned by the district.

This management model is similar to a public authority but is focused solely on transportation which is typically multi-modal. A transportation district generally has a lower level of autonomy from government. Generally, a transportation district has a dedicated revenue source, such as property taxes or bridge tolls, that can be used to finance transportation modes such as buses, ferries, or light rail. By definition, a transportation district serves a limited geographical area. Generally their operations are overseen by a board with members appointed by the communities that they serve. As public entities they have access to federal funds for capital projects.

#### 6.6.1 Strengths

- Allows transportation coordination across regional boundaries such as cities, counties and unincorporated areas.
- Depending upon the size of the region served, it can manage more extensive, and expensive, projects such as building a light rail network that integrates with existing bus services.

#### 6.6.2 Weaknesses

- Because it is regional there will be competition against other regions for funding from state and federal sources.
- The size of the organizations may result in slow response to changing conditions.

#### 6.6.3 Suitability for AMHS

This is not a suitable model for AMHS. By dividing the system into regional districts, the system will lose efficiencies through a duplication of functions. Also, regional populations served by AMHS lack sufficient density and thus economic base, to fund operations of the magnitude of AMHS. The regions would therefore be in competition for funding from the state and could be dismissed by regions not reliant upon ferry service and seeing little to no benefit in supporting ferry operations.

### 6.7 Analysis

The governance models were evaluated for their ability to solve the following existing problems:

- Unstable year-to-year funding process
- Inability to take on long-term capital projects
- Aging fleet and associated maintenance scheduling and costs
- Inability to renegotiate labor contracts
- Inability to track performance metrics on a route-by-route basis
- Challenges in communication and transparency between AMHS management, employees, and the public that would foster a collaborative solution-making environment

Private corporations and Private/Public partnerships were eliminated because the efficiencies that might be created by having a private enterprise managing the system do not seem to outweigh the financial and political risks to government mission of outsourcing a basic transportation need.

A Transportation District is not a good fit since the primary purpose of such a district is to coordinate transportation across different modes of transportation and different jurisdictional boundaries. It also requires a dedicated funding source to support any operating deficits. As a line agency of the State Department of Transportation, AMHS is currently fulfilling the coordination role so there is no significant advantage to changing the management model.

This leaves the following governance models to be evaluated further:

- Government Line Agency (Current model with organizational improvements)
- Independent Transportation Authority (with Fee for Service Agreement from State Government), and
- Public Corporation (similar to Alaska Railroad with endowment)

### **6.8 Line Agency of State Government**

In 1959, the first Alaska Legislature approved the Alaska Ferry Transportation Act which established the state ferry system. In 1983, the Division of Marine Transportation was renamed the Alaska Marine Highway System and was restructured as a line agency within the Department of Transportation and Public Facilities. "Having management for all [transportation] modes under one structure should mean more efficient service delivery, particularly in Southeast where the modes are intricately interlinked." [2].

AMHS is led by Deputy Commissioner Mike Neussl who reports to the Commissioner of DOT&PF, Marc Luiken. The Governor appoints the Commissioner. Day-to-day operations of AMHS are handled by a general manager, Capt. John Falvey, who reports to Deputy Commissioner Neussl. AMHS employs 846 vessel personnel and 150 shore-side personnel.

The ferry system depends upon annual funding appropriations from the Legislature for both operating and some capital needs. In 1990 the Legislature established two funds intended to improve financial management of the system: the Vessel Replacement Fund and the AMHS Fund. All revenue from AMHS goes towards the latter, which is a Designated General Fund. Shortfalls between revenue and operations are made up through transfers from the General Fund. In FY 2015 AMHS earned \$53.5 million in revenue against approximately \$161 million in operating expenses for a fare box recovery of 33%. A transfer of approximately \$112.5 million was required from the General Fund. The authorized transfer for FY 2016 is \$96.6 million.

In 2003 Governor Frank Murkowski signed Administrative Order 204 to establish the MTAB. The MTAB consists of twelve members appointed by the Governor. Each member must be a resident of the State of Alaska. Six members of the board represent specific districts served by the ferry system. One member must be a retired marine captain or marine engineer (not affiliated with AMHS). One member must be from one of the recognized unions that represent AMHS employees. One member must be a business owner who interacts with AMHS. One member must represent the tourism industry and two members must represent the public at large. MTAB may issue reports and recommendations to the Department of Transportation and Public Facilities. It shall prepare and submit to the Governor for review a strategic plan for AMHS. MTAB also makes recommendations on the appointment of the Deputy Commissioner and the General Manager.



If AMHS is to continue as a line agency of government, there are three primary recommendations to create an improved line agency:

- Forward funding to support operating schedules one year in advance to allow user groups to confidently plan their use of the system.
- Allow AMHS management direct control over the system's largest cost center (labor) by transferring human resource activities from the DOA to AMHS.
- Provide guidance to management on their ability to grow revenue through dynamic pricing, partnering with other tourism businesses, and increased competition with other transportation providers.

## 6.9 Municipal Ferry Authority Model

Alaska's Municipal Port Authority Act (AS 29.35.600-730) provides for creation of port (or ferry) authorities. Such authorities are political subdivisions of the municipalities that create them.

Key provisions of AS.29.35.600 – 730 include:

- The governing body of a municipality may create by ordinance a port authority as a public corporation of the municipality. By parallel ordinances the governing bodies of two or more municipalities may create a port authority as a public corporation of the municipalities.
- Creation of a port authority under AS [29.35.600](#) - [29.35.730](#) is an exercise of a municipality's transportation system powers.
- If authorized by the enabling ordinance, an authority may borrow money and may issue bonds.
- An authority may not levy an income or other tax.
- An authority is governed by a board of directors, with the enabling ordinance establishing the authority specifying the number, qualifications, manner of appointment or election, and terms of members of the board.
- The board appoints a chief executive officer of the authority who serves at the pleasure of the board.
- The authority is required to submit a development plan to its governing body and each participating municipality must approve the development plan for the specific project that the authority would operate. The authority may not undertake the construction or acquisition of a project unless the project appears in a development plan submitted to and approved by the governing body.
- Collective bargaining agreements for employees of the state or its political subdivisions who are transferred to an authority under AS [29.35.600](#) - [29.35.730](#) shall remain in effect for the term of the agreement or for a period of one year, whichever is longer, and is binding on the authority unless the parties agree otherwise.
- The State may not, without the approval of the legislature, convey or transfer the Alaska Marine Highway System to an authority; or enter into an agreement with an authority under which the authority would operate the AMHS.

The Inter-Island Ferry Authority (“IFA”), which has been providing ferry service between Ketchikan and Prince of Wales Island since 2002, was created under this Act. The North End Ferry Authority, also created under this act, was formed to provide ferry service between Coffman Cove, Wrangell and Petersburg. The Authority’s Rainforest Island Ferry is not operational at this time.

#### 6.9.1 Advantages and Challenges of the Municipal Authority Model

##### **Advantages**

- Increased management and operational autonomy, with potential greater opportunity to manage costs and enhance service revenues.
- Somewhat reduced exposure to political influence over management, relative to a line agency, but still substantially exposed to political influences due to annual operational and capital funding needs.

##### **Challenges that exist under current law**

- Alaska port authorities are not entitled to receive any dedicated government revenues.
- Alaska port authorities are designed for self-sustaining operations. AMHS cannot be self-sustaining unless its mission is fundamentally redefined.
- A single authority (created under the Municipal Port Authority Act) representing the interests of all communities served by AMHS is likely impractical. Multiple authorities would be placed in a position to compete with one another for state funding and other resources.
- Significant challenges and costs would be associated with disentangling AMHS from state government.

#### **6.10 State Corporation Model**

The State of Alaska has established numerous corporate agencies that serve as a model for Alaska Marine Highway operations. Each agency is established in statute with a distinct purpose and authorities.

Examples discussed below include the Alaska Railroad Corporation, Alaska Gasline Development Corporation, and Alaska Industrial Development and Export Authority. There are many other examples including the Alaska Permanent Fund Corporation, Alaska Seafood Marketing Institute, Alaska Housing Finance Corporation, and the Alaska Mental Health Trust Authority.

##### **Advantages**

- Each agency is governed by a board of directors, providing private sector expertise, leadership, and accountability.
- Corporate agencies are typically given a suite of exemptions and authorities that allow them to operate in a more business-like fashion than standard government agencies – especially concerning personnel and procurement.

- Executive and senior staff commonly have longer tenure than comparable leadership positions in line agencies. This organizational stability can serve to increase trust and rapport within key relationships including employees, clients, communities, legislators, financial institutions, and others.
- These agencies are perceived by the public, legislators, and business community as more effective than other government agencies due to their financial performance, professional employees, and business-like conduct.
- Corporations are frequently endowed with significant financial and physical assets. The ability to generate income reduces or eliminates reliance on State funding.

### Challenges

- Board appointments are inherently political. Staggering board appointments does not preclude mid-stream termination. Legislative confirmation may be influenced by factors outside of qualifications and experience. Mitigating factors include the public nature of Legislative confirmation hearings, statutory requirements for expertise, and explicit criteria for board member removal.

#### 6.10.1 Alaska Railroad Corporation

The Alaska Railroad Corporation is a public corporation, legally independent from the State. Organizationally, it is a political subdivision of the State Department of Commerce, Community, and Economic Development.

A seven-member board of directors governs the Railroad. The board includes the Commissioners of the Departments of Commerce and Transportation and five public members. Two members must have railroad expertise and one member is a Railroad employee bargaining unit member. Board members are appointed by the Governor and confirmed by the Legislature. Appointed members serve five-year terms.

The Railroad mission is:

***Through excellent customer service and sound business management practices, the Alaska Railroad Corporation (ARRC) provides safe, efficient and economical transportation and real estate services that support and grow economic development opportunities for the State of Alaska.***

The scope of the board's authority includes service levels, routes, rates, labor agreements, budgets, and issue bonds.

The Railroad was endowed with substantial amounts of land (36,288 acres currently [9]), along railroad rights-of-way and in other strategic locations. Of this land, roughly 13,738 acres (38%) are devoted to the track bed and right-of-way (ROW) and another 4,520 acres (12%) are used for railroad operations (such as rail yards in Seward, Anchorage, Whittier and Fairbanks). The remaining 17,970 acres (about half of the railroad's land) is available for long-term lease or shorter term permitted use. Land ownership ensures unobstructed rail operations as well as significant revenue generation from commercial leases.

The agency is exempt from the Executive Budget Act and mandated to operate on a self-sustaining basis (AS 42.40.100 (3)). Statutory provisions exist for requesting and receiving State subsidies, which have been utilized in recent years for capital-intensive projects including the Northern Rail Extension and Positive Train Control.

The Railroad is also exempt from the State's Administrative Procedures Act, State personnel and collective bargaining statutes, and the State Procurement Code. However, the Railroad must adhere to statutory provisions related to these functions, ensuring transparency and accountability.

The majority of employees belong to one of five unions; unrepresented employees are the corporate management staff. The Railroad's liability is limited to its own assets or revenues; its obligations create no rights against the State (AS 42.40.500). The land is exempt from taking by adverse possession (AS 42.40.450).

#### 6.10.2 Alaska Gasline Development Corporation

Established initially in 2010 as a subsidiary of the Alaska Housing Finance Corporation, the Alaska Gasline Development Corporation (AGDC) became an independent, public corporation in 2013 (AS 31.25.010). The corporation is located in the Department of Commerce, Community, and Economic Development.

The agency is tasked with ensuring that Alaska's natural gas resources are developed for the benefit of Alaskans. The corporation has been advancing the Alaska Stand Alone Pipeline (ASAP) and the Alaska LNG project. The agency has the authority to create subsidiary corporations to develop, finance, or assist in the development of natural gas development projects in other regions of the state, including the outer continental shelf. Statutes allow the development of propane and hydrocarbons associated with natural gas.

AGDC is governed by a seven-member board, with five public members and two state officials. Board members are appointed by the Governor and subject to confirmation by the Legislature. Although there are not designated seats, statutes specify the Governor "shall consider" board expertise and experience in finance, pipeline construction, operations and marketing, and large project construction management. Appointed members serve five-year terms.

The agency is exempt from the state personnel act and State Procurement Code, but subject to the Executive Budget Act. Obligations of the corporation are payable solely from the revenue or assets of the corporation and are not an obligation of the State. (AS 31.25.240). The corporation is exempt from payment of state and municipal taxes (AS 31.25.260).

The corporation was designed to have a high degree of autonomy and private sector expertise. These intentions are reflected in employee salary structure and exemptions, specific criteria for board member expertise, high compensation for board service relative to other state corporations, significant capital appropriation providing assurance of multi-year funding, and extensive use of contractors relative to the number of corporation employees.

The corporation may dissolve when bonds, notes, and obligations are satisfied and the corporation is no longer engaged in development of natural gas projects. The assets of the corporation transfer to the State upon termination (AS 31.25.010).

### 6.10.3 Alaska Industrial Development & Export Authority

The Alaska Industrial Development & Export Authority (AIDEA) is a public corporation housed in the Department of Commerce, Community, and Economic Development but with a separate and independent legal existence (AS 44.88.020)

The purpose of AIDEA is to facilitate economic growth and diversification through financing and investment. The agency has the authority to own, wholly or partially, or finance a wide array of projects.

The agency is governed by a seven-member board consisting of the Commissioners of the Departments of Commerce and Revenue and five public members. The public members are to have expertise in private sector, industry, and demonstrated leadership skills (44.88.030). Appointed members serve two-year terms.

The governance was changed in 2010 to increase private sector influence. Previously, the board consisted of five members: two public members and three Commissioners.

Legislative approval is required for bonds over \$25 million (recently increased from \$10 million). The Legislature expanded the definitions of economic development projects including transportation, communications, community public purposes, research and technical innovations, and facilities for federal agencies.

AIDEA is mandated to cover its own operating costs, however it is subject to the Executive Budget Act. In practical terms, this means the Legislature provides annual authorization of agency expenditures and positions. The corporation is exempt from the State Procurement Act, Administrative Procedures Act, and personnel statutes. All employees are exempt, so decisions concerning hiring and termination can be tied to performance rather than tenure.

Since inception AIDEA has paid \$380 million in dividends to the State, exceeding the initial capitalization for the Loan Participation Program and the Delong Mountain Transportation System. Strong financial performance can be credited to a number of factors including:

- Loan participations are originated by private lenders, providing external and internal screening of projects.
- State and federal regulatory oversight of financial programs and performance.
- Frequent engagement with the financial industry including banks, rating agencies, bond market, financial advisors, and auditors.
- Extensive public and private interaction with loan and bond programs.
- Internal business management expertise.
- Required board and Legislative approvals for loan and bond activity at certain thresholds.

## 7 CONCLUSIONS

Participants at the Anchorage Ferry Summit clearly advocated the following key factors for the reformed AMHS, regardless of which governance model is finally selected:

- Predictability of service over a 24 month horizon to allow residents, visitors and commercial users to plan their use of marine transportation.
- Government should support a basic level of service for the vitality of communities.
- AMHS benefits not just coastal Alaska, but all Alaska through the economic and social benefits that derive from connecting communities.
- A clear statement of the mission of the system would enhance discussions on the current and future AMHS.
- The management of AMHS needs to be given the necessary tools to reduce costs, improve efficiency, and renew the fleet.

Interviews with other ferry managers and with key stakeholders within AMHS highlighted the following points:

- Every ferry system is unique in the ports they serve, the regional economic drivers, the operational challenges, and the relationship to the customers.
- There is no single form of governance that is optimal for marine transportation entities.
- Stability of ferry system upper management is vital to identify goals, plan for their achievement, and implement the plans.
- Predictable government financial support must be established for long-term sustainability of the system.
- Alignment of objectives between management and employees is necessary to gain efficiencies and improve the customer experience.

Analyzing the suitability of different governance modes for AMHS has resulted in three modes being proposed for further investigation: 1) Public Corporation, 2) Improved Line Agency, and Public Authority.

### 7.1 Proposed Action Items and Scope of Work for Phase Two

Phase 1 of the project has identified the need for an effective mission statement that can be used throughout AMHS to align management and employees in their interactions with key external stakeholders such as customers and legislators. It has also identified three governance models that offer a path forward for sustainability of the system. In Phase 2 of the project, the steering committee must oversee efforts, supported by outside contractors, Southeast Conference staff, and key stakeholders, to create a clear plan towards improved governance. During the Southeast Conference Annual Meeting in Petersburg, the plan for Phase 2 will be discussed but basic elements of the plan will include the following:

- Identify options for a fleet standardization and facilities structure
- Propose strategies for systematic vessel renewal and replacement

- Recommend optimal crewing and staffing requirements for each vessel, terminal and operational support and management
- Provide a thorough financial review and an assessment that would also include:
  - The mix of funding sources, including federal and state funding and earned income that will provide for the most stable basis for Alaska's marine transportation infrastructure, and how it will be achieved
  - Regulatory compliance and associated costs
  - Identification of needs and costs for vessel upgrades, maintenance and/or replacement
  - The target number for passengers and vehicles that would keep Alaska Marine Highway System within its financial goals
  - Identify community partnerships that can be developed to best sustain the Alaska Marine Highway System's services
  - Recommend methods for forward funding AMHS budgets to allow schedule reliability and marketing
  - Analysis of ferry scheduling and types of routes needed to maximize services within budget
  - Optimal level of general fund support to achieve financial and service goals
  - Strategies for increasing the fare box recovery rate and revenue enhancement with current assets
  - How to best monetize AMHS assets including vessels and shore-side facilities
  - Investigate opportunities for other revenue streams, including real estate holdings similar to the Alaska Railroad, University of Alaska, etc.
- Develop a timeline for implementing recommendations;
- Metrics for measuring success (customer satisfaction, cost per mile/passenger, reliability, percentage of capacity utilized for passengers and car deck, etc.)

## 8 REFERENCES

- [1] Alaska University Transportation Center Institute of Northern Engineering University of Alaska Fairbanks, "Alaska Marine Highway System Analysis," 2011.
- [2] McDowell Group, "Sustainability of the Alaska Marine Highway System," Juneau, AK, 2006.
- [3] M. S. Hickey, *Memorandum Alaska Marine Highway system Authority - Issue Analysis*, State of Alaska Department of Transportation and Public Facilities, August 9, 1989.
- [4] Southeast Conference, "AMHS Ferry Summit Video," 2016. [Online]. Available: <http://www.seconference.org/amhs-updates/amhs-ferry-summit-video>.
- [5] McDowell Group, *The Economic Impacts of the Alaska Marine Highway System*, 2016.
- [6] P. V. Association, "WSF Governance Study," Passenger Vessel Association, Alexandria, VA, 2010.
- [7] Southern Daily Echo, "Company's takeover of Marchwood Military Port in the New Forest delayed," [Online]. Available: [http://www.dailyecho.co.uk/business/14440480.Company\\_s\\_takeover\\_of\\_military\\_base\\_delayed/](http://www.dailyecho.co.uk/business/14440480.Company_s_takeover_of_military_base_delayed/). [Accessed 14 September 2016].
- [8] Town of Nantucket, MA, *Enabling Act of the Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority*, Chapter 701 of the Acts of 1960, As Amended, 1960.
- [9] Northern Economics, "Passenger/Vehicle/Cabin Rate Study for the Alaska Marine Highway System," Anchorage, AK, April 2008.
- [10] Alaska Railroad, "Real Estate & Facilities," [Online]. Available: [https://www.alaskarailroad.com/sites/default/files/wheelers/2016\\_ARRC\\_Real\\_Estate-Business\\_or.pdf](https://www.alaskarailroad.com/sites/default/files/wheelers/2016_ARRC_Real_Estate-Business_or.pdf). [Accessed 13 September 2016].
- [11] BC Ferries, "Corporate Profile," April 2003. [Online]. Available: [http://www.bcferries.com/about/More\\_Information.html](http://www.bcferries.com/about/More_Information.html). [Accessed 2016].
- [12] Alaska Airlines, "Sustainability at Alaska Airlines," [Online]. Available: <https://www.alaskaair.com/content/about-us/sustainability/our-mission.aspx>. [Accessed September 2016].
- [13] Caledonian MacBrayne, "Caring for Our Community," [Online]. Available: <https://www.calmac.co.uk/article/4251/Caring-for-our-Community>. [Accessed September 2016].



2016].

[14 Alaska Public Lands Information Centers, "State of Alaska - Department of Transportation and Public Facilities," [Online]. Available: <http://www.alaskacenters.gov/dot.cfm>. [Accessed 13 September 2016].

[15 Golden Gate District, "About Us: Mission Statement," [Online]. Available: <http://goldengate.org/organization/mission.php>. [Accessed September 2016].

## **Appendix A**

### Transportation Summit Materials and Notes

**TRANSPORTATION SUMMIT MATERIALS****Agenda**

Southeast Conference  
2016 Transportation Summit

**AGENDA**

Robert B. Atwood Building  
550 W 7<sup>th</sup> Ave, Anchorage

**Saturday, August 20<sup>th</sup>, 2016**

- 9:00 am      Registration - Coffee and Continental Breakfast
- 9:15 am      Welcome - Robert Venables, SE Conference
- 9:30 am      Opening Remarks and Introductions -Dennis Watson, SE Conference
- 10:15 am     Welcome - Bryon Mallott, Lt. Governor and Legislators present
- 10:30 am     Break
- 10:45 am     Alaskan's vision and viewpoints AMHS mission, core purpose and governance structure
- 12:00 pm     Lunch provided for those who RSVP
- 12:20 pm     Keynote - Ferry System Governance Examples      John Waterhouse, EBDG
- 1:00 pm      Roundtable discussion continues
- 2:00 pm      Reports on roundtable findings
- 2:45 pm      Presentation of Next Steps      Venables/Waterhouse
- 3:00 pm      Adjourn

- Note: Steering Committee members will remain until 4 pm.

**Presentation**



Presented By: EBDG  
Presented To: Statewide Ferry Summit  
Date: August 20, 2016

better to build · better to operate



## AMHS Mission Statement

- The mission of the Alaska Marine Highway System is to provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the “Lower 48,” while providing opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education, and health needs.

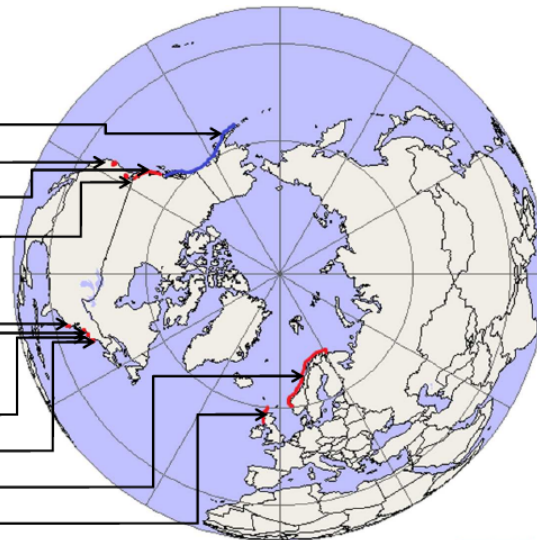


better to build · better to operate

## Overview

- **WSF Governance Study**

- Alaska Marine Highway System
- Golden Gate Ferry
- British Columbia Ferries
- Washington State Ferries
- North Carolina Ferry System
- New York Waterway/Port Imperial Ferry
- Bridgeport & Port Jefferson Steamboat Company
- The Steamship Authority
- Hurtigruten Group
- Caledonian MacBrayne



better to build · better to operate

## Golden Gate Ferries

- Seven vessels serving three terminals on three routes
- Transport 2.1 million passengers and no vehicles annually
- Annual budget of \$96.8 million
- Division of the Golden Gate Bridge Transportation District
- 44% fare box recovery for operations - *Subsidy from bridge tolls*
- Combination of bonds, state, and federal funds for capital projects



better to build · better to operate

## BC Ferries

- Thirty-six vessels serving forty-seven terminals on twenty-five routes
- Transport 21 million passengers and 8.3 million vehicles annually
- Annual budget of \$732 million
- Publicly owned Corporation
- 51% fare box recovery for operations – *Operating subsidy from Province for certain routes*
- Combination of debt, national, and provincial funds for capital projects



better to build · better to operate

## NC Ferries

- Twenty-one vessels serving thirteen terminals on seven routes
- Transport 2.1 million passengers and 1.0 million vehicles annually
- Annual budget of \$43.5 million
- Division of the North Carolina DOT
- 6% fare box recovery for operations – *Subsidy from State transportation funds*
- Combination of bonds, federal, and state funds for capital projects



better to build · better to operate

## New York Waterway

- Thirty-three vessels serving thirteen terminals on sixteen routes
- Transport 7.8 million passengers and no vehicles annually
- Annual budget of \$33.1 million
- Privately owned using Publicly-Owned Terminals
- 100% fare box recovery for operations – *No subsidy for operation or vessel capital costs*
- Landing fee for use of publicly owned terminals but
- Combination of debt, federal, and state funds for capital projects



better to build · better to operate

## Bridgeport & Port Jefferson Steamboat Company

- Three vessels serving two terminals on one route
- Transport 1.0 million passengers and 380,000 vehicles annually
- Annual budget of \$30 million
- Privately owned by McAllister Towing
- 100% fare box recovery for operations - *No subsidy*
- Combination of debt, federal, and state funds for capital projects



better to build · better to operate

## The Steamship Authority

- Nine vessels serving five terminals on three routes
- Transport 2.7 million passengers and 590,000 vehicles annually
- Annual budget of \$79 million
- Independent transportation authority representing five communities
- 100% fare box recovery for operations – *No subsidy*
- Combination of bonds and federal funds for capital projects



better to build · better to operate

## Hurtigruten Group

- Eleven vessels serving thirty-four ports on 1,500 n.m. route from Bergen to Kirkenes
- Annual revenue of \$402 million (NOK 3,300 million)
- Two shipping companies merged in 2006 to form public company which was taken private in 2014 at a price of \$884 million
- Subsidies were phased out in the 1980's
- Company provides services in bus transport, ferries, cruise ships, and tourism



better to build · better to operate



## Caledonian MacBrayne

- Thirty-three vessels serving fifty-one terminals on 28 routes
- Transport 4.9 million passengers and 1.1 million vehicles annually
- Annual budget of over \$224 million (£172 million)
- Parent company, David MacBrayne Limited, is wholly owned by the Scottish Ministers
- 38% fare box recovery for operations – *Subsidy from Scottish Government*
- Vessels, terminals, and offices are leased



better to build · better to operate

## Governance Summary

	Line Agency	Public/Private	Public Authority	Public Corporation	Private Sector	Transport District
AMHS	X					
GGF						X
BCF				X		
WSF	X					
NCF	X					
NYW		X				
BPJ					X	
SSA			X			
HG					X	
CM				X		

## Identified Best Practices

- A clear vision and mission for the system facilitates governance.
- Setting performance goals and giving authority over revenues and expenses to the management team facilitates operational efficiencies.
- If the system operates with a subsidy, there needs to be a predictable, long-term funding source identified for both operations and capital construction.
- Oversight of the ferry service functions best when there is a dedicated board free from day-to-day political influence.



better to build · better to operate

## Questions and Discussion



better to build · better to operate

## TRANSPORTATION SUMMIT ROUNDTABLE DISCUSSIONS

### Roundtable Discussion Questions

#### Roundtable: Visioning Session of AMHS Purpose (Morning Session)

Quick introductions at table: name/community/organization

- What role does AMHS play in your community or region?
- What role does AMHS play in your company or industry?
- Was there a time that the relationship was different? What did that look like?
- What criteria should be used to determine if the system is effectively delivering transportation services by:
  - Passengers
  - Communities
  - Legislators

AMHS Mission Statement:

*To provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "Lower 48," while providing opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education, and health needs.*

- Prioritize elements of the mission statement
  - Safety of operation
  - Reliability of schedule
  - Cost-efficient transportation
  - Time-efficient transportation
  - Access to health, education, social services
  - Transportation of goods
- What else, if anything, is missing from the statement? (economic development? financial stability?)
- How should Alaskans allocate public resources among competing demands:
  - Among all transportation needs
  - Among the spectrum of state services?
- Ten years from now, what does success look like for AMHS?

#### Roundtable: Governance (Afternoon Session)

During lunch we heard about several different governance models used by other ferry systems.

- What opportunities or benefits could we realize from changing governance?
- What concerns or issues could result from changing governance? What most concerns you?

- What benefits and concerns identified above should be prioritized?
- What further information would be helpful in considering governance options?

## Roundtable Discussion Notes

### Group 1 (John's Group)

#### ROLE AMHS PLAYS IN YOUR COMMUNITY:

##### SE ALASKA:

- Economy
- Service Industry
- Fishing Industry
- Community Life

##### ELSEWHERE:

- Connects Small Communities To
  - Shopping
  - Health Supplies
  - Services
- Shipping Fresh Fish - Domestic Market

Need Predictability and Reliability of Service:

Ideally 18-24months ahead

Mix of Vessels/Age of Vessels

"Don't focus on numbers, focus on users"

#### WHAT METRICS DETERMINE SUCCESS FOR AMHS:

- Reliable & Efficient
- Supports Communities
- Budget Certainty
- Operational Budget
- Public Support
- Unity of Support
- Communication
- Cost of Labor

#### WHY SHOULD WE CHANGE GOVERNANCE?

- Must factor in critical mass
- Needs to be run more like a business, but must keep public service in mind
- Need stability in the system - predictability, consistency
- Might impact cost of labor

#### PRIORITY OF MISSION STATEMENT:

- Sustainability

- Responsiveness
- Connection to Communities
- Compelling Story to All Alaskans

## Group 2 (Jim's Group)

### ROLE OF AMHS IN YOUR COMMUNITY:

- Economic Engine (Inter. + Anchorage) -Not always visible
- Supports communities' health needs, education (PWS)
- Enables student travel, commerce with Anchorage, transportation to fish camp (Cordova/Nat. Vill. Eyak)
- Recruitment critical to tourism, fisheries, commerce (Cordova)
- Lifeblood (Yakutat, others)
- Access to main transportation system, connectivity (POW)
- Businesses build business plans on it.
- Partnership with businesses and communities (P'burg)
- Economic development (SWAMC)
  - Energy (affordable)
  - Transportation
  - Communication
- Especially important as Oil & Gas wanes because AMHS supports retooling of Alaskan economy
  - SW Fisheries
  - Manufacturing
  - Tourism
- Critical Transportation Network
  - Groceries
  - Bottom line - survival of rural Alaska (Kodiak Area)
- Consider AMHS an "Investment" vs Subsidy
- Repatriate AK spending in AK (KTN - Vigor)
  - Public-Private partnerships
  - 180 Alaskans building ships (workforce level)
- Connects to L48 Highway System
- Moves military people (Anchorage/Int.) (Anc. #1 Bookings)
- Essential to the nature of Alaska – archipelago
- Essential to communicate the economic importance of AMHS to the entire state

### MISSION

What: Provide dependable, affordable transportation.

Who: Passengers and vehicles for Alaskans, esp. Roadless communities

### MISSION STATEMENT

(A participant suggested the following should be communicated in the mission statement)

- What do we do
- How do we do it
- Whom do we do it for
- What value do we bring the consumer

#### What are the most important aspects of AMHS's mission?

- Dependability\*
- Reliability\*
- Consistency\*  
\*more important than cost or service frequency
- Connectivity to the highway system

#### How must AMHS improve/change?

- Bottom Up Governance
  - Listen to users
- Forward Funding
- Five-year Planning
- Rigorous Analysis to Control Costs
- Run Operation More Like A Business
- Stable Governance and Management that is insulated from Political Cycle
- More efficient - More Self-Financing
- Need more standardization in:
  - Schedule
  - Equipment (e.g. boats)

#### Governance/Structure

- Look at AMATS organization
- Port Authority
  - PROS:
    - More local control
    - Bonding authority
    - Six-year Funding Agreement (sort of)
    - Independent Board with Policy Authority
    - Management Reports to Board
    - Continuity
  - CONS:
    - Still have to get annual money from legislature
    - Public transportation revenue won't repay bonds
    - No power of eminent domain
- State/public corporation
  - PRO: Professional board
  - CON: Can't lobby for money from state or federal government
- Start with funding sources and work backwards to the best governance model

Potential new funding sources?

- Tribal access to federal money.
- New federal highway bill could include maritime share.

Information Needs

- Input from employees/experience
- Financial implications
- Visibility on funding plan/path
  - 2-year budget

Fares

- IFA: Ridership is highly price sensitive, perception of fairness is important. Needs appropriate/rational tariffs

**Group 3 (Susan's Group)**

## ROLE OF AMHS IN YOUR COMMUNITY:

- Critical connection between communities, services, and highway system
- Access to medical care, jet service, shopping, auto repair, and more
- Economic driver
- Critical link for getting people to needed social services
- Relocation of Alaskans and military
- Important for getting people to special events and festivals
- There is a community around AMHS
  - Strong connection with AMHS to when people move to Alaska
  - Pumpkin run in southwest is fun and the only economical way to get them out to the communities for Halloween
  - Only restaurant in Cold Bay is when the ferry is in town

## ROLE OF AMHS IN YOUR COMPANY OR INDUSTRY:

- Seafood can get to market via AMHS and highway fresh with regular service
- Tour operators try to use the ferry but are handicapped due to service constraints; passengers love the authentic experience and small communities

## TIME THE RELATIONSHIP WAS DIFFERENT:

- The system is less resilient now; much more scrambling needed by passengers and AMHS to address service interruptions
- It is much harder to incorporate AMHS into tour packages because of schedule risks and difficulty of finding accommodations on late notice

## WHAT CRITERIA SHOULD BE USED TO DETERMINE IF THE SYSTEM IS EFFECTIVELY DELIVERING TRANSPORTATION SERVICES:

- LENS: Passengers
  - Reliability
  - Alaskans want flexibility to travel on short notice
  - Need to meet local residents' needs for car repairs and medical appointments in hub communities
  - Shippers want dependable schedules; time and day of week is less important
  - Visitors need to plan ahead; less price sensitive than residents
- LENS: Communities
  - Convenience for making 3-day and 4-day trips; avoid long delays
  - Ability to combine medical, shopping, and events
  - Limited service is creating a bigger economic divide – especially among students who need to do significant fundraising for sports and activities
  - The current scheduling processing is pitting communities against each other and the southeast region against southwest
- LENS: Legislators
  - Efficient operations while providing service
  - Increased ridership
  - Cost per route
  - Want to see a strategic plan and vision for stability

#### PRIORITIZE ELEMENTS OF THE AMHS MISSION:

- Need to simplify the mission
- Reliability should be prioritized
- Keep Alaska viable
- Provide essential transportation
- Consider removing Canada, it does not belong in the mission
- Need to connect Alaskans, not the Pacific Northwest
- DOTPF's mission is a good model: Keep Alaska moving through service and infrastructure

#### WHAT, IF ANYTHING, IS MISSING FROM THE MISSION:

- Sustainability should be in the mission
- Simplicity

#### HOW SHOULD ALASKANS ALLOCATE PUBLIC RESOURCES AMONG COMPETING DEMANDS:

- Different markets have different needs
  - Seafood industry needs frequency to deliver fresh products
  - Tourists need a more rigid schedule
  - Residents need convenience to conduct business in hub locations
- AMHS has a higher hurdle when compared to costs of operating Parks or Glenn Highways; the impact of a closure is different

#### TEN YEARS FROM NOW, WHAT DOES THE SYSTEM LOOK LIKE:

- Standardized vessels and docks



- Consistent leadership
- Provides services where needed
- Sustainable
- Dependable
- Appropriately scaled to communities
- Connects disconnected communities

#### WHAT OPPORTUNITIES OR BENEFITS COULD WE REALIZE FROM CHANGING GOVERNANCE:

- Connect operational experience with labor negotiations
- Employee engagement in decisions
- Can help us focus on saving the system
- Consistency in planning, leadership, funding
- Flexibility to operate like a business
- Not subject to political cycles
- Avoid steep learning curve when administration changes
- Can contract for elements: retail, bars, dining, concessions, terminals, etc.
- AMHS could operate more like enterprise modes that are successful
  - IFA, AIDEA, AHFC, Railroad, AK Perm Fund
  - Incorporates board and staff expertise
  - Stability in the leadership – can be a decade or two in top executives
- Better ability to scale vessels to passenger and community needs

#### WHAT CONCERNS OR ISSUES COULD RESULT FROM CHANGING GOVERNANCE:

- Private-sector competition that is publicly subsidized
- Less flexibility – especially if broken up into many “IFA-like” entities
- Employees affected by the change
- Steep fare increases
- How the transition is handled (state assets, employees, legal implications)
- How do prepare for change; disruption and cost
- Could result in different experiences in different regions of the state

#### TOP PRIORITIES FOR WRAP-UP SESSION:

- Consistency in leadership
- Mission needs to be higher level and simplified
- Funding needs to be consistent
- Dependability
- Consistent schedule
- Reliability
- Safety of operations
- Recognize AMHS is serving a broad and varied customer base
- Sustainability
- Standardize vessels and terminals

## **Appendix B**

### Mission Statement

## Mission Statements from Other Organizations

- British Columbia Ferries [4]

**Our Vision**

To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

**Our Mission**

To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

**Our Values**

Safety

Ensure that the safety and security of our customers and staff is a primary concern in all aspects of doing business.

Quality

Be motivated by customer expectations in providing quality facilities and services.

Integrity

Be accountable for all our actions and ensure we demonstrate integrity in our business relations, utilization of resources, treatment of our customers and staff, and in the general conduct of our business.

Partnerships

Work openly and constructively with our various business and community stakeholders to exceed the expectations of our customers and advance each other's interests.

Environment

Ensure that environmental standards are maintained.

Employees

Always deal from a position of honesty, integrity and mutual respect, and ensure that our employees develop to their full potential.

- Steam Ship Authority (Enabling Act) [5]

Excerpt from Section 1:

In order to provide adequate transportation of persons and necessities of life for the islands of Nantucket and Martha's Vineyard, the Authority is hereby authorized and empowered to purchase, construct, maintain, and operate necessary vessels, docks, wharves, other vessels, and equipment, furniture and supplies to issue its revenue bonds payable solely from revenues, or funds as hereinafter authorized in section nine of this act.

- Alaska Airlines [6]

Our objective is to be one of the most respected U.S. airlines by our customers, employees, and shareholders. We believe our success depends on our ability to provide safe air transportation, develop relationships with customers by providing exceptional customer service and low fares, and maintain a competitive cost structure to compete effectively. It is important to us that we achieve our objective as a socially responsible company that values not just our performance, but also our people, our community, and our environment.

While aircraft and technology enable us to provide air transportation, we recognize this is fundamentally a business about people. Our employees maintain and strengthen our relationships with our customers, and our success depends on our employees working together to successfully execute on our strategy.

- Caledonian MacBrayne, Hebridean & Clyde Ferries [7]

### Caring for our Community

Striving to be a responsible business within the communities we serve, operate and live in.

At CalMac we care about our community. We do our best to conduct our business activities in a responsible manner across all areas.

Whether it may be creating a lasting impact within the communities we serve through our support of local charities and organizations, our environmental awareness, or providing development opportunities for our staff. Ensuring we are a responsible business covers a wide variety of activity.

We don't conduct our activity in isolation. The scale and spread of our network means that we work closely with a number of key stakeholders to enable us to effectively engage with our communities and staff.

- Alaska Department of Transportation [12]

"Get Alaska Moving through service and infrastructure".

- Golden Gate Ferries [8]

The Golden Gate Bridge, Highway and Transportation District's Board of Directors adopted the following mission statement on January 17, 2003:

"The mission of the Golden Gate Bridge, Highway and Transportation District (District) is to provide safe and reliable operation, maintenance and enhancement of the Golden Gate Bridge and to provide transportation services, as resources allow, for customers within the U.S. Highway 101 Golden Gate Corridor."

Prior to 2003, on December 21, 1990, the Board adopted a mission statement as follows: The Mission of the Golden Gate Bridge, Highway and Transportation District is to provide safe, efficient and reliable means for the movement of people, goods, and services within the Golden Gate Corridor. In carrying out this mission, the District operates and maintains the Golden Gate Bridge in structurally sound condition to provide safe and efficient travel for vehicles and other modes of transportation; provide public transit services, such as buses and ferries, which operate in a safe, affordable, timely and efficient manner; and carries out its activities in a cost-effective and fiscally responsible manner. The district recognizes its responsibility to work as a partner with federal, state, regional and local governments and agencies to best meet the transportation needs of the people, communities and businesses of San Francisco and the North Bay.

## Mission Statement Drafts

1. Safe and reliable marine transportation that meets the basic needs of residents, visitors, and commercial customers through empowered employees consistently delivering business like service for the benefit of all Alaskans.
  
2. Safe and reliable marine transportation meeting the basic needs of residents, visitors, and commercial customers through empowered (alternatives: highly trained, skilled, responsible) employees who consistently deliver efficient and sustainable service for the benefit of all Alaskans.
  
3. Safe and reliable marine transportation meeting the basic needs of residents, visitors, commercial customers, and our employees for the benefit of all Alaskans.
  
4. Our goal is to excel in delivering safe, reliable and sustainable marine transportation meeting the basic needs of residents, visitors, commercial customers, and our employees for the benefit of all Alaskans.
  
5. Our goal is to benefit all Alaskans through delivery of safe, reliable, sustainable and cost efficient marine transportation meeting the basic needs of residents, visitors, commercial customers, and our employees.