

SENATE FINANCE COMMITTEE  
February 20, 2019  
9:03 a.m.

9:03:06 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Lyman Hoffman  
Senator Peter Micciche  
Senator Donny Olson  
Senator Mike Shower  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Donna Arduin, Director, Office of Management and Budget;  
Lacey Sanders, Budget Director, Office of Management and Budget;  
Doug Wooliver, Deputy Administrative Director, Alaska Court System;  
Amanda Holland, Management Director, Office of Management and Budget;  
Senator Cathy Giessel;  
Senator Mia Costello; Senator Gary Stevens; Senator Shelley Hughes.

SUMMARY

SB 20        APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 20 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman informed that the committee would continue to consider a presentation from the Office of Management and Budget (OMB) on the governor's proposed operating

budget. He asked attendees to silence cell phones. He asked members to avoid pontificating and confine questions to financial aspects of the budget. He remarked that it was well understood that the budget work was being done at the direction of the governor through OMB, and the commissioners were catching up on the budgetary impacts within their departments.

Co-Chair Stedman discussed the subcommittee process and assured that commissioners would be back before the committee. In the meantime, the committee would hear from an economist working for the governor. He suggested that the committee would have a litany of questions. He had spoken with the economist the previous day.

Co-Chair Stedman asked members to treat guests in the committee with respect. He thought some decisions had significant impacts to legislative districts, and that some were complete policy change of directions since territorial days.

#sb20

SENATE BILL NO. 20

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; 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."

^DEPARTMENTAL REVIEW: MILITARY and VETERANS' AFFAIRS

[9:07:19 AM](#)

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself.

LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, discussed the presentation, "State of Alaska; Office of Management and Budget; FY 2020 Governor's Amended Budget; Presentation to the Senate Finance Committee; February 19, 2019; Director Donna Arduin" (copy on file).

Ms. Sanders looked at slide 10, "Department of Military of Veterans' Affairs."

Ms. Sanders discussed slide 11, "FY2020 Budget: Department of Military and Veterans' Affairs," which showed two bar graphs. She detailed that the total Department of Military and Veteran's Affairs' (DMVA) budget for the FY 19 Management Plan was \$58,126,500. The governor's amended total budget for FY 20 was \$58,674,100; an increase overall of \$547,000. The Unrestricted General Funds (UGF) were reduced by \$940,100. She continued that Designated General Funds (DGF) did not change, and equaled \$28,400 for both years. Other Funds increased by \$1,136,300. Federal funds increased from \$30,942,900 to \$31,294,300.

Ms. Sanders addressed the bar graphs on the right-hand side of slide 11, "Budgeted Position Comparison." She observed that the graphs reflected a change of permanent full-time positions going from 277 to 278. Permanent part time and non-permanent positions both decreased by two.

Ms. Sanders spoke to slide 12, "FY2020 Budget: Department of Military and Veterans' Affairs Snapshot (\$ Thousands)":

- Additional funding for Funeral Honor Support for Alaska Veterans (+\$50.0 GF)
- Delete funding for non-statutory/volunteer programs
  - Local Emergency Planning Committee (-\$300.0 GF)
  - Alaska State Defense Force (-\$210.9 GF)
- Delete Special Assistant to the Commissioner (-\$161.2 GF & -1 PFT)
- Statewide Support - Executive Branch 50% Travel Reduction (-\$103.3 GF)

Ms. Sanders commented that the slide was a high-level summary of the changes to the DMVA budget. She noted that the travel reduction was applied to all agencies, and the Homeland Security Emergency Management was excluded from the reduction.

[9:11:04 AM](#)

Senator Wielechowski referenced the reduction to the Local Emergency Planning Committee. He thought there were two statutes that required the state to have such a committee. He thought there was also a federal requirement that stipulated that funding for disasters go through a local emergency planning committee. He wondered how the state would manage if the committee was eliminated.

Ms. Sanders stated that the funding was subject to appropriation, and the Department of Homeland Security and Emergency Management could still continue to support the local emergency planning committees as they received funding through other sources.

Co-Chair Stedman asked about funding for the funeral honor support for Alaska veterans, and asked if it was for the Fairbanks Cemetery.

Ms. Sanders stated that the item was not related to the Fairbanks Cemetery, but rather for the coordinating travel and attendance for veterans at funerals.

Senator Hoffman asked if there were any programs in the DMVA budget that were non-statutory and were funded.

Ms. Sanders mentioned the Alaska Military Youth Academy (AMYA).

Senator Hoffman asked how much the state was spending on the program.

Ms. Sanders did not have the exact amount but offered to provide the information at a later time.

Co-Chair Stedman asked Ms. Sanders to provide the information along with a historical outlook on the program.

Senator Hoffman considered that the academy did provide good things for the state, but thought it needed to be weighed against things that were required in statute. He mentioned the recent earthquake in Anchorage and surrounding areas.

Ms. Sanders found that the total budget for the AMYA for the FY 20 proposed budget was \$9.4 million. She agreed to provide additional historical information.

[9:14:01 AM](#)

Co-Chair Stedman asked if Senator Hoffman wanted a policy discussion focused on spending prioritization in DMVA to ensure the state was taking care of potential emergency needs.

Senator Hoffman answered in the affirmative.

Co-Chair Stedman assumed that OMB would submit a prioritized list from departments for the subcommittee process.

Ms. Sanders stated that prioritized spending lists would be provided to subcommittees by the agencies.

Co-Chair Stedman asked Senator Shower to follow up with Senator Hoffman on the issue.

Co-Chair von Imhof observed that in UGF, the AMYA was \$4.6 million for FY 19, and proposed FY 20 funding was \$4.5 million, for a roughly \$100,000 decrease. She asked for OMB to include rationale for decreases in the reporting to subcommittees.

Ms. Sanders spoke to the reduction and noted that it was a fund source change from UGF to statutory designated program receipts. The AMYA would be reaching out to other entities such as non-profits and tribal corporations to see if there were donations available to fill the funding.

Senator Hoffman asked if the administration was going to submit the statutory requirements for the AMYA.

Ms. Sanders stated that was not one of the statutory changes that would be submitted.

Senator Wilson asked about the Alaska State Defense Force and the Local Emergency Planning Committee and inquired if the department would be seeking statutory changes.

Ms. Sanders stated that there were no proposed statute changes for the programs.

Senator Wilson explained that the United States Constitution allowed for states to establish militias that could be called up for disasters and other issues. He wondered if OMB was looking to fund a defense force through emergency funding the state had available or by other means. He wondered about the upkeep of the Alaska State Defense Force.

Ms. Sanders stated that DMVA would be equipped to answer the question. She knew that the Alaska Active Defense Force

was a component of the department. When there were disasters, the department was able to collect revenue to pay for members to be called in for active duty to respond to disasters or emergencies.

[9:17:29 AM](#)

^DEPARTMENTAL REVIEW: COURT SYSTEM

DOUG WOOLIVER, DEPUTY ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM, displayed slide 7, "Judiciary."

Mr. Wooliver turned to slide 8, "FY2020 Budget: Judiciary," which showed two bar graphs. He pointed out that the graphs on the left showed that neither federal receipt authority nor other categories had changed. He noted that the court system received about \$380,000 in federal receipts, most of the federal receipts went towards a court improvement project which went towards improving child protection cases. Another \$80,000 went towards supporting a therapeutic court in Palmer. The \$2.2 million in 'Other' funds shown on the graph was made up of interagency receipts and program receipts are was unchanged. He noted that every year the Alaska Mental Health Trust Authority (AMHTA) helped to sponsor therapeutic court costs, but every year the money came out of the budget then came back in. The funds were unchanged from the previous year.

Mr. Wooliver continued to address slide 8. He noted that the court system was primarily funded with GF, including \$518,000 in DGF received through the alcohol tax and used in some treatment in therapeutic courts. He pointed out that there were two main increments that the department had requested, including increased lease costs and funds to reopen on Friday afternoons. The first increment was just below \$400,000 for increased lease costs. The lease for the court facility in Bethel had recently expired, and the re-negotiated lease cost increased by \$164,000. The other part of the lease increase was for the Diamond Courthouse in Juneau, which had increased by about \$116,000.

Mr. Wooliver summarized that there was a total of \$393,000 in increased lease costs. The second increment requested was \$3.1 million to reopen courts on Friday afternoons. He reminded that in FY 17 the court system had opted to close courts on Friday afternoons as a way to save about \$2 million in personnel costs. There had been a 4 percent

reduction in time worked, as well as a 4 percent reduction in pay. The closure had not proven to be a significant bottleneck in the justice system. The closure provided advantages such as bench time for judges to complete administrative work, as well as free time for the other regular participants in court.

[9:23:39 AM](#)

Mr. Wooliver continued to discuss the requested increment for reopening courts on Friday afternoons. He identified the disadvantages of the closure; including the loss of hearing time, which added up to 26 days per year. There were some administrative problems such as delayed mail and other administrative processes. The department supported the increase. After hearing the governor's state address, the department had met with OMB, which said it would support a request to include the increase totaling \$3.1 million.

Mr. Wooliver showed slide 9, "FY2020 Budget: Judiciary Snapshot (\$Thousands):

- Trial Court - Re-Open Courts on Friday Afternoons  
(+\$3,098.0 GF & + 15 PFT)

Mr. Wooliver noted the increased employee count that went with the request for additional funding to reopen courts on Friday afternoons.

Senator Wilson asked if the budget reflected two Superior Court judges proposed in SB 41 [legislation passed in 2019 pertaining to superior court judges in the third judicial district].

Mr. Wooliver answered in the negative and explained that the amount was in a fiscal note attached to the associated bill.

Senator Hoffman noted that the budget was reduced by \$2 million by closing the courts on Friday afternoons, yet the request to reopen courts was for \$3.1 million. He asked if Mr. Wooliver could explain what was additionally being requested.

Mr. Wooliver stated that there were two parts to consider. The \$2 million reflected the four percent pay reduction;

additional funds were for reinstatement of fifteen employees.

Senator Hoffman asked about the Bethel court and asked about potential plans if the department did not receive the requested \$165,000 increase for the facility.

Mr. Wooliver stated that in the negotiated lease with the City of Bethel, there was an option to reduce the size of the court facility. The department would have to absorb the difference in funding.

[9:27:36 AM](#)

Co-Chair von Imhof understood the rationale to reopen the courts on Friday afternoons. She suspected that during the last year, time was utilized well despite the courts being closed. She asked how staff would make up for lost time with the courts reopen.

Mr. Wooliver reiterated that there were unanticipated benefits of the closure, but the biggest impact was the loss of hearings. He pointed out that judges worked long hours including weekends. By reopening on Fridays, the public would benefit. He explained that there were some efficiencies with closing on Friday afternoons, but reopening would move cases along more quickly.

Senator Wielechowski thought employees might like Friday afternoons off and asked Mr. Wooliver to discuss employee morale. He understood that the reopening would have minimal impact on public safety hearings. He knew emergency hearings were already being done.

Mr. Wooliver stated that the department had never polled employees as to whether they liked Friday afternoons off. He reminded that employees had taken a four percent pay cut and thought getting a full paycheck was important to employees. He affirmed there were still activities on Fridays such as emergency hearings, criminal arraignments, continuation of trials in certain locations, and issuance of search and arrest warrants.

Mr. Wooliver continued to address Senator Wielechowski's questions. He stated that the department had tried to mitigate the effects of Friday closures. The past year had the largest amount of felony filings in the state's

history. He acknowledged that the cases would be coming to trial in FY 20 and the courts would need hearing time to address them.

[9:32:07 AM](#)

Senator Shower noted that there were four crime bills in the legislature. He anticipated that passage of the bills would increase workload. He asked if there had been consideration of the potential increased workload based on how the crime bills were structured.

Co-Chair Stedman added that there had been concern in previous hearings that the budget would be sufficient to address tightening of the statutes and crime package. The committee wanted assurances from the court that it was prepared to handle the increased workload.

Mr. Wooliver stated there would likely be a fiscal impact on the bills, and there would be fiscal notes with additional workload information. He stated that the proposed Friday afternoon re-opening was a part of anticipated workload. The department anticipated increased criminal proceedings and wanted to be open Friday afternoons to address the matter.

Senator Micciche asked if the committee could receive information as to how decisions were made as to what required legislation was included in the budget. He wanted to understand how the decisions were made at OMB.

Co-Chair Stedman thought Senator Micciche could address the question to OMB after the testifier was done.

Mr. Wooliver added that the Court system did not build its budget around legislation that had yet to be introduced. Any increased cost would be shown in fiscal notes.

Co-Chair Stedman informed that the committee would be keeping tabs on the matter to ensure a balance between troopers, Village Public Safety Officers (VPSOs), and jail staff. He wanted to ensure that there no gaps. He mentioned public outrage.

[9:35:25 AM](#)

Senator Micciche observed that the crime packages were not included in the budget and would likely cause a substantial increase. He mentioned the oil and gas property tax. He asked how the decisions were made and asked about an expected addition to the budget if key bills were passed.

Ms. Arduin asked if Senator Micciche was referencing the governor's anti-crime bills.

Co-Chair Stedman answered in the affirmative.

Ms. Arduin stated that the governor had submitted a package of legislation dealing with the state's crime problem. The pieces of legislation had fiscal notes, which were included in the fiscal summary as part of the budget.

Co-Chair Stedman stated that the items would be extracted and listed under fiscal impacts to help committee members track the funds.

Co-Chair Stedman wondered how many more pieces of legislation the committee should expect from the administration.

Ms. Arduin asked for assistance from her staff.

[9:37:29 AM](#)

AT EASE

[9:39:24 AM](#)

RECONVENED

Co-Chair Stedman stated that the Legislative Finance Division was also working on a list of the governor's proposed bills and fiscal impacts, and he hoped to hear information in committee soon. He thought clarity was important. He requested that OMB help with Senator Micciche's question.

Ms. Arduin stated that the Department of Law was still working on a number bills. She estimated that there were approximately 16 bills, 4 of which had been introduced. The bills had fiscal notes and were not included in the appropriation bill that was submitted. The fiscal notes were included in the fiscal summary, and OMB considered them part of the budget.

^DEPARTMENTAL REVIEW: TRANSPORTATION and PUBLIC FACILITIES

[9:41:05 AM](#)

Ms. Arduin noted that she had been joined by the management director for OMB, who had recently been the Administrative Services Director for the Department of Transportation and Public Facilities (DOT).

AMANDA HOLLAND, MANAGEMENT DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, showed slide 19, "Department of Transportation & Public Facilities."

Ms. Holland discussed slide 20, "FY2020 Budget: Department of Transportation & Public Facilities," which depicted two bar graphs showing a summary of the budget. She noted that the DOT total operating budget for FY 19 was \$593,349,600. The total proposed budget with the governor's amended budget for FY 20 was \$533,126,500 for a difference of \$60,223,000. The GF difference between the two budgets was \$96,050,300.

Ms. Holland continued to discuss slide 20. For FY 19 that there was \$179,988,800 in UGF, and the DGF amount for FY 19 was \$98,821,000. The FY 20 proposed budget was \$122,788,000 UGF, and \$59,971,500 DGF. The difference in UGF between FY 19 and FY 20 was \$57,200,800. The difference in DGF was \$38,849,500.

Ms. Holland pointed out the green portion of the column on the graphs, which represented other funds. In FY 19, other funding totaled \$312,404,700; and in the proposed FY 20 budget other funds totaled \$348,757,000 - for an increase of \$36,352,000. The majority of the increase was for interagency receipts for the newly established Division of Facilities Services. Federal funding totaled \$2,135,100 in FY 19, and \$1,610,000 in FY 20 for a difference of \$525,100.

Ms. Holland discussed budgeted positions as shown on slide 20. She specified that there was four full time permanent positions and three permanent part-time positions removed from the budget. There was an increase of five non-permanent positions. She pointed out that most of the position movement reflected positions moving in and out of the department, primarily DOT positions that were moving to Department of Administration to the Office of Information

Technology as part of consolidation. There were some positions moving into DOT from other agencies as part of the facilities service's consolidation.

[9:46:08 AM](#)

Co-Chair Stedman expressed confusion. He mentioned functions of the department. He asked how the position count was the same when the department had budgetary implications of terminating the Alaska Marine Highway System (AMHS) and employees.

Ms. Holland stated that at the time, the budget proposed that AMHS would continue to operate, and the summer sailing schedule required vessels to be fully staffed. There would be AMHS positions throughout 2020. She continued that the plan for the entire run of FY 20 was being worked on. The governor had issued a directive the previous week, and DOT and the governor's office would be working together with an economic and marine consultant to identify options for how to reshape AMHS. The budget reflected the positions necessary to continue the sailing schedule as currently scheduled.

Co-Chair Stedman understood that the current schedule would terminate October 1, 2019.

Ms. Holland stated that the schedule planned to operate through the summer and then with reduced service for the month of September, and potentially with no service starting in October. However, AMHS continued to look at options of how it might readjust the sailing schedule.

Co-Chair Stedman asked if the committee could expect an amendment to come forward to keep the sailing of AMHS from October till the end of June.

Ms. Holland did not have an exact answer but did not rule out the possibility.

Co-Chair Stedman estimated that there were roughly 318 employees. He asked how to rectify the position count with potential termination of employees October 1. He was puzzled that the position count did not reflect the month of December.

Ms. Holland stated that AMHS operated on a regularly scheduled reduction in force. In October many vessels went into layup or overhaul status, and many employees experienced a reduction in force. She stated that OMB did not presently have the makeup of the reduction in force for October.

Co-Chair Stedman asked when to expect the reduction in force to be presented to the committee for consideration in the budgetary process.

Ms. Holland stated that the department and the governor's office would have a report to the governor for the AMHS plan, which was due August 1, 2019. The budget being considered ensured budget for all AMHS positions for the next three to six months. It was anticipated that through the plan there would be clear direction as to whether there would be a reduction in force or an elimination of positions.

[9:50:31 AM](#)

Co-Chair Stedman stated he would work with Senator Wielechowski and had many questions. He pointed out that his district was affected by AMHS.

Co-Chair Stedman recalled that in the end of territorial days and the early days of statehood there was work done on transportation. One of the first statewide bond initiatives was the implementation of the marine highway system for coastal Alaska. The marine highway was launched with ships that were still presently running. He discussed the lack of roadbuilding and AMHS serving as the main transportation corridor in coastal Alaska. He asserted that from a statewide policy perspective, the state wanted development of shoreside infrastructure improvements such as shipyards and boat repair. He discussed the history of shipbuilding in Alaska.

Co-Chair Stedman continued discussing the provenance and history of maritime infrastructure in Alaska, including AMHS. He emphasized that the shipyard was owned by Alaska Industrial Development and Export Authority (AIDEA) and therefore the people), and employed roughly 120 to 130 employees, with AMHS being the cornerstone of business. He asked if there had been dialogue with the shipyard regarding potential termination of AMHS.

9:54:15 AM

Ms. Holland had conversations with DOT but was not aware of conversations between the department and AIDEA or the shipyard. She deferred the conversation to the shipyard and the department.

Co-Chair Stedman noted that there was near completion of two new ships for the AMHS fleet, funded with mostly GF. He commented that there was substantial funding that came from federal highways each year to maintain and operate the ships and build and maintain shoreside operations. He asked about the budgetary impact on return request of federal funds for ceasing operation of AMHS ships. He added that the question also applied to any funds for the shipyard.

Ms. Holland was not aware of costs incurred through the shipyard. If vessels were not operating, vessels were in layup and were still staffed by crew for maintenance. She understood that as long as vessels were in the possession of the state, there was no federal payback required. She stated that the intricacies of the federal highway payback process were not in her area of expertise.

Co-Chair Stedman stated he would make a request of the department for further information. He mentioned two marine terminals built in Coffman Cove and one in South Petersburg. The run had not been financially successful and had been terminated, leaving the infrastructure in place. The federal government had wanted funds returned and had proposed to deduct the funds from federal highway funding.

Co-Chair Stedman continued discussing the marine terminals and federal highway funds payback. For several years the state consulted with federal highways to add periodic stops to the facilities so that funds would not have to be returned. He wanted the administration to consider and provide information about the federal fiscal impact of termination of AMHS. He questioned whether there was a plan for a special session in the fall to implement an AMHS operational budget from Oct. 1 to June 1.

Co-Chair Stedman mentioned the removal of a fuel component from \$20,600,000 down to \$4 million. He thought the reduction alone would terminate the existence of the marine highway.

[9:58:31 AM](#)

Senator Wielechowski stated that his district was impacted by AMHS, and he represented many military members that moved to and from Alaska. He was curious if there would be ferry tickets sold after October 1, 2019; or if refunds would be issued.

Ms. Holland had not checked with the department as to how it was advertising a schedule beyond September. She offered to provide more information at a later time.

Senator Wielechowski was curious how OMB had enlisted a qualified marine consultant. He wondered if there was an appropriation in the budget, what was the scope of work, what directive was given from the administration, and how the work would be paid going forward.

Co-Chair Stedman asked for Ms. Holland to broaden the answer to Senator Wielechowski's question to include why a new study was required versus using existing information. He thought it seemed that there were numerous studies on AMHS and wondered why a new study was required.

Ms. Holland acknowledged that numerous studies had been done addressing AMHS, which often had addressed specific topics. She referenced a 2016 study by the McDowell Group that addressed one aspect of AMHS operations. She mentioned a white paper crafted with the help of the Southeast Conference. She asserted that such studies did not necessarily look at the system as a whole and did not consider all available modes of transport in Alaska and all options for operation of AMHS.

Ms. Holland continued to address Co-Chair Stedman's question. She understood that department and the governor's office would be working to identify the competencies necessary for the qualified economic marine consultant. The consultant would be looking at all the options available, what was possible to reshape AMHS to a more sustainable and affordable system. She pondered that the finding could be a public-private partnership which could address some federal funding issues, or a different type of marine highway system.

[10:02:31 AM](#)

Senator Wielechowski did not see funding for a qualified marine consultant. He asked for a copy of a Request for Proposal (RFP) for the consultant.

Ms. Holland stated that an RFP had not yet been issued. She stated that RFPs were public, and she would share it with the committee when developed.

Co-Chair von Imhof referenced the studies that Ms. Holland had described as not being comprehensive to the whole system. She asked Ms. Holland if the administration had used any portion of the studies to help guide the decision to reduce funding for AMHS. She wondered what the administration used if it had not used the studies.

Ms. Holland stated that AMHS experts in the department were consulted when considering the possible budget changes for the FY 20 budget. The individuals were much more familiar with the results of the studies than she. The administration had worked with the department to discuss potential impacts of moving forward with the proposed budget.

Co-Chair von Imhof thought it was unfortunate that the individuals were not present.

Co-Chair von Imhof asked why there was a rush to cut tens of millions from AMHS rather than making reductions over a number of years, particularly to allow the consultant to finish the work.

Ms. Holland shared that when the state's fiscal situation was considered; OMB had talked with the department about its priority programs, core services, and how funding was split. It was found that DOT had over 90 percent of UGF residing in AMHS or in the Highways, Aviation, and Facilities Results Delivery Unit. In working toward a sustainable affordable budget, AMHS was identified as a system that was less efficient and effective in using its UGF. She considered that in 1992, the financial recovery rate for AMHS was a little over 60 percent. In 2018, the recovery rate was 33.3 percent. She thought that there had been a steady trend of recovery rate decline.

Ms. Holland pointed out that AMHS had reached its peak ridership in the early 1990s, at just over 450,000

passengers. In 2016, ridership averaged just over 250,000 passengers. The trend line for passenger ridership had consistently declined. She continued that vehicle ridership had remained consistent since 1988, at roughly 100,000. She relayed that it was necessary to examine if the state could afford to keep AMHS in its current state with large vessels serving 35 communities year-round.

10:08:05 AM

Co-Chair Stedman stated that AMHS roughly grossed about \$50 million per year. He thought there had been a GF appropriation at the table for considerably more than \$50 million. He thought currently the appropriation was somewhere close to \$70 million. He recalled working to increase efficiencies of the system while balancing the cost of maintaining older ships while trying to accelerate the construction of new ships. He mentioned two new ships tied to the dock and almost completed and ready for delivery.

Co-Chair Stedman continued his remarks. He opined that the state was faced with a budgetary proposal for elimination of AMHS. He thought the administration was proposing an entirely different discussion than bringing the GF appropriation amount down to the fair box return. The historic target had always been dollar for dollar to the fair box. He thought it was possible to run a reduced schedule while keeping vessel maintenance and certifications intact while going through the analytical process of policy decisions.

Co-Chair Stedman mentioned that there had been a transportation struggle on Prince of Wales Island. He recounted that the state had helped subsidized a private operator of two ships that ran a route from Ketchikan to Hollis. The state had been subsidizing the operation about \$250,000 per year. He wanted to see the budgetary position for dealing with the inter-island ferry. He thought the model would be an easy example of what privatization looked like.

Co-Chair Stedman recounted that several years ago the committee had requested the delivery of financial documents so that the OMB director could monitor the fiscal position of the inter-island ferry and use the information for budget considerations.

[10:12:54 AM](#)

Ms. Holland knew that the department had factored in the Inland Ferry Authority in its analysis of all options regarding reshaping AMHS.

Co-Chair Stedman believed that if the state had not stepped in, the inter-island ferry transportation system would not exist.

Senator Bishop asked if OMB had anticipated the amount of ticket refunds that would be necessary because of advance bookings. He discussed the importance of published ferry schedules, and wondered about the notification of the travelling public.

Ms. Holland knew the department had factored in its published sailing schedule and existing reservations into its plan for how it would operate under the proposed FY 20 budget.

Co-Chair Stedman added that reservations and marketing for FY 19 was around \$2.52 million, while the current budget proposed \$631,000. He asserted that the marketing cut alone, combined with the fuel adjustment; communicated that there would be termination of AMHS on October 1. He asked how the reservation system would be rejuvenated if AMHS was shut down.

Ms. Holland understood that the department had converted to an online reservation system and had gradually increased the amount of online reservation passengers, which did not require as much staff. She stated that AMHS was considering all options. She thought it was entirely possible that sailings would continue but were more infrequent. She thought the consultant would consider how to best use the resources allocated.

[10:17:02 AM](#)

Co-Chair Stedman had a concept problem and thought the budget proposal looked like a termination and liquidation. He did not conceive of how the system would be reinstated if the analytics showed it would be better to run a reduced system and privatize portions of service. He pondered how to get the system up and running if the legislature was not

in session. He thought there would be many questions for the commissioner of DOT, and thought it was likely that the subcommittee meetings for DOT would be live on camera. He wondered how to change the system to have a skeleton system without a special session for an appropriation. He thought it would be difficult to have an item of such magnitude in the supplemental budget.

Ms. Holland deferred the question to DOT. She asserted that the department had a much more in-depth knowledge of AMHS operation particulars.

Senator Bishop noted that constituents were watching the meeting. He mentioned Senator Wielechowski's earlier comment and emphasized that Interior Alaska relied on AMHS. He reiterated that AMHS was important and he wanted to help to try and find the best resolution.

Senator Wielechowski reported that he had looked up the AMHS reservations system on the internet, and the system showed no runs after September 30, 2019.

Senator Wielechowski recalled that the governor had been in Ketchikan 11 days before the gubernatorial election and had said categorically that he did not support cutting AMHS. He wondered what had changed in the previous three months.

Co-Chair Stedman thought the question was best posed to the governor himself. He referenced an editorial with several quotes in the Ketchikan paper.

[10:20:56 AM](#)

Senator Shower had an email in which the department specifically stated it planned zero ferry transport from October to June.

Co-Chair Stedman asked for the date of the email.

Senator Shower stated that the email was from earlier in the day.

Senator Shower relayed that the final exercise he completed before retiring from the military had been a Federal Emergency Management Agency (FEMA) exercise. The exercise had demonstrated that without ports, people would die because of lack of access to goods. He thought it was not

possible to live with airports alone. He mentioned the Berlin airlift as a means of comparison. He had brought up the matter because he observed that rural airport evaluation had been cut. He thought it seemed very clear that it was not possible to keep a community alive without heavy transport such as a ferry. He thought shutting a ferry down for the winter was stranding people. He asked about the proposed study, and wondered about the rural airport evaluation and airport support for communities. He thought the study should consider the availability of supply service through airports.

Co-Chair Stedman thanked Senator Shower for his comments. He discussed the importance of food and medical supplies being available. He suggested discussion of rural airports when the commissioner was present.

[10:24:49 AM](#)

Senator Micciche felt that the state was on hold. He wanted to support dramatic reductions in the budget but thought there was a lack of planning. He used the analogy of jumping from a plane without a parachute. He needed much more information in order to support the proposed reductions. He did not hear a plan being presented.

Co-Chair Stedman discussed the schedule for the following day. He would work with Senator Micciche to help support a slight tweak of the budget to ensure AMHS had skeletal operations through the winter.

Co-Chair Stedman thanked OMB for coming to the meeting. He acknowledged the difficult topic. He was concerned about collateral damage to shipyards when dealing with AMHS. He thought the governor was equally concerned because the state wanted to expand its job base.

SB 20 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[10:27:16 AM](#)

The meeting was adjourned at 10:27 a.m.