

**2/08/11  
PRESENTATIONS :  
MARINE  
TRANSPORTATION  
ADVISORY BOARD  
AND ALASKA  
MARINE HIGHWAY**

<TARGET><BILL></BILL><SUBJECT>2-08-11 PRESENTATIONS  
MARINE TRANSPORTATION ADVISORY BOARD AND ALASKA MARINE  
HIGHWAY</SUBJECT><COMM>STRA27</COMM></TARGET>

## Marine Transportation Advisory Board

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October 2010

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## Marine Transportation Advisory Board

Alaska Department of Transportation and Public Facilities  
P.O. Box 112500 • Juneau, AK 99811-2500

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Thank you Mr. Chairman/Madam Chair and members of the committees.

I appreciate the opportunity to stand before you today and talk about the priorities of the Marine Transportation Advisory Board and the future of the Alaska Marine Highway System. I am Mike Korsmo, MTAB Chair and a professional mariner. There are several MTAB Board members here today who represent the different regions within the Alaska Marine Highway System. If you look at the roster of MTAB Board members that I have provided, you will see that we are a very diverse group of Alaskans who take their responsibility to advise the ADOT&PF and the Governor on improvements to our marine transportation system very seriously.

MTAB was established in 2003 by Administrative Order and put into Alaska State Statute in 2008 under AS 19.65.110. We work closely with AMHS staff on short- and long-term planning as well as scheduling. We serve as a conduit from the public to the Administration. By statute the board may issue reports and recommendations in consultation with DOT&PF and submit to the department and the Governor a strategic plan which includes the mission, core values, objectives, initiatives, and performance goals of the Alaska Marine Highway System.

One year ago, we stood before you and talked about our recommendations for this past year. As I briefly review these three short-term goals please keep in mind that the Marine Highway staff can provide more specific details on how these goals were implemented and their successes.

**1. Operating the Kennicott on a full schedule May through September.** This has been an ongoing priority for MTAB and the 7 Aleutian Island communities served by the AMHS. Operating the Kennicott cross-gulf all summer, instead of tying her up for weeks at a time, allowed for twice a month service to those communities, and is vital to their economic, social and educational well being. This funding goal was accomplished last summer by AMHS with help from the Administration, and is now formally part of the next 3-year scheduling cycle. Because of this long-requested service change, there have been some changes to how the Kennicott will operate in the next three years, and I would like to let the AMHS Staff address that in detail. On behalf of the communities and traveling public, MTAB thanks you all for your support in achieving this goal.

**2. Operating the fast vehicle ferry (FVF) Fairweather on a full schedule in the spring (May/June).** This has been a very important service to Sitka and the Northern Panhandle as the busy summer seasons get cranked up. Once again the AMHS staff and Administration found a way to make this work; however ongoing operational issues with these vessels (FVF Fairweather and Chenega) are not allowing for long-range implementation of this goal. Once again, I will defer to AMHS Staff and Capt. Falvey to explain the status of the fast vehicle ferries and significant continuing mechanical issues. They have been working extremely hard to keep these

vessels operating and this has been greatly appreciated by the public they serve. The MTAB understands how integral these vessels are to the success of the overall system, and has continually stressed that they need to be there for the long term. Last year we requested that money be set aside for replacement engines. There is currently some forward progress being made regarding the mechanical challenges to the FVF engines that Capt. Falvey can address. There are also ongoing legal discussions as to who is responsible for the changes that need to be made to insure these vessels can keep operating. Later on I will talk about how important these vessels have become to Prince William Sound. This is a current priority that we respectfully request your support for.

**3. The 3<sup>rd</sup> short term goal was that additional money be put into the Vessel Replacement Fund to insure that we keep moving forward with the "Alaska Class Ferry Project".** Thanks to your efforts there is currently between \$50-60M in the fund, yet an additional \$60M is still needed to build the first vessel. The Administration requested the additional \$60M this past year in federal funding, but as you know, the project has been de-federalized and that federal money may no longer be available for this project due to possible procurement changes in support of building the Alaska Class vessel in-state. Constructing this vessel in-state will have significant economic benefits for the State. This leads me into the MTAB's work this past year.

One of MTAB's most important goals is to keep the State of Alaska moving forward to build desperately needed new, fuel- and operationally-efficient vessels. The AMHS fleet, with the exception of the Kennicott, Lituya, Fairweather and Chenega, are getting to the age where it is critical that we start replacing them. Every year it costs more and more money to maintain the older vessels and keep them up-to-date with current state, federal and contract requirements. Fortunately, a significant portion of these maintenance costs are paid for through federal programs, but we cannot rely on this source of funding into the future and the public can't rely on vessels that are regularly showing their age with schedule changing breakdowns. It is our desire that we secure the necessary funding to build the first Alaska Class Ferry (approximately \$60M) and annually put money into the Vessel Replacement Fund in order for the State of Alaska to continue replacing its aging fleet. We understand that this is a significant financial commitment, but it is essential that we maintain and improve the unique marine transportation system which is vital to the well being of the entire State of Alaska, not just its coastal communities.

We had hoped that the next new AMHS vessel would be under construction at this time; however, the pause in the project may have some benefits to the state. In December the board had a meeting in Ketchikan and also visited the Ketchikan shipyard (Alaska Ship and Drydock). ASD recently completed the MV Susitna, a ferry destined to be operated between the Municipality of Anchorage and the Mat-Su Borough. This project and the state's investment into Alaskan shipyard infrastructure has prompted a hard look at building a new AMHS vessel in-state. With the current ferry project being de-federalized we believe this gives the State an opportunity to look at building vessels in-state as well as out-of-state, depending on cost and timing.

At the Ketchikan meeting the board had discussions with AMHS staff and ASD shipyard management about methods of designing and building new ferries. This resulted in a MTAB

resolution recommending the State of Alaska pursue the Construction Management/General Contractor procurement method modified to suit the activity of shipbuilding, maximize the Alaska bidder preference, and continue work toward building the Alaska Class vessel as soon as is prudently possible. A copy of the resolution is in your packet. The benefits of building a vessel in-state are numerous and positive. By building the infrastructure and training the labor force to take on such a project, the state would put itself in a position to develop a much needed manufacturing base. This would only enhance our coastal economies and keep much of the marine build and repair business in state. It also will give us a leg up on such activities as we start looking more closely at Arctic Development and Shipment.

The bottom line is that MTAB strongly believes that we need to move forward with the Alaska Class Ferry project this year. AMHS staff needs to continue the process of design which we believe should incorporate the GM/GC procurement method. The State Legislature and the Administration is strongly urged to finish financing this project and to continue annual appropriations for further vessel replacement. If we don't act soon, make no mistake, we will be dealing with our marine transportation system in a crisis mode. This has happened in Washington State in recent years, and they are building new vessels to replace those that were forced out of their system due to age and deficiencies at a much higher cost because of the critical need for the service.

The MTAB also continues to work on long-term goals for the AMHS System.

1) We have worked with staff in developing the next 3-year scheduling cycle for continued consistency and public trust. This change alone has paid off very well for users of the system from Ketchikan to Kodiak and we have seen an increase in ridership as a result.

2) We have had several discussions with marketing staff and feel confident that their approach using the limited funds available is the right one. It has been proven that an increase in marketing funding has a direct impact on ridership and revenues, and we have discussed blending local marketing efforts with system wide marketing to maximize the exposure to the traveling public.

3) We continue to look for efficiencies in maintenance, labor, and operational costs as they continue to increase system wide.

4) We also have been looking at connecting transportation systems throughout the state and how they can be improved to insure the public can take advantage what the state has to offer. An example is a meeting we had in Cordova in September. The board was able to fly into Anchorage, take the Alaska Railroad to Whittier by lunchtime and ultimately end up by fast ferry (Chenega) in Cordova by early evening (4:30 pm). We then had a meeting the next day and flew out that evening to Anchorage and Juneau.

5) Another long-term goal is looking at the impacts of the system on our coastal communities and their connection to urban distribution hubs (cities). Because of the twice monthly Aleutian Island service in the proposed three-year schedule, seven communities can take advantage of Alaskan

businesses in Anchorage, Homer and Kodiak instead of barging from Seattle. Because of the impact of regular ferry service and especially fast ferry service in Cordova, residents there are able to do most of their purchasing in Anchorage instead of having to rely on expensive barge service out of Washington State. This service has also had a huge economic impact on lodges and recreational activities in the Prince William Sound area. There is probably not a better example of what improved AMHS service means to a region than in Prince William Sound. This was accomplished by Communities, AMHS staff, and MTAB all working together. Of course it could never happen without your support and it is an achievement to be proud of.

6) MTAB working with the AMHS staff continues to work on its ways to make sure the public can have input outside of the normal meeting schedules. We have launched a website that we will be updating meetings and provide the public with the newest information regarding scheduling, MTAB meetings and service changes. It will also provide contact information for the MTAB members. The web address is <http://www.dot.stste.ak.us>.

7) The board still has challenges with our ability to provide input on long range planning efforts with DOT/PF in a timely manner. While we have an excellent working relationship with AMHS staff the current long-range transportation planning is implemented through DOT&PF regions, several of which have marine highway components. Currently the Southeast Alaska Transportation Plan is being finalized and there seems to be a misunderstanding at ADOT&PF of what MTAB's role is in the process. It is our belief that when MTAB was formed in statute it was your intention that we have a major role in advising the marine components of the plan. While we have had discussions with planners at DOT&PF it was on an equal basis of any other organization that provided input to them through the public process and was occurring after the draft plan had been presented to the public. There has been one major improvement to the system this past year, and that is that AMHS has been allowed to bring in their own planner which will give them a dedicated person to work strictly on AMHS issues. We believe this is a big step forward in getting AMHS projects done in a timely manner.

8) Last but not least MTAB is currently working with the new DOT&PF Commissioner Marc Luiken in an advisory role to help select a new deputy commissioner. This is also a statutory obligation and we are taking it very seriously. Tomorrow morning we are having an MTAB meeting, and we will be discussing with the Commissioner what we believe are attributes essential to the deputy commissioner position. We will then be having an executive session to go over potential candidates and hopefully come out of that with a recommendation.

As a follow-up to that, we just want to acknowledge how much the MTAB board appreciated working with Deputy Commissioner Jim Beedle. I have heard him referred to as the poster boy for the Alaska Marine Highway and there are certainly few people who could better reflect what an ideal AMHS employee is. After 30 years as an employee Jim brought a wealth of knowledge and understanding to the position. He worked very closely with us and with his and Capt. Falvey's guidance the system has stabilized and improved. I hope you all got a chance to speak with Jim and if you did you have a much better idea of the complexities of operating a ferry

system over vast distances, with an aging fleet, and with comparatively small population base.

The Marine Transportation Advisory Board thanks you for your support of this complex system. Like many transportation modes in Alaska, it is a huge challenge to provide safe and reliable marine transportation for our coastal communities. Economic growth and stability for the State of Alaska is one of the State's core missions and also that of AMHS. AMHS has an impressive track record for safely delivering goods and people. Not only that but personally, as a mariner, AMHS is often the first responder at many of our maritime incidents. I would hope that there could be some recognition of this by the legislature and administration. Last year we provide you with a list of recent rescues and responses performed by AMHS crews. We do believe a special commendation is merited for their efforts.

Thanks again for your continued support for the AMHS, MTAB and the opportunity to share this update with you today. This concludes my remarks and I would be happy to answer any questions you may have.

On behalf of the Marine Transportation Advisory Board,

A handwritten signature in cursive script, appearing to read "Mike Korsmo".

Mike Korsmo, MTAB Chair

**Marine Transportation Advisory Board resolution supporting an expedited procurement process for the Alaska Class Ferry System, including consideration of the Construction Management/General Contractors (CM/GC) procurement process as the method for securing function detail design and construction of the Alaska Class Ferry**

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Whereas, the Marine Transportation Advisory Board is tasked by Alaska Statute to make recommendations to the Governor, Legislature and Alaska Department of Transportation and Public Facilities regarding the planning, mission, values and performance goals of the Alaska Marine Highway System, and;

Whereas, the Marine Transportation Advisory Board has recommended the immediate construction of new vessels for the Alaska Marine Highway System and support for building the Alaska Class vessel, and;

Whereas, the State of Alaska is ready and desires to procure marine vessel design and construction services to build the Alaska Class vessel in the best interest of the State, and;

Whereas, other procurement methods, where price is the sole or primary factor for determination of award, introduce risk to the State and the Contractor, and/or cause significant delay for development of bid documents, create an opportunity for artificially low bid documents, create an opportunity for artificially low bids, and potentially creates an adversarial relationship between the State and the Contractor, and;

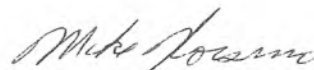
Whereas, discussions have indicated that the ship building industry and the bonding industry prefer the risk mitigation features of this process and may not be interested in competing on a price base award process, and;

Whereas, Construction Management/General Contractor mitigates risk for both the Owner and the Contractor and has a track record of bringing in large, complex projects close to projected budgets and schedules, and;

Whereas, Construction Management/General Contractor includes a competitive bid process and provides the State opportunity to reject the Guaranteed Maximum Price and take the project out to bid, and;


Whereas, constructing the Alaska Class vessel in a shipyard located in the State would create significant economic benefit to the State for the first and subsequent marine vessels procured by the state, and;

Therefore, be it resolved that the Marine Transportation Advisory Board recommends the State of Alaska pursue the Construction Management/General Contractor procurement method modified to suit the activity of shipbuilding, maximize the Alaska bidder's preference and continue work toward building the Alaska Class vessel as soon as is prudently possible.



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Mike Korsmo, Chair



**Department of Transportation & Public Facilities**  
**Alaska Marine Highway System**

**Joint House/Senate Transportation Committee**  
Captain John Falvey, General Manager, AMHS


February 8, 2011



**Our Mission**

**The mission of the Alaska Marine Highway System** is to provide safe, reliable, and efficient transportation of people, goods, and vehicles among Alaska communities, Canada, and the "Lower 48," while providing opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education, and health needs.


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## Overview – Fiscal Year 10/11

- Achievements
  - Increased Traffic
  - Managing to the Budget
  - Early Schedule Release / On-time Departures
  - Vessel Satellite Communications
  - Fuel Efficiency Infrastructure
  - OARS Increased Use
  - Marketing Outreach
  - New Service:
    - Bellingham-Whittier Express
    - Gustavus


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## Overview – Fiscal Year 10/11

- Challenges
  - Vessel Operations
  - Revenue Enhancement
  - Operating Cost Containment
  - Vessel Retirement
  - Vessel Replacement
  - Mid-life Engine Replacements
  - Reservation System Upgrade
  - Funding Recap


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## Overview – Fiscal Year 10/11

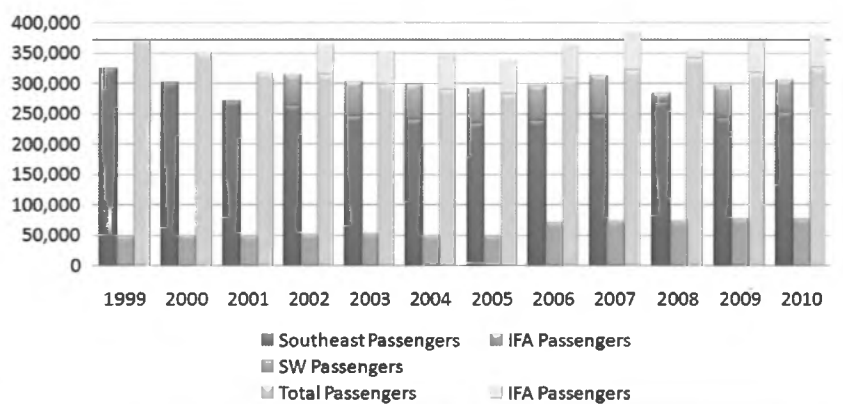
- Alaska Class Ferry
  - Administration Support
  - Status Update
  - Looking Forward

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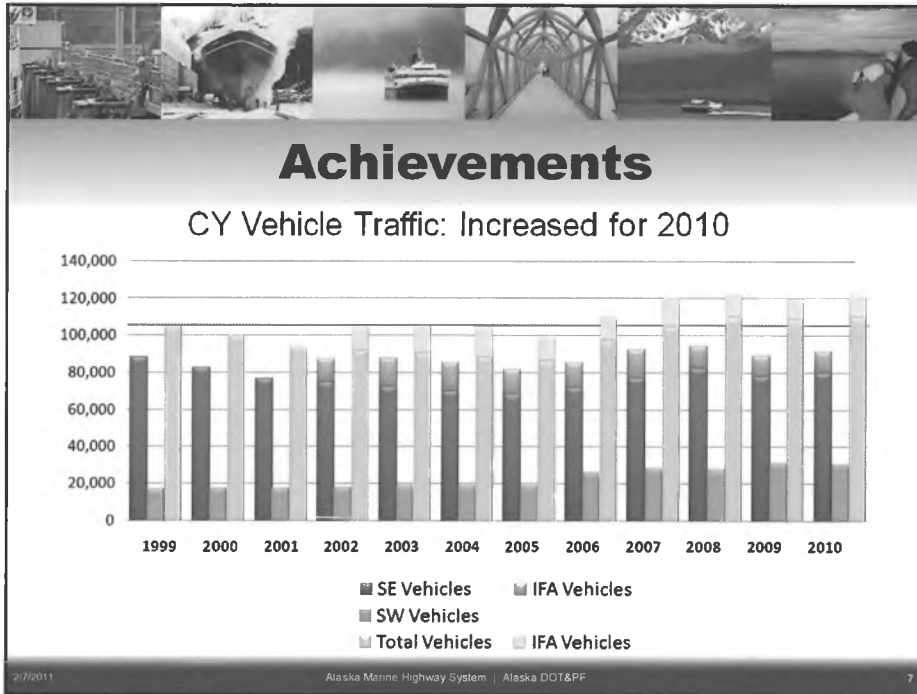
## Achievements

### CY Passenger Traffic: Increased for 2010




Year	Southeast Passengers	SW Passengers	Total Passengers	IFA Passengers
1999	280,000	40,000	320,000	0
2000	260,000	40,000	300,000	0
2001	230,000	40,000	270,000	0
2002	270,000	40,000	310,000	0
2003	250,000	40,000	290,000	0
2004	240,000	40,000	280,000	0
2005	230,000	40,000	270,000	0
2006	240,000	40,000	280,000	0
2007	250,000	40,000	290,000	0
2008	230,000	40,000	270,000	0
2009	240,000	40,000	280,000	0
2010	260,000	40,000	300,000	0

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- ### Achievements
- Managing to the Budget
    - No operational supplemental requests in 2010
    - No operational supplemental requests to date in 2011
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## Achievements

- **Early Schedule Release / On-time Departures**
  - For the past 2 years:
    - Winter schedule (Oct-April)
      - Released in the first week of July of the schedule year
      - Public process begins in May
    - Summer Schedule (May-Sept)
      - Released in the first week of October prior to the schedule year
      - Public Process begins in July
  - The earliest possible schedule releases are of the foremost importance to the traveling public.
  - On-Time Departures / Customer Satisfaction

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## Achievements

- Vessel Satellite Communications
  - Operational Systems:
    - Kennicott
    - Matanuska
    - Aurora
    - Malaspina
    - Tustumena
    - Lituya
    - Columbia
      - ♦ The satellite dome is being relocated during the current layup period
  - Pending Systems:
    - LeConte
      - ♦ To be installed 03/11
    - Taku
      - ♦ To be installed 03/11
  - Vessel Tracking Project in development
    - Individual vessels to be brought online commencing April, 1

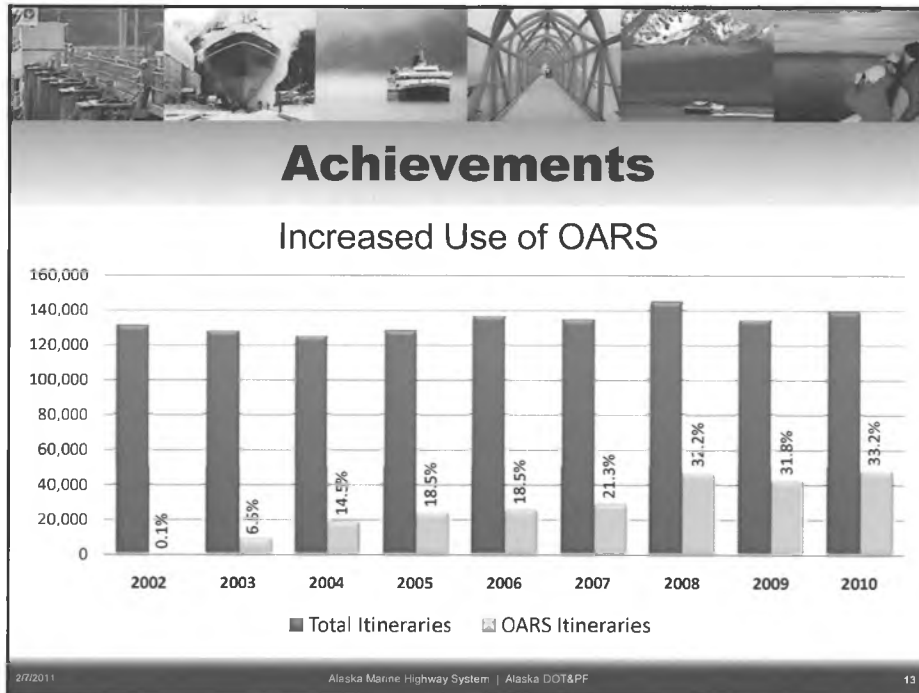
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## Achievements

- Fuel Efficiency Infrastructure
  - Tustumena
    - Installed: 05/09
    - Commissioned: 05/09
  - Aurora
    - Installed: 06/08
    - Commissioned: 06/08
  - Columbia
    - Installed: 06/10
    - Commissioned: 09/10
  - Kennicott
    - Installed: 06/08
    - Commissioned: 06/08
  - Matanuska
    - Installed: 02/10
    - Commissioned: 03/11
      - ♦ Pending CCP proofing
  - Current Savings Average 12%


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**Achievements**

- **Marketing Outreach**
  - Expanded overall outreach in 2010 with the addition of Social Media, continued online advertising and web promotion.
  - Implemented Visual Standards throughout organization to reinforce and validate the AMHS Brand.
  - Continue to build cohesive relationships with communities and marketing partnerships
  - Achieved a 24% increase in website hits over the previous year.
    - 68 million hits in 2010
  - Experienced increased ridership in the shoulder seasons and overall in 2010
  - Successfully implemented new service offerings for the summer of 2011
    - Creating New Business while maintaining service levels to communities
    - Bellingham-Whittier Express Route & Gustavus Service


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## Achievements

- **Gustavus**
  - The new multi-use docking facility was built by SOA DOT&PF. AMHS will be providing maintenance on the ramp and apron, standby generator and electro-hydraulics
    - The facility will also be utilized by barge lines, and private boating/tour companies.
  - Inaugural voyage was on November 23, 2010
  - It is our intent to provide once monthly service to Gustavus throughout the winter months
  - Service to Gustavus will transition to twice weekly service for the majority of the summer months.
  - The community of Gustavus is very excited and supportive of the service as is the visitor industry.


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## Challenges

- **Vessel Operations**
  - Continue with the concept of uniform, consistent schedules on a year by year basis while actively working with Alaskan communities to best meet the needs of the State.
  - The uncertainty surrounding the future operation of the fast ferries Chenega and Fairweather
  - Continued improvement in vessel dependability


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## Challenges

- Revenue Enhancement
  - Goal: Increase passenger and vehicle traffic to all ports
    - Earliest possible schedule release dates
      - Maximize booking potential
    - Travel Agent Relationships
    - Continue to work with SOA on internet tools available for Marketing


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## Challenges

- Operating Cost Containment
  - Major Cost Elements
    - Payroll: 62% of Cost
      - Costs determined in collective bargaining with the exception of health care and pension unfunded portion
      - Maintain efficient crew size to minimize hold over/early call back OT
    - Fuel: 21% of Cost
      - Continue implementing fuel efficiency technology: expected savings 12-15% of fuel burn
      - Rising Fuel Cost: Average price per gallon
    - Continue to grow online reservation booking
    - Ensure safe operations to maintain low self insurance cost

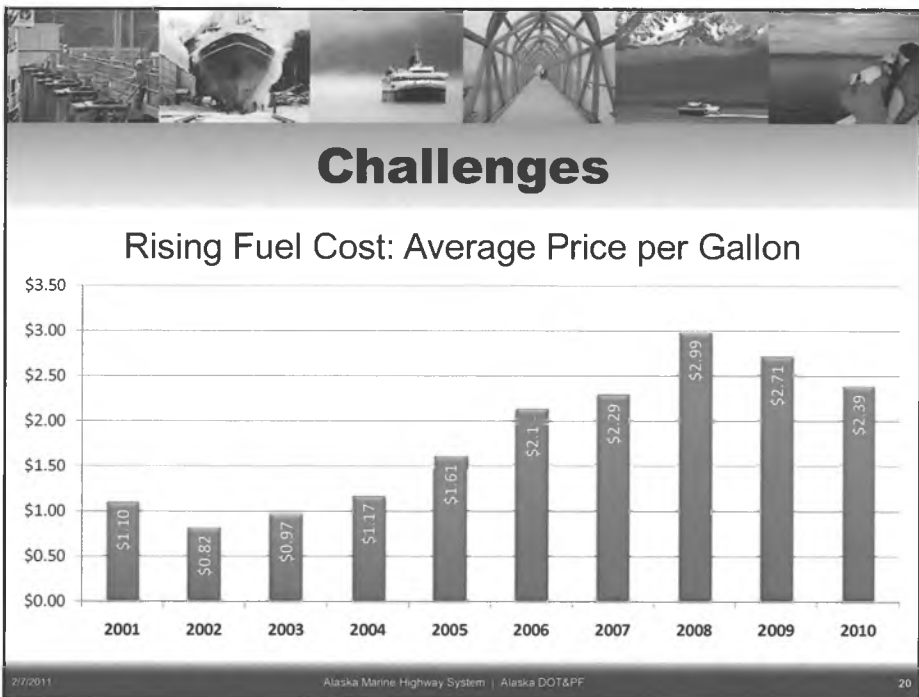
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## Challenges

- Fuel Efficiency Infrastructure
  - Taku
    - Installed: 04/11
    - Commissioned: 07/11
      - Next CIP Project
  - LeConte
    - Installed: 04/11
    - Commissioned: 07/11
      - Next CIP Project
  - Malaspina
    - Installed: 05/11
    - Commissioned: 08/11
      - Currently In Design

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## Challenges



- Vessel Retirement
  - Four vessels constructed in the early 1960's are nearing the end of their useful lives:
    - Matanuska (1963): SOLAS qualified mainliner, primarily serves SE route; Prince Rupert-Lynn Canal
    - Malaspina (1963): Mainliner operates as a summer day boat in Lynn Canal, Bellingham run in winter
    - Taku (1963): Mainliner provides SE Alaska service from Prince Rupert north
    - Tustumena (1964): Ocean going vessel serving SW Alaska and the Aleutian Chain

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## Challenges

- Vessel Retirement
  - Matanuska (1963)
    - Passengers: 499
    - Vehicles: 88






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## Challenges

- Vessel Retirement
  - Malaspina (1963)
    - Passengers: 499
    - Vehicles: 88





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## Challenges

- Vessel Retirement
  - Taku (1963)
    - Passengers: 370
    - Vehicles: 69





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## Challenges

- Vessel Retirement
  - Tustumena (1964)
    - Passengers: 174
    - Vehicles: 38


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## Challenges

- Vessel Replacement
  - Construct three Alaska Class Ferries allowing retirement of 2 of the 3 vessels constructed in 1963. Vessels to be retired will depend upon whether SOLAS waivers can be obtained for the Malaspina and/or Columbia required for entry into Canada, currently being pursued, as well as the condition of each vessel.
  - Initiate design process for Tustumena replacement

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## Challenges

- Mid-life Engine Replacements
  - Mid-life engine replacements for Columbia, Aurora, and potentially Malaspina depending on vessel replacement implementation.


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## Challenges

- Reservation System Upgrade
  - Existing RMSIII software is approaching 15 years old
    - Mainframe application, past it's useful life
  - Looking to develop a system that is more user-friendly, efficient, and complimentary to our marketing efforts
  - Progress to date includes:
    - Business process mapping
    - Rewrite of Customer Policies and Procedures
    - RFP on street for project manager
  - Estimated completion date September 2012


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## Funding Recap

- Operating Budget: Maintain Current Levels of Service
  - Approximate Required General Fund Appropriation \$100 M
- Capital Requirements
  - Federal Funds: Life extending projects for vessels and terminals \$22-25 M annually
  - State General Funds: For annual vessel COI requirements, deferred maintenance, other \$13-15 M annually
  - Vessel mid-life engine repairs \$25 M per vessel; currently, 3 vessels nearing end of life on original engines
  - Vessel Replacement Fund: Alaska Class Ferries estimated at \$120 M per vessel, Tustumena Replacement- \$200 M


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## Alaska Class Ferry


- Governor supports construction of the Alaska Class Ferry
  - Initial \$60M of State funds
  - De-federalization of \$60M Federal funds
    - Allows more state flexibility in the procurement process
    - Supports an in-state bidder preference
  - Supported land transfer with AIDEA/DOT at Ketchikan Shipyard (creating added shipyard acreage) allowing more flexibility to construct the Alaska Class Ferry
    - Supported functional replacement Phase I at Ward Cove - \$3.4M
      - Office and Warehouse Space for the Alaska Marine Highway System
      - Expansion creates potential for 250 full-time positions at Ketchikan Shipyard
  - The Administration supports a competitive bidding process

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## Alaska Class Ferry

- Project Status Update
  - Preliminary Design complete
    - Successful Public Process
      - Public Meetings throughout Alaska
      - Transparent process enhanced via up-to-date website for public participation and data access: [http://www.dot.state.ak.us/amhs/alaska\\_class/index.html](http://www.dot.state.ak.us/amhs/alaska_class/index.html)
    - In-house technical design process
      - Steering Committee including management, vessel employees representing all three maritime unions and outside contractors
  - Functional Design in process
    - Technical details of the ship's systems are being developed into detailed construction drawings
    - Currently at 10% completion



## Alaska Class Ferry

- Looking Forward:
  - Identify the procurement process
  - Complete Functional Design
  - Finalize an estimated cost
  - Initiate the construction process