

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10701 SENATE TRANSPORTATION

546

COMMISSIONER PERKINS disagreed with Senator Taylor. Commissioner Perkins did not believe the people of Alaska should subsidize drinks in state facilities. The bars were subsidized in addition to the 40 percent. SENATOR TAYLOR said that the bars were not subsidized more than the 40 percent. If the 40 percent is placed on the numbers submitted by Mr. Hayden, then every bar makes a profit. COMMISSIONER PERKINS asked if the State of Alaska wants to subsidize, even at the 40 percent level, liquor on a ferry. Commissioner Perkins replied no. That is a business answer, not a moral response.

Number 380

SENATOR TAYLOR assumed then the same would apply to food which is also subsidized by 40 percent. COMMISSIONER PERKINS believed that people had a right to eat on ferries. Commissioner Perkins did not believe that alcohol was a necessity for travelling.

SENATOR TAYLOR noted that the records speak for themselves, the numbers submitted by the department are contrary to Commissioner Perkins' comments. The fact that the bars have been a service to the traveling public 35 years before the present management, indicates prior management. Further, the record reflects that the closure of the bar was not a public process.

COMMISSIONER PERKINS pointed out that in last year's transportation hearings bar closures were discussed. SENATOR TAYLOR interjected that so were other issues such as the reduction in routes, but there was no indication that a policy would be implemented without the public process or the Legislature. Moreover, the only public input resulted in 90 percent opposition to closure of the bars.

SENATOR GREEN recognized that there is a problem with AMHS. In the absence of SB 21, what is being done? Where is AMHS going in the future? Further, is it time to change the direction of the Alaska Railroad Corporation (ARRC)?

COMMISSIONER PERKINS said that the ARRC does not receive any state appropriations while making a profit. Commissioner Perkins believed that the ARRC was doing well in the business world. Placing the ARRC under the Executive Budget Act would tie the railroad's hands. If an Alaska Marine Highway Authority is created, what will a Legislature 10 years from now do? Establishing an authority does not guarantee success.

With regard to what is being done with the AMHS, Commissioner Perkins acknowledged that there is and has been for a number of years a labor - management problem. All those, but one, who testified at the last hearing were AMHS employees not the public. In Commissioner Perkins' opinion, the emphasis for change begins with unhappy employees. This requires attention. Commissioner Perkins reiterated that the AMHS was being operated the same as 20-

30 years ago when it was created. Change in the way in which the system is operated is necessary. Commissioner Perkins informed the committee that there are eight proposals addressing the fate of the Malaspina which effects the Kennicott as well as the entire system. Therefore, the decision regarding the Malaspina will change the AMHS. Commissioner Perkins noted that each committee member would receive a package for comments on the future of the system. Commissioner Perkins acknowledged that AMHS has problems, but these problems have manifested over the long-term not just in the past two years.

Number 479

MIKE MCMULLEN, Division of Personnel, requested that more attention be given to collective bargaining. In 1992 the Legislature moved some programs from the Department of Community & Regional Affairs to the Alaska Housing Finance Corporation (AHFC), the collective bargaining confusion from that move resulted in a Supreme Court decision. That decision in August of 1996 remanded parts of the case back to the labor relations agency and to the Superior Court. Five years later, the issue remains unresolved. Mr. McMullen identified the problem as the provisions in the bill that would give the Authority collective bargaining authority over all of its employees. The transition is transitioning positions now in four collective bargaining units of positions of the classified service. As these contracts expire, the question regarding what is the new unit in the authority and who negotiates with them is a confusing point. The general government argument will likely be that since the positions were perpetuated into a successor agency, the general government already represents them. The result would be two employers representing them with one union in a unit that crossed two authorities. Unless that confusion is addressed by the Legislature, the saga will continue in the courts. Mr. McMullen noted that there is no precedent in Alaska for this, but he offered to work with the committee if the bill is to move forward.

SENATOR TAYLOR asked if Mr. McMullen had any recommendations. MIKE MCMULLEN said that if the outcome is to have the authority be a complete severance from the classified service and existing bargaining units, more language could clarify the expiration of existing contracts.

CHAIRMAN WARD asked if anyone else wanted to testify on SB 21.

SENATOR WILKEN moved the sponsor's amendment, Amendment 1.

SENATOR LINCOLN requested that Senator Taylor explain the amendment. SENATOR TAYLOR deferred to Mr. Ward.

Number 523

DOUG WARD, Project Manager for Alaska Ship and Dry Dock, said that

the amendment is important and necessary. The amendment would provide a complete and accurate business accounting and evaluation of all interport costs which is essential in order to level the playing field for Alaskan shipyards. The AMHS is the only portion of Alaska's federal road system that can send its highway out of state for maintenance. SB 21 would help to repatriate a larger portion of Alaska's highway maintenance dollars to Alaska which will place Alaskan shipyards as a viable enterprise while diversifying the economy.

Mr. Ward explained that Amendment 1 would require that all costs of delivering an Alaskan vessel to an outside shipyard would be considered in the total interport cost differential. Mr. Ward acknowledged that some believe that some of the costs are considered to be insignificant or difficult to calculate and would not make a difference in the overall interport process. For example, the deferred maintenance of a vessel during its delivery voyage to an out of state shipyard has been considered insignificant. The crew payroll cost during a delivery voyage is also not included in the interport differential. Mr. Ward understood that due to the guaranteed pay periods existing with the union contracts, these ferry employees would be paid during the delivery voyage whether on the job or not. Mr. Ward believed that this represented a lost opportunity cost to the state.

Competitive bid situations anticipate a number of items that may or may not be turned on during the course of the work. Bid amounts are typically much higher than the actual volume of work performed during the contract period. Mr. Ward said that results in a dilution of the interport differential when determined on the overall bid amount which could lead to work being sent to out of state shipyards. If a lesser anticipated contract amount were used in the determination, the work would have stayed in the state. SB 21 would allow Alaskan shipyards the ability to repatriate the maximum amount of Alaskan jobs and dollars.

In response to Senator Lincoln, SENATOR TAYLOR said that the last funding on the AMHS maintenance facility in Ketchikan was 1986. At that time, there was legislation which attempted to mandate that the work done on Alaskan vessels would remain in the state. That bill was opposed by the Sheffield Administration and the Commissioner of the AMHS. The legislation required reports be provided to the Legislature regarding why a particular shipyard was chosen.

TAPE 97-6, SIDE B

Number 587

Senator Taylor noted that Washington does not send any of its ships out of state for work which is because Washington uses general funds without mixing in federal highway funds. The federal highway

funds are used for other things and the general funds are taken from those. Alaska mixes the federal highway funds with state general funds for a maintenance project. When that project is put out to bid, the lowest bid must be taken because federal funds were included. That legislation had a five year sunset which is now in its third sunset. The amendment is necessary in order to provide some direction for the authority regarding where the boats will be worked on. Senator Taylor stressed the need for this amendment to keep these boats in state.

SENATOR GREEN asked if this was standard language in the amendment. SENATOR TAYLOR replied yes, and noted that the language is actually weaker.

CHAIRMAN WARD asked if anyone objected to the adoption of Amendment 1. Without objection, Amendment 1 was adopted. Chairman Ward inquired as to the pleasure of the committee.

In response to Senator Lincoln, CHAIRMAN WARD said that he intended to report the bill out of committee today.

SENATOR LINCOLN referred to page 12 when she indicated that she was unsure as to the language that would address the Division of Personnel's concern regarding the collective bargaining agreement. Senator Lincoln assumed that the division would present some language to the next committee of referral, State Affairs. CHAIRMAN WARD said that Mr. McMullen shook his head indicating that he would provide language in the State Affairs Committee.

SENATOR LINCOLN asked where is the Gulf of Alaska area west of Icy Cape. Senator Lincoln reviewed the breakdown of the board members. Will the areas with the ferry system, Cordova, Whittier, and Valdez also be considered for the board?

SENATOR TAYLOR said it was an arbitrary choice of numbers based on the volume of the fleet and the location of the vessels. In response to Senator Lincoln, Senator Taylor said that the task force did consider where the board members would come from and to whom they would be responsible. That was one of the recommendations, but the specific details were not discussed.

Number 524

SENATOR LINCOLN noted that the three Senators appointed to the task force were majority members; were all the recommendations of the task force included in SB 21. SENATOR TAYLOR replied no, SB 21 only represents one aspect of the task force report. This legislation was created about eight years ago and SB 21 is the result of all the work in those eight years.

SENATOR LINCOLN referred to page 5 regarding the AMHS's ability to acquire property; how is this different than the situation with

ARRC? SENATOR TAYLOR stressed that ARRC's single biggest asset is its land. The AMHS only has land for limited upland purposes such as terminals, parking lots, etc. SENATOR LINCOLN did not believe the language was limiting to that and she cautioned what authority was given in this area.

JOE AMBROSE, Staff to Senator Taylor, pointed out that the AMHS Authority is nothing like the ARRC which is totally independent. The AMHS Authority is an exclusive agency of Alaska to which all of the Authority's assets belong.

SENATOR HALFORD asked if there was legislative confirmation of the board members. JOE AMBROSE informed the committee that a provision requiring legislative confirmation was requested. However, this is an administrative/management board rather than a regulatory board and the drafting attorney said that was not the purview of the Legislature. In response to Senator Halford, Mr. Ambrose agreed that if the board was given any quasi-judicial or regulatory function, confirmation could be required.

SENATOR HALFORD suggested that a quasi-judicial or regulatory function and a corresponding confirmation procedure be determined for this board.

CHAIRMAN WARD inquired as to the pleasure of the committee.

Number 456

SENATOR WILKEN moved to report CSSB 21(HES) out of committee with individual recommendations and accompanying fiscal notes.

SENATOR LINCOLN objected.

Upon a roll call vote, Senators Ward, Wilken, Green, and Halford voted "Yea" and Senator Lincoln voted "Nay". Therefore, CSSB 21(HES) was reported out of committee.

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CHAIRMAN WARD announced that the Confirmation Hearings for the Board of Marine Pilots would be the next order of business. He asked Ms. Barbara Huff Tuckness to provide the committee with a brief statement regarding who she was and why she wanted to be a board member.

BARBARA HUFF TUCKNESS, Board of Marine Pilots Appointee, informed the committee that she has been a resident of Alaska since 1972. Ms. Tuckness valued the public and political process and said that she would take pride in serving in the public position of the board. Alaska's waterways provide a valuable recreational and economical resource. Ms. Tuckness believed that the AMHS is the life blood for the state. If confirmed, Ms. Tuckness said that she would attempt to ensure that the best interests of the public is

served by ensuring that standards and regulations are adhered to. Ms. Tuckness informed the committee of her background with negotiating and conflict resolution. She expressed a commitment to work together with the marine pilots and the shipping industry in order to continue to achieve the safety and economic value of Alaska's waterways. Ms. Tuckness thanked the committee and offered to answer any questions.

Number 403

DAVID STEWART, Board of Marine Pilots Appointee, noted that he too was being considered for a public position on the board. Mr. Stewart has been a resident of Alaska since 1975 and is a lawyer with experience primarily in the criminal area. He has served as a District Court Judge in Anchorage and for a short time in the Public Defenders Office in Fairbanks. Mr. Stewart emphasized his belief in public service to the state. Mr. Stewart informed the committee that he had no specific ties with the marine industry, but noted his review of the recent Supreme Court decision involving Marine Pilots Board litigation. Mr. Stewart thanked the committee and offered to answer any questions.

SENATOR HALFORD acknowledged that Mr. Stewart's background was adequate to serve on the board, however he asked Mr. Stewart why he would want to serve. Senator Halford noted that Mr. Stewart listed Special Counsel for the State of Alaska. DAVID STEWART explained that he had been asked by Attorney General Cole to review the potential for prosecution against a lawyer having contacts with Governor Hickel's Administration. Further, Mr. Stewart had looked into whether there were state criminal violations in the Cordova road project. Both those have been completed and nothing is pending for the State of Alaska. With regards to why participate, Mr. Stewart expressed an interest in public service.

SENATOR HALFORD assumed that Mr. Stewart did not deal with matters dealing with transportation or industry. DAVID STEWART replied no, commercially he represented Fred Meyer. SENATOR HALFORD commended Mr. Stewart for desiring to serve on this board.

BERNIE SMITH, Marine Pilots Board Appointee, informed the committee that he had served on this board last year and his term expired. He had been asked to serve again. Mr. Smith noted that he has been the chief negotiator for Tesoro with whom he is employed for the Southwest pilots. He represents the Southcentral Industry. Mr. Smith believed that he had a good reputation in this area as well as a good relationship with the shippers in Cook Inlet and Prince Williams Sound. Mr. Stewart was happy to serve on the board and offered to answer any questions.

SENATOR HALFORD asked if Mr. Smith served in the industry seat. CHAIRMAN WARD replied yes.

SENATOR GREEN moved to report the confirmation packets from committee with individual recommendations. Without objection, it was so ordered. There being no further business before the committee, the meeting was adjourned at 2:45 p.m.

# Alaska State Legislature

Chairman,  
Judiciary Committee

Member,  
Resources Committee  
Rules Committee  
Committee on Committees



State Capitol  
Juneau, Alaska 99801-1182  
(907) 465-3873  
Fax: (907) 465-3922

352 Front Street  
Ketchikan, Alaska 99901  
(907) 225-8088  
Fax: (907) 225-0713

**Senator Robin L. Taylor**

## MEMORANDUM

**TO:** Gary Hayden, Director  
Alaska Marine Highway System

Senator Jerry Ward, Chairman  
Senate Transportation Committee

**FROM:** Senator Robin Taylor *R.L.T.*

**DATE:** 3/6/97  
**RE:** Information Request

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Thank you for providing me with a copy of the RFP for the economic analysis you commissioned on moving the AMHS central offices to Ketchikan. It is my understanding that you have received an initial draft report from the contractor.

Although the report is in draft form I request you provide copies to this office and to the Senate Transportation Committee as soon as possible. The committee plans to take up Senate Bill 27 next week and the committee members should have advance access to this document.

Although this \$25,000 study was commissioned even before a bill was filed, the target completion date for a final report is not until the end of April. That is too late to be of benefit to the Legislature as it deals with Senate Bill 27.

Please provide the requested copies of the draft report before the close of business tomorrow.

Thank you.

District A:

Hyder • Ketchikan • Kupreanof • Meyers Chuck • Petersburg • Saxman • Sitka • Wrangell

**DEPARTMENT OF TRANSPORTATION  
AND PUBLIC FACILITIES**

ALASKA MARINE HIGHWAY SYSTEM / SYSTEM DIRECTOR

P.O. BOX 25535  
JUNEAU, ALASKA 99802-5535  
PHONE: (907) 465-3959  
FAX: (907) 465-2474

February 26, 1997

The Honorable Senator Robin Taylor  
Alaska State Legislature  
State Capitol  
Juneau, Alaska 99801-1182

Dear Senator Taylor:

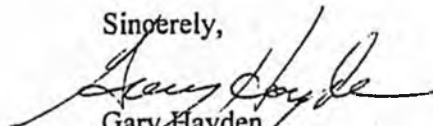
A copy of the Economic Analysis RFP on the relocation of AMHS central offices to Ketchikan is enclosed per your request of February 22, 1997. We have not received a final report from the contractor, since they still had several elements needing further review. The contractor planned to survey the current staff to ascertain how many employees would actually consider relocating to Ketchikan. This is important due to the relocation cost estimates, and to determine the level of positions needing to be filled, and whether a sufficient resource pool exists in Ketchikan. We could find ourselves in a situation of hiring and training replacements in Juneau then relocating them to Ketchikan.

I will follow-up with the contractor to get a status on an anticipated completion date. It is in the best interest of AMHS and the State to know, to the closest degree possible, the cost impact.

As to your question on the Tustumena trip to the ASD and its non-revenue status, the decision was made because there wasn't the potential for significant revenue. There was only two weeks to market the trip. The Traffic Manager contacted some commercial customers and didn't find interest in the run at this time of the year. The crew size was reduced and additional dock rental was avoided.

If I can be of further assistance, please contact me at 465-3959.

Sincerely,



Gary Hayden  
System Director

Enclosures

cc: Joseph Perkins, Commissioner, DOT & PF

STANDARD AGREEMENT FORM

1. Agency Contract Number MT-1152		2. ASPS Number N/A		3. Financial Coding 28070001/10		4. Agency Assigned Encumbrance Number	
5. Vendor Number				6. Alaska Business License Number			
This contract is between the State of Alaska:							
7. Department of Transportation and Public Facilities				Division Alaska Marine Highway System			
8. Contractor Information Insights							
Mailing Address 542 Fourth Ave. Ste. 300		Street or P.O. Box		City Fairbanks		State AK	ZIP-4 99701-4714
<p>8. ARTICLE 1. Appendices: Appendices referred to in this contract and attached to it are considered part of it.</p> <p>ARTICLE 2. Performance of Service:                  2.1 Appendix A (General Provisions), Articles 1 through 14, governs the performance of services under this contract.                  2.2 Appendix B sets forth the liability and insurance provisions of this contract.                  2.3 Appendix C - Information Insights proposal dated December 5, 1996.</p> <p>ARTICLE 3. Period of Performance: The period of performance for this contract begins <u>January 1, 1997</u> and ends <u>April 30, 1997</u>.</p> <p>ARTICLE 4. Considerations:                  4.1 In full consideration of the contractor's performance under this contract, the State shall pay the contractor a sum not to exceed \$ <u>24,970</u> in accordance with the provisions of Appendix D.                  4.2 When billing the State, the contractor shall refer to the Authority Number or the Agency Contract Number and send the bills to:</p>							
10. Department of Transportation and Public Facilities				Attention: Division of Alaska Marine Highway System			
Mailing Address PO Box 25535, Juneau, AK 99802-5535				Attention: Finance Section			
11. CONTRACTOR				13. CERTIFICATION: I certify that the facts herein and on supporting documents are correct, that this voucher constitutes a legal charge against funds and appropriations of the State that sufficient funds are encumbered to pay this obligation, or that there is a sufficient balance in the appropriation cited to cover this obligation. I am aware that to knowingly make or allow false entries or alterations on a public record, or knowingly destroy, mutilate, suppress, conceal, remove or otherwise impair the veracity, legibility or availability of public record constitutes tampering with public records punishable under AS 11.56.81-820. Other disciplinary action may be taken up to and including dismissal.			
Name of Firm Information Insights		Signature of Authorized Representative <i>Brian Rogers</i>		Date 1/8/96			
Typed or Printed Name of Authorized Representative Brian Rogers		Title Project Manager		Employer ID No. (EIN) or SSN 92-0089908			
12. CONTRACTING AGENCY				Signature of Head of Contracting Agency or Designee <i>Mark O'Brien</i>		Date 1-8-97	
Department/Division DOT/BF - AMHS		Date 1-8-97					
Signature of Project Director <i>Brenda Markey</i>				Typed or Printed Name Mark O'Brien			
Typed or Printed Name of Project Director Brenda Markey				Title Contracting Officer			
Title Support Services Manager							

NOTICE: This contract has no effect until signed by the head of contracting agency or designee.

## Article 2

### APPENDIX A GENERAL PROVISIONS

#### Article 1. Definitions.

- 1.1 In this contract and appendices, "Project Director" or "Agency Head" or "Procurement Officer" means the person who signs this contract on behalf of the Requesting Agency and includes a successor or authorized representative.
- 1.2 "State Contracting Agency" means the department for which this contract is to be performed and in which the Commissioner or Authorized Designee acted in signing this contract.

#### Article 2. Inspection and Reports.

- 2.1 The department may inspect, in the manner and at reasonable times it considers appropriate, all the contractor's facilities and activities under this contract.
- 2.2 The contractor shall make progress and other reports in the manner and at the times the department reasonably requires.

#### Article 3. Disputes.

- 3.1 Any dispute concerning a question of fact arising under this contract which is not disposed of by mutual agreement shall be decided in accordance with AS 36.30.620-632.

#### Article 4. Equal Employment Opportunity.

- 4.1 The contractor may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, marital status, changes in marital status, pregnancy or parenthood when the reasonable demands of the position(s) do not require distinction on the basis of age, physical handicap, sex, marital status, changes in marital status, pregnancy, or parenthood. The contractor shall take affirmative action to insure that the applicants are considered for employment and that employees are treated during employment without unlawful regard to their race, color, religion, national origin, ancestry, physical handicap, age, sex, marital status, changes in marital status, pregnancy or parenthood. This action must include, but need not be limited to, the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. The contractor shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this paragraph.
- 4.2 The contractor shall state, in all solicitations or advertisements for employees to work on State of Alaska contract jobs, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national origin, age, physical handicap, sex, marital status, changes in marital status, pregnancy or parenthood.
- 4.3 The contractor shall send to each labor union or representative of workers with which the contractor has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' compensation representative of the contractor's commitments under this article and post copies of the notice in conspicuous places available to all employees and applicants for employment.
- 4.4 The contractor shall include the provisions of this article in every contract, and shall require the inclusion of these provisions in every contract entered into by any of its subcontractors, so that those provisions will be binding upon each subcontractor. For the purpose of including those provisions in any contract or subcontract, as required by this contract, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.
- 4.5 The contractor shall cooperate fully with State efforts which seek to deal with the problem of unlawful discrimination, and with all other State efforts to guarantee fair employment practices under this contract, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.
- 4.6 Full cooperation in paragraph 4.5 includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of the contractor to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting inspection of the contractor's facilities; and promptly complying with all State directives considered essential by any office or agency of the State of Alaska to insure compliance with all federal and State laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.
- 4.7 Failure to perform under this article constitutes a material breach of the contract.

#### Article 5. Termination.

The Project Director, by written notice, may terminate this contract, in whole or in part, when it is in the best interest of the State. The State is liable only for payment in accordance with the payment provisions of this contract for services rendered before the effective date of termination.

#### Article 6. No Assignment or Delegation.

The contractor may not assign or delegate this contract, or any part of it, or any right to any of the money to be paid under it, except with the written consent of the Project Director and the Agency Head.

#### Article 7. No Additional Work or Material.

No claim for additional services, not specifically provided in this contract, performed or furnished by the contractor, will be allowed, nor may the contractor do any work or furnish any material not covered by the contract unless the work or material is ordered in writing by the Project Director and approved by the Agency Head.

#### Article 8. Independent Contractor.

The contractor and any agents and employees of the contractor act in an independent capacity and are not officers or employees or agents of the State in the performance of this contract.

#### Article 9. Payment of Taxes.

As a condition of performance of this contract, the contractor shall pay all federal, State, and local taxes incurred by the contractor and shall require their payment by any Subcontractor or any other persons in the performance of this contract. Satisfactory performance of this paragraph is a condition precedent to payment by the State under this contract.

#### Article 10. Ownership of Documents.

All designs, drawings, specifications, notes, artwork, and other work developed in the performance of this agreement are produced for hire and remain the sole property of the State of Alaska and may be used by the State for any other purpose without additional compensation to the contractor. The contractor agrees not to assert any rights and not to establish any claim under the design patent or copyright laws. The contractor, for a period of three years after final payment under this contract, agrees to furnish and provide access to all retained materials at the request of the Project Director. Unless otherwise directed by the Project Director, the contractor may retain copies of all the materials.

#### Article 11. Governing Law.

This contract is governed by the laws of the State of Alaska. All actions concerning this contract shall be brought in the Superior Court of the State of Alaska.

#### Article 12. Conflicting Provisions.

Unless specifically amended and approved by the department of Law the General Provisions of this contract supersede any provisions in other appendices.

#### Article 13. Officials Not to Benefit.

Contractor must comply with all applicable federal or State laws regulating ethical conduct of public officers and employees.

#### Article 14. Covenant Against Contingent Fees.

The contractor warrants that no person or agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, contingent fee, or brokerage except employees or agencies maintained by the contractor for the purpose of securing business. For the breach or violation of this warranty, the State may terminate this contract without liability or in its discretion deduct from the contract price or consideration the full amount of the commission, percentage, brokerage, or contingent fee.

APPENDIX B<sup>1</sup>  
INDEMNITY AND INSURANCE

**Article 1. Indemnification**

The contractor shall indemnify, hold harmless, and defend the contracting agency from and against any claim of, or liability for error, omission or negligent act of the contractor under this agreement. The contractor shall not be required to indemnify the contracting agency for a claim of, or liability for, the independent negligence of the contracting agency. If there is a claim of, or liability for, the joint negligent error or omission of the contractor and the independent negligence of the contracting agency, the indemnification and hold harmless obligation shall be apportioned on a comparative fault basis.

"Contractor" and "contracting agency", as used within this article, include the employees, agents and other contractors who are directly responsible, respectively, to each. The term "independent negligence" is negligence other than in the contracting agency's selection, administration, monitoring, or controlling of the contractor and in approving or accepting the contractor's work.

**Article 2. Insurance**

Without limiting contractor's indemnification, it is agreed that contractor shall purchase at its own expense and maintain in force at all times during the performance of services under this agreement the following policies of insurance. Where specific limits are shown, it is understood that they shall be the minimum acceptable limits. If the contractor's policy contains higher limits, the state shall be entitled to coverage to the extent of such higher limits. Certificates of Insurance must be furnished to the Contracting Officer prior to beginning work and must provide for a 30-day prior notice of cancellation, nonrenewal or material change of conditions. Failure to furnish satisfactory evidence of insurance or lapse of the policy is a material breach of this contract and shall be grounds for termination of the contractor's services. All insurance policies shall comply with, and be issued by insurers licensed to transact the business of insurance under AS 21.

**2.1. Workers' Compensation Insurance:** The contractor shall provide and maintain, for all employees engaged in work under this contract, coverage as required by AS 23.30.045, and; where applicable, any other statutory obligations including but not limited to Federal U.S.L.&H. & Jones Act requirements.

The policy must waive subrogation against the State.

**2.2. Commercial General Liability Insurance:** Such policy shall have minimum coverage limits of \$300,000 combined single limit per occurrence. The policy shall be written on an "occurrence" form unless specifically reviewed and agreed to by the Division of Risk Management.

**2.3. Commercial Automobile Liability Insurance:** Such policy shall have minimum coverage bodily injury liability limits of \$300,000 combined single limit per occurrence or split limits of \$300,000 per person / \$500,000 per occurrence. The policy shall cover all owned, hired and non-owned vehicles. In addition, it shall have a minimum of \$50,000 per occurrence property damage liability limits.

**Requesting Agency:**

State of Alaska  
Dept. of Transportation & Public Facilities  
Alaska Marine Highway System  
PO Box 25535, Juneau, AK 99802-5535

Contract MT-1152  
Economic Analysis: Relocating AMHS office to Ketchikan

***Understanding of the Services Required***

The decision to move the Alaska Marine Highway System administrative office to Ketchikan is a complex one. Our goal in this project is to couple the technical competence of our staff with the impartial position of people with no regional interest in the decision to produce a timely and accurate analysis. We are cognizant of the compressed time scale of the project, and have developed a three phase approach to balance rapid completion of project goals with the detailed analysis required to inform the decision:

1. Preliminary meetings to clarify project goals and methods; draft analysis of the leasing, construction and physical costs of the proposed move (Sections A-C and J below).
2. Draft analysis of the impact of the proposed move on AMHS operations (Sections D, G and H below).
3. Draft analysis of the impact of the proposed move on the communities of Juneau and Ketchikan (Sections E, F and I below).

Following submittal of the draft document on 5 January, there will be a content review by AMHS staff. Meetings will then be held to finalize content, revisions made and the final document prepared to meet the 15 January submittal date.

**A. Cost Analysis of a Move to Ketchikan**

To determine the costs of a move to Ketchikan, we will complete a rough inventory of equipment to be moved, determine the expected number of transferred households, and solicit a bid for moving costs for these two items. We will also estimate the approximate 'downtime' until employees resume their usual productivity following the move.

**B. Availability/Cost of Suitable Office Space in Ketchikan**

A survey of available office space in Ketchikan must be performed so that we can compare the economic feasibility of new construction versus the use of existing facilities. Since the needs of the administrative unit will be somewhat idiosyncratic compared with what is likely available, standard commercial lease rates are likely of little value.

**C. Cost of Constructing Office Space in Ketchikan**

We will establish the cost of constructing AMHS administrative offices in Ketchikan using the standard CSI (Construction Standards Institute) format. We will take into account various factors including logistics, the seasonal nature of the construction season in Ketchikan (primarily due to precipitation), and current construction systems and technology. These estimates will be based upon square foot unit costs that in turn will be determined through interviews with the AMHS personnel in Juneau.

**D. Benefits to AMHS of Ketchikan/Juneau Location**

To study the direct effects of a proposed move of the AMHS, we will conduct a logistics study of current operations and the availability of satisfactory modes of communications between the various associated offices and the administrative unit. We will estimate expected productivity by carefully considering the mix of internal and external operations, the current communications modes, and the specific proposal for the types of operations that may be moved. Our analysis will consider a variety of contingencies for the proposed scale of the move.



**E. Impacts of Move on Ketchikan/Juneau: Housing Markets**

We will examine a variety of location-specific benefits that the AMHS must consider. Both Ketchikan and Juneau provide the intuitive physical link to the marine highway. However, the State of Alaska must concern itself with other factors such as the cost of operations in each alternative location, the level of displacement of other enterprises in each location, the types of links that can be established between AMHS administration and local enterprises, and the substantial effect of a relocation on local employment and public facilities.

This analysis is challenging because Ketchikan is currently undergoing an employment transformation as a result of recent decisions by Ketchikan Pulp. While the tools of input/output analysis and regional employment multipliers must be considered, our in-depth understanding of the methodology will be critical because Ketchikan is not in a steady state. We expect that a major relocation of the AMHS Administrative Office will have a substantial effect on the local economy and therefore requires special consideration in this analysis.

Of special concern is the effect such a proposed move would have on the local housing market. We will identify and apply reasonable assumptions that must be made with regard to the housing choices of employees prone to transfer and the ability of the relevant markets to absorb the demand for housing in its various forms. A complete analysis of both the home ownership and rental markets will be conducted.

**F. Impacts of Move on Ketchikan/Juneau: Employee Payroll**

We will complete an analysis of the current and the likely future pattern of payroll, based on contingencies determined in Section D above. The pattern of payrolls in the communities considered is necessary to determine the overall effect on the communities because the injection of new income into Ketchikan will have a very different effect given the employment slack in the Ketchikan economy. We will extrapolate past data from Ketchikan to incorporate recent structural changes in the Ketchikan economy. We propose to study both the direct and the indirect effect of the proposed shift in payroll on the Ketchikan region.

**G. Ketchikan Workforce Analysis**

Related to the employment analysis in Section F, we will consider the ability of the Ketchikan employment market to meet the needs of the AMHS administrative move. Expectations of the composition of resignations and the desired composition of the new administrative facility will be formulated. We will further include study of the existing composition of the AMHS administrative office and the strategic plan for the new office. In addition, results from the study of the housing market from Section E will aid our estimation of successful relocation of administrative employees.

**H. Effects of Distance on Business Processes**

We will carefully consider the need for direct and indirect interaction between AMHS administrative employees and legislative and agency personnel. In Section D above we described the need to develop alternative relocation contingencies so that the relocation strategy does not frustrate the necessary business of the AMHS administrative unit. Travel costs, dependability, and availability will be among the factors we consider in light of alternative communications technologies suitable for internal operations of the administrative unit.

**I. Impacts of Move on Ketchikan/Juneau: Service Economy**

We must establish that the community of Ketchikan can meet the service needs of the influx of administrative employees. To accomplish this we will assess the services available in the Ketchikan area and the ability of the Ketchikan community to satisfy increased demand as a consequence of the relocation. Our primary tool for this analysis will be interviews with service providers in Ketchikan. This is a necessary ingredient of the input-output analysis, which assumes that the community can readily expand the level of infrastructure to accommodate increased activity. Such a reserve capacity must be determined to permit confidence in the regional multiplier analysis described in Sections E and F above.



**Economic Analysis Proposal  
Relocating AMHS Administrative Office to Ketchikan**

12 December, 1996

**J. Status of Available Authorization for a Building Project**

As part of a general review of the current status of the project, we will review alternative financing mechanisms for the project and will report on available funding and financing options from the State of Alaska, the Alaska Industrial Development and Export Authority, the Ketchikan Gateway Borough, the City of Ketchikan, or other possible financing entities.

**Relevant Qualifications and Experience of Proposed Staff**

Sections A - B and D - I will be completed by Dr. Colin Read, Ph.D. in Economics and Associate Professor of Economics at the University of Alaska Fairbanks. Dr. Read is a nationally recognized expert in housing markets and the only housing professor in Alaska. In addition, Dr. Read teaches and does research in Alaskan regional issues and is well-schooled in the special techniques involved in regional analysis. These skills include employment analysis, regional multiplier effects, and the influence of transportation networks on local growth.

Assisting Dr. Read will be Dr. Ken Osterkamp, Ph.D. in Political Science and Director of Information Technology at Information Insights. Dr. Osterkamp has extensive research and analytical experience, as well as expertise with the computer technologies that will be used to support this project.

Section C will be completed by Charles Bettisworth. Charles Bettisworth and Company is an eleven member architectural firm that in the last five years has completed over \$80 Million in projects throughout Alaska. CBCo has maintained a continuous involvement in Ketchikan since 1982, including:

- being part of the team that developed the original designs for the Ship Maintenance Facility in Ketchikan, a project that included an on-site office complex;
- preparation of construction documents for the Marine Highway System provisioning warehouse;
- the Southeast Alaska Visitor's Center, completed and dedicated in 1995.

Section J will be completed by Brian Rogers, who has extensive experience in the provision of public facilities and the legislative and budgetary considerations in the required authorization. Mr. Rogers gained his experience in such analysis through his tenure as an Alaska legislator, Vice President for Finance at the University of Alaska, extensive consulting experience in similar projects, and participation in various private sector business ventures. Mr. Rogers will also be responsible for overall project management.

**Cost Proposal and Schedule**

Cost Proposal: Total Project Budget \$24,970

Participant	Hourly Rate	Activity	Hours				Budget
			Read	Osterkamp	Rogers	Bettisworth	
B. Rogers, Project Manager	\$100	Planning Meeting	4	4	4		\$1,000
C.B. Bettisworth, Architect	\$100	Draft Document: Analysis and Preparation					
Dr. Read, Economist	\$90	A. Analysis of a Move to Ketchikan	16	15			\$2,250
Dr. Osterkamp, Researcher	\$150	B. Estimate Cost of Suitable Office Space in Ketchikan	8	8			\$1,200
		C. Final Constructing Office Space in Ketchikan				8	\$800
		D. Benefits of Relocating Ketchikan/Juneau Location	14	14			\$2,100
		E. Impact of Moving Ketchikan/Juneau: Housing Markets	20	20			\$3,000
		F. Impact of Move on Housing/Juneau: Employee Payroll	12	12			\$1,800
		G. Ketchikan Workforce Analysis	8	8			\$1,200
		H. Effects of Distance on Business Production	10	10			\$1,500
		I. Impact of Move on Ketchikan/Juneau: Service Economy	12	12			\$1,800
		J. Status of Available Authorization for a Building Project				8	\$800
		Final Document: Analysis and Preparation		27			\$3,300
		Project Management					\$800
		Travel costs					\$3,420
		<b>Totals</b>	<b>126</b>	<b>126</b>	<b>20</b>	<b>8</b>	<b>\$24,970</b>

Note: per diem at State rate (\$42 per day)



**Economic Analysis Proposal:  
Relocating AMHS Administrative Office to Ketchikan**

12 December, 1996

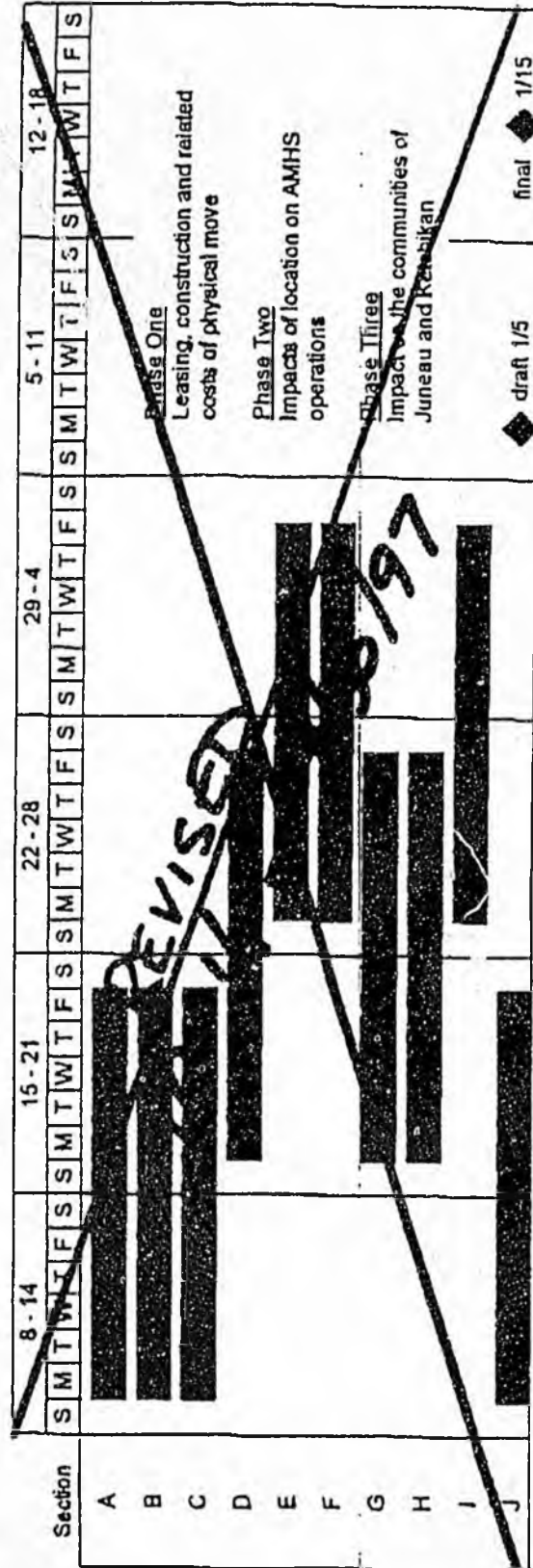
**Schedule**

The three phases of the project will be completed in the order shown at right. Each succeeding phase depends in part on the phase before it.

There will need to be an initial meeting to clarify project goals and methods. This meeting should occur early on, preferably the week after the project has been awarded. This would give Information Insights a week to do preliminary investigation. Present at this meeting would be Brian Rogers, Project Manager; Dr. Read, Economist; and Dr. Osterkamp, Researcher.

Drs. Read and Osterkamp would travel or to Ketchikan from this meeting to continue their research there.

The Project Manager, Brian Rogers, would also meet physically with the AMHS staff at some point during the final document preparation stage to address any concerns that might arise late in the project and to present the final document.



Appendix D

Consultant	Hourly Rate	Activity	Hours				Budget
			Read	Osterkamp	Rogers	Bettisworth	
B. Rogers, Project Manager	\$100	Planning Meeting	4	4	4		\$1,000
C.B. Bettisworth, Architect	\$100	Draft Document: Analysis and Preparation					\$0
Dr. Read, Economist	\$90	1 Outline of Significant Issues	4	8	8		\$1,640
Dr. Osterkamp, Researcher	\$60	2 Initial Fixed Costs	12	16	4	6	\$3,040
		3 Ongoing Operational Costs	24	32	8		\$4,880
		4 Economic Impact	16	16	4		\$2,800
		5 Document Preparation	16	24	8	2	\$3,880
		Final Document: Analysis and Preparation	8	12	6		\$2,040
		Project Management			6		\$600
		Travel costs					\$5,090
		<b>Totals</b>	<b>84</b>	<b>112</b>	<b>48</b>	<b>8</b>	<b>\$24,970</b>

Note: per diem at State rate  
(\$42 per day)

STATE OF ALASKA  
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES  
ALASKA MARINE HIGHWAY SYSTEM  
P.O. BOX 25535  
JUNEAU, ALASKA 99802-5535

REQUEST FOR PROPOSALS

CONTRACT MT-1152  
ECONOMIC ANALYSIS - RELOCATING AMHS ADMINISTRATIVE OFFICE TO  
KETCHIKAN

This Request for Proposals (RFP) is being made under the professional services procurement rules for agreements of \$25,000 or under.

Consultants responding to this RFP will be evaluated primarily on the following items:

1. The consultant's qualifications, experience and expertise within the subject area.
2. The consultant's understanding of the services required.
3. The proposed cost and schedule of the services.

To be considered, proposals should address the following items:

1. Understanding of the Services Required.

Response must outline in as specific a format as possible, the objective and scope of the proposed agreement as perceived. Do not repeat the scope of work provided, but elaborate on the conditions or specifics deemed significant to demonstrate a complete understanding of the technical and substantive issues necessary to accomplish the services required.

2. Relevant Qualifications and Experience of Proposed Staff.

Response must list all individuals who will be involved in performance of the services required.

Further response should describe the qualifications and experience of each listed individual in terms of his or her educational, managerial and substantive experience which is directly related to the proposed agreement.

Relevant projects the individual has worked on and the extent of responsibilities may be included.

3. Schedule and Cost Proposal

The consultant should provide a schedule showing each major phase of the work to be performed and a projected completion date for each phase.

The schedule should contain specific milestones which can be used to manage contract performance and on which compensation can be negotiated and paid.

The cost proposal should consist of an estimate of the hours and staff required to perform each task or subtask and the hourly rate for each named individual or job classification.

4. Period of Performance

Work shall commence upon receipt of Award/Notice To Proceed and be completed by ~~January 1, 1997.~~ DRAFT BY 1/6/97 AND FINAL DUE 1/15/97. NOTIFIED BY PHONE  
VVO

5. Project Description

Provide economic analysis of factors related to the relocation of the administrative offices of AMHS to Ketchikan.

6. Scope of Work

Work with AMHS staff to identify all factors to be covered in the analysis. The following areas have been tentatively identified as relevant to this study:

- a. Cost analysis of a move to Ketchikan. Include estimated costs for relocating the office and staff.
- b. Determine the availability of suitable office space in Ketchikan and the estimated cost to lease a facility that will meet the needs of AMHS.
- c. Establish a cost to construct an office facility on or near the Ketchikan Ferry Terminal.
- d. Evaluate the benefits to the AMHS of being located in Ketchikan and Juneau.
- e. Describe the impacts to Ketchikan and Juneau, should the offices move to Ketchikan, including the impact on the housing markets in both locations.
- f. In terms of employee payroll, what is the current AMHS contribution to each community and how would this change.

CONTINUED  
RFP MT-1101

- g. Assess the costs associated with acquiring and training new personnel based on anticipated resignations resulting from the move. Evaluate the job applicant pool in Ketchikan and assess its ability to meet AMHS staffing demands.
- h. Evaluate productivity and travel costs associated with not having direct access to the Legislature, Governor's Office, Commissioner's Office, S.E. Region (for shoreside projects), Headquarters staff, etc.
- i. Affect on services as a result of move - laundry, food, etc.
- j. Describe the status of available authorization for a building project and the funds appropriated.

7. Available Documentation

- a. "AMHS Administration Building Program," by A.E. Rogers Architects, February 2, 1993.

INSTRUCTIONS TO OFFERORS

RFP Review

Offerors shall carefully review this RFP for defects and questionable or objectionable material. Offerors comments concerning defects and questionable or objectionable material in the RFP must be made in writing and received by the Contracting Officer at least ten days before the proposal opening at the following address:

Mark O'Brien, Contracting Officer  
MT-1152 - ECONOMIC ANALYSIS - RELOCATING AMHS ADMINISTRATIVE  
OFFICE TO KETCHIKAN  
Alaska Marine Highway System  
P.O. Box 25535  
Juneau, AK 99802-5535

Addenda

Addenda providing additional information, changes, clarifications, or interpretations of the request for proposals, may be issued by the state from time to time during the time allowed for proposal preparation. Oral interpretations will not be given. No addendum will be issued later than five (5) days from the proposal due date without extending the due date.

CONTINUED  
RFP MT-1101

Submitting Proposals

Proposals will be received by AMHS, on behalf of the State of Alaska, up to 3:00 p.m. prevailing time, December 6, 1996 and will not be opened by the Selection Committee until after that time.

Limit your proposal, including price if requested, to not more than four (4) 8.5 X 11 pages. Each printed side of each sheet, including covers, transmittal, etc., equal one page. One copy of the proposal should be sent to:

Mark O'Brien, Contracting Officer  
Department of Transportation  
And Public Facilities  
Alaska Marine Highway System  
P.O. Box 25535  
Juneau, AK 99802-5535  
Fax: 907/465-2024

Or Delivered to:

3132 Channel Drive #310  
Juneau, Alaska 99801

A proposal may be corrected, modified, or withdrawn before the time and date set for submission of proposals.

Prices

Prices quoted for services must be quoted in U.S. Funds. Prices quoted in proposals must be exclusive of federal, state and local taxes. If the offeror believes that certain taxes are payable by the State, the offeror should list such taxes separately in his proposal. The State is exempt from Federal Excise Tax under Registration No. 92-73-0006-K.

Filing A Protest

An offeror may protest the award of the AMHS. The protest must be filed in writing to the Procurement Officer, Alaska Marine Highway System, and must include the following information: (1) the name, address and telephone number of the protester; (2) the signature of the protester or the protester's representative; (3) identification of the contracting agency and the solicitation or contract at issue; (4) a detailed statement of the legal and factual grounds of the protest, including copies of relevant documents; and (5) the form of relief requested. Protests will be treated in accordance with AS 36.30.560 -- 610.

CONTINUED  
RFP MT-1101

## CONDITIONS UNDER WHICH RFP IS ISSUED

### Authority

This RFP is written in accordance with Alaska Statutes 36.30 and 2 Alaska Administrative Code 12.

### Compliance

In the performance of a contract that results from this RFP, the contractor must comply with all applicable federal, state and local regulations, codes and laws; be liable for all required insurance, licenses, permits and bonds; and pay all applicable federal, state and local taxes.

Offerors will fully comply with all terms of the request for proposals. Offerors that do not comply are nonresponsive and may be rejected.

### Firm Offer

For the purpose of award, proposals made in accordance with this RFP must be good and firm for a period of 120 days following delivery of the proposal.

### Late Proposals

Proposals received after the time and date set for their receipt will not be accepted and will be returned to the offeror unopened.

### Proposal Rejection

The State reserves the right to reject all proposals at any time prior to award, and to waive formalities when it is in the State's best interest to do so. The State may reject proposals if they are incomplete, fail to acknowledge addenda, are improperly signed, or conditioned in any way. The State is not liable for any costs incurred by the offeror in proposal preparation.

### Contract Funding

The agreement that is entered into as a result of this RFP is subject to the availability and appropriation of funds.

CONTINUED  
RFP MT-1101

Conflict of Interest

An officer or employee of the State of Alaska may not seek to acquire, be a party to, or possess a financial interest in this contract if (a) the officer or employee is an employee of the administrative unit that supervises the award of this contract; or (b) the officer or employee has the power to take or withhold official action so as to affect the award or execution of the contract.

Assignment(s)

Assignment of rights and duties under a contract resulting from this RFP is not permitted unless authorized in writing by the Department of Transportation and Public Facilities, Alaska Marine Highway System.

Subcontract(s)

Within five working days of notice, the successful offeror must submit a list of the subcontractors they propose to use, if any, in the performance of the proposed agreement. The list must include the name of each subcontractor and the location of the place of business for each subcontractor and evidence of each subcontractor's valid Alaska business license, if any.

Force Majeure

The contractor is not liable for the consequences of any failure to perform, or default in performing, any of its obligations under an agreement entered into as a result of this RFP, if that failure or default is caused by any unforeseeable Force Majeure, beyond the control of and without the fault or negligence of the contractor. For the purpose of this agreement, Force Majeure will mean war (whether declared or not); revolution; invasion; insurrection; riot; civil commotion; sabotage; military or usurped power; lightning; explosion; fire; storm; drought; flood earthquake; epidemic or quarantine.

Disputes

Any dispute arising out of the agreement resulting from the RFP shall be resolved under the laws of Alaska. Any appeal of the administrative order or ruling and any action to enforce any provision of this agreement or to obtain any relief from or remedy in connection with this agreement may be brought only in the Superior Court for the First Judicial District of Alaska.



**Information Insights**  
542 Fourth Avenue, Suite 300  
Fairbanks, AK 99701-4714  
(907) 452-2463 - fax (907) 452-3143  
e-mail: info@infoinsights.com

February 27, 1997

Brenda Markey, Support Services Manager  
Alaska Marine Highway System  
Department of Transportation & Public Facilities  
PO Box 25535  
Juneau, AK 99802-5535

via fax: 465-2469

Dear Brenda:

You asked for an update to the schedule for completion of contract MT-1152 (Economic Analysis, Relocating AMHS Administrative Office to Ketchikan).

The Standard Agreement Form signed by DOT/PF and Information Insights on January 8, 1997, called for a contract period of January 1, 1997 to April 30, 1997. AMHS System Director Gary Hayden and I discussed and agreed to the following contract milestones within the contract performance period:

- |     |  |                  |
|-----|--|------------------|
| (1) | Comment Draft on Major Issues            | February 1, 1997 |
| (2) | Completion of First Draft — Major Issues | March 15, 1997   |
| (3) | Comment Draft on Final Report            | April 15, 1997   |
| (4) | Final Report                             | April 30, 1997   |

Please let me know if you need any further refinement to this schedule.

Sincerely,

  
Brian Rogers  
Project Manager

cc: Gary Hayden, System Director

Grian Rogers

*+*

**Impact Analysis:  
Relocation  
of the DOT & PF  
Alaska Marine Highway System  
Administrative Offices  
to Ketchikan**

*Some valid concerns.  
- highly budgeted for report  
- most of those involving to  
make - clerical.  
- how budget budget.  
not just Communit  
based employees - with  
the fleet.*

March 15, 1997



Information Insights  
542 Fourth Avenue, Suite 300  
Fairbanks, AK 99701-4714  
(907) 452-2461 fax (907) 452-3143  
e-mail: info@infoinsights.com

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## Overview

The Alaska Department of Transportation and Public Facilities, Alaska Marine Highway System, sought an analysis of the economic impact and a summary of the issues concerning the proposed movement of AMHS administrative offices from Juneau to Ketchikan. This interim report presents an analysis of the move impacts. Completion of the employee survey currently underway will allow a finer calibration of the findings, but is unlikely to significantly change the results.

This report presents several analytical approaches.

- First, a stakeholder analysis identifies the non-economic impacts on the parties affected by a move of AMHS administrative offices.
- Second, a cost/benefit analysis on an AMHS cash flow basis presents the operational impacts of a move.
- Finally, it presents the economic impacts of a move on the communities of Juneau and Ketchikan.

Following these three analyses, the report summarizes the contract findings.

The question of the AMHS administrative office move arises during difficult economic times, both for Ketchikan and for state government in general. The impending closure of Ketchikan's pulp mill will create significant unemployment and a downturn in the community's economy. Alaskan political leaders are looking for positive steps that can be taken to assist Ketchikan through this difficult transition.

At the same time, however, Alaska's state government feels growing fiscal pressure from decreasing oil revenues. Alaskans expect a downsizing of state government services for the rest of this decade. Any move of AMHS administrative offices will be examined closely for cost justification. If the public perceives a move as wasting state resources, AMHS will suffer.

## I. Stakeholder Issues

Any relocation of a major office, whether in the public or private sector, results in costs and benefits that are perceived differently by different stakeholders in the office's operation. In the private sector, all costs flow to the company's bottom line. In the move of a public sector office, competing alternatives may result in budgetary changes to multiple departments, with costs and benefits spread differentially. AMHS is a public sector entity, but must operate in part like a private sector entity, generating 60% of its budget from passenger and freight revenues. In this respect, any cost savings or new costs flow to AMHS' bottom line.

### *Who are the stakeholders?*

The effects of the proposed move would impact a large number of organizations. Each organization with a stake in AMHS operations, whether on the revenue or expenditure side, will

be affected to some extent. In our analysis we define stakeholders as parties who generate revenues and/or costs relative to AMHS.

**Figure 1: Direct Economic Stakeholders**

Revenue side	Expenditure side
Passengers	AMHS on-shore employees
Alaska residents	AMHS vessel employees
Visitors	AMHS management
Vehicles	Contractors
Freight shippers	Suppliers
Alaska residents	Alaska Department of Administration
Visitors	
The Alaska Legislature	

In addition to the direct economic stakeholders, the following parties are substantially economically impacted by AMHS operations, and may have a stake in the question of a move of AMHS administrative offices and staff:

**Figure 2: Indirect Economic Stakeholders**

Revenue side	Expenditure side
Ferry system communities	Private Sector Competitors
Residents	Air Carriers
Businesses	Cruise Ship Operators
State Government	Passenger Ferries (current/potential)
DOT&PF	
Dept. of Corrections	
Dept. of Administration	
Alaska Court System	

The impacts to stakeholders include costs to AMHS and other state agencies as detailed in the cash flow impact analysis and economic effects on Juneau and Ketchikan as outlined later in this report. In addition to cash flow and economic effects, there are other, non-economic, impacts. While the analysis of institutional impacts may appear subjective, the underlying issues may provide a better understanding of the true meaning of the effect of a move on Juneau, Ketchikan, and Southeast Alaska.

### *Effects of a move on AMHS customers*

In large part, the move will have little direct impact on AMHS customers. Most passenger contact with AMHS is over the toll-free 800-number. Potential passengers who call for reservations probably do not know or care where they are calling; a change would make no difference as long as communications are of acceptable quality.

There would be some impact to customers who visit AMHS administrative offices. This would be particularly significant for those Southeast and Southwest Alaska community representatives who travel to Juneau throughout the year to visit the DOT/PF Commissioner's offices and AMHS administration to discuss transportation needs. For these communities, an additional

trip to Ketchikan could be necessary, adding time, distance and travel costs to the journey. In addition, as shown by the figure below, travel opportunities to Ketchikan are somewhat less than those to Juneau:

Figure 3: Southeast Air Connections

	From Juneau	From Ketchikan
To Anchorage	4x daily, 1.5 hr - 3 hr	2x daily, 4.5 hr - 6 hr
To Petersburg	1x daily, 45 min	1x daily, 1.5 hr
To Seattle	5x daily, 3.5 hr - 5 hr	3x daily, 1.5 hr
To Sitka	1x daily, 40 min	2x daily, 50 min - 1.5 hr
To Wrangell	1x daily, 1.5 hr	1x daily, 35 min
	<hr/>	<hr/>
	To Juneau	To Ketchikan
From Anchorage	4x daily, 1.5 hr - 3 hr	2x daily, 4 hr - 5 hr
From Petersburg	1x daily, 1.5 hr	1x daily, 1.5 hr
From Seattle	5x daily, 2.5 hr - 6 hr	3x daily, 2 hr
From Sitka	2x daily, 40 min	1x daily, 40 min
From Wrangell	1x daily, 2.5 hr	1x daily, 45 min
	<hr/>	<hr/>
Total flights to and from	17x daily	13x daily

As will be shown below, travel issues impact many of the AMHS operations.

*Effects of a move within DOT/PF* .....

Separation of the AMHS administrative offices from the rest of the Department's offices will also have an impact on AMHS. The absence of (or reduction in) formal and informal day-to-day contact between AMHS leadership and the Commissioner's office will reduce the quality of communication and restrict the opportunities to work together to solve problems. Any loss of opportunity for contact between the Commissioner's office and AMHS can only be detrimental to the system.

The Commissioner is conducting an efficiency review of DOT&PF operations to save money for the state and to bring a greater emphasis on direct service to the public. While the review is still underway, one can speculate that the plan will include tighter integration of planning, design, engineering, and administrative support across divisions and regions. A similar 1992 report recommended consolidation of Southeast transportation system administration, including budget, finance, personnel/payroll, procurement and clerical support. The physical separation of AMHS administrative offices from the rest of DOT&PF may inhibit these cost-savings efforts.

Of particular concern to AMHS stakeholders should be the effect of AMHS' absence from everyday decision-making by the department. Distance rarely improves influence, and frequently has a negative effect. "Out of sight" is likely to lead to "out of mind" in departmental planning and budget-making. It is not unlikely that a future Commissioner, separated from AMHS by distance, will tend to focus his or her efforts on roads, airports and ports rather than

the marine highway system. When the Commissioner determines the proposed allocation of federal funds for highways, it may be that he or she will wear "roads-colored glasses", resulting in fewer federal dollars for marine highway improvements.

Also important is the greater difficulty in coordinating transportation planning with other transportation modes. The core public service sought by customers in Southeast and Southwest Alaska is transportation of people and goods, which requires good coordination of marine, land and air transportation. If AMHS administrative offices are physically separate from other planning functions within the Department, coordinated planning will suffer.

### *How Ketchikan views AMHS administration*

The AMHS administrative offices are seen by many in Ketchikan as "Juneau-centric", top-heavy and/or overly bureaucratic. Meetings with opinion leaders indicated a general sense that the AMHS administration is not looking out for the interests of their Ketchikan-based staff, the marine maintenance facility, or the community. Many appear to believe that AMHS management is choosing Seattle over Ketchikan for major maintenance based on non-economic reasoning.

Such a view of a central office by those most closely in touch with a regional or division office is common, both in private industry and in government. Division staff may not understand all of the issues considered by a central office in its decision-making, and in the absence of regular and good communication will often ascribe motivations that have little basis in reality. Nonetheless, perceptions have real consequences.

The perceptions in Ketchikan clearly require an strategy for improving administrative/staff and Juneau/Ketchikan communication. Improved communication between Juneau headquarters and Ketchikan staff should not, however, come at the cost of disrupted communication between Juneau headquarters and its customers and Departmental co-workers. It would be far less expensive, and far less disruptive, for the AMHS administration to send the director or a top manager from Juneau to Ketchikan for one day each week throughout the year than to send 100 employees from Juneau to Ketchikan.

## II. Cost/Benefit Issues

The financial costs and benefits of moving the AMHS administrative offices will be spread across several state agencies and the AMHS-served communities. This section of the report identifies the areas that will incur costs or receive benefits and, where possible, quantify these costs and benefits.

The cost/benefit analysis requires the analysis of a number of factors, some fairly straightforward (such as space requirements), and some not (the number of employees who would make the move from Juneau to Ketchikan). Most factors are somewhere in between, where an estimate can be made based on standards and conditions found elsewhere in similar situations. This analysis identifies the factors that would impact the decision of moving the

AMHS offices, and makes clear the assumptions that must necessarily be made when calculating the costs and benefits for each.

### *Ongoing operational costs*

AMHS operational costs (in direct outlays of dollars from the AMHS budget), including facilities rent, will increase by approximately \$638,000 annually if the administrative offices are moved to Ketchikan. Of this total, roughly \$459,000 is attributable to space requirements and could be partially alleviated by capital construction funding. The remaining \$179,000 in annual costs are focused primarily in communications and travel costs. From the perspective of the broader state budget, there would be some partial offsets to these costs, but any offsetting benefits would accrue to other state agencies, rather than AMHS.

Data communications would have to move off the mainframe hub; voice circuits switched from the state system in Juneau to the municipally-owned Ketchikan Public Utilities. It remains to be determined whether AMHS data functions could effectively function off-hub. AMHS data communications costs are estimated to increase by \$84,200 annually, and voice communications by \$24,000.

Travel costs are likely to be significant due to operational requirements for AMHS administrative staff to be in Juneau for regular meetings and interaction with the legislature, DOT/PF, and other state agencies. Travel costs are estimated to increase by just over \$70,000 annually.

### Communications

Based on current AMHS communications usage — both voice and data — communications costs will increase by approximately \$84,000 annually as shown in the figure below:

Figure 4  
Data communications costs\*

Location	Juneau monthly costs	Ketchikan installation cost	Ketchikan monthly costs	Increase (decrease) in monthly cost
WAN charges	\$ 1,323.00	\$6,897.50	\$3,814.56	\$2,491.56
SNA Gateway	416.50	1,116.00	1,200.88	784.38
SNA Controller	1,984.50	2,232.00	5,721.84	3,737.34
Wiring for new building		34,350.00		
CCMail separation costs		5,500.00		
Total one-time costs		\$50,095.50		
Total monthly costs	\$3,724.00		\$10,737.28	\$7,013.28
Total annual costs	\$ 44,688.00		\$ 128,847.36	\$ 84,159.36

\*See Exhibit B for more detail on these costs



The long-distance tariffs for Ketchikan and Juneau calls are similar enough to expect little change in long distance costs for current traffic. There will therefore be virtually no impact on the reservations operation from a long-distance toll standpoint. To the extent long-distance communications are required between Ketchikan-based AMHS staff and other state offices in Juneau, there will be new costs.

The state does not currently keep records of the telephone traffic between state offices in Juneau, so there is not a perfect basis to estimate the volume of new long-distance traffic the move would require. The offices with the most interaction with other state agencies are AMHS administration (3 positions) and AMHS Support Services (44 positions). Assuming 25 of these staff make two daily 5-minute calls to Juneau-based state offices, the remainder make one weekly 5-minute call to Juneau-based state offices, and each other AMHS administrative staff member makes one weekly 5-minute call to a Juneau-based state office, toll charges will be \$24,000 annually. Clearly, some staff members will exceed these assumptions, while others will make few or no calls. Whatever the volume, there will be an increase in voice traffic. For purposes of this report, and in the absence of better call volume estimates, \$24,000 is used as the cost of increased long-distance tolls.

A far larger concern is that of data access. The state data system does not provide the same quality service off-hub Ketchikan as at the Juneau hub. Figure 4 shows costs assuming all administrative offices are moved from Juneau to Ketchikan. The major cost drivers are offices requiring access to the state mainframes in Juneau; currently these are the reservations and finance-related offices. If either of these offices are left in Juneau, costs will not increase as significantly.

While one may speculate that over time Ketchikan will improve its telecommunications infrastructure, the same is likely to be true in Juneau, leaving AMHS offices in Ketchikan lagging technologically. Good telecommunications capability is crucial to the ability of the system to meet customer needs.

## Travel

A move of the AMHS administrative offices from Juneau to Ketchikan clearly provides better in-person service to customers in Ketchikan and southern Southeast Alaska. It should be noted, however, that for customers from elsewhere on the Southeast mainline and in Southwest, travel time, distance and cost for in-person meetings would be increased.

A major "customer" of AMHS, providing up to 40% of system revenues, is the Alaska legislature. A major operational impact of a move of AMHS administrative offices to Ketchikan is the need and cost of sending AMHS staff to and from Juneau, often on short notice, to meet the informational needs of the Alaska legislature and its staff. It is likely that AMHS, like other state entities located outside Juneau would find the need to almost permanently station staff in Juneau during the legislative session to meet the needs of these important customers.

Scheduled airline traffic between Ketchikan and Juneau would affect AMHS operations for meetings between AMHS administration and those state offices located in Juneau. Following are the current Alaska Airlines schedules between Ketchikan and Juneau:

Figure 5: Juneau/Ketchikan Air Schedule

From Ketchikan to Juneau:

	<u>Depart Ketchikan</u>	<u>Arrive Juneau</u>	<u>Time en route</u>
AS 65	9:16 a.m.	12:42 p.m.	3 hrs. 26 min.
AS 67	4:09 p.m.	6:02 p.m.	1 hr. 53 min.
AS 69	9:10 p.m.	10:03 p.m.	53 min.

From Juneau to Ketchikan:

	<u>Depart Juneau</u>	<u>Arrive Ketchikan</u>	<u>Time en route</u>
AS 60	6:00 a.m.	6:54 a.m.	54 min.
AS 62	10:14 a.m.	12:06 p.m.	1 hr. 52 min.
AS 64	2:20 p.m.	4:47 p.m.	2 hrs. 27 min.

This schedule shows that it is not possible for Ketchikan-based staff to attend morning or early afternoon legislative meetings in Juneau without staying the previous night. Sample round-trip itineraries from Ketchikan to Juneau and return include:

All day meeting

Day 1 AS 69 Ktn-Jnu 9:10 p.m. / arrive 10:03 p.m.  
 Day 2 Meeting 8 a.m. to 4:30 p.m.  
 Day 3 AS 60 Jnu-Ktn 6:00 a.m. / arrive 6:54 a.m.

Half-day morning meetings

Day 1 AS 69 Ktn-Jnu 9:10 p.m. / arrive 10:03 p.m.  
 Day 2 Meeting 8 a.m. to 1 p.m. ---  
 AS 64 Jnu-Ktn 2:20 p.m. / arrive 4:47 p.m.

Half-day afternoon meetings

Day 1 AS 65 Ktn-Jnu 9:16 a.m. / arrive 12:42 p.m.  
 Meeting 1:30 p.m. to 4:30 p.m.  
 Day 2 AS 60 Jnu-Ktn 6:00 a.m. / arrive 6:54 a.m.

In most cases, attending both morning and afternoon meetings in Juneau would require a two-night stay. Even a half-day meeting requires an overnight stay and travel during the remainder of the day of the meeting. The impact of the difficulty for Ketchikan-based administrative staff to timely meet the information needs of legislators cannot be underestimated.

Interviews with AMHS staff indicate significant contact requirements with other state agencies in Juneau. These include contact between:

- AMHS management staff with the Commissioner and other DOT/PF directors,
- AMHS budget staff with the Office of Management and Budget and with the administrative officers of other DOT/PF divisions and other state agencies,
- AMHS personnel and management staff with the Department of Administration on collective bargaining and labor relations issues,
- AMHS personnel staff and the Division of Personnel on issues relating to hiring and other personnel decisions,

- AMHS management staff with the Office of the Attorney General concerning litigation, and
- AMHS computing and finance staff for computer systems training.

Estimates of additional travel required between Ketchikan and Juneau are shown in Figure 6.

Figure 6  
Projected Ketchikan - Juneau - Ketchikan Travel

	Trips	Over- nights
<u>AMHS Director</u>		
Weekly trips during legislative session, average 2.5 working days (includes legislative hearings, labor negotiations, DOT/PF meetings)	17	51
Biweekly trips during remainder of year, average 1.5 working days (includes legislative hearings, labor negotiations, DOT/PF meetings)	17	34
<u>Support Services Manager</u>		
Weekly trips during legislative session, average 2.5 working days (includes legislative hearings, labor negotiations, DOT/PF meetings)	17	51
Biweekly trips during remainder of year, average 1.5 working days (includes legislative hearings, labor negotiations, DOT/PF meetings)	17	34
<u>Engineering Manager, Transportation Planner</u>		
3 trips each during legislative session, average 2.5 working days	6	18
5 trips each during remainder of year, average 1.5 working days	10	20
<u>Accountant IV</u>		
Monthly trips, average 1.5 working days	12	24
<u>Payroll Supervisor</u>		
Bi-monthly trips, average 1.5 working days	6	12
<u>Programmer/Analyst</u>		
Quarterly trips, average 2.5 working days	4	12
<u>Finance Staff</u>		
Staff training in AKSAS, average 1.5 working days	6	12
<u>Terminal &amp; Ship Services Manager</u>		
Quarterly trips, average 2.5 working days	4	12
<u>Marine Transportation Services Manager</u>		
Quarterly trips, average 2.5 working days	<u>4</u>	<u>12</u>
Total trips	120	
Total overnights		292

There would obviously be a reduction of trips from Juneau to Ketchikan and return, which we estimate at 20 trips annually. We assume half of these trips currently require a single overnight, while half are day trips. Additional travel and per diem costs are as follows:

Additional costs of travel

Estimated 120 trips, 292 nights	
Airfare (Ktn-Jnu-Ktn @ \$250 average)	\$30,000
Car rental or state equipment fleet (\$30/day average)	9,000
Hotel (\$90 average, including tax)	27,000
Meals and incidentals (\$42 average)	<u>12,300</u>
Subtotal	\$78,300
Less: Flights from Juneau to Ketchikan saved	-5,000
Hotel, car rental, meals & incidentals saved	<u>-2,500</u>
Total additional travel costs	\$70,800

The above costs are a reasonable estimate of travel requirements to Juneau. Certainly a significant portion of communication between state agency officials can be by telephone. Nonetheless, it would be naive to assume there is no loss of quality of interaction in purely telephonic communication between commissioners and their staff, between agency fiscal officers and the state divisions of finance, personnel, or labor relations, or between state officials and the legislature. If AMHS is out of sight, it could be out of mind for others in the state bureaucracy, with impacts that are hard to predict.

**Support services**

Laundry services are currently performed by the Department of Corrections (DOC) under AS 33.32.030(c). A move of AMHS administrative offices would require staff in Juneau to pick up and deliver laundry from DOC's Lemon Creek facility. No new costs have been assigned to this function. The costs for the food service, automotive fleet, and other support operations would remain the same. Any Juneau-required functions could be performed by the port staff and the handful of positions that would remain in Juneau, at no net cost increase to the system.

***Fixed and one-time costs***

The fixed and one-time costs associated with the proposed move include

- construction or leasing of office and warehouse facilities;
- movement of personnel and equipment;
- productivity loss, training and retraining of personnel; and
- relocation and creation of communications networks.

In the fixed cost arena, the largest driver is the need for office and warehouse space. Approximately 19,700 square feet of office space and 5,000 square feet of warehouse space would need to be provided in Ketchikan to house the AMHS administrative functions currently located in Juneau. No existing Ketchikan facility can meet these needs.

An obvious one-time cost is the movement of personnel and equipment to the new location. State administrative procedures dictate the process for movement of staff, dependents and their households. Movement of furnishings, fixtures, equipment, and files must be carefully

coordinated to allow continuation of essential administrative procedures, including billing, cash receiving and payroll during the move process.

A third cost of a decision to move results from staff turnover among those who choose not to move. Costs include hiring of temporary or permanent replacements in Juneau or Ketchikan and training or retraining of those replacements.

Finally, the communications networks must be recreated at the new location, including the local area network and SNA connections to the Juneau mainframe.

In general, all fixed cost issues point toward an overall negative impact of office movement with the possible exception of the net present value of the current space occupied by the administrative offices. As detailed below, this item alone can yield a wide range in the net present value cost or benefit of the move, depending on how the observer views the economic and budgetary impacts of the cost of space requirements.

### Space requirements

Based on the research conducted during the preliminary economic analysis, no space is currently available for lease or purchase in Ketchikan that would completely meet the needs of the AMHS administrative offices (currently 19,700 square feet in two Juneau facilities, plus approximately 5,000 square feet of warehouse space). AMHS currently occupies a mix of state-owned and leased space. Neither AMHS nor any other state agency pay rent on the state-owned space; the Department of Administration pays costs of leased space. Sufficient acceptable space could be constructed in Ketchikan by the private sector and leased to the AMHS for an estimated \$1.75 per square foot per month. Alternatively, the state could construct acceptable space for an estimated \$3 million.

There are at least three ways to look at the economic and budgetary impacts of space costs in Ketchikan and Juneau:

1. A pure economic analysis would assign an opportunity cost to the state-owned space (the cost of leasing new space in Juneau) and a smaller opportunity cost to the leased space (the difference between the cost of leasing new space in Juneau and the cost of the AMHS leased facilities). These would be compared to the cost of new space in Ketchikan (with or without a qualitative component between the higher quality new space in Ketchikan and the space in Juneau).
2. A state cost analysis would look at the differences between the outlays of state funding for all agencies on a current annual basis between the new space in Ketchikan and the currently occupied space in Juneau.
3. An AMHS cost analysis would look at the differences between the outlays from the AMHS Fund on a current annual basis between the new space in Ketchikan and the currently occupied space in Juneau.

These three approaches yield sharply different results:

1. The pure economic analysis would compare the estimated new \$1.75 per month office cost in Ketchikan with the opportunity cost of office space in Juneau of approximately \$2.25 per month. Under this analysis, the move would save \$118,200 annually, the difference between the totals shown in Figures 7(b) and 7(c). This assumes other state offices currently leasing space at \$2.25 could and would move into the leased and owned space vacated by AMHS. An additional adjustment may need to be made due to the less than ideal condition of the Glacier Avenue reservation offices.
2. The state cost analysis would compare the new \$1.75 cost per month in Ketchikan for 19,700 square feet with the current \$1.91 cost for 12,500 square feet and the current free space of 7,200 square feet. Under this analysis, the net annual cost of the move would be \$135,570, the difference between the totals shown in Figure 7(a) and 7(b). This assumes the state can find an alternative state agency user for the space currently occupied in Juneau whose lease is up for renewal at the time of the AMHS transfer and whose lease costs are approximately the same as AMHS'; the Department of Administration space leasing cost savings would offset the AMHS increased cost of \$458,700.
3. The AMHS cost analysis requires either (1) all new lease costs and benefits to be charged to AMHS, for a total of \$458,700 annually as shown in Figure 7(b) or (2) a capital appropriation of an estimated \$3 million for construction of the office facility in Ketchikan and annual operating costs of an estimated \$45,000 for warehouse space.

Figure 7  
Cost of Space Requirements

7a) Juneau - actual cost	Leased Space in DOT/PF	Owned Space on Glacier Ave	Warehouse Space	Total
Current square feet	12,500	7,200	5,000	24,700
Lease price / sq. ft. / month	\$ 1.91			
Lease / year	\$ 286,530			\$ 286,530
Utilities / year (estimated)		\$ 21,600	\$ 15,000	\$ 36,600
Total cost / year (estimated)	\$ 286,530	\$ 21,600	\$ 15,000	\$ 323,130

7b) Ketchikan - projected cost	Leased Space	Warehouse Space	Total
Square feet	19,700	5,000	24,700
Lease price / sq. ft. / month	\$ 1.75	\$ 0.50	
Lease / year	\$ 413,700	\$ 30,000	\$ 443,700
Utilities / year (estimated)		\$ 15,000	\$ 15,000
Total cost / year (estimated)	\$ 413,700	\$ 45,000	\$ 458,700

7c) Juneau - opportunity cost	Leased space	Owned space	Warehouse Space	Total
Current square feet	12,500	7,200	5,000	24,700
Lease price / sq. ft. / month	\$ 2.25	\$ 2.25	\$0.50	
Lease / year	\$ 337,500	\$ 194,400	\$ 30,000	\$ 561,900
Utilities / year (estimated)			\$ 15,000	\$ 15,000
Total cost / year (estimated)	\$ 337,500	\$ 194,400	\$ 45,000	\$ 576,900

The next figure shows the gross dollar flows and present values over a 25-year period, assuming lease rates increase at 3% annually, and using a 6% discount to present value:

Figure 8  
Present value of space cost changes

	Juneau offices	Ketchikan offices	Juneau offices opportunity cost
Undiscounted cash flows over 25-year period	\$11,781,082	\$16,723,865	\$21,033,350
Opportunity cost savings of Ketchikan alternative			\$4,309,485
Increased cost to AMHS of Ketchikan alternative		\$4,942,782	
Present value of cash flows over 25-year period	\$5,847,380	\$8,300,662	\$10,439,616
Opportunity cost savings — of Ketchikan alternative			\$2,138,954
Increased cost to AMHS of Ketchikan alternative		\$2,453,283	

Among the three alternative approaches to space cost, no one alternative is best. The opportunity cost approach would most likely best satisfy economists; the state cost analysis provides the best measure of net costs to the State of Alaska; the AMHS cost analysis shows the effect on AMHS budget and operations.

Since the full costs of an AMHS move will be borne by AMHS, the \$2.45 million net present value of the Ketchikan office space should be used as the basis for comparison of the Ketchikan and Juneau locations. Downward adjustments to this number could be considered if (1) any of the current AMHS administrative offices stayed in Juneau, (2) the current two-location office situation in Juneau were replicated in Ketchikan and lower-priced existing office space could be located in Ketchikan, or (3) any Juneau staff could be relocated to currently-owned or leased state space in Ketchikan.

## Movement of personnel

### *How many would move?*

There are 116 administrative positions in Juneau, of which 95 are currently staffed. Assuming normal operations, about 20 positions are vacant or forced vacant at any given time. These positions could obviously be transferred without household moving costs. About five support positions would remain in Juneau, and would not need to be moved.

There is no way to predict with full confidence the number of the other 90 people that would move to Ketchikan. One method is to ask the employees. Based on partial results from the employee survey conducted for this report, 28% of the employees would "definitely" or "probably" accept transfer and move to Ketchikan, 41% would "definitely not" or "probably not" accept a transfer, and 31% are "not sure."

Many of the employees would seek alternative employment. Among those answering "probably not" or "definitely not," 94% indicated they would seek alternative employment in Juneau or elsewhere in Alaska. Twenty-five percent of these employees are managerial or executive, 12% are professional, and 63% are clerical or technical. Some indicated they have already started looking for new work, and several are already interviewing with other positions with the state.

These employees' positions will be vacated and will need to be refilled during the roughly 18 months between a decision to move and the move itself. AMHS will face no easy choices during this period: either positions will be filled on a permanent basis, and AMHS will have to pay their moving costs to Ketchikan, or the positions will be filled temporarily, and AMHS will have to train both the temporary replacement in Juneau and later the permanent replacement in Ketchikan. Furthermore, the pool of applicants to fill the jobs during the interim will be smaller, consisting only of individuals willing to relocate to Ketchikan or only of individuals willing to accept temporary assignments.

Excluding survey respondents who were not sure whether they would accept a transfer, 41% of survey respondents would move, with an average of 1.8 children and dependents each. The survey thus would indicate a minimum of 37 current personnel and 67 dependents would move. Assuming the same percentage of replacement personnel would also move, an additional 22 personnel and 40 dependents would move, for a total of 59 personnel and 107 dependents.

### *Movement of households*

Under existing labor contracts, the state is obligated to pay up to the following amount for each employee that moves:

- (1) moving costs for up to 10,000 pounds of personal effects,
- (2) moving costs for up to two vehicles,
- (3) airline or ferry tickets for employees and their families,
- (4) up to 15 days per diem for employees and their families.

A portion of these costs would be recovered in freight revenues (to the extent that the move took place during a period of time the ferry system has vacant freight space and to the extent that movers use the ferry, rather than barge service).

Based on the partial survey data and its extension to refilled positions, 59 employees and their dependents would be moved. Assuming the average employee moves two vehicles and 8,000 pounds of personal effects, the state would incur the following costs:

(1) Moving costs for personal effects:	\$224,600
(2) Moving costs for up to two vehicles (on ferry):	0 *
(3) Ferry tickets for employees and their families:	0 *
(4) 15 days lodging and per diem for employees and their families:	\$133,000
Total cost of moving employees and households	\$377,600

\* Assumes space is available for worker vehicles without displacing revenue-producing freight or vehicles; actual cost would be higher if any displacement occurred.

Assuming half of the household freight is shipped on the ferry rather than barges, about \$7,500 would be received by the system during the move of household effects, leaving a net cost to AMHS of \$370,100 for movement of households. This cost would rise by the cost of airfare for any employees or dependents who used air rather than ferry transportation for the move.

### Lost productivity, training and retraining

Any office relocation results in lost productivity for the staff affected. The initial economic impact analysis estimated one month of lost productivity for each currently employed staff member, including about one week of lost time arranging and conducting the physical move and one week in the transition period at the new offices. Based on current staff salaries and benefits, this lost productivity has a cost of about \$400,000. While this lost productivity is a cost from an economic standpoint, it would probably not translate into additional budget costs for AMHS and is therefore excluded from the AMHS cost analysis.

The projected loss of current experienced staff, together with the time and cost of new hiring and training, will result in additional productivity losses. Based on the partial employee survey results, ten employees with over five years experience at AMHS will need to be replaced, in addition to 24 employees with one to five years experience and 20 with less than one year experience at AMHS. Using the earlier assumptions that roughly 40% of the replacement workers will move, 22 positions will be refilled once, and 31 positions refilled first with temporary employees in Juneau and then with permanent employees in Ketchikan. This extraordinary hiring process imposes operational costs on AMHS, including the management time to advertise, go through the personnel process, and the time to train the new hires. Assuming one month of training time per employee, costs of training this total of 84 new hires will be approximately \$350,000. If 25% of these training costs are hard dollar costs, rather than lost productivity, the net new cost to AMHS will be \$87,500.

It appears that Ketchikan can indeed physically absorb the move. The local employment market has the ability to supply the administrative office with a pool of qualified candidates from which to choose for many of the AMHS positions. A job-by-job analysis comparing the AMHS

administrative positions with the pool of current and newly unemployed workers in Ketchikan will show which position classifications would require hiring outside of Ketchikan. Exhibit A contains a first estimate of the positions that have comparable jobs in the current Ketchikan labor market.

## Movement of equipment

### *Computers and communication infrastructure*

Moving the computer network to Ketchikan is a major undertaking with two facets. The first is the physical movement of computers and other network items. The second and larger issue is the infrastructure required to support the data communications needs of the network. Based on estimates supplied by AMHS and detailed in Exhibit B, up front move costs will total about \$50,000. As shown above, operational costs for communications will be more significant.

### *Office equipment*

The move of AMHS administrative offices includes shipment of office furniture, files and equipment. Modular work-stations must be torn down, reconfigured and assembled, and computer cables installed. Several years ago AMHS moved a portion of its staff from Glacier Avenue to Channel Drive at a cost of approximately \$150,000, including office reconfiguration and communications line installations. The cost of the physical move of offices and equipment from Juneau to Ketchikan was estimated assuming offices have an average of 150 cubic feet of furniture and equipment, 4,000 cubic feet of files are stored and necessary to move, and a portion of goods now stored in the Juneau warehouse would need to be moved. Excluding communications setup costs (dealt with elsewhere in the report) and basic office configuration (included in space costs), an estimated \$100,000 would be required to pack, move, repack and assemble AMHS administrative offices.

In addition to these costs, careful coordination will be required to allow AMHS to continue to function during the move. Because AMHS has both semimonthly and biweekly payroll processing, for example, payroll staff are working on data entry and payroll distribution on three-quarters of the days in the average month. A move must be timed to off-cycle days, and requires files and computers be accessible before, during and immediately after the move date. This timing may require some air transportation of staff and files, but no adjustment to cost estimates to reflect such an eventuality has been included in this report.

### III. Community Economic Impact

The economy of Southeast provides the proper context for many of the above issues. Understanding the regional economy also informs the analysis of such issues as the availability of labor and the cost of housing.

The economic effects of the move on the communities of Juneau and Ketchikan are detailed below. In summary, economic impact on the two communities is relatively minor. Initial calculations indicate that Juneau's growing economy would absorb the impact of job losses within three, while job creation in Ketchikan would only marginally soften the economic impacts of the impending mill closure.

In short, from an economic perspective moving the offices to Ketchikan creates fewer benefits to Ketchikan than some may hope, while moving the offices from Juneau has a smaller economic impact on the community than some may fear.

As outlined below, it appears the overall economic benefits and costs of a move are either roughly in balance or tilt somewhat against a move. While this may be the case from a pure economic cost/benefit standpoint, there are significant issues that are not purely economic that affect the long-term viability of the Alaska Marine Highway System and its ability to serve its customers and stakeholders.

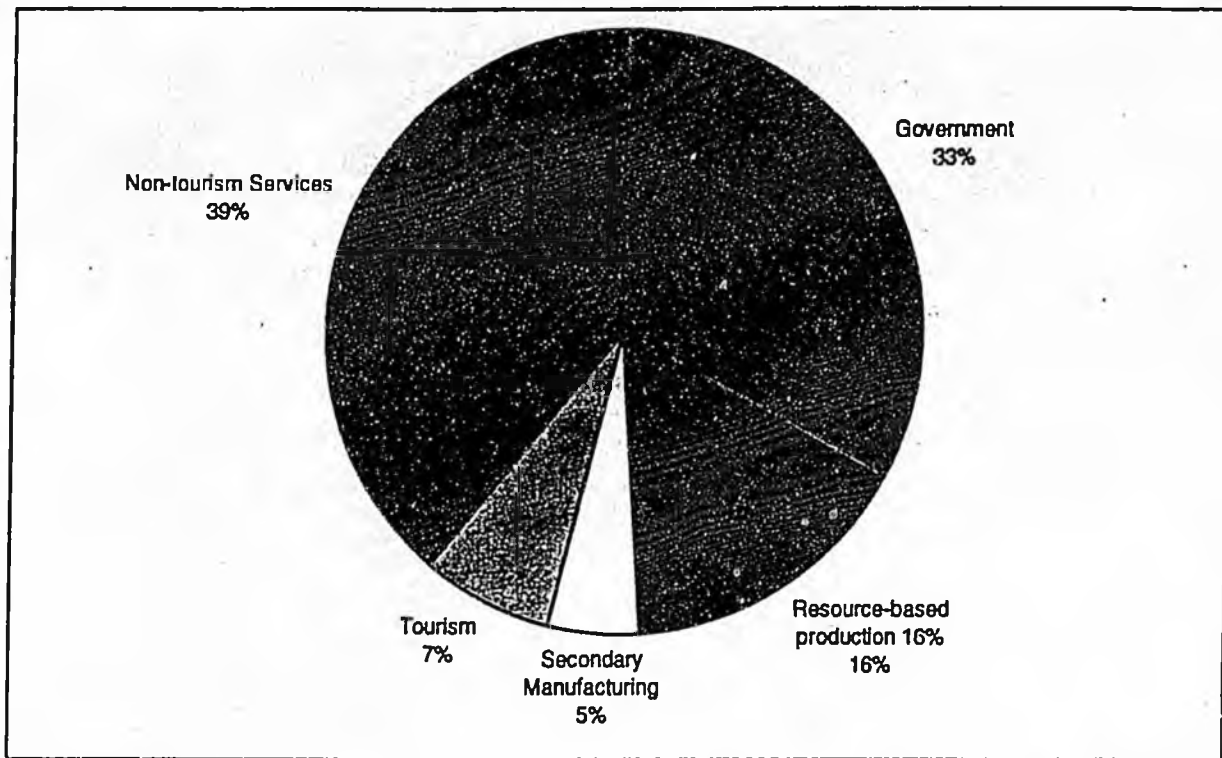
As the economic analysis shows, the costs to Juneau and benefits to Ketchikan are smaller than some may suspect. If the time, energy, and money that a move would cost was applied to working on either improving AMHS operations and community communications, or to working on improving the Ketchikan economy, there would be net economic benefits instead of the costs identified herein.

#### *Southeast regional economy*

The Southeast Alaskan economy is defined by disparities. With the exception of the three large towns of Juneau, Ketchikan, and Sitka, the region is made up primarily of small communities. Of the 73,000 people living in Southeast, about one-third live in Juneau. Two-thirds of the population live in the three urban centers with the remaining third of the population distributed among twenty-nine communities.

While the region as a whole is quite diverse by Alaska standards, much of that diversity is in these three larger communities. Typically, the smaller communities rely on a single industry for economic survival. These industries may give rise to mining or fishing communities, logging communities, or towns centered on tourism. While support industries are built up around these primary industries, it is the viability of these primary industries that must maintain the region's smaller towns.

Figure 9: Southeast Regional Economy



The viability of many of the small communities depends on the movement of products into and out of their towns or the arrival of tourists. Transportation networks are of paramount importance and are explicitly included in the mission statement of the Alaska Marine Highway System to provide "opportunities to develop and maintain a reasonable standard of living and high quality of life, including social, education and health needs."

As the figure above shows, primary and manufacturing jobs represent about 61% of regional employment, with about .64 service jobs generated for each primary or manufacturing job.

The region is experiencing steady growth at a rate of 1.6% in 1996, projected to rise to 1.9% in 1997. This regional growth is very industry specific. Much of it is in mining and construction, mostly in the Juneau area, and masks declines in timber, seafood and fishing, and government. Only Juneau can be expected to experience strong growth, especially as these growth figures must be revised downward with the impending closure of the Ketchikan Pulp Company mill in Ketchikan.

Growth will be best realized only in the communities with the most diversified economies. With most of the region's economies tied to timber, fisheries, or tourism, communities are very sensitive to small changes in commodity prices or the overall level of economic activity in the nation. The lack of diversification means that local economies are supported in large part by imports. In addition, these regional economies are tied to demand from extra-regional sources

and hence are quite dependent on the overall health of other economies. Without changing the overall level of activity within the region as a whole, there is much to gain in economic stability by encouraging the diversification of the regional economies through greater intraregional cooperation and dispersion of economic activity.

One peculiarity of the region is its proximity to the markets of the 'lower forty-eight' states. This results in a trade pattern that looks south more than is typical for the rest of Alaska. As a consequence, tourism from customers arriving from the contiguous United States is quite important, with the Alaska Marine Highway System playing a key role in this market.

In addition, the industries of seafood processing, timber, hotel/hospitality, water transportation, and recreation services are key industries and are the five sectors with the greatest share of non-resident employment. Each employs non-residents as at least 30% of total employment. This is destabilizing for two reasons. First, it reflects a seasonal transience, which puts pressure on housing and local economies during the summer months, and results in overbuilding, with excess housing capacity in the winter months. These unemployed resources are costly to the local economies. Second, imported workers increase the level of income leakage from the region and hence reduce the level of local employment multipliers.

The industries that experience significant levels of nonresident employment have historically been high growth sectors. However, the seafood and timber industries are currently experiencing systemic decline which is not expected to rebound in the short term. It is not clear whether declines in these industries will harm non-resident employees to a greater degree than resident employees in these two predominant industries. However, a recent cutback in pulp operations at Sitka did have a greater effect on the percentage decline in non-resident labor than it did on resident labor in the community. This is likely because non-resident labor is more transient and can be expected to respond to both economic upturns and downturns with greater sensitivity.

Juneau, Ketchikan, and Sitka are three of only five urban centers in Alaska, and represent 65% of the population of the Southeast region. These economies are comparably diverse when compared with other Alaska communities. This diversity is due to seaport access and the traditional employment industries of timber, mining, recreation/tourism, and government.

The lack of diversity in Alaskan economies is problematic for regional economic development. When compared with a larger, more diverse economic area, Alaska suffers from an economy that is very open and dependent on resources and services from elsewhere. As a consequence, while income earned in a more diverse economy will ultimately contribute to purchases of goods and services within a region, Alaskan purchases come largely from economies outside of the region. For instance, if an additional dollar of income in an economy can generate 80¢ of local spending and 20¢ of spending from elsewhere, additional income earned contributes to new income in the local economy. Of course, those in the local economy receiving this new spending will also spend 80% of their new income on local goods or services, thereby generating even more local wealth, but at a diminished rate. It can be shown that the pattern of income generation, from the initial dollar of income earned, to the second round of local spending of 80¢ to the third round of 80% of 80¢ (or 64¢), and so on, will result in a total increment to local income of \$5.00.

Such a multiplier effect of initial income generated is common in a well-diversified economy. Indeed, an economy that is very self-sufficient could have a multiplier ranging upward to ten times original spending. Unfortunately, the multiplier in Alaskan communities is very low due to the lack of diversification in Alaskan economies and the need to import many consumption and intermediate production goods from Outside. Indeed, a multiplier of 2.0 is high for an Alaskan community, and can be expected only in the Anchorage area.

While it is not unreasonable to assume the pattern of consumption within a given community is common across individual consumers, regardless of their source of income, it is not the case that an additional dollar of spending in one industry will be equivalent to the purchase pattern in another industry. If the source of additional income is more demand for the product of an industry that hires much of its resources locally, then the net effect of the additional wealth will reach more consumers in the first round. For instance, the fishing industry will use an additional dollar of demand for their product to pay local workers, maintain a local fleet, and buy materials and fuel locally. In turn, the industries serving the local fisheries may purchase many of their goods locally, resulting in a larger share of wealth that remains in the local economy. Alternately, direct spending in the tourism industry may support jobs for booking agents or fleet operators in Seattle or Vancouver, or earn profits for hotel chains outside the region.

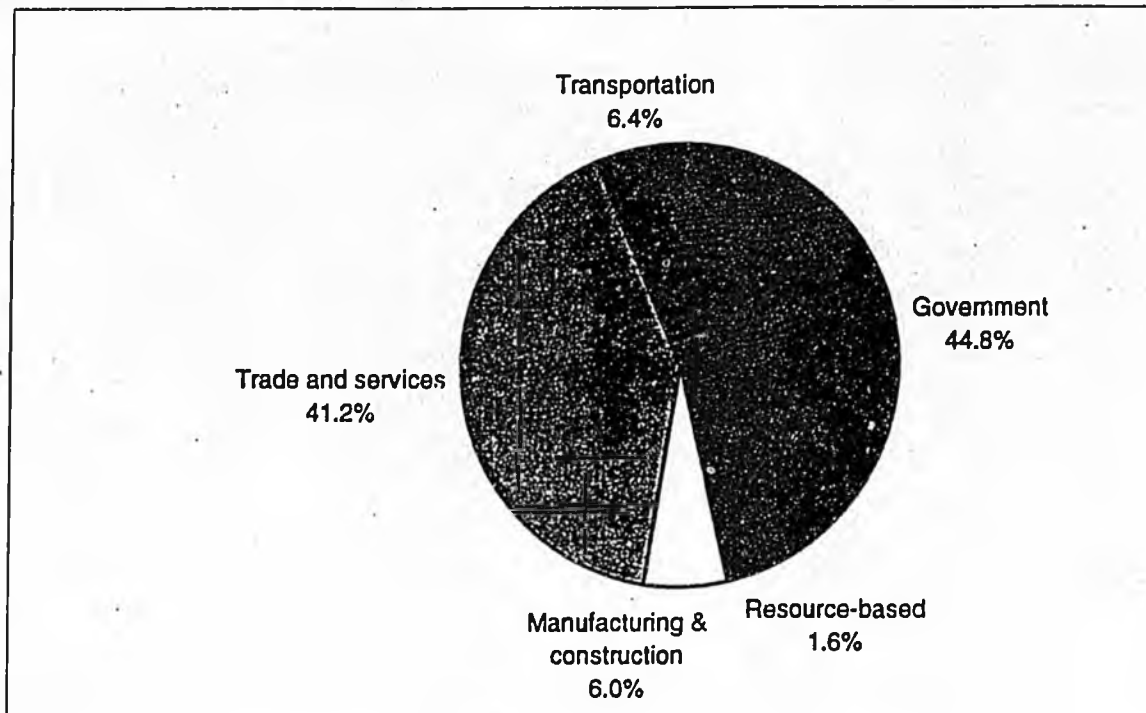
A look at the pattern of direct and indirect effects of additional industry earnings in the Ketchikan economy finds the multiplier indeed varies across industries. The multiplier for the recreation industry in the Southeast is only 1.32 while the fishing industry enjoys a multiplier of 1.92, or 45% higher than the recreation industry. These differences are directly related to different factor purchase patterns in the two industries.

### *The economy of Juneau*

Juneau has traditionally been the strongest economy of the region, with significant mining activity fueling the economy up to the war years. Redistribution of national mining priorities during World War II led to a decline in the Juneau mining economy, only to be supplanted as Juneau became the center of state government in Alaska.

Juneau as the state capital has not always been secure. Repeated attempts to secure the approval of voters to move the capital from Juneau has been unsuccessful. Nonetheless, Juneau well understands the threat and has made efforts to diversify its economy. Currently, the economy is constituted by the following sectors:

Figure 10  
Economic Activity in Juneau by sector (1995)



The figure shows Juneau enjoys a much larger share of government activity than the region as a whole. Trade and services, including wholesale, retail and tourism, is the other dominant sector. As a consequence, much of the local economy is driven by government and support for households employed in government. Indeed, since many of these are professional jobs with relatively high wages, government sector employment alone represents 63% of the total wage bill in the capital city.

While the Juneau economy could accurately be described as non-diversified, it has shown signs of increased diversification. Over the past 16 years, overall employment has grown by 46% while government employment has fallen by 12%. In addition, mining is showing a greater effect on the local economy. While not included in the figures for Juneau because the mines lie outside the borough, the Greens Creek and Kensington projects should provide a significant boost in local employment, adding up to 750 jobs to the local economy and increasing resource-based employment to nearly five percent of local employment.

This constant and steady growth in the Juneau economy has been successful at more than just replacing the relatively small losses of employment in the government sector. While the region as a whole has enjoyed an average growth rate over the past ten years of about two percent and can expect to maintain that growth rate for the next few years, Juneau's growth has been closer to four percent. This disproportionate growth is primarily attributable to increased tourism, which is attracted to Juneau because of both the setting and the scale of services the largest city in the region can offer.

As a consequence of this high historical growth rate and the types of professional jobs generated in the local economy, Juneau leads other urban centers in the region and the state in both wages and housing costs. In addition, the female labor participation rate is very high, with the 1990 census reporting that 74% of females over the age of 16 participate in the laborforce, compared to a 66% female laborforce participation rate in the state as a whole.

These factors are problematic from an economic sense for a number of reasons. First, they create a much larger than average level of household income. Since all households will purchase a certain base amount of goods and services to meet the basic needs of food, clothing, health, transportation and education, any additional income beyond that level is discretionary and will tend to bid up the value of the fixed factors of production. The most significant factor is the price of land. A sampling of listings of homes for sale in Juneau suggests that median housing prices are currently near \$175,000. Accordingly, Juneau has the highest housing prices of any urban center in the state.

Second, Juneau's seasonal employment in tourism (and, to some extent, government) creates a transience that, when tied to very high housing costs, tends to reduce speculative or peak demand overbuilding of the housing stock. As a consequence, the vacancy rate for Juneau rental units tends to hover around 1.0%, while Ketchikan as the next largest center in the region has a vacancy rate near 5.0%. Rents in Juneau are also high, with median contract rents of \$800 per month, compared to similar rentals in Ketchikan of only \$660 per month.

The combined factors of high wages and high rents and housing prices cast into doubt some of the rosier assumptions that may follow increased income growth in the local economy. With little opportunity for significant new in-migration, increased local income results in modest job growth and significant personal income growth, which tends to be mostly capitalized in higher and higher housing prices. In the absence of major structural changes in the Juneau economy, it is most likely that land prices will continue to rise at a very strong rate, resulting in increased income to those holding land, but decreased purchasing power to those who rent. The primary stumbling block to increased growth is the inability of the local economy to affordably house and otherwise absorb additional workers. As a consequence, annual growth of four percent in the area will translate into something less than employment growth of four percent, with the difference accruing to the owners of the fixed factors of production.

While efforts to diversify the economy are necessary, fostering significant economic growth in an overheated economy is not productive. Juneau already has the highest cost of living of the urban centers in the state, with an all-items index of 136.6 in the fourth quarter of 1995, compared to indices of 125.6 and 126.3 in Anchorage and Fairbanks respectively. Juneau has lower heating costs and, with access to the Alaska Marine Highway System and west coast barge traffic, lower shipping costs. The number of large-scale retail outlets in the local market has enhanced market competitiveness. The high land costs and high level of disposable income, however, maintain a high cost of living in Juneau.

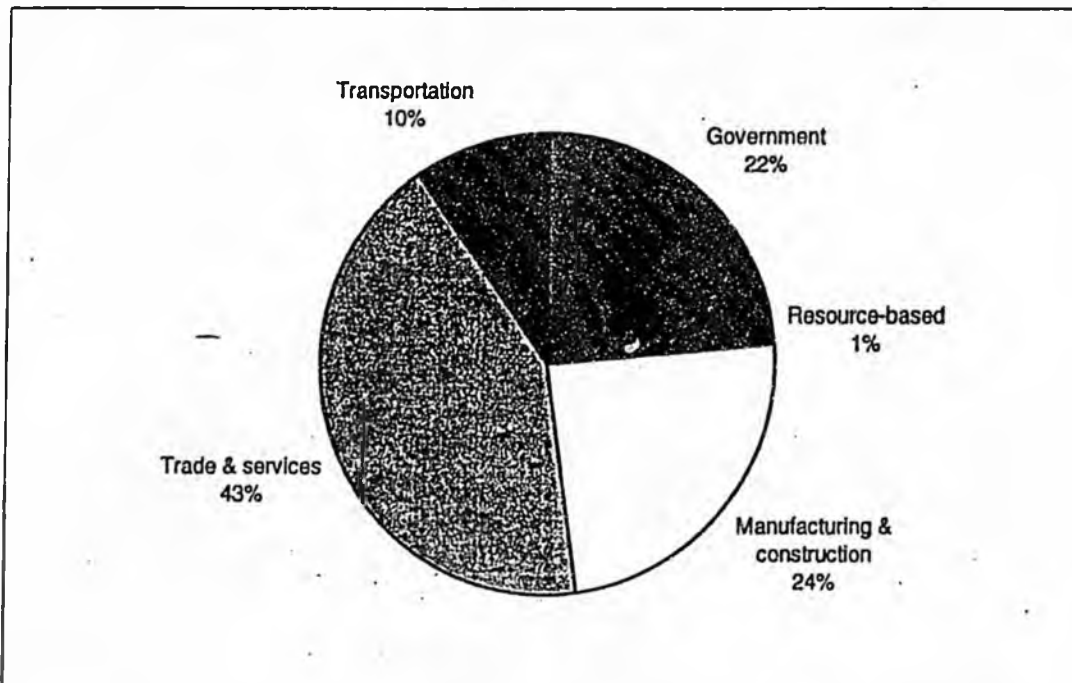
### *The economy of Ketchikan*

Ketchikan is a quite diverse economy by Alaska standards. This diversity arises from its role as the gateway and marine port of entry to Alaska. Only a seven-hour ferry trip from Prince

Rupert, Ketchikan citizens and businesses enjoy the most free and inexpensive access to significant southern markets, both by sea and by air. As a consequence of this proximity, the trade pattern is more southerly oriented than other Alaska communities. Upon graduation from high school, young people look south as well for higher education and jobs.

The Ketchikan Gateway Borough is not as large as its Juneau counterpart, with only about one-half of the employment that Juneau enjoys. The City of Ketchikan employs about a quarter of Juneau's total. Most significant for the Ketchikan economy is its level of diversification. The largest sector in the local economy is the very diversified sector of trade and services, which includes wholesale and retail trade, transportation, communications, utilities, services, finance and real estate. Manufacturing and construction is a much more significant part of the Ketchikan economy as well, with government representing a distant third in importance.

Figure 11  
Economic Activity in Ketchikan by sector (1995)



This diversification is key to minimizing the short-term dislocation caused by a major economic event in the Ketchikan economy. The phasing out of Ketchikan Pulp Company operations will result in the ultimate loss of 500 to 600 direct mill jobs, depending on the level of operations maintained by the associated sawmill. Effects in associated industries could be up to 800 to 1000 additional jobs lost. While much of the effect will come at the expense of the manufacturing sector, the transportation sector will also absorb a significant loss, if the recent experience in the closing of the Sitka pulp mill is a good example.

The strength of the economy rests with its role as a gateway and hub to the surrounding communities. The major blow to the Ketchikan economy will have strong ripple effects across Southeast. Despite the significant loss in jobs, interviews with a number of people familiar with

the region suggest a surprising lack of pessimism. This is because Ketchikan well understands that it is unusually diversified by Alaska standards, the mill will be offering significant severance packages to its employees, and the federal and state governments are offering community dislocation relief and support.

There will not only be a significant level of available resources to bridge the interim gap until economic growth can absorb redundant workers. Estimates suggest that perhaps up to a third of the mill employees will choose retirement, while perhaps a third will relocate outside the region. Of the direct job loss, perhaps only one-third of the workers will need to be reabsorbed into the Ketchikan economy. In addition, perhaps two-thirds of the indirect jobs that are an outgrowth of the mill activity will also need to be reabsorbed, resulting in a dislocation still on the order of 500 persons. This represents a potential outmigration of about 500 households, or 1,500 persons, a number consistent with the conclusions drawn separately by the McDowell Group in their analysis of the withdrawal of Ketchikan Pulp from the community.

This dislocation represents about two or three years of typical job growth in the region. Fortunately, about two-thirds of the dislocated employees hold job classifications consistent with the mix that can be readily absorbed into the Ketchikan economy. These include office and management staff and technical occupations.

In the analysis of short-term effects on the Ketchikan, this dislocation has created significant slack. Average housing prices for single family homes have been in the neighborhood of \$155,000 to \$160,000. Interviews with realtors, bankers and developers in the Ketchikan area suggest housing prices will drop somewhat, perhaps down ten to 15 percent from previous levels. This is due to a higher than average inventory of available homes as owners try to sell early to prevent loss of capitalization once the mill closes down. In addition, there is already significant slack in a rental market that experiences a consistent vacancy rate of around five percent. At this time, housing values are good and renters are using the opportunity to upgrade to significantly better housing for the same level of rents.

Food costs are also lower in Ketchikan, with a weekly cost of food for a family of four of \$98.50. This compares with \$93.22 in Anchorage, \$97.75 in Fairbanks, and \$100.17 in Juneau. When combined with average rents of \$660, or about 18% lower than Juneau, the 1.6% lower food costs give Ketchikan the lowest cost of living in Southeast. Falling land prices and rents are giving households the opportunity to move into higher quality housing. If subsequent cost of living analyses by the Department of Labor could capture this effect in a quality-adjusted cost of living index, it is likely Ketchikan would show an index five to fifteen percent lower than Juneau.

These factors combine to make Ketchikan a prime location for new industry in the region. The availability of a regular and inexpensive transportation network, a diversified economy, and significant slack in the local economy all bode well for an economic recovery. The availability of a well-trained labor pool that matches the needs of prospective new enterprises also favors long-term recovery. Finally, the significant transition funding provided by the federal and state governments will ease the pains of significant relocation.

### *Economic benefit of AMHS administrative offices to Juneau*

The Alaska Marine Highway System is the largest transportation network in Southeast Alaska, surpassing Ketchikan Pulp Company and Alaska Airlines as the region's largest employer. Depending on season, the system has up to 900 employees, with about one-third based in Ketchikan (most of whom are vessel-based crew), and about one-third based in Juneau. An additional 90 employees are based outside Alaska, principally in the southern terminus of Bellingham.

The system generates an annual payroll of \$45 million (including benefits) and generates \$171 million of indirect and indirect spending, some of which accrues to Bellingham, but most of which represents wealth for Alaskans. The system generates revenues from passenger and cargo traffic of approximately \$40 million annually, and has operating expenses of about \$75 million annually. About 80% of this revenue comes from passengers and vehicles, 70% of which is earned during the summer season. The AMHS administrative office in Juneau represents 1.6% of total government employment, and 0.7% of all local jobs.

Juneau unambiguously benefits from jobs maintained in the government sector, but is experiencing growth that is nearly double the Alaska and national averages. The AMHS administrative jobs represent less than a single quarter of annual employment growth, and, because of the higher salaries in the government sector, between one quarter and one-half year of wage growth in the Juneau economy. If the administrative officers were removed from the Juneau economy, it would still grow at an average rate above that of the nation as a whole. As a consequence, local housing prices will continue to increase at a rate above the national and state averages.

The 95 filled AMHS administrative jobs create demand for 95 housing units in Juneau. There were 10,638 housing units in Juneau in 1990. While removal of 95 units from the demand would result in less than one percent additional temporary inventory of excessing housing capital, it is necessary to detber of staff that would choose to relocate if the administrative offices were moved to Ketchikan. Based on the employee survey and its extension to re-filled positions, about 60 employees would relocate. As a consequence, about 60 housing units would potentially be available, representing about 40 owned homes and 20 rental units available to the market. These numbers would likely be reabsorbed into the Juneau housing market, creating an excess inventory of two or three months in the housing market. In addition, there are 1,153 rental units in Juneau, suggesting the twenty additional rental units would slightly more than double the current rental vacancy rate to near three percent. Even such a temporary increase in the rental vacancy rate would merely move Juneau from the tightest to the second-tightest rental market in the state.

### *Economic benefits if the AMHS administrative offices went to Ketchikan*

The effects of a move to Ketchikan are far more striking than the withdrawal from Juneau. The Ketchikan market would be expected to absorb the roughly 60 employees moving from Juneau.

These 60 new households would compete for 5,030 occupied housing units in the Ketchikan Gateway Borough.

The McDowell Group has estimated the impending closure of Ketchikan Pulp will reduce housing prices in the short term by 15 to 20%. Local experts believe the reduction will be in the range of five to 15%. An injection of housing unit demand of 60 units will not stress the slack housing market in Ketchikan. Rather, it would likely mitigate the reduction in housing prices from the expected 5-15% range to a 4-12% range. This represents only two-thirds of the current advertised inventory in Ketchikan.

In 1994, there were 1,408 individuals listed as unemployed in Ketchikan. Of these, 216 were clerical and sales workers, 177 professional, technical and managerial workers, and 201 were employed in the service sector. With the reduction in Ketchikan Pulp jobs from the economy, an additional 55 to 60 employees with office and general management skills, in the areas of executive, clerical, accounting, personnel and purchasing staff, will be unemployed. These professional staff would be of sufficient number to meet the professional hiring demand of the AMHS, especially when taken together with the 594 available clerical, sales, professional, technical, managerial and service workers typically available in Ketchikan. The primary problem in filling AMHS administrative vacancies would be those positions requiring AMHS experience or those with specialized technical knowledge of marine systems.

It is clear that movement of the administrative offices would not fill the surplus housing and employment gap. Instead, the move would reduce the slack in the economy by perhaps one-quarter, mitigating somewhat the expected drop in housing prices and, to a lesser degree, wages. Similarly, it is likely that a move of the administrative offices would also only partially fill the gap created in the K-12 public education system.

The cost of commercial property is primarily driven by building costs and the cost of land. While there are no adequate existing office units available in Ketchikan in the 20,000 square foot range able to accommodate the AMHS administrative offices, interviews suggest a new building could be constructed and offered to AMHS for about \$1.75 per square foot. Utility rates are slightly higher, but slightly more moderate temperatures result in similar overall utility bills. Developers indicate a facility can be either co-located at the Ketchikan Shipyard and AMHS terminus location, or on land within a couple of blocks of that location.

## IV. Summary

Based on all of the issues set out above and on supporting information, a move of the AMHS administrative offices from Juneau to Ketchikan will require both an up-front cash outlay and ongoing costs to AMHS as follows:

Figure 12  
Summary of Costs

	Scenario 1 New building in Ketchikan	Scenario 2 Leased building in Ketchikan
<b>Fixed and one-time costs:</b>		
Cost of moving personnel	\$ 370,100	\$ 370,100
Facility construction	3,000,000	0
Lost productivity, training & retraining	87,500	87,500
Communications infrastructure	50,200	50,200
Office move	<u>100,000</u>	<u>100,000</u>
	<b>\$3,607,800</b>	<b>\$607,800</b>
<b>Additional annual costs:</b>		
Space leasing	45,000	458,600
Data communications	84,200	84,200
Voice communications	24,000	24,000
Travel	<u>70,800</u>	<u>70,800</u>
	<b>\$ 224,000</b>	<b>\$ 637,600</b>

The benefits of moving AMHS administrative offices do not justify the substantial fixed costs of the move or the additional operational costs and complexity created by the move. The improvement to communication between Ketchikan-based employees and Juneau-based management is far outweighed by the losses to communication between Juneau-based management and their counterparts in the Department and elsewhere in state government.

Legislation has been introduced this session to move a portion of the AMHS administrative offices from Juneau to Ketchikan. This legislation requires at a minimum that the system director, the deputy director, and the managers of marine operations, support services and engineering, together with "all other offices, functions and employees of the marine highway system except those whom the commissioner determines must be located outside of Ketchikan" be located in Ketchikan.

As outlined above, the top-level employees of the AMHS are the individuals who most need to interact with the legislature and other DOT/PF administrative offices. Movement of their offices would create significant problems in the operations of the system. It may be that certain AMHS administrative staff positions in Juneau could be transferred to Ketchikan without imposing comparable costs. Among the units that appear to be transferable with minimal impact to the system are reservations, procurement and maintenance engineering.

# Alaska Marine Highway System Staffing

Exhibit A

Position	Range	Is there a comparable job in the current Ketchikan laborforce?
<b>AMHS Administration</b>		
Assistant Commissioner	27	Yes
Marine Trans. Services Manager	24	?
Secretary II	11	Yes
<b>Marine Engineering Management</b>		
Marine Trans. Services Manager	24	?
Engineering Associate	52	Yes
Maintenance Worker II	54	Yes
Administrative Manager I	15	Yes
Maintenance Worker I	55	Yes
Administrative Clerk I	07	Yes
<b>Marine CIP Program</b>		
Engineer III	22	?
Engineer III	22	?
Naval Architect	22	No
Engineer/Architect II	20	?
Engineering Associate	19	Yes
Engineering Associate	19	Yes
Engineering Associate	19	Yes
Planner III	19	No
Engineering Associate	19	Yes
Engineering Assistant III	18	Yes
Engineering Assistant III	18	Yes
Accounting Tech II	14	Yes
Administrative Clerk II	08	Yes
Administrative Clerk I	07	Yes
<b>AMHS Vessel Operations Management</b>		
Marine Trans. Services Manager	24	?
Port Captain	23	-
Transportation Planner II	22	No
Assistant Port Captain	21	-
Passenger Services Inspector	20	?
Passenger Services Inspector	20	?
Safety Officer	18	Yes
Ferry Services Manager IV	17	?
Reservations Specialist	16	?
Reservations Specialist	16	?
Administrative Manager I	15	Yes
Personnel Assistant II	14	Yes
Administrative Clerk II	08	Yes

# Alaska Marine Highway System Staffing

Exhibit A

Position	Range	Is there a comparable job in the current Ketchikan laborforce?
<b>AMHS Support Services</b>		
Marine Trans. Services Manager	24	?
Procurement Specialist V	21	?
Labor Relations Analyst II	20	?
Accountant IV	20	Yes
Personnel Officer II	20	Yes
Analyst/Programmer IV	19	No
Analyst/Programmer IV	19	No
Program Budget Analyst III	19	No
Procurement Specialist III	18	Yes
Accountant III	18	Yes
Procurement Specialist III	18	Yes
Personnel Officer I	18	Yes
Analyst/Programmer III	17	No
Research Analyst II	16	?
Accountant II	16	Yes
Accountant II	16	Yes
Accounting Tech III	16	Yes
Personnel Specialist I	16	Yes
Storekeeper III	54	Yes
Procurement Specialist I	14	Yes
Personnel Assistant II—	14	Yes
Procurement Specialist I	14	Yes
Stockhandler WG VII	57	Yes
Stockhandler WG VII	57	Yes
Accounting Tech I	12	Yes
Accounting Tech I	12	Yes
Personnel Assistant I	12	Yes
Personnel Assistant I	12	Yes
Accounting Tech I	12	Yes
Personnel Assistant I	12	Yes
Personnel Assistant I	12	Yes
Procurement Specialist I	12	Yes
Personnel Assistant I	12	Yes
Personnel Assistant I	12	Yes
Accounting Clerk II	10	Yes
Administrative Clerk III	10	Yes
Accounting Clerk II	10	Yes
Supply Technician I	10	Yes
Accounting Clerk I	09	Yes
Administrative Clerk II	08	Yes
Administrative Clerk II	08	Yes
Administrative Clerk II	08	Yes
Administrative Clerk I	07	Yes
Administrative Clerk I	07	Yes



# Communications Cost Analysis for AMHS Move to Ketchikan

Exhibit B

Network and Mainframe Computer Costs	Quantity	Price each	JUNEAU		KETCHIKAN		
			Monthly Charges Paid by DOT HQ	Monthly Charges paid by AMHS	Installation charges	New Monthly Charges	Monthly Charges paid by AMHS
<b>Juneau Headquarters Office (3mille)</b>							
WAN Charges							
Cisco 2501 Router w/software, cables	1				\$ 3,500.00		
KPU 3500 DSU/CSU	1				\$ 1,042.50		
Port Charge	1				\$ 1,979.00		
Port Address/Monthly	1		\$ 299.31			\$ 299.31	
Internet User Access Address	1				\$ 100.00		
Digital 56kbs circuit installation	1				\$ 276.00		
Circuit Monthly charges	1					\$ 96.00	
TN3270 Sessions	54			\$ 1,323.00			\$ 3,814.56
SNA Gateway							
Data Line Installation	1				\$ 60.00		
Data Line Charges (Prorated 1st year One-time Charges)	12	\$ 88.00			\$ 1,056.00		
SNA Sessions	14			\$ 343.00			\$ 988.96
SNA Printer Connections on DOT HQ Controller	3			\$ 73.50			\$ 211.92
<b>Juneau Central Office (Glaciolr Ave.)</b>							
SNA Controller							
Data Line Installation for 2 drops	1				\$ 120.00		
Data Line Charges for 2 drops (Prorated 1st year One-time Charges)	12	\$ 176.00			\$ 2,112.00		
SNA Sessions	81			\$ 1,984.50			\$ 5,721.84
<b>Wiring for new building</b>							
SNA Drops	94	\$ 150.00			\$ 14,100.00		
Network Connections	85	\$ 225.00			\$ 19,125.00		
Backbone Wiring	5	\$ 225.00			\$ 1,125.00		
<b>Divorce From DOT 3Mile Building</b>							
CCMAIL Post Office	1				\$ 2,000.00		
CCMAIL Router	1				\$ 3,500.00		
<b>Total WAN and TN3270 Charges</b>			\$ 299.31	\$ 3,724.00	\$ 50,095.50	\$ 395.31	\$ 10,737.28
<b>Total Annual Charges</b>			\$ 3,591.72	\$ 44,688.00	one-time	\$ 4,743.72	\$ 128,847.36
<b>Net now costs</b>					\$ 50,095.50	\$ 1,152.00	\$ 84,159.36

**NOTES & ASSUMPTIONS:**

- 1 Move takes place July 1, 1997
- 2 All AMHS Headquarters 3 Mile and JCO personnel in one building in Ketchikan. If multiple building are required then costs will increase dramatically.
- 3 Move occurs before RMS3 purchase of equipment and WAN Connection to Ketchikan. Must move SNA Connections because JCO office computers can not currently support Advanced Software.
- 4 Ketchikan currently can only support a 56K line on the WAN and 14.4 on SNA which will greatly reduce the speed of connections.
- 5 All DOA DIS Data Center Charges are based upon FY97 rates.
  - TN3270 and SNA Lu Charges
  - HUB \$ 24.50
  - NON-HUB \$ 70.64
- 6 Spreadsheet based on data supplied by AMHS; annual net calculations by Information Insights

**Alaska Marine Highway System  
Ketchikan Administrative Office Move Study  
Employee Survey Results**

Information Insights was contracted by AMHS to analyze the impacts on AMHS of a proposed move of AMHS administrative offices from Juneau to Ketchikan. This survey will allow us to more accurately estimate the financial and human costs and benefits of such a move. Your answers will be held in strict confidence by Information Insights; only aggregated results will be reported to AMHS in our final report.

For purposes of this survey, please assume a move has been approved, new administrative facilities acquired in Ketchikan, appropriations have been made for all costs, including employee/family relocation costs in accordance with appropriate collective bargaining agreements, and the office relocation will take place in spring 1998.

1. Would you accept the transfer of your position to Ketchikan?  
10% Definitely      18% Probably      31% Not Sure  
13% Definitely Not      28% Probably Not

If you checked Definitely, Probably, or Not Sure, go to question #2

If you checked Definitely Not or Probably not, would you (check all that apply):

94% Seek alternate employment with the State in Juneau

53% Seek alternate employment in Juneau

6% Retire

17% Seek alternate employment elsewhere in Alaska

12% Seek alternate employment outside Alaska

Go to question #3

2. How many school-age children live with you in your home?  
0.3 Elementary   0.2 Middle School   0.2 High School   [Averages reported]

How many children and dependents would move with you if you decide to move to Ketchikan? 1.8 [Averages reported]

3. What do you think would be the costs or benefits for AMHS, its customers, or the State of Alaska of moving your position from Juneau to Ketchikan?

[Text responses will be included in the final report]

4. Information about you: We will use the following information to develop estimates of cost of the move, economic impact on the communities of Juneau and Ketchikan, and employment impacts in Juneau and Ketchikan.

- a. What is the category of your current position?  
54% Clerical/Technical   18% Professional   23% Managerial   5% Executive
- b. How long have you worked for AMHS?  
15% Less than one year   31% 1 to 5 years   54% more than 5 years
- c. Are there comparable jobs to yours in Juneau outside AMHS?  
48% Yes   13% Nearly   26% No   13% Not sure

d. Does your spouse work in Juneau?

18% Yes, for the State of Alaska 33% Yes, for another employer

15% No 33% No Spouse

If your answer to this question is yes, what is the category of his/her current position?

22% Clerical 67% Professional 0% Managerial 11% Executive

e. How long does it take for you to commute to and from work each year (round trip)?

22.9 minutes [Average reported]

f. If you own your home, what is its approximate value? \$207,600 [Average reported]

If you rent your home, what is your monthly rent? \$777 [Average reported]

g. What is your approximate household annual income?

0% Less than \$20,000 44% \$20,000 to \$40,000 21% \$40,000 to \$60,000

15% \$60,000 to \$80,000 8% \$80,000 to \$100,000 15% over \$100,000

5. What do you think would be the costs and benefits for AMHS, its customers, or the State of Alaska of moving AMHS administrative offices from Juneau to Ketchikan?

[Text responses will be included in the final report]

SB 130  
ALASKA MARINE HIGHWAY AUTHORITY

COMMENTS BY

CAPTAIN GEORGE A. CAPACCI, GENERAL MANAGER  
ALASKA MARINE HIGHWAY SYSTEM, ADOT&PF  
APRIL 26, 2001

GOOD AFTERNOON, MR. CHAIRMAN AND MEMBERS OF THE TRANSPORTATION COMMITTEE. IT IS IMPORTANT THAT I BE HERE TODAY TO EXPRESS MY CONCERNS ABOUT THE PROPOSED MARINE HIGHWAY AUTHORITY CONTAINED IN SB130. THESE CONCERNS ARE ESSENTIALLY THE SAME AS COMMISSIONER PERKINS PRESENTED IN 1997, WITH SOME IMPORTANT UPDATES ABOUT THE MANAGEMENT AND DIRECTION OF ALASKA'S MARINE HIGHWAY.

LET ME BEGIN WITH A REVIEW OF WHY THE MARINE HIGHWAY AUTHORITY IS NOT IN THE BEST INTERESTS OF OUR CUSTOMERS, THE CITIZENS OF ALASKA, AND THE MARINE HIGHWAY EMPLOYEES....

I. THE AUTHORITY CREATES MORE PROBLEMS THAN IT SOLVES.

A. SB 130 DIMINISHES PUBLIC ACCOUNTABILITY.

UNDER THE PRESENT SYSTEM, THE MARINE HIGHWAY SYSTEM MANAGEMENT IS ACCOUNTABLE TO THE PUBLIC. CONCERNS AND REQUESTS ARE RESPONDED TO, QUICKLY AND COMPLETELY. THEY HAVE TO BE. ELECTED OFFICIALS ARE RESPONSIBLE FOR THE MANAGEMENT OF THE MARINE HIGHWAY, AND ELECTED OFFICIALS HAVE TO BE RESPONSIVE TO THE PUBLIC THEY SERVE. SOMETIMES THAT IS TIME-CONSUMING AND CUMBERSOME, BUT IT IS THE MOST RESPONSIBLE WAY TO HANDLE THE PEOPLE'S BUSINESS. THE ESTABLISHMENT OF AN AUTHORITY WILL DIMINISH THE PUBLIC

ACCOUNTABILITY OF MARINE HIGHWAY MANAGEMENT BY INSERTING AN APPOINTED BOARD BETWEEN MANAGEMENT AND THE PEOPLE. MARINE HIGHWAY MANAGEMENT WILL NO LONGER WORK DIRECTLY FOR THE ELECTED GOVERNOR OR FOR ANY OTHER ELECTED REPRESENTATIVES. THE BOARD, AND NOT THE GOVERNOR NOR THE LEGISLATURE, WILL MAKE MANAGEMENT DECISIONS. ONCE APPOINTED, BOARD MEMBERS WILL NOT BE ACCOUNTABLE TO THE PUBLIC. A BOARD MEMBER MAY BE REMOVED ONLY FOR CAUSE. THE ACCOUNTABILITY OF MARINE HIGHWAY MANAGEMENT TO THE COMMUNITIES THEY SERVE WILL BE SUBSTANTIALLY REDUCED. WE BELIEVE THIS IS NOT DESIRABLE.

B. SB 130 DIMINISHES PUBLIC INFLUENCE ON DECISION MAKING.

ALASKAN'S NOW KNOW WHO IS IN CHARGE OF THE MARINE HIGHWAY SYSTEM. WHEN THINGS ARE RUNNING WELL, THEY KNOW WHO TO COMPLIMENT. WHEN THINGS AREN'T GOING SO WELL, THEY KNOW WHO TO CONTACT. BELIEVE ME. THIS BILL CHANGES ALL OF THAT. WHEN ACCOUNTABILITY OF ELECTED OFFICIALS CHANGES, PUBLIC ACCESS TO THE DECISION MAKING PROCESS ALSO CHANGES. ALTHOUGH A PERSON OR COMMUNITY MAY STILL ASK THE BOARD OF DIRECTORS OF THE SYSTEM FOR A SCHEDULE CHANGE OR SPECIAL RUN, THERE MAY BE LITTLE OR NO PRESSURE TO RESPOND. THE CEO IS INSULATED FROM THE EFFECT OF PUBLIC PRESSURE.

CURRENT COMMUNITY INPUT TO THE FLEET'S SCHEDULE IS AN ONGOING EFFORT. ANNUALLY WE SOLICIT THIS INPUT AND ADJUST OUR SCHEDULE AS POSSIBLE. WE BELIEVE ALASKANS APPRECIATE DIRECT ACCESS TO THE PUBLIC SYSTEMS THAT MOST AFFECT THEIR LIVES, AND THIS BILL WILL HAVE A SUBSTANTIAL NEGATIVE IMPACT ON THAT ACCESS.

I. THE ALASKA MARINE HIGHWAY SYSTEM IS NOT BROKEN.

A. MARKETING AND PRICING STUDY.

THERE IS A LOT THAT IS RIGHT ABOUT THE MARINE HIGHWAY SYSTEM. THE SHIPS HAVE AN ENVIABLE SAFETY RECORD, GENERALLY RUN ON TIME, AND PROVIDE SAFE, ECONOMICAL, COMFORTABLE AND RELIABLE TRANSPORTATION SERVICE TO THE TRAVELING PUBLIC. THE RECENTLY COMPLETED (SEPTEMBER 2000) MARKETING AND PRICING STUDY FOUND THAT 93% OUR CUSTOMERS RATE THEIR AMHS EXPERIENCE AS VERY GOOD OR GOOD!!! THE STUDY ALSO CONCLUDED THAT OF THE TOP TEN ALASKA LOCATIONS VISITED BY SUMMER 1999 VISITORS, FIVE LOCATIONS (ANCHORAGE, MATSU/DENALI, FAIRBANKS, VALDEZ, AND KENAI PENINSULA) ARE NOT EVEN IN SOUTHEAST ALASKA, AND ANCHORAGE WAS THE SECOND MOST VISITED LOCATION. THE ENTIRE STATE'S ECONOMY BENEFITS FROM THESE AMHS PASSENGERS.

OF COURSE SOME PROBLEMS OCCUR. THEY ARE INEVITABLE IN AN OPERATION THAT IS AS VULNERABLE TO AS MANY VARIABLES AS IS THE MARINE HIGHWAY SYSTEM. IT IS A SYSTEM THAT HAS A LARGE AND VARIED CONSTITUENCY, AND EVERYBODY HAS AN OPINION AS TO WHAT SHOULD BE DONE AND HOW IT SHOULD BE OPERATED. BUT OVERALL, THE SYSTEM IS DOING WHAT IT WAS DESIGNED TO DO IN THE 1960S- TRANSPORTING PEOPLE AND VEHICLES THROUGHOUT COASTAL ALASKA IN THE CONTEXT OF AN INTERMODAL TRANSPORTATION NETWORK. IT IS A CREDIT TO THE HARD WORKING CREWMEMBERS AND DEDICATED STAFF THAT WE OPERATE AS WELL AS WE DO.

B. SB 130 ADDS ANOTHER ADMINISTRATIVE LAYER.

THE BILL SETS UP A LAYER OF ADMINISTRATION OVER WHICH NEITHER THE GOVERNOR NOR THE LEGISLATURE WILL HAVE CONTROL. WE BELIEVE THAT IS BAD PUBLIC POLICY. BUT EVEN WORSE, IT DOESN'T FIX

ANYTHING. THERE IS NOTHING IN THE BILL THAT ENCOURAGES STABILITY OR FINANCIAL SUPPORT BY THE LEGISLATURE. THERE IS NOTHING IN THE BILL THAT ADDRESSES THE INCREASING CAPITAL NEEDS OF AN AGING FLEET.

THERE ARE MAJOR CHALLENGES AT MARINE HIGHWAYS THAT WE ARE ADDRESSING WITH STRONG LEADERSHIP AND ACTION. ONE OF THE BIGGEST PROBLEMS THAT YOU CAN HELP RELIEVE IS THE TIME AND ENERGY THAT NOW IS BEING SPENT CONTROLLING THE DAMAGE CAUSED BY ANXIETY OVER THE FUTURE. THAT IS A PROBLEM THAT YOU CAN MATERIALLY AFFECT, BY TELLING THE WHOLE STORY OF THIS VERY SUCCESSFUL STATE ADVENTURE, BY DEMONSTRATING YOUR SUPPORT FOR ITS FUTURE AND HELPING US FIX THE PROBLEMS. THE SYSTEM IS NEARLY 40 YEARS OLD, THE SHIPS ARE AGING, THE SYSTEM IS RUNNING THE SAME TYPE OF OPERATION TODAY IT DID 38 YEARS AGO – WITH MORE SERVICE. IN 1976, SITKA WAS PROVIDED WITH 268 TRIPS AND IN 1999 THE NUMBER WAS 325. TODAY WE ARE RESPONDING TO THE CHALLENGES OF SHRINKING FUNDING AND INCREASING REGULATORY DEMANDS.

C. AMHS MARITIME EXPERIENCE.

ALTHOUGH NOT EXPRESSLY STATED IN THE PROPOSED LEGISLATION, AN IMPLICIT PURPOSE FOR AN AUTHORITY IS APPARENTLY TO INSULATE THE MARINE HIGHWAY SYSTEM FROM INEXPERIENCED MANAGERS APPOINTED THROUGH THE POLITICAL PATRONAGE PROCESS. THE 1989 “ACRES REPORT” RECOMMENDED THAT ADDITIONAL EXPERIENCED MARINERS SHOULD BE HIRED AS MANAGERS TO BETTER UNDERSTAND THE OPERATION OF MARITIME VESSELS. AMHS HAS DONE THIS AND MORE. FROM THE DIRECTOR, SOUTHEAST REGION OF DOT&PF THROUGH THE GENERAL MANGER OF AMHS, THE VESSEL OPERATIONS MANAGER, THE MARINE ENGINEERING MANAGER, THE PORT

CAPTAIN, ASST. PORT CAPTAIN, ISM/STCW COORDINATOR, THE THREE PORT ENGINEERS, THE EIGHT VESSEL CONSTRUCTION MANAGERS AND THE STATE'S ONLY NAVAL ARCHITECT, AND SAFETY OFFICER, AMHS IS STAFFED WITH MARINE PROFESSIONALS WITH OVER FIVE HUNDRED (500) YEARS OF VESSEL OPERATION AND MAINTENANCE EXPERIENCE. THIS STAFF EXISTS TO SUPPORT THE AMHS VESSELS AND CONDUCTS DAILY BUSINESS TO THIS END.

D. SATP & PWS TRANSPORTATION PLAN POINT TOWARD THE FUTURE.

THE SOUTHEAST ALASKA TRANSPORTATION PLAN (SATP) WAS A COMPREHENSIVE PLAN THAT WAS DEVELOPED THROUGH EXTENSIVE PUBLIC PARTICIPATION. THE BASIC TENANT OF THE SATP IS A SERIES OF SHUTTLE VESSELS CONNECTING SOUTHEAST COMMUNITIES COUPLED WITH A VERSION OF THE EXISTING MAINLINE VESSELS TO IMPROVE THE OVERALL TRANSPORTATION SYSTEM FOR OUR CUSTOMERS. THE SAME HOLDS TRUE FOR THE PRINCE WILLIAM SOUND TRANSPORTATION PLAN.

A VESSEL CAPABLE OF 30 PLUS KNOTS IS NEEDED TO SOLVE THE ELEMENTAL TIME/DISTANCE EQUATION TO PROVIDE DAILY SERVICE IN SOUTHEAST ALASKA AND PWS. THE RESIDENTS OF PRINCE WILLIAM SOUND COMMUNITIES STRONGLY SUPPORT OUR TRANSPORTATION PLANNING INITIATIVES. THE SATP AND PWS TP ARE NOT PERFECT, BUT THEY ARE GOOD PLANS AND THE BEST OUR PUBLIC PROCESS CAN PRODUCE FOR ESSENTIAL TRANSPORTATION IMPROVEMENT. THESE PLANS HAVE WIDE PUBLIC SUPPORT AND ENDORSEMENT. WE NEED YOUR SUPPORT.

I BELIEVE A FIRM FOUNDATION IS BEING LAID FOR FUTURE STATEWIDE TRANSPORTATION SERVICES INCLUDING THE ESSENTIAL ALASKA MARINE HIGHWAY SYSTEM. VESSELS ARE BEING UPGRADED TO COMPLY WITH EVER

INCREASING INTERNATIONAL AND FEDERAL SAFETY REGULATIONS. OUR CREWS ARE UNDERGOING STANDARIZED TRAINING MANDATED BY INTERNATIONAL REGULATIONS TO BE THE MOST PROFESSIONAL MARINERS POSSIBLE.

**III. AN AUTHORITY WILL BE FURTHER ISOLATED FROM CAPITAL FUNDS.**

THE MARINE HIGHWAY SYSTEM IS PRESENTLY MANAGED BY DOT/PF AS AN INTEGRAL PART OF ALASKA'S INTERMODAL TRANSPORTATION SYSTEM. THE MAJORITY OF THE ROUTES HAVE BEEN DESIGNATED BY CONGRESS AS PART OF THE NATIONAL HIGHWAY SYSTEM. AS AN OPERATING ARM OF THE DEPARTMENT, THE SYSTEM RECEIVES FEDERAL HIGHWAY AID FUNDS FROM THE DEPARTMENT. BY SEPARATING THE SYSTEM FROM DOT/PF, AS AN AUTHORITY, OPERATING INDEPENDENTLY FROM THE REST OF THE DEPARTMENT OF TRANSPORTATION, THE DEBATE FOR FUNDING THE MARINE HIGHWAY SYSTEM CAPITAL IMPROVEMENTS COULD CONCEIVABLY SHIFT MORE TOWARD THE LEGISLATURE FOR RESOLUTION. WE WILL FORCE THE MARINE HIGHWAY SYSTEM TO COMPETE MORE AGGRESSIVELY WITH, INDIVIDUAL COMMUNITIES THROUGHOUT THE STATE, OTHER DOT/PF REGIONS, AND OTHER AGENCIES FOR ITS SHARE OF FEDERAL HIGHWAY FUNDS, RATHER THAN SHARING THEM AS ONE COMPONENT OF ALASKA'S INTERMODAL TRANSPORTATION SYSTEM.

WHILE THE COMMISSIONER OF DOT/PF WOULD SERVE ON THE BOARD OF DIRECTORS OF THIS NEW AUTHORITY, IT IS UNREALISTIC TO THINK THAT AN ORGANIZATIONAL COMPONENT WHICH IS SEPARATE FROM THE REST OF THE AGENCY -- AND FOR WHICH THE COMMISSIONER NO LONGER HAS PRIMARY RESPONSIBILITY -- WILL RECEIVE THE SAME LEVEL OF CONSIDERATION FOR

FEDERAL HIGHWAY FUNDS AS IT RECEIVES AS A LINE AGENCY WITHIN THE DEPARTMENT.

**IV. THE AUTHORITY PROVIDES NO MECHANISM TO REDUCE SUBSIDIES.**

THE MARINE HIGHWAY SYSTEM PRESENTLY DERIVES ABOUT 55% OF ITS OPERATING FUNDS FROM REVENUES, WITH THE REMAINING 45% OF ITS OPERATING BUDGET APPROPRIATED FROM THE GENERAL FUND BY THE LEGISLATURE. THE MARINE HIGHWAY PROVIDES AN ESSENTIAL PUBLIC GOOD (TRANSPORTATION) THAT CAN NOT BE PROVIDED BY THE PRIVATE SECTOR. AS SUCH, PROVIDING A STATE OPERATING SUBSIDY IS AN APPROPRIATE ROLE FOR GOVERNMENT. THIS SUBSIDY IS ESSENTIAL FOR CONTINUING SERVICE YEAR ROUND AT A REASONABLE PRICE. NOTHING IN THIS PROPOSED LEGISLATION IS DIRECTED TOWARD CHANGING THAT FUNDING RELATIONSHIP. THE PROPOSED AUTHORITY IS NOT DESIGNED TO BE SELF-SUFFICIENT. IT WILL CONTINUE TO REQUIRE ANNUAL LEGISLATIVE APPROPRIATIONS FOR OPERATIONS AND CAPITAL IMPROVEMENTS. WHAT THEN IS THE JUSTIFICATION FOR ESTABLISHING IT AS A STATE CORPORATION? AN AUTHORITY WILL REQUIRE ADDITIONAL SUBSIDY TO FUND ITS INCREASED OVERHEAD COSTS.

**V. ADMINISTRATIVE COSTS ARE LIKELY TO INCREASE.**

THE MARINE HIGHWAY SYSTEM IS ALREADY AND UNFAIRLY CRITICIZED FOR THE LARGE SIZE OF ITS CENTRAL OFFICE STAFF. IN TRUTH, THE JUNEAU OFFICE STAFF HAS DIMINISHED IN RECENT YEARS DESPITE EXTENSIVE ADDITIONAL INTERNATIONAL AND NATIONAL SAFETY AND TRAINING REGULATIONS WHICH NEED IMPLEMENTATION, MONITORING AND OVERSIGHT.

IF THE MARINE HIGHWAY SYSTEM IS SPLIT FROM THE REST OF DOT/PF INTO A QUASI-INDEPENDENT AUTHORITY, IT WILL LOSE THE ADMINISTRATIVE SUPPORT PRESENTLY PROVIDED BY THE DEPARTMENT AND ADMINISTRATIVE COSTS FOR AMHS WILL CERTAINLY INCREASE. PERSONNEL AND ACCOUNTING SERVICES WHICH ARE NOW PROVIDED IN PART BY HEADQUARTERS WOULD FALL ENTIRELY ON THE AUTHORITY. SO WOULD ENGINEERING SERVICES NOW BEING PROVIDED BY SOUTHEAST REGION. THE SYSTEM WOULD BE FURTHER REMOVED FROM THE FEDERAL HIGHWAY ADMINISTRATION. THE RELATIONS WITH DOT&PF AND FHWA WOULD BE COMPLICATED SINCE CFR TITLE 23 FOR THE ADMINISTRATION OF FEDERAL HIGHWAY FUNDING PROGRAMS IS THE RESPONSIBILITY OF THE STATE HIGHWAY AGENCY DOT&PF.

SEPARATE ACCOUNTING AND DATA PROCESSING SYSTEMS WILL ALMOST CERTAINLY BE NECESSARY. THE AUTHORITY WILL NOT BE EXEMPT FROM THE EXECUTIVE BUDGET ACT, STATE PROCUREMENT CODE AND OTHER STATE MANDATED RULES AND REGULATIONS.

VI. SUMMARY

THE PROPOSED MARINE HIGHWAY AUTHORITY WOULD BE A MOVE IN THE WRONG DIRECTION AS FAR AS TRANSPORTATION IN ALASKA IS CONCERNED.

WE ALL RECOGNIZE THAT THE MARINE HIGHWAY SYSTEM CANNOT CONTINUE TO OPERATE AS IF IT WERE STILL THE 1960'S. TIMES HAVE CHANGED, AND THE NEEDS OF ALASKA'S COMMUNITIES AND THE TRAVELING PUBLIC HAVE CHANGED. THE TRANSPORTATION NETWORK ALONG ALASKA'S COASTLINE HAS CHANGED. THE CHANGES NEEDED IN THE MARINE HIGHWAY SYSTEM ARE EVOLUTIONARY AS THE SYSTEM ADAPTS TO MEET THE DEMANDS OF OUR VARIED CUSTOMERS, HOWEVER, SB 130 TAKES US IN THE WRONG DIRECTION. WITH THE HELP OF THE LEGISLATURE, WE WILL CONTINUE TO WORK TO ENSURE THAT THE MARINE HIGHWAY SYSTEM TRULY FUNCTIONS AS AN INTEGRAL ELEMENT IN A WELL-DESIGNED STATEWIDE TRANSPORTATION SYSTEM. I AM WORKING TO BRING ABOUT THIS EVOLUTIONARY CHANGE TO IMPROVE THE MARINE HIGHWAY SYSTEM, BUT THIS TRANSITION MUST BE WELL THOUGHT OUT AND HAVE THE SUPPORT OF THE PEOPLE OF ALASKA. THIS TAKES TIME AND THE WORST ACTION WE CAN TAKE NOW IS TO CREATE ANOTHER LEVEL OF UNNEEDED BUREAUCRAY AS THIS SENATE BILL 130 PROPOSES TO DO.

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

Fiscal Note Number: SB 130  
 Bill Version: \_\_\_\_\_  
 () Publish Date: \_\_\_\_\_  
 Dept. Affected: DOT&PF  
 BRU: Marine Highway System  
 Component: Vessel Operations Management  
 Component Number: 629  
 (Thousands of Dollars)

Revision Date/Time (Note if correction): \_\_\_\_\_  
 Title: "An Act establishing the Alaska Marine Highway Authority"  
 Sponsor: Senator Taylor  
 Requester: Senate Transportation  
**Expenditures/Revenues**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	188.5	359.0	359.0	359.0	359.0	359.0
Travel	20.0	33.7	33.7	33.7	33.7	33.7
Contractual	179.5	459.0	459.0	459.0	459.0	459.0
Supplies						
Equipment		300.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>388.0</b>	<b>1,151.7</b>	<b>851.7</b>	<b>851.7</b>	<b>851.7</b>	<b>851.7</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	388.0	1,151.7	851.7	851.7	851.7	851.7
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>388.0</b>	<b>1,151.7</b>	<b>851.7</b>	<b>851.7</b>	<b>851.7</b>	<b>851.7</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time	3	3	3	3	3	3
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*  
 This bill establishes a corporate authority for the management and operation of the Alaska Marine Highway System (AMHS). It is assumed the bill would take effect January 1, 2002. A seven-member board of directors would direct the authority. Costs associated with this authority would be as follows:

**Personal Services**  
 This bill requires the Authority to employ a chief executive officer (CEO) to manage the corporation. The estimated cost of this position with benefits would \$150,000 per year. This position would replace the current General Manager position, which costs \$100,000 per year with benefits. The net increase in cost would be \$50,000 per full year.

The AMHS does not have its own management structure in place to operate a corporation. Currently the administrative functions of finance, human resources, and information services are all managed through centralized Department of

Prepared by: Captain George Capacci, General Manager Phone 465-3959  
 Division: Alaska Marine Highway System Date/Time 4/5/01 12:00 AM  
 Approved by: Joseph L. Perkins, Commissioner Date 4/5/01  
 Agency: DOT&PF

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**ANALYSIS: (continued)**

Transportation personnel. It is assumed the board of directors and CEO of the Authority would want to employ their own managers in these areas with an organization similar to the Alaska Railroad Corporation. As stated in the bill, all officers and employees of the authority would be in the exempt service and salaries would be set competitive with other state corporations. At an average cost with benefits of \$85,000 per manager, this would be approximately \$255,000 per full year.

The bill also calls for a seven-person board of directors to be compensated \$300 per day for each day they work on Authority business. One of the board members, the Commissioner of the Department of Transportation and Public Facilities would not receive this pay. It is estimated the members would work 20 days the first half fiscal year (FY02) and 30 days in future years. The cost would therefore be  $\$300 \times 20 \times 6$  members = \$36,000 the first half year and  $\$300 \times 30 \times 6$  = \$54,000 in subsequent years.

The bill also calls a secretary and treasurer to be appointed by the board of directors. It is assumed here those positions would be selected from the already appointed directors, so there would be no additional cost. If the board decided to appoint non-directors to those positions, additional costs would be incurred.

**Travel and Per Diem**

The directors would receive standard travel and per diem expenses when the board meetings are held outside of their hometown. It is assumed for each board meeting five of seven directors would have to travel at an average airfare of \$300. The first half year (FY 02) there would be 5 meetings of 4-day duration with 10 meetings of 3 day duration in subsequent years. Per Diem would average \$125 per day.

Cost for travel would therefore be  $\$300 \times 5$  meetings  $\times 5$  directors = \$7,500 first half year, and  $\$300 \times 10$  meetings  $\times 5$  directors = \$15,000 in subsequent years.

Cost for per diem would be  $\$125 \times 20$  meeting days  $\times 5$  directors = \$12,500 first half year, and  $\$125 \times 30$  meeting days  $\times 5$  directors = \$18,750 in subsequent years.

**Contractual Services**

The AMHS currently does not pay rent for space it occupies in buildings leased by the Department of Administration. It is assumed that if AMHS would be restructured as a public corporation that the Department of Administration would charge the corporation for that space. The cost would be approximately 17,150 square feet  $\times$  \$1.74 per square foot per month. The total yearly cost would be \$359,000 per full year, or \$179,500 per half year.

**Fiscal Note Analysis - SB 130 (CONTINUED)**

Department of Transportation and Public Facilities  
Alaska Marine Highway System

The AMHS currently uses the state's centralized accounting and payroll system. It is assumed the Authority would want to purchase and operate its own systems similar to other large state corporations. The estimated cost to maintain these new systems is \$100,000 per year.

**Equipment**

There would be a one-time cost to purchase the accounting, payroll and other business systems as indicated above. An estimate of \$300,000 for hardware and software is included. This purchase would be made in 2003 after the Authority had been in existence for six months.

Not included in these estimates are any additional costs for the use of consultants or advisors by the Authority.

**SB**

**152**

LAW OFFICES OF  
**OLES MORRISON RINKER & BAKER LLP**

745 West 4<sup>th</sup> Avenue, Suite 502

Anchorage, Alaska 99501

Telephone: (907) 258-0106

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Name: Kevin G. Brady	Name: Sue Standcliff
Company: OLES MORRISON RINKER & BAKER LLP	Company: Representative Lesil McGuire
Phone: (907) 258-0106	Phone:
Fax: (907) 258-5519	Fax: 907 465-6592

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cc: Dick Cattanach 907 562-5118  
John Cowdery 907 465-2079  
Mike Gallagher 907 274-0570  
Brad Finney 907 247-6125

Second Policy Memorandum in opposition to Amendment to SB 152.

This will serve to follow up and explain how the federal courts interpret 41 USC 601-613, the Contract Disputes Act. Most Courts and Boards have been liberal in allowing the contractor to make changes into its claim. For example, in *Transtechology Corp. v. United States*, 22 Cl. Ct. 349 (1990), the court permitted a contractor to increase its claimed amount on appeal where the contractor's new claim for increased costs was based on the same manufacturing steps as those identified in an earlier-filed claim. The court articulated the following standard:

The factual basis of the contested claim must be the same as the original claim. There is no bar to merely increasing the damages flowing from the original claim. . . .

\* \* \*

The issue thus becomes whether the [claims challenged in the Court of Federal Claims suit] are distinct from the original claim, or whether they can fairly be characterized as mere factual, legal, or monetary augmentation by degree and not a change in kind.

The courts have likewise permitted a contractor to assert a right to relief for uncertified damages where those damages spring from, *SMS Data Products Group, Inc. v. United States*, 19 Cl. Ct. 612 (1990), or are based on the same set of operative facts underlying a claim previously submitted to the contracting officer, *Cerberonics, Inc. v. United States*, 13 Cl. Ct. 415, 417-18 (1987).

Federal cases dealing with the contractor's right to alter a claim in theory or in quantum strongly suggests that this practice is appropriate. See, e.g., *Flores Drilling & Pump Co.*, AGBCA No. 82-204-3, 83-1 BCA ¶ 16,200, *aff'd*, 83-1 BCA ¶ 16,336 [Board permitted contractor to change theory of relief from a claim under the changes clause to a claim under the differing site conditions clause because legal theories may be changed on appeal as long as the ultimate character of the claims relates in some form to the claim originally presented to the contracting officer].

For revised claims, the central issue is whether the increase in the amount claim results purely from a change in the mathematical calculation of those categories of loss originally submitted to the procurement officer. *Computer Sciences Corp.*, ASBCA No. 27275, 83-1 BCA ¶ 16452.

Thus, during the *de novo* hearings before the federal boards and/or courts, contractors are permitted latitude in developing facts and altering their legal theories of entitlement. This is consistent with common sense because of the unavailability of discovery practice prior to claim submission to the procurement officer. What this means is a contractor in the federal arena is allowed to modify their claim based upon information developed or obtained in subsequent discovery. DOTPF's current hearing officer guidelines and AS 36.30.670 both permit discovery practice. If the Department of Law's amendment is adopted, it will render this discovery practice meaningless.

Policy Memorandum in opposition to Amendment to SB 152.

The text of the proposed Amendment to SB 152 states:

**Sec 36.30.625. Appeal on a contract controversy.** (a) An appeal from a decision of the procurement officer on a contract controversy may be filed by the contractor with the commissioner of administration, or for a controversy involving a construction contract or procurement for the state equipment fleet, the commissioner of transportation and public facilities. The appeal shall be filed within 14 days after the decision is received by the contractor. **The appeal may not raise any new factual issues or theories of recovery that were not raised and decided by the procurement officer in the decision under AS 36.30.620(b)** The contractor shall file a copy of the appeal with the procurement officer.

The AGC opposes this amendment because it is at odds with the federal counterpart of the State's Uniform Procurement Code. 41 USC 601 -613. Attached. Importantly, 41 USC § 605 does require that "[a]ll claims by a contractor against the government relating to a contract shall be in writing and shall be submitted to the contracting officer for a decision." But, out of recognition that the contracting officer or procurement officer is an employee of the agency against whom the contractor is asserting a claim, the contracting officer's findings of fact are not binding in any subsequent proceeding."

Additionally, under the federal regime, the contractor may appeal the decision of the contracting officer to agency boards of appeal. Pursuant to 41 USC 606, "[w]ithin ninety days from the date of receipt of a contracting officer's decision under section 605 of this title, the contractor may appeal such decision to an agency board of contract appeals, as provided in section 607 of this title." The jurisdiction of the Agency Boards of Appeal, the equivalent of "hearing officer review" under AS 36.30.670, is broad:

- (d) Jurisdiction  
Each agency board shall have jurisdiction to decide any appeal from a decision of a contracting officer (1) relative to a contract made by its agency, and (2) relative to a contract made by any other agency when such agency or the Administrator has designated the agency board to decide the appeal. *In exercising this jurisdiction, the agency board is authorized to grant any relief that would be available to a litigant asserting a contract claim in the United States Court of Federal Claims.*

41 USC § 607(d).

It is also noteworthy that the agency boards charged with hearing these matters are statutorily directed to provide "informal, expeditious, and inexpensive resolution of disputes."

Additionally, the federal regime provides for a measure of finality of the board decision that is equivalent of the state's hearing officer decision under AS 36.30: "[T]he decision of the agency board on any question of law shall not be final or conclusive, but the decision on any question of fact shall be final and conclusive and shall not be set aside unless the decision is fraudulent, or arbitrary, or capricious, or so grossly erroneous as to necessarily imply bad faith, or if such decision is not supported by substantial evidence." 41 USC 609(d).

Lastly, the federal Contract Disputes Act provides both for discovery, an essential aspect of developing the facts in support of the claim and for pre-claim interest being awarded to the contractor from the date of submission of the claim to the contracting or procurement officer.

#### **Sec. 610. Subpena, discovery, and deposition**

A member of an agency board of contract appeals may administer oaths to witnesses, authorize depositions and discovery proceedings, and require by subpoena the attendance of witnesses, and production of books and papers, for the taking of testimony or evidence by deposition or in the hearing of an appeal by the agency board. In case of contumacy or refusal to obey a subpoena by a person who resides, is found, or transacts business within the jurisdiction of a United States district court, the court, upon application of the agency board through the Attorney General; or upon application by the board of contract appeals of the Tennessee Valley Authority, shall have jurisdiction to issue the person an order requiring him to appear before the agency board or a member thereof, to produce evidence or to give testimony, or both. Any failure of any such person to obey the order of the court may be punished by the court as a contempt thereof.

#### **Sec. 611. Interest**

Interest on amounts found due contractors on claims shall be paid to the contractor from the date the contracting officer receives the claim pursuant to section 605(a) of this title from the contractor until payment thereof. The interest provided for in this section shall be paid at the rate established by the Secretary of the Treasury pursuant to Public Law 92-41 (85 Stat. 97) for the Renegotiation Board.

The problem with limiting the contractor's legal theories or facts to those decided by the contracting officer are as follows:

1. The amendment ignores situations where the basis of the claim continues to cause additional damages. For instance, Herndon & Thompson have sustained damages and will continue to sustain damages during this year's construction season based upon the same differing site conditions encountered last year. Herndon & Thompson's theory has not changed, but the amount of damages will increase because they have not yet occurred during the second season. This would lead to a situation

where Herndon & Thompson are required to file a new claim for the second season and lead to additional Department administrative costs to administer the same claim twice.

2. This proposed amendment is contrary to the State's Procurement Code's federal counterpart, which permits contractors post-claim submission to increase their calculation of damages as long as the damages "flow from" or "arise out of" the same operative facts giving rise to the original claim. The federal counterpart permits this even after issuance of the procurement officer's decision. .

3. The amendment seeks to give too much deference to the procurement officer, who is the agent of the state agency and is also employed by the agency against whom the contractor is asserting the claim. Based upon the fact that procurement officers typically award contractors zero to five percent of their claimed damages, we believe the procurement officers are inherently biased in favor of the agency that employs them.

4. The amendment would force the contractor who encounters a claim condition to immediately retain, lawyers, consultants and experts and incur extremely great costs prior to claim submission. This defeats the purpose underlying the several layers of institutional review [Engineer's Decision and Procurement Officer's Decision] and is unlikely to lead to informal resolution prior to formal claim submission.

5. The amendment ignores the fact that the documents upon which the contractor relies are not readily available prior to claim submission but are only available after the procurement officer issues a decision. This is why AS 36.30.670 and the DOT&PF Hearing Officer Guidelines have provisions for discovery of documents and depositions of witnesses.

US Code as of: 01/05/99

**Sec. 601. Definitions:**

As used in this chapter -

- (1) the term "agency head" means the head and any assistant head of an executive agency, and may "upon the designation by" the head of an executive agency include the chief official of any principal division of the agency;
- (2) the term "executive agency" means an executive department as defined in section 101 of title 5, an independent establishment as defined by section 104 of title 5 (except that it shall not include the General Accounting Office), a military department as defined by section 102 of title 5, and a wholly owned Government corporation as defined by section 9101(3) of title 31, the United States Postal Service, and the Postal Rate Commission;
- (3) the term "contracting officer" means any person who, by appointment in accordance with applicable regulations, has the authority to enter into and administer contracts and make determinations and findings with respect thereto. The term also includes the authorized representative of the contracting officer, acting within the limits of his authority;
- (4) the term "contractor" means a party to a Government contract other than the Government;
- (5) the term "Administrator" means the Administrator for Federal Procurement Policy appointed pursuant to the Office of Federal Procurement Policy Act (41 U.S.C. 401 et seq.);
- (6) the term "agency board" means an agency board of contract appeals established under section 607 of this title; and
- (7) the term "misrepresentation of fact" means a false statement of substantive fact, or any conduct which leads to a belief of a substantive fact material to proper understanding of the matter in hand, made with intent to deceive or mislead.

US Code as of: 01/05/99

**Sec. 602. Applicability of law**

- (a) Executive agency contracts  
Unless otherwise specifically provided herein, this chapter applies to any express or implied contract (including those of the nonappropriated fund activities described in sections 1346 and 1491 of title 28) entered into by an executive agency for -
  - (1) the procurement of property, other than real property in being;
  - (2) the procurement of services;
  - (3) the procurement of construction, alteration, repair or maintenance of real property; or,
  - (4) the disposal of personal property.
  
- (b) Tennessee Valley Authority contracts  
With respect to contracts of the Tennessee Valley Authority, the provisions of this chapter shall apply only to those contracts which contain a disputes clause requiring that a contract dispute be resolved through an agency administrative process. Notwithstanding any other provision of this chapter, contracts of the Tennessee Valley Authority for the sale of fertilizer or electric power or related to the conduct or operation of the electric power system shall be excluded from the chapter.
  
- (c) Foreign government or international organization contracts  
This chapter does not apply to a contract with a foreign government, or agency thereof, or international organization, or subsidiary body thereof, if the head of the agency determines that the application of the chapter to the contract would not be in the public interest.

*US Code as of: 01/03/99*

### **Sec. 603. Maritime contracts**

Appeals under paragraph (g) of section 607 of this title and suits under section 609 of this title, arising out of maritime contracts, shall be governed by chapter 20 or 22 of title 46, Appendix, as applicable, to the extent that those chapters are not inconsistent with this chapter.

*US Code as of: 01/03/99*

### **Sec. 604. Fraudulent claims**

If a contractor is unable to support any part of his claim and it is determined that such inability is attributable to misrepresentation of fact or fraud on the part of the contractor, he shall be liable to the Government for an amount equal to such unsupported part of the claim in addition to all costs to the Government attributable to the cost of reviewing said

part of his claim. Liability under this subsection <sup>[1]</sup> shall be determined within six years of the commission of such misrepresentation of fact or fraud.

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### Footnotes

[1] So in original. Probably should be "section".

*US Code as of: 01/03/99*

### Sec. 605. Decision by contracting officer

- (a) Contractor claims  
All claims by a contractor against the government relating to a contract shall be in writing and shall be submitted to the contracting officer for a decision. All claims by the government against a contractor relating to a contract shall be the subject of a decision by the contracting officer. Each claim by a contractor against the government relating to a contract and each claim by the government against a contractor relating to a contract shall be submitted within 6 years after the accrual of the claim. The preceding sentence does not apply to a claim by the government against a contractor that is based on a claim by the contractor involving fraud. The contracting officer shall issue his decisions in writing, and shall mail or otherwise furnish a copy of the decision to the contractor. The decision shall state the reasons for the decision reached, and shall inform the contractor of his rights as provided in this chapter. Specific findings of fact are not required, but, if made, shall not be binding in any subsequent proceeding. The authority of this subsection shall not extend to a claim or dispute for penalties or forfeitures prescribed by statute or regulation which another Federal agency is specifically authorized to administer, settle, or determine. This section shall not authorize any agency head to settle, compromise, pay, or otherwise adjust any claim involving fraud.
- (b) Review; performance of contract pending appeal  
The contracting officer's decision on the claim shall be final and conclusive and not subject to review by any forum, tribunal, or Government agency, unless an appeal or suit is timely commenced as authorized by this chapter. Nothing in this chapter shall prohibit executive agencies from including a clause in government contracts requiring that pending final decision of an appeal, action, or final settlement, a contractor shall proceed diligently with performance of the contract in accordance with the contracting officer's decision.
- (c) Amount of claim; certification; notification; time of issuance; presumption
  - (1) A contracting officer shall issue a decision on any submitted claim of \$100,000 or less within sixty days from his receipt of a written request

from the contractor that a decision be rendered within that period. For claims of more than \$100,000, the contractor shall certify that the claim is made in good faith, that the supporting data are accurate and complete to the best of his knowledge and belief, that the amount requested accurately reflects the contract adjustment for which the contractor believes the government is liable, and that the certifier is duly authorized to certify the claim on behalf of the contractor.

- o (2) A contracting officer shall, within sixty days of receipt of a submitted certified claim over \$100,000 -
    - (A) issue a decision; or
    - (B) notify the contractor of the time within which a decision will be issued.
  - o (3) The decision of a contracting officer on submitted claims shall be issued within a reasonable time, in accordance with regulations promulgated by the agency, taking into account such factors as the size and complexity of the claim and the adequacy of the information in support of the claim provided by the contractor.
  - o (4) A contractor may request the tribunal concerned to direct a contracting officer to issue a decision in a specified period of time, as determined by the tribunal concerned, in the event of undue delay on the part of the contracting officer.
  - o (5) Any failure by the contracting officer to issue a decision on a contract claim within the period required will be deemed to be a decision by the contracting officer denying the claim and will authorize the commencement of the appeal or suit on the claim as otherwise provided in this chapter. However, in the event an appeal or suit is so commenced in the absence of a prior decision by the contracting officer, the tribunal concerned may, at its option, stay the proceedings to obtain a decision on the claim by the contracting officer.
  - o (6) The contracting officer shall have no obligation to render a final decision on any claim of more than \$100,000 that is not certified in accordance with paragraph (1) if, within 60 days after receipt of the claim, the contracting officer notifies the contractor in writing of the reasons why any attempted certification was found to be defective. A defect in the certification of a claim shall not deprive a court or an agency board of contract appeals of jurisdiction over that claim. Prior to the entry of a final judgment by a court or a decision by an agency board of contract appeals, the court or agency board shall require a defective certification to be corrected.
  - o (7) The certification required by paragraph (1) may be executed by any person duly authorized to bind the contractor with respect to the claim.
- (d) Alternative means of dispute resolution  
Notwithstanding any other provision of this chapter, a contractor and a contracting officer may use any alternative means of dispute resolution under subchapter IV of chapter 5 of title 5, or other mutually agreeable procedures, for

resolving claims. The contractor shall certify the claim when required to do so as provided under subsection (c)(1) of this section or as otherwise required by law. All provisions of subchapter IV of chapter 5 of title 5 shall apply to such alternative means of dispute resolution.

- (e) Termination of authority to engage in alternative means of dispute resolution; savings provision  
In any case in which the contracting officer rejects a contractor's request for alternative dispute resolution proceedings, the contracting officer shall provide the contractor with a written explanation, citing one or more of the conditions in section 572(b) of title 5 or such other specific reasons that alternative dispute resolution procedures are inappropriate for the resolution of the dispute. In any case in which a contractor rejects a request of an agency for alternative dispute resolution proceedings, the contractor shall inform the agency in writing of the contractor's specific reasons for rejecting the request.

*US Code as of: 01/05/99*

#### **Sec. 606. Contractor's right of appeal to board of contract appeals**

Within ninety days from the date of receipt of a contracting officer's decision under section 605 of this title, the contractor may appeal such decision to an agency board of contract appeals, as provided in section 607 of this title.

*US Code as of: 01/05/99*

#### **Sec. 607. Agency boards of contracts appeals**

- (a) Establishment; consultation; Tennessee Valley Authority
  - (1) Except as provided in paragraph (2) an agency board of contract appeals may be established within an executive agency when the agency head, after consultation with the Administrator, determines from a workload study that the volume of contract claims justifies the establishment of a full-time agency board of at least three members who shall have no other inconsistent duties. Workload studies will be updated at least once every three years and submitted to the Administrator.
  - (2) The Board of Directors of the Tennessee Valley Authority may establish a board of contract appeals for the Authority of an indeterminate number of members.
- (b) Appointment of members; chairman; compensation
  - (1) Except as provided in paragraph (2), the members of agency boards shall be selected and appointed to serve in the same manner as administrative law judges appointed pursuant to section 3105 of title 5, with an additional requirement that such members shall have had not fewer than five years' experience in public contract law. Full-time

members of agency boards serving as such on the effective date of this chapter shall be considered qualified. The chairman and vice chairman of each board shall be designated by the agency head from members so appointed. Compensation for the chairman, the vice chairman, and all other members of an agency board shall be determined under section 5372a of title 5.

- o (2) The Board of Directors of the Tennessee Valley Authority shall establish criteria for the appointment of members to its agency board of contract appeals established in subsection (a)(2) of this section, and shall designate a chairman of such board. The chairman and all other members of such board shall receive compensation, at the daily equivalent of the rates determined under section 5372a of title 5, for each day they are engaged in the actual performance of their duties as members of the board.
  
- (c) Appeals; inter-agency arrangements  
If the volume of contract claims is not sufficient to justify an agency board under subsection (a) of this section or if he otherwise considers it appropriate, any agency head shall arrange for appeals from decisions by contracting officers of his agency to be decided by a board of contract appeals of another executive agency. In the event an agency head is unable to make such an arrangement with another agency, he shall submit the case to the Administrator for placement with an agency board. The provisions of this subsection shall not apply to the Tennessee Valley Authority.
  
- (d) Jurisdiction  
Each agency board shall have jurisdiction to decide any appeal from a decision of a contracting officer (1) relative to a contract made by its agency, and (2) relative to a contract made by any other agency when such agency or the Administrator has designated the agency board to decide the appeal. In exercising this jurisdiction, the agency board is authorized to grant any relief that would be available to a litigant asserting a contract claim in the United States Court of Federal Claims.
  
- (e) Decisions  
An agency board shall provide to the fullest extent practicable, informal, expeditious, and inexpensive resolution of disputes, and shall issue a decision in writing or take other appropriate action on each appeal submitted, and shall mail or otherwise furnish a copy of the decision to the contractor and the contracting officer.
  
- (f) Accelerated appeal disposition  
The rules of each agency board shall include a procedure for the accelerated disposition of any appeal from a decision of a contracting officer where the amount in dispute is \$100,000 or less. The accelerated procedure shall be applicable at the sole election of only the contractor. Appeals under the

accelerated procedure shall be resolved, whenever possible, within one hundred and eighty days from the date the contractor elects to utilize such procedure.

- (g) Review
  - (1) The decision of an agency board of contract appeals shall be final, except that -
    - (A) a contractor may appeal such a decision to the United States Court of Appeals for the Federal Circuit within one hundred twenty days after the date of receipt of a copy of such decision, or
    - (B) the agency head, if he determines that an appeal should be taken, and with the prior approval of the Attorney General, transmits the decision of the board of contract appeals to the Court of Appeals for the Federal Circuit for judicial review under section 1295 of title 28, within one hundred and twenty days from the date of the agency's receipt of a copy of the board's decision.
  - (2) Notwithstanding the provisions of paragraph (1), the decision of the board of contract appeals of the Tennessee Valley Authority shall be final, except that -
    - (A) a contractor may appeal such a decision to a United States district court pursuant to the provisions of section 1337 of title 28, within one hundred twenty days after the date of receipt of a copy of such decision, or
    - (B) The Tennessee Valley Authority may appeal the decision to a United States district court pursuant to the provisions of section 1337 of title 28, within one hundred twenty days after the date of the decision in any case.
  - (3) An award by an arbitrator under this chapter shall be reviewed pursuant to sections 9 through 13 of title 9, except that the court may set aside or limit any award that is found to violate limitations imposed by Federal statute.
- (h) Procedural guidelines

Pursuant to the authority conferred under the Office of Federal Procurement Policy Act (41 U.S.C. 401 et seq.), the Administrator is authorized and directed, as may be necessary or desirable to carry out the provisions of this chapter, to issue guidelines with respect to criteria for the establishment, functions, and procedures of the agency boards (except for a board established by the Tennessee Valley Authority).

*US Code as of: 01/05/99*

#### **Sec. 608. Small claims**

- (a) Accelerated disposition of appeals

The rules of each agency board shall include a procedure for the expedited

disposition of any appeal from a decision of a contracting officer where the amount in dispute is \$50,000 or less. The small claims procedure shall be applicable at the sole election of the contractor.

- (b) Simplified rules of procedure  
The small claims procedure shall provide for simplified rules of procedure to facilitate the decision of any appeal thereunder. Such appeals may be decided by a single member of the agency board with such concurrences as may be provided by rule or regulation.
- (c) Time of decision  
Appeals under the small claims procedure shall be resolved, whenever possible, within one hundred twenty days from the date on which the contractor elects to utilize such procedure.
- (d) Finality of decision  
A decision against the Government or the contractor reached under the small claims procedure shall be final and conclusive and shall not be set aside except in cases of fraud.
- (e) Effect of decision  
Administrative determinations and final decisions under this section shall have no value as precedent for future cases under this chapter.
- (f) Review of requisite amount in controversy  
The Administrator is authorized to review at least every three years, beginning with the third year after November 1, 1978, the dollar amount defined in subsection (a) of this section as a small claim, and based upon economic indexes selected by the Administrator adjust that level accordingly.

US Code as of: 01/03/99

#### Sec. 609. Judicial review of board decisions

- (a) Actions in United States Court of Federal Claims; district court actions; time for filing
  - (1) Except as provided in paragraph (2), and in lieu of appealing the decision of the contracting officer under section 605 of this title to an agency board, a contractor may bring an action directly on the claim in the United States Court of Federal Claims, notwithstanding any contract provision, regulation, or rule of law to the contrary.
  - (2) In the case of an action against the Tennessee Valley Authority, the contractor may only bring an action directly on the claim in a United States district court pursuant to section 1337 of title 28, notwithstanding any contract provision, regulation, or rule of law to the contrary.
  - (3) Any action under paragraph (1) or (2) shall be filed within twelve months from the date of the receipt by the contractor of the decision of the