

ALASKA STATE LEGISLATURE
SENATE TRANSPORTATION STANDING COMMITTEE

March 7, 2019

1:31 p.m.

MEMBERS PRESENT

Senator Shelley Hughes, Chair
Senator Jesse Kiehl
Senator David Wilson

MEMBERS ABSENT

Senator Mike Shower, Vice Chair
Senator Peter Micciche

COMMITTEE CALENDAR

PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MATT MCLAREN, Manager
Business Enterprise and Development
Alaska Marine Highway System (AMHS)
Department of Transportation and Public Facilities (DOTPF)
Ketchikan, Alaska

POSITION STATEMENT: Participated in the presentation on the administration's plans for the AMHS.

AMANDA HOLLAND, Management Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Participated in the presentation on the administration's plans for the AMHS.

ROBERT VENABLES, Chair
Marine Transportation Advisory Board

Executive Director
Southeast Conference
Juneau, Alaska

POSITION STATEMENT: Spoke about the Marine Transportation Advisory Board reform efforts.

MARY SIROKY, Deputy Commissioner
Department of Transportation and Public Facilities (DOTPF)
Juneau, Alaska

POSITION STATEMENT: Participated in the presentation on the administration's plans for the AMHS.

ACTION NARRATIVE

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CHAIR SHELLEY HUGHES called the Senate Transportation Standing Committee meeting to order at 1:31 p.m. Present at the call to order were Senators Kiehl, Wilson, and Chair Hughes.

Presentation: Alaska Marine Highway System

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CHAIR HUGHES announced the presentation the Alaska Marine Highway System. She noted that the administration has made a proposal that the current ferry service would cease October 1 this fall. She noticed that the RFP [request for proposals] referenced finding cost savings in a way to continue to provide transportation but also to allow economic growth in the regions. She was curious about those two working together and what the administration has to say about the different options it is considering.

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MATT MCLAREN, Business Enterprise and Development Manager, Alaska Marine Highway System (AMHS), Department of Transportation and Public Facilities (DOTPF), Ketchikan, Alaska, introduced himself.

AMANDA HOLLAND, Management Director, Office of Management and Budget, Office of the Governor, Juneau, Alaska, introduced herself.

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MS. HOLLAND said that slide 2 shows the difference between the fiscal year (FY) 2020 budget and the FY 2019 management plan for

the Alaska Marine Highway System. In the AMHS transition, the amended budget proposes a combined general fund reduction of \$97,988.8 million. That is broken out by \$64,179.7 million unrestricted general fund (UGF) and \$44,809.1 million designated general fund (DGF), which is the Marine Highway Fund. The budget position comparison shows no change between the FY 2019 management plan and the governor's February 13 amended budget for FY 2020. No positions are deleted in the amended FY 2020 budget.

SENATOR HUGHES mentioned that she attended the AMHS presentation to the Finance subcommittee for transportation that morning. She asked if the amount shown in the gold on the funding comparison graph is the money collected at the fare box.

MS. HOLLAND answered yes.

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SENATOR KIEHL asked if that was the expected fare box revenue or a drawdown on AMHS funds.

MS. HOLLAND responded that it was the projected revenue.

CHAIR HUGHES clarified that in FY 2020, the ferries would operate from July 1 to October 1 and positions would be carried through until October 1. After that, most people would not be working.

MS. HOLLAND responded that that was correct.

CHAIR HUGHES asked how that would work.

MS. HOLLAND said all the positions are budgeted for a certain number of months, depending on what the system would require for FY 2020. If AMHS underwent a reduction of force in October every year, those positions stay on the record. Employees can stay in those positions, but there is no work for them to perform for a certain period of time.

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MS. HOLLAND said that slide 3, Historical Revenue and Operating Cost: Alaska Marine Highway System, is one of the metrics that the Department of Transportation and Public Facilities (DOTPF) relies on for trends in AMHS operations. This is an historical revenue and operating cost metric. It looks at the fare box recovery rate. They are looking at how much of the operating cost of the department is funded through receipts and how much

is subsidized by the state general fund. The highest level of fare box recovery was 61 percent in 1991 and 1992. Starting in 2005 and 2006, the cost recovery has been lower than 35 percent with increased operating costs.

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CHAIR HUGHES asked why the operating costs increased. She also mentioned that other committee members were absent because a Finance Committee meeting had been scheduled.

MR. MCLAREN said there were several factors. In 2004-2005 three new vessels, both fast ferries and the Lituya, went into service. The plan was to retire at least one vessel. That did not happen, so there were more vessels running. They started going to smaller communities, which don't have as high a cost recovery, and there were wage increases. The fundamentals of the system changed.

CHAIR HUGHES asked why the vessel was not retired and why additional service was added.

MR. MCLAREN said he was not sure. The general manager would probably know.

CHAIR HUGHES asked if that was before his time.

MR. MCLAREN answered yes, but they could get the answer.

CHAIR HUGHES said the 61 percent recovery rate was good. She asked if there was anything responsible for that in 1992.

MR. MCLAREN said he could get the traffic numbers. They were running fewer ships at the time. Tariffs have not increased much in the past 10 to 15 years. They could figure out whether anything significant had happened.

CHAIR HUGHES said if something significant had been happening, maybe they could repeat it.

MS. HOLLAND said slide 4 shows a 10-year look back of unrestricted general fund in the AMHS operating budget. She explained the dip in UGF in FY 2018 was because the legislature in FY 17 put forward a supplemental appropriation of \$30 million to reduce FY 18 UGF spending in the AMHS. There was a fund source swap from UGF to DGF, the Marine Highway Fund. In addition, approximately \$9.4 million UGF was appropriated from the community quota revolving loan fund and deposited in the

DGF, the Marine Highway Fund. In FY 19, that fund source swap was reversed, so that Marine Highway Fund authority was switched back to UGF, which is why there is a dip in 2018 and an increase in 2019.

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SENATOR KIEHL asked what the FY 18 number would look like if the creative appropriation practices were undone.

MS. HOLLAND said the unrestricted general fund would have been \$40 million higher in FY 18, so it would have been between \$79 and \$82 million.

CHAIR HUGHES said the UGF for FY 20 is for three months of service. The blue bar for FY 20 is a quarter of the UGF for FY 19, which was for 12 months. It looks proportional to her. She added she was just thinking out loud.

MS. HOLLAND said slide 4 is an update on the governor's directive issued on February 13 for DOTPF to enlist the aid of a qualified, economic and marine consultant to review and incorporate all the state's financial obligations and liabilities related to the Alaska Marine Highway System with the idea of identifying protentional reductions to that financial liability and obligation. The consultant will be incorporating previous studies' findings and providing an analysis of various options for the AMHS that would result in those reductions to the state's financial liabilities for the system.

March 1	Issued Informal Request for Proposal
March 11	Deadline for Receipt of Proposals
March 18	SOA Issues Notice to Award
March 19	SOA Issues Contract and Performance Begins
May 15	Consultant Preliminary Recommendations
June 7	Consultant Preliminary Draft Report
June 14	DOT&PF Comments Due to Consultant
July 5	Consultant Final Draft Due
July 12	DOT&PF Final Comments Due to Consultant
July 31	Consultant Final Report to DOT&PF
Contract Budget \$60,000 - \$90,000	

CHAIR HUGHES commented that it was an aggressive timeline. It had been discussed that morning, but she thought it should be brought up again. She asked why there was such a tight timeline, whether they were confident they would get proposals, and why they were assured that the timeline would work.

MS. HOLLAND replied that Deputy Commissioner Siroky had spoken to that this morning. The department recognizes that it is an aggressive timeline. They did engage three potential sources or consultants. They have had inquiries about this, so they felt the aggressive timeline could still result in a qualified consultant bid. They would like to get moving on this project as quickly as possible, so they have time to analyze options.

CHAIR HUGHES asked whether the numerous studies done over the years and their solutions had been considered. She read the RFP, which provides a link to the reform committee that was put together by the Southeast Conference. She asked if there had been a review of prior reports and studies and whether those solutions were dismissed. She asked why they were doing another study.

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MS. HOLLAND said quite a number of studies have been done over the years. There was a systems analysis, a tariff analysis, an economic impact analysis, the Marine Highway Reform Phase 1 and Phase 2 Reports, annual traffic volume reports, vessel condition reports, and annual financial reports. There is quite a bit of information out there, she said. All those studies are specific to one particular look, one particular scope. The idea behind bringing a qualified consultant on board is that the consultant would review all of that and bring in expertise about how to maximize the marine highway system and provide the department with options, including information from these reports. It is bringing an expert to help them evaluate all this information and make the best-informed decision possible.

SENATOR HUGHES said she appreciated the administration recognizing that they can't keep doing what they've been doing. They need to make changes. She is concerned about the timeline and has many questions. One would be whether any federal dollars would be lost, such as for the facilities and terminals. When they move too quickly, there are unintended consequences. Apparently, the administration is confident with this pace, but this gives her pause. She used to live in Southeast and has family here. The weather is often inclement and it's not always safe to travel in small aircraft. She wants to make sure they do this right and continue to provide transportation for people who live in this region.

SENATOR KIEHL asked what the fund source was for the consultant.

MS. HOLLAND said the fund source was existing Marine Highway Authority in the FY 2019 operating budget.

SENATOR KIEHL asked how much excess authority there was beyond anticipated need.

MR. MCLAREN answered the budget is tight this year on authority. He will need to investigate to find the exact amount. They feel there is enough to recover this.

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SENATOR KIEHL said he appreciated her question about previous studies. Many of them are thorough. The remarkable thing about them is that the ones from 1969 read like the ones from 2010 in terms of their recommendations. That was his editorial comment. In terms of deliverables, the contract's scope of work, the marine highway system has worked on efficiencies trying to secure long-term contracts for supplies, for maintenance, and things like that. He asked if the consultant would get to the level of granularity to address the cost of terminating those contracts.

MS. HOLLAND answered that they do anticipate that the consultant report will address those issues. The consultant will work closely with DOTPF. The Department of Revenue economic group will also be working DOTPF to identify economic impacts of the various options that the consultant identifies for consideration.

CHAIR HUGHES said the RFP says that the AMHS will move toward other service options to realize short- and long-term cost savings for state government and to promote economic growth in affected parts of the state. If that is part of it, they should be looking at impacts on the economy.

SENATOR KIEHL asked what the scope of that analysis is on community impacts, especially economic impacts.

MS. HOLLAND responded that they expect to see impacts for opportunities for private operators and how that could change the economic situation for communities that currently receive marine highway services.

SENATOR KIEHL said that is a significant concern. He asked the department to give him the estimated cost of state staff time for this effort.

CHAIR HUGHES said the scope of work has ten options, although the RFP is not limited to those. There is a lot about public-private partnerships, public corporations, the state retaining part but privatizing others. It doesn't appear to be only about privatization, but she has been hearing more about privatizing. She asked if the administration is open to the other nine options.

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MS. HOLLAND said her understanding was that the administration is looking for a variety of options. There is no single set determined course.

CHAIR HUGHES said that was good to hear. She was hearing things that made it sound like they were going down only one path. Senator Stedman that morning had brought up that the AMHS advisory board was supposed to be part of any long-term planning. She asked if they have been involved and what the plan was for that.

MS. HOLLAND replied that she would defer that to the department leadership. She asked if they could respond in writing.

CHAIR HUGHES said that she saw that the chair of the Marine Transportation Advisory Board (MTAB) was in the room. She asked him to come up to speak about his interactions with the department as the chair of the board.

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ROBERT VENABLES, Chair, Marine Transportation Advisory Board, Executive Director, Southeast Conference, Juneau, Alaska, said it was not clear yet how they will be involved. The commissioner has reached out to the chairs of MTAB, the aviation board, and the highways advisory board and asked them to be part of a new ad hoc committee. They don't have clarity yet about how that committee will be involved. The members of the ad hoc committee have not been appointed. As far as MTAB, it does state that the Marine Advisory Transportation Board shall, in cooperation with the department, prepare and submit to the Department of Transportation and Public Facilities and the governor for review a strategic plan. That is what the consultant will be getting at. He was pleased to see the link [in the RFP] to the reform effort that the MTAB and Southeast Conference have been part of. He offered to provide more information about that if the committee would like it.

CHAIR HUGHES said he was welcome to provide any information to the committee. She asked him whether he had been involved in any discussions regarding his role with the reform committee work.

MR. VENABLES said that MTAB and the steering committee, which has a dozen members across the state, had a joint meeting in December in Anchorage. The governor had staff there also. As part of the reform effort, MTAB has been invited to each meeting, so statutorily they are in compliance.

CHAIR HUGHES asked what the reform committee was recommending and if that dovetails with the RFP.

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MR. VENABLES said there was a lot of opportunity for the committee work to be adopted by the governor. Those ten tasks [in the RFP scope of work] are so broad and so divergent in many ways, that if one of those paths were chosen, very little could be adapted. The crux of the reform effort was to empower management to make the business decision of the day with an executive board that is skilled in maritime expertise, finance, marketing, and labor. There is a lot of cost and waste associated with current operations because of the misalignment between labor and management. There are opportunities there. They will see how the governor and DOT utilizes MTAB and that information. All of the reform efforts and product and process were outside the Department of Transportation. He can understand why DOT might want their own consultant, but this work was done by Alaskans and consultants in a public manner. He can get executive summaries to the committee.

CHAIR HUGHES clarified that it would allow public-private partnerships where it would make sense. She asked if he could give some examples. She noted that this morning Senator Bishop had suggested the possibility of reopening bars.

MR. VENABLES said that was a poster child of allowing the space to be used by the private sector. Whether state employees need to be serving alcohol to the traveling public was a debatable question that would leave the door open for an entrepreneur to come in to provide that service and create some revenue. Four years ago, he mentioned to Senate Finance that if they really wanted to take the handcuffs off and let the enterprise system create some revenue on board the boats, perhaps they could look at gaming also. There are many opportunities that may not be embraced by all, but they could be explored if empowered

management could look at those. If empowered management could do that, there are things that haven't even been considered yet.

CHAIR HUGHES said gaming could increase ridership and bring people up to Alaska who might not come otherwise. That ability to work with the private sector sounds like a positive. She likes the idea of having private sector expertise helping steer the ship, pun intended. She asked if there is anything else about solutions they have not discussed.

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MR. VENABLES said regarding the labor-management misalignment, the marine highway doesn't even manage their own contracts with their employees. As Senator Bishop mentioned this morning, they don't talk as much as they should. An empowered board that has some private sector expertise could look at ways to partner with communities, businesses, and tribes. They have had some good conversations about how some of those entities could come to the table and create infrastructure that would provide efficiencies for the system, as well as for terminals and other locations.

CHAIR HUGHES said this was not the Finance Committee, but it begs the question. This was being discussed because of the fiscal situation and what they have been doing in prior years was not sustainable. She asked what level of state subsidy his proposal would need as a public corporation. The Alaska railroad is a public corporation that is not getting an annual subsidy, but it has other resources and ways of getting revenue. She asked for his best estimate and how involving private enterprise might bring it down.

MR. VENABLES replied that he would surmise that it would bring it down dramatically, but they do not have that number. They did not get to that lower level of granularity in the planning of different scenarios. They felt confident after looking at operational models and governance models around the world that what would work best for Alaska would be an empowered board that could oversee an operation still owned by the state and providing a public service mission but empowered to work with the private sector to bring costs down. They don't have an exact number, but they think it would be dramatic.

CHAIR HUGHES asked if they are at about \$86 million in unrestricted general fund, was it conceivable that they could do it for about \$50 million.

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MR. VENABLES replied that there are a number of scenarios where that could happen, but they have an aging fleet. If looking for an operator out west, they would not offer the Tustumena, which is literally falling apart. They would need new boats. With new boats they would have more flexibility for revenue, but the capital costs of repairs becoming dramatic will sink the enterprise.

CHAIR HUGHES said there are lots of puns today. She asked if his model would consider the use of catamarans so that passenger service could be more readily provided at a lower cost or if they were only talking about larger vessels that can carry cars.

MR. VENABLES said they were looking at the ideal vessels for mainline feeder vessels in the next phase of their work. They haven't gotten to that element yet, but he imagines they would contemplate many of those scenarios.

SENATOR KIEHL said the comparison to the railroad was an interesting one. They receive federal transit authority operating grants for passenger service, as well as capital. They are not running the trains out of the fare box. He asked whether Mr. Venables sees his work as an opportunity to stabilize some of the vision of the marine highway system. In the last decade or two, they have seen the idea of going to hub-and-spoke with a bunch of fast ferries with little of the traditional model of a lot of mainline service and a village run and more day boats that may or may not be able to operate as day boats. He has a concern about how those dollars, primarily federal but some state, are being planned. He asked if there is anything in the model they are working on to stabilize the plan or if that adds to the long-term vision.

MR. VENABLES responded that was the next level of what they were getting into. Along with having a fleet of viable vessels, there needs to be deployment strategies to utilize them, much like airlines do with their expensive 737s. Things to consider are different types of marketing and the timing of basic services vs. all services. The board would be empowered to make those decisions because that would be their area of expertise. It would bring a lot of stability to operations.

CHAIR HUGHES said that the Alaska Railroad is a public corporation. It has given some policy makers heartburn over the years that they as legislators don't have access to all the ins and outs of their books. She asked if that would be the same arrangement if something like this went forward.

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MR. VENABLES said his understanding was that when the railroad was created, there were certain federal mandates and it was a time that allowed for that structure. "The good news for the senators here is that they'd have to require significant change of law and so you would get to make sure that you had all the access you needed into that. Last year HB 412 was introduced. That kind of provided a framework. We're looking at seeing how to make those kinds of changes that I think it's important to have the clarity and oversight that would allow you to do that," he said.

CHAIR HUGHES asked if he had anything else to add.

MR. VENABLES said he would be happy to respond to any questions that come up throughout the session.

CHAIR HUGHES thanked him for coming up and for his committee's work to find a solution. She was pleased that it was one of the considerations in the RFP.

SENATOR KIEHL said he had noticed that two amendments to the RFP had been posted, mostly answering questions from potential bidders. One was about access to information about what the state would have to provide back to the federal government by vessel, by terminal, or work done if they were no longer run as public transit entities. He asked if DOTPF had a sense of what those liabilities to the federal government would look like if they went down that road.

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MARY SIROKY, Deputy Commissioner, Department of Transportation and Public Facilities (DOTPF), Juneau, replied that they were working closely with FHWA [Federal Highway Administration] on that. She tried in an earlier hearing to articulate what little she knows already and failed miserably. She proposed to respond by early next week with a description of how that works and a specific example of how that payback would work and how the payback could be used.

CHAIR HUGHES commented that the RFP was quite the project with quite the timeline. She asked who in the department was managing this project.

MS. SIROKY answered that Reuben Yost was on contract to help manage this contract, but she or the commissioner have direct

oversight over him and any decisions and recommendations he makes. "Ultimately, we are the decision makers. He's a recommender," she said.

CHAIR HUGHES asked who they should route questions through after the committee hearing.

MS. SIROKY responded that questions should come through her.

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MR. MCLAREN said the next few slides are of historical data on the operational side. Slide 6 shows the annual ridership for the past ten years, including passenger and vehicle traffic. At the top of each bar is total operating weeks for each fiscal year. An operating week is a week that that vessels run. If five vessels run in one week, that is five operating weeks during the one calendar week. The passenger traffic flow correlates almost directly to the number of operating weeks for the past ten years. As the number of operating weeks decline, the passenger traffic declines almost by the same percentage. The vehicle traffic has remained consistent for the past ten years.

CHAIR HUGHES asked if he knew what had happened along the route as far as population. The ridership goes with the fewer weeks the ships are in service, but if they increased operating weeks, if the population has gone down, the ridership wouldn't keep up with that. She knows that budget concerns are part of the reason for ramping down, but she wondered if part of that was due to population.

MR. MCLAREN said the population along most of their routes has remained consistent. What they see is that other modes of transportation became available, especially in the passenger realm. As airlines became more accessible, their passenger traffic decreased. Back in the early 1990s and 2000s, they had over 400,000 passengers [per year]. Now it is under 300,000, but vehicle volume for the entire history of the marine highway system has hovered around 100,000 [per year]. They think that decline is due to other modes of transportation being available.

CHAIR HUGHES asked if he could verify that it was not the population declining. She asked Senator Kiehl if he could verify that the population has gone down a few percentage points.

SENATOR KIEHL replied a couple of percentage points. He thought Mr. McLaren had the more likely explanation. He gave examples showing the cost of flying has dropped. There are some

competitive elements unrelated to population and he added that vehicles don't move so well on an airplane.

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CHAIR HUGHES recounted a story of not being able to fly from Juneau to Hoonah in October last year because of the weather when someone offered the services of a catamaran. Catamarans could be a good option for moving passengers. Their focus should be on making sure people can get to where they need to go in Southeast. Out of curiosity, after the [governor's] budget came out, she asked people from Southeast about whether the idea of a catamaran offering more passenger service but less vehicle service worked for them. No one has said that it wouldn't. People in Southeast want to make sure they get to where they want to go. That is one option.

CHAIR HUGHES said she has lived in Southeast and now lives in Southcentral, where they are bursting at the seams and building new roads. She also lived in Bethel and Fort Yukon, where they were totally dependent on air travel. Moving a car is nice, and easier to do on the waterways than on a plane, but the most important thing to focus on is moving people. Alaska is a lifestyle choice. People who move to a village understand that they have to travel by air and that they might be weathered in. It is the same in Southeast. People just can't get on a road and go wherever they want to go. It is a lifestyle choice. There are differences. It makes it unique, it makes it fun, but it also makes it challenging. Whatever happens with the marine highway system, it should focus on moving people to and from destinations. It could mean less movement of fewer vehicles. As someone who lived somewhere where she couldn't move her vehicle, she wanted to tell her friends in Southeast that the sky didn't fall. People get used to it and it works.

MR. MCLAREN said slide 7 shows how the average ridership compares to operating week for the past ten years. Even though the previous slide shows the passenger traffic declining overall as the operating weeks are going down, passenger traffic per week has remained consistent the past ten years and vehicle traffic has increased somewhat.

SENATOR KIEHL asked if he knew whether he could break down the vehicle traffic into commercial vehicles vs. personal vehicles.

MR. MCLAREN answered that they could get the information to him.

SENATOR KIEHL replied that would be useful. One of the tremendous benefits of a marine highway system is the ability to move commerce when those vehicles can be moved. When he looks at some of the communities he represents, economies of scale come from a population base and the infrastructure is the key. He has communities with asphalt highways, but small populations, so commerce comes from the regional hub. Where the private sector can move freight, they are doing it, but if someone needs a second freight run in Skagway in the summer to serve 15,000 cruise ship passengers a day, it can't be flown. It's not coming over land from Chicago. It's coming from a supplier in a hub community. That enables some of the smaller communities throughout Southeast to have jobs and have vibrant economies that are lacking in some places in the state. That commercial traffic will be a key part of the analysis.

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MR. MCLAREN said slide 8 shows the operating weeks and the revenue generated by the system for the past ten years. FY 12 and FY 15 had the highest total revenue. Those also happened to be the years of highest systems cost. The last few years the operating weeks have come down, but the revenue generated by ticket sales has been consistent.

CHAIR HUGHES said she did calculations based on an average ridership of 791 people per operating week in FY 18, with six operating weeks within one actual calendar week. With estimating six times 800 is 4,800 and dividing the UGF of \$81 million for the year by 52, it's taking about \$1.6 million to move 4,800 people. That is about \$340 to move a person, which seems high. The state could be giving an airline ticket. To some of these communities, a roundtrip airplane ticket might only be \$80 or \$150. She's putting that out there, that's her rough math. She asked if Mr. McLaren knows what it cost the state per person.

MR. MCLAREN said they could get the average cost per person to her. The cost to the state depends on the route and the revenue generated.

CHAIR HUGHES said she was pointing out that they are putting a lot of money into moving people. If they had perfect weather, they could just provide airline tickets to people. She is not suggesting that they do that. She's just letting them know how much they are paying per person, and that person also pays a fare. The fare is DGF on top of the UGF, so an airline ticket would be a lot cheaper. They have to figure out how to do this in a more sustainable way.

MR. MCLAREN said that slide 9 shows the average revenue per operating week. The revenue per operating week for the past ten years has increased. FY 18 had the highest revenue per operating week in the history of the system at \$149,000 per operating week. Other years had higher total revenue, but FY 18 had the highest revenue per operating week.

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MR. MCLAREN said slide 10 shows the governor's February 13 budget. Possible scenarios are shown in the next few slides. The governor's February 13 budget shows a schedule of 84.8 operating weeks with a fare box recovery rate of 40 percent. He said it can be misleading to just look at the fare box recovery rate. Some routes during some seasons have a fare box recovery of rate of 100 percent. If that was the goal for the system, those would be the only routes they run, but that would be at the expense of smaller communities that rely on the service. At the other end of the spectrum, if they focus solely on service, the fare box recovery rate is much lower. This schedule honors the published schedule through the end of August with the following schedule after that:

FY 2020 Governor's 2/13 Budget

Published summer schedule remains intact through the end of August

September 1, 2019 through mid-September, operate:

- Matanuska and Malaspina on their Bellingham and SE Alaska runs
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No service to Homer, Kodiak, Aleutian Chain, Whittier, Cordova, Valdez, Chenega Bay, Tatitlek, Yakutat, Prince Rupert, Angoon, Tenakee, Pelican, Hoonah, and Gustavus

Mid-September through October 1, 2019, operate:

- Malaspina and Matanuska on their Bellingham and SE Alaska runs
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No service to Homer, Kodiak, Aleutian Chain, Whittier, Cordova, Valdez, Chenega Bay, Tatitlek, Yakutat,

Prince Rupert, Angoon, Tenakee, Pelican, Hoonah, and Gustavus

October 1, 2019, through June 30, 2020:

- No Service

SENATOR KIEHL asked what his level of comfort was that the list of vessels would be available.

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MR. MCLAREN replied that the Malaspina is currently running. The Matanuska is in a shipyard in Portland. It is scheduled to come out of there in August. The Colombia is on that route. If the Matanuska is delayed, they will use the Colombia on that route. They are almost ready to take delivery of the Tazlina. The plan is begin operating that ship May 1, and the Lituya is continuing to operate, so they are very confident that they can keep this service level on this route.

MR. MCLAREN pointed out that the slide 10 shows the fund sources for the governor's February 13 budget. The expenditure authorization is \$45 million with generated revenue of almost \$18 million, leaving a net deficit of \$27 million.

MR. MCLAREN said they worked on different scenarios because they were asked what it would look like to add service from October through June. They looked at different fare box recovery rates when creating different scenarios. He showed a schedule on slide 11 that would keep the Kennicott on the Bellingham-Whittier cross-gulf route:

FY2020 AMHS Scenario 1
Add Oct-June Not Servicing All Ports

Published summer schedule remains intact through end of August

September 1, 2019 through September 30, 2019, operate:

- Matanuska and Malaspina on their Bellingham and SE Alaska runs
- Kennicott on the Bellingham - Whittier cross-gulf run
- Tustumena on the Homer-Kodiak/Aleutian Chain run
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No service to Angoon, Tenakee, and Pelican

October 1, 2019 through March 30, 2020, operate:

- Matanuska on the Bellingham run
- Tustumena on the Homer - Kodiak and Prince William Sound (further vetting needed)
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No service to Prince Rupert, Angoon, Tenakee, and Pelican

April 1, 2020, through June 30, 2020:

- Matanuska and Malaspina on the Bellingham run
- Kennicott on the Juneau - Whittier cross-gulf run
- Tustumena on the Homer-Kodiak/Aleutian Chain run
- Hubbard in Prince William Sound
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No Service to Prince Rupert, Angoon, Tenakee, and Pelican

Mr. McLaren said Angoon, Tenakee, and Pelican would not get service because they can only be serviced by the Aurora, the LeConte, the Tazlina, and Hubbard. The Aurora and LeConte will not be available. The Tazlina would be running but because of the distance between ports, it's difficult because of time constraints. Next summer they would shift to more service for higher revenue routes. Some ports would still be covered, maybe once a month or once every two weeks, but those ports would not be completely cut out of service.

Mr. McLaren said the Scenario 1 budget on slide 11 would provide 268.8 operating weeks of service with a potential fare box recovery rate of 50 percent. It would require \$40 million UGF and generate \$46.9 million in revenue with a total expenditure of \$93 million.

SENATOR KIEHL said he was still reeling from once a month service in the summer and figuring out how to run a business in a community with that kind of service. He asked about the forecast of a roughly 3.5 percent reduction in revenue with that kind of reduction in service.

MR. MCLAREN said the big reason for that is because they are shifting routes to focus on routes that generate high revenues, but still trying to provide service to some communities that don't generate as much revenue. This would increase their

Bellingham runs in the summer from six runs from Bellingham to Skagway to eight. They would also double the Juneau to Whittier cross-gulf route. Those routes are the most demand, most high-revenue routes in the summer. They would decrease costs by not running some of the more costly ships in the winter, the Kennicott, the Aurora, and the Malaspina.

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SENATOR KIEHL said he would want to see those projections. The cost of operating the vessels isn't the revenue. He was doing math on the fly, but they would cut about a sixth of the service weeks and lose a thirtieth of the revenue. That is a remarkable projection. He would like to see the numbers behind that.

MR. MCLAREN agreed to supply the numbers.

MR. MCLAREN said the next scenario may answer how the schedule and vessels run affect UGF and revenue. Scenario 2 adds the LeConte so they could service other ports. The rest of the schedule is the same as in Scenario 1.

FY2020 AMHS Scenario 2

Add October-June Servicing All Alaska Ports

Published summer schedule remains intact through end of August

September 1, 2019 through September 30, 2019, operate:

- Matanuska and Malaspina on their Bellingham and SE Alaska runs
- Kennicott on the Bellingham - Whittier cross-gulf run
- Tustumena on the Homer-Kodiak/Aleutian Chain run
- LeConte on the SE Alaska Panhandle run
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay

October 1, 2019 through March 30, 2020, operate:

- Matanuska on the Bellingham run
- Tustumena on the Homer - Kodiak and Prince William Sound (further vetting needed)
- LeConte in Northern Lynn Canal and SE Panhandle
- Lituya from Ketchikan - Annette Bay
- No service to Prince Rupert

April 1, 2020, through June 30, 2020:

- Matanuska and Malaspina on the Bellingham run
- Kennicott on the Juneau - Whittier cross-gulf run
- Tustumena on the Homer-Kodiak/Aleutian Chain run
- LeConte on the SE Panhandle run
- Hubbard in Prince William Sound
- Tazlina in Northern Lynn Canal
- Lituya from Ketchikan - Annette Bay
- No service to Prince Rupert

MR. MCLAREN said the total cost of Scenario 2 with service to the smaller communities is \$98 million in total costs compared to \$93 million in Scenario 1. The total cost goes up but the revenue decreases in this schedule. The UGF need in this schedule increases. He noted a typo on slide 12. It should say 281.8 operating weeks with a potential fare box recovery rate of 45 percent.

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MR. MCLAREN said that in Scenario 3 shown on slide 13, they tried to look at what they could do for an entire fiscal year if they set a goal to match the revenue generation with UGF, and this schedule does this. In the summer they would be running eight vessels, and they would be increasing the Bellingham-Skagway and Juneau-Whittier cross-gulf routes.

FY 20XX AMHS Scenario 3
 Full Year Servicing All Alaska Ports
 UGF=DGF

July 1 through September 30, and April 1 through June 30, operate:

- Matanuska and Malaspina on the Bellingham run
- Kennicott on the Juneau - Whittier cross-gulf run
- Tustumena on the Homer-Kodiak/Aleutian Chain run
- LeConte on the SE Alaska Panhandle run
- Tazlina in Northern Lynn Canal
- Hubbard in Prince William Sound
- Lituya from Ketchikan - Annette Bay
- No service to Prince Rupert

October 1 through March 30, operate:

- Matanuska on the Bellingham run
- Tustumena on the Homer - Kodiak and Prince William Sound (further vetting needed)

- LeConte in Northern Lynn Canal and SE Panhandle
- Lituya from Ketchikan - Annette Bay
- No service to Prince Rupert

MR. MCLAREN said this provides more services and focuses on revenues, but it provides more of a service level that communities are used to. It decreases in the winter; they are running four ships in the winter. In past, they have run five to six vessels in the winter. There is not as much traffic in the winter. They are trying to get the service communities need, but get more revenue generated in the summer. It provides 286.6 weeks of service with a 47 percent fare box recovery. Revenue would be \$48.9 million along with \$48.7 million of UGF.

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CHAIR HUGHES said these plans are based on current vessels and do not incorporate the concept of using catamarans, possibly partnering with the private sector. She knows that the Senate Finance co-chair wants more information about what that cost might be. Although this is not the Finance Committee, once they have the cost, she would be curious about how these scenarios would be impacted if that scenario were added. She is realizing that there are lots of levers they can pull up and down to do all sorts of things. On slide 10, shutting everything down on October 1 takes almost \$22 million of UGF for three months of service. On slide 11, with all the towns in red not getting service under Scenario 1, the UGF is about \$41 million for 12 months of service, so for less than double the amount some little communities are getting service, but not Angoon, Tenakee, and Pelican. They can do many things regarding revenue and ports and UGF. It is fascinating to her that it is \$22 million for three months of service with a bunch of communities not being served and then there is another plan for 12 months for twice UGF with some communities being added back in for service.

MS. SIROKY said that to get a better picture, they need to add the revenue into that conversation. For the governor's budget, that is \$39 million. For Scenario 1 that is \$87 million. Between the governor's budget and Scenario 1, they are collecting almost \$36 million more in revenue.

CHAIR HUGHES said she is focused on the UGF because that is where the gap is.

SENATOR KIEHL asked how they are modeling ridership changes with the different scenarios.

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MR. MCLAREN responded that the reason revenue is increasing so much is that they are focusing on keeping those steady and regular routes to busy ports to maintain the ridership. Some ports have gaps in service because they are shifting the focus to routes and times of the year with the most ridership that generate the most revenue. That comes at the expense of less service to smaller communities. Scenario 2 shifts more in the direction of providing more services to those smaller communities. The costs of running the ships is generally the same, except that adding the LeConte increases total costs, but those ports don't generate as much traffic and as much revenue. That changes how much revenue they generate and how much more UGF they need. That is where the cost recovery makes the difference. From a traffic standpoint, there will still be demand in a lot of those communities, such as getting groceries to them. They feel that even with running less frequently, a lot of the ridership will be there on the days when they do get to port. In FY 12 and 13, costs were really high. They were providing more service to more communities, but the traffic remained the same from the previous years when they weren't providing as much service. In many of the ports, traffic has remained consistent, even as operations have shifted, at least for the higher traffic ports.

SENATOR KIEHL said the question runs in both directions for those increases. He asked if there were reliable and predictable service, where every Wednesday there would be a boat or was it unpredictable. He is perplexed at the notion in the modeling that with less reliable service they would see increased unit demand.

MR. MCLAREN replied that having reliable service plays a big part. One of the assumptions in each scenario is that the budget would be in place and that service would be predictable and reliable. They are basing it on the notion that they would have a set schedule that the public would know and that they would be there when they say they're going to be.

SENATOR KIEHL said he noticed in the previous slides that they are cutting off Prince Rupert. He asked how far they are into the lease and what it costs.

MR. MCLAREN said he thought they were five or six years into the 50-year lease. They had \$3 million of federal funds that paid that lease. That would also be something to consider.

MR. MCLAREN said that slide 14 shows a side-by-side comparison of the scenarios. Going from Scenario 2 to Scenario 3 shows the impact of increased Bellingham and cross-gulf routes. The UGF is essentially the same. The total costs of operating the system go up, but revenue generation also goes up by nearly the same amount.

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MR. MCLAREN said slide 15 shows the history of tariff increases in the system. Back in 2016, a tariff study recommended leveling and formulizing tariffs through the system. Previously, they had over 23,000 different tariffs. No one could make heads or tails of it. They have implemented leveling those tariffs. Beginning May 1, 2019, the whole system will be on a formula-based tariff system. The same distance in whatever direction will have the same tariff. The commissioner may look at demand-type pricing, dynamic pricing, like airlines do.

SENATOR KIEHL there are a number of different models for that type of pricing. The last seat tends to be expensive, but if the boat is already going and seats or the car deck are not all full, another model says to fill those. He asked if they are looking at both pieces of that.

MR. MCLAREN said deferred to Ms. Siroky.

MS. SIROKY answered that they would be looking at all models to see how that might work.

SENATOR KIEHL said the department is in a no-win scenario that he wanted to acknowledge. In some of the possible scenarios, they have carefully avoided saying that they are adding more tourist services because they make more money, but the system exists to serve the entire economy. That has to be a combination of Alaskans and tourists. The same goes with the tariffs in that some are more conducive to nonresidents and some are more conducive to Alaskans. They are in a no-win scenario. As they continue to talk about this, he hopes they will go ahead and say it, "We're all grownups and we're all going to complain no matter what you do, so it's worth having the conversation right up front and talk about when we're maximizing revenue, when we're maximizing service, and from whom."

MS. SIROKY replied, "Exactly. We have talked about that internally. Are we a system that's designed to generate as much revenue as possible or are we a system that's designed to

provide service? And that is the big policy question that is going to be happening through this legislative session."

SENATOR KIEHL said, "You're the transportation infrastructure. You must serve all the masters." Alaskans must get from place to place, commerce must be able to move, and tourists need to stay in bed and breakfasts and eat at restaurants. They are in a no-win situation. They are asking them to do it all. "As we're having these discussions, let's just put in on the table," he said.

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CHAIR HUGHES said this has been an interesting topic. Gauging by the number of people in the room and online, a lot of people are interested. They have known it is a looming problem that they need to address. She is glad the department is still committed to the mission of getting people to and from destinations. As a legislator, she is committed to that. Sometimes when they hit tough situations it is time for change. She believes that making those changes can bring improvement. She thinks the catamaran model could increase the number of days in a month that people can get to and from destinations. She is pleased that they are doing out-of-the-box thinking. She is concerned about the timeline, but there is a lot of work being done. She asked what they can share after the March 11 deadline.

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MS. SIROKY said that on March 11, they will be able to tell her how many bidders they have. Once they have made a decision, they will share who all the bidders were.

CHAIR HUGHES clarified that in July they will have a better sense of how things will be modeled.

MS. SIROKY answered that the RFP has an aggressive timeline. They are hoping to have information in May that may provide some insight into final conversations as the legislature is thinking they may not be done by May 1.

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CHAIR HUGHES asked if it becomes clear that the October 1 date is not workable whether the administration is open to more time if there is a commitment to a more sustainable plan.

MS. SIROKY said she cannot speak for the governor's office.

CHAIR HUGHES said she thought that would be the answer.

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There being no further business to come before the committee, Chair Hughes adjourned the Senate Transportation Standing Committee at 2:56 p.m.