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TABLE 5.6

LONG-TERM SYSTEM OPTIONS -
'REDUCED INVESTMENT' SCENARIOS
USER TRAVEL TIME IMPACTS
AND REQUIRED VALUE OF TIME

Option	Change in Travel Time[1] (million hours)	Required Total Time Value[2] ($millions)	Required Hourly Time Value ($/h)
LYNN			
- Road	-10.2	45.7	< 4.48
- Shuttle	+ 0.2	(62.1)	<310.50
SITKA			
- Baranof	+ 3.1	(10.6)	< 3.42
- Rodman	+ 3.5	(24.7)	< 7.06
- Shuttle	- 0.7	(72.3)	Ø
PRINCE OF WALES			
- Tolstoi Bay	+ 2.7	(90.8)	< 33.63
- Red Bay	+ 1.3	(46.8)	< 36.00
- Shuttle	+ 0.4	(99.1)	<247.75
- Loop	+ 2.0	(98.5)	< 49.25

1) Relative to 'June 1980 Plan' option.
2) Net total of user and government cost increases - brackets denote net cost savings.

requiring only that travel time be valued at less than $30 to $50 per hour in order for cost savings to outweigh travel time increases. The Sitka road options are less attractive since they involve both greater increases in travel time and lower savings in monetary costs. Travel time value must be less than $7.06 per hour in the Rodman Bay case and less than $3.42 per hour in the Baranof option.

The remaining option, the Lynn road, is more difficult to rank against the other options because it involves travel time savings (as opposed to increases) offset by monetary costs. In this instance, the road option would prove viable as long as the value of travel time savings exceeded $4.48 per hour.

5.3.3 - Summary

The assessment of long-term surface system options indicates a number of pertinent points. These may be highlighted as follows.

- If the system goal is to meet all projected demand for surface transportation, substantial investment will be required in new facilities, and increased costs will be incurred by the Marine Highway and by the state.

- The least costly methods (in monetary terms) of meeting this demand can be achieved by making changes in service to Prince of Wales Island (either by building a new terminal at Tolstoi Bay at a total Regional System cost of $574 million or by introducing high-speed ferry service out of Hollis at a cost of approximately $571 million). These options are followed (in order of increasing cost) by the base case June 1980 Plan option ($584 million), the Sitka shuttle option ($600 million), the Red Bay terminal ($618 million) and the Lynn shuttle ($619 million). The Petersburg road option, although costing only $607 million, does not really rank with the preceding cases as it does not meet Seattle demand to the same extent.

- If a lower capacity to meet demand can be accepted within the system (specifically by treating combined Seattle and Prince Rupert vehicle demand as a single unit and requiring that both ports be at capacity before new vessels are acquired), the Marine Highway and state can achieve significant cost savings. Total state costs under these 'reduced investment' scenarios range from $485 million for cases involving high-speed ferry service to Hollis to $570 million for the Sitka-Baranof road option. Only the Lynn road, at $703 million, remains more costly than the 'June 1980 Plan - meet demand' scenario.

- In terms of service-cost effectiveness, where each new system option is compared with the June 1980 Plan in terms of user cost, travel time and cost to the government, several 'meet demand' options appear to be potentially more attractive than the June 1980 Plan, primarily as a result of improved service quality which offsets the increased costs (or, in the Prince of Wales cases, enhances the cost savings). In declining order of preference, these would be Prince of Wales high-speed ferries, Tolstoi Bay terminal, Sitka shuttle, Lynn shuttle, and Lynn road.

- Service-cost effectiveness evaluations for the 'reduced investment' scenarios indicate even more significant advantages from several of the options relative to the June 1980 Plan case since the negative impacts of these scenarios (in terms of costs of unmet demand and increases in travel time) are sufficiently small that they are unlikely to outweigh the significant government cost savings. Rankings of the 'reduced investment' options were somewhat different than the 'meet demand' cases, with the Sitka shuttle achieving the highest ranking followed by the Lynn shuttle, the Prince of Wales shuttle, and the other Prince of Wales system options.

6 - CONCLUSIONS

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6.1 - Summary of Findings

One of the main objectives of the definition and assessment of surface system alternatives was to provide a quantitative basis for selecting from among a number of technical and operational alternatives those options which offered the greatest improvement in 'service' relative to cost. A second objective, however, was to provide information with regard to the trade-offs associated with the conflicting pressures to maximize service and to keep costs at a reasonable level.

With these considerations in mind, the more significant findings from the analysis may be summarized as follows.

Short-Term

- Of the options available to improve system capacity and service in the near future, the most attractive overall involve maximizing use of existing vessels. At existing fare levels, the Marine Highway cannot generate sufficient revenues to offset the capital cost of new mainline vessels. Therefore, options involving new vessel acquisition generally result in higher system deficits.

- Increasing service to Seattle improves the financial picture from the viewpoint of the AMHS and, to a point, offers a better matching of capacity and demand. Marine Highway ratios of revenue to operating cost are highest on the Seattle route due to the high load factors, the relatively high fare levels, and the berth revenue.

- Too heavy a focus on Seattle service, however, leads to lower service levels within Southeast Alaska and potentially to capacity problems on some links in the system (in particular Ketchikan-Petersburg and Juneau-Haines).

- The most attractive of the options considered involves operating both the Matanuska and Columbia out of Seattle during the peak season. However, this leads to vehicle capacity problems in the Prince Rupert to Petersburg corridor.

  These problems could be mitigated by operating the Aurora between Prince Rupert and Petersburg where she would run full-time at near-capacity load factors.

- Moving the Aurora creates a gap in terms of service to Hollis and, under current plans, in service to Hyder and Metlakatla. This problem could be alleviated by purchasing one or two small high-speed catamarans to serve the Hollis-Ketchikan-Metlakatla routes.

Long-Term

- In the long-term, a wider variety of options are open in terms of improving capacity and service.

- The most costly long-term options are those which attempt to meet projected demand since all involve substantial investment in roads and/or new mainline ferries.

- Substantial savings can be generated by accepting a reduction in the service of demand out of Seattle, particularly with regard to vehicle traffic which could, presumably, transfer to Prince Rupert.

- If full demand is to be met, the most attractive options involve changes in service to Prince of Wales Island either by building a terminal at Tolstoi Bay or by instituting high-speed ferry service to Hollis. While this option still requires two new mainline vessels over the 20-year planning period, it allows deferral of a third mainline vessel by freeing the Aurora to operate more frequently in the Prince Rupert-Petersburg corridor.

- If a reduced level of service is accepted in terms of meeting Seattle demand, the government can obtain substantial cost savings under certain options without creating undue impacts on users either in terms of unmet demand or service quality. The most attractive option under these 'reduced investment' scenarios is to terminate mainline service to Sitka and provide high-speed ferry service as a substitute. Next in attractiveness is to substitute a high-speed ferry for mainline service up the Lynn Canal. These two options are followed in attractiveness by the 'reduced investment' versions of the Prince of Wales options relating to Tolstoi Bay and to high-speed ferries.

6.2 - Conclusions

The preceeding summary highlights two issues from the viewpoint of establishing a Regional Transportation Plan. First, there are technical and operational options available in both the short and long term which represent more service-cost effective solutions than the existing system and the June 1980 Mainline Service system respectively.

Secondly, in terms of balancing between service-related (meet demand) and cost-related goals, an attempt to meet all future demand (i.e., fully satisfy the service related goals) results in substantial penalties in terms of keeping government expenditures under control. However, a relatively small compromise in terms of meeting demand, particularly out of the southern termini, results in substantial cost savings to the government without causing major penalties in terms of user service levels.

With these factors in mind, the following proposals are put forward as a plan of action for the provision of surface transportation services. It will be noted that the proposed systems represent a hybrid of several systems alternatives, drawing, where possible, on the best aspects of the preferred systems and using aspects of other systems to offset perceived problems.

Short-Term

- Additional service should be provided to Seattle. This improves the Marine Highway's financial position and directs more capacity towards the higher demand routes.

- To make up for the lost services of a mainline vessel within the region, the Aurora should be drawn into a truncated mainline service out of Prince Rupert.

- The Aurora's current routes in the Prince of Wales-Clarence Straits region should be served by two new high-speed catamaran-type vessels. These involve a minimum capital cost (in the range of $3 million each) and could provide a higher service level on these routes.

Long-Term

- The best results in terms of 'focus' options arise under the 'reduced investment' scenarios, in particular those which involve using two high-speed craft to serve either Sitka or the Lynn Canal and those which involve changes in Prince of Wales service.

- The Prince of Wales high-speed service proposed in the short-term therefore appears to have long-term viability and should be maintained.

- Some of the scheduling and service benefits of high-speed service to Sitka and the Lynn could be retained if only a single high-speed ferry were assigned to each in combination with a reduced level of mainline service. This is particularly true in the Sitka case where a Sitka-Petersburg high-speed service would not attract sufficient traffic to be viable on its own merits.

- It is therefore recommended that two large SES-type high-speed ferries be acquired, one to provide daily round trip service between Sitka and Juneau, calling at Angoon, Hoonah and Tenakee Springs, and the second to

provide twice-daily round trip service from Juneau to Haines and Skagway.

- The open jaw routes which were proposed out of Seattle under the Sitka and Lynn Focus options could be split between two mainline vessels with the Matanuska serving Sitka but not the Lynn and the Columbia serving the Lynn but not Sitka.

- The LeConte could provide increased service in the Sitka-Petersburg corridor and into Pelican as well as supplemental and heavy-freight service into the Juneau-Sitka corridor.

- The remaining vessels could provide increased service between Prince Rupert and Skagway to increase the system's total vehicle-carrying capacity as well as service frequency in the mainline corridor.

- Under this option, the decision on acquiring a new mainline ferry could be deferred until the mid to late 1990s. This reduces the Marine Highway's cash flow requirements and also reduces the risks that a new vessel will be underutilized if demand does not materialize or if private operators achieve substantial market penetration.

APPENDIX A

EVALUATION METHODOLOGY

APPENDIX A

EVALUATION METHODOLOGY

A1 - GENERAL

The general method used to assess corridor alternatives consisted of five main steps

- Forecast expected travel demand in the corridor over the next 20 years;
- Define a range of possible methods of meeting this demand, and the equipment and/or infrastructure necessary to serve the traffic under each method;
- Determine the associated capital and operating costs and revenues;
- Calculate the financial impacts of each alternative from the viewpoint of the operator, the government and the user;
- Calculate the service/cost effectiveness of each alternative and select the preferred option(s).

Each of these steps is described in greater detail in the following sections.

A2 - TRAVEL DEMAND

The forecasting of travel demand both within the Southeast Region as a whole and within particular corridors of the Region involved first analyzing the

existing patterns of traffic for both surface (marine, road) and air modes and identifying the factors which would cause this traffic to grow and change in the future.

Since the data regarding existing travel patterns was limited, this analysis was kept at a relatively simple level. Three factors were identified as the key issues impacting future travel demand. These were: regional population growth, growth in tourism, and changes in transportation service. The first two factors were deemed to cause general growth within the existing patterns of travel demand (or growth in 'base traffic') while the third was deemed to either increase or decrease the 'base traffic' demand within particular corridors.

To forecast 'base traffic' demand (i.e., demand in the absence of service changes) existing travel was separated, on the basis of survey data, into tourist and nontourist traffic. This separation was done on a seasonal basis (in order to reflect the higher summer peaking in tourist travel) for both marine highway and air services. Tourist and nontourist components of existing traffic were then forecast, the former on the basis of expected growth in tourism travel to Alaska and the latter on the basis of expected population growth in the Southeast Region.

The growth rates assumed for tourism travel and for regional population were based on historic growth rates, tempered by concerns that with declining revenues and potential declines in government spending, these growth rates could not be maintained over the long-term. Consequently, tourism was assumed to grow at 4.5% annually to 1990 and at 2.5% annually thereafter. Regional population was assumed to grow at 2.8% per year to 1990, tapering off to 1% thereafter.

Over and above these population and tourism based growth rates, there was a special additional growth applied to air traffic, amounting to 1.4% per year. This additional growth reflected the long-term increase in the propensity of travelers to use the air mode--an increase which has generated growth in air traffic above and beyond that which can be explained by population and tourism growth alone.

The origin-destination patterns of this future 'base traffic' demand were assumed to follow the existing pattern of movements to, from and within the region. Therefore a growth in marine highway tourist demand, for example, would cause a corresponding percentage growth in traffic on all marine highway tourist-serving routes.

Once this 'base traffic' load had been calculated for the system and for the various corridors, adjustments were made to corridor demand to reflect the different service levels associated with corridor alternatives. These adjustments included diversion of traffic to a different port, loss of traffic, transfer between modes, and increases in traffic due to improved access depending on the service scenario. The particular adjustments associated with each corridor option are outlined in detail as part of the description of alternatives (Section A3).

A3 - DEFINITION AND DESCRIPTION OF CORRIDOR ALTERNATIVES

Having established the potential traffic demand within a corridor, the existing surface transportation service was reviewed and alternative road and marine options proposed which would increase capacity and or reduce operations costs. These alternative options were drawn from community suggestions, proposals put forward by the Department of Transportation, and new proposals put forward by the consultant.

An effort was made to develop a wide variety of corridor options in order to provide a range of costs and impacts for comparison purposes. Both capital (new roads, new ferries) and operational (new schedules) options were included when appropriate. In all cases the alternatives included a base-case 'no change' option against which new options could be assessed.

Once the corridor options had been defined, a detailed operating and investment schedule was laid out for each alternative specifying the traffic

to be served, the way in which it would be served, the timing of new road and new vessel requirements, and the operating schedules and procedures within the corridor. Traffic and operating procedures were both specified on a seasonal basis.

A4 - DEVELOPMENT OF COST DATA

Capital Costs - Roads

Capital costs for new road links were based on the Department of Transportation's per-mile costs of construction over various types of terr· n. Routes were specified through detailed analysis of relief maps, through discussion with DOT/PF engineers and, where possible, through inspectior of the area. Road links were then broken down into segments based on the severity of terrain and degree of construction difficulty, and the appropriate per-mile costs were applied.

Special structures such as bridges, tunnels, snowsheds, etc, were costed independently and included in total cost where required.

Capital Costs - Marine

Capital costs for marine facilities and equipment included costs of new terminal facilities, capital costs associated with the existing ships, and capital costs associated with new shuttle ferries, mainline ferries and high-speed craft. In the first two cases capital costs were based on Marine Highway data regarding terminal construction costs and expected replacement value of the existing fleet. In the case of new vessels, typical current construction costs for the type of vessel required were developed through discussions with shipyards, brokers, and manufacturers.

Operating Costs - Road

Operating costs for the road links included regular maintenance and winter snow removal. They were based on the actual costs per mile incurred by the DOT/PF.

Operating Costs - Marine

The operating costs for existing vessels and terminal facilities were based on the actual experience of the Marine Highway. Vessel costs were segregated into annual costs (major maintenance, overheads) seasonal costs (crew, stores and supplies) and daily costs (primarily fuel).

Operating costs for new vessels were based on Marine Highway experience in the case of mainline ferries, and on discussions with builders and other operators in the case of shuttle ferries and high-speed craft.

User Costs

Costs to users fall into three main categories: fares on existing ferries, fares on new ferries or new ferry routes, and vehicle operating costs on road links.

Fares on the existing ferry system were based on the current summer and winter rates for the Marine Highway. For new routes on existing vessels, fares were assumed to be the same per-mile as on current routes.

For new types of equipment (shuttle ferries, high-speed craft) it was initially assumed that fares would be set on the same basis as current ferry charges; that is, that fares would have to cover at least half of the total operating costs (excluding capital) of the new vessels. However, later analysis indicated that new vessels serving as a substitute for existing vessels generated sufficient savings elsewhere in the system that their fares could be maintained at existing fare levels and still lead to an overall improvement in the system operating cost recovery.

Accordingly current fare levels were used for traffic on these new vessels.

Vehicle operating costs on road links were based on the variable portion of average per-mile operating costs for mid-size automobiles. This was felt to be a fair representation of the mix of vehicles likely to be using the road. In actual fact, owners of vans and campers would pay more while owners of small cars would pay less.

In cases where corridor options required vehicles to divert from one port to another, vehicle operating costs were increased to include overnight accommodation if the diversion involved more than 12 hours driving time.

A5 - FINANCIAL ANALYSIS

The traffic, operating and cost data bases described above were then drawn together into a year-by-year financial analysis of each corridor alternative. Capital costs for roads, vessels and terminal facilities were assigned to the years in which they would be incurred. Road operating costs were based on miles of road in service, while marine operating costs were derived from the proposed Marine Highway schedules under each option.

User costs for each year were determined by first calculating the number of vehicles using the road links (either as a result of being diverted to another port and/or as a result of a new road link being available), and multiplying this number by the cost per vehicle over the relevant distance. A revised ferry demand matrix was then calculated (taking into account diverted and/or lost ferry traffic) and multiplied by the fares matrix to determine total fares paid to the Marine Highway.

The annual financial flows were then discounted at an interest rate of 5% to determine the net present value of capital, operating and user costs under each scenario.

A6 - EVALUATION OF SERVICE/COST EFFECTIVENESS

The financial evaluations provided an indication of the total costs to operators and users associated with the various corridor alternatives. They did not, however, reflect the differences among alternatives in terms of ability to serve demand and the quality of service provided.

In order to account for these differences, each corridor alternative was compared with the corridor 'base case' (which represented continuation of existing service) with respect to the number of passengers and vehicles served, the cost per user served, and the average travel time (including delays related to frequency of service). Appropriate values were assigned to the 'service' differences between the alternatives and the base case to represent the incremental benefit (cost) to the user. These user benefits (or costs) were then compared with the incremental cost (or cost saving) to the government to form a basis for evaluating service/cost effectiveness.

The approach to assigning values to 'service' differences varied somewhat between corridors due to the different focuses of the corridor alternatives. In the Lynn corridor, for example, the focus was on improving service through new modes and on generating traffic over and above existing demand. Measures were therefore required for the value of time and cost savings to existing and to new traffic. In the Ketchikan corridor, the focus was on the existing ferry system and on trying to adjust schedules so as to meet a higher portion of current demand in a cost-effective manner, and measures were primarily required for the costs of not meeting traffic needs or of meeting needs by diverting traffic to other ports.

In general, the following principles were used in assigning values to service differences.

- Cost savings to existing traffic - include the full dollar value of saving.

- Cost savings to new traffic - include half of the difference between the fare (or travel cost) under the new option and the fare applicable under the base case (this presumes that traffic attracted as a result of less expensive service assigns a lower value to the trip).

- Cost of failing to meeting demand - include the average surplus which the user would have enjoyed if space had been available. Surplus was calculated by postulating the shape of the demand curve for service and calculating the average difference between the maximum which users would have been willing to pay for the trip and the fares which would normally have been charged. (This is discussed in greater detail in Appendix B.)

- Costs to diverted traffic - assume that users diverted to another port attribute a cost to the diversion equivalent to any out-of-pocket savings associated with using the new port. Thus users moved from one port to another were assumed to incur neither benefits nor costs. This assumption was necessary because the total trip cost from Seattle was lower via road to Prince Rupert than via direct ferry, yet demand continues to be strong out of Seattle. There is, therefore, some nonmonetary advantage to the direct ferry trip which offsets cost savings associated with diverting to Prince Rupert. This nonmonetary advantage could best be accounted for by assuming that diverted passengers assigned equal cost to trips out of either port.

- Time savings to existing traffic - include the full number of hours saved in total travel time (sailing time, port time and delays related to schedule frequency).

- Time savings to new traffic - include one half of the difference between total travel time under the new option and total travel time under the base case.

The user cost impacts (whether positive or negative) were calculated for each corridor option relative to the corridor base case. Total savings (or increases in user costs were then compared with the total additional cost (or saving) to the government associated with the new service.

If an option showed both lower user costs and lower government costs than the corridor base case, it was clearly preferable to both parties. If it showed higher costs to both users and the state, it would not be attractive to either party. If one group's costs increased while the other group's cost declined, then the preferred options were deemed to be those which yielded the highest user benefits (or lowest user costs) per dollar of government expenditure (or government cost saving).

Where time savings were a major factor in the benefits, an imputed value of time saved was calculated by comparing the number of hours saved with the net cost of providing the saving. This provided a measure of the value which must be assigned to time savings in order for project benefits to equal costs. The options which required the lowest hourly values to be assigned to time savings were chosen as the preferred options. (Additional discussion of the calculation of time savings is provided in Appendix B.)

APPENDIX B

EVALUATION OF USER IMPACTS – CORRIDOR AND SYSTEM ALTERNATIVES

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EVALUATION OF USER IMPACTS - CORRIDOR AND SYSTEM ALTERNATIVES

B1 - COSTS OF UNMET DEMAND

In analyzing both short-run and long-run system options we are faced with a situation where the predicted level of demand for ferry service is not being met to the same degree in the various cases.

To assess the impact of system options on users and potential users in terms of the costs and/or benefits they incur under the various alternatives, it was therefore necessary to find some means of assigning a value to these differences in ability to meet demand. The method used was to derive an economic measure of the costs incurred by users (where users are defined as the total numbers requesting ferry service) as a result of changes in the ferry system. To assess these impacts, users were divided into three categories for the purpose of calculating costs: those served as requested, those served by diversion to alternate ports, and those not served under the particular option.

Those passengers who are served under all systems are indifferent between the options. Because the fare structure remains constant, they incur neither costs nor savings as a result of system changes and hence do not figure in the analysis.

Those passengers who are served by diversion to another port (normally from Seattle to Prince Rupert) are in a somewhat different category. If their costs were higher out of Prince Rupert they would be said to incur a cost as a result of the diversion--presumably a disbenefit of the system which forced them to divert. In actual fact, however, it was found that their out-of-pocket costs were lower as a result of the diversion--that in fact

incurs as a result of having to accept alternative transport. A third possibility would be that the user would decide not to make the trip in which case the cost he incurs is the loss of utility which he associated with the ferry trip.

Determining which definition of opportunity cost is most applicable to the unserved marine highway demand is a difficult task, and generalizations must be applied. Our choice for this study was to calculate opportunity cost based on the third concept; i.e. that the trip would not be made and the loss was therefore equivalent to the utility the user would have enjoyed had he been able to get on the ferry. A major factor in selecting this concept, particularly as opposed to the 'cost of alternatives' method, was the absence of a clearly comparable alternative means of transport. The alternatives available (cruise ship, air, road) differ from the marine highway service in so many nonquantifiable aspects that an assessment of cost differences would entail substantial subjective judgments which could be difficult to establish and to defend.

The calculation of opportunity cost based on lost utility required an estimation of the value which potential users would assign to the trip. A base approximation of this utility is the price they would have been willing to pay--in this case the marine highway fare for passenger and vehicle trips. Accordingly, the opportunity cost associated with unserved traffic consists in part of the fares they would have paid had they been able to get on the ferry. Offsetting this opportunity cost, however, is the fact that the potential user can retain the monies he would otherwise have spent. (In our analytical process the loss associated with unpaid fares is borne by the marine highway.)

The fare level, however, represents only a part of the customer's lost utility. Assuming an elastic demand for ferry services (i.e. a sloping demand curve) some of the traffic demand would have been willing to pay more for the trip than the price set by the marine highway. In other words, they would assign a utility to the trip which exceeds the fare they would have to pay. This 'surplus' utility is also lost when a potential user cannot be served.

To calculate this surplus, it is necessary to know the shape of the demand curve, or the relationship between the price of the service and the number of users willing to purchase it. Since no data was available on this subject, we adopted a conservative hypothesis that demand for marine highway services would fall to zero at the point where the price was equal to the cheapest cruise package over the same route. The average surplus per user is, therefore, one half the difference between the cruise price and the marine highway fare.

The lost surplus was calculated by multiplying average surplus by the number of unserved passengers under each system option, to give the net opportunity cost of unsatisified demand. (Annual figures were discounted to net present value so that they could be compared with AMH costs on a consistent basis.)

The above calculations account for the surplus associated with foregone passenger trips, but do not cover the surplus associated with vehicles which cannot be accommodated in the system. In order to estimate this lost vehicle-related surplus, it was assumed that the demand curve for vehicle trips has the same slope as that of passenger trips--in other words, that a proportionate increase in the price of each would lead to a proportionate decrease in demand. This assumption was used to calculate the average surplus associated with vehicle trips and hence the lost surplus as a result of unmet vehicle demand.

In summary, user costs under the various system alternatives were calculated only for those potential users who could not be accommodated by the system. Users who were either served as requested or served via diversion were assumed to incur neither benefits nor disbenefits from a cost viewpoint.

The cost assigned to the unsatisfied demand was calculated on the basis of net foregone utility which was in turn approximated by the total additional surplus utility which would have been enjoyed had demand been met by the system.

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B2 - TRAVEL TIME DIFFERENCES

A second aspect of user impacts which had to be dealt with in the evaluation of alternatives was the level of service provided. The major significant differences among alternatives in terms of service quality related to travel time and frequency of service out of various ports.

In order to measure these differences we developed a travel time model which converted ferry schedules into a travel time matrix for all O/D combinations in the system. The model calculated the sum of sailing time (based on a weighted average speed for ships operating on the route), port time, and waiting times. Waiting times were related to frequency of service over a given link and transfer requirements

The frequency-related delay time was set at one-quarter of the average interval between ship calls, while the delay associated with transferring from one vessel to another was set at 12 hours (with the exception of the Columbia shuttle where passengers transferring at Ketchikan were assumed to be delayed an average of 36 hours due to shortage of capacity on vessels out of Prince Rupert).

Because of differences in traffic levels, it was not possible to merely compute the differences in total travel time among the system options. We therefore segregated travel times for those routes where traffic levels varied and calculated the average time per passenger on those routes and within the balance of the system. Peak, shoulder and low travel times were computed separately.

The average travel times under each alternative were compared with the base case times to determine time saved or lost per passenger served as a result of the new system.

To calculate total travel time impacts of a scenario, transferred passengers were eliminated since they are presumed to be indifferent to the combined time and cost effects of transferring. The remaining passengers carried

over the various routes were multiplied by the appropriate travel time changes to give gross time impacts (provided these passengers constituted part of the base demand for the system and did not represent induced traffic), while the passengers whose demand was not met by the system were multiplied by the change in travel time and the result deducted from gross impacts. This latter adjustment reflected the impact of the changed service level on the overall attractiveness of the voyage which the potential user could not take.

Finally, where new passenger traffic was induced on a particular link because of system changes (e.g. as in the long-run Lynn alternatives), the total time savings accruing to the induced passengers were divided in half on the principle that savings to marginal users represented a lower benefit than those accruing to 'base demand' users.

The annual streams of net time impacts were discounted to present value at a 5% rate in order that they would be comparable with discounted cost figures.

BELLINGHAM AS SOUTHERN TERMINUS

OF

THE ALASKA MARINE HIGHWAY

The city of Bellingham, the Port of Bellingham and the Whatcom County Chamber of Commerce are very enthusiastic in their attempt to establish Bellingham as the southern terminus of the Alaska Marine Highway (AMH). To this end, the Port of Bellingham has allotted $2 million of its calendar year 1988 budget for terminal infrastructure construction. City staff has produced two videos supporting the move which have already been shown publicly in both Alaska and Washington, and civic and community leaders continue to be in contact with Alaskan transportation, business and government leaders.

When the current lease, held by the Port of Seattle, expires in September of 1989, Bellingham intends to submit a bid for the contract. During interim, Rep. Bette Cato and staff visited Bellingham and spoke with interested parties from the city, port and community of Bellingham regarding the feasibility of such a move. As a result of that trip, the following report was prepared.

1. Location of Terminal

Bellingham is proposing that one of two sites near its downtown area be chosen as the future site of the southern terminus of the Alaska Marine Highway. Both sites are located in Whatcom International Shipping Terminal which is adjacent to the present Port of Bellingham administration building. Some of the appropriate infrastructure already exists. Other infrastructure such as a terminal facility built to state of Alaska specifications, would have to be added. There is ample space available at either of these locations for parking, storage, loading and off-loading, and maneuvering of freight and vehicles. The Port of Bellingham is a deep water port that would require no dredging. Port security includes the city of Bellingham police, and Port of Bellingham and Georgia Pacific pulp mill securities.

The Seattle terminus is located near the heart of downtown Seattle which can be a very congested area. The space available for parking, storage, loading and off-loading, and maneuvering of freight and vehicles is quite limited.

2. Terminal Access

Northwest travelers currently access the Alaska ferry terminal in Seattle either by taxi from Sea-Tac International Airport, or they drive their own vehicles to the terminal because they plan to take them north. Cab fare for the trip from the airport to the Seattle ferry ranges between $15.00 and $24.00, and traveling time is 30 - 60 minutes. Travelers planning to bring their own vehicles onto the ferry face limited parking opportunities and a lack of nearby RV (recreational vehicle) facilities.

If the terminus were to be located in Bellingham, travelers flying into Sea-Tac airport would be able to catch any one of 30 twenty-minute flights per day to Bellingham International Airport at a cost of $19 or $44. They would then take a 15 minute cab or bus ride from the Bellingham airport to the Bellingham ferry terminus. Or, travelers flying into Sea-Tac airport could take a commercial bus from the airport to the downtown Seattle bus terminal and then transfer to a another bus headed for Bellingham. Greyhound has three connections to Bellingham daily. One way fare is $12.45.

Travelers planning to take their vehicles with them onto the ferry would drive to Bellingham. Bellingham is located 86 miles north of Seattle and 54 miles south of Vancouver, B.C. It is accessed by Interstate 5, and the proposed terminal is a five minute turn off of the interstate. Because Bellingham has had more of an opportunity to plan for its development, access to the city is much less congested than in the Seattle area. City traffic is minimal, and parking opportunities near the proposed site are abundant. Nearby RV facilities already exist, and on site RV facilities have been included in the development plan.

For travelers concluding their trip at the southern terminus,
the procedure would be reversed.

3. Cost Comparison.

Bellingham is located 80 nautical miles north of Seattle. This translates into a savings of roughly 4-6 hours of traveling time in one direction. As Puget Sound becomes more congested, the time savings may become even greater. Less distance traveled means less fuel consumed, and at an average of 21 gallons of fuel burned per nautical mile, over 3,000 gallons of fuel per trip could be saved if the terminal was located in Bellingham. Less distance traveled would also mean less wear and tear on equipment.

Salary savings would be realized only if the shorter distance to Bellingham resulted in the ship's completing its

overall trip in less time, and only if labor contracts could be negotiated to include a shorter work week. No salary savings would be realized if the overall trip took the same amount of time because the crew is paid the same regardless of whether the ship is in port or on the water. Since Juneau and Ketchikan are the only points at which crew can begin and end their work weeks, they would still be considered to be at work when the ship was docked in Bellingham.

The state of Alaska currently pays the Port of Seattle $6.00 for every passenger up to 40,000 passengers that either gets on or off the ferry per year in Seattle. This agreement results in a maximum amount payable per year to the Port of Seattle of $240,000. In FY'87, 34,374 passengers were billed to the state by the Port of Seattle at a cost to the state of $206,244.

Rather than bid a fixed fee per passenger up to a maximum cap, the Port of Bellingham is planning to propose a sliding fee scale which would be tied into meeting certain goals of passenger and freight. In other words, the more passengers and freight that moved through Bellingham, the higher the fee received by Bellingham, but because there would be no cap on the number of passengers for which Bellingham would be paid, the incentive would be there for Bellingham to draw as many passengers as possible. Since there would be no cap, the incentive for Bellingham to draw additional passengers could ultimately result in additional revenue for the state of Alaska. As it currently stands, there is no incentive for the Port of Seattle to service more than 40,000 passengers.

At this point, it is not clear whether or not there would be a cost savings in freight if the terminus were to be located in Bellingham. Although freight could be transported to and from Seattle in less time on Interstate 5 than it could be transported by ferry, the time savings may be overridden by the increased transportation costs of trucking freight to a central consolidation area which is done in order to consolidate ferry freight with other freight in the area for the purpose of long distance transporting. For instance, Lynden Transport, Incorporated, a major shipper to Alaska via the Alaska Marine Highway System, currently transports its freight from the Seattle ferry terminal to Kent, a suburb of Seattle, where it is then consolidated with other LTI freight. Since the distance from Bellingham to Kent is greater than the distance from Seattle to Kent, it may at first appear there would be no cost savings associated with the move and, in fact, it may appear that the shipping costs would be higher because of the additional trucking costs. However, there are many variables inherent in this issue including but not limited to whatever offer is made to shippers by the Port of Bellingham should Bellingham be successful in its bid for the southern terminus. It is also

not clear if the AMH would lower its shipping rates in response to the fact that the trip to and from Bellingham is shorter. However, Lynden Transport, Inc., in a letter sent to the Commissioner Hickey of the Alaska Dept. of Transportation and Public Facilities, has stated that it would support any move by the ferry that would improve services and reduce costs to its customers in southeastern Alaska.

4. Special Attractions

Seattle and Bellingham both have much to offer the Northwest traveler.

Bellingham is a growing community of 50,000 people located on the Inside Passage. Bellingham Bay is to the west and the beautiful Northern Cascade Mountains are to the east. Major industry in the area includes agriculture, commercial fishing, forestry, manufacturing and recreation. It is home of the famous "From Ski to Sea in 60 Minutes" race, as well as sport fishing, scuba diving, beach combing, sailing, camping and hiking. It is home of Western Washington University. Temperatures range from 30 - 74 degrees Fahrenheit with an average of 49 degrees, and rainfall averages 34 inches. A world trade center and a regional shopping center are currently in the process of being built.

In addition to its many tourist attractions, Whatcom County is host to four foreign trade zones. Because of the special tax exemptions afforded these areas, much new business has been attracted to the area. The trade zones should provide a positive position within the international market place for Whatcom County. Bellingham is an important regional and transportation hub <u>without</u> the congestion of Puget Sound.

Seattle is also an attractive destination for northwest travelers. Its many well-known attributes include Pike Place Market, the Seattle Aquarium, numerous fine restaurants, the theater, the Kingdome, the University of Washington and other respected universities and colleges, excellent sailing opportunities, etc.

The point is, both locations have much to offer the traveler interested in extending his or her vacation beyond the ferry ride. The difference is, the Port of Bellingham plans to market these attractions to potential passengers should it become the southern terminus of the ferry system.

5. Market Development

Whatcom County already hosts more visitors from outside the state than any other county in Washington. Using the theme "The Last Great Marine Adventure" and expanding the services

available to passengers, civic leaders plan to draw even more visitors to their county by actively recruiting passengers to the Alaska Marine Highway. Plans are to target Canada as well as the United States. Ideas for expanding and improving service to AMH passengers via the Port of Bellingham include allowing passengers to book on shore reservations by computer while still on board the ferry, using computers to suggest trips and map routes for passengers to use once they hit the shore, and the convenient, on shore availability of tax exempt cards for residents of the state of Alaska.

6. Summary

Intent language inserted in Alaska's FY'88 operating budget stated: "It is the legislature's intent that the Department [of Transportation and Public Facilities] study the potential cost savings of using Bellingham as the southern terminus of the Alaska Marine Highway System. The study should examine fuel savings, more efficient use of vessels, labor savings, lease savings, and the relative quality of passenger facilities which might be offered in Bellingham as compared to Seattle. The study should be submitted to the legislature no later than December 1, 1987."

The Department of Transportation and Public Facilities is currently in the process of compiling its interim study. While cost saving factors have yet to be determined, locating the southern terminus of the Alaska ferry system in Bellingham will give the Alaska Marine Highway a much more visible profile. Because it would be one of the biggest fishes in a little pond, the city and Port of Bellingham and the Whatcom County Chamber of Commerce are willing to develop the terminus to the fullest marketing extent possible. Their cooperation is impressive. They are eager to work with the state of Alaska in order to further their goals. They are willing to address whatever questions and concerns may arise regarding the relocation and they are determined to make their dream a reality. They want to work with the state of Alaska in order to expand recreational opportunities, especially for the RV traveler. The community of Bellingham would like to develop a partnership with the state of Alaska that extends beyond the Alaska Marine Highway.

Bellingham Assessment Presentation

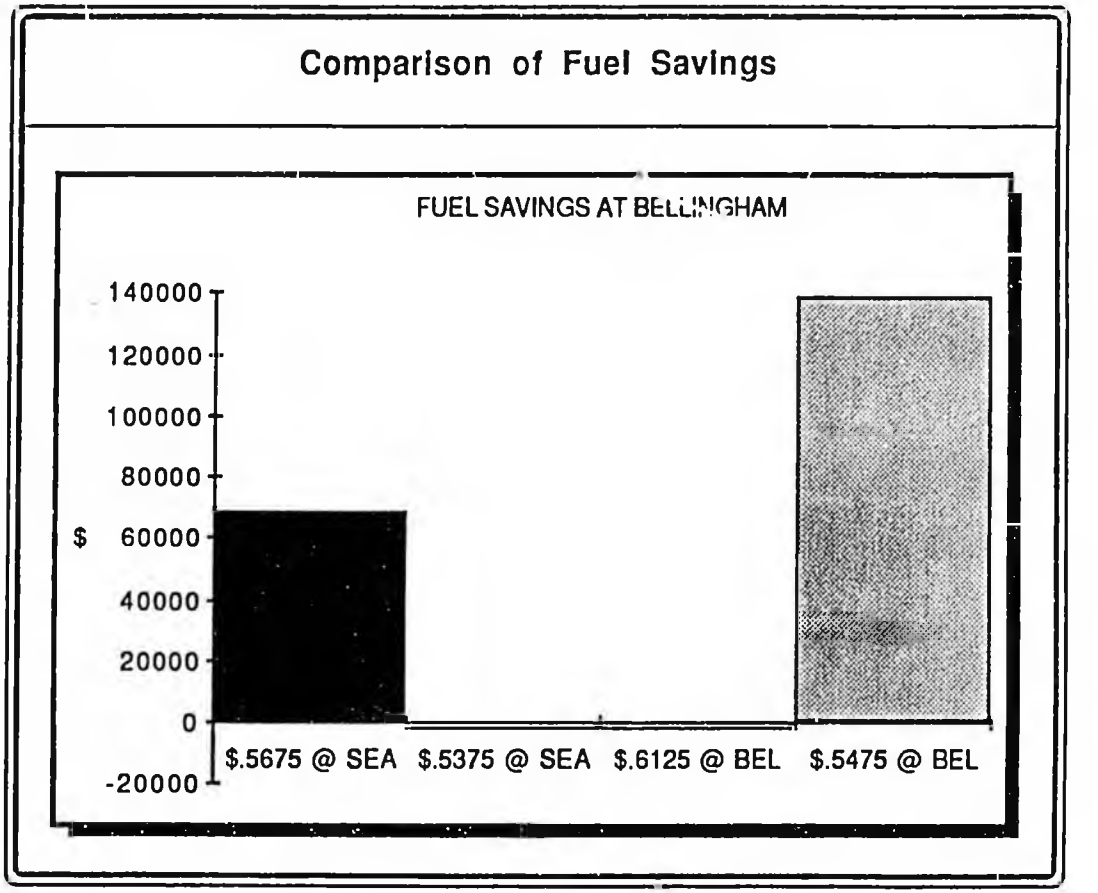
- Assumptions
- Fuel savings at Bellingham
- Labor savings
- Lease savings & relative quality of passenger facilities offered by BEL vs. SEA
- Conclusions

Assumptions

- No change in traffic level
- No change in tariffs
- Present labor agreements
- Quality of facilities at Bellingham and Seattle are equivalent
- Continuing public mandate for Puget Sound Service

Fuel savings at Bellingham

- Historically, fuel price has been higher at Bellingham than Seattle
- Analysis shows that potential fuel savings are approximately $68,000 per year
  - 2.4% of annual system fuel consumption
  - 1.6% of annual system fuel expense
- The most important factor in AMHS fuel expense is price rather than steaming time.
- Comparison of Fuel Savings
- If time savings at Bellingham are used for additional service there is no fuel saving


Comparison of Fuel Savings
FUEL SAVINGS AT BELLINGHAM
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120000
100000
80000
$ 60000
40000
20000
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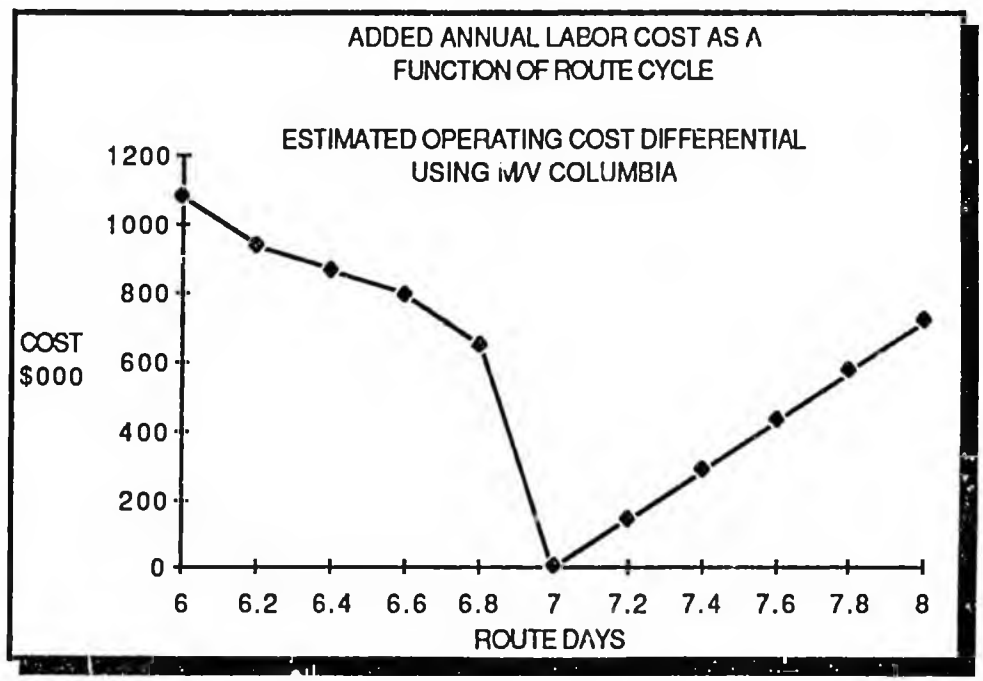
-20000
$.5675 @ SEA
$.5375 @ SEA
$.6125 @ BEL
$.5475 @ BEL

Labor savings

- No significant labor savings available under present AMHS labor agreements
  - Present agreements are based on a 7 day route cycle
  - Variation from the 7 day cycle triggers premium pay provisions of the agreements
    - Minimum guarantee
    - Overtime
    - Late arrival
    - Early Callback
  - Impact on Labor cost of non-7-day route cycles

Impact on Labor cost of non-7-day route cycles



Lease savings & relative quality of passenger facilities offered by BEL vs. SEA

- Advantages to Bellingham
  - Shorter trip distance
    - Potential travel time savings
    - Potential fuel savings
    - Potential additional service capability
    - Minimizes risk of premium pay on existing schedules
    - Permits increased time at Alaskan ports
  - Bellingham has allocated $2,000,000 to terminal site improvements
  - Dockside fueling permissible
  - Aggressive port marketing effort
- Disadvantages to Bellingham
  - Lower stewards revenue
  - No existing terminal at Bellingham
  - Use conflicts at Bellingham
    - Dockface use

Lease savings & relative quality of passenger facilities offered by BEL vs. SEA (cont'd)

- Parking & staging area use
- Warehousing space would have to be acquired
- All operational requirements would have to be established
- Additional travel required to reach Seattle area
- Initial pilotage costs
- Cost of re-establishing goodwill at new location
- Cost and timeliness of supplies delivered to new location
- Relocation expense
- Employee impacts

- Other issues related to Bellingham not yet resolved
  - Fueling time and cost
  - Longshoring cost
  - Bellingham head taxes
  - Bellingham facility lease costs
  - Impacts to commercial users

Lease savings & relative quality of passenger facilities offered by BEL vs. SEA (cont'd)

- Impacts to "walk-on" traffic
- Advantages to Seattle
  - Presently functional facility
  - Immediate access to Seattle area
  - Established location with "good will" developed
- Disadvantages to Seattle
  - Structural deficiencies (some being corrected)
  - Aging facility is becoming less attractive
  - Terminal location is in a congested traffic area
  - Parking & staging area expansion limited
  - No dockside fueling capability
- Other issues related to Seattle not yet resolved
  - Head taxes under a new lease
  - Facility lease costs under a new lease

Conclusions

- Both Seattle and Bellingham appear to be acceptable southern terminus locations
- Methods of resolving outstanding issues:
  - Requests for proposals
  - Direct negotiations
- Public input will be solicited through the AMHS Advisory Board
- Key factors in the port selection decision:
  - The quality and cost of the facilities to be provided
  - Users preferences
  - Reasonable resolution of issues relating to commercial users and "walk-ons"
  - Decision to be made by late summer or early fall 1988

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

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

Introduced: 1/22/87
Referred: Transportation
and Finance

IN THE HOUSE BY CATO

HOUSE BILL NO. 62

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to ferries and ferry terminals and establishing the Alaska Marine Highway Authority."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. PURPOSE. The purpose of this 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 shall be the exclusive state agency directly associated with the operation, management, planning, and construction of facilities for the marine highway system.

* Sec. 2. AS 19 is amended by adding a new chapter to read:

CHAPTER 70. ALASKA MARINE HIGHWAY AUTHORITY.

ARTICLE 1. CREATION AND ORGANIZATION.

Sec. 19.70.010. ALASKA MARINE HIGHWAY AUTHORITY. The Alaska Marine Highway Authority is established. The authority is a public corporation of the state. The corporation is an instrumentality of the state in the Department of Transportation and Public Facilities but has a legal existence independent of and separate from the state and has continuing succession until its existence is terminated by law.

Sec. 19.70.020. DIRECTORS. (a) The authority consists of seven directors appointed by the governor as follows: a representative of commercial carriers, a representative of the maritime industry, a representative of the tourism industry, and four members of the public representing regions served by the marine highway as follows: (1) one

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 revneue picture?
   What can be done to increase revenues OR decrease expenses?

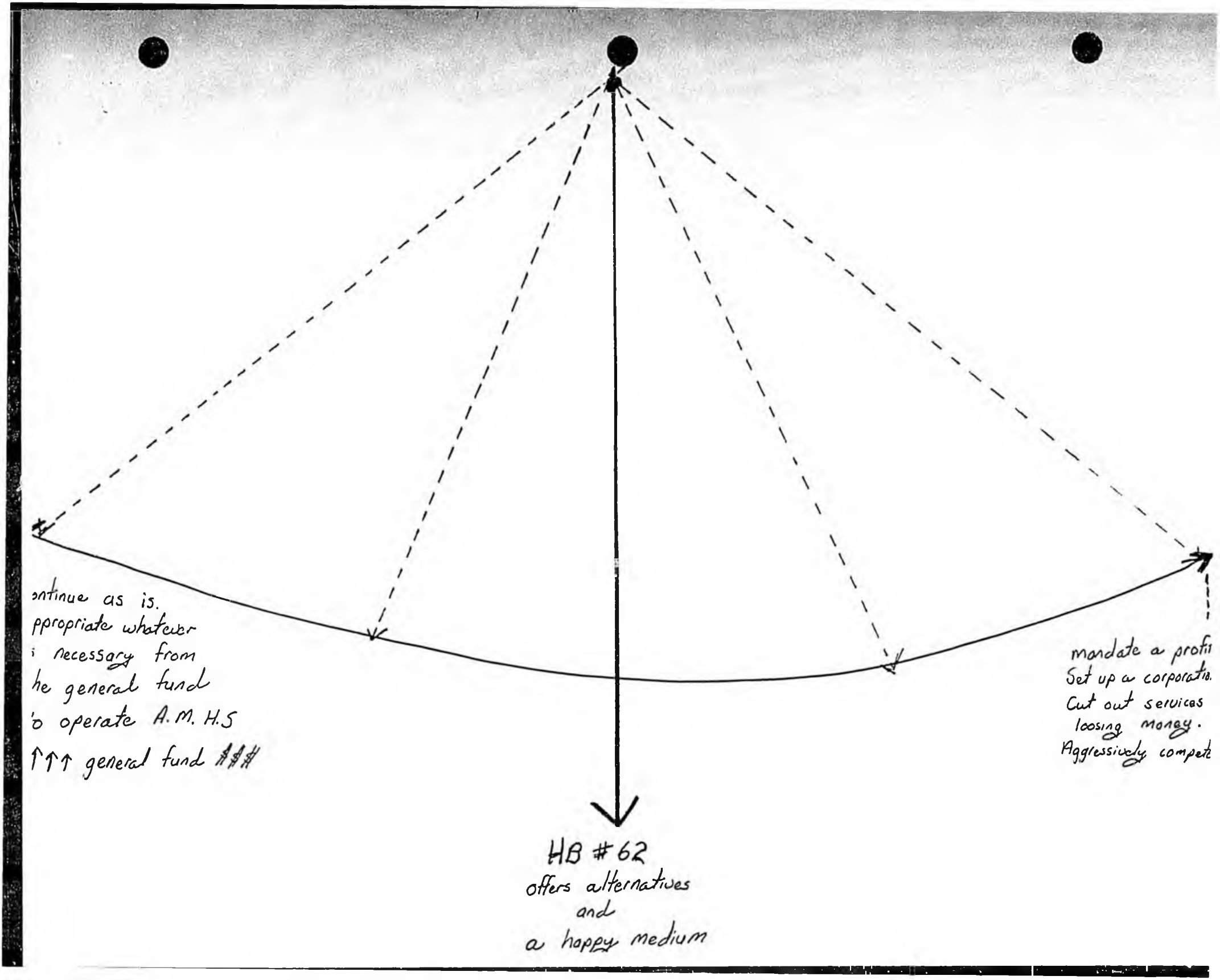
2. Services? a. Proposed cuts in services
   b. lack of adequate services to accommodate in-state transportation needs

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 by DOT management?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HB #62
offers alternatives
and
a happy medium
mandate a profi
Set up a corporatio
Cut out services
loosing money.
Aggressively compet

SUMMER SCHEDULING - AMHS

Vessels servicing the North and Southbound runs

Malaspina - Monday and Thursday services from Prince Rupert to Skagway via Ketchikan, Wrangell Petersbury, Juneau, Haines

Taku - Sunday and Tuesday services from Prince Rupert to Skagway vai Ketchikan, Wrangell Petersbury, Juneau, Haines

Matanuska - Tuesday service Seattle to Skagway via Ketchikan, Wrangell, Petersbury, 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.

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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 servincing

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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 725 persons with Marine Highway who work afloat.
155 persons work ashore
During the past summer there were 850 vessel employees required to fill 331 jobs per week on all vessels. Considering two crews that totals 662 permanent jobs with 188 relief 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:
21% 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 Panhandle.

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

M/V Matanuska - built in 1963, renovated in 1978 she services Northbound and Southbound areas

M/V Tak - 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 Panhandle.

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 Highways 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 maintanence 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 maintanence 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 make 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 conjuction 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 reparing 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 maintainence 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 optomistic.
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 $1.8 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 $1.8 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 approxminately 30 days for rountine maintanence. Because the Colombia is the most expensivr 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 maintanence 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
280 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 $13,000)
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 definite 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.

WHY 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 Stardancer, owned by an overseas company loads in Vancouver and sails on a 3 day trip to Haines with a 4 day return trip. The Stardance 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 Stardancer	$250.00
25 to 26 foot motor home	
Seattle to Haines on Alaska Marine Highway	$1,000.00
Vancouver to Haines on M/V Stardancer	$350.00

Cabins

Cabin prices on the M/V Stardancer vary depending on the luxury of the cabin, however, a person may travel on the Stardancer in an inside cabin, with his/her meals inculded 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. Agressively 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 $218,000.00

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 60% increase in fares. Marine Highway has therefore increased the fares on the Seattle run 4% and increased fares on the Prince Rupert run 8%.

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, 5163 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 2400 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 expenses 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 port 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 ticket sales month to month each ticket has to be individually punched into the

computer before a monthly figure is available. Currently the information available in 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 an 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:

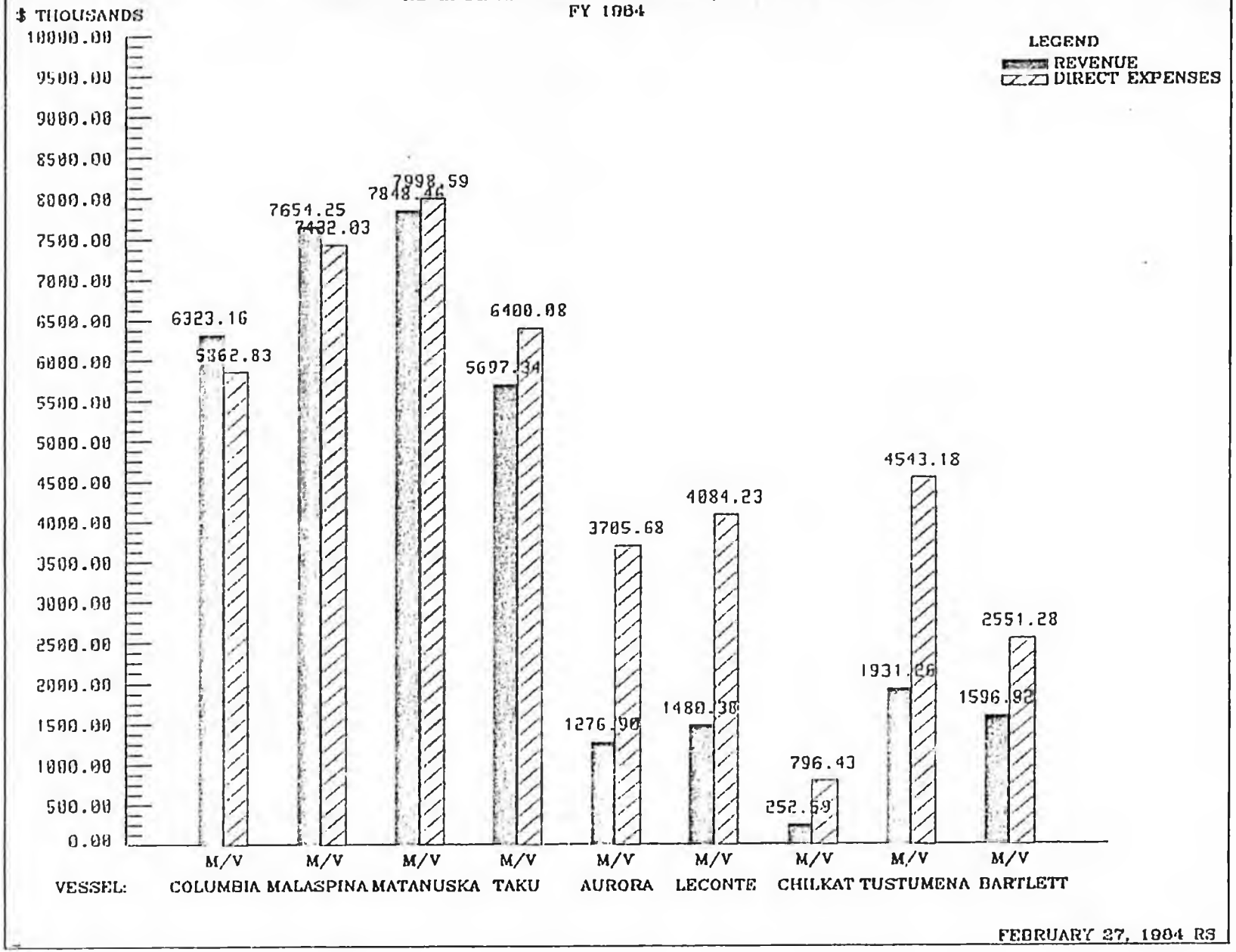
a. To make the necessary adjustments or cuts to balance the FY 86 operating budget. It is hoped that any adjustments or necessary cuts will have the least amount of impact on services or personnel.
b. To assess and implement methods to attain projected revenues. To work toward overcoming any obstacles and agressively 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 agressively 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.

Rhonda Cargill
Wendy Chamberlain
House Transportation Committee

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES, BY VESSEL
FY 1984

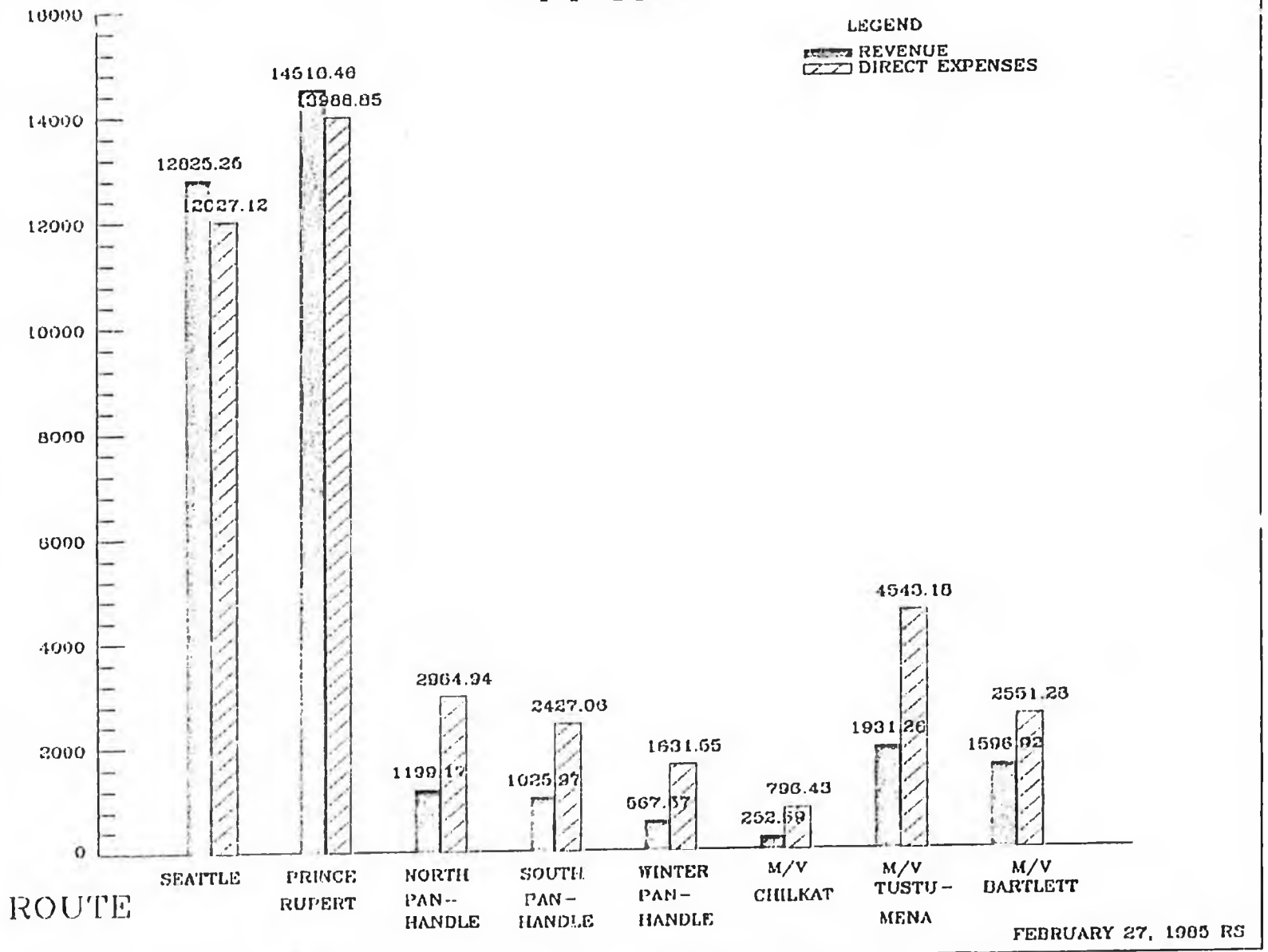


FEBRUARY 27, 1984 RS

ALASKA MARINE HIGHWAY SYSTEM

REVENUE AND DIRECT EXPENSES BY ROUTE

FY 1984



AUTO WEEKLY

7/29 - 8/05

SYSTEM ACTIVITY

AGENT GROUP : 1 Total Time : 168:00
Period Covered : Jul/29/85 Mon 4:00 AM to Aug/05/85 Mon 4:00 AM

	INCOMING CALLS							
	Answered Before Tape	Answered After Tape	Handled	Abandoned	Offered	Over-flowed	Night Service	OUTGOING CALLS
Mon-29	448	498	946	51	997	0	27	11
Tue-30	313	454	767	48	815	0	35	4
Wed-31	418	363	781	42	823	0	32	12
Thu-01	210	630	840	129	969	0	82	17
Fri-02	277	486	763	104	867	0	38	9
Sat-03	75	273	348	84	432	0	23	2
Sun-04	116	123	239	21	260	0	40	12
Mon-05	0	0	0	0	0	0	3	0
TOTALS	1857	2827	4684	479	5163	0	280	67

SERVICE LEVELS
Number of Calls Handled within XX Seconds

0	5	10	20	30	60	90	180	OVER
1	1074	565	407	195	479	393	749	721
.0%	22.9%	14.1%	8.6%	4.1%	10.2%	8.3%	15.9%	15.3%

AUTO WEEKLY

AGENT ACTIVITY

AGENT GROUP : 1 Total Time : 168:00

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

	TOTAL CALLS				AVERAGE DURATION Min:sec			
AGENT	Incoming	Outgoing	Internal	Transfer	Incoming	Outgoing	Internal	Wrap
41	208	0	8	0	2:48	0:00	0:07	0:53
42	379	8	1	1	2:50	2:07	0:20	2:40
43	49	18	1	0	1:51	1:57	0:00	7:55
44	505	2	3	2	3:13	0:40	0:00	4:35
45	464	20	5	3	1:45	1:18	0:00	0:40
46	415	0	6	3	4:06	0:00	0:06	1:35
47	137	2	0	0	1:29	0:20	0:00	5:00
48	284	0	4	3	2:54	0:00	0:05	2:27
50	0	0	0	0	0:00	0:00	0:00	0:00
51	195	1	1	1	3:40	1:40	0:00	3:38
52	715	13	1	1	2:54	2:55	0:00	4:16
53	744	1	7	5	2:15	6:40	0:05	0:46
54	605	2	8	1	2:24	1:30	0:07	1:42
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
71	0	0	0	0	0:00	0:00	0:00	0:00
TOTAL CALL	4700	67	45	20				

ALLOCATION OF TIME

Hr:min

AGENT	Signed In Duration	Incoming	Outgoing	Internal	Wrap-Up	Available	Unavailable
41	53:57	9:45	0:00	0:01	0:03	4:15	39:52
		18.0%	.0%	.0%	.0%	7.8%	73.9%
42	33:29	18:00	0:17	0:00	5:32	4:42	4:57
		53.7%	.8%	.0%	16.5%	14.0%	14.8%
43	11:42	1:31	0:35	0:00	0:32	1:57	7:08
		12.9%	5.0%	.0%	4.5%	16.6%	60.9%
44	42:13	27:05	0:01	0:00	2:13	6:13	6:40
		64.1%	.0%	.0%	5.2%	14.7%	15.8%
45	42:49	13:32	0:26	0:00	0:01	10:26	18:26
		31.6%	1.0%	.0%	.0%	24.3%	43.0%
46	42:47	28:25	0:00	0:01	0:32	5:01	8:53
		66.4%	.0%	.0%	1.2%	11.7%	20.6%
47	5:56	3:25	0:01	0:00	1:05	1:26	0:00
		57.6%	.1%	.0%	18.2%	24.0%	.0%
48	27:48	13:47	0:00	0:00	4:43	6:38	2:42
		49.5%	.0%	.0%	16.9%	23.8%	9.7%
50	0:00	0:00	0:00	0:00	0:00	0:00	0:00
		.0%	.0%	.0%	.0%	.0%	.0%
51	17:38	11:57	0:02	0:00	2:18	2:15	1:05
		67.8%	.1%	.0%	13.0%	12.7%	6.1%
52	55:42	34:38	0:38	0:00	7:46	12:24	0:16
		62.1%	1.1%	.0%	13.9%	22.2%	.4%
53	42:08	27:57	0:07	0:01	0:26	7:34	6:05
		66.3%	.2%	.0%	1.0%	17.9%	14.4%

54	40:36	25:55	0:03	0:01	3:00	8:30	3:05
		63.8%	.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%
61	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	99:07
		51.8%	.5%	.0%	6.7%	17.1%	23.7%

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

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, 80 percent is refunded;

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

(4) if cancelled less than ten days before sailing 40 percent is refunded; and

(5) if the vessel sails without cancellation of the tickets, nothing is refunded;

(b) The provisions of this section apply to the following routes:

(1) all tickets for sailings using Seattle as a point of origin or as a destination;

(2) all tickets for sailings northbound from Prince Rupert during June and July of each year;

(3) all tickets for sailings southbound to Prince Rupert from July 15 through September 15 of each year;

(4) all tickets for any sailing between Whittier and Valdez; and

(5) all tickets for individual sailings specified in the Alaska Marine Highways' schedule. Schedules are issued for the periods October 1 through April 30 and May 1 through September of 30 each year. Copies of the schedules may be obtained from The Alaska Marine Highway System, Pouch R, Juneau, Alaska 99811. (Eff. / / / , Reg.)

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 unknowning 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 (DOT&PF), doing AMHS work. Many were simply located elsewhere where they reported to different supervisors but they were performing AMHS tasks. The DOT&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 8.1% 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 5.8 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.

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 $528,000 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

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 188 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.

JUNEAU EMPIRE - October 31, 1985

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 $17,000 per trip.

Lay up on "dead ships" (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 3515
Juneau, 99803

JUNEAU EMPIRE - November 1, 1985

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 51 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 28%.
- Decrease in time on recording crew seniority points by 28%.
- 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 Dave
10-31-85 / 15

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 65 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 reducted 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 $32.6 million.

ALASKA MARINE HIGHWAY SYSTEM
DIVISION OF MARINE FACILITIES ENGINEERING

Harold Moeser, Director

- With the FY 85 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 Tenakee, Hoonah and Ketchikan ($3,200,000).

- The staff total of 20 includes a Naval Architect and five registered professional engineers. Beginning in FY 85 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 86 which will allow this Division to target for an FY 86 capital construction output of $26,000,000. The primary emphasis will be in completing the Ketchikan Ship Repair Yard ($18,000.000), 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. Reinstituted 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 MARINE HIGHWAY SYSTEM

WEEKS OF SHIPS OPERATIONS - By Calendar Year

	1981	1982	1983	1984	1985	PLANNED 1986
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 TUSTUMENA	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

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87 BASE	FY 87 REQUESTED
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*	281.8*
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

POUCH Z
JUNEAU, ALASKA 99811
PHONE: (907) 465-3900

OFFICE OF THE COMMISSIONER

February 28, 1985

Ms. Sally Smith
President
Southeast Conference
P. O. Box 29
Douglas, AK 99824

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 can, 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,

R. J. Knapp
Commissioner

cc: Joe Camp, Deputy Commissioner
Alaska Marine Highway System

...laskans"

SOUTHEAST CONFERENCE

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,

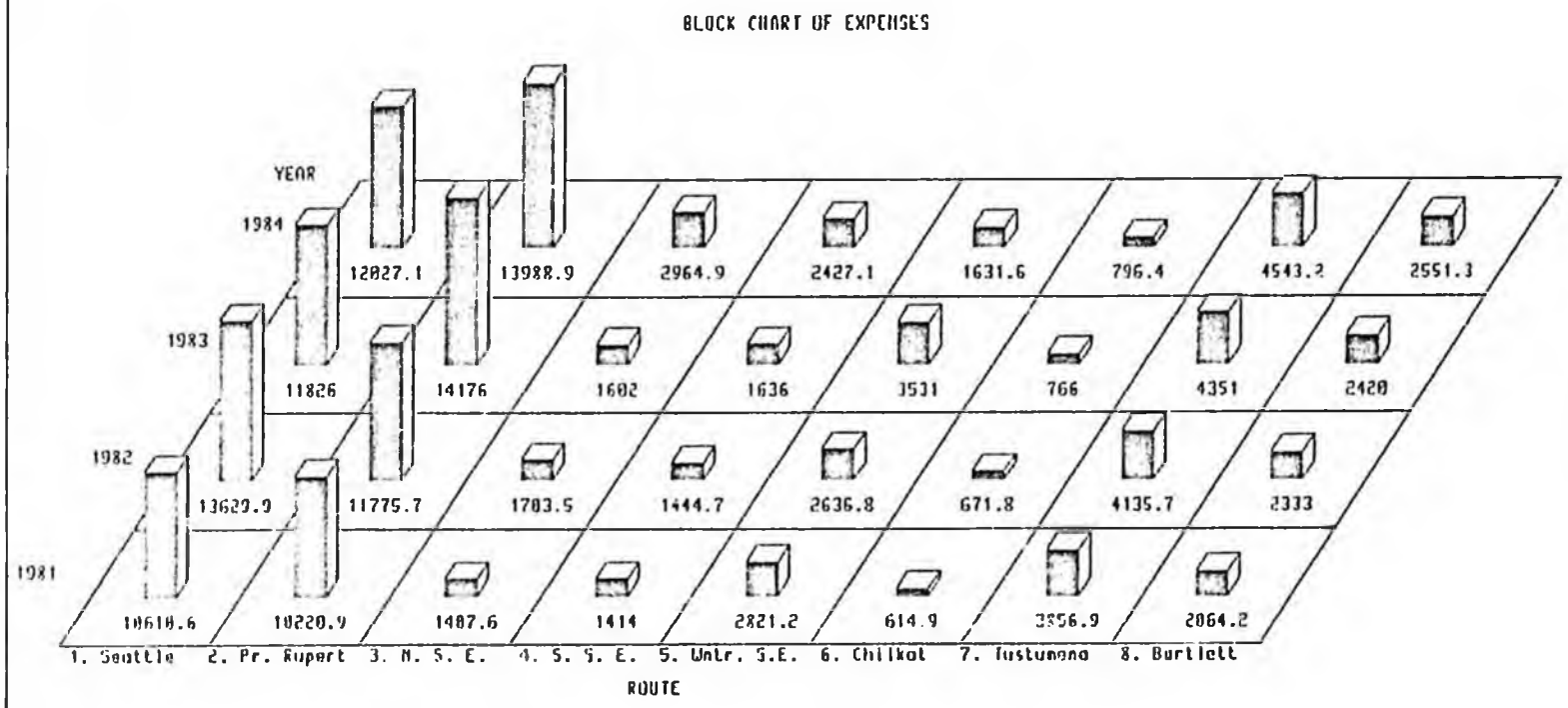
Sally Smith

Sally Smith
President

ALASKA MARINE HIGHWAY SYSTEM

Direct Expenses by Route and Fiscal Year, 1981–1984

$ Thousands



Compiled February 27, 1985