

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 15, 2018

1:44 p.m.

MEMBERS PRESENT

Representative Louise Stutes, Co-Chair
Representative Adam Wool, Co-Chair
Representative Matt Claman
Representative Harriet Drummond
Representative Chuck Kopp
Representative Colleen Sullivan-Leonard

MEMBERS ABSENT

Representative Mark Neuman
Representative David Eastman (alternate)
Representative Gabrielle LeDoux (alternate)

OTHER LEGISLATORS PRESENT

Representative Justin Parish
Representative Jonathan Kreiss-Tomkins

COMMITTEE CALENDAR

PRESENTATION: THE ALASKA MARINE HIGHWAY SYSTEM REFORM INITIATIVE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ROBERT VENABLES, Executive Director
Southeast Conference
Juneau, Alaska

POSITION STATEMENT: Presented a PowerPoint presentation of the Alaska Marine Highway System (AMHS) Reform Initiative.

DENNIS WATSON, General Manager
Inter-Island Ferry Authority;
Vice-President, Southeast Conference

Craig, Alaska

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

SHANNON ADAMSON, Union Representative

Steering Committee;

Regional Representative

International Organization of Masters, Mates, and Pilots (MM&P)

Juneau, Alaska

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

DAVID KENSINGER, General Manager

Inter-Island Ferry Authority

Petersburg, Alaska

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

GREG WAKEFIELD, Owner

AAA Moving & Storage (AAA Moving);

Member, AMHS Reform Project Phase 1 Steering Committee

Anchorage, Alaska

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

JOHN WATERHOUSE, Chief Concept Engineer

Elliott Bay Design Group ("Elliott Bay")

Seattle, Washington

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

SUSAN BELL, Principal

McDowell Group

Juneau, Alaska

POSITION STATEMENT: Testified during the AMHS Reform Initiative presentation.

ACTION NARRATIVE

[1:44:02 PM](#)

CO-CHAIR LOUISE STUTES called the House Transportation Standing Committee meeting to order at 1:44 p.m. Representatives Stutes, Wool, Drummond, and Kopp were present at the call to order. Representatives Sullivan-Leonard and Claman arrived as the meeting was in progress.

Presentation: The Alaska Marine Highway System Reform Initiative

[1:44:39 PM](#)

CO-CHAIR STUTES announced that the only order of business would be a "Presentation: The Alaska Marine Highway System Reform Initiative."

[1:46:15 PM](#)

ROBERT VENABLES, Executive Director, Southeast Conference, stated he would share the findings and results of the Alaska Marine Highway System (AMHS) Reform Initiative.

[1:46:53 PM](#)

DENNIS WATSON, General Manager, Inter-Island Ferry Authority; Vice-President, Southeast Conference, stated that he previously served as the mayor, City of Craig. He said the project team for the AMHS Reform initiative strongly supports this effort. From his perspective as a ferry operator, he shared that the Alaska Marine Highway System (AMHS) provides Southeast Alaska access north to Haines and south to Bellingham, Washington and Prince Rupert, British Columbia. He emphasized the importance of the AMHS to the communities in Southeast Alaska, for access to transportation, goods and school or cultural events. The Inter-Island authority would not exist without a functional AMHS. The AMHS system also provides access to Western Alaska communities.

[1:48:52 PM](#)

SHANNON ADAMSON, Union Representative, Steering Committee; Regional Representative, International Organization of Masters, Mates, and Pilots (MM&P), provided her background, including that she has a United States Coast Guard issued license and she has sailed as a licensed deck officer with the AMHS for seven years. She has worked in her current position for three years. She applauded the Department of Transportation & Public Facilities (DOT&PF) on the AMHS reform project, especially for actively involving the MM&P in this project. When the AMHS is in decline it not only hurts communities but also the crews. The Masters, Mates, and Pilots (MM&P) support this [AMHS Reform report], because it recognizes that the AMHS is failing, but the ferry system has an opportunity to succeed through this project. Although the union does not agree with every recommendation, the

MM&P understands the give and take in the negotiation process and the union can tolerate the outcomes. In closing, she said that changes in the AMHS are desperately needed, that this initiative represents positive change, and the union supports it.

1:50:27 PM

MR. VENABLES recognized members in the audience, including Jan Hill, Mayor, Haines Borough and the chair of the Southeast Conference. He emphasized the importance of having Alaskans articulate what the AMHS should be during this project. He discussed the project process, and noted the steering committee had statewide participation. Further, union and labor representatives participated throughout the process, he said. The goal has been to create a management structure empowered to make the decisions to control costs and create revenue streams to achieve a reliable and sustainable system. He invited Mr. Kensinger to describe his experience with the AMHS.

1:53:10 PM

DAVID KENSINGER, General Manager, Inter-Island Ferry Authority, shared his experiences and observations as a frequent traveler on the AMHS and from operating a produce business in Alaska for 40 years. He estimated his family has traveled on the AMHS ferries more than 100 times per year and doing so has shown him the importance of the AMHS to communities. Further, he has encountered hundreds of travelers whose destinations extend beyond Southeast Alaska to all parts of Alaska. He realized the depth of the problems the AMHS faces when in February, none of the ferries operated in Southeast Alaska one day. In fact, this was the first time since 1963 that the AMHS did not operate any ferries. He reported that he often cannot use the ferry system due to [intermittent or inconvenient] ferry schedules and cancellations.

MR. KENSINGER said he believes in the [AMHS Reform Project] because it uses fundamental business principles and processes like long-term planning that is absent in the current AMHS. The AMHS budget cycle is based on year-to-year legislative appropriations that limit the AMHS's ability to operate efficiently. These reforms can bring increased ridership, provide long-range planning opportunities, and potentially reduce the annual need for general funds. He acknowledged that public funding is always necessary for public transportation. He would also like to see more service with less cost to the

state. He said, "We can't get to that point until we have something like this operational, this business plan, and this change that we're proposing in front of you right now."

[1:56:29 PM](#)

GREG WAKEFIELD, Owner, AAA Moving & Storage (AAA Moving); Member, AMHS Reform Project Phase 1 Steering Committee, stated that his business operates in seven locations throughout the state, including Kodiak, Fairbanks, Ketchikan, and Sitka. Since 1983 his business has grown from a small, local one-truck company to the biggest one in Alaska. AAA Moving would be a bigger customer of AMHS if it could rely on the ferry services. He has participated in the AMHS Reform Project, as a steering committee member to provide a business perspective. He emphasized that the AMHS is a business - a public business - which must be run on business principles, including customer service, reliability, and meeting the needs of the marketplace.

MR. WAKEFIELD said that as a steering committee member he was initially surprised at some of the AMHS's decisions. Once he observed how often leadership changes and the effects the political process has on the AMHS, he better understood the decisions being made. He advocated for a public corporation, one that would bring expertise, continuity of management and improved decision-making to the AMHS. He highlighted that the AMHS has some vessels over 60 years old, ones of that vintage that typically are sold for scrap or to countries in Southeast Asia for short-term hauls. He reported that consultants advise replacing ferry vessels every six years.

[1:59:30 PM](#)

MR. WAKEFIELD urged members to adopt a public model to allow this system to continue. As an AMHS user since the 1960s, he felt that the system has grown, but not in the best way. He explained that the AMHS is an integral part of public transportation; however, he acknowledged that it is different from highways and airports. In closing, he emphasized the need for a focused, professional board that directs the AMHS's management which will result in better decision-making that allows for long-term sustainability and growth and reduce the need for general fund appropriations. He said he would like his grandchildren to have the opportunity to ride on the AMHS, but changes must be made for that to happen. He urged members to consider this proposal and move it forward.

[2:01:45 PM](#)

MR. VENABLES added that the AMHS Reform Project team listened to Alaskans first.

[2:02:16 PM](#)

JOHN WATERHOUSE, Chief Concept Engineer; Elliott Bay Design Group ("Elliott Bay"), stated that "Elliott Bay" is a naval architecture and marine engineering firm who has worked with the Alaska Marine Highway System (AMHS) for over 30 years, and worked with Southeast Conference on this study. He offered to present a PowerPoint to review the work and conclusions for the project.

[2:02:43 PM](#)

MR. WATERHOUSE paraphrased slide 2, titled "Project Purpose" which read [original punctuation provided]:

- **Create a strategic plan for AMHS**
- To provide financially sustainable ferry service that meets the needs of Alaskans
- **Two-phase project**
 - Phase 1: Mission, Goals, and Governance Recommendations
 - Phase 2: Strategic Operational and Business Plan

MR. WATERHOUSE said that "Phase 1" of the project was to reaffirm the mission and goals; and review governance structures used by ferry systems throughout the world to identify any that might be preferred as optimal for the AMHS. He described the "Phase 2" scope of work, which was to examine operational, revenue, and planning aspects of the AMHS and develop recommendations on how to improve the AMHS system.

MR. WATERHOUSE reviewed slide 3, titled "Project Team" which read [original punctuation provided]:

- Southeast Conference
- Contractors
 - Elliott Bay Design Group
 - McDowell Group
 - KPFF Engineering Consultants

- Statewide Steering Committee
- Offices of the Governor and Lieutenant Governor

[2:03:34 PM](#)

MR. WATERHOUSE reviewed slide 4, titled "Phase 1 Scope of Work" which read as follows [original punctuation provided]:

- Statewide Summit
- Stakeholder interviews
- Case studies of other ferry systems
- Mission statement refinement
- Analysis of alternative governance models
- Recommend governance model for AMHS

MR. WATERHOUSE said the project began with a listening session, including a statewide summit and interviews with key stakeholders. The group held discussions with the Department of Transportation & Public Facilities (DOT&PF), the AMHS, and the Department of Administration (DOA). He reiterated that the group examined other ferry systems worldwide for best practices that could be adopted, and it refined its mission statement as well as making recommendations for a governance model.

[2:04:28 PM](#)

MR. WATERHOUSE turned to slide 5, titled "Phase 2 Scope of Work," which read as follows [original punctuation provided]:

- **Define long-term operating strategy**
 - Task 1 - Revenue Analysis
 - Task 2 - Operations Analysis
 - Task 3 - Operations Financial Model
 - Task 4 - Structure and Benefit of Public Corporation
 - Task 5 - Public and Stakeholder Engagement
- **Three tasks not funded**
 - Household and Business Survey
 - Capital Needs Assessment
 - Transition Plan

MR. WATERHOUSE explained that "Phase 2" furthered the work of "Phase 1," examining how the recommended governance model to create a public corporation would change the way the AMHS operates. He pointed out the five tasks listed, noting that three tasks were not undertaken due to lack of funding; however, the unfunded tasks will need to be accomplished, including

engaging with the public, considering capital needs, and developing a transition plan.

[2:04:53 PM](#)

MR. WATERHOUSE paraphrased slide 6, titled "Task 1 - Revenue Analysis" which read as follows: [original punctuation provided]:

- Identify mix of public funding and other revenues for sustainability
- Consider possible changes to tariff rates and structure
- Consider potential partnerships with private, Tribal, municipal, and other entities

MR. WATERHOUSE remarked that the AMHS project group tried to take a fresh look at revenue.

[2:05:20 PM](#)

MR. WATERHOUSE paraphrased slide 7, titled "Revenue Findings," which read as follows [original punctuation provided]:

- AMHS generates \$50 million in annual operating revenue
- Bellingham service is an essential source of revenue (44% of total)
- Bellingham in the top 6 revenue port pairs
- Non-resident travel accounts for 42% of operating revenue
- Best opportunity for revenue growth is through forward funding

MR. WATERHOUSE highlighted the findings, noting \$50 million in operating revenue sources are generated from ticket sales, on board food sales, and terminal operations. One of the strong findings was that finding that Bellingham provides 44 percent of the total system revenue.

[2:05:58 PM](#)

CO-CHAIR STUTES asked for the number of trips the AMHS takes per year from Bellingham to Alaska.

MR. WATERHOUSE answered that he did not specifically recall, although the AMHS operates 350 service weeks per year across all

the vessels. He said the figure for the number of Bellingham trips was included in the report. In addition, the revenue analysis identified the importance to all Alaskans for nonresident AMHS passengers visiting Alaska since their ridership helps underwrite the system.

[2:06:49 PM](#)

CO-CHAIR WOOL referred to the 44 percent of revenue attributed to the Bellingham service. He asked if Bellingham was mentioned because the services to be Bellingham could be cut.

[2:07:20 PM](#)

SUSAN BELL, Owner, McDowell Group, stated that her firm contributed to the revenue analysis, governance model, and public outreach. The firm reviewed all revenue by route and the numbers of Alaskans using the ferry system. One inherent question people have asked is whether the AMHS could sustain itself if it only operated in Alaska. As Mr. Waterhouse mentioned earlier, the Bellingham service was highlighted because it is important to note that Alaskans receive benefits from the Bellingham route; that the system would not be sustainable without [the Bellingham route].

CO-CHAIR WOOL remarked that he appreciated the revenue percentages and figures; however, the costs to operate the Bellingham routes were not listed, including any maintenance costs for ferries. He clarified that he was not necessarily asking for those figures.

MS. BELL added that with the marine expertise that "Elliott Bay" has, it provided more of the operational analysis. She stated that the McDowell Group and "Elliott Bay" provided some pieces that fit into the report. She that they are taking notes for follow-up to provide more details for the committee.

[2:09:11 PM](#)

MR. WATERHOUSE stated that the AMHS relies on the general fund to underwrite the ferry system operations; in fiscal year (FY) 17, the appropriation was \$89 million. Still, the AMHS provides public transportation for the "public good," he said. In fact, the AMHS will always be dependent on funds from the state. It is not feasible, given the geography of Alaska and ridership levels for the AMHS to cover all the operating costs from fares.

2:10:04 PM

REPRESENTATIVE SULLIVAN-LEONARD directed attention to slide 7 and asked him to expand on the bullet point "Best opportunity for revenue growth is through forward funding."

MR. WATERHOUSE responded that one key aspect of transportation is reliability and given the decrease in funding for the AMHS, the system has struggled to provide reliable service to communities. The less reliable the AMHS is, the less people will want to use it, he said. Thus, stable funding is essential to allow nonresidents sufficient planning time. Many people plan their vacations in advance and rely on published schedules in the 6 to 12 months prior to their vacations. However, if the AMHS lacks adequate funding to publish its schedule in advance, it becomes more difficult to attract these vacationers. Thus, "Elliott Bay" emphasizes creating stability in the system as inherent aspects to "grow" fare revenue.

2:11:31 PM

REPRESENTATIVE SULLIVAN-LEONARD asked how that ties into the consideration of creating a corporation.

MR. WATERHOUSE pointed out that Mr. Wakefield stated the [AMHS Reform Project's] observation that a public corporation can operate more nimbly, much closer to how businesses operate. Businesses examine how to enhance their revenues, for example, by considering and improving their customers experiences, perhaps by making the vessels more reliable, or offering routes with better schedules to suit ridership needs. Those represent things that "Elliott Bay" believes a public corporation with a good management team could achieve. He said that [a public corporation] could improve the system for Alaskans and all system users.

2:12:41 PM

MR. WATERHOUSE reported that "Elliott Bay" examined other ferry systems, globally and nationally, including Scotland's ferry system [Caledonian MacBrayne Clyde and Hebridean Ferries (CalMac) that operates in a very similar geography. Scotland's ferry system serves small, remote island communities with some routes connecting to large towns or municipalities. The consultants, ["Elliott Bay"] also examined the British Columbia Ferry [Services, Inc.] which has a mix of urban routes connecting Nanaimo and Vancouver, British Columbia, with some

routes serving smaller and more isolated communities in British Columbia.

2:13:14 PM

MR. WATERHOUSE said "Elliott Bay" examined what constitutes the best practices and common themes. Both ferry systems it examined have found the public corporation model to be quite effective in retaining the necessary links to public funding, plus it is important to give the systems the ability to engage in long-term planning. This public corporation model provides the foundation that can be built on to reinvent the AMHS for the next 50 years, he said.

2:14:03 PM

REPRESENTATIVE SULLIVAN-LEONARD asked for the anticipated amount of the fiscal note to implement the AMHS as a public corporation.

MR. WATERHOUSE responded that "Elliott Bay" has not calculated any estimates for a transition plan. He suggested that the costs to change the AMHS to an operational public corporation would need to be done in consultation with the DOT&PF commissioner.

2:15:04 PM

MR. WATERHOUSE turned to slide 8, titled "Revenue Findings," which read as follows [original punctuation provided]:

\$89 million in GF support in FY17

- Down 28% from FY13 (\$35 million cut)
- AMHS will always rely on public funds to provide safe and reliable transportation
- Transition to a public corporation will not endanger revenue flows from federal government
- Price Elasticity - Reduced fares are not likely to produce sufficient new demand to compensate for loss of revenue

MR. WATERHOUSE said that one aspect "Elliott Bay" reviewed as part of the revenue study was price elasticity; for example, if the AMHS lowered ticket prices would enough additional people ride the ferry to compensate for the lower fares. During the listening session feedback, "Elliott Bay" found that many people

believed that lower prices would increase ridership; however, the study found that would not occur. Incidentally, the AMHS has been working to rebalance some of the fares across the routes, which needs to an ongoing focus of any new management team. In addition, management could also review the dynamic pricing model used by the cruise industry and to consider any modern business practices that cruise lines and airlines use.

[2:16:37 PM](#)

MR. WATERHOUSE reviewed slide 9, titled "Operations Analysis," which read as follows [original punctuation provided]:

- Identify basic marine transportation needs for Alaskans
- Examine current system operations to identify strengths, weaknesses, and constraints

MR. WATERHOUSE reviewed slide 10, titled "Operations Findings," which read as follows [original punctuation provided]:

- Complex System
- 9 Operational Vessels
- 36 Ports of Call (37 Terminals)
- Variable service schedules
- Aging Fleet
- Terminal/Vessel compatibility
- Service areas
- Terminal weight restrictions • Traffic requirements
- Residents, communities, and businesses require reliable, consistent service

MR. WATERHOUSE advised members that the AMHS is complex and complex issues cannot be resolved with simple answers. The aging fleet causes uncertainty when vessels spend additional time in the shipyard for repairs, which disrupts the system and puts the management team into a crisis management mode rather than focusing on planning and forward thinking.

MR. WATERHOUSE reviewed slide 11 "Operations Findings," which read as follows [original punctuation provided]:

- Strengths
- Dedicated personnel at all levels
- Vital service to communities
- Weaknesses

- Lack of funding certainty for planning, scheduling, and market development
- Aging fleet with increasing and unexpected service losses
- Management - labor alignment

MR. WATERHOUSE reviewed the strengths of the AMHS, noting that all the AMHS's personnel want the system to operate better than it currently works. The AMHS provides vital service for communities, many of which have no other options for travel. In terms of weaknesses, he highlighted that "Elliott Bay" found that the AMHS needs to improve the alignment between management and labor. He offered his belief that a public corporation could provide an opportunity for them to focus on a common vision and work together.

[2:18:41 PM](#)

CO-CHAIR WOOL asked whether other systems such as in Scotland use standardized vessels in its fleets for interchangeability of parts and ease of maintenance. He further asked whether the AMHS system issues is an anomaly or if other systems have similar problems.

MR. WATERHOUSE responded that most other systems operate with a legacy fleet, with the typical age of vessels from 25 to 30 years. Some of Scotland's ferries are 40 to 45 years old whereas the United States, Alaska and Washington, is an anomaly because it uses its vessels for 60 to 65 years. One additional challenge the AMHS faces is the port size; for example, a vessel such as the motor vessel (M/V) Columbia cannot serve the smaller port community of Angoon due to the dock size. In addition, the smaller vessels such as the M/V Aurora or M/V LeConte cannot operate on some ocean routes [due to the vessel sizes and navigability]. One challenge will be to minimize the number of vessel types and to standardize components within the vessels to obtain efficiencies of scale, he said. He emphasized the public corporation's flexible plan and strategic vision structure could help move the AMHS in that direction.

[2:20:54 PM](#)

CO-CHAIR WOOL directed attention to management/labor alignment. He imagined "Elliott Bay" spent considerable time examining alignment, especially in terms of wages and benefits. He asked whether it was a "Pandora's Box."

MR. WATERHOUSE agreed that "Elliott Bay" has held extensive discussions, including meeting with representatives of the three marine labor unions and the Department of Administration (DOA). One challenge has been that the collective bargaining agreement is currently handled by the DOA and not by the AMHS. Thus, the AMHS does not control the labor negotiations; however, the AMHS participates in negotiations in an advisory capacity. Since labor represents the largest cost in running any ferry system all businesses want to control costs. The labor sector agree that its representatives need to be part of the negotiations. The good news is that there is a team sentiment, as it will take efforts by all parties to make this system better and work together, he said. Anecdotally, he stated that Alaska Airlines learned long ago that its front-line people, the people maintaining the airplanes must be aligned with management to deliver a quality product, which he referred to as the "Alaska Airlines model."

[2:22:56 PM](#)

MR. WATERHOUSE reviewed slide 12, titled "Task 3 - Operations Financial Model," which read [original punctuation provided]:

- Develop representative model to simulate the system and demonstrate relative impact of proposed/possible changes
- Identify primary cost drivers

MR. WATERHOUSE said the reason to create a financial model was to give "Elliott Bay" the ability to test different ideas. For example, the financial model allows "Elliott Bay" to test whether a route to Bellingham covers its costs or whether it makes more sense to have three or four shuttle ferries deliver ferry service at levels expected by the communities.

MR. WATERHOUSE reviewed slide 13, titled "Operations Financial Findings" which read as follows [original punctuation provided]:

- Shifting to a modern fleet and governance system provides more cost effective service
- There are no scenarios whereby all operating costs can be recovered through the farebox
- Bellingham service is required for system viability
- Primary vessel fleet cost drivers
 - Personnel & Travel - 54% of system total expenses
 - 69% of operating expenses

- Capital improvements & maintenance - 13% of system total expenses 16% of operating expenses
- Fuel - 10% of system total expenses 14% of operating expenses

MR. WATERHOUSE said personnel and travel represent the highest cost factors. Capital improvements and maintenance are ongoing and increasingly challenging as the fleet ages. One bright spot is that fuel prices have been down, but prices do not tend to stay down forever, he said. He emphasized that "Elliott Bay" believes that shifting to a modern fleet and changing the governance system will provide cost improvements in the system. Washington State ferries can cover 75 percent of its operating costs through their fares; however, these ferries serve dense urban areas that transport significant numbers each day. By contrast, North Carolina's state ferry system covers 13 percent of its operating costs through fares. Other states have taken different approaches to public transportation policy, he said. The "Elliott Bay" consultants believe the AMHS can improve its "farebox" recovery, but it must grow the revenue aspects and make the fleet more efficient, he stated.

[2:25:04 PM](#)

MR. WATERHOUSE reviewed slide 14, titled "Task 4 - Corporate Structure and Benefits," which read as follows [original punctuation provided]:

- Objective: Describe a governance structure that best empowers management team to operate AMHS economically and meet users needs

MR. WATERHOUSE stated that "Elliott Bay" considered the Alaska Railroad as a model and reviewed how the AMHS is connected to other state government, in order to validate its opinion from Phase 1 that the public corporation would be the best model. He acknowledged that the "devil is in the details."

MR. WATERHOUSE reviewed slide 15, titled "Governance - Findings," which read as follows:

- Convert AMHS to a public corporation
- Maintains existing benefits
 - Intradepartmental coordination
 - Public purpose
 - Access to federal funding

- Access to shared services
 - DOT&PF
 - Dept. of Administration
 - Dept. of Law
- Addresses existing limitations
 - Frequent turnover in senior leadership
 - Indirect labor negotiations
 - Short-term planning horizon
 - Political influence over operational decisions
- Additional benefits
 - Align labor and management interests
 - Reduce labor costs strategically
 - Incorporate expertise of board members
 - Operate in more business-like manner

[2:25:37 PM](#)

MR. WATERHOUSE advised that converting the AMHS to a public corporation would still maintain access to federal funds and allow intradepartmental coordination between the Department of Law and the Department of Administration. In terms of limitations, he suggested that with strategic thinking labor costs can be controlled or reduced through automation and system efficiencies.

[2:26:30 PM](#)

MR. WATERHOUSE reviewed slide 16, titled "Task 5 - Public and Stakeholder Engagement" which read as follows [original punctuation provided]:

- Objective: Guide a process to share information and gather essential input
 - Public Engagement Plan
 - Steering Committee and Sub-Committee input
 - Key stakeholder engagement
 - Residents, employees, community/business leaders, riders
 - Develop and maintain new project website
 - Public meetings • Media outreach

[2:26:34 PM](#)

MR. WATERHOUSE said the AMHS relies on the goodwill of Alaskans. The public engagement plan included extensive meeting to better

understand the friction points. For example, the McDowell Group created a website to solicit comments and feedback from the public. The results informed the "Elliott Bay" report and guide its recommendations.

[2:27:05 PM](#)

MR. WATERHOUSE reviewed slide 17, titled "Stakeholder Findings" which read as follows [original punctuation provided]:

- Public confirmed that AMHS is vital to community economic well-being
- Many suggestions for generating operating revenues and controlling costs
- Continued outreach is essential
 - Inform Alaskans about the statewide benefits of AMHS
 - Educate and engage key stakeholders

MR. WATERHOUSE again referred to the "Alaska Airlines model," to illustrate that the company continues to create "touch points" with its customers, which keeps its presence in customers' minds. These are lessons that could be learned and applied to the AMHS, he said.

[2:27:38 PM](#)

MR. WATERHOUSE reviewed slide 18, titled "Project Steering Committee," which read as follows [original punctuation provided]:

- Chair: Dennis Watson - Craig
- Dave Kensinger - Petersburg
 - Greg Wakefield - Anchorage
 - Elizabeth Bolling - Ketchikan
 - Shannon Adamson - Juneau
 - Josh Howes - Anchorage
 - Will Ware - Juneau
 - Sharon Hildebrand - Fairbanks
 - John Whiddon - Kodiak
 - Dan Kelly - Ketchikan
 - Michael Anderson - Cordova
 - Dennis Bousson - Skagway
 - Ex-officio - Commissioner Luiken
 - Staff: Robert Venables

MR. WATERHOUSE thanked the steering committee.

[2:28:02 PM](#)

MR. WATERHOUSE reviewed the funding supporters, listed on slide 1, titled "Project Sponsors" which read as follows"

LEGACY CONTRIBUTORS

- City & Borough of Juneau
- City of Ketchikan
- City of Valdez
- First Bank
- Haines Borough
- State of Alaska

BENEFACTORS

- Alaska Committee
- City and Borough of Sitka
- Lynden Inc.

BRONZE SPONSORS

- Best Western Landing Plus
- Central Council Tlingit Haida Indian Tribes of Alaska
- City and Borough of Wrangell
- City of Cordova
- City of Craig
- City of Pelican
- City of Thorne Bay
- City of Unalaska
- Cordova Chamber
- Greater Sitka Chamber
- Huna Totem
- Hyder Community Association
- Inter-Island Ferry Authority
- Madison Lumber & Hardware
- Marine Engineers • Masters Mates and Pilots Union
- Petersburg Chamber of Commerce
- Petersburg Economic Development Council
- Sitka Economic Development Association
- Sitka Tribes of Alaska
- SouthWest Alaska Municipal Conference (SWAMC)
- Travel Juneau
- Wrangell Convention and Visitors Bureau

SILVER SPONSORS

- City of Kodiak
- Ketchikan Marine Industry Council

- Municipality of Skagway
- Prince William Sound Economic Development District
- Vigor, Ketchikan Alaska

MR. WATERHOUSE commented that many communities contributed to the AMHS Reform Project, as well as many government entities.

[2:28:36 PM](#)

SUSAN BELL, Principal, McDowell Group, continued the PowerPoint presentation. She reviewed slide 20, titled "Overview of Phase 3," which read as follows [original punctuation provided]:

- Tactical Strategy
- Interim Measures
- Action Plan

Challenging Times Require All Hands on Deck

[2:28:46 PM](#)

MS. BELL said that "Phase 2" concluded with the draft report presented in Haines in September (2017) and at the Southeast Conference that met last week in Juneau. Throughout "Phase 2," the initiative did not have transition plan funding; however, it currently has a lean transition plan budget. She reported that the tactical strategy has been completed. It largely described for the steering committee, the Southeast Conference board, and others, the legislative process, timing, and budget process, including how the public can engage in that process. Currently, the ["McDowell Group"] has been identifying measures that can be done now and whether the system can begin to move towards some of these objectives or implement some of the things that were learned in the "Phase 2" report.

[2:29:35 PM](#)

MS. BELL reviewed slide 21, titled "Developing Concepts for Interim Measures" which read as follows [original punctuation provided]:

- Identify actions that can be taken now
 - Enhance sustainability of the system
 - Align with larger objectives

MS. BELL said if enabling legislation passes that the action plan would outline how to get from the current organization to

the future. The group presented some of the initial concepts at Southeast Conference last week in Juneau, she stated. Another concept is to examine whether an administrative order or executive order is needed for the system, and if not, to identify any other barriers.

[2:30:18 PM](#)

MS. BELL reviewed slide 22, titled "Stabilize Funding" which read [original punctuation provided]:

- System has no resiliency
- Current actions will have long-term implications on the fleet, employees, and market

MS. BELL emphasized that funding to create a corporation is an urgent issue, although she did not wish to belabor the point. She acknowledged that "Elliott Bay" has more depth in this area; however, the "McDowell Group" did want mention that decisions made for training, maintenance, and port operations have long-range implications and can help ensure consistent operations.

MS. BELL reviewed slide 23, titled "Fleet and Terminal Standardization" which read as follows [original punctuation provided]:

- Standardization results in budget savings
- Training, labor contracts, maintenance, port operations
- Modern automations can reduce crew requirements by 10 percent

[2:30:46 PM](#)

MS. BELL acknowledged that "Elliott Bay" has more depth in this area; however, the "McDowell Group" did want mention that decisions made for training, maintenance, and port operations have long-range implications and can help provide consistent operations. The group will be working more closely with the DOT&PF, the Governor's office, and the DOA to identify more details.

MS. BELL reviewed slide 24, titled "Labor Relations" which read as follows [original punctuation provided]:

- Shift negotiations from DOA to AMHS

- Enhance labor/management relations
- Establish Director of Labor Relations
 - Free senior management from time spent in disputes, discipline, and negotiations
 - Build internal knowledge base and relationships needed to lead contract negotiations

MS. BELL recalled Co-Chair Wool previously asked about labor relations. She concurred that the DOA leads the negotiations and the AMHS has been a participant in an advisory capacity. She suggested that if the AMHS was leading the negotiations that it could develop expertise in leading negotiations; however, the "McDowell Group" also recommends that a Director of Labor Relations position be contemplated. This would allow Captain Falvey and other senior management time to focus on other issues, including to resolve disputes, engage in discipline, and be involved in negotiations, which are all important activities. The "McDowell Group's" role has been to review other public corporations, including the Alaska Railroad Corporation, the Mental Health Trust Authority, and Permanent Fund Corporation to see what lessons are applicable, she said. For example, the Alaska Railroad has a single Director of Labor Relations since the [labor relations] process involves building knowledge and relationships. She pointed out that impacts from turnover is not just within the DOT&PF, but also in the Governor's office and the DOA. She acknowledged that the learning curve is steep. She reiterated that the system would benefit from continuity in the labor relation's position.

[2:33:12 PM](#)

CO-CHAIR STUTES related her understanding that there needed to be a more continuity in upper management due to the political effects. She offered her belief that a public private partnership could offer more stability the whole process.

MS. BELL concurred, stating that it ties in throughout the system, that a change in vessel affects training or port configurations resulting in budget implications.

[2:34:26 PM](#)

MS. BELL reviewed slide 25, titled "Continue Market and Revenue Analysis" which read as follows [original punctuation provided]:

- Need to understand markets to deploy resources effectively

- Bellingham = 44% of operating revenues
- Non-residents = 42% of revenues
- Passengers have statewide impacts
 - Non-residents travel throughout road system
 - 51% visit Anchorage
 - 36% visit Denali
 - 25% visit Fairbanks

MS. BELL recapped that market and revenue analysis was performed as previously highlighted. The "McDowell Group" also examined non-revenue sources. She said that the AMHS needs to delve more deeply beyond the context of the study to understand the markets, and to deploy market resources and assets more effectively. She emphasized the passengers have statewide impacts, noting that nonresidents travel throughout the road system and most often visit Anchorage, Denali, and Fairbanks. In fact, this has been a consistent finding, she said. In response to a question, she referred to a map with more detail on destinations throughout Alaska. She acknowledged that her point was to demonstrate the top three destinations were outside the coastal communities.

[2:37:33 PM](#)

CO-CHAIR WOOL asked for further clarification on the ferry port used to access Anchorage.

MS. BELL answered popular disembarkations are Haines and Skagway. She offered to show him the tables, which are sorted by revenue and numbers of passengers.

[2:38:39 PM](#)

CO-CHAIR WOOL said he was familiar with the Haines ferry, although this disembarkation requires crossing the border [into Canada and then to Alaska], which makes it more cumbersome. He noted the Alaska Railroad route links the communities of Anchorage, Denali, Fairbanks, and Seward. He suggested that tying the AMHS to the Alaska Railroad routes could create synergy.

MR. VENABLES responded, stated that the AMHS direct service to Seward was discontinued. The AMHS currently serves Whittier. He characterized the inner-connectivity that the AMHS wants to promote. For example, a person can currently travel from Fairbanks to Miami, by rail, connecting to the ferry system,

disembarking in Bellingham, switching to Amtrak rail and ultimately arriving in Miami. He characterized the AMHS as a vital connection the road system, the rail, and to airports.

[2:40:21 PM](#)

MS. BELL continued by stating that this analysis can be used to make decisions. She referred to slide 26, titled "AMHS carried Alaskans from 175 communities, " and offered to provide the map and details in a larger format that could be more easily read.

MS. BELL reviewed slide 27, titled "Alaska Resident Details," which read as follows [original punctuation provided]:

- Fairbanks North Star Borough
 - 3,316 passengers
 - 1,409 vehicles \
 - From Fairbanks, Fort Wainwright, North Pole, Eielson, Salcha, and more
- Bethel Census Area
 - 218 passengers, 52 vehicles
 - From Aniak, Kipnuk, Kwethluk, Sleetmute, and more

[2:42:23 PM](#)

MS. BELL reviewed slide 28, titled "Additional Considerations" which read as follows [original punctuation provided]:

- Operational Changes
 - Efficiencies available from vessel deployment, planning, maintenance
- Board and Staff Development
 - Gain needed business knowledge and leadership skills to run the organization

MS. BELL characterized these as interim measures. She suggested that the AMHS system could move incrementally towards the type of system that is important. What warrants additional discussion, is what type of staff and board development is needed so if the legislature passed the bill to create a corporation that people would have leadership skills and knowledge to move forward. She suggested the committee may wish to have a follow-up meeting. She said the "McDowell Group" would like to take this information and have the system move forward without waiting for some future date.

[2:43:34 PM](#)

MS. BELL reviewed slide 29, titled "In Closing" which read as follows [original punctuation provided]:

- AMHS is a critical aspect of the statewide transportation system
- Statewide users and benefits
- Working to achieve a more sustainable, businesslike operation

MS. BELL recalled earlier testifiers who highlighted the missed opportunities with the current AMHS.

[2:44:22 PM](#)

MR. VENABLES thanked committee members for listening to the presentation. He reported that Southeast Conference was formed in 1958 and its first objective was to create the AMHS. Sixty years later, the Southeast Conference has the same passion as an organization to recreate it. The Southeast Conference has a [huge] stack of studies articulating problems of the AMHS. This has been the first effort to identify a solution set, which may not be perfect yet, he said. He emphasized that the organization would like to engage with the legislature to find a more perfect management model going forward. He characterized the consultants' work as amazing, noting at one point, over 3 million data points had been considered to pull this information together.

[2:45:22 PM](#)

CO-CHAIR STUTES thanked the presenters. She said she was excited to see that this is a statewide project to address a statewide problem.

[2:46:16 PM](#)

REPRESENTATIVE KOPP said he was very excited about the direction the Southeast Conference was recommending. He considered the concept of operating the AMHS using a business approach was very significant. He noted that allowing a more direct, rather than a mediated relationship with the labor sector, and being more nimble, responsive, and effective. He offered his belief that the ability to allow for partnerships is greater, that the governor has granted a waiver for Prince Rupert on the Buy America Act for sourcing steel for a dock. He said that

goodwill with Canada is currently very high. He acknowledged some things could be done with British Columbia ferries, and other things that are just not possible right now [using the recommendations]. He said he was excited. He applauded the Southeast Conference and the consultants who brought this forward.

[2:47:56 PM](#)

REPRESENTATIVE DRUMMOND said she was excited to hear that this was moving in the right direction. She said she has been a passenger on the Inner-Island Ferry from Ketchikan to Prince of Wales Island. She was glad to see the stakeholders involved from all areas of the state. She said she was born and raised in New York City, that her grandmother was raised on a 10-acre farm on Staten Island, and she has spent considerable time riding on the Staten Island ferries. She said she and her mother did not learn to drive until later in life because they used public transportation. Mr. Venables previously mentioned a person could walk on in Fairbanks and walk off in Florida. She said it is important to consider every user. In fact, every DOT&PF project needs to consider every user, not just cars on highways, but also the walkers, the strollers, and the bikes. She liked that the project considered how other states recover their costs. She said she challenged the commissioner of DOT&PF to demonstrate what part of the paved highway system recovers revenues to the degree that the ferry system does now. She said, "It's not, that's just not happening." She commented that Washington state recovers 75 percent of its costs and another state recovers 13 percent of its costs.

[2:49:57 PM](#)

MR. WATERHOUSE commented that it was North Carolina that recovers 13 percent of its overall costs from fares. Incidentally, his firm, Elliott Bay Design Group, designed the new Staten Island ferries that are currently under construction, he said. Every system is unique; that Alaska is more unique than most. He encouraged the committee to understand that working with complexities is part of what needs to happen to move forward. He was pleased that the DOT&PF, the executive branch, and labor has acknowledged the crisis, but that the crisis could drive change in a positive direction for the AMHS.

[2:50:53 PM](#)

CO-CHAIR WOOL said he would need more time to take a trip to Miami, that his brother is currently on a train trip. Having taken a trip to Kodiak via the AMHS with Representative Stutes and reviewing this today makes him excited about the AMHS. It also makes him want to take another trip via the ferry system. He wishes the AMHS was more accessible to the road system. He offered his belief that changing the model to a corporate structure is important. Although many things need to be sorted through, it seems like they were on the right track. He thanked the presenters.

[2:52:14 PM](#)

CO-CHAIR STUTES thanked the Southeast Conference, the Elliott Bay Design Group, the McDowell Group and the steering committee for the AMHS for this presentation.

[2:53:15 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 2:53 p.m.