

AMHS Reform Project

Strategic Business and Operational Plan



Project Purpose

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



Project Team

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



Phase 1 Scope of Work

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



Phase 2 Scope of Work

- **Define long-term operating strategy**

- Task 1 - Revenue Analysis
- Task 2 - Operations Analysis
- Task 3 - Operations Financial Model
- Task 4 - Structure and Benefit of Public Corporation
- Task 5 - Public and Stakeholder Engagement

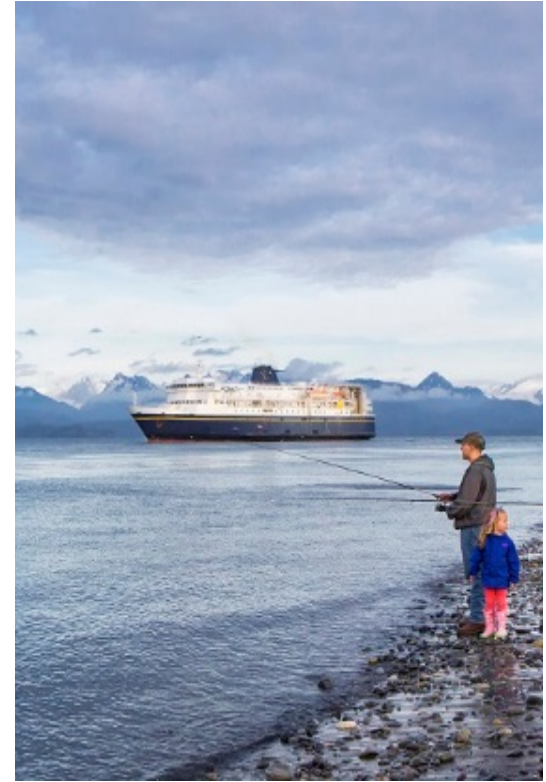
- **Three tasks not funded**

- Household and Business Survey
- Capital Needs Assessment
- Transition Plan



Task 1 – Revenue Analysis

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



Revenue Findings

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

Revenue Findings

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

Task 2 - Operations Analysis

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



Operations Findings

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

Operations Findings

- Strengths
 - Dedicated personnel at all levels
 - Vital service to communities
- Weaknesses
 - Lack of funding certainty for planning, scheduling, and market development
 - Aging fleet with increasing and unexpected service losses
 - Management - labor alignment

Task 3 - Operations Financial Model

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



Operations Financial Findings

- 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

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



Governance - Findings

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

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

Stakeholder Findings

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



Project Steering Committee

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

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

- Tactical Strategy
- Interim Measures
- Action Plan

*Challenging Times
Require All Hands on Deck*



Developing Concepts for Interim Measures

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

Stabilize Funding

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

Fleet and Terminal Standardization

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

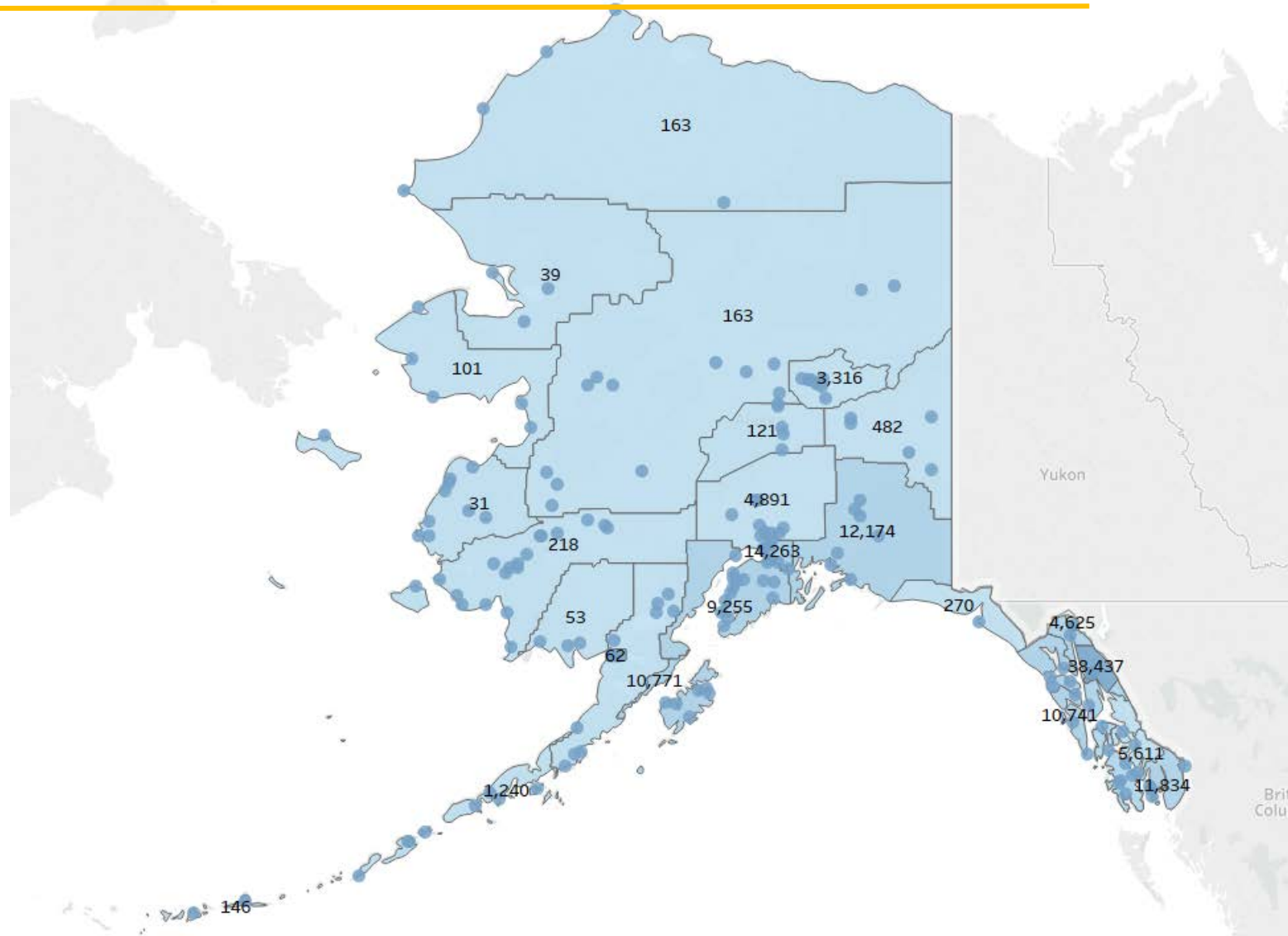
Labor Relations

- **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

- **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



Alaska Resident Details

- **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

- **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

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