

HOUSE FINANCE COMMITTEE
February 10, 2020
1:50 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:50 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

John MacKinnon, Commissioner, Department of Transportation and Public Facilities; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities, Office of Management and Budget, Office of the Governor; Mary Siroky, Deputy Commissioner, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

Matt McLaren, Alaska Marine Highway System Business Development Manager, Department of Transportation and Public Facilities.

SUMMARY

HB 205 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 APPROP: MENTAL HEALTH BUDGET

HB 206 was HEARD and HELD in committee for further consideration.

FY 21 BUDGET OVERVIEW: DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM UPDATE

Co-Chair Foster reviewed the agenda for the day.

#hb205

#hb206

HOUSE BILL NO. 205

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 206

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^FY 21 BUDGET OVERVIEW FOR THE DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES; AND ALASKA MARINE HIGHWAY SYSTEM UPDATE

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JOHN MACKINNON, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced himself and listed department staff present for questions. He provided a PowerPoint presentation titled "Alaska Department of

Transportation and Public Facilities: House Finance Committee, DOT&PF Overview and AMHS Update," dated February 10, 2020 (copy on file). He began on slide 2 and reviewed the FY 21 operating budget comparison showing a relatively flat budget. The budget included an increase of \$4.7 million for the Alaska Marine Highway System (AMHS). He noted that other differences shown on the slide reflected the replacement of undesignated general funds (UGF) with designated general funds (DGF). He explained that the department was working to replace UGF with DGF wherever possible. The intent of the additional funding for AMHS was to close some of the service gaps resulting from the prior year budget. The hope was to increase from 254 to 263 total weeks of service. The proposed budget showed about \$145 million to \$146 million UGF.

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, reviewed a fund source breakdown on slide 3. He noted that the bottom table on the slide showed which funds made up the UGF, DGF, other, and federal fund categories. He highlighted a note underneath the top table defining which fund sources were identified as duplicate funds. He elaborated that the operating budget included \$245 million in duplicate funds. He explained that the duplicate funds included funding collected from elsewhere in the budget either from the DOT budget or another department.

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Commissioner MacKinnon reviewed the proposed FY 21 operating budget on slide 4. The slide showed the department's various fund sources and how they were used. He noted that Mr. Pannone had developed the slide to illustrate how the funding flowed. He referenced slide 3 that showed \$145 million in UGF, which was about 25 percent of the department's total operating budget.

Commissioner MacKinnon moved to slide 5 showing a 10-year operating history. He pointed to a significant increase in DGF and decrease in UGF in FY 18 due to a AMHS fund source swap. He detailed that the department had swapped general funds with AMHS funds, which had been reversed the following year (reflected on the chart). The slide showed a

decrease in UGF from FY 19 and FY 20 due to a reduction of close to \$43 million in the AMHS budget. There was an increase in other funds attributed to about \$41 million in interagency receipt authority due to the creation of the Division of Facilities Services. He intended to address the issue in more detail in a later slide.

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Commissioner MacKinnon reviewed slide 6 and stated that highways and aviation components pertained to DOT's maintenance of roads and airports in the state. He addressed some of the challenges the department was facing, including empty authority. He referenced \$37 million of motor fuel tax receipts to fund the highways and aviation components and explained that those kinds of numbers were not being realized. He stated explained that with more efficient vehicles and around 400 electric vehicles in the state, people were using less gas. He expounded that at 8 cents per gallon coming into the state for motor fuel tax, the department was not receiving the expected revenue. The reductions in revenue had resulted in some reductions in DOT's maintenance abilities. He shared that the department had closed another maintenance station in the past year, which was the fifth maintenance station closed since 2014. He explained that the closure of a maintenance station meant that adjacent maintenance stations had more miles of road to take care of.

Co-Chair Johnston noted there was legislation in the other body attempting to increase the gas tax and registration tax. She remarked that she frequently heard people asking why Alaska did not have toll roads. She believed most of the roads in the state were federally funded. She asked if it meant toll roads were not an option when the majority of a road had been federally funded.

Commissioner MacKinnon answered that if the federal highway program had put money into a road, the state could not turn it into a toll road. He explained that the department could not turn an existing facility into a toll facility. He elaborated that if the state were to build a new road, add lanes to an existing road, or build a bridge with federal funds, it could have a toll facility provided it was part of the initial plan.

Co-Chair Johnston surmised that many of the additions to new lanes were funded by federal dollars.

Commissioner MacKinnon affirmed.

Representative Merrick highlighted turnover issues experienced in various departments. She asked what was causing the problem in DOT.

Commissioner MacKinnon answered that the issue was not unique to Alaska. He had met with transportation officials in the western states the past May and had learned they also faced challenges with recruitment and retention. He noted the problem was more pervasive in the maintenance and operations side than in the technical fields, although the problem existed in the latter area as well. The issue existed with Local 71 equipment operators - the state spent time training individuals and within a couple of years the individuals went to work for a municipality earning \$5 more per hour. The same problem existed in airport, police, and fire. He stated that the Department of Public Safety sent recruits to the academy to become police officers. He explained that training covered police, fire, and emergency medical services. The individuals were not trained by the state without some commitment on their part; however, after they fulfilled their obligation, individuals went to work for the troopers or local government at a fairly substantial pay increase.

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Vice-Chair Ortiz referenced the top bullet point about the decline in motor fuel receipts on slide 6. He asked Commissioner MacKinnon to repeat the number of electric vehicles in Alaska.

Commissioner MacKinnon believed there were 400 electric vehicles in Alaska.

Vice-Chair Ortiz asked how many vehicles there were in the state.

Commissioner MacKinnon replied that there was about one vehicle per person. He detailed that with electric, hybrid, and fuel efficient vehicles, even though the miles driven were close to the same as five years earlier, current vehicles were much more efficient and burned less fuel.

Vice-Chair Ortiz asked for verification that DOT had seen a significant reduction in tax revenue because of the change.

Commissioner MacKinnon replied in the affirmative. He elaborated that the change had resulted in unrealized revenue the department had expected to receive.

Co-Chair Foster asked Commissioner MacKinnon to repeat the shortfall figure resulting from lost receipts.

Commissioner MacKinnon replied that the shortfall was \$1.3 [million].

Representative Knopp referenced the closure of Silvertip [maintenance station] on the Kenai Peninsula. He believed the department worked the stretch of highway from Crown Point to Girdwood. He highlighted there had been some unprecedented storms in the area in the current year. He noted that no one on the peninsula had been happy about the situation. He remarked that DOT had received significant feedback on its statement that occasional road closures were acceptable. He highlighted that a couple of positions in the Homer and Soldotna stations had been lost. He remarked that in the past, maintenance had been provided around the clock; however, there was now a gap in service. He asked for the accuracy of his statements.

Commissioner MacKinnon answered that with the cuts in the past year, which included closing Silvertip and transferring its positions, eight unfilled positions were eliminated. He did not see Homer on the list of lost positions, but Bethel, Quartz Creek, and Soldotna had lost positions in the central peninsula region.

Representative Knopp asked if they were unfilled positions.

Commissioner MacKinnon replied in the affirmative.

Representative Knopp stated it was his understanding that they had lost some manpower. He remarked that previously there had been around the clock coverage, which was no longer the case. He noted that a loss of manpower would not result from unfilled positions.

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Commissioner MacKinnon replied that the current coverage in terms of hours was close to what it had been when Silvertip was open. There had been two periods of time during the day without coverage; however, it had become more continuous throughout the day.

Representative Knopp clarified that his comments expanded beyond the one stretch of highway on the peninsula. He asked if a savings had occurred with the closure of Silvertip. He remarked that workers had longer hours and travel time. He was concerned that essential services were being cut in the way of winter storms. He suggested that some nonessential services in the summer months could have been cut. He wondered if the anticipated savings had been realized by making the cuts.

Commissioner MacKinnon replied that they would have to wait for winter to end in order to know. There had been closures on the Seward Highway in the Anchorage to Girdwood stretch due to blizzards, not rockfall. There had been a six-day closure on the Klondike Highway the previous week. He reported that about six roads had closures for a period of time between a couple of hours and an entire day due to the weather. He remarked that there had been easy winters for the past couple of years; however, the current winter had not proven to be easy thus far. He elaborated that there had been a number of problems including drifting and heavy snow, road closures, and the sideswiping into an ore and fuel truck on the Klondike Highway that had caused a problem. He relayed that DOT would know whether its budget was sufficient or lacking once the winter was over.

Representative Wool referenced the motor fuel tax issue. He asked if activity on the North Slope went the coffers of the motor fuel tax. Alternatively, he asked if the tax was only assessed on public roads.

Commissioner MacKinnon replied that he did not know the answer, but he did not think so.

Representative Wool recalled that the topic had been a factor in a committee meeting on the motor fuel tax. He did not know whether various mines, such as Red Dog, had to pay the motor fuel tax.

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Commissioner MacKinnon answered that since most of the roads were private, he suspected the mines were not paying into the tax. He returned to slide 6 and continued to address challenges related to highways and aviation. He reiterated his earlier statement that turnover and recruitment continued to be a problem in Alaska and in many other states. The increase in commodity cost was an issue having to do with the maintenance of the state's roads. He elaborated that the price of salt and aggregate sand and gravel continued to increase. Consequently, DOT had scaled back on its purchase of the commodities. He noted it was not something that put the department in a comfortable position; however, DOT had significantly improved its ability to manage snow and ice control as opposed to moving the snow off. One of the management methods was to spread liquid on roads prior to a snow, which was an effective measure for preventing the snow from sticking to the road.

Commissioner MacKinnon continued to address slide 6. He highlighted the challenge related to changing weather patterns. He noted that the current winter had been harder than others in recent years. Additionally, there had been some issues with rockfalls on the Seward Highway between Anchorage and Girdwood. He reported it was believed that the earthquake in November of 2018 had loosened up the rock more than it had been, which meant that rain and freeze/thaw events caused rocks to fall, which could be deadly. The department was addressing the issue with a highway safety improvement project where they would put mesh on the rock to hold it. He added that DOT had also identified numerous other sites where work was needed.

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Commissioner MacKinnon reviewed a ten-year history of highways and aviation components on slide 7. He pointed out that in FY 18, DOT had begun to reduce its reliance on UGF by swapping DGF. The funding source was mostly motor fuel tax, which had not been realized as anticipated. He reiterated his earlier testimony that the reduced motor fuel tax revenue was attributed to increased vehicle efficiency, in addition to hybrid and electric vehicles.

Commissioner MacKinnon turned to slide 8 regarding other department challenges. He noted he had discussed the problem of recruitment and retention earlier in the presentation. He shared that DOT was a large department

with about 3,300 employees between AMHS, maintenance and operations of the highways and aviation, and the engineering construction side responsible for the federal highways and aviation program. He relayed that 3,300 represented about 20 percent of all state employees. He shared that issues related to recruitment and retention were related to more than pay. He noted that the Department of Administration had some new initiatives it was working on [related to recruitment and retention]. Additionally, DOT was also dealing with the Per- and polyfluoroalkyl substances (PFAS) issue at the state's certificated airports. He explained that PFAS had become a national issue.

Commissioner MacKinnon continued to address challenges facing the department on slide 8. He discussed that the Division of Facilities Services was established several years back as part of the effort to consolidate services and put all of the facilities under DOT. The department had 700 of its own facilities ranging from large maintenance stations to fuel sheds. Under the consolidation, the department was up to 1,200 facilities, which included 500 from other agencies. He elaborated that the number would continue to grow. He noted that DOT was managing the growing pains; however, it was challenging because growth was not occurring organically, but by leaps and bounds. He explained that the growth had caused a few problems. He continued to remind staff that it was the Division of Facilities Services, with an emphasis on the word "services." The division was providing the service to other state agencies for the facilities.

Co-Chair Johnston looked at the weigh station image on slide 8. She had observed that most weigh stations were closed. She asked if weight was currently determined automatically under the roadbed. She asked if DOT was looking at divesting from some of the weigh station facilities.

Commissioner MacKinnon answered that weigh stations were closed certain hours of the day and open during others. The purpose of the weigh stations was to get an idea of the volume of the trucks passing over them. He reported that the department kept track of the information. He shared that DOT recorded the weights of trucks when they came out of the yards. He explained that the weigh stations were

typically open at night when the weights of the trucks were not being recorded in the yards.

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Co-Chair Johnston observed that the stations seemed to be closed at night on the Seward Highway. She asked for verification that the modernization entailed getting the truck weights at their point of departure.

Commissioner MacKinnon replied in the affirmative.

Representative Wool asked what percentage of the department's resources went to the facilities services component.

Commissioner MacKinnon deferred the question to Mr. Pannone.

Mr. Pannone answered that the Division of Facilities Services had a budget of about \$41 million in interagency receipts. He explained that the interagency receipts were comprised of funds the department collected from agencies that had "onboarded" to the service. The department's overall budget also included facilities components showing what DOT paid to the Division of Facilities Services. He offered to provide the information.

Representative Wool clarified that he was more interested in interagency receipts. For example, the legislature had been talking to the Department of Corrections (DOC) about reopening the Palmer Correctional Center and DOC had to go through DOT. He wondered how laborious the process was and whether DOT had abundant resources to handle the reopening of the facility immediately.

Commissioner MacKinnon had not seen anything from DOC, he had only heard rumors. He shared that DOT had a recent issue with one of the other departments questioning what the cost of a capital project would be. At first blush it looked like there were some additional costs, but when they dialed into the budget, they found contingencies that were not real charges until needed. The department had talked with other agencies about increasing their delegation of authority from the standard \$200,000 in certain cases. There were a number of past situations where the delegations had not gone well. He stated that the staff in

the Division of Facilities Services were in the construction business and knew how to bid and operate the projects. He explained that without that background, it could lead to a negative and more costly experience. He reiterated that he had not heard from DOC.

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Vice-Chair Ortiz looked at slide 7 related to highways and aviation components. He observed that in FY 15 the component had been funded at about \$144 million, which had begun to decline to its current budget of about \$122 million. He asked if the reduced funding had impacted the Statewide Transportation Improvement Program (STIP) and its projects. He asked if the spending reduction had resulted in a potential growth in expenses for the state in the future due to deferred maintenance.

Commissioner MacKinnon answered there was not a simple answer. He explained that STIP was a separate component from state maintenance and operation of roads and airports. He detailed that STIP was federal funding for construction projects for new transportation facilities. He expounded that for a number of years, DOT had been able to use federal highway funds for certain maintenance projects. The department kept its winter response maintenance workers busy in the summer months - DOT did not want to lay off the workers during part of the year as it would add to recruitment and retention problems. He continued that DOT was able to use federal programs for replacement of guardrails or a cracked ceiling. He stated it was especially important on the Dalton Highway. The department had to keep tight track of work staff was doing under the federally funded program; it could not take workers off the federal payroll and put them on the state maintenance side.

Commissioner MacKinnon continued answering the question and referenced an earlier slide showing a potholed road (slide 6). He detailed that the image was taken on the Dalton Highway in August. He elaborated that rainfall in the area had been much higher than normal. He explained that DOT's maintenance crews were shorthanded as it was and had been busy doing federal projects on the Dalton. Consequently, the blading and smoothing of dirt roads had been neglected due to budget reasons. The department had replaced much of its general fund funding for highways and aviation with federal funds.

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Vice-Chair Ortiz asked if there was an increasing problem with higher costs due to deferred maintenance issues.

Commissioner MacKinnon answered in the affirmative. He elaborated that required critical components, like culverts and biennial bridge inspections, were conducted on the federal side. However, when it came to routine potholes on roads such as the South Tongass Highway, deferred maintenance was a big issue.

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MARY SIROKY, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, addressed AMHS on slide 9. She spoke to the challenges facing AMHS, including aging terminals and vessels. She detailed that some of the vessels were 55 years old and still had their original engines, which had made keeping them in operation a significant challenge. There were some significant gaps in service as a result of a \$43 million reduction to the FY 20 operating budget. The gaps in service were exacerbated by vessels breaking down and the Matanuska not coming out of its overhaul as quickly as possible.

Ms. Siroky shared that AMHS was faced with changes in federal law. The department had been told in the current year that it needed to have armed presence to support border patrol workers responsible for providing inspections as passengers traveled from Prince Rupert in Canada on a marine highway vessel headed for Ketchikan. She stated it was a significant challenge the department needed to figure out how to fund.

Ms. Siroky relayed that there were three marine collective bargaining unions, all with different contracts. She expounded that some unions worked two weeks on, two weeks off and others worked one week on, one week off. She explained that the different contract provisions made it difficult to dispatch employees to boats and determine how best to use resources effectively. She reported that turnover and recruitment had been a challenge over the past several years. She detailed it had been difficult to keep enough vessel employees employed in order to avoid losing them in the winter. She explained that the unions operated

on a seniority based system; therefore, if a young person came in and did a great job in the summer months, they may not be the one with a job in the fall and winter.

Co-Chair Johnston asked when each of the collective bargaining agreements expired.

Ms. Siroky replied that the IBU [Inlandboatmen's Union] had gone on strike the past summer. The department was in the process of working out the final details of an agreement with IBU, which would hopefully be signed soon. The department was in active negotiations with the Masters, Mates and Pilots and the Marine Engineers' Beneficial Association; DOT hoped to have agreements for the legislature to review prior to the end of session.

Co-Chair Johnston noted there were three unions.

Ms. Sirkoy answered that IBU had gone on strike and the department was working with the union [on a contract agreement].

Co-Chair Johnston asked if any of the unions had apprenticeship programs. She remarked that some of the positions required training. She was interested in the recruiting aspect and asked if the responsibility fell on the state or if there was a partnership.

Ms. Siroky answered that there was not an apprenticeship program for the AMHS. There were jobs that required additional skills such as an engineer, a master, and a master with pilotage.

Representative Josephson looked at slide 13 and observed there were five vessels that were 16 years old or younger. He believed one of the vessels was serving the Metlakatla/Ketchikan route. He asked why the other four were not operating.

Ms. Siroky answered that the Cheenega and the Fairweather were both aluminum vessels, meaning their lifespan was significantly different than for steel hulled vessels. The two vessels were very expensive to operate. She explained that the vessels had been built and operated under the high speed vessel code. She relayed that the Tazlina had recently come out of the yard and had not been in operation the past summer [note: Ms. Siroky made a correction later

that this statement pertained to the Hubbard, not the Tazlina].

Representative Josephson shared that he had only read summaries of the Northern Economics Report. He believed the report specified that some routes were not as attractive as private routes. He asked about the administration's position on the public policy behind having a ferry system for coastal Alaska. He asked if the administration thought the state should have a ferry system.

Ms. Siroky answered that she did not believe the administration had ever said the state should not have a marine highway system. She reported that the administration, by way of DOT, had requested the Northern Economics study, also referred to within the department as the "reshaping study." The study had brought together a large amount of information. The governor had formed a small taskforce to review and balance the study with all of the modes of transportation the state was responsible for. The state provided the infrastructure for roads and runways. She explained that the marine highway system was the only system where the state provided the transportation. She remarked that as the state developed a plan for AMHS going forward, it was important to look at it in the context of how the state dealt with all transportation. She explained that the taskforce would help outline the big policy issues and address how to reconcile them.

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Mr. Pannone reviewed slide 10 showing a 10-year lookback of the AMHS operating budget. He pointed out that between FY 11 and FY 19 there had been a gradual reduction of \$16.2 million in the AMHS operating budget. The reduction from FY 19 to FY 20 was \$43 million.

Ms. Siroky turned to slide 11 and provided an FY 20 AMHS service overview. She noted that DOT had been asked to talk to the committee about the ferry service it had hoped to provide with the FY 20 operating budget and reduction of \$43 million. The department had planned to provide just under 284 weeks of service. She reported that through December 31, 146 weeks of service had been provided. The department estimated it would provide 250 weeks of service by the end of June. She explained the reasons for the

discrepancy. First, the [IBU] strike had cost a full eight weeks of service. Second, the Matanuska had stayed in the shipyard longer. Third, the Columbia had not been put in layup as early in order to provide mainline service when the Matanuska did not return as quickly as possible, which had cost the department funding it did not have; therefore, service had been reduced elsewhere. Fourth, the LeConte had needed a significant amount of steel work. She elaborated that a six-week overhaul had turned into a seven-month overhaul. Lastly, the Matanuska had broken down.

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Vice-Chair Ortiz looked at the plan for 280 weeks of service and the reality of 146 weeks of service [through December 31, 2019]. He asked if the Lituya accounted for 52 of the 146 weeks of service. He noted the Lituya ran year-round from Ketchikan to Metlakatla only.

MATT MCLAREN, AMHS BUSINESS DEVELOPMENT MANAGER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), answered that the Lituya accounted for 50 of the weeks of service. He clarified that the 146.6 weeks of service was for the first half of the fiscal year; therefore, the full 50 weeks for the Lituya was not included in that number. He explained that the 50 weeks was included in the estimated total of 250.3.

Representative Wool considered the 383.9 planned weeks of service for FY 20. He asked how much of a reduction the number represented when compared to FY 18.

Mr. McLaren replied that the department had provided 329.1 weeks of service in FY 19, 317.5 in FY 18, and 329.6 in FY 17.

Ms. Siroky discussed the status of the vessels on slide 12. She noted it was likely not a very pretty picture. She provided details on the various vessels. The Lituya was operating. The Columbia was scheduled to come out of overhaul on May 6. The Tazlina, the new ACF vessel, was scheduled to begin operating on March 5. She elaborated that the Tazlina overhaul was time dependent as the warranty ran out at the end of April. The department wanted to ensure the vessel reached the yard with plenty of time to deal with any unknown warranty issues. The Kennicott was scheduled to run on April 16. The Tustumena was scheduled

to begin service again on May 1. The LeConte was scheduled to run on May 20. She expounded that the LeConte went in for repair and the replacement of eroded steel in November (the schedule gave about seven months for the repair). There had been problems with the Matanuska - there had been some good news and the department was hoping for more. She elaborated that DOT was hoping to get the vessel back in operation by March 2. The Hubbard was currently having forward doors installed, otherwise the department would have considered operating the vessel while the Matanuska was down. The Aurora, Malaspina, Fairweather, and Chenega were currently in warm layup and had no crew on.

Ms. Siroky stated it was important for people to understand that the ships in the yard were all having work done on them. She clarified that just because a boat was not in drydock did not mean that people were not taking engines apart and looking at different parts and pieces of the ship. The department did not want people to think that the boats were tied up and nothing was happening.

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Representative Knopp thought Ms. Siroky had stated earlier that the Tazlina had come out of the shipyard three weeks back. He asked for verification that the vessel had never been put in service.

Ms. Siroky corrected her earlier statement. She clarified that she had meant to say that the Hubbard had never been put into service the past summer.

Representative Knopp asked for the status of the Tazlina. He believed the shipyard only had the ability to work on one vessel at a time.

Ms. Siroky clarified that the shipyard had the ability to work on many ships at a time. The Tazlina was currently in its warranty overhaul and should be out on March 5. The vessel had been put into overhaul ahead of time to ensure there was time to do any warranty work by April 30 if any problems arose. Any work done under the warranty would cost the state nothing.

Representative Sullivan-Leonard looked at the 11 or 12 vessels that were currently being worked on or were in layup. She surmised that it was positive that in the spring

and summer there would be at least eight vessels in service during a season that was busy with tourists and the movement of goods and services. She believed that if vessels were going to be down, the current time was a good time for it to happen.

Ms. Siroky answered it was the slight silver lining in the situation. She was certain the people who had not been able to travel would not see it that way; however, it was fortunate that the Matanuska had not gone offline in the middle of summer.

Representative Sullivan-Leonard stated that the DOT subcommittee had discussed that the Columbia would be filling a significant portion of the gap in service. She asked if the Tazlina or Kennicott could be used to fill the needs while the Columbia was out of service.

Ms. Siroky replied in the negative. She clarified that the dates listed [on slide 12] were the dates the department expected the ships to come out and DOT did not believe they could come out any earlier. She explained that the bigger shipyard required technicians with specific expertise to come up and help. The technicians were scheduled to come up to work on all of the vessels at one time. She used a hypothetical example of a person with marine radar expertise who would come up to work on all of the boats' systems at one time. She elaborated that if the vessels were located at a much larger shipyard there may be some greater flexibility to get some boats out sooner.

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Representative Sullivan-Leonard considered the short-term gap and asked if DOT was looking at having a private company assist during the gap.

Ms. Siroky replied in the affirmative. The department had issued a request for information the previous Monday for a period of three or four days. The request was for information about companies that may be able to operate in northern Lynn Canal and service a set number of passengers. She shared that they had received some interesting responses. The department was circling back to those companies and talking about getting some service in northern Lynn Canal to reach villages and Haines and Skagway. The department was also hoping for the ability to

move some palletized freight. The department recognized that if there was the ability to move palletized freight, the communities would need some time in order to get freight where it needed to be to get to the communities. She relayed that DOT was hoping to know by the end of the week how it may be able to fill in for some needed service.

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Vice-Chair Ortiz considered recruitment and retention of workers. He asked what happened to the workforce on the Matanuska when the boat had gone out of service. He asked if the workers were still with the boat and still employed.

Ms. Siroky answered that the crew on the boat were assigned for a set period of time and had a set minimum number of hours they were guaranteed to be paid. She explained that when the Matanuska had broken down, crew members had stayed on the boat and were being paid.

Vice-Chair Ortiz shared that a constituent who worked for AMHS believed they were subject to losing their health insurance because they were no longer employed. He thought it had been in relationship to the Matanuska. He asked if there had ever been a situation when a vessel had broken down where employees had been put on hold without health benefits. He thought it would be difficult for a person to continue wanting to be employed if that was the situation.

Ms. Siroky replied that there had been discussion about whether employees were covered by health insurance during the [IBU] strike [the previous August]. She believed it had been determined that the employees had healthcare. She relayed that many vessel employees saved their leave to help them get through the slow times of the year. She did not know of specific people who thought they had a job and were currently not working and without health insurance. The department had received an email earlier in the day listing the number of staff on each of the boats currently in layup. She elaborated that each of the boats in layup had between 5 and 15 crew members on board.

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Vice-Chair Ortiz considered the potential for the system to try to help communities with some of the significant problems caused by the breakdown of the system. He asked if

it would be possible to have an early sailing from Whittier to Cordova. He had heard much concern about people needing to move supplies to prepare for the fishing season.

Ms. Siroky answered that the department had heard the concern many times during public comment on the AMHS spring and summer schedule. The department had come up with a way to get the Kennicott up to the area to help with the fishing season in Cordova. She elaborated that DOT sent the [Cordova] mayor an email a couple of weeks back advising him that they did not believe they would meet his April 15th date, but they could get the vessel there by April 19th. The plan was to run back and forth trips from Whittier to Cordova. The department was hoping to get the finalized schedule out in the next week or two. She thought people would realize the department had been creative in trying to find ways to meet the significant gaps and needs.

Vice-Chair Ortiz asked if there would be anything done for special coastal Alaska school events requiring travel. He highlighted music festivals in Cordova and Sitka and a basketball tournament in Juneau as examples. He pointed out that large numbers of students had traditionally used AMHS to travel to the events.

Ms. Siroky replied that the department's scheduler worked with communities and schools to get event dates upfront in order to try to build an accommodating schedule. She believed the planned schedule took care of the Sitka music festival, the high school tournaments, and the Gold Medal basketball tournament. The department recognized that if the Matanuska was not back online, the events would be significant needs for the communities and some fill-in service would be needed.

[2:49:17 PM](#)

Representative Carpenter looked at the eight vessels on the left side of slide 12 and asked how many were out for scheduled repair versus emergency repair. He asked when each of the ships had gone offline.

Ms. Siroky answered that all of the boats had scheduled repairs. The department had planned that the Columbia would not operate over the winter. The vessel had been operated longer than expected before going into the shipyard. The Tustumena, Kennicott, and Tazlina were all in their regular

overhaul time slips, along with some out of revenue period of time due to a lack of operating funding. The LeConte was offline for a longer period due to a need for significant steelwork. The Aurora had been laid up because the department could not afford to fix both the LeConte and the Aurora. Experts had looked at the two vessels and had determined the LeConte would be cheaper and faster to repair.

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Representative Wool stated that the Tazlina was a one-year old boat and was virtually brand new by comparison to the other boats. He asked if the department could predict how long the boat's scheduled warranty overhaul would take. He reasoned that the overhaul would not find the significant rust that may be found on older boats.

Ms. Siroky answered that the department did not expect the Tazlina's overhaul to take longer than normal. She explained that the ship had been put into its overhaul already, to give time to do any unanticipated work by the April 30 warranty deadline.

Representative Wool assumed that the vessels were not all the same size. He asked if the Tazlina could help with service if the Matanuska broke down. He understood the Tazlina was a smaller boat. He asked for the primary differences between the two vessels.

Ms. Siroky answered that the Tazlina could fill in for the Matanuska in northern Lynn Canal. She did not know about the ship's ability to go to Bellingham. She noted there were not crew quarters on the Tazlina, which made things much more difficult to operate on a 24 hour/day route.

Representative Wool asked if the department ever left a boat in reserve that was not under repair and not in use. He reasoned that the boat could be used if problems arose on another vessel. He remarked that the vessel could be taken out of storage without requiring six months of startup time. He noted that no one had anticipated the Matanuska having problems.

Ms. Siroky answered that DOT had not had the luxury of having a spare vessel ready to fill in for another vessel. However, AMHS had been operating enough vessels to pick up

the slack or fill in for another vessel. She explained that if the Matanuska had gone offline in the summer, the Columbia may be operating and may fill in. In the past, when DOT had run into situations "of this magnitude" there had been more boats operating and more opportunities to minimize the challenges.

[2:55:21 PM](#)

Representative Wool asked for verification that the new door being installed on the Hubbard was different than what the department believed was needed when the boat had been ordered. He asked if the Hubbard had the same limits as the Tazlina in terms of sleeping quarters and routes it could pick up. He remarked that the two new boats were more limited than the older fleet.

Ms. Siroky replied that the Hubbard and Tazlina had been designed for the Juneau Access Project to be at a much different state. She elaborated that the ferries had been designed to operate out of Katzehin about 50 miles north of Juneau. She explained that the boats would have the ability to get to Haines and Skagway within 12 hours, which meant crew would not have to be kept on board around the clock. The road infrastructure had not come to fruition; therefore, the boats were operating under a different scenario than the original plan. The forward doors were a modification to make the boats more efficient on a longer run. She detailed that the boats were designed to be "roll on, roll off" and the docks were not modified for that option. She explained that there was a very narrow turnaround on the boat. She had been told the forward doors would increase the kinds of trucks that would fit on the boats (e.g. large RVs) and the loading and offloading efficiency, which would decrease the time spent at any given port.

[2:57:40 PM](#)

Representative Wool surmised that because the road had never been built, the department was modifying the boat to adapt to other purposes. He referenced Ms. Siroky's earlier statement that the state provided infrastructure for roads and bridges, but the marine highway was the only infrastructure where the transportation was provided. He cited the Alaska Railroad as another example where the maintenance and operation were provided. He understood the

railroad was a separate state corporation, but it was affiliated with the state.

[2:58:41 PM](#)

Vice-Chair Ortiz considered the future for AMHS. He asked what it meant to put a vessel in layup instead of making repairs. He asked if it meant the vessels would never be repaired.

Ms. Siroky answered that DOT had put out an RFP to hire a broker to sell the Fairweather and Chenega. The Aurora and Malaspina were in layup and were being kept warm. She detailed that a contractor checked on the boats daily and the department had not determined whether it would dispose of the two vessels. The department was keeping its options open and the vessels were being kept in good shape for whatever decision was made.

Vice-Chair Ortiz remarked that the multitude of needs [in coastal communities] had become very clear as the breakdown of the system had occurred. He highlighted rural Southeast Alaska, Cordova, and Southwest Alaska and stated the need for transportation infrastructure was there. He asked for verification that DOT would only sell the Malaspina if there was an equivalent vessel to fill its spot.

Ms. Siroky answered in the negative. She clarified that DOT had not yet decided to sell the [Aurora and Malaspina] vessels. She stressed the importance of determining the AMHS needs going forward - the individuals on the reshaping study would help with the task - and she did not believe it would be appropriate to say DOT would replace something that already existed. She explained that replacing something that already existed may not meet the true needs of the system going forward.

Representative Knopp stated there was no denying there was significant angst in Southeast Alaska in regard to the current state of AMHS. He elaborated that the governor's budget rolled out the previous year had come close to eliminating the entire marine highway system. He described the system's current status as zero ferry service with one small boat operating. He asked if the Aurora and Malaspina, currently in warm storage, could be used immediately if desired. He noted that Ms. Siroky had stated the boats were currently in warm storage. He added that she had not said

the two boats were undergoing any maintenance. He referenced the statement that the Tazlina was undergoing maintenance to try to beat the warranty expiration. He was concerned by the maintenance issue and the fact that so many vessels were broken at one time. He stated that the commissioner and others responsible for managing fleets knew that everything was on a rotational cycle. He was dumbfounded that the system was in its present state. He asked about the status of the effort to replace the Tustumena. He highlighted that the legislature had appropriated \$240 million in federal highway funds in 2018 to go out to bid on a four-year project. He asked for the status.

[3:03:09 PM](#)

Ms. Siroky answered that the Malaspina and the Aurora had both been issued what the U.S. Coast Guard called an 835 notification or a no-sail notification. Issues had been identified with the boats that required repairs before the boats could sail. The steel replacement on the Aurora was one of the issues and DOT had determined the cost would exceed the \$7 million it was spending on the LeConte. The Malaspina had some significant steel issues and she believed it would cost \$10 million or more to fix the no-sail issues found by the Coast Guard.

Ms. Siroky continued to address the question by Representative Knopp. The department had determined it would be irresponsible to operate the 57-year old Malaspina, given that no spare parts were readily available. She elaborated that it did not make sense to put \$10 million into a boat that would then need new engines at a cost of \$30 million. Additionally, bringing the ship up to Coast Guard standards would cost another \$4 million to \$5 million. There was an authorized amount for construction of the Tustumena. The department would be looking to the reshaping group for information on what the Tustumena replacement should do and which communities it should service. She elaborated that the information would factor into the ship design. She asked Representative Knopp to repeat his remaining question.

Representative Knopp asked about the earlier statement that the Tazlina was undergoing maintenance to try to beat the warranty expiration. He asked why the department was holding onto the Aurora if it was in such bad condition. He

wondered why the department had not decided to put the boat on the market. He surmised there must be a reason for keeping boats in warm storage.

Ms. Siroky replied that each boat had its scheduled time in the shipyard. She highlighted her earlier statement work on ships overlapped in order to make the most efficient use of technicians coming to Alaska to do the work. She stated that nothing had gone their way in the current year. She elaborated that there had been boats in layup, overhaul, and out because of a lack of operating funding. In terms of making a decision on the Aurora and Malaspina, DOT wanted to wait until the reshaping group looked at the vessels. The department did not feel it would be responsible to take any options off the table at present.

[3:06:46 PM](#)

Vice-Chair Ortiz asked when the Malaspina had last been overhauled in layup. He thought that it had been receiving repair work in Portland relatively recently. He wondered if he was confusing it with a different boat.

Ms. Siroky answered that the Matanuska had recently come out of a two-year repower in Portland. She elaborated that over \$40 million had been spent on new engines. She explained that the brand new engines were having issues. While the situation was not ideal, the department was grateful the engines were still under warranty.

Vice-Chair Ortiz asked for more detail on the Malaspina maintenance timeline.

Ms. Siroky answered that every boat was required to undergo an overhaul annually in order to receive a certificate of inspection. The vessels were required to have a current certificate of inspection from the Coast Guard to operate.

Vice-Chair Ortiz asked if the significant issues requiring \$45 million in work had been discovered during the boat's layup in the past year.

Ms. Siroky answered that the Coast Guard had identified some significant issues with a cost of about \$10 million to \$15 million. The remainder of the \$40 million cost resulted from replacing the engines. She questioned the logic of trying to operate a 57-year-old with original engines and

no spare parts. She stated that if it broke, it was broken. She explained it was the reason the department had chosen the Malaspina. The Matanuska had just come out of a \$47 million repower and overhaul.

[3:09:04 PM](#)

Co-Chair Johnston asked if AMHS owned docks.

Ms. Siroky answered that the State of Alaska owned docks through AMHS.

Co-Chair Johnston asked if the docks were under the purview of AMHS or DOT.

Ms. Siroky answered that the docks were primarily managed and maintained by AMHS.

Co-Chair Johnston asked how the docks were doing.

Ms. Siroky answered that the department was doing work on the Gustavus and the Tenakee docks in the current year. She relayed that work was scheduled on the docks in Skagway and Haines. She did not know that any work was taking place on the Cordova dock or out the [Aleutian] Chain. The department owned the dock in Prince Rupert, which was in pretty poor condition. The department had frequently discussed repairing the dock and bringing it up to standards; however, it had faced issues with Buy America Steel and the Canadian location.

Co-Chair Johnston asked if the dock in Whittier was state-owned.

Ms. Siroky answered that the department had a facility in Whittier.

Co-Chair Johnston requested a list of the docks and their status.

Ms. Siroky replied that the department would follow up with the information.

Representative Carpenter asked for verification that even without a budget issue, nine out of ten vessels were currently offline. He asked which of the boats could run if money was not an option.

Ms. Siroky replied it would be difficult to say. She noted that the timing of the Columbia's overhaul was out of sync, which had caused some problems. She deferred to Mr. McLaren and asked which vessels had been operational the past January through March.

Mr. McLaren answered that the department's current budget only allowed for the operation of two vessels from mid-January through the end of February. One of the two vessels that had been scheduled for operation was the Matanuska, which was currently offline. The budget provided for three vessels from March 1 through mid-April, including the Matanuska and the Tazlina (after the completion of its warranty work at the beginning of March). He addressed which vessels would be available the soonest. The shipyard had reported that the Kennicott was a bit ahead of schedule. He estimated that in a perfect funding world, it may mean the Kennicott could be back in operation a week or two earlier than expected. All of the other vessels needed their work to be complete prior to coming back online.

[3:13:14 PM](#)

Representative Josephson asked if resources were unlimited whether there would be vessels on the water. He thought the burden should be on DOT to tell the legislature otherwise. He viewed the issue as a resources problem with the addition of some bad luck. He did not know whether there was another time in the state's history where there had been no operational boats, apart from the Lituya located down by the Dixon entrance.

Ms. Siroky answered that if resources were not an issue the department would have scheduled things differently and there would be boats on the water.

Representative Wool looked at the ship graphics on slide 12 and asked if the Tazlina and Hubbard vessels were the same model.

Ms. Siroky replied in the affirmative. She detailed that the following pairs were sister ships: Hubbard and Tazlina, Matanuska and Malaspina, and LeConte and Aurora.

Representative Wool asked if the forward door was being installed on the Tazlina as well [as the Hubbard].

Ms. Siroky responded in the affirmative. The department would schedule the Tazlina to have the forward installation after DOT's operating budget was solidified. Once the legislature passed the budget, the department would determine how to best fit the work in.

Representative Wool stated his understanding that the state had owned the Hubbard for a year, and it had not yet been used. He asked how long it would take to have the new door installed. He asked if it was a six-month or two-year project. He remarked that the Tazlina had been used and the Hubbard had not.

Ms. Siroky deferred the question to Mr. McLaren.

Mr. McLaren answered that the door project on the Hubbard had just started. He detailed that the door had arrived in December and the installation would take about three months. The Hubbard had not been in operation due to the department's funding levels; DOT could not afford to operate both Alaska Class ferries, the Tazlina and Hubbard, as well as the LeConte and Aurora.

Representative Wool asked if the Alaska Class vessels were large enough to go from Whittier to Cordova. He asked if it was doable for ferries without sleeping quarters. He understood that the route was currently without service.

Ms. Siroky responded that the Hubbard and Tazlina were capable of making the run from Whittier to Cordova and the boats were compatible with the docks in those locations. The challenge with operating either of the vessels in Prince William Sound was the need to meet 12-hour work/rest rules as dictated by the Coast Guard. The vessels could potentially make the run from Cordova to Whittier in 12 to 14 hours, but the boats did not have a place to accommodate the crew at night.

[3:18:16 PM](#)

Representative LeBon suggested that if a vessel were running from Whittier to Cordova, it could stop in Valdez to break up the trip.

Ms. Siroky agreed; however, the department would have to put the crew up at night because the two vessels had no crew quarters.

Representative LeBon suggested that accommodations could be made for crew in Valdez.

Ms. Siroky agreed.

Representative Knopp asked for detail on the vessels' purpose and their limited operations.

Ms. Siroky responded that the vessels were designed to work out of Katzehin, a point about 57 miles north of Juneau, to provide service to Haines and Skagway. The idea had been to provide a lot of service on a daily basis within a 12-hour period. She explained that moving many miles up the coast constituted a major difference in how the boats could operate.

Representative Knopp asked if it explained the \$400,000 supplemental request for unexpected lodging for the Tazlina.

Ms. Siroky answered in the affirmative. She elaborated that when the Tazlina had been in operation over the past summer, the department had been housing crew in Haines. She relayed that the costs had been much higher than anticipated.

Representative Knopp surmised the supplemental request was to pay for the past bills but there was no request going forward.

[3:20:40 PM](#)

Representative Wool remarked that the Alaska Class vessels were for a route that did not exist because the road had not been built. He asked whether the department had been fairly certain the road would be built at the time the boats were commissioned. He had not known the planned road had been a done deal. He was unclear why the department had decided to spend such a large amount of money to purchase such route-specific vessels.

Ms. Siroky replied that the department had been optimistic that the road would be constructed.

Ms. Siroky briefly pointed to slide 13 showing the age of each vessels in the fleet. Highlighted the AMHS reshaping study on slide 14. The goal was to identify potential reductions in the state's obligation for AMHS. Additionally, the goal was to determine how to operate as effectively and efficiently as possible. The governor had established a reshaping workgroup to be comprised of the following: a representative from the aviation community, a representative from the state's boards and highways, a representative from the marine transportation, two legislators (Representative Louise Stutes and Senator Bert Stedman), a representative from the marine unions, and three public members. The department was hoping the members would be announced within the next two to three weeks.

[3:23:30 PM](#)

Vice-Chair Ortiz referenced the objective of the study to identify potential reductions in the state's financial obligation and/or liability related to AMHS (slide 14). He had heard there was a specific number attached to the study and asked for details.

Ms. Siroky replied that the department had asked Northern Economics to look at the governor's original proposed operating budget, which included a 70 to 75 percent reduction. The department had asked Northern Economics to evaluate the 11 scenarios to determine whether it was possible to get close to the number.

Vice-Chair Ortiz asked if Ms. Siroky was referencing the prior year's budget number.

Ms. Siroky answered she was referencing the budget proposed by the governor the past year.

Vice-Chair Ortiz asked if the proposed number had been \$19 million or \$20 million.

Ms. Siroky believed the figure had been between \$20 million and \$25 million in general funds.

Co-Chair Foster thanked the presenters.

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting schedule for the following day.

#

ADJOURNMENT

3:25:22 PM

The meeting was adjourned at 3:25 p.m.