

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 2, 2006**  
**9:05 a.m.**

**CALL TO ORDER**

Co-Chair Gary Wilken convened the meeting at approximately [9:05:01 AM](#).

**PRESENT**

Senator Lyda Green, Co-Chair  
Senator Gary Wilken, Co-Chair  
Senator Con Bunde, Vice Chair  
Senator Fred Dyson  
Senator Bert Stedman  
Senator Lyman Hoffman  
Senator Donny Olson

**Also Attending:** ROBIN TAYLOR, Deputy Commissioner/Director of Marine Operations, Marine Highway System, Department of Transportation and Public Facilities and Former State Senator; NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities

**Attending via Teleconference:** From an offnet site: RICHARD LEARY, Business Development Manager, Marine Highway System, Department of Transportation and Public Facilities

**SUMMARY INFORMATION**

SB 232-APPROPS: ENERGY-RELATED, PIPELINE & MISC.

The Committee heard from a presentation from the Alaska Marine Highway System, Department of Transportation and Public Facilities. The bill was held in Committee.

SB 264-FAST TRACK SUPPLEMENTAL APPROPS

The bill was scheduled but not heard.

SB 243-TOBACCO REV. FOR UNIV. & CORR. FACILITIES

The bill was scheduled but not heard.

#sb232

SENATE BILL NO. 232

"An Act making special, supplemental, capital, and other appropriations, amending appropriations, and making appropriations to capitalize funds; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken informed the Committee that the committee substitute for this "double fast track" supplemental bill is nearly complete. However, there is "an obvious hole" in it in regards to the large supplemental request presented by the Alaska Marine Highway System (AMHS). Therefore, the decision was made to focus today's discussion on the AMHS component. In recognition of the fact that many items in the bill involved "sensitive timing issues", he stressed that the committee substitute would be completed in a timely manner.

[9:07:12 AM](#)

ROBIN TAYLOR, Deputy Commissioner/Director of Marine Operations, Marine Highway System, Department of Transportation and Public Facilities and former State Senator introduced himself.

Co-Chair Wilken assured Senator Taylor that the Committee was aware the AMHS would require funding assistance this month. Nonetheless, the dilemma he and other members of the Legislature are facing is whether to provide the AMHS with "a dollar or a hundred million." Therefore, having Senator Taylor explain AMHS funding needs was deemed important.

Co-Chair Wilken noted that in addition to requesting approximately \$15 million in the FY 2006 supplement bills, AMHS would be presenting approximately \$19 million in new FY 2007 requests. The Legislature would prefer to understand the situation rather than make "wild guesses" about it. He noted that in order to more thoroughly "refine" the needs of the AMHS, the forthcoming committee substitute would include a \$1 million AMHS "placeholder"; the final number would be provided later,

possibly through the amendment process. The question is "where do we go from here? You brought us to sort of a crossroads and I think it's more than just throwing money at it." In essence, Senator Taylor has been invited today to "sell" the Committee on the AMHS double fast track request, its regular fast track request, and the requests that would be presented in the FY 07 budget.

[9:10:19 AM](#)

Senator Taylor declared that the Legislature is not alone in its struggle on how to address the needs of the AMHS. The AMHS has been "in transition" for several years, "but it has been a halting process ... with one step forward and almost two steps back." AMHS has not received "good clear direction" from either the executive body or the Legislature for the last ten to twelve years. In approximately 1993, AMHS began increasing fares with the anticipation of increasing revenues to support its unchanging system. Unfortunately, this resulted in a "significant decline in ridership". While more than 400,000 passengers used the system in 1993, ridership declined to 296,000 passengers in 2005. No other transportation system has experienced a similar loss.

Senator Taylor stated that while fares increased 17 percent in 2005, ridership decreased and the system lost revenue. Prior to 2005, fare increases had generated small revenue increases in spite of carrying fewer passengers and vehicles.

Senator Taylor communicated that "the transition" he had referred to could be characterized as a "mindset". Over the years, each of the State's transportation plans for Southeast Alaska had called for the "incremental development of small road segments that would allow us to run from road head to road head instead of from city to city." This approach would shorten the routes the ferries must transit. Currently the 170-mile run from Petersburg to Sitka on one of the System's displacement hulled vessels takes approximately ten hours or longer if tides were a consideration.

Senator Taylor continued that, while a great deal of thought has been given to where roads might be constructed, no process to implement the plan has occurred. The previous Administration had a "very strong philosophy" not to build roads. The technological alternative being promoted six or seven years ago for marine

transportation was "some type of high speed vessel such as a catamaran". State Senator Bill Ray arranged for a Boeing hydrofoil to conduct trial tests in Southeast Alaska in 1986. \$3,500,000 was spent on that unsuccessful venture.

Senator Taylor noted that, due to the "strong desire" not to construct roads, "the transition" began with the purchase of two high-speed ferries, the M/V Fairweather and the M/V Chenega. Unfortunately, these boats have not performed well in the State's winter weather. This is substantiated by the fact that while the older 17-knot displacement hulled vessel, the M/V LeConte, has been able to operate from point to point, the M/V Chenega's runs up Lynn Canal were cancelled. Cancellation of these trips did not reduce expenses as the boat's crew and maintenance expenses must be paid.

Senator Taylor reminded the Committee that except for maintenance or upgrade work, the State's ageing displacement hulled vessels operate 24-hours a day. One of those vessels is 43 years old. However, for the past five years, as a result of the decision to transition to a fast ferry delivery system, "the majority" of AMHS money "has gone into not only building those boats but building" or modifying terminals to fit those boats. The overall investment for this concept would amount to approximately \$150,000,000. While the concept might work in the summer, "it would certainly not work in the winter" when the fast ferries could not operate due "to weather, because of sucking up logs as we did in Ketchikan, because of high costs and low ridership."

Senator Taylor informed the Committee that a system utilizing shuttle ferries, new short distance roads, and some new terminals would benefit the State. The idea is not new; it has been presented in Southeast Alaska transportation plans for twenty years. Unfortunately the idea had not been carried out. The system "is stuck halfway between an existing fleet, a new configuration of that fleet or some other fleet". This is also one of the most expensive periods facing the Marine Highway System, as the older boats must be maintained while new traditional style shuttle ferries are brought into servicing shorter runs. The shuttle ferry M/V Lituya and the Inner-Island Ferry Authority operations have proven that the shuttle system would work very efficiently in comparison to the current system.

Senator Taylor informed the Committee that the M/V Lituya provides roundtrip shuttle service between Metlakatla and Ketchikan two times a day. The vessel is currently experiencing a 90 percent "cash box ratio". In other words, it is generating nine dollars for each ten dollars of operating costs. No vessel in the fleet "even comes close to that."

Senator Taylor expressed that routes could be configured for the M/V Chenega and the M/V Fairweather for the summer of 2006 that might recoup and perhaps generate more revenue than their operational expenses. It was unlikely that this could be accomplished in the wintertime however.

Senator Taylor shared with the Committee that when he assumed his position with AHMS in 2005, decreasing ridership was an issue of concern. The system was losing money and losing riders. In an effort to change that situation, special promotions were implemented. For example, the fares on the trip to Pelican were reduced fifty percent, and, as a result, a boat that for a decade had historically carried an average of ten people per trip, experienced passenger loads of 195 people. The run's revenues increased from \$1,000 to approximately \$13,000 per trip. Progress is being made. Rates on other routes were reduced, and a significant increase in volume into communities such as Cordova was experienced. The increase in ridership provided economic benefits to both the AMHS and the community. However, there is a limit to how far such promotions could be taken. The good news is that by reducing roundtrip rates for Alaskans by 30 percent, the M/V Columbia experienced full sailings northbound out of Bellingham, Washington for the majority of January and February. At this point, the car deck space on that vessel is completely sold out for the month of March and is 80 percent full for April. This volume of traffic has never been experienced before in the wintertime.

Senator Taylor stated that because of a \$500,000 FY 06 allocation, AMHS was able to contract with a marketing firm and hire a marketing specialist. Concentrated efforts are being made to increase ridership. In addition, the AMHS website has been improved and bookings made on the site have increased. AMHS is able to track the response to discounted fares offered on the website.

Senator Taylor pointed out however that the "systemic line is still the same." AMHS is comprised of a series of older vessels,

some new "very expensive boats", and must accommodate unpredictable fuel prices. Based on prior year prices, AMHS fuel was budgeted at \$1.14 per gallon in FY 06. The volume of fuel budgeted for was 10,300,000 gallons. However, the system has actually used 13,500,000 gallons, an increase of approximately 30 percent, and the price of fuel increased to a high of \$2.65 in the summer of 2005. The current price is approximately \$2.05 per gallon. Prices ranging between \$2.10 and \$2.20 are anticipated in the future.

Senator Taylor stated that shutting down vessels would not be the answer due to such things as the conditions of the union contracts. Due to the success of the promotions, AMHS is currently reflecting an 18 percent net increase in winter service. All things considered, it is cheaper to operate a boat than it is to tie it up. Even when a vessel is tied up, expenses are still incurred as a captain and crew must be on board and line handlers must be available. When those expenses are coupled with the loss of revenue, the more economical choice would be to operate the vessel rather than to tie it up.

Senator Taylor noted that, while consideration had been given to taking the M/V Chenega out of service, the decision was made to keep it operating in order to keep its crews trained for summer time service. In order to operate, each fast ferry must have two 17 member fulltime trained crews available, and, in order for the crew to be certified by the United States Coast Guard, each fast ferry must make 12 empty runs on each route. Each empty run costs \$10,000 per day for fuel. While training was initially estimated to cost \$500,000, actual training costs have amounted to \$3,200,000 to date.

Senator Taylor shared that the M/V Fairweather is currently in dry dock having three of its engines and other equipment repaired. It is expected to resume its duties in April 8, 2006. That is an important date, as the M/V Fairweather would assume the M/V Chenega's Southeast Alaska routes when the M/V Chenega moves to Prince William Sound to train, hire another crew, and be ready for revenue service in May.

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Senator Taylor addressed Co-Chair Wilken's question about "where do we go from here" by opining that "there had been very little coordination in the past between the highways portion" of the

Department of Transportation and Public Facilities and the AMHS. Over the past several months, the Department, under the leadership of Commissioner Mike Barton, has been "struggling ... to develop federal contracts" that would allow for the construction of the short connection roads, including the construction of a 1.2 mile road on Wrangell Island and a terminal that would be served by "a dayboat shuttle" operating out of Ketchikan. Another road and temporary terminal location being discussed would relate to the Juneau Access Road study. Having a temporary terminal in Berner's Bay would reduce by more than fifty percent "the operating costs and time to operate" between Juneau and Haines. This route has the "highest volume of traffic" of any of the AMHS routes.

Senator Taylor communicated to the Committee that during the summer, AMHS has more than 320 fulltime employees on vessels operating in Lynn Canal. A terminal located in Berner's Bay would allow a small shuttle ferry to make two round trips between Juneau and Haines in a twelve hour work day. Another small ferry could operate between Haines and Skagway. In addition, the crews could go home at night rather than being required to live on the boat. This scenario would require a total crew of approximately 50 people, including maintenance and stand-by employees.

Co-Chair Wilken understood therefore that this scenario would require approximately 50 employees rather than 300.

Senator Taylor affirmed. Continuing, he noted that rather than being required to operate 400-foot vessels, the proposed scenario would operate approximately 250-foot vessels that could carry 100 vehicles. With the exception of the M/V Columbia, which can carry 130 vehicles, no other vessel in the fleet currently has the capacity to carry 100 vehicles. The Berner's Bay terminal would allow other AMHS vessels to run northward from southern ports and terminate in Juneau where their passengers could connect to the Lynn Canal route. This scenario would mirror the connection currently in place with the M/V Lituya and the Inner-Island Ferry Authority ferry that travels to Hollis. Another important consideration would be that the ferries could have definitive schedules.

Co-Chair Wilken asked the route assigned to the M/V Lituya.

Senator Taylor responded that the M/V Lituya transits between Ketchikan and Metlakatla. While Metlakatla is "one of the poorest, highly unemployed communities" in Southeast Alaska, the M/V Lituya's car deck is practically full on each run. He avowed that the AMHS's 30 percent off and "Driver Rides Free" wintertime promotion on this route has contributed to this scenario.

Senator Taylor declared that "significant efficiencies" would be experienced were the shuttle system expanded in Southeast Alaska.

Senator Taylor recalled that, in 1999, he and Senator John Torgerson had tried to implement a shuttle system program without success.

[9:29:34 AM](#)

Senator Taylor declared that this is the time to "implement that type of program". The Marine Transportation Advisory Board has also provided input to the Department on this project. The project is becoming closer to being a workable plan. "There is a bright horizon" ahead. He disclosed that a Request For Proposal (RFP) to hire a consultant would be advertised in a few days with the anticipation that "a contract would be let this spring for a shuttle vessel". "It makes absolutely no sense to have a boat that's got 60 some crewmembers on it going into a village with less than 35 people." This is currently the case.

Senator Taylor commented that, "politically, I don't know what would be the appropriate level of essential services. I can't set that. It just kinda of gets set by pressures being brought on this system."

[9:30:39 AM](#)

Senator Dyson voiced appreciation for "the thought" that has been provided to the AMHS situation. Continuing, he voiced concern regarding the loss of ridership AMHS has experienced. To that point, he asked whether people have opted instead to fly or have chosen not to travel.

Senator Taylor responded that in addition to flying, people are choosing to drive an alternate route through Canada. Canadian roads have improved and the trip is less expensive than riding

the AMHS. Those desiring access to Juneau or other communities in northern Southeast Alaska are choosing to drive to either Haines or Skagway and riding the ferry from there rather than riding the AMHS north from southern terminals.

[9:32:08 AM](#)

Co-Chair Wilken noted Commissioner Mike Barton had joined the hearing.

Senator Taylor provided cost comparisons between the AMHS and other travel options. The cost for two people to travel roundtrip on the AMHS between the southern terminus in Bellingham, Washington to Juneau with a two-berth stateroom would be \$1,940. Meals for the six-day trip might amount to \$600. The total cost would be \$2,540.

[9:33:16 AM](#)

Senator Taylor stated that traveling to Juneau on the cruise Norwegian Sun would be \$1,000 cheaper, and would include meals and entertainment. Other ships offered lower prices. Due to the rate increases, the AMHS could no longer be referred to as "a poor man's tour ship." The people riding AMHS vessels "are desperate; they can't get from point A to point B any other way". Were there another option, they would take it. When options such as flying or using barges are available, people are taking them. The system has lost ridership and must woo it back in order "for this system to be justified by this Legislature."

[9:34:25 AM](#)

Senator Dyson asked the percent of AMHS costs resulting from labor.

Senator Taylor deferred to Richard Leary of the Department.

[9:34:41 AM](#)

RICHARD LEARY, Business Development Manager, Alaska Marine Highway System, Department of Transportation and Public Facilities, testified via teleconference from an offnet site and stated that wages and other labor expenses account for "64 percent of the total dollars spent" by the ferry system.

Senator Taylor informed the Committee that Mr. Leary was hired in July 2005 to fill the newly created Business Manager position. Since that time, Mr. Leary has restructured the AMHS accounting system. Other changes that were long considered have been implemented. One important issue that has been addressed is the manner in which AMHS conducts its dispatching. In 2005, Senator John Torgerson, who at the time was Special Assistant to Commissioner Mike Barton, conducted a study in regards to AMHS overtime. That study found that AMHS overtime amounted "to 22.5 percent of total payroll".

Senator Taylor shared that due to vessel operation demands and the fact that a substantial amount of employees have retired, overtime has been required while new employees were being recruited and trained. Therefore, he surmised the current overtime rate to be "significantly higher" than 22.5 percent. He informed the Committee that within the last week, a contract was signed that would implement a computerized dispatch program that would determine employee schedules on a quarterly basis. Employees would be able to plan vacations and have a predictable schedule. This program would assist in addressing overtime expenses.

[9:38:26 AM](#)

Mr. Leary informed the Committee he would be available to respond to questions.

[9:38:43 AM](#)

Senator Stedman characterized the issues facing the AMHS as "a deep and complex quagmire". Nonetheless, it is critical that there be "long-term viability" in regards to the AMHS, as it is a critical piece of the transportation "infrastructure" for State coastal communities. To that point however, the Legislature must oversee the State's resources in a prudent manner. The AMHS is challenged by a variety of issues including scheduling.

Senator Stedman recalled the Department touting the benefits that would be provided by the fast ferries the M/V Fairweather and the M/V Chenega: they would improve service and they would be able to operate in areas such as Lynn Canal, which is known for high winds, Clarence Straits which has floating logs, and Stephen's Passage which has icing conditions. "These are not

easy waters to transverse on thin-skinned hulls at high speeds." Thus he asked regarding the vessels' speeds and wave height capabilities as presented in their design specifications as opposed to the actual running conditions in which the vessels could be operated.

9:40:48 AM

Senator Taylor stated that, when he was a member of the Legislature, he was on record in opposition to the purchase of the fast ferries. "It is more than ironic" that he now is in the position of attempting to conduct "due diligence on these vessels" which were supported by both the Legislature and the Southeast Alaska Transportation Plans. He noted that the AMHS recently decided not to purchase two additional fast ferries as allowed by an "alleged option agreement within the contract". Governor Frank Murkowski's Administration tasked him with developing a report on the fast ferries that would include such things as costs and performance. While the fast ferries have had a limited amount of operational time and more years would be required in which to thoroughly conduct trials, records have been compiled and the report has been finalized. The State has, to date, expended in excess of "\$150,000,000 on this experiment and has endeavored to make it work, regardless of his personal view of the vessels. The answer to the question of whether the fast ferries are working or not "is still evolving". The experience, to date, has "not been really good in some areas. I think they can perform if you give them a short enough run, a high enough volume of people, and you can charge a fair enough price." The vessels could operate in the summer on heavy traffic routes. That is in essence where they are assigned. The M/V Fairweather would be operating out of Juneau serving Sitka and Lynn Canal. The Department is optimistic that this summer time route would work well.

Senator Taylor affirmed that both vessels have experienced wave damage to date. Due to bow damage experienced by the M/V Fairweather, the M/V Chenega's bow had been reinforced prior to leaving the shipyard. Unfortunately, waves hitting under the catamaran style vessel resulted in under-carriage damage. While wave damage to both vessels has been repaired, corrosion problems were recently discovered in three of the M/V Fairweather's four engines. Addressing this issue has caused further delay in getting the vessel back in operation. Cracks in the vessel's reduction gears were discovered when the engine

work was being conducted. This might cause further delay. The manufacturers of the engines and the gearboxes are working to correct the problems while the vessel is in the Ketchikan shipyard. The repairs might require approximately \$600,000 in labor. While the cost of the parts is unknown at this time, this work to rebuild the engines could exceed \$750,000. Thus, the AMHS is concerned about future major maintenance costs, major operational costs, and high fuel costs.

Senator Taylor stated that some have argued that, since the fast ferries travel twice as fast as traditional vessels, the fuel expenses would be the same; however, that is not the case. Fuel on a traditional vessel might amount to 25 percent of the operating expenses, fuel expenses on the fast ferries is 37 percent. The fast ferries are consuming approximately 600 gallons an hour. Each roundtrip between Juneau to Sitka would cost \$10,000 for fuel. A high passenger count would be required to offset such operating expense.

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Senator Taylor declared that the fast ferries could work were they operated on shorter runs in the summer.

Co-Chair Wilken concluded from the remarks that the average speed of the fast ferries would not be double that of traditional ferries.

Senator Taylor replied "yes."

Co-Chair Wilken asked whether the engine and reduction gear repairs being conducted was warranty work.

Senator Taylor responded that quite a discussion has transpired in this regard. The Division of Risk Management, Department of Administration, became involved when the manufacturer denied being "responsible since it was past the warranty period". The State argued that the parts should not have failed after one and a half years of usage. While the engine manufacturer has agreed to underwrite the necessary repairs, no agreement has yet been reached with the reduction gear manufacturer.

AT EASE [9:48:57 AM](#) / [9:49:44 AM](#)

Co-Chair Wilken stated that in order to thoroughly discuss the AMHS, the other bills scheduled for today's hearing would not be heard.

Senator Stedman stated that the fact that the fast ferry M/V Chenega could not conduct its route today due to high seas underscored the concern that the actual performance of the fast ferries differs from the benefits initially lauded. Continuing, he recalled there being a document that compared the gross revenues verses expenses experienced by the AHMS in the summer and in the winter. He asked that this information be provided. He understood that the revenues generated by the traditional hulled vessels was 60 percent of the operating costs as compared to revenues amounting to 17 percent of operating costs of the fast ferries.

[9:51:28 AM](#)

Senator Stedman stated that in order to make the "best decision we can under difficult circumstances", the Committee must be provided "as much information as possible" regardless of how "difficult or unattractive" the information; particularly in regards to "the issue of the fast ferries being a substantial cash draw on the system". Continuing, he understood that the M/V Le Conte is also a lost leader in the mono-hulled arena.

[9:52:08 AM](#)

Senator Taylor informed the Committee that AMHS could now provide costs and revenues per week per vessel for the past year.

Senator Taylor communicated that it would cost \$250,000 per week, or one million dollars a month, to operate the two fast ferries. Were training expenses "loaded in", the weekly costs would amount to \$278,000. Were one to assume that the same employees would man the ship for five to ten years, the costs could be "amortized" to \$230,000 per week. Thus the average would be \$250,000 per week. The M/V Chenega generated \$10,000 in revenue per week on winter runs from Ketchikan to Juneau. People have argued that the vessel had been placed on the wrong run. He countered by asking which run would have been better suited, as that run was determined to have the best potential number of travelers. The question that needed to be answered at the time was whether or not the vessels' performances would warrant the

expenditure of another \$100,000,000 for two more fast ferries. The third fast ferry would have transited the route between Petersburg and Ketchikan. That route is notorious for logs, as supported by the fact that in 29 days, the fast ferry running that route sucked up 14 logs. Other trips on that route were cancelled due to high waves.

Senator Taylor stated that the fast ferries were initially designed to handle 13-foot seas. Furthermore, he disclosed that Coast Guard requirements dictate that these vessels must take shelter when seas exceed ten feet. "That makes a dramatic difference in Southeast operations." The original 13-foot seas design specification was changed and the vessels' "wet deck was lowered three feet". He recalled that when he had raised a question about the fast ferries' docking needs, the response from Department of Transportation and Public Facilities officials at the time had been "don't worry about it Senator Taylor, these boats will fit these docks." Nonetheless, new docks, each costing approximately \$13,000,000, were constructed in Whittier, Valdez, Cordova, and Petersburg. The dock in Petersburg was constructed in an area that could not accommodate other State ferries 176 days a year when tides were low.

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Senator Taylor stated that other design specification changes were made. The original vessel design would have provided fresh water domestic sewer services on the fast ferries. "The manufacturer decided that was going to be too much weight" for the vessels to carry around, and instead, a saltwater flush system was installed. The result of this is that each night when the fast ferry docks, a private sewer pumping truck must pump off approximately 3,000 gallons of saltwater sewage. That load is then transferred in a controlled manner to the community's sewer system, as otherwise dumping a concentrated amount of salt water into the sewage system would harm the sewer system's ecosystem. While he was uncertain of the cost for this sewage transport contract, such change orders have had a tremendous impact on the operating costs of the fast ferries. The AMHS mono-hulled vessels have certified fresh water sewer systems and do not have such a problem.

Senator Taylor noted that in order to remove 20,000 pounds from the fast ferry's weight, another change order removed the hard ramps on the boat. Thus, each shore ramp had to be rebuilt and

equipped with that ramp. The boats' original design would have allowed them to transit Sergius Narrows at any tide. Now, however, due to a liability concern, fast ferry captains refuse to transit Sergius Narrows when the tide action running through it exceeds 5.2 knots. The consequence of this is that rather than the boat being stationed in Sitka as originally planned, the boat now operates out of Juneau and runs to Sitka must be scheduled to accommodate the Sergius Narrows tidal flow. This constraint on the fast ferry's operating schedule also increases operating expenses. In addition, the public cannot be provided a regular scheduled run.

Senator Taylor stated that the decision has been to concentrate on determining the most efficient way to operate the fast ferries rather than to dwell on who made the design changes.

[10:01:05 AM](#)

Co-Chair Wilken asked that the discussion now be directed toward the financial status of the operation.

[10:01:12 AM](#)

Senator Stedman declared that it would be unreasonable to expect AMHS, or any highway for that matter, "to run at a positive cash flow". Nonetheless, he requested that a financial statement on the AMHS system be developed in a similar fashion to that, for example, of a community's water system or "any type of enterprise funds at city hall". The objective of this endeavor would be to determine "how bad of a quagmire we are dealing with". This financial statement should present the AMHS "as a standalone enterprise" and include shore costs and training expenses; thereby making it easier to "concentrate on the financial end" of the issue in order to continue to provide a "transportation system for the coastal communities".

[10:02:25 AM](#)

Senator Taylor, stating that a financial statement could be provided, noted that Mr. Leary designed and implemented an enterprise fund accounting system.

[10:02:43 AM](#)

Mr. Leary stated that the January 2006 financial statement was available. The February 2006 statement would be finalized within a few days.

[10:03:07 AM](#)

Co-Chair Wilken asked whether Mr. Leary was headquartered in Ketchikan.

Mr. Leary responded that he was.

[10:03:23 AM](#)

Senator Hoffman requested that a breakout of Alaskan verses non-Alaskan ridership throughout the year be provided. This would be helpful in determining "who is actually benefiting" from the service.

Senator Taylor responded that while it has been difficult "to nail" that information down, "good approximations" could be provided.

[10:04:22 AM](#)

Co-Chair Green recalled the numerous times Senator Taylor questioned the feasibility of fast ferries during and prior to his time as a member of this Committee.

Co-Chair Green observed that, to this point, no encouraging information has been provided about the fast ferries. Thus, she questioned whether "there might be a point in time" at which the State should "cut our losses" and further other options; in other words was "there a bail out plan?"

[10:05:17 AM](#)

Senator Taylor stated that the Murkowski Administration has indicated that at some point a business decision regarding the future of the fast ferries must be made. He, as the representative of AMHS, has requested "a little more patience." The desire would be that AMHS be allowed to operate the fast ferries through the summer of 2006. A decision could be made in the fall of 2006 after both vessels have had an opportunity to operate for a sufficient amount of time on a "stable" run.

Senator Taylor declared that considering the investment the State has made in the fast ferries and the modifications that have been made at ferry terminals, the decision "not to use" the fast ferries would really place the system in "a jam". Other boats would be required to provide "some level of essential service" were the fast ferries removed from service. Service on the Lynn Canal route would be an issue. This "complex issue" would require further consideration. Thus, a bailout plan has not been developed.

Senator Taylor also communicated that the State would be required to reimburse the federal government were the fast ferries sold.

Co-Chair Green asked when the State would be dismissed from that obligation.

Senator Taylor understood that the State must operate the vessels for five years before they could be "surplused out".

Senator Taylor stated that due to the fact the vessels are expensive to operate and dangerous in the winter, the current plan would be to tie them up next winter. The question is whether that would be the proper solution. Other options could include identifying shoulder season routes the vessels could operate less expensively than another AHMS vessel "that carries more crew". "Right now, the long-term plan is about six months". A decision could be made about what to do with the vessels then.

Senator Taylor declared that, "the decision must only be made based on good hard factual evidence of running experience, revenues, maintenance costs." The person holding his position should be "required" to provide "a good solid series of information and numbers so that you can look your constituents and the people of the State of Alaska in the eye and say we gave'em a fair trial, here's what it costs, and we had to make a decision." While insufficient data is currently available upon which to make a decision, sufficient data would be available by the fall of 2006. The fast ferries have a "huge impact" on the State's budget, as, excluding training expenses, their year-round operating costs would amount to \$24 million per year.

[10:08:33 AM](#)

Senator Dyson, a boating enthusiastic, noted that a substantial amount of the world's commerce is efficiently transited by sea. However, he suggested that flying and barging wares and vehicles during times of inclement winter weather might better serve State residents. To that point, he asked whether information is being compiled upon which "to predict when the State would be better off flying the people and/or subsidizing that rather than subsidizing the vessels".

Senator Taylor stated that such information is being compiled.

Senator Dyson stressed that this information should be "part of our long term analysis to figure out how we get out of this very expensive dilemma".

Senator Taylor remarked that, had the decision been made not to operate the M/V Chenega, the State could have chartered planes to transport people "and moved their cars by sky crane helicopter and saved money". The real out-of-pocket expense per capita "was pretty horrendous". Continuing, he voiced uncertainty as to "how relevant that was to this Committee". He could provide "a whole series of different operations" conducted by AMHS in which it would be more "efficient to transport those people by barges" or airplanes "than to operate the boat". However, the fact is that ferry service "is the essential transportation system" for certain communities. Continuing, he noted that airplane service could also be unreliable and when airline service was unavailable, "people get on board our boats". The very first question asked by people on a plane that overflies a community due to such things as fog is, "Hey is there a ferry going someplace? Could I go on that one?" The ferry system is an essential service.

[10:11:27 AM](#)

Senator Stedman pointed out that the employees of the AMHS are dedicated to providing good service. In addition, they are "very concerned about the viability" of the system. They should be assured that the Legislature is not "ready to pull the bilge plug and walk off the boat on the Marine Highway System". The Legislature "would work through this issue." Older AMHS vessels such as the M/V Taku, the M/V Malaspina, the M/V Matanuska, and the M/V Columbia have served reliably for a long time. One issue that must be addressed is the two new fast ferries. The second issue would regard the smaller AMHS ships the M/V Aurora and the

M/V LeConte. The decision would likely be that there are areas in which alternative options would work better.

Co-Chair Wilken thanked Senator Stedman for his remarks as they reflect the reason for these discussions. The Committee should not "take the easy way out".

10:12:35 AM

Senator Olson asked whether older financial statements were available.

Senator Taylor responded that "there have always been methods of allocating cost and expense and providing for revenue reflection within this system, but they were carried in about six or seven different aspects" including Administration, shore side operations, and reservations. "They were reflected as different component parts" rather than as "one single enterprise fund type approach". The recently implemented accounting system could answer the question "of for how many dollars you bring in through the cash box, how many dollars does it cost to run" each vessel. Costs are now allocated per vessel, including the cost of insurance for each vessel. A vessel the size of the M/V Columbia would incur a larger insurance premium than the smaller vessel the M/V Lituya. While such information was available previously in different components of the budget, the new business approach accounting system could provide consolidated per-vessel information.

Senator Olson opined that the numbers present "a fairly pessimistic picture". He asked the affect the fast ferries have had on people who use the system; specifically whether they have experienced a "dramatic change" in service. While the Committee must address the situation from a financial position, the impact of the fast ferries should be a consideration.

Senator Taylor shared that the fast ferries have been well received by people. He has "not met one person who has rode that boat that didn't just think it was wonderful." Trips could be made in half the time it might take the mono-hulled vessels. Riders would request that the vessels run "more frequently on a regular schedule just to their town." The issue is that at some point the process must include the real cost of that service. While both the State of Washington and British Columbia, Canada

had utilized high-speed ferries in their systems, none of those boats are being operated today.

Senator Olson agreed that the convenience factor is important; however, his question was more directed at whether businesses have come to rely on fast ferry service for getting their "commodity to market" or receiving supplies quicker.

Senator Taylor stated that the fast ferries have not operated long enough to develop that market.

[10:16:49 AM](#)

Senator Stedman affirmed that users "really like" the boat's comfort and speed. However, the issue is whether or not the revenue being generated is sufficient. Another issue is that the fast ferries generate huge wakes that are dangerous to small boats. He recalled assurances being made that wakes would not be a problem.

[10:17:44 AM](#)

Senator Dyson affirmed that the high-speed vessels once operated by the State of Washington and British Columbia also caused wake damage in their areas of operation. Those boats were eventually sold at auction for approximately ten or fifteen cents on the dollar.

[10:18:22 AM](#)

Senator Taylor readdressed his earlier comments regarding ferry operations in Lynn Canal. The results of a ten or 12 year Environmental Impact Study (EIS) on the Juneau Access Road project would soon be available. Were the report to support a road being constructed in the Lynn Canal corridor, and absent any litigation stopping the project, there would still be a period of five to seven years before a ferry could be operated at the "Katzehin River, which is the preferred alternative destination of the road at this point". This river is across Lynn Canal from Haines. When the terminal at Katzehin River is completed, a minimum of two 60 or 70-car 17-knot shuttle ferries could transit from the terminal to Haines and Skagway on a regular basis. The vessel the AMHS is anticipating to contract out this spring would be utilized for this route. This vessel would initially operate from Juneau's existing Auke Bay

terminal. The construction of a temporary terminal in Berner's Bay would reduce the vessel's Lynn Canal transit time by fifty percent. Since this vessel would eventually operate from the Katzehin River, it must be designed as a drive-on drive-off boat. That boat would be replicated at other locations such as Hoonah.

Senator Taylor continued by stating that rather than the people in Hoonah being served once a week, a shuttle vessel could be home-ported in Hoonah; demand might allow it to make daily runs to Juneau. Such a vessel could potentially generate a 90 percent of cost return revenue as opposed to the \$250,000 a week expense associated with serving that community with the M/V LeConte, which is one of AMHS's "biggest loss leaders". The infrequent schedule currently provided to Hoonah is inconvenient and therefore people traveling to Juneau opt to fly.

Senator Taylor declared "there is nothing cheaper to run than a road". Echoing his opening remarks, he stressed the efficiency that short connecting roads with shuttle ferries would provide. "Tight coordination between" Department of Transportation and Public Facilities highways and the AMHS could facilitate such things as the construction of the five-mile road between Kake and Petersburg. Connecting those communities by road would allow AMHS to stop at one ferry terminal rather than two. While there would always be a need for mainline ferry runs from Washington, the short road and shuttle ferry endeavors would produce cost savings and efficiencies to benefit the AMHS system, which has been operating relatively unchanged for 70 years.

[10:23:30 AM](#)

Senator Taylor reiterated that the construction of a temporary terminal in Berner's Bay would sufficiently reduce operating costs in Lynn Canal. The eventual road to Katzehin River would enable AMHS to operate short shuttle service between Katzehin River and Haines and Skagway for even more efficiency and cost savings. Each mainline boat's roundtrip up Lynn Canal currently takes 16 to 18 hours and requires crews of approximately 50 people working 24 hours a day. "It just makes no sense!"

[10:24:24 AM](#)

Co-Chair Wilken asked how the 30 percent round trip rate reduction promotion affected revenue and ridership.

Senator Taylor responded that fleet-wide ridership increased 48 percent. The M/V Columbia has experienced an even higher increase. Net revenue return to the System has been 18 percent.

In response to a question from Co-Chair Wilken, Senator Taylor clarified that gross winter revenue has increased 18 percent.

Co-Chair Wilken understood that the winter timeframe being referenced would be from October 2005 to date.

Senator Taylor communicated that the 30 percent round-trip discount program was initiated November 3, 2005. The Driver Rides Free promotion began October 1, 2005. AMHS is anticipating offering the 30 percent round trip winter discount this year on October first.

Senator Taylor stated that the 48 percent ridership increase is based on "units of sale"; this would include passengers, stateroom purchases, and car deck space. Each of these were discounted 30 percent.

Co-Chair Wilken asked how AMHS measured head counts; specifically whether it was measured for each port of call.

Senator Taylor replied that AMHS has accurate flow-through and port-to-port numbers. The numbers could become confusing were a person to get off, spend a few days in a port, and get back on. The numbers are reported annually.

Co-Chair Wilken asked that this information be provided to the Committee.

Senator Taylor affirmed.

Co-Chair Wilken surmised that the information should reflect an increase in the number of vehicles getting on and off the ferries.

Senator Taylor concurred. Continuing, he stated that the information would "dramatically show" how few people AMHS is moving on certain runs.

Co-Chair Wilken stated that this information would be interesting to review.

Senator Taylor noted that the limited ridership being experienced in some ports would further substantiate the question regarding "what level of service should we be providing here since we don't seem to be building any".

Co-Chair Wilken understood that the Legislature had, years prior, provided funds toward the boat utilized by the Inner-Island Ferry Authority (IFA), which is an entity separate from AMHS.

Senator Taylor affirmed.

Co-Chair Wilken asked whether the operational status of the IFA is successful. Continuing, he asked whether IFA service could be duplicated other places in Southeast Alaska.

Senator Taylor responded that "not only could it be but it would be were" the State to "continue to stumble and halt and not move forward with our existing system ... People will turn to other systems that are more efficient." The IFA "is efficient because it's doing what every planner has told us to do with this system for years." That would be to provide a regular and consistent roundtrip daily ferry schedule with a "decent fare structure". Currently the IFA ferry leaves Hollis for Ketchikan each morning and returns to Hollis later in the day. The funding provided by the Legislature was actually a federal funding pass through to the IFA. The State has also allowed the IFA to utilize its docks and other AMHS facilities. The IFA would be receiving an additional vessel, the Stikine, in April. The Stikine would be providing service from Coffman Cove, where the State recently completed the construction of a new terminal, to Wrangell, and to the new State terminal in Blind Slough. The Stikine is anticipated to operate four days a week for four months. Unfortunately, that schedule would require AMHS to provide duplicate services, as year-round services to these communities must be provided.

Co-Chair Wilken asked whether AMHS could utilize a system similar to that of the IFA on AMHS routes that "are grossly unprofitable".

Senator Taylor stated that while this could be done, consideration must be given to the overall system. He likened AMHS to "a telephone system": the desire would be to manage only

the big trunk lines and allow someone else to manage the lines that do not pay. However, the fact that AMHS provides a public service and essential transportation would require the Legislature to play a role in the decision-making. "Otherwise, arbitrary decisions" such as providing service only on certain days of the week for a limited number of months a year would be made. That would not work. "The model that could work" and has proven itself is one of basing the boat in the community "that needs to travel". For example, 100 percent of the residents of Hoonah "want to or need to" travel to Juneau. Conversely, 100 percent of the people living in Juneau do not need to go to Hoonah. Previous planners had furthered "a hub and spoke scenario" in which the boat would be based in Juneau and on occasion would travel to Hoonah. "Wrong. Lituya has proven that to be backwards. You base the boat in the community where the people need to come to town. It takes them in in the morning, it brings them home in the evening." AMHS employees would be allowed to go home at night rather than being housed on a vessel. The M/V LeConte, with 24 crew members, is currently providing service two times a week to communities and transporting fewer than five people. In contrast, more people might use the AMHS were a boat based in that same community and roundtrip service provided every day.

Senator Taylor stated that "the scariest statistic" provided today is that the two crewman vessel the Oral Freeman which provides shuttle service between Ketchikan and the airport carries 100,000 more people a year than all the vessels in the AMHS.

[10:32:59 AM](#)

Co-Chair Wilken asked whether federal money might be available to assist in replacing the State's older vessels.

Senator Taylor responded in the affirmative. The Alaska Congressional delegation has been instrumental in the past in providing specific earmarks for State vessels. In addition, due to language modifications, SHAKWAK funds could now be utilized for "marine vessels, terminals, and roads that connect thereto." This could further the endeavor to extend roads to ferry terminals.

Co-Chair Wilken asked whether accessing that money for new smaller shuttle vessels is being considered.

Senator Taylor responded in the affirmative. \$13,500,000 in SHAWAK funds is currently earmarked for the construction of the shuttle ferry for Lynn Canal.

[10:34:21 AM](#)

Co-Chair Wilken asked whether AMHS has established a reservations system that could be accessed by private entities such as recreational vehicle (RV) park operators.

Senator Taylor responded yes. Continuing, he noted that major improvements in the AMHS reservation system have occurred. Individuals are able to make reservations and purchase tickets on the AMHS Internet website. In the near future, people would be able to print their tickets on their printer at home, in a manner similar to that provided by major airlines.

Co-Chair Wilken asked whether business entities would be paid a commission for tickets sold on the AMHS.

Senator Taylor understood that some sort of commission had been paid but that commissions are now limited to travel agents.

Co-Chair Wilken understood that the private entities that had sold AMHS tickets on commission had been pleased with the process; however, the system had changed and become more cumbersome and the effort was no longer worth the five percent commission they were paid. RV operators have shared with him that while most RV travelers drive the road system northward, many of them opt to ride the AMHS on the return leg of their trip.

Senator Taylor agreed. Continuing, he noted that AMHS staff has recently been provided opportunities to implement changes they had long sought. In addition, the AMHS online reservation system has benefited from the experiences of numerous businesses including Alaska Airlines. While the current abilities of the AMHS website are tremendous, the goal is to have the upgraded website completed by summer 2006. A significant portion of the tickets sold by AMHS are sold online.

Co-Chair Wilken asked the type of fuel utilized by ferries.

[10:38:18 AM](#)

Senator Taylor replied that the ferries utilize Number Two diesel fuel.

Co-Chair Wilken asked whether AMHS has the ability to "hedge" its fuel purchases.

Senator Taylor responded that the purchase price utilized by AMHS is the Seattle Oil Price Information Service (OPIS) price plus a delivery fee, dependent on the port the fuel is purchased in. Some delivery expenses are 16 or 17 cents per gallon. The OPIS price is the best price available to AMHS. He recalled that AMHS has utilized hedging practices in the past when it purchased a quantity of fuel upfront at a fixed price. He was uncertain whether this practice would continue in the future. "It's a risky business," as the upfront price paid might be higher than a future price.

Co-Chair Wilken asked whether the OPIS price is publicly posted.

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities understood that a person must register for the OPIS service. The Department would provide that information.

Senator Taylor communicated that AMHS has tracked OPIS prices for several years. A spreadsheet summarizing the history could be provided.

Mr. Leary affirmed that the information would be provided.

Co-Chair Wilken shared with the Committee that a 16 percent fuel surcharge is being added to all goods shipped through the Port of Anchorage. It would be nice to have the OPIS information to better grasp the situation, specifically in regards to the surcharge price charged by other shippers.

Senator Taylor noted that AMHS has been adding a ten percent fuel surcharge to its customers.

Co-Chair Wilken asked whether the M/V Chenega had encountered icing conditions in Prince William Sound.

Senator Taylor responded not at this point. The Coast Guard assisted AMHS in designing routes to avoid ice "as best we can."

Co-Chair Wilken noted that the Legislature provided \$500,000 in FY 05 to support the promotion efforts. He asked whether this endeavor would be continued.

Senator Taylor affirmed that the program would be continued. He also predicted that AMHS revenues would exceed projections. Further route restructuring and better utilization of equipment would further benefit the system.

[10:42:06 AM](#)

Senator Olson asked how AMHS, which is actively promoting construction of new roads and shuttle service, is addressing the concerns voiced by those in opposition to roads. His office has received numerous phone calls from people opposed to the road.

Senator Taylor stated that his "goal is to run the most efficient ferry system we can have that will provide the greatest level of service for the least cost." The Department has determined a cost comparison for transporting a car and a passenger on a ferry for one mile verses the cost of maintaining a road. It costs approximately one penny per mile for the State to plow and maintain a road. It costs a minimum of \$2.50 a mile to carry that same person on a ferry. That is a ratio of 250 to one of actual costs to the people of Alaska. Better ratios could be accomplished by running more efficient ferries. He voiced being mindful of the difference in maintaining a busy road between Anchorage and Wasilla and maintaining a rural road in Southeast Alaska. The costs of operating a boat or plane are much higher than that of maintaining a road. "Roads have to be our future." Nonetheless, "any idiot that looks at a map, knows that you can't build bridges to every island" in Southeast Alaska. Thus, both roads and ferries are needed.

[10:45:01 AM](#)

Co-Chair Wilken stated that this is his eighth year as a member of the Senate Finance Committee. The first year the subsidy to the AMHS was \$32,000,000. Today it is in excess of \$82,000,000. Southeast demographics are not growing for a variety of reasons. Many people are choosing to fly rather than drive. And traveling on a cruise ship is cheaper than the cost of travel on a ferry. These issues are the reason for this discussion today. "We are

at a crossroads in what we are going to do with this \$80 plus million dollar subsidy and how we are going to control it."

Co-Chair Wilken communicated that the Committee would work hard to get AMHS through FY 06 as well as to address its FY 07 needs.

Co-Chair Green reviewed the following morning's bill hearing schedule. In addition, she noted that the March 3, 2006 afternoon Joint Meeting with Senate Resources has been cancelled.

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**ADJOURNMENT**

Co-Chair Wilken adjourned the meeting at [10:46:30 AM](#).