

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

January 21, 2016

1:01 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Shelley Hughes, Co-Chair
Representative Charisse Millett
Representative Benjamin Nageak
Representative Louise Stutes
Representative Matt Claman
Representative Dan Ortiz

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Sam Kito
Representative Liz Vazquez

COMMITTEE CALENDAR

PRESENTATION(S): "ALASKA MARINE HIGHWAY SYSTEM" BY COMMISSIONER
LUIKEN AND DEPUTY COMMISSIONER NEUSSL~ DEPARTMENT OF
TRANSPORTATION & PUBLIC FACILITIES

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MARC LUIKEN, Commissioner
Department of Transportation & Public Facilities (DOTPF)
Juneau, Alaska

POSITION STATEMENT: Co-presented a report on the Alaska Marine
Highway System (AMHS).

MICHAEL NEUSSL, Deputy Commissioner
Office of the Commissioner
Department of Transportation & Public Facilities (DOTPF)

Juneau, Alaska

POSITION STATEMENT: Co-presented a report on the Alaska Marine Highway System (AMHS).

ACTION NARRATIVE

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CO-CHAIR NEAL FOSTER called the House Transportation Standing Committee meeting to order at 1:01 p.m. Representatives Foster, Hughes, Claman, Ortiz, and Nageak were present at the call to order. Representatives Stutes and Millett arrived as the meeting was in progress.

PRESENTATION(S): "Alaska Marine Highway System" by Commissioner Luiken and Deputy Commissioner Neussl, Department of Transportation & Public Facilities

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CO-CHAIR FOSTER announced that the only order of business would be the presentation regarding the Alaska Marine Highway System (AMHS) by Marc Luiken, Commissioner, and Michael Neussl, Deputy Commissioner, Department of Transportation & Public Facilities (DOTPF).

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MARC LUIKEN, Commissioner, Department of Transportation & Public Facilities (DOTPF), explained that today's presentation is essentially the same briefing that the DOTPF used when the department visited six communities in coastal Alaska to discuss AMHS and solicit feedback from those communities about the impacts of recent budget cuts. He emphasized that the department was clearly advised that AMHS is a very important part of the state's transportation system for coastal Alaska, as well as all of Alaska. The department also learned from the communities that they are much more interested in reliable, predictable, consistent service, to the point where they would be willing to pay a little bit more for that service, willing to accept less frequency of service provided the schedule published by the department is actually sailed every year. The Alaska Marine Highway System learned that if the department's budget is changed and sailings are cancelled, it hurts people who have reservations on those sailings, as well as significantly impacts communities dependent on those ships for passengers and

commerce. He pointed out that the passengers traveling into coastal communities do not just stop in those coastal communities; they continue onward into Interior Alaska where they will spend money and have an impact on the economy of Interior communities.

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MICHAEL NEUSSL, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOTPF), explained that as Deputy Commissioner he oversees AMHS. Mr. Neussl began a Power point presentation and drew attention to slide 2, "Agenda," which outlined the topics included in the presentation. Turning to slide 3, "Mission Statement," he noted that the mission statement for DOTPF is to "Keep Alaska Moving through service and infrastructure," with the key word for him and his staff being "service." The three main customer groups that AMHS attempts to serve are residents of Alaska, visitors to Alaska, and commercial shippers that use AMHS to get their goods and services in and out of Alaska. He pointed out that it is a balancing act to write a schedule that meets the needs of all three groups. He summarized that the mission statement for AMHS is to provide service and transportation in a cost-effective manner and to be reliable, safe, and efficient.

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MR. NEUSSL reviewed slide 4, "AMHS Fleet Profile," pointing out that when it comes time to make hard decisions about fleet size and which ships should serve what areas, there are limitations; not every ship can go every place. He noted that the Motor Vessel (M/V) Matanuska, the M/V Malaspina, and the M/V Taku were all built in 1963 and began as identical ships. The M/V Matanuska and M/V Malaspina were later lengthened by 50 feet and car deck, passenger, and cabin capacity added to make them more capable ships. The M/V Tustumena and the M/V Kennicott are unique in that they have vehicle elevators and are able to serve anywhere in the system, including Homer, Kodiak, Old Harbor, and the Aleutian Chain, regardless of whether a port has a fixed or floating dock. This plays into which vessels can be laid up and which vessels have to remain in service in order to continue to provide service. The M/V Aurora and the M/V LeConte are unique in that both vessels have a ramp on the stern of the vessel that actually drops onto the shore. All other vessels use a ramp structure on the shore that drop onto the ship to connect the ship to shore. Places like Pelican, Tatitlek, and Chenega Bay have ramp/dock systems that work with the M/V Aurora and the M/V

LeConte. Due to the aforementioned, the work of the AMHS scheduler is like putting a big jigsaw puzzle together, since not all of these ships fit in the places where service is needed.

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CO-CHAIR HUGHES surmised there are different costs for the different ships, with some being more efficient and more effective. She inquired whether the increased cost of accessing certain communities with vessels more expensive to operate is figured into the fare in and out of those communities, or whether those higher costs are spread across all of the fares.

MR. NEUSSL replied that, generally, it is not figured in, because, currently, the ferry system tariff structure is not robust enough to handle unique fares for specific vessel types. When the fast ferries originally came online, there was a fast ferry surcharge, but that went by the wayside for an unknown reason. Thus, the fare structure is a big pool rather than a fare specific to each vessel. He agreed to address whether specific vessel fares could be considered by AMHS later in his presentation.

MR. NEUSSL continued with slide 4, "AMHS Fleet Profile," stating that the two fast ferries were built with a door only on the forward starboard side, not a door on the forward port side. In communities such as, Tenakee Springs, a vessel can only moor port side and these vessels do not work. This lack of complete standardization makes the scheduling difficult for AMHS, he said.

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REPRESENTATIVE ORTIZ offered his understanding that the fast ferries incur greater fuel cost. He asked the status of the fast ferries and whether today's lower fuel prices make them more useable and purposeful for AMHS.

MR. NEUSSL confirmed that lower fuel costs do make the fast ferries more useable. He noted that both fast ferries are currently in federal capital improvement projects in a Seattle shipyard. The current operating plans are to keep the M/V Chenega in layup status once that project is complete, while the M/V Fairweather will be brought back into service the beginning of May, operating on a winter-time schedule of four days a week,

which is less expensive to run than a full summer-time schedule of seven days a week.

REPRESENTATIVE ORTIZ inquired as to the reasons for the M/V Chenega being laid up for an extended period of time.

MR. NEUSSL replied, "Inability to fund its operation."

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MR. NEUSSL addressed slide 5, "AMHS Ports of Call," noting that AMHS provides service to 33 Alaskan communities, plus Prince Rupert, B.C. and Bellingham, WA. He pointed out the distinct differences between the Southeast system and the Southwest systems, as follows: the docks and mooring structures are all different between the two regions; the vessels operate on different schedules; and, the labor contracts paying the crews that operate the vessels are different.

MR. NEUSSL moved to slide 6, "Fiscal Year 2015 Statistics." He said that in Fiscal Year (FY) 2015 AMHS earned a record \$53.9 million in revenue, up 6 percent from FY 14. He clarified that none of the \$53.9 million in revenue is profit; rather, it is rolled back in to the AMHS budget. The system's FY 15 operating cost was \$160.8 million, which is \$5.2 million less than that of FY 14. The difference between revenue and cost is made up by an appropriation from the legislature. Mr. Neussl related that in FY 15 AMHS provided 378 ship weeks of service, carried 309,521 passengers and 106,215 vehicles, and made 6,478 port calls, and all of those figures are historically stable. He noted that AMHS also redesigned and implemented a more user-friendly website, a new reservation system, and now has over 140,000 followers on social media.

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REPRESENTATIVE CLAMAN requested confirmation that the total revenue is approximately one-third of the operating cost.

MR. NEUSSL confirmed Representative Claman's observation and mentioned an upcoming slide discussing the 30-year history of the cost recovery process.

REPRESENTATIVE CLAMAN inquired as to how the, previously mentioned, revenue to operating cost ratio compares with that of the state's highway system.

MR. NEUSSL replied that it is difficult to compare the two, given that all revenue from AMHS rolls back into the AMHS budget; whereas the highway system has multiple funding sources. The revenue generated by sources, such as the gas tax, do not roll directly into the highway budget. Referencing slide 7, he discussed the FY 09-FY 15 Traffic Report, noting that for the past seven years, both passenger traffic and seasonal trends were consistent. He pointed out that traffic was highest in the summer months, peaking in July, followed by a significant decrease in traffic from September to April. Historically, these differences in passenger volume were addressed by running all 11 vessels during the peak summer season, then reducing the operating fleet to 4-6 ships during winter months, and placing the others into cost-saving layup periods, or performing necessary maintenance. He stated that because of the current reduced funding environment, AMHS cannot afford to run as many ships as in the past. When considering cost-saving measures, it is unrealistic to reduce service in the winter, because regions such as Prince William Sound or Kodiak would lose service completely. Mr. Neussl said the remaining option is to reduce the number of ships operating during summer months. He stated that in response to budget constraints, AMHS implemented this strategy by reducing the fleet from 11 ships to 10 ships last summer.

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CO-CHAIR HUGHES asked how the 378 ship weeks served in 2015 compares with historical levels of service.

MR. NEUSSL indicated that the question would be addressed in a later slide. He then transitioned to slide 8, "Historical Revenue & Operating Cost," displaying the 30-year history of the ratio between AMHS revenue and operating cost. He explained that this ratio is the level of cost-recovery for each given year. Over this 30-year time period, revenue generation by AMHS has remained relatively stable, with a slight increase, but no significant spike. Conversely, the operating cost was relatively stable for the first 20 years of this data set, but significantly increased from 2005 onward. Consequently, the cost recovery of this system, which was consistently in the 50- to 60-percent range until 2004, dropped into the 30-percent range, where it has remained fairly stable in recent years. He noted that in 2015, as a result of efforts to increase revenue and decrease cost, cost recovery has increased.

CO-CHAIR HUGHES asked why operating costs increased significantly after 2004.

MR. NEUSSL responded that there were several causes for the increase, such that the price of fuel and the price of labor increased. He said there was a three-year period wherein the labor contracts for the state gave significant raises. He opined that the raises for years one through three were 5 percent, 5 percent, and 6 percent, respectively. Finally, from 2004-2006 the fleet size grew from 9 ships to 11 ships. He explained that not only is AMHS operating more ships and burning more fuel, but also has more employees, with greater labor costs. All of these compounding factors, plus increased maintenance costs, contributed to the increase of operating costs.

CO-CHAIR HUGHES requested clarification that the increase in labor cost was due to both raises and an increased number of employees.

MR. NEUSSL responded that is correct. In response to a follow up question, he opined that the primary cause of the increase in the number of employees was the addition of the two new vessels to the fleet. Security officer requirements following [the terrorist attacks of September 11, 2001] may also have increased the number of crew needed on each ship, he said.

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CO-CHAIR HUGHES commented that she understands from conversations with former AMHS employees there has been an increase in shore side support staff. She inquired as to whether there is a standardization requirement on crew size for a given size vessel from the United States Coast Guard (USCG), or whether union negotiations have increased crew size beyond minimum standards. She stated her understanding of the importance of AMHS, but expressed concern about the huge jump in costs in 2005, and asked for clarification, especially with regard to increased labor costs.

MR. NEUSSL responded that he would specifically address the question regarding shore staff and vessel staff later in the presentation. He then explained there are two factors influencing crew size. One is the USCG's Certificate of Inspection requirement. He explained that AMHS is licensed and regulated by the USCG to operate passenger-carrying vessels. Each year a Certificate of Inspection is issued to each ship, specifying a minimum level of crewing necessary to operate the

vessel safely, which is driven by the number of people necessary to perform all emergency procedures. The USCG Certificate of Inspection mandates a crew size based on those requirements. He stated the second factor influencing crew size involves the number of people needed to cook, clean state rooms, or perform any other passenger services provided due to the long voyages. That staffing level is a function of AMHS setting passenger service standards based on the number of people that will be on board, while ensuring adequate watch rotation and crew rest. Mr. Neussl concluded that the crew size indicated on the Certificate of Inspection number is not the actual crew size for any given vessel.

CO-CHAIR HUGHES inquired whether there had been a comparison with similar vessels in other places, and whether unions are part of the negotiations with the USCG regarding crew size.

MR. NEUSSL responded that AMHS has not done a detailed comparison with other ferry providers, but stated that Alaska has a unique system. The ferry system in British Columbia, Canada has some similarities; it has some long runs from Port Hardy to Prince Rupert. The ferry systems in the [Lower 48] are generally short haul ferries wherein passengers embark and disembark within a short time frame, thus there is no requirement for food service, state rooms, cabins, or similar amenities. He said AMHS runs a much longer route system, with passengers on board for a much longer period of time, which requires crew to provide more passenger services. He stated that he did not know whether unions communicate with the USCG regarding crewing requirements. The Alaska Marine Highway System does negotiate with its labor unions to provide adequate staffing and crewing on the vessels. There are requirements in the collective bargaining agreements for mandatory crew size during certain events, such as shipyard periods and reductions in force.

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CO-CHAIR HUGHES asked why some AMHS employees have defined benefits, while others have defined contribution.

MR. NEUSSL replied that the retirement plan contributions for the three maritime unions are all different and described the need for simplified union contracts, emphasizing that the negotiations are slow processes.

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REPRESENTATIVE STUTES asked how many unions are involved in the operation of the ferries.

MR. NEUSSL noted that there are three maritime unions, which would be discussed in detail on a later slide.

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REPRESENTATIVE CLAMAN inquired as to whether wage rates increased during the 2005-2007 time period, or whether it was primarily the number of employees that increased.

MR. NEUSSL answered that he did not have specific figures, but during that time period there was a significant pay raise for members of the maritime unions.

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REPRESENTATIVE NAGEAK asked whether more fuel efficient engines had been considered as a means of reducing operating costs.

MR. NEUSSL replied that some vessels have already been repowered with more fuel efficient engines. The M/V Columbia recently received new engines using less fuel; AMHS is still collecting data to determine exactly how much less fuel. There are plans in progress to repower the M/V Matanuska with more fuel efficient engines, as well. Mr. Neussl continued to discuss slide 8, noting in FY 15, AMHS had successfully reduced operating costs and increased revenue, thus increasing the cost recovery rate to 33.5 percent. He stated his goal is to ensure that this upward trend continues.

MR. NEUSSL continued on to slide 9, "Historical Ridership," to display a chart showing 30 years of data for annual traffic, including historical ridership. He said the top, blue line indicated a downward trend in the number of passengers carried over that time period. This is primarily due to the fact that air transportation, which competes with AMHS for passenger traffic only, has become more reliable and more available in the recent past than it was 30 years ago. Passengers can fly between destinations more quickly than they can motor via ferry, which he believes has impacted ferry traffic. He pointed out that vehicle traffic, indicated by the bottom orange line, has remained extremely stable for the past 30 years, with between 100,000 and 110,000 vehicles transported per year.

CO-CHAIR HUGHES inquired whether the increased cruise traffic has negatively influenced passenger ridership, perhaps as a result of the amenities available on board the cruises.

MR. NEUSSL replied that it is quite possible that cruise ships have also increased competition for passenger traffic, as the cruise industry has expanded greatly over the last 30 years. Some passengers that may once have taken a cruise on AMHS now take cruises on cruise ships.

MR. NEUSSL transitioned to slide 10, "Historical Operating Weeks & Fleet Size," which displayed a comparison of operating weeks and fleet size from 2000 to 2015. In 2000, AMHS operated a 305-week schedule with nine ships. This fleet included the M/V Bartlett, but did not include the two fast ferries or the M/V Lituya. In 2005, the fleet composition began to change; the two fast ferries came online, the M/V Bartlett was decommissioned, and the M/V Lituya came online, resulting in an 11 ship fleet. With the increased number of ships and funding to operate them, AMHS began to provide more service, resulting in an increase from a 300-week schedule to a 400-week schedule throughout the mid-2000s, and up to a record 427 weeks of service in 2007. Mr. Neussl related that in the recent past, 2013 was a 400-week schedule, 2014 was a 377-week schedule, and 2015 was a 378-week schedule. This year AMHS is scheduled to provide 357 operating weeks, and the plan for the FY17 schedule is to reduce that to about 320 weeks. The AMHS, due to funding, is essentially going back to a level of service from the early-2000s, but with 11 ships operating instead of 9, despite running a reduced schedule.

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REPRESENTATIVE ORTIZ asked whether the main factor influencing reduced operating costs in recent years is the reduction in weeks of service.

MR. NEUSSL responded that reducing operating weeks was one of several cost reduction measures implemented, all of which would be discussed in a subsequent slide.

REPRESENTATIVE ORTIZ requested a quick overview of which communities have been impacted by the reduction in operating weeks.

MR. NEUSSL stated there is a process used to determine where service can be reduced. If budget cuts are implemented, there

are ways to cut service without cutting people off from service. He explained that this is why the unique vessels were mentioned at the beginning. He offered the following example to illustrate: the M/V Tustumena cannot be placed in a cost-saving layup for six weeks or six months in order to save money. That action would cut off the entire Southwest system, as it is the only ship that serves that system. In contrast, Prince William Sound was typically served by two vessels, the M/V Aurora and a fast ferry. Both of these vessels served the majority of the communities in Prince William Sound; one of them cannot serve a certain town, but that is a minor issue. Mr. Neussl stated that it is possible to reduce the service in Prince William Sound to one vessel as a cost-saving measure and still provide service to all of the communities there. Ferry service would be less frequent, with less capacity, but there would still be service without completely eliminating a community from the system. He said the same logic holds in Southeast: for District 36, the M/V Taku and the M/V Matanuska both provided service to Prince Rupert, essentially competing with each other for traffic. The M/V Taku was placed in layup, forcing all of that traffic on to the M/V Matanuska, which has been able to meet the demand for the reduced capacity now provided there.

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CO-CHAIR HUGHES noted that the intended 320 operating weeks for FY 17 is a similar figure to the operating weeks from 2004 and 2005, but with 11 vessels operating versus 9. She inquired whether it would be a viable cost-saving measure to return to a 9-ship fleet, and whether, based on population decreases in ferry-served communities in recent years, this hypothetical reduction would provide service comparable to what was provided prior to 2005.

MR. NEUSSL replied that AMHS has more ships than needed, which he would discuss later in the presentation. He said AMHS has more ships than it can afford to operate; therefore, AMHS should scale back the size of its fleet in order to save money. A ship in layup costs money: there is still a skeleton crew assigned to it; it still has some expenses; and - depending on where it is tied up - those expenses could be significant. Mr. Neussl said he had not examined historical population levels for AMHS ports, but stated his belief that the population of Southeast Alaska had remained relatively stable and there have not been significant changes in population in the communities served by AMHS. Most population growth within the state has occurred in

the interior of "Alaska Rail Belt" communities, such as Anchorage and the Matanuska Susitna valleys.

CO-CHAIR HUGHES commented that, in general, she does not recall "the services that we received as Alaskans" ten years ago - not just regarding the ferry system and transportation - as being particularly bad. She admitted that she did not live in Southeast Alaska, but indicated she had family members who did, and she did not recall hearing them complain. She posited that there were no "huge gaps" and "we had a pretty good state ten years ago." She encouraged residents of Southeast to realize that they will still be able to get from point A to point B, because "we did it back in 2004/2005; we can do it again."

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MR. NEUSSL summarized the slides relating to historical revenue and operating cost, historical ridership, and historical operating weeks and fleet size by stating that since traffic numbers are relatively stable, AMHS has taken a fixed amount of traffic, which used to be fit and forced onto a 9-ship fleet with a 300-week schedule; and diluted it by spreading it over an 11-ship fleet with a 400-week schedule. This change was implemented with no significant increase in ridership or revenue generated, but at a much higher cost, due to the increased costs associated with operating 11 ships versus 9 ships. The situation AMHS finds itself in now, with the fiscal challenges that the state faces and the funding available to operate, is that the schedule is shrinking back to 300 weeks of service. He stated that the fleet size needs to decrease, as well. This does not account for the new vessels in the process of coming online. He suggested that AMHS will need to divest itself of some vessels, sooner, rather than later. He said AMHS is strongly considering this option, and there are plans in progress to make it happen.

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REPRESENTATIVE CLAMAN commented that he enjoys crossing Prince William Sound each summer, on the M/V Chenega or on the M/V Aurora. He suggested, based on conversations with crewmembers and when looking back historically, that since adding the fast ferries, AMHS has experienced more problems, including maintenance issues. He asked whether the fast ferries should be eliminated, and suggested that perhaps they should be at the top of the list to consider for downsizing.

MR. NEUSSL responded that it was certainly an option. He said the M/V Taku has been laid up since last June, for a variety of reasons he would discuss later and is forecasted to remain laid up for the indefinite future, with no "return to service" date for that vessel. Based on its smaller size, lesser capacity, and its age of over 53 years it is a logical candidate for fleet reduction. Mr. Neussl stated that the fast ferries might be candidates, and there are plans to keep one laid up for an extended period of time due to operating costs. He said this relates to Representative Hughes' point: the fleet used be 9 ships, but the consumer base has become accustomed to an 11-ship fleet, with more frequent service and more frequent port calls. Prince William Sound in particular has grown accustomed to having a fast ferry serve the connection between Cordova and Whittier. He explained that if the funds are there, it's very easy to provide more service, for example, offer six port calls a week instead of four port calls a week; people accept that without challenge. He emphasized the difficulty in telling a given community that their service will be cut from six to four or even two days a week, because businesses, enterprises, local communities, and tourists have all grown accustomed to a certain service and often based their business models or travel plans around it. Cutting back on service not only hurts the individual passenger who rides a vessel, he stated, but also decreases revenue for ancillary businesses that extend throughout the state, not just in a given local community.

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REPRESENTATIVE ORTIZ inquired as to whether, during this period of increased costs, any new ports that had not been served in the past were added in addition to the new ships.

MR. NEUSSL responded that ports have been both added and removed from service. In the recent past, AMHS has added Ouzinkie, near Kodiak, and Gustavus in Southeast, while Seward has been eliminated from service. Mr. Neussl said he had been told many times that AMHS should not provide service to places with road access, and he said, "That is true." He explained that is a large part of why service is no longer provided to Seward; it is out of the way, takes a long time to get to, and is connected by road to Homer and Whittier. He explained that Ouzinkie is an island community, without road service, along an existing route, with a compatible dock and, as a result, was able to be added to service at very little additional cost. Gustavus was added for similar reasons, namely its proximity to an existing route, and the presence of a compatible dock. In the case of Gustavus,

there was some initial opposition to ferry service coming there, but since service is now provided, it is difficult to pull back out. He reiterated that people have grown accustomed to the service and business models have been built on it. He said, "It's not something you can just back out ports that have been added based on seniority of when they were added to the system." He stated that this question was also raised at one of the community meetings he had attended.

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REPRESENTATIVE STUTES noted that although the intention is to reduce the size of the fleet and cut costs, there are a limited number of vessels capable of service out the Aleutian Chain. She noted that it has been well publicized that the M/V Tustumena is approaching the end of its service life, and she inquired as to a projection for its replacement, emphasizing that its absence would leave many Southwest communities at a loss for service.

MR. NEUSSL responded that the M/V Tustumena is in its "twilight years," but it is still a safe vessel. It has been sailed across the Gulf of Alaska twice and will be sailed across next week to transport vehicles to Juneau. The vessel is approaching the end of its service life; it has had a hard life in a difficult operating environment and has provided a lot of service for over 53 years. He said the design process for the yet unnamed the M/V Tustumena replacement vessel has just been completed. The contractor, Glosten, has just completed the design of the vessel, which is on its way to his office to be reviewed by himself and his staff. The process for constructing that vessel is the next step, which is part of the Statewide Transportation Improvement Plan (STIP). Construction of the replacement vessel is listed in the current STIP, but it is listed as a "fiscal year 19 and beyond" project. He stated his opinion that starting construction on that vessel cannot wait until FY 19, and needs to be pulled forward. The issue of timing is currently being worked on via the amendment process of the STIP, specifically to pull the project forward and do a one-for-one replacement with the M/V Tustumena. The new vessel will double the capacity for the number of vehicles and passengers that can be carried, which is good for the region. It will fit at every dock currently serviced by the M/V Tustumena, thus avoiding costs associated with rebuilding new infrastructure.

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CO-CHAIR HUGHES requested the names of the two fast ferries and the communities they serve. She inquired if, despite their cost to operate, if there are efficiencies gained by using them in certain locations, based on ridership.

MR. NEUSSL replied that the two fast ferries are the M/V Fairweather and the M/V Chenega. The M/V Chenega's homeport is Cordova, Alaska; there is a fast ferry support facility in Cordova. The M/V Chenega typically operates in Prince William Sound. The M/V Fairweather's homeport is Juneau, Alaska; it has a support building and a stern berth in Auke Bay. The M/V Fairweather typically operates in Lynn Canal or to Sitka or Petersburg. Those vessels are not immediately available to go to all communities at will because of route certifications, training requirements, and special USCG certifications that must be met before they can transit a particular route. He explained, for example, that AMHS cannot just decide to sail the M/V Fairweather to Ketchikan one day, because there is not a route certified crew to carry passengers on that trip. The M/V Chenega is typically route certified for the Cordova, Whittier, and Valdez routes. The M/V Fairweather is down in Southeast Alaska, either up Lynn Canal to Haines and Skagway, or down to Sitka, Angoon, or Petersburg.

MR. NEUSSL stated that in terms of operational costs, there is a trade-off. He said he did not have the specific numbers in front of him for weekly operational costs for the fast ferries, but he could get them. He said there is a misconception that because they are fast ferries, they burn excessive amounts of fuel and are expensive to operate. While it is true that a fast ferry burns fuel at a faster rate, it is over a shorter period of time, because it arrives at its destination in half the time a typical ferry would. Additionally, the crew is typically much smaller than on a mainliner, because they operate for a shorter period of time. When all these factors are taken into consideration, the operating cost is not actually much different when compared to a mainliner. He stated that specific numbers were available if desired.

CO-CHAIR HUGHES asked how the fast ferries compare to "day ferries."

MR. NEUSSL responded that a fast ferry is a classification of vessel that operates at high speed, following the "High Speed Code." The Alaska Marine Highway System's fast ferries typically travel at 32-34 knots; a typical mainline ferry is in the 12-15 knot range. The term "day ferry" or a "day boat" pertains to a

scheduling requirement. Fast ferries are day boats in that they have no overnight accommodations for passengers or crew. Their typical mission profile is to leave port, go to a destination or destinations, and come back to the original port, potentially multiple times. The general operating mode is to return to the port of origin each day, after a 12-hour shift, which is what the crew operates on due to work/rest standards. A mainliner, which has crew and, in some cases, passenger accommodations, can operate around the clock. It does not have to return to the same port. It could run, like the M/V Columbia does, continually from Bellingham to Skagway and back, on a weekly cycle. It does not return to a homeport or have a crew that works just a day shift, where the term day boat comes from.

MR. NEUSSL, in response to a follow up question from Co-Chair Hughes, emphasized that that the terms "fast ferry" and "day ferry" are not interchangeable and should be used carefully. "Fast ferry" specifically refers to the two high speed ferries: the M/V Chenega and the M/V Fairweather. The term "day boat" includes the fast ferries, but can also include conventional vessels. Mr. Neussl said the M/V Lituya in Metlakatla, for example, is a day boat; it does not operate for more than 12 hours in a day. The M/V Aurora and the M/V Chenega could operate as day boats. The Alaska Class ferries will be day boats, as they will not have crew quarters on board and will have 12-hour operating day limit before the crew must return the vessel to port to rest.

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REPRESENTATIVE STUTES asked whether there were significant issues with running fast ferries during periods of bad weather - particularly during high wind events - out of places like Cordova, where the ferry is their only source of transportation.

MR. NEUSSL confirmed that there are more stringent weather limitations on the fast ferries than there are on conventional hulled vessels; cancellations in response to certain weather conditions are more frequent. The typical operating model has the fast ferries operating in the summer, when the weather is generally nicer and is unlikely to exceed wave height limits, and laying them up for cost-saving measures in the winter, as mentioned in discussion of the traffic curve slide. [In 2015] more stringent limitations were placed on the two fast ferries because of some corrosion on the hulls. Mr. Neussl said AMHS imposed operating limitations based on an analysis of that corrosion. The damaged hull sections are scheduled to be

replaced during the current federal projects in progress on the fast ferries, after which the normal operating limits will be reinstated. Due to the reduced operating limit, there were some cancellations last summer that would not normally have occurred.

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REPRESENTATIVE STUTES inquired whether the intention of AMHS is to run the fast ferries just in the summer months when the weather is conducive to them and lay them up in the winter so that the communities served by the fast ferries will not be dependent on them for winter transportation.

MR. NEUSSL confirmed that intention, noting that there are many variables that influence those decisions.

2:02:54 PM

REPRESENTATIVE NAGEAK asked how many ports of origin AMHS has.

MR. NEUSSL replied that there are 35 places where a passenger can embark on an AMHS ferry. He listed the following vessels and their homeports: the M/V Tustumena in Homer; the M/V Chenega in Cordova; the M/V Aurora in Valdez; the M/V Fairweather and the M/V LeConte in Juneau; the M/V Kennicott, the M/V Columbia, the M/V Matanuska in Ketchikan. He said the ports are referred to as "change ports." They are where crew changes occur and where the vessels are essentially based. He reiterated that the schedule is being reduced to 300 weeks, but there are still 11 ships in the fleet, which presents a challenge that will need to be addressed.

2:04:22 PM

MR. NEUSSL continued on to slide 11, "Fiscal Year 2016 Operating Plan," to discuss the process of working within a proposed budget to create a schedule used by travelers to book reservations, and he addressed some of the risks associated with that process. He stated that every July or August, the Department meets with the Office of Management and Budget (OMB) at a "heads-up" meeting to inform them of what AMHS is looking at in terms of budget, and AMHS brings a proposal and options to the meeting. For example, option A is 340 weeks of service, option B is 320 weeks of service, and option C is 300 weeks of service; each option has a cost associated with it. Based on the expected budget and the funding levels resulting from the state's current budget situation, and meetings with OMB and

discussions between OMB and the governor, AMHS gets direction to proceed with a certain option that has a certain number of weeks of service and is told to expect funding for that option, which is then submitted as part of the governor's budget proposal. He offered his understanding that this year the governor's budget proposal has an operating plan for 320 weeks of service.

MR. NEUSSL, referencing slide 11, titled "Fiscal Year 2016 Operating Plan," stated that the FY 16 operating plan developed by AMHS comprises all the vessels, the months of the fiscal year, and is filled in with specific scheduled maintenance projects. For example, the M/V Columbia is currently in a Federal Capital Improvement Project and is thus blocked out on the chart. The same holds true for the M/V Fairweather and the M/V Chenega. He indicated that AMHS fills the remainder of the vessels' schedules with yellow bars indicating periods of service and tries to meet all routes and provide service to all AMHS ports. When this is not possible, AMHS places vessels into cost-saving layup periods, indicated in dark blue. He pointed out that the M/V Taku has a dark blue bar all the way across; AMHS does not plan to operate the M/V Taku this year. The decision essentially reduces the fleet size to 11 ships; however, there are still large expenses associated with keeping the M/V Taku in layup, such as keeping a partial crew, providing security, paying for insurance, and similar requirements.

MR. NEUSSL explained that all of this information is laid out in the operating plan; AMHS provides service to all of its ports and attempts to eliminate scheduling gaps associated with vessels cycling through the annual overhaul period - such as the ones that existed in Prince William Sound - a requirement for the Certificate of Inspection. The scheduler develops a schedule from the agreed upon operating plan, based on knowledge of which vessels are in service and which routes need to be met, and assigns appropriate vessels to the planned routes. The draft schedule is then released to the public for a 2- to 4-week public comment period, at the end of which a teleconference is held with the public to discuss whether the schedule meets their needs and to field suggestions on what could be improved. Based on that feedback, AMHS makes changes to the schedule where they can and where it makes sense to do so, before publishing a final schedule and releasing it to the public for reservations. Mr. Neussl said that the process works fairly well for the winter schedule, but is very challenging in the summer. This is due to the desire to publish the summer schedule - which covers the months of May, June, July, August, and September - in the

month of October, in order to allow tourists, visitors, and residents enough time to know what the schedule is, make reservations far in advance, and plan trips, and to encourage travel to Alaska.

[2:08:28 PM](#)

MR. NEUSSL stated that AMHS does not have a budget for three months of the five-month summer season until after the legislative session, in April, if the session ends in April. This means that the schedule, which was just released in January 2016, has three months of assumed budget, which is a risky assumption. He explained that when budgets were status quo, that action seemed logical; people like getting the schedule early, and the budget was rarely subject to change. He said that last year, AMHS learned painfully that when budget reductions are applied to a schedule that has already been published and sold, it is very challenging to cancel reservations for a previously promised date and time. He related that this situation was very trying last summer; however, AMHS was not forced to cancel reservations to the extent they expected, because they found one-time, excess fuel trigger money, which essentially bailed out the summer schedule. The Alaska Marine Highway System is potentially in the same situation for this coming year.

MR. NEUSSL related that a schedule has been published based on the governor's budget, which included a \$5.3 million operating fund reduction from last year. He said AMHS wrote a schedule based on that assumed cut, published it, and is now taking reservations on that schedule. Three months of that schedule are unfunded, essentially, until this legislative session convenes and an operating budget is finalized, which he reemphasized is a risk. The winter scheduling process works more smoothly; there are fewer ships, fewer people scheduling them, and it does not span a fiscal year.

[2:10:30 PM](#)

MR. NEUSSL moved on to slide 12, regarding "Budget Progression," and addressed the key topic of funding. The slide displayed a budget progression chart for AMHS from FY 10 to FY 16. He explained that the red box highlighted indicates the undesignated general fund (UGF) allocation for AMHS. This is essentially the funding that the legislature provides to operate AMHS in addition to the revenue that AMHS generates to operate itself. He said some people use the term subsidy, but it's not

really a subsidy, because the state does not subsidize itself. In FY 13 that funding was \$123.7 million; in FY 14 it dropped to \$116 million; in FY 15 it dropped to \$112 million; this year it is \$96 million; and in the governor's requested budget for FY 17 it is \$92 million. Mr. Neussl said has taken a \$31 million budget cut over 5 years in UGF and has adjusted the system to compensate for that by providing less service and making some cuts and reductions. He added that AMHS lives within the means of the budget, and there are significant budget cuts that have occurred. All of this falls under the category of "operating funds," and on the operating side, the UGF is one of the four sources of funding for AMHS.

MR. NEUSSL said another source of funding is the capital fund, also from the general fund, which is used for overhauls, maintenance, and deferred maintenance on the vessels. In FY 13 the capital fund was a \$15 million revenue stream for AMHS, which allowed overhaul of all 11 ships, renewal of Certificates of Inspections, and maintenance of terminals. In FY 14 that was a \$14.8 million budget line item, which again allowed AMHS to overhaul all 11 ships, renew their Certificates of Inspection, maintain the terminals, and operate. He stated that in FY 15, AMHS received essentially the same amount of money, \$14.5 million it did not overhaul and obtain Certificates of Inspection for all 11 ships, because when it came time for the eleventh ship in line that year, the M/V Taku, to be overhauled and have its Certificate of Inspection renewed, AMHS was out of capital funding. That shortfall in funding, even though it was the same amount, was not due to mismanagement. It was due to the fact that when the other ten ships in the fleet were overhauled prior to the M/V Taku, "discovery work" resulted in unexpected costs.

MR. NEUSSL explained that when a ship goes into an overhaul period, certain inspections are performed and things are found, such as wasted steel, rust, corrosion, et cetera. The USCG then requires that these discrepancies be addressed before they will issue a Certificate of Inspection, without which the vessel is not allowed to sail and such repairs cost more money, take more time, and delay completion of the overhaul process. Which in turn causes schedule disruptions. Mr. Neussl stated that as a result of the shortfall in the capital fund, the M/V Taku was placed in layup because AMHS could not afford to overhaul it and get its Certificate of Inspection renewed. In FY 16 that overhaul and maintenance funding was reduced from \$14.5 million to \$10.6 million. Mr. Neussl emphasized that there is no way that AMHS will be able to afford to overhaul and renew

Certificates of Inspection for 11 ships with \$10.6 million. This is why the M/V Taku remains in layup status and is not planned to return to service. The governor's FY 17 budget request for general fund capital expenditures is to return to \$12 million for overhaul and \$3 million for deferred maintenance, which would yield AMHS's typical funding of \$15 million for capital maintenance projects. In response to previous questions regarding the size of shoreside staff and maintenance, Mr. Neussl pointed out that section of the chart on slide 12 applies to marine vessel operations, and the section below it applies to shoreside costs.

[2:14:47 PM](#)

MR. NEUSSL explained that in FY 16 88 percent of the operating cost of AMHS is directly related to marine vessel operations: labor, fuel, travel, commodities, food, sheets, and all the supplies that keep the vessels going. The other 12 percent of the AMHS budget is spent on shoreside costs, which include all the terminals and terminal staff that essentially complete the link between the ships and the shore. He emphasized that shoreside costs are not overhead, because they are essential components of the system that cover shore operations, vessel operations management, reservations, marketing, engineering staff in Ketchikan, overhead, and similar costs. He said that it is not "out of line" in terms of budget.

[2:16:10 PM](#)

CO-CHAIR HUGHES asked if there are employees who live out of state and are receiving a Cost of Living Adjustment (COLA).

MR. NEUSSL replied affirmatively.

CO-CHAIR HUGHES inquired whether the "free pass" employee benefit had been or was intended to be removed. She said she recognizes that this is probably not a major component, but opined that in the current situation, even small costs need to be considered.

MR. NEUSSL responded that AMHS is tracking that, but it has not been removed. In the negotiation session with each of the three maritime unions, AMHS negotiated a \$100 fee for the annual pass that employees have historically received for free. That has not yet been implemented, because the Marine Engineering Beneficial Association (MEBA) contract is still unsigned, and

AMHS' intention is to implement the change simultaneously on all three unions.

[2:18:19 PM](#)

REPRESENTATIVE STUTES inquired whether out-of-state employees are responsible for their own travel costs to and from Alaska.

MR. NEUSSL responded that in general, yes, but not in every instance. If an employee has a bid position on a ship - for example, if they bid to be the master on the M/V LeConte and based on their seniority, experience, training, and qualifications they meet all of the requirements and are assigned the position - then they are responsible for travel to and from work. Even if the employee who bid the position lives in Seattle, they are responsible for travel costs to and from Juneau for each two week assignment period. However, if an employee has the necessary qualifications, training, pilotage, route certification, or other needed skill, and he/she is needed to fill in on an emergency basis on a ship that is not his/her normal bid position, AMHS will pay for his/her travel from the change port to their temporary assignment port. For example, travel costs will not be covered from Bellingham to a temporary assignment in Valdez if the employee's change port is Juneau; costs would be covered from Juneau to Valdez, but the employee would be responsible for the rest of that expense. He said AMHS has worked very hard to make sure that all employees have an identified change port, as per their contract.

[2:20:09 PM](#)

MR. NEUSSL transitioned to slide 13, which discussed AMHS Workforce Statistics. He said that all the employees that work on the vessels are represented by three different unions: Inland Boatmen's Union (IBU), Marine Engineers Beneficial Association (MEBA), and the Masters, Mates, and Pilots union (MMP). Shoreside, there are four different unions and exempt employees. Most shoreside employees are in the general government union, which includes terminal agents, reservations clerks, most of the employees in the Ketchikan central office. Supervisors, the lead person at each ferry terminal, and some Ketchikan employees with supervisory duties are represented by the Supervisory Union. There are also a few workers represented by the Labor, Trades, and Crafts Union; and by the Confidential Union. The seven-person shoreside maintenance team based in Ketchikan is represented by the Labor, Trades, and Crafts union; and does maintenance on the terminals, docks, hydraulic systems, transfer

bridges, lighting, and the terminal buildings themselves. The CU represents the dispatchers, who deal with employees' personal information, including home phone numbers, home email addresses, and other confidential information. He said that there are five exempt employees in AMHS, including himself. The second is his direct report, the general manager of the system, John Falvey. His three direct reports, the Operations Manager, the Engineering Manager, and the Business Manager are all exempt employees.

[2:22:02 PM](#)

REPRESENTATIVE ORTIZ noted that the highest UGF allocation to AMHS was \$123 million in FY 13, and he requested clarification that AMHS was requesting a \$92 million allocation in FY 16.

MR. NEUSSL confirmed that AMHS's UGF request was 123.7 in FY 13, and that the request for FY 17 was \$92.1 million.

REPRESENTATIVE ORTIZ requested clarification that if AMHS receives the requested \$92.1 million in UGF funds, it would be funded lower than the \$97.5 million allocation from FY 10.

MR. NEUSSL responded that Representative Ortiz was correct.

REPRESENTATIVE ORTIZ noted that when comparing the \$97.5 million in FY 10 with the \$92.1 million in FY 17, those figures do not take inflation into account. He posited that accounting for inflation, the \$92.1 million figure would have the spending power of somewhere around \$80 or \$85 million.

MR. NEUSSL responded affirmatively, but said he did not know the exact impact of inflation on those figures, but that level of funding will have real world impacts on the level of service that AMHS will be able to provide.

[2:23:58 PM](#)

REPRESENTATIVE NAGEAK asked for clarification regarding who qualifies as an exempt employee.

MR. NEUSSL replied that exempt employees are not represented by a union. He said that as an exempt employee, he serves at the pleasure of the commissioner of the DOTPF. He continued his discussion of AMHS workforce statistics on slide 13 by pointing out that the "Number of Employees" figure includes full time, part time, seasonal, and on-call employees. He said that these

numbers are larger than what might be expected, and he explained that the actual number of masters, mates, and pilots working right now is less than the 108 figure on the slide. The numbers on the slide represent the total number of employees in FY 14. If an individual was employed for several months and then replaced by another employee, both individuals would be represented in that count. It is not a full time equivalent (FTE) count, it is a head count of the total number of employees for that year. The next column, labeled "Average Cost/Employee," also has a footnote. Each of these figures include salary and benefits for full-time employees only and represents the average cost to the state per employee, in each of these unions. It is not their take-home salary; it includes their pay and benefits, health insurance, retirement benefits, and all other employee costs to the state. He said that the part-time, seasonal, and on-call pay data was removed from the calculation of these figures. The annual cost of each union contract to the state is calculated by multiplying the number of employees by the cost per employee. He said \$54 million of the state's budget for AMHS funds the IBU labor force, \$17 million funds MEBA, about \$17 million funds the MMP, and about \$10 million total funds all shoreside employees combined.

[2:26:14 PM](#)

REPRESENTATIVE ORTIZ, referencing the \$181,000 average cost per MEBA employee, inquired what the components of that total cost are.

MR. NEUSSL responded that regular pay, holiday pay, overtime, hold-over pay, late arrival pay, early call-back pay, leave, travel pay, minimum guarantees, penalty pay, retirement contributions, training contributions, health care premiums, unemployment contributions, workers compensation contributions, Medicare contributions, and Alaska supplemental benefit retirement plan contributions contribute to that cost. He said not all of those apply to every union; those are the range of pays that are included in pays and benefits, based on labor contracts. Further, he relayed that the list is not specific to MEBA, but he said those are the types of pays and benefits that were included in those computations.

REPRESENTATIVE ORTIZ stated that he assumed some of the costs are not a result of the bargained agreements, but in some cases are the result of management's decision to pay overtime versus paying another employee. He suggested that in some instances it

would be more cost effective to pay overtime than to hire another employee.

MR. NEUSSL responded that sometimes the only option is to pay overtime, for example, if a ship is delayed coming into port. There are a variety of factors that play into how much overtime gets paid. He said that AMHS does attempt to minimize the amount of overtime paid; it would prefer a full work force getting normal pay versus a smaller work force working extra hours and getting additional overtime pay, but there are many challenges that make that difficult.

REPRESENTATIVE ORTIZ asked for confirmation that in some situations, hiring a new employee also involves medical benefits, retirement benefits, and similar costs. He pointed out that these costs are already covered for an employee who is being paid overtime.

[2:29:04 PM](#)

MR. NEUSSL replied affirmatively and continued his presentation of slide 13. He offered that although he has heard the shoreside staff referred to as bloated, essentially \$90 million goes to vessel employee labor and approximately \$10 million - about one tenth of that - goes to shoreside labor. This is proportional to the budget ratio of 88 percent for vessel operations and 12 percent for "overhead." He responded to a previous question about the number of non-resident AMHS employees, and he stated that it is possible for the vessel employees, due to their work schedules, to live out of state, whereas an employee who works shoreside in Ketchikan, for example, is unable to live out of state. Vessel employees who work two weeks on/two weeks off; 28 days on/28 days off; or week on/week off can live out of state if they so choose. Mr. Neussl said the column furthest to the right on slide 13 indicates the percentage of non-resident employees for each of the three unions. For example, about 25 percent of the MEBA employees, or approximately 25 people, do not live in the state of Alaska. Those employees who do not live in Alaska do not collect cost-of-Living differential, which is payable only to employees who live within the state of Alaska and is annually verified and certified to ensure that only those employees who are qualified receive that entitlement.

[2:30:48 PM](#)

CO-CHAIR HUGHES inquired whether there is a hiring preference for Alaska residents. She also asked whether most of the non-

resident employees were hired while they were Alaska residents and later moved out of state, as allowed by the schedule, or if they were hired as non-residents.

MR. NEUSSL replied that AMHS does have a hiring preference for Alaskans, but it's difficult to find enough qualified employees to fill all necessary positions; therefore, AMHS does recruit and hire some employees from the Lower 48.

REPRESENTATIVE ORTIZ asked whether it is becoming difficult to recruit qualified individuals for AMHS, such as pilots, when competing for them at the global scale. He said that it was his understanding that there is increased global demand for those types of positions given the recent growth of the global shipping industry.

MR. NEUSSL responded that, yes, there is demand and competition for those skills. In conjunction with the community engagement meetings, he said that he held meetings with the crews aboard the ships. One of the messages conveyed in those meetings was that not only do the uncertainties in funding, number of ships, and scheduling "upset the apple cart" with regard to economies and communities, they also "upset the apple cart" with regard to employees. Employees wonder if they will have a job in the coming year, whether their ship will be laid up, or the workforce will be reduced. That causes uncertainty and employee longevity issues. Mr. Neussl related that AMHS has lost several employees, who sought maritime work elsewhere. For example, many former MMP employees now work for the Southeast Pilots Association, which requires AMHS to train people from the bottom to fill those positions, which is expensive.

[2:33:55 PM](#)

REPRESENTATIVE MILLETT requested an overview of the training process and associated costs for a master, mate, or pilot, and she inquired as to the location of the training facilities.

MR. NEUSSL responded that there are a variety of different paths in the trade. In general Masters, Mates, and Pilots come from the California Maritime Academy, the Maine Maritime Academy, or from military service. They might come in as a second or third mate, work their way up to chief mate, and eventually to master. The training for that process takes a variety of forms; some is training conducted at AVTEC - Alaska's Institute of Technology ("AVTEC"), in Seward. As part of AMHS' labor contract with the MMP union, the state contributes to Maritime Institute for

Training and Graduate Studies (MITAGS) in Baltimore, Maryland. It is essentially the masters, mates, and pilots training school for ship drivers. He said AMHS sends people there because via the labor contract, AMHS employees can take advantage of that training to get additional qualifications and improve their license toward the goal of acquiring a master license. Pilotage requires actually operating and sailing in a given waterway. For example, an AMHS employee who begins with no pilotage, by working on vessels sailing up and down Lynn Canal and becoming familiar with the waterway, can eventually sit for their pilotage exam with the USCG. This essentially involves drawing the maritime chart from memory, including navigational aids, hazards, obstructions, et cetera. Earning Pilotage is a different process, not formal schooling.

REPRESENTATIVE MILLETT requested clarification regarding the per person cost of this training to the state. She inquired whether there is any requirement or responsibility in a union contract requiring employees who have benefitted from training to stay in the state and work for the State of Alaska for a period of time as a form of repayment for the training investment.

MR. NEUSSL responded that the training agreement is detailed in the MMP collective bargaining agreement. He said he did not know the figure off the top of his head, but it is a per-employee, per-day dollar amount contributed by the state to fund, MITAGS.

REPRESENTATIVE MILLETT asked for the location of the training decrement within the AMHS budget.

MR. NEUSSL stated he assumed it was included under personnel services, but he added that he have to give a more definite answer at a later time.

[2:36:38 PM](#)

[Co-chair Foster passed the gavel to Co-Chair Hughes]

CO-CHAIR HUGHES asked whether, since AMHS has to recruit out of state for certain skill sets, there has been any effort from the Department of Labor & Workforce Development (DOLWD) or Department of Education and Early Development (EED) to inform high school students and young Alaskans that opportunities exist within AMHS.

MR. NEUSSL replied that there have been some efforts by AMHS to reach out, but not many. For a period of time, dispatchers were sent to job fairs and recruitment events in an attempt to foster and bring talent into AMHS. He stated that AMHS does not do that as much as they should.

MR. NEUSSL transitioned to slide 14, "Budgetary Constraints," and stated that it is essentially a summary of a comparison between FY 15 and FY 16. He explained that there is \$16 million less in the state operating general fund and \$4 million less in the state capital general fund between the two years. He said that is a significant reduction, which resulted in the removal of the M/V Taku from service in June 2015 to present due to insufficient capital funding. Mr. Neussl reiterated that AMHS does not have the budget to overhaul or operate the vessel. Mr. Neussl said that the department, and in particular AMHS, uses a lot of fuel, approximately 10 million gallons of diesel fuel per year. He noted that AMHS is budgeted at \$2.56 per gallon for fuel; currently the average price is less than that figure, which is good because AMHS will meet its fuel budget. If the price climbs above that, where it has been most of the time, AMHS will experience a budget shortfall due to fuel. He said that most of the committee is likely familiar with the mechanism wherein if the price of North Slope crude is above \$70 per barrel, a fuel trigger kicks in to help offset the additional cost of fuel. He said there is no fuel trigger this year, nor is there likely to be one anytime in the future. Assuming prices stay below \$2.56 a gallon, AMHS will meet their fuel budget. In the absence of a fuel trigger, there is a risk factor if prices rise above that, which they certainly could due to any number of world events.

[2:39:16 PM](#)

REPRESENTATIVE MILLETT asked how often the fuel trigger has been used historically. She recognized that the price of oil has been below \$70 per barrel for one year. She also inquired whether Mr. Neussl had a chart or more information pertaining to fuel costs. She noted that oil prices are expected to remain low, which could be a large cost savings for AMHS. She inquired about the AMHS fuel purchase process, whether it was purchased in bulk, and how AMHS manages its fuel needs.

MR. NEUSSL responded that AMHS does not purchase fuel in bulk, there are no fuel storage facilities, and AMHS pays market price in the same manner as a person would filling their car at a gas station. He said that AMHS calls Petro Marine Services in a

port where they are fueling, orders a fuel truck, and takes 10,000 gallons of fuel, paying the fuel price for that given port. He added that fuel prices vary between ports. It is relatively inexpensive in Bellingham, Washington, and AMHS tries to fuel there when ships are there. Fuel is more expensive in places like Homer and Valdez, because it is more expensive to transport it there. He said that AMHS does not forward fund, hedge, or lock in long-term fuel contracts, because just as easily as prices can go up and those strategies can save money, prices can go down and that can increase costs. Mr. Neussl stated that AMHS pays market rate for fuel, and has used the fuel trigger almost every year, up until this past year. He said \$7 million of excess fuel trigger money saved in an account were appropriated to AMHS to fund the 2015 summer schedule. He stated that AMHS has made extensive use of the fuel trigger, but he said he did not currently have, but could provide, exact numbers for the fuel trigger amounts for each year. There were two triggers a year most years, and each of them contributed money to fund AMHS.

REPRESENTATIVE MILLETT asked where the \$7 million figure from those fuel triggers is shown in the budget.

MR. NEUSSL replied that the fuel trigger funds were displayed on slide 12, in the "Additional Fuel Trigger Appropriation" line under FY 15.

[2:41:46 PM](#)

CO-CHAIR HUGHES inquired whether the fuel trigger was listed at zero dollars in the governor's proposed budget or there would be money available for the fuel trigger this year.

MR. NEUSSL replied that it was one-time funding, which was there because when the price of fuel went down money was saved. He said it was a good thing it was saved, because it was definitely needed this past year to run last summer's schedule. It was one-time money, and there is no remaining portion of that to assist. There is no longer a fuel trigger to generate the funds.

MR. NEUSSL transitioned to slide 15, "Non-service cost Reductions," stating that many people have the impression that when the legislature cuts the AMHS budget, the first action they take is to place a vessel in layup to reduce costs. He said placing a vessel in layup is actually the last action AMHS takes, because they do not want to impact service levels. The

first action is to identify other efficiencies that have no impact on essential service. He said AMHS has taken action on many of these efficiencies in an effort to save money by eliminating non-essential services that do not support themselves, such as bars and gift shops on the vessels. There were approximately 25 people associated with providing those services, who were reassigned throughout the fleet. Fewer people were hired from the bottom, so none of those employees were laid off as a result, and costs were reduced by no longer providing those amenities on the vessels. Mr. Neussl related that AMHS eliminated the commercial marketing contract, which saved \$500,000 per year. They eliminated a \$200,000 budget line item for commercial backfill service with private companies like Allen Marine, which had provided continued service to remote villages during vessel maintenance periods. He said 30 shoreside positions have been eliminated, half of which were on-call, part-time positions at the terminal and performed duties such as vessel mooring and staging. He said this has resulted in a situation where there are exactly as many employees as are needed to safely tie up a vessel; however, if one person is absent AMHS falls below minimum manning levels required for vessel mooring. They have cut terminal staff "to the bone," eliminating 15 shoreside positions, some of which were highly paid, fulltime, employees such as a port engineer, a port captain, several positions in the reservations office, marketing staff, and several administrative positions in the Ketchikan central office.

[2:44:51 PM](#)

CO-CHAIR HUGHES inquired whether those were filled positions that were eliminated.

MR. NEUSSL replied that approximately half of the positions were filled positions. Some were intentionally left vacant in anticipation of cuts associated with the current budget climate. This occurred several times in the reservation center. He said AMHS installed new engines in the M/V Columbia, intends to install new engines on the M/V Matanuska, and installed auto throttle fuel management systems on vessels statewide. The auto throttle systems manage speed in order to stay on schedule, rather than burning extra fuel and arriving early or arriving late and altering the schedule. This fuel management system is not as effective as hoped, because generally AMHS operates in straits and narrows rather than open ocean. Mr. Neussl stated that the more important message from the ship drivers during the shipboard meetings was that slowing down is the best way to

reduce fuel costs. Rather than scheduling a run at six hours at full speed, AMHS needs to schedule it as a 6.5- or 7-hour run, at reduced throttle for fuel conservation, and give the masters discretion to adjust their speed accordingly. This will be taken into account when drafting future schedules.

Mr. Neussl said the printed schedule was also eliminated, which saved \$50,000 in mailing and distribution costs, considering that the printed schedule was often outdated due to schedule changes. All schedules are available online now, in real time.

CO-CHAIR HUGHES commented that the ferry from Homer was transporting many of the legislators' vehicles recently and did not arrive on schedule. Online it was reported as on time, but it did not show up when scheduled.

MR. NEUSSL acknowledged the point, and he offered that it seems like delays and scheduling interruptions happen at the least convenient times. That specific incident was a weather related delay on the M/V Tustumena during a transit across the Gulf of Alaska. Both of the cross-gulf transits were significantly delayed, by 24-36 hours, due to excessive sea conditions in the Gulf of Alaska. Acknowledging that the arrival message was incorrect, he pointed out that customers can use the real-time vessel tracker in the lower right hand corner of the AMHS website to watch a vessel move across the ocean. He said AMHS is trying to provide better information regarding scheduling, but it is not 100 percent correct yet.

[2:48:09 PM](#)

REPRESENTATIVE MILLETT inquired as to how many of the 25 eliminated vessel positions were position control numbers (PCN) and whether they were filled when they were cut.

MR. NEUSSL explained that the PCN counts on vessels are complex. Only five of the ships had bars, and therefore five bartender positions were eliminated. However, those five bartender positions are filled by twelve PCNs; "A crew" bartender, "B crew" bartender, and a relief bartender. This holds true for every position on the vessel. He said each position on the ship essentially requires 2.3 people to fill when considering the "A crew," "B crew," and relief crew. 25 is a composite number. Those positions were all filled; the bars were operating until AMHS closed them. Those individuals transitioned to other jobs: cashiers, passenger service workers, and others. Fewer people

were hired into the bottom of the system, because individuals were distributed from the bartender and cashier positions.

REPRESENTATIVE MILLETT asked, of the 30 shore positions, how many people actually lost their jobs. She also inquired how many open PCNs are unfilled.

MR. NEUSSL replied that he does not currently have the open PCN list. He stated that, of the 30 shoreside positions, half were filled with on-call, summer employees who were regularly laid off on October 1, each year. He estimated that of the remaining 15 eliminated positions, 5 full-time positions were laid off and the rest were intentionally left vacant in anticipation of cuts. He stated that he could get exact numbers at a later time.

REPRESENTATIVE MILLETT inquired as to the distribution of layoffs. She asked how many were placed in early retirement, how many lost their jobs entirely, and how many were transitioned into other positions, like the bartenders.

MR. NEUSSL responded that most employees whose positions were eliminated were transitioned into other positions. He said AMHS tried, as much as possible, to avoid laying people off entirely, because AMHS tries to take care of their employees. He said that he would follow up with exact numbers.

[2:51:44 PM](#)

REPRESENTATIVE ORTIZ inquired whether the gift shop employees had additional duties on board the vessels.

MR. NEUSSL replied, yes.

REPRESENTATIVE ORTIZ asked if those employees would normally fill their day with other duties, as assigned.

MR. NEUSSL responded that they would, to the extent they could within work/rest requirements.

REPRESENTATIVE ORTIZ asked whether there were some ferry runs where the bars were either cost neutral or created revenue.

MR. NEUSSL replied that the issue with the bars was not that they did not generate revenue, but was instead the cost associated with employing a bartender with full state benefits. It was not cost effective and the bars were losing money.

REPRESENTATIVE ORTIZ asked if all the bars on all the runs were losing money.

MR. NEUSSL responded affirmatively, but clarified that it was possible that the bar on the M/V Columbia coming from Bellingham with a full ship in the summer might have been able to break even. In general, the bars have lost \$750,000 per year.

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CO-CHAIR HUGHES inquired whether the closure of the bars has impacted ridership.

MR. NEUSSL responded that feedback from community meetings indicated that passengers enjoyed the bars as an amenity, but community members were generally understanding when he explained to them that the bars do not produce revenue and that the essential mission of AMHS is to provide transportation.

[CO-CHAIR HUGHES returned the gavel to Co-Chair Foster.]

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MR. NEUSSL continued presenting slide 15. He stated that the printed schedule has been eliminated and risk management costs have been reduced. The State of Alaska is self-insured, but AMHS vessels are not. The risk associated with operating vessels in a marine environment is high; therefore, AMHS has commercial liability policies through the Department of Administration, and AMHS has managed to reduce the costs of those slightly. Additionally, AMHS has consolidated spare parts at the Marine Engineering Building in Ketchikan, thus eliminating the cost of leasing a warehouse in Bellingham.

MR. NEUSSL discussed slide 16, "Revenue Enhancement," stating that AMHS has altered its cancellation and change fee policies. The policy used to be very lenient, allowing passengers to cancel at the last minute, with very little or no penalty, which resulted in sailing with empty space because AMHS usually could not resell the reservation prior to the ship sailing. The alteration helps ensure that reservations that are made are also used; if a reservation is cancelled too close to the sailing date, AMHS will extract revenue in the form of a change fee or penalty. He said that AMHS has eliminated all travel agent commissions in two stages, which saved approximately \$1.5 million per year. Mr. Neussl said AMHS also implemented some tariff equalization, because the tariff structure had many

anomalies and inequities. For example, he told of one instance when it cost a passenger \$35 to travel 130 miles on one run, and \$50 to travel 22 miles on a separate run. He said AMHS plans to level and formalize the tariffs and create a standard process by which tariffs are set. He further related that AMHS has altered some discount programs and eliminated both the "Driver Goes Free" and the "30 percent mirror round trip programs," because the traffic numbers are stable without them. He explained that the axed programs essentially served as a rebate to users of the system and did not result in spikes in ridership or vehicles being transported; therefore, they were eliminated as a cost-savings measure. He transitioned to slide 17, "Fiscal Year 2017 and Beyond," stating AMHS intends to promote itself as an important part of Alaska's transportation system.

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REPRESENTATIVE STUTES inquired whether there was any intention to address commercial rates. She noted that many commercial fisherman in coastal fishing communities use the ferry system to ship their fish out, rather than a commercial carrier, because it is significantly less expensive.

MR. NEUSSL responded that on November 1, 2015, AMHS implemented a 20 percent increase on commercial vehicle tariffs, which was a result of the 2015 rate study.

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CO-CHAIR FOSTER noted that there were three minutes remaining in the meeting and suggested that committee members hold their questions and forward them to the DOTPF after the meeting.

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MR. NEUSSL stated that the goals of AMHS for 2017 and beyond are to reduce costs, increase revenue, and reduce the fleet size. He noted that the Southeast Alaska Transportation plan needs to be updated, as it is outdated. He said the final draft for the 2015 AMHS Economic Impact Study was complete and would be forwarded to the legislature as soon as it is finalized. Moving to slide 18, "What We Heard," he summarized the take home messages from the community meetings he attended. He stated that communities want and need a reliable, dependable schedule. Turmoil with the schedule in the transportation industry is bad for business. Even the threat of cancellations has a negative impact. Sailing the schedule, as published, is critically

important to not only the Marine Highway System's ridership, but also to the businesses and economies that rely on it. People are willing to pay more for better ferry service, but they expect better ferry service as a result. Mr. Neussl reiterated that communities and economies develop with the promise of AMHS service. For example, 110 people from Cordova attended their community meeting at a building that was constructed to be compatible with a fast ferry, which was intended to be, but is not, home ported there. Cordova had built a convention and visitor's center based on expected vessel traffic, but AMHS is no longer able to provide that vessel on a year-round basis. The entire report compiled from each of the AMHS community meetings is available on the AMHS web site.

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CO-CHAIR FOSTER thanked MR. NEUSSL for his presentation and stated that if there are questions, they could be forwarded to the co-chairs, who would respond accordingly.

[3:01:46 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:00 p.m.