

An Urgent Need for AMHS Sustainability

Alaska Marine Highway System Reform Initiative

The Alaska Marine Highway System (AMHS) Reform Steering Committee is pursuing legislation to transition the ferry system to a Public Corporation, creating a more sustainable organization.

Ferry service has declined in recent years due to budget reductions, an aging fleet, and an outdated approach to labor and management relations. Without significant change soon, the system is at risk of failure. Many coastal communities will be left without economic opportunity and critical linkages to Alaska's service and supply centers.

The new state-owned Public Corporation would:

- ▶ Manage the Alaska Marine Highway and its assets in a safe and efficient manner.
- ▶ Provide essential marine transportation services, connecting coastal communities with economic and service hubs and supporting the overall transportation needs of the state.
- ▶ Provide for continuity of operations and public accountability.

Benefits from the Public Corporation include

infusion of private sector expertise through the Board of Directors, consistent leadership, greater alignment between management and labor, and less exposure to political influence.

Alaska's small population and long travel distances necessitate continued public funding.

Operating as a Public Corporation preserves access to federal capital funds and other financial advantages of government ownership and operation.

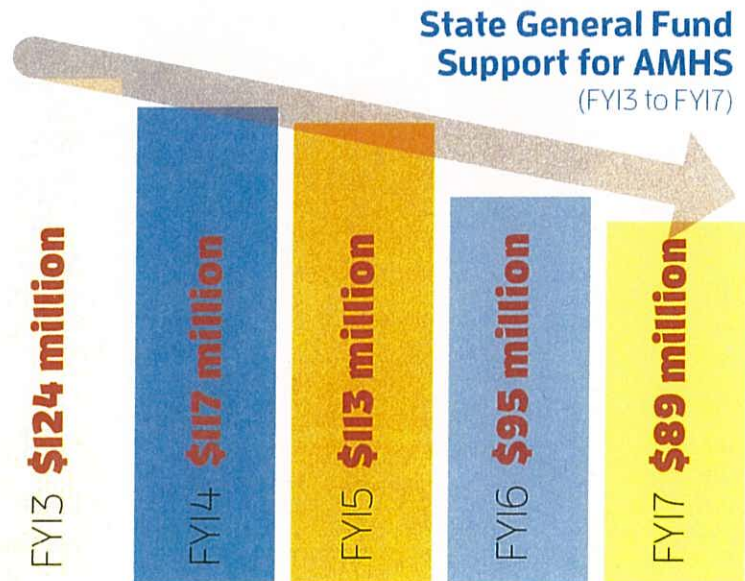


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Declining State Funding

A new marine highway business model is needed, given the \$35 million decline in state funding over five years. Riders and revenues are being left on the shore due to reduced service.

- ▶ Passenger traffic is down 50,000 riders over last five years.
- ▶ Vehicle traffic is down 15,000 vehicles.
- ▶ Operating weeks declined from 413 weeks in FY12 to 356 weeks in FY16.



Changes Address Current Limitations



As a line agency, AMHS currently experiences funding and schedule uncertainty, frequent turnover in politically appointed positions, indirect labor negotiations, short-term planning horizon, cumbersome procurement processes, and political influence over operational decisions.

The most significant benefit of transitioning to a Public Corporation is aligning labor and management interests and strategically reducing operating costs.

The Governor will appoint a seven-member Board to manage operations and ensure responsible use of resources. Five public members will contribute experience in business operations, transportation, or finance. Additional members include the DOTPF Commissioner and an employee represented by a union or a retiree.

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Enhancing Revenues

The Public Corporation can structure service levels and rates to reflect Alaska's transportation needs. The Corporation will be better poised to capture opportunities resulting from public-private partnerships onboard and in the terminals.

Forward funding is also required to take full advantage of revenue opportunities. Without the scheduling certainty that forward funding provides, millions of dollars of operating revenue are left untapped each year.

Publishing schedules a year or more in advance allows residents and visitors alike to travel more frequently and generate much needed ferry revenue and economic activity throughout Alaska.

Ridership and Revenue Significant from Southcentral Alaska

AMHS directly served 33 ports and carried residents from 175 Alaska communities

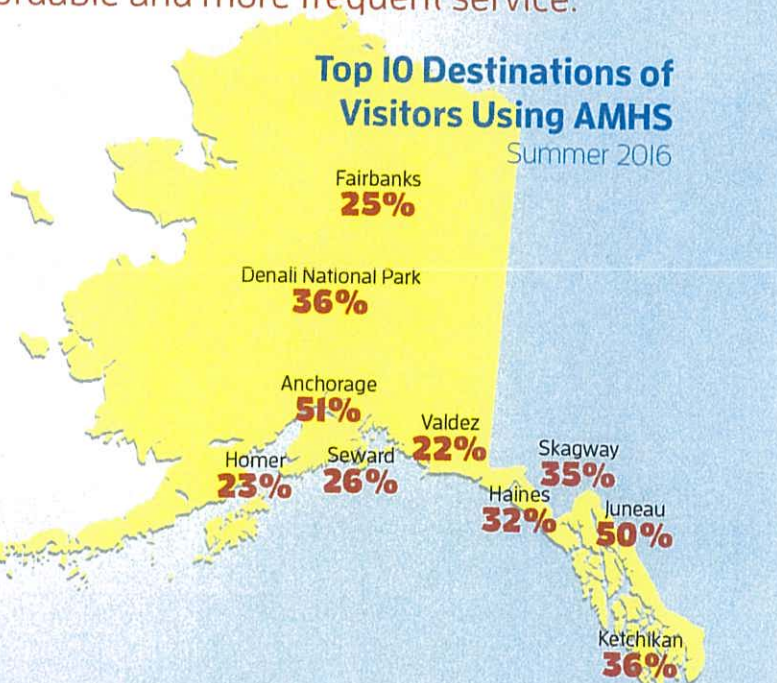
- ▶ Anchorage and Mat-Su residents accounted for 20,000 AMHS passenger bookings in 2015 and 15 percent of all AMHS revenue generated by Alaskans.
- ▶ Kenai and Interior residents (including Fairbanks) accounted for an additional 13,000 bookings and 10 percent of Alaska resident revenues.

Non-Residents Help Fuel the Ferries and the Economy

Travel by non-residents generates revenue and economies of scale in the system. In turn, Alaskans receive much more affordable and more frequent service.

- ▶ Non-resident travel accounts for 30% of passenger traffic and more than 40% of AMHS operating revenue. This includes visitors, military, and business travelers.
- ▶ Almost half of AMHS operating revenue is tied to Bellingham embarkations and disembarkations (\$22 million out of \$48.6 million in 2015).
- ▶ More than half of summer visitors carried by AMHS visited Anchorage, 36% visited Denali, and 25% visited Fairbanks.

Maintaining the long-term viability of the system is critical for our overall economy.



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Optimizing the Fleet

Over time, the fleet and shore-side infrastructure will be standardized for further operating efficiencies.

The future system requires a mix of ocean-going vessels capable of serving Southwest Alaska, smaller feeder vessels suitable for serving Southcentral and Southeast Alaska, and mainline ferries that can connect to Bellingham.

We Can't Afford To Wait

Transitioning to a Public Corporation, coupled with forward funding, keeps Alaska's critical transportation and economic driver afloat.

A Public Corporation will:

- ▶ Benefit from Board expertise in business and transportation.
- ▶ Provide greater latitude to control costs and enhance revenue.
- ▶ Provide needed management continuity.
- ▶ Build a productive relationship between management and labor.
- ▶ Develop fleet and business operations in a strategic and efficient manner.
- ▶ Serve as a reliable foundation for coastal community sustainability and statewide economic development.

Recommendations are based on the AMHS Reform Project Strategic Business and Operational Plan,

which included an examination of AMHS operations and other ferry systems around the world, examples of Public Corporations in Alaska including the Alaska Railroad Corporation, and considerable input from Alaska residents.

Reports and project information are available at www.amhsreform.com.

Sources: AMHS Reform Strategic Business and Operational Plan (Elliott Bay Design Group and McDowell Group, 2017), Alaska Visitor Statistics Program (McDowell Group, 2017), The Economic Impacts of the Alaska Marine Highway System (McDowell Group, 2016).

