

AMHS Reform: Interim Measures

AMHS has a pathway towards improved sustainability through introduction of HB 412 in 2018 and ongoing actions by the Office of the Governor, AMHS, DOTPF, other state agencies engaged with the state ferries, Southeast Conference, the Statewide Steering Committee, and many project sponsors.

This memo identifies actions that can be taken before legislative changes are in effect that can enhance the sustainability of the system and help prepare for the anticipated transition to a public corporation.

Although AMHS has an important role in the process, Measure 1 requires leadership and support from the Office of the Governor and the Legislature. In contrast, Measures 2 through 9 can be initiated through administrative actions as funding and other resources permit.

Measure 1: Stabilize Funding

Stabilizing funding is critical as state funding has a direct impact on service levels, revenue generation potential, and employee retention. State general fund support in the AMHS operating budget dropped from \$111.3 million to \$86.0 million between FY13 and FY19 (a decline of more than \$25 million).

Over the past two legislative sessions, discussions have been held to extend the AMHS appropriation beyond the fiscal year and encompass the summer revenue-generation season. While progress was made, none of the measures was enacted. The topic will need to be revisited in future sessions.

Measure 2: Fleet and Terminal Standardization

Financial and operational efficiencies will result from fleet and terminal standardization. A *Long-Range Capital Plan and Deployment Strategies* is a critical next step to identify the pathway and cost of transitioning from today's fleet and terminal facilities to the standardized fleet as envisioned in the Phase 2 report, *AMHS Strategic Business and Operational Plan*.

Needed actions will be outlined in Phase 4 of the AMHS Reform initiative, with completion anticipated in 2018. Analysis will include examination of Alaska-Class vessels, how and where they are deployed, and the benefits that could be realized with design modifications for minimal crew quarters.

Although this transition requires funding well beyond current resources, a well-defined plan and mindset will ensure AMHS capitalizes on opportunities that align with this long-term goal.

Measure 3: Continue Robust Market and Revenue Analysis

The Phase 2 report also provided insights regarding AMHS operations and revenue centers. Maintaining this information and identifying changing market trends is critical to deploying resources effectively. As an example, AMHS carried Alaskans from 175 communities across the state. Bellingham represented 44 percent of operating revenues and non-residents 42 percent of revenues (including visitors, military, and business travelers).

Additional market analysis for non-residents was drawn from the *Alaska Visitor Statistics Program*, conducted by McDowell Group in 2016 for the Alaska Department of Commerce, Community, and Economic Development and the Alaska Travel Industry Association. Summer visitors using AMHS also travel throughout Alaska extensively; in addition to coastal communities, 51 percent visited Anchorage, 36 percent visited Denali, and 25 percent visited Fairbanks.

Under the current configuration, the AMHS reservation system severely limits the level of passenger detail available for analysis as zip codes are no longer required passenger information.

Measure 4: Address Labor Relations

In recent history, AMHS labor negotiations have been led by Department of Administration (DOA), with technical support from AMHS. Although considerable time and effort is invested by DOA and AMHS, people in lead positions are appointed by each new administration. Strategy and communications are affected by turnover as well as the size and complexity of current contracts.

AMHS should negotiate with unions directly, which can help align labor and management interests and reduce labor costs strategically where possible. Additionally, a Director of Labor Relations should be established within AMHS. This change will build the internal knowledge and relationships needed to lead contract negotiations as a public corporation. The Director should be responsible for labor disputes, freeing other senior AMHS staff. (The Alaska Railroad, with 700 employees and five employee unions, manages their own labor negotiations with one director who handles negotiations, disputes, and discipline.)

Measure 5: Board Development

A Board of Directors should be established in advance of the effective date establishing a public corporation, to support the new Executive Director and allow members to gain needed business knowledge and experience to run the organization.

The Phase 2 report recommended board composition, based on a review of best practices in other Alaskan public corporations, publicly operated ferries in other states and countries, and Alaska's unique needs. The report recommended a seven-member board to include five members with significant experience in business operations, transportation, finance, or economic development; one member (employed or retired) of a union representing AMHS employees; and the Commissioner of DOTPF.

AMHS should engage the Department of Law in identifying a process for forming the board in a manner that assures a smooth transition to oversight of the public corporation.

Measure 6: Corporation Development

The board and staff will need to develop the suite of materials needed to form and guide the public corporation including articles of incorporation, bylaws and other board guidance documents, and documents outlining corporate processes. Examples from other public corporations will be extremely useful

– especially corporations with significant assets and operational responsibilities including Alaska Railroad, Alaska Permanent Fund Corporation, AIDEA, and Alaska Gasline Development Corporation.

Measure 7: Employee Communication

Outreach to employees has been improved by having union representation on the AMHS Reform Steering Committee. Additionally, employees were invited to provide comments during Phase 2 via emails and cards distributed onboard vessels publicizing the reform effort and the AMHSReform.com website.

Further communication and regular face-to-face meetings are essential to ensure that information is consistently and accurately conveyed to employees. As AMHS Reform increases visibility and momentum, it is important to convey the purpose and vision, the anticipated sequence of activities and, and how employees will be impacted by the changes. Employees should also be given avenues to provide input into operations and the transition.

Measure 8: Explore Sources of New Revenues

The Revenue Analysis chapter in the Phase 2 report included a suite of options for generating funding to support AMHS. Non-operating revenue options ranged from bonding, capital endowment, gaming, and a local option fuel sales tax. The report provided an overview of each option; further analysis is needed regarding logistical and political implications.

Additionally, AMHS should pursue opportunities for partnerships and concessions that enhance onboard service and operating revenues, such as food service, bars, and retail operations. The revenue-generating potential of shoreside land holdings should also be explored.

Measure 9: Maintain Public Support for Legislative Changes

The Steering Committee must evaluate and update its communication strategy, tools, and tactics before the 2019 Session commences. Coordination and communication between the Steering Committee, AMHS supporters, communities, tribal governments, and key contacts should be well-established by then.

Legislation will need to be reintroduced in 2019 with the convening of a new legislature. The public support generated by Steering Committee will directly influence the momentum for introduction and passage of a new bill.