

**ALASKA STATE LEGISLATURE  
JOINT MEETING  
HOUSE TRANSPORTATION STANDING COMMITTEE  
SENATE TRANSPORTATION STANDING COMMITTEE**

March 7, 2006

1:34 p.m.

**MEMBERS PRESENT**

HOUSE TRANSPORTATION

Representative Carl Gatto, Co-Chair  
Representative Vic Kohring  
Representative Mark Neuman  
Representative Bill Thomas  
Representative Woodie Salmon

SENATE TRANSPORTATION

Senator Charlie Huggins, Chair  
Senator John Cowdery, Vice Chair  
Senator Albert Kookesh  
Senator Hollis French

**MEMBERS ABSENT**

HOUSE TRANSPORTATION

Representative Jim Elkins, Co-Chair  
Representative Mary Kapsner

SENATE TRANSPORTATION

Senator Gene Therriault

**COMMITTEE CALENDAR**

PRESENTATION BY DOT&PF: ALASKA MARINE HIGHWAY SYSTEM

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

MIKE BARTON, Commissioner

Department of Transportation & Public Facilities  
Juneau, Alaska

POSITION STATEMENT: Introduced the presenters and answered questions.

CAPTAIN JOHN FALVEY, General Manger  
Alaska Marine Highway System (AMHS)  
Department of Transportation & Public Facilities  
Ketchikan, Alaska

POSITION STATEMENT: Presented a PowerPoint presentation regarding AMHS.

RICHARD LEARY, Business Development Manager  
Alaska Marine Highway System  
Department of Transportation & Public Facilities  
Ketchikan, Alaska

POSITION STATEMENT: Presented a PowerPoint presentation regarding AMHS.

ROBIN TAYLOR, Deputy Director/Director of Marine Operations  
Alaska Marine Highway System  
Department of Transportation & Public Facilities  
Juneau, Alaska

POSITION STATEMENT: Provided comments regarding AMHS.

#### **ACTION NARRATIVE**

**CO-CHAIR CARL GATTO** called the joint meeting of the House and Senate Transportation Standing Committees to order at [1:34:49 PM](#). Representatives Gatto, Kohring, Neuman, Thomas, and Salmon and Senators Huggins and French were present at the call to order. Senators Cowdery and Kookesh arrived as the meeting was in progress.

#### **PRESENTATION BY DOT&PF: ALASKA MARINE HIGHWAY SYSTEM**

CO-CHAIR GATTO announced that the only order of business would be the presentation by Department of Transportation & Public Facilities (DOT&PF) regarding the Alaska Marine Highway System (AMHS).

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MIKE BARTON, Commissioner, Department of Transportation & Public Facilities, introduced the presenters.

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CAPTAIN JOHN FALVEY, General Manger, Alaska Marine Highway System, Department of Transportation & Public Facilities, related that he is responsible for the overall day-to-day operation of the entire system. Therefore, he reports directly to the deputy commissioner. Captain Falvey then turned attention to the PowerPoint presentation entitled, "Alaska Marine Highway, A System in Transition." He related AMHS's mission statement, as follows: "To provide safe, reliable and efficient transportation of people, goods and vehicles through the Alaska Marine Highway System." He then highlighted that AMHS moves large freight, which isn't done by Alaska Airlines or float planes. He related that there are six mainliner vessels, two short-run vessels, two fast vehicle ferries, and one shuttle ferry. Captain Falvey noted that the bulk of the fleet operates a 24/7 circuit and because of union contracts and labor agreements, on average, it takes 2.4 crews to rotate with vacations. The maritime industry, he emphasized, is extremely regulated by the federal government. He then provided a slide of AMHS's routes, a 3,500 mile system that serves 32 communities. He highlighted that AMHS is the largest such system in the nation and one of the largest in the world.

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CAPTAIN FALVEY then turned to AMHS operations. He informed the committee that of the marine vessel operations component the vessel crew costs amount to about 59 percent of the total expenditure. The remainder of the marine vessel operations component consists of the following with the following percentage: fuel costs - 21 percent, services and commodities - 15 percent, and contractual/risk management - 5 percent. Of the marine engineering component, 60 percent is federal funding. He mentioned that the Marine Vessels (M/V) Taku, Matanuska, and Kennicott are required to have additional certifications and requirements [Safety Of Life At Sea (SOLAS)] as well as the crews that sail those vessels so that those vessels can enter the foreign port of Prince Rupert. He mentioned AMHS's reservations and marketing component. He reviewed the marine shore operations and vessel operations management as specified on slide 7. The largest portion of the vessel operations management is the port captain's office and the port engineer's office, which run the day-to-day operations of the vessels. A large portion of the port captain's office is security, which is becoming a huge and expensive challenge. He then explained that the dispatch staff schedule the crews, which is a very

complicated process because it must take into account the certificates, bid positions, union seniority, and various qualifications of the staff. Therefore, AMHS is about to sign a contract to utilize a computer system to perform dispatch. At the moment, AMHS is having a difficult time keeping its ships crewed, he related.

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CAPTAIN FALVEY moved on to slide 8 regarding the various transportation plans. He noted that the following three transportation plans have been in place over the last few years: the Southeast Alaska Transportation Plan, the Prince William Sound Transportation Plan, and the Southwest Alaska Transportation Plan. He explained that the aforementioned transportation plans provide community-to-community transit service, basic service for tourists and the military, transportation options that enhance freight service, support in the movement of fresh fish product to market at critical times of the year, and the ability to avoid Canadian customs which present a barrier to citizens traveling with firearms or a driving under the influence (DUI) charge.

CAPTAIN FALVEY addressed the Southeast Alaska Transportation Plan as related on slides 9-10. He specified that this plan needs to shift from a surface transportation network based on long-distance circuit ferries operating 24/7 to a system of roads, shuttle ferries, and feeder vehicle ferries. Having the feeder vehicle ferries would reduce the mainline ferries with the large crews and thus will reduce the general fund need because the feeder vehicle ferries are cheaper to operate and provide more reliable service. He then reviewed the Prince William Sound Transportation Plan as specified on slide 11, which AMHS believes needs day boats, year-round service, direct routes, and regular and repeatable schedules. He opined that Whittier to Valdez is probably the heaviest volume route and it can probably reach a ridership of 12,000 annually. He moved on to the Southwest Alaska Transportation Plan as addressed on slide 12. Since the M/V Tustumena no longer provides service to the Prince William Sound it has increased service to Kodiak, Homer, Seldovia, and the Aleutian Chain. In fact, [the M/V Tustumena) is moving toward biweekly service to the Aleutian Chain. Captain Falvey opined that the aforementioned will help the isolated communities prosper due to the more frequent ferry service.

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CAPTAIN FALVEY opined that AMHS is in transition with its large crews and aging fleet that's expensive to operate and maintain. He reiterated the need for AMHS to be proactive with shuttle and feeder ferries and possible roads to provide better service and save money. He informed the committees that AMHS is in the process of putting out a request for proposals (RFP) to begin the design phase of a Haines-Skagway shuttle, which would dovetail with Juneau access out of Katzehin. He opined that AMHS would eventually like to turn vessels around in Juneau and utilize shuttle boats to Haines and Skagway, at least until the road is built. This is an expensive phase.

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RICHARD LEARY, Business Development Manager, Alaska Marine Highway System, Department of Transportation & Public Facilities, began by reviewing the performance measures as specified on slide 14, which are to provide safe, reliable, convenient, and efficient service. The AMHS used the following metrics to rate its performance. The intention was to meet or exceed 95 percent customer satisfaction, which was exceeded in fiscal year (FY) 2005 with a customer satisfaction rate of 96.4 percent. With regard to on-time rate of departures, AMHS is 90 percent on time in FY 06 to date and is scheduled to increase the number of port calls by 37 percent. On the revenue side, a metric of increasing on-board sales per passenger by 5 percent has been accomplished with the initiatives implemented in November. Mr. Leary highlighted the areas in which AMHS has increased its service as specified on slide 15, including the increases in bimonthly winter crossings of the Gulf and daily service in the winter in Prince William Sound. Furthermore, AMHS has completed the testing in the Southwest for the fast vehicle ferries. Service has been provided to Bartlett Cove, service has been provided all winter from Bellingham, and the M/V Lituya met seasonal demands. In order to increase revenues and provide less reliance on the general fund, a wide range marketing initiative was instituted such that much advertising in various formats was done as well as the implementation of a 30 percent winter discount and driver goes free offer. Through the end of February the aforementioned has increased passenger ridership by 20 percent and vehicle traffic by 25 percent, which amounts to an 18 percent increase in gross revenues during this time period. Mr. Leary opined that the aforementioned is very significant since both ridership and revenue were diminishing in the previous years. Slide 17 highlights a couple of the marketing displays that have been utilized.

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MR. LEARY then directed attention to slide 18, which relates the community destinations in 2003. As the graph illustrates, a significant portion of travelers end up in Anchorage and Fairbanks, which is largely attributable to the military and the tourists. During the summer months, about 80 percent of AMHS passengers reside outside of the state while in the winter about 80 percent of the passengers are Alaskans. He then highlighted the upcoming marketing specials, including two Glacier Bay National Park and Preserve sailings, Pelican sailings, a Misty Fjord sailing, and discounts for the Cordova connections. He explained that the early bird/snow bird specials attempt to entice travelers to travel earlier during the shoulder seasons. To meet the obligations of the Metlakatla vessel, the plan is to offer that the driver goes free. Mr. Leary related that AMHS, with its new marketing manager continually hopes to offer appropriate discounts to increase ridership. He noted that AMHS has just begun to utilize its boats to host meetings.

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CAPTAIN FALVEY continued the presentation and turned to the topic of fast vehicle ferries. He informed the committee that he initially came to Alaska due to his background with fast passenger ferries in the Northeast and a fast vehicle ferry with an international run. He informed the committees that he initially came to Alaska as a fast vehicle ferry port captain and he wrote all the training plans that were approved by the U.S. Coast Guard and helped with delivery of the fast ferry and training of the crew. He clarified that currently, the fast vehicle ferries won't be operated in the winter. These fast ferries are expensive to operate. In fact, the M/V Fairweather costs about \$227,000 a week to operate. To date, the M/V Chenega has cost about \$278,000 a week to operate, some of which can be attributed to the dual training in Prince William Sound and routes between Ketchikan, Wrangell, and Petersburg. He acknowledged that there is concern with regard to operating the fast ferries in the dark with high concentrations of logs and debris. Furthermore, the boats are certified to run in a 13-foot seaway in which [AMHS's] certificate requires [the vessel] to seek shelter. The boats are certified to run about half speed in a 10-foot sea. However, what has been determined is that when there is 40 knots of wind and an 8-foot sea, the fast ferries don't run because it's very uncomfortable for the passengers. Still, Captain Falvey opined that AMHS believes

that the fast ferries will be successful in Lynn Canal, Sitka, and Prince William Sound in the summer. He highlighted that AMHS found that more people preferred the Wrangell to Petersburg route as opposed to the Ketchikan to Juneau route. Furthermore, there is a much higher concentration of logs and debris along that route than in North Lynn Canal. Already, there have been shaft seal failures, which are directly related to log hits. With regard to speed, the average speed of the fast ferries traveling between Ketchikan, Wrangell, and Petersburg was 19.5 knots, which was due to Tongass Narrows and Wrangell Narrows as well as the higher concentration of personal property than on the North Lynn Canal all of which caused the vessels to slow down more often.

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MR. LEARY continued with slide 22, which reviews the AMHS operating budget beginning with FY 05 actual when the M/V Fairweather and Lituya operated for the full year. From FY 05 to FY 07, the M/V Chenega was added. The FY 06 budget of \$103.5 million didn't include any operational funding for the M/V Aurora or Taku and no cross Gulf funding for the M/V Kennicott during the winter months. The expectation was that the M/V Chenega would have been in operation by July 1st. Mr. Leary informed the committees that the labor and the fuel component composed about 80 percent of the spending metric. Since FY 05, AMHS entered into a collective bargaining agreement for FY 05 through FY 07, which includes contractual raises for the crew of 7 percent in the first year and 6 percent in the following two years. Furthermore, fuel prices have escalated tremendously. He explained that the governor's FY 07 amended budget for AMHS in the amount of \$135 million was reduced to \$133 million because of the decision not to run the fast vehicle ferries during the winter months.

MR. LEARY then provided the committees with a feel for the volatility of AMHS's business between the summer and winter months through how well the vessels self-finance. He drew the committees' attention to slide 23, which relates the actual operation results of FY 06 thru September 30. The aforementioned highlights areas in which AMHS can take a more business-like approach and areas where AMHS is a service rather than a business. For instance, Metlakatla operations can provide a better return by having the vessel be responsive to the village's seasonal demands and traffic as well as the ability to turn the vessel on and off. With regard to the M/V Fairweather's 60 percent return in the summer for the Lynn Canal

runs isn't ideal, but the decrease in the winter [is of concern]. He then turned to slide 24, which lays out the supplemental budget proposals embodied in HB 369/SB 232 and HB 422/SB 263. A large component of AMHS's budget is fuel as related on slide 25. The graph following slide 25 illustrates the unprecedented volatility with regard to the fuel costs.

MR. LEARY addressed the supplemental appropriation in the amount of \$6.7 million. The budget for the year presumed that the M/V Chenega would be placed in service at the beginning of the fiscal year. However, that was not the case and over \$2 million was spent to get the M/V Chenega ready and train for the Southeast shuttle route.

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CAPTAIN FALVEY continued with the challenges that AMHS faces as specified on slide 28, which includes the price increase in fuel, security measures, and an aging fleet and workforce. He explained that at increased levels of security, a tremendous amount of labor has to be injected in order to meet the plans in place. Therefore, if the security level is a MARSEC Level 3, AMHS would be shut down.

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CO-CHAIR GATTO inquired as to what happens to labor costs if AMHS shuts down during a security level three. He further inquired as to whether AMHS would, under union contracts, be obligated to pay as if each boat was manned with 2.4 crews and was running.

CAPTAIN FALVEY replied yes, adding that there is a large amount of vacation that would have to be paid. Therefore, the price would be hefty even if AMHS wasn't obligated to pay for the crews. In further response to Co-Chair Gatto, Captain Falvey specified that AMHS has an unfunded liability in the amount of about \$7.2 million.

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CAPTAIN FALVEY reviewed AMHS's successes as specified on slides 29-30, including the following: 20 percent more Alaskans are using the ferries; greater service to Prince William Sound and Kodiak; funding to design and build a shuttle for Juneau access; marketing contract and staff person; realizing that Alaskan clientele are price sensitive; completing the move to Ketchikan;

[hiring a] new business manager; forming the Marine Transportation Advisory Board (MTAB); and utilizing the M/V Lituya as a feeder concept. Captain Falvey also highlighted the fact that AMHS has been named an "All American Road", which is a tremendous marketing tool and offers the possibility of grant money for marketing. Captain Falvey concluded by turning to slide 31 regarding the future of AMHS in 2010, which he opined should include the following: a Haines-Skagway shuttle, feeder vehicle ferries, day boat service, mainline fleet reductions from five vessels to three by 2018, and completion of corridor studies.

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SENATOR KOOKESH inquired as to how much attention is paid to MTAB. He further inquired as to MTAB's recommendation with regard to moving the fast ferry out of Lynn Canal and Cordova.

CAPTAIN FALVEY said that [AMHS staff] do meet on a regular basis with MTAB and work with it as well. He offered to provide an answer to the latter question at a later time.

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SENATOR COWDERY inquired as to the amount of state subsidy received by AMHS each year.

MR. LEARY answered that the general fund has ranged from about \$35 million in 2000 to the latest amended budget in the amount of about \$82.5 million. However, he opined that AMHS is on a course to increase ridership, which brings in revenue.

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SENATOR FRENCH recalled a family trip from Whittier to Valdez last summer that cost \$400. Of that \$400, how much more did it cost AMHS for that trip or was the \$400 the [true] cost of the trip, he asked.

MR. LEARY turned attention to the information presented regarding the actual operation costs of the M/V Aurora as presented in slide 23.

SENATOR FRENCH surmised then that his \$400 fare paid about two-thirds of the total cost of the trip. However, in the winter that would drop dramatically, he opined.

CAPTAIN FALVEY agreed. He then specified that currently the M/V Aurora is averaging about 250 passengers a week. That vessel continues to run a nonstop triangle route with a crew of 24.

SENATOR FRENCH further surmised then that costs of the same trip in the winter would be close to \$3,500.

CAPTAIN FALVEY noted his agreement.

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CAPTAIN FALVEY, in response to Chair Huggins, related that there are tracking requirements for security. He explained that a separate Global Positioning System (GPS) unit runs every day all day and is tracked through the U.S. Coast Guard. He noted that the 511 tracking system, which is more of a marketing tool, has been discontinued while work continues in order to have computer screens such as those at airports in the port and at home. In further response to Chair Huggins, Captain Falvey clarified that all vessels are equipped with the aforementioned [GPS unit].

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REPRESENTATIVE THOMAS inquired as to the source of the funds to build the shuttles for Lynn Canal.

CAPTAIN FALVEY answered that the shuttle for an RFP is about to be let and will be funded by Shakwak funds, which are federal funds.

REPRESENTATIVE THOMAS pointed out that about \$180 million or so of Shakwak funds are also to be utilized for the Juneau access road. Therefore, he inquired as to whether there will be enough funds in the budget to accomplish everything.

CAPTAIN FALVEY opined that AMHS would have enough funds to build the first one, but may have to look closer for [other projects].

REPRESENTATIVE THOMAS surmised then that if the Shakwak project takes all the funds [from AMHS], then there would be nothing left to replace the aging fleet. He related his assumption that if the aforementioned is the case, then AMHS will have to seek funds from the legislature to replace the vessels.

CAPTAIN FALVEY said he assumed that would be the case in such a situation.

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CO-CHAIR GATTO related his astonishment that almost 80 percent of the cost of the AMHS operations is attributed to cost of the crew and the fuel. Co-Chair Gatto inquired as to what happens with the 1.4 crews that aren't necessary during the 2.4 crew manning.

CAPTAIN FALVEY provided an example in which a crew works for a week and is off a week. Because they are state employees, they receive vacation beyond that, which accounts for the 0.4. He clarified that only one crew runs a vessel at any given time with one crew home on vacation and .4 of a crew available to provide relief for state-sanctioned vacations or sick leave. He specified, "It takes 2.4 to physically run a 24/7 boat."

CO-CHAIR GATTO inquired as to AMHS's cash return.

MR. LEARY noted that AMHS's last fiscal year of results is FY 05 when AMHS [costs were funded by] 53 percent in general funds, 46 percent in self-collected revenues, and the remainder from federal funds. In further response to Co-Chair Gatto, Mr. Leary specified that for every \$1 to run the system, \$.37 is revenue from the passengers under the FY 07 governor's amended budget.

CO-CHAIR GATTO recalled the 7 and 6 percent raises for the crew, which he characterized as a substantial increase in pay. He assumed that such raises were necessary to get the ferries out of the dock.

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CAPTAIN FALVEY reminded the committees that the raises would be over a three-year period. He explained that state workers on shore normally receive a raise every year whereas the union contracts didn't receive a raise for a few years. With regard to other systems in the nation, one needs to consider that they utilize large vessels in an operation in which [all passengers] get on and off, very unlike Alaska's multiple port 3,500-mile system with its additional [revenue robbing] complications.

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CO-CHAIR GATTO asked if the Dutch Harbor portion of the AMHS receives a better or worse return than the system's overall return.

MR. LEARY said that the cross Gulf return is about \$.31 on the dollar, and thus is lower than AMHS's overall return.

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CO-CHAIR GATTO asked if there is any thought to composing AMHS of nothing but shuttles.

CAPTAIN FALVEY answered that shuttles are what AMHS is reviewing. However, the problem is that there are some places where bridges and connecting roads just can't be built. Furthermore, coming from Bellingham through the system will require the use of some mainliners, for which the extra amenities are costly. In further response to Co-Chair Gatto, Captain Falvey pointed out that the Staten Island ferry system in New York runs very short distances and everyone gets on and off. However, AMHS is a long system with 32 ports. Until there are roads to connect the shuttle ferries, "we're kind of stuck right now." He reiterated the need to reduce the number of mainline vessels operating.

CO-CHAIR GATTO asked if any thought has been given to the notion of AMHS competing with the cruise ships.

CAPTAIN FALVEY answered that it's difficult to compete with the cruise ships because cruise ships operate with extremely high volumes and have low payrolls. He noted that AMHS does market and there is a certain clientele that wants to travel via the AMHS.

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SENATOR COWDERY recalled there being discussion of some cherry picking of routes that are high traffic and high revenue. If the aforementioned occurred, how would it impact the rest of AMHS, he asked.

CAPTAIN FALVEY opined that such wouldn't help the system since it would be the high revenue routes. He highlighted that 40 percent of AMHS's ridership travels out of Bellingham. He expressed the need to have a tighter connection with the M/V Kennicott coming across the Gulf in order to address the needs of the military ridership.

SENATOR COWDERY pointed out that the Alaska State Constitution guarantees service to smaller communities and thus those routes can't be dropped as could be the case in the private sector.

CAPTAIN FALVEY agreed and commented that the high volume runs make up a bit of the loss from the low volume runs.

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COMMISSIONER BARTON, in response to Co-Chair Gatto, specified that AMHS exists under the authority of the legislature in statute. He said that the statute goes beyond merely stating that the AMHS shall exist.

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REPRESENTATIVE SALMON asked if the original intent of AMHS was to be subsidized or to make a profit.

CAPTAIN FALVEY opined that the original intent was to provide service to the citizens of the state and the subsidization of AMHS followed. In further response to Representative Salmon, Captain Falvey stated that AMHS's purpose is to provide service with the least amount of general funds as possible.

CO-CHAIR GATTO asked if there are airports served by a major airline at most AMHS ports.

CAPTAIN FALVEY answered that most areas with an AMHS port probably have some general aviation near. He offered to research that.

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CO-CHAIR GATTO commented, "So long as we're subsidizing an opportunity for people in remote areas to move about the state, we might be almost as well off as if we simply subsidized their air travel and allowed them to move anywhere in the state similarly to the way everyone else moves. And then ran a barge or some other traffic to move equipment, vehicles, groceries, et cetera." He inquired as to Captain Falvey's thoughts.

CAPTAIN FALVEY said that's a concept, but pointed out that the freight and vehicles remain problematic because it may arrive a few days later than the person.

CO-CHAIR GATTO suggested that much of the heavy freight could be pre-planned. The movement of the people is what occurs on much short notice, he said. Co-Chair Gatto said that although there is agreement that the state can't continue to buy large vessels,

such vessels have, in fact, been purchased as the fast ferries reveal. He related his understanding that the goal with the fast ferries was to move between ports faster in order to carry more people and thus increase the revenue. However, the fuel costs don't decrease. Moreover, the maintenance hours on a fast ferry probably cost more than on a traditional ferry.

CAPTAIN FALVEY explained that a crew of 10 operate the fast ferries and a crew of 6 maintain them at night. He pointed out that fuel is a higher percentage of the overall operating costs of the fast ferry. Furthermore, the current high fuel costs hurt the fast ferries.

CO-CHAIR GATTO said that he was surprised to have a supplemental budget request for fuel because fuel prices were evident last year. Therefore, he questioned whether the ferries used additional fuel.

MR. LEARY clarified that the FY 06 budget included a last-minute increase in dollars that brought the estimated purchase price of fuel from \$1.17 to \$1.43. However, the price of purchased fuel has ranged from \$1.63 to \$2.63. He projected that the end-of-the-year average purchase price will be in the range of \$2.20-\$2.25. Fuel prices are very volatile and the fuel price projections were way off the mark. Furthermore, there were other factors contributing to the need for the supplemental, such as the M/V Chenega not being ready when projected, the additional fuel required for the training runs of the vessel, and the cross Gulf winter coverage.

CO-CHAIR GATTO asked if AMHS's budget includes funds to account for unforeseen events such as vessels running aground.

MR. LEARY replied yes, but related that AMHS's zero-based budget has a historical look-back. Furthermore, the older the vessels, the more likely things are going to go wrong.

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CO-CHAIR GATTO asked if there has been any thought of AMHS operating in the river system as proposed by legislation introduced this year.

CAPTAIN FALVEY said that AMHS is watching that legislation as it proceeds. In further response to Co-Chair Gatto, Captain Falvey said he didn't believe there is any historical precedent for such. With regard to the fast ferry training, he informed the

committees that training was done in two zones with all those runs being non revenue runs. Now that crews have been trained, AMHS has it's own in-house type rating instructors and thus it allows the M/V Chenega to be in revenue service while some officers train, and thus the [operations] won't be as costly going forward.

CAPTAIN FALVEY, in further response to Co-Chair Gatto, opined that the training requirements when the fast ferries were ordered weren't fully understood. The high-speed code, he related, has very stringent requirements. In fact, he related his understanding that Alaska is the only operator in the U.S. running under the code, although it's utilized in other countries. He said that many of the operators in other countries using the fast ferries are running with large subsidies.

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REPRESENTATIVE THOMAS recalled life before AMHS when fresh fruit was delivered only once a month. He opined that what has happened is that Alaskans have become spoiled and demanded more service and access. With regard to the costs of the fast ferries, Representative Thomas pointed out that in 1994 when the fast ferries were purchased, the cost of fuel was \$.60-\$.80 per gallon.

CAPTAIN FALVEY commented that it was probably never imagined that fuel would cost what it does and be such a component of cost.

REPRESENTATIVE THOMAS commented that the fast ferries won't be able to run in inclement weather.

CAPTAIN FALVEY said that the RFP and design study will review that. He then opined that the M/V Lituya is built to take a very rough sea, which may need to be reviewed.

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REPRESENTATIVE THOMAS related that the AMHS crew, with which he has spoken, trained for the fast ferries who have been laid off say they won't look for another job because they use their seniority to bump other crew of the mainline ferries, which is where the stability [of employment] lays. Representative Thomas then expressed the need for at least one ferry to run out of Juneau to maintain access. With regard to the lost ridership in

Southeast, he highlighted that when the Tongass National Forest was closed 5,000 to 15,000 riders were lost, which was a major part of the market.

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ROBIN TAYLOR, Deputy Director/Director of Marine Operations, Alaska Marine Highway System, Department of Transportation & Public Facilities, began by relating how proud he is with regard to the AMHS staff. He highlighted that AMHS is working with much less staff today than 10 years ago and the transfer of staff from Juneau to Ketchikan was significant. He noted that this is the first time the legislature has received actual allocated costs per vessel. Upon utilizing the budgeting system of the legislature to determine the budget for AMHS, he came up with a budget of \$74 million. Since AMHS had been budgeted \$104 million, he informed the Office of Management & Budget that AMHS was \$30 million in the plus. However, Mr. Taylor said that he didn't believe the numbers. Upon further review of the budget, he determined that it was off by \$46 million because \$10-\$12 million in leave was carried, which is essentially an increase in wages by \$7-\$8 million. Additionally, risk management cost over \$5 million. Furthermore, the estimated cost of fuel in last year's budget was \$1.14 per gallon while citizens were paying over \$2.00 per gallon at the pump. In fact, every increase in fuel by \$.10 per gallon resulted in \$1.35 million in nonbudgeted costs. Moreover, last year's budget didn't have any funds allocated to run the M/V Taku or M/V Aurora. He highlighted that the M/V Aurora has been operating 24/7 in Prince William Sound and has provided twice the level of service Cordova has ever received. Had last year's budget been followed, there would have been no service in Prince William Sound. Furthermore, there would've been no cross Gulf service under last year's budget. Although some may consider the aforementioned extra service, Mr. Taylor opined that it's essential service. Under the budget passed by the legislature, AMHS would've had to sell the M/V Taku and M/V Aurora. However, Mr. Taylor said that he didn't believe that was what was desired and thus cross Gulf service continued and was heavily marketed to generate revenue. Mr. Taylor reiterated his pride in AMHS and Alaskans who ride the ferries.

MR. TAYLOR informed the committees that ridership has increased over 45 percent, this from a system that has lost ridership every year over the past 11 years. He attributed the loss in ridership to the economy as well as the 17 percent increase in prices two years ago. Therefore, AMHS offered the 30 percent

discount for Alaskans who have responded and returned to ride the ferries. In fact, as of the last week in February all four sailings on the M/V Columbia out of Bellingham in March were sold out. Such ridership hasn't been seen in the winter before. Mr. Taylor then turned to the service provided by the M/V Aurora in Prince William Sound, which some would criticize. Even at the reduced price, the M/V Aurora is only carrying 250 people per week and costs over \$250,000 a week to operate. Although that's the case, he opined that AMHS service can't stop in the winter and only provide service to tourists, which was the tack of the prior administrations. Mr. Taylor emphasized that AMHS has worked hard to turn the situation around and ridership is increasing. Furthermore, communities are excited about the level of service and want more, which he opined can be provided with shuttles and roads. If no roads are built, Mr. Taylor agreed with Representative Thomas that the system would return to the old days. The only thing to augment that level would be to lay over the M/V Malaspina or the M/V Matanuska, primarily in the summer, and utilize the fast ferries and some extra shuttle trips on the more lucrative routes. He said that the high-speed ferries shouldn't be placed on the village runs because there aren't enough passengers. With regard to why the fast ferry wasn't utilized on the Sitka route, he explained that there is no ridership on that route. Therefore, the fast ferry, the most expensive vessel to operate, was utilized for the Lynn Canal route because it's the most lucrative run of AMHS. He expressed the need to use a shuttle vessel [in Lynn Canal] that will handle significant water and volumes of traffic during the summer. When the previous administration implemented the high-speed vessel in Lynn Canal, it ran directly to Skagway and back to Auke Bay and then to Haines and back. The aforementioned eliminated the traditional Golden Triangle run between Haines and Skagway; that one change, cost businesses in Haines. Those are the decisions that have major impacts on communities, he stressed. Mr. Taylor informed the committees that AMHS implemented all of the recommendations from MTAB that it could this last year, including major changes to reservations, the schedule book, advertising, reductions in fares, and improvements in service and frequency levels. However, he acknowledged that AMHS didn't follow the MTAB resolution regarding the location of the vessels.

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CO-CHAIR GATTO inquired as to the plan in place today that would redesign AMHS by 2016 because AMHS seems to be a fairly inefficient company that's almost in Chapter 11 status.

MR. TAYLOR said that the situation is intolerable, which is why dramatic changes have been made and are being recommended. He pointed out the subsidization that occurs for ferry systems in the State of Washington and British Columbia. Alaska's system is running 3,500 miles of line. Furthermore, although the small communities with low populations don't generate revenue, those areas still need essential service. The aforementioned becomes a difficult issue because often such runs are established out of tradition and past experience. The AMHS is then left to meet those needs as best it can. Therefore, over the next couple of years there will be some tough decisions. He opined that AMHS should be at its most expensive point. In the past there have been discussions of the ever-increasing general fund cost, but no one ever discussed how to improve revenue, which is what's being done today. Still, the cost of labor, at 60 percent [of the total operation], is significant, especially with the upcoming 22 percent increase. It's also significant when the legislature budgets fuel at \$1.14 per gallon when it's actually \$2.65 per gallon. Mr. Taylor said that "we've" been in denial with regard to the management of AMHS.

MR. TAYLOR then addressed where AMHS should be in 2016, and said that AMHS should be connected and running road-to-road. He specified that the following should be in place: Hoonah should have its own ferry based in Hoonah; at least two shuttle ferries in Lynn Canal should operate year-round; the shuttle ferries should be the same size in order to accommodate docks and maintenance. He stressed that building roads is critical. For instance, if 1.2 miles of road on Douglas Island was built and a shuttle ferry was put in place as well as a [indisc.] in order to allow passengers to disembark from Douglas and go to Admiralty Island, Hoonah could have three to four roundtrips a day every day. Mr. Taylor opined that AMHS has a good plan, but the strong support of the legislature is necessary to ensure that some very small road segments are built, including 1.2 miles of road on Douglas Island, a temporary terminal located in Lynn Canal, 1.2 miles of road at the end of Wrangell Island, and shuttles. The aforementioned action, he further opined, will result in [the system itself generating] 60-70 percent of the revenue and only a 20-30 percent legislative subsidy. Such a situation is occurring in Washington State and British Columbia, which provide good models with only one to two ferries visiting more than one point.

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CO-CHAIR GATTO surmised then that AMHS's plan to improve AMHS is to improve the roads, which needs to come before the legislature in terms of how much it will cost to construct and maintain the roads versus the reduction in the operating costs of AMHS. Co-Chair Gatto said that the AMHS "isn't going to go away," but it can't continue for long without support from the public.

MR. TAYLOR related that he loves AMHS, but pointed out that AMHS is still operating off the same wooden ramp that was built in 1963 to accommodate the ferry, which provides an idea as to the situation in which the system sits. Although the system has grown a bit, there has been no transition or change and the cost of operations have [increased]. Until the aforementioned roads are constructed and new shuttle ferries are purchased to replace the old ferries, it's going to be expensive. He indicated the need for the legislature to demand that the roads and shuttles be built. However, he pointed out that constructing a new road doesn't end the problem because any new road will require a new vessel and terminal. The result will be that more vessels will be operated in the future, although these new vessels may not be as expensive as they are today and they may operate more efficiently.

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#### **ADJOURNMENT**

There being no further business before the committees, the joint meeting of the House and Senate Transportation Standing Committees was adjourned at 3:22 p.m.