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Mat-Su

Mat-Su Borough must repay millions in grants for failed Knik Arm ferry after feds reject appeal

By Amy Bushatz, Mat-Su Sentinel

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The M/V Susitna docked in Ketchikan (Photo provided by Matanuska-Susitna Borough)

PALMER — The Matanuska-Susitna Borough must repay nearly \$6 million to the federal government after officials denied its appeal to further reduce the amount

The borough must either pay \$5.8 million with interest or submit a repayment plan to federal authorities, according to a letter from the Federal Transit Administration sent late last month. The plan must be submitted by Jan. 19, according to Borough Attorney Nicholas Spiropoulos.

The repayment covers a portion of the \$12.3 million in federal grants the borough received between 2002 and 2008 to prepare infrastructure for the M/V Susitna, including a ferry terminal at Port MacKenzie. The nearly \$80 million vessel, which never operated or carried passengers, was given to the borough in 2010 through a series of federal earmarks.

The November letter is the latest in a sudden escalation of efforts by the FTA to recoup money spent on the project.

After nearly a decade of silence, federal transit officials in August renewed their demand that the borough repay the grants. That demand reduced the previous \$9.3 million repayment amount to \$5.8 million, based on recalculated figures included in a 2016 borough appeal, according to the August letter. Before that, the last official communication from the FTA came in 2017.

The borough responded to the August bill with several proposals for reducing the amount, including asking the FTA to accept repayments based on various depreciation calculations for the ferry terminal and suggesting the agency forgive all but \$1.5 million in revenue from the ferry's sale.

Transit officials rejected those proposals in their latest response. Instead, they said the borough must repay the money because it “misused the assistance by failing to make adequate progress on the project and failing to make reasonable

and appropriate use of the property for public transportation,” according to the letter.

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The Port MacKenzie ferry terminal, as photographed in January 2015. (Bob Hallinen / ADN archive)

Envisioned as a state-of-the-art commuter ferry between Port MacKenzie and Anchorage and billed as the world's first ice-breaking passenger catamaran, the

ship was designed by the U.S. Navy and [built in Ketchikan](#), where it remained docked throughout the borough's ownership.

The project stalled in 2011 amid political disputes over where to build a terminal in Anchorage and a lack of funding to complete it.

M:V Susitna TwoShipsInOne



Acquiring the ferry was free, but storing and maintaining it was not. All told, the borough [spent about \\$15 million in taxpayer funds](#) on the project. A portion of the grant-funded terminal now functions as office space for borough employees at Port MacKenzie.

The vessel, which was never brought to Mat-Su, was stored near Ketchikan and [sold in 2015 to the Philippine Red Cross](#) for about \$1.8 million. The Red Cross resold it to the Philippine Coast Guard earlier this year.

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The borough Assembly discussed the latest repayment letter during a closed-door session at a regular meeting on Dec. 16. The borough plans to submit a response

ahead of the January deadline, Spiropoulos said.

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