

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

February 8, 2011

1:02 p.m.

MEMBERS PRESENT

SENATE TRANSPORTATION

Senator Albert Kookesh, Chair
Senator Joe Thomas, Vice Chair
Senator Dennis Egan
Senator Charlie Huggins
Senator Linda Menard

HOUSE TRANSPORTATION

Representative Peggy Wilson, Chair
Representative Eric Feige
Representative Cathy Engstrom Munoz
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

SENATE TRANSPORTATION

All members present

HOUSE TRANSPORTATION

Representative Lance Pruitt, Vice Chair
Representative Craig Johnson

COMMITTEE CALENDAR

PRESENTATION: MARINE TRANSPORTATION ADVISORY BOARD

- HEARD

UPDATE: ALASKA MARINE HIGHWAY SYSTEM

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MIKE KORSMO, Chair

Marine Transportation Advisory Board (MTAB)

POSITION STATEMENT: Delivered a presentation on the Marine Transportation Advisory Board.

CAPTAIN JOHN FALVE, General Manager

Alaska Marine Highway System (AMHS)

POSITION STATEMENT: Delivered an update on the Alaska Marine Highway System.

ACTION NARRATIVE

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CHAIR PEGGY WILSON called the joint meeting of the Senate and House Transportation Standing Committees to order at 1:02 p.m. Present at the call to order were Senators Huggins, Egan, Thomas, and Kookesh; and Representatives Feige, Peterson, Gruenberg, and Wilson. Representative Munoz arrived shortly.

Presentation: Marine Transportation Advisory Board

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CHAIR PEGGY WILSON announced the first order of business would be a presentation by the Marine Transportation Advisory Board.

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REPRESENTATIVE MUÑOZ joined the committee.

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MIKE KORSMO, Chair, Marine Transportation Advisory Board (MTAB), said he is also a professional mariner. He related that this board is a diverse group of Alaskans who take seriously their responsibility to advise the Department of Transportation and Public Facilities (DOTPF) and the governor on improvements to the marine transportation system.

He explained that MTAB was established in 2003 by Administrative Order and it works closely with Alaska Marine Highway System staff on planning and scheduling. It also serves as a conduit from the public to the administration.

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A year ago the MTAB recommended three short-term goals. The first was to operate the Kennicott on a full schedule, May through September. Because of this funding change there have been some changes to how the Kennicott will operate in the next few years. This will also provide more service for military families getting to bases in the Interior.

The second goal was to operate the fast vehicle ferry (FVF) Fairweather on a full schedule in the spring. This has been an important service to Sitka and the northern panhandle. There have been issues with the fast ferries and he would defer an explanation to AMHS staff. MTAB understands the importance of these ferries and last year requested setting money aside for new engines. There are ongoing problems with this ferry; however, having this ferry operate in the spring is still a focus.

The third goal was to add money into the Vessel Replacement Fund to move forward with the "Alaska-Class Ferry Project." Thanks to the efforts of the Legislature there is currently between \$50 million to \$60 million in the fund. An additional \$60 million is still needed to build the first vessel. The administration has requested the additional \$60 million in federal funding, but federal money may no longer be available to this project.

One of MTAB's most important goals is to keep the state moving forward to build needed new, fuel efficient vessels. Every year it costs more to maintain and update the older vessels in the fleet. Fortunately, a significant portion of these maintenance costs are paid through federal programs, but those can no longer be relied on.

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At the Ketchikan meeting, the MTAB discussed methods of designing and building new ferries. This resulted in a resolution recommending the state pursue the construction management general contractor procurement method modified to suit the activity of shipbuilding, maximize the Alaska bidder preference, and continue to look toward building the Alaska class vessel as soon as prudently possible. Benefits of building the vessel in-state are numerous and positive. By building the infrastructure and training the labor force to take on such a project the state would put itself in the position to develop a much needed manufacturing base.

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CHAIR P. WILSON announced that Senator Menard and Representative Gruenberg had joined the meeting.

MR. KORSMO further noted that AMHS has seen an increase in ridership as a result of better scheduling. He said MTAB believes that the current approach using the limited funds available is the right one. It has proven that an increase in marketing funding has a direct impact on ridership and revenue. They continue to look for efficiencies in maintenance, labor, and operational costs system-wide.

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He said that MTAB has also looked at connecting transportation systems throughout the state, and how they can be improved to take advantage of what the system has to offer. For example, for the board meeting in Cordova in September, the board flew to Anchorage and took the Alaska railroad to Whittier, and then took the fast ferry Chenega to Cordova. After the meeting the next day, everyone was able to catch their flights to Anchorage or Juneau.

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Another long-term goal is to look at the impacts of the system on coastal communities and their connection to urban distribution hubs. Because of twice monthly Aleutian Island service, seven communities can take advantage of Alaskan businesses in Anchorage, Homer, and Kodiak instead of barging from Seattle. Due to the impact of regular ferry service, and particularly fast ferry service, residents of Cordova can do most of their purchasing in Anchorage instead of having to rely on expensive barge service out of Washington state. This has also had a huge economic impact on lodges and recreational activities in Prince William Sound.

MTAB is working with the AMHS staff on ways to make sure the public can have input outside the normal meeting schedules. They have launched a website to provide the public with the latest information.

Last, MTAB is working with the new DOTPF commissioner in an advisory role to help select a new deputy commissioner. Mr. Korsmo then acknowledged the work that Deputy Commissioner Jim Beedle did on the AMHS. He will be missed and difficult to replace.

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Mr. Korsmo thanked the Legislature for its support and concluded his remarks.

CHAIR P. WILSON asked for a copy of what maritime accidents happened in 2010 where AMHS was able to respond.

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SENATOR HUGGINS asked for examples of the advisory board making a difference.

MR. KORSMO replied the first is scheduling; MTAB was the conduit for more stable scheduling. Basically it brings what the public wants before the AMHS. It's been a good working relationship. They are trying to expand service statewide.

REPRESENTATIVE MUÑOZ asked what the budget is for marketing and suggested that there may be opportunities to work with DCCED and the division of tourism.

MR. KORSMO agreed that was a good idea, and said that tourism marketing is paying off.

REPRESENTATIVE MUÑOZ said she hopes not to lose the opportunity to have staterooms on the fast ferries.

MR. KORSMO deferred to Captain Falvy.

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CATHIE ROEMMICH, past Chair of MTAB, provided information about listening to the people.

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SENATOR EGAN emphasized that the Marine Highway is the highway system in Southeast. He asked about the regulation from the DOTPF about handicap access adopted January 3, 2010, and if the Marine Highway is in compliance.

At ease from 1:30 p.m. to 1:31 p.m. to set up the PowerPoint.

Update: Alaska Marine Highway System

CHAIR P. WILSON announced the next order of business would be an update on the Alaska Marine Highway System.

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CAPTAIN JOHN FALVE, general manager, Alaska Marine Highway System, introduced Jesse McCarron, AMHS publications specialist.

The mission of the Alaska Marine Highway System is 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.

CAPTAIN FALVE said the overview would include achievements, and challenges, and the Alaska Class Ferry.

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Achievements: AMHS is doing well. The benchmark is 1999 when AMHS also served Prince of Wales. The chart reflects that 2007-2010 passenger traffic has increased. In fact 2009 and 2010 are all-time record highs, because the schedules were stable. Similarly, vehicle traffic is a strong example of success. AMHS is proud of this and is already ahead in 2010 going into 2011.

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Further, AMHS is managing with the budget it is given. Another achievement is early scheduling in the past two years. This has contributed to increased traffic. He thanked the administration for help in getting the schedule out in a timely manner. This has resulted in a great increase in tourism revenue.

CHAIR P. WILSON said she is very pleased with this change. She asked if the increase in ridership is from the U.S. or other countries.

CAPTAIN FALVE said it's a combination, but they are also moving record numbers of Alaskans. Reasons include round-trip discounting and targeted specials. Another achievement is on-time departures and customer satisfaction. He displayed a chart that shows a small downward trend in the last several years. This is because the fast ferries are not as reliable as the steel boats, especially during the winter months.

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Another achievement is vessel satellite communications. Now they are installing these systems on the ships using federal funds. Seven have been installed to date. Commissioning these systems is a process that takes time. They are looking to have 24/7 communications with the ships. They need sufficient broadband for each ship. With this the ships will have hands-on

reservation service. With respect to vessel tracking he said Mr. McCarron has been tasked with this project. They are integrating a tracking system on the website. It will also be used as a marketing tool. They're also working with the 511 system and the smart phone system so as to offer more to the public.

Putting laptops on the boats is another project that's under way. This requires sufficient broadband and it isn't cheap. They're still looking into this because technology is changing but they are committed to providing customers with Internet access.

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Fuel efficiency infrastructure is another achievement. They found there are complex satellite-driven systems that track different savings. Currently they are tracking this on five ships. The current savings is 12 percent, which potentially translates to a \$4.5 million savings. Data collection continues.

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Use of the online reservation system has increased in the last several years. Now the usage is over 30 percent. They estimate it will climb to 40 percent. The current reservation system is old and will be replaced soon.

Marketing is another achievement. About three years ago they received an increased marketing budget. The AMHS is now on Face book and UTube. They are branding the system aggressively, which is creative marketing. They want customers to see this brand and identify it with a unique experience. They are doing this right down to the business cards they carry and the items sold in their gift shops.

CHAIR P. WILSON noted that AMHS had 68 million hits in 2010.

CAPTAIN FALVE answered they are at an all-time high.

REPRESENTATIVE MUÑOZ asked if they've worked with Alaska Travel Industry Association (ATIA).

CAPTAIN FALVE answered yes and with communities as well. They do cooperative marketing but they want control over that. They are currently marketing to the shoulder seasons. The Sea News Letter is put out monthly talking about what's happening with the Alaska Marine Highway System.

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New service has started to Gustavus and will run throughout the winter. Another attractive route will be from Bellingham to Whittier. This will help the military families who are relocating to bases in the Interior. It will also bring more tourists into the Interior. They believe this will provide additional revenue, without taking passengers from other routes.

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CAPTAIN FALVE said the system also has challenges. The concept of consistent schedules on a year-to-year basis continues to be a problem, and they try to work with communities on scheduling. There is uncertainty surrounding the fast ferries Chenega and Fairweather. Also they are continuing to work on improving vessel dependability.

In terms of revenue enhancement, the goal is to increase passenger and vehicle traffic to all ports. To achieve this AMHS must release schedules early, use travel agents, and continue to work on Internet tools for marketing.

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CHAIR P. WILSON asked if travel agents will be able to work with the system better.

CAPTAIN FALVE said yes, but we need to be smart about how they can help the system.

CAPTAIN FALVE said that operating cost containment is another challenge; 62 percent of the cost is in payroll. Costs are determined in collective bargaining with the exception of health care and the unfunded pension. They must maintain an effective crew size in order to minimize costs. Fuel cost represents 21 percent of total operating costs.

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CHAIR P. WILSON noted that payroll used to be the biggest cost then it went to fuel and now it's back to payroll.

CAPTAIN FALVE acknowledged that it does move around. Continuing, he said insurance is another factor. They are looking at safety more closely to control this cost. Rates have actually come down when considering the combination of being self insured and buying insurance.

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Fuel efficiency infrastructure is another challenge. Within the next year eight ships will be equipped with the new fuel

tracking system. The cost of fuel fluctuates but if it's trucked it is an Anchorage oil price information service (OPUS) and if it's barged it's a Seattle OPUS.

Vessel retirement is another challenge. Four vessels were constructed in the early 1960s and are nearing the end of their useful lives. He noted the different routes that the Matanuska, Malaspina, Taku, and Tustumena run. In the near term they estimate the need for three Alaska Class Ferries replacing two main line ferries. He said he is looking for a SOLAS (safety of life at sea) waiver for the Malaspina and/or Columbia to operate in and out of Prince Rupert, Canada.

Another challenge is mid-life engine replacement. The Columbia, Malaspina, and the Aurora are past midlife and need new engines. They each have two engines.

Another challenge is the mainframe reservation system. The new system is more user-friendly, efficient, and compliments the AMHS marketing efforts. Furthermore, they've rewritten the customer policies and procedures book. Also, they've bid out for a new project manager. The system should be complete by September 2012.

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Funding recap:

Operating budget: Maintain current levels of service. Approximate required general fund appropriation is \$100 million. Capital requirements include \$22 million to \$25 million annually, which comes from federal highways, FTA, and state matching funds.

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Alaska Class Ferry: The governor supports construction. Initial state funds are \$60 million. Without federal funds it is more flexible. There is potential for 250 new jobs. Phase 1 has \$3.4 million from AIDEA as part of the functional replacement. The administration supports a competitive bidding process.

The preliminary design for the Alaska Class Ferry is complete after a very public process. The functional design including the details of ship systems is in process and about 10 percent complete. This stage will take about 10-12 months and building will take another three to four years. They are currently working on the procurement process. The estimated cost at this point is \$120 million.

Staterooms: The new Alaska Class Ferry will have five quiet rooms. These will have bunks and perhaps a toilet, and will be handicap accessible. The intention is to stay within the 12 hour envelope of a day boat even though the crew is on 24/7. He noted that federal Americans with Disability Act (ADA) rules have recently changed, and AMHS works very hard to stay in compliance. Consultants help with this.

CHAIR P. WILSON thanked the presenters.

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There being no further business to come before the committee, Chair P. Wilson adjourned the meeting at 2:34 p.m.