

HOUSE FINANCE COMMITTEE  
February 15, 2024  
1:40 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:40 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair  
Representative Neal Foster, Co-Chair  
Representative DeLena Johnson, Co-Chair  
Representative Julie Coulombe  
Representative Mike Cronk  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Andy Josephson  
Representative Dan Ortiz  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget, Office of the Governor; Dom Pannone, Director, Program Management and Administration, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

Josephine Stern, Admin Services Director, Department of Health; Eric Demoulin, Administrative Services Director, Department of Revenue.

SUMMARY

OVERVIEW: FY 25 GOVERNOR AMENDED BUDGET

Co-Chair Johnson reviewed the meeting agenda.

^OVERVIEW: FY 25 GOVERNOR AMENDED BUDGET

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LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced a PowerPoint presentation titled "FY2025 Governor Amended Budget: House Finance Committee," dated February 15, 2024 (copy on file). She relayed that amendments were released on February 14. The presentation included capital and operating amendments for the FY 25 budget and FY 24 supplemental items. She referenced additional handouts labeled "Attachment A, B, C, and D" (copy on file). She began an updated fiscal summary showing FY 24 management plan and supplementals on the left and the FY 25 governor's amended budget summary on the right.

Ms. Sanders began with FY 25 changes incorporated into the fiscal summary on slide 2. The amended budget included an increase of \$20.8 million of unrestricted general funds (UGF), \$2.5 million of designated general funds (DGF), \$8 million of "other" receipts, and \$295 million in federal receipts. She would provide details on the numbers in the coming slides. The amended budget included a UGF decrease in capital items of \$11.7 million, a DGF increase of \$2.5 million, an increase in "other" receipts of \$2.8 million, and a decrease in federal receipts of \$52 million. The overall total change was a capital budget decrease of \$58.3 million and an operating budget increase of \$326.2 million.

Ms. Sanders highlighted the February 14<sup>th</sup> supplemental items on slide 2. The items resulted in a change of \$500,000 in statewide items. The supplemental capital items totaled an additional \$15.4 million made up of \$11 million UGF, \$1.2 million in other receipts, and \$3.2 million in federal receipts.

Ms. Sanders stated the remaining surplus was \$344 million after the amendments. She relayed that the overall change for the FY 25 budget resulted in a deficit of just under \$1 billion. The governor's budget proposed filling the deficit with funds from the Statutory Budget Reserve (SBR) and Constitutional Budget Reserve (CBR).

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Ms. Sanders moved to slide 3 titled "Operating Governor Amend Requests." She referred to Attachment A (copy on file) beginning on lines 1 and 2 showing two increments for the Department of Administration (DOA) Division of Finance. The first increment was \$180,000 in one-time funding for moving expenses. She detailed that DOA's lease at the Michael J. Burns building was expiring and the division would move to the State Office Building; the department needed authority to make the transition from one building to another. The second increment was an increase of \$217,000 in "other" receipts to address the state's accounting and human resources systems ALDER and IRIS. She explained there were increased costs for the systems for security and functionality, which would be funded with interagency receipts.

Ms. Sanders addressed three changes within the Office of Information Technology. The two changes were \$526,000 for security licensing and \$710,000 for 24/7 security logging related to Microsoft security and ensuring the systems were in compliance and protected against cyberattacks and other items that may impact system security. The third change was an increase of \$575,000 to maintain cloud services following the transition from on-premise servers in FY 24. Under the Department of Commerce, Community and Economic Development (DCCED) there was an increase of \$600,000 in receipts for the Division of Corporations, Businesses, and Professional Licensing (CBPL). The division experienced significant increases in its operations as it was serving the public and ensuring licensing processing was done in a timely fashion.

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Ms. Sanders continued to review requests in the governor's amended budget. The Alcohol and Marijuana Control Office (AMCO) was seeking a one-time increment of \$102,000 to continue implementation of Title IV, the alcohol statute rewrite. She detailed that AMCO received money through Senate Bill 9 in 2023 and the office requested a continuation of the non-permanent position for one additional year to continue the work. There was \$340,000 for the Division of Community and Regional Affairs to work with the Alaska Native Tribal Health Consortium (ANTHC) on

a Natural Hazard Planning Assistance Program. She detailed it was a three-year project and DCCED was requesting the funding from ANTHC to pay for the project to support communities in disaster planning.

Representative Hannan did not see the disaster planning under DCCED on Attachment A. She asked for the item number.

Ms. Sanders directed attention to the language items on page 8, line 62. She explained that the packet reflected the way the budget bill was generated; therefore, language items were at the back.

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Representative Galvin looked at requests for DOA technology security. She referenced the requests of \$526,000 and \$710,000. She observed that one of the projects was a multiyear increment. She thought it sounded like something the state may have known about. She wondered why it had been added in the amendments.

Ms. Sanders responded that the initial funding to transition was provided in a multiyear increment. She explained it was determining when the funding would be completely spent. She detailed that now that the funding was no longer available it was necessary to move forward with the request and finish the work.

Ms. Sanders addressed two amendment requests under the Department of Education and Early Development (DEED). The first was a \$75,000 request to convene a panel for the Alaska Reads Act. She elaborated that the prior legislation provided for the department to convene a panel and report back to the State Board of Education with recommendations on the legislation. The second request was for \$51,900 of general fund match for the Carl D. Perkins Career and Technical Education federal reward. The \$5.8 million federal reward required \$293,000 state matching funds; in order to meet the requirement, DEED needed the additional \$51,900.

Co-Chair Edgmon asked if there was money for the Reads Act panel to meet in rural Alaska.

Ms. Sanders believed it would partially be accomplished by videoconferencing. She suggested perhaps the department was available online to answer the question.

Co-Chair Edgmon highlighted there was a reference to the lens of cultural inclusion, which was an ongoing topic with the Reads Act. He stated there were many hearings that led up to the passage of the bill in 2022. He recalled asking whether there was money for DEED to travel to rural Alaska. He wondered if there should be a funding request for travel to the bush.

Ms. Sanders responded that she would follow up with DEED to determine its plans.

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Ms. Sanders moved to two amendment items for the Department of Environmental Conservation (DEC). The first item was a change to an item submitted in the governor's original budget. She explained that DEC needed to relocate its air quality lab. The governor's original budget only included an \$87,000 increment for FY 25; however, it had been determined after further discussions with DEC that the same amount of funding was needed over two years. The item was requested as a supplemental to be spent over FY 24 and FY 25 in order for DEC to get started on the move as soon as possible. The second item was just over \$1.1 million in federal receipts for a federal inflation reduction act grant for DEC to conduct emissions inventory over a four-year period.

Ms. Sanders addressed five increments for the Department of Family and Community Services (DFCS) all associated with a juvenile justice counselor salary completion study that had been completed by DOA's Division of Labor Relations. The increments reflected the implementation and included supplemental requests as implementation was occurring in FY 24. The increments also brought the cost online for 2025.

Representative Stapp stated that the topic of juvenile justice officers and pay had come up frequently the previous session. He asked how the implementation of the salary study had changed the vacancy rate. He recalled that the vacancy rate had been around 50 percent.

Ms. Sanders responded that there had not yet been a change in the vacancy rate because the study results were currently being implemented. She stated that hopefully there would be a change in the vacancy moving forward.

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Ms. Sanders addressed two items within the Department of Fish and Game (DFG) within the State Subsistence Section. The first increment was \$205,000 UGF to address inflationary cost increases impacting utilities, travel, and fuel. The second increase was \$210,000 in federal Pittman Robertson funds coming to the department for wildlife conservation projects.

Ms. Sanders moved to increments for the Department of Health (DOH). The largest item contributing to the budget change was \$21 million UGF to bring the matching funds for Medicaid up to the need projected by DOH. Additionally, there was \$293.7 million in federal funds to accurately reflect federal receipts to be collected for Medicaid.

Representative Stapp observed that syphilis money had been put back in from the FY 24 multiyear appropriation. He did not see the tuberculosis money put back in. He asked why.

Ms. Sanders confirmed that \$2 million was added for congenital syphilis efforts. She relayed that OMB was still working with DOH to understand the data collected with the last funding increment for tuberculosis was effective.

Representative Stapp looked at the Medicaid increase. He thanked OMB for including the federal receipt authority amount. He remarked that almost all of the UGF increases appeared to be provider rate rebasements. He looked at the \$5 million associated with the resource based relative value scale (RBRVS). He understood it was a physician services reimbursement for Medicaid fee-for-service. He asked for the percentage and what it meant.

Ms. Sanders deferred the question to the department.

JOSEPHINE STERN, ADMIN SERVICES DIRECTOR, DEPARTMENT OF HEALTH (via teleconference), replied that she would follow up with the precise percentage for the RBRVS increments.

Representative Stapp asked if the rebasements required by the state. Alternatively, he asked if DOH made the determination it wanted to increase the reimbursement rates specifically for physician services.

Ms. Stern answered that the RBRVS rate was a federally required rate increase. She offered to provide a detailed breakdown on whether the other rates were required or department initiated increases.

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Co-Chair Edgmon looked at item 12 Inflation Reduction Act Climate Pollution Grant of \$3 million and the budget item of \$1.1 million [to DEC]. He was interested in additional detail and had previously been unaware of the program. He remarked that there had been work in smaller communities since 2005 and there was now a large infusion of money. He would make a note to meet with DEC separately on the topic.

Ms. Sanders answered that she would have the Air Quality Division follow up with the information.

Co-Chair Edgmon replied that he would have the discussion with the department offline.

Ms. Sanders moved to two items for the Department of Labor and Workforce Development (DLWD).

Co-Chair Johnson requested Ms. Sanders to refer to the lines associated with the items she was discussing.

Ms. Sanders relayed that lines 24 through 27 for DLWD were clean up items reflecting transfers between components to ensure the budget included the appropriate Technical Vocational Education Program (TVEP) and State Training Employment Program (STEP) authority in the correct place. The largest change was item 25 showing an increase in projected revenue for STEP in the amount of \$1.6 million; therefore, DLWD was requesting additional authority to ensure it could provide the grants and services the funding was used for when collected. Line 26 showed \$118,000 for a workers' compensation hearing officer study implementation by DLWD. She detailed that DOA's Division of Personnel and Labor Relations completed a study, and the funding would be directed to the implementation.

Ms. Sanders moved to the Department of Natural Resources (DNR) on line 28. The increment was \$578,000 for a lease in Fairbanks for the Division of Geological and Geophysical Surveys. She elaborated that the division's 10-year lease expired and it had worked with the Facilities Section within the Department of Transportation and Public Facilities (DOT) to try to find a new location; however, it had been unable to do so. The division was entering into a new lease for its current space with an increased cost of \$578,000 annually. Additionally, there was \$1 million for the Division of Geological and Geophysical Surveys to provide Alaska's future with geothermal energy. The division would be standing up geothermal categorization work through the establishment of a few new positions. The department would work with the University of Alaska, federal, Native, and private sector partners.

Co-Chair Edgmon remarked that it was an interesting item that tied into a couple of projects under the Renewable Energy Grant Program the previous year in addition to money the university was seeking. He stated there was a bigger picture behind the increment request and he wanted to have a more in depth conversation on the topic and some point.

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Ms. Sanders responded that there was staff listening to the meeting and OMB would ensure to follow up with additional information. She addressed the Department of Public Safety (DPS) starting on line 30. There was a compensation study for forensic scientists 1 through 3 completed by DOA's Division of Personnel and Labor Relations and line 30 reflected the wage increase for the positions. She noted the increase was spread through multiple items. She moved to line 31 to identify federal grant funds that could be used for the Village Public Safety Officer (VPSO) program. One of the grants was to provide safety gear. She explained that federal receipt authority would enable the department to receive the \$25,000 if awarded.

Ms. Sanders addressed line 32 showing a technical correction to the restorative justice account. She elaborated that the Department of Revenue annually calculated the amount of Permanent Fund Dividends (PFDs) that would have gone to convicted felons and the funds were allocated in the budget to various entities. She explained that statute provided for a certain percentage to each of

the entities. There had been a miscalculation in the governor's budget and \$99,000 should be replaced with restorative justice accounts. She noted there was an offset later where the funds were deposited into another fund under fund capitalizations. Item 33 was the same item, but it allowed for the expenditure from the restorative justice account for the Violent Crimes Compensation Board.

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Ms. Sanders moved to item 34 showing a \$250,000 increment for a new division director for the Victim Services Division requested by DPS. She explained that DPS was organizing all of its victims' services functions into a new division so that all of the work provided to victims would be coordinated.

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Representative Coulombe returned to the restorative justice account. She referenced a decrement and an increment associated with the account and thought the information was a bit confusing. She stated her understanding that the percentage was a bit too high in the governor's budget. She thought the percentage was supposed to be 10 to 12 percent, but it was 14 percent in the budget. She asked if the proposed amendments would take that back and give it to DCCED. Alternatively, she wondered if the items were separate.

Ms. Sanders answered there was just over \$9 million available. She detailed that percentages of the amount were allocated to different purposes. The governor's budget allocated 4 percent [from the restorative justice account], which exceeded the statutory limit of 3 percent. Therefore, the governor's amendments reduced the amount, which made some of the available funding to go to another organization within the statutory framework.

Representative Coulombe asked if the decrement was going to another organization. She asked if Ms. Sanders was referring to VCCB [Violent Crimes Compensation Board].

Ms. Sanders agreed. She relayed that OMB had a spreadsheet breaking out the percentages going to each of the organizations that she would provide the committee later on.

Representative Coulombe stated she was aware of the percentages. She asked if there was any UGF filling the difference.

Ms. Sanders answered that item 32 was a fund source change that reduced restorative justice funds and replaced the funding with UGF. She pointed out that item 33 showed additional available funding that was not offsetting and went to the Violent Crimes Compensation Board.

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Representative Hannan referenced item 34 and asked if the submitted budget did not include the new DPS director position.

Ms. Sanders replied affirmatively. She explained that when the original budget was submitted, the roles of the existing executive directors in some of the other organizations and how they interacted with DPS leadership was unclear. The department had provided the structure to OMB and there was a request for an executive director position to oversee the new division.

Representative Hannan asked for verification that DPS did not initially believe it needed a new director for the new division; however, it had decided a new director position was necessary.

Ms. Sanders agreed.

Co-Chair Edgmon asked if the funding for the VPSO director would be embedded in the overall funding for the VPSO program.

Ms. Sanders did not believe the VPSO program was under the Victim Services Division.

Co-Chair Edgmon agreed. He observed there was not a budget request for the new VPSO division director. He asked if the funding for the position was embedded in the VPSO program.

Ms. Sanders confirmed that the VPSO director was in the VPSO budget. She clarified that it was different than victim services.

Co-Chair Edgmon recognized that and thanked Ms. Sanders for the information.

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Ms. Sanders moved to an increment on line 35, which ensured sufficient federal receipts within the admin services component for DPS. Line 36 reflected a compensation study for the criminal justice services administrator 1 and 2 class series. The increment ensured DPS had sufficient funding to pay for the salary changes.

Ms. Sanders turned to page 5, item 37 on the Attachment A spreadsheet. The DPS item was a continuation of the salary study for forensic scientists. She explained that the item appeared in multiple components throughout the DPS budget. Item 38 was a request to expand the state's toxicity lab testing and testimony. The request added a full-time forensic scientist chemistry position that would be located in Anchorage. She elaborated that DPS had experienced a significant increase in the number of tests required for driving offenses associated with being under the influence of alcohol or marijuana. The lab needed an additional position to be the expert providing the testing and testifying when criminal offenses went to court.

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Ms. Sanders addressed a salary adjustment of \$161,000 for the Alaska Retirement Management Board (ARMB) under the Department of Revenue (DOR). She explained that the salary adjustments included in the governor's original budget inadvertently excluded the item when transferring funding from one component to another. Item 40 was for the Child Support Enforcement Division within DOR. The division received federal reimbursement for foster care children eligible under Title IV. She explained that when the number of eligible children decreased, the division was unable to collect the federal receipts. There was a decline in the number of eligible children and the division was requesting a fund source change from federal receipts to UGF as costs remained the same. Item 41 pertained to a salary study for a child support enforcement specialist within the Child Support Enforcement Division. The study was completed in November of 2023 and resulted in an increase to pay salaries for FY 25.

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Representative Stapp referenced the spreadsheet explanation for item 40 specifying that a portion of child support enforcement activities supporting children in state foster care were not eligible for federal reimbursement under Title IV. He asked what activities were not covered by the federal funding.

Ms. Sanders clarified it was work completed by the Child Support Enforcement Division, not the Office of Children's Services. She explained that if a child was ineligible for the federal funding, the division could not collect federal receipts.

Representative Stapp asked what the difference was pertaining to Title IV.

Ms. Sanders responded that she did not know the difference. She deferred the question to DOR.

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ERIC DEMOULIN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF REVENUE (via teleconference), asked Representative Stapp to repeat the question.

Representative Stapp complied. He asked for the difference between the children that were eligible for federal receipt authority versus those who were not. He asked about services that were eligible and those that were not.

Mr. Demoulin responded he would follow up on the Title IV eligibility criteria and would provide a response in writing. He stated it had to do with benefits being received that was also within the Department of Health and Social Services.

Representative Josephson remarked that the class studies always resulted in increases, which did not surprise him. He asked if there was a way to know what percent were complete. He asked about the pecking order. For example, a child support enforcement specialist was getting a pay raise, while other positions that were not yet studied were not receiving increases. He asked if his understanding was correct.

Ms. Sanders answered that classification studies were difficult in terms of how to pick. The DOA Division of Personnel and Labor Relations maintained a list, which was quite extensive. She relayed that union input went into the list and there was also a first in first out portion of the list. She remarked that there was a limited capacity in the state to complete studies. She had been told that it would take four years to complete the salary studies on the current list. The state was in the process of completing a statewide salary study. The hope was that the statewide salary study would decrease the need for the individual study requests. She relayed that the number of requests had been increasing to ensure employees were being paid for like work performed.

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Ms. Sanders addressed line 42 pertaining to DOR's Criminal Investigation Unit. The division was made up of seven investigators and one support staff. The division was lucky enough to not have experienced vacancies, but due to a vacancy factor applied to the division, it was short funded. She explained that it was a very small division that did not have the capacity to transfer from other lines to pay for the cost of paying its employees.

Ms. Sanders briefly highlighted item 43 showing a \$150,000 request from the Alaska Permanent Fund Corporation (APFC) to work on a communications plan.

Representative Galvin looked at line 42 pertaining to DOR's Criminal Investigation Unit. She asked for verification that the unit had not been budgeted for full staff and because the unit was fully staffed it required additional funding.

Ms. Sanders answered that there was a vacancy factor for every component. She explained that it was not uncommon for smaller divisions to have no vacancy factor. She confirmed that the Criminal Investigation Unit did not have sufficient funding to pay for 100 percent of its staff. The amendment would ensure the unit had sufficient funding to pay its staff for the year.

Representative Galvin asked if it was not typically absorbed within the department depending on how different

agencies within the department were doing with their vacancy.

Ms. Sanders replied, "No." She explained that it was not possible to cross certain appropriation lines. She used the Department of Corrections as an example and explained that all of its institutions were in the same appropriation, meaning funds could be moved around to cover needs. However, if a division was on its own, funds could not be moved from another division to help absorb the vacancy.

Representative Galvin commented that it was an unusual problem.

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Representative Hannan asked if it was the only place in the budget where an agency was fully staffed with no ability to absorb the cost.

Ms. Sanders responded that she could not think of another instance in the current budget, but it was not uncommon, especially in small divisions with very few positions.

Representative Hannan remarked that she would like to see more divisions with the problem of a zero vacancy.

Representative Coulombe referenced the APFC request for funding to enhance a communications program. She asked if the funding was UGF.

Ms. Sanders replied that the funds would come from APFC receipts, not general funds. She explained that it was the funding source APFC used to pay for its services.

Representative Coulombe asked what the [APFC communications program] campaign was supposed to be doing. She asked if the corporation was trying to attract talent or get its brand out there.

Ms. Sanders replied affirmatively but deferred to APFC for more detail. She offered to follow up to provide more detail.

Co-Chair Edgmon noted there was an APFC open house that evening. He remarked that he may ask about the item at the event.

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Ms. Sanders moved to line 44 pertaining to DOT.

Representative Ortiz looked at an \$8,365,000 in UGF. He asked for detail.

Ms. Sanders referred to item 66 on page 8 for the Alaska Marine Highway System (AMHS). There had been a \$10 million one-time appropriation in the FY 24 budget. She explained that a reversal of the one-time funding was not included in the OMB information when the governor's original budget was published. She elaborated that the Legislative Finance Division pointed it out and had included the reversal in its information. She explained that the one-time funding had to be reversed out; it was a technical correction to ensure the budget accurately portrayed what should or should not be included.

Ms. Sanders returned to line 44 for utility cost increases for various regions within DOT. She expounded that various regions experienced a 15 percent utility cost increase and continued to experience inflationary cost. She moved to an increase of \$480,000 on line 45 associated with an agreement with the Municipality of Anchorage for the Transfer of Responsibility Agreement (TORA). The cost for the responsibility of the state-owned traffic signal system had increased in the Anchorage area and resulted in the need for additional funds. Line 46 included \$500,000 to support agricultural road maintenance. She explained that it involved the state assuming responsibility for maintenance and operations of roads that did not currently have oversight.

Representative Stapp referenced Ellison Farm Road and other areas possibly in Representative Cronk's area. He stated there were road service areas in the borough that received money for the purpose. He referred to Ms. Sanders' statement that the state was taking over the maintenance. He thought it was fine, but he wondered why not contract someone to do the work, unless the state wanted DOT to do that too.

Ms. Sanders deferred the question to the department.

DOM PANNONE, DIRECTOR, PROGRAM MANAGEMENT AND ADMINISTRATION, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, responded that he did not have all of the details at present. He explained that the increment addressed roads where the ownership was unclear and that served mostly rural and agricultural areas. He stated it was very likely the state would be able to contract the roads out to contractors with graders. He would follow up with additional information.

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Representative Galvin was unclear on where the agricultural roads were located. She asked if they were primarily located in the Interior such as the Mat-Su Valley. She remarked that additional information would be helpful especially in light of the half million dollar price tag.

Mr. Pannone responded that the funding was an increment to DOT's Northern Region highways and aviation component. He noted the Northern region was one of DOT's three regions in the state.

Representative Cronk shared that the governor had traveled to Nenana and there were some rural agriculture areas where the state had put in roads that were not maintained. The areas were producing food and some were asking for a little help and requesting a grader blade twice a year. He reiterated that the state had put in the roads and the increment would help the farmers by semi-maintaining the roads and enabling customers to access the areas.

Representative Hannan remarked that when the state had done the Nenana project and put roads in, it had used Department of Natural Resources (DNR) money to build the road and put the bridge in. She believed that if the state was going to build roads it needed to maintain them. She asked if DNR had exhausted all of the money for the roads. Alternatively, she wondered whether DNR still had money for development and DOT would be responsible for maintaining the roads.

Ms. Sanders replied that she would do some research and follow up.

Representative Cronk clarified he was speaking about roads prior to the Nenana-Tokchaket agriculture area. He

elaborated that they were agriculture areas that he estimated were done 30 years ago. He remarked that the state had put the roads in and had left them for people in the areas to figure out on their own. He stated it had been a road service area in the past, but it was defunct and there was no way to figure out where the funds were.

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Ms. Sanders moved to line 47 reflecting receipt authority for rural airport leasing receipts for law enforcement support in Adak. She detailed that staff were flown on the plane to provide law enforcement screening for the rural Adak airport.

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Ms. Sanders stated that the last items for DOT were for international airport systems and funded with "other" receipts. There were several items that address audits, financial services, training and screening programs, an increased contract for parking at the Ted Stevens International Airport, and the completion of an airport police and fire class study. She moved to the University's budget. She addressed a project under the University budget that had originally been funded with mental health trust receipts. She explained that the Alaska Mental Health Trust Authority (AMHTA) had worked with the University and determined the project would not move forward; therefore, the item had been removed from the budget.

Ms. Sanders addressed a fund capitalizations item of \$198,000 pertaining to the Crime Victim Compensation Fund. She elaborated that restorative justice funds were available to be deposited into the Crime Victim Compensation Fund and used by the Crime Victim Compensation Board. The increase brought the total from \$991,000 to \$1,189,000. The technical correction was to ensure the state was following the statute.

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Ms. Sanders moved to the capital budget shown on slide 4 of the presentation and on Attachment B (copy on file). The first item was \$1 million for DOA to begin the replacement of aging infrastructure within the Office of Information Technology. She relayed that the funding would not cover the entire need, but it would provide an annual amount to continue moving forward. She moved to several DCCED items. There was \$15 million in federal receipt authority for broadband digital equity capacity grant program to be distributed out by the Broadband Office. There were two Division of Insurance projects. The first was \$2.5 million to develop a comprehensive healthcare reimbursement reform package due to the repeal of the 80<sup>th</sup> percentile. The second was a \$5 million request that would work in coordination with DOH on healthcare innovation programs. The two projects worked together, and it was dependent on where the statutory authority resided with the goal of reducing healthcare costs in Alaska. The projects were both related to healthcare reform and improvement.

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Ms. Sanders moved to two items within DEC. The first item was \$300,000 for a food safety and sanitation program information management system replacement. The current system was set to expire and would no longer be supported. The new replacement system was used on a national level. The second item was just under \$3 million in federal funding for grants for small water systems provided by the bipartisan infrastructure law. The federal program provided grants to support various activities such as emergency generators, addressing emergent contaminants, and completing federally required lead service line inventory.

Ms. Sanders highlighted an amendment under DFG to pull back a \$7.5 million request for a vessel replacement. She explained that after the budget was released, Trident Seafoods had communicated with DFG that it would donate a vessel to the state to use for the replacement vessel. There was a corresponding capital supplemental item associated with refurbishing the Trident vessel in lieu of purchasing a new vessel.

Ms. Sanders addressed a \$385,000 federal award for the Department of Law (DOL) to modernize its technology. There were two congressionally directed spending appropriations the Department of Military and Veterans Affairs (DMVA) was

receiving on behalf of communities. The first appropriation was \$655,000 for the Seward Bear Creek service area flood mitigation project. The second appropriation was \$5.1 million for rockslide mitigation efforts in the Skagway port.

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Representative Hannan asked if it was an unusual thing for congressional spending to communities to go to DMVA. She asked if there was a tie to the military that she was unaware of.

Ms. Sanders replied that DMVA worked with several federal programs such as the Division of Homeland Security and Emergency Management, which were likely the programs providing the grant funding.

Ms. Sanders addressed the DOT capital budget items. The bulk of the funding related to the Airport Improvement Program (AIP) and Surface Transportation Improvement Program (STIP). She stated that the governor's budget released on December 15 included anticipated costs. Once the STIP process was worked through and all of the allocations were known (shown Attachment B) the allocation information was revised in the budget and provided to the legislature.

Co-Chair Edgmon asked if Ms. Sanders was saying that the list could change once the state's revised STIP submission was accepted.

Ms. Sanders clarified that the list [shown in Attachment B] reflected the finalized STIP submittal. She explained that if there were any changes as the result of the approval process it would be necessary to make modifications.

Co-Chair Edgmon referenced a letter his office had received from the department earlier that day specifying that some of the STIP projects were rejected or needed to be omitted from the list. He asked for clarification on the matter.

Mr. Pannone responded that if the items were appropriated as is and there were changes, DOT was able to move from any named allocation to its contingency allocation. The contingency allocation provided the department flexibility in the normal course of the year because changes do happen.

Aside from that, the response from the Federal Highway Administration (FHWA) could alter the projects, although it could be resolved in FY 25. He explained that by next July the department hoped to resolve the tier two and tier three points in the FHWA letter. He noted that it may change, but it was also possible that it would be resolved. He confirmed that the items [shown in the attachment] reflected the STIP for FY 25.

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Co-Chair Edgmon remarked that the answer was unclear. He thought that rejected projects were removed from the list. He asked if it was that simple.

Ms. Sanders answered it was a conversation with the federal agency. The state would continue to work with FHWA to see if its questions could be resolved in order to make the projects eligible.

Co-Chair Edgmon stated the letter sent to legislators that morning from DOT seemed to indicate a flat rejection of a number of items that did not go through the local process or were not eligible for the STIP process flowing through DOT. He was asking about whether the federal government would hold firm on its determination. He noted the presenters were indicating it was a negotiation with the federal agency and the state may be able to get funding for some of the items. He stated that it was not measuring up.

Mr. Pannone answered that from DOT's perspective, the letter had three tiers. The first tier outlined the steps DOT would take to get the STIP approved. The second tier outlined steps to amend the concerns and work with municipal planning organizations (MPOs) to have the rejected projects included in their transportation improvement plans. He remarked it was fair to say there was work to be done on that front.

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Representative Ortiz expressed confusion about the situation. He stated there was a reduction of \$78,207,000 under federal funding. He asked if it was in any way a reflection of the letter received by legislators.

Mr. Pannone replied that it was not a reflection of the letter.

Representative Ortiz asked why there was a reduction of \$78 million.

Ms. Sanders answered that the governor's December 15 budget estimated what the federal receipts and federal match would be. She clarified it was prior to the submittal of the final STIP in January. She explained that the document in front of the committee reflected the STIP as submitted in January. She clarified that any changes that may occur after the STIP had been submitted would come to the legislature in the form of amendments or in the following legislative session.

Representative Ortiz asked for verification that the \$78 million reflected an overestimation of how much money the state would request in the STIP.

Mr. Pannone answered that the department overestimated the amount of authority DOT needed in federal revenues for FY 25. He elaborated that the FHWA did not issue an apportionment or formula funds memo typically until December. He detailed that some of the funds were carried forward from the previous year for which DOT already had matching funds and legislative authority. The department received final numbers in December and had adjusted down. He confirmed that the numbers were larger than DOT needed but had reflected the best information available at the time.

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Co-Chair Edgmon summed the situation up as "stay tuned." He looked at the letter received and remarked that it was clear cut on one hand and not so clear on the other hand.

Representative Josephson looked at line 14 of the capital items related to road and bridge completion. He asked if the increment pertained to the disputed bridges (Johnson Bridge and two others) relating to the Manh Choh [mining] project.

Ms. Sanders replied in the negative. She explained it was funding for the state to address roads with emergency

issues or that did not have federal funding to address an issue.

Mr. Pannone added that the funding would go towards projects, typically smaller in size where state funds would expedite a small repair that was critical to a community, where there was an emergent need, or where a project underway needed a bit more funding to complete. He explained that it was quicker to get the results for the community and state using state funds.

[2:58:04 PM](#)

Ms. Sanders addressed operating supplemental items on slide 5 of the presentation. She began with \$78,500 for DEC to move quickly on its air quality lab relocation. She explained that there was an increment in the FY 25 budget as well and OMB was requesting a multiyear appropriation beginning in FY 24. The supplemental contained a technical correction associated with a prior request for a salary study implementation for DPS that had an error in the calculation overstating the funding need by \$100,000. Lastly, under special appropriations, OMB received two additional judgements and settlements for DOL totaling \$544,700. She explained that OMB received judgements and settlements throughout the year and would continue to bring them forward to the legislature as they were finalized for inclusion in the appropriation bills.

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Ms. Sanders turned to capital supplemental requests on slide 6. There was a \$3 million request to retrofit the Trident Seafoods vessel that was donated to DFG. There were three new projects under DNR. The first was a carbon capture utilization and storage database funded with a federal grant. The second item was \$2.2 million in federal receipt authority for resilient food system infrastructure grants. The third item was \$1.2 million for fire protection fleet maintenance and replacement. Lastly, there was a project for Dalton Highway to respond to necessary maintenance in the amount of \$8 million in general funds. She elaborated that the road was quickly deteriorating and causing vehicle damage.

Co-Chair Johnson asked the agencies to provide any updates on the STIP going forward. She thanked the presenters and reviewed the schedule for the following Monday.

#

ADJOURNMENT

3:02:07 PM

The meeting was adjourned at 3:02 p.m.