



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
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May 7, 2015

The Honorable Steve Thompson
Co-Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 515
Juneau, AK 99801-1182

The Honorable Mark Neuman
Co-Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 505
Juneau, AK 99801-1182

Dear Co-Chair and Co-Chair,

Thank you for the opportunity to present highlights of the Governor's FY2016 Special Session budget bill before the House Finance committee on May 6. The following is in response to questions posed by the committee during the meeting for distribution to the members.

Representative Wilson: What restrictions have been placed on departments by commissioners (I.E. Travel holds, personnel policies etc.) to save money?

The Commissioners have all implemented policies and initiatives to reduce expenditures that are tailored to their respective departments. Some examples:

- A Fiscal Stability Strategy Task Force is hosting a Cross Departmental Efficiencies Workshop May 13 where Commissioners and Administrative Services Directors will identify prioritize initiatives aimed at reducing the cost of state government.
- Departments are working with human resources on layoffs and position vacancies. There are 100 union positions in the queue for layoffs.
- The University of Alaska has announced a furlough: 167 top administrators will take five to 10 days of mandatory unpaid leave as part of a larger plan to pare spending.
- The Department of Revenue is creating an 18 – 24 month plan that included creating shared pools of IT resources that bridged the divisional boundaries. DOTPF has also restructured IT services and IT restructuring is being reviewed on a statewide level.

Representative Neuman: For AKLN, what is the structure of how the funding mechanism works between Rural Attendance Areas, Organized areas, and boroughs and where the money comes from?

The funding from the state pays for course development, professional training, student support, dual credits, and more. Districts all pay \$150 per semester course. The funding to school districts is adjusted in the funding formula by incorporating such components as school size and geographic cost differentials. All districts are treated equally in regards to offering AKLN courses to their students.

Representative Neuman: Is there a sustainability plan for Pre-K?

The sustainability plan was submitted to the chairs of the education committees of both bodies on February 23rd, 2015. In our move towards self-sustainability our current proposal

anticipates a higher enrollment for a lower cost to the state. I have attached the sustainability plan that was sent.

Representative Neuman: Can we see some evaluations/ results for Pre-K?

Several tools are used to check for a child's growth during the program. Some of them with accompanying data is below. All tools align with each other and are determined to be valid and reliable tools.

Tool: PPVT (Peabody Picture Vocabulary Test) Based on national norms: Latest results-
**In the fall 67% of students were in the lowest two quartiles. By spring it was 47%.
66% of students showed greater than a year's growth in the course of one year**

Tool: DIAL-3 (Developmental Indicators for the Assessment of Learning)
76% of students began in the bottom 2 quartiles. By spring it was 40%.

Tool: TSG (Teaching Strategies Gold) Has several measures. One example is below.
Standard 8 Comprehends language. Fall- 44% met expectations Spring- 91% met or exceeded expectations.

Representative Wilson: What has been done to make sure grantee school districts can sustain the Pre-K program?

As with all of our public schools, there is no mechanism to ensure that districts or communities can sustain the program without state funding. All we can ensure is that on an annual basis we have met the needs of as many students as possible who have been given the resources and opportunity to have a better chance at success when they enter kindergarten. Those opportunities may not always be in the same building or the same community but they do meet the needs of children where they are offered.

Representative Sadler: If you have evidence advantage in the job market, I'd sure like to see it.

The most recognized longitudinal study was the Perry Preschool Program that followed students until age 40. The study showed increased employment and earnings, decreased welfare dependency, and reduced arrests compared to peers not in a preschool program. There are other studies that show clear correlations between Head Start involvement and lower rates of arrest.

Representative Wilson: Has Head Start been reduced?

No. Alaska contributes approximately 7.3 million to leverage approximately 36 million in federal funds for the Head Start program.

Representative Gara: What was the \$18 million in nonformula Education funding cuts?

See the conference committee close-out document (attached).

Representative Thompson: In 1988 60% of operations were covered by fares but now only 30% are covered. What are the cost drivers of the Alaska Marine Highway System?

Data from 1988 (as reported in the 1990 AMHS Annual Financial Report, which is the first such report published) and the 2014 Annual Financial Report:

Year	# of Ships in Fleet	# of Ports	Operating Expenses	Revenue	Cost Recovery
1988	9 (incl: Chilkat, Bartlett)	33	\$ 64,000,000	\$ 34,300,000	53.6%
2014	11 (incl: FWX, CHE, KEN, LIT)	35	\$ 166,000,000	\$ 50,900,000	30.7%

There are many factors that impact our cost recovery percentage. The largest factor is that operating costs have significantly increased, while tariffs have stayed relatively flat and low over the past 17 years. Fuel prices have more than tripled since 1988 (average price of diesel in 1988 was \$0.85/gal compared to ~\$3.00/gal today). Labor costs have gone up significantly, not necessarily because there are more employees, but because they cost more. Commodities and maintenance costs have all risen as well, including shipyard labor and materials that have gone up like everything else. Until this financial crisis, there was very little political support for raising or even leveling fares, hence they stayed where they were. Today's fleet of ships, including the two fast vehicle ferries and the Kennicott, consume more fuel than the previous fleet which included Chilkat and Bartlett. Traffic volumes have fluctuated, peaking in 1992 (with 420,436 Passengers and 112,985 vehicles) and declining since then to 2014 traffic of 319,004 Passengers and 108,478 vehicles. This is a 24% reduction in passengers but only a 3.9% decline in vehicle traffic, which indicates to me a shift from passenger based (easily replaced by faster and more efficient air travel) to roll-on/roll off vehicle traffic, which is not easily replaced. AMHS served 32 ports in 1988, we serve 35 today. We added Gustavus, Old Harbor, and Ouzinkie; all communities not connected to the road system, to connect and serve more Alaskans. All but seven of these ports are isolated communities with no road connection. The seven that do have road connections (Bellingham, Prince Rupert, Haines, Skagway, Valdez, Whittier, and Homer) are the connector ports used to link isolated communities to the road system. The only routes that "Parallel" roads are Whittier to Valdez (Ferry 90 miles, 2.5 hours; Road 358 miles, 8.5 hours) and Haines to Skagway (Ferry 15 miles, 45 minutes; Road 352 miles, 8.2 hours).

Representative Gattis: What routes would be put back into service with this \$7 million addition?

Without the \$7M addition, the October-June schedule will be more significantly impacted. Specifically:

- During October and November, the Malaspina won't run to Bellingham (Taku would have to run to both Prince Rupert and Bellingham these two months resulting in service to both ports cut in half)
- During May and June, the Malaspina won't run Bellingham
- Two month additional layup for the Kennicott on cross-gulf run
- Two month additional layup for the Fairweather on Sitka and Angoon run

Representative Gattis: How much revenue does AMHS get from these 10,000 reservations that would need to be canceled without the \$7 million in additional funding?

As of May 1st, on the summer service that was under threat of budget cut cancelation, there are 3,216 itineraries that include 11,172 passengers and 3,193 vehicles. The total revenue generated by that traffic is \$1.25M, but this figure does not include all the revenue that these routes will generate, only that which has been sold on reservations so far. Rebooking a ferry reservation, which can include the passenger(s), a vehicle, a cabin, pets, and other items, is

not as easy as rebooking an airline passenger from one flight to another. All of our ships are different, with different accommodations and amounts of space available. They do not run as frequently as airline service (we are potentially talking days delayed, not hours), and the real impact is not to the ferry system but to the hundreds of other businesses that these ferry travelers utilize. Rebooking a resort lodge, fishing excursion, flightseeing trip, hotel rooms, campground space, etc. will all be massively disrupted if the ferry dates the traveler was planning on suddenly change by several days at the last minute...and they may not be able to be rebooked due to availability resulting in total trip cancellations.

Representative Wilson: What is the Philosophy on which routes to cut back on?

AMHS intentionally cut service on routes where there was more than one vessel providing service so as to not cut off any community completely. Two examples will illustrate the philosophy: Example 1: We cannot cut the Tustumena running in Southwest Alaska because there are some ports that only the Tustumena can serve. Without the Tustumena, those communities get zero AMHS service. Example 2: We can cut one of the two vessels running in Prince William Sound since both vessels can (with limited exceptions) serve all the ports in that service area. The cutting of one vessel reduces the frequency of service (fewer port calls) and the total ferry capacity (less available car deck space to haul vehicles and cargo vans full of fish products) in and out of those ports, but they still get some service from the remaining vessel. In Northern Lynn Canal, the Malaspina provides a large capacity to meet a traffic demand that cannot totally be met by the smaller LeConte and transiting mainliners that only are present on 2 out of 7 days per week.

Representative Wilson: Is there something on the schedule alerting people that this is a best guess and it may not happen

There are notices on the AMHS website, on the passengers schedule confirmation, and on the back of passenger tickets. It is not a good business practice to tell customers that your schedule is a “best guess”, or that “it may not happen” as that does not instill confidence in the traveling public:

On the website <http://dot.alaska.gov/amhs/policies.shtml>

Representative Wilson: Since the price of oil is down, you must be realizing savings in fuel costs, how much have you saved on fuel?

The price of crude oil is not directly tied to the price of ultra-low sulphur diesel fuel at the pump. There is usually a substantial lag time. Never, during this oil price crisis, has the price we pay at the pump for fuel dropped to the \$2.56 per gallon price our budget is based on. Some places got close, but most remained in the \$2.85-\$3.00 range. The fact that fuel prices have dropped and that there are some savings just means that we don't need all the fuel trigger funding that the fuel trigger produced in FY15. That is good, because that excess fuel trigger funding is what will be rolled over to FY 16 to restore most of the planned summer schedule cuts. If oil remains low, and fuel prices stay low, as long as they are above \$2.56/gallon we would still be relying on the FY16 fuel trigger to make up the difference – but there will not be a FY16 fuel trigger since oil prices are not high enough to trigger one. To say we are saving on fuel implies we have spare funding lying around to restore

The Honorable Steve Thompson
The Honorable Mark Neuman
May 7, 2015
Page 5

these service reductions, but it misses the key point that we are not funded for 100% of our fuel needs to begin with, so the “savings” are just offsetting the deficit.

Please let me know if you have additional questions.

Sincerely,



Pat Pitney
Director

Enclosures

1. Finance Overview Re-Appropriation Balances

cc: David Teal, Director, Legislative Finance