

**ALASKA STATE LEGISLATURE
HOUSE TRANSPORTATION STANDING COMMITTEE**

February 20, 2020

1:02 p.m.

MEMBERS PRESENT

Representative Louise Stutes, Chair
Representative Matt Claman
Representative Andi Story
Representative Dave Talerico
Representative Mel Gillis

MEMBERS ABSENT

Representative Bryce Edgmon
Representative Harriet Drummond

COMMITTEE CALENDAR

HOUSE BILL NO. 249

"An Act relating to the Alaska marine highway system; establishing the Alaska Marine Highway System Corporation; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 249

SHORT TITLE: MARINE HIGHWAY CORPORATION

SPONSOR(S): REPRESENTATIVE(S) STUTES

02/17/20	(H)	READ THE FIRST TIME - REFERRALS
02/17/20	(H)	TRA, L&C
02/20/20	(H)	TRA AT 1:00 PM BARNES 124

WITNESS REGISTER

SARA PERMAN, Staff
Representative Louise Stutes
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 249 on behalf of Representative Stutes, prime sponsor.

ROBERT VENABLES, Executive Director

Southeast Conference
Juneau, Alaska

POSITION STATEMENT: Co-presented a PowerPoint and answered questions during the hearing on HB 249.

SUSAN BELL, CEO
McDowell Group
Juneau, Alaska

POSITION STATEMENT: Co-presented a PowerPoint and answered questions during the hearing on HB 249.

ACTION NARRATIVE

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CHAIR LOUISE STUTES called the House Transportation Standing Committee meeting to order at 1:02 p.m. Representatives Story, Claman, Talerico and Stutes were present at the call to order. Representative Gillis arrived as the meeting was in progress.

HB 249-MARINE HIGHWAY CORPORATION

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CHAIR STUTES announced that the only order of business would be HOUSE BILL NO. 249, "An Act relating to the Alaska marine highway system; establishing the Alaska Marine Highway System Corporation; and providing for an effective date."

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SARA PERMAN, Staff, Representative Louise Stutes, Alaska State Legislature, presented HB 249 on behalf of Representative Stutes, prime sponsor. She informed the committee that HB 249 is the product of decades of work from many Alaskans.

MS. PERMAN informed the committee that the First Alaska State Legislature approved the Alaska Ferry Transportation Act in 1959 and the first ferry became operational in 1963. As early as 1984, she continued, Governor Bill Sheffield's AMHS task force, established to assess AMHS's structure and rates in the face of growing public demand and reduced operating budgets, determined that the system was "archaic" and that there was a "definite lack of continuity or purpose."

MS. PERMAN added that the task force had suggested the consideration of a public authority or corporation. A 1989 memorandum from then-Department of Transportation & Public

Facilities (DOTPF) Commissioner Mark Hickey, acknowledging that the system "[had] suffered greatly due to its overall lack of continuity in top management since its inception," had been included in packets provided to committee members, Ms. Perman informed them.

MS. PERMAN stated that a lack of new boats being added to the system has also contributed to the problem. The AMHS system has several vessels built in the 1960s, there is more than a two-decade span when no new vessels were built, and today half of AMHS ships are more than 40 years old and the repair costs are substantial. Ms. Perman pointed out that 11 out of the 12 vessels are currently in lay-up or overhaul for repairs.

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MS. PERMAN went on to say that since the 1980s the state has asked the question "How [should Alaska] better operate the [AMHS]?" again and again. In 2019, she informed committee members, a report prepared by Northern Economics and commissioned by Governor [Mike] Dunleavy entitled "Reshaping the AMHS" determined that it isn't feasible to fully privatize marine ferry service. Backing up a bit, Ms. Perman added that beginning in 2016, Southeast Conference has led a statewide AMHS reform initiative ["reform initiative"] with a steering committee of 12 members from around the state, working with McDowell Group and Elliot Bay Design to study other ferry systems from around the world. After looking at several other systems, notably the British Columbia (BC) Ferries and the Scottish CalMac Ferries, the initiative determined that the public corporation model actually is a viable solution for the AMHS.

MS. PERMAN brought up the fact that public corporations aren't new to Alaska: there are the Alaska Railroad Corporation, the Alaska Gas line Development Corporation, and the Alaska Housing Finance Corporation, just to name a few. The reform initiative looked at several existing models and made recommendations accordingly. The model presented along with HB 249, she stated, is largely based off of the Alaska Railroad Corporation's model; with a seven-member, governor-appointed Board of Directors, benefits of this model include infusing private sector expertise and generating consistent leadership with a longer-term planning power. The corporation model also internalizes labor negotiations, improving the ability to quickly react to any management-labor disputes, she added.

MS. PERMAN added that HB 249 has 84 sections, including an entirely new chapter in Alaska Statute 42: Public Utilities and Carriers. What HB 249 would do is transfer the duties and responsibilities currently held by DOTPF relating to the AMHS over to the AMHS Corporation. It would put in place a seven-member board of directors made up of one commissioner, five public members appointed by the governor, and one representative of labor. The public members would serve on staggered five-year terms, and four of the five would have expertise in transportation, finance, and business operations, with the remaining member representing the general public, she added.

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MS. PERMAN informed the committee that the AMHS Corporation would be tasked with managing the AMHS and its assets in a safe and efficient manner. It must provide continuous transportation services to coastal communities and support the overall transportation needs of the state, while simultaneously providing public accountability. The Board of Directors would be responsible for the legal and financial obligations of the corporation, she continued; these would include overseeing labor contracts, leases, issuance of bonds, and any other financial transactions. The board would also be required to establish corporate objectives and secure sustainable funding from earned income, legislative appropriations or other revenue sources. Last, the board shall appoint an executive director to be responsible for the corporation's management.

MS. PERMAN imparted that the AMHS Corporation would remain accountable via the Alaska Executive Branch Ethics Act and the Executive Budget Act and that executives of the AMHS Corporation would be required to conduct business to the highest moral and ethical standards. Since the AMHS Corporation would own all of its assets, continued access to funding would be ensured. Notably, as a public corporation, it would still have access to federal transportation funds, she added. The powers of the AMHS Corporation would include, but not be limited to, adopting regulations, issuing bonds, negotiating leases, entering into loan agreements or contracts, and suing or being sued.

MS. PERMAN concluded by mentioning that a board of directors and a consistent CEO would give the AMHS Corporation significant stability. The fast ferries, the M/V Chenega and the M/V Fairweather, as well as the new Alaska Class ferries, the M/V Tazlina and the M/V Hubbard, with their constantly changing designs, exemplify what instability in the political climate has

done, Ms. Perman stated. She also mentioned that labor relation management should be taken into consideration. Personal services represents approximately 70 percent of the operating budget of the AMHS. Significant savings are anticipated under the AMHS Corporation model through the development of new contracts. Currently the general manager and the deputy commissioners of DOA and DOTPF are responsible for overseeing labor relationships on top of their other job duties: this could be condensed to one labor relations manager, such as the Alaska Railroad Corporation has.

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REPRESENTATIVE STORY asked why it was decided that that five members would be appointed by the governor, and that she had thought it would have been more appointees by stakeholders.

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MS. PERMAN responded to Representative Story by suggesting that the staggering of governor's appointees ought to off-set any one governor's ability to stack the board with chosen appointees.

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ROBERT VENABLES, Executive Director, Southeast Conference, stated that there is no one system available to "copy," but there are principles of several from which the AMHS would be able to glean. In 1960, he pointed out via the presentation, Alaska voters said marine transportation was a viable component of the transportation system, approving a bond proposition to invest in what would become the AMHS, with additional ferries and docking facilities [slide 3]. Operations of the AMHS began in 1963 with four vessels, and it has been a critical component of the state's transportation since. Then, Mr. Venables continued, state funding received gradual, assimilated cuts, to 30 percent over five years, and these days no other system in the Western world has a fleet as aged as [that of the AMHS, slides 4-6]. The initiative should have taken place fifteen years ago, he added.

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MR. VENABLES said he thought he should go back and address what the mission of the AMHS reform initiative group is. The initiative group contains at least 150 people who subscribed to regular updates House Bill 412 [sponsored by the House

Transportation Standing Committee in 2018]; now HB 249 takes it one step further. It all started with the people, according to Mr. Venables: first recommendations were made following a summit in Anchorage, and then a case study was conducted on governance models across the world and in-depth in the U.S. [slides 7-8].

MR. VENABLES paraphrased the reform initiative's mission statement: the AMHS should deliver safe, reliable, and sustainable marine transportation for its residents, visitors, and commercial customers [slide 9].

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SUSAN BELL, CEO, McDowell Group, explained that Phase II of the initiative involved a team from Elliot Bay Design group who focused on operations and were able to look at ferries from a business perspective [slide 10]. Addressing Representative Story's question, she said that McDowell group, with its understanding of and expertise in dealing with public corporations, "dove deeply" into the structure and benefits of said corporations, analyzing revenue and looking at the AMHS from different perspectives such as route, vessel, resident, and non-resident.

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MS. BELL referenced slide 11, which showed the AMHS carrying Alaska residents from 175 different communities. She pointed out that non-residents using the AMHS were using the system quite extensively. She added that 51 percent of non-residents were going to Anchorage, she added, 36 percent to Denali National Park, and 25 percent to Fairbanks [slide 12]. In slide 13, "Public Corporation Analysis," Ms. Bell pointed out that the reform initiative hoped to preserve the inter-departmental coordination, public purpose, and access to federal funding that have heretofore been a benefit of the AMHS being housed in DOTPF. It was also the hope that limitations of frequent turnover in senior leadership, the short-term planning horizon, and indirect labor negotiations would be addressed. Furthermore, she added that incorporating board expertise, including one member chosen from current AMHS employees; operating in a businesslike manner; aligning labor and management interests; and reducing labor costs strategically would all be additional benefits of moving to the public corporation model.

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MS. BELL imparted that in order to provide safe and reliable transportation given Alaska's geography and population, the AMHS would always require public funding. She added that a market analysis and more businesslike focus were needed for AMHS operations moving forward. Actions that can be taken while HB 249 is under consideration, in terms of empowering management to control costs, were also broken down: stabilizing funding; standardizing fleet and terminal; labor relations; board development; corporation development; employee communication; exploring new revenue sources; and communicating with the public [slides 14-17].

MS. BELL pointed out that through an economic impact study McDowell Group conducted it was determined that the AMHS provides local employment and wages, makes purchases from a wide variety of Alaska businesses, and is key to the seafood transport industry and community viability at large in terms of reducing the cost of goods and services with regard to time-sensitive shipping. The AMHS plays a key role, she added, in people moving from place to place for medical, recreational, and school-related travel reasons. She concluded by sharing some quotes from the report, which can be summed up by saying that the AMHS is critical to the community, economy, workforce, and even to the population stability of Alaska [slides 18-20].

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MR. VENABLES directed the committee to the 150 known public corporation initiative reform project sponsors, which include the State of Alaska, and which can be found in more detail on the website www.amhsreform.com. He added that it is timely to introduce HB 249 at this time as it is "in step" with the governor's "reshaping" report, which stated that privatizing the AMHS was "not likely," but that there did exist corporations which could be looked to as models. Mr. Venables pointed out that the Alaska Railroad Corporation also had state law and constitutional guidance to come up with a professional board [slide 22].

MR. VENABLES told the committee that [privatizing the AMHS] was not a new idea, referencing a letter from Nickum & Spaulding Associates, Inc., Naval Architects/Marine Engineers, from 1982, which points to the genesis of the process [of privatization] beginning in the early 1970s and 1980s when the professional marine architects and naval engineers were replaced by political

appointees. Mr. Venables added that nothing disparaging was meant by pointing out this change, but that the level of expertise was no longer always present, and that with a \$100,000,000-plus enterprise, expertise is a necessary component. He related anecdotally that "time and time again" the engineers were overruled by the political appointees when it came to ferry engine and part selection. These choices led to "extreme costs" for the state, he added. The report concluded that DOTPF engineers were very focused on land-based infrastructure needs, and for the AMHS's success it should be divorced from the DOTPF altogether. Contrasting with Governor Dunleavy's report, the Nickum & Spaulding report concluded: "It is not good management to expect bridge and highway engineers with their training to oversee marine operations and ship instruction with [ships'] broad base of technical requirements."

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REPRESENTATIVE CLAMAN asked whether a different reform bill had been introduced in a previous legislature.

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MR. VENABLES answered that HB 249 is a new rendition of House Bill 412.

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REPRESENTATIVE STORY asked Mr. Venables to summarize some of the models of other ferry systems that were looked at before the current model was chosen.

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MR. VENABLES replied that the Washington State model with its high volumes of traffic and the British Columbia model, to which the government provides a fee for its service, were looked at, as well as some models on the East Coast.

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CHAIR STUTES told the committee it was clear that with the ongoing maintenance and operational issues, it has been very difficult for DOTPF to make long-term decisions regarding the AMHS and its ridership. She added that HB 249 "opens the door" to conversations about restructuring the AMHS for the purpose of

creating stability within the system, but that it was imperative to act as communities are currently in a crisis situation.

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REPRESENTATIVE CLAMAN added that he has been wondering about the decisions to buy the fast ferries and the Alaska class ferries, which do not have the capability for the crew to sleep on them, and thinking about the benefit of going toward a corporate model in terms of internal operational consistency and the benefit of long-term planning instead of "just looking back in retrospect and wondering" why a certain decision had been made.

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REPRESENTATIVE STORY added that it was clear that the AMHS "[needed] a new start," and that people were ready for something that has the mechanism to take into consideration more stakeholder engagement. She also emphasized the short-term need and the work that must be done in the near term.

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CHAIR STUTES announced that HB 249 would be held over.

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ADJOURNMENT

There being no further business before the committee, the House Transportation Standing Committee meeting was adjourned at 1:45 p.m.