

April 30, 2019

Jan Wrentmore
Chair of Skagway Ad hoc Marine Highway Committee
Skagway, Alaska

Via email: jan@redonion1898.com

Dear Ms. Wrentmore,

Please consider this letter McDowell Group's professional services proposal to conduct an assessment of *Skagway Ferry Service Governance Models*. Our proposed scope of work, budget, and schedule are provided below.

Scope of Work

The purpose of this analysis is to consider ferry system governance models that would best serve Skagway's interests and ensure reliable, sustainable ferry service in Lynn Canal. As described in the Request for Proposal, the scope of work has three broad components related to analysis of local ferry service governance models:

- Governance Structure
- Potential Funding Sources
- Challenges and Opportunities

GOVERNANCE STRUCTURE

We will consider any potentially applicable local governance model that could serve a Skagway-centered ferry service. This may include various forms of public or public/private entity.

We will begin with a careful examination of the port (or ferry) authority model created under the Alaska Municipal Port Authority Act (AS 29.35.600-730). Such authorities are political subdivisions of the municipalities that create them. The Inter-Island Ferry Authority (IFA), with six community members, is the only active ferry authority in Alaska. The North End Ferry Authority was created to operate the now defunct Rainforest Island Ferry (for service between Coffman Cove, Wrangell and Petersburg, as well as Ketchikan service from north POW).

Our scope of work will include a description of the legal, administrative, and political mechanics of establishing a ferry authority, with the IFA serving as the primary case study. We will incorporate information about Rainforest Island Ferry where possible.

Within this analysis, we will consider:

- Governance structure definition and examples

- Responsibilities and authorities of the governing entity
- The suitability of models for governance of Lynn Canal ferry service
- The advantages and disadvantages of a single member authority versus multi-member authority (with Skagway, Haines, and Juneau all as potential members).

Project team tasks will include executive interviews and examination of relevant reports including AMHS Reform Governance Study and Washington State Ferry Governance Study.

FUNDING

The potential for an independent ferry service in Lynn Canal to be self-sustaining (through the fare box) would be dependent on a wide range of management and operational factors. A local ferry authority is likely to require access to supplemental funds to occasionally or routinely support operations and maintenance (IFA funds about 75 percent of its operations through the fare box). We will consider federal, state and local funding sources potentially available to support Lynn Canal ferry service.

The Federal Ferry Boat Formula Fund is a key source of federal funding for publicly-owned ferry operations. Funding is based on traffic served and route distance (35% based on the number of ferry passengers, 35% on the number of vehicles carried, and 30% on the total route nautical miles). We will gather the latest data on total national funding allocated to the program and estimate what a Skagway authority's share might be. We will also consider other federal funding opportunities, such as Surface Transportation Program (STP) funds and National Highway Performance Program (NHPP) funds, both of which might provide capital project funding. Other federal grant funding opportunities, such as the BUILD discretionary grant program (formerly known as TIGER), will also be considered.

Regarding State of Alaska funding, we will consider the process by which IFA has secured State General Fund (GF) support, the likelihood that such support will continue (it is not in the Governor's proposed budget), and the possibility that such funding might be available in the future to other public ferry service providers. We will examine potential sources of funding from AIDEA, which has loan participation and other lending programs, bonding authority, and other financial assistance tools. With respect to State GF support, the highly uncertain future of AMHS funding may be leading to a reset of how the system is operated and how service is provided. We will track as closely as possible DOTPF's AMHS "reshaping" work and implications for independent (or semi-independent) Lynn Canal ferry service.

Municipal support of a ferry service could be direct, indirect, or both. Direct financial support (from local General Funds) would have to be carefully weighed against the local economic benefits that ferry service would preserve. Indirect support might include in-kind administrative services or other forms of support. We will consider the range of possibilities in this regard and work closely with the Ad hoc Marine Highway Committee to appropriately define the scope of this analysis.

CHALLENGES AND OPPORTUNITIES

The challenges and opportunities associated with creating and operating a ferry authority (or other governance structure) are varied. Most important are crewing and labor costs. Skilled and experienced crew is essential to providing safe and reliable ferry service. Further, labor costs are the most important cost driver in providing ferry service. IFA will serve as an informative case study where transition from AMHS to local ferry authority is

not framed by existing labor agreements. How existing union contracts might affect transition to a local authority in Lynn Canal is unclear and will be investigated in this study. We will also consult with IFA managers about any challenges they may have recruiting and retaining qualified crew.

The legislative and administrative path from the current AMHS model for providing ferry service in Lynn Canal to some new locally-driven governance model may be complex. The issue will be addressed in part in the "Governance Structure" analysis described above. Other legislative issues will be addressed as they are identified throughout the course of this study. In particular, we will consider how control of existing AMHS vessels and terminals might be transferred to a new authority. This analysis of legislative considerations is likely to be connected to how state funding is (or is not) provided to support ferry and terminal operations in North Lynn Canal.

Other considerations to be explored in this portion of the analysis include unique advantages such as geographic and socioeconomic factors, ability to tap into underserved or new markets, tourism and transportation expertise, and potential synergies with other marine transportation providers in the region.

Our report will include recommendations on potential next steps for Skagway as it positions itself to ensure continuation of ferry service beyond whatever form AMHS reshaping may take.

Budget and Schedule

The professional services budget for conducting this analysis is \$33,000. We can begin work immediately upon notice-to-proceed. We will require approximately 75 to 90 days to conduct our analysis and prepare a draft report for your review and approval.

McDowell Group Qualifications

In business since 1972, McDowell Group is Alaska's most experienced multidisciplinary research and consulting firm. The firm's 18 professionals conduct market research and business feasibility studies, economic impact and cost/benefit analyses, survey research, needs assessments, and program evaluations. The firm serves a broad range of private and public sector clients located in Alaska and elsewhere in North America. Over the past 47 years we have conducted approximately 2,000 research and consulting assignments for more than 400 private and public sector clients.

McDowell Group has conducted a wide variety of marine travel demand and transportation infrastructure benefit/cost analyses, feasibility studies, and economic impact studies. The firm has addressed market demand and economic impacts of ferry service in the Kodiak Island area, Prince William Sound, and Southeast Alaska. Further, the firm has decades of experience working in and with the coastal Alaska communities most dependent on ferry service, with hundreds of projects addressing business, economic, and socioeconomic conditions.

Our work regarding Lynn Canal ferry service specifically includes the July 2016 *Lynn Canal ACF Revenue Analysis*. McDowell Group prepared an analysis of traffic and revenue potential associated with Lynn Canal ferry service and specifically with the proposed Alaska Class Ferry (ACF) service. In 2014 we prepared the *North Lynn Canal Ferry Service Analysis*. That assignment included an analysis of AMHS day boat/ACF capacity, operating costs, as well as an analysis of historical Lynn Canal AMHS traffic.

McDowell Group's other ferry service-related project experience includes the following:

- *AMHS Strategic Business and Operational Plan, aka AMHS Reform Project (in association with EBDG)*
- *PWS Ferry Feasibility Study Phase 1 Traffic and Revenue Analysis (prepared for Native Village of Eyak)*
- *Kodiak Island Ferry Service Feasibility Study (prepared for the Kodiak Is. Borough)*
- *AMHS Operations and Systems Analysis (with UAF's Alaska Transportation Center, prepared for ADOTPF)*
- *Alaska Marine Highway Market and Product Enhancement Study (prepared for AMHS)*
- *Marine Highway Transportation Improvement Study (prepared for Southeast Conference)*
- *Northern SE Alaska Regional Tribal Transit Plan (prepared for CCTHITA Alaska)*
- *Demand Assessment for Northern Southeast Alaska Landing Craft Services (private client)*
- *North Prince of Wales Island Ferry Market Analysis (prepared for the North End Ferry Authority)*
- *Benefit/Cost Study for the Metlakatla/Ketchikan Ferry (MV Lituya) Service (prepared for ADOTPF)*
- *Lynn Canal and Northern Panhandle Ferry Operations and Service Study (with EBDG, prepared for ADOTPF)*
- *Ferry Service Alternatives in POW Island, Volume I and PWS Area, Volume II (prepared for AMHS)*
- *Lynn Canal Ferry Feasibility Study (prepared for a private client)*
- *Economic Benefits of the Alaska Marine Highway System (2016 and earlier editions, prepared for AMHS)*
- *Seldovia Ferry Travel Demand Forecast (prepared for Seldovia Native Association)*

We appreciate this opportunity to once again offer our professional services to the Municipality of Skagway. Please call if you have any questions about this proposal.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jim Calvin', with a long horizontal line extending to the right.

Jim Calvin,
Principal