

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 80/2

9481 HOUSE TRANSPORTATION

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overhaul program, overhaul and maintenance, and the lay-up of vessels, which is driven primarily by the budgetary constraints that the system has. He said if the system were not having to do refurbishments and regulatory compliance projects, and if they had a consistent funding, the system could lay out a multi-year winter schedule and they would be happy to run that.

SENATOR TAYLOR said it appears that they are going to lay out a multi-year schedule for the summer months, which means they will sacrifice service during the winter months so they satisfy their commitments made years in advance for the summer. MR. HAYDEN explained he can lay out a summer schedule that is consistent because he knows that he has all of the vessels running during that time period.

SENATOR TAYLOR asked if there wasn't a way they could schedule their maintenance so that they don't impact the entire fleet by having all major vessels going through major maintenance all in the same year. He said there ought be some planned maintenance on the fleet that literally runs years in advance. Not being able to get a schedule for the fall and winter months dramatically impacts ridership. MR. HAYDEN agreed, and he said he would be delighted if he could provide a three-year schedule, however, funding decisions don't get made in that context of three years. He noted that in the 1991 master plan and fleet condition survey, there was a program laid out as to how much needed to be spent each year on the vessels, and there were schedules as to when that work was to be done over the next 20 years. However, the funding for those activities didn't follow the schedule. The ability to do multi-year scheduling in the winter time is driven primarily by the capital projects and also the funding as to when they can run the ships.

SENATOR TAYLOR noted that the system got \$3.5 million in funding from the Legislature in 1993; \$8.5 million in 1994; and \$19.2 million in 1995. MR. HAYDEN added that for the current year it is \$10.1 million, however, for the next two years there is hardly anything in the federal road program. He said he is interested in running the Aurora next winter if they can bring the cost of that operation down so that it is more consistent with the revenue that is generated. On some of the runs the subsidy is 70 percent compared to 30 percent revenues, and if they can bring those two numbers closer together, they will be able to run that vessel on an annual basis and run it longer each year.

SENATOR TORGERSON asked if their lack of advanced knowledge right now is because of the reauthorization of ISTEA. MR. HAYDEN responded that it is not. This year, for the first time, the Department of Transportation & Public Facilities has laid out a 6-year CIP program (Capital Improvement Projects) that is basically competing against road projects. About a month ago he got that 6-

year program, so he knows for the first time what his capital projects are going to be. SENATOR TORGERSON said there has to be some ongoing CIP and historical levels on spending so that they can predict what is going to happen and work schedules within that. MR. HADEN agreed, and noted he has scheduled out the major refurbishment program using federal funds over the next six years.

SENATOR TAYLOR asked if any decisions have been made on the design of the new vessel as concerns the bar facility on that vessel. MR. HAYDEN responded that there is no bar facility on the new vessel. He acknowledged there was a bar facility in the original plan, but it was taken off at the time the decision was made to close the bars on the existing ships.

SENATOR TAYLOR asked if there were public hearings on the issue and when the decision was made. MR. HAYDEN said he discussed the issue with the Southeast Conference on two occasions and it was mentioned at two or more legislative budget review meetings. The decision to close the bars was made about two months ago, which was after the regular session of the Legislature.

SENATOR TAYLOR referred to a DOTPF report dated November 1995 entitled "Transportation Needs and Priorities in Alaska", that speaks to converting the bar area of the vessels to lounges which can be used for pizza and espresso service or conference areas. He said it sounds like somebody made an internal decision on this issue before November of 1995. He added that he doesn't know where or how that decision was made, but this was a significant decision as far as revenues to the fleet, as well as service to the public without any public input. MR. HAYDEN clarified that the decision was made by Commissioner Perkins at the end of the legislative session. During the legislative session they discussed impacts that would result at certain funding levels and the bar issue was one of those issues that was mentioned each time they discussed their budget. It was also discussed with the public who was interested in their budget and their ability to provide services. He said the system is faced with coming up with in the order of \$1.9 million in cost reductions, and, unfortunately, \$1.9 million in cost reductions is going to affect people and service in the system. The possibilities are fairly limited as to what they can do and what they cannot do.

MYRNA MAYNARD, staff to Senator Pearce, said Senator Pearce wanted to know if there was any contemplation within the system of privatizing the bars and having someone else run them. In response, MR. HAYDEN said he was approached by Marriott Corporation some time ago, and they were interested in the food services on board the vessels. However, legally and under the terms of the system's current contract, they could not contract with Marriott unless they met same terms and conditions of the existing contract. Marriott said the contract was too constrictive and that they were

not interested in pursuing their initiative any more. He added that he has not gone out and sought others because the terms of the contract says that if there are people working on shift they will be paid under the terms and conditions in the contracts the system currently has, whether they are state employees or private sector employees.

MYRNA MAYNARD commented that food services often times break even, but she has never known bars to cost money, and it doesn't make sense that bar service was given up to save money. MR. HAYDEN said in order to save money on the vessel, you need to reduce personnel costs. The way to reduce personnel costs is to not provide a service. One of the services considered was the bar service because the bar service cost more than the revenue it was generating. He added that they are also looking at how they can reduce costs in the food service area.

MS. MAYNARD asked if Mr. Hayden would provide Senator Pearce with the figures on the cost of running the bars as opposed to the revenues generated. MR. HAYDEN agreed to provide the information to the task force members, and he also pointed out that there is a legislative audit underway on food services, bars, etc., and he is looking forward to seeing what those numbers show.

SENATOR TAYLOR said it his understanding that several years ago the accounting methods currently used, upon which he believes Mr. Hayden is relying for the numbers he is working with, were changed significantly to discourage private enterprise that might be interested in vying for the contracts. He said that as a cautionary note on any numbers that Mr. Hayden might send out, that if, in fact, they are not directly related to actual hours of operation and directly accounted on those hours of operation, then he does think they are very meaningful numbers.

SENATOR TAYLOR also said he would also like to know what profit is being generated by the 156 full-time employees working in Juneau for the Alaska Marine Highway System. These employees are still drawing down a full wage when a lot of folks in his district have been in a vessel lay-up situation or on temporary status working summers for four or five years just so they can get on full time. He noted that since 1975, when the system had about 21 full-time employees, there has been shocking increase in administration, but there is still the same number of vessels and the same amount of crew people.

SENATOR TAYLOR, in expressing concern with the added on costs to the system, noted that the Division of Risk Management increased the amount the Alaska Marine Highway pays out of its budget to cover claims brought against the system and any defense costs, etc. by \$900,000. MR. HAYDEN advised that as it was they were paying over \$3 million on risk management, and to have it increased by

nearly a million dollars was a significant cost increase to the system. However, the Department of Administration has shown them how they are paying out more on claims than is being paid in. He said it was in their budget from day one and it was an issue and concern.

In his closing comments, MR. HAYDEN said it is obvious there is disagreement on several points, but he welcomes the Legislature's assistance in advancing the system because both have the same goal: serving the public. He believes in the Marine Highway System and the service that it has provided over the years it has been in existence, and he believes it can be a viable means of transportation into the future.

SENATOR TAYLOR noted the presence in Ketchikan of Mike Downing, Marine Superintendent of the Alaska Marine Highway System. Mr. Downing stated he had nothing to add to Mr. Hayden's comments at that time.

ANDREA BARKLEY, testifying in Ketchikan, stated she tended bar on the Alaska Marine Highway System for 17 years, and the concept of removing the bar service is terrible in her mind because it provides such a tremendous passenger service. She noted the bar area is the only interior smoking area, and if the bars are eliminated, it will probably become a common seating area and smoking will be on the outer decks only. She believes it will significantly reduce the passenger services that are very important to thousands of people.

SENATOR TAYLOR asked if Ms. Barkley has any knowledge relating to changes made in the accounting system used by the Alaska Marine Highway System. MS. BARKLEY replied that she has no personal knowledge, but in 1985 Tom Shanley, their port steward, called a meeting of chief stewards in Ketchikan. He expressed the administration's concern that private enterprise was looking into possibly vying for the contracts. As a protective measure, he decided to institute a profit and loss formula for the bars, dining rooms and gifts shops, and it was structured in such a way that the costs were excessive in the basic formula. Those areas were designed to show losses, except for in the summer months when revenues were really high.

SENATOR TAYLOR commented that same formula is being used today to justify removing the bars. He then asked Ms. Barkley if she knows if there has been an increase in the number of employees on the vessels in the last 10 years. MS. BARKLEY answered that overall she doesn't know, but she does know of at least 10 significant job losses.

MYRNA MAYNARD asked if Ms. Barkley if she just worked as a bartender or if she also worked in the food concession area. MS. BARKLEY responded that she basically works the bar for her 12-hour

shift. Occasionally she will work other areas if it's necessary, but that's rare. The bartender's work schedule was based on about a 65 percent workload according to the bar revenue figures. She spoke to the bartender on the LaConte and asked him approximately how many hours he tended bar on that vessel. He told her he actually spends about three to four hours of a 12-hour shift tending bar, so it is not even close to the 65 percent figure.

SENATOR TORGERSON asked if employees fill out time sheets which breaks down where they are spending their time. MS. BARKLEY acknowledged that the bartenders all account for their time tending bar. In addition, relief personnel come in for several hours a day, and their bartending time will also be noted because they receive a higher rate of pay when they are tending bar.

CAPTAIN JAN SANDE, testifying in Ketchikan, said the bar issue came about on the Aurora after a survey was made of Prince of Wales Island people about three years ago on services they needed or wanted changed. The bar issue was one of about 10 questions on that survey. At that particular time, the big complaint was the need for winter service, but the only thing that has been done for the people of Prince of Wales Island is to close the bar.

CAPTAIN SANDE said when the Aurora went down to Tacoma for a major refit in 1994, he was told that the bar on the Aurora would be eliminated, so the concept to close the bars has been in the mill for a long time. He said the reason the people of Prince of Wales Island even put something down on the form about the bar closure was because of their concern about people getting drunk on the Aurora and then getting behind the wheel and driving to various points on the island. He pointed out that the bars are controlled, and they do not serve the people after a point. He has found that people who get off of the ship inebriated have usually been drinking in the solarium or some place else on the ship.

SENATOR TAYLOR asked Mr. Downing that he be provided with a copy of the Prince of Wales Island survey, the results of the survey, as well as the cost of the survey.

CAPTAIN SANDE also noted that since the bar has been closed on the Aurora, the cafe and bar revenues have dropped from approximately \$6,000 a week to approximately \$3,000. During their peak months of August and December those revenues would go up to approximately \$8,000 a week.

SENATOR TAYLOR asked Captain Sande his knowledge of the staffing levels on the vessels today relative to where it was 19 years ago. CAPTAIN SANDE responded it is his understanding that when the vessels are running there has been a slight decrease, primarily in the steward's department. SENATOR TAYLOR said he has been told that 19 years ago there were 150 more employees actually sailing on the vessels than there ARE today. He added there are less people

that have to be administered to today, and yet the administrative cost that this system is currently carrying has gone up tremendously during that period of time.

TAPE THREE, SIDE A

SENATOR TORGERSON asked Captain Sande if he knows of any claims that have been filed against the Marine Highway System for serving intoxicated passengers and then letting them leave the ships. CAPTAIN SANDE replied that although he has no direct knowledge of any claims, he thinks there have been some. He added that when he was speaking with George Reifenstein about the bar closure on the Aurora in 1994, his reason for closing the bars was because of liability concerns, and he did mention some of these claims. SENATOR TORGERSON expressed his interest in finding out if the Marine Highway System has had to pay off some relatively high expenses associated to claims related to drinking on the ferries.

SENATOR TAYLOR pointed out that the bartenders on the ferries have had extensive training on how to recognize when and if a person has had too much to drink, and part of that training was part of this concern about liability and risk management. He then asked Mr. Downing to contact the Division of Risk Management to get information concerning claims they've paid relative to intoxicated individuals coming off of the ferries.

SENATOR TORGERSON questioned if there would still be the same liability if a passenger brought on his own alcohol and became inebriated and then walked off the ship. CAPTAIN SANDE acknowledged that he thought the liability would be same.

SENATOR TAYLOR asked if pursuant to the current union contracts, if, in fact, these bars are eliminated, do those bartenders' jobs disappear. CAPTAIN SANDE answered that the bartender position on the Aurora went to a different position, although the pay was equal. SENATOR TAYLOR observed that as the bars are closed down and those bartender positions are moved to other areas of the vessels, it will probably result in nine more people, who hold temporary positions, being bumped off.

MIKE DOWNING, Marine Superintendent, Alaska Marine Highway System, directed attention to the November 1995 draft of the needs list. He explained that the way the federal aid works is that for them to have a project in the current year they need to have started the process of obtaining the funding as long ago as three years. It begins with the needs lists, and what goes into that needs list is anything they consider might be needed in the future. He said that should help clarify why the bar closure funding was included in this needs list, because it was recognized at that time as a possibility.

SENATOR TAYLOR asked if in order to get funds for scheduling

refurbishment of the vessels, they actually get on to a three-year or five-year list with federal highways and then work their way up that list. And if that is the case, then why can't they schedule maintenance three or four years in advance. MR. DOWNING responded they know what they are doing this year, and they have the funding for next year fairly well identified. However, next year's funding is almost completely restricted to the new ocean class vessel, and he thinks the needs in the fleet are greater than that, and this creates some variability in the winter schedule in '97-'98.

SENATOR TAYLOR inquired if there is a plan to remove all of the staterooms on the Malaspina and turn it into a day boat. MR. DOWNING acknowledged that one of the alternatives being considered under Juneau Access is to do just exactly that when the ocean class vessel comes on line. He added that if they think they might do that, they need to get it into the needs list. Initially, in the master plan, the ocean class vessel was seen as a replacement for the Malaspina. Consequently, the refurbishment program for the Malaspina has been less than it has been on the other vessels. It is still an efficient vessel, but it is in fairly poor condition and it was selected because of that condition.

SENATOR TAYLOR said he has heard the rumor for years that the Malaspina would be sold when the new vessel comes on, although he has never been able to get the rumor confirmed by anybody. It is obvious to him now that an internal decision has been made within the Marine Highway System to continue to let the Malaspina run down hill until the new vessel comes on, and then it will have to be sold because it is in such bad shape and there is no use for it.

SENATOR TAYLOR asked Mr. Downing to address the issue of most of next year's funding being restricted to the new vessel. MR. DOWNING explained the general fund maintenance will continue on in parallel to the Federal Aid Refurbishment Program. In the federal fiscal year 1997, the ocean class vessel is scheduled to use \$52 million of the available \$240 million. That causes objections from other areas of the state, but to mitigate that they have worked with the Federal Highway Administration to level it out and distribute the cost of the vessel over a three-year period, but they still end up with a peak in 1997 of \$52 million. That is based on predictions of the cash flow that will be needed in order to keep up with the contractors progress. He added there is a spike in the program caused by that vessel, and this is the best negotiated agreement they could get internally for the use of funds in those years.

It was further explained by MR. DOWNING that the first \$4 million Mr. Hayden spoke to earlier is state funded CIP. The second \$4 million is marine highway funds; it's either revenues or general fund monies. That goes to pay for the operations side, the salaries of the staff that is doing the work while the vessel is in the shipyard. So it is \$4 million in operations money out of the

budget every year. The federal program is separate from that. SENATOR TAYLOR then concluded that is basically \$8 million of general fund money that they know they will have for the salaries, administrative costs, and capital improvements to be done each year during those two years when Mr. Hayden said there was nothing.

MR. DOWNING said the 1991 condition survey said that in addition to the \$8 million for maintenance, they needed to spend approximately \$15 million in a federal aid refurbishment program. That condition survey predated a lot of the regulatory requirements they are now seeing. Most of the work currently being done is regulatory driven, such as fire safety, life safety, etc.

SENATOR TAYLOR said it his understanding that when an escape chute, which was a Canadian product and not approved by the U.S. Coast Guard, was tested at Todd Shipyards several people were injured going down it. MR. DOWNING responded that it has been approved by the Coast Guard; however, that accident during the crew training at Todd is of great concern to him. There were some minor injuries and one very significant injury. These chutes address a Coast Guard requirement and a Safety of Life at Sea Treaty requirement to provide quick evacuation of the passengers.

SENATOR TORGERSON asked if the 6-year CIP Mr. Hayden spoke to earlier is broken out into life safety expenditures versus major maintenance and so forth. MR. DOWNING replied that it isn't, but he can provide that information and any other information he may wish to have. SENATOR TORGERSON said this information is important to him because he is approaching this as a friend to the ferry system, and he wants to see it continue to operate and to continue to be able to have a constituency as far as getting the money that is needed to subsidize it. He needs to be brought up to date so that he can answer questions the people in his district have relating to the Marine Highway System.

STEPHANIE RAINWATER, a Second Steward on the Alaska Marine Highway System, said she was on the Taku at the time the accidents with the chute happened. Prior to going down the chute there was no video presentation on the correct way to go down the chute, and only a brief explanation was given before everybody went down. This resulted in one chief purser breaking his ankle and tearing a tendon in his leg and four women spraining their ankles. She pointed out that it takes 4.5 seconds to go down the chute, and she can see where there could be problems, especially with the older passengers in coaxing them to go down the chute. She suggested there needs to be video presentations from each port explaining how to get down the chute in a safe manner.

MS. RAINWATER related that she sailed as chief steward on the Aurora last week, and she keeps hearing about the bar area being changed over to a pizza and espresso machine area; however, the bar has been closed on the Aurora for two years and nothing has been

done with that space except to make it a storage room for candy. Her suggestion on the chief steward's report this week was that they immediately take some merchandise off of the other vessels and change it into gift shop for more revenue. She said there is still the same amount of stewards onboard and this could be a possibility of bringing in more revenue.

MS. RAINWATER also pointed out that the bars on the ferries have not be updated for several years, and she suggested that instead of doing away with them to update them by offering food service, install some jukeboxes so customers can select and pay for the music they want to hear, etc. She does not want to see the remaining bars on the ferries close on September 15 unless there is a plan in place to fill that space.

SENATOR TORGERSON commented that it doesn't make any sense to close an area if it is just going to be used as a "broom closet" for two years. SENATOR TAYLOR added that if, in fact, it is a revenue generating function and service on the vessel, it is beyond his comprehension how somebody changed the plans of the new vessel that is costing \$85 million plus to build so that there is no bar on it. He questioned how that space is now going to be utilized.

SENATOR TAYLOR stated it was his intent to hold another meeting in August in Seward to give the administration the opportunity to provide answers to questions raised on the accounting system; what is going to be done with the personnel when the bars are closed; and how they justify a \$3,000 a week loss in revenue on a vessel when the costs all remain the same.

MS. RAINWATER noted she was told by Gary Hayden that there are 102 people working in the administration of the Alaska Marine System, and she has asked for information on how many of those individuals have had any experience within the fleet so that they are familiar with the needs of the fleet, as well as its concerns. SENATOR TAYLOR agreed that was a question that should also be addressed.

SENATOR TAYLOR expressed his appreciation to the people who had taken time to testify before the task force and then adjourned the meeting at approximately 5:00 p.m.

* Transcriber's Note: The on-line testimony from Kenai and Anchorage was extremely hard to decipher and, in many cases, indiscernible due to the input going into the recorder from those locations.

SENATE TASK FORCE ON THE ALASKA MARINE HIGHWAY SYSTEM

Seward, Alaska

August 19, 1996

1:00 p.m.

TASK FORCE MEMBERS

Senator Robin Taylor
Senator Drue Pearce
Senator John Torgerson

ALSO IN ATTENDANCE

Representative Gary Davis
Patty Walen, City Manager & Port Director, Homer, AK
John Burns, representing the Alaska Railroad

WITNESS REGISTER

Gary Hayden, System Director
Alaska Marine Highway System

Damon Jorgensen, Port Engineer
Alaska Marine Highway System

Mike Downing, Marine Superintendent
Alaska Marine Highway System

Captain Kelly Mitchell
Alaska Marine Highway System

Mayor Tim Volstad
Seldovia, AK

Mayor Louis Bencardino
Seward, AK

Jim Pruitt, President of Seward Ship's Drydock, Inc.
Seward, AK

Dennis Erlanson, Port Harbor Director
Homer, AK

Don Braun, City Administrator
Chignik, AK

ACTION NARRATIVE

TAPE ONE, SIDE A

SENATOR TAYLOR, chairing the Senate Task Force on the Alaska Marine Highway System in Seward, called the meeting to order and announced the presence of Senator Torgerson, as well as noting that Myrna

Maynard would be representing Senator Pearce and participating via teleconference from Anchorage. He said the task force would first go over questions that were raised at the last meeting and the responses sent back by Mr. Hayden.

SENATOR TORGERSON referred to a packet of requested information including the 1991 master plan, the shore condition survey, the bar survey, service alternatives, etc., which he had just recently received from Mr. Hayden. He said he had not had an opportunity to completely go through all of the material so he would defer a lot of his questions until he could look it over.

SENATOR TORGERSON said he had requested the meeting to be held in Seward and he, personally, wanted to focus on some of the issues raised on the Tustemena and also the ocean going vessel that will be coming on line in a few years. He noted he recently traveled on the Tustemena from Valdez to Seward which gave him the opportunity to speak with the crew about the system and to get their input on issues they would like to see addressed by the task force. He added it is his intent to write a letter to Mr. Haden outlining those concerns. He would also like some discussion on the issue of home porting in Seward, as well as discussion on the construction of the new dock facility, which is a partnership project between the City of Seward, the cruise ship industry, the Alaska Railroad, and a requested \$3,000,000 in federal funds that was requested in the budget.

GARY HAYDEN, System Director, Alaska Marine Highway System, Department of Transportation & Public Facilities, speaking to the home porting issue, stated he currently does not have any plans, nor is he making plans to recommend the home port of Seward be changed. He said it is an issue that seems to come up every once in awhile, but he reiterated that it is not an issue that is being worked on today.

Addressing the new dock facility in Seward, Mr. Hayden said the Tustemena originally was docking in downtown Seward and was later moved out to the railroad dock. He said when that move was made, there was a deterioration in the facilities and service to the city, so he agrees that the facilities need to be upgraded, however, it then comes to the question of how it is going to be paid for. Currently, it is in the Surface Transportation Improvement Priority list (STIP), however, it is in one of the outer years, which he understands is inconsistent with what the city's needs are for the cruise ship dock, as well as the railroad's needs. He said it is a matter of finding money within the federal highway system appropriation to move that project along. However, all of the capital monies that the department will be receiving next year from the federal highway system will be going into the new vessel, so he doesn't see that happening in 1998.

SENATOR TORGERSON said the money was approved in the budget, but what was needed from the Administration was to amend the STIP to put it in there. MR. HAYDEN related that on the previous day he asked Tom Brigham, Director of the Division of Statewide Planning, about the project. He was told there will be a meeting at the end of the month to look at the STIP projects for next year, and Mr. Brigham offered that if they have more updated information than they had last year, it will be taken to the table and talked about again. He added that the last time he saw the project there were preliminary drawings that were sketches to that point, and he does not know where the project has evolved to in the last 12 months.

SENATOR TORGERSON pointed out that the dock expansion isn't just a ferry expansion; the cruise ships that come through that port feed all of Alaska economically. He reiterated that the marine highway portion qualifies for the \$3,000,000 that is already in the budget, and it comes down to amending the STIP. MR. HAYDEN assured Senator Torgerson that if there is more information available, he will take it back to the commissioner and the people who make the decisions about the priorities.

MR. HAYDEN noted that in addition to the packet he sent out to the task force members on August 13, he was also providing them with a summary of the Southwest Alaska ferry traffic analysis, a copy of the system's budget briefing, and an explanation of his goal of \$1.6 million in cost reductions.

SENATOR TAYLOR said in looking back through the budget from the year before, Mr. Hayden's numbers show a \$259,200 general fund reduction by the legislature, when, in fact, the total amount appropriated by the legislature this year to the ferry system was \$20,000 higher than in the previous year. He asked if they were using different numbers. MR. HAYDEN explained the \$1.6 million is made up of two things. One was reductions in the appropriation that goes to the front part of the budget. Also there were cost increases in risk management and labor that the system faced which were partially funded. He said Senator Taylor is correct that the number is larger, however, when they went through the whole budgeting process, they had cuts at two points, and then they also had the two points of partially funded cost increases. Since that time, the arbitrator's decision on unearned wages is having cost increases that weren't even considered during the budget cycle.

SENATOR TAYLOR commented that as this is being explained to the public, we probably should be more accurate and should be reflecting that they have had increased costs, not budget reduction. MR. HAYDEN agreed, and said he has been fairly cautious in trying to use the term of "cost containment," which is, in his mind, a combination of a little less to spend and higher costs that were not fully funded. He added that he does not want to characterize this as a budget cut and that is why he prepared the new document. SENATOR TAYLOR said he just wanted to make it clear

that the majority did not go in and dramatically cut the ferry system; the majority may not have appropriated an additional increase of \$1.69 million that the governor would have liked to have had, but the actual number of dollars appropriated was higher.

SENATOR TORGERSON said during budget hearings concern was expressed about the \$997,000 increase in the Alaska Marine Highway's share to Risk Management, and he asked if Mr. Hayden got any additional back-up, or if he thinks it is a good number. MR. HAYDEN explained that it is his understanding from Risk Management that the Marine Highway's expenditures resulting from personal injuries were going up; that more was being paid out than was being paid in and the reserve had been depleted. Therefore, they increased the risk management charge by \$997,000. He added that if there is some way to lower that number, he would like to work on it. There are a couple of things the legislature hasn't had the opportunity to talk about, but there would need to be a public discussion about it because some of the employee unions are opposed to it. One option would be having AMS employees covered by Workers Compensation.

SENATOR TORGERSON asked if there was a liability savings with the closing of the bars on the system. MR. HAYDEN responded that there wasn't.

SENATOR TORGERSON noted that a lot of ferry workers aren't in any kind of RIP program, and he asked which unions the RIP program applies to within his department. MR. HAYDEN answered that he has asked that question of the DOT administrative director, but he does not have a complete answer at this point. However, he said he would be real surprised if the vessel employees would qualify under the four basic tests that have to be met, particularly when there has to be a savings shown. He said he hoped to have that information by the next meeting of the task force.

SENATOR TAYLOR said he received a copy of a memorandum dated April 30 from Gary Egan, who is the ocean class vessel project manager, and in the memo it clearly indicates that he had been advised by Mr. Hayden that the ferries would no longer be providing full bar service and that included the ocean class vessel. Mr. Egan then issued a letter to HMI advising them to have their subcontractor stop any further work on the design, procurement and markup of the bar, and he had proposed that the area previously occupied by the bar be reconfigured into a reading room. Senator Taylor pointed out that was several days before the legislature adjourned, and he asked Mr. Hayden why wasn't the Transportation Committee or the Finance Committee or any of the people interested in a \$85 million ferry told about this decision during the legislative session. MR. HAYDEN replied that the issue of whether or not they would be able to provide bar service on the ferries was discussed during the legislative session at the Senate and House finance subcommittee level, and it was mentioned as one of the possibilities for cost

reduction if their budget was at a certain level. He didn't know the date the commissioner signed the decision document on closing the bars, but he had the direction that that was the way they were going and that is why that decision was made at this particular time.

SENATOR TAYLOR said he checked with the people on the Senate Finance Subcommittee, and they didn't indicate to him that they felt it was an either/or situation or that a choice was being made. They said at the meeting Mr. Hayden outlined a whole series of different things that would occur to the system if certain funding levels weren't met. The people that he talked with did not feel that they were making any intentional decision through the funding level that a specific activity would no longer take place. He said several of the vessels currently operating have been around for about 33 years, and the decision that Mr. Hayden made was apparently based upon some overall thoughts about the budget at that time. Now he and the commissioner have made a decision that is going to affect the new \$85 million vessel for the next 30 some years of its operation by intentionally removing the bar from it and reconfiguring the space for something else. He told Mr. Hayden he thinks it's a very dramatic and major decision that he has made, and the people involved on finance at the subcommittee level certainly did not feel they were briefed that if, in fact, he didn't get a sufficient level of funding, that the bars were going to disappear and that the bar on the new ferry was going to disappear.

MR. HAYDEN said during the budget deliberation talks that was on the list of budget impacts. The charge they have is to live within their means, and so they look for strategies as to how to reduce their costs. One of the ways to reduce the costs was to reduce the manning levels. He said there aren't a lot of tools available to the system when you take into consideration the contracts, the mandatory service levels as to where you can make decisions to reduce costs. The closing of the bars was one of those as there are several other action items that are their list that they are working on to do. He said he is sorry that the legislative people who were reviewing it didn't understand what they were talking about, but they did talk about it.

SENATOR TAYLOR reiterated that he doesn't think anybody in the legislature, at least anyone he is aware of, had the least idea that a major change was going to be made in the design of the services to be provided on that new \$85 million ferry. He told Mr. Hayden if he can find somebody in the legislature that he thinks knew that and would be willing to testify or write a letter to him to that effect, he would be happy to reverse that comment publicly. MR. HAYDEN responded that he doesn't make threats, that he tries to go to the legislature and speak the truth on these budget impacts.

SENATOR TAYLOR asked Mr. Hayden if he would agree that as far as he

knows nobody in the legislature was aware of the fact that he pulled the bar off of the new ferry before that session adjourned. MR. HAYDEN agreed with his statement.

SENATOR TAYLOR asked Mr. Hayden what revenue source he is looking to on the new vessel that will replace the revenues lost off the bar. MR. HAYDEN responded it would be in food service.

SENATOR TAYLOR asked Mr. Hayden what savings the system had after they reduced the bar service on the Aurora. He noted at the last hearing a captain on the Aurora said they had lost revenue of \$3,000 a week since the bar went down. MR. HAYDEN responded that they saved on the time that the person was doing bartending and that person is now doing food services, which saves in overtime in that department. He added they could have reduced the manning by one person on both the Aurora and the LaConte and still have met Coast Guard requirements, however, they didn't do so. Mr. Hayden also pointed out that in 1995, overall the system lost \$127,000 through providing bar service.

There was extensive discussion on information provided by Mr. Hayden relating to figures representing personnel costs, as well as a breakdown on the revenue and expense by vessel.

SENATOR TORGERSON asked why the bar was being closed on the Columbia if it is making money. MR. HAYDEN clarified that the bar isn't being closed on the Columbia. He also noted that the Bartlett and the Tustemena will continue to sell beer and wine, but they will not have full-time bartenders or bartender positions; a steward will make the sale on those two vessels.

SENATOR TAYLOR suggested that if they are really looking to save money off of some personnel within the system and they have people who do specific functions, it would seem if there were an accounting method by which a cost could be attached to those functions and a revenue source from them, that the person to be laid would be the person who costs the most and generates the least amount of money. Instead, it appears to him they are going at it backwards. He said he doesn't know of an employee on the vessel who generates as much money as the bartender does from services provided on board the vessel and who takes less money to subsidize his or her position. He said he is trying to figure out why we would want to have less revenue for our ferry service, and this will have a significant impact on revenues. MR. HAYDEN responded that the revenue will go down, but so will the costs.

TAPE ONE, SIDE B
Number 001

SENATOR TORGERSON inquired as to the number of lay-offs on the vessels Mr. Hayden anticipates to realize his goal of \$1.6 million in cost reduction. MR. HAYDEN responded that he is not

necessarily looking at vessels for laying off people. He is looking at other items such as overtime reductions, spending less money in overall operations, food services, manning levels during the winter months, as well as one other vessel position.

SENATOR TAYLOR then opened the meeting to public comment.

TIM VOLSTAD, Mayor of Seldovia, referring to a handout relating to Southwest Alaska ports, observed that Cordova and Kodiak need the Tustemena; however, Valdez, Homer and Seward have a road. He said Seldovia needs the Tustemena. He questioned why, when the Bartlett and other ferries are running in Prince William Sound, the Tustemena needs to come to Seward in the summer months. He pointed out that Seldovia has had very little service during the winter months for the last five years, and he questioned how much service it will have this coming winter season. He also asked if the new \$85 million ocean class vessel will be servicing the Kenai Peninsula.

MR. HAYDEN responding to the Seward and Valdez issue, said he would provide Mayor Volstad with a copy of the systems' annual traffic volume report that shows what the volume is in that area. He also said this winter the Tustemena will be serving Homer, Kodiak and Seldovia, as well as the Cordova/Valdez run. The Tustemena just finished a five-phase project and there is no federal project planned for it this winter. It was out of service last year for the installation of a new engine. He added that the thing that will affect the Tustemena in the future will be regulatory projects and demands that get placed on the system. Concerning the new vessel, it will serve Southeast Alaska as a mainline vessel, primarily in the summer months, and it will be available and is being designed to fill in for the Tustemena when the Tustemena is off line like it was last winter, but it will not initiate any new service on the Kenai Peninsula.

SENATOR TORGERSON commented that Seldovia is land locked and not having ferry service seven months a year is a major concern to the mayor.

LOUIS BENCARDINO, Mayor of Seward, said over the years the ferry system has put in docks in other communities, whereas Seward has always leased docking facilities to the system. Now, when they want to upgrade and build a new facility, they seem to have a problem getting the support from the ferry system. The City of Seward has been working on a partnership project that involves the cruise ship industry and the Alaska Railroad, and the only they needed was a portion from the state. He referred to the money that was allocated for a project in his area, the Hope Bridge that came in at \$10 million under bid, and expressed his displeasure that the \$10 million was quickly reallocated to another district before his community had a chance to secure that money for a project in their own district like the docking facility.

Mayor Bencardino also spoke to his concern with taking the vessels of the Alaska Marine Highway System out of state for maintenance. He said it doesn't make sense to spend money to take care of people in Louisiana when there are people in Alaska out of jobs.

Mayor Bencardino said he knows the STIP program for the dock could have been moved up if the Administration had wanted to do so, but it seems like when we have something that makes sense, we have a hard time getting the state working with us. He reiterated that the City of Seward has got private enterprise working with them and then the state lets them down.

MR. HAYDEN said he understands Seward's desire to have the state fund their joint-use facility, which he doesn't disagree with. The dilemma he and DOT find themselves in is that the state gets \$220 million a year in federal highway funds, however, the list of priorities and needs and concerns is pretty significant. He thinks it is over a billion dollars worth of competition that goes into that, so it is a matter of setting those priorities for competing needs, which is a difficult task to do. MAYOR BENCARDINO interjected that the \$10 million from the Hope Bridge project should have keyed in to take care of problems in his district, but that didn't happen. He said when he talked to the commissioner about the dock project, he felt that the commissioner thought it was a good idea, but that he didn't get the support from either the people under him or the people above him. MR. HAYDEN responded that he doesn't make those decisions, although he does get to participate in the scoring and discussion about the community road projects.

MR. HAYDEN asked Mayor Bencardino where the project is in securing the other funds. MAYOR BENCARDINO responded that everything came to stop when the state failed to support the project, although they still have got the commitment from the other entities. He also restated his concern that the City of Seward was not able to retain at least part of the \$10 million from the Hope Bridge project so that they could have gone forward with this project. MR. HAYDEN assured Mayor Bencardino that he would talk to the commissioner about his concern about the out-of-district movement of funds.

The discussion then turned to Mayor Bencardino's concern that vessels are being sent out of state for maintenance. He questioned why Washington State can do its own maintenance, and yet Alaska sends its vessels to Louisiana. MR. HAYDEN pointed out that Alaska uses federal monies for maintenance and the Federal Highway Administration requires that the project has to be competitively bid. DAMON JORGENSEN, Port Engineer, Alaska Marine Highway System, clarified that the Washington State ferries do not use any federal money whatsoever for the overhaul or the construction of their ferry system; they use state tax money and all of their federal money goes towards the highway projects. MIKE DOWNING, Marine Superintendent, Alaska Marine Highway System, added that last year

the largest single federal project that the system did, outside of the ocean class vessel, was in Seward, which was a \$7.8 million contract on the repowering of the Tustemena.

REPRESENTATIVE GARY DAVIS asked Mayor Bencardino where the City of Seward is at as far as detailed drawings on the new docking facility. MAYOR BENCARDINO said they had P&D do a draft plan, but they have been hesitant to spend any more money until they know they are getting the support from the state. REPRESENTATIVE DAVIS advised that he thought it would be beneficial to have at least a cost estimate on the specifications for the project ready.

JIM PRUITT, President of Seward Ship's Drydock, Inc., in Seward, said Seward Ship's Drydock and Seward's facility is capable of drydocking all of the Alaska Marine Highway System ferries except the Aurora and the LaConte, which are inland ferries.

He spoke to an incident where his company was the successful low bidder for a maintenance project on the Aurora a few years ago. However, on its way to Seward the Aurora got into heavy seas in the Gulf of Alaska and was directed to go to Ketchikan for repairs. Since then the Aurora and LaConte have come up for bid with federal money in them and overhaul state money, however, Seward Ship's Drydock was told it was not going to be allowed to bid on the Aurora because it is an inland ferry and it can't make that crossing. His company has talked to masters that have been with the Alaska Marine Highway System, as well as having had a lot of sea time experience, and they have been told that the Aurora can safely be brought across the gulf. They have also talked to the Alaska Marine Highway System numerous times and they get varying opinions, depending on who they talk to, whether this vessel can be brought across or can't.

Mr. Pruitt said the reason for building the Ketchikan facility and the Seward facility was to keep these vessels in state, and there has been legislation passed to keep accomplish this as well, but unfortunately, because of the wording in the legislation in it can be interpreted in different ways. He suggested there needs to be clarification on that legislation to where those vessels can be kept in state. He said his company would like the opportunity to participate in the fair bidding process and be able to work on Alaska ferries with Alaskans.

MR. HAYDEN said he talked to the port captain the previous week about the Aurora crossing the gulf and he received an explanation that it was a safety issue, and it was also a safety issue in conjunction with the sponsons and the structural integrity of the vessel. He had asked Captain Sande, who was bringing the Aurora across the gulf the last time, if he would bring it across this time. Captain Sande said there was no way he was going to bring that vessel across the gulf because of the slamming, because of the sponsons sticking out and catching water and slamming. The captain

thought that last time that he was going to lose the ship.

Mr. Hayden pointed out it is a matter of not only bringing it across the gulf but also taking it back. Also, the window of opportunity on the Aurora project is very tight schedule to the fire safety work and get it back so that they can then do the LaConte. These projects have to be done in a timely manner so that there isn't an interruption in service.

TAP: 2, SIDE A
Number 001

SENATOR TAYLOR asked how they can justify sending a vessel to Portland if they are worried about an inland ferry in outside waters. **MR. HAYDEN** responded that he has been with the system for two years and he hasn't seen a vessel go to Portland, but he said he would research the passage time, the sea states, wave heights, windows of opportunity, etc., all the factors that go into it. The problem he has is ordering the captain of the Aurora to put his vessel in what he considers to be an unsafe condition.

SENATOR TAYLOR asked that if there are some federal dollars involved, but the low bid on the Aurora turns out to be Seward, do they lose the federal money because they refuse to bring the Aurora across the gulf. **MR. HAYDEN** answered no, because it was written in the bid specs that way.

SENATOR TORGERSON asked if Mr. Hayden could get a second opinion on the safety of crossing the gulf. **MR. HAYDEN** agreed that he would get another opinion in writing.

CAPTAIN KELLY MITCHELL, Alaska Marine Highway System, testifying from Juneau, clarified it was not Captain Sande that attempted to cross the gulf on the Aurora, it was Captain Hopkins, who he respects as an ocean master that has also sailed on the Tustemena. He said he has discussed this issue a number of times with Mr. Pruitt, and the issue is a matter of safety and the delivery and redelivery of the vessel back to Southeast. It is not a matter of length or size of the vessel, it's the whole configuration. A 35 foot fishing vessel is much more seaworthy in open ocean conditions than a sponson hull ferry vessel that's certificated for inland lakes and bays.

SENATOR TAYLOR observed that since the new vessel will be using up the federal funds allocated to the system for a period of two years, maintenance during that two-year period will be all general fund dollars. He then asked why it would be necessary to send a vessel outside for the next two years. **MR. HADEN** answered that he hasn't entered those years when he has all state general fund monies. This winter the Aurora and the LaConte are receiving fire safety, as well as an upgrade to the Matanuska. Those three vessels, for this winter, are federally funded. Two of them are

funded out of FY 96 funds and one is funded in FY 97 funds.

SENATOR TAYLOR again asked if there is any reason why the vessels that will require maintenance during that two-year period will have to go outside of the state. MR. HAYDEN responded that they are going to live under the terms of their statute, and that's what they have been doing. SENATOR TAYLOR commented that he was the person who drafted that statute and this state has never lived under the terms of that statute. MR. HAYDEN said where the vessels go depends to some extent on what type of work is being done on them. He doesn't know what the maintenance schedule during that time period is, but he thinks the probability of going out from competitive bid is pretty low.

DENNIS ERLANDSON, Port Harbor Director, City of Homer, said one of the questions and one of the concerns the City of Homer has is the condition of the ferry dock, which is now part of the city's responsibility. This past February a letter was sent to the commissioner expressing the concern and also the possibility of a design team being formed with the city and the other users of the dock. He said as he reads the CIP for the ferry service there is a reconnaissance project identified at the end of the century to start the process of deciding whether or not a dock has to be built. He expressed concern that by the year 2000 the dock may be at a point where it is not usable and serviceable, and he suggested looking at that time line and trying to speed it up. His concern for the city is how long do they have to keep the dock going before they start working together as a group and go after a design project.

Mr. Erlandson also pointed out that the new ferry will be larger than the Tustemena, which now services Homer on a regular basis, and if the Tustemena was to be out service and had to be replaced with the new vessel, there would be concern about bringing the larger ferry into the existing facility.

MR. HAYDEN said as result a of Mr. Erlandson's letter, the dock got placed on the reconnaissance phase. He added there is nothing that inhibits them from sitting down and talking about those needs whenever the city wants to. It's a matter of getting the need identified, coming up with some solutions and getting in line.

DON BRAUN, City Administrator, City of Chignik, said the Tustemena serves the City of Chignik and the four other surrounding communities and they consider it a vital link in their economy. He said they share Seldovia's concern about the uncertainty of scheduling. He said, in general, the AMS has attempted to address their concerns and they are appreciative of that. He pointed out that right now fishing drives Chignik's economy, but he envisions that tourism will eventually come more into play, and he asked that be factored into the scheduling of ferry service to their area.

Mr. Braun said the City of Chignik has a partnership with the Corps of Engineers that involves state funds for a boat harbor; however, they can't get the state highway people to talk to the state boat harbor people. He suggested they work to integrate programs even if there is a slippage in time. He also noted the City of Chignik has been working on getting a new docking facility in Chignik and that DOT has been responsive and has been working with them in this effort.

MR. HAYDEN said in developing the winter schedule they tried to identify all the community needs and to have the communities understand the other community needs. He stressed the need to keep working together so that everybody understands what those feeding powers are in the Tustemena because it can only make so many port calls in a 7-day period.

There being no further witnesses to testify, SENATOR TAYLOR said he still had several questions that he would submit in writing to Mr. Hayden. Concerning the bar removal, he like to see the survey that was conducted on Prince of Wales Island, the one used as justification for pulling the bar off the Aurora, as well as a tabulation of comments cards the system has been receiving from passengers on the ferries concerning removing the bars. He reiterated his concern that the system can't get the winter schedules out in a timely manner.

SENATOR TAYLOR asked if they not now moving forward to close the bar on the Columbia, is there any likelihood they can be dissuaded from doing that with any of the other vessels before the September 15 deadline. MR. HADEN said he asked that same question last week in the context of how does he deal with the operation within the revenues and the monies that he has available to him; whether or not to change that decision, or whether or not to continue forward with the decision. He said he took a neutral stand, and he was given direction to continue with the closure of the bars. He added that he would pass on the task force's comments once again.

SENATOR TAYLOR said that if they really want to lose that income out of the bars, he could promise where he is going to take it the next legislative session; it's all coming out of administration. He said if we are going to start firing people that are generating an income that's keeping that ferry running, then he is going to start firing people that are taking money that's not keeping that ferry running, that's tieing it up in Bellingham and other places. He suggested Mr. Hayden take that one back up to Commissioner Perkins, as well as suggesting that maybe the commissioner should be at the next hearing to explain to people like Mr. Bencardino and others how \$10 million gets transferred to another district while a project like the Seward dock goes down the drain.

There being no further business to come before the task force, the meeting was adjourned.

SENATE TASK FORCE ON THE ALASKA MARINE HIGHWAY SYSTEM
Sitka, Alaska
October 14, 1996

TASK FORCE MEMBERS

Senator Robin Taylor
Senator Drue Pearce
Senator John Torgerson

WITNESS REGISTER

Ms. Andrea Barkley
P.O. Box 1037
Ward Cove, AK 99928

Joe Ashby
1808 SMC Road
Sitka, AK 99835

Ms. Stephanie Rainwater
926 Jackson
Ketchikan, AK 99901

Mayor Pete Hallgren
403 Lincoln St.
Sitka, AK 99835

Leif Jenkinson
Inland Boatmen's Union of the Pacific - AK Region
P.O. Box 6300
Ketchikan, AK 99901

Gary Hayden, System Director
Alaska Marine Highway System
Department of Transportation & Public Facilities
3132 Channel Drive
Juneau, AK 99801-7898

Commissioner Joe Perkins
Department of Transportation & Public Facilities
3132 Channel Drive
Juneau, AK 99802-7898

Mayor Jack Shay
Ketchikan Gateway Borough
344 Front St.
Ketchikan, AK 99901

Ms. Marlene Campbell
City & Borough of Sitka

100 Lincoln St.
Sitka, AK 99835

Will Petrich
280 Bunchberry Lane
Ketchikan, AK 99901

Paul Post
220 Seward St.
Juneau, AK 99801

Eve Rauscher
Sitka, AK

ACTION NARRATIVE
TAPE 1, SIDE A
Number 001

SENATOR TAYLOR, chairing the meeting of the Senate Task Force on the Alaska Marine Highway System in the Sitka Centennial Hall, called the meeting to order at approximately 4:00 p.m., and noted the presence of Senator Torgerson. He stated the first witness to testify would be Ms. Andrea Barkley of Ketchikan who was standing by in California waiting to address the task force via long distance telephone. He then asked Ms. Barkley if she could relate the current status of the bars on the fleet.

Number 020

ANDREA BARKLEY said all of the bars on the fleet, with the exception of the bar on the Columbia, are closed. Bar service on the Columbia has been reduced to six hours of bar service per day, which she thinks will last only for the duration of the Columbia's run that will be ending shortly. There has no been commitment for Bellingham bar service for whichever ship may pick up that Bellingham run.

SENATOR TAYLOR said in talking with Stephanie Rainwater, it was his understanding that a committee within the employees' union had met with the Administration and made recommendations where the bars could be open and that the number of the positions they wished to reduce could be accomplished by shifting and changing some jobs within each of the vessels. He then asked Ms. Barkley if she could elaborate on those recommendations.

MS. BARKLEY said several meetings took place between employees from the vessels and management personnel, and extensive programs were suggested and discussed in trying to come up with alternate solutions for cutting costs rather than closing the bars. A program that was brought forward by employees that would have allowed the Administration to achieve the cost savings on the personnel positions that they were looking for without having to

eliminate the actual bar service. However, although these suggestions were offered, it did not seem to be acceptable and the bars were summarily closed.

SENATOR TAYLOR asked if the closure of the bars actually means the elimination of any jobs in the fleet. MS. BARKLEY responded that with the bartender positions eliminated, they will have to be assimilated into others positions on the ferries. With the elimination of these positions, she thinks that it will work its way down to a bottom-line elimination of several employees at the very bottom end of the scale. However, it won't be the most expensive employees, it will be the least expensive employees and seasonal people at the very bottom.

SENATOR TAYLOR commented that by closing the bars the same employees will still be on the ferries at basically the same wage scale but just shifted to other duties, and the people that will actually be let go will be those that are probably Tier II employees with lower benefit packages, etc., and that will require an even greater loss of employees than the 19 bartender positions that they said would be reductions. MS. BARKLEY said she thinks they were estimating it would be 9 permanent bartender positions, not 19, but she agreed that it will result in a domino effect, and it will result in the elimination of the lesser employees and more than the actual number of bartender positions.

Number 090

SENATOR TAYLOR referred to correspondence Ms. Barkley had sent to the task force in which she raised some concerns about scheduling on the Matanuska, Malaspina and Taku, and he asked if she would address those concerns. MS. BARKLEY said they had an extremely difficult year on the Matanuska, and the Malaspina did as well. Every major port the Matanuska had this summer was a night port and only Wrangell and Petersburg were day ports. They were disembarking passengers in Ketchikan at 4:15 a.m., and they were often arriving in Sitka and Skagway at 1:00 a.m. She said the scheduling was very detrimental to their services, especially for the bar. There were many times when the business could be there, but they were just not open because of the off-scheduling, or they were scheduled into port for long periods. On several occasions the Matanuska arrived in Prince Rupert at 11:30 a.m. and didn't leave until 5:00 p.m., and the bar was not allowed to be open while in port. The scheduling was detrimental for the food service as well.

SENATOR TAYLOR asked if she ever received any explanation on why they ended up with that kind of a schedule. MS. BARKLEY responded that they had this same problem the summer before, and she spoke to many people who she thought would be in a position to give her some insight into why they were on this scheduling, but nobody was ever able to give her or anyone else an explanation as to what the

scheduling was all about. She added there were many times when people told her they would have liked to have taken the ferry, but they didn't like the 1:00 a.m. departure, or they didn't want to have to disembark at 4:00 a.m., so they would make other arrangements because the scheduling wasn't conducive to their plans.

SENATOR TAYLOR noted he could recall times during the summer months when one ferry would arrive in port and another ferry would have to wait for that ship to load before it could dock, and as a consequence, the ship in the lead was carrying good heavy loads, while the ship running behind it was running half empty all summer long because of the way the schedule had been arranged. MS. BARKLEY said she has been working for the Alaska Marine Highway System for 18 years, and she has never seen scheduling as bad as it has been for the last two years. She also noted that during the early part of this past summer the Columbia was only about an hour behind the Matanuska going northbound, so the Matanuska was picking up the moderate small loads and the Columbia was basically picking up nothing. There were several incidence where there three vessels bunched up at the same port.

SENATOR TAYLOR thanked Ms. Barkley for her participation and for supplying the task force with all the information. He added that he only wished many other members of the fleet would have done the same thing, because the only ones that are keeping this system running are those people out on the fleet. He said he has made the same types of inquiries concerning scheduling and he gets the same strange answers which never seem to resolve the issue, and as we watch it, service further diminishes each year.

Number 185

SENATOR TAYLOR then stated the task force would take testimony from witnesses waiting to testify in Sitka.

JOE ASHBY of Sitka stated that his only request was that the ferries continue to be fully funded into Sitka because they are the community's lifeblood as far as freight goes.

SENATOR TAYLOR thanked Mr. Ashby for his comment, and he told him that if he wished to make any additional comments, to please submit them because the record of the task force would be kept open until a report is rendered to the Legislature in January. He also pointed out that it was not the Legislature that underfunded the system, in fact, general funding went up over \$20,000, but the Alaska Marine Highway System fund went up about \$3.9 million. The Legislature did make cuts in the Department of Administration, and the Administration chose rather than to reduce the Department of Administration at all to parcel the cuts out among various departments. The Marine Highway System was hit with a very large increase in administrative costs, as well a substantial increase by

the Division of Risk Management for its self-insurance, all of which wiped out the increased funding that had been provided by the Legislature.

MR. ASHBY said he has heard several people say that the system should be put out to bid to be operated by private enterprise like Washington State has done and practically all of the eastern seaboard has done. SENATOR TAYLOR said it was suggested to the Administration that if they were so anxious to close all the bars on the ferries, why not let the bartenders themselves continue to be members of IBU, etc., and give them the opportunity to contract out those bars, run them like independent businesses, and then pay the state out of the profits that they would make. He said the Administration summarily rejected the suggestion, and he added that there is absolutely no revenue generating activity that is replacing those bars.

Number 255

SENATOR TAYLOR stated the task force would begin taking testimony from witnesses waiting to testify in Ketchikan.

MS. STEPHANIE RAINWATER, a second steward on the Alaska Marine Highway System, stated she is also chairman of IBU's Management & Labor Advisory Board, and they have been meeting with the state since June 4th in an attempt to keep the bars open or even put them on a seasonal basis. They took non revenue job versus the revenue jobs and were able to come up with the same numbers where they would be saving money. She said in talking with Brenda Markley and Bruce Cummings, they agreed that this is the same amount of money so why not keep the bars open and eliminate the non revenue jobs. She said she thinks the bars being closed is a political decision that Commissioner Perkins is involved in and not an economic decision. She also pointed out that since the bars have been closed, those areas are not being used in any revenue generating way.

Ms. Rainwater informed the task force that the Management & Labor Advisory Board has also been discussing what to do with the Malaspina and the jobs that will be lost when it is retired from the fleet, as well as some ideas about coming up with a day boat.

Ms. Rainwater also spoke to cuts in service to communities in Southeast Alaska and the effect it has had on travel for school activities.

Ms. Rainwater said she thinks that consideration should be given to reopening the bars on a seasonal basis and then see what can be done to get them back into running order on a profitable year-round basis.

She suggested the task force should be taking a look at exactly what moves would be good for the public as far as service, and taking a look at who is running this system, where it is going to go, how much money is going to be cut out of its budget each year, etc.

SENATOR TORGERSON said that many of the things that Ms. Rainwater brought up is what the task force has been dealing with in trying to determine what kind of an approach to recommend to the Legislature and the Administration. He commented that the information is not free flowing between all the groups involved, so it is difficult for the task force to make up any kind of recommendations. Many of the problems she spoke to have been placed to the Administration for answers, but most of those questions are still unanswered.

SENATOR TAYLOR also spoke to the frustrations of trying to get information and answers from the Administration, but he said he and the other members of task force intend to follow through with this effort and have a full-blown discussion of the purpose, the object and the reason for maintaining the system, and how we can best do that to provide service to Alaskans.

Number 696

PETE HALLGREN, Mayor of Sitka, said over the years Sitka has seen reductions in ferry service. He said the City of Sitka spends a fair amount of money trying to attract independent travelers to Sitka during the summer months, and they have found that basically the cities on the mainline ferry system get a much better return than they do. Many people who travel in motor homes find that they have to stay over too long in the city so they don't stop there.

Mayor Hallgren pointed out that the Marine Highway System ties in with the road highway system, and that there are changes that could be made to the road highway system which would greatly benefit the Marine Highway System and Sitka. In particular, Sitka has been investigating a road to Baranof Warm Springs on the other side of the island. If this road were to be put in, it would provide not only more and less expensive ferry service and better freight service, it would provide an electrical intertie corridor for southeast as well.

TAPE ONE, SIDE B
Number 025

There was brief discussion on the fact that the Administration has come up with nine options for the Malaspina, but before coming up with these options, there was no contact with the Legislature or the dependent communities and the people who must rely upon the service to consult with them and formulate the options based on what was needed by the communities.

SENATOR TAYLOR noted that during the recent Southeast Conference he met with Commissioner Perkins who told him it wasn't his decision to take the bars off of the ferries, that it was an internal decision.

Number 065

LEIF JENKINSON of Ketchikan related that when the executive committee of the Alaska Region of the Inland Boatmen's Union went to Juneau last January, the Governor and his chief of staff told them they had two choices for the Malaspina: it could be sold or it could be used as a day boat between Juneau and the Haines-Skagway run. At the last Labor & Management Advisory Board meeting, they were told a third choice was added which was to use it as a shuttle between Ketchikan and Bellingham, but that the department had made the decision that they would not spend the \$10 million on the needed repairs to the ship. He pointed out that the new vessel will not be a replacement for the Malaspina since it has a whole different mission and will not be in Southeast Alaska the entire year.

Mr. Jenkinson, addressing the bar issue, said it's very difficult for the bar on the Taku to make a profit in the month of July when it makes several sailings with less than 60 people aboard because the computer reservation system said it was full and turned people away. He said for ten years we've looked in absolute awe at some of the messups with the reservation system and the amount of traffic and money that has been turned away, so he is skeptical when they keep talking about how they are going to upgrade the reservation system.

Mr. Jenkinson made reference to a document entitled "The AMHS Budgeted Position Comparison Fiscal Year '85 versus Fiscal Year '97," which states that there have been no vessel positions lost. He questioned where they came up with those numbers because he can name the positions that have been lost.

SENATOR TAYLOR interjected that he has raised that same point at both task force meetings -- that there are fewer employees out on the vessels than there were 10 years ago.

Returning to the bar issue, Mr. Jenkinson said the bartenders who worked on the ferries really felt that there was a lot that could be done to change the revenue picture, but everyone who has been working so hard on trying to resolve this issue has been told that the Administration doesn't want to hear their ideas for revenue enhancement and they don't want to hear their ideas for cost cutting. He said all of this is depressing to hear, and the morale in the fleet has been bad enough.

Number 175

SENATOR TAYLOR thanked Mr. Jenkinson for his comments, and said that everyone shares the same concern, and that is a concern that this ferry system survive and thrive in the future.

Number 225

GARY HAYDEN, System Director, Alaska Marine Highway System, testifying from Juneau, said since the last meeting of the task force, the Malaspina issue as to what happens to it has come out in the public arena as a need to make a decision. In 1997, there is new set of requirements that kick in that will dictate that the system in the state make a decision about the Malaspina. There is set of fire safety regulations, and it would cost approximately \$5 million to do the work to upgrade to meet these regulations. He said they don't have that money in this year's program so now is the time to have the public input on what to do with the Malaspina.

Mr. Hayden said a couple of things have been said in other testimony that he believes are incorrect. During his presentation at the Southeast Conference, the Commissioner clearly said that the decision as to what to do with the Malaspina has not been made. He also said the department would be working with members of the Southeast Conference over the next several months to bring the decision to the table for a public discussion. A meeting with the Transportation Committee of the Southeast Conference is going to be held during the month of November.

Mr. Hayden he said they have a got a year to make this decision, and, at this point, he thinks there are several options. Some of the options outlined by Mr Hayden were:

- (1) The Malaspina could be redeployed to the Bellingham run, which would mean there would be two vessels running out of the southern port.
- (2) The Malaspina could be redeployed to run up Lynn Canal as a day boat.
- (3) The Malaspina could be sold and the ocean class vessel could be run out of Prince Rupert. He noted that selling the Malaspina option was discussed as part of the 1991 master plan.
- (4) The Malaspina could be upgraded to meet the requirements and have it remain on the Prince Rupert run and have the new vessel run on the Bellingham run with the Columbia.

Mr. Hayden said they are currently trying to get the numbers together for people to look at and to understand the cost of each one of those options. They are also doing a vessel condition survey on the Malaspina, as well as an appraisal of the vessel, and they will then develop estimates as to what the capital cost of each one of those alternatives is. A break-even cost analysis will

be done to determine what the additional traffic demand would be to generate the revenue in order for the state to afford to run the Malaspina as the ninth vessel with no additional cost to the state, or, if it was run as a ninth vessel and it required additional subsidy, what amount would be required to run it. A fleet-wide replacement analysis is also being developed so that there is an understanding of what the costs down the road are for bringing replacements on line. He said these documents will be ready for the task force by the time it gets to Juneau for the next legislative session.

Mr. Hayden reiterated that there has been no decision to sell the Malaspina although it may have been reported that way.

Number 300

SENATOR TORGERSON asked Mr. Hayden if it would take legislative approval to sell that big an asset of the Marine Highway System, and MR. HAYDEN responded that it would not, but he added that they don't see themselves making this decision in the vacuum without having a discussion with the Legislature as to what happens to the Malaspina. He also clarified for Senator Torgerson that a previous appraisal of the Malaspina was \$3 million, and it was his hope that if the vessel were sold, the money would go into the vessel replacement fund, but he does not have a legal opinion at this point and that will be part of the package as to what happens to those revenues. He also said they need to make the decision in time to write the schedule for next winter.

SENATOR TAYLOR said under the scheduling system the LaConte was supposed to operate until September 11, but under a contract let by the department is was supposed to go into the shipyard on September 1, but that Mr. Hayden assured him that it would continue its run as opposed to going to the shipyard. He asked Mr. Hayden if he has any idea at this point how much that one mistake on the part of their central office administrators cost the state. MR. HAYDEN responded that he was not aware that it was going to cost anything.

Number 360

SENATOR TORGERSON asked Mr. Hayden if he has been involved in the negotiations for a new system that may be established by either local governments or private enterprises between a couple of communities in Southeastern Alaska. MR. HAYDEN acknowledged that he has been involved in those discussions. DOT has funded the City of Craig close to \$300,000 for two different studies. SENATOR TORGERSON asked what the impact of something like this would be to the Marine Highway System. MR. HAYDEN responded that an analysis on that hasn't been done. He added that at one end of the extreme, if the Aurora was no longer on that run and it was not needed to provide service anywhere within the system, it would save \$2.5

million. The next question is whether it could be deployed somewhere else and generate enough money to overcome that \$2.5 million. He said he would send Senator Torgerson information on what the other options are for redeploying the Aurora. SENATOR TORGERSON said he would be more interested in information in respect to an overall plan on what happens to the Malaspina and the new ferry coming on line and even the possible sale of another ferry.

SENATOR TORGERSON asked Mr. Hayden the status of a list of questions that had been submitted to him by the task force. MR. HAYDEN responded that he gave answers to earlier questions at the meeting in Seward, but that he had not received any further questions. JOE AMBROSE added that everything that was relayed to the Ketchikan office was relayed to Mr. Hayden's office, but he said he would send them again.

Number 490

SENATOR TORGERSON inquired as to the status of the reservation system. MR. HAYDEN said the contractor has been hired, they have been working on the design and programmers at DOT are currently programming the system. The design of the system should be completed in May of 1997, and they are looking forward to installing and having it up and running for next winter's schedule.

SENATOR TORGERSON asked since the new system won't be available for next summer's scheduling, what steps have been taken to change the bureaucratic mess that has happened in the last couple of years with summer reservations. MR. HAYDEN responded that they are going to get the telephone system to do more forwarding of calls so that there will be more sites this winter answering the incoming calls. SENATOR TORGERSON wondered why a whole new reservation system is needed if they can do something as simple as call forwarding. MR. HAYDEN said their current reservation system is about 12 years old and it is very difficult to make changes to it. He also said he wished the new system could be on line for next summer's reservations, but that is not going to happen.

SENATOR TORGERSON asked if consideration was being given to reopening the bars on the ferries on a seasonal basis. MR. HAYDEN acknowledged there was such a discussion, but the decision was made to not open the bars on a seasonal basis. He also clarified that in their contract, bartenders get paid at a rate per hour. Those bartender positions have been eliminated so those employees will not be earning wages at the bartender wage rate. Bartenders, because of the seniority system, will displace some other persons within the terms of their contract and they will be paid at the rate of the position that they are filling.

SENATOR TORGERSON requested Mr. Hayden's comments concerning an article in the Ketchikan Daily News where somebody had written in

and said that the present administration talks of selling the Malaspina and giving up the most lucrative ferry runs. MR. HAYDEN emphasized that there has been no decision on selling the Malaspina. The new vessel will start service out of Prince Rupert in 1998 and will pick up the Malaspina traffic, so they would not be giving up any lucrative runs.

Number 657

MR. HAYDEN noted that Commissioner Perkins of the Department of Transportation & Public Facilities had joined him the Butrovich Committee Room in Juneau.

SENATOR TAYLOR said in a meeting he had with the Commissioner during the Southeast Conference he had expressed his concern about the mission and purpose of the ferry system. He then asked if the Commissioner would address that issue.

COMMISSIONER PERKINS said one thing they want to look at in the Southeast transportation study, as well as the Prince William transportation study, is what is the mission right now, is it the same mission it had when it first came into being, and has the mission changed. He said he really thinks that we must decide what the people, particularly in Southeast Alaska and somewhat in Southwest Alaska, are expecting the ferry system to do. He thinks they need to get that portion of the mission statement reaffirmed so they know where they are heading so they can try to structure something that supports the desires and anticipations of the people that use the system.

SENATOR TAYLOR asked how long he thought that process might take, and COMMISSIONER PERKINS said he thinks they should be able to have an idea of what the mission statement is going to be by the first of the year. He said in the process of doing this study, they will be going out to a lot of people in Southeast Alaska to get their input on what they want this ferry system to do.

TAPE 2, SIDE A
Number 010

SENATOR TAYLOR said it is his understanding that both the fleet of ferries in Puget Sound and the entire ferry fleet in British Columbia are expanding, and expanding significantly, and he finds it difficult to understand how those government operated systems have not only been successful but are expanding at the very same time when Alaska is seriously looking at constricting and reduction both in the size of the fleet and the level of service to be provided.

COMMISSIONER PERKINS said he and Mr. Hayden spent a day with the people that run the Washington State ferries. He said they found that Washington operates at a little bit more subsidy than Alaska,

and they have not had much trouble receiving their funding from the Legislature. A lot of their big paying system is short runs with high production. They have not visited British Columbia, but they intend to do so in the near future.

MR. HAYDEN agreed that the Washington State ferries have a lot of traffic volume. Their traffic has increased as the population in that area has increased, whereas Alaska's population and traffic demand has not been growing at that rate. He said Alaska does need to be adding to and expanding our fleet, and the ocean class vessel is one of the first commitments to doing that. However, it comes down to traffic and how much we are willing to pay for the services. He pointed out that the Washington State ferry system carries 25 million passengers a year and Alaska has 400,000 passengers a year.

SENATOR TAYLOR asked if they foresee any expansion of the ferry fleet, or they asking for any expansion of the ferry fleet at this time. COMMISSIONER PERKINS responded that he didn't think they could answer that question until they find out from their southeast study what they are going to do about future transportation in Southeast Alaska. Once they get the results of that study, they are going to implement those results, whatever they may be, and whatever proves to best for Southeast Alaska. Until they find out and get some priorities as to what to spend on, he doesn't think they can ask the Legislature for anything as far as new capital projects. He said they need to be looking at exactly where they are going to head, not just for the next two years, but for the next 10 to 20 years.

SENATOR TAYLOR commented that apparently the department knows enough about the rest of the highway needs of the state because we are putting \$182 million into the old Glenn Highway, several new bike paths are being initiated, etc., so somebody seems to be making some major decisions on transportation in other areas of the state. COMMISSIONER PERKINS responded that a lot things govern that such as safety. He said one thing that needs to be discussed a little bit is whether or not you have a subsidy road versus ferry system. Anybody who uses a highway in the state is paying an 18 cent federal gas tax. The state gets back six times in construction dollars what it puts into the federal gas tax. That is the money that is repairing the roads, and about \$60 million of it happens to be going into the ferry system this year. Every year the average is somewhere between fifteen and twenty million in capital money from the federal gas tax that is being put into the ferry system, so there is a subsidy coming in for capital projects from the federal government, from the people instate and out of state who are paying gas tax to drive on the roads. He said the Marine Highway System is benefited from every contribution that other people have made with the federal gas tax. He noted this year the NHS program, statewide, is a little over \$100 million, and of that, \$50 million is going for the new vessel, which he said is pretty good.

SENATOR TAYLOR said when the road system mileage maintenance costs, per mile that you run between Anchorage and Fairbanks costs twice the amount to maintain than it does per mile to operate the Marine Highway System, he does not think there is an allocation that justifies the type of rhetoric that he hears about subsidy. He said he gets upset with the word "subsidy" that constantly gets used as if somehow we're some poor stepchild down here and have to be fed by the generous people of the state.

Number 180

SENATOR TAYLOR asked what will be the total volume of revenues lost by the bar closures on the ferry. He noted that Captain Sande has testified that since the bar was closed on the Aurora, they have lost \$3,000 a week in revenue, which includes food service and the gift shop. He said he considers that a very significant loss of revenue. MR. HAYDEN responded that the traffic has been down on the run too; the revenues generated as a result of passengers and the car deck are down on that run since 1992. Since 1992 they have provided more runs, more port calls and the traffic has dropped. He said he would expect there would be a drop in food services during that same period because there has been a drop in traffic.

SENATOR TORGERSON commented that when the Mayor of Sitka testified he suggested looking into the land based roads and other things that might tie in with the ferry system. COMMISSIONER PERKINS said they have been doing that. A study was commissioned last year to do a fairly conceptual look at the Baranof Warm Springs road and try to get a cost estimate. That study has been completed and they know what that road would generally cost to build so they can compare it against the service improvement that it would bring. In that study they are also going to look at the Bradfield Canal road and a Juneau access road, so he thinks for the first time in quite awhile, they will have information on most of the road links in Southeastern Alaska and they are going to play a very important role in this study of how is the best way to serve Southeast as far as transportation is concerned.

COMMISSIONER PERKINS reaffirmed that their primary mission, and what he wants to do, is to make sure that we've got the best transportation system that we can possibly have in Southeast Alaska. He said the same is true with Southwest Alaska.

Number 250

SENATOR TORGERSON asked if these roads he had discussed would have to compete on a statewide basis for construction funds. COMMISSIONER PERKINS responded that right now the state is blessed with having the Marine Highway System on the National Highway System, which is one of the major money sources for federal money, so that can be used as a source of money. If the roads he mentioned were to go on to construction, they would be National

Highway System roads. Their competition would be repair on the Glenn, the Parks, etc. He added that the department may even take a look at toll roads, because last year the legislation that Congress passed allows the state to do toll roads with federal money, with the state kicking in 20 percent of the cost.

Number 290

SENATOR TAYLOR thanked Commissioner Perkins for his participation in the meeting, and said he appreciates what he knows to be his sincere desire to make for a better system. But he suggested that every single road he gets on in Southeast Alaska to go to any community within his district is a toll road, and he pays through the nose to get on it, so when he hears him talking about highway toll roads his fear is that the only roads he is thinking of will be in Southeast Alaska. COMMISSIONER PERKINS responded that the Whittier road will be a toll road.

SENATOR TAYLOR said it is his understanding there is one employee that has been working basically at home at a salary of approximately \$80,000 a year, and his job for the last four plus years has been to design a computerized system for maintenance on the vessels. He said that if, in fact, this is correct, he would like to have a report from the department on the status of this project and if this individual will be continued at that same salary or can he be let go.

Also, the task force has been concerned and made inquiries about increases and numbers of administrative personnel in Juneau relative to the size and employment within the fleet. He asked if the two planners that have been discussed have been hired. MR. HAYDEN acknowledged that two planners have been hired, and they are doing an analysis on the Malaspina break-even report, but he also clarified that there are still fewer people working because of a number of positions that are not being filled.

SENATOR TAYLOR expressed his thanks and appreciation to Commissioner Perkins and Gary Hayden for participation in the meeting. He then stated testimony would be taken from Mayor Shay in Ketchikan.

MAYOR JACK SHAY of Ketchikan expressed his appreciation for the work the task force has been doing relative to the Alaska Marine Highway System.

Mayor Shay said he has recently been going door to door to thousands of Southeast Alaska homes and businesses in Wrangell, Petersburg, Sitka, Ketchikan, as well as meeting with persons on Prince of Wales Island, and one thing he keeps hearing time and time again is to please keep the ferry system going and see what can be done to improve the service.

Mayor Shay said he would also like to put in a little plug for doing some of the maintenance on the Columbia in Ketchikan to try to create some jobs, although he knows it may cost a little extra. He said the City of Ketchikan is looking forward to working with the task force in any way they can to help improve the system there.

Mayor Shay commented that in regard to a recent snowfall which occurred in the Anchorage, they would recommend that in order to save some money, they plow the roads northbound on Thursdays and Saturdays from 2:00 p.m. to 4:00 p.m., and then do the eastbounds yet another day at a certain time. He added that may sound a bit sarcastic, but it is.

SENATOR TAYLOR thanked Mayor Shay for his comments, and added that he is somewhat dismayed from the answers that have been received that apparently if he wants to participate and bring some southeast perspective to the issue of the Marine Highway System, he is going to need to do so through the Transportation Committee of the Southeast Conference because apparently that's who is going to be asked for input over the next month or two.

Number 457

MARLENE CAMPBELL, representing the City & Borough of Sitka, said Sitka is sending the same message as spoken to by Mayor Shay and that is that they have basically between one-third to one-half of the service of any mainline port because of their geographic location. Over the years Sitka has been increasing pressure on the Marine Highway System to provide better service for Sitka and at least minimum basic services for their citizens during the winter, as well as during the summer months when most of their revenues come in, not only through their visitors, but also through seafood industry shipments. She stressed that with the loss of their pulp mill in 1993, the Marine Highway System is absolutely critical to their economy.

TAPE 2, SIDE B
Number 001

Ms. Campbell said Sitka has supported the new ferry since its inception, as well as advocating for the Malaspina to be a day boat. They also advocate for the Baranof road as a long-term solution to connect in a more effective way to the rest of the system. They ask that DOT complete the system-wide analysis of impacts of putting Sitka on the mainline route. She said they appreciate the work that has been done, but it's very preliminary and a lot more analysis needs to be done.

Number 060

WILL PETRICH of Ketchikan, who is a second and third mate on the

Alaska Marine Highway System, said he has some real problems with the supposed budgetary crisis of \$1.6 million, when you are looking at \$71.447 million for operations, 60 percent of that being a derivative of revenues, which is something less than 2 percent of the overall collective budget. He said for the Marine Highway System being savaged for a less than the 2 percent overall budget cut does not compute.

Mr. Petrich said he has met many times with Commissioner Perkins and Mr. Hayden, and he submitted many suggestions that could be implemented at little or no cost to state for increasing revenues, but they are simply not willing to act upon them. He said they are either so inept that they really can't figure it out or there is a hidden agenda there.

Mr. Petrich said it is a management problem partially derivative of the fact that there is no one in upper level management with any credible maritime background at all, or minimal at best. He added that somehow the Legislature has to make it incumbent upon the Administration to see that a professional maritime put is put at the helm of the ferry system.

SENATOR TAYLOR thanked Mr. Petrich for all of the time he has put in on these problems with the AMHS, and he informed him that all of the comments he has submitted to the task force will be included within its record and will be part of the final report rendered.

Number 130

PAUL POST, a resident of Juneau testifying in Sitka, said he is a frequent traveler on the ferry between Juneau and Sitka, and he is concerned about a recent decision to get rid of the lockers on the ferries and in the terminals as a security measure. He spoke to the importance of these lockers to people traveling on the ferries without cars or people who do not have cabins. He asked if the task force could scrutinize where that decision came from and if there is any real justification for it.

SENATOR TAYLOR thanked Mr. Post for bringing up the locker issue, and he said a letter asking that question would be written.

EVE RAUSCHER of Sitka said she is the owner of two businesses, one in Sitka and the other in Skagway, and it is difficult for her to schedule her life with the Alaska Marine Highway in the sense that it takes 16 hours each to make the trip between Sitka and Skagway. She said during the winter months she would probably remain in Skagway for just two days, but with the way the schedule is set up, she has stay there for a week, so as a business owner, it is not very economical for her. She also stressed the economic importance of Sitka having the equal service that other ports in Southeastern Alaska enjoy.

Number 200

SENATOR TAYLOR stated for the record that the majority of testimony taken by the task force has been from people within the fleet itself -- people like Captain Art Johnson and Captain Jan Sande who have spent practically their entire careers aboard these vessels. He said under this Administration those men are placing their jobs, so to speak, in jeopardy. He noted he has letters on file threatening employees with their jobs anytime those employees do anything that displeases the Administration. He also noted that between the two of them, Andrea Barkley and Stephanie Rainwater have over 33 years within this system, and the point he is trying to make is that the people within this system care a great deal about it -- they care a great deal about the level of service that they can provide to their friends and neighbors.

SENATOR TAYLOR thanked all the participants, and stated the task force would probably have a final meeting in January after the Legislature convenes. He adjourned the meeting at approximately 6:15 p.m.

DEPARTMENT OF TRANSPORTATION
AND PUBLIC FACILITIES

ALASKA MARINE HIGHWAY SYSTEM / SYSTEM DIRECTOR

P.O. BOX 25535
JUNEAU, ALASKA 99802-5535
PHONE: (907) 465-3959
FAX: (907) 465-2474

November 22, 1996

FAXED
11/22/96 5:10p

The Honorable Senator John Torgerson
Alaska State Senate
145 Main Street Loop, Suite 4
Kenai, Alaska 99611

Dear Senator Torgerson:

Please forgive the delay in responding to the specific questions raised in your memo to Senator Taylor on August 30, 1996. As I related during the Senate Task Force Hearing on October 14, I had no previous knowledge of this document nor had any staff seen it. It did come across our FAX line at 5:27 p.m. on October 14. I can understand your frustration at our lack of response and would like to avoid any repetition of an appearance of bad faith by asking that requests for information be sent directly to my attention and not be dependent on delivery by another party. I have had this response as a draft in my computer and it has been difficult compiling all the specific information you requested. Again, my apologies.

In the following pages I will answer your questions, in numerical sequence, with information that has been gathered and discussed with staff. If, when you have finished reviewing the response, you have a question regarding any area covered, please don't hesitate to call.

1. OCV Engines

Most of the main engines in our fleet are of foreign manufacture. The AMHS often find that economics, technology, or availability forces us to purchase major equipment from foreign vendors, usually from northern European countries. Commercial shipbuilding is further developed in Europe than in the United States. Consequently, the major equipment manufacturers are also located there. This condition was recognized by the Federal Highway Administration in 1994 when it issued a nationwide waiver to the Buy American Act for ferry equipment, including main engines.

The engines required to power the new vessel are unlike any others in the fleet. The horsepower required for a service speed of 16.75 knots on the new vessel exceeds 13,000, and the two Wartsilla diesels are 6,600HP each. For comparison, the engines on the Columbia are 6,175HP each; next in line is the Malaspina at 4,060HP each. The Columbia engines use significantly more fuel than the new vessel engines will, and are expensive to maintain. There are no comparable engines in the fleet with the desirable characteristics of the Wartsilla engines.

2. RIP for Ship Employees

The statute for the new Retirement Incentive Program (RIP) is substantially different from previous RIPs. A literal reading of the Act suggested to us that vessel employees were excluded. Because employee interest in the RIP was high, the AMHS made a request to the Office of Management and Budget for a ruling on vessel employee eligibility for the program. The opinion of the Department of Law and the Office of Management and Budget was that this class of employees was not eligible under the provisions of the current RIP statute. A copy of our request and the response is attached.

3. Ketchikan Shipyard

Alaska statute AS 36.90.050, Maintenance of State Marine Vessels, provides that "Marine vessels owned by the state shall be maintained and repaired at a shipyard facility located in the state..." The statute exempts the AMHS from the procurement code requirements for competition and allows the direct negotiation of state funded contracts with in-state shipyards.

The statute also calls for consideration of the interport differential, which compares the cost of moving the vessel from its home port to the various shipyards. When the Main Engine Repower project was bid last year on the Tustumena, the interport differential which was added to the contractor's bid was \$0 for Seward (the home port), \$62,309 for moving the vessel to Ketchikan, and \$89,685 for moving the vessel to Puget Sound. In this case, the interport differential gave the Seward shipyard an advantage. On contracts for vessels with Ketchikan as the home port, the Ketchikan shipyard has the advantage.

Since the statute has been in place, in past years AMHS has negotiated the state funded overhauls for the Bartlett and Tustumena with the Seward shipyard and the overhauls of the six southeast operating vessels with the Ketchikan shipyard. Whenever a contract contains federal funds, the project must be competitively bid in accordance with the federal-aid provisions.

If the AMHS focused solely on providing the most cost effective care for the vessels, the AMHS would competitively bid all vessel work. The AMHS prefers this method because it allows us to improve the condition of a vessel by augmenting state funded overhauls with small federally funded refurbishment projects. Combining state and federal funds on smaller projects significantly improves our ability to maintain the fleet without increasing the time a vessel is out of service.

The citizens and legislative delegations from Ketchikan have consistently been very proactive in supporting the Ketchikan Shipyard. With the recent closure of the Ketchikan pulp mill, the shipyard is seen as an important element of the community's economic viability and efforts to diversify.

As a state agency the AMHS is often asked to consider factors other than the best or most cost effective care for the vessels. For instance, in seeking to achieve a balance between the needs of the Ketchikan Shipyard and caring for the fleet, the AMHS has agreed to defer until next year the federally funded project to fix the leaking solarium on the LeConte. The deferment is so that the AMHS may negotiate an overhaul contract with the Ketchikan Shipyard.

4. Cordova Layover

During the winter season, ridership on our ferries declines, but operational costs remain high. The Cordova layover helps us to keep costs down while still meeting traffic demand. This winter, the Tustumena is in Prince William Sound for 62 hours from Thursday evening to Sunday afternoon, but traffic demand does not warrant more than two round trips between Valdez and Cordova during that time period. Subsequently, the vessel lays over in Cordova every Friday afternoon to Saturday night. The Prince William Sound schedule was developed with extensive input from the communities and schools, and was designed to accommodate the needs of student athletic activities.

5. Winter Schedule Development

Development of the winter 96-97 schedule was started last Spring, and draft schedules were mailed to the vessels and communities in early May. The Tustumena and Bartlett were sent a draft schedule on May 9, 1996. Your office was also sent a copy for review and comment on that date. The AMHS held a teleconference with the communities in the Southwest system to discuss the schedule and receive comments. Following that meeting, the AMHS continued the dialogue with individual communities as the schedule was "fine-tuned".

In Southeast the AMHS invited all of the communities to a public workshop where the AMHS and representatives of these communities worked together productively. The communities identified their needs in that meeting and agreed on a proposed compromise.

Many of our routes are designated as part of the National Highway System. The AMHS not only provides a transportation corridor from the lower 48 states to Alaska, but also gives residents the opportunity to travel to non-Alaska destinations. Using the vessels only in Alaska would eliminate this vital service. That this service is widely used is unquestionable. During last December, January and February, over 9,000 passengers traveled from an Alaska port to either Prince Rupert or Bellingham. This represents 9% of our total southeast winter traffic. An even greater number embarked at those ports, headed to Alaska.

6. Tips

Our vessel employees, just like other State employees, were (or should have been) prohibited from receiving tips or other non-state compensation for performance of their duties by the 1986 enactment of AS 39.52.120(b)(2). However, during a disciplinary investigation of a vessel employee in late 1993 who was observed taking money from the cash register, AMHS administrators learned that at least some vessel employees continued to receive gratuities for performance of food, bar and room service duties, with the tacit knowledge and consent of system managers; in fact, most managerial staff were unaware that acceptance of tips might be contrary to the Code of Ethics. Upon verbal advice from the Department of Law, vessel

employees were reminded via memo in January 1995 that the acceptance of tips was prohibited by law. The verbal advice was confirmed in writing by the Department of Law in March 1996. A copy of both the employee memo and the advisory notice from the Department of Law are attached.

The Inlandboatmen's Union of the Pacific has indicated that it will seek legislative relief from the prohibition of tip receipts by vessel staff. While the issue of which State employees, if any, should be legally permitted to accept gratuities may pose some significant public policy issues for lawmakers, the AMHS is not opposed to vessel personnel receiving tips, if that practice becomes statutorily authorized. The AMHS notes only that tips are considered taxable compensation by the U.S. Internal Revenue Service; the State will have to have a structured process for the accurate reporting of tips received and a payroll process for appropriate withholding and reporting of income tax.

7. Hazard Pay

Employees in several bargaining units have negotiated hazard pay for the performance of perceived hazardous work; e.g., work on towers/antennae, travel by helicopter, underwater diving, etc. To our knowledge, no employees receive hazard pay for travel by vessels. However, several labor contracts do provide for reduced hourly pay rates -- but longer days for pay purposes -- for employees who are living aboard a vessel (i.e., eating, sleeping and working) while the vessel is away from its home port.

This is known as Sea Duty Pay and was contractually instituted as a means to limit the State's potential liability for overtime claims which might arise under the Federal Fair Labor Standards Act (FLSA). Sea Duty Pay may or may not be financially attractive to any particular employee, depending upon that employee's overtime eligibility status, frequency of vessel work, and actual overtime hours the employee might have worked at time and one-half (1.5) of normal hourly rates.

Sea Duty Pay is not appropriate for AMHS vessel employees for two reasons:

- a. Hourly pay rates for our employees are not reduced in any fashion because they work on vessels, and overtime (at 1.5 times or greater) is already paid for work in excess of their normal work days (8 to 12 hours); and,
- b. Vessel employees are not subject to the overtime provisions of the FLSA.

8. Residency Requirements for COLD

The Public Employment Relations Act (AS 23.40.210) was amended in 1977 to require that all collective bargaining agreements provide for pay rates reflecting the difference in cost-of-living for employees who reside in Alaska, and employees residing outside of the state. In determining whether or not a vessel employee does, in fact, reside in Alaska, AMHS has historically

considered how much of an employee's non-working time (i.e., off the vessels) is actually spent in Alaska. The premise has been that an employee who is in Alaska only or primarily to be at work, is an employee who is not actually living in the state.

Beginning this calendar year, the AMHS began to apply Permanent Fund Dividend residency criteria in determining whether or not an employee resides in Alaska, including the regulatory criteria for absences from the state {15AAC23.163(c)}. This criteria is being applied with the full knowledge and consent of the labor organizations representing vessel employees. In addition to the many specific allowable absences from Alaska authorized by these regulations, they permit any individual to be out of the state for up to 180 days for any reason without jeopardizing residency, so long as the individual does not take other action which would be inconsistent with maintaining residency in Alaska.

9 & 11. Reservations

The AMHS recognizes that the current Reservation Management System (RMSII), which was developed in 1986, has many deficiencies. The public has expressed their difficulties with the system, and the AMHS has confirmed some of the following problems:

- Inability to get through to make a reservation
- The length of time to complete the reservation process
- Space actually available when the reservation system shows no availability

Legislative Audit has also made the point regarding the consistency of data collected from the system. The AMHS was aware of this problem long before the audit, and agree with the need for better, more reliable data for analysis and assistance with service decisions.

In addition to the above, there are other problems with the current system that need addressing:

1. **Accounting/Revenue:** The current system has no tie to the financial side and the revenue information is shown at full value, not accounting for deductions for commissions and credit card fees. This results in overstatement of revenues in the raw data which requires adjustments that are at best, imprecise. Furthermore, the system was built entirely as a reservation system with no input from or correlation to the accounting end. This requires additional personnel in the finance section dedicated solely to a very manual process of audit, instead of being able to audit through exception reporting.
2. **Mainframe:** The system resides on the State's mainframe computer and is written in the same mainframe programming language. This limits the reporting capabilities and actually requires a programmer to produce any non-standard reports. It also results in \$450,000 to \$580,000 in annual payments to the Department of Administration, Division of Information Systems, for access and 24-hour support.

Because of limitations in the current system, the AMHS is prohibited from establishing variable commission fees for travel agents and our own contract agents. In other words, the local travel agent is paid the same commission that is paid to one of our contract agents who is providing more service, such as personnel, toll-free phone lines, and advertising.

3. **System Security:** A person who has access to the current system can perform almost any function within the system, including adding money to an itinerary, or removing money from an itinerary, waiving cancellation penalties, turning off the automatic cancellation feature, etc. To combat the potential for abuse, the finance section must perform a labor intensive audit of hundreds of sales reports received from terminals and other points of sale. Lack of security leaves the system open for undetectable fraud.

The list is longer than is shown here, but this should give you a general idea of the challenges the AMHS faces on a daily basis with the existing system. The new system will be in a client server environment with greater security, built-in ties to accounting, better reporting capabilities, and will allow for future opening of the system to local travel agents for standard bookings.

But even given the system's deficiencies, our reservations staff has been enormously productive. In FY96, the 13 employees in the reservations section handled 155,635 calls. During their busiest week they answered 5,192 calls and during their busiest month they processed 18,251 calls. This group booked 49,311 new itineraries worth over \$44,538,405. Additionally, the staff handled \$23,305,774 in cancellations, dealt with the passenger advisory and notification effort during the August 1995 near strike situation, and pursued commercial traffic sales to encourage commerce within our operating regions.

The accuracy of the information the AMHS provides to the traveling public can best be gauged by the nearly 400,000 passengers who annually show up on time, at the correct terminal and with the correct ticket to their desired destination. While mistakes do occur, they affect only a slight percentage of our total customers. Our research further shows that many complaints are unfounded, and the problem solved if the customer had read the information printed on the ticket or confirmation letter.

There are times when a customer is told that a sailing is booked from Point A to Point F and once on board they can't understand why there is room between Points A and C. If the later links are fully booked the AMHS can't get them beyond Point C to F, and our antiquated reservation system doesn't recognize the open links. The new reservations system is being designed to address this type of problem. There will still be instances where passengers find load condition differences that contrast with previously received information.

Travelers in all modes of transportation cancel or reschedule and standby traffic then moves into confirmed space. The recent Legislative Audit concluded that the AMHS does have a policy that deals fairly and regularly with travelers and commercial shippers who cancel. In the travel

industry there is a fine line between over-booking and being financially responsible for anyone left behind, and leaving with available space. The AMHS has tried to balance the booking function with the expectations voiced by Alaska residents. They believe that they should be able to simply show up and find space available on their system. If every possible space was pre-sold, the local traffic options would be non-existent.

10. Passenger Comment Forms

The Passenger Comment Cards are used in the Operations Section as measuring devices that rate the quality of service provided to passengers through reservations, terminal services (both State-owned and contracted) and passenger services provided on the vessels. It gives the passengers a convenient method to voice their comments regarding their trip on the Alaska Marine Highway System.

When Passenger Comment Cards are received in the Operations Section, they are read initially by both the Operations Manager and the Terminal & Ship Services Manager. They are then passed onto the Passenger Services Inspector(s) for review. Passenger comments that warrant a response are assigned to various individuals in the Operations Section, depending on the subject matter.

Comments regarding overall Operations are answered by the Operations Manager or his staff. Comments regarding Deck Operations are usually given to the Port Captain's office for a response. Comments regarding Terminal & Ship Services are answered by the Manager of Terminal & Ship Services, the Passenger Services Inspector(s) or the Ferry Services Manager IV. Comments regarding Reservations are answered by the Customer Services Manager. Occasionally a comment card mentions an engineering problem and these cards are routed to the Port Engineer's office for review and action.

Before a response is given to the passenger, the individual assigned will usually talk to the Department Head on the vessel to get their view of the situation. Sometimes the passenger is called if there is need to clarify a particular comment. After assessing the situation, the response to the passenger is handled with either a phone call or letter.

After all comment cards are read, copies are sent to the appropriate vessel Master for both his and the crew's review.

Occasionally, crew members use the cards as a medium for complaint or criticism. It is not possible to respond directly as most of these cards remain unsigned. Those with expletives are tossed, while those that indicate a common thread are discussed and addressed in a general way during ship visits and phone calls.

12. Procurement

All contract awards are established by the Department of Administration, Division of General Services and Supply. Of those that the AMHS uses to purchase commodities for the ships, all of them are mandatory, except the State Micro Computer Contract. Even this contract is mandatory

unless a better price is available from another vendor. Usually, the contract award prices are very competitive and are established as a result of the award of a competitive bid.

If the contract award prices are higher than what someone else might have found, there are several possible explanations:

1. Bidders responding to a Contract Award bid must have a valid Alaska Business License. This process may eliminate lower priced out-of-state vendors.
2. The five percent Alaskan Bidder's Preference may result in an award to other than the lowest bidder.
3. There could also be non-economic award factors that result in an award to a bidder that would not have been low, had the only consideration been low price. An example would be some type of on-site service or support which is not available through a mail order vendor.

Whether it is a contract award item or an item purchased via quotation, it is often possible to find certain items at a better price.

In the case of non-contract award purchases, the AMHS are always looking for less expensive vendors. For example, the AMHS has made some recent purchases through Costco. However, this requires sending an employee to Costco with a check to pick up the items. When one factors in the staff costs, buying from Costco is not always economical, even though the individual item being purchased may be priced lower.

To broaden our vendor base, the AMHS encourages vessel employees to suggest vendors on their Stock Requests so the AMHS can include these vendors when soliciting bids. It is not possible for us to be aware of all the potential vendors for the thousands of items the AMHS purchase. The AMHS is always looking for and open to suggestions for saving on purchases; however, vessel employees must pass on information about their particular sources for savings.

13. User-Friendly Schedule

The AMHS are reviewing a number of changes in format that can be implemented with the Winter 97-98 printed schedule. There are mixed opinions on the best option – some are strong in favor of the current format and others prefer something that resembles an airline schedule. The AMHS will consider the needs of all of our travelers throughout the design process, and will solicit input from community representatives.

Next summer's schedule will be included in the Division of Tourism's publication, "North to Alaska". Development of this schedule is nearly complete.

14. In-Port Time

Adverse weather is the only factor that would influence a Master's decision to leave a port prior to the scheduled departure time. When a vessel falls behind schedule, port calls are limited to unloading and loading (called bump and run) until the ship is back on schedule. Subsequently, passengers who had hoped for time to explore the community are disappointed.

The AMHS makes a point in every printed schedule to advise travelers to plan a stopover if they want to explore a particular port. Generally, routine stops do not allow time for shore tours. Our basic mission is to provide transportation -- not to provide an inexpensive alternative to a cruise ship tour. Furthermore, due to traffic demands and tidal conditions, most of our vessels run continuously, docking at all hours of the day and night for brief transfers of passengers and vehicles.

15. Arts On Board

The "Arts On Board" program is alive and well. There has been no discussion about eliminating or curtailing the program. Artists, musicians, naturalist interpreters, storytellers and historians are booked for travel on all vessels. Preference is always given to Alaskans.

16. Advertising

Our marketing budget is extremely limited. A typical cruise industry participant spends more for one ad in the State Vacation Planner than the AMHS is authorized to spend for our total yearly marketing effort. To make the best use of our limited resources, the AMHS advertises in proven markets. Additionally, the AMHS does radio spots, buys TV scanner ads, participates in travel shows, and provides ferry trips for travel writers.

17. Labor/Management Meetings

Through both contract and Letter of Agreements, the AMHS has established Labor/Management Committees. There have been three meetings to date of the IBUP Labor/Management Committee. There has been one Labor/Management meeting with the Master, Mates & Pilots.

The meetings with IBUP team members and AMHS representatives have been exploring a variety of ways to improve service delivery and cost containment. The free exchange of ideas has been very encouraging and informative for both sides of the table. The teams addressed food service at the last meeting (at the request of one IBUP team member). Past meetings have explored baseline winter scheduling and AMHS team members are working on developing two such schedule scenarios for the group.

The AMHS feels this is a positive step in the right direction for the future of the system and its employees, and plan to continue this cooperative approach on joint labor/management issues.

18. Shoulder Season Promotions

The AMHS does offer reduced rates during the Fall/Winter/Spring season. In fact, these specials are featured prominently on the cover of the printed schedule. Additionally, shoulder season rates

have been offered on targeted routes. The AMHS has offered specials in Prince William Sound in May for the past two years, and last fall a popular special targeted to hunters and fishermen was developed to discount the fare for connected trailers. The AMHS has a lot of ideas for specials to promote ridership, but are frequently prohibited from implementing them due to the limitations of our reservation system. The AMHS is looking forward to the opportunity to offer innovative specials to promote more shoulder season traffic when the new reservation system is operational.

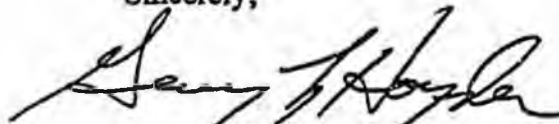
19. Marine Pilot Training in Uncharted Areas

For the Tustumena, a long-standing Pilot Observer program has been in place as a professional courtesy to the recognized Alaska state pilotage organizations. This program was developed in cooperation with these organizations to help the pilots obtain the required trips into the areas that the Tustumena serves. The Pilot Observers are charged a fee for this program. With this experience, more pilots become available to help in the development of private shipping interests in the outports.

There are no uncharted areas served by the Tustumena, and the vessel has never provided Pilot Observer trips to anyone for any purpose where there have not been charts on board. The only unfamiliar areas that the vessel began serving this year were the new whistle-stops at Chenega Bay and Tatitlek in Prince William Sound, and the vessel has N.O.A.A. charts for these ports. Additionally, the Tustumena took an exploratory voyage into the port of Old Harbor to investigate the possibility of a new service port. There were also charts on board the vessel for that voyage.

This concludes the reply to the questions you have passed on to us. Again, I regret the delay and hope that the AMHS can move beyond the misunderstandings. Thanks for your continued interest in statewide transportation. The Department of Transportation and Public Facilities is operating an intermodal transportation network, and working to balance the needs and demands of a number of competing interests. I am prepared to meet with you and brief you on any additional AMHS issues. There is a lot of data to help in your understanding. My objective is help you make informed decisions.

Sincerely,



Gary L. Hayden
System Director

Attachments

cc: Senator Robin Taylor
Senator Drue Pearce

MEMORANDUM

STATE OF ALASKA

Department of Transportation & Public Facilities
Alaska Marine Highway System

To: Annalee McConnell, Director
Office of Management & Budget
Office of the Governor

Date: October 8, 1996

Thru: Nancy Slagle, Director
Division of Administrative Services

File No:
Log No: M221-97
Telephone No: 465-8838

From: Brenda Markey
Support Services Manager
Alaska Marine Highway System

Subject: Vessel Employee RIP
Eligibility

May we have a formal written determination as to whether or not vessel employees of the Alaska Marine Highway System (AMHS) are eligible to participate in the Retirement Incentive Program (RIP)?

We understand that vessel employees cannot satisfy the literal terms of Sec. 22(b)(3) of the enabling RIP legislation because — with seniority-driven promotional systems and single-step pay plans — there are no “savings...[which] will exceed costs to the employer for that position within three years” [emphasis added] with the retirement of an otherwise eligible employee. However, we know that there could be significant savings to AMHS from the RIP of senior employees, if any latitude exists to deviate from calculating savings derived solely from the positions which those employees would vacate.

As with earlier RIP's, we wish to know if savings may be calculated by determining the amount (value) of vacation/personal leave accrual savings which would result from replacing long-time employees with new employees, even though the new employees may be hired into a different job classifications. As you may know, a Southeast System vessel employee with more than 10 years of service annually accrues either 588 hours of vacation leave or 638 hours of personal leave, depending upon bargaining unit. A new employee in those same units would annually accrue either 84 hours of vacation leave or 188 hours of personal leave, for the first two (2) years of service; the annual accrual rates rise to 168 and 250 hours for the third year of service.

Consequently, replacing a 558 hr./yr. employee with a new employee (albeit in a different job class) results in a savings of 1428 hours of accrued vacation leave over three (3) years; replacing a 638 hr./yr. employee with a new hire saves 1288 hours of accrued personal leave. Our lowest pay rate in the Southeast System is now \$15.56 per hour. Assuming a reduction in accrued vacation leave of 1428 hours over three (3) years at \$15.56/hr., employer savings in this conservative scenario amount to \$22,220. In many cases, this would exceed the State's cost for RIP participation by the 10+ year employee.

If we are limited to examining potential savings only for vacating/refilling (or abolishing) a

specific position, then vessel employees cannot qualify for RIP. We have very little latitude in position abolition; existing crew manning levels are dictated by Coast Guard regulations or bona fide service requirements. Refilling of vacated positions by seniority bid means that vacated senior-level positions will virtually always be filled by another long-tenured employee. However, the overall size of the work force is not reduced when all of the promotional appointments have been made. Remaining vacant positions in lower classification levels will be filled by new hires, with lower leave accrual levels.

Although it does not comport with the literal wording of the current RIP legislation, the logic of these overall cost savings was recognized in the previous RIP. Can we apply it today?

We have received numerous inquiries from vessel employees and their bargaining representatives regarding potential eligibility for RIP participation. We have informed them that vessel employees are not eligible for participation at this time, but we have also agreed to pose this inquiry to you. Please advise us of your conclusion at your earliest convenience.

cc: Gary Hayden, System Director
Janet Rider, Human Resources Manager
Bruce Cummings, Labor Relations Specialist

MEMORANDUM

State of Alaska
Office of the Governor
Office of Management and Budget

TO: Brenda Markey
Support Services Manager
Alaska Marine Highway System

DATE: October 16, 1996

FROM: Annalee McConnell
Director

PHONE: 465-4660

SUBJECT: Vessel Employee RIP Eligibility

FAX: 465-3008

This is in response to your memo of October 8, requesting a determination on whether vessel employees of the Alaska Marine Highway System are eligible to participate in the retirement incentive program (RIP) under the provisions of the RIP statute.

Specifically, you asked whether savings must be shown for the specific position vacated under a RIP plan, and whether differences in leave accrual rates can be considered in calculating savings.

You noted in your memo that because of the seniority bid hiring process used under your labor agreements, vessel employees cannot qualify for RIP if only savings for a specific position are considered. However, cumulative savings could result from the chain of vacancies and refilling of positions that would result from a RIP.

The RIP statute states:

"An employee is eligible to participate in a retirement incentive plan under secs. 22 - 35 of this Act only if the ... savings to the employer in personal services costs for the employee's position will exceed the costs to the employer for that position within three years after the employee is appointed to retirement." (CSSB 1003(Fin) Am. Emphasis added).

We have discussed this provision with the Department of Law. The department's opinion is that this provision clearly requires savings for each employee's position and does not allow the consideration of cumulative savings from a chain of vacancies and refilling of positions.

Your memo mentioned that cumulative savings were considered in the previous retirement incentive program in 1989-90. The legislation governing that program provided more flexibility in designating groups of employees when calculating savings, and did not contain a requirement for savings for each employee's position.

The provision requiring savings for each employee's position was included in the administration's RIP bill, together with other changes from the prior program designed to make the program more cost effective and salable to the legislature. Based on discussions with legislators, it was clear that RIP legislation was unlikely to be passed unless these types of changes from the prior program were made. While we regret

Brenda Markey
10/16/96
Page 2

that this more limited retirement incentive program precludes some state employees from participating, we believe that the limited RIP is better than having no RIP at all.

The question about considering differences in leave accrual rates seems to be a moot point, because this issue would only matter if the RIP statute allowed consideration of cumulative position savings.

Please let me know if you need any additional information.

MEMORANDUM

STATE OF ALASKA

Department of Transportation & Public Facilities
Alaska Marine Highway System

To: All Vessel Employees

Date: October 24, 1996

File No: RIP_VSPS.WPD

Log No: M260-97

Telephone No: 465-3954

From: Brenda J. Markey
Support Services Manager

Subject: Vessel Employees - RIP
Eligibility

A response was received from Annalee McConnell, Director, Office of Management and Budget(OMB) concerning vessel employee eligibility under the current retirement incentive program (RIP) statute provisions (see attached memoranda).

The literal reading of the legislation did appear to exclude participation by vessel employees. However, after requests received from many of you and union representatives, we felt it important to pose the question to OMB. . . asking if we could apply the same logic of cumulative savings through lower leave accrual as during the past RIP. OMB's response was no, since the current statute requires savings to each employee's position and does not allow the consideration of cumulative savings from a chain of vacancies and refilling of positions.

I would, however, suggest contacting your Legislators, possibly they can do something to amend this in the upcoming legislative session.

If I can be of any further assistance, please feel free to contact me.

cc: Gary L. Hayden, System Director
George Reifenstein, Operations Manager
Mike Downing, Engineering Manager
Kelly Mitchell, Port Captain
Damon Jorgensen, Port Engineer
Captain Steve Demeroutis, Vice President, MM&P *Saved 10/24*
Robert Provost, Regional Director, IBUP *Saved 10/24*
Louie "Bud" Jacque, MEBA Branch Agent, District 1

bcc: *De Petra*

MEMORANDUM

STATE OF ALASKA
Department of Transportation & Public Facilities
Alaska Marine Highway System

To: All Steward Department Employees
All Chief Stewards
All Chief Pursers
All Vessel Masters

Date: January 10, 1996

File No: TIPS_FT.WPD

Log No: VM0116-96

Telephone No: 465-3954

Subject: Acceptance of Tips Prohibited


From: Brenda J. Markey
Support Services Manager

As a reminder, the acceptance of tips by employees of the Alaska Marine Highways System (AMHS) is strictly prohibited conduct. Violation of this policy will result in disciplinary action, up to and including dismissal.

The acceptance of tips by any State employee is prohibited by law. The Alaska Executive Branch Ethics Act provides in part at AS 39.52.120:

- (b) A public officer may not
(2) accept, receive, or solicit compensation for the performance of official duties or responsibilities from a person other than the state

The Ethics Act provides for potential civil and criminal penalties for violations, in addition to appropriate disciplinary action.

A "public officer" as defined by AS 39.52.960(21)
(A) a public employee

Recent events have brought to light that some vessel employees have continued to accept tips, despite this statutory provision. This can no longer continue. Any employee who continues to accept tips does so at his or her own peril.

As quickly as possible, signs are to be posted on board vessels which clearly advise the public that vessel employees may not accept tips. Juneau Central Office has ordered signs for all vessels.

Undoubtedly, some passengers will continue to leave tips, either by cash left in a service area or by charges to be added to credit card charges. If tips are added to credit card charges, the tip amount is to be struck from the charge slip and the passenger billed only for the amount of the actual service charges.

If tips are left as cash (or check) in a service area, they are to be returned to the passenger(s) if possible. If tips cannot be returned to the passenger(s), they are to be turned over to the Chief Steward for inclusion in the weekly trip revenue as a separate line - "Tips Received." The Chief Pursers are directed to add a new line item on the Trip Cash Form for "Tips Received".

A copy of this memo is to be provided to each Stewards Department employee reporting for work after the date of its issuance, with receipt acknowledged by the employee in writing. A copy of the memo bearing the employee's signature is to be provided to the employee for retention, with another copy sent to the AMHS Personnel/Payroll Office for inclusion in the employee's personnel file. Any violation of this policy is to be immediately reported to the Operations Manager for investigation and appropriate corrective action.

I ACKNOWLEDGE THAT I HAVE RECEIVED AND READ THIS POLICY:

Employee Signature

Date

Employee Printed Name

cc: Bob Provost, Regional Director, IBU-P

MEMORANDUM

State of Alaska
Department of Law


TO: Bruce Cummings
Labor Relations Specialist
Department of Transportation
& Public Facilities

DATE: March 21, 1996

FILE NO.: 663-96-0360

TEL NO.: 465-3600

SUBJECT: Ethics: Tips Received by Marine
Highway Employees


FROM: Craig Wm. Black
Assistant Attorney General
Transportation Section

CONFIDENTIAL: ATTORNEY-CLIENT PRIVILEGE

I. INTRODUCTION

The Marine Highway System recently issued a memorandum to its employees reminding them that, as state employees, they are prohibited under the Executive Branch Ethics Act from accepting, receiving, or soliciting tips for performing their shipboard duties. Cheryl French, counsel for the Inlandboatmen's Union of the Pacific, which represents certain Marine Highway personnel, wrote to the attorney general in January to inquire about the prohibition. My research concludes that the ethics act prohibits these and other state employees from accepting tips.

II. DISCUSSION

Under AS 39.52.120(b)(2), a public officer may not "accept, receive, or solicit compensation for the performance of official duties or responsibilities from a person other than the state." A previous opinion states that "[t]his provision was intended both to prevent bribes and to prevent employees from receiving double pay for performing their normal duties." 1987 Inf. Op. Att'y Gen. at 2 (Apr. 24; 663-87-0389).

Certain shipboard ferry employees such as bartenders and wait persons occasionally receive gratuities from customers for their services. The tips come in addition to their state salaries. Because the state already pays its employees to perform their duties, any additional sum received by the employees for performing their duties amounts to additional compensation from a person other than the state. This is just the sort of double pay that AS 39.52.120(b)(2) is meant to eliminate.

The meaning of the term "compensation" in AS 39.52.120(b)(2) has not been set by case law or regulation. However, its meaning in the area of federal income tax collection is well established and may fairly be applied in this context.

Congress has defined gross income to include compensation for services. 26 U.S.C. § 61(a)(1) (1995). Numerous taxpayers have attempted to avoid paying income tax on tips by

claiming that tips are not compensation. The courts have had no difficulty in rejecting these arguments. Allen v. U.S., 976 F.2d 975 (5th Cir. 1992); Killoran v. Commissioner, 709 F.2d 31 (9th Cir. 1983); Cracchiola v. Commissioner, 643 F.2d 1383 (9th Cir. 1981); Olk v. U.S., 536 F.2d 876 (9th Cir. 1976); Andrews v. U.S., 295 F.2d 819 (Ct. Cl. 1961); Roberts v. Commissioner, 176 F.2d 221 (9th Cir. 1949). Given this line of authority, it appears that tips must be considered compensation.

Ms. French's letter attempts to avoid the double compensation prohibition in AS 39.52.120(b)(2) by claiming that tips are not compensation. Instead, Ms. French's letter asserts that tips are gifts, which are permitted to an extent under AS 39.52.130. That section of the ethics act bars a public officer from soliciting, accepting, or receiving a gift under circumstances that suggest that the gift is intended to influence the officer's performance of official duties, actions, or judgment. AS 39.52.130(a).

The two sections of the ethics act, AS 39.52.120 and 39.52.130, contain different prohibitions and operate independently of one another. The courts consistently reject the argument that tips are gifts, not compensation. In Killoran, 709 F.2d at 31, a cab driver contended that his tips were not taxable income, but non-taxable gifts. The driver claimed that "his customers tipped him out of a 'detached and disinterested generosity' because they 'lik(ed) and respect(ed)' him, and that he accepted the tips 'only on the condition that they were given as gifts and not compensation for cab services performed.'" Id. Ms. French's letter makes the same argument about tips for Marine Highway employees.

The court disagreed. It found an element of compulsion in tipping, an element not found in gifts. The court also found that tips are given as compensation in return for services rendered. Id. See also, Olk, 536 F.2d at 879 (tip given to a craps dealer is compensation, not a gift); Andrews, 295 F.2d at 819 (tips given to taxi drivers are taxable income, not gifts); Roberts, 176 F.2d at 223, 234 (tipping "lack[s] the essential element of a gift, -- namely, the free bestowing of a gratuity without consideration"; tips are "additional compensation for services").

Even if deemed a gift, a tip given to a state employee in connection with the employee's performance of official duties would likely not be acceptable under AS 39.52.130(a). That subsection requires determining whether it is reasonable to infer that the tip was intended to influence the employee's performance. Without implying any wrongdoing by the employee, it could reasonably be inferred that a passenger would tip an employee in order to receive additional service.

It might be argued that by enforcing the elimination of tips required by the ethics act, the incomes of Marine Highway personnel will be unfairly reduced. In our discussions, I learned that tipping was significantly reduced on the ships in the early 1980s when the dining halls were removed from most ships. To compensate wait persons for the anticipated loss of tips, their salaries

Bruce Cummings, Labor Relations Specialist
Department of Transportation & Public Facilities
663-96-0360

March 21, 1996
Page 3

were increased. (Note that at that time, the ethics act had not been enacted.) Furthermore, since the mid 1980s, all of the ships have carried signs stating that tipping is not required. As a result, the impact on income from enforcement of the ethics act is expected to be minimal.

III. CONCLUSION

Alaska Statute 39.52.120(b)(2) prohibits Marine Highway personnel from accepting, soliciting, or receiving tips because tips are compensation for performance of official duties that are paid for by passengers, not the state. I hope that this assists you in providing guidance to Marine Highway personnel.

CWB/bap

cc: Gary Hayden, Department of Transportation & Public Facilities
Cheryl French, Attorney

EROSION OF A HIGHWAY

Written by Fred A. Ross

January 1997



About the Author

Fred Ross graduated from Juneau High School in 1953 and joined the U.S. Coast Guard in December of that year. During Fred's ensuing twenty-six years of Coast Guard service, thirteen of those years were filled with polar experience on icebreakers serving in the Arctic and the Antarctic, while performing research in conjunction with the University of Washington, the Scripps Institute, and the U.S. Underwater Naval Sea Laboratory. Mr. Ross served in port engineering capacities in Seattle and San Francisco, as an assistant public works officer on one of the largest U.S. Coast Guard bases, and as an engineering officer on several ships. During his Coast Guard career, Fred circumnavigated the North American continent twice in the pursuit of arctic research, polar exploration, and charting assignments on the waters of the North American Arctic for the construction of the DEWLINE. In later years, Fred helped to build navigation aids on the North Slope for the construction of the Alaska oil industry. He retired from commissioned service in late 1979.

Fred Ross earned a Liberal Arts Degree from the University of the State of New York, and a Bachelor of Science Degree from Columbia Pacific University. Fred holds an Unlimited Chief Engineer's License in both Motor and Steam, allowing him to sail in any engineering position on any U.S. Flag vessel.

Since retirement from the military, Mr. Ross has worked for the Chevron Shipping Corporation performing research with the State of Alaska, for the State of Alaska Dept. of Corrections, and the Department of Mental Health and Developmental Disabilities. Fred worked with Kirken Industries in the State of Washington performing marine contracts with NOAA on its research vessels and with the USCG on its maintenance of Coast Guard icebreakers.

Working off and on for over fifteen years with the Alaska Marine Highway System in all licensed categories provided Fred Ross with a long-term view of AMHS policies and changes in the system. Working for five years in the AMHS Juneau Central Office as a project engineer also provided Fred with a deep understanding of AMHS management's workings, processes, and of the AMHS bureaucracy itself. The Juneau Central Office was fraught with labor difficulties during Mr. Ross' tenure at J.C.O., and as a consequence Mr. Ross became a union steward and a union delegate with the Alaska State Employees Association. Since that time, Fred has completed a comprehensive labor studies program through the University of Indiana.

During Fred's years of service at the marine facilities in AMHS engineering, he managed the construction contracts for the M/V Columbia Marine Sanitation Devices as well as the M/V Tustumena Refurbishment. He was later assigned solely to project development; the M/V Matanuska Gally Refurbishment, the Matanuska Car Doors and Car Deck Structural Refurbishment, the Matanuska SOLAS upgrades, the M/V Taku Car Doors Refurbishment, and M/V Taku SOLAS upgrades were all accomplished during this period.

Fred Ross' years of service and education in the Coast Guard, along with management and leadership training in private industry have produced experiences unique in the maritime industry. These experiences left Fred with the strong belief that individual disciplines such as economics, science, labor, and politics must work together in providing an end product. Fred Ross' resulting philosophy is simply this: alternatives to success are just unacceptable.

Fred Ross lives in Juneau with his wife Ursula. He enjoys restoring antique vehicles, and is an avid fisherman.

SUMMARY

Relationships between shoreside management and vessel staff have been seriously strained for many years. The relationship has recently worsened leading to high cost in risk management and decreasing services for the vessels.

Collective Bargaining is strained with poor pay and poorer benefits for AMHS vessel employees. Bitterness concerning the Cost of Living Differential (COLD) is ever present and has colored all elements of permanent employees' perceptions of reasonable and fair treatment for the future. Employment uncertainties due to vessel lay-ups and the loss of jobs is causing vessel personnel to look for more security and better pay elsewhere. Management continues to blame vessel labor for all its woes rather than admit any fault. Labor perceives management as a villain and long-term enemy.

The management styles of AMHS are skewed and there is no way to forecast management policies or procedures for the future. Shoreside costs continue to rise at an alarming rate while vessel operating and maintenance costs are diminishing.

Traffic service is declining and traditional, as well as new service demands, are no longer being adequately met. Costs of providing service is rising while ridership is decreasing. Winter service to Alaskans has become so unpredictable, expensive and untimely that people are looking elsewhere for transportation service. Needs for transportation are growing, but AMHS is not acknowledging those needs. The attitude of AMHS management shows they are well aware of the demands of the public, but at the same time are considering the retirement of an efficient revenue earning vessel.

The new vessel, replete with limitations may be unable to efficiently fill the role it

was created for. Expensive to operate and designed with limitations, great care will be required for its use. In reality, it is at best a Southeast monolith, not unlike the Columbia, and at worst it may be the most operationally expensive and inflexible vessel in the fleet.

There are three ferry systems: the Southeast mainline corridor providing a sea-link from the Alaskan interior and Yukon of Canada to the contiguous United States, the rural sea corridor linking Southwest Alaska and its communities to the Central Alaska cities, and the roadway system. These systems provide the infrastructure for Alaska's economic health and growth. The system needs to fulfill the potential of these corridors. Federal Highway money should be utilized for the main corridors and Federal Transit funds for commuter needs.

The rapid erosion of the Alaska Marine Highway System can be turned around, but it must be accomplished by the Alaska Legislature and it must be done this year. Money isn't the main problem; organization is. The Alaska Marine Authority Bill, while yet imperfect, provides an answer to the methods of improving or correcting the issues contained herein.

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INTRODUCTION

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The Alaska Marine Highway System (AMHS) provides mainline service between Bellingham, Washington, and the major populated communities in Southeast Alaska. Historically, this service has been provided by four mainline vessels during the summer. Normally during the winter, service is reduced to two or three mainline vessels. Outlying rural communities in Southeast Alaska are served on at least a bi-weekly schedule by two smaller vessels. AMHS also provides service to the Southwest System extending from Cordova in the east to Unalaska in the west. However, this discussion will primarily focus on marine transportation in the Southeast marine corridor. There is a useful distinction between travelers using the mainline service and those travelers from the rural areas.

- 1) Mainline service is primarily used by travelers taking long distance trips which take several days and require overnight accommodations and commercial shippers which can ship at better rates or on more convenient schedules than provided by other private transportation resources. This group of travelers is best characterized as "through travelers."

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- 2) Rural ferries are primarily used by residents of Alaska's rural areas who visit larger communities for health care, shopping, recreation, or brief business trips. This category of travel is best described as "commuter service."
 - 3) Mainline service is impacted by summer tourism to such a degree that travel with a vehicle, the primary mission of a highway, is almost impossible without reservations. Commuter traffic is impaired since the very nature of the reasons for travel don't lend themselves to reserving space months in advance.

The following report describes and analyzes current and past funding, scheduling, planning, fares, and staffing affecting the Alaska Marine Highway System. It recommends action that will improve the system for management, labor, and transportation for the public. This study is the result of considerable controversy concerning the Alaska Marine Highway System.

Purpose of Study

The purpose of this study is to determine the causes of reduced transportation services for the public and what resources are required to fulfill their transportation needs. Based upon the findings, specific recommendations will be made that, I believe, could enhance access to needed transportation resources. Suggestions for implementing these recommendations will also be made.

This report provides factual information to guide change. Whatever course change may take is, perhaps, less important than the fact that the change be immediate and directed at long-term improvement.

Goal

The recommendation section offers ideas that would correct or improve specific deficiencies that are adversely affecting AMHS. Other findings of this study concern issues related to:

- ✓ Scheduling that is acceptable to the traveling public with more frequent and reliable service, including multi-year scheduling that allows business development;
- ✓ The use of existing vessels and new construction;
- ✓ Implementation of a public participation program concerning resource utilization and capital improvements;
- ✓ Relocation of AMHS management and administrative staff;
- ✓ Redefining the fleet configuration (the types of ships in the fleet) and the routes to serve the needs of rural communities.

CORRECTION

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State of Alaska

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METHOD

The dearth of literature on the management, schedules and traffic volumes of AMHS led to the selection of an inductive methodological approach for this paper. This approach is a type of factor searching study in which concepts and their interrelationships emerge to describe a process. The first step of the process began with data collection. The technique for the report involved collecting and analyzing the data and information concerning AMHS and determining from those findings the material to research next. During this process observational and data notations were kept. The goal was to develop a well-integrated concept from the information gathered, and to provide a general overview of the system as it exists and functions today.

THE EROSION OF A HIGHWAY

By

Fred A. Ross

PERSONNEL PERSPECTIVES

Management/Vessel Relationship

The Acre's Report, the product of a Canadian, Montreal-based consulting firm hired by AMHS to investigate its management system in 1987, briefly discussed the distrust between management and vessel personnel. Nearly a decade has passed since the Acre's Report and the interaction between management and vessel personnel has continued to decline. Respect and cooperation has, for the most part, disappeared and every action, directive, or change in policy and procedure, is viewed with distrust. These statements from the Acre's Report are well worth repeating.

"There is an extraordinary degree of mistrust between ship and shore that has its root in the overall relationship between management and staff.

Ship systems and operations cannot function in isolation from the shore, both are interdependent. There must be an effective dialogue between the two, outside of contract negotiations. Planning forums for the ship to understand management's prerogatives, and the shore to respond to ongoing needs of each vessel, are essential.

The division of the two into employer and employee campus must cease and ship personnel be made aware that their input to both the

short and long term planning process is both understood and appreciated."

Recent closures of the bars aboard the vessels are an example of present managements' ongoing unwillingness to resolve perceived problem areas in cooperation with the crews. In fact, this whole bar issue was a simple difficulty that could have been readily resolved through joint cooperation between office and vessel staff. However, management refused to cooperate. The result is that with the bars closed, increased, unmonitored drinking occurs aboard the vessels. Management of uncontrolled drinking is a safety problem for the crews. Crew members on all of the ships agree, drinking has increased and the state has lost that revenue.

AMHS is allegedly saving money from the wages of the bartender positions. This view is short sighted for a state agency that shares in the state's responsibility for the economic well-being of state residents. This "savings" has an impact on jobs in the communities served by AMHS. Communities such as Ketchikan, which is already losing hundreds of jobs from the pulp mill closure, may loose additional jobs as a result of bar closures. The majority of the bartenders live in Ketchikan and it will be effected by the reduced wages and loss of these ferry jobs. Juneau is another community that is feeling the effects of this decision. The Alaskan Brewing Company in Juneau reports a thirty percent decrease in sales due to the ferry bar closures, thereby again having an impact on community jobs. Since many out-of-

state visitors were first introduced to this Alaskan product on the ferry, it is difficult to assess how far reaching the effects of closing this market for an Alaskan product will be.

The guise of closing the bars to save money is preposterous at best. Why not do away with the baggage cars? They are expensive to purchase; require maintenance; someone must drive them and they take up vast amounts of revenue space on the car deck. Really, the fact that they are a service should be secondary if we follow current AMHS management logic.

While AMHS management points fingers at the vessel personnel, and vessel personnel point fingers at the Juneau Central Office (JCO), the crux of the matter is that both are somewhat at fault, and neither are entirely responsible for the distrust. Nonetheless, no one works together to solve problems. There is no leadership.

Metaphors can often clarify conditions much better than lengthy explanations, so I will provide a metaphor as an example. Years ago, AMHS used to put Skippy peanut butter on all the ships for the crews. There was both crunchy and creamy. As time passed, management noticed that the crunchy was always being reordered. They asked the chief stewards, "Why?" The reply was "The crew likes and eats the crunchy." Management decided that this was a waste of peanut butter and they could save some money. They decided that until the crew ate the creamy, no more crunchy would be ordered. Today you will only find creamy peanut butter on the

vessels and it is all years old. This is not just a metaphor, but also a true story about the working relationship between management and crew.

The AMHS office engineering staff, with the exception of the port engineers, are all civil engineers or construction engineers with virtually no marine training or experience. There is one Naval Architect on staff.

Projects and routine maintenance are planned by JCO office staff with little, if any, input from vessel personnel. This results in refurbishments that are very costly, require high maintenance, and are frequently incomplete due to cost overruns. The installation of inefficient and cumbersome machinery is standard fare. For instance, the Malaspina galley has a serving line that is slow and impossible to efficiently move people through. The scullery is way too small and the food preparation layout, except for the chief cook station, is difficult to work in.

All of the vessels are equipped with Marine Sanitation Devices that do not work in Southeast locations where there is low sea water salinity. Frequently, engineers must pump raw sewage over the side to keep it from backing up into accommodations spaces. These same devices cost thousands and thousands of dollars for replacement parts and hundreds of man-hours of monthly maintenance. The Matanuska's and the Taku's main propulsion repowers have resulted in enormous vibrations in the vessels and an extremely high cost in parts and difficulty in

procuring parts. All of these project difficulties are a direct result of no crew input, or when there was input, it was ignored.

There are deficiencies in project preparation. Peer review of work and review of proposed work aboard the vessels are lacking. Vessel crews should have an opportunity to review and provide input about plans and specifications and to verify the accuracy of these specifications. Consultants rarely enlist the assistance of vessel employees, who the changes will affect most. Expediency is the main goal, or in simpler terms, we better spend the federal money before someone else spends it.

AMHS Vessel Employees

By the end of 1996, the Alaska Marine Highway System employed approximately eight hundred people. This includes vessel, terminal, and office staff in both Southeast and Southwest Alaska. There are six hundred and seven (607) permanent, and one hundred and forty-four (144) part-time vessel employees, and of these, over ninety percent (90%) live in the state. There are one hundred and seventy three (173) permanent shoreside employees, and twenty-nine (29) part-time employees (1996 DOT, AMHS Budget Report). Alaska pays AMHS workers forty-nine million dollars in wages and benefits and twenty-one million of this comes directly from revenues. This money, both directly and indirectly, contributes to the state's

economic health (*McDowell Report, 1992*). The Collective Bargaining Unions: Inland Boatman's Union of the Pacific, and the Masters Mates and Pilots overall benefits constitute approximately thirty-one percent (31%) of their total pay package. The Marine Engineers' Beneficial Association PC Dist-1 is twenty-eight percent (28%). The thirty-one percent (31%) figure falls well in line with the bulk of other state employees.

If the AMHS were a private employer, it would rank as the seventh largest in the state and about equal to the Alyeska Pipeline Service Company (*Alaska Economic Trends, Alaska Department of Labor, 1992*). One out of every eight dollars spent in Alaska is spent by a visitor who traveled via the AMHS.

International ship managers recognize American sailors in the 90's as a bargain for manning merchant vessels worldwide. This labor pool is well trained and less expensive than merchant seamen from Scandinavia, Germany, Japan, and several other nations. Here at home, Alaska Marine Highway sailors, licensed and unlicensed, are paid less than their opposites in Washington State. Such a condition is out of line and has led to the loss of many talented employees.

The most serious attrition has been from the licensed ratings, especially Captains and Mates. Many have opted to quit and join pilot associations, where their cash earnings are several times greater than a ferry system Master. It is only the working conditions (Quality ships and crew, challenging runs, and sailing periods

of weeks instead of months) that keep most deck and engineering officers with the Marine Highway. However, the attrition will continue to grow as long as the wage schedules remain so low and the ugly "Cost of Living Differential" remains in place.

Risk Management

Risk management should be a concern to AMHS. The primary reason so many AMHS employees file large injury claims against the state is because the Juneau Central Office takes the stance that everyone who becomes sick or injured is malingering. The behavior exhibited towards injured or sick marine employees is so atrocious and callous as to transcend any sense of social decency. The only defense against AMHS management left to a marine employee is to invoke the full protection of maritime law. In almost every case, AMHS either denies or attempts to deny unearned wages or maintenance and cure. Too frequently, no choice remains to the employee but to seek remedy through the courts. Even when the cause of injury is the direct negligent fault of AMHS management, the employer requires the injured party to use all of their sick leave, all of their personal leave, and then pay the insurance deductibles. Mr. Charley Hawn of Ketchikan lost a finger after warning the employer of a dangerous work condition. Mr. Hawn had to use all his medical leave, all his personal leave, and when he had nothing left, AMHS canceled his medical benefits. John Eldridge of Juneau had both legs broken by

a defective parting mooring line on the M/V Columbia and was similarly treated. Mr. Eldridge may never walk normally again, but AMHS, in an effort to protect themselves against liability, got rid of the line immediately after the accident as it may have been evidence in a law suit. Of course, crew members helping a shipmate scrounged up a piece of the line and now it probably will be used as evidence. As no workman's compensation is provided, what other alternatives are available to an employee? According to Bruce Cummings, Personnel Officer of AMHS, the state is now paying roughly \$40,000 per month to risk management and a large percentage of that goes to unearned wages and maintenance and cure. There is no way to monitor what is paid to vessel employees because of bad faith and resentful attitudes.

Going beyond crew and management attitudes, little has been accomplished over the years to promote every day vessel safety. Common practice is to expect personnel to inspect tanks and voids without ensuring that sufficient oxygen is present. Often times, there are no safety standbys at the tank entrance. Breathing apparatus, such as air masks, are poorly cared for, and appropriate filter cartridges are rarely available. Just this last September, nine Matanuska crew members were required to work in spaces so filled with sandblast grit that they became ill. In the days following the event, they were required to work in an atmosphere filled with

Keytone paint fumes, causing extreme discomfort, not to mention the permanent physical damage this may have caused.

Crew members are required to discharge waste oils into trucks and tanks that are unsafe to drive or use. This is an inexpensive solution to a relatively expensive problem and removes the burden of responsibility in dealing with the substances from office management.

Vessel employees are subject to periodic drug testing, particularly licensed personnel. Crew members are unable to take non-prescription drugs for even headaches or colds as these can show up as a positive on a random drug test. This increases cost as employees may get off the ship and claim unearned wages for relatively minor ailments and require transport home.

While the AMHS Juneau office has a safety officer and a port engineer, it appears that they are more interested in staying away from the vessels and saving money for the system than correcting safety issues. One example is the rotten car deck sprinkler systems that are constantly being patched by crew members. The car deck is the largest fire zone on the vessels. This space has more volatile materials than any area on the vessel and is the least protected. The sprinkler system is checked quarterly by the Coast Guard, but frequently the crews test them in advance to ensure they work properly. Even then, the systems often fail. The

systems are always patched. They are never permanently repaired and tested in a manner that assures that if ever really needed, they would work properly.

The new SOLAS required fire detection alarm system installed aboard the M/V Taku is so bad that alarms are now often acknowledged by crew members and not even investigated. This system hasn't worked correctly since installation. Reports to the Juneau Central Office managers have gained little response, so many crew members have become complacent. "It's another piece of equipment the office had installed that doesn't work and the office expects the crew to re-engineer it and make it work."

This report will not touch on affirmative action policies in AMHS because they just don't appear to be any, other than forcing female employees, who are harassed or threatened on the job, to file with the Human Rights Commission or the Federal Civil Rights Commission in order to resolve unacceptable treatment. Women who are too afraid to stand up for their rights continue to be abused. Sexual harassment aboard ships is a safety issue.

The attitude of management appears to be that there is no risk management until there is a large claim or lawsuit and the state loses. Then, of course, there is apparent risk.