

ALASKA LEGISLATURE COMMITTEE FILES 1997-1998 8672

9482 HOUSE TRANSPORTATION

19

Collective Bargaining Contracts

During the last year, two AMHS labor unions negotiated new contracts. The results of this bargaining was the standard 1.4 percent raise based upon the Anchorage CPI, if it exceeded 3.0 percent. While this was the standard fare negotiated with the other bargaining units in the state, it is, at best, still unfair to vessel personnel. Other state employees enjoy the benefits of regular merit raises and step increases amounting to about three percent per year, while the only raises an AMHS vessel employee receives results from promotions or legislative appropriations. The Marine Engineer's Beneficial Association is presently involved in negotiations and the state is offering the same deal. These officers -- with the exception of the chief engineers -- are paid substantially less, even when the cost of living differential is included, than engineers working on the Washington State Ferries or the British Columbia Ferries.

Comparison of Wages Between Ferry Systems in the Pacific Northwest in U.S. and Canadian Dollars			
	Washington State Ferry System	AMHS Included COLD	British Columbia (Spirit Class)
Chief Engineer	\$31.85	\$33.89	\$38.04
First Assistant	\$29.94	\$29.17	\$37.14
Second Assistant	N/A	\$27.25	\$31.16
Third Assistant	\$21.45	\$25.54	\$26.68
Master		\$37.79	\$35.56
Chief Mate		\$34.68	\$31.16
Second Mate		\$32.49	\$28.76
Third Mate		\$32.49	\$27.18
Oiler		\$18.06	\$19.97
Able-Bodied		\$17.29	\$19.97
Ordinary Seaman		\$16.20	\$17.62

Not only is the AMHS pay lower, the premium pay and benefit packages are substantially less, as well. Washington State employees' overtime is at the double pay rate. They receive travel time pay and the penalty rates are at straight time pay. British Columbia has established a compensatory time-off system to keep actual funding costs lower and providing earned time-off.

Frequently, people remark that the wages of the stewards are out of line with the wages of shoreside employees performing similar work. This may be true; however, shoreside restaurant employees are not required to know how to perform CPR, lower and raise lifeboats, or fight fires. Employees at the Westmark do not

have to suit up in fireman's gear and drill through different potential fire scenarios every week for no additional pay. The stewards of the Alaska Marine Highway System are continuously sharpening skills to protect the traveling public and to provide safety for their vessel. It's unreasonable that AMHS views their services and skills as worth less than their contemporaries. The British Columbia System's pay starts at two dollars an hour more at entry level than AMHS, and moves up to over four dollars more per hour.

The controversy of equitable pay for vessel employees has gone on for a long time. But, on the other side of this issue, a powerhouse operator, i.e., watchstander, for the City of Ketchikan earns about three dollars more an hour than a chief engineer on the ferries performing similar tasks. Most heavy equipment operators in the state also make more than AMHS engineers.

The Long Range AMHS Business Planning Analysis (Erickson & Associates, 1992) states:

"Since 1985, marine highway labor costs, measured in real dollars per seat-mile, have declined at a rate of almost two percent per year. This report continues to say, "Real Wages have declined since 1986 in most U.S. industrial sectors, including U.S. water transportation. Real Wages in Alaska also declined - by two percent since 1986 in Alaska water transportation, by eight percent in the Alaska private sector as a whole, and by seven percent in the Alaska state government sector (which includes marine highways)."

This report provides anecdotal evidence that labor hours required to operate the fleet increased by a smaller percentage than available seat miles. Simply explained, labor provided full manning regardless of fleet utilization. There was more intense vessel utilization without substantial increases in hours worked. As of 1996, maritime labor has absorbed the primary cost in both wages and additional non-compensable hours. This resulted in more intensive and stressful hours to the employee, all to the benefit of the employer.

Recent laws have placed severe penalties on employees who are required to work with oils, chemicals, and refrigerants. This legislation not only levies heavy fines, but in many cases, prison sentences for errors resulting in spills or release of chemicals. While the employer indemnifies the employee for civil suits, it does not indemnify for fines, and it is impossible to indemnify for prison. Yet, the employer refuses to reasonably compensate an employee for those risks. Going beyond even these issues, chief engineers are required to perform inspections of the owners property for the American Bureau of Shipping. Chief engineers are now taking on additional work and responsibility with no additional compensation. The constant addition of new equipment, equipment modifications, equipment of faulty design, and/or poor quality, has added more responsibility to engineers' who are responsible for operating aging vessels. These time consuming, added responsibilities leave little time to complete routine maintenance.

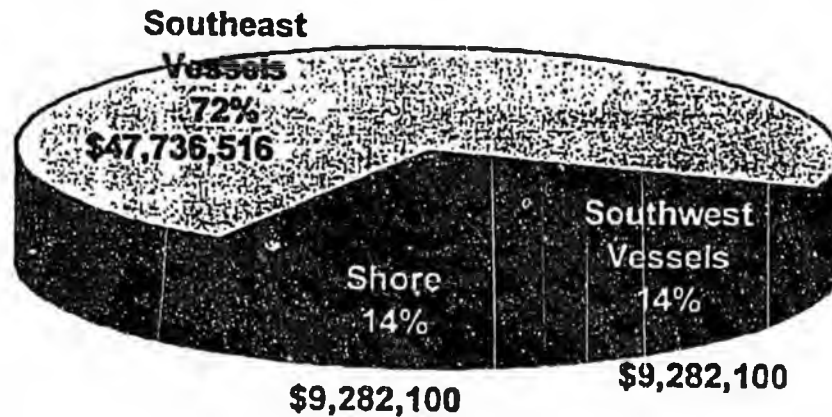
Currently, the Marine Engineers' Beneficial Association (MEBA) is in negotiations. One of the issues is narrowing the cost of living differential (COLD) to a level reflecting the actual cost between Southeast Alaska and Washington State. This is about 10 percent. It is only reasonable that people should receive equal pay for equal work. Since the COLD is presently set at a 13 percent differential, the MEBA union brotherhood, Alaskans alike, believe it is time that pay finally be made more equitable. This is a small cost item, but one in which there is resistance by AMHS, resulting in strong solidarity by the union. This small change isn't going to cause anyone to move south and will only affect about twenty employees. We need the legislators' support in resolving the long-term COLD problems and this would be a very healthy start. AMHS negotiators say the legislature doesn't want to hear about COLD. We believe this may be true in part, considering the context of last year's issues, but we also believe the legislature wants fair and reasonable treatment for all state employees. This is a small step in resolving long-term COLD difficulties.

Administration and Management

Shoreside Costs

There are many arguments concerning shoreside administrative costs as compared to vessel costs. How shoreside costs result in the overall efficiency of the AMHS may be a matter of conjecture because it is not well validated. In comparing the FY 95 operating expenditures to the operating FY 90 expenditures, it is clear that in those five years there was a marked increase in shoreside costs as compared to vessel costs. Shore expenditures rose from 14 percent of the total operating budget to 16-1/2 percent of that budget, reflecting an overall increase of \$2,455,760. The Southeast vessel operating costs were cut from 72 percent to 67.7 percent, reflecting a decrease of \$423,910 in those same five years (*1990 AMHS Financial Report; 1995 AMHS Financial Report*).

AMHS Operating Expenditures
FY90 Actuals



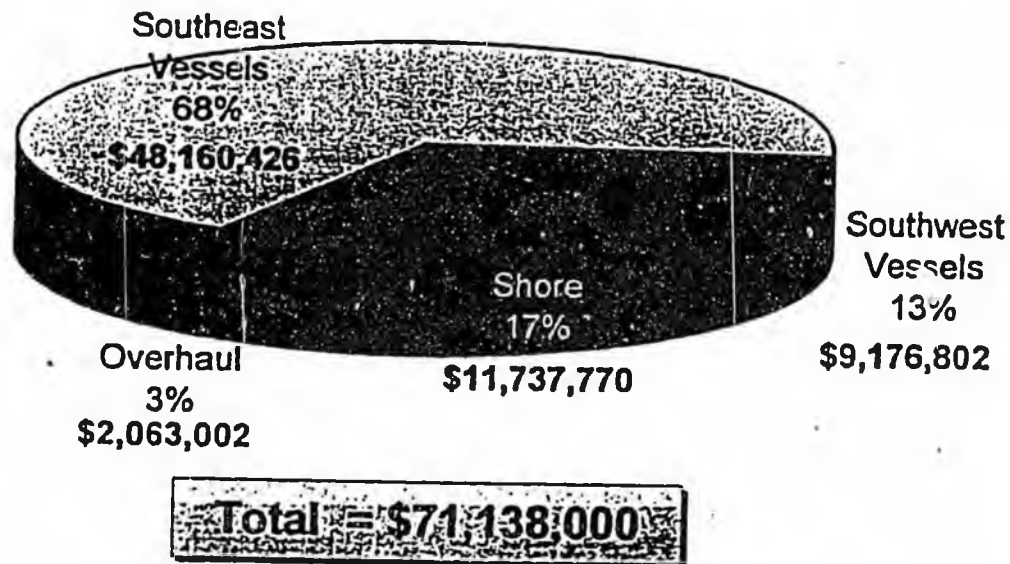
Total = \$66,300,716

AMHS Operating Expenditures FY 90 Actuals

In their annual report, AMHS elected to provide only charts showing relational numbers: I chose to break these percentages down into real numbers so we may better see the total care being provided a rapidly aging fleet. As readily seen, the cost increases for shore support increased over five times the rate of vessel operations in less than five years. In the real world, we might see the vessel operating cost increasing a little more rapidly than other cost, yet this is not the case. The Juneau Central Office of AMHS continues to expand while cost savings

are being born by vessel maintenance, operating personnel, and the traveling public. Noting: The Governor's Management and Efficiency Review in 1976 reported AMHS as having 676 positions of which 607 were permanent. There has been one ship added to the AMHS fleet. The M/V Aurora did not come on-line until 1978 and the M/V Wickersham and M/V Chilkat were sold. The actual numbers of AMHS vessel employees has remained the same - 607.

Operating Expenditures FY95



Operating Expenditures FY 95

An article recently published by several newspapers statewide (*The Juneau Empire, The Ketchikan Daily News, The Anchorage Times*, October 25, 1996)

addressed the concern about food cost over-runs on the ferries. A legislative audit determined that the ferry's food service operations lost \$325,000 in 1995, and that food service is a consistent money loser.

Director Gary Hayden's reply to these findings was that the losses were a result of high wages and the fact that the crew members get free meals. Mr. Hayden is incorrect on both counts. Crews' meals are a matter of federal law and in the case of AMHS, contractual. Meals are, and have been, a part of wages throughout maritime history. Originally, AMHS accounted for crews meals in their financial system; however, this was dropped in the early 1970's because it actually served no useful purpose in separating these food costs. Presently, it costs AMHS about \$11.50 per day to feed a crew member.

Mr. Hayden failed to report the special deals the Elder Hostel gets on "special tours," \$750 round trip with all you can eat. There are also special tour packages for New Zealanders and Germans. Watching the Elder Hostels go through the food line two or three times, not only for themselves but also for other passengers makes it clear why the state remains in the red on food costs. Furthermore, there aren't any special deals for Pioneer Alaskans or other Alaskans that might want a cheap all-you-can-eat round trip deal to Bellingham.

Crews' wages may appear high when compared to shoreside food service employees, but there remains the many additional job skills required by the

employer. These skills are discussed elsewhere in this report. (See Collective Bargaining Contract, page 14 and 15).

One problem in accounting for high food costs is the supplier "Food Services of America" (FSA). This vendor certainly is easier to use than the large local grocery suppliers as they are a one-stop merchant; but, the prices and quality are not equally competitive. Furthermore, the money paid "Food Services of America" for the most part goes out of state. If local procurement was used, much of what would be paid to "Super Bear" or "Carrs" would be reinvested in Alaska's growth. One of the causes of high food cost is that F.S.A. frequently delivers to the vessels fresh vegetables, fruits, and breads that are spoiled or rotten. They are immediately thrown away and re-ordered. Notifying the Juneau Central Office of faulty supplies has been no help as the stewards reporting the problem are often called troublemakers. In essence, no one wants to deal with the matter so AMHS just pays more.

AMHS Management Styles

The annual investment of operating dollars in AMHS has a direct impact on the state's economy. In studying these figures, it becomes evident that a direct proportional amount of revenue is returned to the amounts appropriated by the Alaska legislature. In 1991, the legislature appropriated \$35 million dollars in

operating funds. In 1992, the legislature appropriated \$31 million dollars. In each of these years AMHS, generated approximately \$43 million dollars in revenues (McDowell Group, 1992). The 1995 legislature appropriations were just over \$28 million dollars and about the same in 1996 (Fovia Vue, 1996). Total revenues for AMHS during these years were also just over \$43 million dollars (AMHS Annual Financial Report, 1995). Interestingly, traffic volumes began to decline as funding decreased (1990 through 1995, AMHS Vessel Traffic Volume Reports).

Operating Budget Comparisons Alaska Marine Highway System

Fiscal Year	General Fund	AMHS Fund
FY 91	\$34,000,000	\$73,536,000
FY 92	\$31,000,000	\$71,211,000
FY 93	\$29,464,000	\$73,643,000
FY 94	\$29,430,000	\$73,654,000
FY 95 Authorized	\$28,397,200	\$70,378,600
FY 96 Authorized	\$28,263,200	\$74,341,400
FY 97 Enacted	\$28,284,000	\$78,249,500

A point worth noting, the 1976 legislative appropriations for AMHS were the same as 1996 (AMHS History, Hudson, W., 1977).

AMHS, in an effort to offset the burdens of the ever increasing costs for fuel, food and services, raised the fares for vehicle and foot passengers. In concert with these fare increases, AMHS also eliminated free passage for the elderly and physically challenged. AMHS managers also readjusted fares for children. This directly impacted families from rural communities who frequently commute to larger communities for brief periods for health care, shopping, and recreation. Children between the ages of two and eleven years of age are now charged half fare while historically it was children between six and eleven. This placed an additional burden on people who maintain a subsistence lifestyle, or who have been impacted by the declining timber industries. The rural communities have limited day care and even

that becomes an additional expense to those least able to pay. These marked increases in fares stimulated an immediate public reaction. Alaskans, and visitors alike, began and continue to seek alternative means of transportation, some by driving the Alcan, others by using airlines. The Long Range AMHS Business Planning Analysis (Erickson & Associates, 1992) forecasted in their high fares sensitivity case, increasing Southeast fares by 3 percent per year will cause passenger loads to be six percent lower than the 1992 fleet base case. Vehicle loads, which are typically more sensitive to price, are 22 percent lower. Price elasticity has been ignored in favor of a monopoly approach to setting fares. Riders can be charged anything because they have no other alternative.

AMHS management compounded the problems of diminishing traffic caused by increased fares by laying up more vessels during the fall and early spring. These lay-ups have been for longer periods, there again, reducing the amounts of available ferry service to Alaskans.

While travelers are faced with making different choices in their transportation because of upward fare adjustments, they are also confronted with less frequent and more unreasonable schedules. Travelers are also seeing a decrease in on-board services, i.e., removal of bars. As one traveler recently exclaimed on the Malaspina, "Traveling on the ferries is just like being in jail, all there is to do is eat and sleep."

On the same day when purchasing a Coca Cola from a vending machine, another passenger stated, "There better be some Bacardi in this for this price!"

		VESSEL UTILIZATION AND MAINTENANCE SCHEDULE													
OUT OF SERVICE	SOUTHWEST	ROUTE ASSIGNMENT	VESSEL	Regular Summer 1973 Assignment											
				WINTER SCHEDULE											Regular Summer 1974 Assignment
				1973			1974								
				JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE
SOUTHEAST	1	YPR-SOY-YPR	TAKU MATANUSKA MALASPINA				— Rip. No 4 —	— Rip. No 2 —	— C.O.S 3 —			— C.O.S 3 —			
	2	SEA-SOY-SEA	MALASPINA MATANUSKA					— Rip. No 3 —				— C.O.S 3 —			
	3	SEA-SOY-SEA (Via Sitka)	OCEAN-GOING MALASPINA						— C.O.S 3 —						
	4	JNU-HNH-SIT-KAE-PSO B Return (Incl. Hofnes in Summer only)	M.V No 1 (235') MATANUSKA				— C.O.S 3 —								
	5	KTN-MET-KTN-HLS-KTN	CHILKAT				— C.O.S 3 —								
SOUTHWEST	6	SRD-NHB-SOY-HOM B Return (Incl. Anchorage in Summer only)	TUSTUMENA						— Rip. No 8 —		— C.O.S 3 —				
	7	VDZ-CDV-VDZ Capt. Whittier in Summer only)	BARTLETT							— C.O.S 3 —					
	8	SRD-NHB-SOY-HOM-B Return SRD-CDV-VDZ-B Return	TUSTUMENA												
	9	OUT OF SERVICE ANNUAL MAINTENANCE Approximately 6 1/2 weeks allowed for all vessels except 4 weeks for Chilkat.	TAKU MATANUSKA MALASPINA OCEAN-GOING M.V No 1 (235') CHILKAT TUSTUMENA BARTLETT												

Operating Plan
1996-1997

August 21, 1996
Revision 97.7

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	
	Implementation of an Operating Plan is dependent upon funding from the legislature and earned revenue.												Operating Weeks
COL		Jul 01, Mon DEL			Nov 01, Fri Layup		Jan 15, Wed Overhaul/Federal Project				Apr 11, Fri BEL		29.1
MAT	Jul 01, Mon YPR				Sep 29, Sat Overhaul						May 02, Fri YPR		21.4
MAL	Jul 01, Mon YPR		Sep 10, Tue Overhaul				Nov 01, Fri BEL				Apr 15, Tue YPR		44.7
TAK		Jul 01, Mon YPR					Nov 12, Tue YPR			Apr 28, Tue Overhaul		May 30, Fri YPR	47.7
AUR	Jul 01, Mon SP				Sep 19, Thu SOLAS				Mar 04, Tue WP	Hyder service on the SP will begin mid-May	Apr 29, Tue SP		28.4
LEC	Jul 01, Mon NP				Sep 11, Wed WP				Mar 04, Tue Overhaul		Apr 29, Tue NP		44.1
TUS				Jul 01, Mon					Feb 14, Sat Overhaul		Apr 15, Tue		46.7
BAR	Jul 01, Mon			Sep 14, Sat Layup			Jan 17, Fri Overhaul			Mar 01, Sat			28.1

LEGEND
 On Line [] BEL-Bellingham to Skagway Route NP-Northern Panhandle
 Overhaul and Construction [] YPR-Prince Rupert to Skagway Route SP-Summer Panhandle
 Layup [] WP-Winter Panhandle

Mainline Vessels 142.9
 Feeder Vessels 72.5
 Southwest 73.8
Total Operating 289.2

Note: Dates represent the first day of the period. Overhaul and rehabilitation periods include vessel in yard time.

The every-day traveling AMHS passenger has noticed the decrease in services and ever increasing costs, and the matter was recently an article in the *Anchorage Daily Times* titled "Ferries Need More Customers, Fewer Bureaucrats". Mr. Lew Williams, Jr., hit the nail squarely on the head when he wrote his article concerning diminished services.

Traffic Service and Fares

Traffic Volumes

The AMHS 1995 Traffic Volume Report shows a steady growth in both vehicle and passenger traffic from 1978 to its peak in 1992. In 1994, Mr. Greg Dronkert was appointed Director. He was in charge only a short time before initiating a fare increase.

The 1980 total AMHS passenger traffic volume was 325,241 and vehicle traffic was 77,188.

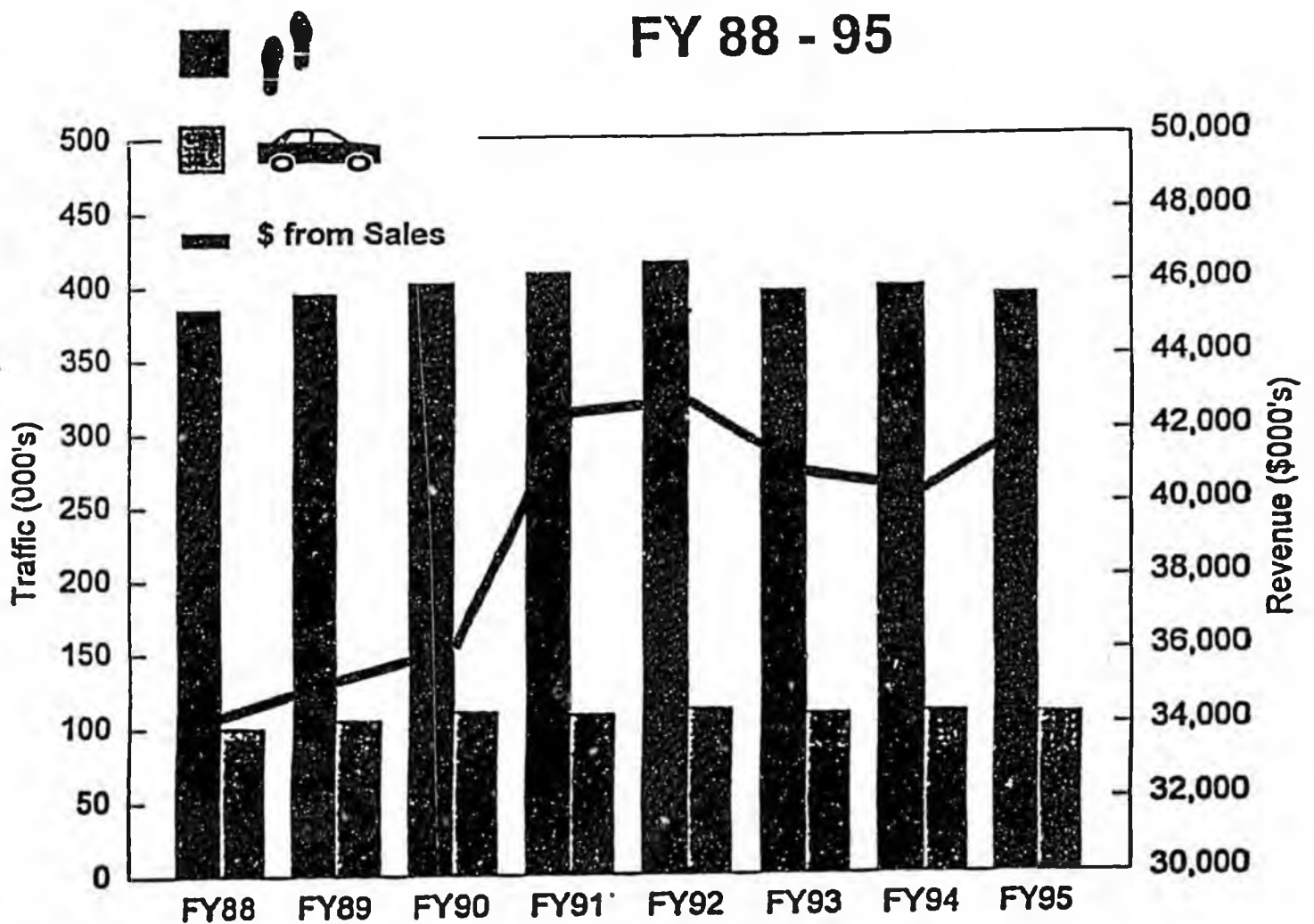
In 1985, the passenger traffic had risen to 369,429 and the total number of vehicles were 96,266.

In 1990, passenger and vehicle traffic volumes continued to rise to 413,393 and 111,040 respectively.

Traffic volumes peaked in 1992 with 420,436 passengers and 112,895 vehicles. By 1995, traffic had dropped to 377,685 passengers and 103,844 vehicles or a reduction of roughly ten percent of the 1992 volumes.

AMHS Traffic and Revenue

FY 88 - 95



In less than three years, AMHS managers discouraged public use of the system to a point where traffic volumes degenerated to the 1987 levels. This traffic reduction occurred during the greatest tourism boom in the history of Alaska. As traffic volumes fell, there is also a direct dollar reduction in the amount of money spent within the state by residents and tourists using the system. If this is true and Erickson's guidelines are correct, then the state suffered a decrease of about \$15,000,000 in direct spending from declining use of the Alaska Marine Highway System. The Long Range AMHS Business Planning Analysis (Erickson & Associates, 1992) states simply:

"load growth is the most important factor affecting AMHS financial performance." Erickson goes on to say, "Barring an end to population and economic growth in Southeast Alaska, or sharply curtailed growth in tourism, there is little chance that the sustained growth trends documented since 1985 will abate."

The Erickson forecast has not held true - but then again, who is willing to pay limousine fares to ride on a Greyhound bus?

Vessel Maintenance/Refurbishment Lay-Ups

Mr. Gary Hayden, the present AMHS Director, stated during a recent hearing of a Senate Task Force on the Alaska Marine Highway System that long lay-ups are caused by the need for routine maintenance and refurbishments necessary to meet regulatory requirements. This statement is misleading as both routine maintenance

and refurbishments can be accomplished within one far shorter time frame than they have been. In fact, it would be in the ship's best interest if the maintenance and refurbishment projects were accomplished during the same period. In 1995, the Matanuska was laid up for almost two months -- October and November -- at the Ketchikan Shipyard for part of its annual maintenance. The Matanuska was again laid up in January until the following May at Todd's Shipyard in Seattle for a galley refurbishment project. Only one chief engineer and one engineering crew member were aboard at Todd's doing minimal ship maintenance and repairs. The simple fact is all of the work, both refurbishment and maintenance, could have been accomplished during the four months allocated for the galley work. This would have left the Matanuska available for traffic in October and November. Mr. Hayden's argument that ships are not available to keep multi-year winter vessel scheduling just isn't credible.

M/V Columbia

Why isn't the M/V Columbia being used to that end? The Columbia has been laid up almost every winter for five to seven months since the ship was built. Why isn't this vessel included as part of the fleet and assigned a regular year round schedule rather than being used as a seasonal oddity? The Columbia has never been properly or efficiently utilized. AMHS managers claim the Columbia costs too

much to operate and plead budgetary constraints. Eventually, they will probably do this for the new "Ocean Class" vessel also because it won't be any cheaper to operate than the M/V Columbia. Whatever merit these statements have concerning the Columbia's operating costs, AMHS has taken virtually no steps to rectify or improve the Columbia situation. Now Alaska is building another vessel with the same inherent operating constraints. AMHS management's intent has always been to utilize the Columbia solely as a summer tour ship. In the early 1980s, the legislature appropriated six million dollars to repower the Columbia with reliable fuel efficient engines. Rather than do this, AMHS management negotiated a contract with the manufacturer of the unpredictable and inefficient engines to supposedly maintain them. Over the years these maintenance contracts have cost the state millions of dollars in general fund operating dollars because the existing engines, no matter what is done to them, are unreliable and remain grossly inefficient in consumption of fuel and oil.

AMHS Views on Winter Service

The Alaska State Legislature Budget and Audit Committee Report of August 9, 1997, concerning Alaska Marine Highway System Selected Operational Issues, Audit Control Number 25-4532-1996 stated:

"Vessels are non-operational for various reasons including required Coast Guard inspections, operational concerns, and budgetary

constraints. Generally, these maintenance items and budgetary lay-ups are scheduled for the fall/winter/spring season, when ridership is much lower. Vessels in lay-up status significantly reduce services to most communities during winter season.

Each vessel must be certified by the U.S. Coast Guard every twelve months. The annual maintenance and inspection process requires a minimum of 6 weeks per vessel. Additionally, the vessels are 20 to 30 years old and tend to need more repair and maintenance than newer vessels. In calendar year 1995, for example, vessels were non-operational for more than 110 weeks for annual maintenance requirements.

Vessel operations are further reduced by lay-ups dictated by budgetary limitations. Alaska Marine Highway System's (AMHS) operating appropriation has decreased slightly each year since FY 92 while expenditures have increased. AMHS management reports that certain vessels are out of service for a portion of time each year simply because there is no funding to operate them. In calendar year 1995, vessels were rotated in and out of lay-up status for a total of about twelve weeks due to budgetary constraints. In 1995, due to a combination of vessel maintenance and lay-ups, vessels were out of service more than 122 weeks or nearly 30% of the available sailing time."

Contrary to the Auditor's statements are the AMHS statements contained in the AMHS Master Plan of July 1991. This document on page 65, Issue: Tying up vessels versus operating vessels as a cost savings technique.

"It has generally been assumed that by placing vessels in lay-up status costs can be saved. However, when comparing the operating costs of vessels in service with vessels that are in lay-up status, it is apparent that under present conditions, little is saved in operating costs by laying-up vessels. A breakdown of vessel operating costs shows that there are fixed costs which occur even when the vessel is not in operation. The majority of these fixed costs are personnel services costs; insurance and shore support service costs also continue to be

incurred. On the other hand, variable costs, such as travel, contractual services, supplies and equipment, produce a savings. However, the continued fixed costs combined with the loss of revenue are greater than any savings realized and when all are considered, a net loss to the system results. For example, the total fixed and variable costs associated with operating the M/V Matanuska per week on the winter Bellingham run are \$305,900. The fixed costs which continue to be incurred when placing the M/V Matanuska in lay-up status total \$224,600 per week, resulting in what appears to be a net savings to the system of \$61,300 per week. However, if the weekly loss of revenue of \$214,800 is factored into the equation, a net loss of \$153,500 occurs."

Vessel Maintenance

Forcing employees to use vacation as an employer cost saving measure is an economic fallacy. Ship personnel, particularly engineers, frequently work substantial amounts of overtime to accomplish work that was deferred due to crew shortages during scheduled maintenance periods (AMHS MEBADEM.XLS., Markey). AMHS management has either not recognized that vessel maintenance is geometrically proportionate to vessel age, and that laid up ships do not earn revenue, or else they have chosen to disregard this fact. The total vessel overhaul expenditures for 1995 amounted to \$2,063,002 for eight ships. This equates to \$257,875.25 per ship (AMHS Operating Expenditures, 1995). Oddly, the 1996 vessel overhaul expenditures were \$3,662,323 for eight ships at \$457,790.38 each. The Division of Legislative Audit, in a report dated August 9, 1996, stated: It normally requires six weeks for a vessel to complete the required U.S. Coast Guard examinations for certificate

renewals. This statement is incorrect, even with the present crew reductions, it normally takes only three weeks at the maximum. Usually the Coast Guard is aboard a week or less, and it rarely takes the AMHS crew more than two weeks to complete all preparations for the Coast Guard inspections. Furthermore, it's entirely likely these inspections often can be accomplished in less time than three weeks, if needed.

The "Acres Report" discussed many problems with the AMHS vessel maintenance. Acres, a Canadian Maritime Management consultant, was contracted by AMHS in 1987 to review and make recommendations for improvement of vessel maintenance, and to assist in reducing escalating costs. Because the report was candid and to the point, it was not well received by AMHS managers and was never made public. It is well worth reading. The report is just as timely and applicable today as in 1987.

The implementation of a so-called maintenance management system (MMS) has been in progress by AMHS for over five years. To date, it has resulted only by a spare parts inventory on the vessels. Before this system, spares were maintained by a notebook system or an index card file. The new AMHS developed Microsoft NT Access system is complex, unreliable, and not user friendly. In fact, employees in the fleet engine departments are being forced to use it even though they don't care for it. Mr. Hayden, in response to a question concerning this system, said,

"Engineers on the Matanuska liked it." I am regularly assigned crew member on the Matanuska. I assure you, no one really likes it, except for one chief engineer who has been paid thousands of dollars in additional wages for participation in its development. In a recent letter to Senator Robin Taylor, Mr. Hayden wrote:

"An MMS provides the opportunity to gain efficiencies in scheduled maintenance and spare parts inventories. There are off-the-shelf MMS systems available that were written for the freight and cruise industries. However, all required conversion to the AMHS operations. In choosing among the options for implementing the development of the MMS system, the use of a long-term Chief Engineer from the fleet has advantages. Selecting an existing program was seen as imposing a solution from the AMHS management using outside contractors. Instead, the AMHS chose to have a member of the fleet work directly with other engineers to create a system that specifically addresses their circumstances. The benefits of an MMS system come from use which follows acceptance. The AMHS has also observed that the Washington and British Columbia ferry systems are not satisfied with their off-the-shelf systems."

What is the basis for Hayden's statement that the British Columbia ferry system is not satisfied with their off-the-shelf system? Less than two years ago they had just begun looking for a system. If they have found one, and it doesn't satisfy their needs completely, they are nonetheless still four years ahead of AMHS, and they probably have a system that works.

The AMHS chief engineer responsible for this program has spent over five years working at home basically unaccountable for his time or the product. As of today, this program has cost the state at least \$650,000 and the sum total of the

product is an inventory system. The program is the product of two people and has not been developed with fleet input or accord. In fact, input from others has been disregarded and even now after almost six years, the product is still incomplete. What the AMHS Vessel Maintenance System actually equates to is the famous U.S. Department of Defense \$3,000 toilet seat. The existing AMHS MMS does nothing for establishing a fleet wide maintenance system to insure standardized and common maintenance procedures that should be maintained throughout the fleet. Presently, maintenance is performed in accord with check off sheets individually prepared by the chief engineers aboard each vessel. Very few are the same and practice varies between ships.

The Acres Report Stated:

"Thus each ship has had to develop maintenance procedures that are responsive to the unique needs of the vessel, and the chief engineer's perception of its maintenance requirements. This has been possible only because of the very low turnover of AMHS crews. However, it has resulted in individual effective policies that are non-portable between vessels, and are only incidentally responsive to the needs of the system as a whole."

After a decade and three quarters of a million dollars, nothing has changed. It would be to AMHS' advantage to hire a qualified professional programmer to come in and work with the fleet personnel to complete the MMS in its entirety, and to make it user friendly. The state will be money ahead and engineers can get back

to doing maintenance rather than spending hours each day sitting in front of a tube trying to locate parts or make entries.

Vessel Traffic Loss

The loss of vessel traffic over the years has been slow and insidious. Most reasons given have been without foundation.

Briefly, the population of the state has grown significantly since the mid-seventies when the AMHS fleet reached its full growth in vessel size and service capability. Its size and capability have remained the same. This lack in AMHS growth and change has resulted in limited flexibility to meet the increased and ever changing demands in public transportation. Population increases, population shifts, and community growth have been challenging. The economic ups and downs of the timber industry; the regulatory changes in the fishing industry; the starts and stops of the mining industry have all made AMHS planning difficult. Simply, AMHS has not had correct or ample resources to meet the rapidly changing demands of the state's increasing diversified growth. Planning of the marine highway has only been based upon traffic which has stable roots, such as the companies shipping containers, and summer tourism. Even with what these factors identify, and a few consistent givens, AMHS is nevertheless still operating a 1976 fleet to meet 1996 challenges. The lack of resources has created several negative impacts that AMHS has acknowledged but

has done nothing to correct. The AMHS Schedule Alternatives for Summer 1995 were presented to the Southeast Conference held at Ketchikan in September 1994 stated:

"System-wide demand (ridership) has increased approximately 50% since 1977. During the same time there was no increase in capacity, with no additional vessels, an increase in service for one community would decrease service to another. Over the last few years, AMHS has implemented efficiency measures which increase services, however, all communities continue to call for additional service. One possible means of increasing capacity is to change the ship deployment strategy."

It would be pointless for this paper to include the ever-changing inconvenient schedules that have been available to the public over the past ten, and in particularly the last five years. These schedules and changes are meaningless to the reader without understanding why they have been so frequently changed. Demands from Prince of Wales, Sitka, and various tourist groups have had a marked impact in deciding vessel schedules. Lynden Transfer and Alaska Marine Lines have had a tremendous impact on scheduling for communities because these lines pay so-called dependable revenues. The communities have been forced to take a back seat to commercial needs. AMHS over the years has desperately tried to fulfill the needs of the traveling Alaskan, the commercial shipper, and the visitor with fixed resources. These efforts at very best have been an impossibility. AMHS has successfully stuffed ten pounds of scheduling in a five pound bag, now the seams are splitting.

AMHS efforts to meet the ever increasing demands of scheduling commitments has resulted in rising cost. Fiscal increases have been as insidious as scheduling problems. Less time in each port means more ports in a week, which means more crew call-outs for tie-ups and vessel let-goes. Frequently, it means burning more fuel to meet tide schedules or burning more fuel because you can't meet tide schedules. All of these indefinites reflect an impact on terminal personnel and cascade onward into other costly indefinites. The reality is chaos. **Chaos costs money.**

The expense of traveling on an AMHS vessel has reached a point where many travelers are now looking for more economical means of transport. When compared to a British Columbia ferry, the AMHS cost is outrageous. Ticketing from Juneau to Prince Rupert on a AMHS vessel for a 19' vehicle and a driver is \$311 one-way (AMHS Schedule October 1, 1996 through April 30, 1997). B.C. Ferries' charge for a passenger and vehicle from Prince Rupert to Port Hardy, which is about the same distance, is \$169.00, about half (B.C. Ferry Schedules, Queen Charlotte Islands). The same holds true for most of the B.C. Ferry fares, and considering this is Canadian money, that's really quite a deal. Another example, the AMHS Ketchikan to Prince Rupert run as compared to the B.C. Ferries' Prince Rupert to Skidgate run is approximately the same distance and requires the same amount of time. The ships in many ways are very similar in propulsion, manning, and accommodations. The cost on the B.C. Ferry is \$93.50 (Canadian currency). The AMHS charges \$100

U.S., which is thirty percent more. It should be noted that Skidgate is a remote community on the Charlottes, but nonetheless, Skidgate receives regular, reliable service.

Air transportation in lieu of AMHS is another option many are now choosing. Residents in rural communities come to the larger communities for health care, shopping, and recreation. Considering the cost of transportation on AMHS, and the uncertainties with scheduling, many people now choose to fly, rent a car, and stay in a hotel. To distill this down further, ridership is approximately sixty percent during the (peak) summer months reflecting a total loss of service equating to forty percent (Petrich Marine Surveyors & Consultants, 1996).

A more critical view of AMHS fare structure is to compare them with Alaska Airlines' fares. In doing so, one might say AMHS is less expensive, unless of course you realize that Alaska Airlines fares for Southeast Alaska are 300 percent higher than anywhere else in the world.

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Prince of Wales, Ketchikan, and Wrangell have had major financial impacts from reduction in the timber industries and loss of jobs. New ferries are needed to enhance tourism, develop small businesses and energize the economy. Efficient service will stimulate small business growth such as shops, bed and breakfasts, motels, fuel stops, and general stores. Visitors will stop in Ketchikan and Wrangell for further transit to Prince of Wales, so all of these communities will benefit (Kasaan Bay & Whale Pass Ferries, August 1994, C.L. Cheshire, et.al.).

Vessel Schedules

While the quality of scheduled vessel service has been decreasing, there has also been a marked reduction in vessel maintenance by ship's personnel (See sample schedules, pages 24-26). Machinery maintenance has been reduced to the barest minimum levels and in some cases even curtailed. Vessel repairs by contractors has often been reduced to the barest minimum. Repair methods that provide only temporary results are implemented in order to save money. The basic guidelines appear to be: "Do only what is mandated by the regulatory bodies." The result of this philosophy is that vessel employees are forced into using personal annual vacation for extended vessel lay-up periods (Marine Engineers Beneficial Association Vacation Committee) while at the same time watching the condition of the vessels deteriorate. (Vessel Condition Surveys, Glostien Associates, 1989) (Ross,

1994) Until 1991, practice was to place both A and B engineering crews on board the vessels to do required repair work along with security watches that were doing maintenance repair work at night while the vessels were in overhaul. This practice has been discontinued and the condition of the vessels is rapidly deteriorating.

Scheduling problems are the failure of an inefficient and antiquated reservation system (1977 vintage). More often than not, the mainline ferries left traffic, or left ports, with anywhere from twenty-five to forty percent of the car deck empty this year. Travelers attempting to book reservations through the system have been told the ships are full and no space is available when there actually is space available. For two summers, the M/V Columbia has operated up and down the southeast Alaska Coastline with empty car deck space. The same scenario has held true for cabin space.

During the summer of 1996, it was not uncommon to have at least two mainliners leave and depart ports, within just an hour or two of each other, both going in the same direction and maintaining the same schedule. The first ship would fill up and the second would run empty except for minor overflow traffic.

Vessel schedules have been so unsatisfactory to many southeast Alaska residents, that Prince of Wales Island has already established a Port Authority in order to obtain funding and to establish its own ferry service.

The 1996 Legislative Audit discussed reduced services to outlying communities and stated that:

"In our view, AMHS had no reason to expect that limiting service to Prince of Wales (or to other southeast communities) would unreasonably constrict travel to and from these communities. Because ferries to and from Hollis remained less than 50% full more than half the time, we are not convinced that even limited service discussed above posed an unreasonable hardship for Hollis or other southeast communities."

While this is the view of AMHS and the Legislative Auditors, it is nonetheless incongruent with the reality that these communities are looking elsewhere to improve their transportation needs. AMHS has been sorely remiss in exploring means to improve services to these rural areas. It would appear the task has not been overly difficult as the people on Prince of Wales have already determined that the present vessels serving them are inappropriate and plan to build vessels more suitable for their requirements (Prince of Wales Service Alternatives, Nov., 1993), (Kasaan Bay and Whale Pass Ferries, C.L. Cheshire, et. al., August, 1996).

ALASKA MARINE HIGHWAY SYSTEM

Revenues by Vessel FY 86 - FY 90*

(\$000's)	FY 86	FY 87	FY 88	FY 89	FY 90
COLUMBIA	6,618.0	4,957.0	5,393.0	6,220.0	6,881.1
MATANUSKA	7,378.0	6,829.0	8,375.0	8,440.0	9,950.1
MALASPINA	6,510.0	8,581.0	6,811.0	7,860.0	6,383.1
TAKU	5,019.0	5,413.0	5,580.0	4,830.0	5,712.1
AURORA	1,400.0	1,388.0	1,466.0	1,460.0	1,634.1
LECONTE	1,395.0	1,412.0	1,356.0	1,450.0	1,584.0
CHILKAT	175.0	73.0	35.0	50.0	0.0
BARTLETT	1,658.0	1,644.0	1,798.0	1,560.0	1,585.0
TUSTUMENA	2,180.0	2,194.0	2,033.0	2,100.0	2,392.0
NON-SPECIFIC	0.0	10.0	1,453.0	1,290.0	0.0
TOTAL	32,333.0	32,501.0	34,300.0	35,260.0	36,121.5

* These figures are close approximations based on reservations and ticketing information. They may be used to show the relative magnitude of different vessel operations. They are not accounting figures, therefore, attempts to reconcile with accounting documents may yield small discrepancies.

ALASKA MARINE HIGHWAY SYSTEM

Expenditures by Vessel FY 86 - FY 90*

(\$000's)	FY 86	FY 87	FY 88	FY 89	FY 90
COLUMBIA	8,220.0	5,620.0	6,665.0	6,176.0	7,200.0
MATANUSKA	8,673.0	7,424.0	8,939.0	8,857.0	9,696.0
MALASPINA	8,170.0	8,277.0	7,480.0	8,549.0	8,196.0
TAKU	7,871.0	7,745.0	7,728.0	7,106.0	8,526.0
AURORA	4,277.0	4,286.0	4,513.0	4,251.0	5,285.0
LECONTE	4,912.0	4,416.0	4,509.0	5,015.0	5,461.0
CHILKAT	875.0	486.0	226.0	304.0	3.0
ALL VSSL SE	4,339.0	6,939.0	5,393.0	5,685.0	3,373.0
TOTAL SE	47,337.0	45,193.0	45,453.0	45,943.0	47,740.0
BARTLETT	3,291.0	3,066.0	3,195.0	3,329.0	3,516.0
TUSTUMENA	5,272.0	4,972.0	5,239.0	5,199.0	5,239.0
ALL VSSLS SW	853.0	1,171.0	756.0	832.0	498.0
TOTAL SW	9,416.0	9,209.0	9,190.0	9,360.0	9,253.0
GRAND TOTAL	56,753.0	54,402.0	54,643.0	55,303.0	56,993.0

* These figures are close approximations and may be used to show the relative magnitude of different vessel operations. They are not accounting figures, therefore, attempts to reconcile with accounting documents may yield small discrepancies.

Review of the AMHS 1990 Financial Report, revenues by vessel and expenditures by vessel, will quickly provide the reader with the idea that maybe the wrong type vessels are being used to provide certain service. Smaller, faster, and more economical vessels are apparently needed on the Prince of Wales run, as verified by the Prince of Wales Island Ferry Project by Kent Miller. It would seem that smaller, faster, more economical ferries are also appropriate to provide service to Hoonah, Tenekee, Angoon, and perhaps Kake. Reports are that the catamaran "Alaska Dream" that serves Green Creek Mines has been superb for a similar use. The "Alaska Dream" provides daily commuter service for employees working at a mine in Hawk Inlet on Admiralty Island, 35 miles from Juneau. This little ship handles Lynn Canal very well in some very nasty weather and rarely misses a day. The "Alaskan Dream" is too small for the rural community run, but a vessel of similar configuration capable of handling a few vans and a dozen vehicles would be adequate and could provide more frequent service. The "Alaskan Dream" was built in Sitka.

The AMHS Master Plan of July 1991 recognizes the need for at least two feeder vessels for the Southeast rural commuter service in order to provide improved and cost effective transportation.

The Aurora and LeConte are expensive ships to operate and certainly could be far better utilized. If nothing else, stretch them forty feet and place them on

mainline service. They would have more flexibility than the big ships, except they would not be adequate for the Bellingham run. They could do winter mainline service at far less cost than any of the other vessels. If determined necessary, they could also serve in Prince William Sound and provide better service than the existing Bartlett. However, the Bartlett could be stretched, fitted with side doors and an elevator, and provide service in Prince William Sound or Southeast Alaska for many more years.

An article in the November 1995 issue of Marine Digest and Transportation News clearly states that Goldbelt, Inc., intends to provide ferry service from Juneau to Haines. Undoubtedly their intent is to capture a large part of the summer tourist traffic and leave the subsidized winter traffic to AMHS. No doubt this would relieve some of the summer bottleneck in traffic flow between Juneau and Haines, but eventually they may take the bulk of this market leaving AMHS with more reduced revenues and requiring more state subsidy.

A method for resolving many of the reservation problems and at the same time provide space for local Alaskans wanting to travel during the summer months, but who are unable to make reservations months or even years ahead of time, is to keep set aside twenty percent of cabin and car deck space for sale on a first come first serve basis. Tickets would be sold one or two hours before the scheduled sailing. Cabin space could be sold on the ship.

The M/V Malaspina

In a recent letter dated November 12, 1996, to Senator Duncan, Department of Transportation Commissioner Joseph L. Perkins stated the M/V Malaspina would be retired in the late 1990's. He goes on to discuss the problems with the Malaspina meeting new regulatory requirements as well as safety issues resulting from asbestos. Mr. Perkins' letter references the Alaska Marine Highway System Master Plan that he says was adopted in July 1991. Actually, little of the 1991 Plan was ever adopted, just as the plans before it. He discusses 'alternative five' which concerns the retirement of the Malaspina. It states that retirement of the Malaspina is contingent on a new feeder vessel. Anyway, the plan makes a nice presentation to the legislature and public concerning AMHS management; but, what Commissioner Perkins really meant is that the plan is adopted when convenient and ignored when inconvenient. Mr. Perkins also refers to public participation, other than the Prince of Wales and Prince William Sound Traffic studies performed by Ken Fox of Art Anderson, a Seattle Consultant, and Mary Ashmore of AMHS, public participation has been for the most part non-existent. For instance, the decision to close the ship's bars. The normal means AMHS utilizes to notify the public of meetings, where

interested citizen input should be important, is usually so poor as to rarely be seen or noticed by interested parties.

In regard to the Malaspina's condition, the author of this paper is the last person having performed a complete vessel condition survey on the M/V Malaspina, as well as the other vessels in the AMHS fleet. I have a more updated comprehensive knowledge of the mainline fleet condition than anyone at the Juneau Central Office, or the Glosten Associates. Glosten is the last consultant contracted to perform AMHS vessel surveys and is now doing a very limited survey of the Malaspina. Future disposition of this ship has been forecast not on fact or cost, but more on personal perspectives or maybe even a whim, rather than "sound technical and financial analysis" as Commissioner Perkins claims.

Presently, the Malaspina is the smoothest and most economical mainliner in the fleet. The vessel vibrates far less than the Columbia, Matanuska, or Taku. It's like comparing a Cadillac to a Model A. The Malaspina consumes less fuel per week than the other ships and furthermore is the most stable of the three "Taku Class" vessels.

Structurally, the Malaspina is almost as sound as when new. The only wasted steel areas are in a few wet spaces such as crews showers. There is a section of curtain plate along the car deck that needs replacement. This deterioration occurred over the years due to old concrete vehicle railings that were installed during original

construction and that have since been removed. This condition exists on the other "Taku Class" vessels, but not quite as severely. The reality is that the Malaspina has become frayed and worn in appearance due to a lack of funding being allotted to her upkeep. But, these are only superficial appearances. In 1994, every single void, tank (with the exception of the 5's [fuel tanks] cofferdams, crossflow voids and peaks were examined. The only noticeable adverse conditions noted were superficial scaling on a few bulkheads and scantlings. These discrepancies have since been preserved using sound marine practices. Now the structures are well preserved. The starboard's 4's were extremely dirty from ballast water, but have since also been preserved. Structurally, the M/V Malaspina is not in a 4.0 condition, but the ship sure is a full 3.7 and well worth refurbishing.

Age is not a criteria for retiring vessels. The U.S. Coast Guard has refurbished vessels that have been in service well over fifty years. Washington State has several refurbished ferries that are sixty years old and still operational with no plans for their future retirement.

ASBESTOS

Mr. Perkins discussed the problem of asbestos, but the reality is AMHS doesn't know where or how much asbestos exists in any of the vessels. In fact, the Matanuska has just as much asbestos on the cabin deck as the Malaspina, but

because it wasn't documented in the asbestos survey, the office engineers won't acknowledge the condition. The Fleet Asbestos Survey that was accomplished in about 1989 was not adequately funded to obtain a meaningful report, so the document material is not dependable and has been more troublesome than useful. Further compounding the asbestos problem is at the AMHS office engineering staff doesn't document asbestos removals when they occur, so there is no current on-going record. Recently, I was in JCO, one of the staff engineers asked me about the Tustumena and how much asbestos was remaining on board. The Tustumena was certified free of all asbestos in 1991 by the Asbestos Abater's Inc., of Tacoma, Washington, but no one in the Juneau office knew this, and they have no accurate records of what has, or has not been removed over the years. The incomplete asbestos survey has actually cost more money, in contract change orders for removal of asbestos that was not supposed to be present, than the state would probably have paid to have the Malaspina stripped of all asbestos. The recent asbestos removals on the present ongoing M/V Matanuska SOLAS contract will bare this out, and this is only one of several contract change orders executed on AMHS vessels for asbestos removals. Some asbestos removals have been accomplished on the Malaspina but not as much as the other vessels. Lastly, saying asbestos is a serious problem may be really overstating the issue.

In the 1990 vessel condition survey conducted by The Glosten Associates of Seattle, Washington, several options were provided for the state in order to move ahead in decision making on the Capital Improvement Plan for AMHS vessel. There were basically three options presented for the Malaspina. Option "A" included a 100 percent refurbishment. This entailed completely stripping the vessel of all machinery and apparatus, wiring and piping down to a bare hull and completely blasting to clean metal, replacing all defective steel and restoring to a new vessel condition meeting all current regulatory requirements. The cost estimate in 1990 dollars was at \$52 million if the refurbishment was done piece-meal over about twelve years - the cost at about \$41 million if accomplished all at once. Option "B" was to start a piece-meal refurbishment doing sections at a time to accomplish major needed work over several years. The last, Option "C" was to do nothing and eventually retire the vessel.

The M/V Malaspina is one of a class of vessels in the AMHS fleet that historically are revenue generators and not subsidy burners. The "Taku Class," as they are called, have the flexibility to enter almost every port in Southeast Alaska. The M/V Columbia cannot. The "Taku Class" burn between 31,000 and 35,000 gallons of diesel per week in operational status. The Columbia burns between 55,000 and 90,000 gallons of diesel per week, depending upon the manner of vessel operation.

The M/V Columbia has more asbestos on board than all three of the "Taku Class" mainliners combined and is not scheduled for any refurbishments or SOLAS upgrades. The manning levels for the M/V Columbia are approximately 20% more than for the Malaspina or Matanuska, and the Columbia has historically only been utilized five months out of the year.

In a recent letter to Senator Duncan, Mr. Perkins states:

"I predict the decision (to sell or not sell the Malaspina) will ultimately be based on money, both operational funding and capital cost. AMHS has enough money to manage an eight vessel fleet; however, with the new ship coming on line in mid 1998. Keeping the M/V Malaspina would make nine vessels. A nine vessel fleet will cost more to operate. I expect this issue to be discussed during the next Legislative session."

Mr. Perkins' statements again are misleading. AMHS only has enough money to run an eight-ship fleet during the summer and a four ship fleet during the winter. Again, the Columbia has never operated more than half of the year and the other half it is being tied to a dock with only a hand full of crew members on board for security. He is right that the new "Ocean Class" will require additional funds. As a result of its power and size, the new ship will burn more fuel and require at least as many operating personnel in the crew as the M/V Columbia. By the very nature of the package, it will never have the revenue producing characteristics of the "Taku Class" mainliner. To properly assess the significance of fleet overall performance, we

must note the ratio of passengers carried as compared with the consumption of fuel, staff, and the vessel.

The New "Ocean Class" Vessel

The question of whether AMHS needed a new vessel, particularly a large one, has loomed in the minds of many. AMHS' utilization of their existing vessels in providing quality service over the past few years has been minimal. One might ask, "Why should AMHS build a great new ship when they have so many tied up all winter and can't properly care for the ones they have?" If I were a legislator from one of the northern regions, I'd be very frustrated with the idea of the state spending ninety-six million dollars on a ship that will probably haul mostly tourists. I'd be even more upset if my constituents were in need of major road, street, or boulevard improvements, and that money was not available due to a very expensive, unneeded pork-barrel project in some other legislative district.

Overshadowing this issue, is the fact that the southeast marine corridor provides a very direct economic benefit to the south-central and northern regions. AMHS generates over \$43 million dollars in direct revenues and over \$170 million dollars in direct and indirect revenue. Of that, over \$18 million is spent by visitors in regions of the state other than Southeast Alaska. More than \$8 million is spent in South-Central Alaska and Anchorage is the top beneficiary. AMHS visitors spend over \$5 million in the interior/northern region (mostly Fairbanks), another \$2 million

in the Denali area, and \$300,00 in Southwest Alaska (Alaska Visitors Statistic Program II, Alaska Visitor expenditures, Alaska Department of Commerce and Economic Development). If the southeast corridor loses the ability to provide adequate marine transportation, or if AMHS continues to erode in performance, then potential Alaska travelers may elect to go elsewhere. A four or five thousand mile drive to Alaska takes visitors directly through Canada. It is very easy to change plans from visiting Denali into going to Yellowknife and visiting the Great Slave Lake, or driving into the Arctic and fishing along the McKenzie Delta. Canada has an excellent road system and encourages tourism equally as well as Alaska. The Southeast corridor doesn't have auxiliary road systems. Once on the marine corridor, the traveler and his money is locked in Alaska. The traveler will spend money and eventually every legislative district in the state will benefit in some way or other. The new vessel, hopefully, may be able to improve the Southeast mainline corridor by opening an extended corridor between Southeast Alaska, Bellingham, and Prince William Sound, or perhaps even Cook Inlet. In the future, there may be stops in Yakutat or Cordova providing an economic boost to those communities. It remains yet to be seen how AMHS fares will compete at five or six hundred dollars and five days travel from Bellingham to Homer or Anchorage, especially with competitive air cost at two hundred dollars and a five hour flight. This kind of scheduling and fare pricing requires intensive professional marine transportation planning, which by definition

means bringing together all interested parties and, drawing upon the experience of the employees of the system.

Greg Dronkert, who served as AMHS Director in 1994 stated, in the November 1995 issue of the Marine Digest and Transportation News that:

The main impediment to private fleet development is the Alaska Marine Highway System which receives an approximate 40 percent subsidy from the state. The state is pricing in a manner to protect market share, below market value of service. This limits the amount of private interest in the service, and ultimately limits the capacity of the system. Thirty years ago this made sense because there wasn't enough activity and volume to support ferry service, but as Alaska developed, commercial alternatives have become viable.

This response from a past Director clearly discloses why AMHS is having deep rooted difficulties. If we agree with Mr. Dronkert that since commercial alternatives have become viable in those areas of Alaska that must use maritime transportation, there is no reason commercial alternatives are less "viable" in the rail belt or why privatization of highways and development of toll roads for profit is not equally as "viable." Residents of Southwest and Southeast Alaska already pay heavy tolls to the state for basic transportation. Perhaps the answer to the problem is to construct highways in Southeast and Southwest Alaska, thereby shortening ferry routes as a means to reduce the length and cost of ferry operations.

Southeast Alaska contains only twenty percent of the state's total population, but not only southeast Alaskans use the system. Winter travelers from Anchorage,

Fairbanks, Palmer, and other communities also travel via AMHS. Frequently, there are also users from the Yukon. AMHS as an alternative to the two thousand mile drive over icy highways to the contiguous U.S. and is certainly the most desirable route. The greatest deterrent to more AMHS use is the fact that the two thousand mile drive doesn't appear so bad when it can be driven at \$.30 per mile instead of the \$1.24 that AMHS charges. It's truly a shame our northern friends must peril winter highways while the car decks of AMHS vessels are running with empty space. Presently, military personnel from the Anchorage and Fairbanks regions are one of the biggest AMHS winter users as their costs are reimbursed by the government.

In the meantime, AMHS still is building a new ship.

AMHS management has a standard rhetorical reply - the new vessel will replace an old tired, expensive to operate ship, and the new vessel can be used as a command center in case of a great disaster, unless of course, the disaster doesn't occur along the gulf coast; the new vessel can be used for national defense in case of another war. Lastly, it's a modern ship with better amenities for the public and will be less expensive to maintain.

Beyond these political concepts there are these facts to be considered:

- ◆ Fact 1: The new ship will have more shaft driving horsepower than any vessel in the AMHS fleet. No matter how you cut it, it will burn more fuel per operating hour than any vessel in the AMHS fleet.

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- ◆ Fact 2: The vessel will have more through the water surface friction area than any vessel in the AMHS fleet. More friction requires more horsepower requiring more fuel.
 - ◆ Fact 3: The new vessel will have more sail-windage area than any vessel in the AMHS fleet thus more resistance. More resistance requires more horsepower requiring more fuel.
 - ◆ Fact 4: Going beyond the fuel requirements, the new vessel will have more separate spaces with more separate services and more equipment requiring more periodic maintenance than any ship in the fleet, thus requiring more crew. Increased manning means increased crew costs.

The Glosten Associates, in their efforts to keep construction costs within the AMHS budget, used modern structural design criteria which means that frame spacing is wider than on other AMHS ships, and the structural steel requirements are lighter than any other AMHS vessel. This inevitably will lead to higher future maintenance cost due to more frequent steel repairs and replacements, not to mention a reduced life span. The draft of the vessel has also been compromised to allow it to transit Wrangell Narrows and its passenger load capacity, car deck capacity and service speed will not allow it to operate economically between Bellingham and Southwest Alaska. Another issue noted, the vessels beam has been increased another five feet to meet new stability requirements. This might lead one to ask, "What is the vessel's growth life expectancy?" This is an important question if AMHS intends to keep the vessel very long.

In discussing the positive and negative positions at least we can see that the new vessel, if used properly, can promote growth. If the new vessel is used as AMHS has historically used its vessels, then it will only be a burden tied up along side the Columbia all winter.

Future of the Marine Corridors

The making of AMHS an authority is certainly a step in the right direction, and will probably resolve the most serious issues. The operating budget and revenue earning capability is the most pressing problem facing AMHS. It's very apparent the legislature isn't in a mood to increase subsidies and without the government teat to suck on, the AMHS appointed bureaucrats don't know how to manage. Will the Authority remedy this? Many of the concepts within the Authority Bill will certainly make improvements to a defunct system, but it seems more autonomy for the system may be needed.

Forming a state-owned corporation responsible for its assets and earning money seems in keeping with the political atmosphere in Alaska today.

The idea that board members should receive fixed daily pay presents an uncomfortable issue. Pay should be tied to results and one motivation is to pay the board members \$200 per day instead of \$300 and at the end of the year they may receive a bonus based on a percentage of earned profits. No profits, no bonus.

It works for Chevron as well as many other corporations. This may reduce the possibility of board meetings that accomplish nothing other than running up a bigger pay check.

Recently, AMHS got rid of the Ketchikan Shipyard because they simply just couldn't handle it. Those are state assets that are and have been part of the basic concept of the Alaska ferries infrastructure. All along AMHS has had someone else manage the ship yard. Last year, the present leasing company reported a loss of over a hundred thousand dollars, but that didn't deter the shipyard's general manager from constructing a very large and beautiful home overlooking the shipyard and Torgass Narrows. Apparently there must have been some marked sense of security in regards to the shipyard's future.

The state owns a very large piece of property in Ketchikan adjacent to the shipyard and the ferry terminal. On that land is a warehouse and a couple of small office buildings. There is also the Ketchikan terminal and vessel berthing docks. All are in a short walking distance.

The corporation would own the AMHS fleet in its entirety, the Ketchikan Shipyard, and all associated buildings and land. A new building in Ketchikan would be required to house the director, administrative and board offices of the corporation.

One of the operational difficulties in the Ketchikan shipyard has faced over the years is maintaining skilled yard workers because maintaining the AMHS vessels is

only seasonal work. As AMHS lays up vessels every year and has a surplus of personnel, many of these employees could work at the shipyard rather than be laid off, or forced on unwanted vacation, solving two problems.

As previously discussed, poor communications and interactions between administrators and vessel staff are on ongoing difficulty. If the offices are in walking distance, rather than a ten mile drive from the vessels, as JCO is from the Auke Bay ferry terminal, the mere proximity may stimulate harmony. Removing the presence of the offices from Juneau will reduce overbearing political influences and stimulate a sense of direct responsibility by marine highway administrators to the system, rather than to the commissioner.

Acquiring funds for new vessels, future growth with improved service and scheduling must come from sources other than the legislature, however, the legislature must make the decision on the methods of acquiring the funding. Federal Highway money is rapidly drying up. State revenues are becoming more difficult to obtain and tourism is mostly a seasonal industry and even that growth is dependent on acquiring more vessels. A concern that is important but bewildering, is why Federal Transit money has not been used for development of commuter service for out-lying communities.

Looking at other states and some of the resolutions they have implemented, it would appear there is one choice which is inexpensive and can be implemented

immediately. It will keep the mainliners full all winter and all summer. Reopen the bars and there will be great profit potential. Install pay music and gambling machines in the bar areas on the mainline service only, with no gambling when vessels are in port.

Presently, the Department of Transportation is performing a study on transportation needs. It would be unwise to assume this study will report any valuable insights into AMHS. The Alaska Marine Highway System has been the stepchild of DOT since its beginning and that will never change. So long as AMHS does not run on pavement, it will always be the last interest this asphalt laying dinosaur has. The Alaska Marine Highway System desperately needs a divorce from this departmental control.

Whatever action the legislature deems appropriate, it is imperative that it be **ACTION**. AMHS is running amuck. To do nothing will cost even more jobs in Southeast and Southwest Alaska, and have a major negative impact on the development of the entire state. Just a brief look at the data provided in this small report and it becomes apparent the demise of AMHS is in rapid progress. Change in all things is inevitable. AMHS, for whatever reason, has come to a point where change will occur or the ferry system will cease to exist.

The marine highway is a dynamic part of the state's basic infrastructure and the growth, economy and Alaskan lifestyle is integrated in this institution. This

system is a roadway into the future and continues to provide for the state's unencumbered growth. Presently, we must be concerned that this roadway is in dire need of some very major repairs.

Patching potholes will no longer hold the pavement together. Cleaning out just the culverts will not save it. A fresh resurfacing will, maybe, smooth it for a year or two, but the basic structure is worn and flawed. The road needs a complete rebuilding. A proper rebuilding will prepare it to someday be a transportation system that employees and all Alaskans can be proud of: A freeway to the future.

Whether the Authority Bill is the total solution, part of the solution, or becomes just a wake up call, it is imperative that Senators Robin Taylor, Drue Pearce, and John Torgenson receive every assistance and prevail in resolving the serious problems of AMHS. The highway is rapidly eroding.

Recommendations

- 1) Provide a means, such as a gambling authorization bill, to increase revenue. AMHS can sustain basic transportation on a year round basis as well as provide the means to pay for capital improvements to its fleet.
- 2) Institute a vessel replacement program based on the results of the survey program.
- 3) Establish a state-owned corporation with full management control, such as the British Columbia Ferry Corporation, or establish an AMHS Authority.
- 4) Authorize the addition of two new feeder vessels to the fleet as soon as possible to provide improved service to rural communities and make the two existing small vessels available for more efficient service.
- 5) Enact legislation similar to the National Environmental Policy Act, specifically requiring public participation in issues pertaining to public business (i.e.) bar closure, or the sale of state property with a value in excess of a million dollars.

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HB

95

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: January 29, 1997

FURTHER REFERRALS:

Judiciary

Date of Committee Action: 2/26/97

The TRANSPORTATION Committee considered:

HB 95

HOUSE BILL NO. 95

MOTOR VEHICLE INSURANCE & LICENSING

"An Act relating to motor vehicle registration, licensing, and insurance; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 95 (TRA) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) Public Safety APPROVES PREVIOUS: (Dept/Date)
 fiscal note(s) _____ fiscal note(s) _____
 zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Gilbert Kookesh</u> Kookesh	<input checked="" type="checkbox"/>			
<u>Dee Hudson</u> Hudson			<input checked="" type="checkbox"/>	
<u>Elton</u> Elton			<input checked="" type="checkbox"/>	
<u>Jerry Sanders</u> Sanders			<input checked="" type="checkbox"/>	
<u>Don Cowdery</u> Cowdery	<input checked="" type="checkbox"/>			
<u>Beverly Masick</u> Masick			<input checked="" type="checkbox"/>	
<u>W.K. Williams</u> Williams	<input checked="" type="checkbox"/>			

CHAIR'S SIGNATURE W.K. Williams
Williams

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO: HB 95

Revision Date: _____ Dept. Affected: Public Safety
 Title: An Act relating to motor vehicle registration, BRU: Motor Vehicles
licensing, and insurance... Component: Field Services
 Sponsor: Representative Green Driver Services
 Requestor: (H). TRA COMPONENT SERIAL NO. 500, 501

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
OPERATING						
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	548.1	548.1	548.1	548.1	548.1	548.1

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES (1005) Revenue Code	330.0	330.0	330.0	330.0	330.0	300.0
--	-------	-------	-------	-------	-------	-------

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	218.1	218.1	218.1	218.1	218.1	218.1
1005 GF/Program Receipts	330.0	330.0	330.0	330.0	330.0	330.0
1006 GF/MHTIA						
Other						
TOTAL	548.1	548.1	548.1	548.1	548.1	548.1

Estimate of current year (FY 97) impact: \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)
 SEE ATTACHED

Prepared By: Juanita M. Hensley Phone: 465-2650
 Division: Motor Vehicles Date: 2/24/97
 Approved by Commissioner: *Ronald L. Otte* Date: 2/25/97
 Agency: Ronald L. Otte, Dept. of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

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STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO: HB 95

Revision Date: _____ Dept. Affected: Public Safety

ANALYSIS CONTINUED:

Current law allows a person to self certify the existence of motor vehicle liability insurance when a person registers a vehicle or is involved in a motor vehicle accident with damage in excess of \$501.00. Statistics show that approximately 12 to 13 percent of all persons involved in motor vehicle crashes in Alaska are uninsured.

This bill establishes an insured motor vehicle data base and allows the Division of Motor Vehicle (DMV) to contract with a third party agent to maintain the insurance data base. This data base can be accessed by DMV when a person is involved in a motor vehicle accident; at the time they are registering a vehicle or reinstating a driver's license. If insurance cannot be verified, DMV can take action to suspend a driver's license or refuse to register the vehicle. It also allows law enforcement statewide to access the data base when they have stopped someone for a traffic violation.

There are approximately 630,000 registered vehicles in the state of Alaska. The bill establishes a fee of \$1.00 per vehicle payable at the time of registration for the maintenance of the data base.

In January 1997, DMV implemented a law to register vehicles on a biennial basis. Since vehicles will be registered for a two year period instead one year it is estimated the \$1.00 fee will generate approximately \$330.0 in general fund program receipts. This estimate is based on 330,000 vehicles being registered on a yearly basis and the fee collected at that time.

The state of Utah is the only state at this time to use a third party vendor to maintain an insured data base. It is estimated Alaska will be able to contact with a third party vendor to maintain a data base for approximately .87 cents per vehicle registered in the State. The total cost of the program would be \$548.1.

COST

630,000 registered vehicles statewide
y .87 cents cost for maintenance of third party insurance data base, per vehicle registered
\$548.1

REVENUE

330,000 registered vehicles a year based on biennial basis.
\$1.00 per vehicle registration.
\$330.0

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

February 5, 1997

SUBJECT: Sectional Summary of HB 95.

TO: Representative Joe Green
Attn: Christy

FROM: Michael F. Ford *M. F.*
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Requires insurers who issue automobile insurance to provide monthly reports to the Department of Public Safety on auto insurance policies. Specifies the information that must be reported and provides a penalty for failure to report.

Section 2. Allows the Department of Public Safety to electronically verify valid auto insurance or allows a person to provide evidence of insurance. Adds a definition of what constitutes evidence of auto insurance.

Section 3. Allows the department to refuse to register a motor vehicle when the owner fails to provide proof of valid insurance.

Section 4. Establishes an insured motorist identification fee of \$1.

Section 5. Allows the department to establish that a person has required auto insurance by electronic verification.

Section 6. Technical amendment.

Section 7. Allows a peace officer to electronically verify that a person has valid auto insurance as required by law following an accident.

Representative Joe Green

February 5, 1997

Page 2

Section 8. Establishes the insured motorist identification program. Requires the department to contract with a third-party agent to establish a data base and to track compliance with the mandatory insurance provisions of AS 28.22. Imposes reporting and other requirements on the third-party agent. Prohibits disclosure of the information the data base, except as allowed under AS 28.10.505.

Section 9. Effective date.

MFF:gle

97-057.glc

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE GREEN

TO: HB 95

- 1 Page 3, line 19:
- 2 Delete "\$1"
- 3 Insert "\$2"

Failed

Adopted

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE GREEN

TO: HB 95

1 Page 3, following line 21:

2 Insert a new bill section to read:

3 **** Sec. 5. AS 28.15.211(e) is amended to read:**

4 (e) At the end of a period of limitation, suspension, or revocation under this
5 chapter, the department may not issue a driver's license or a duplicate driver's license
6 to the licensee until the licensee has complied with AS 28 20 relating to proof of
7 financial responsibility or the department electronically verifies the existence of
8 motor vehicle liability insurance required under AS 28.22.011."

9 Renumber the following bill sections accordingly.

Per your request.

From: Michael Lessmeier

To: 465-3793

2-21-97

485-7793

STATEMENT IN OPPOSITION TO
THE ENACTMENT OF A COMPULSORY AUTOMOBILE LIABILITY
INSURANCE STATUTE IN ALASKA
HEARING BEFORE THE
SENATE LABOR AND COMMERCE COMMITTEE
MAY 31, 1983

Mr. Chairman, members of the Labor and Commerce Committee, my name is Michael Lessmeier. I am a lawyer from Juneau and I am here on behalf of Allstate Insurance Company and State Farm Insurance Company. Both Allstate and State Farm have had a long and generally negative experience with compulsory insurance. We believe compulsory insurance laws, such as the bill before you, aren't needed, create more problems than they solve, don't benefit the general public or our policyholders, will unnecessarily raise premium rates and in the final analysis, don't work.

The real question is whether the cost of compulsory insurance justifies the realistic benefit we can hope to achieve from it. We believe the answer to this question is no and we want to explain why.

The theoretical goal of compulsory insurance is to guarantee that innocent victims of automobile accidents are compensated for their injuries. But we know that the enactment of compulsory insurance

does not guarantee that these people will be so compensated. Compulsory insurance has never in any state reached the objectives sought by its sponsors.

One of the reasons compulsory insurance has not been effective, is that uninsured drivers are generally made up of those who can't afford insurance, have no drivers license, do not register their vehicles, are driving stolen vehicles or vehicles involved in hit-and-run accidents. Many of these people will not purchase liability insurance regardless of whether there is a compulsory law. Others in this category include out-of-state drivers and new residents with vehicles registered elsewhere. Most of these people will continue to remain uninsured even after passing a compulsory law and this is shown by experience in other states.

For example, California spent \$2.32 million to increase the percentage of its insured drivers by five (5) percent. Maryland spent \$1.5 million to increase its percentage of insured drivers by the same five (5) percent. South Carolina paid \$1.3 million for an eight (8) percent increase. Massachusetts, which has had a compulsory insurance law longer than any other state, still has an estimated 10 -15 percent level of uninsured drivers. Current estimates of uninsured drivers in compulsory states still range from five (5) percent to 15 percent, depending upon the level of enforcement.

Nor is the concept of compulsory insurance related to safety. The enactment of a compulsory insurance law won't reduce the number of accidents. By its very nature, compulsory insurance relates to what happens after an accident. Compulsory insurance laws simply require insurance, they do not provide a means to remove high-risk drivers from the road.

We do not believe that uncompensated injuries are reduced by the enactment of a compulsory law. We believe that on the average, insured car occupants will receive injuries from uninsured motorists at about the same rate after enactment of compulsory legislation as they do before passage of these laws. Although compulsory legislation may increase the insured population by a small percentage, we do not believe it will result in a measurable reduction in the number of bodily injuries caused by financially irresponsible drivers.

Even if we were to assume there would be a decrease in the number of bodily injuries caused by financially irresponsible drivers, the question still is whether the benefit we can realistically expect from compulsory insurance is worth the cost and we believe the cost will be significant. For example, we know there will be a significant administrative cost to the State of Alaska simply to implement and enforce the compulsory insurance legislation before you. In effect, in a time of declining state revenues, virtually a whole new

bureaucracy will have to be created to implement and enforce this legislation. The administrative cost to the public is an important concern, particularly when there are other pressing needs in this state.

The second cost aspect of this legislation that must be considered is the effect on premium rates of policyholders. We believe premium rates of everyone will increase significantly because administrative costs of the industry will increase, companies in effect will be forced to take almost all applicants, the bill does away with policy defenses in certain situations, the pure premium cost in a compulsory state has been shown to increase much more rapidly than the pure premium cost in a non-compulsory state, and finally, the cost of compulsory insurance will probably lead to more claims and more litigation.

Other costs which are impossible to quantify, include the social cost to people who can't afford insurance, and the inconvenience of adding another layer of intrusion by government into people's lives. Most people currently buy insurance because they feel they need it. Liability insurance has traditionally been purchased by people who have assets to protect, not to protect others. In other words, people who, in the past, had few assets, had very little incentive to purchase liability insurance. A report, Profile of Uninsured Motorists in California showed that geographic areas with high

rates of uninsureds had significantly lower median incomes, and a higher incidence of poverty level than areas with low rates of uninsured drivers. A 1981 study by the All-Industry Research Advisory Council asked households with one or more uninsured vehicles why the vehicles were uninsured. Forty percent of the people surveyed listed cost as the reason. The next major reason, "car not currently in use", was only 16 percent of the total response. In short, requiring insurance of low-income households will not compel them to purchase something they simply cannot afford. Dr. John Hall of Georgia State University testified before South Carolina's Joint-Legislative Automobile Liability Insurance Study Committee in December of 1979. Dr. Hall said:

As a practical matter, the economically disadvantaged have less real need for liability insurance to protect their own interests. As a practical matter, these persons tend to be judgment proof. In any event, they tend to be unaware of the benefits which a liability policy provides. They perceive the liability insurance policy as taking care of other people. They must pay a high premium for insurance which provides benefits for others as a condition precedent to having the right to drive. Because of their economic status, most often they are unable to purchase insurance to provide for their own injuries, and those of their families, in accidents where they are at fault. The compulsory liability insurance system forces these people to pay high premiums relative to their income for benefits for others when they cannot themselves afford adequate benefits to cover their own losses.

Dr. Hall concluded:

For these reasons, it appears morally and socially wrong to require liability insurance on a compulsory basis as a condition precedent to enjoying the privilege of automobile driving and ownership.

Not only does compulsory legislation extract a disproportionate cost from low-income groups, but it raises the price level of everyone's insurance. Compulsory insurance thus imposes the additional higher premium and administrative costs on those currently insured, which in any event is the vast majority of the driving public, to get at the remaining minority, those currently uninsured.

So the question remains, is the cost to everyone worth the realistic benefit we can hope to achieve. Bodies investigating compulsory insurance in other states have said no, primarily for the same reasons. In 1981 a Tennessee Subcommittee studying automobile compulsory insurance laws made the following recommendation:

Our findings reveal that despite considerable and varied enforcement efforts in other states, including the adoption of no-fault, no state has devised a workable or cost-effective enforcement system. In addition, experience in other states indicate the adoption of compulsory insurance in Tennessee would only increase the percentage of insured drivers from the current 80 percent to 85 percent. More importantly, the cost of liability insurance plus uninsured motorist coverage in Tennessee is less than the same coverage in any compulsory state, and considerably less than the same coverage in any compulsory no-fault state. The responsible motorist should

not pay more for insurance coverage nor be subjected to harrassment in a futile effort to enforce a compulsory insurance law.

November 19, 1981 letter from the Tennessee Subcommittee Studying Automobile Compulsory Insurance Laws.

A similar conclusion was reached by the State Auditor of Wisconsin on March 10, 1981:

Experience in other states indicates that mandatory insurance programs do not substantially reduce the number of uninsured motorists and the cost of administering such a program is more than double the cost of the safety responsibility program.

March 10, 1981 letter from the State Auditor of Wisconsin.

If our goal is to guarantee compensation for victims of financially irresponsible motorists, we can achieve that goal more efficiently and effectively through compulsory uninsured and under-insured legislation. If every person who bought insurance included this coverage, careful drivers would be protected regardless of whether the at-fault other party had liability insurance. Only those who chose not to purchase this coverage would be without protection.

Uninsured motorist coverage is provided by companies to pay for bodily injury damages to the policyholder caused by an uninsured motorist. Virtually every state with a compulsory liability insurance law also requires insurers to offer uninsured motorist coverage, which in effect indicates a lack of faith in

the effectiveness of compulsory insurance legislation. By purchasing uninsured motorist coverage, a vehicle owner is assuring that all drivers and passengers in the insured automobile will have protection against losses caused by an uninsured motorist. Compulsory automobile insurance cannot make this promise.

Compared to the cost of liability insurance, uninsured motorist coverage is very inexpensive. We urge each of you to look at your own policies to gain an idea of its cost. Furthermore, a compulsory uninsured and under-insured requirement does not impose the administrative cost to either the public or private sector that compulsory liability insurance legislation would impose.

In sum, we believe compulsory liability insurance, if enacted, will prove to be both costly and burdensome to the State of Alaska, and the insurance industry. Ultimately it will prove to be both costly and burdensome to our policyholders and to members of the general public. We urge this committee to seriously consider the cost and effectiveness of compulsory insurance before recommending such a program. We believe there are other alternatives available which cost much less and achieve much more.

Alaska State Legislature

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DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT
DEPT. OF ENVIRONMENTAL CONSERVATION

Representative Joe Green
District 10

SPONSOR STATEMENT

House Bill 95 - Creating an Insured Motorist Database

Auto accidents, even minor ones can be traumatizing, but that trauma continues long after the crash when the driver responsible for the accident carries no insurance. In 1995, the number of motor vehicle accidents in Alaska involving uninsured drivers was 2,166. When medical bills cannot be paid because uninsured motorists are at fault, we are all adversely affected as taxpayers when Medicaid is needed to help cover the costs. This legislation has been introduced to decrease the number of irresponsible, uninsured motorists and helps protect law abiding drivers.

HB 95 will allow the Department of Public Safety to create and maintain an insured motorist identification database for the purpose of verifying compliance with the mandatory motor vehicle insurance provisions of AS 28.22. The program will cross-index drivers licenses and vehicle registrations with insurance policy records, provided monthly by all insurance companies doing business in Alaska. Using this database, a statewide list of uninsured motorists will be generated and warning letters will be mailed, requiring motorists to provide proof of insurance or to obtain insurance. The database system will also allow peace officers making routine traffic stops to electronically verify that a person has valid auto insurance.

The Department will contract with a third-party agent to establish the insured motorist identification database. To provide confidentiality of records, a provision in the bill prohibits public disclosure of the information in the database. The cost for maintaining the database will be covered by a surcharge on all vehicle registrations.

The uninsured motorist database has had a significant impact on the uninsured motorist population in Utah. Since its implementation in 1995, statistical data show that Utah's uninsured motorist population of 322,898 (23.18% of all Utah registered vehicles) have been reduced by 43% to under 140,000 motorists. Applying Utah's percentages to Alaska's 630,423 currently registered vehicles, some 145,000 vehicles may be uninsured. A 43% reduction like Utah had would result in 64,298 fewer uninsured motorists on Alaska's highways.



STATE OF UTAH
UTAH STATE TAX COMMISSION
UTAH DEPARTMENT OF PUBLIC SAFETY

John Smith
123 First Street
Anytown. Anywhere

Dear Motorist:

In surveying the registered vehicles in Utah, there are insured vehicles registered to the owner above. However, there are one or more vehicles showing as uninsured. **We believe it is quite possible that all of the vehicles are, in fact, insured.** It may be that there has not been an insurance record submitted by the insurance company on the vehicle(s) listed below. Or, due to differences in registration and insurance applications an insurance policy cannot be matched to the vehicle(s). It is also possible that there is a change in the vehicle(s) status, i.e. sold, transferred or no longer in service. We want to make certain that the vehicle(s) does not continue to show uninsured incorrectly in the event it is detained by law enforcement. Listed below is the vehicle(s) we show as being uninsured. Please help us clear up this matter by following these simple instructions:

- **IF YOU DO HAVE INSURANCE:** Please have your insurance agent fax or mail us the declaration page or equivalent and we will immediately update the database. ***Always reference the code(s) listed below.***
- **IF YOU DO NOT HAVE INSURANCE:** You must purchase insurance immediately if your vehicle is being operated on public roadways. Then, simply have your insurance agent fax or mail us the binder, declaration page or equivalent and we will make certain your records are updated immediately. We will also track the policy with your insurance company to make certain they report it accurately. ***Always reference the code(s) listed below.***
- **IF THERE HAS BEEN A CHANGE IN THE VEHICLE STATUS:** Simply call (801) 531-9664 and leave the ***code(s) listed below*** . . . we'll take care of the rest.

Thank you for your help. You can have your agent fax the information (801) 531-0312 . . . give us a call (801) 531-9664 . . . or mail it to P.O. Box 3478, Salt Lake City, UT 84110. If it is more convenient, you can always leave your phone number and we'll get back with you. We look forward to hearing from you. Thank you for helping us make a real difference in the *decline* of uninsured vehicles on Utah roads!

MAKE

YEAR

REFERENCE CODE



STATE OF UTAH
UTAH STATE TAX COMMISSION
UTAH DEPARTMENT OF PUBLIC SAFETY

John Smith
123 First Street
Anytown, Anywhere

RE: 45 DAY NOTICE

Dear Motorist:

A letter was sent to the above address as a result of the State of Utah's Uninsured Motorist Letter Campaign. As of now, a response has not been received on the below listed vehicle(s). By law, we must notify you once again. If you appear inaccurately on the database you could be subject to enforcement provisions such as: Citation - Impoundment - Registration Revocation. We don't want this to happen.

You are not being accused of being without insurance. However, the vehicle(s) below do show uninsured on the database. For your protection and that of the driving public, vehicles driven on public roadways must appear insured on the database.

Therefore, notice is hereby given that information pertaining to the vehicle(s) status must be submitted to the State of Utah Uninsured Motorist Database within 45 days.

- IF YOU DO HAVE INSURANCE: Please have your insurance agent fax or mail us the current declaration page or equivalent and we will immediately update the database. Always reference the code(s) listed below.
- IF YOU DO NOT HAVE INSURANCE: You must purchase insurance immediately if your vehicle is being operated on public roadways. Then, simply have your insurance agent fax or mail us the binder, declaration page or equivalent and we will make certain your records are updated immediately. We will also track the policy with your insurance company. Always reference the code(s) listed below.
- IF THERE HAS BEEN A CHANGE IN THE VEHICLE STATUS: Simply call (801) 531-9654, or outside the Wasatch Front call us toll free 1-800-867-4167, leave the code(s) listed below and follow the voice mail instructions.

Thank you for your help. You can have your agent fax the information (801) 531-0312.. give us a call (801) 531-9664, or outside the Wasatch Front call us toll free 1-800-867-4167.. or mail it to P.O. Box 3478, Salt Lake City, UT 84110. If it is more convenient, you can always leave your phone number and we'll get back with you. We look forward to hearing from you. Thank you for helping us make a real difference in the decline of uninsured vehicles on Utah roads!

MAKE

YEAR

REFERENCE CODE

Information from

THE ALASKA TRAUMA REGISTRY

The Alaska Trauma Registry is an information system which includes all patients of injury or poisoning, admitted to a hospital in Alaska for one or more days, or died in the emergency department (including "dead on arrival".)

The following distribution represents the primary payer billed for hospital charges associated with motor vehicle traffic crashes that occurred on the highway and resulted in patient admission to a hospital or declared dead in the emergency department, from 1991 through 1994 (four years of complete statewide data.)

<u>Payer</u>	<u>Number</u>	<u>Percent</u>
Private Insurance	744	29%
No Insurance	549	21%
Indian Health Service	322	12%
Automotive Insurance	255	10%
Medicaid	201	8%
Military	175	7%
Medicare	108	4%
Champus	72	3%
Worker's Comp	58	2%
General Relief Medical	9	<1%
Welfare	+	<1%
Other	15	<1%
Unknown	96	4%
<hr/> Total	<hr/> 2605	<hr/> 100%

Section of Community Health and Emergency Medical Services
Alaska Department of Health and Social Services
P.O. Box 110616
Juneau, AK 99811-0616
Phone (907) 465-3027
Fax (907) 465-4101

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DESERET
NEWS

Get uninsured drivers off road

As I was pleased to read the article in Sunday's paper concerning the success of the uninsured motorists ID data base that has been online since July. The article reported that since the program went into effect, 32,300 motorists have obtained auto insurance after receiving a warning letter from the state. Unfortunately, 320,000 motorists were identified as not having insurance. The number of uninsured motorists in Utah who have their cars and trucks registered is way too high.

Rep. Kelly Atkinson, D-West Jordan, has worked hard to change the lax Utah attitude toward mandatory auto insurance. I applaud his efforts in getting the motorists ID data base online, and it is refreshing to see Utah motorists in compliance with the mandatory auto insurance laws. Utahns will no longer be able to obtain auto insurance simply to register a vehicle and then let the coverage lapse a few months down the road.

The uninsured motorists ID data base has been a victory for me personally. Last December, my three children and I were hit head-on by an uninsured motorist on Minersville Highway in Escalante, Utah. Our injuries were severe. Two of the children were life-flighted to Primary Children's Medical Center with extensive facial fractures. My daughter and I were in the Valley View Medical Center with serious injuries. I had auto insurance, and we were all wearing seat belts.

The other driver, driving with no insurance, sustained no injuries. He was cited for several violations. At that time, the fine for driving without insurance was \$150. My medical bills to date have exceeded \$120,000 and are continuing to climb. My car was totaled and has yet to be replaced.

I have little use of my right leg and was out of work for nine months. My insurance company paid \$70,000 in medical bills. Medicaid (for all of us as taxpayers) has picked up the remainder of the tab. The other driver filed bankruptcy and received his license back from the Motor Vehicle Division three days later. Although under the Vehicle Responsibility Act he should have paid for the damages and filed an SR22 insurance form before obtaining a license again, the bankruptcy fulfilled his obligation to me, according to the court.

The only solace I feel in my entire situation is the victory that laws are changing. With the new data base, it will be less likely that my situation will happen to others. I find it ironic that I am a single mother raising four children and have always paid for my insurance. It is time that the 320,000 Utahns who think auto insurance is an option, not a mandatory law, contact an insurance agent and get auto coverage.

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Escalante