

HB

372

HOUSE COMMITTEE REPORT

FILE

(11)

Date Referred: January 29, 1990

FURTHER REFERRALS:

Date of Committee Action: _____

The FINANCE Committee considered:

HB 372

HOUSE BILL NO. 372

STATE FERRY VESSEL REPLACEMENT FUND

"An Act relating to the Alaska marine highway system vessel replacement fund."

RECOMMENDATIONS:

- be replaced with CS HB 372 (FIN) the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis DOTPF
- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not Pass No Rec Amend

[Signature] SWACKHAMMER

[Signature] BROWN

[Signature] KOPONEN

[Signature] Ulmer

[Signature] BAINES

[Signature] RIEGER

[Signature] Larson

	Do Not Pass	No Rec	Amend
<u>[Signature]</u> Hoffmann		X	

[Signature] CARSON

Chairman's Signature [Signature] Hoffmann

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CD HB 372 (FIN)
PUBLISH DATE:

REQUEST:

FISCAL NOTE

Revision Date:
Title: "An Act relating to the Alaska Marine Hwy.
System Vessel Replacement Fund"

Agency Affected: DOT&PF
BRU: Marine Operation

Sponsor: Ulmer, Grussendorf, Goll
Requestor:

Components: Southeast/Southwest
Vessel Operations and
Overhaul

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTURAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

Prepared by: John Halterman
Division: Alaska Marine Highway System

Phone: 465-3950
Date: March 9, 1990

Approved by Commissioner: Mark S. Hickey
Agency: Department of Transportation and Public Facilities

Date: 3/9/90

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Adopted

Fiscal Note - House Bill No. 372

The vessel replacement fund may well be essential if AMHS is to finance the construction of replacement or additional vessels, as well as major refurbishment projects for which federal funds are unavailable.

The minimum cost of a new or replacement vessel would be at least \$49 million. This could possibly be a Malaspina class vessel with oceangoing capability. In addition the limited expansion alternative in the draft System Plan anticipates two new feeder vessels under construction in fiscal years 1992 and 1994. The funding source contemplated for these feeder vessels is the Federal Highway Administration. However, other system demands for limited federal funds may make this difficult to fund in a timely manner. If this is the case the vessel replacement fund would be called upon to finance these vessels.

The sooner funds are deposited in this account, the better the system will be able to plan for needed replacements or additions to the fleet. AMHS and the Legislature need to explore the various options for additional revenue generation, such as rate increases, leasing of assets, direct appropriations, etc., which may be available to capitalize the fund. Further, the opportunities for innovative private/public financing should be explored.

AMHS has no current plans to retire any of the existing fleet, with the possible exception of the M/V CHILKAT. The system will be contracting surveys of all vessels in the fleet, except for the M/V CHILKAT. The results of those surveys will include an analysis of the costs associated with maintaining the vessels at their current service levels through the next twenty years. These will be compared with the cost of acquiring new vessels, less any resale value. The results of these surveys will form the basis of a much more detailed presentation of vessel replacement needs. We expect reports on the M/V TUSTUMENA, M/V COLUMBIA and M/V MALASPINA to be available in July of this year. The surveys of the remaining vessels will be available within approximately 30 days following next year's overhaul.

Department of Transportation
and Public Facilities

March 9, 1990

Original sponsor(s): REP. ULMER, Grussendorf, Goll, Kubina, C.Davis,
Navarre, Hudson

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 372 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska marine highway system
7 vessel replacement fund."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 37.05 is amended by adding a new section to read:

10 Sec. 37.05.550. ALASKA MARINE HIGHWAY SYSTEM VESSEL REPLACEMENT
11 FUND. (a) There is in the general fund the Alaska marine highway
12 system vessel replacement fund. The fund consists of money appropri-
13 ated to it by the legislature. The Department of Revenue shall manage
14 the fund. Interest received on money in the fund shall be accounted
15 for separately and may be appropriated into the fund annually. The
16 legislature may appropriate money from the fund for refurbishment of
17 existing state ferry vessels, acquisition of additional state ferry
18 vessels, or replacement of retired or outmoded state ferry vessels.

19 (b) The legislature may appropriate to the fund money received
20 by the state as Alaska marine highway system program receipts or from
21 a settlement or final judicial determination of the Dinkum Sands case
22 (United States v. Alaska) and the North Slope royalty case (State v.
23 Amerada Hess, et al.) and not deposited into the Alaska permanent fund
24 under AS 37.13.010(a)(1) or (2) or into the public school trust fund
25 under AS 37.14.150.

DRAFT EXAMPLE
ALASKA MARINE HIGHWAY SYSTEM FINANCIAL MODEL

MARINE Highway Fund

(\$000s)	FY 89 YR 1	FY 90 YR 2	FY 91 YR 3	FY 92 YR 4	FY 93 YR 5	FY 94 YR 6	FY 95 YR 7	FY 96 YR 8	FY 97 YR 9	FY 98 YR 10	FY 99 YR 11	FY 00 YR 12	FY 01 YR 13	FY 02 YR 14	FY 03 YR 15	FY 04 YR 16	FY 05 YR 17	FY 06 YR 18	FY 07 YR 19	FY 08 YR 20	Total
Revenues¹																					
Passenger Vehicles				13,426	13,829	14,244	14,671	15,111	15,564	16,031	16,512	17,008	17,516	18,043	18,585	19,142	19,717	20,308	20,917	21,545	331,277
Vans				12,634	13,013	13,403	13,805	14,220	14,648	15,088	15,538	16,004	16,484	16,978	17,488	18,013	18,553	19,110	19,683	20,274	311,733
Stewards				2,327	2,397	2,468	2,543	2,619	2,697	2,778	2,861	2,947	3,036	3,127	3,221	3,317	3,417	3,519	3,625	3,734	57,411
Total Revenues	35,252	35,252	35,252	36,310	37,399	38,521	39,676	40,867	42,093	43,356	44,656	45,996	47,378	48,797	50,261	51,769	53,322	54,921	56,569	58,266	895,910
CF Funding Base	64,843	65,213	65,538	31,000	31,000	31,000	31,000	31,242	31,648	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	31,000	723,484
CIP Funds ²	1,263	1,269	1,276	1,282	1,288	1,295	1,301	1,308	1,314	1,321	1,328	1,334	1,341	1,348	1,354	1,361	1,368	1,375	1,382	1,389	21,483
AMHS Op Fund				0	0	62	2,332	6,265	0	0	0	0	0	0	0	0	0	0	0	0	3,659
Total Op Bdgt Funding	66,106	66,482	66,814	68,592	69,687	70,878	74,310	74,681	75,055	75,676	76,984	78,330	79,717	81,149	82,615	84,130	85,690	87,294	88,931	90,635	1,543,793
Direct Expenses																					
Tabu	8,035	8,079	8,116	8,156	8,197	8,238	8,279	8,320	8,362	8,404	8,446	8,488	8,531	8,573	8,616	8,659	8,702	8,746	8,790	8,834	168,567
Malaspina	9,733	9,782	9,831	9,880	9,929	9,979	10,029	10,079	10,129	10,180	10,231	10,282	10,333	10,385	10,437	10,489	10,542	10,594	10,647	10,700	204,190
Malanuska	10,298	10,349	10,401	10,453	10,506	10,558	10,611	10,664	10,717	10,771	10,825	10,879	10,933	10,988	11,043	11,098	11,153	11,209	11,265	11,322	216,043
Chilkat	359	6	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	371
Columbia	6,838	6,871	6,905	6,938	6,972	6,808	6,840	6,874	6,908	6,943	6,977	7,012	7,047	7,083	7,118	7,154	7,189	7,225	7,262	7,298	139,259
Leconte	5,858	5,887	5,917	5,946	5,976	6,006	6,036	6,066	6,096	6,127	6,158	6,188	6,219	6,250	6,282	6,313	6,345	6,378	6,408	6,440	122,896
Aurora	5,379	5,406	5,435	5,464	5,493	5,523	5,553	5,582	5,612	5,642	5,672	5,703	5,733	5,764	5,795	5,826	5,857	5,888	5,920	5,951	120,799
Tustumena	5,698	5,726	5,755	5,783	5,812	5,841	5,871	5,900	5,929	5,959	5,989	6,019	6,049	6,079	6,110	6,140	6,171	6,202	6,233	6,264	119,529
Bartlett	3,656	3,674	3,692	3,711	3,729	3,748	3,767	3,785	3,804	3,823	3,842	3,862	3,881	3,900	3,920	3,939	3,959	3,979	3,999	4,019	76,689
New vessel #1	0	0	0	0	0	3,062	3,078	3,093	3,109	3,124	3,140	3,156	3,171	3,187	3,203	3,218	3,235	3,251	3,268	3,284	47,981
New vessel #2	0	0	0	0	0	0	3,078	3,093	3,109	3,124	3,140	3,156	3,171	3,187	3,203	3,218	3,235	3,251	3,268	3,284	44,518
Total Direct Exps	55,653	55,976	56,256	56,532	56,814	60,161	63,539	63,857	64,176	64,497	64,820	65,144	65,470	65,797	66,126	66,457	66,789	67,123	67,458	67,796	1,260,441
Indirect Expenses																					
Marine Ops, Indirect	3,981	4,001	4,021	4,041	4,061	4,082	4,102	4,122	4,143	4,164	4,185	4,206	4,227	4,248	4,269	4,290	4,312	4,333	4,355	4,377	83,518
Marine Administration	2,352	2,364	2,376	2,387	2,399	2,411	2,423	2,436	2,448	2,460	2,472	2,485	2,497	2,510	2,522	2,535	2,547	2,560	2,573	2,586	49,343
Marine Facilities CIP ²	1,263	1,269	1,276	1,282	1,288	1,295	1,301	1,308	1,314	1,321	1,328	1,334	1,341	1,348	1,354	1,361	1,368	1,375	1,382	1,389	26,497
Cust Serv/AMHS mgmt	2,857	2,871	2,886	2,900	2,915	2,929	2,944	2,959	2,973	2,988	3,003	3,018	3,033	3,048	3,064	3,079	3,094	3,110	3,125	3,141	59,937
Total Indirect Exps	10,453	10,505	10,558	10,611	10,664	10,717	10,771	10,824	10,879	10,933	10,988	11,043	11,098	11,153	11,209	11,265	11,321	11,378	11,435	11,492	219,295
Total Operating Exps	66,106	66,482	66,814	67,142	67,478	70,878	74,310	74,681	75,055	75,430	75,807	76,186	76,567	76,950	77,335	77,722	78,110	78,501	78,893	79,288	1,479,735
To AMHS Op Fund > (Funding Less Exps)	0	0	0	1,449	2,309	0	0	0	0	246	1,176	2,144	3,149	4,194	5,280	6,408	7,580	8,796	10,058	11,367	64,058
Capital Expenditures																					
New or Replcmnt Vssls	0	0	898	8,975	898	8,975	3,000	0	49,000 ³	0	0	0	0	3,000	0	49,000	0	0	0	0	123,745
Repr, Relib, Mod ³	9,132	8,754	6,153	4,028	2,550	14,100	9,034	4,697	29,969 ⁴	4,730	5,311	6,366	3,618	4,083	1,441	7,483	3,197	6,617	32,517	9,242	169,074
Shore Facilities	1,050	4,387	7,748	8,990	11,775	4,733	6,870	3,865	4,815	11,856	1,657	2,105	7,350	0	304	2,503	0	100	0	0	80,045
Other CIP and SIP	800	1,000	1,050	1,050	1,050	1,280	1,310	2,050	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	33,390
Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
To Cap Reserve Fund >	0	0	8,000	8,000	6,000	8,000	8,000	8,000	0	8,000	8,000	8,000	8,000	8,000	8,000	2,345	0	2,112	1,266	235	94,198
Total Cap Expendure	6,782	14,140	23,649	31,043	24,273	37,068	28,214	18,552	85,784	26,586	16,968	18,471	20,968	17,083	6,290	60,983	7,309	9,983	34,753	11,244	500,361
Capital Funding Source																					
Federal Funding	9,651	10,722	11,246	18,191	11,526	23,251	15,392	7,122	28,346	12,886	3,761	9,635	9,881	3,254	1,391	7,955	2,547	4,951	24,934	7,087	213,729
Cap Reserve Fund	0	0	0	0	0	0	0	0	49,000	0	0	0	0	0	0	48,000	0	0	0	0	96,000
Liquidtn of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CF Capital Requirements	1,132	3,419	12,603	12,852	12,746	13,836	12,823	11,430	9,438	13,700	11,207	12,636	15,087	13,830	4,899	5,039	4,761	5,032	9,819	4,155	190,632
Net Cash Flow (Outl)	(30,723)	(33,379)	(42,889)	(42,403)	(41,537)	(44,898)	(46,155)	(43,937)	(41,086)	(44,453)	(41,030)	(41,692)	(42,938)	(40,635)	(30,619)	(29,620)	(28,182)	(27,236)	(30,761)	(23,786)	(747,961)
Beginning Fund Balance	0	0	0	0	1,449	3,659	3,597	1,265	0	0	247	1,423	3,367	6,716	10,911	10,736	11,776	13,468	15,529	17,822	102,164
Contribution	0	0	0	1,449	2,309	0	0	0	0	246	1,176	2,144	3,149	4,194	5,280	6,408	7,580	8,796	10,058	11,367	64,058
To Cap Reserve Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,455	5,368	5,488	6,734	7,765	8,911	40,121
Ending Fund Balance	0	0	0	1,449	3,659	3,597	1,265	0	247	1,423	3,367	6,716	10,911	10,736	11,776	13,468	15,529	17,822	20,278	22,742	122,442
Cap Res Fund Balance	0	0	8,000	16,000	24,000	32,000	40,000	48,000	0	8,000	16,000	24,000	32,000	40,000	48,000	5,368	13,368	21,368	29,368	38,279	483,750

1 Revenue changes are based on combined traffic and fare and annual increase of 1% revenues for 1989-91 not shown since AMHS fund revenue provisions begin in FY92.

2 These are CIP funds in the operating budget.

3 Some vehicle projects have been deleted from line 97 on the assumption that a vessel replacement project may occur in FY97.

4 If this project is for a replacement vessel rather than a new vessel, no additional operating funds will be required.

5 Total cap. expend. mod. number associates some projects from line 96 which could not be done in those years due to lack of funding.

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

TO: Rep. Lyman Hoffman and Rep. Ron Larson, Co-chairs
Members, House Finance Committee

FROM: Rep. Fran Ulmer

DATE: February 20, 1990

RE: HB 372-relating to creation of a vessel replacement fund
for the Alaska Marine Highway

CSHB 372 (Trans) would create a vessel replacement fund within the general fund which would allow money to accumulate until such time as the replacement of vessels in the Alaska Marine Highway System (AMHS) is needed.

Because of the large capital outlay that will be needed to replace vessels in the future, I feel that a funding mechanism should be put in place now to help ensure that the financial commitment the state has made to the AMHS will continue.

The state experiences many problems as a result of our aging fleet, including significant time when vessels are being repaired and thus unable to meet schedules. The Department of Transportation and Public Facilities (DOT/PF) estimates that the average age of our fleet is 22 years, with the oldest ship having been built in 1963, and the newest in 1977. The cost of replacing smaller vessels may run from \$17 to \$25 million and estimates of replacing a larger vessel could run as high as \$59 million. The cost of replacing the entire fleet could be an astronomical \$270 million!

I am supporting the House Transportation CS which would allow this fund to be used for reburishing or making additions to existing vessels as well as for the purchase of new vessels.



Dept. of Transportation & Public Facilities

POSITION PAPER

BILL NO: House Bill 372

TITLE: An Act Relating to the Alaska Marine Highway System Vessel Replacement Fund

M&H
APPROVED: Mark S. Hickey
Commissioner
DATE: January 22, 1990

HR 372 establishes within the general fund an Alaska Marine Highway System vessel replacement fund. This fund is designed to allow the accumulation of capital to permit the timely replacement of vessels in the AMHS fleet.

AMHS is currently soliciting proposals to perform condition surveys on all vessels in the fleet. The average age of the fleet is approximately 22 years. The MALASPINA class vessels (TAKU, MALASPINA and MATANUSKA) are the oldest, having been built in 1963. The M/V AURORA is the newest ship, entering service in 1977. The condition surveys will review the maintenance and refurbishment requirements of the fleet in order to maintain the existing level of service for the next 20 years. This will allow us to then develop a cost comparison of refurbishment versus replacement. The current estimated replacement cost of the MALASPINA is approximately \$49-\$59 million. The LeCONTE class vessels have an estimated replacement cost of between \$17 and \$25 million and the TUSTUMENA is estimated to cost between \$24 and \$34 million to replace.

We assume the severe problems associated with finding temporary replacements for vessels undergoing major refurbishments, as in the case of the TUSTUMENA next year, require the consideration of at least one new vessel. This is particularly true if the condition surveys suggest the replacement of vessels in the existing fleet can be deferred. However, it is possible that the analysis will call for the replacement of at least one of the vessels as a least cost alternative to continued maintenance.

One of the significant issues which will have a bearing on this question is the cost of removing and replacing asbestos containing materials found in all of the vessels. As an example of the cost associated with this issue, a recent consultant's report commissioned to design a modernization project for the M/V MALASPINA estimated the cost at approximately \$7.0 million, 83% of which was for the removal and replacement of asbestos containing materials.

House Bill No. 372 (continued)

The existing fleet represents an initial investment of approximately \$60 million. The current estimated replacement cost of the fleet, excluding the M/V CHILKAT, is between \$270 million and \$340 million. Over the preceding 25 years many millions of additional dollars have been invested in maintaining and modernizing these vessels. These projects have included lengthening several ships, repowering both the main and auxiliary engines, as well as modernizing the passenger accommodations.

In the system plan which will be released shortly it is suggested that the requirements for similar projects to keep the fleet operating within current performance standards will require on the order of \$200 million additional investment. This is in addition to perhaps another \$100 million required to maintain and improve shore facilities at existing ports of call. These estimates do not reflect the cost of adding any vessels to the fleet.

In the past the majority of the funds used to refurbish and modernize the fleet have come from the Federal Highway Administration. In a typical year \$7-\$10 million have been spent on such projects. Given the growing financial demands of such projects and the possibility that Alaska's share of FHWA funds may be reduced in the future, it is reasonable to look for other alternatives, such as that embodied in this legislation, to meet future needs. This is not to say that there will not be a place for federal assistance.

The difficulty is that the construction of a new ship, for example, cannot be phased like many highway projects. Thus, a significant amount of funds is required to be committed when a ship construction contract is awarded. If \$40-\$50 million of FHWA funds were required to be dedicated to this purpose in a single year the impact on statewide highway projects would be enormous. However, there is a way to access federal funds over several fiscal years for a single project which we will be exploring with the Federal Highway Administration. In conjunction with funds made available from the subject vessel replacement fund, this may be another element of the solution to this looming problem.

SOUTHEAST CONFERENCE

P.O. Box 22286

Juneau, Alaska 99802

January 25, 1990

The Honorable Richard Foster
Chair, House Transportation Committee
Room 17, Capitol Building
Juneau, Alaska 99811

Dear Representative Foster:

The Southeast Conference, an organization representing the communities of Southeast Alaska, from governments to local businesses, is seriously concerned about the status of our Marine Highway.

Over the past five years, the Alaska Marine Highway System has experienced a decrease of 19% in general funding support to maintain its operations.

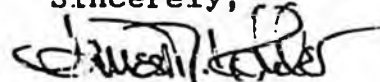
During that same time period the fleet of vessels has grown older and has reached the 20 - 30 year life span calculated for them when they were launched. Maintenance costs have increased and have placed a heavier burden on the Alaska Marine Highway System operating budget's decreasing resources. The net effect is the reduction in service to the communities and their businesses that rely on this highway for their economic and social linkage with each other and the rest of the state.

The SE Conference Board of Directors, on the recommendation of their AMHS Standing Committee, has adopted the following five planks as the SE Conference Platform relating to the Alaska Marine Highway System:

1. The passage of a supplemental appropriation for FY 90 for full funding of the Alaska Marine Highway System.
2. An increase in the FY 91 budget appropriation for the Alaska Marine Highway System to assure full service levels for the communities served by the System.
3. Allowing the Alaska marine Highway System to retain all the revenues it generates while maintaining a consistent level of general fund appropriation.
4. Completion of the AMHS Master Plan and allowing the Southeast Conference to be involved in the review and any modification of the Plan.
5. Creation of a Vessel Replacement Fund.

The Southeast Conference urges you to support HB No. 372 so that a vehicle for funding needed vessel replacement can be initiated this year.

Sincerely,



James M. Kohler
Executive Director

STATE OF ALASKA
1990 LEGISLATIVE SESSION

CC

BILL VERSION: HB 372
PUBLISH DATE: HOUSE 1/29/90

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: DOT&PF
 Title: An Act Relating to the Alaska Marine Highway System Vessel Replacement Fund BR#: Marine Operation
 Sponsor: Ulmer, Grussendorf, Goll Components: Southeast/Southwest
 Requestor: _____ Vessel Operations and Overhaul

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0	8,000.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

Prepared by: John Halterman Phone: 465-3950
 Division: Alaska Marine Highway System Date: 1/22/90

Approved by Commissioner: Mark S. Hickey Date: 1/23/90
 Agency: Transportation and Public Facilities

- Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Fiscal Note - House Bill No. 372

The attached fiscal note for HB 372 contemplates the appropriation of \$8 million annually into the AMHS vessel replacement fund. The fund would be drawn upon when it was necessary to finance the construction of replacement or additional vessels, as well as for major refurbishment projects for which federal funds are unavailable. We understand the sponsor has suggested changes which would broaden the definition of "replacement" to include the latter types of projects. We support the inclusion of that language.

The amount of funds shown on the fiscal note are based upon a cash flow model we are developing which shows the financial effects of the legislation, as well as those resulting from the establishment of the Alaska Marine Highway System Fund. These concepts were combined with an analysis of a limited service expansion alternative discussed in the upcoming AMHS master plan. Under this scenario a new or replacement vessel would be financed in FY 97 in the amount of \$49 million. This would probably be a Malaspina class vessel with oceangoing capability. In addition this analysis indicates two new feeder vessels under construction in fiscal years 1992 and 1994. The funding source contemplated for these vessels is the Federal Highway Administration. This alternative, as well as other scenarios will be subjected to public and Legislative review prior to any action being taken.

The fiscal note indicates money flowing into the vessel replacement fund beginning in fiscal year 1991; the sooner funds are deposited in this account, the better the system will be able to plan for needed replacements or additions to the fleet. AMHS and the Legislature need to explore the various options for additional revenue generation, such as rate increases, leasing of assets, direct appropriations, etc., which may be available to capitalize the fund. Further, the opportunities for innovative private/public financing should be explored.

AMHS has no current plans to retire any of the existing fleet, with the possible exception of the M/V CHILKAT. The system is now soliciting proposals to conduct surveys of all vessels in the fleet, except for the M/V CHILKAT. The results of those surveys will include an analysis of the costs associated with maintaining the vessels at their current service levels through the next twenty years. These will be compared with the cost of acquiring new vessels, less any resale value. The results of these surveys will form the basis of a much more detailed presentation of vessel replacement needs. We expect reports on the M/V TUSTUMENA, M/V COLUMBIA and M/V MALASPINA to be available in July of this year. The surveys of the remaining vessels will be available within approximately 30 days following next year's overhaul.