

**ALASKA STATE LEGISLATURE  
HOUSE TRANSPORTATION STANDING COMMITTEE**

March 8, 2018

1:16 p.m.

**MEMBERS PRESENT**

Representative Louise Stutes, Co-Chair  
Representative Adam Wool, Co-Chair  
Representative Matt Claman  
Representative Harriet Drummond  
Representative Chuck Kopp  
Representative Mark Neuman  
Representative Colleen Sullivan-Leonard

**MEMBERS ABSENT**

Representative David Eastman (alternate)  
Representative Gabrielle LeDoux (alternate)

**COMMITTEE CALENDAR**

PRESENTATION: PROPOSAL OF COMMITTEE SPONSORED BILL REGARDING  
ALASKA MARINE HWY/PUBLIC CORP.

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

SUSAN BELL, Principal  
McDowell Group  
Juneau, Alaska

**POSITION STATEMENT:** Gave a Presentation regarding the proposal  
of a committee sponsored bill regarding the Alaska Marine  
Highway Corporation.

**ACTION NARRATIVE**

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**CO-CHAIR LOUISE STUTES** called the House Transportation Standing  
Committee meeting to order at 1:17 p.m. Representatives Neuman,

Sullivan-Leonard, Drummond, Claman, Wool, and Stutes were present at the call to order. Representative Kopp arrived as the meeting was in progress.

**Presentation: Proposal of Committee Sponsored Bill Regarding  
Alaska Marine Highway/Public Corp.**

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CO-CHAIR STUTES announced that the only order of business would be the presentation regarding proposal of a committee-sponsored bill regarding the Alaska Marine Highway Public Corporation.

CO-CHAIR STUTES reviewed that during the House Transportation Standing Committee meeting held on February 15, 2018, the committee had heard from the Southeast Conference and the Alaska Marine Highway Reform Steering Committee on the necessity and future of Alaska's Marine Highway system. The Southeast Conference has requested legislation establishing the Alaska Marine Highway Corporation. She stated her intent that after the committee hears the presentation, it would then decide whether to go forward as the sponsor on this type of legislation.

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SUSAN BELL, Principal, McDowell Group, stated that the McDowell Group participated in the Alaska Marine Highway System (AMHS) reform project, which was led by Elliott Bay Design Group. There was a more detailed review of phase 2 and an introduction of phase 3 at the presentation given on February 15, 2018. She said that in 2016, Elliott Bay Design Group led phase 1 of the project to consider governance structures of ferry systems throughout the world. A statewide transportation summit was held in Anchorage, Alaska, to gather information before the Southeast Conference meeting in Petersburg. The recommendation made was to explore governance more thoroughly, with the idea that a public corporation similar to the Alaska Railroad Corporation would benefit the Marine Highway. She spoke of the expertise of Elliott Bay Design Group and noted that John Waterhouse, from the group, was present last month.

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MS. BELL discussed phase 2. She noted that McDowell Group led the revenue analysis, which looked at [the Alaska Marine Highway System's] AMHS's existing traffic, routes, and revenue, as well

as nonoperating revenue sources that may need to be considered sometime in the future. She said that makes up the first section of the PowerPoint presentation. She said Elliott Bay Design Group looked at the existing operation and developed a financial model, and the group looked at ways to achieve operational savings. Considering the age of Alaska's fleet, there could be savings with a newer fleet, for example in fuel or operational costs. Ms. Bell said she participated in the consideration of the public corporation and governance model. She named other corporations that have significant responsibilities and assets, such as the Alaska Railroad Corporation, the Alaska Permanent Fund Corporation, and the Alaska Mental Health Trust Authority. The result of the phase 2 report was the recommendation of a public corporation because of financial expertise and guidance. She said maintaining the Alaska Marine Highway as a public corporation would maintain the existing strength of interdepartmental coordination, public purpose, access to federal funding and shared services that support all state agencies, and it would address some of the existing limitations. She mentioned indirect labor negotiations, a shorter-term planning horizon, and recognition of turnover in senior leadership of commissioners and deputy commissioners.

MS. BELL said McDowell Group supports public involvement. She informed the committee that Marine Highway documents are found on [amhsreform.com](http://amhsreform.com). She thanked AMHS for the support provided to produce this project.

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REPRESENTATIVE NEUMAN mentioned the Executive Budget Act, and he expressed interest in how [the reform] would work through the Department of Transportation & Public Facilities (DOT&PF) and the legislature's budget process.

MS. BELL answered that McDowell Group made a recommendation in its phase 2 report for a seven-member board exempt from the Procurement Act with adherence to the Executive Budget Act. She said the group was trying to recognize "where to draw on the strength of existing organizations" - private sector expertise, as well as other state support. She emphasized that McDowell Group did not want to jeopardize "some of the other Department of Law supports."

REPRESENTATIVE NEUMAN asked how fees would be set.

MS. BELL answered that the corporation should have rate-setting authority, but she recognized the legislature's power of appropriation.

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REPRESENTATIVE NEUMAN asked how the board would be funded. He remarked that AMHS is already under pressure because of lack of funding.

MS. BELL said McDowell Group studied other public corporations with significant assets and operating responsibilities, and it estimated that the seven-member board might have a cost of approximately \$25,000. She said the group believes there could be flexibility in the rate structure. Further, she said there may be the opportunity for other non-operating revenue sources, such as bonding or partnering with tribal transportation interest in ensuring small rural communities are served. McDowell Group also looked at what it would take to have a fund, which she emphasized was not a recommendation but was a method of helping to answer the questions that might come up through this process, because "it probably takes a package of things for us to really fund this system."

REPRESENTATIVE NEUMAN requested committee members be given copies of the recommendations made by McDowell Group, and he said he would like to know how maintenance repair and vessel replacement would be structured.

MS. BELL speculated that if the legislature decides to go forward with this, it would probably require a discussion the length of a couple legislative sessions, because it is a complex issue. Regarding capital needs, she said, "Maintaining it as a public corporation allows that access to federal funds, which are critical to the system ...." She said phase 3 is the current phase, and it is a small one; it's about \$15,000. She said phase 3 begins to answer some of the forward-looking questions. She said McDowell Group put together a memorandum to help the steering committee understand the legislative process. McDowell Group is looking at what can be done now. Key is stabilizing funding so that the system does not fall into further disrepair. Second is that AMHS and DOT&PF can begin actions that align with "where the public corporation might be" in terms of decisions being made about fleet, terminals, and operational standardization. Ms. Bell related that McDowell Group also recommended a change from labor negotiations from the Department of Administration (DOA) to the [proposed] Marine

Highway Corporation. She emphasized the recommendation is not to undercut the quality of DOA, but to allow the corporation to conduct its own negotiations, which would build needed expertise. She said AMHS currently supports those negotiations, but McDowell Group envisions one new staff member would be necessary. She said that "gaining that experience between now and ... actual transition would be beneficial."

MS. BELL said there is another beneficial phase that will be more technical. It will address the vessel, risk management, the board, and engagement. If legislation passed within the next year, there is still a transition period that will be needed, and there needs to be a record of this phase so that people understand it.

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REPRESENTATIVE SULLIVAN-LEONARD asked if there are other marine highway systems across the nation that run by corporation.

MS. BELL noted that phase 1 was a small phase. She relayed that BC Ferries, in British Columbia, moved to a public corporation. In its history, the Washington ferry system had some structures similar to a public corporation. She said there are fully privately-owned corporations. She imparted that a ferry system in Scotland was studied. She said she would ensure committee members had access to the related documents.

REPRESENTATIVE SULLIVAN-LEONARD mentioned "a long list of supporters for the study" and asked if there was any discussion as to whether they would continue their support of the corporation concept. She described stakeholders, tribal entities, and communities remaining engaged in the operations and oversight of the operation.

MS. BELL responded that there were approximately 40 supporters [listed], and they wanted to show that the marine transportation system was important to their businesses and communities and to the state. She recollected that "the non-operating revenue portion of this report" contemplated ... partnering more with tribal transportation entities; however, she did not think there was "a connection where they feed together." Nevertheless, she stated, "I think this really demonstrated ... the critical nature ... of the system." She emphasized the importance of ridership and said Alaskans throughout the state are utilizing the marine highway system for business, pleasure, and relocation.

REPRESENTATIVE SULLIVAN-LEONARD responded that she thinks it is important to highlight that [support], because the State of Alaska would be investing millions of dollars for this "semi-private corporation." She opined that the stakeholders need to have not only "a say in it," but also "a stake in it, both financially and otherwise."

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CO-CHAIR STUTES invited committee comments. She restated that the final action of the committee would be to decide whether to pursue the requested legislation to discuss the possibility of a public/private partnership with the Alaska Marine Highway System.

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REPRESENTATIVE KOPP emphasized his enthusiasm for the idea of having a professional board rather than "trying to get 60 legislators up to speed on the complex issues of the Marine Highway System ...." He asked committee members to imagine the legislature trying to run the Anchorage International Airport. He said it would be a disaster. He said it is the number four air cargo airport in the world, and it is self-sustaining. He highlighted the efficiency of working out labor contracts without the Department of Administration. He concluded, "It's hard to imagine ... the various chambers of commerce and the individual communities that rely on this as a business driver - an economic driver - not ... being excited about this."

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CO-CHAIR STUTES said another huge benefit would be in having a static board, as opposed to the potential turnover of commissioner every four years, which affects the stability of agencies.

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REPRESENTATIVE CLAMAN said he supports moving forward with the public/private structure being discussed. He said he thinks it is a positive step. In the last few years, AMHS has been restricted in its ability to maximize revenue because it is waiting on the legislature to approve its budget and cannot even put a schedule in place without the budget. He mentioned the interest and value [of the ferry system] to coastal communities,

and he said coming from Anchorage, he hears more about people in Prince William Sound accessing the ferry, but "it is an enormous part of how our entire transportation structure works." He said that he strongly supported moving forward with a bill and starting the process.

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REPRESENTATIVE NEUMAN said he would like to learn more and receive more information. He said there is a lot to know in order to form a state corporation, for example, labor negotiations and the setting of community taxation rates. He credited former Representative Peggy Wilson for her work on the Transportation Advisory Board, which ensures the state gathers information from communities around the state. He said he does not think he has enough information currently. He said committee members are responsible for reading the information from McDowell Group. He recollected that Ms. Bell had said the legislature would likely spend a couple [legislatures] figuring everything out, and he said he could understand that. He questioned how the legislature would come up with a couple hundred million dollars for a fund. He concluded, "I like the work that they're doing here, and we'll see what kind of questions come up next time."

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REPRESENTATIVE DRUMMOND related that she had ridden the ferry a couple of times before she was elected in 2012, and in just six years she has seen how the scheduling has changed. It has become more difficult for her to get herself and her belongings to Juneau because of those changes, which she said were caused by management and budget issues. She said she can only imagine the frustrations of people who depend on the ferry for their everyday transportation. She said, "I think we should write this bill, get us all onboard, and let her rip." She commented on the number of individuals, organizations, and communities on the list formerly mentioned by Representative Sullivan-Leonard, and she opined that the committee needs to "not hamstring them and just get to work on this as quickly as we can."

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CO-CHAIR WOOL said he thinks this is a good idea. He offered his understanding that public/private corporations have different types of funding available to them and are not as attached to state government, thus they can make negotiations.

For example, they could outsource the beverage service on the ferries. He echoed Representative Drummond's statement to "let her rip."

CO-CHAIR STUTES stated that she would entertain a motion from the committee.

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REPRESENTATIVE Wool moved that the House Transportation Standing Committee draft committee sponsored legislation establishing the Alaska Marine Highway Corporation.

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REPRESENTATIVE NEUMAN objected.

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A roll call vote was taken. Representatives Drummond, Claman, Kopp, Wool, and Stutes voted in favor of the motion that the House Transportation Standing Committee draft committee sponsored legislation establishing the Alaska Marine Highway Corporation. Representatives Sullivan-Leonard and Neuman voted against it. Therefore, the motion carried by a vote of 5-2.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:50 p.m.