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THE LEGISLATURE

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Mary Van Nimwegen

AB 372

House Transportation

1/26/90



LEIF LIE

**METEOROLOGIST IN CHARGE
JUNEAU WEATHER SERVICE FORECAST OFFICE**

**U. S. DEPARTMENT OF COMMERCE
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
NATIONAL WEATHER SERVICE
P. O. BOX 1547
JUNEAU, ALASKA 99801**

**HOME 907 788-7257
OFFICE 907 988-7481**

(5)

Date Referred: January 8, 1990

FURTHER REFERRALS: FINANCE

Date of Committee Action: 1/26/90

The TRANSPORTATION 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 (Trans) 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 _____

- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

Alfred J. Jensen
Ernest R. Kuchina
Bill Hudson
Richard J. Jolley

SIGNING:

(Check approp. column)

Do Not
Pass
No Rec
Amend

	Do Not Pass	No Rec	Amend

Richard J. Jolley
 Chairman's Signature

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

TO: Rep. Richard Foster, Chair
Members, House Transportation Committee

FROM: Rep. Fran Ulmer

DATE: January 26, 1990

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

HB 372 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 a change in my original bill which would allow this fund to be used for refurbishing or making additions to existing vessels as well as for the purchase of new vessels.

6-1768E
Utermohle
1/24/90

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

IN THE HOUSE

BY THE TRANSPORTATION COMMITTEE

CS FOR HOUSE BILL NO. 372 (Transportation)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

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

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

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

Sec. 37.05.550. ALASKA MARINE HIGHWAY SYSTEM VESSEL REPLACEMENT
FUND. There is in the general fund the Alaska marine highway system
vessel replacement fund. The fund consists of money appropriated to
it by the legislature. The Department of Revenue shall manage the
fund. Interest received on money in the fund shall be accounted for
separately and may be appropriated into the fund annually. The legis-
lature may appropriate money from the fund for ~~refurbishment of exist-~~
~~ing state ferry vessels, acquisition of additional state ferry ves-~~
~~sels~~, or replacement of retired or outmoded state ferry vessels.

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FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: DOT&PF
 Title: An Act Relating to the Alaska Marine Highway System Vessel Replacement Fund BRU: 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 *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.



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

HB 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.

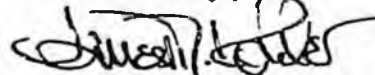
During that same time period the fleet of vessels has grown older and has reached the 20 - 30 year life span calculated for them when they were launched. Maintenance costs have increased and have placed a heavier burden on the Alaska Marine Highway System operating budget's decreasing resources. The 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



Representative Bette Cato, Chair House Transportation Committee

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
Edward Moses	MOAS STDS DEPT of Commerce	P.O. BOX 111686	99511	278-3967 345-7750	545-7750	(Y) N	Air Carriers
John Halterman	ANHS				465-3950	Y N	HS 372
JAMES KOHLER	SE CONFERENCE	211 4th St. Suite 300/Juseum	99801		463-3442	(Y) N	HB 372
Leif Lee	Weather reporting Service					(Y) N	Air Carriers
Randall Burns	DLED Occupational Licensing	P.O. Box J, Juseum	99811			(Y) N	Air Carriers
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	

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