

Why GAO Did This Study

In 2002, the Seldovia Village Tribe proposed building a year-round ferry that would serve several isolated communities on the south shore of Alaska's Kachemak Bay. Federal funding for a ferry was subsequently included in the Department of Transportation's appropriations, transferred to the Department of the Interior, and then provided to the tribe through agreements under the Indian Self-Determination and Education Assistance Act, as amended. The tribe's ferry began operating in May 2010, amid community concerns about significant changes in the ferry's design and operation from the original proposal and its effect on existing private tour boat businesses.

GAO was asked to examine (1) the history of the Kachemak Bay ferry project; (2) the roles of federal agencies in funding and overseeing the ferry project and associated dock projects; and (3) concerns and challenges, if any, regarding the continued operation of the ferry. GAO analyzed documents and interviewed federal agency officials and tribal and community representatives.

What GAO Recommends

GAO recommends that the Departments of the Interior and Transportation collaborate to determine the disposition of sale proceeds in the event the ferry is ever sold. Interior and Transportation agreed to implement GAO's recommendation. The Seldovia Village Tribe did not comment on GAO's recommendation but expressed a number of concerns which are discussed more fully in the report.

KACHEMAK BAY FERRY

Federally Funded Ferry Was Constructed with Limited Oversight and Faces Future Operating Challenges

What GAO Found

In examining the history of the Kachemak Bay ferry project, GAO found that the Seldovia Village Tribe's federally funded ferry differs significantly from its original proposal. In 2002, the tribe proposed a vehicle and passenger ferry with year-round service between Homer, Alaska, on the north shore of Kachemak Bay and multiple southern ports, including the city of Seldovia. Federal funding was appropriated in fiscal years 2004, 2005, and 2006, from which about \$8.5 million was provided to the tribe for a ferry. The state also provided \$1.5 million. The tribe subsequently built a ferry and dock facilities that cost about \$8.8 million, but the project was significantly more limited in scope and service than the original proposal. Specifically, the ferry, known as the *Kachemak Voyager* began operating in May 2010, but it only provided passenger and light-freight service between Homer and Seldovia and only during the summer months.

Federal agencies provided funding and limited oversight but had no decision-making role for the ferry project. After the Department of Transportation (DOT) received the funds for the ferry in its fiscal years 2004, 2005, and 2006 annual appropriations, it transferred these funds to the Department of the Interior (Interior). As a result of these transfers, DOT provided no oversight for the ferry project. Interior provided the funding to the tribe through agreements under the Indian Self-Determination and Education Assistance Act, as amended, that generally authorize tribes to use funds to plan and administer programs with little involvement by the federal government. The tribe provided Interior with quarterly project status reports, but Interior did not provide guidance to the tribe in response to changes in the project. Following a 2009 Inspector General investigation, Interior developed new procedures to preclude certain transportation projects like the tribe's ferry from being funded through these agreements in the future. DOT's Federal Transit Administration (FTA) also awarded the tribe two grants in 2010, totaling \$675,000, and also provided limited oversight over the grants, according to agency officials.

A number of concerns and challenges exist regarding future operations of the ferry and its financial sustainability. First, local private tour boat operators are concerned that competition from the ferry has and will continue to negatively affect their businesses. In particular, they noted that, because of federal grants, the ferry has been able to offer lower fares that the private operators cannot match. Second, it is unlikely that the ferry will become profitable as expected by 2013, largely because of lower passenger volume and higher operating costs than projected. Using actual passenger and cost data from 2010 and 2011, GAO determined that losses will most likely continue to grow, which will make the ferry financially unsustainable without further government subsidies. Third, FTA was concerned that the tribe had not complied with its grant requirements. The tribe needed prior FTA approval before using the ferry for nonpublic transportation activities, such as sightseeing, but did not obtain approval. The tribe took corrective actions. Finally, should the tribe choose to sell the ferry, it is unclear what statutory provisions govern the sale, and it is therefore uncertain whether a portion of the proceeds must be credited to the federal-aid highway fund or if the awarding agency has a right to those proceeds.