

HB

372

SENATE STATE AFFAIRS COMMITTEE

BILL NUMBER CS HB 372

SPONSOR Ulmer

BILL TITLE Vessel Replacement

DATE REFERRED

HEARING SCHEDULED 4.20.90

FISCAL NOTE PREPARED ✓

SPONSOR CONTACTED ✓

INTERESTED PARTIES CONTACTED

DOT

OTHER

SENATE COMMITTEE REPORT

DATE: 3/28/90

FURTHER: Finance

DATE TURNED INTO OFFICE: _____

State Affairs Committee considered CSHB 372 (Finance)

Alaska marine highway system vessel replacement fund.

and recommended:

- replace with _____ CS _____
 - or adopt _____ CS _____
 - attached amendment(s)
 - _____ letter of intent adopted
- same title
 - new title
 - technical title change (HB only)

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

ATTACHES NEW FISCAL NOTE(S):
Dept/Date:

fiscal note(s) _____

zero fiscal note(s) _____

appropriation-no fiscal note

APPROVES PREVIOUS:
Dept/Date:

fiscal note(s) _____

zero fiscal note(s) DOT 3-9-90

Governor's bill w/fiscal note

SIGNING DO PASS:

Tom Kelly

OTHER RECOMMENDATIONS:

all Adams - Needs Amendment

Rich Kelly (No REC)
Pat Pennington do pass

Chair's Signature and Recommendation

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

TO: Senator Pat Pouchot, Chair
Members, Senate State Affairs Committee

FROM: Rep. Fran Ulmer

DATE: April 20, 1990

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

CSHB 372 (Fin) 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!

The bill passed by the House allows the legislature to also appropriate money for this fund from program receipts received from the Alaska Marine Highway System, and from settlement of the Dinkum Sands and Amerada Hess litigation.

District 4B -- Juneau

P.O. Box V • Juneau, Alaska 99811-3100 • (907) 465-4947

TELECONFERENCE: WE WILL DROP 'OFF LINE' AFTER THIS BILL.

TO TESTIFY;

Representative Ulmer

*Ketchikan LIO MAY have someone on line to testify.

DOT will send a representative

NOTES;

We have received several calls supporting this bill. (non-constituents)

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

*Al proposes
removal failed*

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:

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Sec. 37.05.550. ALASKA MARINE HIGHWAY SYSTEM VESSEL REPLACEMENT

11

FUND. (a) There is in the general fund the Alaska marine highway

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system vessel replacement fund. The fund consists of money appropri-

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ated to it by the legislature. The Department of Revenue shall manage

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the fund. Interest received on money in the fund shall be accounted

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for separately and may be appropriated into the fund annually. The

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legislature may appropriate money from the fund for refurbishment of

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existing state ferry vessels, acquisition of additional state ferry

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vessels, or replacement of retired or outmoded state ferry vessels.

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(b) The legislature may appropriate to the fund money received

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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.

*Al -
proposes
to remove
FAILS*

Alaska State Legislature

HOUSE OF REPRESENTATIVES



REPRESENTATIVE FRAN ULMER

MEMORANDUM

TO: Senator Lloyd Jones, Chair
Members, Senate Transportation Committee

FROM: Rep. Fran Ulmer

DATE: March 27, 1990

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

CSHB 372 (Fin) 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!

The bill passed by the House allows the legislature to also appropriate money for this fund from program receipts received from the Alaska Marine Highway System, and from settlement of the Dinkum Sands and Amerada Hess litigation.

District 4B — Juneau

P.O. Box V • Juneau, Alaska 99811-3100 • (907) 465-4947



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.

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: HB 372
PUBLISH DATE:

REQUEST: FISCAL NOTE

Revision Date:
Title: "An Act relating to the Alaska Marine Hwy.
System Vessel Replacement Fund"
Sponsor: Ulmer, Grussendorf, Goll
Requestor:

Agency Affected: DOT&PF
BRU: Marine Operation
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 *MSH*
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)

DOT/PF Fiscal Note

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

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.

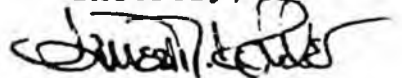
During that same time period the fleet of vessels has grown older and has reached the 20 - 30 year life span calculated for them when they were launched. Maintenance costs have increased and have placed a heavier burden on the Alaska Marine Highway System operating budget's decreasing resources. The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

SOUTHEAST CONFERENCE

Tel. (907) 463-3445 FAX (907) 463-5670 211 4th Street, Suite 300 Juneau, Alaska 99801

April 16, 1990

Honorable Pat Pourchot
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, AK 99811

Dear Senator Pourchot:

We are deeply concerned about the help and attention the Alaska Marine Highway System needs in these closing days of the session.

The AMHS is imperative to the economic well-being of our communities and the entire state. The following items are absolute necessities for the future of the system and our communities.

Legislation:

1. Passage of Senate Bill 428 - the AMHS Fund
(currently in House Finance)
2. Passage of House Bill 372 - AMHS Vessel Replacement Fund funding:
 - A. Full funding for the AMHS, including operating the MV/Columbia rather than laying her up in the winter.
 - B. Providing capital funds for AMHS with special attention to:
 - 1) Prince Rupert facility repairs (\$1.6 million)
 - 2) Vessel replacement (\$5.0 million)

These are the bare essentials for preserving the backbone of coastal transportation and a key link in the state-wide tourism industry.

Please give this your utmost attention. Your support is sincerely appreciated.

Sincerely,



Ted Ferry
President