

1 STRUCTURE AND BENEFITS OF PUBLIC CORPORATION GOVERNANCE

1.1 Current AMHS Governance

AMHS is currently operated as a line agency in the Alaska Department Transportation and Public Facilities (ADOTPF). The system has a General Manager directing day-to-day operations. While the position is currently vacant, AMHS typically is supported by a Deputy Commissioner serving as a liaison with the Legislature, the public, and other transportation modes within DOTPF. The General Manager and the Deputy Commissioner are appointed and serve at the pleasure of the Governor. Labor relations are led by the Department of Administration.

The existing governance model has several strengths including intradepartmental coordination with other public transportation modes and a public commitment to safe and affordable transportation. Limitations include funding uncertainty and resulting schedule instability, limited management authority, frequent turnover in senior leadership positions, indirect labor negotiations, short-term planning horizon, and political influence over operational decisions.

1.2 Phase I Governance Analysis

Phase I included examination of governance models used by other ferry systems in North America and Europe. Models included a line agency of state government, private corporation, public-private corporation, public authority, public corporation, and transportation district. Each model was examined for potential advantages and disadvantages with respect to Alaska's unique needs.

1.2.1 Summary of Key Findings

- Private corporation and public-private corporation models were dropped for several reasons, but mainly due to the incompatibility of need for long-term guaranteed revenue and profit incentive with providing reliable, affordable ferry service in very small geographically distant markets.
- The transportation district model is typically multi-modal and would require dividing the state into regional transportation districts. Duplication of functions would result, and most regions would lack the economic base to support ferry operations.
- While Inter-Island Ferry Authority has demonstrated what is possible with a public authority governance model, its application to the entire AMHS service area is problematic, therefore not recommended.
- The project team recommended further examination of the public corporation model. Advantages of this approach include infusion of private sector expertise and leadership from the Board of Directors, more nimble management, consistent leadership, greater alignment between management and labor, and less exposure to political influence.
- Recognizing that Alaska's small population and large service area necessitate continued public funding for the ferry system, this model also preserves the financial advantages of government ownership and operation. The Alaska Legislature, administration, and many residents recognize many of Alaska's public corporations as successfully managed and most business-like aspects of State government.

1.3 State of Alaska Public Corporations

To help inform an analysis of how this governance model might benefit AMHS, information about selected State of Alaska public corporations is provided below.

1.3.1 Alaska Railroad Corporation (ARRC)

Founded in 1914 as a Federally-owned railroad, the Alaska Railroad was transferred to the State of Alaska in 1983 before becoming a public corporation in 1984. The Railroad is currently a subdivision of the Department of Commerce, Community, and Economic Development which provides freight and passenger services between the Interior and Southcentral.

The seven-member board includes the Commissioners of Commerce, Community, and Economic Development and Transportation and Public Facilities. By statute, public membership must include individuals from each of the districts directly served by the Railroad and a member of a Collective Bargaining Unit representing corporation employees. Public members receive \$400 per day spent on Railroad business.

Railroad employees are not part of the state personnel system. Collective bargaining agreements representing railroad personnel are negotiated between the Corporation and organizations representing train and engine service employees.

The Railroad also earns non-operating revenue from real estate activities, including rental income from land leases. Total real estate revenue was \$12 million in 2016. Operating expenses totaled \$161 million.¹ The Railroad is exempt from the Executive Budget Act, with the Board of Directors empowered to approve annual budgets. Procurement activities are also performed by Railroad due to exemption from the State Procurement Code.

Implications for AMHS Governance

- Considerable land endowment provides operating income.
- Directly negotiates labor contracts.
- Exempt from Executive Budget Act, unique among State agencies.
- Established in statute, the board includes an employee represented by a union.

1.3.2 Alaska Aerospace Corporation (AAC)

Created in 1991, the Alaska Aerospace Corporation (AAC) was tasked with the development of a high technology aerospace industry in Alaska. AAC's core business area is commercial and government space launch from the Pacific Spaceport Complex on Kodiak Island, which was developed by the Corporation.

An 11-member Board of Directors governs the Corporation and includes six public members. The Board also includes two members from the University of Alaska, a representative from the Department of Military and Veterans' Affairs, and two members of the Legislature. Public

¹ Alaska Railroad Corporation, *Annual Report*, March 2017.

members receive compensation of \$100 per day for each day spent on Corporation business. Staff of the Corporation are exempt from the State Personnel Act.

Total operating revenues and expenses of \$2 million and \$12 million were reported in FY2016, respectively. Significant damage to buildings and equipment caused by a 2014 launch failure contributed to higher capital expenses in both FY2015 and FY2016 and impacted AAC's ability to generate revenue. State funding of AAC operations ended in FY2015, however the state contributed \$750,000 to capital projects in FY2016.²

Implications for AMHS Governance

- AAC recently transitioned from the Department of Commerce to the Department of Veterans and Military Affairs, in recognition of the importance of the military to their operations and market.
- State funding has been considerable as the corporation evolved.

1.3.3 Alaska Industrial Development and Export Authority (AIDEA)

The Alaska Industrial Development and Export Authority (AIDEA) is an independent subdivision of the Department of Commerce, Community, and Economic Development tasked with developing economic growth and diversification in Alaska by providing financing and investment to businesses.

The agency has a seven-member board, which includes the Commissioners of Revenue and Commerce, Community, and Economic Development.³ Public members receive compensation of \$100 per day spent on Authority business.

AIDEA was originally created to provide tax-exempt financing through bond issues. In the early 1980s, the State Legislature transferred an existing loan portfolio of \$166 million and \$15 million in cash to AIDEA, which launched the Loan Participation Program.

In 1987, AIDEA received \$144 million, including a \$128 million existing loan portfolio, from the State to capitalize the DeLong Mountain Transportation System (DMTS), which provides transportation infrastructure to the Red Dog Mine.⁴ The Authority issued \$103 million in bonds for system construction and another \$150 million in bonds to fund expansion of the system in 1997, which includes a 52-mile haul road, a dock, offshore conveyor system, fuel distribution and storage facilities.

The DMTS became the first project in the Development Finance Program. Additional assets owned by AIDEA and leased to private operators include the Ketchikan Shipyard, Skagway Ore Terminal, Federal Express Maintenance Facility, and the Mustang Road and Pad. AIDEA also

² Alaska Aerospace Corporation, *Annual Report*, 2016.

³ <http://www.legis.state.ak.us/basis/statutes.asp#44.88.010>. Accessed May 30, 2016.

⁴ Alaska Industrial Development and Export Authority, *Alaska's Development Finance Authority*, April 13, 2016.

constructed an expansion of the Camp Denali Readiness Center, which is leased to the US Coast Guard on Joint Base Elmendorf and Richardson (JBER).

AIDEA pays a yearly dividend to the State of Alaska based on net income. Between 1997 and 2016, the Authority paid \$373 million to the State in dividends, including \$17.7 million in FY2016.

Implications for AMHS Governance

- AIDEA contracts out management of its assets, typically with private sector operators.
- The agency maintains liquidity by investing a considerable portion of its assets.

1.3.4 Alaska Energy Authority (AEA)

The Alaska Energy Authority (AEA) was created in 1976 to reduce the cost of energy in Alaska.⁵ To achieve this mission, the AEA operates and invests in energy infrastructure and programs to create alternative energy and increase energy efficiency, assist rural communities in project funding and implementation, and provide assistance to rural customers.

AEA shares a seven-member board with the Alaska Industrial Development and Export Authority. Public members receive compensation of \$100 per day spent on Authority business.

Operations include a mix of governmental and business activities. Governmental activities are financed by intergovernmental revenues, and include revenue from several funds capitalized by the State of Alaska.⁶ Revenue from business activities comes from customer fees charged for energy use from Authority-owned assets such as the Bradley Lake Hydroelectric Project.

In FY2016, AEA had \$62 million in earned income and \$94 million in expenses. Additional revenue sources included \$18 million from the Bradley Lake Hydroelectric Project operations and \$19 million in appropriations from the State of Alaska. An additional \$11 million in investment income was generated by AEA's funds, including income generated by the Power Cost Equalization (PCE) fund, which had a value of \$947 million at the end of FY2016.

By statute, AEA has no employees and annually reimburses AIDEA for personnel services, which totaled \$7.3 million in service expenses in FY2016. The Authority also has an arrangement with AIDEA to borrow up to \$7.5 million in short-term working capital and in FY2016 recognized \$3.3 million payable in to AIDEA.

Implications for AMHS Governance

- Although AEA generates revenue from projects and PCE fund earnings, considerable general funds are needed to cover annual operations.

⁵ <http://www.akenergyauthority.org/Home/About>. Accessed May 29, 2017.

⁶ Alaska Energy Authority, *Basic Financial Statements and Schedules*, June 30, 2016.

- While AEA has its own executive director, all employees are technically AIDEA employees. The two agencies are collocated, have one board, and share many administrative support functions.

1.3.5 Alaska Gasline Development Corporation (AGDC)

In 2010, the Alaska Legislature created the Alaska Gasline Development Corporation (AGDC) as a subdivision of the Department of Commerce, Community, and Economic Development to develop transportation infrastructure to move natural gas to local and international markets.

A seven-member board governs the corporation and includes five governor-appointed public members who are subject to legislative confirmation. The governor designates two heads of principal state departments to serve on the board, but is precluded from selecting the Commissioners of Revenue or natural Resources. Public members receive \$400 per day spent on Corporation business. AGDC staff are exempt from the State Personnel Act.

AGDC primarily manages the Alaska Liquefied Natural Gas Project, a project to plan and develop natural gas transportation from the North Slope to market. The project includes plans for an 800-mile pipeline, gas treatment plant, and a liquefaction facility. In FY2016, the Alaska Legislature appropriated funds to purchase TransCanada's share of the LNG Project, making the effort State-led. The LNG Project fund received \$4 million in legislative appropriations and another \$26 million transferred from the In-State Natural Gas Pipeline fund in FY2016.⁷

In FY2016, AGDC reported \$149 million in revenue, including \$145 million from the State of Alaska. Total expenses were \$295 million. While the Corporation is subject to the Executive Budget Act, it is exempt from the State Procurement Code.

Implications for AMHS Governance

- The corporation recently transferred from the Department of Revenue, where it was a subsidiary of the Alaska Housing Finance Corporation, to a public corporation in Commerce.
- The corporation was granted \$300 million in capital funds at start-up to ensure development work continued seamlessly between fiscal years.

1.3.6 Alaska Housing Finance Corporation (AHFC)

The original mission of the Alaska Housing Finance Corporation (AHFC), created in 1971, was to provide affordable loans to public housing programs. Since then, the Alaska Legislature broadened AHFC's objectives to include development and operations of the State's public housing program, provide home loans to low- and moderate-income residents, and administer energy efficiency programs.

A seven-member Board governs the Corporation and includes the State Commissioners of Revenue, Commerce, and Health and Social Services. By law, the four governor-appointed

⁷ Alaska Gasline Development Corporation, *Financial Statements*, June 30, 2016.

public members include a rural resident with regional housing authority experience and a member with experience in senior or low-income housing.⁸ Public members receive \$100 per day spent on Corporation business. AHFC is a subdivision of the Department of Revenue; staff are exempt from the State Personnel Act.

The Corporation uses the proceeds of bond sales to purchase existing real estate loans originated by financial institutions, the proceeds of which fund loan programs. Current loan programs include the First-Time Homebuyer, Rural Owner-Occupied Loan, and Veterans Mortgage programs. Other programs are financed through grants and partnership with Federal departments such as Housing and Urban Development, the State of Alaska, and other Corporation funds.

Implications for AMHS Governance

- AHGC has unique flexibility to acquire and dispose of assets. As an example, AHFC purchased the Atwood Building in Anchorage which houses most State agencies.

1.3.7 Alaska Mental Health Trust Authority (AMHTA)

The State of Alaska created the Alaska Mental Health Trust Authority (AMHTA) to administer the Mental Health Trust, re-capitalized in 1994 with \$200 million and 1 million acres of land. As a subdivision of the Department of Revenue, the Authority develops, implements, and funds a comprehensive integrated mental health program to benefit Alaskans with a mental illness, developmental disability, chronic alcoholism and/or substance abuse disorder, Alzheimer's disease and related dementia, or a traumatic brain injury. This includes funding of services supporting Trust focus areas, programs, and grants. Program spending is subject to legislative approval as a component of the Mental Health Budget Bill. This budget may include the use of Trust funds by state agencies for specific capital and operating projects.

All seven members of the Authority Board must be confirmed by the Legislature. Members receive compensation of \$200 per day spent on Authority business. Trust employees are exempt from the State Personnel Act.

A mix of Fund principal, income from land-use, and interest income from investments fund AMHTA operations.⁹ Revenue generated from use of land endowed to the Trust is divided between income used to fund operations and revenue reinvested in the Trust Fund. In FY2016, land use generated \$9 million, with \$4 million transferred to the Trust as income.¹⁰

Implications for AMHS

- Earnings from the Trust's land endowment are critical to fund operations.

⁸ <http://www.legis.state.ak.us/basis/statutes.asp#18.56.010>. Accessed May 29, 2017.

⁹ <http://mhtrust.org/about/frequently-asked-questions/>. Accessed May 30, 2016.

¹⁰ <http://mhtrustland.org/wp-content/uploads/2017/03/FY16-Annual-Report.pdf>. Accessed June 6, 2017.

1.3.8 Alaska Permanent Fund Corporation (APFC)

Created in 1980, the Alaska Permanent Fund Corporation (APFC) manages the assets of the Alaska Permanent Fund and other funds such as the Alaska Mental Health Trust Fund. The Corporation is a subdivision of the Department of Revenue.

A six-member Board of Trustees is appointed by the governor and includes the Commissioner of Revenue and one other head of a principal State department. Four public members receive \$400 per day spent on Corporation business. Corporation employees are exempt from the State Personnel Act.

The APFC primarily manages the Alaska Permanent Fund, with at least 25 percent of State revenue from mineral leases, royalties, and royalty sales and Federal mineral revenue sharing payments deposited as principal. Income generated from Fund investments are deposited in the State's General Fund, with the majority paid to Alaska residents through the Permanent Fund Dividend.

Originally capitalized with \$900 million in oil revenue in 1980, the Fund reached a value of \$53 billion in 2016. That year, \$714 million was distributed from the Fund to the State of Alaska. The Corporation reported \$512 million in total revenue and \$114 million in total expenditures in FY2016.¹¹

Implications for AMHS

- Original capitalization was robust.
- The corpus of the fund is protected and enhanced by annual legislative actions.

1.4 Potential AMHS Board Role and Structure

While public corporations vary widely in their purpose, structure, and powers, a common element is a Board of Directors who contribute expertise and leadership to the organization.

Board composition and terms are defined in statute including the number of seats, length of service, and special requirements or provisions. Members are appointed by the Governor, and in some instances, subject to confirmation by the Legislature. Compensation is defined in statute, typically covering standard travel costs and fees ranging from \$100 to \$400 per day for board service.

As an example, the Alaska Railroad board consists of seven members: five are appointed by the Governor and the Commissioners of the Departments of Commerce and Transportation serve on the board. The Railroad board must include at least one person with each of the following characteristics: 10 years in railroad management, executive experience in a federally regulated railroad, Alaska business ownership or management, and a member from the employee bargaining unit.

¹¹ Alaska Permanent Fund Corporation, *Annual report*, September 2016.

Seven-member boards are common for public corporations with similar responsibilities and assets as AMHS. Examples include the Alaska Gasline Development Corporation, Alaska Industrial Development and Export Authority (AIDEA, which also serves as the board for the Alaska Energy Authority), Alaska Mental Health Trust Authority, and the Knik Arm Bridge and Toll Authority. The Alaska Permanent Fund Corporation has six Trustees.

There are several examples of larger boards. The Alaska Aerospace Corporation board consists of 11 members, including at least two members with experience in the aerospace industry, the University of Alaska President, the University Geophysical Institute Director, at least three Alaska residents with private sector expertise in finance or economic development, and two members of the Legislature. The University of Alaska Board of Regents also consists of 11 members.

Case studies conducted in Phase I also provided insights on board structure. For example, CalMac Ferries, owned by the Scottish government, has a five-member board. BC Ferries transformed recently from a Crown corporation to an independent commercial organization is governed by a nine-member board.

1.4.1 Board Purpose

- Manage the Alaska Marine Transportation Corporation and its assets.
- Provide marine transportation services to connect coastal communities with economic and service hubs.
- Provide an annual report to the Governor and Legislature.

1.4.2 Board Composition

- A seven-member board to include:
 - Three members with significant experience in private sector business operations, transportation, or economic development from each of the following areas:
 - Southeast Alaska
 - Prince William Sound and Kenai Peninsula
 - Southwest Alaska
 - One member with business experience interacting with AMHS
 - One member, employed or retired, of a union representing employees
 - One member at large
 - Commissioner of DOTPF, or designee

1.4.3 Terms and Appointment Process

- Appointed by the Governor.
- Three-year terms.
- Initial appointments will be staggered, with two members serving one-year terms and two members serving two-year terms.

1.4.4 Meeting Frequency and Compensation

- The board will conduct at least six meetings annually, lasting one to two days as needed to conduct AMHS business, plus two additional meetings conducted by teleconference.

- Board fees will be \$200 per day and will be pro-rated for half-day meetings.
- Public board members receive fees and state-paid travel.
- Travel costs for state employees are covered by their respective agencies. They do not receive board fees, as this service is a regular part of their responsibilities.
- Increased costs will be offset by the elimination of costs for the Marine Transportation Advisory Board.