

HB

62

STATE OF ALASKA
THE LEGISLATURE

FOUCH Y. STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House Transportation:

2/2/87

Alaska State Legislature



House of Representatives

JANUARY 23, 1987
Committee on Transportation

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4858

Rep. Bette Cato, Chairman

INSIDE YOUR FOLDERS ARE:

-
- HB 62 An Act relating to ferries and ferry terminals and establishing the Alaska Marine Highway Authority
 - An analysis of HB 62
 - Review of FY'88 Governor's Budget for the Alaska Marine Highway System

OVERVIEW OF HOUSE BILL 62

The purpose of the Act is to establish an authority for the operation, management, planning and construction of facilities for the Marine Highway System with a legal existence independent of and separate from the state government.

The authority consists of a seven member board appointed by the Governor. The Authority is a public corporation of the state and is an instrumentality of the state D.O.T. BUT has a legal existence independent of and separate from the state.

The directors serve at the pleasure of the Governor for four year terms. The directors receive no compensation but are entitled to travel and per diem expenses authorized by law for state boards and commissions.

The Authority shall employ an executive director who is responsible for selecting and employing additional staff as necessary.

The Authority may adopt and enforce by-laws and regulations for the conduct of its business and for the use of its services and facilities.

It is assumed the Authority would utilize the State Accounting System where possible.

The following assumptions are made:

1. The Alaska Marine Highway Authority's time and attendance, personnel and accounting systems would interface the existing State systems and be compatible.
2. There would be an annual appropriation for full operating costs of the authority each year that would be made up of expected revenue, i.e. program receipts and a general fund subsidy to cover the remainder.
3. The authority would continue to use:
 - a. State owned office buildings
 - b. The State Mail System
 - c. The state equipment fleet
 - d. The statewide purchasing contracts
 - e. Share communications lines
 - f. Insurance, bonding, etc. as now supplied
 - g. Legal service from the Attorney General's office
4. The Directors of the Authority would meet an average of three days per month or thirty six days per year.
5. Administrative support would be provided to the Board of Directors from their existing staff

REVIEW OF FY88 GOVERNOR'S BUDGET

FOR

ALASKA MARINE HIGHWAY SYSTEM

<u>ITEM</u>	<u>COMPARISON INCREASE OR DECREASE OVER FY 87</u>	
<u>MARINE ADMINISTRATION</u>		
Administration	+105.0	4.7%
<u>MARINE FACILITIES ENGINEERING</u>		
Management	+51.6	3.8%
CIP	+51.6	2.9%
<u>MARINE MARKETING AND SERVICES</u>		
Marketing Management	+908.0	66.0%
Southeast Shore facilities	-353.3	-13.0%
Southwest Shore facilities	-210.2	-31.0%
<u>BUDGET COMPONENT</u>		
Management	+153.3	14.6%
Southeast Vessel oper/overhaul	-7695.9	-17.4%
Southwest vessel overhaul	-1274.0	-13.7%
Retirement Incentive	1143.3	100.0%

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Mary Van Nimwegen

H. Transportation

January 23, 1987
1:30pm

THE FOLLOWING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.

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THE ALASKA MARINE HIGHWAY SYSTEM

It is generally acknowledged that changes are required in the Alaska Marine Highway System.

In order to make these changes we need to identify what the areas of concern are:

ARE THEY:

1. Revenue shortfalls - Are revenues generated adequate?
Does AMHS continue to hold it's share of the market?
Are management decisions dramatically affecting the revenue picture?
What can be done to increase revenues OR decrease expenses?
2. Services?
 - a. Proposed cuts in services
 - b. lack of adequate services to accommodate in-state transportation needs
3. Scheduling - Is the scheduling of ferries convenient and adequate to meet the needs of the residents of the communities it serves?
4. Marketing - Is the Marine Highway being marketed properly?
5. Personnel - Is the department top heavy/bottom heavy?
When cuts to AMHS budget are made, are these cuts absorbed in personnel and in services?
6. Management - Are management decisions for AMHS made after extensive consideration of the alternatives?
Is adequate time spent working toward improving AMHS?
Does management have representation from the various aspects of the industry to enable well researched decisions to be made?
What could help improve and expand the decision making process?
Should decisions for AMHS be made by DOT management?

SUMMER SCHEDULING - AMHS

Vessels servicing the North and Southbound runs

- Malaspina - Monday and Thursday services from Prince Rupert to Skagway via Ketchikan, Wrangell Petersburg, Juneau, Haines
- Taku - Sunday and Tuesday services from Prince Rupert to Skagway via Ketchikan, Wrangell Petersburg, Juneau, Haines
- Matanuska - Tuesday service Seattle to Skagway via Ketchikan, Wrangell, Petersburg, Juneau Haines
- Columbia - Friday service from Seattle to Skagway via Ketchikan, Wrangell, Petersburg, Juneau Haines

- Le Conte - Monday service leaves Petersburg to Skagway via Kake, Sitka, Angoon, Tenekee, Hoonah, Juneau, Haines

Thursday service Pelican to Haines via Hoonah and Juneau
- Aurora - Monday, Tuesday, Thursday, Saturday and Sunday services from Ketchikan to Hollis

Friday service from Hyder to Hollis via Ketchikan
- Tustumena - Provides continual service between Seward, Kodiak, Seldovia, Homer and Port Lions. Provides summer service between Valdez and Cordova
- Bartlett - Sails on a daily basis to provide services between the ports of Valdez, Whittier and Cordova in summer.

The new FY 88 budget for AMHS proposes the following cuts:

- a. Reduce Malaspina service by four months
- b. Reduce Taku service by six months
- c. Columbia lay up planned for 6 months
- d. Scheduled service lay up of all vessels

This will mean only the Matanuska will operate year round on this north and southbound run. As a result of these reductions in service and layups 164 crew members will be impacted

Service to Prince of Wales Island and Southeast communities

- a. Reduce the Aurora service by four months resulting in a single feeder vessel service in Southeast for eight months of the year versus the current four month period. The Le Conte would be the single feeder vessel. The Chilkat would increase service by four months to supplement service between Ketchikan and Prince of Wales Island.

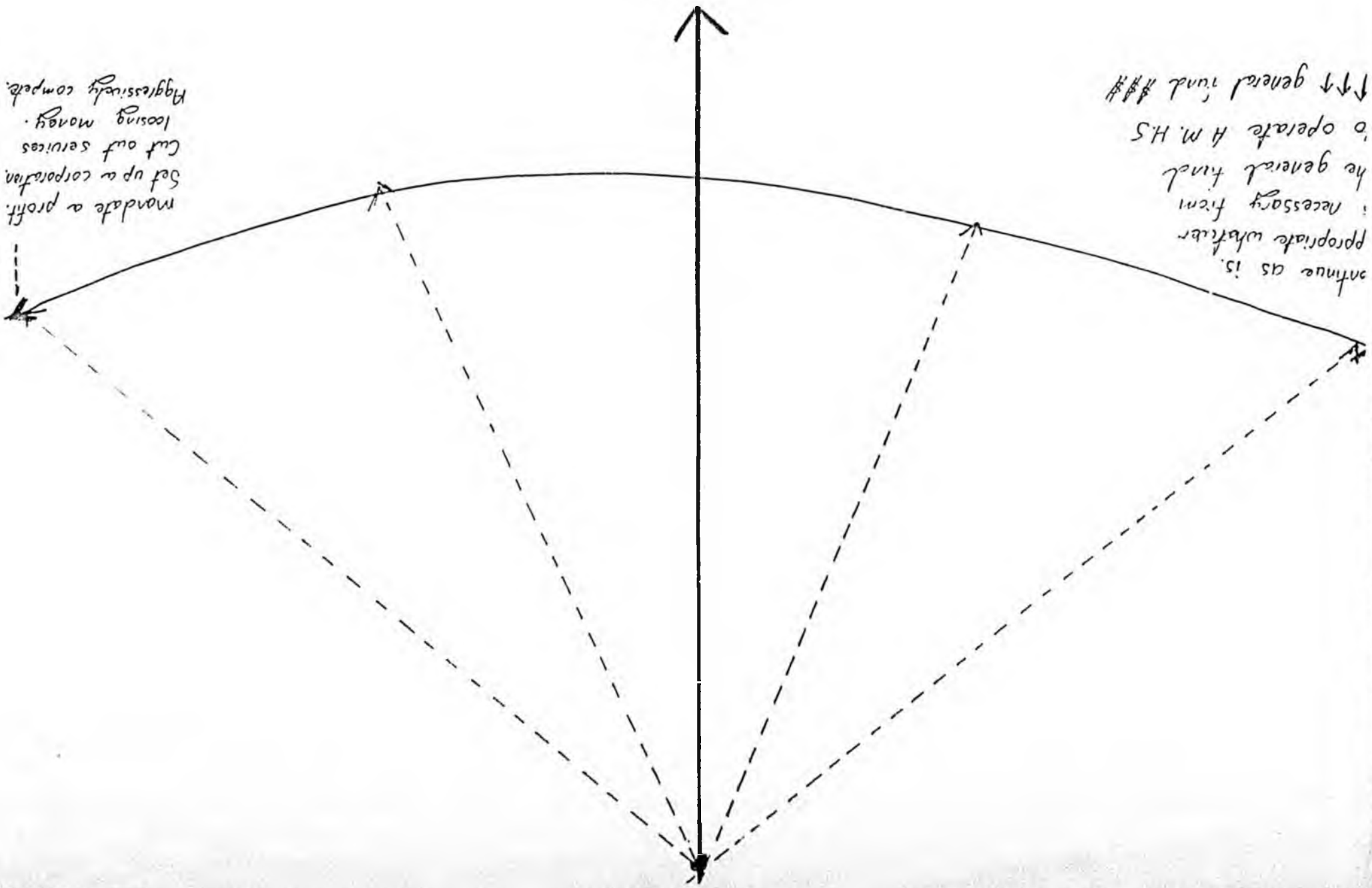
Service to Southwest system

- a. Reduce the Bartlett service by six months. The Tustumena will provide service for the entire Southwest system. Services between Cordova and Valdez in winter would not be available for 2 months because the Bartlett would be in lay up and the Tustumena would be in for servicing

HB #62
offers alternatives
and
a happy medium

mandate a profit.
Set up a corporation.
Cut out services.
Losing money.
Aggressively compete.

enhance as is.
appropriate whatever
necessary firm
the general fund
to operate A.M.H.S.
↓ ↓ ↓ general fund \$\$\$



OVERVIEW OF ALASKA MARINE HIGHWAY SYSTEM

Under the direction and supervision of House Transportation Chairman, Representative Bette Cato, House Transportation Committee staff, Rhonda Cargill and Wendy Chamberlain attended the Alaska Marine Highway Advisory Board Meeting. A meeting was also held with Deputy Commissioner Joe Camp who provided a great deal of information to the Chairman. This is an overview of those meetings. Due to the Chairman's strong interest in the Marine Highway System this report also includes information on areas researched, and answers to questions asked by the Chairman.

On Friday August 12th, 1985 the Alaska Marine Highway Authority Advisory Board had its' first meeting with Alaska Marine Highway. Approximately 2 years ago the Governor appointed members to a Marine Highway Task Force. The Task force work ended after completion of the Task Force Report which included 139 recommendations.

The Southeast Conference Board of Directors, comprised of southeast district representatives, southeast legislators, and southeast community mayors wrote to the Governor and the Department of Transportation requesting the task force be continued as an active board and be expanded to include representation from each marine highway "user" community. This would insure ongoing communication between the State administration and the people of Alaska serviced by the ferry system.

Although the task force was disbanded, Commissioner Knapp felt that the Southeast Conference provided a mechanism for input and recommendations from many of the southeast communities, and hence the Southeast Conference appointed representatives from each of the communities to serve on the Alaska Marine Highway Advisory Board.

The Advisory Board plans to meet with Marine Highway on a quarterly basis. As this was the first meeting an overview of Marine Highway was given by Commissioner Knapp and Deputy Commissioner Camp.

As this overview of Marine Highway is being done in August, 1985 it may be necessary to update this report to reflect any unanticipated changes made by Marine Highway during the next few months. Information gathered from monitoring and oversight of AMHS by the Chairman and staff will also be updated.

ALASKA MARINE HIGHWAY REPORT

Personnel

Commissioner of DOT - Richard Knapp
Deputy Commissioner - Joe Camp

There are 105 persons with Marine Highway who work afloat.
155 persons work ashore

During the past summer there were 350 vessel employees required to fill 331 jobs per week on all vessels. Considering two crews that rotate and permanent jobs with 100 vessel persons to fill in. Despite this there were times when there were not enough personnel to dispatch to cover all positions on vessels. Sick leave and vacation leave taken by employees accounted for a large portion of the personnel shortage.

Most of the personnel for Marine Highway are under union agreement. New contracts were recently agreed upon, these contracts are in effect until 1988.

Over 90% of unlicensed personnel are Alaskan residents
Over 50% of the masters, mates and pilots are Alaskan residents
Under 50% of the engineers are Alaskan residents

64% of the Marine Highway's total operating budget is for personnel services costs and benefits for employees.

During the past several months various "letters to the editor" have appeared in local newspapers drawing attention to the high salaries earned by Marine Highway management. The figures presented by Deputy Commissioner Joe Camp and those outlined in the Alaska Marine Highway budget indicate the following:

11% of ashore Marine Highway personnel earn over \$40,000/year
32% of afloat Marine Highway personnel earn over \$40,000/year

Alaska Marine Highway has recently reached an acceptable agreement with the Marine Engineers Beneficial Association on the local hire of engineers, therefore the percentage of Alaska hire of engineers should increase.

Vessel Information

The Alaska Marine Highway currently has nine vessels in operation. These include:

M/V Chilkat - the original ship of the Alaska Marine Highway. She was acquired in 1959 and services the Southeast Pannhandle.

M/V Malaspina - built in 1963, renovated in 1972 she services Northbound and Southbound areas

M/V Matanuska - built in 1963, renovated in 1973 she services Northbound and Southbound areas

M/V Taku - built in 1963, renovated in 1981, services northbound and southbound ports.

M/V Tustumena - built in 1964, renovated in 1969, services Seldovia, Homer, Port Lions and Kodiak.

M/V Bartlett - launched in 1968 she services Cordova, Valdez and Whittier.

M/V Columbia - She is the largest of Alaska's ferries and was launched in 1973.

M/V LeConte - Launched in 1973 servicing the Northern Pannhandle.

Plans for the future for vessels

As the M/V Chilkat is the oldest vessel, the Marine Highway plans to retire the M/V Chilkat in the summer of 1986. She will stay in reserve for emergencies.

There is currently a masterplan being developed for the Alaska Marine Highway a draft of which should be available for the next legislative session. This plan will include a report on fast ferries.

Hopefully these fast ferries will provide a comfortable, cost effective and efficient alternative for various southeast communities.

The Marine Highway plans to request funds for the purchase of fast ferries in their FY 87 budget. (Federal and State)

Preliminary estimates show the cost of the fast ferry to be between 2-3 million dollars.

Further information on these ferries will be available when the masterplan is completed.

The Tustamena requires major passenger refurbishing. A recent survey showed a lot of life left in the hull of the Tustamena and therefore the Alaska Marine Highway plans to request refurbishing funds for the Tustamena in the FY 1988 budget. (Fed. & State)

Currently, each vessel is laid up for repairs annually. These routine repairs and maintenance can usually be completed in 30 days. Alaska Marine Highway has received a great deal of publicity over the recent laying up of the Colombia. It is anticipated that the Colombia will be in dead ship lay up in Seattle until at least March 1, 1986. The maintenance work on the Colombia is being done in Seattle, this in itself has created a great deal of controversy, particularly among Marine Highway employees.

The decision to place the Colombia in dead ship lay up was made because of revenue shortfalls. It costs approximately \$90,000 more per run to sail the Colombia as compared to the other vessels that complete the same run. The maintenance contract was awarded to a Seattle firm because it was considerably less expensive and because no facilities are currently available in Alaska to allow for ships to be laid up for a long period of time. It is anticipated that next year the Ketchikan facility will be completed and ship lay up will then be done in Ketchikan, however, at the present time the additional cost of laying a ship up in the state of Alaska makes this unfeasible.

The plan for bringing the Colombia out of lay up and the expenses and considerations for the lay up are explained fully in the budget section.

Marine Highway would also like to increase the number of ocean going vessels they have available. Currently only the Tustamena is able to take runs to the Aleutian chain or any other "ocean" areas.

Future plans for terminals and facilities

Alaska Marine Highway recently reached an agreement with Canada on the use of the Prince Rupert facility. In the near future a 5 year lease will be signed for the facility with options to renew every five years for the next 20 years.

In June this year Marine Highway began providing services to the community of Hyder. This community will be serviced once a week by the Marine Highway. There are no plans to move the terminal from Prince Rupert to Hyder at this time, however, monies will be requested in the FY 87 budget to build a facility in Hyder. If approved this terminal may be considered for use in conjunction with the Prince Rupert terminal for north and southbound services. As Federal funds can only be used for capital projects such as purchasing and refurbishing of vessels, rebuilding and repairing facilities etc. it is likely that the much of the funding required to build the facility in Hyder will be requested from the Federal Government.

The \$38 million Ketchikan vessel maintenance facility is underway and is scheduled for completion in December, 1986. The maintenance work is currently being done in Seattle, therefore this should be a definite asset to the community of Ketchikan and the State.

Funds have been allocated for construction of shore facilities at Kodiak, Homer, Seldovia and Whittier. Much of this funding is received from the Federal Government. For Example:

Kodiak	(Federal)	\$2,790,000
	(State)	210,000

This facility will be an important step towards increasing the quality and efficiency of the service provided by the M/V Tustumena and/or the Tustumena replacement vessel.

Homer	(Federal)	\$3,255,000
	(State)	245,000

This project is being coordinated with the City of Homer's revised Port Development/Small Boat Harbor project.

Seldovia Ferry Terminal	(Federal)	\$3,255,000
	(State)	245,000

Additional site reconnaissance and preliminary engineering is being done on this project to enable shuttle ferry service for Homer/Seldovia.

Whittier Ferry Terminal (Federal) \$2,180,000
(State) 140,000

Funds were allocated for this project in FY 86. Due to the poor condition of the current structure immediate reconstruction will be necessary.

Current Marine Highway Preliminary Engineering Projects.

Valdez Ferry Terminal - \$50,000

After the preliminary engineering is done funds for construction of this project will be requested in future years budgets

Seward Ferry Terminal - \$75,000

This facility is in very poor condition. Alaska Marine Highway made an emergency appropriation of \$150,000 in August, 1985 to assist with repair of pilings and bumpers at this terminal. After the preliminary engineering and location study is completed Alaska Marine Highway plans to request capital construction funds for this project.

Plans are in progress to build new immigration offices and ticketing offices in the Prince Rupert facility.

A new terminal in Metlakatla should be completed in May of 1986. Metlakatla will then be serviced by the Aurora via Prince of Wales Island, this will allow the Chilkat to retire.

Terminal work is now being done at both the Wrangell and Petersburg facilities

MARINE HIGHWAY FY 86 BUDGET

FY 86 Budget for Marine Highway

The next section reviewed is the budget. Under the direction of the Chairman, this section was monitored and reviewed continually. This information is being presented now because much of the decision making and questions asked regarding such matters as ferry scheduling, areas serviced, fares and overall operations are made based on their overall impact on the budget.

In FY 86 the total budget for Alaska Marine Highway is \$68 million. This is a \$3 million or 4% increase over FY 85.

The total budget breaks down as follows:

\$32 million state funds
\$36 million project revenue

In FY 86 the Legislature changed slightly the way in which funds are appropriated for Alaska Marine Highway. Previously, all revenues from Marine Highway went into the general funds and an amount was appropriated from the Legislature for operation and maintenance of Alaska Marine Highway.

In FY 86 Alaska Marine Highway requested a \$68 million dollar budget. The Legislature approved this amount and appropriated \$32 million from the general fund. The remaining \$36 million is to come from revenue generated by Alaska Marine Highway. If they do not generate this amount, they will have to make cuts to balance their budget. This allowed Alaska Marine Highway to receive Legislative approval for the budget amount requested, and yet provides management with the challenge of making decisions that will directly affect their revenues and in turn their overall operating budget.

Although it is early in the fiscal year, information provided to the Chairman indicate that the \$36 million in projected revenues for the year may have been somewhat optimistic. The projected revenues were approximately a \$3 million increase over FY 85. It is realistic to expect that Marine Highway will increase revenues slightly over FY 85. Taking this into consideration Marine Highway anticipate that the "magic number" for "additional" revenues that they will need to generate to be approximately \$1.3 million.

With overall revenue figures available as of September, 1985 it has become apparent that Marine Highway management will have to make operating cuts if they are to balance their budget for FY86. To date preliminary estimates show that cuts up to \$1.3 million will have to be made by management. In an attempt to meet this shortfall, Marine Highway has implemented the following cost saving measures:

1. Lay up the M/V Colombia in Seattle until at least March 1, 1986. As stated earlier, each year the vessels go into lay up for approximately 30 days for routine maintenance. Because the Colombia is the most expensive vessel run on the Seattle run, and, the winter operating costs exceed the revenues generated management decided to lay her up. A contract for the maintenance and repairs to the Colombia was awarded to a Seattle based firm. When consideration was given in an attempt to lay up the Colombia in Ketchikan the additional cost made this unfeasible. The cost comparison done by Marine Highway was as follows:

Contract work in Seattle	\$143,000
Contract work in Ketchikan	\$528,000

Several factors account for the higher costs to lay up the vessel in Ketchikan.

- a. Cost to steam the ship would be very expensive, as the Ketchikan facility is not completed there is not adequate power available to steam the ship.
600 amps is required
130 amps power available from ship
- b. Cost for 122 days of crew salary for 10 crew members. This was estimated to amount to approximately \$297,000.
- c. Garbage collection would have to be arranged
- d. Sewer disposal (estimated to be \$12,000)
- e. Telephone

It is hoped that the Colombia will be brought out of lay up and crewed March 1st, however, Marine Highway management may find it necessary to leave the Colombia in lay up status until April. This decision will be made late December when the revenue picture becomes clearer.

2. Discussions between Representative Cato and Marine Highway management in early December provided no other definitive information on proposed cuts or changes in service to balance the budget. Areas management stated may need to be considered included assessing the toll free lines and evaluating the cost of maintaining this service. Marine Highway management state that the cost of providing these toll free lines is very expensive, particularly the intrastate lines. Therefore careful consideration may need to be given to the actual benefit verses the cost of this service in the upcoming months.

ON THE SHORTFALL IN REVENUE PROJECTIONS:

Alaska Marine Highway is concerned about the shortfall in revenue projection for FY 86. After many discussions, meetings and evaluation of information available, management feel the following areas contribute to this shortfall:

1. Airline fares

With the recent ultra super saver fare reduction by both Alaska and Western airlines many people are using air as a means of transportation because with the current price structure it is considerably faster and less expensive to fly. A decline in reservations is also being voiced by a number of local hotels who state that reservations are down as much as 30% under previous years. Inexpensive fares to Europe and other overseas countries are considered to be one reason for this as people are taking advantage of these low fares to travel overseas.

2. Cruiseship lines more competitive.

M/V Scardancer, owned by an overseas company loads in Vancouver and sails on a 3 day trip to Haines with a 4 day return trip. The Scardancer makes stops in Juneau, Misty Fjords and Tracy Arm. This vessel has the capacity to carry approximately 300 vehicles. The fares for this trip are lower than fares charged by Alaska Marine Highway.

Example:

Standard Automobile shipping cost	
Seattle to Haines on Alaska Marine Highway	\$500.00
Vancouver to Haines on M/V Scardancer	\$250.00

25 to 26 foot motor home	
Seattle to Haines on Alaska Marine Highway	\$1,000.00
Vancouver to Haines on M/V Scardancer	\$350.00

Cabins

Cabin prices on the M/V Scardancer vary depending on the luxury of the cabin, however, a person may travel on the Scardancer in an inside cabin, with his/her meals included for the same price as a standard cabin on Alaska Marine Highway excluding meals.

2. Passenger load down

Although reservations for this summer were as projected, the actual revenue generated as a result of this travel is down. Alaska Marine Highway management feel that while numbers are up, the actual distance that individual passengers travelled is down and hence revenues are down.

The Seattle run is the most profitable run.

From information available it appears that the number of persons travelling on this run is down AND, the number of large vehicles transported on this run is also down.

In summary, this summer the Alaska Marine Highway system transported a greater number of passengers and vehicles, however, passengers travelled shorter distances. Also, while there was an increase in the number of vehicles transported by Alaska Marine Highway, the number of oversized vehicles travelling was down considerably.

Both long distance travel and large vehicle transportation are two areas that are very profitable for Marine Highway.

Representative Cato was assured the problem of "no shows" would be overcome this year as new regulations (attached), requiring advance payment of tickets and penalties for cancellation went into effect October 1st, 1985. Previously, persons who made reservations could pick up and pay for their ticket on the day of sailing. This, although very convenient for the traveller made the problem of "no shows" very frustrating and expensive.

The threatened strike by the masters, mates and pilots also had an effect as people either cancelled their reservations or used alternative means of travel.

WHAT ARE THE SOLUTIONS?

Proposed solutions to these concerns are currently being discussed. As several of these solutions go hand in hand with proposed changes in ferry scheduling and services this section will be outlined next along with the proposed changes.

Ferry Scheduling

Along with being one of the most difficult tasks for Alaska Marine Highway, scheduling is also one of the areas that many of the complaints arise over.

In order for persons to be able to plan for their vacations, ferry schedules are printed months in advance.

The decisions on next summers schedule were made September 1st 1985. This schedule has already been sent to the printers.

Once schedules are printed the department is locked in as far as the number of vessels servicing an area, the number of runs being made per week and the pricing structure for fares, therefore long range decisions have to be made as accurately as possible well in advance.

Possible Solutions

In discussions with Representative Cato, Deputy Commissioner Joe Camp outlined the many alternatives that have been explored.

1. Aggressively compete with the cruise lines.
2. Increase services on the most heavily booked runs to try and increase revenues.
3. Increase services on the most profitable runs. The revenue and direct expenses graphs included in the appendices provides a clear breakdown on each runs revenue verses direct expenses.

4. Cut services
5. Evaluate all the runs and have fares structured to attempt to make each run, where possible, cover expenses. (See attached graph in appendices)
6. Look at alternatives - fast ferries - as a more cost effective method of travel to areas within the state.

It is the intent of DOT and Alaska Marine Highway to continue all areas currently serviced. Runs made within Alaska to the smaller rural communities are not profitable, and, in many cases these runs only return revenues to cover approximately 20-30% of the expenses. Both Commissioner Knapp and the Chairman feel that services must be continued to these areas, they are remote parts of Alaska that have very few alternatives available. One of the main reasons Alaska Marine Highway was put into service was to provide a means of transportation within Alaska.

Several of the above alternatives are being considered at this time.

1. Increase services.
The most heavily booked runs are the north and southbound runs from Seattle and Prince Rupert to Haines and Skagway. A great difference is apparent when the profitability of these two runs is compared:

Current service and revenues

Seattle to Skagway - 1 trip per week
1000 passengers (total) 165 vehicles
200 state rooms

Revenue for this run \$325,000.00

Prince Rupert to Skagway - 2 trips per week
1400 passengers 330 vehicles
400 state rooms

Revenue from this run \$213,000.00

The above breakdown shows that by carrying fewer people and fewer vehicles per week the Seattle run returns \$107,000 more than the Prince Rupert run.

Consideration has been given to raising the fares on the Prince Rupert run to make the same profit as the Seattle run, however this would mean a 50% increase in fares. Marine Highway has therefore increased the fares on the Seattle run 4% and increased fares on the Prince Rupert run 3%.

In an attempt to take advantage of the more profitable Seattle run, Marine Highway has decided to make an additional weekly run from Seattle during the summer instead of Prince Rupert. This change is reflected in the new ferry schedules.

The graphs that follow and also those included in the appendices given an actual breakdown of each run and show revenues generated verses expenses incurred.

Other areas discussed or review

The reservations section of the Marine Highway is an area that is very busy. While on tour of the facility with Mr. Camp the telephones were ringing constantly. This is another area that many people complain about, - not being able to reach the Marine Highway for reservations.

There are currently 9 lines available to Marine Highway:
These calls are answered in priority from Group 1 to 3.
Group 1 - 2 toll free lines for use within Alaska
Group 2 - 3 lines available for local callers
Group 3 - 4 toll free numbers for out of state use.

As you will see from the attached summary, 3163 calls were made to Marine Highway on August 5th, 1985. Of this 1389 calls were answered from the 2 toll free in state lines compared to 1400 from the 4 toll free out of state lines. This possibly explains the difficulty getting through to Marine Highway within Alaska. The department is considering deleting one of the toll free out of state lines and possibly adding another toll free in state line for use by Alaskans. This addition may not be possible if revenues for the year continue to be down from those projected. The cost of maintaining a toll free in state line is considerably more expensive because of in state telephone rates.

Although the 4 toll free out of state lines are constantly in use the time taken with each of the out of state calls is much longer than the local and in state calls. This is due to the fact that many people call from other states to make inquiries on everything from scheduling to the weather and are usually unfamiliar with the area and request a description on each part of call, which in turn ties up the staff and the lines for a considerable length of time. Therefore, deletion of one or more of the out of state toll free lines would be both cost saving and time saving.

Other office procedures

One of the biggest obstacles facing the Marine Highway should be overcome in this fiscal year. At the present time much of the hardware needed to make the computer system truly effective is not on line. Therefore in order to compare revenues from ticker sales month to month each ticker has to be individually punched into the

computer before a monthly figure is available. Currently the information available is from sales 2 to 3 months previous. The necessary hardware has been purchased and is currently being installed. This will provide accurate, up to date information on revenues generated for the previous months. This will help with management decisions such as fare structures etc.

All time sheets for all marine highway onshore and offshore personnel are computed by hand. Requests for funds for computers will be in the FY 87 budgets.

In summary, Alaska Marine Highway system has several short time priorities:

- a. To make the necessary adjustments or cuts to balance the FY 86 operating budget. It is hoped that any adjustments or necessary cuts will have the least amount of impact on services or personnel.
- b. To assess and implement methods to attain projected revenues. To work toward overcoming any obstacles and aggressively compete in the transportation business.
- c. To automate the offices to provide the most current and accurate information on passengers travelled, revenues generated and expenses incurred and therefore allow management to react more aggressively to industry demands and swings, and to implement any changes that may be necessary for them to meet or exceed their projections.

The Long term plans for Marine Highway include looking into the fast ferries as an alternative. Constructing, upgrading and rebuilding facilities and vessels and providing more cost effective, efficient services both onshore and offshore.

Representative Bette Cato, Chairman

Rhonda Cargill
Wendy Chamberlain
House Transportation Committee Staff


ALASKA MARINE HIGHWAY SYSTEM

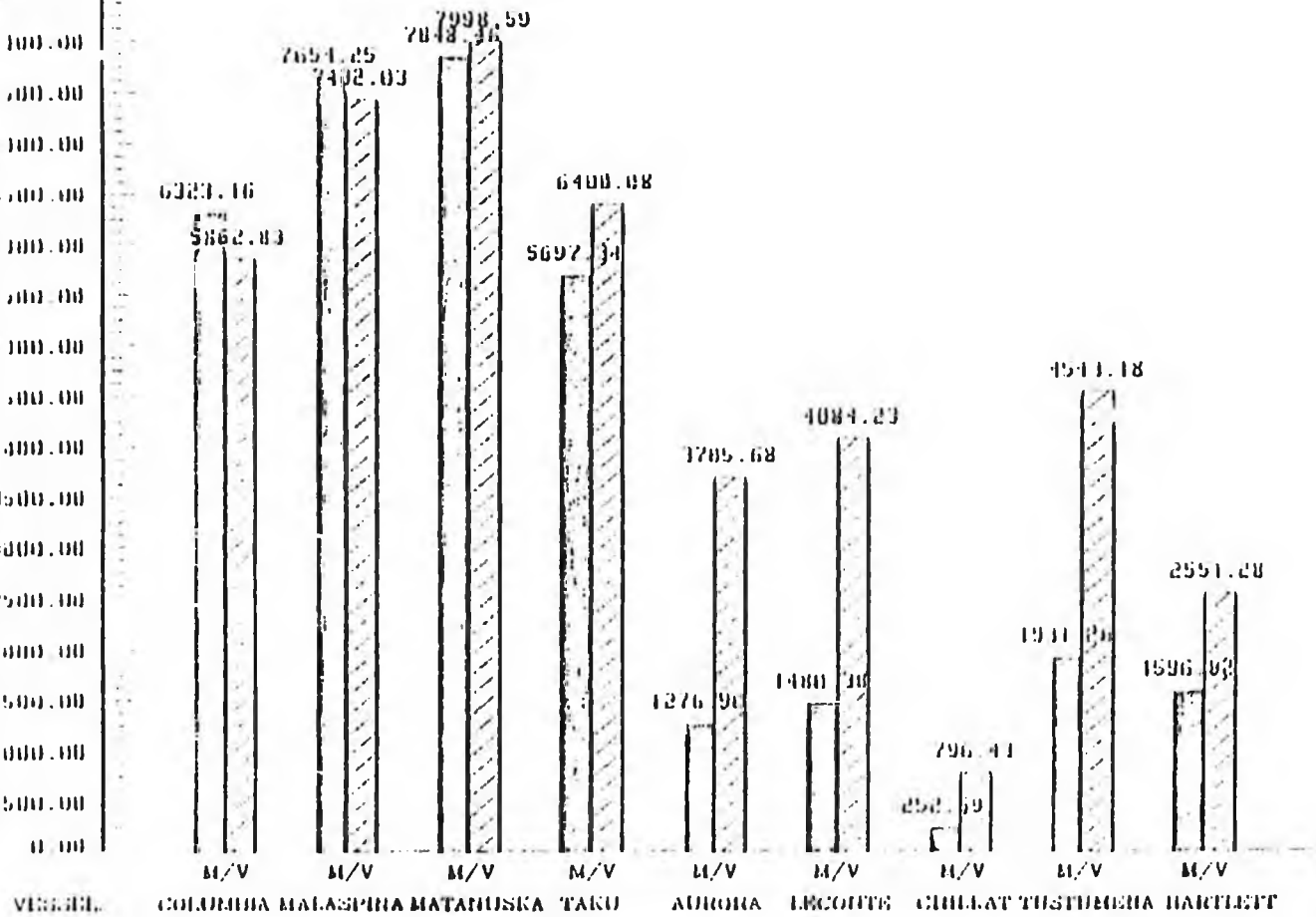
REVENUE AND DIRECT EXPENSES, BY VESSEL

FY 1984

AMOUNTS

10000.00
9000.00
8000.00
7000.00
6000.00
5000.00
4000.00
3000.00
2000.00
1500.00
1000.00
500.00
0.00

LEGEND
 REVENUE
 DIRECT EXPENSES



FEBRUARY 27, 1984 163

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES BY ROUTE

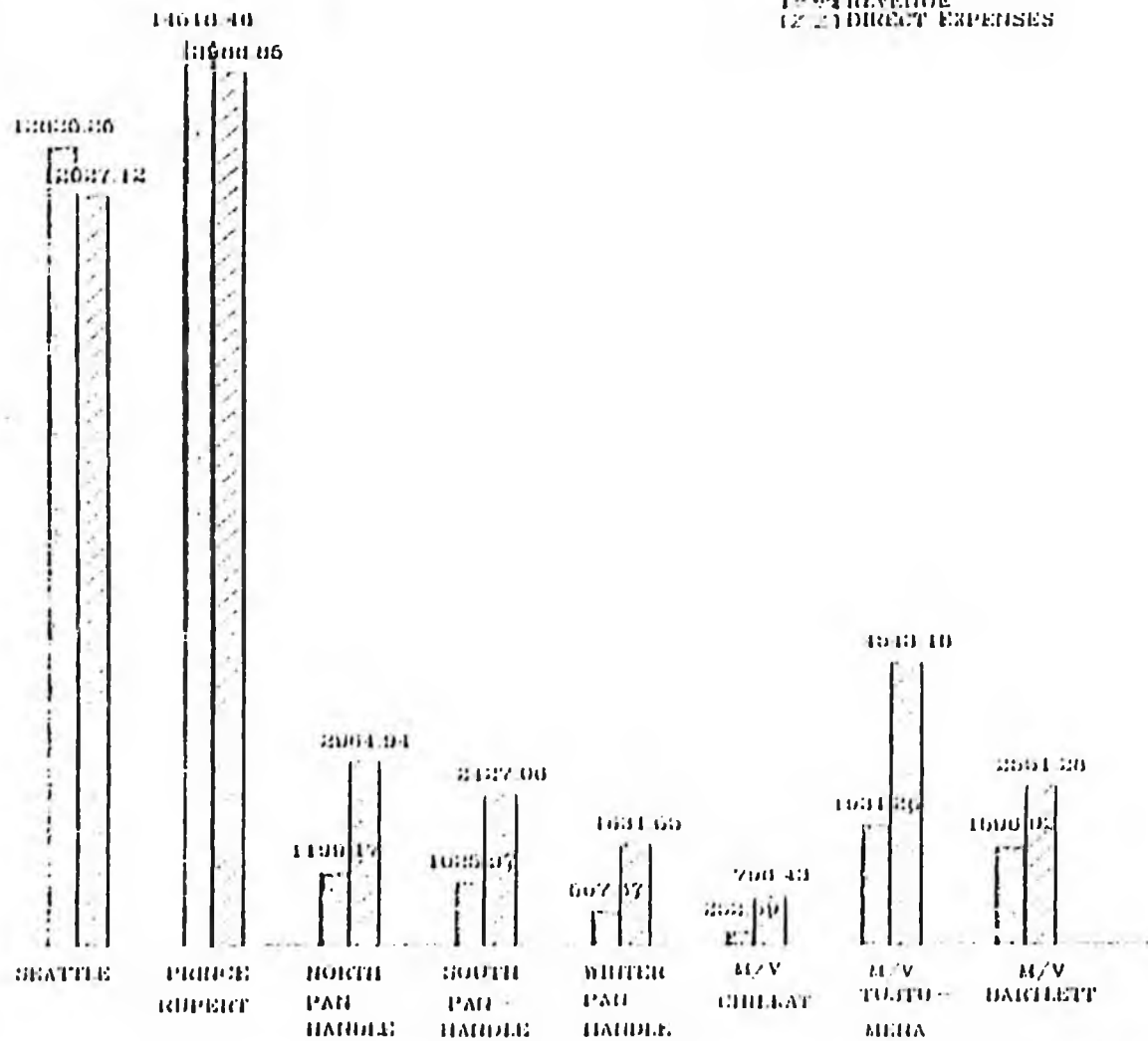
FY 1984

\$ THOUSANDS

10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0

LEGEND
 (1) REVENUE
 (2) DIRECT EXPENSES

ROUTE



FEBRUARY 27, 1985 163

AUTO REPLY

7/29 - 3/5

SYSTEM ACTIVITY

AGENT GROUP : 1 Total Time : 152:00
Period Covered : Jul/29/95 Mon 4:00 AM to Aug/05/95 Mon 4:00 AM

-----INCOMING CALLS-----

Answered Before T-529	Answered After T-529	T-529	Answered		Handled	Abandoned	Offered	Flowed	Over-Night	Outgoing
			Handled	Abandoned						
448	436	436	946	51	997	0	97	11		
313	454	454	757	48	315	0	35	4		
418	353	353	791	42	923	0	32	12		
210	520	520	540	129	359	0	32	17		
377	465	465	753	104	367	0	38	5		
75	373	373	346	54	422	0	33	2		
115	123	123	333	31	350	0	40	13		
0	0	0	0	0	0	0	0	0		
TOTALS	1357	3927	4664	473	3133	0	390	37		

SERVICE LEVELS
Number of Calls Handled Within 33 Seconds

Days	0	10	20	30	40	50	OVER
1	1074	333	407	153	473	333	749
TOTAL	3310	4110	916	413	1513	3133	1513

AUTO WEEKLY

AGENT ACTIVITY

EXT GROUP : 1

Total Time : 168:00

Period Covered : Jul/29/85 Mon 4:00 AM to Aug/05/85 Mon 4:00 AM

AGENT	TOTAL CALLS				AVERAGE DURATION			
	Incoming	Outgoing	Internal	Transfer	Incoming	Outgoing	Internal	Wrap
41	398	0	0	0	0:43	0:00	0:07	0:00
42	379	0	1	1	0:39	0:07	0:00	0:00
43	43	13	1	0	1:01	1:07	0:00	1:00
44	505	0	0	0	0:13	0:46	0:20	0:00
45	484	0	0	0	0:43	1:13	0:00	0:00
46	413	0	0	0	0:26	0:00	0:00	0:00
47	137	0	0	0	1:23	0:00	0:00	0:00
48	334	0	1	0	0:34	0:00	0:00	0:00
50	0	0	0	0	0:00	0:00	0:00	0:00
51	133	1	1	1	0:43	1:13	0:10	0:00
52	113	11	1	1	0:37	0:00	0:00	1:00
53	47	1	1	0	0:13	0:13	0:00	0:00
54	335	0	0	0	0:11	1:00	0:00	0:00
55	0	0	0	0	0:00	0:00	0:00	0:00
56	0	0	0	0	0:00	0:00	0:00	0:00
57	0	0	0	0	0:00	0:00	0:00	0:00
58	0	0	0	0	0:00	0:00	0:00	0:00
59	0	0	0	0	0:00	0:00	0:00	0:00
60	0	0	0	0	0:00	0:00	0:00	0:00
61	0	0	0	0	0:00	0:00	0:00	0:00
62	0	0	0	0	0:00	0:00	0:00	0:00
TOTAL CALL	4720	57	45	30				

ALLOCATION OF TIME
in min

AGENT	Signed In Duration	Incoming	Outgoing	Internal	Wrap-Up	Available	Unavailable
41	33:57	9:45	0:00	0:01	0:03	4:15	30:38
		19.0%	.0%	.2%	.6%	7.6%	70.6%
42	33:29	19:00	0:17	0:00	0:00	4:42	1:07
		53.7%	.3%	.0%	0.0%	14.2%	14.0%
43	11:42	1:21	0:03	0:00	0:02	1:07	7:02
		12.9%	3.2%	.0%	4.5%	18.6%	82.9%
44	42:13	27:05	0:01	0:00	0:13	3:13	0:40
		64.1%	.2%	.0%	6.2%	14.7%	15.0%
45	42:49	13:32	0:05	0:00	0:01	10:06	18:06
		31.3%	1.2%	.0%	.2%	24.3%	13.2%
46	42:47	33:33	0:00	0:01	0:00	3:01	0:07
		78.4%	.0%	.2%	1.2%	7.1%	14.3%
47	3:35	3:33	0:01	0:00	1:00	1:00	0:00
		17.8%	.3%	.0%	10.0%	34.0%	11.1%
48	37:48	13:47	0:00	0:00	1:43	3:00	0:41
		35.5%	.0%	.0%	4.6%	15.9%	9.1%
50	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
51	17:33	11:07	0:02	0:00	0:13	3:10	1:13
		37.8%	.3%	.0%	10.0%	18.1%	6.1%
52	35:42	14:03	0:00	0:00	1:43	13:04	0:15
		39.1%	.0%	.0%	12.0%	36.8%	1.4%
53	42:29	17:07	0:07	0:01	0:00	4:01	0:14
		40.2%	1.6%	.2%	0.0%	9.5%	1.4%

54	40:36	25:55	0:03	0:01	2:10	8:30	3:05
		53.8%	.1%	.0%	7.4%	20.9%	7.5%
60	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
51	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
71	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
GROUP TOTAL	416:45	215:58	2:10	0:04	28:10	71:20	36:07
		51.8%	.5%	.0%	6.7%	17.1%	22.7%

JUL 15 1985

NOTICE OF PROPOSED CHANGES IN THE
REGULATIONS OF DEPARTMENT OF TRANSPORTATION AND
PUBLIC FACILITIES

Notice is given that the Department of Transportation and Public Facilities, under authority vested by AS 44.42.030, proposes to adopt regulations in Title 17 of the Alaska Administrative Code, dealing with Alaska Marine Highway tickets, to implement AS 44.42.020 as follows:

- (1) 17 AAC 70.220(a) and (b) are proposed to be amended to incorporate the provisions of 17 AAC 70.221, and
- (2) 17 AAC 70.221 is proposed to be adopted to establish procedures for refunds on Alaska Marine Highway tickets with the amount refunded, reduced depending upon when in relation to sailing the cancellation of the reservations occurs, the time of the year the space is reserved, and the particular route.

Notice is also given that any person interested may present written statements or arguments relevant to the proposed action by writing to Deputy Commissioner, Alaska Marine Highway System, Pouch R, Juneau, Alaska 99811, so that they are received no later than August 9, 1985.

This action is not expected to require an increased appropriation.

Copies of the proposed regulations may be obtained by writing to:

Merv Griggs
Alaska Marine Highway System
Pouch R
Juneau, Alaska 99811

The Department of Transportation and Public Facilities, upon its own motion or at the instance of any interested person, may, after the deadline stated above, adopt proposals within the scope of this notice without further notice or may decide to take no action on them.

DATE: _____

Joe D. Camp
Deputy Commissioner
Alaska Marine Highway System
Department of Transportation
and Public Facilities

Register _____, 1985

TRANSPORTATION
& PUBLIC FACILITIES

17 AAC 70.220
17 AAC 70.221

17 AAC 70.220(a) and (b) are amended as follows:

17 AAC 70.220. REFUND OF FARES, RATES OR CHARGES. (a) Passage tickets for passengers or vehicle deck space when presented by the legal owner, within one year of valid date, may be redeemed, subject to the provisions of 17 AAC 70.221, under the following conditions:

(1) unused passage tickets when travel was not performed or when transportation was not provided will be refunded at full value upon application;

(2) changes in destination, number of persons ticketed, size of vehicle or other details that result in the transportation provided being of lesser value than the purchase price of the passage ticket, must be adjusted on the basis of the true published value of the transportation provided; the adjusted difference will be refunded upon application;

(3) lost tickets may be refunded upon application and certification of loss.

(b) Tickets issued for stateroom or berth accommodations, when presented by the legal owner, may be redeemed, subject to the provisions 17 AAC 70.221, under to the following conditions:

(1) if canceled prior to sailing full refund may be made upon application,

(2) when travel distance is shorter than originally ticketed, or when all berths originally ticketed are not used, no adjustment in charges for the berth or stateroom service will be allowed. (Eff. 7/8/72, Reg 42; am / / , Reg.)

17 AAC 70.221. REFUND OF TICKET AMOUNTS. (a) Amounts refunded on tickets shall be reduced from the full ticket price for routes specified in this section as follows:

(1) if cancelled thirty days prior to sailing, 100 percent is refunded;

(2) if cancelled more than twenty days, but less than thirty days before sailing, 90 percent is refunded;

(3) if cancelled more than ten, but less than twenty days before sailing, 60 percent is refunded;

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

DEPUTY COMMISSIONER—ALASKA MARINE HIGHWAY SYSTEM

POUCH R
JUNEAU, ALASKA 99811
(TELEX 45-312)
PHONE (907) 465-3950

November 4, 1985

All Employees
Alaska Marine Highway System

I am writing this letter to all employees in response to a letter (copy attached) published on Thursday, October 31 in the Juneau Empire. That letter got my attention for three reasons:

- 1) It contained persistent false rumors and accusations;
- 2) it was allegedly signed by a dedicated employee who had recently died; and
- 3) it mentioned one event that occurred after his death.

On Friday morning, November 1, while pondering how Mr. Clark could have written a letter about something that occurred after his death, I received a call from Mr. Carl Sampson, Managing Editor of the Empire. He had just received a call from Mr. Clark's daughter who had informed him that Mr. Clark could not have written or had anything to do with that letter since Mr. Clark had been gravely ill in a Portland hospital for some time before his death. The Friday Empire carried an editorial (copy attached) that states the Editor's position much better than I can.

Even though some individual or group of individuals has taken advantage of Mr. Clark and his family and possibly the letter to the editor should be ignored, I believe I owe it to all of you to answer with facts the false charges that letter implied. My comments respond paragraph by paragraph to the letter to the editor.

Our labor costs are high. Over 53.5 percent of our total operating budget is in personal services costs and benefits for our vessel employees. Shore employee personal services and benefits are less than 9.5 percent of our total operating budget. No other major vessel operator faces those types of labor costs to my knowledge and experience. Most of the wages are hard earned and well deserved, but management must ensure that we do not pay for services not needed.

Office personnel have not tripled. In fact, there have been a total of only 15 personnel added to the authorized Alaska Marine Highway System (AMHS) personnel count since July 1980 and seven of these were approved this year and are Capital funded positions to manage construction projects for Marine Facilities Engineering. It may seem to the unknowing as if many positions have been added to headquarters staff since AMHS has consolidated under one Deputy Commissioner. With the exception of the 15 new personnel, all other positions have long been employed in Department of Transportation and Public Facilities (DCT&PF), doing AMHS work. Many were simply located elsewhere where they reported to different supervisors but they were performing AMHS tasks. The DCT&PF reorganization in 1983/84 simply located them centrally in the same organization which, incidentally has made us more responsive and efficient. There are 7 persons or 4.7 percent in the shore staff of AMHS earning \$60,000 or more. There are 69 or over 3.1% of all vessel personnel earning that much or more. In addition, there are 205 or 24% of all vessel personnel earning between \$40,000 and \$60,000. Ashore there are 24 or 16.3% earning those wages. Shoreside supervisors and managers are not eligible for overtime even though many extra hours of work are required. The shore staff to vessel employee ratio of AMHS compares very favorably with the Washington State Ferries. Washington State Ferries have one person ashore for every four afloat while AMHS has one person ashore for every 3.3 persons afloat.

In the winter our administrative staff must still order the supplies, account for revenues and expenses, pay the bills, dispatch personnel, handle payroll, prepare budgets, manage capital construction projects and make reservations. There is no slack period ashore as there is on the routes.

We are implementing a limited number of training programs for our shoreside staff just as we are for our vessel personnel. Both programs will increase as our budget will allow. Non-performers, both afloat and ashore are being appropriately dealt with within the bounds of union contracts.

Management philosophy is not intended to be antagonistic toward vessel personnel. When I was at sea I made a vow that if ever I was in a management position ashore, I would ensure that the shore staff always remembered that their only reason for being was to support the ships. We are dedicated to making AMHS a more efficient organization that better serves the needs of all Alaskans. We are antagonistic to any personnel who seem only to think of how they can get more for doing less or those who fail to remember that our sole reason for operating is to serve the public.

Mr. Black and I were recruited from outside the state. We both had extensive experience in managing and working with civilian crewed vessels. Many successful businesses recruit ex-military personnel for their proven track record as cost effective managers. We both hope to remain in Alaska for a long time. Incidentally, we have given all vessel employees who collect COLA but who are "P. O. Box Alaska residents" the opportunity to correct past errors without penalty. Those who we now identify as having filed false claims in order to collect COLA will be dealt with to the limits of the law including termination and collection actions to recover COLA paid non-residents. Only the cheaters should be bothered by this. Alaska residents and those honest outsiders who don't collect COLA should be happy to see it happen.

Some marketing surveys have been conducted for specific purposes. Where appropriate and where funding is available the recommendations are implemented.

I made the statement that I thought airline super saver fares were the principle cause of falling revenue this year. There are many other factors involved and we are taking whatever action we can to counter those losses. One will be to sail two vessels out of Seattle next summer. Our service to Hyder was the result of legislation that required it. DOT&PF argued against it in all committee hearings because of the anticipated losses. The \$47,000 loss was for the entire summer, not each week. We will again serve Hyder/Stewart next summer, but since we will be carrying vehicles we should not have a loss.

Last summer we had over 850 vessel employees to fill 331 jobs per week on all vessels. Considering two crews that totals 662 permanent jobs with 138 relief personnel to fill in. In spite of that number of extra personnel we sometimes did not have enough personnel to dispatch to cover all positions on all vessels. We did not sail below Coast Guard certificate. AMHS is the only seasonal business I know of that has allowed almost unlimited leave during the peak season. Too liberal a leave policy and a higher than usual "not fit" situation during a portion of this summer left us short. With the funding shortages we have, hiring additional personnel was not the answer, but better managing the personnel we have may be. We are seriously considering limiting all personnel to no more than one work week leave and then only for a limited number on leave each week between May 15 and September 15 next year. I dislike having to limit leave but we are in a seasonal business whether we like it or not.

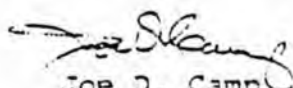
November 4, 1985

M/V COLUMBIA will be in a dead ship lay up status until at least March 1. Todd Shipyard will also complete the industrial overhaul during that period. To lay COLUMBIA up in Ketchikan this year would have cost AMHS a minimum of \$329,000 in auditable costs. The Todd Shipyard contract is for \$143,000, or a savings of \$385,000. That savings equates to two extra weeks sailing for a mainline vessel, providing service to the public.

Shoreside employees travel on passes only when they are on official business, therefore reservations for cabins are in order and meals are included in lieu of per diem. Occasionally, I take my vehicle when I travel on official business on the ferry. It is a cost savings measure as I then do not need to rent a car at destination and I only do this if there is adequate space available. Shoreside personnel do not receive passes for vacation travel. Shoreside employees' family members never receive passes for passage or meals. Mr. Black's daughter was, traveling on a purchased ticket, erroneously not charged for an evening meal on M/V COLUMBIA this summer. Mr. Black brought it to the attention of the Port Steward and thought it was resolved before he left the ship. After debarking, he discovered the meal had not been paid for and he paid the bill the next COLUMBIA trip through Juneau.

I firmly believe that we have the finest system and that we have more dedicated, hard working employees than any organization of comparable size anywhere in the world. We must all work together to improve our system so that it can function to its fullest to provide service to the public. To the majority of you who work so hard for our system, I say thanks, keep up the good work and help us realize the real potential this system has.

Sincerely,


Joe D. Camp
Deputy Commissioner

Enclosures

Letters

Ferries need help from top down

Dear Sirs,

This letter is a response to the growing antipathy being created in the Alaska Marine Highway Systems (A.M.H.S.) between shipboard personnel and the management in the Juneau office. Management seems oblivious to its contribution to waste in state government and prefers to put the blame on "high" labor costs. Examples of mismanagement are rife, but we will explore only a few in this document.

Office personnel and mid-level managers have about tripled in the past five year, with officer's wages averaging \$60,000 a year. One might compare ferry management (in terms of the ratio of office to line workers) with private shipping companies or the Washington State Ferries. They operate with a fraction of the personnel and have bigger budgets, more ships, and larger payrolls.

Each winter half the ships are laid up in the shipyard for maintenance, but there is never a reduction in force in office personnel. Actual ships and compliment crews are static, while office workers multiply exponentially.

There is no policy of continuing (or even initial) management training. Poor personnel are never removed, just shifted to a different title - usually a position of more responsibility.

Management philosophy is antagonistic to shipboard workers and is heavily infiltrated by ex-military personnel. Since when is the military a good place to recruit people to be cost effective?

Top management has been imported from outside the State of Alaska, even though Governor Sheffield in a recent press interview still gives lip service to local hire on state financed projects.

There have been approximately 11 marketing surveys done for the state in as many years (at what cost?) that have NEVER been utilized. Evidently no one in Juneau knows how to analyze and implement the data gathered by the firms contracted for the surveys.

A D.O.T. official in a recent public statement blamed loss of ferry revenue on super saver air fares, but said the A.M.H.S. is taking steps to save money at the operational level. So far this has translated into less sailors and stewards to work shipboard during peak summer months, and inaugurating weekly trips to Hyder, Alaska, at \$47,000 per trip.

Lay up on "dead snips" (those vessels with no maintenance being done and no workers aboard) are being tied up to sit in ports outside of Alaska. These docking fees could just as easily go to Alaskan cities with docking facilities.

Ethical standards for any operation, be it public service, the private sector or the military, are set by the leadership and filter down to subordinates. At the A.M.H.S. we are given the examples of "do as I say, not as I do." Memorandums are issued denying employees traveling on passes from (1) reserving staterooms or (2) having free meals aboard the ship, yet an official's daughter travels with her father while he is ostensibly on official business, all meals provided to them at state expense. On a recent "special" voyage to Sitka, officials traveling on passes reserved their stateroom accommodations, even after their own memos (dated two weeks previously) state quite clearly there would be no exceptions to the pass-reservation rule.

The old adage "Physician, heal thyself" might be well applied to a bloated, inefficient bureaucracy whose typical response to declining state revenues and calls for a more cost effective program is to blame

the workers who set no policy, have little or no control of day-to-day operations and who struggle to interpret variable and often capricious office politics.

Please sign us,
Frustrated Public Servants
Larry Clark
P.O. Box 2515
Juneau, 99803

An apology for an abuse of a privilege

A newspaper has many jobs: to inform, to entertain and to provide a forum for the expression of opinions. Each of those functions is important, because together they provide a well-rounded view of the world around us. If one of those functions had to be chosen as most important, the free expression of opinion would probably be it. That's because in a democracy, the free expression of opinion is not reserved for the few, it is a privilege enjoyed by all.

Most of the time, people express their opinions in a responsible manner. Once in a great while, however, that privilege is abused. It doesn't happen when an individual speaks deeply held beliefs, and it doesn't happen when an honest error in fact is stated.

It happens when an individual, or group of individuals, purposely seeks to deceive.

By all indications, that's what happened in a letter to the editor published in Thursday's Empire. In it, someone apparently forged another person's signature. While that is bad enough, the person whose name had been forged had passed away nine days after the letter was dated. The family says he had been severely ill in Oregon and there is no way he could have written the letter or had anything to do with it.

Maybe the person who forged that letter has a just cause. Or maybe he thought he was being real smart by taking another man's name. But no matter how you look at it, nothing can justify this sort of flagrant and willful abuse of a privilege. Whoever did it not only destroyed his credibility and perpetrated the most irresponsible of deceptions, he needlessly hurt the man's family, friends and former co-workers.

What can justify that sort of action? Nothing. What can make up for the hurt? Nothing.

We offer our apologies to the members of Larry Clark's family and the many other people who we hurt by publishing that letter, and you can bet we will make every effort to make sure this never happens again.

If the person responsible for this deception had any courage or sense of right, he or she would also apologize to the family and to the public.

DIVISION OF ADMINISTRATIVE SUPPORT
ALASKA MARINE HIGHWAY SYSTEM

Martin J. Nusbaum, Director

-
- ° With its staff of 61 the Division of Administrative Support was able to meet its objective of providing the necessary supply, personnel and finance functions for the Alaska Marine Highway System by meeting the following objectives.
 - ° Payroll and dispatching errors decreased by 25%.
 - ° Decrease in crew travel pay due to dispatch errors by 23%.
 - ° Decrease in time on recording crew seniority points by 23%.
 - ° Decreased processing time whereby vendor payments were accomplished under thirty days from time of invoice to payment.
 - ° Further progress is anticipated in FY 86 in that objectives toward improving systems with the help of computers is expected to be made in the following areas:
 - ° Prompt and accurate rating and response to marine employee applicants as to hiring qualifications and compliance with affirmative action.
 - ° Improve warehouse and inventory control procedures. Reduce error rate to 2%.
 - ° Establishment of cost centers including management and accounting requirements to identify profit/loss for services performed.

Sent to [unclear]
10-31-85 1.5

ALASKA MARINE HIGHWAY SYSTEM
DIVISION OF MARKETING AND SERVICES

Josephine Emery, Director

A major change took place within the Division of Marketing and Services in FY 85 when reservations' functions were centralized in Juneau. A staff of 55 includes reservations positions which were shifted from both the Seattle and Anchorage offices, which had previously shared the reservations load, to the Juneau office. Toll free lines, two Alaskan and four out-of-state were installed along with appropriate electronic call distribution, monitoring and reporting. This has proven effective with the number of unanswered telephone calls being reduced significantly.

Most of the objectives of the Division were reached as the response to telephone and letter inquiries improved as planned and the number of vehicles transported increased from 94,000 to 99,000 as projected. However, two objectives were not reached. Passenger traffic did not reach projected levels as ridership actually declined one percent compared to the projected rise of three percent.

With passenger traffic declining, revenue also fell short of projections by nearly six percent at \$32.5 million.

ALASKA MARINE HIGHWAY SYSTEM
DIVISION OF MARINE FACILITIES ENGINEERING

Harold Moeser, Director

- ° With the FY 35 funding level Marine Facilities Engineering was able to meet its objectives in the development and obligation of \$10,700,000 in capital construction. Projects included the rehabilitation of the M/V MATANUSKA and Petersburg Ferry Terminal (\$7,500,000), and new or major improvements at Tanakee, Hoonah and Ketchikan (\$3,200,000).
- ° The staff total of 20 includes a Naval Architect and five registered professional engineers. Beginning in FY 35 a full time Shore Maintenance Manager function was established to schedule and contract for shore maintenance as needed.
- ° The legislature authorized 7 additional positions for FY 35 which will allow this Division to target for an FY 35 capital construction output of \$26,000,000. The primary emphasis will be in completing the Ketchikan Ship Repair Yard (\$13,000,000), improvements to vessels M/V COLUMBIA (Bow Thruster), M/V BARTLETT and M/V MATANUSKA (\$2,600,000), and new or improved terminal facilities at Wrangell, Metlakatla and Seward (\$5,200,000). Maintenance of all Alaska Marine Highway Terminals is ongoing and estimated to be \$200,000 per year.

ALASKA MARINE HIGHWAY SYSTEM
DIVISION OF MARINE OPERATIONS

Eugene H. Black, Director

Objectives of FY 85

- ° Full utilization of our capital assets, our ships, and shore facilities.
- ° Provide additional service the private sector could not offer. This deals with new Alaskan ports and frequency of service.
- ° Increase ship operating days and passenger boardings.
- ° Reduce overhaul costs
 - a. Increasing productivity per labor hour
 - b. Improved scheduling
 - c. Shorter layup period
- ° Improve passenger service by upgrading facilities and expanding passenger food service options.
- ° Re-engine the M/V MATANUSKA.
- ° Upgrade safety equipment to state of the art on all Alaska Marine Highway System vessels.

The number of employees under Alaska Marine Highway System supervision

- ° Nine shoreside management positions to supervise 725 vessel positions.

Accomplishments

- ° The ships were better utilized with an increase in ships operating days.
- ° Service to Alaskan communities was expanded by scheduled trips to Hyder, Alaska. Service across the Gulf of Alaska was expanded and studies are being done to analyze this area.
- ° Overhaul costs were reduced by several changes in management practice.

- a. Executed second year of a five (5) year service contract with main engine manufacturer for the maintenance of the main engines on the M/V COLUMBIA with an estimated annual cost savings of 500,000 dollars, which has resulted in improved operational reliability of the M/V COLUMBIA.
- b. Better scheduling of layup personnel resulted in more productivity with smaller crew levels.
- c. Less days were spent in layup status resulting in more use of Alaska Marine Highway System vessels.

Extensive upgrading of Alaska Marine Highway System vessels occurred in FY 85. The major ones that affected Passenger Services are:

- a. Reinstated year-round table service for dinner meal on board Seattle run ships.
- b. Installed Amtrak style recliners on M/V's LeCONTE, AURORA and COLUMBIA.
- c. Installed toddler play area on M/V's TAKU and MALASPINA.
- d. Major carpet upgrading on M/V's MALASPINA, LeCONTE and TAKU.
- e. Remodel of Cocktail Lounge and Dining Room on the M/V MALASPINA.
- f. Installed public showers on the M/V AURORA and M/V LeCONTE.

The M/V MATANUSKA was re-engined. The life cycle cost savings justified this project. The fuel consumption comparisons are very favorable after the first four months of operations.

Several safety related changes were made to bring Alaska Marine Highway System up to the state of the art.

- a. Upgraded all radar systems in the fleet with state of the art capability.
- b. Installed new extended skeg on the M/V COLUMBIA to improve her handling characteristics.

- c. Conducted firefighting and CPR training programs for employees in Deck, Engine and Stewards Departments.
- d. Continued upgrading the plumbing, electrical and ventilation systems aboard the ships.
- e. Increased emphasis on the upgrading of all navigational equipment.

The change in direction from FY 84 to FY 85 was more a consolidation than a change. More efficient use of Alaska Marine Highway System Facilities, better scheduling of work and personnel, and expanded frequency of service.

FY 86 is a year where due to budgetary restraints, major cost cutting measures are being put in place. It is our intention to not retreat in regard to increasing our passenger boardings comparison. We are planning to accomplish more but with less. The proposed changes are:

- a. By better scheduling, the M/V COLUMBIA will be layed up during the least profitable period. Even with the layup, passenger boardings should show a reasonable increase. The savings from this measure will result in a cost savings of approximately \$431,952.16 due to her being in cold ship status void of crew.
- b. The average time the ships will remain in maintenance/overhaul status will be cut, allowing additional time on the run to offset the M/V COLUMBIA layup.
- c. Size of overhaul crew levels will be cut by 11%. Due to improved procedures and scheduling, the work will be completed in less days.
- d. The food service during overhaul period will be replaced with meal per diem, which will result in a cost savings of \$241,915.46.
- e. There will be a change to two mainline ships calling on Seattle during the summer season, which will result in savings from less expensive supply costs and should increase revenues due to more passenger miles being logged.

ALASKA MARITIME HIGHWAY SYSTEM

WEEKS OF SHIPS OPERATIONS - By Calendar Year

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>PLANNED 1986</u>
Four Mainline Vessels - Southeast	128.9	135.4	133.8	150.7	146.0	155.6
Two Feeder Vessels - Southeast	82.4	84.5	81.2	83.5	87.2	90.2
M/V CHILKAT - Southeast	44.9	48.5	47.3	47.3	46.9	47.6
Feeder Vessels including M/V CHILKAT	127.3	133.0	128.5	130.8	134.1	137.8
Total Southeast System	256.2	268.4	262.3	281.5	280.1	293.4
M/V TUSTOUMENA	43.4	45.0	43.8	43.0	43.9	43.8
M/V BARTLETT	52.2	44.5	44.6	44.8	44.5	44.8
Total Southwest System	95.6	89.5	88.4	87.8	88.4	88.6
Total AMHS	351.8	357.9	350.7	369.3	368.5	382.0

ALASKA MARINE HIGHWAY SYSTEM
WEEKS OF SHIPS OPERATIONS - By Fiscal Year

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>	<u>FY 87 BASE</u>	<u>FY 87 REQUESTED</u>
Four Mainline Vessels - Southeast	120.4	141.9	132.0	145.2	142.0	155.8	153.1	160.1
Two Feeder Vessels - Southeast	87.0	85.9	79.7	86.0	86.2	90.8	90.9	90.9
M/V CHILKAT - Southeast	45.2	48.2	47.5	47.3	47.0	47.5	30.8*	30.8*
Feeder Vessels including M/V CHILKAT	132.2	134.1	127.2	133.3	133.2	138.3	121.7*	121.7*
Total Southeast System	252.6	276.0	259.2	278.5	275.2	294.1	274.8*	281.0*
M/V TUSTUMENA	43.7	44.7	44.0	43.0	44.0	43.7	43.6	43.6
M/V BARTLETT	42.2	44.2	44.8	44.8	44.6	44.7	43.3	43.3
Total Southwest System	85.9	88.9	88.8	87.8	88.6	88.4	86.9	86.9
Total AMHS	338.5	364.9	348.0	366.3	363.8	382.5	361.7*	368.7*

*The M/V CHILKAT is removed from service February 1, 1987.

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

FOUCH I
CORRECTION DIVISION
PHONE 207 465 1100

OFFICE OF THE COMMISSIONER

February 23, 1966

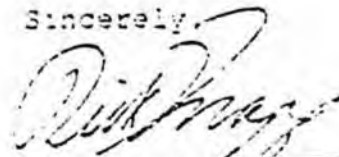
Ms. Sally Smith
President
Southeast Conference
P. O. Box 29
Douglas, AK 99324

Dear President Smith:

This is in response to your recent letters to Deputy Commissioner Joe Camp and me regarding reactivation and expansion of the Marine Highway Task Force. The Task Force was appointed by Governor Sheffield, and its work ended with completion of the Task Force Report. I do not believe it would be beneficial to reactivate and expand the Task Force at this time.

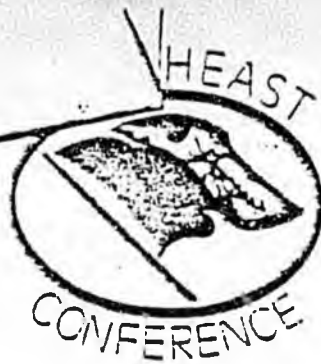
I do, however, see some benefits from having an advisory group to work with the Alaska Marine Highway System. I believe such a mechanism currently exists within the Southeast Conference. I would like to suggest that your Transportation Committee or some other group from your organization assume such a role. I can see the need for regular meetings and suggest for your consideration, quarterly meetings to be scheduled by the Advisory Group at their convenience with the concurrence of the Deputy Commissioner of the Alaska Marine Highway.

Sincerely,



A. J. Knappe
Commissioner

cc: Joe Camp, Deputy Commissioner
Alaska Marine Highway System



P.O. Box 29 • Douglas, Ak. 99824

(907) 586-6846

February 5, 1985

The Honorable Bill Sheffield
Governor
State of Alaska
Pouch A
Juneau, AK 99811

Dear Governor Sheffield:

The Southeast Conference board of directors, comprised of Southeast district representatives, Southeast legislators, and Southeast community mayors, has reviewed the Marine Highway Task Force report to the State and is following the implementation of those recommendations we support.

The Southeast Conference board requests the Marine Highway Task Force be continued as an active board and be expanded to include a representative from each marine highway "user" community. This would ensure ongoing communication between the State administration and the people of Alaska serviced by the ferry system.

We shall appreciate your comments regarding this request which the board believes will achieve a balanced direction for the future of the marine highway system.

Respectfully,

A handwritten signature in cursive script that reads 'Sally Smith'.

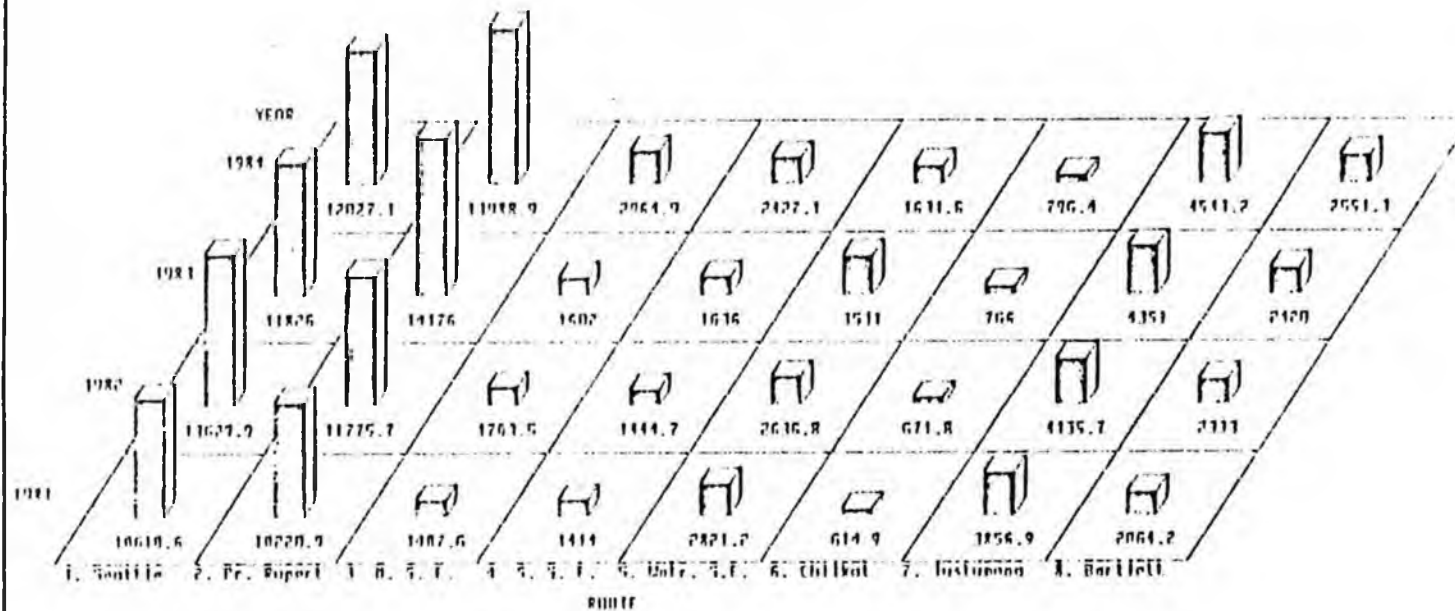
Sally Smith
President

ALASKA MARINE HIGHWAY SYSTEM

Direct Expenses by Route and Fiscal Year, 1981-1984

⌘ Thousands

BAR CHART OF EXPENSES



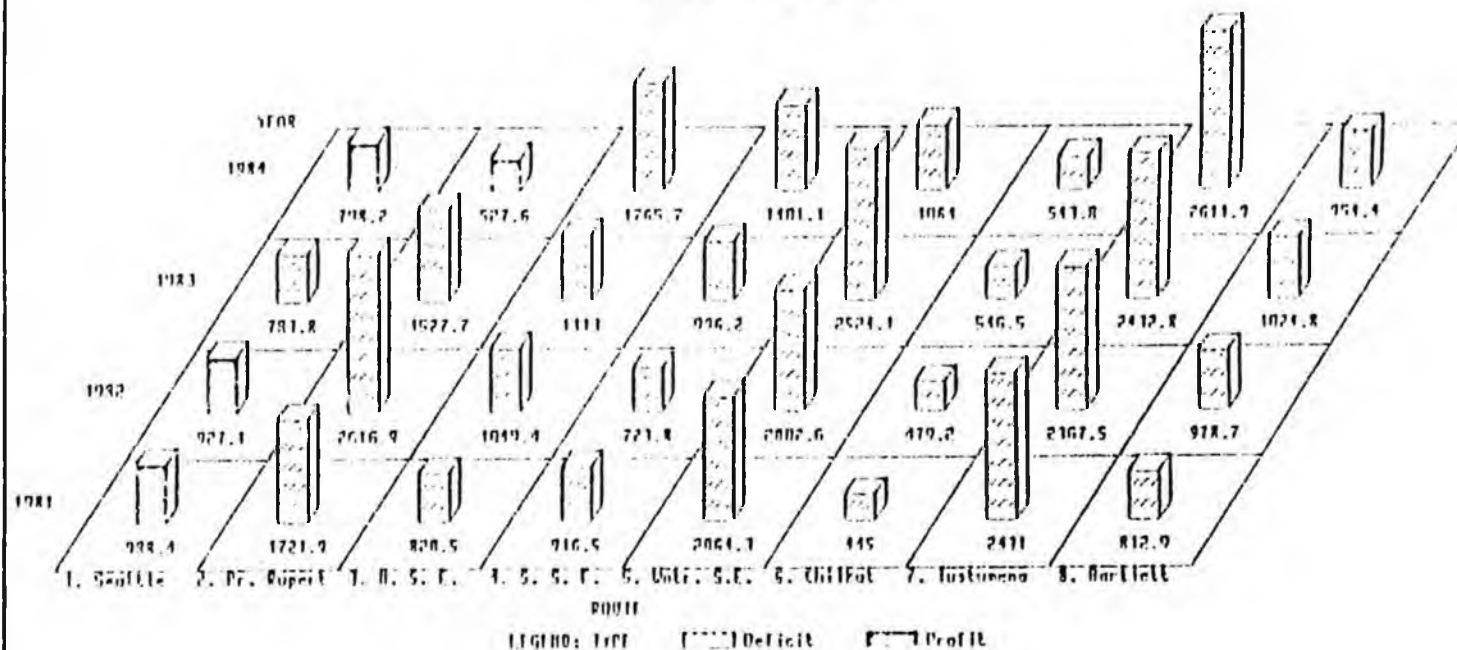
Compiled February 27, 1985

ALASKA MARINE HIGHWAY SYSTEM

Profit or Deficit by Route and Fiscal Year, 1981 - 1984

⌘ Thousands

BAR CHART OF CASHFLOW



Compiled February 27, 1985

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES BY ROUTE
FY 1983

\$ THOUSANDS

14000

12000

10000

8000

6000

4000

2000

0

LEGEND
REVENUE
DIRECT EXPENSES

ROUTE

SEATTLE

PRINCE
RUPERT

NORTH
PAN-
HANDLE

SOUTH
PAN-
HANDLE

WINTER
PAN-
HANDLE

M/V
CHILKAT

M/V
TUSTU-
MENA

M/V
BARTLETT

1002.00

1036.00

1000.00

700.00

1010.15

1395.10

1104.50

1204.00

1170.00

3531.00

4351.00

2420.00

SEPTEMBER 10, 1984 BS

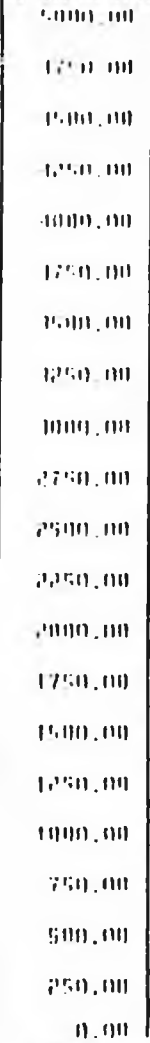
ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH

SEATTLE SKAGWAY
FY 1961

LEGEND
 REVENUE
 DIRECT EXPENSES

THOUSANDS



MONTH

JUL. AUG. SEP. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUN. AVG.

VESSEL COLUMBIA
 MATANUSKA
 MALASPINA



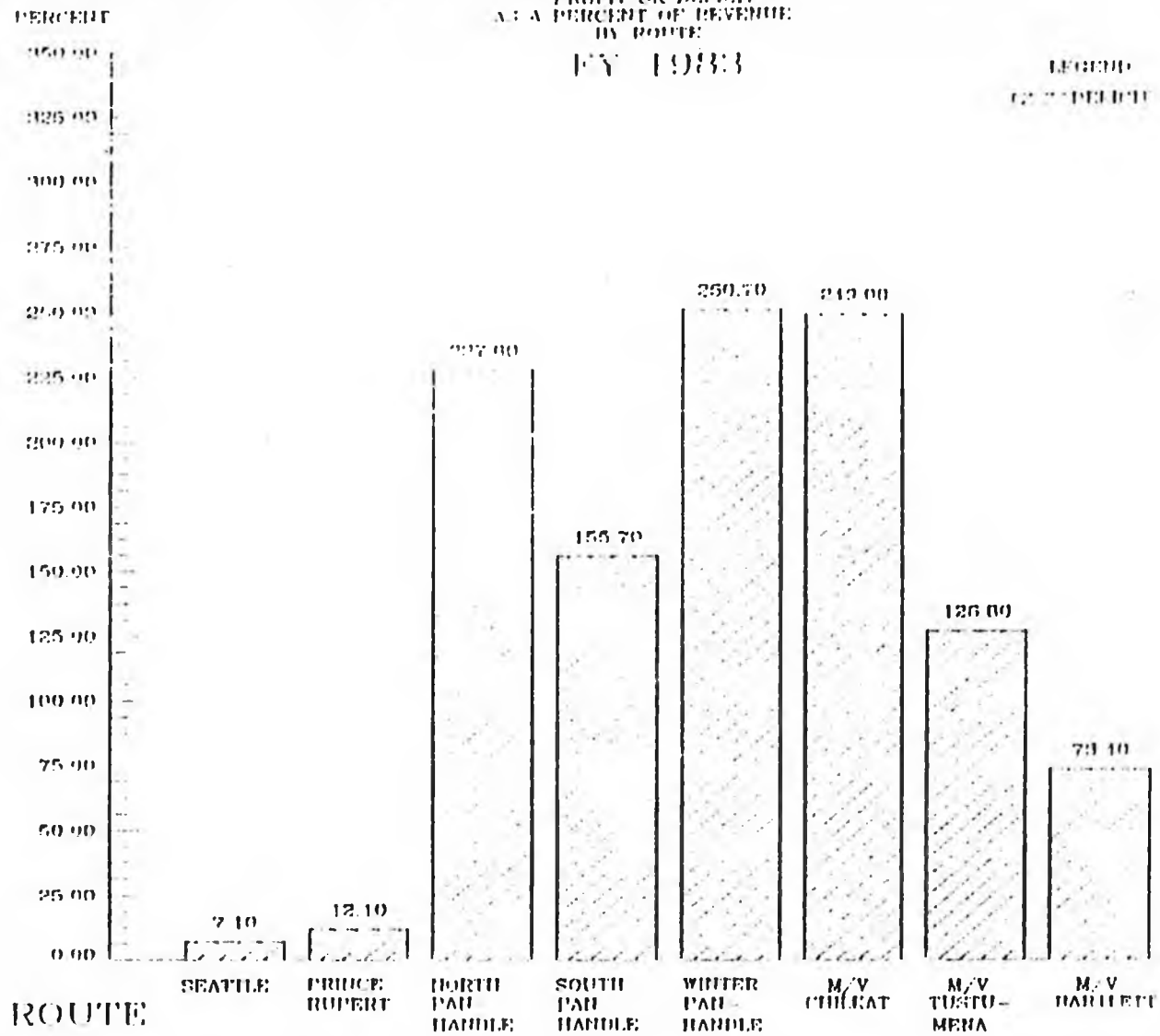
FEBRUARY 20, 1961 P.S.

ALASKA MARINE HIGHWAY SYSTEM

PROFIT OR DEFICIT
AS A PERCENT OF REVENUE
BY ROUTE

FY 1983

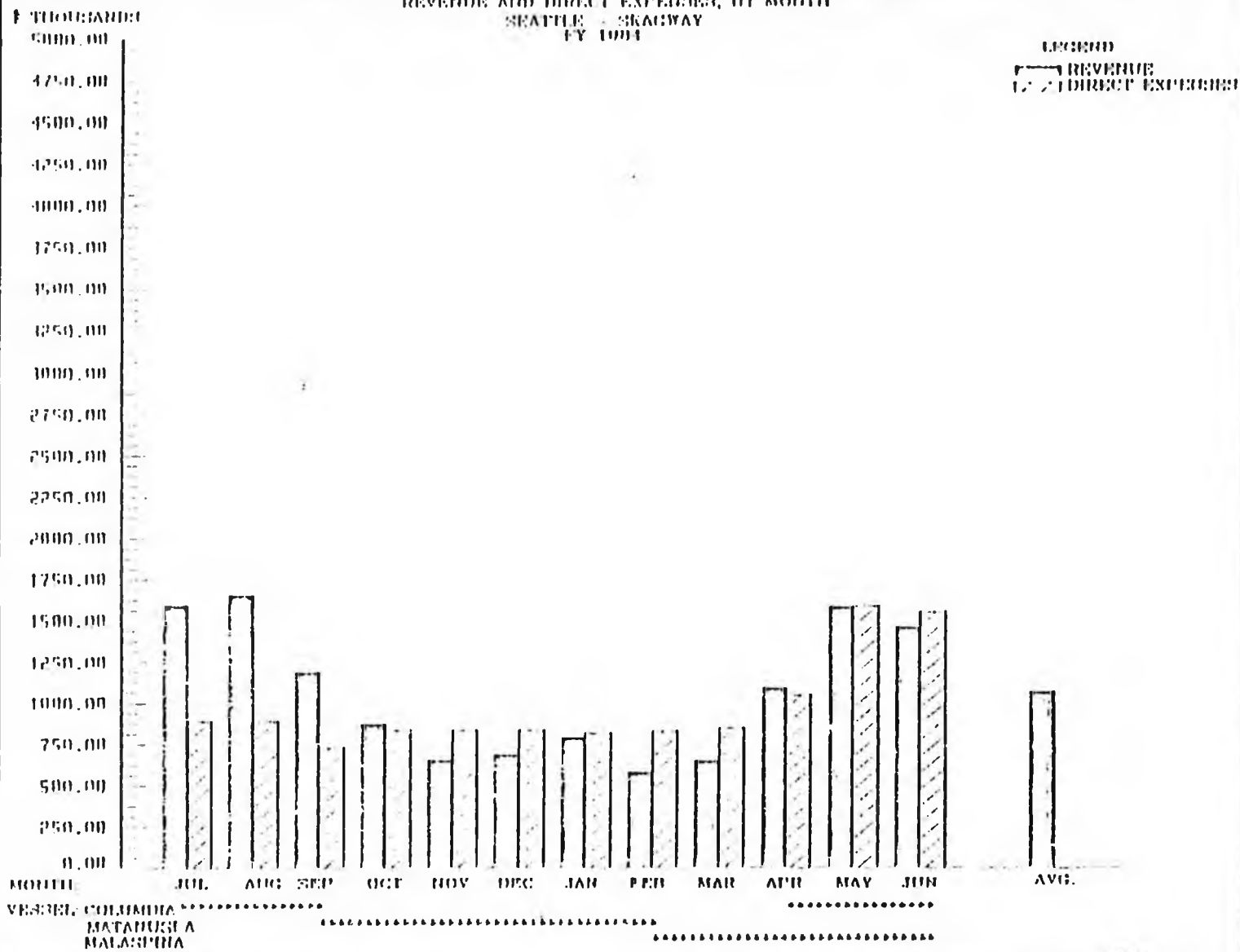
LEGEND
□ PROFIT
▨ DEFICIT



SEPTEMBER 10, 1984 BS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH
SEATTLE - SEAGWAY
FY 1991



VEHICLE COLUMBIA
 MATANUSKA
 MALASPINA

FEBRUARY 20, 1991 RS

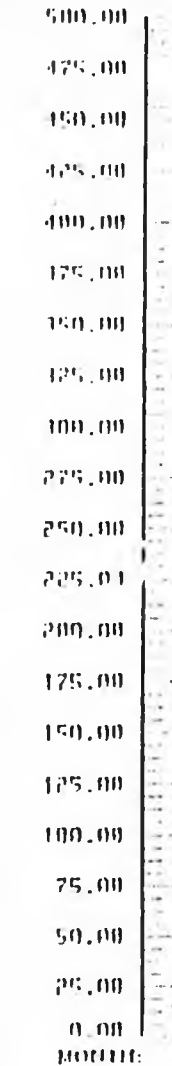
ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES

M/V CHELSEA

FY 1984

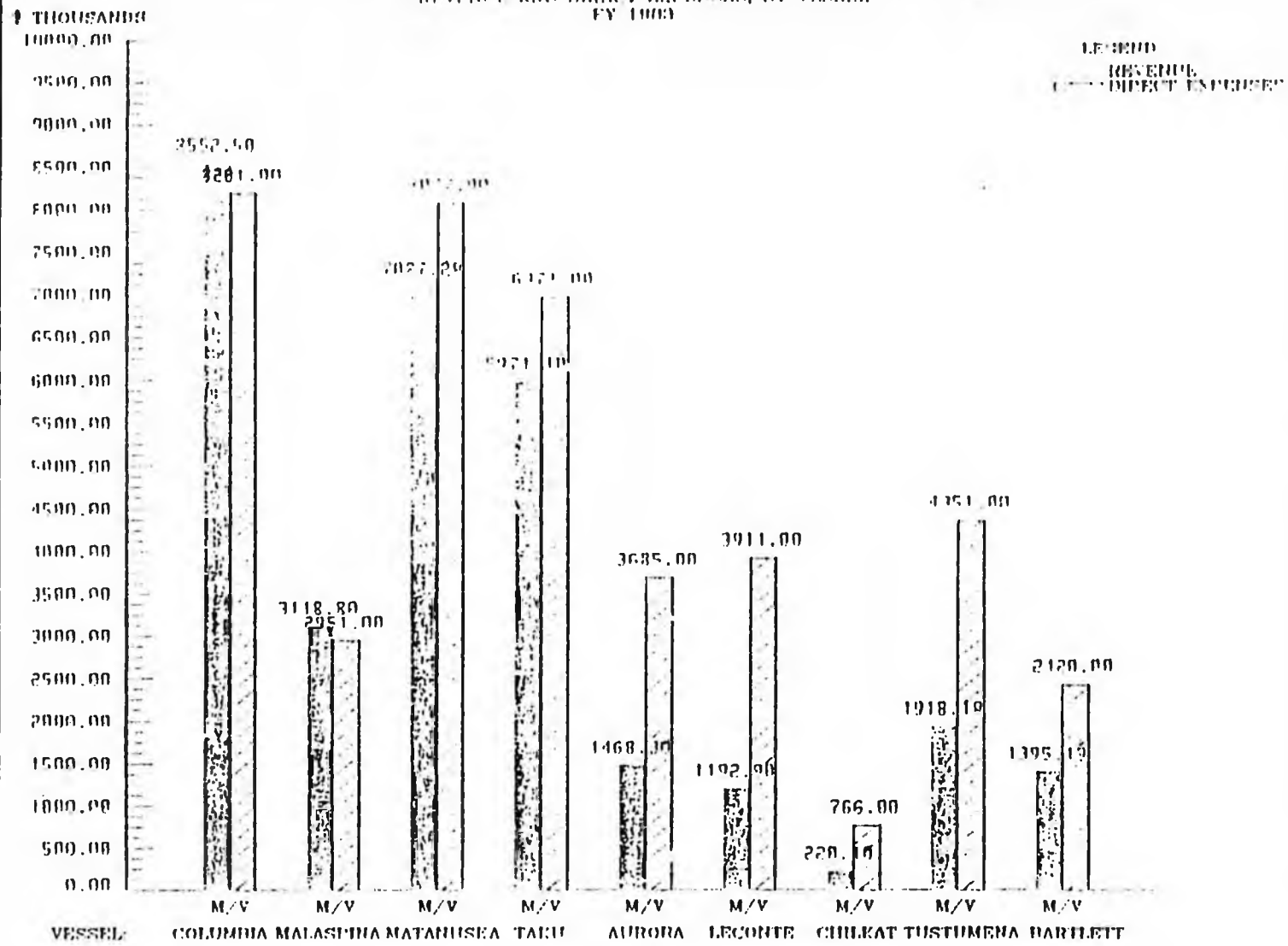
THOUSANDS



LEGEND
 [Solid Bar] REVENUE
 [Hatched Bar] DIRECT EXPENSES

FEBRUARY 27, 1985 RS

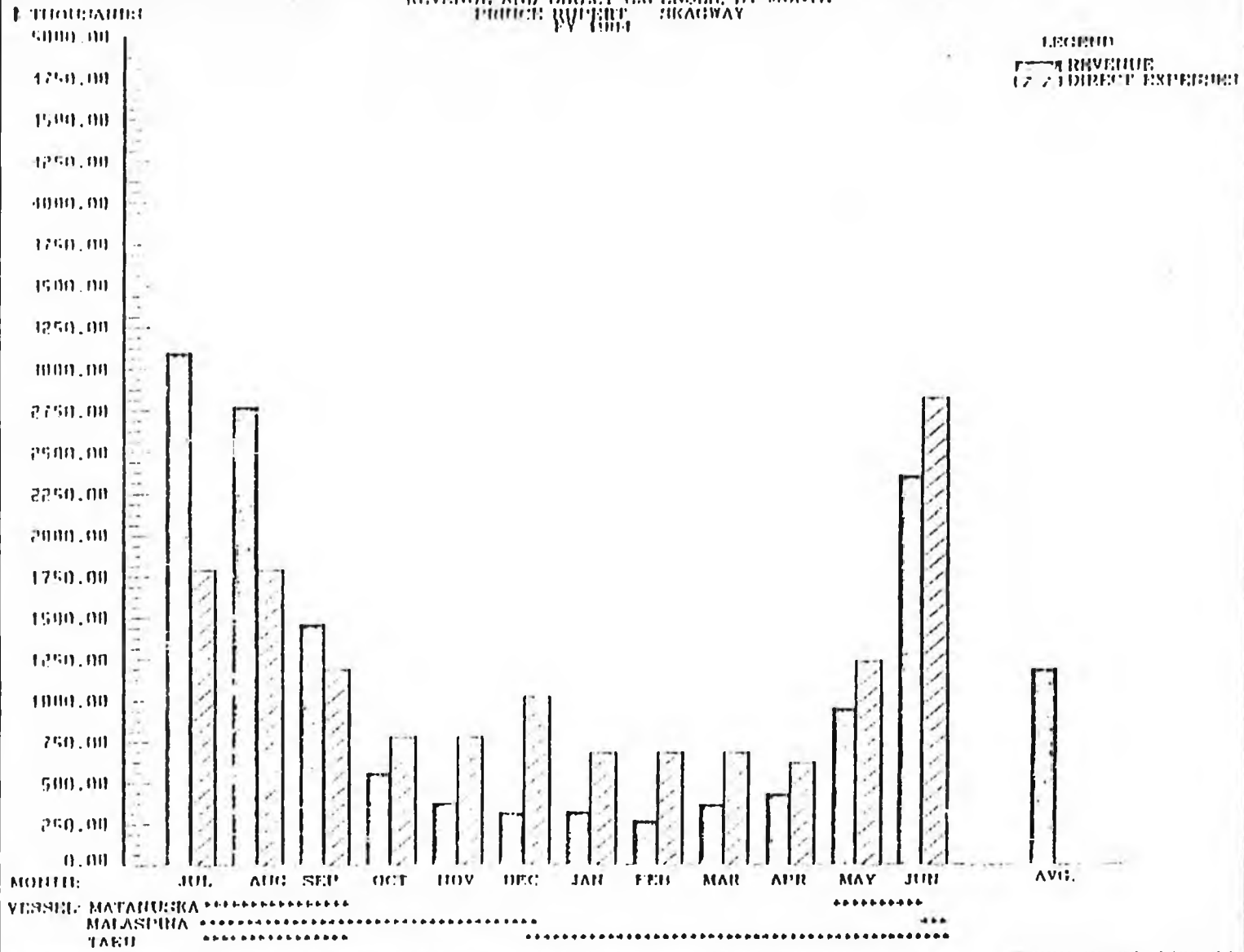
ALASKA MARINE HIGHWAY SYSTEM
REVENUE AND DIRECT EXPENSES, BY VESSEL
FY 1963



SEPTEMBER 10, 1964 RS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH
 FROM 1954 TO 1955

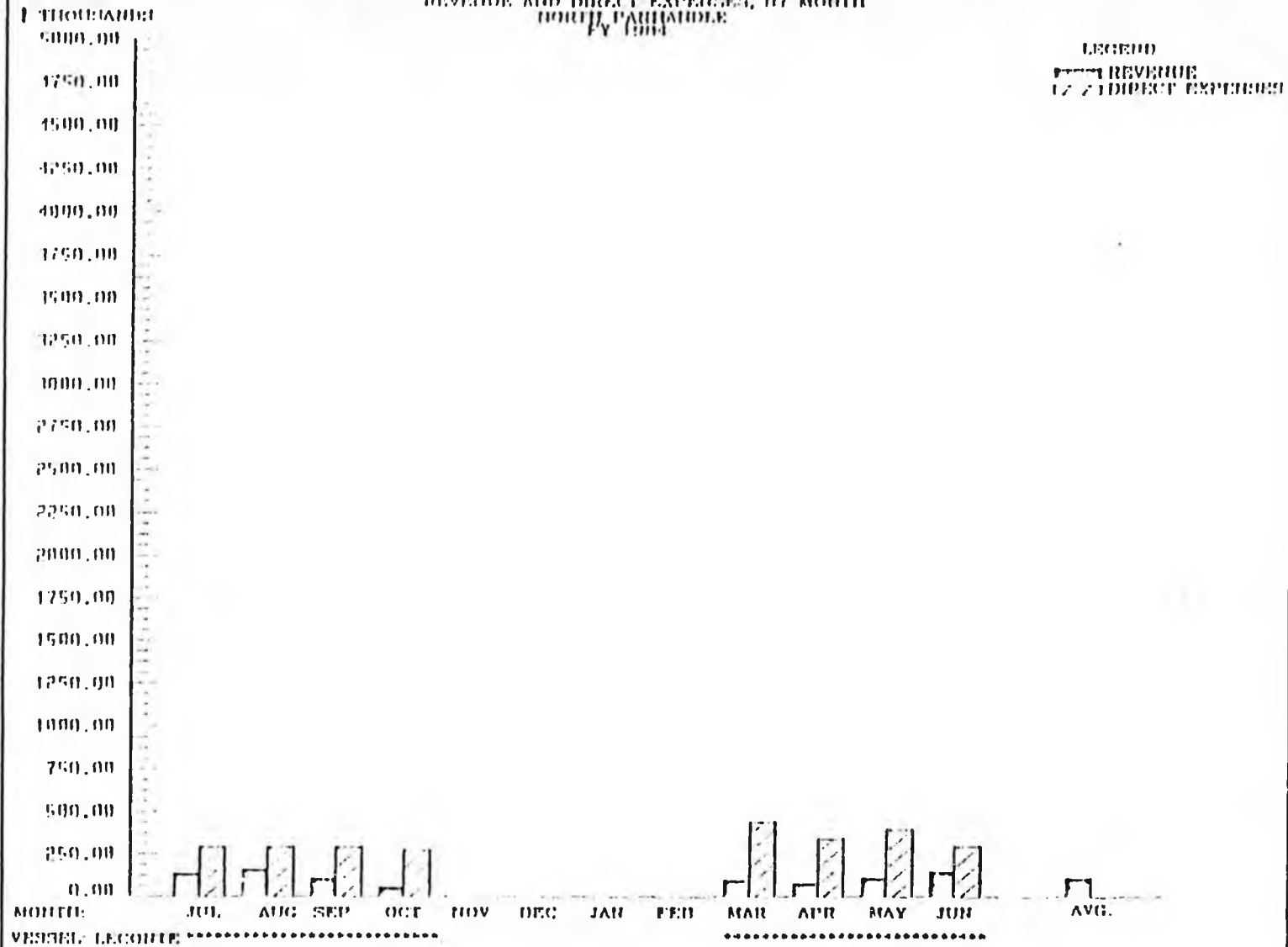


VESSEL: MATANUSKA
 MALASPINA
 TARD

FEBRUARY 20, 1955 BS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH
 MONTH PAIDABLE
 BY 1984



ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH
ROUTE PAULATKA
FY 1961

\$ THOUSANDS

5000.00
4750.00
4500.00
4250.00
4000.00
3750.00
3500.00
3250.00
3000.00
2750.00
2500.00
2250.00
2000.00
1750.00
1500.00
1250.00
1000.00
750.00
500.00
250.00
0.00

LEGEND
 [Solid Bar] REVENUE
 [Hatched Bar] DIRECT EXPENSES

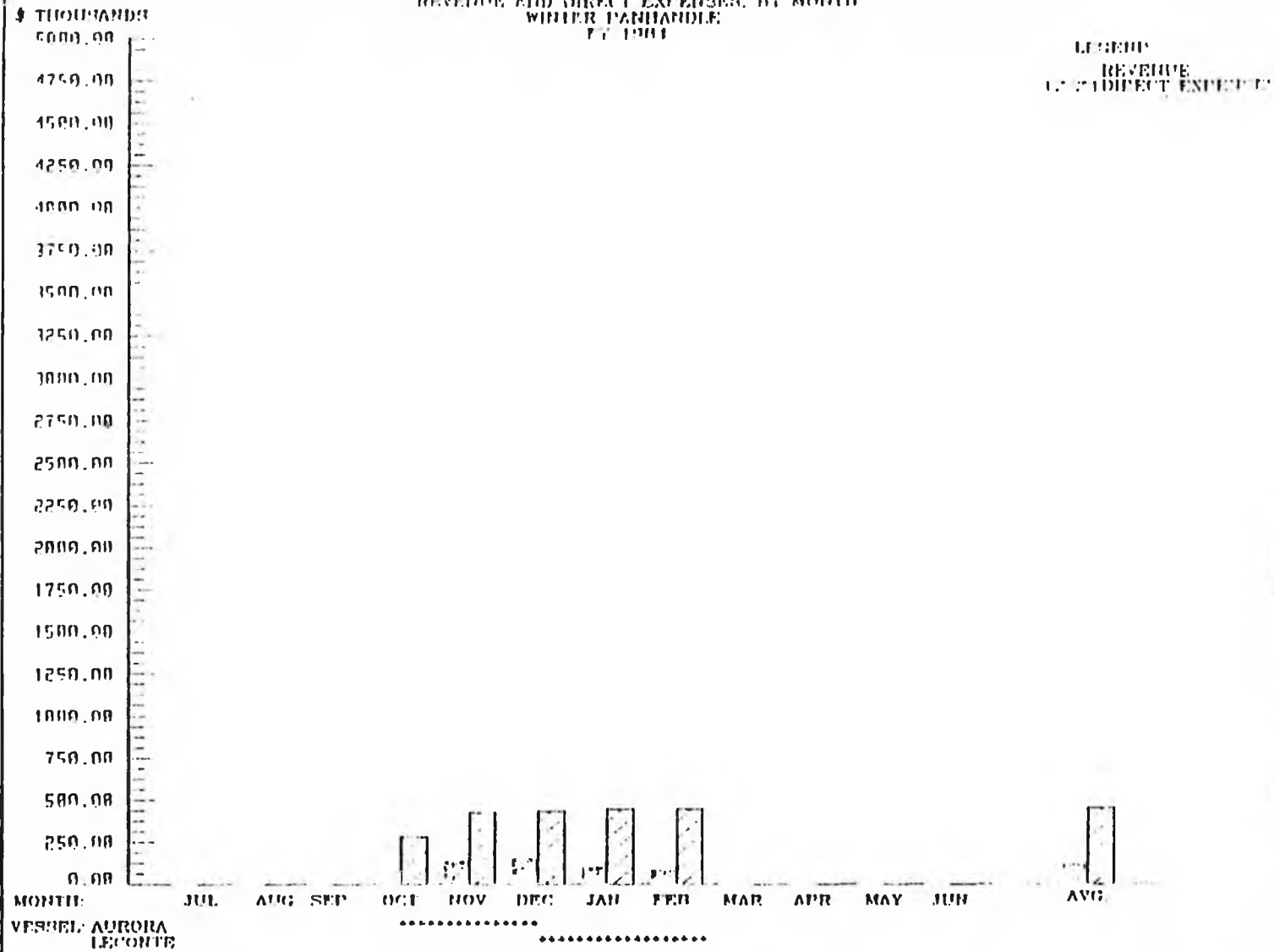
MONTH: JUL. AUG. SEP. OCT. NOV. DEC. JAN. FEB. MAR. APR. MAY JUN. AVG.

VESSEL: AURORA

FEBRUARY 20, 1961 BS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY MONTH
WINTER PANHANDLE
FY 1991



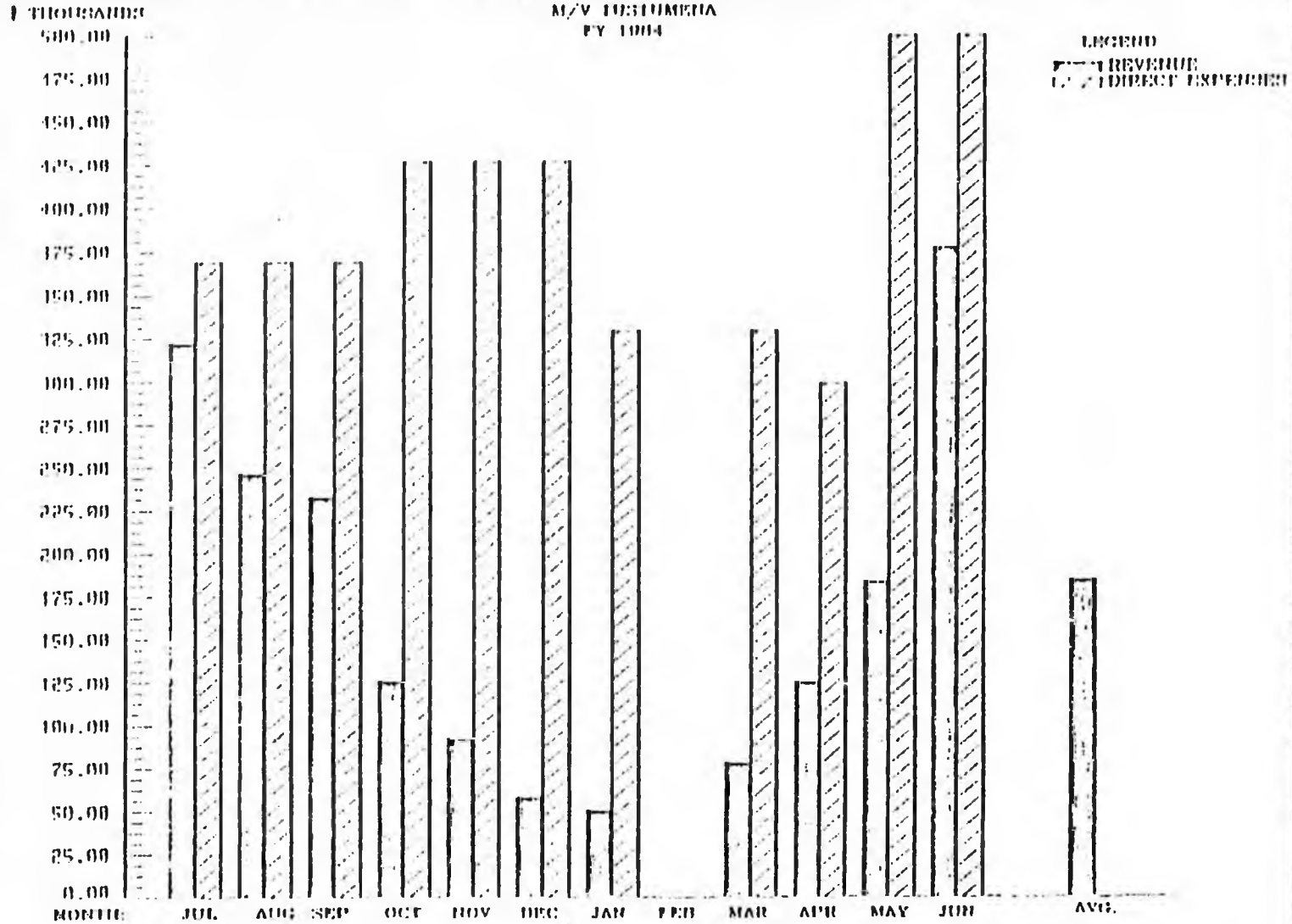
MONTH: JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
VESSEL: AURORA
LECONTE

LEGEND
REVENUE
DIRECT EXPENSES

SEPTEMBER 10, 1991 RS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES
 BY MONTH
 FY 1994

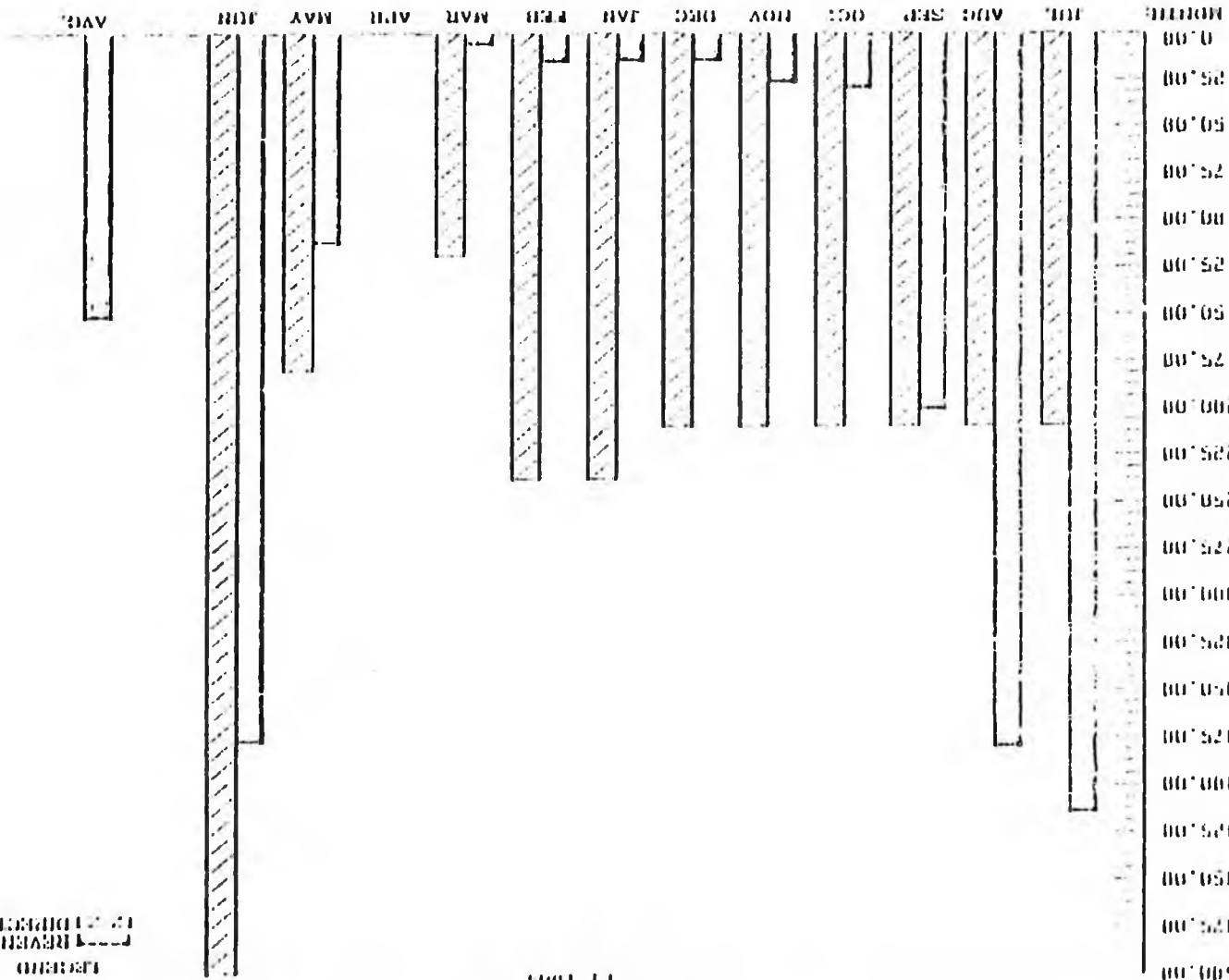


FEBRUARY 20, 1995 105

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES
BY MONTH
BY 1964

REVENUE
DIRECT EXPENSES



FEBRUARY 27, 1965 RB

AUTO WEEKLY

LINE UTILIZATION

Total Lines : 9 Total Time : 198:00
 Period Covered : Jul/29/85 Mon 4:00 AM to Aug/05/85 Mon 4:00 AM

- - Not connected

LINE	NUMBER OF CALLS					TIME IN USE			Total Use
	In	Out	Aban- conec	Night Service	Total	In	Out	Total	
<i>ALERT Sec</i>									
GROUP 1 :									
3	598	0	23	49	940	52:33	0:20	52:53	37.1%
8	448	0	120	1	549	43:12	0:20	43:31	25.7%
TOTALS	1146	0	143	50	1389	1:05:41	0:40	1:06:21	62.8%
GROUP 2 :									
<i>GROUP 2</i>									
7	755	33	15	121	924	55:54	1:07	57:01	40.0%
8	442	33	3	1	479	24:26	0:31	24:57	15.7%
9	305	11	5	1	322	33:31	0:25	33:56	19.3%
TOTALS	1502	77	23	123	1721	1:13:51	2:03	1:15:54	77.8%
GROUP 3 :									
<i>GROUP 3</i>									
1	304	0	72	24	400	73:47	0:00	73:47	48.1%
2	552	0	52	12	616	54:37	0:00	54:37	36.0%
3	382	0	27	1	410	28:13	0:00	28:13	18.9%
4	266	0	45	0	311	31:27	0:00	31:27	20.0%
TOTALS	1504	0	196	37	1737	1:27:04	0:00	1:27:04	86.7%

	In	Out	Aban- conec	Night Service	Total
SYSTEM TOTALS	4524	57	479	320	5310

AVERAGE CALL DURATION
Min:Sec

-----LINES ALL BUSY-----

	Inbound	Outbound	Total Min:Sec	Average Min:Sec	Longest Min:Sec	Percent of Total Time
GROUP 1 :	5:00	0:20	56:57	1:57	3:50	15.0%
GROUP 2 :	5:30	1:40	14:48	1:31	15:33	9.7%
GROUP 3 :	7:00	0:00	14:45	1:20	7:53	8.3%



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P. O. Box 7, State Capitol
Juneau, Alaska 99811-0100
Mail Stop 3100
(907) 465-3991

September 29, 1986

MEMORANDUM

TO: Representative Betta Cato

FROM: Mary Jennings *MJ*
Legislative Analyst

RE: Ferry Systems in Washington State and British Columbia
Research Request 37-025

You requested general information regarding the ferry systems in Washington State and British Columbia. Information on fares, traffic, employee unions and financial structure is provided below.

Washington State Ferry System

The Washington State Ferry (WSF) system began operation in 1951. The system was purchased from individuals who had been operating ferries on the Puget Sound since the turn of the century. The state purchased 16 ferries, 20 terminals and miscellaneous supplies for \$4.95 million. Today, the Marine Division of the Washington State Department of Transportation controls assets valued at over \$308 million and operates 22 vessels which carry seven million vehicles and 17 million passengers each year.

All of the ferries are capable of carrying cars as well as passengers. The largest vessels in the system are two 440-foot "jumbo" ferries, each with a capacity of 206 autos and 2,000 passengers. The smallest ferry (150 feet) is capable of carrying 40 autos and 200 passengers. The total car-carrying capacity of all the ferries is 2,412. The ferries are not equipped with sleeping facilities, although food service is available on the majority of the vessels.

The system operates nine routes serving 20 terminal locations throughout Puget Sound. Routes are devoted to both commuting and recreational travel. The shortest route is 1.5 nautical miles (15 minutes) in the Tacoma urban area, and the longest route is 38 nautical miles (3-1/2 hours) to the San Juan Islands. Recreational travel accounts for 30 percent of all ferry trips. Seventy percent of all passengers are recreational travelers.

Fares. Fares range from \$0.95 (passenger) and \$3.40 (car and driver) for a 15-minute route to \$5.50 (passenger) and \$23.55 (car and driver) for a 3-1/2-hour route. Table 1 presents a history of cross sound auto and driver fares and passenger fares and the consumer price index during the last sixteen years. The table indicates that fares have increased at a pace comparable to the Seattle area consumer price index. The WSF does not utilize reservations, except for cars on the Anacortes, Washington-Sidney, B.C. route during the summer months only. The WSF does not accept credit cards for payment of fare.

Traffic. Table 2 shows that systemwide traffic grew steadily during the 1970s but declined in the early 1980s, when Washington experienced a severe economic downturn. Since 1982, total traffic volume has been gradually returning to the 1979 peak. Traffic has already exceeded previous highs on many routes. The system makes an average of 323 daily trips, carrying 47,300 passengers and 19,000 vehicles. The smallest route has 534 average daily passengers and 200 vehicles; the largest has 2,554 average daily passengers and 4,325 vehicles. The summer months are the busiest time; traffic drops by 57 percent during the winter.

During the past six years, WSF has acquired six new vessels. Due to reduced traffic and these new vessels, the system has been able to avoid increasing service hours. Total system vehicle traffic is projected to grow at an average annual rate of 0.4 percent during the next six years. Traffic on some routes is expected to decline, while other routes are expected to expand substantially. To accommodate the growth, the system plans to purchase four passenger-only vessels. These ferries will be utilized on runs that currently experience traffic overloads during certain service periods.

Employees. The WSF employs approximately 950 year-round employees, with 250 employees added during the summer months. All employees are unionized. The three unions representing WSF employees are: Captains, Mates, and Pilots Union; Inland Boatmen's Union; and Marine Engineers Beneficiaries Association.

Financial Structure. Fare revenues have covered approximately 70 percent of operating expenditures and 40 percent of operating and capital expenditures during the last three fiscal years. In addition to fares, the WSF system acquires revenue from taxes and a toll bridge. Table 3 is a flow chart depicting how the revenues from fares, car registration fees, gas and vehicle taxes, bond sales, and federal funds are channeled into different accounts to cover operating and maintenance, ferry improvement, construction, and debt service expenses. Table 4 is a history of operating expenses and revenue sources of the WSF since 1967. Table 5 presents anticipated revenues and expenditures in the 1985-1987 biennium.

The British Columbia Ferry Corporation

The British Columbia Ferry (BCF) Corporation was created in 1960 by the provincial government. The system began after two private ferry companies operating in B.C. went on strike. During 1961, with purchase of the assets of one of the striking companies, the corporation operated two ships over one route and employed approximately 225 people. In 1985, the BCF was consolidated with the coastal fleet of the Provincial Division of the Ministry of Transportation and gained 14 vessels and ten routes. Today BCF operates 39 vessels over 25 routes and employs approximately 2,700 people. The system is a Crown Corporation, which means it is publically owned and pays no provincial or federal income taxes.

Of the 39 ships operated by the system, 38 have car carrying capabilities. The largest vessels are five 457-foot "jumbo" ferries that can each carry 360 vehicles and 1,500 passengers. The smallest vessel is a 33-foot passenger-only ferry with a capacity of 40 people. Two vessels have sleeping facilities and approximately half offer food service.

The shortest route in the system is two nautical miles (18 minutes) and the longest is 274 nautical miles (15 hours). The busiest route is between Vancouver and Victoria--the provincial capital. All of the routes are day routes except for one, which becomes an overnight trip during the winter season. The corporation serves urban commuters, recreational travelers, and a great number of business travelers between the mainland and the capital. Summer is the busiest season; during the winter, traffic drops by approximately 50 percent.

Fares. Fares for the most heavily used route between Vancouver and Victoria are \$19 for a car and driver and \$4 for a passenger. Today's fares represent about a 200 percent increase for vehicles and a 100 percent increase for passengers over fares charged when the corporation began operation in 1960. Reservations are utilized for vehicles and passengers on one route and for vehicles on only two routes. Credit cards are accepted only on the routes which utilize reservations.

Traffic. Until 1982, the BCF had experienced a steady growth in traffic. Since that time, volume has decreased slightly each year. The system expects 1986 to set all time traffic records due the increase in tourism at the World's Exposition in Vancouver. According to the corporation, traffic is handled efficiently by the current vessels and there are no plans for fleet expansion.

Employees. Of the 2,700 employees, all are unionized except for the ship's captains. The British Columbia Ferry and Marine Workers Union represents the workers.

Representative Cato
September 29, 1986
Page 4

Financial Structure. The BCF operates each year on a \$40 million (Canadian) subsidy from the provincial government. Due to the large increase in traffic from Expo, the corporation hopes to show a profit this year.

* * * *

I hope you find this information useful. I am expecting detailed traffic and financial reports from the British Columbia Ferry Corporation and will contact you when I receive them. Please contact our office if you have any questions.

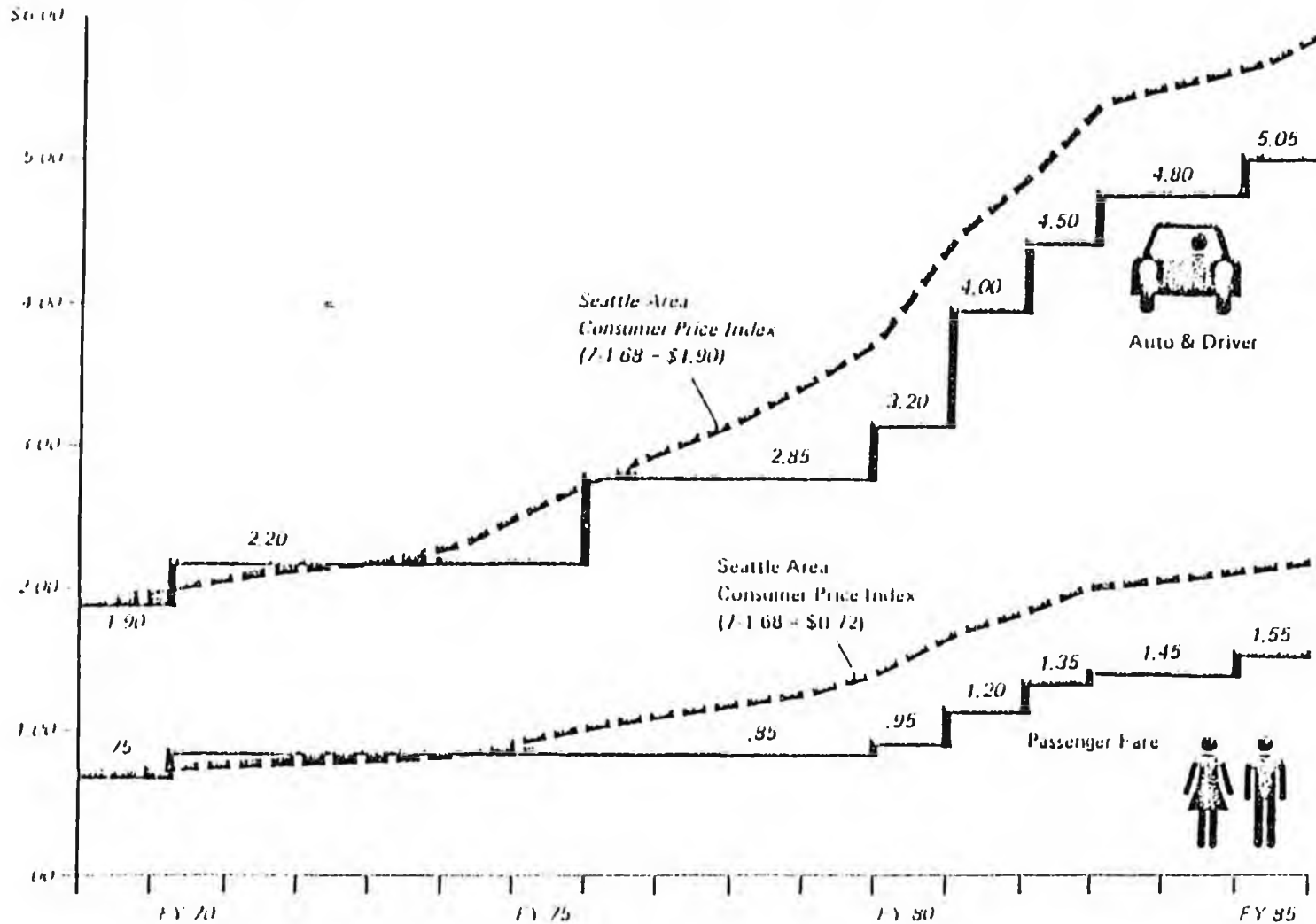
MJ

Attachments



TABLE 1

CROSS SOUND FARES: 1969 - 1985





Washington State Department of Transportation
Marine Division
Washington State Ferries

TABLE 2

TOTAL TRAFFIC (Passengers and Vehicles)
(Annualized by 12 Month Moving Totals)

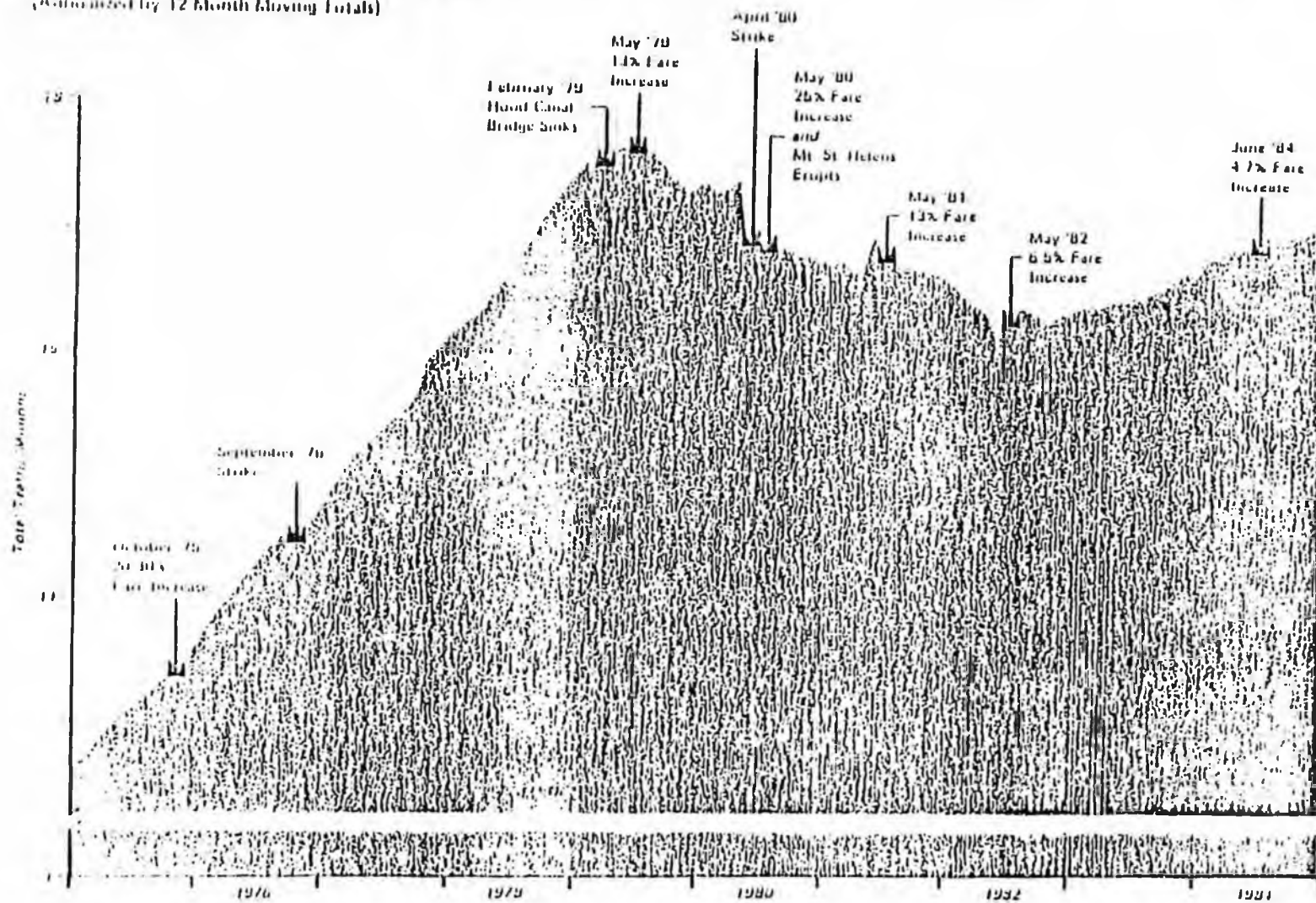
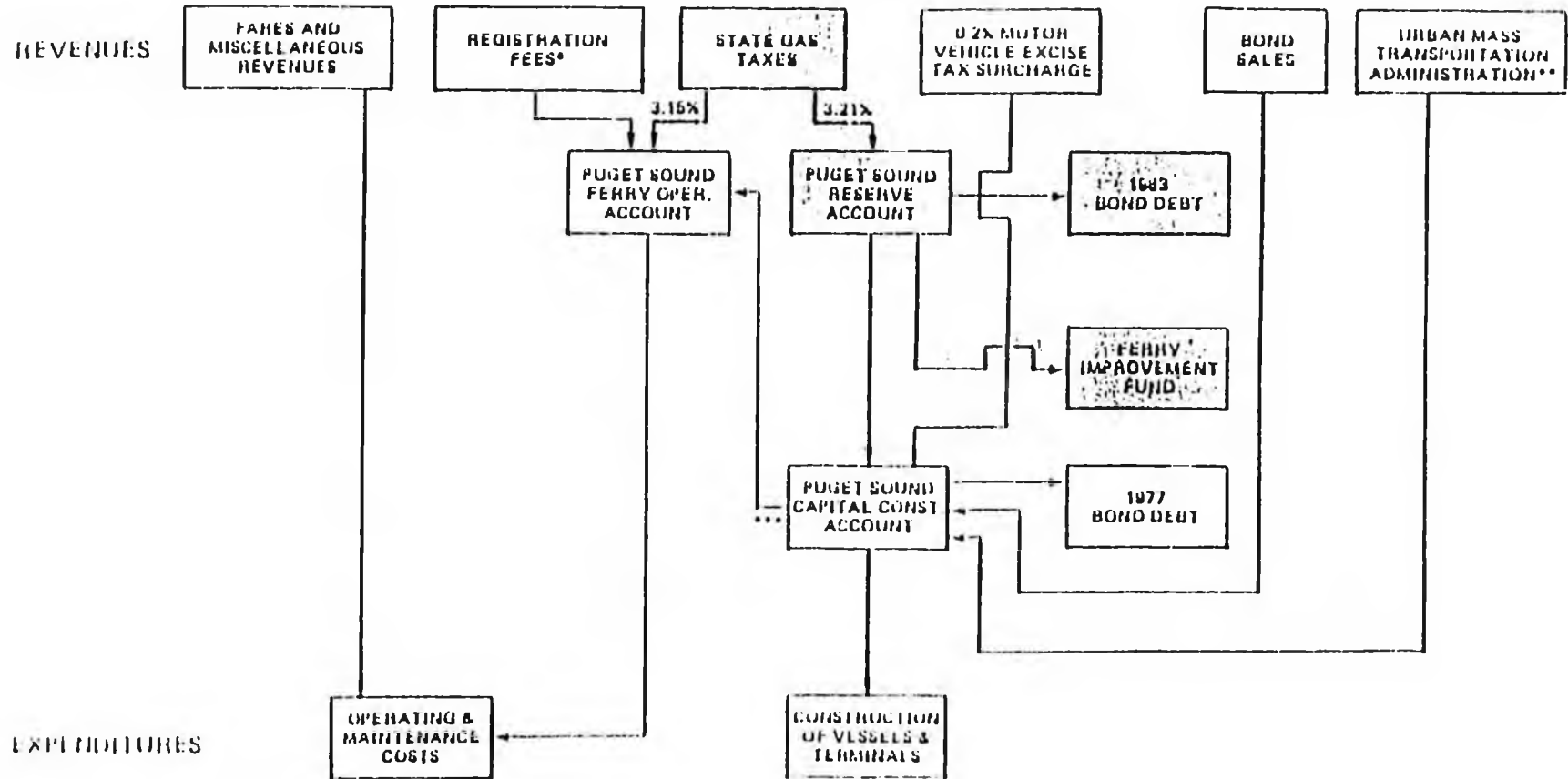


TABLE 3



Washington State Department of Transportation
Marine Division

WASHINGTON STATE MARINE TRANSPORTATION FINANCING



* 27.17A of \$7.40 of new car and \$1.40 of old car registration fees

** UMTA is part of the U.S. Department of Transportation

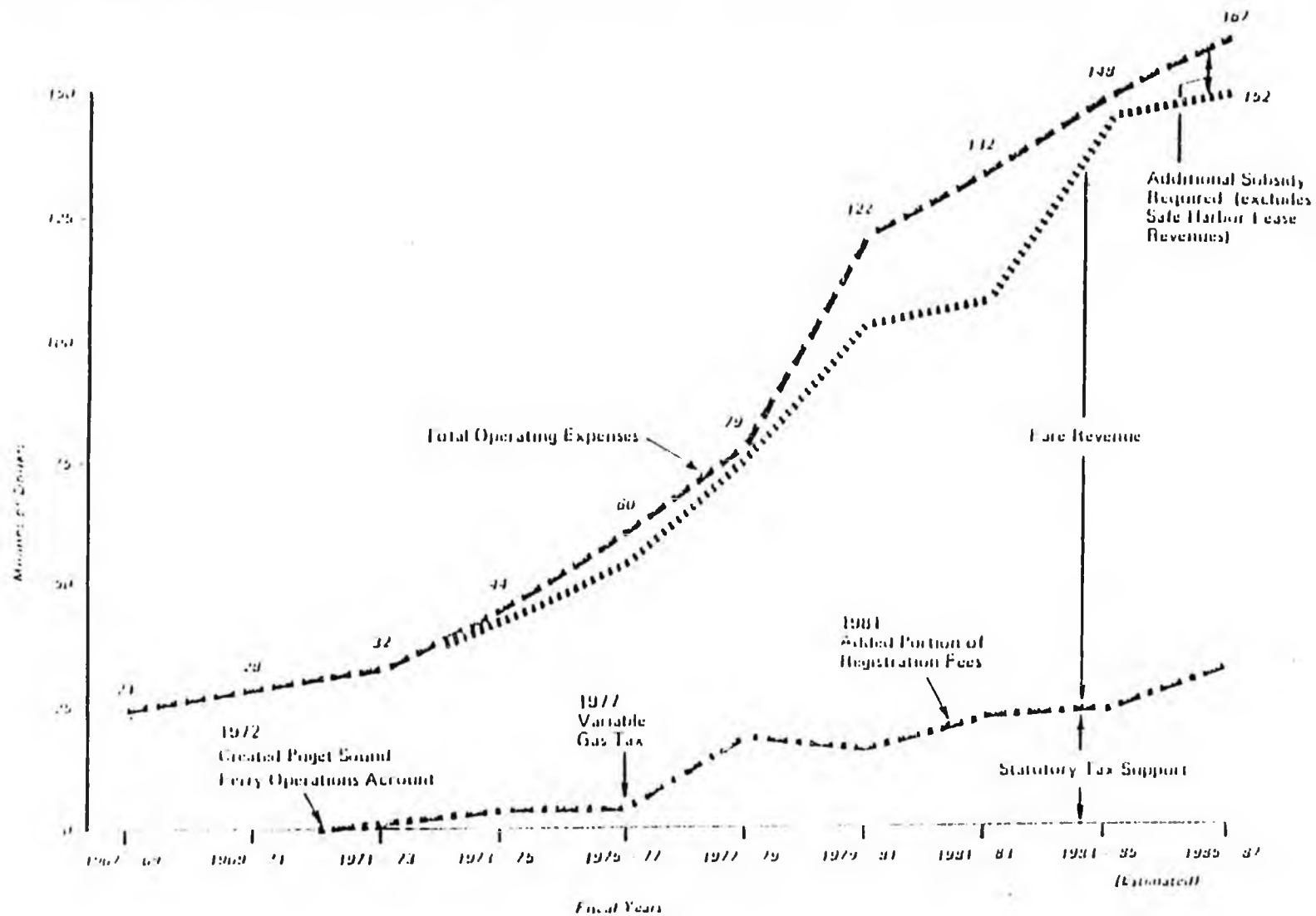
*** Receipts from Bond Sales and UMTA cannot be transferred as tax support for operations



Washington State Department of Transportation
Marine Division
Washington State Ferries

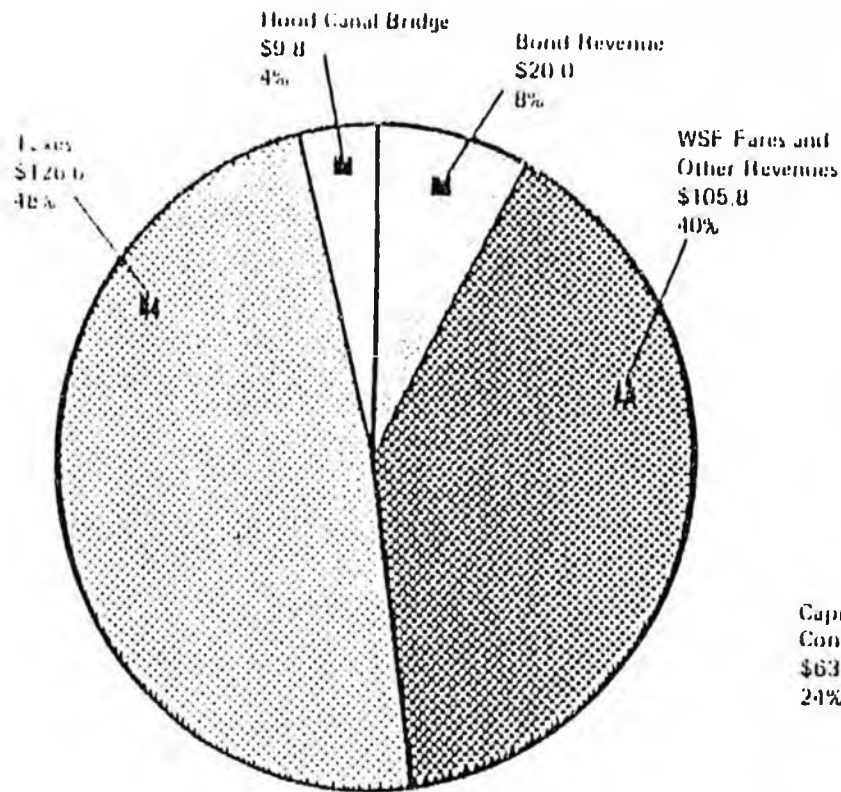
TABLE 4

OPERATING EXPENSES AND REVENUE SOURCES

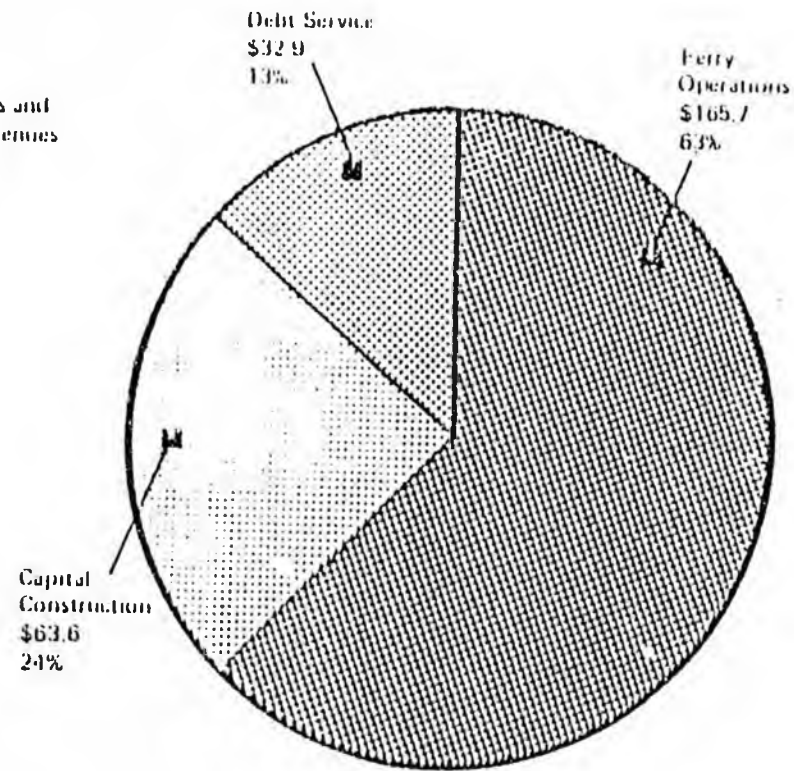




1985 1987 ANTICIPATED REVENUES AND EXPENDITURES



REVENUES



EXPENDITURES



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box 7, State Capitol
Juneau, Alaska 99811-0100
Mail Stop 3100
(907) 465-3991

November 3, 1986

MEMORANDUM

TO: Representative Betta Cato

ATTN: Rhonda Thompson

FROM: Mary Jennings *mg*
Legislative Analyst

RE: Washington and British Columbia Ferry System
Research Request 87.025 (Additional Information)

I recently received some additional material from the British Columbia Ferry Corporation. Attached is the FY 1984/85 annual report of the corporation and a report containing general information about the system. I hope you find this information useful. Please contact me if you have any questions.

MJ

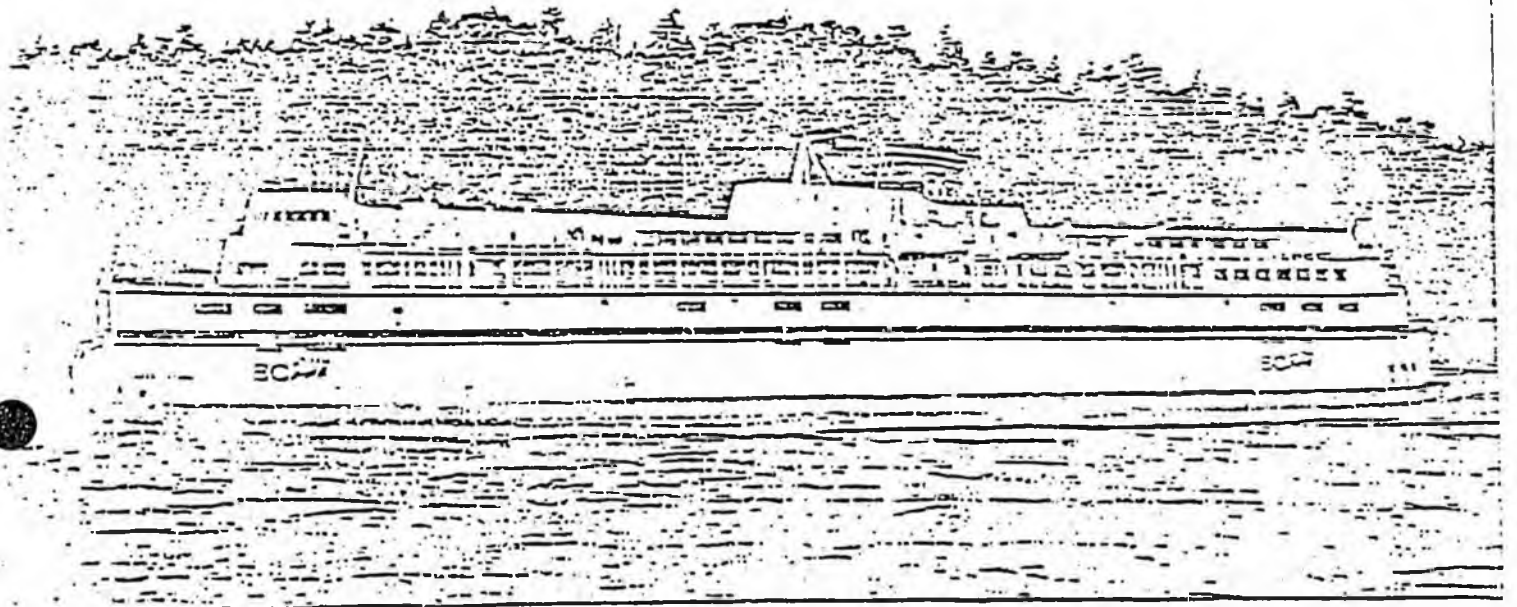
Attachments



BRITISH COLUMBIA
FERRY CORPORATION

ANNUAL REPORT

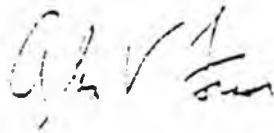
1984/85



The Honourable
ROBERT G. ROGERS
Lieutenant Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

I respectfully submit herewith the Annual Report of the British Columbia
Ferry Corporation for the fiscal year ended March 31, 1985 in compliance
with the provisions of the Ferry Corporation Act.



ALEX V. FRASER
Minister of Transportation and Highways
June 3, 1985

Board of Directors	3
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Report of President	5
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ALEX V. FRASER
 Minister, Transportation & Highways
 Province of British Columbia
 Minister Responsible



S.M. HODGSON (1)
 Chairman of the Board



R.H. WRIGHT (1)(3)
 Vice-Chairman/ President
 Oak Bay Marina Ltd.



M.D.W. YOUNG (3)
 Barrister & Solicitor



A.L. MICHAUD (1)(4)
 President
 Michaud Investments



J. MORRIS (3)
 Retired



W.E.M. HICK (1)(2)
 Physician & Surgeon



W.A. DUNCAN (2)(4)
 Retired



J.E. PRICE (4)
 Managing Director
 Beach Gardens Resort



P. COLLIER (1)
 President & Chief
 Executive Officer



B. BALDWIN (1)
 General Manager



J.S. ESTOCK (1)
 Assistant General Manager
 Finance & Administration



K. BAGSHAW
 Corporate Counsel



A.S. LUKINUK (1)
 Corporate Secretary

(1) Member - Executive Committee
 (2) Member - Finance Committee

(3) Member - Planning Committee
 (4) Member - Audit Committee

The Honourable Alex V. Fraser
Minister of Transportation & Highways:

1984-85 yielded appreciable reductions in the B.C. Ferry Corporation's operating deficit. This was achieved while still meeting the Corporation's mandate of offering the best possible service in the most efficient manner. While 1983-84 was effectively a year of stabilization and overall operational streamlining, this past fiscal year has been one of significant adjustment to the service to high loss areas. At the same time, the modest traffic growth experienced in 1983-84 over that of 1982-83 was once again reversed in 1984-85. The traffic results were well below expectations, with vehicles at 4,460,069 and passengers at 11,912,943. This represents a decline of .5% in vehicles and 3.2% in passengers over 1983-84.

In keeping with the British Columbia Government's instructions to pare costs in all possible areas, a major assessment review of high loss areas was completed. The review, which touched on all aspects of service to the North Coast, Sunshine Coast and Gulf Islands, took a three-pronged approach: 1) to reduce operating costs, particularly during the low revenue off season period by more closely matching schedules to traffic demand and patterns; 2) to provide residents of communities dependent upon the ferries as a transportation link with a service that would meet their day to day requirements; and, 3) to maximize the Corporation's role in the province's vital tourist industry.

I am pleased to report that the success of the Ferry Corporation's ongoing cost reducing program is due in part to the spirit of cooperation that prevailed between the communities concerned and the Corporation in implementing cost reducing measures that have already yielded impressive results. For example, service to the North Coast was reduced between Prince Rupert and Port Hardy during traditionally low traffic months. However, the projected savings allowed the Corporation to carry out ship renovations necessary to implement a day boat operation during the summer tourist season. The summer of 1985 will see the launching of this new day cruise service between Prince Rupert and Port Hardy - a service that will substantially increase the tourist activity to northern communities.

Efficiency measures undertaken on the Sunshine Coast also involved a reduction in the number of sailings. However, a ramp at Langdale terminal was doubledecked with the result that the route can now be fully operated with a doubledecked ship. This has effectively increased the lift-off capacity while at the same time allowing the Corporation to operate the service in a more cost efficient manner.

While the emphasis this past year was directed to cutting costs on specific routes, overall savings were achieved in all facets

of the operation. Labour costs, which account for the major part of the operating budget, were substantially reduced by a general streamlining of the establishment in line with the provisions of the collective agreement.

As mentioned, the anticipated turnaround in traffic levels did not materialize during 1984-85. Indeed, while in 1983-84 a slight increase in vehicles and passengers was experienced, this past year has seen a decline of 22,538 vehicles and 484,662 passengers. Nevertheless, despite the general decline in traffic, the month of August set an all-time record for passengers and vehicles. Also, a hopeful indication that recovery has begun is the performance of commercial vehicle traffic. For all routes, commercial traffic was up 3% over 1983-84 and 8% over 1982-83. For the last quarter of 1984-85, commercial traffic on the two Vancouver Island routes was up 3.5%. In the past, commercial traffic has often been a precursor or leading indicator of overall traffic trends.

With this in mind plans are underway to meet the increased demand during Expo '86. The fleet's expansion since 1980 by way of lifting five major vessels, plus the ships presently laid up, has put the Corporation in an excellent position to meet projected vehicle lift-off demands. In addition, bus passenger pick up and drop off zones are being revamped at the major terminals to make it a more attractive and convenient means of travel.

British Columbia's ferry fleet plays an important role in preserving the coastal residents' way of life by offering a vital transportation link. At the same time the fleet itself is seen by millions of tourists as a major attraction. The B.C. Ferry Corporation's employees, management and board of directors take pride in meeting the many and varied needs of their travelling public.

On behalf of the Board,

Stuart M. Hodgson
Chairman

REPORT OF THE PRESIDENT

The Corporation has now experienced three straight recessionary years with little or no growth in most categories of traffic. The notable exception to this pattern is the 3% increase in commercial vehicles - a hopeful sign toward economic recovery in British Columbia.

In spite of soft traffic patterns, the future looks promising. In the face of adversity over the past three years, costs have actually been reduced through careful planning of ship and crew schedules. It is encouraging to note that these and other continuing management efficiencies have resulted in a further 5% reduction of operating expenses while net revenue increased 5% in spite of declines in traffic. The increase in revenue was in part, a reflection of the very modest increase in fares. Vehicle fares increased by approximately 5% in February of 1985.

The Corporation is now leaner, more efficient and well positioned to take advantage of the anticipated return to healthy traffic growth expected over the next two years.

Good progress was made this year in a continuing effort to improve overall efficiency of the fleet through the application of a more precise match between capacity and traffic. Input from local residents has become a regular feature of the planning process. Community meetings were held on the Sunshine Coast, the North Coast and the Gulf Islands to discuss proposed schedule changes.

Although service was cut back on some routes, the number of sailings for the entire system increased by 3% in 1984/85. There was a total of 70,313 one-way sailings.

Sunshine Coast service and efficiency were improved with the introduction of the converted "Queen of Alberni" into operation on the Langdale-Horseshoe Bay route in conjunction with upgraded terminal facilities at Langdale.

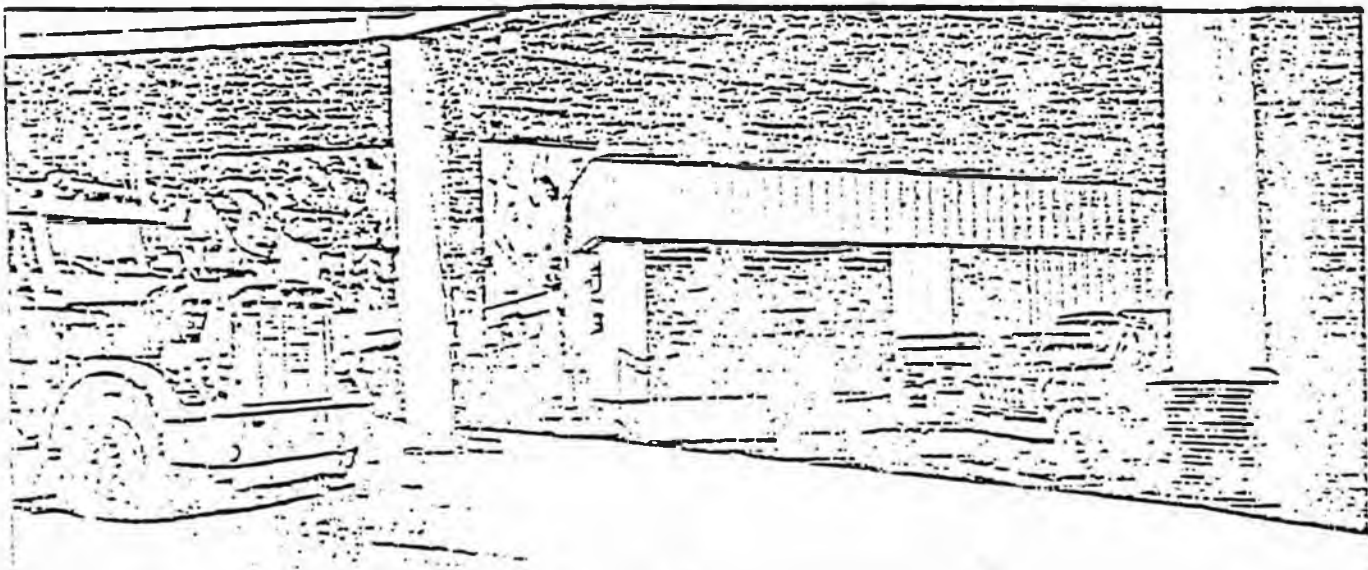
On the North Coast substantial cuts were made in winter service, with the elimination of the Tsawwassen leg of the Prince Rupert-Port Hardy route from the winter operation. A single ship made one trip per week to Port Hardy and two round trips to Skidegate.

In addition, the chartered Prince Rupert-Masset tug and barge service for drop trailers was terminated March 31, 1985. Commercial drop trailers will be carried on the regular ferry route from Prince Rupert to Skidegate. During 1984/85 it was decided that the summer service between Prince Rupert and Port Hardy would be a daynight operation commencing the summer of 1985.

The most significant improvements in efficiency have resulted from better scheduling of crews. Overtime costs have been substantially reduced. A policy of flexible vessel licences has enabled the Corporation to vary the size of crews throughout the day according to the requirements of traffic.

One of the new management tools introduced in 1984/85 was an Executive Network of microcomputers.

The Executive Network provides senior management with traffic statistics, revenue information, spreadsheet applications and forecasting models. Senior managers are using the system to monitor current traffic and demands on schedules. Historical data can be viewed in order to identify trends. By combining



Passenger waiting room, Horseshoe Bay

...the features with a forecasting model, it is possible to accurately predict capacity utilizations, licence requirements and probable overloads. By using the spreadsheet application, senior managers can analyze various scenarios with regard to tariff and revenue items. The system, therefore, is a powerful tool that can aid senior management in both short term and long term planning.

Engineering

The Corporation's major construction project this year was the fitting of the "Queen of Alberni." The contract was placed February 27, 1984 and 105 days later, on June 11, 1984, the ship was back in service with a new upper car deck doubling its original vehicle capacity.

Coinciding with this project was a major upgrading of facilities at Langdale Terminal. The vehicle loading ramps were double-decked in order to permit simultaneous loading of both vehicle decks. New offices and waiting rooms were constructed and the holding compound layout was redesigned.

Modifications were commenced on the "Queen of the North" to suit the new "Day Cruise" service. Because of the cancellation of contracted tug and barge service to the Queen Charlotte Islands, both the "Queen of the North" and "Queen of Prince Rupert" were outfitted to carry refrigerated trucks by installation of new car deck exhaust systems to enable truck cooling units to operate during the crossing of Hecate Strait. The holding compound at Skidegate Terminal was increased in order to accommodate drop trailer traffic.

Improvements in facilities at major terminals have continued.

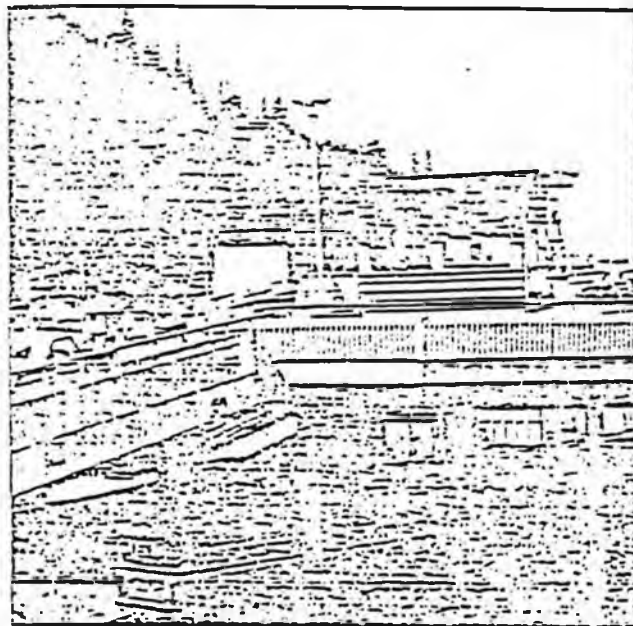
At Swartz Bay a new passenger pick-up facility was completed adjacent to the docks, thus shortening the walking distance for discharging foot passengers and alleviating congestion at the departure ticketing area. New toll booths were built in order to improve the flow of traffic and expand the holding compound. Planning is underway at Swartz Bay for double-laning the upper vehicle ramp at Number 1 Berth; for expansion of the

refrigerated and dry stores area; and for construction of a new bus passenger loading facility which will include six bus bays and a new passenger waiting room.

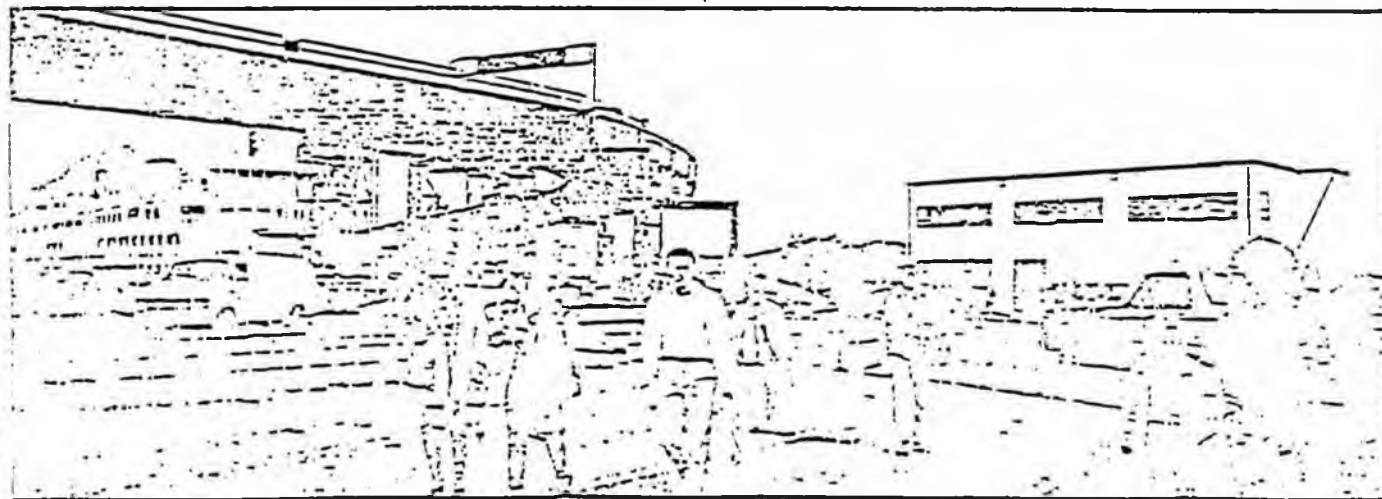
At Tsawwassen the upper vehicle ramp at Number 2 Berth has been widened to two lanes, thus speeding the loading and unloading process, and the cafeteria was expanded to provide additional seating.

At Horseshoe Bay the upper vehicle holding area was extended and a new passenger waiting room and control tower were built.

After a period of extensive testing during 1983-84, fuel metres have been fitted to all major vessels. The fuel metres, together with better ship scheduling, has resulted in total fuel consumption in 1984/85 of 76,256,000 litres, a 3% reduction from the previous year.



Control tower, Horseshoe Bay



Overhead ramp, passenger waiting room, and office, Langdale

New fleet colours are appearing on the vessels as they go into refit for regular maintenance. Approximately half the vessels have now been repainted. The EKPC 35 logo is being painted on funnels in conjunction with the repainting program.

Catering

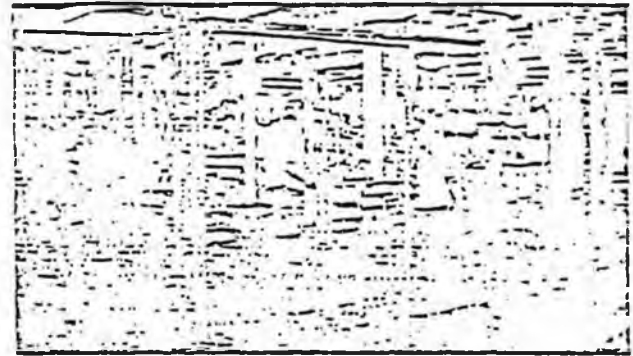
The past fiscal year was a period of consolidation for the Catering and Passenger Services area. Total revenue declined as a result of lower passenger traffic, smaller average expenditure per passenger and the closing of marginal outlets. Although within budget, the Gross Profit percentage was slightly lower than the previous year. Menu price increases were kept at a minimum in response to the public's resistance to high priced menu items.

General operating expenses were reduced substantially with the result that the net operating loss was reduced from previous years in spite of declining revenue.

Reductions in Route #10 (Port Hardy-Prince Rupert) operations have produced substantial drops in both liquor and state-room revenues; however, the lost revenue was more than offset by reduced expenses. Anticipated sales increases on the new day run concept should more than replace these lost marginal sales with very productive revenue dollars.

Ongoing emphasis on newsstand development has produced an increase in both sales and newsstand gross profit in spite of limited passenger traffic. In support of this trend, the Vancouver Class vessels will be featuring new expanded gift shops with three vessels completed prior to the summer of 1985.

The new Sawwassen test kitchen and Quality Control Supervisor continue to produce basic improvements in food quality. Although gradual, these improvements have proven to



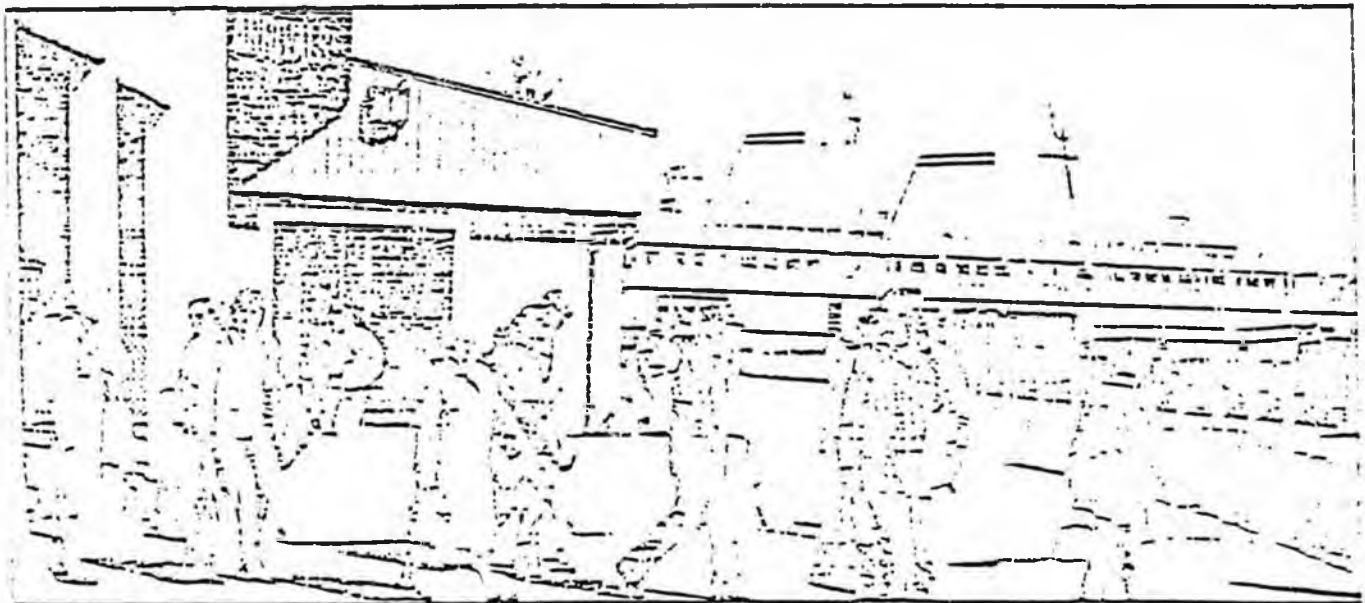
Expanded newsstand/giftshop

be lasting and consistent throughout the fleet. Revised food purchasing procedures have also been effective in improving quality consistency and value.

Communications

B.C. Ferries has continued to expand its role in the promotion of tourism, in recognition of the significance of this growing industry to British Columbia and the Corporation as a major source of revenue. A major activity this winter has been the promotion of the Day Cruise, which is to be introduced on the Northern route to Prince Rupert in the summer of 1985.

The Corporation has also expanded its activities in major travel shows in key market areas of the U.S. and Canada, working in close cooperation with Tourism B.C. and the tourism regions of the province. The past year also featured more involvement with local tourism communities in areas served by the Corporation.



Foot passenger arrivals, Swartz Bay

computerized reservations for the Guil Islands and North West which were completed in 1983 have been streamlined, now offer an even more efficient service to travel agents and the general public. This process will continue as we prepare well ahead for the anticipated volume of enquiries that will be generated by Expo 86.

Labour Relations

The main Labour Relations activity during 1984 was the administration of the collective agreement that was concluded in 1983. This included developing a layoff and recall procedure with the Union which allowed the Corporation to downsize its work force.

A number of grievances arose as a result of the new contract language; however, the parties were able to resolve these differences of opinion in accordance with procedures established under the collective agreement. This last fiscal year saw no time loss due to picket action of any kind, including third-party picketing.

Personnel

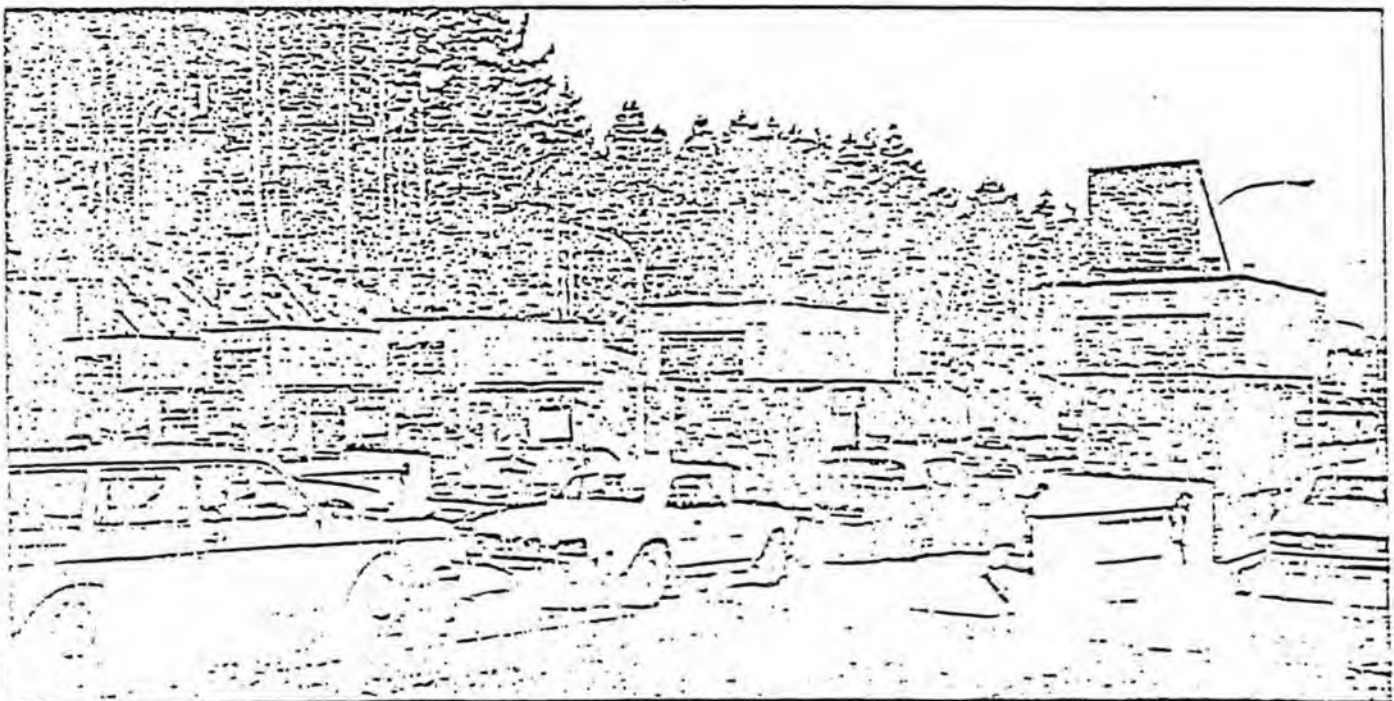
The greater flexibility in manning and improvements in scheduling afforded by the Agreement concluded on October 30, 1983, impacted most significantly on the personnel function in 1984. A new bargaining unit establishment, reflecting the Corporation's ongoing commitment to reduce overall wage costs by means of the rationalization of the Corporation's man resource requirement to a level commensurate with its operational requirements, was accepted and approved. At the same time the Corporation's commitment to reduce its

outstanding banked overtime liability continued with positive results; careful manpower planning reduced the total banked overtime by 31%.

The new bargaining unit establishment of 1951 positions resulted in a reduction of 221 positions effective October 10, 1984. Where the reduction impacted on an employee it was effected in consultation with that employee, his Union representative and his Union executive. As a result of the extensive preparatory work completed, and despite the inevitable ripple effect of "bumping," the overall reduction in the number of employees was brought about with a minimum of disruption of personal inconvenience. Of those employees who were laid off and who elected to return to work with the Corporation when work is available, and after allowing for attrition of present regular employees through retirement, death, disabilities, etc. it is considered that the vast majority will return to work as full time regular employees within the next 18 months. In the interim, they will be offered every opportunity to work for the Corporation throughout the busy summer months or any other time that their services can be used.



A.L. Collier
President and
Chief Executive Officer

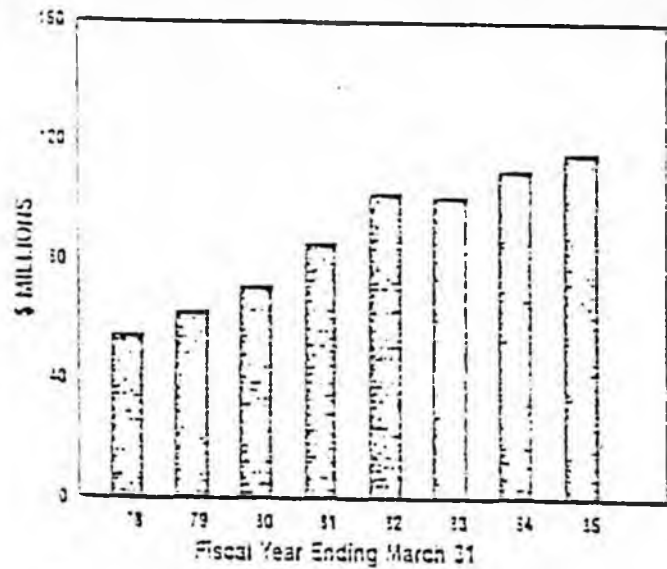


Vehicle toll booths, Swartz Bay

NET OPERATING REVENUE + 5%

Despite the lack of significant traffic growth in recent years, revenues have been growing as a result of regular, modest, annual fare increases.

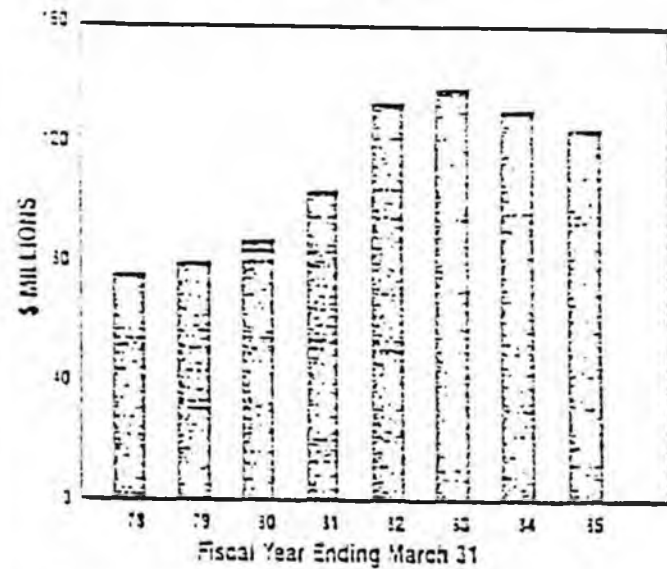
Net operating revenue has grown at an average rate of 7.7% per year over the past five years.



OPERATING EXPENSES - 5%

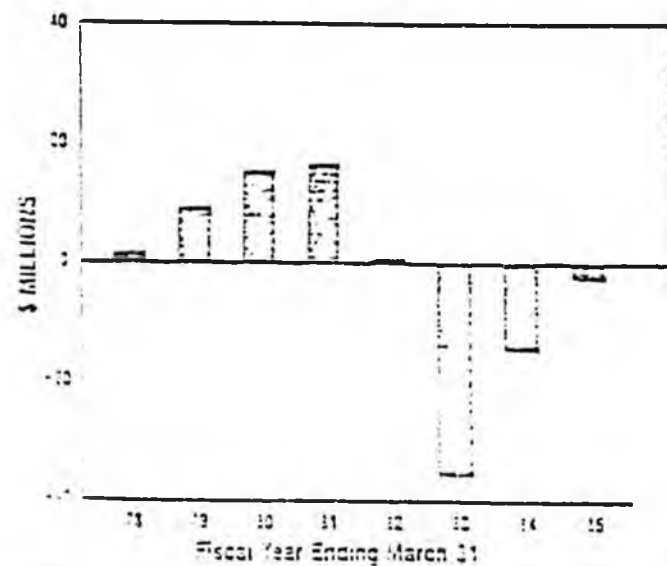
After a period of sharply rising costs in the late 70's and early 80's, operating expenses have been brought under control over the past three years.

This restraint was essential due to lack of traffic growth and a major reduction in the provincial government subsidy.



INCOME/LOSS AFTER SUBSIDY & DEPRECIATION

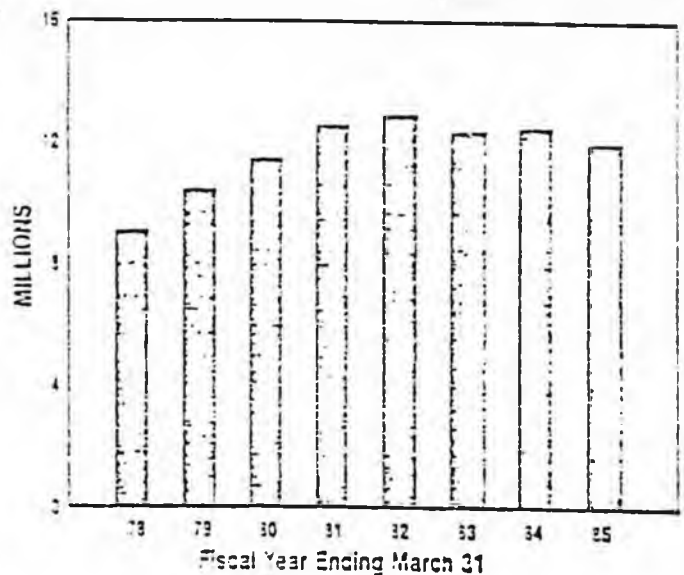
Despite the lack of traffic growth there has been a strong financial recovery over the past three years as a result of operating cost restraint and modest fare increases.



TOTAL PASSENGERS - 4%

After a small increase in 1983/84, passenger traffic has fallen again in 1984/85.

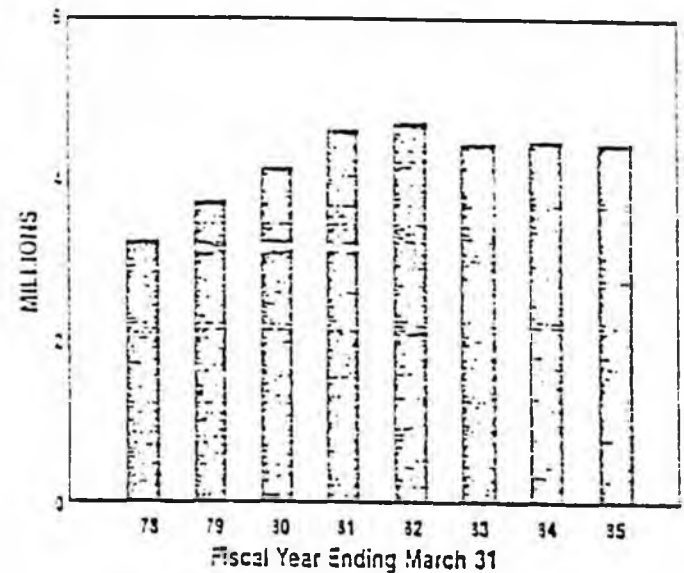
Over the past 24 years, 165 million passengers have been carried. The 100 millionth passenger is expected during the summer of 1986.



TOTAL VEHICLES - 0.5%

Total vehicle traffic has remained virtually unchanged over the past three years.

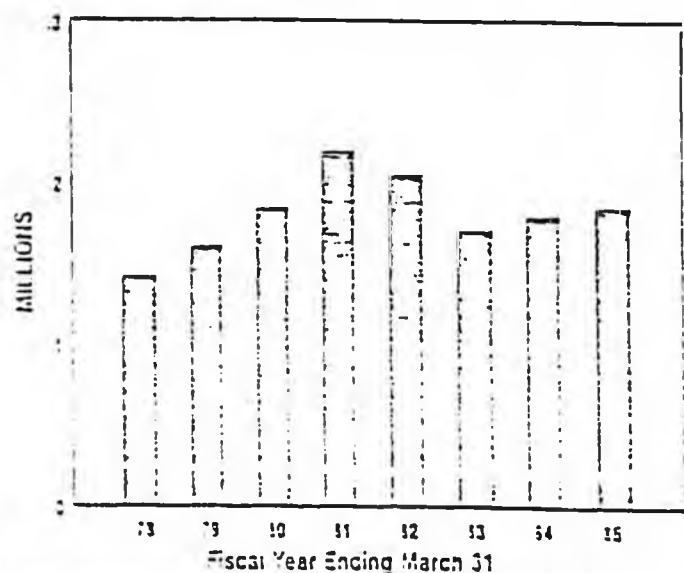
Over 67 million vehicles have been carried since 1960.



COMMERCIAL VEHICLES + 3%

Commercial vehicles have shown a steady increase over the past two years after suffering a sharp decline in the early 1980's.

In the past, commercial traffic has usually been a precursor or leading indicator of changes in other traffic categories.



AUDITORS' REPORT

**THORNE
RIDDELL**

Chartered Accountants



AUDITORS' REPORT

To the Lieutenant-Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Ferry Corporation as at March 31, 1935 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1935 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Victoria, Canada
May 21, 1935

Balance Sheet as at March 31, 1985

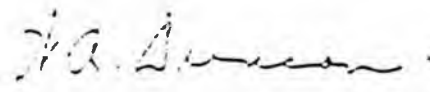
ASSETS

	1985	1984
	(expressed in thousands)	
CURRENT ASSETS		
Cash (Note 1)	\$ 11,943	\$ 3,361
Accounts receivable (Note 2)	800	505
Inventories (Note 3)	9,558	9,252
Prepayments and deposits	<u>949</u>	<u>583</u>
	<u>22,150</u>	<u>14,201</u>
RESERVED FUNDS (Note 4)	<u>7,317</u>	<u>—</u>
FIXED ASSETS (Note 5)		
Ships, berths, buildings, equipment and land	477,374	465,418
Less accumulated depreciation	<u>204,709</u>	<u>173,645</u>
	<u>272,665</u>	<u>291,773</u>
	<u>\$603,132</u>	<u>\$605,974</u>

APPROVED BY THE BOARD



Director



Director

LIABILITIES1985
(expressed in thousands)**CURRENT LIABILITIES**

Accounts payable and accrued liabilities	\$ 18,261	\$ 19,455
Deferred revenue	1,575	1,544
	<u>19,836</u>	<u>21,000</u>
LONG-TERM DEBT (Note 5)	36,446	35,585
ACCRUED SICK LEAVE LIABILITY (Note 7)	5,219	5,344
	<u>51,665</u>	<u>52,430</u>

SHAREHOLDERS' EQUITY**SHARE CAPITAL**

Authorized 1,000,000 shares without par value with a maximum consideration of \$100,000,000		
Issued 63,512 shares	6,351	6,351
CONTRIBUTED SURPLUS (Note 3)	250,401	250,401
DEFICIT	(15,720)	(13,703)
	<u>241,532</u>	<u>243,549</u>

COMMITMENTS (note 13)\$303,192 \$305,974

Statement of Income

YEAR ENDED MARCH 31, 1985
(expressed in thousands)

	1985	1984
Operating Revenues		
Tolls	\$100,828	\$ 94,828
Catering	22,396	23,737
Other income (note 9)	<u>2,506</u>	<u>1,949</u>
	125,530	120,514
Less cost of food and goods sold	<u>8,993</u>	<u>9,174</u>
	<u>116,537</u>	<u>111,340</u>
Operating Expenses		
Salaries, wages and benefits	79,513	33,449
Fuel and lubricants	23,395	25,352
Materials, operating supplies and services	10,166	10,338
Contracted replacements, repairs and maintenance	5,253	5,950
Marketing, general and administrative	3,530	3,513
Charter fees	<u>2,325</u>	<u>2,946</u>
	<u>125,003</u>	<u>132,553</u>
Operating Loss Before Subsidy	3,771	21,213
Province of British Columbia Subsidy (note 10)	<u>43,000</u>	<u>43,000</u>
Income from operations	34,229	21,787
Interest Expense (note 11)	<u>5,177</u>	<u>5,198</u>
INCOME BEFORE DEPRECIATION	29,052	15,589
Depreciation	<u>31,064</u>	<u>30,526</u>
LOSS FOR THE YEAR AFTER DEPRECIATION	<u>\$ 2,012</u>	<u>\$ 14,997</u>

Statement of Deficit

YEAR ENDED MARCH 31, 1985
(expressed in thousands)

	1985	1984
Deficit (accumulated income reinvested in corporation assets) at beginning of year	\$ 13,708	\$ (1,289)
Loss for the year after depreciation	<u>2,012</u>	<u>14,997</u>
DEFICIT AT END OF YEAR	<u>\$ 15,720</u>	<u>\$ 13,708</u>

Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 1985
(expressed in thousands)

	1985	1984
SOURCES (USES) OF CASH		
CASH FROM OPERATIONS (Note 12)	<u>\$ 23,355</u>	<u>\$ 17,198</u>
FINANCIAL ACTIVITIES		
Proceeds from promissory note issue	—	14,739
Repayment of note payable	—	(30,000)
Cash reserved for funding accrued sick leave liability	(4,172)	—
Sinking fund payments	<u>(3,545)</u>	<u>(322)</u>
Cash used in financial activities	<u>(7,317)</u>	<u>(15,583)</u>
INVESTMENT ACTIVITIES		
Fixed asset additions	(12,456)	(7,142)
Proceeds on sale of fixed assets	<u>—</u>	<u>9</u>
Cash used in investment activities	<u>(12,456)</u>	<u>(7,133)</u>
INCREASE (DECREASE) IN CASH	3,382	(5,513)
CASH AT BEGINNING OF YEAR	<u>3,351</u>	<u>3,379</u>
CASH AT END OF YEAR	<u>\$ 11,943</u>	<u>\$ 3,351</u>

Note: in this statement cash includes only cash available for day to day operations and does not include Reserved Funds cash.

Summary of Accounting Policies

YEAR ENDED MARCH 31, 1985

In accordance with Section 3(7) of the Ferry Corporation Act the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

Inventories -

Inventories are valued at the lower of cost and current replacement cost.

Long-Term Disability -

Amounts paid to the Superannuation Branch of the Public Service Commission under the Long-Term Disability Plan are accounted for by the Corporation on the basis of accruing in the financial statements that portion estimated to be payable to employees until retirement for individual disability with the balance of the amounts paid being included in prepaid expenses.

Fixed Assets -

Acquired from the Province of British Columbia effective January 1, 1977:

(a) Ships

Ships, which comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-in-Council dated December 16, 1975 and transferred at an assigned value of \$1, have been revalued by the Corporation and are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 on the basis of construction records for labour and materials valued at 1977 cost exclusive of any federal ship building subsidies which may have been available during the extended period of years during which the individual ships were built and during which such subsidies fluctuated substantially. The estimated depreciated replacement value of the ships at January 1, 1977 is not intended to reflect fair market value of the fleet nor can it be considered to approximate fair market value because of the specialized nature and limited saleability of the ships themselves.

In addition, three ships presently under charter by the Province until 1994 are subchartered to the Corporation for the same period at an annual cost of \$1 each, with the Corporation being responsible for all operating, repair, and maintenance costs. Under the terms of the subcharter agreement with the Province, the Corporation may in 1994 request that the Province exercise its option to purchase these ships at its own expense in accordance with the terms of its charter agreement. In the event that such option is exercised, clear title to the ships will be transferred to the Corporation. As a result of these transactions and agreements, these ships are reflected as capital assets of the Corporation in the accompanying financial statements and are similarly stated at their estimated depreciated replacement value as at January 1, 1977.

(b) Berths, buildings and equipment

Berths, buildings and equipment also comprise part of the total assets acquired from the Province effective January 1, 1977 by Order-In-Council dated December 15, 1975 and transferred at an assigned value of \$1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at January 1, 1977 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Additions and disposals subsequent to January 1, 1977:

The costs of major replacements, additions, extensions and improvements are capitalized in the fixed asset accounts. The costs of maintenance, repairs, minor renewals or replacements are charged against income. On retirement or disposal of fixed assets, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of income.

On October 1, 1983 the remaining buildings and equipment at Seas Dock facility, not acquired from the Province on January 1, 1977 were transferred at an assigned value of \$1. These assets are reflected in the accompanying financial statements at their estimated depreciated replacement value as at October 1, 1982 based upon an appraisal made by Universal Appraisal Company Limited as at that date.

Depreciation -

Fixed assets are depreciated on the straight line method based upon the following useful lives:

Ships	25 years
Berths	5 - 10 years
Buildings and equipment	4 - 25 years

Amortization of Promissory Note Discount and Issue Costs -

Promissory note discount is amortized on a compound interest method over the term of the debt. Issue costs are amortized on a straight-line basis over the term of the debt.

Provision for Annual Refit Costs -

The Corporation provides for ship refit expense by charging against income the anticipated costs over the period between refits.

Notes to Financial Statements

YEAR ENDED MARCH 31, 1985

1. CASH AND SHORT-TERM INVESTMENTS

Funds, other than those required for immediate settlement of liabilities, are invested in short-term commercial securities authorized pursuant to the terms and provisions of the Financial Administration Act of British Columbia. The investments are arranged through the Ministry of Finance of the Province.

2. ACCOUNTS RECEIVABLE

Provision has been made for the uncollectibility of a 1980 accounts receivable of \$1,950,619 due from the British Columbia Steamship Company (1975) Ltd. for the lease and modifications to the Lessee's specifications of the M.V. "Queen of Prince Rupert".

3. INVENTORIES

	1985	1984
	(expressed in thousands)	
Spare components, parts and supplies	\$ 6,967	\$ 6,332
Fuel and lubricants	1,153	1,330
Goods for resale and catering supplies	413	440
	<u>\$ 8,533</u>	<u>\$ 8,102</u>

4. RESERVED FUNDS

The Corporation has segregated assets that are required for specific purposes or as required by long-term debt obligations.

	1985	1984
	(expressed in thousands)	
Sinking funds for long-term debt (note 5)		
Administered by the Province	\$ 345	\$ —
Administered by the Corporation	<u>3,300</u>	<u>—</u>
	3,645	—
Fund for accrued sick leave liability (note 7)	<u>4,172</u>	<u>—</u>
	<u>\$ 7,817</u>	<u>\$ —</u>

5. FIXED ASSETS

	1985		1984	
	(expressed in thousands)			
	Cost or Appraised Value	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	\$ 292,725	\$ 105,472	\$ 177,253	\$ 192,581
Ships under capital lease	72,697	22,255	50,441	43,771
Berths, buildings and equipment	120,524	75,361	45,163	50,966
Land	723	—	723	723
Construction in progress	1,205	—	1,205	3,732
	<u>\$ 477,874</u>	<u>\$ 203,088</u>	<u>\$ 273,155</u>	<u>\$ 291,773</u>

6. LONG-TERM DEBT

	1985	1984
	(expressed in thousands)	
Long-term debt issued by the Corporation		
3.95% Promissory notes (effective rate of 15.73%), are repayable in five equal annual instalments of \$5.7 million commencing March 5, 1988	\$ 29,500	\$ 29,500
Less unamortized discount and issue costs	<u>5,473</u>	<u>7,332</u>
	<u>22,027</u>	<u>21,168</u>
12.36% Promissory note (effective rate of 12.44%) due September 9, 2003 is repayable by annual sinking fund payments of \$322,492 commencing September 9, 1984	14,758	14,758
Less unamortized issue costs	<u>17</u>	<u>13</u>
	<u>14,741</u>	<u>14,740</u>
	<u>36,768</u>	<u>35,908</u>
Sinking fund payment required within one year	<u>322</u>	<u>322</u>
	<u>\$ 36,446</u>	<u>\$ 35,586</u>

Principal and sinking fund payments due in each of the next five years:

1986	1987	1988	1989	1990
\$322,492	\$322,492	\$6,322,492	\$6,022,492	\$6,022,492

The Province of British Columbia unconditionally guarantees the payment of principal and interest on the Promissory notes.

7. ACCRUED SICK LEAVE LIABILITY

On September 1, 1973 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. Under the collective agreement with the employees, in the event of illness, the accumulated sick time may be withdrawn prior to retirement and on retirement any balance remaining is payable in cash at 50% of accredited time. The liability as at March 31, 1985 based upon a recent actuarial evaluation by Reed Stennouse Associates Limited established the present lump sum value of cash payouts on retirement to all employees at \$4,172,000 which, with interest will accumulate an amount required to meet those obligations. The recorded liability as actuarially evaluated in 1982 with accrued interest net of withdrawals to 1985 exceeded the current evaluation by \$1,569,391. One third of the excess is reflected in current operations and the balance will be reflected in operations of the next two fiscal periods. Funds reserved for liquidation of this liability are invested in short-term commercial security (Note 1).

8. CONTRIBUTED SURPLUS

	1985	1984
	(expressed in thousands)	
Excess of estimated depreciated replacement value over assigned value of \$1 of assets acquired from the Province of British Columbia		
- Ships, berths, buildings and equipment effective January 1, 1977	\$ 249,674	\$ 249,674
- Buildings and equipment effective October 1, 1983	<u>727</u>	<u>727</u>
	<u>\$ 250,401</u>	<u>\$ 250,401</u>

9. OTHER INCOME

	1985	1984
	(expressed in thousands)	
Parking and ancillary traffic revenue	\$ 347	\$ 337
Interest earned on funds in bank and short-term investments	<u>1,559</u>	<u>1,112</u>
	<u>\$ 2,506</u>	<u>\$ 1,849</u>

10. PROVINCIAL SUBSIDY AND BENEFITS

The Corporation receives a subsidy from the Province of British Columbia which is determined annually.

Included in fixed assets as "ships under capital lease" are three ships leased from the Province at an annual cost of \$1 each. The annual cost of these charters to the Province is \$4,319,300. In addition the Corporation utilizes Crown land for terminals and highway access without rental or property taxes. The value of these benefits is indeterminable. The Corporation, as an agent of the Crown, is not liable to taxation, including taxation on improvements, except insofar as the Crown is liable.

The Corporation utilizes Ministries and Agencies of the Provincial Government for negotiation and purchase of fuel, materials, and communications. The aggregate of these transactions is \$29.3 million (1984 - \$45.3 million).

11. INTEREST EXPENSE

	1985	1984
	(expressed in thousands)	
Interest expense, amortization of promissory note discount and amortization of debt issue cost on:		
- long term debt	\$ 5,171	\$ 4,292
- short term borrowings	<u>6</u>	<u>1,306</u>
	<u>\$ 5,177</u>	<u>\$ 5,598</u>

12. CASH FROM OPERATIONS

	1985	1984
	(expressed in thousands)	
Loss for the year after depreciation	\$ (2,012)	\$ (14,997)
Items not involving cash		
Depreciation	31,364	30,566
Amortization of promissory note discount and issue costs	360	741
Loss on retirement of fixed assets	—	248
Increase (decrease) in accrued sick leave liability	(526)	(154)
Cash generated from continuing operations	29,286	16,742
Cash generated from (used for) operating working capital		
Accounts receivable	(295)	104
Inventories	395	259
Prepayments and deposits	266)	1,542
Accounts payable and accrued liabilities	1,195)	(1,349)
Deferred revenue	130	100)
Cash generated from operations	<u>\$ 28,355</u>	<u>\$ 17,198</u>

13. COMMITMENTS

The Corporation is contractually committed to modify the passenger areas on the M.V. "Queen of the North" and to complete terminal compound improvements at Skidgate and Departure Bay. The total estimated cost of these capital projects is \$0.9 million and as at March 31, 1985 the estimated remaining cost to complete these commitments is \$0.4 million.

Not included in the accounts is a lease commitment of \$5.4 million for the M.V. "Quinsam" which is fully recoverable through a non-cancellable sub-lease with the Ministry of Transportation and Highways for British Columbia.

14. COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform with the March 31, 1985 financial statement presentation.

Statistical Review

YEAR ENDED MARCH 31

	1985	1984	1983	1982	1981	1980
	(expressed in thousands)					
Financial Operating Revenue - Gross	\$125,530	\$120,514	\$110,539	\$112,199	\$ 99,552	\$ 32,367
Operating Expense	125,308	132,553	139,013	133,356	104,956	39,695
Operating Loss before Subsidy	3,771	21,213	37,213	31,221	14,251	13,567
Subsidy	43,000	43,000	43,000	53,391	53,106	49,447
Cash Flow from Operations	23,355	17,198	(3,305)	35,331	44,311	36,563
Depreciation and Amortization	31,054	30,566	34,724	25,037	22,148	20,271
Interest on Debt	5,177	5,198	5,073	393	779	390
Working Capital (Deficiency)	2,214	(5,799)	(37,506)	(11,495)	15,512	21,373
Additions to Property	12,456	7,142	23,304	74,375	44,919	39,359
Total Assets	303,132	305,974	335,370	357,317	334,596	312,048
Long-term Debt	36,446	35,536	20,429	31,716	13,754	15,513
Operating Traffic						
- Passengers	11,913	12,398	12,275	12,754	12,513	11,423
- Vehicles	4,460	4,483	4,463	4,713	4,525	4,151
Miles						
- Passengers	259,703	293,745	273,975	339,395	334,073	314,344
- Vehicles	96,531	97,569	97,020	113,333	116,313	106,735
Utilization						
- Passengers	23%	25%	27%	26%	23%	26%
- Vehicles	43%	36%	40%	48%	50%	47%

CORPORATE INFORMATION

HEAD OFFICE

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V8W 1E4

INFORMATION/ RESERVATION CENTRE

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V6Z 2A9

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Thorne Riddell
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V8W 3G3

CORPORATE COUNSEL

Ladner Downs
2100 Pacific Centre South
700 W. Georgia Street
Vancouver, B.C.
V7Y 1A8

BANKERS

Bank of Nova Scotia
Victoria, B.C.
Canadian Imperial Bank of Commerce
Victoria, B.C.

Statistical Review

YEAR ENDED MARCH 31

	1985	1984	1983	1982	1981	1980
	(expressed in thousands)					
Financial						
Operating Revenue						
- Gross	\$125,530	\$120,514	\$110,569	\$112,199	\$ 99,552	\$ 82,867
Operating Expense	125,308	122,553	139,013	133,355	104,956	88,595
Operating Loss before Subsidy	3,771	21,213	37,213	31,221	14,251	13,667
Subsidy	43,300	43,000	43,300	53,391	53,105	49,447
Cash Flow from Operations	29,355	17,198	(3,005)	35,331	44,311	38,583
Depreciation and Amortization	31,054	30,565	34,724	25,037	22,143	20,271
Interest on Debt	5,177	5,193	5,073	393	779	330
Working Capital (Deficiency)	2,214	(6,799)	(37,306)	(11,495)	15,512	21,373
Additions to Property	12,456	7,142	25,304	74,376	44,319	39,359
Total Assets	303,132	305,974	335,370	357,317	334,396	312,048
Long-term Debt	36,446	35,536	20,423	31,716	13,754	15,513
Operating Traffic						
- Passengers	11,313	12,398	12,275	12,754	12,513	11,423
- Vehicles	4,450	4,483	4,463	4,713	4,326	4,151
Miles						
- Passengers	259,703	233,745	273,375	339,395	334,073	314,344
- Vehicles	36,531	37,569	37,020	113,533	115,313	105,735
Utilization						
- Passengers	33%	25%	27%	25%	29%	25%
- Vehicles	33%	33%	33%	10%	32%	27%

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Victoria, B.C.
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Victoria, B.C.

VANCOUVER ISLAND

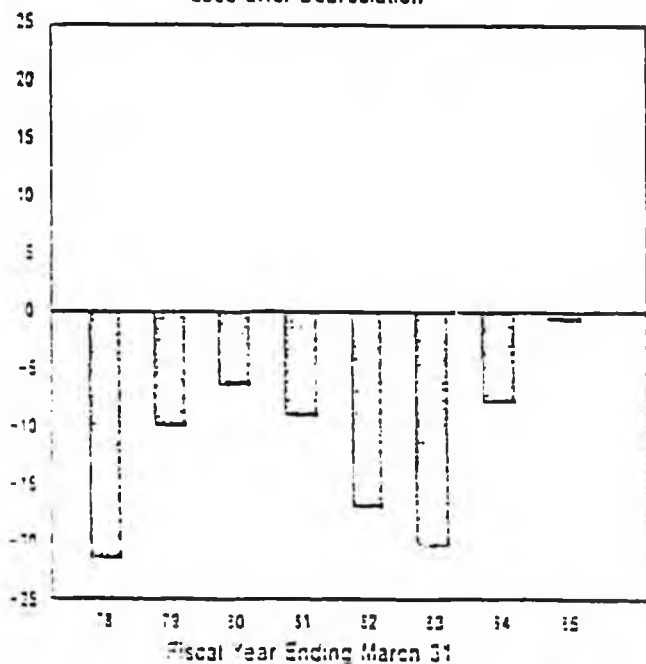
The two Mainland-Vancouver Island routes are among the busiest ferry routes in the world, carrying 7.3 million passengers and 2.8 million vehicles in 1984/85.

A concentrated effort at improving cost efficiency over the past 3 years has resulted in a tremendous reduction in the loss.

For the first time this year the Vancouver Island routes are very close to a break-even operation.



VANCOUVER ISLAND
Loss after Depreciation



ROUTES

SUNSHINE COAST

The Sunshine Coast includes four routes:

Horseshoe Bay - Langdale

Horseshoe Bay - Bowen

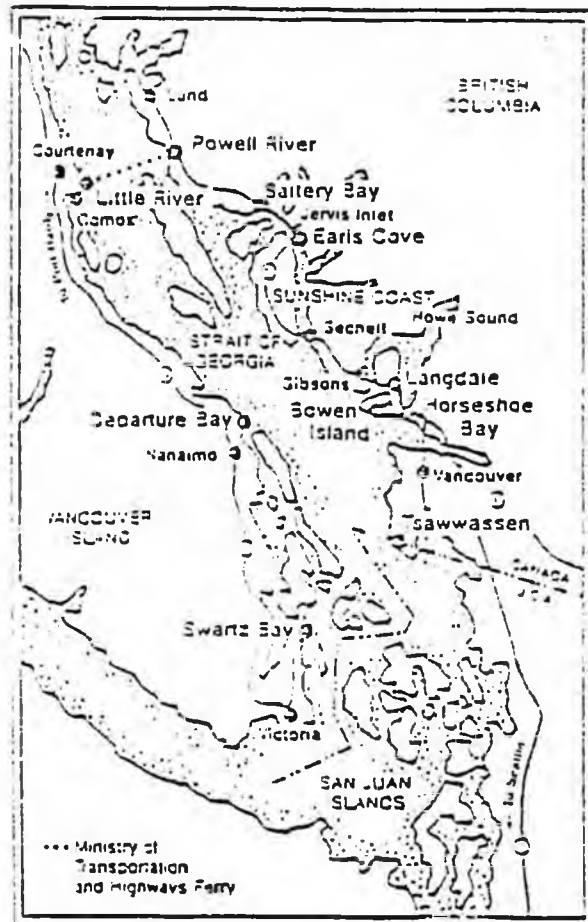
Island

Ears Cove - Saltery Bay

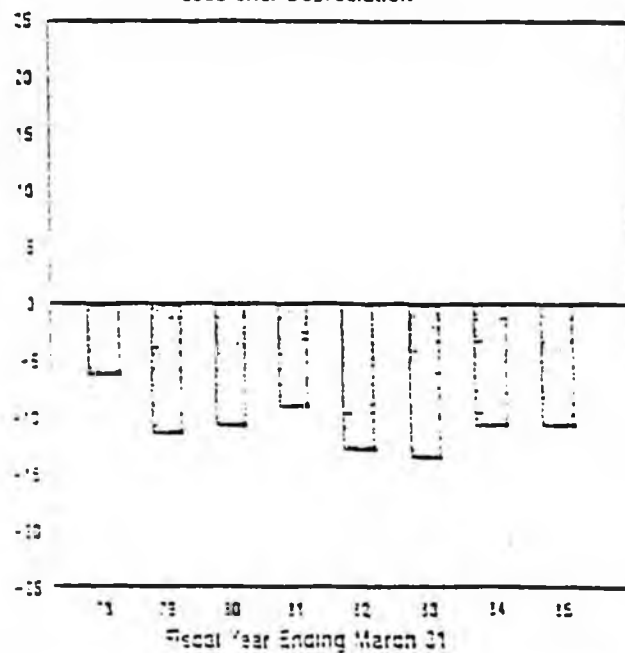
and the passenger-only service from Langdale-Gambier Island-Keates Island.

These routes carried 2.5 million passengers and 1 million vehicles in 1984/85. Although traffic has declined in each of the past three years, there has been an improvement in the financial performance.

The loss in 1984/85 was \$11 million, virtually unchanged from the previous fiscal year.



SUNSHINE COAST
Loss after Depreciation

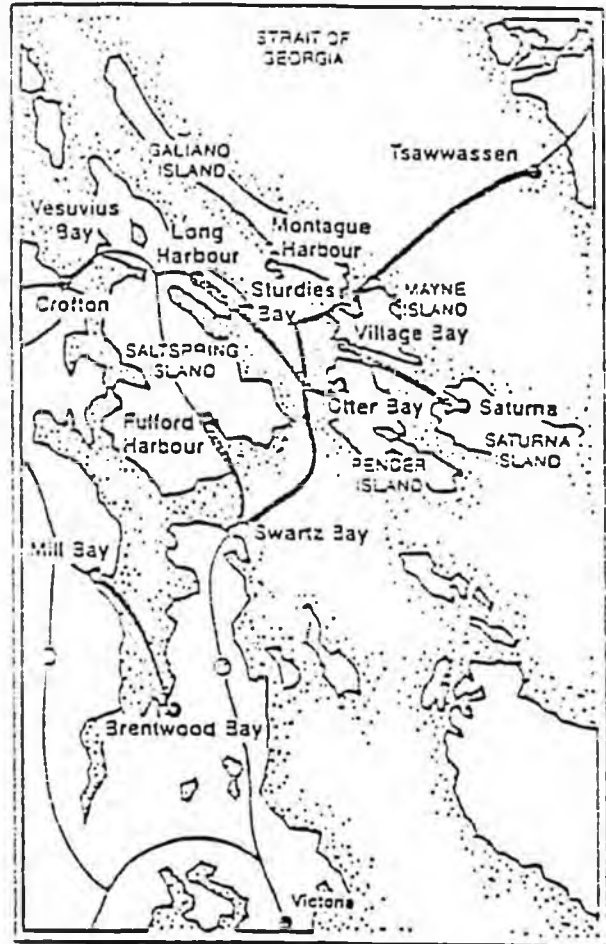


GULF ISLANDS

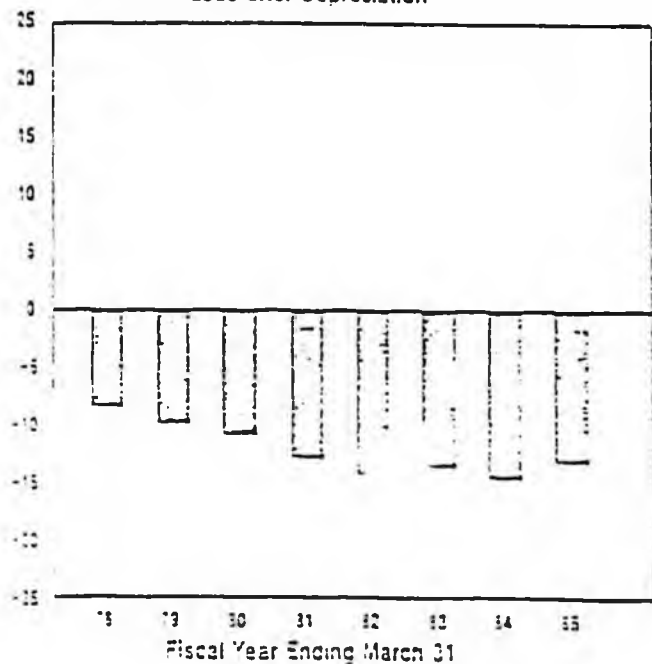
The Gulf Islands vessels service the islands of Salt Spring, Pender, Galiano, Mayne and Saturna. The region also includes the Brentwood-Mill Bay route.

In 1984/85 these routes carried 1.5 million passengers and 623,000 vehicles.

The operating loss in 1984/85 was \$13 million, which is a 9% reduction from the previous year.



GULF ISLANDS
Loss after Depreciation



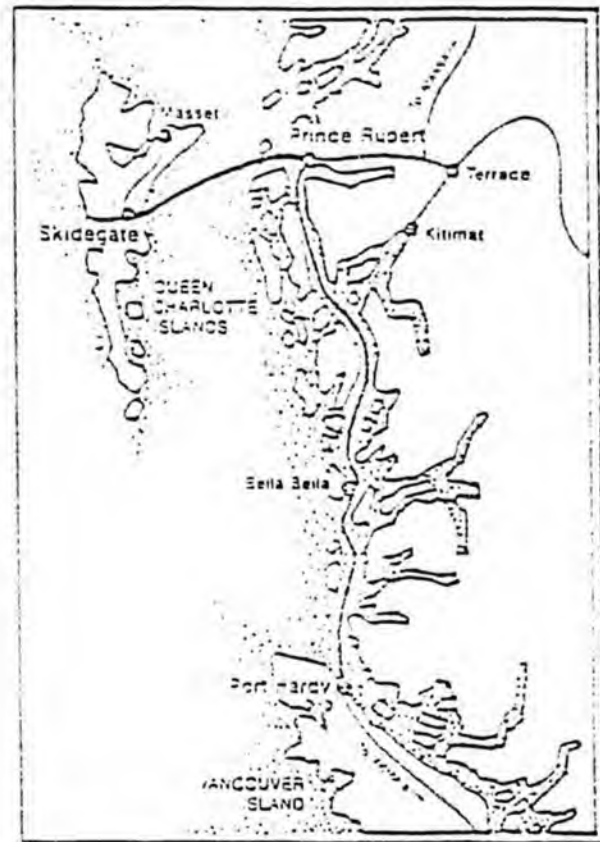
NORTH COAST

The North Coast services include:
 Prince Rupert - Port Hardy
 Prince Rupert - Skidegate.

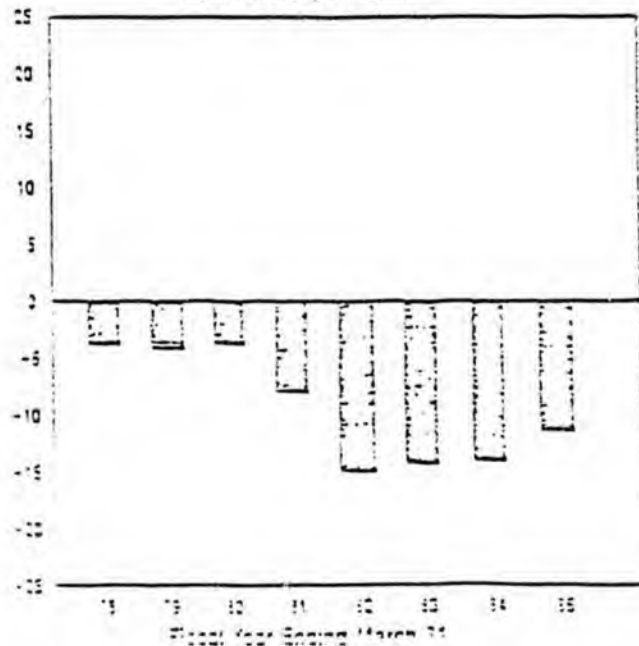
In addition the Corporation has contract services for passenger routes from Prince Rupert to Port Simpson and Kincolith.

Until March 31, 1965 there was also a contract tug-and-barge service between Prince Rupert and Masset.

For the three years previous to 1964/65 the loss on these routes averaged about \$1.5 million per year. With the elimination of Tsawwassen-Port Hardy service and other cost efficiencies the operating loss has been reduced by 19% to \$1.1 million.



NORTH COAST
 Loss after Depreciation



Year End	Passengers	Vehicles
March 31, 1961	692,000	321,000
March 31, 1962	2,340,000	697,000
March 31, 1963	2,655,000	895,000
March 31, 1964	3,130,000	1,034,000
March 31, 1965	3,300,000	1,195,000
March 31, 1966	4,000,000	1,363,000
March 31, 1967	4,477,000	1,516,000
March 31, 1968	4,361,000	1,530,000
March 31, 1969	4,774,000	1,733,000
March 31, 1970	5,571,000	2,102,000
March 31, 1971	5,963,511	2,223,412
March 31, 1972	6,771,337	2,552,505
March 31, 1973	7,529,385	2,324,964
March 31, 1974	8,538,297	3,169,522
March 31, 1975	9,512,501	3,558,234
March 31, 1976	9,912,738	3,760,099
March 31, 1977	8,383,502	3,044,167
March 31, 1978	9,013,976	3,253,017
March 31, 1979	10,399,203	3,753,528
March 31, 1980	11,423,405	4,161,302
March 31, 1981	12,512,393	4,625,317
March 31, 1982	12,753,564	4,712,351
March 31, 1983	12,275,466	4,462,731
March 31, 1984	12,397,905	4,432,707
March 31, 1985	11,312,943	4,460,069
Total	134,576,231	57,306,235

	Year Built	Year Converted	Overall Length	Gross Tons	Capacity	
					Auto	Pass.
Jumbo Class						
Queen of Alberni	1975	84	545	5553	310	1415
Queen of Cowichan	1975		457	5551	362	1486
Queen of Cowichan	1975		457	5551	362	1486
Queen of Oak Bay	1981		457	5559	362	1486
Queen of Surrey	1981		457	5559	362	1486

V Class

Queen of Vancouver	1962	70, 81	425	5430	358	1360
Queen of Victoria	1962	70, 81	425	5430	358	1360
Queen of Esquimalt	1963	69, 82	425	5430	375	1360
Queen of Saanich	1963	72, 82	425	5430	375	1360

Stretched Class

Queen of Nanaimo	1964	73	425	4939	192	387
Queen of New Westminster	1964	74	425	4904	192	387
Queen of Burnaby	1965	73	425	4903	192	387

Northern Ships

Queen of Prince Rupert	1965		332	5354	80	455
Queen of the North	1969	30	410	3307	135	750

Major Ships

Queen of Sidney	1960		335	3123	133	399
Queen of Tsawwassen	1960		335	3127	133	389

Minor Ships

Bowen Queen	1965	79	279	1475	70	390
Mayne Queen	1965	79	279	1475	70	340
Powell River Queen	1965	79	279	1486	70	400
Howe Sound Queen	1964		241	795	70	330
Queen of the Islands	1963		236	1717	40	483
Mill Bay	1955		120	175	15	168
Salt Spring Queen	1949		145	273	30	187
Vesuvius Queen	1950		150	277	32	177
Dogwood Princess II	1979		42	21	—	33



BRITISH COLUMBIA FERRY CORPORATION

1986 FACT SHEET

Chairman of the Board - Stuart M. Hodgson
President & Chief Executive Officer - Andrew L. Collier
General Manager & Chief Operations Officer - George Baldwin

Ships and Areas Covered

Vancouver - Victoria (Tsawwassen - Swartz Bay)

M.V. "Queen of Esquimalt"
M.V. "Queen of Saanich"
M.V. "Queen of Vancouver"
M.V. "Queen of Victoria"

Vancouver - Nanaimo (Horseshoe Bay - Departure Bay)

M.V. "Queen of Alberni"
M.V. "Queen of Cowichan"
M.V. "Queen of Oak Bay"
M.V. "Queen of Surrey"

Sunshine Coast (Horseshoe Bay - Langdale)

M.V. "Queen of Coquitlam"

Vancouver Island - Salt Spring Island

M.V. "Bowen Queen" (Swartz Bay - Fulford Harbour)
M.V. "Salt Spring Queen" (Vesuvius - Crofton)

Vancouver Island - Gulf Islands (Swartz Bay, Mayne, Galiano, Pender, Saturna Is.)

M.V. "Mayne Queen"
M.V. "Vesuvius Queen" (Swartz Bay - Gulf Is. Supplementary)

Sechart - Powell River (Earls Cove - Saltery Bay)

M.V. "Powell River Queen"

Horseshoe Bay - Bowen Island (Snug Cove)

M.V. "Howe Sound Queen"

Vancouver - Gulf Islands (Tsawwassen - Galiano - Mayne - Pender - Salt Spring Is.)

M.V. "Queen of Tsawwassen"

Port Hardy - Bella Bella - Prince Rupert (Summer)
Port Hardy - Bella Bella - Prince Rupert - Skidegate (Winter)

M.V. "Queen of the North" (Year-round)

Prince Rupert - Skidegate (Summer)

M.V. "Queen of Prince Rupert"

Brentwood - Mill Bay

M.V. "Mill Bay"

Langdale - Gambier Island - Keats Island

M.V. "Dogwood Princess II"

Prince Rupert - Port Simpson - Kincolith

Passenger Service only (under contract)

Other Vessels

M.V. "Queen of Burnaby"

M.V. "Queen of the Islands"

M.V. "Queen of Nanaimo"

M.V. "Queen of New Westminster"

M.V. "Queen of Sidney"

Pay Parking Lots Available

Departure Bay	350	vehicles
Horseshoe Bay	130	"
Langdale	85	"
Swartz Bay	450	"
Tsawwassen	1250	"

Catering

Passengers have the convenience of an enlarged cafeteria system on the converted ferries. These cafeterias have seating for up to 224 people at one time. There is also a snack bar on the four vessels operating between Tsawwassen and Swartz Bay. These ships also provide buffet service during the peak summer schedule. Catering facilities are also on most other vessels servicing the major routes and at major terminals except Horseshoe Bay.

Employees

There are approximately 2000 employees in the system, compared with 200 when the ferry service began in 1960.

Ships Services

Passenger elevators have been installed in all the major and 'C' Class ships, specifically for those who are unable to manage the stairs. The M.V.s "Queen of Sidney" and "Queen of Tsawwassen" do not have elevators. All major ferries have nursing mothers facilities, non-smoking sections, and restrooms for the disabled.

Machine Repair Shop

A service unique to the ferry business is the combined machine repair shop established at Deas Dock on the Fraser River, which allows for a planned program of continuing preventative maintenance. Another unique service is the most modern and completely equipped life raft servicing centre in Canada, also located at Deas Dock. Refitting and lay-up berths are now in operation on the man-made basin at this location.

Capsula History

The idea of a ferry system germinated when Vancouver Island was isolated during the Seamen's Strike in July 1958. Private ferry companies were approached to provide the solution with the Provincial Government undertaking to build highway and wharf facilities on Vancouver Island and the mainland to provide the quickest possible service. When private industry turned down the plan, the Government decided to go ahead on its own.

In March 1959, the Provincial Government announced plans to enter the ferry business. The first contracts were let to Victoria Machinery depot and Burrard Dry Dock for the M.V. "Sidney" and the M.V. "Tsawwassen".

Landings were built at Swartz Bay to service Victoria and at Tsawwassen to service Vancouver. At the latter site, a two-mile causeway was built which used 2,500,000 cubic yards of boulder, rock, and gravel fill.

Inauguration of the two-hour service started on June 15, 1960.

On September 1, 1961, the Gulf Island Service was purchased by the British Columbia Ferry Authority. In October 1961, Black Ball Ferries Ltd., which operated ferries from Horseshoe Bay to Nanaimo and to the Sunshine Coast, was purchased.

The inaugural run of the M.V. "Queen of Prince Rupert", sailing the Inside Passage to Prince Rupert from Kelsey Bay, was in May 1966.

In April 1967, British Columbia Ferries purchased the "Pere Nouvel", which was renamed the M.V. "Sunshine Coast Queen", to replace the "Langdale Queen" and the "Sechelt Queen" on the Howe Sound service. This double-ended ferry was the largest in the fleet at that time, having a capacity of over 180 cars. This is no longer the case, as the stretch-lifted ferries now have lift-off capabilities of up to 400 vehicles. The "Sunshine Coast Queen" has since been sold.

In June 1967, the M.V. "Mill Bay" was purchased from Coast Ferries and serves the Saanich Peninsula between Brentwood Bay, on the Peninsula, to Mill Bay, approximately 15 miles from Duncan.

The "Howe Sound Queen", which has a carrying capacity of 70 automobiles, was taken over to replace the "Bowen Queen" to alleviate the increasing traffic on the Horseshoe Bay/Bowen Island route.

The jumbo vessels, Queens of "Cowichan" and "Coquitlam", were added to the fleet in 1976. Both capable of carrying 362 automobiles each, they were joined by the "Queen of Alberni", built specifically to carry overheight, commercial, and recreational vehicles. All have elevators and on board cafeterias.

On January 1, 1977, British Columbia Ferries became British Columbia Ferry Corporation, a Crown Corporation. The Chairman of the Board is Stuart Hodgson, President is Andrew Collier. George Baldwin is the General Manager.

Three minor vessels, the M.V.s "Mayne Queen", "Powell River Queen", and "Bowen Queen", were stretched and repowered in 1979. Each ship is now capable of carrying 70 vehicles.

In May 1979, the "Dogwood Princess II" replaced the "Dogwood Princess" on the Gambier and Keats Islands route. The new passenger-only vessel carries 38 people.

On May 29, 1980, the M.V. "Queen of the North", formerly the "Queen of Surrey", commenced service on the Inside Passage run. Port Hardy became the new terminus on northern Vancouver Island on May 31, 1979, replacing Kelsey Bay. During the summer, this vessel departs from Port Hardy every other day with an en route stop at Bella Bella once a week. In the off-season service between the two ports is on a once-weekly basis.

The "Queen of Prince Rupert" was chartered by B.C. Steamship Company to operate between Seattle, Washington and Victoria during the summer of 1980. She was returned to B.C. Ferries in October of that year and commissioned to the service between Prince Rupert and Skidegate, Queen Charlotte Islands. The "Queen of Prince Rupert" operates on the Skidegate - Prince Rupert route in the summer.

Two more jumbo (360-car) ferries, the Queens of "Surrey" and "Oak Bay", were built at Burrard Yards Corporation in Vancouver and Victoria. They entered service in May and June of 1981.

An innovative new conversion program was begun in 1981 with the "lifting" of two of the "stretched" vessels, the Queens of "Vancouver" and "Victoria". Each ship was cut in half horizontally, just below the passenger (promenade) deck, raised vertically 10 feet on hydraulic jacks, and an upper car deck was added. This same operation has since been effected on the Queens of "Saanich" and "Esquimalt" and these four converted ships are now carrying record loads of vehicles.

On June 15, 1985, the B. C. Ferry Corporation celebrated its 25th Anniversary of operation, a significant milestone in the history of British Columbia.

On October 5, 1985, the 14 saltwater ferries (formerly operated by the Provincial Ministry of Transportation and Highways) were transferred to the B.C. Ferry Corporation making the Crown Corporation one of the largest ferry operations in the world in terms of number of ships (39) and number of routes (24). Over 400 employees joined B.C. Ferries at the same time, increasing the number of workers in the ferry fleet to approximately 1500, rising to over 3000 in summer.

Alterations and Innovations

Over the years since the inception of the ferry service, innovations have continuously been undertaken to improve and increase capacities. When the first two ships were built, they were modelled on the style of Black Ball ferries. The Queens of "Sidney" and "Tsawwassen" are both very similar to Black Ball's "Coho". Then, when the next seven ships were built, the plans differed and, because of this change, each of these ships have been able to undergo alterations that have greatly improved their lift-off potential.

In 1968, ramps were installed on the car decks leading to mezzanine decks affixed to the midships bulkhead. This innovation increased the car carrying space from 110 vehicles to 150. Then, starting in 1969, an amazing (at that time) alteration took place. Each ship was taken to the shipyard, cut in half, and a 34 foot section was built, floated into place, and the ship was welded together again! This further increased the capacity for vehicles to 200. At the same time, the dining rooms were extended and solarium seating was added in the new section aft of the bridge on the sun deck.

As time went on, more and more people were using the popular ferries, and line-ups in the peak travel periods became a problem. More ferries were needed, so three new vessels were commissioned. Two of them were built on the lines of Washington State ferries; the third, with basically the same lines, was constructed to carry primarily overnights, recreational, and commercial traffic. This was in 1975 but in 1979, it became evident that another two 'D' Class (or Super ferries) were required and they were built with yet more improvements, enabling them to carry 350 cars.

In the spring of 1981, an enormous and exciting conversion program was commenced. Two of the original seven major vessels, those built between 1961 and 1964 and which had already been "stretched", were now to be "lifted". The ship was cut in half again, this time horizontally, the top half raised on hydraulic jacks, and a new deck inserted. The upper sun deck solariums also underwent change, they were covered in and made into more useful and attractive seating areas. The midships lounge on the promenade deck was also renovated with a snack bar added. Since then, two more of this class vessel have been converted, this time adding ramps, bringing the car carrying capability to, believe it or not, 400 cars!

The "Queen of Alberni", B.C. Ferries' "overheight vehicle" ship, was lifted in the spring of 1984 increasing her car-carrying capacity from 150 to 300 vehicles and returned to service on the Horseshoe Bay/Langdale route 3 months later.

At her 1986 refit, the "Queen of Alberni's" passenger lounges and cafeteria were enlarged making this vessel more suitable for service on the Horseshoe Bay/Departure Bay route.

During the Expo season (May - October, 1986), five ferries that had been in lay-up were repainted in the new B.C. Ferry colours (red, marine blue, and white) and came into service to assist with the heavy demand expected during the World's Fair.

Yes, since 1960, there have been many changes, both on and off the ships of B.C. Ferries. Carpeted decks, where there was once linoleum; cafeterias with an extensive menu; elevators (the new ships have two each); restrooms for the disabled; and pay phones. And ashore, special ramps had to be constructed to comply with the converted vessels' modifications; overhead walkways extended, improved, and carpeted for foot passengers' comfort; greater parking areas; new and more ticket booths; and extra berths and docking facilities. The list just goes on!



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P. O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

January 15, 1987

MEMORANDUM

TO: Representative Bette Cato

FROM: Mary Jennings *mg*
Legislative Analyst

RE: Options for the Alaska Marine Highway System to Operate
Similarly to Cruise Ships
Research Request 87.058

You requested a discussion of options for the Alaska Marine Highway System (AMHS) to operate more similarly to cruise ships on the mainline route. The mainline is the route from Seattle to Skagway via Prince Rupert; four ships operate on the mainline at different times of the year.

Background

The number of cruise ships that operate in the waters of Southeast Alaska has grown dramatically during the past few years. According to the State Division of Tourism, over 90 percent of all tourists in Southeast arrive by way of cruise ships. Although specific data are not available from cruise ship companies, one can assume that the expansion that has occurred is an indicator of profitability. The AMHS vessels that operate on the mainline generate revenue equal to approximately 80 percent of costs. Since ferries and cruise ships operate basically over the same route, the question arises as to why the cruise ships are able to operate at a profit and the ferries are not. The following sections of this memorandum present a discussion of options that would allow the AMHS to operate more similarly to cruise ships.

Reducing Labor Costs

Labor costs of onboard personnel of AMHS ferries account for approximately 50 percent of a vessel's operating costs. According to persons contacted in various cruise ship companies, the labor costs of cruise ships are much lower than ferries. None of the cruise ship companies were willing to give specific data concerning operating costs, but one company official estimated that the labor cost of the AMHS was more than twice as high as the labor costs of a cruise ship. The official added that this was not due to less on-board personnel but because cruise ships utilized nonunion labor at relatively low wages.

Due to union labor on AMHS vessels, labor costs can be reduced only by contract negotiations. Contracts are scheduled for negotiation during 1988. Potential cost savings may be realized if contracts can be negotiated for lower wages, although it is doubtful that the unions would accept wages at the same level as cruise ship workers.

Leasing to Private Industry

According to the Executive Director of the Inland Boatman's Union, the current contract does not allow nonunion workers on vessels leased by the State. The union does not feel that this is a negotiable issue. Therefore, even if mainline operation were leased to the private sector it would still be difficult to lower labor costs to cruise ship levels. The option of selling the vessels to private industry also exists, but because this would remove the vessels from control of the State, this option was not researched.

Year Round Full Capacity

A cruise ship company representative stated that cruise ship lines are able to operate profitably because their vessels operate at full capacity year-round. This is achieved by operating in different locations, such as Europe and the South Pacific, during the winter in North America. According to Joe Camp, Deputy Commissioner of the Alaska Marine Highway System, the level of ferry useage drops by approximately half during the period from October to May. Mr. Camp did not feel it was feasible for AMHS ferries to operate outside Alaska during the winter because this would leave many Alaska communities without ferry transportation. He also doubted that ferry unions would be amenable to operating outside Alaska for half of the year.

Package Tours

Travel agents suggested that AMHS could compete more effectively if trips were offered as a package of complete services. Agents stated that the majority of cruise ship passengers buy package tours that include all aspects of their trip, from meals to airfare. According to travel agents with whom I spoke, the AMHS would have to change several areas of service in order to accommodate the package tour traveler. One travel agent suggested that the AMHS should redesign staterooms into a uniform two-bed size because this is the standard package tour booking size. (Ferries are designed in two, three and four-bed size.) One agent suggested that ferries should dock in communities for longer periods of time and only during the day. The agent stated that because the ferries tend to dock in the middle of the night, it is difficult to coordinate ferry useage with other tourism-related activities. The agent also suggested that the ferries should dock closer to downtown areas because this is more convenient for tourists.

Other travel agents suggested that the ferry should offer higher quality food and onboard entertainment, such as discos and gaming.

The AMHS representatives felt that many of the changes to allow package tours would be costly and would conflict with the system's goal of providing basic transportation services for Alaskans. One official stated that to redesign all staterooms into a two-bed size would require a great deal of lay up time and would be expensive. Additionally, AMHS stated it would be difficult to schedule mainline vessels for strictly daytime docking because this would conflict with the schedules of feeder vessels that also use mainline docks. Another AMHS official stated that many downtown docking facilities that the cruise ships use would not accommodate ferries because of the need for vehicle-loading facilities.

Additional Marketing

One cruise ship company stated that a high level of marketing is an important factor in determining the level of business of a cruise ship company. According to Joe Camp, marketing of the AMHS has suffered in the past two fiscal years due to budget cuts. He stated that the system plans to spend more money on marketing this year and will emphasize mainline operations. For example, Mr. Camp stated that a "weekend getaway" promotional program is being developed to encourage Seattle area residents to ride the ferry during the months of May and September when ferry traffic is moderate. The system plans to offer a package tour that will include a ferry ride to a port in Alaska and a flight back to Seattle. The AMHS is working with the Port of Seattle, Alaska Airlines and Seattle area travel agents.

Raising Ticket Prices.

During the summer of 1987, a roundtrip ticket on the AMHS between Seattle and Skagway will cost \$396. A comparable length trip on a cruise ship will cost anywhere from \$2,000 to \$5,000 dollars. As mentioned earlier, the cruise ship package includes many other services besides travel. If the AMHS were to include additional services with the ticket price, then rates may be increased to be more comparable with cruise ship rates. It is questionable whether it would be feasible for the system to offer different levels of service on the mainline route--one level for package tours and another level to provide basic transportation needs. According to AMHS, the additional administration to provide two levels of service would be costly. Additionally, operations of the ship would have to altered drastically to provide the same services offered on cruise ships.

Independent Travelers

Bob Dindinger, who is a member of the Southeast Tourism Marketing Council, felt that the AMHS could best increase tourist usage by targeting the independent traveler. He stated that the independent traveler is not as convenience-oriented as a tour ship traveler and therefore is more amenable to ferry usage.

Representative Cato
January 15, 1987
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A study by the State Division of Tourism indicates that during the 1970s, 68 percent of independent travelers came through Southeast and today only seven percent visit this area. The study indicates that the majority of independent travelers now visit the Southcentral area. Mr Dindinger felt that this is due to promotional campaigns by Anchorage and Fairbanks directed toward the independent traveler. He stated that the council is currently working with the State Division of Tourism and tourism-related businesses in Southeast, including the AMHS, to develop a promotional campaign to attract independent travelers to Southeast.

Mr. Dindinger had other ideas that would allow the ferry system to compete more aggressively in the overall tourism market. He suggested that a travel agent's commission for booking ferry space should be raised from the current seven percent to ten percent. He stated that a ten percent commission is the standard commission awarded to travel agents. Mr. Dindinger felt that the seven percent commission awarded by the AMHS is a disincentive to travel agents who might otherwise promote ferry travel. Mr. Dindinger added that a study has shown that over half of all independent travelers utilize travel agents.

Mr. Dindinger also suggested that the system should pre-sell only 30 percent of its space 90 days before departure instead of the current 90 percent. He felt the remaining 20 percent should be sold full price. He felt that this would increase revenues because less space would be discounted by a travel agent's commissions. He also noted that it might leave more space open to Alaskans, who tend to make reservations closer to departure dates.

I hope you find this information useful. If you have any questions please feel free to contact me.

MJ

STATE OF ALASKA
THE LEGISLATURE

JAN 6 1967

POUCH STATE CAPITAL
LINEAU ALASKA 99511
707 465 2800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

December 12, 1966

SUBJECT: Alaska Marine Highway System
(Work Order No. 15-0270)

TO: Representative Bette Cato

FROM: George Utermohle *GU*
Legislative Counsel

You have asked whether certain recommendations for improvements to the Alaska Marine Highway System (AMHS) can be implemented through legislation. This memorandum addresses those recommendations.

ONE: ALLOW AHMS TO OPERATE AS A SEPARATE ENTITY FROM THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES.

Government agencies may be conferred with a wide range of independence. Most government agencies are established as subordinate entities within a department and are subject to the centralized administration and control of the commissioner of the department. The divisions within the departments fall into this category. Certain other agencies are attached to a department only for administrative purposes and have a legislative mandate distinct from that of the department. These agencies, such as the Alaska State Building Authority, the Alaska Housing Finance Corporation, and the Alaska Railroad Corporation, are usually state corporations and operate independently of any policy control by the commissioner of the department. Even among these independent agencies there is considerable variation in the amount of autonomy conferred on them. The agency with the greatest degree of independence is the Alaska Railroad Corporation (ARRC). ARRC maintains its own administrative and budgeting functions, as well as policy development functions independent of any other state agency, including the legislature. This high degree of independence is granted by the legislature and thus can be reduced or eliminated by the legislature.

Generally, the highest degree of independence occurs at the department level. Any state agency could be raised to the level of department. The former Division of Corrections was moved from the Department of Health and Social Services and was made into a separate department of its own. The major draw backs to this approach are the costs involved and the Alaska Constitution. When a department is created a commissioner and staff must be hired, and independent accounting, budgeting, purchasing, personnel, and other services must be established. The Alaska Constitution limits the executive branch of government to twenty principal departments. (art. III, sec. 22, Ak Const.) There are currently fifteen principal departments in the executive branch.

The Alaska Marine Highway System is currently a line division within DOTPF and is subject to administrative, budgetary, and policy oversight by the commissioner. AMHS would achieve greater independence from DOTPF by making it a an independent corporation within the department. HB 23 (Fourteenth Legislature) did exactly that. HB 23 created the Alaska Marine Highway Authority as a corporation within DOTPF. The department would exercise no control over the Authority, but could handle the administrative functions such as purchasing, payroll, etc.

TWO. ALLOW AMHS TO OPERATE WITHOUT REQUIRING IT TO MAKE A PROFIT LIKE THE ALASKA RAILROAD CORPORATION.

AMHS is not required to make a profit. Neither is ARRC. The only mandate to ARRC is that it should generally operate the railroad on a self-sustaining basis.

AMHS is not required to return a profit or even break even under its current mandate. HB 23 did not change this, even though management of the marine highway system was transferred to an independent state corporation.

THREE: SEPARATE MANAGEMENT, ACCOUNTING, AND OPERATION OF THE MARINE HIGHWAY SYSTEM FROM DOTPF.

AMHS can operate independently of the administrative structure of DOTPF by creating an independent administrative structure within the current division. Administrative independence can also be achieved by conferring the necessary authority on an independent state corporation to manage the marine highway system. Administrative independence comes as a matter of course when an agency is made a department.

The Alaska Marine Highway Authority proposed in HB 23 had considerable control over its own operations. HB 23 did not specifically mention whether the authority was to perform its own administrative work. Whether an independent authority does its own administrative work is mostly a matter of whether the legislature appropriates funds for administrative services. So, it is not necessary for HB 23 to confer administrative independence on the Alaska Marine Highway Authority, but mention of such an intent in the bill would assure that money will be allocated to that function.

FOUR: ENSURE THAT AMHS CONTINUES TO PROVIDE IN-STATE TRANSPORTATION SERVICES.

Establishing priorities for the service by AMHS is a very straight forward process. All that is required is that the legislature establish those priorities. Such priorities can be established through appropriations or through legislation establishing priorities or levels of service for the marine highway system. For example, if you wish to ensure that ferry service is provided to certain towns or no service is provided outside the state, these requirements can be specified in statute.

FIVE: PROVIDE A MECHANISM FOR OVERSIGHT AND INPUT TO THE MARINE HIGHWAY SYSTEM, PARTICULARLY FROM PRIVATE INDUSTRY.

State agencies receive oversight and input on a daily basis from the public which they serve. Oversight and input are also received from commissioners, the governor, and the legislature (especially through the budget process). In a number of instances the legislature has created specific mechanisms for input and oversight of state agencies. These mechanisms vary in formality from the loosely-knit but extensive system of fish and game advisory boards to the boards of independent state corporations which have explicit requirements for public and private industry members.

In HB 23 an independent state corporation was created with responsibility for operating the marine highway system. The board of the corporation included a number of seats restricted to members of various private industry groups and to members of the public from various parts of the state. Such a mechanism as this assures that some oversight and input to the marine highway system takes place.

Representative Caro
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December 12, 1986

If you should decide to introduce legislation on the marine highway system, please contact me with your specific proposals. If I can provide further assistance, please contact me.

GU:mkr
m7/066

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

DEPUTY COMMISSIONER—ALASKA MARINE HIGHWAY SYSTEM

PCUCH R
JUNEAU, ALASKA 99811
(TELEX 45-312)
PHONE (907) 465-3950

August 14, 1986

Mr. Stephan Mason
Acting Chairman
Coalition for the Improvement of
Alaska Marine Highway System
P. O. Box 9625
Ketchikan, AK 99901

Dear Mr. Mason:

I appreciate the opportunity to reply to your letter of August 2. Many of the questions have been asked of me personally on my various ship visits and obviously my answers have not reached all the right ears. The following should provide factual data and I hope it will clear up some popular misconceptions currently in circulation. The deadline you imposed has made it difficult to research all of the technical and detailed data you have requested. That information will be forwarded at a later date. I will restate or paraphrase your question, then provide the answer.

1. Q. Give us background information regarding lost jobs.
 - A. For FY 87 Alaska Marine Highway System (AMHS) like other branches of State government, was cut below FY 86 levels. These cuts came in several increments of various amounts during the budget process and included cost avoidances achieved through reduction in fuel prices. It was and continues to be our goal to provide the maximum amount of service to the public with the resources available. During the process it was determined that cutting of approximately \$700,000 in vessel personal services would result in less severe cuts in scheduled vessel service than would otherwise be required. This decision was made for two reasons; 1) to continue maximum service to the public and 2) maximum service means maximum employment. The guidelines used to determine which positions would be cut were; 1) not adversely effect safety, 2) not adversely effect passenger services and 3) keep additional overtime to a minimum. The Director of Operations outlined the requirements to the shoreside department heads who then met and agreed on specific positions for cuts. I reviewed and approved the cuts.

2. Q. How much money was estimated would be saved by each department cut and all collectively?

A. Engineer Department	\$179,000
Deck Department	303,700
Purser	33,300
Steward	<u>208,900</u>
Total	\$723,300

3. Q. How much increased overtime has been submitted from each department since the job cuts. How much increased overtime has been submitted collectively?

A. There has been substantial overtime submitted. It is being compiled and analyzed as limited staff time permits. I will forward the results of this effort when it is completed.

4. Q. When exactly can we expect all these lost jobs to be reinstated?

A. AMHS is conducting an internal review of shipboard manning comparing required functions and work loads with manning. This study is expected to be completed this fall. Upon completion of this review, the preliminary finding will be reviewed with union and operating personnel prior to making any final determination. Both licensed and unlicensed input will be solicited and discussed. The result of this process should provide us with a valid manning document, based on required functions, workloads and services aboard each vessel.

5. Q. How many jobs have been eliminated from Department of Transportation and Public Facilities beach operations in accordance with recent funding cuts. What job positions and titles were eliminated and were these people terminated or moved to other positions within your operation? What exactly is the revenue savings currently reflecting these job cuts on the beach?

A. The following matrix should answer the above questions for AMHS.

FY 87 Budget Reductions prior July 1

<u>Position/Title</u>	<u>Who</u>	<u>Action</u>	<u>Where did the incumbent go</u>	<u>Estimated Savings (in Thousands)</u>
Administrative Assistant	vacant	Delete	vacant	34.1
Director of Marketing & Services	Emery	Delete	accepted classified service job	39.9
Secretary I	McCorcle	Delete	transferred to another department	31.3
Reservation Specialist	vacant	Delete	vacant	45.6
Accounting Clerk II	Roberson	PFT to seasonal	reduced pay	15.3
Accounting Clerk II	Harrigan	PFT to seasonal	reduced pay	10.6
Accounting Clerk II	Ketcham	PFT to seasonal	reduced pay	10.6
Clerk III	Salazar	PFT to seasonal	reduced pay	5.2
Clerk III	Seagrave	PFT to seasonal	reduced pay	5.2
Clerk III	Annand	PFT to seasonal	reduced pay	5.2
Clerk III	vacant	PFT to seasonal	reduced pay	5.2
Clerk III	vacant	PFT to seasonal	reduced pay	5.2
Clerk IV	Rcmzek	PFT to seasonal	reduced pay	5.3
Budgeted overtime for various positions		Delete		43.5
				<u>309.3</u>

Additional Cuts ordered since July 1

<u>Position/Title</u>	<u>Who</u>	<u>Action</u>	<u>Where did the incumbent go</u>	<u>Estimated Savings (in Thousands)</u>
Director of Operations	Black	Terminated	Terminated August 15	32.9
Secretary I	Vaden	Layoff	Lay off 8/29	27.6
Planner	Lindbeck	Layoff	Bumped down Jr. person lay off 8/29	45.2
Payroll Supervisor	O'Connor	retirement	leave vacant	45.7
Ferry Services Manager III	Clark	retirement	leave vacant	43.3
Accounting Technician I	Reddekopp	PFT reduced to 30 hr wk	reduce pay	12.6
Clerk III	Del Fierro	PFT reduced to 30 hr wk upon retirement	reduced pay beginning September 26	10.0
Stockhandler	Currie	Seasonal reduced from 9.6 months to 5 months	reduced pay	11.9
			Total	279.7

The net result is that approximately 15 percent of the total shoreside AMHS staff have had their jobs eliminated, held vacant or experienced some lesser degree of negative effect on their pay.

6. Q. How does that revenue savings correspond to the estimated revenue cuts the shore-side DOT&PF operations are expected to take in response to current funding cuts?

- A. The Department of Transportation and Public Facilities was required to take an overall 13% cut in the operating budget. If each element within the Department had been required to absorb that degree of cut the AMHS service and employment would have been severely crippled. By allocating total DOT&PF resources AMHS initially took approximately a 10% cut while the rest of the Department absorbed the rest. Impacts of this funding level would have included laying up the Columbia indefinitely and dropping one main line ship from winter service to southeast. When presented to the Governor this was considered unacceptable and he restored \$2 million to take the COLUMBIA out of layup and put on schedule to take advantage of the busy season. This meant that AMHS took approximately a 7% cut while the rest of the Department took an 13% cut.
7. Q. May we have an official statement concerning Mr. Black's dismissal?
- A. Mr. Black was relieved of duties as Director of Operations on July 15. He has been assigned some technical projects to work on prior to his final day at work on August 15.
8. Q. What transfer of job functions will this represent?
- A. There are no plans to refill the position at this time nor has a decision been made as to whether or not it will be refilled. In the interim, I am taking on the responsibility of the Division and am relying heavily on the Port Captain, Port Engineer and Passenger Services Manager for day-to-day operations.
9. Q. Who has access to our reservations system and to our standby reservations and wait lists? What kind of confidentiality can we expect in regard to protecting our reservations from being raided by private enterprise?
- A. All AMHS terminals have access to Reservation Management System (RMS II). Vista Travel in Fairbanks is the only travel agency with access to RMS and they finally became operational in late June 1986. Because of the special equipment requirements and technical difficulties experienced when we were actively attempting to bring

August 14, 1986

Vista Travel "on-line" I believe it would be almost impossible for an unauthorized party to gain usable access to RMS II. I have heard many rumors that "STARDANCER" has access to RMS II. I don't believe it. I have heard stories that "someone made a reservation on AMHS and was immediately called by STARDANCER and offered a better deal". I would like to talk to someone this actually happened to in order to attempt to reconstruct what happened. The only possible connection of STARDANCER to State of Alaska "lists" I am aware of is the fact that the Division of Tourism compiles a computer list of all people who respond to their Vacation Planner questionnaire and indicate they would consider visiting Alaska by "ferryliner" and this list is available for sale to any firm wishing to purchase it.

10. Q. What were the exact figures on passenger and vehicle reservations made for the special Expo sailing of the M/V MATANUSKA?

A.	Southbound	Northbound
Passengers	159	147
Vehicles	13	24

At no time was either sailing booked full and there is no reason potential passengers should have been told it was full.

11. Q. Exactly how many reservations were made for Alaska State Government officials and dignitaries?

A. One. A reservation was made for DOT&PF Commissioner Knapp with the hope that he would be available to make the trip and present a letter from Governor Sheffield to the "Counsel General of the Expo". Other State business prevented Commissioner Knapp from making the trip and Captain R. M. Johnson presented the letter from the Governor.

12. Q. Were Governor Sheffield and Lt. Governor McAlpine scheduled to sail on that special Expo trip.

A. No.

13. Q. Exactly how many passengers actually showed for the sailing? How many vehicles?

A.	Southbound	Northbound
Passengers	75	75
Vehicles	10	17

14. Q. Please give us the exact amount collected on the cancellation fees.

A. None. All passengers who paid in advance made the trip. Since there were numerous staterooms and car deck space available for additional passengers desiring to make reservations the manifests were not purged of those who had not paid.

15. Q. How much revenue was expended on the Expo sailing?

A. The M/V MATANUSKA was operating on the Seattle route, Tuesday sailings. On May 20, the M/V MATANUSKA called in Vancouver, B. C. instead of proceeding on south to Seattle, therefore the only additional costs of the "Expo trip" were those incurred directly as a result of calling in Vancouver. Those costs were as follows:

Agency fee	Canadian	\$1,350.00
Pilot	Canadian	2,017.55
Berthage	Canadian	2,700.13
Miscellaneous	Canadian and U.S.	596.62
Total	U. S.	\$4,936.56

16. Q. Please give us a complete description of the complete Expo advertising campaign and its cost.

A. No money was budgeted or expended on special advertising for the Expo sailing. Maximum advantage was taken of radio public service announcements, press releases and media interviews, all at no cost to AMHS.

17. Q. A number of questions were asked concerning repairs and upgrade to the Haines and Skagway docks with the implication that these were undertaken by AMHS in order to accommodate STARDANCER.

A. I will deal with Skagway first. The City of Skagway obtained a grant from the State of Alaska to improve the ore dock to accommodate SUNDANCER. AMHS had no part in that grant. The Haines transfer bridge and tower were old and in need of replacement just as the Petersburg and Wrangell facilities were. Replacement of the Haines facilities was budgeted in FY 81. Design specifications were completed and received FHWA approval in January 1981. The project was advertised in November 1983 and construction began March 6, 1984. This dock was designed for AMHS vessels only. The STARDANCER was modified to fit Haines rather than the other way around, and for the record STARDANCER pays approximately \$1,000.00 per hour to use the Haines dock on a not to interfere basis with AMHS vessels.

18. Q. Who authorized the solicitation of AMHS traffic in line for boarding AMHS vessels by McDonald Enterprise/Sundance Cruise lines? Who authorized their use of the Haines terminal building for the same?

A. No one. In fact the State Terminal Tariff prohibits their use of our building. When it was brought to my attention that this was happening, I immediately had it stopped.

19. Q. How much of the Haines dock was federally funded? How much was State taxpayer funded?

A. Haines terminal project

State general funds	\$ 159,591.91
FHWA funds	<u>2,246,636.09</u>
Total	\$2,406,228.00

20. Q. Was the M/V COLUMBIA instructed to priority-load Juneau vehicles out of Haines during the summer of 1985? If so, who authorized it and for what reasons?

A. There were no changes in standby loading procedures ordered for M/V COLUMBIA or any other vessels out of Haines last summer.

21. Q. Was the M/V AURORA instructed to load only Ketchikan/Hollis traffic out of Prince Rupert during the summer of 1985?

A. No. If there was space available after loading all reserved vehicles, standby vehicles would be loading in their order on the standby list.

22. Q. Why have you not initiated an additional flyer inclusion on all tickets indicating a passengers "final destination"?

A. This may be a good idea as the data would be useful. We do have data on passengers disembarking at Haines and Skagway but we do not have final destination. Presently there is no staff time available to compile the data because of other higher priority work and reduced staff.

23. Q. What was price per gallon for fuel in Seattle and Skagway during the time M/V MALASPINA was on the Seattle run in the winter of 1985? (December 1984, January and February 1985). How much fuel did M/V MALASPINA purchase from each facility during that time?

A.	Price	Amount Purchased
	Skagway .919 gal	208,193 gals
	Seattle .733 gal	202,649 gals

The M/V MALASPINA is required to fuel in Skagway for stability reasons.

24. Q. What is being done to publish and promote the life saving and waterway safety contributions of the Alaska Marine Highway vessels.

A. If the press has not already covered the story a press release is prepared. In addition, articles are carried in the DOT&PF newsletter In Transit as appropriate.

25. Q. May we have a complete list of all rescue operations by AMHS vessels, all records of assistance to vessels in trouble, and all contributions made by AMHS vessels in the area of public waterway safety?
- A. No specific record is kept other than the entries in the ship's logs. Complete retrieval would require prohibitive efforts.
26. Q. We would greatly appreciate receiving a full and complete selection of personal and/or community commendations which exist. (In the area mentioned in Q. 25.)
- A. No such file exists. As such letters and/or commendations are received, they are sent with a forwarding letter to the vessel Master and/or individuals as appropriate. An example is enclosed.
27. Q. Please give us a description of the Seattle phone reservation system from 1982 to the present.
- A. In 1982 and until December 1984, the Seattle office had four telephone reservation clerks. Reservations were centralized in Juneau in December 1984 and toll free lines from both "outside" and within Alaska were established to the Juneau office. The Seattle "reservations" office was closed (the terminal and ticketing remained) and the four reservation clerk positions were transferred to Juneau.
28. Q. How many phone lines existed at which periods of time? When was the toll free 800 number installed? How long was it in existence and how much did it cost? When was it removed, how many non-toll free lines were installed to replace it?
- A. When the Centralized Reservation Office was established in Juneau in December 1983 it was set up with two Alaska-only toll free lines, four "outside" toll free lines and three local lines. The "outside" toll free lines were discontinued in April 1986 because of budgetary restrictions. At that time an additional Alaska-only toll free line and three additional non-toll free (907) lines were installed. The actual bills paid for the toll free lines are as follows:

		<u>Outside lines</u>	<u>Alaska only lines</u>
January	1985	\$ 4,612.92	
February	1985	3,337.19	\$ 7,793.54
March	1985	4,191.61	16,486.63
April	1985	5,510.98	12,507.36
May	1985	3,059.46	15,307.62
June	1985	7,714.36	15,307.62
July	1985	3,456.62	15,307.62
August	1985	5,828.09	17,263.15
September	1985	4,481.02	16,264.00
October	1985	3,201.24	4,393.77
November	1985	2,506.53	6,716.92
December	1985	3,152.71	731.11
January	1986	7,141.40	1,515.70
February	1986	6,391.35	23,741.05
March	1986	4,373.45	21,099.20
April	1986	101.32	25,645.09
May	1986		25,621.65
June	1986		29,342.40
July	1986		28,531.00
		\$79,566.30	\$284,251.93

29. Q. Josephine Emery was Director of Marketing for what period of time?

A. Mrs. Emery was Director of Marketing and Services from January 1984 until May 1986.

30. Q. Could you please give us a description of her duties as Director of Marketing?

A. Her primary responsibilities included managing a \$4.7 million operating budget along with the development, revision and communication of policies, rules and procedures for the promotion and sales of passenger, vehicle and stateroom space on the system which carries approximately 370,000 passengers and 100,000 vehicles.

She participated in the tourism industry to promote travel on the system, monitored community needs and probable effects of changing schedules or capacity; monitored passenger services on vessels; and responded to customer complaints.

She also supervised 65 employees, located in 13 offices and terminals in Seattle, Washington; Prince Rupert, B. C. and Alaska. She was responsible for publication and distribution of seasonal schedules and acted as project manager for the development and maintenance of a second generation computerized Reservation Management System (RMS II).

31. Q. What were her accomplishments as Director of Marketing?

A. She was Project Manager for the development of second generation Computer Reservation Management system; centralized and increased reservation sales office hours. Introduced toll-free numbers and introduced electronic call distribution system in central reservation office to assist planning for proper staffing, monitor efficiency and provide necessary data for future staffing levels; timely publication and distribution of printed schedules; employees in uniforms to improve Alaska Marine Highway system image and assist in public identification; coordinated promotional programs with the State Division of Tourism; and served on the Board of Directors of the Southeast Tourism Council and Juneau Convention and Visitor Bureau.

32. Q. Please give us a brief history of her prior marketing experience.

A. 1973 - 1980 Instructor - Tanana Valley Community College. Instructed three credit course - "Fundamentals of Transportation".

1974 - 1978 Manager, Passenger Services and Sales. Wien Air Alaska, Fairbanks.

1961 - 1974 Supervisor, Marketing and Sales - Western Airlines. Seattle, San Francisco, Ketchikan and Anchorage.

33. Q. How much was the advertising budget for FY 32 through FY 36?

- A. The base budget printing and advertising line item for FY 82 through FY 86 was as follows:

FY 82	121.7
FY 83	149.4
FY 84	177.7
FY 85	135.3
FY 86	161.4

34. Q. What was the general breakdown of advertising costs for FY 85 and FY 86?

A. FY 85 breakdown: Summer and Winter schedules printing \$90,000; tickets \$20,000; miscellaneous printing and print advertising \$14,000.

FY 86 breakdown: Summer and Winter schedules printing \$100,000; tickets \$30,000; miscellaneous printing, photo contest and print advertising \$31,000.

35. Q. Who decided to implement the cancellation fees?

A. I did.

36. Q. Do you think the cancellation fees are particularly unfair during the busy summer months when the rooms, in particular, can be resold and bring in their expected revenue?

A. No, I do not. The cancellation penalty is a tool to encourage people who change their mind about traveling to cancel their reservation in order that we may then offer the space to someone on our "wait-list", a new innovation which allows our reservation's center personnel to confirm reservations for people on the wait-list as cancellations occur. This is in contrast to the standby list which only allows people in the terminal to board if there is a no-show. Before the penalty individuals were not cancelling their reservations causing the computer to show the vessel "booked solid". Other potential passengers then could not make reservations and when the person with the original reservation "no showed" we sailed with light loads. Staterooms almost always are filled on board by "cabin standby", passengers, but others may have decided not to travel because of non-availability of confirmed car deck or stateroom space.

37. Q. For exactly how many years was the no-charge stopover option available?

A. Staterooms have always been charged on a trip segment basis. This is the first year trip segment fares have been charged for other classes of fares.

38. Q. Who decided to discontinue this attractive travel incentive?

A. I did to help cover some of our costs during a year when operation of our vessels was directly tied to earned revenue for the first time.

39. Q. Could you please give us the cost increase figures on a fare from Seattle/Skagway with stops in Ketchikan, Wrangell, Petersburg, Juneau and Haines as opposed to a through fare?

A. Trip Segment Fare		Through Fare	
Sea-Ktn	138	Sea-Sgy	203
Ktn-Wrg	22		
Wrg-Psg	14		
Psg-Jnu	36		
Jnu-Hns	13		
Hns-Sgy	<u>10</u>		
Total	238	Total	203

40. Q. Are you considering reinstating the travel incentive of through fares?

A. Yes, either through elimination of or by lowering the difference in costs.

41. Q. May we have a list of private organizations that the State has contracted with for labor with their physical location and address?

A. AMHS has contracted on occasion for specific jobs when cost analysis has shown contracting out to be less expensive. Specifically, the M/V MATANUSKA staterooms were cleaned by Coast Janitorial Service following the reengining of that vessel in Portland. The contracted

job cost \$8,230.00. The Chief Steward has stated he needed 10 stewards to do the job which would have cost \$21,918.00 per diem and wages (minimum guarantee included) and \$376.70 in travel cost. The cost avoidance was approximately \$14,064.70. Additionally, a contract has been signed with a company, Wright Service, to provide assistance in cleaning staterooms on the vessel turn arounds in Skagway. The contract calls for a cost of \$6.25 per room. This is measured against the cost of "turn around" stewards from Juneau to Skagway to Juneau and the overtime plus the limited time in port. This program has been accepted by Chief Stewards as necessary, especially when there is limited turn around time in Skagway. Other contracts are entering into only if specific cost avoidance can be shown.

42. Q. How much was spent on contracted labor in 1984, 85 and 86?

A. This information is not readily available. As staff time will allow the answer will be researched and the information provided at a later date.

43. Q. How many "Comprehensive Plans" have been done regarding proposed operating plans for the Alaska Marine Highway System?

A. The Alaska Marine Highway is currently developing a comprehensive System Plan as recommended in the 1984 AMHS Task Force Report. It is scheduled to be completed this fall, and to my knowledge this is the only comprehensive plan developed in recent history.

The Southeast Region of DOT&PF has a Southeast Transportation Plan developed in 1980 that address AMHS as well as other modes of transportation in Southeast Alaska. It was updated earlier this year. It is a plan that addresses transportation from a regional aspect and does not go into detail nor does it address all the aspects that the AMHS System Plan will include.

44. Q. Is the AMHS System Plan Policy Workshop report yet another "proposed comprehensive plan"?

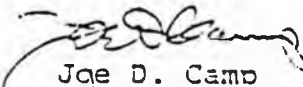
Mr. Stepham Mason

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August 14, 1986

A. No. It is a small portion of the System Plan under development.

Sincerely,



Joe D. Camp
Deputy Commissioner

sz

Enclosure

cc: copy of August 2, 1986 Coalition letter
enclosed
The Honorable Robert H. Ziegler, Sr.
Alaska State Legislature
The Honorable Jim Duncan
Alaska State Legislature
The Honorable Richard I. Eliason
Alaska State Legislature
The Honorable Peter Goll
Alaska State Legislature
The Honorable Ben Grussendorf
Alaska State Legislature
The Honorable Mike M. Miller
Alaska State Legislature
The Honorable Bill Ray
Alaska State Legislature
The Honorable John Sund
Alaska State Legislature
Karen Hofstad, President
Southeast Conference
R. J. Knapp, Commissioner
Len Laurance, Chairman
Governor's Task Force
The Honorable Robin L. Taylor
Alaska State Legislature

*** DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES ***

SHORT FORM PAGE	BUDGET COMPONENT	86 ACT	87 AUTH	87 REV	88 GOV	88 GOV - 87 REV COMPARISON
	TRANSPORTATION					
	OFFICE OF THE COMMISSIONER					
2	COMMISSIONER'S OFFICE	641.6	575.8	536.9	504.1	-32.8 -6.1%
4	STATEWIDE DEPUTY COMMISSIONER	779.0	242.7	218.5	207.9	-10.6 -4.9%
6	EQUAL EMPLOYMENT & CIVIL RIGHTS		704.1	704.1	681.7	-22.4 -3.2%
8	INTL ARPT REVENUE CNTRL OFFICE				228.5	228.5 100.0%
10	DATA AND WORD PROCESSING	8.3				
12	INTERNAL REVIEW	679.5	842.5	842.5	842.5	
	*** PROGRAM TOTAL ***	2108.4	2365.1	2302.0	2464.7	162.7 7.1%
	STATEWIDE MANAGEMENT & FINANCE					
16	MANAGEMENT AND FINANCE	2102.7	2124.6	2124.6	2456.6	332.0 15.6%
18	DATA AND WORD PROCESSING	72.7				
20	STATE EQUIPMENT FLEET	304.6	441.0	441.0	756.5	315.5 71.5%
	*** PROGRAM TOTAL ***	2480.0	2565.6	2565.6	3213.1	647.5 25.2%
	STATEWIDE INFORMATION SYSTEMS					
24	INFORMATION SYSTEMS	2435.4	2167.8	1911.8	1911.8	
	STATE PLANS, PROGRAMS & BUDGET					
28	PLANS, PROGRAMS & BUDGET	1769.8	1846.2	1669.3	1673.1	3.8 0.2%
30	STATEWIDE AVIATION PLANNING	274.9	250.5	245.8	245.8	
32	DATA AND WORD PROCESSING	98.4				
34	UNBUDGETED RSA'S HPR/IARF	823.3				
	*** PROGRAM TOTAL ***	2966.4	2096.7	1915.1	1918.9	3.8 0.2%
	STATEWIDE RESEARCH					
38	STATEWIDE RESEARCH	964.3	774.9	711.2	746.2	35.0 4.9%
	STATEWIDE ENG & OPS STANDARDS					
42	ENG & OPS STANDARDS	2453.0	2286.0	2050.7	1741.7	-309.0 -15.1%
44	DATA AND WORD PROCESSING	15.6				
46	CIP PROGRAM	2657.4	3497.5	3497.5	3754.8	257.3 7.4%
48	UNBUDGETED RSA'S	69.7				
	*** PROGRAM TOTAL ***	5195.7	5783.5	5548.2	5496.5	-51.7 -0.9%
	CENTRAL REGION ADMIN SERVICES					
52	ADMINISTRATIVE SERVICES	2073.9	1710.1	1618.7	1618.7	
54	STATE EQUIPMENT FLEET	5814.5	6132.1	6132.1	6116.7	-15.4 -0.3%
56	DATA AND WORD PROCESSING	20.7				
58	AIRPORT LEASING	328.2	271.2	271.2	391.9	120.7 44.5%
	*** PROGRAM TOTAL ***	8237.3	8113.4	8022.0	8127.3	105.3 1.3%
	CENTRAL REGION PLANNING					
62	PLANNING	1516.4	1113.6	1046.1	963.8	-82.3 -7.9%
64	DATA AND WORD PROCESSING	8.5				
66	UNBUDGETED RSA'S	694.3				
	*** PROGRAM TOTAL ***	2219.2	1113.6	1046.1	963.8	-82.3 -7.9%
	CENTRAL REGION DESIGN & CONST.					
70	ENGINEERING MANAGEMENT	2166.2	5233.8	5140.4	4987.3	-153.1 -3.0%
72	DATA AND WORD PROCESSING	43.7				
74	CIP PROGRAM	20282.6	23139.0	23139.0	22850.2	-288.8 -1.2%

*** DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES ***

SHORT FORM PAGE	BUDGET COMPONENT	86 ACT	87 AUTH	87 REV	88 GOV	88 GOV - COMPARISON	87 REV
	*** PROGRAM TOTAL ***	22492.5	20372.8	28279.4	27837.5	-441.9	-1.6%
	CENTRAL REGION MAINT. & OPER.						
	HIGHWAYS AND AVIATION	28462.6	26956.5	21193.8	16989.4	-4266.6	-19.8%
78	TRAFFIC SIGNAL MANAGEMENT	826.0	1126.0	1126.0	1126.0		
80	FACILITIES	3429.0	3395.7	2927.7	2901.2	-26.5	-0.9%
82	ADMINISTRATION	1283.6	1155.3	996.5	864.4	-132.1	-13.3%
84	*** PROGRAM TOTAL ***	34001.2	32633.5	26246.0	21881.0	-4363.0	-16.6%
	ANCHORAGE INTL AIRPORT						
	FIELD MAINTENANCE	2661.3	3090.0	3090.0	3068.9	-21.1	-0.7%
88	BUILDING MAINTENANCE	3483.1	3647.8	3647.8	4140.4	492.6	13.5%
90	SECURITY	3879.5	4063.0	4063.0	4326.0	263.0	6.5%
92	CUSTODIAL	2797.6	3272.2	3272.2	3204.9	-67.3	-2.1%
94	EQUIPMENT MAINTENANCE	1275.8	1319.5	1319.5	1319.5		
96	ADMINISTRATION	3224.7	3661.7	3661.7	3989.6	327.9	9.0%
98	DATA AND WORD PROCESSING	1.5	60.8	60.8	60.8		
100	*** PROGRAM TOTAL ***	17323.5	19115.0	19115.0	20110.1	995.1	5.2%
	NORTH REGION ADMIN. SERVICES						
	INTERIOR DIS. ADMIN. SERVICES	2044.7	1672.8	1672.8	1540.4	-132.4	-7.9%
104	WESTERN DIS. ADMIN. SERVICES	344.5	337.0	188.1	164.1	-24.0	-12.8%
106	SOUTHCENTRAL DIS. ADMIN. SVCS	403.1	345.6	195.6	195.6		
108	DATA AND WORD PROCESSING	33.2	38.5	32.7	32.7		
110	INTERIOR DIS STATE EQUIP. FLEET	6730.8	7008.6	7008.6	7008.6		
112	WESTERN STATE EQUIP. FLEET	871.3	935.2	935.2	963.2	28.0	3.0%
114	SC DISTRICT STATE EQUIP. FLEET	2141.6	2328.3	2328.3	2300.3	-28.0	-1.2%
116	AIRPORT LEASING/PROPERTY MGMT				337.8	337.8	100.0%
118	*** PROGRAM TOTAL ***	12569.2	12666.0	12361.3	12542.7	181.4	1.5%
	NORTHERN REGION PLANNING						
	PLANNING	1197.1	975.6	975.6	951.1	-24.5	-2.5%
122	UNBUDGETED RSA'S, DPR P.R. SUS	327.8					
124	*** PROGRAM TOTAL ***	1524.9	975.6	975.6	951.1	-24.5	-2.5%
	NORTHERN REGION DESIGN & CONST						
	ENGINEERING MANAGEMENT	2382.1	2967.9	2857.6	2848.3	-9.3	-0.3%
128	DATA AND WORD PROCESSING	105.5					
130	CIP PROGRAM	1873.8	2113.4	2113.4	2102.5	-10.9	-0.5%
132	*** PROGRAM TOTAL ***	21220.4	24101.3	23991.0	23870.8	-120.2	-0.5%
	INTERIOR DISTRICT MAINT & OPER						
	HIGHWAYS & AVIATION	23069.1	21060.5	16853.1	14947.3	-1905.8	-11.3%
136	FACILITIES	4709.4	4482.2	3877.4	3654.4	-223.0	-5.8%
138	ADMINISTRATION	1107.1	763.2	763.2	589.0	-174.2	-22.8%
140	*** PROGRAM TOTAL ***	28885.6	26305.9	21493.7	19190.7	-2303.0	-10.7%
	WESTERN DISTRICT MAINT & OPER						
	HIGHWAYS AND AVIATION	4122.0	3893.6	3007.6	2695.9	-311.7	-10.4%
144	FACILITIES	670.7	661.0	574.8	574.8		
146	ADMINISTRATION	306.7	159.5	155.6	155.6		
148	*** PROGRAM TOTAL ***	5099.4	4714.1	3718.0	3406.3	-311.7	-8.4%
	SOUTHCENTRAL DISTRICT M & O						

*** DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES ***

SHORT FORM PAGE	BUDGET COMPONENT	86 ACT	87 ANTH	87 REV	88 GOV	88 GOV - 87 RLV COMPARISON	
152	HIGHWAYS AND AVIATION	6728.6	6413.1	5046.5	4048.4	-998.1	-19.8%
154	FACILITIES	1719.9	1930.2	1742.4	1692.0	-50.4	-2.9%
156	ADMINISTRATION	431.8	329.1	279.7	279.7		
	*** PROGRAM TOTAL ***	8880.3	8672.4	7068.6	6020.1	-1048.5	-11.8%
	FAIRBANKS INT AIRPORT						
160	FIELD MAINTENANCE	1306.4	1694.1	1694.1	1584.1	-110.0	-6.5%
162	BUILDING MAINTENANCE	1225.5	1432.3	1432.3	1382.3	-50.0	-3.5%
164	SECURITY	2736.8	2717.9	2717.9	3032.8	314.9	11.6%
166	CUSTODIAL	619.4	683.1	683.1	658.1	-25.0	-3.7%
168	ADMINISTRATION	1049.5	1367.8	1367.8	1417.8	50.0	3.7%
	*** PROGRAM TOTAL ***	6937.6	7895.2	7895.2	8075.1	179.9	2.3%
	S.E. REGION ADMIN. SERVICES						
172	ADMINISTRATIVE SERVICES	1313.0	1039.8	898.1	953.1	55.0	6.1%
174	DATA AND WORD PROCESSING	9.8					
176	STATE EQUIPMENT FLEET	1740.0	2015.4	2015.4	1660.6	-354.8	-17.6%
	*** PROGRAM TOTAL ***	3062.8	3055.2	2913.5	2613.7	-299.8	-10.3%
	SOUTHEAST REGION PLANNING						
180	PLANNING	547.5	376.8	345.3	365.3	20.0	5.8%
182	DATA AND WORD PROCESSING	10.6					
	*** PROGRAM TOTAL ***	558.1	376.8	345.3	365.3	20.0	5.8%
	SOUTHEAST REGION DES. & CONST.						
186	ENGINEERING MANAGEMENT	1246.5	1322.4	1245.9	4012.8	2766.9	222.1%
188	DATA AND WORD PROCESSING	63.6					
190	CIP PROGRAM	8087.0	8671.2	8671.2	5833.1	-2838.1	-32.7%
192	UNBUDGETED RSA'S SCH SUR/DSGN	2.2					
	*** PROGRAM TOTAL ***	9399.3	9993.6	9917.1	9845.9	-71.2	-0.7%
	SOUTHWEST REGION M & O						
196	HIGHWAYS & AVIATION	7996.5	7611.8	6305.6	4339.6	-1966.0	-31.2%
198	FACILITIES	4890.2	4608.7	3872.4	3726.9	-145.5	-3.8%
200	ADMINISTRATION	393.1	392.6	326.2	324.7	-1.5	-0.5%
	*** PROGRAM TOTAL ***	13279.8	12613.1	10504.2	8391.2	-2113.0	-20.1%
	MARINE ADMINISTRATION						
204	ADMINISTRATION	2405.4	2226.7	2226.7	2331.7	105.0	4.7%
206	DATA AND WORD PROCESSING	46.8					
	*** PROGRAM TOTAL ***	2452.2	2226.7	2226.7	2331.7	105.0	4.7%
	MARINE FACILITIES ENGINEERING						
210	MANAGEMENT	393.5	433.0	433.0	433.0		
212	CIP	970.8	1341.5	1341.5	1393.1	51.6	3.8%
	*** PROGRAM TOTAL ***	1364.3	1774.5	1774.5	1826.1	51.6	2.9%
	MARINE MARKETING AND SERVICES						
216	MARKETING MANAGEMENT	1410.2	1363.2	1363.2	2271.2	908.0	66.6%
218	SOUTHWEST SHORE FACILITIES	2389.8	2712.9	2712.9	2359.6	-353.3	-13.0%
220	SOUTHWEST SHORE FACILITIES	650.6	678.2	678.2	468.0	-210.2	-31.0%
222	DATA AND WORD PROCESSING	258.7					
	*** PROGRAM TOTAL ***	4709.3	4754.3	4754.3	5098.8	344.5	7.2%
	MARINE OPERATIONS						

***** DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES *****

SHORT
FORM

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BUDGET COMPONENT

MANAGEMENT

SOUTHEAST VESSEL OPER/OVERHAUL

SOUTHWEST VESSEL OPER/OVERHAUL

*** PROGRAM TOTAL ***

RETIREMENT INCENTIVE PROGRAM

*** TRANSPORTATION TOTAL ***

***** TOTAL AGENCY EXPENDITURES

***** AGENCY FUNDING

FED RCPTS

GEN FUND

OTHER FUNDS

86 ACT

87 AMN

87 REV

88 GOV

88 GOV - 87 REV
COMPARISON

820.2

1047.8

1047.8

1201.1

153.3

14.6%

47337.4

44267.1

44267.1

36571.2

-7695.9

-17.4%

9416.0

9315.6

9315.6

8041.6

-1274.0

-13.7%

57573.6

54630.5

54630.5

45813.9

-8816.6

-16.1%

1143.3

1143.3

100.0%

277940.7

279857.1

262229.9

246157.6

-16072.3

-6.1%

277940.7

279857.1

262229.9

246157.6

-16072.3

-6.1%

3058.4

3697.6

3697.6

3697.6

176161.1

161446.1

143360.6

120972.0

-22408.6

-15.6%

98721.2

114713.4

115151.7

121488.0

6336.3

5.5%

13	***** DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES *****	13
14	*****	14
15	STATEWIDE PROGRAMS	15
		15,751,200
16	OFFICE OF THE COMMISSIONER	7,747,700
		8,003,500
17	COMMISSIONER'S OFFICE (6 POSITIONS)	504,100
18	STATEWIDE DEPUTY COMMISSIONER (4 POSITIONS)	207,900
19	EQUAL EMPLOYMENT AND CIVIL RIGHTS (12 POSITIONS)	481,700
20	INTERNATIONAL AIRPORT REVENUE FUND CONTROLLER'S OFFICE (4 POSITIONS)	228,500
21	INTERNAL REVIEW (14 POSITIONS)	842,500
22	STATEWIDE MANAGEMENT AND FINANCE	
23	MANAGEMENT AND FINANCE (42 POSITIONS)	2,456,600
24	STATE EQUIPMENT FLEET (9 POSITIONS)	756,500
25	STATEWIDE INFORMATION SYSTEMS	
26	INFORMATION SYSTEMS (31 POSITIONS)	1,911,800

1	DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES (CONT.)				1
2			APPROPRIATION	APPROPRIATION	FUND SOURCES
3		ALLOCATIONS	ITEMS	GENERAL FUND	OTHER FUNDS
4	STATEWIDE PLANS, PROGRAMS, AND BUDGET				
5	PLANS, PROGRAMS AND BUDGET (31 POSITIONS)	1,673,100			
6	STATEWIDE AVIATION PLANNING (4 POSITIONS)	245,800			
7	STATEWIDE RESEARCH				
8	STATEWIDE RESEARCH (12 POSITIONS)	746,200			
9	STATEWIDE ENGINEERING AND OPERATIONS STANDARDS				
10	ENGINEERING AND OPERATIONS STANDARDS (28 POSITIONS)	1,741,700			
11	CIP PROGRAM (58 POSITIONS)	3,754,800			
12	CENTRAL REGION PROGRAMS		58,809,600	24,627,300	34,182,300
13	CENTRAL REGION ADMINISTRATIVE SERVICES				
14	ADMINISTRATIVE SERVICES (36 POSITIONS)	1,618,700			
15	STATE EQUIPMENT FLEET (58 POSITIONS)	6,116,700			
16	AIRPORT LEASING (7 POSITIONS)	391,900			
17	CENTRAL REGION PLANNING				
18	PLANNING (18 POSITIONS)	963,800			
19	CENTRAL REGION DESIGN AND CONSTRUCTION				
20	ENGINEERING MANAGEMENT (75 POSITIONS)	4,987,300			
21	CIP PROGRAM (521 POSITIONS)	22,850,200			
22	CENTRAL REGION MAINTENANCE AND OPERATIONS				
23	HIGHWAYS AND AVIATION (241 POSITIONS)	16,989,400			
24	TRAFFIC SIGNAL MANAGEMENT	1,126,000			
25	FACILITIES (26 POSITIONS)	2,901,200			
26	ADMINISTRATION (18 POSITIONS)	864,400			
27	ANCHORAGE INTERNATIONAL AIRPORT		20,110,100		20,110,100

1 DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES (CONT.)					1
2		ALLOCATIONS	APPROPRIATION ITEMS	APPROPRIATION FUND SOURCES	2
3				GENERAL FUND	OTHER FUNDS
4	FIELD MAINTENANCE (50 POSITIONS)	3,068,900			
5	BUILDING MAINTENANCE (59 POSITIONS)	4,140,400			
6	SECURITY (79 POSITIONS)	4,326,000			
7	CUSTODIAL (69 POSITIONS)	3,204,900			
8	EQUIPMENT MAINTENANCE (15 POSITIONS)	1,319,500			
9	ADMINISTRATION (24 POSITIONS)	3,989,600			
10	DATA AND WORD PROCESSING	60,800			
11	NORTHERN REGION PROGRAMS		45,981,700	26,832,200	39,149,500
12	NORTHERN REGION ADMINISTRATIVE SERVICES				
13	INTERIOR DISTRICT ADMINISTRATIVE SERVICES (36 POSITIONS)	1,540,400			
14	WESTERN DISTRICT ADMINISTRATIVE SERVICES (3 POSITIONS)	164,100			
15	SOUTHCENTRAL DISTRICT ADMINISTRATIVE SERVICES (7 POSITIONS)	195,600			
16	DATA AND WORD PROCESSING	52,700			
17	INTERIOR DISTRICT STATE EQUIPMENT FLEET (56 POSITIONS)	7,008,600			
18	WESTERN DISTRICT STATE EQUIPMENT FLEET (9 POSITIONS)	963,200			
19	SOUTHCENTRAL DISTRICT STATE EQUIPMENT FLEET (21 POSITIONS)	2,300,300			
20	AIRPORT LEASING AND PROPERTY MANAGEMENT (5 POSITIONS)	337,800			
21	NORTHERN REGION PLANNING				
22	PLANNING (16 POSITIONS)	951,100			
23	NORTHERN REGION DESIGN AND CONSTRUCTION				
24	ENGINEERING MANAGEMENT (38 POSITIONS)	2,848,300			

1	DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES (CONT.)				1
2			APPROPRIATION	APPROPRIATION	FUND SOURCES
3		ALLOCATIONS	ITEMS	GENERAL FUND	OTHER FUNDS
4	CIP PROGRAM (484 POSITIONS)	21,022,500			
5	INTERIOR DISTRICT MAINTENANCE AND OPERATIONS				
6	HIGHWAYS AND AVIATION (174 POSITIONS)	14,947,300			
7	FACILITIES (25 POSITIONS)	3,654,400			
8	ADMINISTRATION (7 POSITIONS)	589,000			
9	WESTERN DISTRICT MAINTENANCE AND OPERATIONS				
10	HIGHWAYS AND AVIATION (30 POSITIONS)	2,695,900			
11	FACILITIES (5 POSITIONS)	574,800			
12	ADMINISTRATION (2 POSITIONS)	135,600			
13	SOUTHCENTRAL DISTRICT MAINTENANCE AND OPERATION				
14	HIGHWAYS AND AVIATION (57 POSITIONS)	4,048,400			
15	FACILITIES (16 POSITIONS)	1,692,000			
16	ADMINISTRATION (6 POSITIONS)	279,700			
17	FAIRBANKS INTERNATIONAL AIRPORT		8,075,100		8,075,100
18	FIELD MAINTENANCE (17 POSITIONS)	1,584,100			
19	BUILDING MAINTENANCE (4 POSITIONS)	1,382,300			
20	SECURITY (43 POSITIONS)	3,032,800			
21	CUSTODIAL (13 POSITIONS)	658,100			
22	ADMINISTRATION (12 POSITIONS)	1,417,800			
23	SOUTHEAST REGIONAL PROGRAMS		21,215,100	10,228,800	10,987,300
24	SOUTHEAST REGION ADMINISTRATIVE SERVICES				
25	ADMINISTRATIVE SERVICES (22 POSITIONS)	953,100			
26	STATE EQUIPMENT FLEET (15 POSITIONS)	1,660,600			

1	DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES (CONT.)		1
2		ALLOCATIONS	2
3		ITEMS	3
4	SOUTHEAST REGION PLANNING		4
5	PLANNING (2 POSITIONS)	365,300	5
6	SOUTHEAST REGION DESIGN AND CONSTRUCTION		6
7	ENGINEERING MANAGEMENT (67 POSITIONS)	5,912,800	7
8	CIP PROGRAM (118 POSITIONS)	5,833,100	8
9	SOUTHEAST REGION MAINTENANCE AND OPERATIONS		9
10	HIGHWAYS AND AVIATION (55 POSITIONS)	4,339,600	10
11	FACILITIES (26 POSITIONS)	3,726,800	11
12	ADMINISTRATION (6 POSITIONS)	324,700	12
13	ALASKA MARINE HIGHWAY SYSTEM		13
14	MARINE ADMINISTRATION		14
15	ADMINISTRATION (46 POSITIONS)	2,331,700	15
16	MARINE FACILITIES ENGINEERING		16
17	MANAGEMENT (5 POSITIONS)	533,000	17
18	CIP PROGRAM (22 POSITIONS)	1,393,100	18
19	MARINE MARKETING AND SERVICES		19
20	MARKETING MANAGEMENT (32 POSITIONS)	2,271,200	20
21	SOUTHEAST SHORE FACILITIES (38 POSITIONS)	2,359,600	21
22	SOUTHWEST SHORE FACILITIES (5 POSITIONS)	668,000	22
23	MARINE OPERATIONS		23
24	MANAGEMENT (16 POSITIONS)	1,201,100	24
25	SOUTHEAST VESSEL OPERATIONS AND OVERHAUL (62 POSITIONS)	36,571,200	25
26	SOUTHWEST VESSEL OPERATIONS AND OVERHAUL (98 POSITIONS)	8,041,600	26

January 27, 1987

DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES
 OPERATING BUDGET COMPARISON
 AND NARRATIVE OVERVIEW
 FY86 AUTHORIZED - FY88 GOVERNOR'S REQUEST
 (in millions)

Source of Funding	FY86 Authorized	FY87 Authorized	FY87 Revised	FY88 Governor's Request*	\$ Change FY87 Rev. to FY88
Gen. Fund	\$177.3	\$161.4	\$143.4	\$124.1	(\$19.3)
Other Funds	116.2	113.5	113.3	122.1	3.3
Dept. Totals	\$294.0	\$279.9	\$262.2	\$246.2	<\$16.0>
‡ G.F. Change From Previous Year	<0.4>‡	<9.2>‡	<11.2>‡	<13.5>‡	

*Excludes \$5.2 million switch to user fees for Dalton Highway toll charges.

General fund decrements totalling \$21.1 million and one general fund increment for \$1.3 million for Marine Highways Risk Management increases have been accepted by the Governor. This is a net reduction of \$19.3 million for the Department of Transportation and Public Facilities (DOT&PF). This yields a 13.5‡ departmental reduction from the FY87 Revised general fund budget. Please note this includes a net reduction of approximately 1‡ for the Alaska Marine Highway System (AMHS) and a 13.1‡ cut for all remaining DOT&PF general funds.

In addition, it is proposed that \$5.2 million be changed from general funds to user fees to reflect operation of the Dalton Highway as a toll road. This would bring the general fund (GF) reduction to \$24.5 million, or 17.1‡ of the Department's FY87 Revised GF budget. However, since this proposal would require separate legislative action this funding change is being considered as a part of the proposal for new legislation rather than as a part of the Department's budget.

Excluding the AMHS, and the Dalton Toll proposal, a general fund reduction of 13.1‡ and \$11.0 million from the FY87 Revised GF level of \$84 million is proposed. This 13.1‡ reduction in FY88

would mean that units of the department other than AMHS have been reduced by 36.1% since the FY86 authorized GF budget.

A net reduction for the general fund portion must be viewed in light of the overall impact to revenue from cuts to the AMHS. The AMHS has a FY'87 general fund revised budget of approximately \$60 million and a subsidy level of about \$30 million. We have identified the impacts from reducing the subsidy level by about \$6 million, which results in a total reduction to the AMHS general fund budget of about \$8.4 million due to revenue cuts.

MAJOR HIGHLIGHTS

The following depicts the major impacts from adoption of these proposals:

- (1) Elimination of all state maintenance on nearly 1,600 miles of roads currently on the state maintenance system that are not considered the highest priority routes, or do not require minimal maintenance efforts due to investment of federal funds;
- (2) Elimination of all maintenance except for minimal safety repairs and physical highway protection (which adds a hidden cost for increased legal liability) for approximately 800 miles of highways that are not priority routes, but have federal investment requiring continued state efforts to protect this investment;
- (3) Reduction of maintenance funding by another 3% on the remaining 2900 miles of roads, which means a total reduction well in excess of 25% for maintenance and operation of these facilities in less than 13 months;
- (4) Elimination or reduction of airport maintenance by over 7%, with particular emphasis on daytime operations only and major reduction of winter maintenance at certain airports statewide;
- (5) Substantial reductions in Marine Highway service including unmanned layup of 6 vessels for a total of 29 months. This will affect at least 230 crew members. This leaves the Southeast system with no change to summer service, but only one mainline vessel and one feeder vessel for the other 8 months of the year, and the Southwest system with single vessel service for 6 months and no service for 2 months during the winter.
- (6) Institution of a toll or user fee charge of approximately \$300 per trip, per 13-wheeler for commercial use of the James Dalton Highway north of the Yukon River, which

may lead to eventual closure due to inability to recover adequate fees;

- (7) Elimination of maintenance for campgrounds, rest areas, turnouts and waysides, land fills, and litter pickup for state highways to preserve funds for essential M&O functions; and
- (8) Reductions in facilities maintenance including janitorial services for state buildings from 5 to 3 days per week, grounds-keeping, and clearing of snow and ice from sidewalks and parking areas.

HIGHWAY MAINTENANCE & OPERATIONS

The impact to highway M&O is particularly troublesome when viewed in a longer term context. Since 1980, DOT&PF's responsibilities have grown over 10%, while available real dollars have decreased by nearly 30% under the FY'87 revised budget.

To gain additional perspective, consider the likely effects of the FY'87 reductions already taken:

- (1) Little preventative maintenance anywhere on the system, which means little highway crack sealing, patching or resurfacing.
- (2) Traffic services such as snow plowing, striping, and pothole patching can only be performed on a priority basis, and roads to recreational areas and low traffic rural and suburban areas can be plowed only if time permits; and
- (3) Routine summer maintenance will have to be eliminated or drastically curtailed if extraordinary winter snow and ice conditions occur.

Following the M&O cuts in August 1986, it is no longer possible to cut further on the basis of a straight percentage decrease across the entire system. Instead, it has been necessary to structure further reductions on a programmatic basis by classifying the highway system as follows:

- (1) Category I: Priority routes that provide the intrastate connecting system between the population and economic centers, airports, and major harbors, thereby covering Alaska's fundamental transportation links.
- (2) Category II: Routes where the state has invested sufficient federal funds to contractually bind us to provide a minimum level of maintenance to realize anticipated service life of the constructed improvements.

- (3) Category III: All other routes that the state currently has on the state maintenance system.

We have further differentiated the importance of state efforts for maintenance into eight groups. These are in increasing order of importance (1) snow and ice control on Category III roads within organized governmental units; (2) all activities on Category III roads within organized governmental units; (3) snow and ice control on Category II routes within organized governmental units; (4) snow and ice control for Category III routes outside governmental units; (5) snow and ice control on Category II roads outside governmental units; (6) all activities on Category III roads outside governmental units; (7) maintenance at 30% of historical levels for Category II roads within governmental units; and (8) maintenance at 30% of historical levels on Category II routes outside governmental units.

The basic assumption is that a currently organized governmental unit would be better able, and probably more likely, to assume maintenance responsibilities for routes within their boundaries than people outside of a governmental unit. Please note this may require legislative action to grant road powers in certain cases. This also recognizes that for many routes in rural areas there is not an identifiable user group to assume this responsibility. We have also assumed that while snow and ice control is important, it is less critical in the long run than basic life/safety and structural maintenance efforts, partially because of our agreement with the Federal Highway Administration (FHWA) to prevent highway deterioration.

While we tried to structure the decrements in increasing order of importance, and with as much individual selection as possible to allow decisions other than simply "take it or leave it," it is important to underscore the radical and severe nature of these proposals. First, these cuts have been prepared on top of other drastic cuts that we're currently managing, with cost data gaps regarding current performance. Second, there has been no public involvement to review and legitimize the methodology. Third, there may be administrative code and federal legal constraints hindering or preventing implementation of some of these proposals. Finally, there is probably a hidden cost of increased legal liability from implementing these proposals, which needs to be scrutinized.

AVIATION/BUILDING MAINTENANCE & OPERATIONS

The FY'37 aviation cuts have also severely curtailed preventative maintenance work, such as runway crack sealing and patching. Snow and ice removal may not always occur, depending on available manpower. Certified airports may not be open for all scheduled flights if safe operational conditions cannot be provided, or if overtime is not available to provide required crash/fire/rescue (CFR) services. Additional curtailment of routine summer maintenance efforts may also occur.

The proposed FY'38 decrements reduce these efforts further, and force more service elimination. Elimination of winter maintenance may force operators to perform their own snow control or to switch to a different airport. Reductions or elimination of CFR activities may restrict the types of aircraft now using certain runways. Specific impacts include the winter closure of Nome's North/South runway, and service reductions or eliminations at Barrow, Umiat, Northway, Bettles, Tanana, Unalakleet, Talkeetna, and Kotzebue. If significant cuts are pursued in the aviation M&O area, more work is needed to ensure an equitable level of service reductions statewide.

FY'37 reductions for building M&O have meant that efforts on heating and ventilation components have been limited to emergency repairs. Considerable deferred maintenance continues to accrue. Any FY'38 cuts would further exacerbate these problems.

ALASKA MARINE HIGHWAY SYSTEM

To date the AMHS has not incurred any substantial reductions in available general funds, although there have been service reductions to offset cost increases. Since the AMHS's portion of DOT&PF overall general fund budget is about 40%, it has become necessary to scrutinize all components carefully and to propose ways to achieve significant general fund reductions to accommodate your request.

Since the AMHS is a transportation entity that generates revenue, the true cost to the state is not the total general fund appropriation, but is the net general fund cost or subsidy. Accordingly, we have proposed three sets of decrements to reduce the net subsidy by about \$6 million for FY'88. Although we have not structured our proposal in this fashion, we believe serious consideration should be given to changing the current budget method to provide program receipt authority to expend generated revenues, along with the general fund subsidy needed to achieve the selected service level. This separation in funding would make it clearer to all concerned there is a revenue aspect to the AMHS.

The following depicts the specific impacts from reducing the subsidy level by \$6 million:

- (1) Reduce M/V MALASPINA service by four months. Reduce M/V Taku service by six months. Both vessels would be placed in unmanned layup. In combination with the already scheduled layup of the M/V COLUMBIA for six months and the overhaul periods for every ship, this will leave only one mainline vessel in service from Seattle or Prince Rupert to Skagway for eight months of the year. This will impact approximately 164 crew members during this period.

- (2) Reduce M/V AURORA service by four months resulting in single feeder vessel service in Southeast for eight months of the year versus the current four month period. The M/V CHILKAT would increase service by four months to supplement service between Ketchikan and Prince of Wales Island.
- (3) Reduce M/V BARTLETT service by six months. The M/V TUSTUMENA will provide service for the entire Southwest system, resulting in general service reductions in the winter, particularly between Valdez and Cordova. There would be no service for two months during the winter.

There are several key assumptions under each scenario. The basic intent is to maximize service for Alaskans, at the expense of tourist business if necessary. Although no service or cost saving assumptions have been included for eliminating Seattle service since current data is inconclusive, we intend to continue reviewing this option as a means to improve service for Alaskans without increasing the subsidy. Another key assumption is that it would be more cost efficient to maintain the same level of summer service for the entire 1987 summer before instituting reductions. This is because of (1) the FY'87 budget authorizes initiation of this level; (2) these are the high revenue months; (3) we have already published our schedule and are accepting reservations; and (4) it would minimize the impact from implementing cuts immediately. If earlier implementation of service cuts is desired, we can analyze this further.

We have not made any assumptions regarding possible savings to minimize service cuts by fare increases. Further work is needed to ascertain what service level savings can be obtained without increasing the subsidy, although we believe there are some possibilities here. Finally, no assumptions have been made about further savings from negotiating wage and benefit concessions or

crew size reductions, or through major streamlining of the administrative side. Please also note there is an increment to fund additional risk management expenses not covered in the current base budget, which if not funded will cause a further reduction in service.

It is important to underscore that the proposed service cuts are not "set in concrete," but merely a general sense of what service levels would be by reducing the subsidy level by \$6 million. On the other hand, our current review of available data suggests that changes fairly close to these would be needed to obtain the targeted level of savings. The AMHS is a difficult entity to analyze correctly to achieve the savings we believe can be made, while preserving essential service levels. Any decision to achieve major subsidy reductions will require more work together to ensure we have a rational proposal.

JAMES DALTON HIGHWAY

While the Dalton Highway remains an important transportation facility, we believe it is reasonable to consider covering all or some of the high annual M&O costs through a user fee or toll charge. This is not a new issue, as evidenced by the state's success in including the special provision in Sec. 1113 of the Alaska National Interest Lands Conservation Act, which allows the charging of tolls without facing an obligation to repay federal-aid highway money used to construct the road.

The primary user and beneficiary from continued operation are North Slope oil producers and Aleyska. While it can be argued that we'd be biting the hand that feeds us, and clearly there would be some reduction in tax receipts because of the additional costs, we know of no covenant or agreement requiring continuation of this support at our expense. The Department of Law has advised us that there may be some changes to state statutes needed prior to initiating this proposal.

The per mile M&O cost for the Dalton is higher by at least 70% than for any other major rural transportation route in Interior District. Further, it is worth noting that since state assumption of this responsibility in 1973, we have spent about \$50 million in state capital dollars to support this function. While it is conceivable that the net effect over time might be closure of the road because aviation and/or marine modes are selected as the more economical means for support of North Slope oil activities, we believe these are exactly the type of hard choices Alaskans are facing under declining revenues.

Outside of the hue and cry from the oil industry, the other major group negatively impacted would be the trucking industry, particularly owner-operators. We are sympathetic to this concern in light of currently depressed conditions, but ultimately the most cost efficient means of transporting goods must be used to maintain economic stability and growth in Alaska. One answer, which incidentally might also help address the general complaints about "unfair" competition from the Alaska Railroad Corporation (ARRC), would be an interim state assisted training program to relocate trucking industry people into other job opportunities. Another entity that would be negatively impacted if the Dalton closed would be the ARRC since they now haul a fair portion of this business to Fairbanks. It might be necessary to contact them to obtain an assessment of this impact.

A toll to recover the full charge of the department's maintenance and operations costs for the Dalton Highway would mean a charge of about \$500 per trip for an 13-wheeler. Our costs are estimated to be \$5.2 million annually, approximately \$4.3 million in Interior M & O's Highway and Aviation component and \$0.9 million in the Facilities component. In addition, we have requested an increment for \$0.4 million in user fees to cover the costs associated with collection of the toll charges (.3 million would be the

annual cost, plus a one time cost of moving and modifying the checkpoint facility). The proposed toll does not include the capital costs for resurfacing or major maintenance of this road.

ADMINISTRATION/PLANNING/DESIGN & CONSTRUCTION

During prior reduction reviews, considerable general funds reductions were obtained in these areas. A total of 30.5% of general funds have been cut in these areas between the FY'86 authorized and FY'87 revised budgets. For example, a considerable portion of the reductions made to achieve the FY'87 revised budget were in these areas, allowing AMHS and M&O cuts to be considerably less than otherwise would have been the case.

Our decrements do include some additional general fund cuts in the planning areas. Otherwise, we are not proposing any further cuts at this time. It appears that sizeable "fat" trimming has already occurred. There is also a potential problem of making reductions to the point that we face problems with the FHWA and Federal Aviation Administration as to whether we are maintaining sufficient state funded management and administration to continue qualifying for federal highway and aviation money. Finally, we do not want to propose any cuts in the administrative or accounting side at least until we have a better handle on the magnitude of those problems, and the level of resources needed to fix them.

One change in the transfer area warrants mention. We are proposing to raise the State Equipment Fleet (SEF) fixed fee rate from 5% of the budgeted FY'87 rate back to 7% of that rate. This rate was dropped as a one-time cost savings measure for FY'87, with an understanding that the rate would be re-instated to keep the Highway Working Capital Fund fiscally sound over the long term. It is our intention to maintain the 7% rate level for at least the next two years, and then reassess what, if any, additional adjustments are needed, particularly in light of possible reduced need for equipment due to other budget reductions. We project this increase will allow us to meet vehicle replacement demand, while maintaining a positive cash flow. This means increased fee costs of about \$1.8 million for DOT&PF, which represents about 35% of the SEF's business.

REORGANIZATION SAVINGS

The attached budget submission includes some adjustments for organizational changes that have already been made, including the deletion of a net 5 PX positions based on already taken personnel actions. While further general fund savings are anticipated through additional reorganization and streamlining of current operations, we are not prepared to present any further proposals at this time.

The Commissioner wants to assess the overall operations for a period of time to ensure we don't destroy valuable portions of the organization that are working well. It may be that some of these savings won't materialize until mid to late FY'88 or at the start of FY'89. Accordingly, we respectfully request an understanding that any savings in these areas will be given priority consideration for use to restore reduced or deferred DOT&PF M&O activity.

REVENUE GENERATION

One way to offset some of the impact of both the proposed FY'88 and actual FY'87 reductions is to generate more revenue through our proposal to increase the motor fuel tax from 8¢ to 16¢ per gallon. We estimate this will generate approximately \$20 million in additional revenue. We recommend using this increase to help local governments and communities to pay for the increased M&O costs for those roads and highways removed from the state maintenance system. There may be other ways to generate further receipts, such as airport landing and tie-down fees, to offset other reductions. We will continue to review these possibilities.

SUMMARY

DOT&PF provides the state with numerous, essential transportation services. There is no doubt that transportation serves a critical economic role in a state such as ours. We fear pursuing major cuts, particularly in highway and aviation M&O, will only exacerbate our current problems.

Accordingly, until we can develop some of these proposals more fully, including greater acceptance by local communities of many of these responsibilities, it is imperative that we carefully analyze adoption of the large reductions we have identified, and if possible, find other revenues to avoid drastic reductions.

OVERVIEW OF QUESTIONS ASKED BY HOUSE FINANCE COMMITTEE MEMBERS DURING A PRESENTATION BY THE DEPARTMENT OF TRANSPORTATION.

Tuesday, January 26 1987, Commissioner Gutierrez and staff for the Department of Transportation gave a budget presentation and overview to the House Finance Committee.

Attached please find the Department's proposed FY 88 budget from the Governor's office and an overview of the proposed budget changes and cuts.

Much of the information presented at this meeting is in the attached DOT overview report. Rather than be repetitive I felt it may be helpful to update you on some of the questions raised by House Finance Committee members at this meeting.

1. Why have such substantial cuts been made in the areas of M & O and to the Alaska Marine Highway System?

In 1985, major cuts were made in the areas such as management and design and construction. No cuts have been made in the AMHS and very minimal cuts, have been made in M & O during the previous few years budget cuts. Another point to consider is that when looking at the cuts made to AMHS these cuts reflect cuts from the 1987 "actual" figure and not the revised figures - therefore, the cut to AMHS is actually less than in other areas.

2. How did the department go about categorizing Class 1, 11 and 111 roads - were they categorized on a user basis?

No. The department felt that if roads were categorized on a user basis, heavily populated areas would have a great deal more Class 1 roads than rural areas. Several factors were taken into consideration including whether the road provides freight transportation needs (Valdez to Fairbanks), whether the road provides the only access to the area, how many people live in the area and numerous other factors were also taken into consideration. The department feels that this area is one that will need further consideration and will ask for community input and advice from local area DOT personnel to help prioritize the roads.

3. With the Capital Projects Cleanup, why can't we just get a computer print out of the total number of projects currently authorized? Then, compile a list of those projects that are physically under construction, complete these projects and start over again with all other projects so that are books and information would be correct and so that the problems with the Federal Government Highway on reimbursement of Federal dollars could be overcome? How long would it take to get this list?

It would be possible to compile a list and have it available in a very short time, 3-5 days. The department feels this would be very inaccurate as the problem is with billings not being made to projects. Therefore, it would take some time to figure out what monies had not been billed to projects and get the paper path moving along. Also, some projects are in the planning and design phase, some are under construction, some have been completed and require outstanding bills to be logged in before the project can be closed out. Because of the methods used for billing to the projects and the way in which project tracking has been done, the department now finds that there are currently thousands of projects that are in question.

Because of the poor accounting system information requested on projects before 1985 is difficult to provide accurately. The older the project, the harder it becomes to provide accurate information.

As of 6/30/85, the capital projects clean up list identified each project and the status of the project. When the department changed over to the new state accounting system this information was not recorded. The department is currently working on correcting the problems that exist.

Mr. Bob Poe has been hired to head up this project and the department is currently working on:

1. Correcting the Federal billing system problem. At the present time all bills submitted for Federal reimbursement receive a manual audit from the Feds before reimbursement is made. This is partly due to previous incorrect billings and also an inefficient system for compiling the bills. The department is in the process of requesting proposals for putting in place a system that will adequately perform all FHWA billings. The contract should be awarded within 45 days and the system should be in place in 6 months.
2. The department is also bringing on board two C.P.A.'s to help set up and administer the new accounting system.

4. Is there statutory language changes required to turn the Dalton Highway into a toll road? Is there anything that prevents turning a road that received considerable Federal funds into a toll road?

Based on discussions with the Department of law, DOT believes it advisable to amend AS 19.40 to make it clear this arrangement would be legal, therefore yes, an amendment to the AS 19.40 would be required. The State of Alaska has a specific exemption from the requirements under Section 11.13 of the lands bill and relieves the state of any requirement to repay Federal monies used to build this road.

5. On the three tier maintenance program plan, is there some kind of legislation needed to establish a tier reduction program rather than the usual pro-rated reductions usually implemented?

The Department would like to investigate this further, As Mr. Hickey sees it now the statutes provide the Commissioner with a great deal of latitude to make these decisions. The department has administrative procedures in place as well as regulations which require the department to receive public input and recommendations however, at the present time it does not appear that anything legislative would be required.

This will need to be looked into further.

6. You refer to an increase in legal liability because of the reduced maintenance, could you explain further?

The Commissioner stated the department will have to state the level of service it will provide. He feels that if in fact, a road is open, there is a responsibility to provide a minimum level of maintenance on the road. The Commissioner is not sure what this level is and he feels the department will need to consult with the Attorney General's office for legal direction. However, he has raised the question and feels it must be addressed.

7. How will user fees on the Dalton Highway affect the lift axle? If the axle is on the truck would there be a toll for this axle? How is the department addressing the overall lift axle question?

In terms of the toll charge, if the axle were down and used for weight carrying purposes, it would be charged at the same level - \$100/axle.

As far as the question on regulations, the department has suspended implementation of the regulation to give the department and the legislature a chance to look at some of the issues. There is considerable controversy about some of the issues and, frankly, with the rapid change in economic conditions this issue may require rethinking on how to phase in a proposal. The department still has some basic concerns. There are a lot of concerns about the safety of using the lift axle, the test performed by the department would suggest they are a problem and many drivers have stated to the department in hearings that they are a problem.

Enforcement is a problem because they are used for weight purposes at the scale houses and then in order to avoid wear and tear they are not used. The department is looking at a new proposal that would allow for lift axles to continue under certain conditions such as Washington has just done. Steerable as opposed to fixed Certification from the manufacturer that they are properly gauged to carry the weight they are carrying Controls on the outside only The department is still looking into this but feels this type of proposal may be acceptable.

3. Do you envision the \$20 million revenue from doubling the motor fuel tax coming back to municipal governments through some sort of statutory shared taxes or how do you envision this? How does the \$20 million relate to the actual cost of maintaining roads today?

The administration is going to propose legislation to provide for the pass back of this money. The total M & O cut talked about in Category 1 II and III is about \$10 million. With the cuts taken in the past plus this years \$10 million total cuts in the past few years in M & O will total about \$20 million. This therefore should be sufficient to offset these cuts.

9. Who would have to pay for use of the toll road?

The proposal is a new proposal and has a charge for light vehicles, this charge would be less but there would be a charge for any user of the road on a structured basis.

10. Where do you place schools in the three category system?

It would be categorized depending on whether the school is on a route. If the school is on a category III route we would be looking for the schools to take on the responsibility.

DOT may have to reconsider this categorizing and receive additional input.

Concerns were expressed by Senator Fischer about the roads to schools not being open and yet the constitutional requirement to provide education.

DOT will have to consider this.

11. Why is there an increase in the total dollars for the state equipment fleet, state planning and research and yet dramatic cuts are shown for M & O. What are the philosophical goals of the department?

The administrative sections, planning, research and administration is roughly 12% of the overall general fund dollars of the department budget. In FY 87 revised a large cut was made in these areas and none in AMHS and very little in O & M. The department would be willing to look at the budget more closely as the figures shown are not set. Until the department has a better feel for things such as the Capital Project cleanup they did not want to get rid of any available personnel.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

Bill Version: HB 62
Publish Date: _____

REQUEST: _____

Revision Date: _____
Title: "An Act...establishing the
Alaska Marine Highway Authority."
Sponsor: Cato
Requestor: Cato

Agency Affected: DOT&PF - AMHS
BRU: Marine Administration and
Marine Facilities Engineering
Components: Administration and
Engineering Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		187.7	187.1	207.0	217.4	228.3
TRAVEL		104.0	109.2	114.7	120.4	126.7
CONTRACTUAL		232.2	132.6	141.3	148.1	155.3
SUPPLIES		19.5	20.3	21.5	22.8	23.7
EQUIPMENT		20.5				
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		569.9	461.1	484.5	508.3	534.2
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		569.9	461.1	484.5	508.3	534.2
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		1	1	1	1	1
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

See Attached

Prepared by: ^{MSA} Mark S. Hickey, Deputy Commissioner, Operations Phone: 465-3900
Division: Commissioner's Office Date: 01/29/87

Approved by Commissioner: 1168. H.L. Loo Date: 1/2/87
Agency: Dept. of Transportation and Marine Facilities

Distribution (by preparer):

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- Impacted Agency(ies)
- Senate Secretary

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. 62

HB 62

FISCAL NOTE ANALYSIS

During FY 84, the Department of Transportation and Public Facilities completed a program of reorganization. Basically, the efforts were toward regionalization of the Department and decentralization of the functions within its operation. As a result, Marine Highway System became a "region" or a stand alone operating unit headed by a Deputy Commissioner.

After almost three years of operating at the new level, the Alaska Marine Highway System has shaken-down internally with planned organization adjustments to ensure all functions previously accomplished outside the System are covered. The current organization with a minimum of additional positions would be required for independent operation as the "Alaska Marine Highway Authority". The new positions required are identified on the attached Request for New Position forms.

No funds for the increased operation of vessels are being requested in this fiscal note. Such an increase would require additional funds whether the System is managed as an Authority or under the present organization within the Department of Transportation and Public Facilities.

It is assumed the Authority would continue to utilize the State Accounting System and other State computer resources, including those needed to support our Reservations Management System. The requirements will remain the same under the current organization or an Authority.

The following assumptions were made:

1. The legislation would take effect July 1, 1987.
2. The "Alaska Marine Highway Authority's" time and attendance, personnel, and leave accounting computer systems will be completed with existing funding and will interface with existing State systems.
3. There would be an annual appropriation for full operating costs of the Authority each year that would include all revenues generated (Program Receipts) and a General Fund subsidy appropriation to cover the balance of costs needed to maintain the currently budgeted level of vessel operating schedules.
4. An inflation factor of five percent has been included for future years beyond FY 88.

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. 62

5. The position of Deputy Commissioner would be converted to Executive Director and administrative support would be provided to the Board of Directors by the existing staff and the additional positions requested. No transfers of positions would be made from the Department of Transportation and Public Facilities.
6. The Authority would continue to use:
 - A. State-owned office buildings.
 - B. The State mail system
 - C. The State equipment fleet.
 - D. The statewide purchasing contracts (i.e. fuel).
 - E. "Shared" communications lines.
 - F. Insurance, bonding, etc., as now supplied.
 - G. Legal services from the Attorney General's Office.
7. The Directors of the Authority would meet an average of three days per month, or thirty-six days per year.

DETAIL OF FY 88 COSTS

MARINE ADMINISTRATION BRU

<u>Personal Services</u> - 1 PFT Position		\$ 53.3
Analyst/Programmer IV	\$ 53.3	
<u>Travel</u>		65.0
Transportation and per diem for seven directors to attend monthly meetings (3 days each in various locations statewide)	35.0	
Transportation and per diem for Executive Director, section chiefs, and other staff as required to attend monthly directors' meetings.	30.0	
<u>Contractual Services</u>		\$163.2
Professional Services		\$122.5
Transcription services for directors' meetings	\$ 2.5	
Annual audit by CPA	20.0	
Initial legal services	100.0	

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. 62

Contractual Services (Continued)

Communication	9.5
Local telephone service for new position	.5
Long distance telephone cost	2.0
Postage	5.0
Network connect fees for new terminal	2.0
Advertising, Printing and Binding	20.0
Printing, photography, etc.	5.0
Advertising of directors' meetings	5.0
Initial printing of stationery	10.0
Rental for Land, Buildings and Space	1.2
Room rental for directors' meetings	1.2
Other Expenditures and Services	10.0
Mail clerk services (to be RSA'd to DOT&PF)	10.0
<u>Supplies and Materials</u>	9.5
Office & Library Supplies	7.5
Routine supplies for new position and directors' meetings	
Data Processing Supplies	2.0
<u>Equipment</u>	10.5
Office equipment for new position	.5
Data processing equipment for new position	10.0
Marine Administration BRU TOTAL	<u>5301.5</u>

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. 62

MARINE FACILITIES ENGINEERING BRU

<u>Personal Services</u> - 3 PFT Positions		\$134.4
Maintenance Worker II	\$ 46.4	
2 Maintenance Worker I's	88.0	
<u>Travel</u>		39.0
Transportation and per diem for Maintenance Workers to perform maintenance of terminal facilities	39.0	
<u>Contractual Services</u>		75.0
Professional Services	50.0	
Environmental engineering, right-of-way, EEO compliance, etc. (Currently performed by DOT&PF)		
Minor Repair and Maintenance	25.0	
Minor repairs beyond the scope of work performed by Maintenance Workers		
<u>Supplies and Materials</u>		10.0
Repair & Maintenance Supplies	10.0	
Structural materials and minor tools as needed		
<u>Equipment</u>		10.0
Outfitting of maintenance shop		
Marine Facilities Engineering BRU TOTAL		\$268.4

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. 62

SUMMARY OF FY 88 COSTS

	<u>Marine Administration</u>	+	<u>Marine Fac. Engineering</u>	=	<u>Total</u>
Personal Services	53.3 (1 PFT)		134.4 (3 PFT)		187.7 (4 PFT)
Travel	65.0		39.0		104.0
Contractual Services	163.2		75.0		238.2
Supplies & Materials	9.5		10.0		19.5
Equipment	<u>10.5</u>		<u>10.0</u>		<u>20.5</u>
Totals	301.5	+	268.4	=	569.9

FY 89 COSTS

FY 88 costs include an inflationary increase of 5% after deletion of the following one-time costs:

<u>Contractual Services</u> (Marine Administration BRU)	\$110.0
Initial Legal Fees	\$100.0
Initial Printing Costs	10.0
<u>Equipment</u> (Both BRU's)	20.5

Position Title Analyst/Programmer IV		No. of Positions 1	Range/Step 19/A	Barg. Unit G
Time Status PFT	Staff Months 12.0	Location Juneau	Election District 04	
Justification				
Creation of an Authority would require data processing support services which are currently provided by the Department of Transportation and Public Facilities.				
This position will be responsible for systems maintenance and enhancement of the reservations system (KMS II) and other information systems specific to the Alaska Marine Highway Authority.				
Equipment costs include office equipment and necessary computer equipment (terminal, microcomputer, printer, etc.).				
Type of Expenditure		Amount		
1	2	3		
Salary	40,032			
Benefits	13,271			
Premium Pay				
Other				
Total Personal Services		53.3		
Travel				
Contractual		2.5		
Commodities		.5		
Equipment		10.5		
Other				
Total Cost		66.8		
Funding Source for Total Cost				
Federal Receipts	1002			
G. F. Match	1003			
General Fund	1004	66.8		
FA Receipts	1006			
CIP Receipts	1061			
Other				

**Request For
New Position**

Agency Dept. of Transportation and P.F.
Alaska Marine Highway System
BRU Marine Administration
Component Administration

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Revised Date

FY 88

Position Title		Maintenance Worker II	No. of Positions	1	Range/Step	54/A	Barg. Unit	LTC
Time Status	PFT	Staff Months	12.0		Location	Juneau	Election District	04
				Justification				
				The legislation exempts the Department of Transportation and Public Facilities from maintenance of the facilities operated by the Authority.				
				This position will serve as the lead for a maintenance team required to service Alaska Marine Highway System terminals, building, and docks.				
Type of Expenditure		Amount						
1		2		3				
Salary		32,391						
Benefits		11,064						
Premium Pay 10 hrs OT/mo.		2,990						
Other								
Total Personal Services				46.4				
Travel				13.0				
Contractual				.5				
Commodities				.5				
Equipment				1.0				
Other								
Total Cost				61.4				
Funding Source for Total Cost								
Federal Receipts		1002						
G. F. Match		1003						
General Fund		1004		61.4				
I A Receipts		1006						
CIP Receipts		1061						
Other								

**Request For
New Position**

Agency Dept. of Transportation and P.F.
Alaska Marine Highway System
BRU Marine Facilities Engineering
Component Engineering Management

Page 8 of 10
Revised Date

FY 88

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HB 62
Publish Date: _____

REQUEST _____

Revision Date: _____ Agency Affected: Division of Personnel
Title: An act relating to ferries and ferry terminals and establishing the Alaska Marine BRU: Personnel
Sponsor: Cato Highway Authority Components: Centralized Administrative Services
Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

There would be no fiscal impact on the Division of Personnel.

Prepared By: Diana DeSimone, Director *Diana DeSimone* Phone: 465-4430
Division: Division of Personnel Date: 1/28/87
Approved by Commissioner: Garner *Garner* Date: _____
Agency: Department of Administration

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

POSITION PAPER
HB 62

House Bill 62 establishes the Alaska Marine Highway Authority as an independent public corporation for the operation, management, planning and construction of the State's marine highway system.

Section 19.70.040 specifies that the authority shall hire an executive director and may employ additional staff as necessary. The proposed language clearly and appropriately places the employees of the Authority in the classified service. However, the status of the executive director and legal counsel are not clearly delineated.

"The executive director and legal counsel are in the exempt service under AS 39.25.110."

Also add another section to the bill which states:

"AS 39.25.110 is amended by adding a new paragraph to read:

(23) The executive director and legal counsel of the Alaska Marine Highway Authority."

The Department of Administration/Division of Personnel's position on this bill is neutral.

Diana DeSimone
Diana DeSimone, Director
Division of Personnel

1/30/87
Date

Garrey Peska
Commissioner Garrey Peska
Department of Administration

Date

THE PRECEDING PAGES WERE TREATED AS
A UNIT IN THE ORIGINAL FILE.