



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
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The Honorable Andy Josephson
Co-Chair, House Finance Committee
Alaska State Capitol Room 505
Juneau, AK 99801

The Honorable Calvin Schrage
Co-Chair, House Finance Committee
Alaska State Capitol Room 410
Juneau, AK 99801

The Honorable Neal Foster
Co-Chair, House Finance Committee
Alaska State Capitol Room 511
Juneau, AK 99801

Dear Co-Chairs Josephson, Schrage, and Foster,

Thank you for inviting the Office of Management and Budget (OMB) to present an overview of the Governor's FY2026 Amended Budget to the House Finance Committee on February 27, 2025. This letter completes the responses to questions and requests for follow-up information from this hearing.

- 1. Regarding the Microsoft 365 CoPilot Artificial Intelligence (AI) Tools for State Employees request (\$732.7 UGF), what efficiencies will be gained? What exactly will the State be doing with this tool? How can someone find out which version the State is going to be paying for?**

Microsoft 365 Copilot is designed to enhance productivity, save time, improve collaboration, and increase consistency and accuracy. It facilitates the management, summarization, and creation of content within Outlook, Word, PowerPoint, and Excel. Additionally, it can quickly generate minutes, action items, and summaries from Teams meetings. The benefits vary depending on training levels and employee roles, which is why a pilot program is being conducted to effectively allocate the licenses.

What exactly will the State be doing with this tool?

The tool will be added to the Microsoft 365 licenses for specific employees identified by departments. It will add an AI assistant to each of their tools (Word, Excel, PowerPoint,

Teams, etc.) that will allow employees to be more productive in those programs. Training on best practices will be available.

How can someone find out which version the State is going to be paying for?

Microsoft 365 Copilot. This product integrates AI assistants into existing the Microsoft 365 product suite. It uses data specific to the employee's existing permissions. It is contained in our secure environment and does not expose State of Alaska data to external sources.

Microsoft 365 Copilot should not be confused with Free Microsoft Copilot. That free tool is a basic chat product that uses public data sources and incorporates any user input into its public model.

2. Provide more information and a timeline on how/why there is a penalty for the Supplemental Nutrition Assistance Program (SNAP)?

Summary Recap:

In April 2022, the Division of Public Assistance (DPA) identified a misinterpretation of certification extension guidance and began efforts to correct it.

Between May and July 2022, Alaska ended the Public Health Emergency (PHE), discontinuing Emergency Allotment (EA) benefits, with August serving as the transition month. Manual processing challenges at DPA caused delays in EA issuance. Additionally, the interview waiver ended since Alaska was no longer under a PHE.

In August 2022, Alaska discontinued extended certifications, creating an immediate backlog of SNAP recertifications and new applications. This backlog was worsened by the 2021 cyberattack, staffing shortages, and outdated software, straining existing systems and highlighting the urgent need for workflow improvements and system upgrades.

In October 2022, the Food and Nutrition Service (FNS) implemented a policy change requiring states to deem SNAP cases with sequential certification extensions as ineligible. Since DPA had continued these extensions, most SNAP cases sampled were ruled ineligible, impacting payment error rates. However, this determination did not necessarily indicate incorrect benefit amounts.

By December 2022, recognizing the challenge of balancing compliance with FNS rules while ensuring Alaskans received benefits, the State decided to extend certification periods from six months to 12 months. This approach aimed to prevent delays and ensure uninterrupted food assistance for eligible residents.

On January 6, 2023, FNS issued guidance under the Consolidated Appropriations Act, 2023, mandating the termination of EAs after the issuance of February 2023 benefits.

At what point was the State aware that the targeted investments were not going to do it and that the State would need to bear the penalties versus paying \$5.9 million to the federal government that the State would not receive value from?

The Division of Public Assistance (DPA) was unaware that the State would face penalties or the potential financial impact. Despite holding weekly meetings with the Food and Nutrition Service (FNS), the State was formally notified of the \$11.9 million penalty only in June 2024. After negotiations with assistance from the Department of Law, the settlement was finalized and signed by the Department of Health Commissioner on January 16, 2025.

By April 2023, DPA had cleared the initial backlog and continued working toward FNS compliance. The division remains focused on system updates, business process improvements, and workflow enhancements. While application processing delays still occur, they are less severe and shorter due to ongoing improvements. Delays typically arise in the fall due to compliance procedures and renewals.

Significant investments from the Governor and Legislature have strengthened Alaska's public assistance program. While progress has been made, work remains. Below is an update on key capital projects:

- Mainframe Migration: On track for completion in 2028.
- Alaska's Resource for Integrated Eligibility Services Enhancement: Actively addressing system defects for timely Medicaid benefit processing. The remaining funds will support full mainframe replacement.
- E-Forms and Online Noticing: Approximately 50 percent complete.

Please contact my office if you have further questions.

Sincerely,

Lacey Sanders

Lacey Sanders
Director

cc: Alexei Painter, Director, Legislative Finance Division
Jordan Shilling, Director, Governor's Legislative Office