

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

March 4, 2008

2:06 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Craig Johnson

**OTHER LEGISLATORS PRESENT**

Representative Peggy Wilson  
Representative Andrea Doll

**COMMITTEE CALENDAR**

OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to report

**WITNESS REGISTER**

DENNIS HARDY, Deputy Commissioner of Marine Operations  
Marine Highway System  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Presented an overview of the Alaska Marine Highway System, and responded to questions.

CAPTAIN JOHN FALVEY, General Manager  
Ketchikan Office  
Marine Highway System  
Department of Transportation & Public Facilities (DOT&PF)  
Ketchikan, Alaska

**POSITION STATEMENT:** Responded to questions and offered comments during an overview of the Alaska Marine Highway System.

MALCOLM MENZIES, Regional Director  
Southeast Region  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Responded to questions during the presentation on the Alaska Marine Highway System.

ANDY HUGHES, Planning Chief  
Southeast Region  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska

**POSITION STATEMENT:** Responded to questions during overview presentation of Alaska Marine Highway System.

#### **ACTION NARRATIVE**

**CHAIR KYLE JOHANSEN** called the House Transportation Standing Committee meeting to order at [2:06:36 PM](#). Representatives Johansen, Fairclough, Neuman, Doogan, Salmon, and Keller were present at the call to order. Also in attendance were Representatives Wilson and Doll.

#### OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM

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CHAIR JOHANSEN announced that the only order of business would be the overview on the Alaska Marine Highway System.

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DENNIS HARDY, Deputy Commissioner of Marine Operations, Marine Highway System, Department of Transportation & Public Facilities (DOT&PF), recognized that an aging fleet makes vessel replacement a critical issue for the marine highway system. He reported that of the eleven AMHS vessels, four vessels are about 45 years old, and three vessels are about 35 years old. He allowed that the useful life of the vessels is about 60 years, except for the fast ferries, which have a useful life of about 25 years. He explained that it can take up to six years from its design for a vessel to be put in service. He relayed that a shuttle vessel will cost \$85 million, and a main line vessel will cost \$250 million.

CHAIR JOHANSEN asked if there are any vessels currently in the planning process.

MR. HARDY noted that the Malaspina is due to reach the end of its useful life in 2016. Currently, the concept study for replacement boats is on hold pending a peer review of the Southern Gateway shuttle and the Southeast Alaska shuttle.

CAPTAIN JOHN FALVEY, General Manager, Ketchikan Office, Marine Highway System, Department of Transportation & Public Facilities (DOT&PF), explained that there are concept designs for the southeast shuttle and southern gateway shuttle.

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CHAIR JOHANSEN clarified that the southern gateway is Ketchikan, and the southeast is Lynn Canal and Juneau.

CAPTAIN FALVEY agreed and explained that the concept design for the southern gateway shuttle is a long, slender, steel, day shuttle vessel with a reduced crew who will go home every night. The vessel will be very fast, 23-24 knots, and will consume a lot of fuel. He allowed that there is a similar concept for the southeast shuttle, though this vessel will not be as fast, because there are shorter distances. The department hired an engineering firm to do a peer review for an outside look at both shuttle concepts. The peer review weighed escalating fuel costs against labor costs and recommended a review of the 12 hour day boat concept. The new idea presented is to slow the boats down to burn less fuel, to have a more automated vessel with a reduced crew, and to not have passenger cabins. The department is currently examining this alternative.

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REPRESENTATIVE FAIRCLOUGH asked if the cost analysis takes into consideration for the initial capital investment cost of a fast ferry versus a larger ferry.

CAPTAIN FALVEY asked for clarification.

REPRESENTATIVE FAIRCLOUGH requested a comparative initial cost and operational cost analysis for a vessel that lasts 20-25 years versus a vessel that lasts 60 years.

CAPTAIN FALVEY noted that an aluminum vessel will not last as long as a steel vessel.

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REPRESENTATIVE FAIRCLOUGH allowed that hull material would be part of the analysis.

CAPTAIN FALVEY asked if Representative Fairclough is referring to the initial decision to build fast ferries.

REPRESENTATIVE FAIRCLOUGH said that she assumes that the cost analysis was done before the decision to build fast ferries. She posed that the discussion is now about a day boat, and she would like to see a comparative cost analysis for aluminum versus steel hulled boats.

CAPTAIN FALVEY replied that the current shuttle concept will be a steel hulled, 300 foot boat, capable of carrying 500 passengers and 65 vehicles.

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CHAIR JOHANSEN asked if the cost is compared for the life cycle of the aluminum fast boat versus the steel slow boat.

CAPTAIN FALVEY clarified that the current discussions are only for steel boats, not aluminum fast ferries.

CHAIR JOHANSEN asked if the faster, steel day boat has had a life cycle cost comparison to the suggested slower boat.

CAPTAIN FALVEY reported that more than 50 vessel types were studied and the review group made this recommendation.

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REPRESENTATIVE FAIRCLOUGH asked to see the analysis for comparison. She asked if a green house analysis of fuel consumption comparing the new versus the old vessels has been done.

CAPTAIN FALVEY said that it will be done.

CHAIR JOHANSEN asked if the new vessels will be sister ships.

CAPTAIN FALVEY expressed his belief that this may be the best direction to proceed. He noted that this will allow that vessel parts will be interchangeable.

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CHAIR JOHANSEN asked if the department has done an analysis of other ferry routes, in case the road is built in Lynn Canal.

CAPTAIN FALVEY agreed that the boat will be interchangeable with other locations.

CHAIR JOHANSEN asked what are the advantages and disadvantages to having sister ships.

CAPTAIN FALVEY pointed out that parts are interchangeable with sister ships. He expressed the possibility that the two new steel shuttle boats will replace the Malaspina and the Matanuska.

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REPRESENTATIVE FAIRCLOUGH asked if the fast ferries have had engine problems.

CAPTAIN FALVEY replied that the fast ferries have had multiple problems. He noted that the warranty coverage of the vibration issue has been resolved. He explained the other major problem to be the recommendation of the engine manufacturer to use the wrong coolant which tends to corrode the cylinder linings. He said that the department is working toward a resolution for this problem.

REPRESENTATIVE FAIRCLOUGH asked what type of engines will be used in the new design.

CAPTAIN FALVEY responded that the high speed, highly turbocharged engines used in the current fast ferries are very complex, so he suggested using more conventional engines in the slower steel boats.

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REPRESENTATIVE NEUMAN asked if there was full reimbursement on any warranty work that was proven to be a manufacturer problem. He also asked if there is an extended maintenance schedule.

CAPTAIN FALVEY said that the fast ferries are no longer in the warranty period, but a resolution has been worked out with the manufacturer.

REPRESENTATIVE NEUMAN asked what the cost to the state is.

CAPTAIN FALVEY responded that there is a small amount that may not have been reimbursed.

REPRESENTATIVE NEUMAN repeated his question regarding long term maintenance and repairs and he asked if there are cost estimates for maintenance of these new boats.

CAPTAIN FALVEY stated that there are cost estimates, and they tend to be more costly than the conventional ferries.

REPRESENTATIVE NEUMAN asked if these have been tested and proven in conditions similar to Alaska with severe weather and tides.

CAPTAIN FALVEY said that the high capacity steel shuttle vessels have a proven hull form. He expressed his comfort with a conventional steel shuttle vessel.

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CHAIR JOHANSEN posed that the recommendation will be for a more proven dependable engine.

CAPTAIN FALVEY agreed. He explained that with the current aluminum fast ferries all of the equipment is lightweight for speed and the equipment is built to be "on the edge of capacity" in order to achieve high speeds.

CHAIR JOHANSEN asked about the progress of the vessel replacement study.

MR. HARDY replied that a vessel utilization plan is currently being tabulated by the Marine Highway System, which will include an inventory of the boats, the years for replacement, the life cycle costs, and the capital costs. He added that this plan is being done in conjunction with the master plan, which is being written by the Alaska University Transportation Center (AUTC). This is a two year project.

CHAIR JOHANSEN asked when this plan will be completed.

MR. HARDY reported that the project is in two phases. The first phase is a background of information to be included in the decision making, and this will be completed by September, 2008. The second phase will be completed by September, 2009.

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REPRESENTATIVE NEUMAN asked if the plan will study freight shipment, including refrigeration systems, to increase the ferry revenues.

CAPTAIN FALVEY agreed that the southern gateway will accommodate refrigerated freight. He allowed that a conventional shuttle ferry system will need to "get it right." He stated that the department is moving forward with this concept in parallel to the master plan.

MR. HARDY added that every new boat will have the capacity to carry any highway vehicle, including the large shipping vans.

CHAIR JOHANSEN pointed out that both Captain Falvey and Mr. [Jim] Beedle have extensive experience working onboard boats, and they understand the challenges.

CAPTAIN FALVEY related his experience.

CHAIR JOHANSEN noted Mr. Beedle's experience.

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CHAIR JOHANSEN asked to discuss the South Berth, the layup facility, and the south end terminal for Prince Rupert and Metlakatla. He opined that these last two projects might alleviate future pressure on the South Berth.

REPRESENTATIVE FAIRCLOUGH asked what parameters and criteria were given to the AUTC team for the master plan, specifically if this is a vessel utilization plan or a total master plan for the ferry system.

MR. HARDY explained that the primary criterion is to look at the system over the next 30 years, recognizing that there will be a transition from the existing fleet to the implementation of the Southeast Alaska Transportation Plan, which will combine roads and shuttle ferries. He offered to provide the scope of work given to AUTC.

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CHAIR JOHANSEN requested that the committee members receive the criteria.

CAPTAIN FALVEY stated that he will address South Berth, Alaska Ship and Drydock (ASD), and the lay up facilities. He noted that Mr. Menzies is also available.

CHAIR JOHANSEN referred to the aerial photo in the members' packets, and explained that South Berth is the ferry [dock] in the middle.

CAPTAIN FALVEY explained that South Berth has the capacity to handle cars and passengers, allowing it to be used when the adjacent main AMHS berth is occupied. It has been used as a layup facility to perform warranty work. Ketchikan is busy and the South Berth is shared with the Inter-Island Ferry Authority (IFA) and with the Lituya. The shipyard (ASD) would like to have possession of the South Berth. He explained that AMHS and ASD are working on developing a long term plan. They have agreed to an area for ASD to begin work on a maintenance facility, a boundary shift of another area, and a hazardous materials warehouse right of way adjustment. All the parties are working to find a middle ground. There is still discussion of the use of South Berth and a lay up facility. He explained that the engineers have offered several alternatives, including a layup facility on Gravina Island, directly across from the shipyard.

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CHAIR JOHANSEN opined that this is the narrowest, fastest tide running portion of the channel.

CAPTAIN FALVEY agreed that this location will not work, as the wind and the logistics are both difficult. He allowed that there are numerous spots in Ward Cove which are all substantially more expensive.

CHAIR JOHANSEN asked how long Department of Transportation & Public Facilities (DOT&PF) has had the appropriation for the layup facility.

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CAPTAIN FALVEY replied that the appropriation has been available for more than a year. He offered that it will be difficult for DOT&PF to replace South Berth, as it is used as a lay up facility, with the capability for vehicles, passengers, and ticketing.

CHAIR JOHANSEN asked how often South Berth is used for lay up.

CAPTAIN FALVEY reported that it has been used quite often for the fast ferries over the past year, but on the average, it is not used a lot. He explained that the Kennicott is moored at the downtown dock, and AMHS will not be paying for that moorage if the layup dock is available.

CHAIR JOHANSEN said that they can talk more about the layup facility at a later date. He explained to the committee that the shipyard is owned by the State of Alaska, and is managed by ASD. He allowed that DOT&PF "is working with the operator of a state owned asset, figuring out who gets to put their ships where."

REPRESENTATIVE NEUMAN asked if it is time to remove AMHS from the DOT&PF, and allow AMHS the opportunity for federal funding.

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MR. HARDY noted that an "authority" bill is being prepared to address these issues. He offered his belief that the biggest problem is funding. He explained that operating costs are escalating, the fleet is aging, and that any decision will have costs.

REPRESENTATIVE NEUMAN pressed that there is competition for funding with the road projects, and asked for a yes or no response.

MR. HARDY responded that this is not a yes or no issue. He allowed that the Commissioner of DOT&PF has to balance all the transportation needs of the state.

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CHAIR JOHANSEN expressed his belief that when the roads in the state can pay their own costs, then it will be fair to ask the same from the AMHS.

REPRESENTATIVE DOOGAN summarized that the facilities are all state owned and the problem at South Berth is competition for use.

CAPTAIN FALVEY responded that South Berth is a working berth, an overflow berth, and a lay up facility.

REPRESENTATIVE DOOGAN asked to verify that it will cost \$8.5 million for a layup facility to be built elsewhere.

CAPTAIN FALVEY agreed that another comparable facility will be needed if South Berth is no longer available.

REPRESENTATIVE DOOGAN asked that if the facility is built in Ward Cove, it will be accessible for passengers and vehicles.

CAPTAIN FALVEY said that this will not be possible everywhere in Ward Cove, as there are covenants for specific areas.

REPRESENTATIVE DOOGAN asked that if AMHS built a facility in Ward Cove, what would happen to South Berth.

CAPTAIN FALVEY replied that a multiple use facility could replace South Berth.

REPRESENTATIVE DOOGAN repeated his question of who would use South Berth.

CAPTAIN FALVEY replied that ASD will want to use it.

CHAIR JOHANSEN asked if South Berth was an original part of the shipyard master plan.

CAPTAIN FALVEY asked to clarify.

CHAIR JOHANSEN asked if South Berth was part of the original vision.

MALCOLM MENZIES, Regional Director, Southeast Region, Department of Transportation & Public Facilities (DOT&PF), replied that South Berth was part of the plan.

CAPTAIN FALVEY repeated that there has been a very productive meeting with ASD, and the department will pursue agreements. He explained that the last issue to resolve will be the need for a new warehouse and office. He stated that a small clearing warehouse will be built for equipment which is quickly coming

onto and off the docks, but this will not be large enough to replace the main warehouse and the office.

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CAPTAIN FALVEY said that there is a need of space for the extra engineers with room for libraries, blueprints, and drafting.

CHAIR JOHANSEN allowed that this will be discussed during the talk about the AMHS headquarters.

REPRESENTATIVE DOOGAN asked if ASD wants to use all the facilities.

CAPTAIN FALVEY said yes, they will.

REPRESENTATIVE DOOGAN expressed his belief that it will be difficult to contain ASD.

REPRESENTATIVE SALMON asked how the future for AMHS appears.

CAPTAIN FALVEY said that the key is South Berth; as it is a working berth and an overflow berth, schedules need to be coordinated to allow for its use.

REPRESENTATIVE SALMON asked how much will it cost and how long this will take to build.

CAPTAIN FALVEY replied that ASD is building the structures.

CHAIR JOHANSEN asked how AMHS is addressing a number of issues, which include: the Saxman vote against the terminal facility being located in their seaport, the Annette Island road, and the implications of the Prince Rupert run for the south end facility.

CAPTAIN FALVEY replied that AMHS is still looking for an alternative location to Saxman. He said that as the Annette Island road nears completion, AMHS will start building a dock and caretaker facility at Annette Bay.

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CHAIR JOHANSEN asked for the timeline to build a northern terminus terminal for the Gateway shuttle.

ANDY HUGHES, Planning Chief, Southeast Region, Department of Transportation & Public Facilities (DOT&PF), explained that a reconnaissance effort is underway, and it will take a year to resolve the site option. Once the preferred location is determined, it will take a few years to complete the environmental permits, and another year to construct the building.

CHAIR JOHANSEN asked when the public response period will be held.

MR. HUGHES replied that it will be held once there is a list of recommendations.

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CHAIR JOHANSEN asked if AMHS envisions this as the terminus for both Metlakatla and Prince Rupert.

CAPTAIN FALVEY responded that the concept was discussed, but one problem was that the new shuttle ferry concept for a long, steel vessel did not fit into the Saxman space. He allowed that AMHS will keep the possibility open.

CHAIR JOHANSEN posed that the idea of a terminus for both areas is again a possibility.

CAPTAIN FALVEY agreed.

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CHAIR JOHANSEN asked for an update on the AMHS headquarters building in Ward Cove.

MR. HARDY explained that when DOT&PF moved to Ketchikan, they considered purchasing the building in Ward Cove for \$1.9 million with an additional \$1.5 million for renovation. He described it as a 50 year old, 2 story, 26,000 square foot building. He noted that AMHS currently leases the top floor. During the appraisal, the AMHS engineers performed a due diligence inspection, and expressed concern for the general condition of the facility. This survey was completed in September, 2007, and identified a lot of deficiencies in the building. Even though the upstairs has already been renovated by the Ketchikan Gateway Borough, the downstairs has not, and the cost estimate is \$7.1 million for renovation. He said that AMHS sent the condition survey to the borough and requested their review and comment.

The borough responded on February 20 and DOT&PF is now reviewing those comments. He allowed that once this is accomplished, DOT&PF will meet with the borough, and decide what the next action will be. He noted that DOT&PF is working closely with the borough, and the department is not making any unilateral decisions. As the AMHS has a lease, there is no need to rush forward.

CHAIR JOHANSEN asked what the cost will be to bring the building up to the standards.

MR. HARDY replied that this will cost about \$7.1 million.

CHAIR JOHANSEN asked what class of office space this will be.

MR. HARDY replied that this will be B class, average to good.

CHAIR JOHANSEN asked if the department is currently looking at other options.

MR. HARDY noted that an option is to purchase a facility. There were plans to move the engineering staff into the downstairs, however, the department is going to discuss the status of the facility before making any more plans.

CHAIR JOHANSEN asked if there are other sites in Ketchikan being contemplated.

MR. HARDY reported that a lot adjacent to the facility is being discussed for a new building, but there are not any utilities to the lot. He noted that there is also real estate in the terminal area.

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CAPTAIN FALVEY said that there have been conversations about sharing a facility with ASD. He noted that AMHS needs more than 13,000 square feet.

CHAIR JOHANSEN asked what \$7 million could purchase.

MR. HARDY said that the cost for new construction in Ketchikan is \$250-\$300 square foot, which does not include the land or utility cost.

CHAIR JOHANSEN explained that his concern with building in the midst of the shipyard, a finite space, is the realization in 20

years that the space is more valuable for expansion of the industry. He related the value of the ship building industry to the Ketchikan Gateway Borough. He said that the borough will be flexible in their negotiations with AMHS to help protect this space.

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CHAIR JOHANSEN asked what the difference is with a "Class B office space" and an "essential facility." He understood that an "essential facility" is built to different standards and will be more expensive to build.

MR. HARDY said that "essential facility" means that during an emergency, its service will be critical for health and safety for the community, and it is designed for quick restoration should it be damaged.

CHAIR JOHANSEN asked if this has an effect on the bottom line cost.

MR. HARDY replied that the classification is a consultant suggestion.

CHAIR JOHANSEN asked if this has been factored into the cost.

REPRESENTATIVE NEUMAN noted that the Matanuska-Susitna area now has a ferry terminal, and a ferry will be delivered soon. However, there is not a passenger facility on the Anchorage side. He asked what the effect will be for a passenger ferry to dock at a freight terminal.

CAPTAIN FALVEY replied that the first concern should be security. He expressed his belief that a passenger terminal is safer when it is located away from a commercial freight terminal.

REPRESENTATIVE NEUMAN asked if he means for the safety of the passengers, the people working in the industrial docking facility, or the safety of the boat.

CAPTAIN FALVEY said that he is not concerned as much for the safety of the boat however, he has much greater concern for the passengers moving around in a commercial freight zone. He agreed with the Anchorage transportation committee that the passenger ferry terminal should be in a different area than the freight terminal.

REPRESENTATIVE DOOGAN asked how much square footage will be renovated for \$7.1 million.

MR. HARDY said that it will primarily be for the 13000 square feet of the first floor.

REPRESENTATIVE DOOGAN posed that if new construction is \$300 square foot, why will it cost \$7.1 million for renovation.

MR. HARDY stated that there is exterior renovation, and structural renovation to prepare for a new roof, so the cost will be almost the same for renovating or building a new building.

REPRESENTATIVE DOOGAN posed that land acquisition and utilities will bring additional costs to make renovation and building costs similar.

MR. HARDY stated that the cost of \$300 square foot excludes the cost of land and utilities for a new building. The renovation costs are estimated to be \$270 square foot.

CHAIR JOHANSEN clarified that the top and bottom floors are identical. He asked what the borough paid to renovate the upstairs.

CAPTAIN FALVEY offered his belief that the borough spent about \$1 million to renovate the upstairs.

MR. HARDY said that his recommendation is to not invest \$7 million in the current building, but only to repair for any life safety issues. He allowed that it will be a huge expense to do work on the downstairs. He said that the building has water and foundation problems.

CHAIR JOHANSEN posed that AMHS hired a consultant to find out the cost, yet Mr. Hardy does not agree with the consultant.

MR. HARDY said that he is in agreement with the consultant, which is to only lease the upstairs. He said the condition survey was started to evaluate the cost of moving into the downstairs.

CHAIR JOHANSEN asked to clarify that he does not agree that \$7 million should be invested in building.

MR. HARDY said that since the cost of building a new building or renovating a 50 year old building is similar, and the life cycle costs of maintenance will be higher for the older building, he will not recommend the renovation.

CHAIR JOHANSEN asked what a 12,000 square foot new facility will cost.

CAPTAIN FALVEY said that AMHS will need at least 20,000 square feet.

CHAIR JOHANSEN posed that the AMHS will need to move sometime, and he asked the estimate of that cost.

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CHAIR JOHANSEN asked about the terms of the lease for the building.

CAPTAIN FALVEY replied that 16.5 years remain on the lease, with a 10 year option for renewal.

CHAIR JOHANSEN asked who holds the option of renewal.

CAPTAIN FALVEY offered his belief that AMHS has the option.

CHAIR JOHANSEN asked if there is an out clause for the lease.

MR. HARDY expressed his belief that there is not an escape clause in the lease. He opined that the best action is to enter into negotiations with the landlord for the necessary repairs.

CHAIR JOHANSEN asked what the option is.

MR. HARDY said that he doesn't believe AMHS will lease the downstairs, but if the borough does the renovation, the money will be paid by AMHS in increased lease costs.

CHAIR JOHANSEN speculated that the appropriated money is going to be moved around the DOT&PF, and someone will benefit.

REPRESENTATIVE DOOGAN asked what the cost of the lease is.

MR. HARDY replied that it is \$12000/month for 16 years.

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CHAIR JOHANSEN summarized that AMHS is working with the borough, but the department does not want to put any money into the building. The DOT&PF position is that some staff will stay upstairs, and the engineers will stay in the trailers for the next 16.5 years. He asked if there will continue to be a search for another building to house the engineers.

CAPTAIN FALVEY offered that one option will be for the shipyard to accommodate the engineers, though it is an outside possibility.

REPRESENTATIVE DOOGAN offered that one option is to buy out the lease for \$1.3 million, and it sounds like this may be the best option.

#### **ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at [3:31:06 PM](#).