



THE STATE  
of **ALASKA**

GOVERNOR BILL WALKER

## Department of Transportation and Public Facilities

STATEWIDE ADMINISTRATIVE SERVICES

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February 6, 2017

The Honorable Representative Foster  
Chair, House Finance Subcommittee  
State Capitol Bldg., Room 410  
Juneau, Alaska 99801

Dear Representative Foster,

In response to questions posed by House Finance Sub Committee members on February 2, 2017, the following information is provided:

- ***Clarify in writing the reason for the lower volume of traffic in the months of July-Aug. (Slide 12)***  
Lower volume is attributed to three things mentioned during the hearing: Threat of a government shutdown (and subsequent stopping of all ferries); threat of budget reductions which could cause the cancellation of already published and scheduled service; and higher fares due to tariff increases that have been imposed. The first two deal with uncertainty, which is closely connected to negative impacts.
- ***Clarify in writing point made on slide 14 and slide 15 regarding increase and ridership.***  
Despite increases in service weeks from 300ish to 400ish weeks of service, there is not a commensurate increase in traffic carried or revenue generated during that period.
- ***Youth Group Discount (Indirect Expenditure): Travel can be educational but is that within the mission of DOT&PF and AMHS?***  
AMHS has historically offered a youth group discount to school and other organized groups to encourage their use of the Alaska Marine Highway System. School travel and most organized group travel takes place during the off-peak season (winter) and utilizes some of the excess capacity that exists on our ships during this lower travel demand period. The current AMHS Mission statement does include reference to educational needs ("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 impact of not providing this discount to school and other youth groups is a direct increase in travel costs to those groups, and the subsequent reduction in their ability and willingness to utilize AMHS for their travel needs. In doing so, the ultimate bearer of this burden would be the youth themselves as they would have reduced travel opportunities. Additionally, AMHS would likely suffer financially. Rather than selling the space at a discount, charging full price could result in fewer riders on the vessels.

*"Keep Alaska Moving through service and infrastructure."*

➤ ***Forwarding Funding AMHS: Would a stable schedule generate enough revenue to cover the cost of the budget cut?***

Forward funding AMHS provides something the system currently lacks; the ability to schedule, publish, advertise and book a known, funded and consistent schedule from year to year. Eliminating schedule uncertainty would be a stabilizing force that could lead to higher revenue generation and improved self-sufficiency of the system. AMHS may never be 100% self-sustaining, but we can do better than the current farebox recovery rate of 32.8%. Budgeting at a sustainable level for longer than one year's budget cycle will allow AMHS management to operate in a more businesslike manner, provide a more consistent and predictable level of service, and focus more on generating revenue than on the annual scheduling scramble to match the projected budget available.

➤ ***Explain the money versus the number of people listed on our indirect expenditures report: If the discount is not available, wouldn't there be more revenue impact because people might not be able to afford to ride the ferry without the discount?***

The Revenue Impact figures listed on the indirect expenditure report for AMHS represent the "perfect case" financial value of the beneficiaries who utilize those discounts and passes. It assumes that everyone who uses the discount or pass would have paid full fare in the absence of that discount or pass, thus generating the additional revenue impact figure shown. Realistically, we know that some beneficiaries simply would not travel at all if the discount or pass benefit did not exist. In that regard yes, the system could actually lose the discounted revenue it currently earns off of these indirect expenditure discounts. Likewise, there is an argument that employee passes do not cost the system anything since they are only used for space available transportation that otherwise would have sailed empty. Here too it is possible some of those pass travelers would have paid full fare to travel even if the pass benefit did not exist, thereby generating additional revenue for the system. Discounts and ridership are difficult things to predict. Ideally, implementing a discount is done to boost ridership and generate more benefit than what the discount costs in terms of indirect expenditures.

➤ ***Restate in writing the answer to the question of how much of AMHS' budget has been impacted by regulations?***

The AMHS budget as a whole covers our mandatory regulatory compliance issues from the staff required to manage those issues to the equipment, training, drills, and supplies and personnel required for compliance. Exact dollar amounts for these items are difficult to isolate and specify, but rest assured the regulations have gotten stricter and the number of things regulated has grown significantly. Examples cited during the hearing include compliance with wastewater discharge standards. We currently do that using the Best Management Practices exemption to the state wastewater discharge standards. We employ a full time environmental officer to manage that program along with all of our environmental regulatory compliance issues such as the Vessel General Permit program which manages 27 different waste streams on our vessels, storm water runoff in our terminals, potable water standards at our terminals where we make our own drinking water, and shoreside wastewater treatment at our terminals that are not connected to municipal wastewater systems. The maintenance, inspection, testing and permitting in those areas alone is expensive. SOLAS (Safety of Life at Sea) certification maintenance on our ships doing the international run to Prince Rupert is also costly. In fact, many more AMHS ships used to have SOLAS certifications but they were allowed to lapse over the years as a cost savings measure. U.S. Coast Guard licensing, training requirements for officers and crew licensing, medical examinations, drug testing procedures, and safety equipment requirements all add significantly to the AMHS budget and cost of doing business. Please do not

mistake this summary as saying that all regulations are unnecessary. These regulations aim to keep ships operating safely, and that is the largest cost savings of all.

- ***Provide examples of direct and indirect service by AMHS – related to number of Alaskans served – examples: direct = passenger and vehicle numbers; indirect = no bananas at the grocery store if vessels aren't running.***

Putting a number on how many Alaskans AMHS serves is difficult. We prefer to say that AMHS, like all Alaska transportation infrastructure, exists to serve all Alaskans and all the visitors to Alaska as well. While it is easy to state how many individual passengers we physically carried or how many vehicles we carried, we do not break those numbers down by resident versus non-resident, nor does it capture all the people served by AMHS. The economic driver that the ferry provides in moving people, vehicles, and freight (freight in vehicles, not bulk freight) is widespread. Fresh produce in isolated communities typically arrives by ferry in refrigerated tractor trailer trucks due to the more frequent service than barge lines provide. Local products like Alaska Seafood and Alaska Brewery products are shipped out via AMHS when time is of the essence or barge service does not meet the need. Local businesses, both tourism related and non-tourism related, depend upon ferry transportation to bring tourist and customers to services that cannot be obtained locally. A good example is automobiles in the smaller communities. When they need servicing, warranty or recall work, and no dealer exists in a small town, the ferry is the connection that allows the owner to get the service and the business providing the service to get the customer. Hotels, RV parks, tourist attractions, restaurants, etc. all are “served” by AMHS, directly, indirectly or frequently both. As the “Passengers per Population” and “Vehicles per Population” slides in the AMHS overview presentation show, we carry a significant volume of recreational vehicles (RVs) and tourists from Bellingham into Whittier who are virtually all going into interior Alaska, supporting multiple facets of the economy throughout the road system. The majority of residents in Cordova have Costco cards, yet there is no Costco in Cordova. The ferry allows them to be shoppers at the Anchorage Costco, and many other businesses off the traditional ferry route. This is good for Alaska’s economy.

- ***Cargo vs. vehicles: Public perception that cargo is allowed to take private vehicle space, which then limits passenger and vehicle availability (passengers want to travel with their vehicles) – Please explain the policy on cancellations for cargo and address the perception of reduced private vehicle space availability on ferries due to cargo. Is revenue lost when reserved cargo space is cancelled last minute?***

AMHS carries only vehicle borne cargo (i.e. things in a container van, a box truck, or on a flatbed truck trailer, not bulk cargo like individual pallets full of concrete, or other products). Commercial shipping companies frequently book space for their vans and trailers on AMHS, and some frequently book space well in advance. Due to vessel limitation and stability issues, there are limits as to how much of the car deck space can be occupied by large commercial vehicles. It is not the entire car deck. Previously, commercial traffic resulted in lost opportunity and lost revenue for AMHS when the shipping company would cancel some of these reservations at the last minute and the space would then sail empty. AMHS addressed that problem by revising our reservation and cancellation policies. Reservations now must be prepaid when the reservation is made, with very few exceptions. Just like when booking an Alaska Airlines flight, you pay when you book if you want a confirmed reservation. We modified our cancellation policy to assess a cancellation fee, the amount of which gets progressively higher the closer to the sailing date the cancellation is made under the premise that it is harder for AMHS to resell that previously reserved space the closer to the sailing date it becomes available. Our intent is simple. Book the reservation you need, and use the reservation you book. Our goal is a fair system where everyone can make a reservation and utilize space on the vessel and AMHS (i.e. the state) is not left holding all the risk associated with last minute cancellations, either by commercial customers or individual travelers.

➤ ***Admin Order #266 about regulations: What has DOT&PF done about AO 266?***

The Department has complied with the intent of AO 266 on an annual basis since its creation. Each fall, the department has submitted to the Office of the Governor a list of those regulations we believe should be repealed or amended to decrease the burden of negative fiscal and non-fiscal impacts on the affected public, including the estimated costs/cost savings to the State of Alaska and to the public if those regulations were to be repealed or amended. Total submissions from the department during the Walker/Mallott Administration, i.e. CY 15 and CY 16, are enclosed.

➤ ***Where is the marine fuel tax money going?***

See the attached document titled "Motor Fuel Tax Background Information."

If you have any further questions, please feel free to contact me at 465-8974.

Sincerely,



Amanda Holland, Director  
Administrative Services

cc: House Finance Subcommittee Members  
Marc Luiken, Commissioner  
Steve Hatter, Deputy Commissioner  
John Binder, Deputy Commissioner  
Mike Neussl, Deputy Commissioner  
Mike Lesmann, Legislative Liaison

Attachments: AO 266 - DOT&PF CY15 & CY16 Response  
Motor Fuel Tax Background Information