

# AMHS Reform Project

## *Strategic Business and Operational Plan*



# Project Purpose

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- **Create a strategic plan for AMHS**
  - To provide financially sustainable ferry service that meets the needs of Alaskans
- **Two-phase project**
  - Phase 1: Mission, Goals, and Governance Recommendations
  - Phase 2: Strategic Operational and Business Plan



# Project Team

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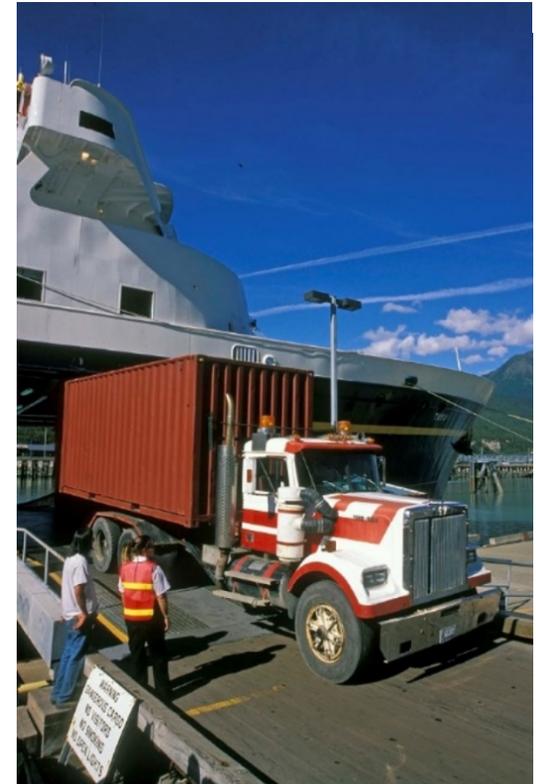
- **Southeast Conference**
- **Contractors**
  - Elliott Bay Design Group
  - McDowell Group
  - KPF Engineering Consultants
- **Statewide Steering Committee**
- **Offices of the Governor and Lieutenant Governor**



# Phase 1 Scope of Work

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- **Statewide Summit**
- **Stakeholder interviews**
- **Case studies of other ferry systems**
- **Mission statement refinement**
- **Analysis of alternative governance models**
- **Recommend governance model for AMHS**



# Phase 2 Scope of Work

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- **Define long-term operating strategy**
  - Task 1 - Revenue Analysis
  - Task 2 - Operations Analysis
  - Task 3 - Operations Financial Model
  - Task 4 - Structure and Benefit of Public Corporation
  - Task 5 - Public and Stakeholder Engagement
- **Three tasks not funded**
  - Household and Business Survey
  - Capital Needs Assessment
  - Transition Plan



# Task 1 – Revenue Analysis

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



# Revenue Findings

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- AMHS generates \$50 million in annual operating revenue
- Bellingham service is an essential source of revenue (44% of total)
  - Bellingham in the top 6 revenue port pairs
- Non-resident travel accounts for 42% of operating revenue
- Best opportunity for revenue growth is through forward funding

# Revenue Findings

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- \$89 million in GF support in FY17
  - Down 28% from FY13 (\$35 million cut)
- AMHS will always rely on public funds to provide safe and reliable transportation
- Transition to a public corporation will not endanger revenue flows from federal government
- Price Elasticity - Reduced fares are not likely to produce sufficient new demand to compensate for loss of revenue

# Task 2 - Operations Analysis

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



# Operations Findings

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- Complex System
  - 9 Operational Vessels
  - 36 Ports of Call (37 Terminals)
  - Variable service schedules
  - Aging Fleet
  - Terminal/Vessel compatibility
  - Service areas
  - Terminal weight restrictions
  - Traffic requirements
- Residents, communities, and businesses require reliable, consistent service

# Operations Findings

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- Strengths

- Dedicated personnel at all levels
- Vital service to communities

- Weaknesses

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

# Task 3 - Operations Financial Model

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



# Operations Financial Findings

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- Shifting to a modern fleet and governance system provides more cost effective service
- There are no scenarios whereby all operating costs can be recovered through the farebox
- Bellingham service is required for system viability
- Primary vessel fleet cost drivers
  - Personnel & Travel –  
54% of system total expenses  
69% of operating expenses
  - Capital improvements & maintenance –  
13% of system total expenses  
16% of operating expenses
  - Fuel –  
10% of system total expenses  
14% of operating expenses

# Task 4 - Corporate Structure and Benefits

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



# Governance - Findings

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- Convert AMHS to a public corporation
- Maintains existing benefits
  - Intradepartmental coordination
  - Public purpose
  - Access to federal funding
  - Access to shared services
    - DOTPF
    - Dept. of Administration
    - Dept. of Law
- Addresses existing limitations
  - Frequent turnover in senior leadership
  - Indirect labor negotiations
  - Short-term planning horizon
  - Political influence over operational decisions
- Additional benefits
  - Align labor and management interests
  - Reduce labor costs strategically
  - Incorporate expertise of board members
  - Operate in more business-like manner

# Task 5 - Public and Stakeholder Engagement

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

# Stakeholder Findings

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



# Project Steering Committee

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- **Chair: Dennis Watson - Craig**
- **Dave Kensinger - Petersburg**
- **Greg Wakefield - Anchorage**
- **Elizabeth Bolling - Ketchikan**
- **Shannon Adamson - Juneau**
- **Josh Howes - Anchorage**
- **Will Ware - Juneau**
- **Sharon Hildebrand - Fairbanks**
- **John Whiddon - Kodiak**
- **Dan Kelly - Ketchikan**
- **Michael Anderson - Cordova**
- **Dennis Bousson – Skagway**
- **Ex-officio – Commissioner Luiken**
- **Staff: Robert Venables**

# Project Sponsors

*Platinum Top Contributor: Ketchikan Gateway Borough*

## LEGACY CONTRIBUTORS

- City & Borough of Juneau
- City of Ketchikan
- City of Valdez
- First Bank
- Haines Borough
- State of Alaska

## BRONZE SPONSORS

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

## BENEFACTORS

- Alaska Committee
- City and Borough of Sitka
- Lynden Inc.

## BRONZE SPONSORS cont.

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

## SILVER SPONSORS

- City of Kodiak
- Ketchikan Marine Industry Council
- Municipality of Skagway
- Prince William Sound Economic Development District
- Vigor, Ketchikan Alaska

# Overview of Phase 3

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- Tactical Strategy
- Interim Measures
- Action Plan

*Challenging Times  
Require All Hands on Deck*



# Developing Concepts for Interim Measures

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- **Identify actions that can be taken now**
  - Enhance sustainability of the system
  - Align with larger objectives

# Stabilize Funding

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- **System has no resiliency**
- **Current actions will have long-term implications on the fleet, employees, and market**

# Fleet and Terminal Standardization

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- **Standardization results in budget savings**
  - Training, labor contracts, maintenance, port operations
- **Modern automations can reduce crew requirements by 10 percent**

# Labor Relations

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- **Shift negotiations from DOA to AMHS**
  - Enhance labor/management relations
- **Establish Director of Labor Relations**
  - Free senior management from time spent in disputes, discipline, and negotiations
  - Build internal knowledge base and relationships needed to lead contract negotiations

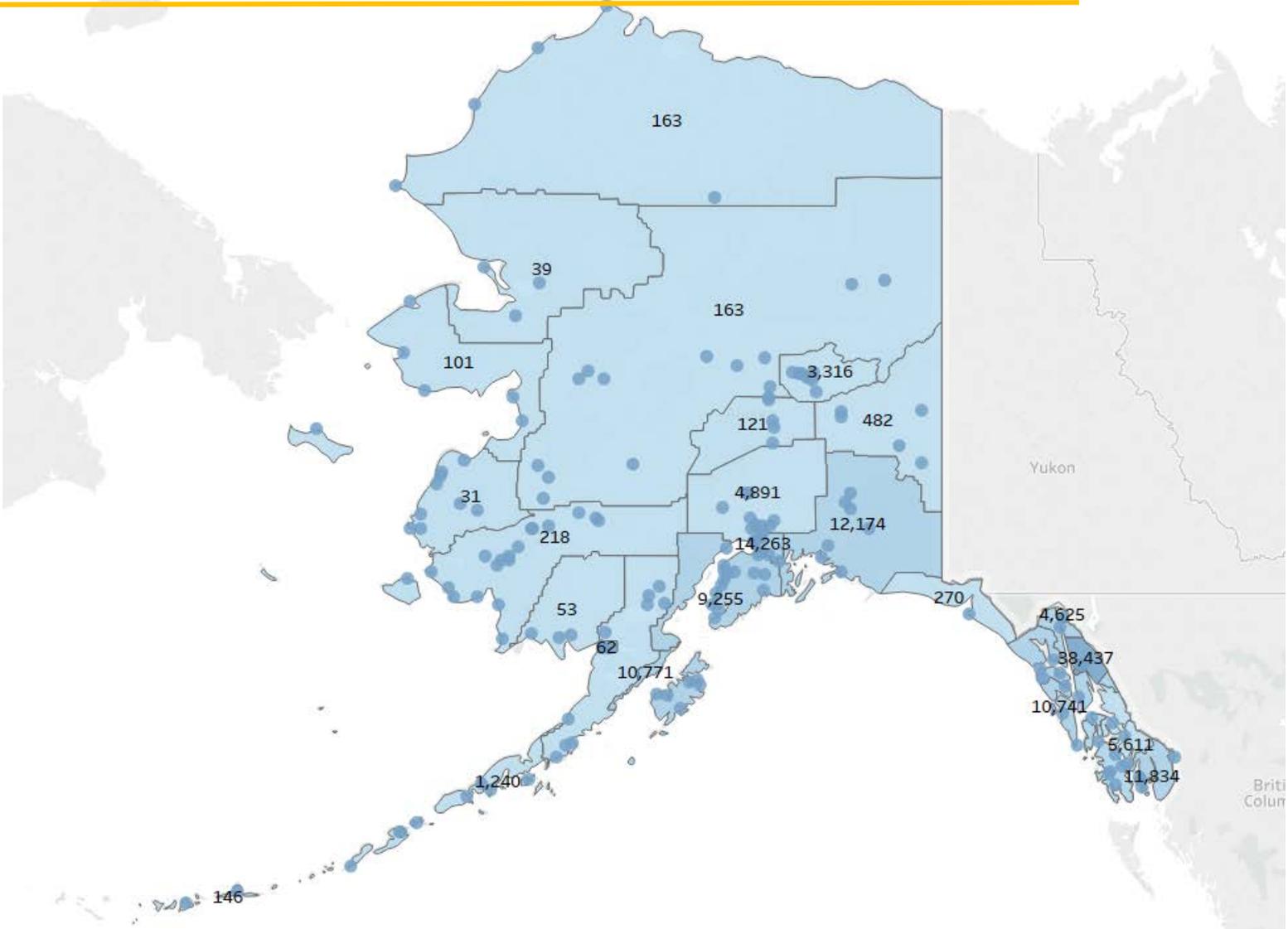
# Continue Market and Revenue Analysis

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- **Need to understand markets to deploy resources effectively**
  - Bellingham = 44% of operating revenues
  - Non-residents = 42% of revenues
- **Passengers have statewide impacts**
  - Non-residents travel throughout road system
    - 51% visit Anchorage
    - 36% visit Denali
    - 25% visit Fairbanks

# AMHS carried Alaskans from 175 communities

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# Alaska Resident Details

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- **Fairbanks North Star Borough**
  - 3,316 passengers
  - 1,409 vehicles
  - From Fairbanks, Fort Wainwright, North Pole, Eielson, Salcha, and more
- **Bethel Census Area**
  - 218 passengers, 52 vehicles
  - From Aniak, Kipnuk, Kwethluk, Sleetmute, and more

# Additional Considerations

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- **Operational Changes**
  - Efficiencies available from vessel deployment, planning, maintenance
- **Board and Staff Development**
  - Gain needed business knowledge and leadership skills to run the organization

# In Closing

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- **AMHS is a critical aspect of the statewide transportation system**
- **Statewide users and benefits**
- **Working to achieve a more sustainable, business-like operation**