

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

January 22, 2008

1:34 p.m.

MEMBERS PRESENT

Representative Kyle Johansen, Chair
Representative Mark Neuman, Vice Chair
Representative Anna Fairclough
Representative Craig Johnson
Representative Wes Keller
Representative Mike Doogan
Representative Woodie Salmon

MEMBERS ABSENT

All members present

OTHER MEMBERS PRESENT

Representative Andrea Doll
Representative Gabrielle LeDoux
Representative Beth Kerttula
Representative Peggy Wilson

COMMITTEE CALENDAR

PRESENTATION BY DOT/PF ON STATE TRANSPORTATION IMPROVEMENT PLAN
(STIP);

- HEARD

ALASKA MARINE HIGHWAY SYSTEM (AMHS) SCHEDULING

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JEFF OTTESEN, Director
Division of Program Development
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Presented and answered questions on the STIP plan.

DENNIS HARDY, Deputy Commissioner
Office of the Commissioner
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Presented and answered questions on the Alaska Marine Highway System (AMHS).

ACTION NARRATIVE

CHAIR KYLE JOHANSEN called the House Transportation Standing Committee meeting to order at [1:34:35 PM](#). Representatives Neuman, Fairclough, Johnson, Keller, Doogan, Salmon, and Johansen were present at the call to order. Representatives Doll, LeDoux, Kerttula, and Wilson were also in attendance.

State Transportation Improvement Program

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CHAIR JOHANSEN announced that the announced that the first order of business would be the presentation of the State Transportation Improvement Plan (STIP) and the Alaska Marine Highway System Scheduling.

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REPRESENTATIVE FAIRCLOUGH asked for a status report on questions generated from the January 17, 2008, committee meeting.

CHAIR JOHANSEN responded that the questions were forwarded to the commissioner of the Department of Transportation & Public Facilities (DOT&PF) yesterday at 2:30 p.m.

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JEFF OTTESEN, Director, Division of Program Development, Department of Transportation & Public Facilities (DOT&PF), advised that he oversees the STIP, and in that capacity is responsible for managing and producing the STIP. He offered to expand his presentation, which is included in the committee packet with any level of detail the committee desires.

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CHAIR JOHANSEN noted that his constituents have experienced frustration with the STIP's complexity, but he acknowledged that DOT&PF must react to constantly changing federal regulations and rules.

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MR. OTTESEN offered an overarching comment that the STIP is a technical program and that the stability of the program has suffered due to changes at the federal level. He outlined four topics of discussion, 1) General Overview/Federal Transportation Funding Process and Rules; 2) SHAKWAK Funding; 3) How the Federal Funding Process Relates to State Funding; and 4) The State STIP/the STIP Amendment Process.

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REPRESENTATIVE NEUMAN asked for an explanation of SHAKWAK.

MR. OTTESEN responded that SHAKWAK is a term for a geological trench feature in the Yukon, and that Alaska runs through this feature. SHAKWAK is funded by two programs: one is a long-standing program, which has been used to build parts of the highway system in the Yukon Territory and a small piece of the system in British Columbia [Canada], which has been funded with federal highway dollars for over 30 years; the second use of the term is for a more recent provision in federal law that allows DOT&PF to create a special category of funding for the Alaska Marine Highway System (AMHS), the Haines Highway, and more recently roads that lead to ferry terminals.

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MR. OTTESEN, in response to a question by Representative Doogan, stated that the STIP is a legal requirement that the state must follow to be eligible for federal dollars.

MR. OTTESEN referred to page 2 of his overview labeled, "DOT&PF's General Overview/Federal Transportation Funding Process and Rules", and explained that the federal highway program began in 1916 and is a body of law that has been amended many times, with the last amendment being the federal Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2004 (SAFETEA-LU). He stated that, to give the committee an idea of the complexity of the amendment, it was 1,700 pages in length. The federal highway program consists of many general rules, but also has many exceptions with nuances. He offered

that although he has 12 years of experience with the federal rules, the department has lost through retirement, two people with in-depth knowledge of the federal process. The transportation planning process is required for the state to access funds, is codified in the U.S. code in Sections 134 and 135, and is also codified in regulation. The transportation planning process must be adhered to for all federal highway funds Alaska receives, as well as the federal transit funds, which, he noted, have been increased in the past few years. The mandate for a planning process goes back to 1934. The planning process is more complex since rules have been added that require the state to produce a long-range plan, as well as a short-range spending plan in accordance with the long-range plan. Additionally, there are related requirements and documents the state must produce, such as: data on the condition of roadways, bridges, and pavement; and an inventory of roads, including the width, and functional classification, for example, whether it is a local road or arterial road. The first duty of DOT&PF is to collect this data which is then delivered annually to the Federal Highway Administration (FHWA) prior to the state receiving any federal funding.

MR. OTTESEN stated that DOT&PF is required to have an outreach process and must consult with other local, state, and federal tribal agencies. DOT&PF produces the STIP under strict fiscal discipline and is required to split the duties. Although the state highway agency, as it is referred to in the act, is responsible for many of the duties, some duties are shared with the large Metropolitan Planning Organizations (MPOs) in each state. Alaska has two MPOs: the greater Fairbanks area, including the Fairbanks North Star Borough (FNSB), and the Municipality of Anchorage (MOA). The MPOS are required to produce their own spending plans, Transportation Improvement Programs (TIPs), so the decision making authority is actually held by the MPOs and not by the state. Therefore, the MPOS act almost like separate entities within the state.

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REPRESENTATIVE FAIRCLOUGH asked how soon the Matanuska-Susitna Borough (Mat-Su) would reach the density and population necessary to form its own MPO.

MR. OTTESEN related that he expects the Matanuska-Susitna Borough to reach population density in the 2010 census. It takes about two years for that process to be documented, which

occurs before an MPO would be mandated. He suggested that the process would be complete in approximately 2012.

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REPRESENTATIVE FAIRCLOUGH clarified that to reach MPO status an area must have a population density of 50,000 and a population density per square mile. She asked the percentage of FHWA funding that is directed to MPOs, and how that funding will be impacted by the addition of the proposed Mat-Su MPO.

MR. OTTESEN responded that one of the exceptions in law is that all other states, except Hawaii and Alaska, use a formula set in law to determine the funding allowable for MPOs. One category is set at 62 percent, and the formula is based on a strict state population proportion so the end result is that the proposed new MPO would receive 10 percent of the 62 percent, or a little more than 6 percent of that one category of funding. Since Alaska was not included in the formula and no alternative was provided, DOT&PF developed a formula by regulation in 2002 and delivers to the MPOs approximately twice as much funding as the federal formula would. He stated, in response to a question, that by subtracting out the MPO funding allotted for Fairbanks and Anchorage, the proposed Mat-Su Borough MPO would get a sliver of the remaining funding based on the state formula. He noted that the state formula takes into account factors, such as the population, the number of miles of road, and the safety record on those roads.

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REPRESENTATIVE DOOGAN related his understanding that the parts of the STIP that pertain to the Municipality of Anchorage MPO stem from the Anchorage Metropolitan Area Transportation Solutions (AMATS) process rather than from the state process.

MR. OTTESEN noted his agreement, but pointed out that a few categories of funding spent within Anchorage are from the state process. The national highway system routes are prepared cooperatively with MOA. The MOA identifies the routes and the state decides the funding, although some additional categories like safety and bridge funding still remain under state discretion. The bulk of the program is decided by the AMATS policy board and the state's job is essentially to approve the AMATS plan as written because the state does not have any veto power over the plan.

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REPRESENTATIVE DOOGAN asked if the process for funding is limited to the construction portion of projects.

MR. OTTESEN explained that the process is not limited just to construction purposes because funding could also be used for buses and for some operational functions. He stated that he chooses not to characterize it as limited to construction since funding could be used for planning also. He acknowledged that the MOA decides what goes into the AMATS plan, and reiterated that the AMATS plan is not subject to veto by the state.

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MR. OTTESEN, referring to the STIP and the 2030 plan, explained that both are statewide multi-modal plans that must cover a 20-year horizon, and the eight factors contained in the 2030 plan. Both plans are prepared in consultation with several organizations. Mr. Ottesen explained that the process states use to prepare these transportation plans falls into two approaches, either to prepare a single plan for the entire state or to use a tiered plan with top-level policy coupled with more detailed plans at the regional level and/or system plan level. In Alaska, the state owns 40 percent of the road system and there is a complex network of transportation systems including ferries, aviation, and harbors. About a third of the states, including Alaska, have used a tiered approach since 1993, such a strategic plan approach. He opined that the tiered approach is the best approach for Alaska. The concept of an overarching plan with more detailed plans is codified in state law. He speculated that there are at least 15-20 subordinate plans that help the department flesh out the long-range plan, which includes the details for aviation, AMHS, corridors, regions, and the use of technology.

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REPRESENTATIVE NEUMAN asked whether the subordinate plans are available.

MR. OTTESEN responded that all the plans are located on DOT&PF's web site.

MR. OTTESEN gave an overview of the federal STIP process, which all 50 states have to produce for a four-year horizon. He noted that prior to SAFETEA-LU the STIP had required a three-year

horizon. A letter is jointly signed and the STIP is approved before DOT&PF can access federal funds. He offered that the state can't work on projects that are not consistent with its long-range plan.

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REPRESENTATIVE FAIRCLOUGH inquired as to who approves the STIP plan at the state level.

MR. OTTESEN responded that duty is delegated to DOT&PF commissioner. The plan is then forwarded to two federal agencies for approval, along with a transmittal letter.

REPRESENTATIVE FAIRCLOUGH asked whether it is a federal requirement that the STIP approval process stay internal with the administration or do some states use a legislative process.

MR. OTTESEN answered that a handful of state legislatures approve the STIP, but in the majority of states the approval process is done by the executive branch. He added that the federal law itself specifies the state highway agency which is the state department of transportation in most states.

REPRESENTATIVE FAIRCLOUGH then asked whether state regulations require that MPOs pass their transportation plans through the local assembly.

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MR. OTTESEN responded no, the approval is not mandated by state regulation and each MPO follows its own process, which, he opined, is a remarkably complex and diverse process nationwide. The STIP is required to identify the scope, physical boundaries, schedule, cost, and funding types of all projects. The STIP undergoes federal review and approval with the fiscal constraints and requirements increasingly more vigorous. The STIP is constrained by year and by phase of work. For example, phases include design and environmental work, right-of-way, moving utilities, and construction. All phases must be detailed and must total the maximum number of dollars that DOT&PF estimates is available. He offered that five or six years ago, the STIP was over-programmed such that it often showed more projects than were realistic for the funding. More importantly, he noted, DOT&PF could not deliver projects due to cost increases so the STIP was unrealistic. Therefore, DOT&PF is not

allowed to spend beyond the STIP program and must adhere to strict guidelines.

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REPRESENTATIVE SALMON asked whether DOT&PF applies the same rules to the rural roads in smaller communities.

MR. OTTESEN answered that in 1995, DOT&PF created criteria designed to allow rural communities to compete with urban communities, except in Puerto Rico and Alaska where rural roads are eligible for STIP dollars. He explained that the exception and the criteria have been focused on achieving sanitation roads to landfill sites and sewage lagoons to water sites in order to achieve basic sanitation in rural areas.

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CHAIR JOHANSEN stated that when DOT&PF veers away from the STIP document and cannot complete its projects, it increases public frustration because the public doesn't understand the process taken to determine which projects are funded.

MR. OTTESEN reminded the committee that the STIP used to be a three-year document with a component to project out an additional three years in order to give communities a glimpse of future projects. However, the department has vacillated in its view of the value of projecting projects for six years since the trend is that costs will go up, additional funding will not be available, and projects slip, all of which adds to public frustration and a sense that the planning process is a hollow process. He opined a preference for a four-year process and that anything beyond that timeframe is simply too difficult for DOT&PF to predict.

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MR. OTTESEN, referring to the bottom of page 5 of his overview, explained that federal rules have become more complex and demanding with about 20 different funding types to consider. Funding sources are not just general funds, and instead the funding is by category and sub-category. Therefore, each project must be evaluated for exceptions to the eligibility rules. What has further complicated the process is that new regulations, as a result of SAFTEA-LU, were first public noticed as draft regulations in the summer of 2006 and were enacted in 2007. He noted that he helped prepare a 50-page letter in

response to the regulations, which outlined concerns that the American Association of State Highway and Transportation Officials (AASHTO) two committees had with the regulations. DOT&PF also authored a 10-page letter that highlighted concerns that the AASHTO letter did not cover. Other states, including Alaska, have had ongoing concerns about how the regulations will affect and apply to individual state programs. He offered his understanding that the feedback from federal agencies implies that the regulations are more flexible than states have interpreted them to be and that state transportation agencies need to work through local agencies to interpret the regulations. He opined that the old STIP, prior to 2007, was a much easier document to use than the new STIP.

MR. OTTESEN, in response to a question from Representative Fairclough, advised that AASHTO is an organization that works on behalf of all 50 state transportation agencies.

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CHAIR JOHANSEN inquired as to methods that other states use to navigate the complexity of the new regulations.

MR. OTTESEN responded that one difficult challenge for DOT&PF is to amend the STIP when there is a change due to funding or cost. Some states have addressed this issue by forward funding their federal programs. Those states produce projects with state funding and then write the STIP for reimbursement of those projects against a known set of costs. However, he cautioned that the only way the DOT&PF would be able to do this would be to forward fund the STIP program with an initial \$300 to \$400 million of general fund monies. The states in which forward funding has been successful are those states that already have a revenue stream from a gas tax or other dedicated funding source.

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REPRESENTATIVE FAIRCLOUGH asked if the STIP allows for reimbursement. She related that when she served on AMATS, under the SAFETEA-LU, AMATS pre-purchased right-of-way properties and then requested reimbursement for the advance funded right-of-way needed for the project.

MR. OTTESEN agreed that process could work. However, he cautioned that when the state or municipality pre-purchases right-of-way, and thereby indicates the specific location of a road, the state runs the risk that the FHWA may determine the

state pre-decided the project and did not follow the prescribed AMATS process. The FHWA may then determine that the project is not eligible for reimbursement.

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REPRESENTATIVE FAIRCLOUGH agreed and reiterated the importance for the committee to understand the risks involved for reimbursement in cases in which the state does not follow the federal government's continuum and is reimbursed less.

MR. OTTESEN offered that there are instances of low risk projects, for example buying right-of-way on an existing road when the goal is to widen the road. In further response to Representative Fairclough, Mr. Ottesen stated that SAFETEA-LU expires in 21 months, on September 30, 2009.

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MR. OTTESEN referred to the federal policy shifts, including rescissions. A rescission is essentially funding that the federal government takes back. Proportional funding means the state must return the funding in the same ratio that it was awarded, with no flexibility. He opined that this constraint forces DOT&PF to build projects that may not be the state's highest priority, but are within the highest priority in the particular funding category that fits. He noted that many federal mandates do not include funding necessary to implement the required changes, such as a mandate that in 2009 DOT&PF must give the public "real time" data about weather and traffic. Another mandate is the concept of "complete streets" which means that when building a road, DOT&PF must provide for bicycles, pedestrians, and transit users in all phases of the project. DOT&PF is also required to coordinate its efforts with wildlife agencies. In fact, DOT&PF receives some requests for bridges to allow wildlife to cross roadways. He highlighted that unfunded mandates mean that ultimately DOT&PF will achieve less.

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MR. OTTESEN, in response to a question, responded that the department has not yet been provided with details with respect to rural roads and trails or if there is an exception in federal law for those projects.

REPRESENTATIVE FAIRCLOUGH speculated that in Alaska mandates could have dire consequences, such that a project that provides

a corridor for snowmobile or four-wheel all terrain vehicles, could be mandated to provide a bike trail and a sidewalk along the corridor.

MR. OTTESEN agreed.

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CHAIR JOHANSEN asked if rescissions are returned to the general fund or whether the funding is redistributed to DOT&PF.

MR. OTTESEN responded that the rescissions thus far have been to take back the non-cash portion of the project, which has a consequence, but doesn't necessarily take away funding.

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MR. OTTESEN referred to the top of page 6 of his overview, and explained that the new federal STIP rules are the first regulation changes in 13 years, since 1993. He offered that the attorney for AASHTO made it clear that most of the regulation changes were firmly written in the law and were preordained in the law, and are not at the discretion of the FHWA but were regulations Congress mandated. An amendment takes a minimum of 90 days to process, but a major amendment can take up to five months. Since anything that changes the cost, schedule, scope of the project, or funding source can trigger an amendment, DOT&PF avoids changes to projects. Changes to projects could potentially halt construction or accrue damages due to the delay, expending millions of dollars to solve a problem that shouldn't happen. He explained that the STIP amendment process doesn't work well in Alaska, where the construction season is five months long, whereas in some other states construction happens almost all year round.

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CHAIR JOHANSEN asked whether projects cancelled by the chief executive have an impact on the STIP.

MR. OTTESEN responded that cancellations, project delays, or the desire to use funds elsewhere would result in an amendment to the STIP.

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CHAIR JOHANSEN asked more specifically whether the Ketchikan Gravina Island Access Project had been cancelled.

MR. OTTESEN answered that there has been no STIP amendment as Alaska's STIP is currently frozen, pending completion of the state's long-range transportation plan. He explained that the STIP and the long-range transportation plan are linked. The department is rushing to finish the long-range plan because the 2008 funding cannot be spent and a STIP amendment cannot be made until the long-range transportation plan is completed.

REPRESENTATIVE FAIRCLOUGH asked whether the Ketchikan Gravina Island Access Project was ever included in the STIP.

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MR. OTTESEN responded yes, adding that the federal earmarks have to be shown in the STIP for different phases. However, since DOT&PF lacked full funding, the project was not shown in the 2008-2009 STIP for the construction phase. Under the STIP rules the funding must be identified, he noted.

REPRESENTATIVE DOOGAN asked whether the STIP requires DOT&PF to list construction phases by year. For example, if a multi-phased project had been included in the STIP he inquired as to what assurance DOT&PF has that it will be included and approved in the STIP for its second or third phase.

MR. OTTESEN responded that once the state starts a project, if the specific project is not approved for subsequent phases, the state must reimburse the funds. The state is required to prepare a financial plan, escalate it to the year of construction, and to update the project annually. He added that a financial plan had been prepared for the Ketchikan Gravina Island Access Project, but it showed the need for a great amount of state funding in order to complete the project.

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REPRESENTATIVE FAIRCLOUGH asked whether the planning process also includes a decision to "build or not build" to give DOT&PF an option to not move forward with a project.

MR. OTTESEN responded that the National Environmental Policy Act (NEPA) process provides for exemption from repayment in instances when a project is not built. He highlighted that he has only experienced one instance of a "no build" decision in

his career. He indicated that there are many reasons for project delays, and those delays are allowed, none of that violates the fundamental decision to go forward on a project, so long as there is a good faith effort by DOT&PF to complete the project. He indicated that DOT&PF recently shut down several projects in order to avoid repayment of federal funds.

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MR. OTTESEN gave a status update on the Ketchikan Gravina Island Access Project and indicated that the record of decision had been reached, and that some road work and right-of-way work had been completed on the project.

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REPRESENTATIVE NEUMAN offered his understanding that when there are federal funds involved and a change is required, it's also necessary to prepare a STIP amendment.

MR. OTTESEN responded yes, and that the minimum processing time for a STIP amendment would be 90 days. He added that there are some amendments that can occur within a simpler set of rules, known as an administrative modification. Most project changes require the STIP amendment process, he noted.

MR. OTTESEN offered another example of a project that triggered a STIP amendment, in which a small City of Nome project funded by a federal earmark required a small amount of utility work totaling less than 2 percent of the project, approximately \$50,000 of a \$3 million project. DOT&PF determined the utility work would delay the project by an entire year. Therefore, rather than risk the STIP amendment, the City of Nome paid for the cost out of city funds.

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MR. OTTESEN, in response to Representative Neuman, explained that the Knik Arm Crossing Project is currently in the public review process for the environmental impact statement [EIS], followed by the record of decision, which is part of the National Environmental Policy Act review. The project is currently out for public review, but he predicted it will require repayment if the project does not move forward. He gave an overview of the EIS process in which there is a public review, an agency review, a comment period, and a period when then the applicant works with the lead agency, the FHWA, who

ultimately controls the decision. The Knik Arm Bridge and Toll Authority (KABATA) produces the document, but the decision of record is held by the FHWA.

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REPRESENTATIVE JOHNSON asked if funding will need to be repaid on the Ketchikan Gravina Island Access Project.

MR. OTTESEN indicated that DOT&PF will go back to the community, review the EIS, and look for alternatives in order to avoid repayment. In response to a question, he indicated that one option would be to look at the ferry system.

REPRESENTATIVE JOHNSON asked for figures for repayment, if the repayment would be necessary.

MR. OTTESEN responded that the state would have to repay about \$55 million.

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The committee took an at-ease from 2:29 p.m. to 2:36 p.m.

ALASKA MARINE HIGHWAY SCHEDULING

[2:36:12 PM](#)

CHAIR JOHANSEN announced that the next order of business would be a presentation by the DOT&PF on AMHS scheduling.

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DENNIS HARDY, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT&PF), began by introducing other members from DOT&PF that were present.

MR. HARDY noted he supplied a handout for reference, but that he also had a prepared statement. He indicated that AMHS schedule is being finalized later than normal and the schedule will be printed in the Milepost and several other publications. He said he is working closely with the publications, and anticipates that the schedule will be available on DOT&PF web site by January, 31, 2008. Reservation staff is currently logging requests, he noted. He acknowledged the impacts the late schedule has on the traveling public, the travel support industry, the travel agents, tour companies, and hotels. He

stated that next year AMHS will be back on its regular timetable. The schedule is late this year, he explained, due to major changes in routes. The AMHS made the decision that all the vessels could not run the same as last year and as in prior years. Therefore, a new schedule had to be created, which is a complex and time consuming matter. Two primary factors entered into the decision to take this approach, which are fiscal responsibility and operating costs. In fiscal year (FY 07), operating costs increased 18 percent with total costs for AMHS amounting to nearly \$100 million per year. He said the schedule was changed to reduce operating costs, which are escalating dramatically. The general fund level is approximately \$89 million in the current governor's budget, which is only slightly higher than in FY 08. The system needed to make major changes to reach fiscal responsibility, but that long-term sustainability is AMHS's ultimate goal.

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MR. HARDY discussed balancing the needs of Alaskans with Alaska's economy, and said that the debate concerns whether AMHS serves Alaskans only or tourists as well. He opined that the proposed plan offers a balance between the two. He reviewed the major changes. He indicated that AMHS removed the mainliner, the motor vessel (M/V) Malaspina, from Bellingham where it ran at 55 percent capacity, but the M/V Malaspina will now provide the day boat service in Lynn Canal. The M/V Columbia will continue to provide service to Bellingham; and the traffic displaced from the M/V Malaspina will increase capacity utilization of the M/V Columbia, except for June and July. He opined that the overflow traffic in peak season would be diverted to Prince Rupert instead of Bellingham. In fact, AMHS will focus its marketing efforts on Prince Rupert. The benefit of moving the M/V Malaspina to Lynn Canal will be to free up the fast ferry, the M/V Fairweather, to provide improved day boat service to Sitka and Petersburg. The M/V Kennicott provides service to the Aleutian chain, but will be put on a two week on and two week off schedule as a cost savings measure.

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CHAIR JOHANSEN offered that most of the questions and comments were generated when the proposed schedule was floated.

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MR. HARDY, in response to a question from Chair Johansen, informed members that as the deputy commissioner of DOT&PF, he answers to Commissioner von Scheben, and serves only AMHS.

CHAIR JOHANSEN recognized the Ketchikan Borough Mayor, Mayor Joe Williams.

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CHAIR JOHANSEN requested that Mr. Hardy cover the areas that the system covers.

MR. HARDY responded that AMHS serves about 30 communities, of which Prince Rupert and Bellingham are the southernmost points of the system. The mainline route continues up through Southeast Alaska to Haines and Skagway so travelers can go through Southeast Alaska and into the Canadian Alcan, and Interior Alaska. The cross Gulf route serves Prince William Sound, Valdez, Whittier, and Cordova and traffic can continue into Southcentral Alaska. The Gulf route is used extensively by the military bases of Eielson Air Force Base and Fort Wainwright in Fairbanks; and Ft. Richardson and Elmendorf Air Force Base in the Anchorage area, as well as serving the Coast Guard in Kodiak. The southwest route serves Kodiak, Homer, Port Lyons, and continues down the Aleutians to Unalaska.

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REPRESENTATIVE NEUMAN asked if AMHS has considered expansion to serve river systems, such as the Yukon River.

MR. HARDY reminded the committee that Representative Salmon has introduced a bill to expand the AMHS system to include service for the Arctic Yukon-Kuskokwim (AYK), but the bill hasn't passed yet. The AMHS would complete a study, if the bill passes, but at this time AMHS does not have operating funds to provide expanded service. He noted, in response to a question by Representative Salmon, that AMHS has had requests from two communities, Perryville and Ouzinkie.

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MR. HARDY, in response to a question from Representative Doogan, clarified that the current request in the governor's budget is \$89 million in general fund monies, and another \$12 million in general funds will be used for minor maintenance and overhaul of the vessels.

MR. HARDY, in further response, related that AMHS generates revenue of in the amount of \$49.3 million a year and the funds go into AMHS to operate the system.

REPRESENTATIVE DOOGAN asked if the general fund and ferry-generated revenues are the AMHS budget.

MR. HARDY replied yes, so long as the operating costs remain the same, however, he advised that there are other variables that add costs to the system, such as vessel layups, vessels affected by capital improvement projects, escalating fuel costs, and negotiations over labor contracts. The AMHS hopes to have signed three labor contracts this winter. He noted that AMHS uses a three percent inflation factor when developing its budget.

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REPRESENTATIVE DOOGAN encouraged AMHS to get the schedule published and to try to increase ridership.

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CHAIR JOHANSEN inquired as to how the funding plan was derived.

MR. HARDY answered that it was a combination of determining a reasonable level of service with fiscal considerations. The operating costs are escalating and AMHS would like to stay under a cap of \$100 million in general fund operating costs when preparing the FY 08-09 budget.

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CHAIR JOHANSEN asked if AMHS had been given a specific figure to keep the budget within.

MR. HARDY stated no, but added that the team evaluated many scenarios when developing AMHS budget.

MR. HARDY, in further response, said that AMHS provided information to the administration, but was not given a specific dollar amount. The AMHS defended its budget to the Office of Management & Budget through DOT&PF.

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REPRESENTATIVE ANDREA DOLL, Alaska State Legislature, inquired as to the historical percentage of cost versus revenue.

MR. HARDY indicated that he did not have the history of the funding for AMHS, but offered to provide it later. However, he related that for every \$1 generated in revenue, AMHS spends \$2 in general fund monies. The aforementioned has escalated due to fuel costs, labor, and general inflation.

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REPRESENTATIVE DOLL opined that the [increased operating costs] were affected by the choice of runs and choices made in the past. She indicated she is interested in the proportional figure of cost versus revenue.

MR. HARDY confirmed that the cost of the system is based on the vessels and routes selected.

[2:57:31 PM](#)

REPRESENTATIVE FAIRCLOUGH inquired as to the number of passengers served last year and the anticipated numbers of passengers for this year in the proposed schedule. She then inquired as to how many vehicles will be moved. She related her understanding that a second vessel was added in Bellingham, but the two vessels are running at 50 percent capacity. And thus, the number of vehicles moved is the same. Therefore it's more efficient to run one vessel at full capacity. She then asked whether AMHS generates the most revenue from passengers, vehicles, or freight.

MR. HARDY responded that revenue is generated from passengers, vehicles, and freight. Mr. Hardy, after conferring with staff, specified that the revenue is evenly split between passengers and vehicles.

REPRESENTATIVE FAIRCLOUGH recalled a hearing last year in which the DOT&PF commissioner related that more revenue is generated on the vehicles than the passengers. She inquired as to the impact of the new schedule will have on the movement of freight, vehicles, and passengers. She said that she assumed that with anticipated schedule reductions there will be a corresponding drop in revenue, and she inquired as to whether AMHS has forecasted the decrease in revenue. "Have you anticipated that in the run so that you're developing a model that's more cost-effective, if you're going to deter service", she asked.

CHAIR JOHANSEN asked to defer that question for the sake of time, and indicated his staff will compile questions.

3:00:41 PM

REPRESENTATIVE FAIRCLOUGH announced that she has had multiple inquiries from residents along the coastal communities concerned about how the schedule change will affect their lifestyle. She indicated that she has access to a road system, and asked how many of the communities served by AMHS have access to other modes of transportation.

3:01:34 PM

REPRESENTATIVE NEUMAN asked whether AMHS's budget request is for the full commitment or is it a bare bones request.

MR. HARDY responded that AMHS's budget request is not a minimum budget. He opined that there could be brutal reductions to service. He then noted that service and operating costs are synonymous. He related that three legislators have requested cost information if the M/V Kennicott was not on a two week on, two week off schedule for the year. He said that the M/V Kennicott is the most expensive vessel to run, ranging about \$425,000 a week to operate. He noted that the M/V Kennicott is laid up most of the winter to obtain cost savings. The following were examined: 1) to run the M/V Kennicott year round, except for layup and that would cost \$4.1 million; 2) to run the M/V Kennicott full-time during the M/V Tustemena's layout, and to run the M/V Kennicott the remaining time on a two-by-two schedule, which totals about \$2.3 million.

3:05:42 PM

REPRESENTATIVE NEUMAN asked if AMHS is providing the maximum service.

MR. HARDY responded that AMHS is not providing full service under the current budget.

REPRESENTATIVE NEUMAN requested further information [on the cost to provide full service].

3:06:22 PM

REPRESENTATIVE FAIRCLOUGH asked whether the Ocean Ranger Program has impacted AMHS's ability to retain or recruit pilots for AMHS.

[3:07:11 PM](#)

CHAIR JOHANSEN related his understanding that the [cruise ship industry] has contracted out with a private company to fill Ocean Ranger positions. Therefore, he said he didn't believe AMHS has been impacted yet.

REPRESENTATIVE JOHNSON inquired as to why the choice was made to emphasize Prince Rupert versus Bellingham, especially in light of travel restrictions to Canada and the weakening value of the dollar.

[3:08:33 PM](#)

MR. HARDY said the decision to select this scenario was based on consensus of AMHS management, after reviewing ridership, revenue, percentage of capacity being utilized, and operating cost savings. Furthermore, AMHS moved the M/V Malaspina, which was utilized on the Bellingham route, to Lynn Canal to provide additional service needed and for cost savings. With regard to marketing studies, he deferred to staff.

[3:09:47 PM](#)

REPRESENTATIVE JOHNSON requested the criteria used to make the decision. He indicated his specific interest is the difference in passenger loads, in order to ensure that a sound business decision was made.

CHAIR JOHANSEN asked to have this information provided to his office for distribution. He then asked if this proposed Prince Rupert schedule will be consistent over the upcoming few years.

MR. HARDY acknowledged the importance of reliable schedules, and therefore, AMHS proposes that the schedule will remain "pretty much the same."

[3:13:58 PM](#)

CHAIR JOHANSEN returned to the change that directs folks through Prince Rupert. He inquired as to the plan for the Prince Rupert terminal and its connection to Ketchikan.

MR. HARDY acknowledged that there are some deficiencies with the Prince Rupert terminal, and some repairs have been made. Although the dock is safe, it is old and deteriorating. Therefore, AMHS has had ongoing discussions with the dock owners to request that they repair the terminal. The AMHS has also sent a letter to the owners to outline concerns about terminal fees. The 2030 plan indicates that AMHS will not expand its service, but the southern gateway shuttle is in the Southeast Alaska Transportation Plan. He stated that until AMHS prepares a master plan for the system, there is not a vessel replacement plan which includes the southern gateway shuttle.

[3:16:50 PM](#)

CHAIR JOHANSEN asked for a status on the latest master plan.

MR. HARDY advised that a reimbursable services agreement (RSA) with the University of Alaska Southeast Transportation Center was signed in December. A team of consultants will be working on the master plan with two deliverable dates. The first phase includes an as-built condition, a suite of alternatives, and a framework for making recommendations with a deliverable date of October 2008. The second phase is scheduled for October 2009.

[3:18:11 PM](#)

REPRESENTATIVE NEUMAN asked whether the 2030 plan includes upgrades for vessels or replacements.

MR. HARDY explained that he meant to say that the 2030 plan says there will be no expansion of service, but does recognize that AMHS has an aging fleet and that vessel replacement will be required. As yet, AMHS is working with the administration to find revenue sources. He noted that of the fleet's 11 vessels, 4 vessels are 45 years old; with a life expectancy of 60 years, the vessels will need replacement in 15 years.

[3:19:54 PM](#)

REPRESENTATIVE JOHNSON related his understanding that items not in the 2030 plan cannot be included in the STIP. Therefore, he opined that the state won't be able to receive federal funding.

[3:20:44 PM](#)

MR. HARDY recalled that Mr. Ottesen mentioned the SHAKWAK funding, which is \$10-25 million annually, will no longer exist

as of 2009. Federal funding projections are expected to level off or reduce. With regard to STIP funding and its interface with the 2030 plan and AMHS, Mr. Hardy deferred to Mr. Ottesen.

REPRESENTATIVE JOHNSON opined that funding for projects that are not 2030 plan or STIP that no federal funds in the STIP will be used for AMHS. Therefore, he surmised that some other fund source, perhaps the general fund, will have to be utilized.

CHAIR JOHANSEN advised the committee should hold off on that thread of questioning until Thursday when Mr. Ottesen is back before the committee.

[3:22:48 PM](#)

REPRESENTATIVE DOOGAN referring to the operating plan asked if during the summer the M/V Columbia will be the only ferry sailing from Bellingham north once a week.

MR. HARDY responded yes.

REPRESENTATIVE DOOGAN reviewed the proposed AMHS vessel schedule.

[3:24:38 PM](#)

CHAIR JOHANSEN asked if the committee wanted to get into this minutia, and said that the director of AMHS is capable of taking care of his business.

REPRESENTATIVE DOOGAN related that at the height of the tourist season, AMHS is pushing folks north to Prince Rupert. He inquired as to how AMHS knows that moving people from the Bellingham north route to the Prince Rupert north route will work.

[3:25:43 PM](#)

MR. HARDY related that AMHS will provide marketing incentives such as fare reductions. He opined, "We do believe that we can convince the overflow traffic from Bellingham into Prince Rupert, yes we do."

[3:26:23 PM](#)

REPRESENTATIVE DOOGAN asked if AMHS made an operational decision to move the sailings to Prince Rupert, and whether the switch is

a commercially viable option. He stated that his understanding is that AMHS does not have any information to support its decision for the terminal location change.

MR. HARDY reiterated that AMHS believes it can provide the appropriate incentives for the overflow traffic to go north to Prince Rupert.

[3:28:17 PM](#)

REPRESENTATIVE DOOGAN stressed that this is not reassuring, either on the face of it, or for the schedule remaining the same for the next three years.

[3:28:31 PM](#)

CHAIR JOHANSEN asked if the management team agreed on the M/V Kennicott's schedule too.

MR. HARDY confirmed the M/V Kennicott's schedule was run through the management team.

[3:29:04 PM](#)

REPRESENTATIVE DOLL referring to review figures on the Prince Rupert run, informed the committee that the embarking traffic for Prince Rupert has gone down, whereas for the same period the embarking traffic has increased for Bellingham. Furthermore, the docking and pier facilities are excellent in Bellingham. She inquired as to the layup [and maintenance] costs for the M/V Kennicott, since it is shut down for several weeks.

MR. HARDY offered to provide Representative Doll ridership information.

CHAIR JOHANSEN asked Mr. Hardy to provide the costs for the two week layup of the M/V Kennicott.

[3:32:01 PM](#)

REPRESENTATIVE SALMON recalled that when he first arrived in Juneau to serve in the legislature he was opposed to the ferry system. However, after his fourth session, he said he now supports the program 100 percent. He opined he did not understand the ongoing fight for funding, especially in lieu of the projected increase of revenues from oil. He asked to hear some positive aspects of the program, and to see a forecast and

plan that was not just gloom and doom. He said he supports adequately funding AMHS. He opined that the communities, such as Angoon need this program funded because when it is not fully funded, the reductions in service cause hardships in the rural areas served by AMHS.

[3:35:47 PM](#)

CHAIR JOHANSEN offered his sense of frustration too as it is a fight every year to keep the system going. He opined that AMHS reaches all through the state, "feeding" people into Southcentral and the Interior. He noted that a recent McDowell Report related how many embark from Bellingham and later show up in Anchorage, or Fairbanks. He highlighted the transport of troops. He opined that it is important to get people moved throughout the system, and in the wintertime to provide services from Bellingham to the Aleutian chain. He reiterated his support for having a budget for AMHS that adequately funds AMHS so that the legislature can review and appropriate funding. He then expressed concerns with the diversion to Prince Rupert, and the lack of a proactive plan to fix the system.

[3:39:35 PM](#)

REPRESENTATIVE JOHNSON opined that DOT&PF budget seems like a piecemeal budget, and that the department is consistently in crisis management rather than providing a [comprehensive] budget/plan for the legislature to address. He added that it is not just the DOT&PF, but all departments. He questioned what it would cost to provide service, utilize equipment, and maximize use of routes.

[3:42:30 PM](#)

REPRESENTATIVE DOOGAN recalled that last year, DOT&PF representatives characterized [AMHS] as a Southeast Transportation Plan that focuses on roads and the ferry as [a shuttle] to the roads. He questioned whether that's because it's easier to obtain federal funding for roads. If that's a problem then the legislature should make the decision whether to pay for the [vessels].

[3:46:09 PM](#)

REPRESENTATIVE NEUMAN asked if the Point McKenzie ferry would be part of AMHS's overall plan.

MR. HARDY responded no.

[3:46:53 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 3:47 p.m.