

ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE AND SENATE TRANSPORTATION STANDING COMMITTEES
February 8, 2007
1:03 p.m.

MEMBERS PRESENT

HOUSE TRANSPORTATION

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

SENATE TRANSPORTATION

Senator Albert Kookesh, Chair
Senator John Cowdery, Vice Chair
Senator Donny Olson
Senator Bill Wielechowski
Senator Gary Wilken

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Kim Elton
Senator Joe Thomas
Representative Andrea Doll

COMMITTEE CALENDAR

DEPARTMENT OF TRANSPORTATION OVERVIEW: ALASKA MARINE HIGHWAY
SYSTEM

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LEO VON SCHEBEN, Commissioner

Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Provided comments during the overview of the Alaska Marine Highway System.

JOHN TORGERSON, Deputy Commissioner
of Aviation

Office of the Commissioner;
Acting Deputy Commissioner/Director of Marine Operations
Alaska Marine Highway System (AMHS)
Department of Transportation & Public Facilities (DOT&PF)
Anchorage, Alaska

POSITION STATEMENT: Assisted in presenting the overview of the Alaska Marine Highway System and answered questions.

JOHN FALVEY, General Manager

Ketchikan Office
Alaska Marine Highway System (AMHS)
Department of Transportation & Public Facilities (DOT&PF)
Ketchikan, Alaska

POSITION STATEMENT: Assisted in presenting the overview of the Alaska Marine Highway System and answered questions.

RICHARD LEARY, Business Enterprise & Development Manager
Alaska Marine Highway System (AMHS)
Department of Transportation & Public Facilities (DOT&PF)
Ketchikan, Alaska

POSITION STATEMENT: Assisted in presenting the overview of the Alaska Marine Highway System and answered questions.

NANCY SLAGLE, Director

Division of Administrative Services
Department of Transportation & Public Facilities (DOT&PF)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the overview of the Alaska Marine Highway System.

ACTION NARRATIVE

CHAIR ALBERT KOOKESH called the joint meeting of the House and Senate Transportation Standing Committees to order at [1:03:52 PM](#). Present at the call to order from the House Transportation Standing Committee were Representatives Johanson, Salmon, Doogan, Neuman, and Fairclough; Representatives Johnson and

Kohring arrived as the meeting was in progress. Present from the Senate Transportation Standing Committee were Senators Kookesh, Cowdery, Wielechowski, and Wilken; Senator Olson arrived as the meeting was in progress. Representative Doll and Senators Elton and Thomas were also in attendance.

DEPARTMENT OF TRANSPORTATION OVERVIEW: ALASKA MARINE HIGHWAY SYSTEM

1:04:45 PM

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

1:05:18 PM

LEO VON SCHEBEN, Commissioner, Department of Transportation & Public Facilities (DOT&PF), introduced himself and reviewed his experience in the private sector. He said he is bringing his private sector business philosophy to his job as the new DOT&PF commissioner, and that his philosophy is based on client satisfaction, employee satisfaction, [providing] a quality product, having fun, and managing the money.

1:11:03 PM

JOHN TORGERSON, Deputy Commissioner of Aviation, Office of the Commissioner; Acting Deputy Commissioner/Director of Marine Operations, Alaska Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), began the overview by presenting the AMHS mission statement on slide 2 of the PowerPoint presentation.

1:11:45 PM

JOHN FALVEY, General Manager, Ketchikan Office, Alaska Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), profiled the AMHS fleet of 11 vessels shown on slide 3. He said the MV Matanuska is running out of Prince Rupert, British Columbia, and turning around in Juneau in order to give Sitka more service. The MV Malaspina is at the Todd Pacific Shipyard ("Todd") in Seattle, Washington, undergoing a major federal capital overhaul and is due out in the middle of April. The MV Taku is also at Todd undergoing a federal capital overhaul project and is due out in mid-July. He noted that federal projects like these go out for bid and Todd won the bids. This is different than the state-funded six-week capital

projects, he said. The MV Tustumena is in Seward Shipyard undergoing her routine six-week state capital overhaul and will be out in a few weeks.

MR. FALVEY said the MV Columbia recently underwent generator and steering gear repair at the Alaska Ship and Drydock, Inc. ("ASD") in Ketchikan, but is now back running the system between Bellingham, Washington, and ports on the Lynn Canal. The MV LeConte is operating as a day boat out of Juneau. He noted that her schedule and route were modified due to U.S. Coast Guard rules and regulations regarding work rest and a 12-hour day. The MV Aurora is running between Cordova, Valdez, and Whittier in Prince William Sound.

MR. FALVEY said the MV Kennicott is running "the circuit" out of Prince Rupert following an extensive stay at ASD for repair of hydraulic life-saving gear and electrolysis problems. He noted that the MV Kennicott is also currently picking up the run between Homer and Kodiak while the MV Tustumena is in dry-dock, just like in the summer when the MV Tustumena is running the Aleutian Chain. The MV Lituya makes two runs a day, five days a week, from Metlakatla to Ketchikan and is doing so well that passengers must now make reservations in order to get on the boat. The MV Fairweather, a [high-speed] ferry, runs four days a week during the winter and runs seven days a week during the summer. The MV Chenega, another [high-speed] ferry, is currently in extended lay-up at ASD undergoing engine warranty work for cylinder corrosion. He said this is the same problem had by the MV Fairweather and is due to the manufacturer incorrectly recommending a type of coolant that caused the corrosion.

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MR. FALVEY, in response to a question, explained that the AMHS receives about \$20 million annually from the U.S. Department of Transportation (DOT), Federal Highway Administration (FHWA) to conduct large maintenance projects and that FHWA requires these jobs to go out for bid. He said that ASD did not bid on the MV Malaspina and MV Taku jobs. He then continued explaining the ongoing problems with the reduction gears of both high-speed ferries. He said some preliminary modifications have been done to the MV Fairweather and that an outside company has been hired to conduct an engineering analysis on the entire power trains of both vessels.

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MR. FALVEY, in response to questions, related that the high-speed ferries have problems with rough seas and debris ingestion. He noted that the AMHS has established an internal policy that requires the [high-speed] ferries to "stay at the dock" during sustained 40 knot winds. In response to another question, he noted that the draft of the high-speed ferries is nine feet as compared to approximately twenty feet for standard ferry vessels.

MR. FALVEY, in response to further questions, stated that the manufacturer has paid over \$1 million to rebore the MV Fairweather and is also paying to rebore the MV Chenega. He said the problem with reboring is that legally, there can only be three passes and there have already been two; therefore, the service life of the vessels has been reduced. He said AMHS is working closely with the attorney general's office, the shipyard, and the manufacturer to address the issue of reduced engine life. Mr. Falvey said he would provide the committees with specific information about how the corrosion occurred.

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CHAIR JOHANSEN noted that four of the AMHS vessels are older than the youngest senator at the table. He asked what the challenges are with the age of the fleet.

MR. FALVEY responded that it is one problem after another and that additional problems are always discovered each time a vessel goes in for repair. An AMHS study of several years ago determined that the service life of a hull is 60 years, but mechanically it is very challenging to keep the "guts" of the ship running. He said there is about \$16 million in deferred maintenance that needs to be done and that AMHS needs recapitalization and new ships. He said that he believes AMHS could operate much more efficiently with new, more efficient ships. He said that newer ships are cheaper to maintain technically and that they are more efficient to run because they are more automated. It will continue costing more and more to keep the older ships running, he said. In response to an additional question, Mr. Falvey stated that the total engine life for a fast ferry would be about 20,000-30,000 hours.

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MR. FALVEY reviewed the 32 ports of call shown on slide 4 of the PowerPoint presentation. He said 17 of those ports are state

facilities and that the system covers 3500 miles. Slides 5 and 6 depicted maps of the Southeast and Southwest Alaska vessel routes. He noted that the Southwest system is now receiving much more service than it did in the past, but that work still needs to be done on the Southeast system.

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RICHARD LEARY, Business Enterprise & Development Manager, Alaska Marine Highway System (AMHS), Department of Transportation & Public Facilities (DOT&PF), pointed out that the number of departures throughout the ferry system grew during the calendar years of 2003-2006, as shown on slide 7. He then referred to slide 8 and noted that passenger traffic increased by 10 percent between the calendar years of 2005-2006. In response to a question, he said that he would provide the committees with information comparing vessel capacity to the actual number of passengers per departure.

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MR. FALVEY, in response to a question, stated that AMHS tracks whether passengers are tourists or Alaska residents. He said that Alaskans are price sensitive and the previous downward trend in ridership was reversed when AMHS implemented a 30 percent roundtrip discount during the winter months, along with the vehicle's driver riding free. He noted that AMHS now has a very aggressive marketing plan that is also increasing ridership.

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MR. LEARY reported that vehicle traffic increased for the calendar years of 2005-2006, as shown on slide 9, but that the increase was not as great as for passenger traffic. He said that AMHS considers the income from vehicle traffic to be "free money" because the cost of sailing is the same whether the ship's car deck is full or empty. Therefore, he continued, the marketing emphasis is aimed at filling the car deck. He then reviewed the amount of revenue collected by AMHS for the fiscal years (FY) 2002-2006 and noted that revenues increased by 10 percent from 2005 to 2006, reaching a total collected revenue of \$51.2 million.

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MR. FALVEY discussed the passenger survey results depicted on slide 11. He commended the service of AMHS employees and said that the passengers' predominant ratings of satisfactory, good, and excellent are a result of the good work by employees.

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MR. LEARY explained that the pie chart on slide 12 portrays the FY 2006 revenue by passenger place of residence.

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MR. TORGERSON said that the marine highway system serves the entire state, not just coastal Alaska, as indicated on slide 13. He noted that the final destinations of AMHS travelers include areas in interior and northern Alaska.

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CHAIR JOHANSEN commented that ferry system travelers are important contributors to the entire state economy. He said that many of the travelers are military personnel transferring to Interior and other bases.

MR. FALVEY confirmed that the number of military families riding the ferry system is quite large and that he would get that figure to the committees.

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MR. TORGERSON, in response to a question, highlighted that 67 percent of ferry passengers are Alaskans and that they are traveling to destinations throughout the state, not just Southeast Alaska. He said this was true for 2006 as well as previous years. He next explained that a goal of AMHS is to establish a minimum core level of service that both the legislature and the Southeast Conference will agree to support. Even if this minimum core schedule is not as frequent as what the communities would like, it will at least be a minimum amount of service that the traveling public can depend upon on a sustained basis, he said. More sailings could then be added to the minimum schedule if the legislature elects to appropriate additional funding.

MR. TORGERSON outlined the FY 08 budget depicted on slide 16. He said the total budget authority is \$152.4 million, of which \$98.1 million is the general fund (GF) request and \$52.5 million

is the estimate for [fare] receipts. He compared these figures to the total FY 07 budget of \$133 million, of which \$54 million was [fare] receipts. Mr. Torgerson then directed attention to the FY 08 budget of \$235.3 million for the entire transportation department and said this will be reduced by \$21.3 million, the department's share of the governor's request for reducing the state's budget by \$150 million.

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MR. FALVEY, in response to a question, explained that a ship currently being built in Ketchikan is for the U.S. Navy and will not be operated by AMHS. It is an experimental craft that will also be used to provide passenger service between Anchorage and the Matanuska-Susitna (Mat-Su) Valley.

MR. TORGERSON said it is his understanding that the cost of operating the experimental craft will be borne by the U.S. Navy and the Matanuska-Susitna (Mat-Su) Borough.

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SENATOR WILKEN referenced statistics from FHWA and said that 99.1 percent of the miles traveled in Alaska are by road and 0.9 percent of the miles traveled are by ferry. Using these numbers he calculated that half of DOT&PF's general funds are spent on 0.9 percent of the total miles traveled. He expressed his belief that there must be a better way of transportation than the ferry system.

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MR. TORGERSON returned to the FY 08 budget request on slide 16 and again reviewed the budget components, including the \$1.8 million in Capital Improvement Funds.

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MR. LEARY reviewed slide 17 depicting the projected percentage of self-financing by each vessel during FY 08.

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MR. FALVEY reviewed the overall transportation plan and the regional transportation plans outlined on slides 18-21. He acknowledged that there is still work to be done on the

Southeast transportation plan, but that the Prince William Sound and Southwest transportation plans have been implemented.

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MR. TORGERSON concluded the overview by reviewing slide 22 and noting that the AMHS is in transition due to its aging fleet and awaiting implementation of the aforementioned Southeast transportation plan.

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SENATOR WILKEN stated his belief that all of the AMHS ports of call also have other transportation alternatives, unlike the many roadless Interior communities. He asked whether an analysis has been done to determine the cost difference between state and private transportation services.

MR. TORGERSON related that an in-depth study was done a few years ago for the larger communities. The study compared the transportation fees charged by the large airlines, air charter services, and barge companies for moving goods and services. He said that AMHS used that study to set its rates. He offered to provide the study report to the committees. Mr. Torgerson, in response to a question, further stated that while price is important, other considerations also come into play, such as the urgency of the travel needed, what is being hauled and whether it can go in an airplane versus a boat, and whether it is a vehicle.

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SENATOR WILKEN re-stated his opinion that people receiving marine highway service should make use of other travel alternatives instead of requesting an increase in state subsidized ferry service. He requested AMHS to put together a listing of the annual subsidy amounts that it has received over the past 10 years.

MR. TORGERSON agreed to provide a 10-year summary. He then emphasized that it is important to understand that port security costs alone have increased by \$8 million since [the terrorist attacks of September 11, 2001,] and that fuel costs added another \$15 million. He pointed out that the cost of the Public Employees' Retirement System (PERS) is included within the AMHS operating budget instead of listing it as a separate cost

elsewhere. He expressed his hope that AMHS will receive enough funding to provide the minimum core service or more.

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SENATOR WILKEN specified that in addition to the annual dollar amount of the state subsidy, he would like the 10-year summary to include the subsidy's percentage of the GF budget so that it can be determined whether the state subsidy, as a percentage of the GF request, is growing or diminishing. Senator Wilken further noted that both the MV Chenega and the MV Aurora travel in and out of Valdez on the same day. He referred to slide [17] which shows that the MV Chenega is the least self-financed vessel in the fleet. He requested that AMHS provide the committees with the load capacities and the percent of capacity utilization for the MV Chenega and the MV Aurora over the past two years.

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SENATOR WILKEN questioned why the MV Chenega was home ported in Cordova during the summer. He stated that he believes the Prince William Sound transportation plan should change how the MV Chenega is run. He asked that the committees be provided with additional, detailed information about the new roads and shuttle ferries that are being proposed under the Southeast transportation plan. He expressed his belief that a day boat type of system with only one mainliner traveling out of the Port of Bellingham is the way to go in the future.

MR. TORGERSON, in response to a further question from Senator Wilken, said that there is no federal money for [marine highway] operations, but that there is some federal money for a couple of shuttle ferries if the [Southeast transportation plan] roads are built. He said that currently there is not enough federal money for all of the planned "build out" and that the state would need to ask the U.S. Congress for additional funding.

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MR. FALVEY related that cost increases were anticipated during the time period of building the [Southeast transportation plan] roads and shuttle ferries because AMHS would still need to operate "mainliners" until the new system is in place.

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MR. TORGERSON, in response to a question, reported that labor costs constitutes 62 percent of operations cost. He said that the hours that a crew might work depends on the vessel; for example, a vessel might operate 24 hours a day and that while a crew member is on the vessel that entire time, he or she would only work 8-12 hours.

MR. TORGERSON, in response to another question, stated that AMHS has not conducted an analysis in regard to selling the vessels on the profitable routes to private enterprise while the state retains and subsidizes the less profitable routes. He further responded that the state has not sent formal inquiries to the private sector to determine whether there is interest in the aforementioned scenario.

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REPRESENTATIVE NEUMAN asked what AMHS has done to cut costs and what is done with personnel who work less than a full year.

MR. LEARY referred to the vessel expenses shown on slide 17. He stated that labor costs constitute 62 percent of a vessel's expenses. He explained that when a vessel is put into service, labor contracts are written that control the wages and number of personnel on the boat. He noted that a vessel's particular route drives the amount of overtime that is paid and that exchanging crews in order to avoid paying overtime also has costs. He said fuel constitutes 22-23 percent of the service costs and that keeping the engines in good order helps with fuel efficiency. After labor and fuel costs, only 15-18 percent is left for discretionary costs. Some of these discretionary funds are used to buy food that is sold on board for a profit, and this is accounted for under the expense and revenue columns. He noted that once AMHS decides to provide the service, there is very little control over operational costs, but there is discretion in controlling administrative costs. He emphasized that security and regulations have added major costs in the last few years.

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MR. TORGERSON reported that much of the vessel staffing is controlled by U.S. Coast Guard regulations and remains the same whether or not the number of passengers is at capacity. He said that current labor contracts expire in June 2007. He explained that when a vessel goes into the shipyard, some may then work on the projects that the ship is undergoing, some of the crew may

transfer to other vessels in the fleet, and some may take vacation. He explained that a hiring freeze has been put into place, but that the only way to save money is to dock the ships and not operate.

MR. FALVEY added that AMHS is in the process of activating a new crew dispatch system that will help cut costs considerably. He noted that costs are also cut by running a vessel fewer days of the week during the winter months. He emphasized that running ships is very expensive because it is highly regulated by the federal government and security is now "costing a fortune." He said he did not know how many takers there might be if the state tried to outsource, and remarked that outsourcing can be more expensive. He reiterated his belief that the key is "new tonnage" because newer vessels are automated, less labor intensive, and less costly to repair.

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REPRESENTATIVE DOOGAN requested further clarification regarding the study that was used for setting the fare rates.

MR. TORGERSON explained that the report compared costs and then suggested rates that AMHS could charge. Comparisons were made to airlines and to other ferry systems operating in Washington and British Columbia. The study was used as a basis for setting the rates that began in FY 05.

MR. TORGERSON, in response to a further question, confirmed that the study did determine what would have been, at that time, the true cost to the ferry system of moving a passenger from one port to another. He said he will get the report to the committees.

[2:32:27 PM](#)

REPRESENTATIVE FAIRCLOUGH asked a series of accounting-related questions: are AMHS vessels being depreciated according to the Governmental Accounting Standards Board (GASB); are depreciation costs being moved into a real account that has real dollars for replacing the fleet; are records available for comparing the cost and maintenance expenses of the fast ferries to that of the older vessels; will the apparent higher profitability of carrying passengers versus vehicles be considered when replacing vessels; and why not run fewer vessels all year around instead of running more ships in the summer and dry-docking unneeded vessels during the winter.

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation & Public Facilities (DOT&PF), explained that for financial reporting purposes the department is required to show the value of its vessels and depreciation. She said there is a replacement fund in statute that is funded through appropriations by the legislature from the GF, but that it is not funded at this time. She said there is no connection between the combined annual financial reporting and money appropriated to the replacement fund. In response to a further question, she confirmed that GASB [Statement 34] is a requirement for the state as well as local communities, and that the department is bound by that requirement in its financial reporting.

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REPRESENTATIVE FAIRCLOUGH asked whether the trend in vessels that transport fewer vehicles was a conscious decision.

MR. TORGERSON advised that all of the plans call for shuttle ferries that are smaller, faster, more efficient, and require less crew than mainliners. He noted that while shuttle service requires vessels that are faster than conventional ships, they do not necessarily need to be high-speed ferries.

MR. FALVEY further pointed out that AMHS has lowered the capacity on all its ships because of security. Vessels carrying more than 499 passengers are subject to much higher screening levels and many more security patrols that are economically unsustainable for the AMHS. He said that AMHS has a case-by-case agreement with the U.S. Coast Guard for those times when a vessel does need to carry 500 or more passengers.

[2:40:45 PM](#)

REPRESENTATIVE SALMON asked in which direction AMHS planned to go in regard to management style and deciding whether to increase the number of sailings and whether to purchase new ships.

MR. TORGERSON said he did not yet have those answers because the new [DOT&PF] commissioner only recently came on board. He expressed his belief that it comes back to the new roads and shuttle ferries as outlined in the Southeast transportation plan. Until this plan is implemented, he said, the question is, what level does the legislature want to fund the marine highway.

Mr. Torgerson added that he realizes there are routes that will never break even, but that the marine highway is a major transportation link for moving goods and services.

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SENATOR WIELECHOWSKI inquired as to whether any studies have been done on the economic impacts of the marine highway system on the overall economy of Alaska, and what ramifications would result from reductions in the system.

MR. TORGERSON said that the McDowell Group Research and Consulting Firm has conducted several studies. He said he could not quote any specific facts or figures, but surmised that the level of reduction would determine the level of impact. He promised to get the studies to the committees.

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REPRESENTATIVE NEUMAN asked whether a cost analysis has been done for providing ferry service on the Yukon River, and a determination made for the number of people that it would serve.

MR. TORGERSON said he is not aware of any.

REPRESENTATIVE SALMON reported that there was a study done in the 1960s, and that he is introducing a bill to undertake another study.

[2:48:10 PM](#)

CHAIR JOHANSEN commented that there are many different factors that go into the numbers seen in the AMHS budget. In relation to increasing costs, he noted that many more communities are served today than 20 years ago and that this is a benefit to the state. He asked whether the new governor will be re-instituting the Marine Transportation Advisory Board (MTAB).

MR. TORGERSON related his understanding that Governor Palin is considering re-implementing MTAB. He said he thought that the previous MTAB was good, but that he would have liked to have seen more board members with business experience.

MR. FALVEY added that he thinks MTAB could help in deciding the bigger picture such as what ports to serve.

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CHAIR JOHANSEN stated that MTAB was made up of stakeholders in the marine highway system and that it is important to have the stakeholders at the table.

[2:54:14 PM](#)

ADJOURNMENT

There being no further business before the committees, the joint meeting of the House and Senate Transportation Standing Committees was adjourned at 2:54 p.m.