

SENATE FINANCE COMMITTEE
March 16, 2022
9:02 a.m.

[9:02:11 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Ryan Anderson, Commissioner, Department of Transportation and Public Facilities; Rob Carpenter, Deputy 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.

PRESENT VIA TELECONFERENCE

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

SUMMARY

PRESENTATION: ALASKA MARINE HIGHWAY SYSTEM BY DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES

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DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES

9:02:37 AM

Co-Chair Stedman relayed that the committee would consider a presentation on the Alaska Marine Highway System (AMHS). He noted that there were significant changes coming up for the calendar year 2023. He noted that the new commissioner was present. He asked the commissioner to introduce himself and discuss his background.

9:04:01 AM

RYAN ANDERSON, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced himself and discussed his background. He was a 1993 graduate in geological engineering from the University of Alaska Fairbanks. He had worked at the Greens Creek Mine for three years, and then started with Department of Transportation and Public Facilities (DOT) in Fairbanks in 2000. He had worked in design and construction, and the previous five years he had been director of the Northern Region. The work had included maintenance and operations, design, construction, and planning. He commented on the large size of the region, which was north of the Alaska Range. He appreciated his time travelling to rural communities to meet the people and gain a greater understanding of the state's unique features. He hoped he could use the knowledge and still learn more about the state.

Commissioner Anderson continued to give his opening remarks. He had been appointed as commissioner-designee in September. He recounted a trip to Ketchikan to meet AMHS staff and learn about the system. He reported being on a learning curve for the previous five months. He thought there were good things that had happened. He mentioned the saying "steering the course towards reliability." He mentioned disruption in the system over the past winter, and the realization was that people wanted reliability from the system. He mentioned the advantage of forward-funding schedules, which the legislature had approved the previous year. He discussed the Alaska Marine Highway Operations Board (AMHOB), which had been approved by the legislature the previous year. He mentioned putting crew quarters on the M/V Hubbard, which would provide greater flexibility.

Commissioner Anderson discussed challenges with service in the winter of 2021-2022 and highlighted some supplemental service contracts and getting the M/V Tazlina running. He mentioned Prince Rupert. He explained the state was making progress with the sale of the M/V Malaspina. He referenced the Infrastructure Investment and Jobs Act (IIJA). He mentioned soliciting a contractor for a replacement vessel for the M/V Tustemena. He referenced an additional \$15 million in federal ferry funds that would be well utilized. He referenced a potential \$200 million discretionary grant for rural ferry programs and looked forward to more information coming out on the topic. He mentioned the desire to make good investments for the future.

[9:08:36 AM](#)

Commissioner Anderson mentioned SB 226 [a bill proposed by the governor establishing the Alaska Marine Highway System Fund and the Alaska Marine Highway System Vessel Replacement Fund outside the general fund] and establishing a way to put funds away to make AMHS more sustainable for investments in the future. He highlighted that workforce was the system's toughest challenge and asserted that the department would keep working on the issue.

Co-Chair Stedman commented on the many years the members had worked on the committee. He explained that the members dealt with DOT every year in the operating and capital budget. He discussed the DOT regions of the state, and recognized that the Northern Region seemed to be the most efficiently run region of DOT. He highlighted that the region was very competitive in putting forth requests for federal funds. He mentioned that some members had concerns about other regions and about wanting the culture of the Northern Region to spread to other regions. He thought it was beneficial to DOT that the commissioner had come from the Northern Region. He thought the subject had been worked on by the commissioner's predecessor. He welcomed the commissioner and relayed that the committee looked forward to working with him, particularly on the coming infrastructure package, which would take a great deal of effort from DOT.

[9:11:39 AM](#)

Senator Olson commented on the commissioner-designee's youthful vigor and asked about Commissioner Anderson's a

vision for the department, particularly with regard to AMHS.

Commissioner Anderson thought in the short term, it was essential to shore up the system to ensure it could do its job as-is. He continued that the department had discussed future economic development in the area along the Western coast of the state up through Barrow. He mentioned America's Marine Highway Program, administered by the United States Department of Transportation Maritime Administration (MARAD). The MARAD routes currently went up through the inside passage and out to the Aleutian chain. He noted that DOT was currently in discussion with the City of Nome and others to extend the route up past Barrow, which would open up more grant opportunities for local governments. He relayed that the current focus of AMHS was on the communities it currently served.

Senator Olson asked if Commissioner Anderson was considering running ferries towards the Bering Strait.

Commissioner Anderson stated, "no, not at this time."

Co-Chair Bishop stated that Commissioner Anderson was extremely qualified and welcomed him on board. He addressed Senator Olson's question, and stated he had seven AMHS studies in his office. He mentioned a two-ferry system in the Yukon.

Senator Wilson noted that the administration had just proposed a bill to restore some of the funds that were swept from passenger fees. He asked Commissioner Anderson what DOT was doing in the building to advocate for restoration of the funds, as well as other swept funds.

Commissioner Anderson thought the administration was looking for any opportunity to preserve funds to invest. He commented on the importance of the sustainability of the system. He spoke to the capital needs of the system and aging ships. He mentioned challenges with Buy America and looking at ways to leverage state funding.

Co-Chair Stedman explained that Senator Wilson's question was part of the upcoming presentation, and the committee would be discussing the matter when it considered the operating budget.

9:16:06 AM

ROB CARPENTER, DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced himself. He thought the commissioner had touched on many of the issues.

Co-Chair Stedman stated that the goal was to get the AMHS out of Ketchikan and as far up the coast as possible.

9:17:10 AM

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the presentation "Alaska Department of Transportation & Public Facilities - Senate Finance Committee - Alaska Marine Highway System - March 16, 2022" (copy on file). He looked at slide 2, "Forward Funded Budget Structure," with three tables entitled 'AMHS OPERATIONAL LAYERS,' 'Current Budget,' and 'Governor's CY2023.'

Mr. Pannone spoke to slide 2. He reminded that the previous year the legislature had forward funded the ferry system in two ways. System funds had been removed from the current budget to be replaced with Covid-19 relief funds, which allowed monies to accumulate in the AMHS Fund in the current year and allowed the system to operate without revenue uncertainty. The second mechanism of forward funding was to shift the budget to a calendar year by adding an additional one-time six months funding appropriations. The extra funding extended the budget further into the future, allowing for future planning and publishing of a full-year schedule shortly after the budget was finalized. He asserted that the forward funding made the system more reliable and increased overall revenues, as well as removing the fiscal year budgetary break in the middle of the ferry system's summer season.

Mr. Pannone continued that the forward funding provided more time for the system to plan and respond to decisions made in the budgetary process, unlike past years. He contended that with continued annual 12-month appropriations, AMHS would remain on the calendar year with extended visibility into the future. He noted that the top graphic on slide 2 showed the structure of the budget. The first row showed the first release of the 12-month

schedule. Row 3 showed the initial 18 months of funding DOT received, and there was a six-month bridge appropriation and a 12-month calendar year appropriation. On row four, the red marker showed the current period, and the yellow bars denoted the budget being discussed during the presentation, which would go into effect in a little over nine months.

Mr. Pannone continued to address slide 2. He noted that the tables at the bottom correlated with the bars above and showed the current budget as highly dependent on Unrestricted General Funds (UGF) and Covid-19 relief funds. The governor's proposed budget was shown to be heavily reliant on federal funds, which would be discussed in the following two slides.

[9:19:49 AM](#)

Mr. Carpenter spoke to slide 3, "CY2023 Governor's Proposed," which showed a pie chart. He explained that DOT's FY 23 budget request \$141.7 million, of which \$135.9 million was federal funding provided by IIJA, and a portion of \$5 million DGF AMHS funds to cover non-federally eligible costs such as marketing. He explained that the quote "All ships, all the time." was meant to signify that the budget going forward, which reflected running all the ships with no scheduled budgetary layoffs and including overhaul time.

Mr. Carpenter referenced slide 4, "Infrastructure Investment and Jobs Act (IIJA) SEC. 71103 - FERRY SERVICE FOR RURAL COMMUNITIES":

\$200M per annum, available nationwide, for five years.

Ensures basic essential ferry service is provided to rural areas.

Operators must have operated a regular schedule during the 5-year period ending March 1, 2020 and served at least two communities with a population of 50,000 or less, located more than 50 sailing miles apart.

Awaiting further criteria on program.

Mr. Carpenter relayed that the department was fairly confident it would receive a substantial amount of the

rural ferry funding described on the slide. He thought there was a notice of funding opportunity that would come out in April and provide greater detail. He was not certain if matching funds were required. There was a June application date for funding awarded in August and transmitted by December. The department had an additional amount of ferry boat discretionary funding through the infrastructure act, which was normally about \$16 annually and would provide roughly \$25 million. He estimated that a significant amount could be invested in infrastructure and vessel needs after operating expenditures.

Senator von Imhof Infrastructure thought IIJA funds were a significant windfall for AMHS. She thought the funding would buy the system time but would not solve existing problems of the high cost of running the system. She asked about the department's plan after the IIJA funds ran out.

[9:23:37 AM](#)

Senator Olson considered the rural ferry system funds of \$200 million per year for five years, which he thought was substantial. He considered ports and docks and thought smaller towns might not have the infrastructure to receive ferries.

Mr. Carpenter relayed that the language to provide eligibility for the rural ferry funds stipulated that the system must serve populations of 50,000 or less and were 50 miles apart. After establishing eligibility, the funds could be used for any port in the system.

Senator Olson asked about the ability to put capital projects in such as dredging and docks.

Mr. Carpenter stated that the funds were intended for rural ferry systems and therefore AMHS facilities. He thought building new docks in rural communities with an intent to serve the communities could be an option.

Senator Wilson thought the Commissioner Anderson had mentioned the part of the IIJA funds would be for development of a new vessel. He asked about the development of the new vessel and recalled that the previously built vessels were not designed for the docking facilities in Southeast. He asked how the proposed vessels would be built.

Commissioner Anderson explained that the current Tustumena Replacement Vessel (TRV) had been extensively designed (including public comment) to serve every port currently served by the M/V Tustumena. The vessel had the same elevator design as the Tustumena. He believed the ship was designed to service every port that was needed. The intent was to build a ship to serve every part of the system. The project was in the final design stage. He agreed that ferries needed to be versatile.

[9:27:22 AM](#)

Senator Hoffman referenced the second line of slide 4, "ensures basic essential ferry service is provided to rural areas" and serving communities with populations of 50,000 or less. He addressed the topic of underserved areas, such as Kodiak and the Aleutian Chain. He thought Western Alaska was underserved and considered expanding service to the area to four times per year. He asked why the state was not looking at the underserved instead of considering communities 50 miles apart. He thought the plan might be short-sighted.

Co-Chair Stedman asked for an explanation of the stipulation of serving communities 50 miles apart, and to address what other states might qualify for the funding.

Mr. Carpenter noted that the point about communities 50 sailing miles apart was qualifying language from IIJA. He relayed that the department was struggling to find any other states that qualified for the funds. He was confident that Alaska would get the majority of the funding. He relayed that the department was open to discussion regarding underserved parts of the state.

Senator Wielechowski thought the railroad was looking for \$60 million in bonding authority for some dredging and a new dock and terminal in Seward. He wondered if DOT was looking for opportunities in which to get involved in a public-private partnership with the cruise ship industry or the railroad. He thought some long-term returns could be generated. He wondered if the IIJA funding could be used in such a way.

Mr. Carpenter relayed that the department was considering options but was focusing on getting reliable vessels and a

reliable system. He hoped the new AMHOB would be able to look towards a longer-term vision and other investment opportunities to expand or improve the system.

[9:31:41 AM](#)

Senator von Imhof thought Senator Wielechowski had relayed some of the same things she was thinking. She pointed out that looking north from Ketchikan there were communities that were farther along in having shovel-ready projects. She used the example of Cordova, which had significant community involvement and was bonding itself for a new port. She hoped DOT was cognizant that more communities were more involved and would bring success quicker. She contended that Cordova was ready to move forward and hoped the department could work with the community and perhaps provide an example.

Senator Hoffman wondered if the department felt that the state needed to consider underserved areas and the potential to use the opportunity of federal funds to address the issue. He pondered that the state should use state funds to get three to five ships per year to the underserved areas, to stabilize the system. He thought at the least the system could provide some stability and expansion rather than expanding the system.

Co-Chair Stedman understood that the first ship that would be replaced was the cross-gulf ferry.

Mr. Carpenter affirmed that the first ship to be replaced was the M/V Tustumena, which would be able to go cross-gulf.

Co-Chair Stedman thought Senator Hoffman's point was that expanding the cross-gulf trips to Dutch Harbor for example. He asked the department to get back to the committee with information regarding the number of trips per year over time in order to see how the service many have changed. He was interested in background information on how to serve communities. He thought there was interest in service to Prince Rupert and cross-gulf. He thought there was also a necessity for a conversation about the next ships that would be replaced, and what areas would be served.

[9:36:37 AM](#)

Senator Olson considered the additional cross-gulf sailings and asked if there was business in Dutch Harbor to offset state costs.

Mr. Carpenter relayed that the department's perspective was that the cross-gulf journey was from Skagway across to Whittier. From Whittier the M/V Tustumena would usually go to Kodiak and out the Aleutian Chain, as well as the M/V Kennecott when it was in service. He acknowledged that the run was not a "money maker," and emphasized that DOT believed the AMHS was an extension of the highway system. He cited that challenge of the equipment to provide the service to the whole system. With the M/V Tustumena in layup, the M/V Kennecott was limited to how often it could go to the Aleutians. He thought the M/V Kennecott was scheduled to go to the chain four times per summer, and he thought there was a desire to double the amount of service. He was not opposed to additional service if there were available ships. He recounted that AMHS was using supplemental service utilizing catamarans locally in order to improve service. The system was not opposed to providing additional service.

[9:38:50 AM](#)

Mr. Pannone turned to slide 5, "CY2023 Governor's Proposed Budget," which showed two tables. He thought the slide provided context of the AMHS budgets over the previous four years, including levels, planned service levels, and actual service levels. The first table showed planned service levels. The department planned on having a significant increase in weeks of service for calendar year 2023, and the number signified the upper ceiling of what AMHS could deliver. The next row showed actual weeks of service by year, which could be reduced by longer-than-planned overhauls, mechanical failures, pandemics, crew shortages, and acts of God or nature.

Mr. Pannone addressed the bottom table on slide 5, which showed the fund makeup of the budgets by year, with the far column showing comparison and hoped increases. He summarized that the calendar year 2023 budget was an increase of funding to AMHS of \$23 million in operating funds and a significant service level increase was planned.

Co-Chair Stedman asked for Mr. Pannone to walk through the budgetary process before moving to the next slide. He asked

for explanation on the budget fund sources. He mentioned considerations including different federal funding sources. He asked Mr. Pannone to address the table on the bottom section of the slide.

Mr. Pannone addressed the table on the bottom of the slide. He pointed out that the funding for the calendar year 2022 budget showed \$63 million in UGF, \$5.4 million of Designated General Funds (DGF) from motor fuels tax, and \$1.3 million in other funds. He noted that \$112 million was Covid-19 relief funds in the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). In the calendar year 2023 budget, the department was utilizing farebox receipts from the AMHS Fund for items that were not federally eligible.

Mr. Pannone continued discussing the budget items listed on slide 5. There was \$859,000 in capital improvement project receipts to pay the engineers and project managers that worked on overhauls and were doing designs for the TRV. He cited that the \$135 million was rural ferry service funds from IIJA, which was from the \$200 million available every year. There was also language in the governor's proposed budget that would allow the department to access up to \$20 million of its own revenue if the federal funds were unrealizable for any reason.

[9:42:48 AM](#)

Co-Chair Stedman asked about the \$135 million in rural ferry funds. He referenced slide 4, which discussed grant awards. He asked if the funds were more for capital expenditures and asked if the funds would be available July 1.

Mr. Pannone explained that the funds were for operating funds. The Federal Transit Administration (FTA) would put out a notice in April, which DOT would apply for in June and hopefully receive in August. The funds would be for operating expenditures and would be \$135 million.

Co-Chair Stedman asked Mr. Pannone to address the schedule, and the cash flow for the system in the summer. He referenced back-fill language in the budget, and how to make the transition while having the ability to make payroll for AMHS while waiting for the federal funds.

Mr. Pannone explained that as of now the department had funding for the rest of 2022 as part of the initial forward funding process. The system had received 18 months of funding at the beginning of the current fiscal year. The system was funded and had a budget until the beginning of 2023, shown in the yellow square on the slide. He cited that the department would receive the funding before the budget being discussed. If there was a delay in federal funding, the system would have \$25 million of its own revenue until the funding was received.

Co-Chair Stedman asked if the \$25 million would serve as supplemental monies starting in January. He relayed that there was concern about the transition in funding. He drew attention to slide 5 and the \$182 million in the bottom column of 2022. He referenced transitioning to an 18-month budget for one year in order to budget on a calendar year.

Senator Hoffman looked at the second line of the first graph on side 5, showing actual weeks of service. He relayed that Co-Chair Bishop pointed out that in the past the system had more than 400 weeks of service, and in calendar year 2022, there was a bit more than half of the amount. He wondered how much service was planned for 2023. He asked how much money was in the budget from the Marine Fuels Tax. He asked for an estimate of actual weeks of service for 2023.

Mr. Pannone stated that the department planned for 362 weeks of service for calendar year 2023. If there was an unexpected mechanical failure or other unplanned event, the number would go down. He noted that there was no Motor Fuels Tax in the AMHS current budget, and the funds had been moved to the Highways and Aviation component. The calendar year budget had \$5 million in DGF AMHS Funds.

[9:47:54 AM](#)

Co-Chair Bishop pondered that \$135 million of the \$200 million in IIJA funds would be spent in the proposed budget. He asked about the remaining \$65 million.

Mr. Pannone thought the department hoped to formulate a plan to put the funds towards capital needs, assuming the department received the full \$200 million in funding.

Senator von Imhof expressed worry about reduced funding in five years. She observed that there were 611 port calls planned for 2023, which was higher than any other year. She was concerned that the department would be building back an efficient and robust system but hoped there was a plan for the future.

Co-Chair Stedman thought the committee needed to discuss Senator von Imhof's concern and what would happen in five years if the federal funds were not extended. He wondered about competitors for the \$200 million. He asked Mr. Pannone about the federal language changes and access to other DOT capital improvement funds.

Mr. Pannone relayed that the department had looked at 197 other ferry systems, none of which had routes that would meet the qualifying criteria for the funds. For the purposes of the budget, the department had proposed a basis of running all the ships with no budgetary layoffs. There were other increases for discretionary ferry boat funds that would go to AMHS' capital program, and other capital opportunities for funding coming through IIJA.

Co-Chair Stedman wanted to make all the funding and structure clear to members, in order to see all the options for DOT accessing funds.

[9:51:25 AM](#)

Mr. Pannone considered slide 6, "6AMHS Revenue & Weeks of Service FY2014 - CY2023," which showed a bar graph depicting system revenue over the yearly quantity of weeks of service. The bars showed a significant dip in revenue and weeks of service during the "Covid years" in FY 20 and FY 21, and calendar year 2022 was slowly coming back after the pandemic. He thought the takeaway was to show AMHS planned on bringing service levels back up significantly in calendar year 2023, with a service level that looked closer to 2015 and 2016.

Co-Chair Stedman referenced graphs from the Department of Revenue and was glad to see the AMHS numbers were lower than the star shown on the top of the graph, which would have been a lofty goal. He thought there was concern about how the ships would be staffed.

Mr. Carpenter displayed slide 7, "Historical Revenues and Operating Costs," which showed a bar graph entitled 'AMHS Fare Box Recovery Rate 1992-2023 Gov.' He thought the slide provided historical reference to the revenue and operating costs, as well as the farebox recovery rate. He noted that the salmon-colored bar represented AMHS revenue generated over time. He noted that the numbers were adjusted for inflation and shown in 2021 dollars to reflect the additional buying power of the earlier years. The upper blue portion of the bar represented non-revenue funding sources, which was historically composed of UGF and a few other fund sources. He thought it was shown that the 2023 budget was reverting back to years prior to the significant spike in the 2000s.

Mr. Carpenter indicated that the farebox recovery was shown by the yellow line on the graph, with a percentage of the total budget covered by revenue shown on the right axis. He observed that in the early 1990s the percentage was upwards of 60 percent, with a significant drop in the 2000s as the budget went up and returned to a 35 percent to 38 cost recovery ratio. The last two bars on the right side of the graph showed the most recent years, with a budget that was entirely funded with federal funds.

[9:55:05 AM](#)

Senator von Imhof asked if the department had considered the fares in the current year in light of inflation and the cost of fuel.

Mr. Carpenter stated that the department had not considered fares in the current year. He described that fares were a challenging topic. He recounted that in recent years, the system did a "levelizing" of fares that were equated to different routes, which had priorly been random. He mentioned the concept of dynamic pricing, which was not popular but generated more revenue for the system and would be discussed further.

Senator von Imhof thought the fares had not been adjusted to 2021 dollars, while costs had gone up. She acknowledged people would complain about raised costs and highlighted the cost of gas and labor.

Co-Chair Stedman thought many people served by the AMHS were concerned about affordability, especially with regard

to vehicles. He agreed that cost was an area of concern. He thought if the service was too expensive, it would not be used. He asked Mr. Carpenter to speak to dynamic pricing.

Mr. Carpenter did not know details about dynamic pricing. He explained that as the car deck filled, it would cost more and more to book a vessel. Similarly, passenger service would cost more as space was sold. He thought the pricing was currently still implemented. He pondered that the pricing was dependent upon the legislature and the direction the new board would want to go. He would have thought two years previously that the system was pushing towards a 50 percent revenue recovery, but he was not sure that was currently the case. He thought the direction of AMHS needed to be identified.

Co-Chair Bishop asked if the generated revenue shown on slide 7 was farebox revenue.

Mr. Carpenter answered affirmatively.

Co-Chair Bishop asked if the non-generated revenue fund source was UGF.

Mr. Carpenter answered that the non-generated revenue was primarily UGF.

[9:59:04 AM](#)

Senator Hoffman understood Co-Chair Stedman's comments about moving vehicles to Bellingham, and the price being too high. It had been brought to his attention moving a new vehicle via the AMHS was about 20 percent of the cost of if you moved it through Northland. He hypothesized about moving a vehicle from Haines to Juneau and considered the difference in price between a private business and the AMHS. He thought no one would use the commercial service because the ferry was super subsidized and would cost 20 cents on the dollar. He thought there was room to look at the rate structure. He mentioned differentiating between a person that was travelling with a vehicle versus not. He thought there was room to look at the service, which could represent lost revenue.

Mr. Pannone highlighted slide 8, "AMHS Funds and Sweeps":

Alaska Marine Highway System Fund (1076)

AS 19.65.060, AS 37.05.550
Sweepable: Yes
Swept Amount: \$0

Capitalization Account (3225)
subaccount of AMHS Fund
Sweepable: Yes
Swept Amount: \$2,629.4

AMHS Vessel Replacement Fund (1082)
AS 37.05.550
Sweepable: Yes
Swept Amount: \$18,477.9
Balance: ~\$28M
•\$2.6M Ocean Going Vessel, Planning & Design
(\$10M -FY2014)
•\$22M Ocean Going Vessel, Construction Match
(\$22M -FY2018)
•\$3.4M Title 23/Federal Share of Vessel Sales / Other

SB 226 - Relocates AMHS Fund outside of General Fund
Balances not subject to sweep or further appropriation

Mr. Pannone summarized that slide 8 covered the system's sweepable funds and the accounts related to AMHS. Revenue was automatically deposited into the AMHS fund. There was nothing swept in the previous week because of obligations for the capital of the fund. He noted that the \$28 million balance from the AMHS Vessel Replacement Fund was not swept and was appropriated for the design and construction match for the TRV. There were also receipts in the fund from the sale of the fast ferries, which were federal funds and had to remain in the fund to be spent on future vessel replacement.

[10:03:04 AM](#)

Senator Wilson asked what the department was doing to educate about the importance about having the funds reestablished outside the General Fund. He thought the state was technically breaking the regulations around the use of the AMHS Vessel Replacement Fund.

Commissioner Anderson thought there was a broad awareness that there was an opportunity over the following five years to have the revenues accumulate in the funds to create an

opportunity for a longer-term strategy. He referenced legislation that would protect the accounts from the sweep. He discussed the governor's bill, which proposed to bank the federal rural ferry funds for a future long-term plan. Under the bill, the AMHS funds were no longer deposited into the new account, but rather appropriated into the account so that further spending would be allowable without further appropriation. The proposed change would get the fund around the requirements of the sweep, but the legislature would control what went into the fund.

Senator Wilson had not seen any other information beyond introduction of the bill and the presentation. He asked what the department was doing to reach out to other legislators.

Mr. Carpenter thought the department's legislative liaison would be making the effort to provide details on the benefits of the legislation, as the bill was a priority of the governor.

Co-Chair Stedman thought there were a couple of different concepts that the committee needed to work through to focus on the goal. He thought there were some concepts that would give the little more control over the funds also. He spoke to the disagreement the legislature had with the administration regarding the sweep. He relayed that the legislature would be working on the matter with the legislative auditor while doing residual cleanup of the accounting actions that took place when some funds were scooped before the sweep.

[10:06:38 AM](#)

Mr. Pannone looked at slide 9, "Fuel Calculations":

Fuel calculations based on Oil Price Information Service (OPIS), Cost = OPIS Pricing + Delivery Charge

CY2023 budget built on \$2.36/gal (8.4M/gal = \$19.9M),
FY2021 Averages were \$2.21/gal

7/1/2021 to 3/11/2022 average is at \$2.90/gal

Fuel expenditures vary significantly by ship

Mr. Pannone explained that the actual cost of fuel could often be varied because of the fuel expenditures varying by ship.

Co-Chair Stedman thought the fuel estimate seemed a little light. He asked if there would be a potential adjustment to the numerics for a request in the budget. He thought it was optimistic to be able to buy fuel in 2023 with the prices shown on the slide, considering what was going on in the world. He mentioned a fuel trigger, to insulate for the potential impact of fuel cost.

Mr. Carpenter relayed that the department was open to discussions and mentioned that fuel was a liability.

Co-Chair Stedman requested that the department review the FY 23 price projection for fuel and come back to the committee with what the department felt was a reasonable target range. He thought there had been many dynamic changes since the budget was together in October and November.

Co-Chair Bishop asked for information about the fuel burned per hour by ship.

Co-Chair Stedman requested the commissioner look at the operating budget for the department and consider expected fuel needs because of the large amount of equipment in DOT. He commented on the significant change in the fuel market. He wanted the information for the budget process. He thought it would be malfeasance to use a price of \$2.30 as a fuel price when the price of oil had hovered from \$80/bbl to \$90/bbl and a few days ago was at \$100/bbl.

Commissioner Anderson agreed.

[10:10:28 AM](#)

Mr. Carpenter addressed slide 10, "Staying the Course, Toward Reliability":

- Forward funded budget
- First full year advance schedule published
- Tustumena replacement vessel: CMGC
- Hubbard: crew quarters
- Prince Rupert:
 - Working toward May 23rd

- June - September schedule published
- Marine highway planner final candidate selection underway
- Contingent private contract service
- Tazlina: crewed, sailing since February 4th
- Alaska Marine Highway Operations Board meeting every two weeks
- New change management director
 - Katherine Keith, Certified Project Management Professional and Project Management Institute Agile Certified Practitioner

Mr. Carpenter gave a high-level overview of events at AMHS. He thought the published full-year advance schedule had been successful in attracting bookings. He relayed that the department had been meeting biweekly with the Canadian government and the United States Customs and Border Patrol regarding returning service to Prince Rupert. He commented on the significant discussion about stabilizing and modernizing the fleet during board meetings for AMHOB. He discussed the new change management director and recounted that the working group had recommended a three-person team to handle change at AMHS. The department had hired one person, who also served as a liaison for AMHOB and was directly involved in all three unions.

Co-Chair Bishop asked if it was too early to tell if forward funding and Prince Rupert advertisements had resulted in a rise in bookings.

Mr. Carpenter did not have the information at hand, but thought bookings were higher than average.

[10:15:05 AM](#)

MATT MCLAREN, ALASKA MARINE HIGHWAY SYSTEM (AMHS) BUSINESS DEVELOPMENT MANAGER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), explained that AMHS had seen bookings increase, and there were a lot of people that were booked to Bellingham but were interested in switching to Prince Rupert.

Co-Chair Stedman asked Mr. McLaren to get back to the committee with more information on Prince Rupert. He remarked that the port had been shut down for a couple of years and many Alaskans preferred to sail to Prince Rupert for economic reasons.

Co-Chair Stedman asked for information on potential increased bookings further out in the calendar since the system was forward funded by six months and the schedule was published out further.

Mr. McLaren made note of an increase in bookings and a 3 percent to 4 percent increase in revenues. He mentioned fewer bookings because of the Covid-19 and thought the forward-funding was helping with the bump in revenues to offset the losses due to Covid-19.

10:17:10 AM

Mr. Pannone advanced to slide 11, "State Funded Overhauls," which showed a bar graph and a table entitled 'Actuals by Vessel.' He reminded that the department requested an annual capital appropriation for overhauls and maintenance for vessels. He noted the department had an increased request for FY 23 the amount of \$20 million. The five-year average was about \$18 million. The department had identified about \$2 million in deferred maintenance that it wanted to accomplish in the following year, as well as an increase in the need for overhauls as vessels continued to age. He explained that the table at the bottom of the slide showed the actuals by fiscal year and by vessel how the overhaul capital appropriation was spent.

Co-Chair Stedman thought there had been concern for many years that the state had scrimped too much on the maintenance of the ships, which had led to questionable reliability. He commented on maintenance levels remaining flat.

Co-Chair Bishop asked about the deferred maintenance and the replacement number to get current on deferred maintenance.

Co-Chair Stedman asked for the deferred maintenance total for existing ships, not counting the M/V Malaspina.

Mr. McLaren relayed that the current deferred maintenance list was about \$2.5 million, not including the M/V Malaspina.

Co-Chair Stedman did not think one of the ships could be fixed for \$2.5 million. He asked about the deferred

maintenance total for all existing ships excepting the M/V Malaspina.

Mr. McLaren stated that \$2.5 million was the amount identified for items that needed fixing or updates. He stated that the larger items coming up in the next five years included more than \$200 million.

Co-Chair Stedman commented on the age of the ships.

[10:20:47 AM](#)

Mr. Carpenter looked at slide 12, "AMHS Staffing Needs (as of 3/10/2022)," which showed a bar graph entitled 'Hired vs Separated,' and a table. He referenced AMHS's staffing issues and pointed out that there had been a national trend in the maritime industry and other industries. He highlighted the bar graph, showing that the net change in hired and separated employees since FY 19. The system had lost a net of 81 employees in 2019, 60 employees in 2020, and 14 employees in 2021. The table to the right showed vacancy by position, the largest being 274 entry-level stewards. There was a total of 414 vacancies. He commented on the significantly low numbers of crew, which was creating a challenge. He stated that the reduction in crew was affecting summer operations, which he would address in the following slide.

Co-Chair Bishop asked Mr. Carpenter to give examples of crewing. He mentioned the Alaska Maritime Workforce Development Plan, which the department and AMHS were signatory to.

Mr. Carpenter mentioned that the agency had started a fairly aggressive recruitment campaign the previous fall. The department was working with Department of Labor and Workforce Development (DOLWD) and the unions. The department was advertising everywhere and had a headhunter looking for specific positions. He noted that AMHS was often short on certain skilled positions. He expressed concern about losing ground. He was unsure of the reason for the recruitment challenges. He mentioned the rate of pay and the remoteness of the work as challenges.

Co-Chair Bishop thought there would be a bigger discussion on the topic of workforce development, as well as a more focused discussion to help AMHS execute the plan. He hoped

there would be assistance in the form of more training funds to actively recruit inside the state.

[10:24:14 AM](#)

Senator Hoffman asked where they system was in the cycle of union contract negotiations.

Mr. Carpenter relayed that all three unions were presently negotiating, and he was hopeful for a conclusion soon in order to have a monetary agreement before the legislature in the current session.

Senator Wielechowski asked about the cost of living allowance (COLA) increase the state had proposed for the unions over the years.

Mr. Carpenter could not speak to negotiation details, which were not publicly available.

Co-Chair Stedman looked at the chart on slide 12, and recommended the chart showed the numbers of vacancies in the negative. He commented on the significant challenge of the vacancy factor. He asked for an explanation of the 414 vacancies compared to the number of crew needed to run the ships, considering turnover of crew and layup time. He asked how the system planned on sailing the ships if the recruitment was not as successful as hoped. He was concerned that the goal of running all the ships would not be achieved with the vacancy challenge.

[10:27:08 AM](#)

Mr. Carpenter showed slide 13, "AMHS Crewing Requirements":

Staffing goals for eight ferries over the summer of 2022 are:

IBU: 496 (current 305) / MMP: 112 (current 78) / MEBA: 80 (current 55).

Staffing goals for the summer season will not be met at current recruitment rates.

250 Hires required for healthy staff levels.

M/V Columbia's operation depends on reaching staffing targets.

IBU: Inlandboatmen's Union of the Pacific

MMP: International Organization of Masters, Mates, & Pilots

MEBA: Marine Engineers' Beneficial Association

AUR: Aurora

MAT: Matanuska

LEC: Leconte

LIT: Lituya

COL: Columbia

KEN: Kennicott

TUS: Tustumena

TAZ: Tazlina

Mr. Carpenter spoke to the table including the minimum number of crew needed in various vessel configurations. He highlighted that operating the "main fleet" (AUR, MAT, LEC, LIT, KEN, TUS) would require hiring a minimum of 24 new crew. He noted that the previous summer the system had operated at minimum crew levels, which resulted in a lot of overtime and was not healthy for the workers. In order to add the M/V Tazlina to the main fleet, there would need to be 25 more crew. To run the M/V Columbia, an additional 101 crew members would be needed above the 24 needed for the main fleet. To run the main fleet with the addition of the M/V Tazlina and M/V Columbia, an additional 142 crew members were needed. He was hopeful that recruitment levels would go up. He pointed out the bullet that indicated that 250 hires were needed for a healthy ship staffing level.

Co-Chair Stedman asked Mr. Carpenter to elaborate on the M/V Columbia. He understood that there were some propellor maintenance issues that would need to be addressed, without which the ship could not sail. He asked Mr. Carpenter to walk through the union groups shown on the slide.

Mr. Carpenter explained that there was a controllable pitch propellor project scheduled for the following fall on the M/V Columbia. The ship would come out of dry-dock in mid-summer the following summer and crewing the ship would be challenging. He reviewed the staffing goals and bargaining units listed on the slide.

Co-Chair Stedman thought the staffing goal was lofty.

Senator Wilson thought the AMHS had a stellar safety record and no major issues thus far. He asked, considering the

staffing needs and deferred maintenance, if the boats were safe and if Mr. Carpenter would put his family on them.

Mr. Carpenter answered, "absolutely."

[10:32:31 AM](#)

Senator Wielechowski asked if returning to a defined benefit system would help in retaining employees.

Mr. Carpenter was not sure how the benefits worked for the AMHS unions.

Co-Chair Stedman asked Mr. McLaren could discuss the retirement structure for AMHS.

Mr. McLaren explained that both Masters, Mates, and Pilots (MMP) and Inlandboatman's Union (IBU) unions were in the Public Employees' Retirement System (PERS). He noted that some things were dependent upon length of service.

Co-Chair Stedman thought Senator Wielechowski's question needed to be directed at other people in the department.

Senator Hoffman asked for a comment on the level of service between Ketchikan and Metlakatla. He asked for comments on current service and what was planned.

Co-Chair Stedman asked for Mr. Carpenter to factor out the weeks of service for the Ketchikan to Metlakatla run, which was twice a day.

Mr. Carpenter noted there was daily service between Metlakatla and Ketchikan that subtracted the 52 weeks from the system's total for weeks of service.

Co-Chair Stedman asked Mr. McLaren to comment.

Mr. McLaren informed that there were two round trips a day from Ketchikan to Metlakatla five days per week. There was an average of about 50 service weeks per year due to overhaul of about two weeks.

Co-Chair Stedman asked Mr. McLaren to get back to the committee with information about weeks of service, with the service to Metlakatla broken out.

10:36:00 AM

Co-Chair Bishop asked if Mr. Carpenter was in direct consultation with the affected bargaining units to see if the unions could help with recruitment.

Mr. Carpenter answered affirmatively. He relayed that the department met with the unions biweekly and had other discussions through steering committees and other groups. He relayed that the unions were very aware of the situation and were trying to work together on the issue.

Co-Chair Bishop appreciated Mr. Carpenter's response. He thought in years past, the conversations had not taken place.

Co-Chair Stedman asked for a decade of data on employee headcount. He relayed concern about the ability to replace personnel in a time frame for a weekly service plan to be implemented. He thought it seemed like every employee group in the country was having trouble with staffing. He explained that the committee wanted to understand the risk associated with lack of employees and what impact it would have on AMHS. He thought the information would help with the budget process.

Co-Chair Stedman asked Mr. Carpenter to get back to the committee with information on the revenue potential compared to the costs of the ship. He mentioned the challenge of recent decreased ridership. He thought none of the ships make money but the revenue per ship was not equal.

Mr. Carpenter thanked the committee.

Co-Chair Stedman thanked the testifiers. He was glad to see the AMHS evolving out of the financial abyss of the previous two years. He discussed the agenda for the afternoon meeting.

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ADJOURNMENT

10:39:49 AM

The meeting was adjourned at 10:39 a.m.

