

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

March 16, 2017

4:23 p.m.

MEMBERS PRESENT

Representative Louise Stutes, Co-Chair
Representative Chuck Kopp

MEMBERS ABSENT

Representative Adam Wool, Co-Chair
Representative Matt Claman
Representative Harriet Drummond
Representative Mark Neuman
Representative Colleen Sullivan-Leonard
Representative David Eastman (alternate)
Representative Gabrielle LeDoux (alternate)

COMMITTEE CALENDAR

PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM REFORM PROJECT BY
SOUTHEAST CONFERENCE

- HEARD

HOUSE BILL NO. 136

"An Act relating to motor vehicle franchises, motor vehicle transactions, motor vehicle dealers, motor vehicle manufacturers, and motor vehicle distributors."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ROBERT VENABLES, Energy and Transportation Coordinator
Southeast Conference
Juneau, Alaska

POSITION STATEMENT: Co-Presented the Alaska Marine Highway Services Reform Project Business and Operational Plan.

JOHN WATERHOUSE, Chief Concept Engineer

Elliot Bay Design Group
Seattle, Washington

POSITION STATEMENT: Co-presented the Alaska Marine Highway Services Reform Project Business and Operational Plan.

ACTION NARRATIVE

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CO-CHAIR LOUISE STUTES called the House Transportation Standing Committee meeting to order at 4:23 p.m. Representatives Stutes and Kopp were present at the call to order.

PRESENTATION: Alaska Marine Highway System Reform
Project Business and Operational Plan
by the Southeast Conference

CO-CHAIR STUTES announced that the only order of business would be a presentation by the Southeast Conference titled "Alaska Marine Highway Services Reform Project Business and Operational Plan".

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ROBERT VENABLES, Energy and Transportation Coordinator, Southeast Conference, offered that the presentation would address questions and issues regarding the costs of the Alaska Marine Highway System (AMHS) and what could be done to make the system more sustainable and viable. He advised that the Southeast Conference was formed 58 years ago in large part to create the AMHS, and it is pleased to lead the statewide effort in determining what measures could be taken to move the AMHS forward. Denis Watson, Mayor of the City of Craig, is chair of the committee, and Jim Calvin, McDowell Group, has performed exhaustive work on the AMHS issue moving forward. He described that Mr. Waterhouse and his firm, Elliott Design Group, have been involved with the AMHS itself for quite a few years, but also with other firms and marine highway transportation systems throughout the country. The Southeast Conference leads the project steering committee [depicted on slide 2, "Project Steering Committee"]. He advised that labor and unions are represented in this effort because the goal is to reach across the state to include stakeholders representing all of the "causes and regions" that the AMHS touches. He offered that a statewide steering committee applied to be part of this group and have met throughout the year.

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MR. VENABLES turned to slide 3, "Ferry Summit" and advised that the Project Steering Committee began with a well-attended listening session in Anchorage with the intent that the process would lead to recommendations addressing the needs the public believes the AMHS needs to perform and produce. He referred back to slide 2 and added that the ex officio member is the Department of Transportation & Public Facilities reflected through Commissioner Marc Luiken and Deputy Commissioner Michael Nuessl.

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JOHN WATERHOUSE, Chief Concept Engineer, Elliot Bay Design Group, advised that the Elliot Bay Design Group is a naval architectural and marine engineering firm that has worked in marine transportation issues for many years. He related that his AMHS origins began in 1980, and that his firm is a successor firm to Philip F. Spaulding Associates, the original firm that designed the four Alaska ferries in the 1960s. He pointed out that his company has a long background and interaction with ferry systems in general and with the Alaska Marine Highway System (AMHS) in particular.

MR. WATERHOUSE turned to slide 4, "Key Themes" and referring to the listening session held in Juneau, related that transportation is a foundation for the Alaskan economy because without transportation other state activities would not happen, which is a fundamental aspect to keep in mind. Transportation provides engagement between communities across the state, offers access to fundamental services, health care, shopping, entertainment, and connection to the Lower-48, for example when the U.S. Coast Guard and others move their families to different duty stations. He related that the government has a transportation role in providing an overarching service to the benefit of the citizens, and his company is reviewing the best structure in moving AMHS forward.

MR. WATERHOUSE turned to slide 5, "Critical Concepts" and advised that the critical concepts to any marine transportation system are as follows: Dependability, the schedule is known 18 to 24 months in advance in order to accommodate business transportation plans and the public's travel plans, but especially businesses; Reliability, seldom breaks down, assures the system is available for the public; Efficiency,

clear metrics used to improve revenue and reduce expenses, including the value AMHS receives for its transportation dollars; Sustainability, such that structured finances are predictable and the benefits to Alaska are recognized.

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MR. WATERHOUSE turned to slide 6, "Proposed Vision Statement" and offered that labor and management both pointed to the lack of a clear vision for the AMHS. Although, when pressing management and crews on what the vision statement was, they did not know, or they could only remember parts of the vision statement. Effective organization of transportation, he explained, is a clear vision, and while working with the Department of Transportation & Public Facilities (DOTPF) and management, a "stretch vision" was created. Wherein, he further explained, the AMHS would be the preeminent marine travel experience while connecting with other intermodal components of state, federal and international transportation systems. The AMHS would set itself up as being better than just adequate because Alaska is more than just an adequate state, he related.

MR. WATERHOUSE turned to slide 7, "Proposed Mission and Values" and pointed to the fairly extensive mission and value statements. He described the elements of a marine transportation system that must be "touched upon every day" as follows: Safety, because safety is fundamental to the service being provided to the public; Excellence, people come to work every day trying to do their best; Integrity and Respect, includes the traveling public using the service, fellow crew members, management, and the citizens of Alaska that allow this system to exist; Partnerships, managing operations in a fiscally responsible manner and finding partnerships that will help leverage the abilities of the system in a manner that benefits, such as other marine transportation entities, businesses, or public agencies across the nation, in order to get "more bang for the buck;" Teamwork, operating as a cohesive team through honest, respectful, and trusting interactions because teamwork delivers a reliable system.

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MR. WATERHOUSE turned to slide 8, "Governance Summary" and explained that the Elliot Bay Design Group reviewed the manner in which other ferry systems across the United States and the world are governed, their models and best practice, in order to improve and offer a better delivery of service for the AMHS. He

related that his company has been working with the agencies listed and; therefore, it has a deep understanding as to how each system was structured, and the strengths and benefits of the different governance structures. He pointed to the left side of the slide and explained as follows: AMHS is a line agency of government; GGF - the Golden Gate Ferry System in San Francisco Bay organized as a transportation district; BCF - British Columbia Ferry System, originally a Crown Corporation and currently a public corporation; WSF - Washington State Ferries is a line agency; NCF - North Carolina Ferry System; New York Waterways is a passenger only ferry service around the City of New York, a public/private partnership wherein the operations side handled by a private company and ownership of the docks, piers handled by the Port Authority of New York and New Jersey; BPJ - Bridgeport Port Jefferson Ferry, privately owned over 100 years and operates between Port Jefferson on Long Island, and Bridgeport, Connecticut; SSA - Steam Ship Authority of Massachusetts provides ferry service to the Islands of Nantucket and Martha's Vineyard; CM - Caledonian MacBrayne a Scottish ferry system, similar to the AMHS in that it provides a lifeline service to small communities throughout the Country of Scotland.

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MR. WATERHOUSE turned to slide 9, "Identified Best Practices" and explained that best practices included: a clear vision and mission for the system, facilitates governance, and gets everyone on the same page and direction; setting clear performance goals and giving the management of the system authority and fiduciary responsibility over both revenues and expenses, thereby having the fiduciary responsibility of striking that balance and moving things along; in the event the system operates with financial support from state government or a public entity, there must be a predictable long-term funding source identified for both operations and capital construction in that marine transportation is highly capital intensive and acquiring assets or modifying assets does not occur in one or two years, it takes multiple years to make changes in the system and, therefore, stable funding is absolutely vital; and oversight works best with a dedicated board providing some insulation for the day-to-day management from political forces. He related that that is part of the reason British Columbia Ferries, for example, shifted from being a Crown Corporation to a public corporation in order to get that distance from the changing political landscape.

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MR. WATERHOUSE turned to slide 10, "Governance Analysis" and advised that after performing a governance analysis the following was determined: insulating management from politics, how to hire good managers and let them manage; how to give management control over both setting tariffs, the revenue side of the equation, and managing expenses - the largest expenses of the AMHS are labor, fuel, and maintenance; retain access to vital federal funding - prevent jeopardizing access to those funds in the event of a change in governments; how to coordinate with other transportation modes, the customers are not really there to ride a ferry but rather as part of a journey; and recognize that Alaska is a unique situation and that the ferry system must be seen as a benefit to all Alaskans and not simply certain communities, determine a manner in which to send out the message that the efforts and time spent on the AMHS is seen as an integral part of what makes Alaska, Alaska.

MR. WATERHOUSE turned to slide 11, "Public Corporation (CalMac model)" and advised that of the various models they reviewed there were real strengths in the Caledonian MacBrayne [Hebridean & Clyde Ferries] (CalMac) from Scotland. He reiterated that it is organized as a corporation with a single shareholder which, in this case would be the State of Alaska [just as in Scotland]. Wherein the public corporation enters into a contract with government on a fee for service basis after working out the minimum level of service, and the relationship between a government and transportation. The mission is to operate the system as efficiently as possible and treat it as a business. He recommended keeping in mind that transportation necessitates being nimble in order to respond to a highly dynamic environment, such as weather, changing travel patterns and tourism activities. He also recommended determining some compensation and incentive systems in line with peer businesses, ways to reward excellence and promote the best activities. At the end of the day, he said, government continues to own the assets, vessels and terminals, and leases those to the public corporation through standard and proven marine practices for leasing capital assets on the waterfront. He suggested providing oversight by a board of directors with members representing the different key stakeholders, similar to the structure of the Alaska Railroad Corporation with attention to the needs of labor, fiduciary responsibility, and good fiscal discipline.

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MR. WATERHOUSE turned to slide 12, "Improved Line Agency (Interim)" and commented that transitioning to a public corporation would not occur overnight, if it occurs at all because the leg work has not been completed to determine whether that is the best path forward, which would occur in Phase 2. During the interim, there must be a determination in how to improve the current operation of the AMHS, and he stressed that one of the most potent tools is finding a way to forward fund that system, find a way to provide some fiscal predictability in order to work with its service network, its customers, and be able to post its schedule for next year. Forward funding is a key component, he expressed, and recommended shifting labor relations from the Department of Administration (DOT) to the Alaska Marine Highway System (AMHS) to give it some degree of control over its largest cost center. He further recommended the following: rationalize tariffs, the AMHS is currently involved in a process to determine a more reasonable and transparent tariff structure so the public understands how those tariffs are set, and a component of this is its new reservation system that will provide opportunities for dynamic pricing or cross-selling of opportunities; and, allow incentives for management and employees, offering more flexibility and reward for those who step up and do more than "just a good job."

MR. WATERHOUSE advised that have finished their Phase 1 effort with a report and a set of recommendations and are currently in discussions with Southeast Conference regarding a scope of work, budget, and schedule, for Phase 2.

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MR. WATERHOUSE turned to slides 13-14, "AMHS Reform Project - Phase 2" and "Phase 2 Objectives" and advised that the objectives are as follows: identify reforms that will improve operations and stabilize finances; inform and engage key stakeholders to build consent toward reform; and, give guidance on the necessary legislation changes to make the transition from a line agency of the DOT to a public corporation.

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MR. WATERHOUSE turned to slide 15, "Tasks" and pointed to the six vital tasks and one optional task identified as follows: Revenue Analysis, look at the revenue side of the equation, what is the fare elasticity for the different routes in the system, what are the opportunities for partnering with other business to enhance fares, and what are sources of non-fare revenue that

could be brought into the system; Operations Analysis, dig into the operations, how are the vessels crewed, how are the vessels maintained, how are the terminals staffed, are there better ways of organizing the operations to be more efficient or enhance the customer's experience that would then allow for an enhanced revenue source; Operations Financial Model - come up with a yardstick to evaluate different operational choices in moving forward to rationalize the system, and how to determine differences; Structure and Benefits of Public Corporation, identify the structure and benefits of a public corporation because if a strong coherent argument could not be made as to why change should occur, there would be no convincing the key stakeholders to go through the expense and effort of making the change happen; [Mr. Waterhouse skipped over the Transition Plan]; and, Public Process and Stakeholder Engagement, "an overarching all" is the public process and stakeholder engagement because everyone must be pulling in the same direction, he said. An optional task is the capital needs of the system and he related that the fleet is having some vessel replacement as the new Alaska class ferries, designed by the Elliot Bay Design Group, are under construction in Ketchikan. Although, these two new vessels are not the end of the story and he put forth the questions, what sort of additional vessels should be constructed, and the dollars involved, should that be accomplished as part of Phase 2, or leave it to other entities to determine. He opined that the discussion as to how to deal with the long-term capital will take place during Phase 2.

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MR. WATERHOUSE turned to slide 16, "Revenue Analysis" and reiterated that the objective of the revenue analysis is to identify the mix of public funding and other revenue that will provide for the sustainability of AMHS over the next 25 years. He then advised that an advisor joining the project at Phase 2 is Mike Anderson, and he described Mr. Anderson's background in dealing with labor negotiations and capital projects. The deliverable aspect is the Long-Range Revenue Development Strategy Report and advised that the McDowell Group is their partner and will lead the work product effort.

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MR. WATERHOUSE turned to slide 17, "Operations Analysis" and advised that the Elliot Bay Design Group will lead the operations analysis due to its background in ferry systems and will identify the basic transportation and shipping needs for

Alaska, and the key user group, such as, Alaska residents, Alaska businesses, and the strong tourism component. He offered that part of the challenge is determining the balance between those three user groups that makes the most sense moving forward which looks at the "four-dimensional chess" of matching vessels to routes to schedules to frequency of service, determining how to meet the needs of the different users groups, the cost structure associated with it, and has demands as far as labor, terminals, and asset requirements, he explained. Mr. Waterhouse related that from that data they will produce a deliverable Vessel and Terminal Operations Report with strategic operational goals, working closely with AMHS management and employees.

MR. WATERHOUSE turned to slide 18, "Operations Financial Model" and advised they are not looking for the optimum system because there is not the time or ability to completely go through and optimize. Frankly, he said, that is not the role of a study group, that's the role of the management that will ultimately be brought in to run the system as a public corporation. The Elliot Bay Design Group's goal with the operations financial model is to offer yardsticks for measuring what change could mean to the system in terms of operating costs and benefits to the user groups. He explained that they will look for opportunities, such as the concession side on board the vessels, routes, or other aspects of the operation that are innovative and beneficial to the state. From that data, a Long-Range Financial Strategy Report focused on the balancing of revenues and expenses will be produced.

MR. WATERHOUSE turned to slide 19, "Structure & Benefits of Public Corporation" and explained that the Elliot Bay Design Group will work with the McDowell Group on the structure and benefits of a public corporation. He said, "What is that compelling story that we can tell having done our work on revenue and operations to say why this is the path forward -- or, the recommended path forward for the State of Alaska?" He advised they will review how that governance structure actually works, what would be the duties and responsibilities of a board, what would be the interaction with other state agencies, and from that data the Elliot Bay Design Group will determine the clear argument on why a public corporation would make sense.

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MR. WATERHOUSE turned to slide 20, "Transition Plan" and said that after defining what the vision might look like in 20 years, to then look at the current situation and determine how to offer

guidance on what must begin occurring in order to transition from the current AMHS to a marine highway system that will cover the next 50 years. In that regard, he said they will put together a transition plan or a governance strategy to advise the executive and legislative branches on a possible path forward.

MR. WATERHOUSE turned to slide 21, "Public Process and Stakeholder Engagement" and commented that throughout the process there will be a public process and stakeholder engagement and will look at holding additional hearing sessions on this project. The steering committee assembled for this project represents communities across Alaska in order to be certain the efforts of Phase 2 reflect input from those communities. The McDowell Group will look at a combination of public messaging, surveys, meetings with listening sessions, web sites, and how to receive input from the public reflecting Alaskans needs for this system.

MR. WATERHOUSE turned to slide 22, "Timeline" and expressed that the timeline is aggressive as the goal is to have enough information that legislation could be considered by the time of the Southeast Conference meeting this fall, or earlier if possible. The ability to meet this schedule will be determined by what is gleaned along the way because this is a large and complex operation with many moving parts. He said they will look to the steering committee, communities across Alaska, and resources within the Department of Transportation & Public Facilities (DOTPF), the Department of Administration (DOA), and other branches of Alaska's government to assist in completing this project.

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MR. VENABLES turned to slide 23, "Project Sponsors" and stressed that even though he sees an expanded role for communities and the private sector to partner and create other streams of revenue for the AMHS envisioned for the future, AMHS will always be a public entity as he is not looking to privatize this as a private system or port authority. He pointed out that there has been broad support across the state and the entities listed on the slide have provided financial support for the project currently. The goal is to have completed the "meat of the work" for the next legislative session.

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CO-CHAIR STUTES disclosed that the AMHS is one of her "pet projects" as it is a critical part of Alaska's transportation system and her goal is to optimize the system. There are "all kinds of different waters around here," and she asked whether a more standard ferry could be built and utilize in a large area. The two vessels currently under construction are fairly specific and would not do well on a route from Homer to Kodiak, for instance, and she asked whether the lack of a standard measurement for any of the anticipated vessels could be contributing to the problem.

MR. WATERHOUSE responded that the AMHS does not have a class of vessels, but rather 13 classes of vessels. He pointed out that a success of Alaska Airlines is that it flies one class of airplanes and, unfortunately, the oceans are not as forgiving as the air ways. He explained that AMHS has vessels operating on open ocean routes, large vessels operating on somewhat protected inland routes, and smaller vessels that can access the docks and piers in the smaller communities. Nominally, he explained, there are three classes of vessels, and part of the Phase 2 effort will be looking at the routes and assets on those routes to determine the best mix of vessel sizes and types to offer flexibility to the system and also meet the mission requirements of schedule and capacity.

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CO-CHAIR STUTES referred to the 13 classes of vessels, and asked the number of classes of different docks, as that appears to be problematic as well.

MR. WATERHOUSE opined that AMHS calls at 33 different terminals, and a significant number of those terminals are not controlled or owned by AMHS. There, he pointed out, is the challenge of AMHS not only calling at its own terminals, but also calling at terminals managed, designed, and used by other entities. He described it as a complex problem and at the end of the day, the vessels and terminals have to work together. Terminals are difficult when looking at the connection to other transportation networks and the challenges of meeting the landscape of Alaska in a working manner. There are opportunities, he offered, for some standardization and monetization of the terminals, and to determine whether there are ways to make them generate revenue other than just as a place to take tickets.

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CO-CHAIR STUTES said she would presume that all of these items would go into the same bucket when determining the system.

MR. WATERHOUSE answered that they will be looking at these items, but their ability to dig deeply will be limited by the time allowed as it will be a sprint to cover the many areas and offer enough information to the Southeast Conference to create a set of solid and defensible recommendations. Clearly, he related, not every last question will be answered.

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REPRESENTATIVE KOPP offered his excitement about this project as Co-Chair Stutes and he are huge fans of the ferry system and he appreciates the current leadership of DOTPF heading in this direction. He referred to a previous statement of how to message this information to Alaskans, how to talk about the direction this is moving, and to the proposed vision statement, and described that this project is opening up Alaska. The biggest problem Alaskans have is occupying their own land due to a lack of access and, he stressed, Alaska has approximately 900 road miles with 25,000 coastal miles. Somehow that fact needs to be messaged so people understand that "we're not Alaska without the marine highway system, we literally fall back into a postage stamp size that we occupy" he related, but with DOTPF and AMHS the entire State of Alaska can be opened up, and that vision needs to be pushed hard. He referred to the public corporation models such as the British Columbia Ferry System and the Caledonian MacBrayne and asked whether they have shown to be sustainable.

MR. WATERHOUSE responded that both systems are sustainable. The British Columbia Ferry System recently signed a 10-year labor contract with its labor unions which offers long-term stability and predictability in its cost structure. Caledonian MacBrayne recently signed a renewed 7.5-year contract with the Scottish government which will ensure that its operating budgets and schedules are set, but also that the fees paid to it by the government are known and predictable and tied to required specific service delivery standards. He related that part of Phase 2 is looking at how those systems transitioned and whether there are lessons to be learned. The person who was formerly head of the London Stock Exchange, and currently in charge at CalMac Ferries, Caledonian MacBrayne Clyde & Hebridean Ferries, and he were discussing Phase 1 of this project and Mr. Waterhouse was promised full cooperation for the Elliot Bay Design Group in moving forward. Mike Corrigan, former President

and CEO of BC Ferries, will also work closely with the Elliot Bay Design Group.

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CO-CHAIR STUTES commented that she has been working for three years to get the system forward funded and she has not given up even though this is not the prime year. She stressed that forward funding Alaska's ferries is critical to contributing to its sustainability, and that it would be revenue generating.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 5:06 p.m.