

HOUSE FINANCE COMMITTEE
March 20, 2024
1:35 p.m.

1:35:05 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, 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

Representative Bryce Edgmon, Co-Chair
Representative DeLena Johnson, Co-Chair

ALSO PRESENT

Representative Justin Ruffridge, Sponsor; Bud Sexton, Staff, Representative Justin Ruffridge; Chad Hutchison, Director of State Relations, University of Alaska; Senator Elvi Gray-Jackson, Sponsor; Alexei Painter, Director, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Brandon Spanos, Acting Director, Tax Division, Department of Revenue; Karen Matthias, Executive Director, Alaska Metal Mines, Anchorage.

SUMMARY

HB 144 REPEAL EDUCATION TAX CREDITS SUNSET

HB 144 was HEARD and HELD in committee for further consideration.

SB 22 PROCLAIM JUNETEENTH DAY A HOLIDAY

SB 22 was REPORTED out of committee with five "do pass" recommendations, three "no recommendation" recommendations, and one "amend" recommendation and with one new fiscal impact note from the Department of Corrections, one new fiscal impact note from the Department of Education and Early Development, one new fiscal impact note from the Department of Fish and Game, one new fiscal impact note from the Department of Family and Community Services, one new fiscal impact note from the Department of Health, one new fiscal impact note from the Department of Public Safety, one new fiscal impact note from the Department of Transportation and Public Facilities, and one new zero fiscal impact note from the Department of Military and Veterans' Affairs.

HB 268 APPROP: OPERATING BUDGET; CAP; SUPP; AM

HB 268 was HEARD and HELD in committee for further consideration.

HB 270 APPROP: MENTAL HEALTH BUDGET

HB 270 was HEARD and HELD in committee for further consideration.

OVERVIEW: BUDGET UPDATE

Co-Chair Foster reviewed the meeting agenda.

[1:36:55 PM](#)

AT EASE

[1:38:40 PM](#)

RECONVENED

Co-Chair Foster explained that the committee would take an at ease to allow time for a presentation to be set up.

[1:39:07 PM](#)

AT EASE

[1:44:31 PM](#)

RECONVENED

#hb144

HOUSE BILL NO. 144

"An Act relating to education tax credits; and providing for an effective date by repealing the effective date of secs. 1, 2, and 21, ch. 61, SLA 2014."

[1:45:03 PM](#)

REPRESENTATIVE JUSTIN RUFFRIDGE, SPONSOR, introduced the PowerPoint presentation "HB 144 Education Tax Credit" dated March 20, 2024 (copy on file). He relayed that the bill was relatively simple and was designed to continue the education tax credit that currently existed in the state. The credit allowed businesses to donate dollars to organizations that were educational in nature and deduct a certain percentage of the donation from the business' corporate taxes. The program had been successful throughout the years and was due to sunset in the near future. The bill proposed that the program should exist in perpetuity and should no longer be eligible for a sunset. He turned the presentation over to his staff.

BUD SEXTON, STAFF, REPRESENTATIVE JUSTIN RUFFRIDGE, began the presentation on slide 2 and offered some background on the Education Tax Credit Program. The program first began in 1987 when the Education Tax Credit Program was established. He reiterated that the goal was to encourage private businesses to make charitable contributions to schools. The program had evolved over the years and the groups and entities that were eligible to contribute had changed, as well as the education institutions that were able to receive the donations. The sunset provisions had been consistently extended since 1987.

Mr. Sexton continued to slide 3 and read through the background of the program. The credit was for qualifying contributions to accredited nonprofit two-year or four-year colleges in the state. The credit could be used for a variety of purposes, such as facilities, direct instruction, and research and educational support purposes. He clarified that technical training schools, vocational

education courses, and similar programs and facilities were also eligible. He noted that Alaska Native cultural and heritage programs were also a recipient of the tax credit dollars and equipment.

Mr. Sexton advanced to slide 4 and reviewed some of the recent education tax credit legislation. In 2014, HB 278 expanded the list of eligible recipients for donations and in 2018, HB 223 created the allowance for cash or equipment contributions. He added that HB 223 also established the current sunset expiration date of December 31, 2024.

Mr. Sexton continued to slide 5 which listed the taxes that could be offset by the credits. The program was a wide ranging opportunity, significantly impacted many industries, and encouraged industries and businesses to make donations to Alaska's institutions.

Mr. Sexton moved to slide 6, which included a chart of the contributions and credits from 2011 through 2023. In 2023, \$2.7 million was the total amount of credits claimed, which was about 50 percent of the total amount of contributions. The institutions that received the most contribution dollars were the University of Alaska (UA) and Alaska Pacific University (APU), followed by secondary and vocational schools. He explained that secondary schools offered courses by an Alaska school district for kindergarten through twelfth grade and could include technical courses and college prep courses. Vocational schools offered technical education training and some apprenticeship programs. The entities that fell into the "other" category were considered nonprofits and provided different services. There had been a significant amount of donations made over the years.

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Mr. Sexton continued to slide 7 which displayed the lowered tax credits from 2018 through 2021 brought about by HB 223. He directed attention to the middle column of the chart, which showed the tax credits in the \$100,000 to \$300,000 range. There had been a reduction in recent years due to the lowering of the cap. In 2018, the tax credit cap was \$5 million but changed to \$1 million in 2019. He continued to slide 8 and reiterated that HB 144 would remove the sunset date for the tax credit program, which had existed since

1987. He thought that the bill would present a good opportunity for corporations and other entities to make long-term financial plans. The bill would maintain the tax deductions at the 50 percent level. He concluded the presentation.

Co-Chair Foster asked how long the recent sunsets had been.

Representative Ruffridge responded that the sunset timeframes had varied quite significantly over the years. He thought that the last sunset was for six years.

[1:52:07 PM](#)

Representative Tomaszewski asked whether the cap was per business or overall.

Representative Ruffridge responded that the cap was per business.

Representative Ortiz thought the bill made sense. He asked if the bill would eliminate the sunset clause if it were to pass. He wondered if there was there any reason to maintain a sunset date and if there had been previous attempts to eliminate the sunset clause.

Representative Ruffridge replied that he was not aware of any previous attempts to remove the sunset entirely. He understood that sunsets were used to discuss a piece of legislation that was slightly uncertain or ambiguous. He noted that the tax credit had been around for over 30 years and had been utilized well. He thought it did not make sense to maintain the sunset on a piece of legislation that has been around for such a long period of time. The only reason to keep the sunset was to continue to bring the legislation back in front of the body to ensure that it did not need any updates. He argued that a sunset was the wrong mechanism to produce change in legislation.

Mr. Sexton added he was also not aware of other attempts, but he could follow up with the information.

Representative Ortiz noted that the state had a higher influx of revenue in 2016 and 2017 and the tax credit system was more active. The activity had decreased due to a higher cap and other factors. He asked if the reason for

the decrease in activity was the change in the cap or if there were other factors.

Representative Ortiz commented that there were a multitude of factors that contributed to the decreased activity, including the decreased cap. He noted that businesses or contributors were encouraged to maximize contributions in a previous version of this program while the tax credit capacity was now equal across the board. The previous iteration of the program in 2018 allowed for 100 percent of a donation to be offset by a tax credit. He thought there was an incentive to contribute higher amounts of money due to the tax offset capabilities. He thought that the world had also significantly changed due to the COVID-19 pandemic and many businesses had become more cautious with money.

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Representative Galvin referred to slide 6 and asked for clarification that the total contributions and credits were \$5,422,473 for 2023. She asked if the money would have otherwise gone into the Department of Revenue (DOR) and become unrestricted general funds (UGF).

Representative Ruffridge replied that the figure represented the total contributions that were made on behalf of the businesses. The first column on slide 6 included the dollar amount that would have been received by DOR.

Representative Galvin understood that the total amount that would have gone to DOR was about \$2.7 million for 2023. She noted that the number was higher prior to the pandemic. She understood that the tax credit was important to the university system. She was grateful for the opportunity for the private industry to contribute to worthy causes. She thought it was important to be aware that the bill would require that the state surrender some of its revenue. She also asked that there be awareness of the way in which education was funded. She noted that the list of possible organizations that were eligible to receive the contributions included private nonprofit elementary schools or secondary schools. She asked if Representative Ruffridge could provide some examples of the eligible schools that had received funds.

Representative Ruffridge answered that he did not have any examples readily available, but he knew that the list of schools that had received funds was lengthy. He noted that the director of DOR was available online for questions.

Mr. Sexton responded that there were some confidentiality issues at play, but the director might be able to provide an example of some schools that would fall into one of the eligible categories.

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BRANDON SPANOS, ACTING DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference) understood that Representative Galvin was asking for some examples of entities within the secondary, vocational, and other category that were recipients of contributions. He explained that there were restrictions on providing specific examples when the department could not aggregate information. The department was able to provide information for the contributions to UA and APU because there were multiple taxpayers that were making the contributions. If there were not at least three taxpayers contributing to one entity, the confidentiality statutes in AS 43.05.230 prevented the department from providing the information which was why the entities were grouped together in one category.

Mr. Spanos explained that statute stated that both public and private non-profit elementary or secondary schools in the state could be considered non-profit regional training centers that were recognized by the Alaska Department of Labor and Workforce Development (DLWD). He thought that the information was likely published by DLWD. There were also apprenticeship programs that were eligible for the credit. He relayed that DOR included in its annual report the secondary schools that offered courses operated by the Alaska School District (ASD) and offered the general technical and college preparatory courses for kindergarten through twelfth grade. He noted that vocational schools offered technical educational training and certain apprenticeship programs and the other category included nonprofit organizations that were receiving contributions.

Representative Galvin understood that the eligible recipients could be both public and private, nonprofits, elementary, or secondary schools in the state. She relayed

that she generally supported the concept behind the bill. She noted that the wide range of eligible recipients stood out to her because the state had yet to fulfill its responsibility to maintain its public school system. She was not sure how to fix the problem, but it was a concern considering the challenges faced by legislators.

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Representative Josephson shared that his understanding was that the Alaska Bible College (ABC) on the Kenai Peninsula qualified for tax credits. He was familiar with constitutional law and relayed that the courts were more receptive to a receipt of a benefit involving a secondary or college institution. He thought it was a similar situation as holding a prayer on the legislative floor while prayer was not permitted in a public school. He asked if he was correct in his understanding that if ABC received tax credits, a hypothetical rabbinical school in the state could receive tax credits also.

Mr. Spanos responded that he would have to follow up with the information and thought ABC existed in a gray area. He would need to do more research into the constitutional law surrounding religious organizations. He thought that if ABC was eligible, other religious entities would also be eligible.

Representative Josephson understood that Mr. Spanos could not speak in depth on the topic, but noted that it had been a significant story in the media recently. He liked the bill, but wondered how it would interact with HB 89 which proposed a child care tax credit. He understood that the bills together would increase the cost from \$1 million to \$3 million.

Representative Ruffridge asked Representative Josephson for clarification on what he meant by the bill increasing from \$1 million to \$3 million.

Representative Josephson replied that the fiscal note for HB 144 stated that an affluent corporation could receive up to \$1 million in tax credits, but HB 89 would increase the credit cap to \$3 million. He did not think it would change HB 144 and noted that future legislators could increase or decrease the cap, but he wanted to know Representative Ruffridge's thoughts on the possibility.

Representative Ruffridge responded that the cap could be changed at any time. He thought that the possibility of HB 89 passing into law and adjusting the cap was irrelevant to HB 144. He reiterated that HB 144 was focused on ceasing the sunset on important and enduring programs. He referred to Representative Galvin's earlier comments and remarked that the amount of credits and contributions being made under the program were small in comparison to the need. A large portion of the credits were allocated to UA and the university supported the program. He thought the issues were separate.

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Representative Hannan referred to the constitutional prohibition on public dollars going to private religious schools. She understood that DOR was not able to share details about the other category of eligible fund recipients, which was concerning. She was uncertain if there was a legal memo detailing whether any of the fund recipients in the other category were in violation. She did not know how to pursue the information if DOR could not provide the committee with details on the recipients in the other category. Private religious elementary schools should not be receiving tax dollars and the prohibition was explicit and clear in the constitution. She wanted to ensure that the ambiguity was addressed before the bill was moved. She understood that the issue was separate from the sunset issue that the bill would establish.

Representative Ruffridge thought that Representative Hannan answered her own question by stating that the bill was dealing with the sunset authority. He directed attention to a document in the committee packet [titled Department of Revenue - Alaska's Education Tax Credit Program] (copy on file). He relayed that page three of the document discussed the responsibility to obtain and retain proper documentation to verify that contributions were given to a qualifying organization. By statute, there were qualifying expenditures that were maintained for the Education Tax Credit Program, which had to be applied for and verified by the department. He thought the director could speak to the process in more detail. He emphasized that expenditures had to be proven to be proven in order to qualify for the tax credit. There was a decision made by the Alaska Court System to allow certain monies, particularly public monies,

to go to private religious institutions if the institution had a separate program that was not religious in nature. The dollars could only be used to pay for non-religious educational programs. He thought there was a potential for ABC to receive tax credit dollars because it offered vocational and technical education in addition to religious education. He agreed that there was ambiguity in the program and thought it was the responsibility of DOR to monitor ambiguous elements. The donors were responsible for providing documentation that proved that the expenditures were meeting both constitutional and statutory guidelines.

Mr. Spanos added that he was not sure which institutions were in the other category off the top of his head. He thought the question that should be posed to determine eligibility was whether any religious organizations, nonprofits, or private religious organizations had already received an approved contribution. Taxpayers needed to work with independent tax advisors and determine whether the credit would apply. After making a contribution, taxpayers could claim the credit on tax returns and DOR could audit the credit.

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Mr. Spanos continued that as written, the statute appeared to allow a broad range of organizations to receive contributions. However, there had been a ruling on whether the dollars were allowed in certain organizations, which could be verified as part of the department's auditing process. He emphasized that if funding would directly benefit a religious or other private educational institution, the tax credit would not apply. The department provided an opinion to all superintendents written by a former acting commissioner that he could also provide to the committee.

Representative Hannan shared that her concern was not about the superintendents of the 54 public school districts in the state, but about the private schools. She wanted to make sure that there were no loopholes that would allow public revenues to be distributed to private nonprofit religious elementary school programs because the schools could claim that only certain programs were being funded by public dollars. She was uncertain how in-depth an audit would be. She did not want to create a pass-through that

would allow for violation of the state's constitutional mandate that the public revenue go to public schools.

Representative Galvin understood that Mr. Spanos stated that funds would not be used for the direct benefit of any religious or other private educational institutions. She thought that if a school was a private nonprofit, it was a private educational institution. She did not want the bill to have unintended consequences because it included other private educational institutions in the group of eligible entities. She suggested that clarity should be added to the bill.

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Representative Stapp objected to the discussion. He shared that he was born in 1987 and the extension had been reauthorized every year since the year he was born. He encouraged committee members to take up the issue in a court case if members thought there was a constitutional problem or legal problem with the way the state had been administering the program. He argued that the bill was simple and he found it irritating that the committee was debating constitutional law considering there was no one on the committee that was a constitutional lawyer.

Representative Josephson remarked that he had taught constitutional law and he was aware of the evolving nature of the law. For example, there was a pertinent case called *Lemon v. Kurtzman* which was written by Warren Berger in the 1970s. He pondered that it was reasonable to be curious, which included curiosity as to whether the bill should be amended. He presumed that the bill would do well and would pass the committee easily. He thought it was allowable to ask questions.

Representative Ruffridge reiterated that the bill was relatively simple and would move the program forward. He suggested that there were other topics that might be more worthy of the committee's time in the future. He encouraged members to ask questions offline if more arose. He thought that the bill should be moved forward.

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CHADHUTCHISON, DIRECTOR OF STATE RELATIONS, UNIVERSITY OF ALASKA, relayed that UA strongly supported HB 144.

Throughout the years, there had been many strong partnerships that the university had been able to forge because of the program. Many of the donations that UA received went directly to the workforce, research, or for academic purposes. In particular, many students benefited from the resources allocated to technical education. For example, the diesel class at UA Southeast was able to dissect the engines of four semi-trucks, including one with a broken transmission. There was a lot of funding and equipment that could be given to the university to help educate students and build the technical workforce. He listed some of the partners the university had worked with over the years: the Glacier Fish Company, American Seafoods Company, Hecla Mining Company, Fairbanks Gold Mining Inc., Conoco Phillips, Alaska Airlines, Holland America Princess, Ravn Alaska, Aurora Animal Hospital, Bristol Bay Native Corporation, and Northrim Bank.

Mr. Hutchison shared that the funds that were allocated to the university through the credit program went directly into a workforce need or for research purposes. For example, if a donor was concerned about a crab population and why there had been diminishing returns, a company could inject directed funds right to the university and it could conduct the necessary research and provide the company with a product that would help the entire state. He expressed gratitude for the \$3.3 million in funding the university had received over the past year. The university wanted the program to continue, whether that meant a complete sunset repeal or a multi-year extension. The stability of the program and continuing the program for a long period of time was very important to the university.

Co-Chair Foster OPENED public testimony.

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KAREN MATTHIAS, EXECUTIVE DIRECTOR, ALASKA METAL MINES, ANCHORAGE (via teleconference), explained that Alaska Metal Mines (AMM) was a professional association formed in 1992 to represent the interests of large metal mines and advanced projects in Alaska. The association's purpose was to inspire Alaskans to support a growing mining industry that produced essential minerals while prioritizing safe operations, community partnerships, and environmental protection. Since it was established in 1987, the Education Tax Credit Program had successfully encouraged private

sector investment in education in the state and helped many Alaskans learn the skills for jobs in mining and other industries. She shared that Alaska's largest mines had welcomed the opportunity to partner with the state and provide funding directly to Alaska's education programs that supported workforce development, as well as research that enhanced efficiency and safety in Alaska's mining industry.

Ms. Matthias relayed that over the last decade, mining companies in Alaska used the credit to invest in high school programs in the Northwest Arctic Borough School District and Angoon High School. Additionally, mining companies had invested in a variety of UA programs including engineering, environmental science, geology, and the Mining and Petroleum Training Services (MAPTS), which operated in Anchorage, Soldotna, and Juneau. The programs supported young Alaskans who would be the next generation of miners. Many of the programs provided educational opportunities and training that could directly lead to full-time mining jobs with high pay and excellent benefits for Alaskans. The investment in education and training was particularly valuable in the present day as Alaska grappled with both out-migration and attrition and aging within the current workforce. The mining industry strongly supported a sustainable fiscal plan for Alaska that encouraged private sector investment and economic growth, which included innovative ideas like the tax credit to encourage private sector investment in the education system, providing Alaskans the skills to succeed and opportunities to stay in Alaska.

Co-Chair Foster CLOSED public testimony.

Co-Chair Foster set an amendment deadline for Tuesday, March 26, 2024, at 5:00 p.m.

HB 144 was HEARD and HELD in committee for further consideration.

[2:28:46 PM](#)

#sb22

SENATE BILL NO. 22

"An Act establishing Juneteenth Day as a legal holiday."

SENATOR ELVI GRAY-JACKSON, SPONSOR, thanked the committee for hearing the bill for a second time. She shared that the bill would simply add Juneteenth to the list of other state paid holidays.

[2:30:07 PM](#)

AT EASE

[2:30:22 PM](#)

RECONVENED

Representative Josephson MOVED to REPORT SB 22 out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 22 was REPORTED out of committee with five "do pass" recommendations, three "no recommendation" recommendations, and one "amend" recommendation and with one new fiscal impact note from the Department of Corrections, one new fiscal impact note from the Department of Education and Early Development, one new fiscal impact note from the Department of Fish and Game, one new fiscal impact note from the Department of Family and Community Services, one new fiscal impact note from the Department of Health, one new fiscal impact note from the Department of Public Safety, one new fiscal impact note from the Department of Transportation and Public Facilities, and one new zero fiscal impact note from the Department of Military and Veterans' Affairs.

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AT EASE

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RECONVENED

#hb268

#hb270

HOUSE BILL NO. 268

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making capital appropriations; making supplemental appropriations; making reappropriations;

making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 270

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

^OVERVIEW: BUDGET UPDATE

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, shared that he would be providing a fiscal update based on the spring revenue forecast, the latest round of governor's amendments, and the committee substitute (CS) for the operating budget. He introduced a PowerPoint presentation titled "Fiscal Update" dated March 20, 2024 (copy on file). He began on slide 2 with an updated fiscal summary of the governor's amended budgets. The amendments received by the Legislative Finance Division (LFD) on March 13, 2024, were included in the update, as well as the impacts of the spring revenue forecast.

Mr. Painter continued that the revenue forecast increased the expectation in both FY 24 and FY 25, which could be seen on the first line on the chart on the slide as an increase of about \$58 million in FY 24. The governor's amended language included a provision that amended the Permanent Fund Dividend (PFD) appropriation for FY 24 and increased unrestricted general fund (UGF) revenue by another \$6.9 million. The UGF revenue increase was beyond the spring forecast numbers. In FY 25, the difference was about \$140 million of UGF revenue over the fall forecast. For agency operations in FY 25, the governor's amendments resulted in an increase of about \$1.9 million in UGF, which was not significant. The capital budget increased slightly in the governor's amended budget in FY 25, as well as in FY 24 supplementals.

Mr. Painter explained that the biggest change in the governor's amended budget was to the supplemental. There was a decrease of \$19 million for fire suppression based on

updated estimates as well as some increases, particularly for the Grid Innovation and Resilience Partnerships (GRIP) projects and Alaska Energy Authority's (AEA) grid resilience project. Overall, the governor's supplementals had been reduced. The supplementals totaled \$183 million before the amendments were added and were now \$175.8 million with the inclusion of the amendments. There would be a post-transfer surplus in FY 24 of \$116.5 million.

Mr. Painter continued to slide 3 and stated that in FY 25, the main impact of the spring forecast was a reduction in the deficit in the governor's budget. The deficit was \$1 billion prior to the forecast and was currently down to \$867 million with the inclusion of the amendments. The slide also included a visual representation of the FY 24 budget at various oil prices. The oil prices were on the bottom and the revenue was on the y-axis on the graph. The blue bar area on the bottom represented the revenue allocated to the FY 24 budget that was authorized during the previous legislative session. The dark blue section represented the \$175 million of new supplementals. If the price of oil was below about \$75 a barrel, the budget would have an unfilled deficit, which was an increased price from his previous report to the committee because of the addition of the supplementals. He relayed that it was theoretically possible for prices to crash and go below \$75 a barrel for the year, but it was highly unlikely.

Mr. Painter noted that if revenue equaled the amount in the spring forecast or higher, the budget would have a \$292.3 million surplus. The governor's supplementals totaled \$175.8 million which would leave \$116.5 in revenue available for the supplementals in the current year. If the surplus was not spent, the money would lapse into the Constitutional Budget Reserve (CBR). The additional revenue would be split equally between an energy relief payment that would be distributed as part of the PFD in FY 25 or as a separate payment, and all additional revenue would go into the CBR. He thought the oil revenue would most likely fall somewhere between the dotted lines on the graph which indicated that there would be an energy relief payment, but the payment would not be maxed out. The maximum would be about a \$500 dollar payment per person at the top of the range. He estimated that the energy relief payment would be about \$220 dollars per person and a total of \$143 million dollars.

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Mr. Painter advanced to slide 4, which detailed the changes in the CS for the operating budget as compared to the governor's amended budget. He relayed that the CS was \$6.6 million in UGF above the governor's amended budget for agency operations. However, there was \$10 million in UGF allocated for the movement of a university capital budget item to the operating budget, which netted out of the total impact. He noted that the governor's operating budget amendments, which were not introduced prior to the CS, added \$2 million in UGF.

Mr. Painter explained that the CS for statewide items for the House was \$5 million below government items. The CS added \$5.2 million of new mental health capital appropriations to match the Alaska Mental Health Trust Authority's (AMHTA) recommendation. There was a reduction of roughly \$4.8 million overall.

Mr. Painter continued to slide 5 which compared the FY 24 and FY 25 spring revenue forecast items. He explained that the chart reflected adding the additional mental health items in the CS and moving a \$10 million project to agency operations. There was no appropriation for a PFD yet. He thought the most important item of note was that there was about \$1.45 billion remaining that could go to any number of items, including the PFD.

Mr. Painter advanced to slide 6 and detailed some of the major outstanding items in the fiscal update. He remarked that upholding the governor's veto on SB 140 was a significant action and fiscal notes for that bill had totaled \$241.3 million. The largest item in the bill was the proposed Base Student Allocation (BSA) increase of \$680, which would cost about \$175 million. There was also a provision for broadband that may not be able to be addressed in the current year due to time constraints. If SB 140 or another education bill did not pass, broadband would need to be addressed in FY 26. The majority of the other items within SB 140 could be accomplished through one-time items or permanent items in the budget, such as the BSA increase and the pupil transportation increase. He noted that SB 140 was the only bill that had passed both bodies during the current legislative session and some of the bills still in circulation would be costly if the bills were to pass.

Mr. Painter shared that a significant bill that had only passed the Senate thus far was the Senior Benefits Bill (SB 170]. The legislation passed with a fiscal note that required \$23.5 million in UGF and there were no other bills with fiscal notes as large. The funding was not included in the governor's budget because the benefits program was expiring. The program had typically been funded each year and extended when it was set to sunset. There was also a potential shortfall in the Alaska Marine Highway System (AMHS) that could be quite significant. If AMHS ran a full seven-ship schedule but received the same sized grant as it had in recent years, it would have a budget of about \$38 million; however, the grant was not guaranteed. The state was eligible for a grant that would be large enough to fill AMHS's entire federal authority in the governor's budget, but the state had not necessarily received the full grant amount each year. In 2023, the legislature put in backstop funding as a compensatory measure if federal receipts were insufficient. He did not think the legislature needed to exercise such caution because the state could assess whether additional funds needed to be added every year. If the state was not granted the entirety of the grant, the costs would likely need to be made up with UGF.

Mr. Painter noted that there were four unions that were currently negotiating bargaining contracts: the Alaska Correctional Officers Association, the supervisory unit of the Alaska Public Employees Association, the Labor, Trades, and Crafts Unit, and the new University of Alaska union for graduate student employees. The university union was currently working on its first contract. All of the unions were actively negotiating new contracts to begin in FY 25. If salaries were increased as well, the potential cost would increase.

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Representative Josephson understood that the total for the new items was not known, but he anticipated the cost would be around \$20 million. If SB 140 were replaced with similar legislation, the items would total around \$341 million. He understood that the \$341 million would be subtracted from the post-transfer surplus of \$1.44 billion detailed on the previous slide. He asked if he was correct in his understanding that the total would be around \$1.1 billion.

Mr. Painter responded that Representative Josephson's math was correct as long as the items on slide 6 were funded. He reiterated that negotiations were still occurring and the totals could not yet be known. The negotiations were due statutorily on day 60 of legislative session, but it was rare to receive the negotiations by the statutory deadline. He agreed that the items would total about \$1.1 billion if the budget were to remain balanced and savings were not utilized.

Representative Stapp asked when he could expect to know more details about the cost-budget analysis (CBA).

Mr. Painter responded that the CBAs were due in statute by day 60; however, he was not certain if the deadline had ever been met. He noted that last year, CBAs were added on the last day that it could have been added to the budget. He recalled that the University of Alaska (UA) had asked for a CBA during a conference committee at one point but it was not feasible. He noted that there was often very little time to review the agreements and make a considerate decision.

Representative Stapp asked why it was in statute if it was not followed.

Mr. Painter responded that the point of the statute was to ensure that CBAs were considered. He recalled one year in which there was an item that the legislature felt there was no time to review, and the conference committee wrote a letter accompanying the conference committee report that said that the exclusion of the union from the conference committee budget would not represent denying the bargaining unit. He relayed that there was simply not enough time to consider some items and therefore, the items were delayed until the following year's supplemental. He explained that it was not an unusual action.

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Mr. Painter continued on slide 7, which included other potential budget items. He explained that the administration generated a list of funding requests. The first item was \$5 million in funding for a renewable energy fund. When the governor prepared the budget, the list had not yet been developed. He noted that AEA subsequently requested \$32 million and the governor's amount would pay

for the top two projects and about a quarter of the third project. Last year, the governor added \$7.5 million for renewable energy and the legislature subsequently increased the funding amount. The total list cost for school construction was \$260.5 million and the governor funded the top project on the list for \$4 million. The total list cost for school major maintenance was \$249 million and the governor funded the top two projects for \$4.3 million. Finally, the state had a nearly \$2.2 billion backlog of deferred maintenance. The governor had \$28.2 million for deferred maintenance purposes coming from the Alaska Capital Income Fund and the legislature had often allocated additional funding. The university had a \$1.5 billion backlog and requested \$35 million through a bill. The university item had been frequently vetoed when the legislature allocated additional funding for it.

Representative Galvin asked if the backlog was inclusive of the actions that had taken place in the past. She asked if the full list represented the current backlog.

Mr. Painter responded that the difference was that the state as a whole had a \$2.2 billion dollar backlog and the university made up \$1.5 billion of the backlog. The vast majority of the state's deferred maintenance was at the university. He shared that the university cataloged its deferred maintenance more rigorously than the rest of the state. The university had much larger square footage than other agencies, which contributed to its deferred maintenance.

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Mr. Painter continued on slide 8, which included additional potential budget items. In 2023, the governor vetoed a \$30 million capitalization for the community assistance fund. Without the \$30 million capitalization, the FY 25 distribution would have been \$20 million. At the beginning of a new fiscal year, one-third of the balance as of the end of the previous fiscal year was added to the fund, which would be \$20 million for FY 25. The base payments were distributed to every local government based on the type of government. The additional amount was the per capita payment and would be equally distributed to all local governments in the state. The impact of that veto was primarily felt in urban areas with higher populations.

Mr. Painter explained that there were a few potential strategies to compensate for the funding that would have been available if it was not vetoed. One strategy would be to fully capitalize the fund in FY 24 and essentially replace the amount that was vetoed. The other strategy would be to allocate \$10 million to the fund in FY 25. However, there would still be a shortfall in the fund in the following year because of the \$20 million dollars difference, but it would fill the distribution hole in FY 25.

Mr. Painter relayed that additionally, there were a number of bills that were listed on the slide that had only passed one body. There were a number of bills that had the potential to become law. The list was not inclusive of all legislation but represented a sampling for informational purposes. He suggested that legislators leave some money for fiscal notes to ensure that the bills that would likely pass could be funded. The governor's capital budget would not include legislative district projects, but it simply reflected the governor's priorities. He noted that he had heard much discussion on the university and noted that there was a difference between the regents' request and the governor's budget. There was a difference of \$18.6 million in UGF in the operating budget between the regents' request and governor's budget and a \$27 million difference in the capital budget. He noted that \$10 million in the operating budget was changed from university receipts to UGF.

Mr. Painter noted that he had also heard significant discussion on child care. In 2023, the legislature allocated \$7.5 million dollars as a one-time increment for child care; however, the funding was not in the governor's current budget. Also in 2023, the Council on Domestic Violence and Sexual Assault (CDVSA) received \$3.7 million for one-time items, which was also not in the current budget. There could be additional items that would emerge in the legislative process that members could be interested in funding that were not yet reflected.

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Representative Hannan asked for confirmation that an additional \$20 million for the Community Assistance Fund would provide both the money needed for distribution in FY 25 and as well as the capitalization needed for the following fiscal year.

Mr. Painter responded in the affirmative, but noted that the timing would be different. The budget currently included \$10 million in FY 25, but \$30 million would be needed for FY 24. The difference was an increase of \$20 million. The \$10 million in FY 25 was intended to "top up" the distribution.

Representative Hannan understood that the fund balance was normally \$90 million and one-third of it was paid out each year. If the fund were to decrease to \$60 million, the total amount paid out would be \$20 million. She understood that \$30 million should be added to compensate.

Mr. Painter responded that it would not put any more money into the fund, but would add to the one-time distribution in FY 25 alone. If \$30 million was deposited into the fund, the \$10 million would be unnecessary. The cost would increase by \$20 million, but it would be directly distributed to communities.

Representative Hannan asked if the recommendation was to include a \$30 million amendment into the FY 24 supplemental capitalizing fund instead of leaving the \$10 million in FY 25.

Mr. Painter responded in the affirmative. If \$20 million was added, the distribution would be based on \$80 million, and it would not function properly.

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Mr. Painter continued on slide 9 and gave an overview of fire and disaster funding, which was often underfunded in the budget and later paid with supplementals. From FY 14 through FY 23, the actual UGF spending for fire suppression averaged \$49.3 million dollars. He noted that the amounts for FY 22 and FY 23 were based on the amount included in the budget in addition to the final supplemental. The reconciliation process for the funding took a number of years, but \$49.3 million was the average final authorized amount. The governor's budget for fire suppression preparedness included \$14.2 million, which meant there was a difference of \$35 million. The governor's budget also included an increment to increase firefighters' salaries. The state would need to allocate about \$49.3 million in order to fund an average fire year. The governor's

supplemental budget included \$75 million in supplemental funding for fire suppression activity in the current year. There had been a supplemental for fire suppression activity almost every year since FY 14 and a history of underbudgeting. The state overspent the original budgeted amount every year and therefore needed to request a supplemental every year. The green line on the chart represented the average spend. There were several years above the average as well as several years below the average.

Mr. Painter noted that the Disaster Relief Fund (DRF) supported other types of disasters. The fund was not financed in a routine manner and the last deposit was \$50 million in FY 22. The governor was requesting \$5 million for disaster relief purposes. The actual average spending from the fund was about \$20.5 million, but it was impossible to predict whether disasters would occur. He relayed that the state did not experience disasters every year and it was impossible to know when a disaster would occur, but it was routinely under budgeting. He expected that the state would probably require a supplemental in FY 25.

Representative Stapp asked why fire service was grossly underbudgeted every year.

Mr. Painter responded that it was a policy decision by the legislature. He noted that in an effort to increase budget transparency in FY 20, the legislature increased the funding to be equal to the lowest funding level in the last 10 years. He shared that the state had never tried to fund an average amount for fire suppression.

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Representative Josephson asked why it would be a problem if the funding were to remain a supplemental item.

Mr. Painter responded that the downside of budgeting for supplementals was that all of the costs could not be known. For example, California had a history of underbudgeting Medicaid and rolling bills to the next year. The costs eventually had to be trued up which could be expensive. The combination of routine underbudgeting and relying on the supplementals meant the legislature would need to make difficult budgetary decisions. He noted that sometimes it

was often easier to get a CBR vote for the supplemental than for the current year, which happened in 2023. He thought it was a political calculation. Routine supplementals would not provide clarity for budgetary purposes and could lead to potential misallocation of resources.

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Mr. Painter continued to slide 10, which included the change in budgeted positions. The state currently had a high vacancy rate of about 14 percent. The FY 24 budget would increase the number of budgeted positions by 115. There was continued growth in the budget despite the vacancies.

Representative Josephson understood that the standard cost for a position with benefits was about \$100,000, which would mean that the total for the increased number of positions would be \$115 million. He asked if he was correct.

Mr. Painter responded in the affirmative as long as all of the positions were fully funded. The legislature had occasionally chosen to partially fund new positions to allow time for hiring.

HB 268 was HEARD and HELD in committee for further consideration.

HB 270 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the agenda for the following day's meeting.

#

ADJOURNMENT

[3:06:21 PM](#)

The meeting was adjourned at 3:06 p.m.