

Alaska Marine Highway System Vessel Overhaul, Annual Certification and Shoreside Facilities Rehabilitation **FY2019 Request: \$0**
Reference No: 62310

AP/AL: Appropriation **Project Type:** Renewal and Replacement
Category: Transportation
Location: Statewide **House District:** Statewide (HD 1-40)
Impact House District: Statewide (HD 1-40) **Contact:** Mike Vigue
Estimated Project Dates: 06/30/2018 - 06/30/2022 **Contact Phone:** (907)465-6971

Brief Summary and Statement of Need:

The Alaska Marine Highway System (AMHS) requires annual maintenance and overhaul on vessels and at terminals, particularly components or systems whose failures impact service in the short term. Annual overhaul of vessels is necessary to pass United States Coast Guard (USCG) inspections and obtain a Certificate of Inspection (COI) necessary to operate in revenue service. Expenses for annual maintenance exceeded annual budgeted amounts in FY2017 and projected for FY2018. This supplemental allows the AMHS to accomplish required maintenance without impacting route service.

| Funding: | <u>FY2018</u> | <u>FY2019</u> | <u>FY2020</u> | <u>FY2021</u> | <u>FY2022</u> | <u>FY2023</u> | <u>Total</u> |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| 1004 Gen Fund | \$6,000,000 | | | | | | \$6,000,000 |
| Total: | \$6,000,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$6,000,000 |

| | | | | |
|---|---|---------------------------------------|---|--|
| <input type="checkbox"/> State Match Required | <input type="checkbox"/> One-Time Project | <input type="checkbox"/> Phased - new | <input type="checkbox"/> Phased - underway | <input checked="" type="checkbox"/> On-Going |
| 0% = Minimum State Match % Required | | <input type="checkbox"/> Amendment | <input type="checkbox"/> Mental Health Bill | |

Operating & Maintenance Costs:

| | <u>Amount</u> | <u>Staff</u> |
|----------------------|---------------|--------------|
| Project Development: | 0 | 0 |
| Ongoing Operating: | 0 | 0 |
| One-Time Startup: | 0 | 0 |
| Totals: | 0 | 0 |

Prior Funding History / Additional Information:

- Sec1 Ch1 SLA2017 P24 L14 SB23 \$1,000,000
- Sec21(g) Ch1 SLA2017 P8 L8 SB23 \$11,000,000
- Sec1 Ch2 SLA2016 P7 L19 SB138 \$12,000,000
- Sec25(d) Ch38 SLA2015 P39 L25 SB26 \$10,000,000
- Sec1 Ch18 SLA2014 P63 L23 SB119 \$12,000,000
- Sec1 Ch16 SLA2013 P79 L4 SB18 \$10,000,000
- Sec1 Ch17 SLA2012 P136 L16 SB160 \$10,000,000
- Sec7 Ch17 SLA2012 P167 L26 SB160 \$5,455,000

Project Description/Justification:

This project is for numerous recurring maintenance tasks and improvements to the vessels. In order to operate in revenue service, the vessels must be certified by classification societies and the United States Coast Guard (USCG). During the inspections, it is common for inspectors to find additional maintenance problems that must be addressed for the vessels to operate safely. This is commonly referred to as discovery work.

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In past years, the Alaska Marine Highway System (AMHS) funded its annual maintenance and discovery work through two concurrent mechanisms – vessel maintenance appropriations and deferred maintenance appropriations. In FY2013, FY2014, and FY2015 AMHS received both a \$10-\$12.0 million maintenance appropriation and deferred maintenance appropriations averaging \$3.0 million/year. Together, these appropriations were able to provide for the approximately \$15.0 million in annual maintenance expenses that the system incurs every year. In recent years; however, deferred maintenance allocations to the system have become much learner, leaving the system with challenges in funding the maintenance and discovery needs of the system.

As ships continue to age, maintenance and discovery work increases. In acknowledgment of the fact that maintenance needs would continue to rise in the near future while appropriations would continue to be constrained, AMHS, shifted a portion of their maintenance costs from the capital budget to the operating budget. Doing so preserved \$4.0 million in funding for these maintenance needs and allowed the system to carry forward \$6.0 million in maintenance appropriations into the subsequent year.

In FY2017, the system was unable to bill maintenance charges to their operating budget because their budget was funded on a one-time balance depletion of the Marine Highway Fund. Notwithstanding this action, FY2017 maintenance and discovery work was significantly higher than anticipated (\$21.4 million), largely due to needed Tustumena repairs identified during inspection. By the end of FY2017, the system not only depleted their outstanding prior year maintenance appropriations but also had to drain new FY2018 appropriations by \$3.2 million.

This means that the system now only has \$8.8 million remaining in order to fund an anticipated \$16.0 million in FY2018 maintenance work. \$1.0 million was allocated from FY2017 deferred maintenance appropriations but a shortfall still exists. For this reason, a \$6.0 million supplemental appropriation is necessary for the system to operate effectively in FY2018; however, between the repower of multiple ships and the extensive Tustumena work, there should be less discovery costs moving forward.

| AMHS Maintenance Activity (\$millions) | Actual 2015 | Actual 2016 | Actual 2017 | Projection 2018 |
|---|--------------------|--------------------|--------------------|------------------------|
| Fiscal Year | 2015 | 2016 | 2017 | 2018 |
| Carry Forward from PY | \$ 1.2 | \$ 1.6 | \$ 6.2 | \$ (3.2) |
| Supplemental | \$ - | \$ - | \$ - | \$ 6.0 |
| Annual Certification Appropriation | \$ 12.0 | \$ 10.0 | \$ 12.0 | \$ 12.0 |
| Deferred Maintenance Appropriation | \$ 3.0 | \$ - | \$ - | \$ 1.0 |
| Operating Budget Use | \$ - | \$ 4.0 | \$ - | \$ - |
| Total Appropriations | \$ 16.2 | \$ 15.6 | \$ 18.2 | \$ 15.8 |
| Actual cost of Certification | \$ 14.6 | \$ 9.4 | \$ 21.4 | \$ 15.8 |
| Surplus/Deficit | \$ 1.6 | \$ 6.2 | \$ (3.2) | \$ 0.0 |

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| Projected Expenditures by Vessel | |
|---|------------------------|
| Vessel | Projected Spend |
| Aurora | \$0.8 million |
| Chenega | - |
| Columbia | \$1.1 million |
| Fairweather | \$1.0 million |
| Kennicott | \$3.0 million |
| LeConte | \$0.8 million |
| Lituya | \$0.5 million |
| Malespina | \$3.2 million |
| Matanuska | \$1.3 million |
| Taku | - |
| Tustumena | \$2.6 million |
| Engineering Department | \$1.4 million |
| Total | \$15.8 million |