

Alaska Marine Highway System Vessel Overhaul, Annual Certification and Shoreside Facilities Rehabilitation **FY2021 Request: \$15,000,000**
Reference No: 30624

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:** Dom Pannone
Estimated Project Dates: 07/01/2020 - 06/30/2025 **Contact Phone:** (907)465-2956

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 (USGS) inspections and obtain a Certificate of Inspection (COI) necessary to operate in revenue service.

Funding:	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Total
1004 Gen Fund		\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$75,000,000
1076 Marine Hwy	\$15,000,000						\$15,000,000
Total:	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000	\$90,000,000

<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 SLA2019 P6 L15 SB2002 \$13,500,000
 Sec1 Ch3 SLA2019 P15 L18 SB19 \$1,400,000
 Sec1 Ch19 SLA2018 P10 L8 SB142 \$13,500,000
 Sec21G Ch1 SLA2017 P24 L14 SB23 \$1,000,000
 Sec1 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. The majority of the funds being requested are spent in Alaska shipyards with Alaska suppliers and vendors.

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In past years, the Alaska Marine Highway System funded its annual maintenance work through two concurrent mechanisms – vessel certification appropriations (i.e. this project) 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 leaner, leaving the system with challenges in funding the maintenance needs of the system. This project provides \$15.0 million for this required work, consistent with FY2020 levels.

Overhaul work consists of inspection, repair, and maintenance that cannot be performed while the vessels are operating. An overhaul period of approximately six weeks is set aside every year during which each ship is in dry-dock and the scheduled work is accomplished. This work is performed in Alaska shipyards unless it is combined with a Federal Highway Administration project competitively awarded to an out-of-state shipyard. In performing overhaul work, the Alaska Marine Highway System must meet the inspection requirements and standards of safety and seaworthiness of two entities, the Classification Societies (American Bureau of Shipping (ABS) for steel hulled vessels, and Det Norske Veritas (DNV) for the aluminum hulled fast vehicle ferries) as well as the United States Coast Guard (USCG). None of this work is discretionary. At the end of the overhaul period, the vessel must pass a demanding USCG inspection to obtain a Certificate of Inspection (COI). This certificate is mandatory to operate for the next year.

In addition to the work required by ABS, DNV, and the USCG, work is done which is recommended by equipment manufacturers and where AMHS port engineers determine the work to be sound equipment maintenance practices. For example, painting the hull is not required, and vessels could sail with badly deteriorated paint. However, paint protects the hull from corrosion. In the long term, the value of asset protection greatly outweighs the cost of the painting.

Overhaul work is costly. Putting a vessel into dry-dock can cost over \$20,000 base cost plus \$1,000 for each day it remains in dry-dock. Dismantling a main propulsion engine solely to permit ABS inspections requires the work of several skilled engineers for several weeks. These are costs incurred simply to enable inspections to be made and routine maintenance to be completed.

A continuing source of increased costs is maintenance of newly installed systems and equipment (primarily safety related) required to be added to the vessels by the International Maritime Organization's Safety of Life at Sea (SOLAS) regulations and similar U.S. Code of Federal Regulations Subchapter "W" provisions. While federal funds provide the systems and equipment, state funds must be used to maintain them once installed. Perhaps the greatest cause of increased overhaul costs is the simplest: as vessels age, the amount and cost of required maintenance increases.

AMHS operates steel and aluminum vessels in a hostile, corrosive salt-water environment and must protect these expensive ships or suffer rapid deterioration of major structural components and equipment resulting in expensive replacement costs. Ignoring these maintenance and repair requirements will result in failure to maintain ABS or DNV classification and failure to pass USCG COI examinations. Taking vessels out of classification will result in higher annual insurance rates. Without a USCG COI, AMHS cannot sail the vessels and accomplish the mission of providing safe, reliable

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public transportation. In the past, AMHS often established an inventory of major main engine components that were economical to rebuild. These were used as ready spares to keep the vessels in service when a casualty occurred. More recently, this practice has ceased due to a lack of funds.

This funding may also be used for terminal maintenance and repairs or equipment and component replacement and rehabilitation projects as available due to favorable bids or parts pricing.