

SENATE FINANCE COMMITTEE
January 23, 2024
9:02 a.m.

9:02:12 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Click Bishop

ALSO PRESENT

Senator Cathy Giessel; Lacey Sanders, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Bonnie Jensen, Admin Services Director, Department of Fish and Game.

SUMMARY

SB 186 APPROP: OPERATING BUDGET; CAP; SUPP; AM

SB 186 was HEARD and HELD in committee for further consideration.

SB 187 APPROP: CAP; REAPPROP

SB 187 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman relayed that the committee would continue an overview of the operating budget and capital budget from the previous day that was being delivered by the Office of Management and Budget (OMB). The overview would be followed by a presentation from the Legislative Finance Division (LFD).

#sb186

#sb187

SENATE BILL NO. 186

"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."

SENATE BILL NO. 187

"An Act making appropriations, including capital appropriations and other appropriations; making reappropriations; making appropriations to capitalize funds; and providing for an effective date."

[9:03:24 AM](#)

LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and corrected a statement made the previous day during the presentation. She clarified that she had quoted a number as \$900 million, when it should have been \$900,000. Additionally, she had received clarification from the Department of Public Safety (DPS) on the prior slide regarding funding for four positions related to the Missing and Murdered Indigenous Persons. The funding for the positions was not non-permanent as she had stated on the record, but rather full-time commissioned investigators.

Ms. Sanders continued a presentation given the previous day, entitled "Overview of the FY2025 Governor's Budget" (copy on file). She turned to slide 15, "Capital Budget Significant Highlights - Additional":

Department of Administration

- \$2,050.0 UGF to Expand and Complete Digitization of Payroll Services and Recruitment

Department of Commerce, Community, and Economic Development

- \$1,012,139.6 Federal Receipts for Broadband Equity Access and Development Program
- \$5,000.0 UGF FY2024 Supplemental for Wrangell Dam Safety and Stabilization Improvements
- \$2,500.0 UGF for a grant to Alaska Travel Industry Association
- \$1,500.0 DGF for Regulatory Commission of Alaska - Case Management System Replacement

Department of Fish and Game

- \$7,500.0 UGF for Replacement Research Vessel for the Gulf and Bering Sea
- \$2,000.0 UGF for Stock Identification of Salmon Harvested in South Peninsula Fisheries
- \$1,300.0 UGF for continued funding for the Alaska Marine Salmon Program

Ms. Sanders explained that the slide highlighted notable items as a continuation of a review of the capital budget. She cited that the item to improve payroll processing was in the second year as a continued investment to improve payroll processing. She identified that there was a typographical error (typo) on the bullet for items listed under the Department of Commerce, Community and Economic Development (DCCED) wherein the Broadband Equity Access and Deployment (BEAD) Program was listed with the word "Development" instead of "Deployment." She continued to address items listed on the slide.

Ms. Sanders spoke to items within the Department of Fish and Game (DFG). She noted that the research vessel replacement would take the place of the research vessel that had been deemed unseaworthy and disposed of. She discussed the two salmon research projects, one of which was a continuation of a project that ended in 2009 and one of which was a continuation from the previous year in research for the Bering Sea and the Gulf of Alaska.

[9:07:40 AM](#)

Senator Wilson asked about the first bullet under the Department of Administration (DOA), which would expand payroll systems and recruitment. He understood that the project was done five years previously. He asked if the department was still doing paper time sheets and if the state was still one year short of missing payroll.

Ms. Sanders was not familiar with the reference to five years.

Senator Wilson understood that the state had started the digitization of the payroll process in FY 16 or FY 17 and that it had not been completed. He wondered how the state would expand upon something that had not been completed.

Ms. Sanders agreed to follow up with the information at a later time. She affirmed that the administration was working closely with payroll services and using supplemental payroll runs to ensure that no payroll was missed. She noted that the Division of Finance was running supplemental payroll runs to address any problems.

[9:09:06 AM](#)

Senator Kiehl asked if the project would get the Integrated Resource Information System (IRIS) into the cloud so that employees could do their own timesheets.

Ms. Sanders deferred the question to the Administrative Services Director for DOA. She agreed to follow up with the information at a later time.

Co-Chair Stedman referenced grants to the Alaska Travel Industry Association (ATIA) for the tourism industry and asked about assistance to the Alaska Seafood Marketing Institute (ASMI) for fisheries. He mentioned economic turmoil in the fishing industry. He asked if the administration was giving thought to assisting ASMI in penetrating the U.S. market and getting into China.

Ms. Sanders identified that there were not additional general funds provided to ASMI in the FY 25 budget. She noted that ASMI had received \$10 million in the current fiscal year and there was no additional funding planned for the next year.

Co-Chair Stedman suggested that the administration consider ASMI when contemplating proposed amendments to the budget. He emphasized that the severity of the financial implications in the fishing industry was not yet known. He referenced forthcoming meetings regarding potential assistance to the industry, which affected the state's entire cost.

Co-Chair Stedman discussed a vessel liquidation and replacement in DFG. He asked about the proceeds and whereabouts of the previous vessel and asked about the life expectancy of the new ship.

Ms. Sanders deferred the question to the department. She did not recall if the vessel was disposed of or sold.

[9:12:35 AM](#)

BONNIE JENSEN, ADMIN SERVICES DIRECTOR, DEPARTMENT OF FISH AND GAME (via teleconference), relayed that there was capital surplus language in the budget. She would need to communicate with the Division of Commercial Fisheries to get the exact monetary figures.

Co-Chair Stedman shared concerns about the targeted life expectancy of the new ship, and shared concerns of a possible truncated life span of the previous vessel, perhaps due to maintenance issues rather than design issues.

Co-Chair Hoffman followed up on Co-Chair Stedman's comments about the disastrous state of fisheries in the state. He asked if Ms. Jensen to comment on the department's position on the issue and if she would concur with Co-Chair Stedman's statement.

Ms. Jensen affirmed that DFG was looking into the salmon downturn all over the state. She mentioned the Alaska Marine Salmon Program, and other federally-funded disaster projects.

Co-Chair Hoffman noted that he represented one of the largest fishing districts in the state, if not the country, and emphasized that the current situation was the most disastrous in the last 30 years. He hoped the department could get up to speed on the issue. He referenced the \$2.5

million for the tourism industry and queried whether the industry was in distress like the fisheries industry.

Ms. Sanders relayed that she would not categorize grant funding for tourism as a disaster for fisheries.

Co-Chair Hoffman asked if the previous year was one of the top tourism destinations for Alaska.

Ms. Sanders thought Co-Chair Hoffman had made an accurate statement.

Co-Chair Hoffman asked if Ms. Sanders recalled the level of funding for ATIA the previous year, and if it was \$2 million.

Ms. Sanders recalled that the amount was higher than \$2 million.

Co-Chair Hoffman relayed that he would be looking into the matter since he facilitated the capital budget and DFG budget. He hoped the legislature could address the disaster situation in fisheries. He thought the chairman could agree that the fishing industry needed much more assistance than the tourism industry, which was already moving forward.

[9:16:31 AM](#)

Co-Chair Stedman asked Ms. Sanders to provide information pertaining to state fishing loans and related areas in fisheries. He was concerned about late payments within the industry. He understood that there were late payments going to processors. He thought there were many citizens that had borrowed capital through state-backed loans. He wanted to learn the scope of the problem in the following months.

Ms. Sanders made note of Co-Chair Stedman's request.

Ms. Sanders considered slide 16, "Capital Budget Significant Highlights - Additional":

- Department of Natural Resources
 - \$3,575.0 UGF for Silviculture Treatments and Precommercial Thinning

- Department of Transportation and Public Facilities
 - \$115,983.0 Federal Receipts for Rural Ferry Grants

- \$23,196.6 Toll Credits for Match
- \$92,786.4 for M/V Tustumena Replacement Vessel
- \$4,250.0 UGF for Copper River Highway Wood Canyon Bridges and Trails
- \$2,666.6 UGF for Williamsport Iliamna Intermodal Connector
- \$2,533.3 UGF for Statewide Per-and Polyfluoroalkyl Substances (PFAS): Fleetwide Foam Replacement

Ms. Sanders discussed projects listed on the slide.

[9:19:28 AM](#)

Senator Kiehl asked Ms. Sanders for a breakdown of the truck replacements for the fleetwide foam replacement. He understood that the Federal Aviation Administration (FAA) would participate in truck replacement for this purpose.

Ms. Sanders agreed to follow up with the information.

Co-Chair Stedman asked for more information related to the Alaska Marine Highway System (AMHS) and toll credits, specifically for FY 24. He understood that the state had not received the federal funds the department was anticipating, and there may be a shortfall. He asked for a synopsis.

Ms. Sanders was not aware of a shortfall in federal authority, and thought the Administrative Services Director for DOT could address the question.

Co-Chair Stedman thought the concern was related to the current year's cash flow. He understood that one of the other territories had picked up some federal funds that Alaska had been counting on. He asked for the update to consider the implemented schedule in light of cash flow needs. He thought there might be less ships funded and running than anticipated.

Ms. Sanders agreed to follow up with the information.

Ms. Sanders displayed slide 17, "Operational Challenges - Vacancy," which showed a table of vacant Position Control Numbers (PCNs) and a line graph. She noted that the committee had requested the graph be updated from the previous year. The graph offered a historical look and showed vacancies as of 2023. Notably, the positions had

gone from over 89 percent filled to just above 83 percent filled which resulted in a significant number of vacancies. The state was seeing an upward trajectory, but not to the desired level. She referenced use of tools such as letters of agreement to address critical life-health-safety positions and attracting and maintaining the position as filled to ensure services were provided. She noted that DOA had solicited and entered into a contract for a statewide salary survey that would culminate in a report delivered in June 2024. She thought the information could help determine where salary adjustments needed to be made.

[9:23:34 AM](#)

Senator Wilson asked if the state was looking into workforce culture. He referenced toxic work environments and hazing in the workplace.

Ms. Sanders affirmed that there were conversations happening to look at ways to improve workforce culture at the direction of the governor's office, which included several agencies and OMB. The goal was to find ways to incentivize working for the state, promote a positive workforce culture, and to identify work-life balance and healthy culture.

Co-Chair Stedman asked if the analysis would compare Alaska with other states.

Ms. Sanders did not recall that the contract required comparison to other states but believed it would.

Co-Chair Stedman asked if Ms. Sanders would check on the information. He understood that many states were in a similar position with regard to vacancies. He asked if Senator Wilson wanted to offer comment.

Senator Wilson thought he would wait until another hearing to offer his remarks.

Co-Chair Stedman mentioned a concern that the vacancy structure was nation-wide. He thought that state salaries were lower for entry-level positions. He considered that the lower end of the salary schedule might need to be increased to recruit and retain employees. He suggested looking into the education system and wage comparison. He

asked when the data might be available to factor into committee discussions.

Ms. Sanders stated that the report was expected at the end of the fiscal year.

Co-Chair Stedman asked if the legislature would take up the topic the following winter.

Ms. Sanders anticipated that the results would be the subject of discussion for the upcoming budget coming out in the following year.

[9:27:17 AM](#)

Co-Chair Olson shared concerns about keeping airports open, particularly in Northeastern Alaska. He observed a vacancy rate of 17 percent to 18 percent. He asked about potential incentives for recruiting and retaining heavy equipment operators. He thought there was an issue with having enough operators to maintain runways. He thought the matter was a health and safety issue.

Ms. Sanders knew that there were conversations across many agencies about finding incentives to ensure that critical life/health/safety items were addressed, including the operation of airports. She did not have a specific letter of agreement to reference but agreed to follow up with the committee with additional information.

Co-Chair Stedman asked Ms. Sanders to discuss the reasoning behind authorization of additional hires when the state was unable to hire for the positions that were already there.

Ms. Sanders acknowledged that agencies had significant vacancies. She shared that in the budget process, the administration had urged agencies to continually evaluate services for positions that had not been filled for a long time. She used the example of the Department of Labor and Workforce Development (DLWF), which had repurposed several positions for Citizenship Assistants. She referenced transfers and reclassifications to meet the needs of an agency that had vacant positions. She relayed that the administration did not want to repurpose positions such as troopers, which needed to be filled, while adding new positions to fill functions that were going to be expanded upon.

[9:31:09 AM](#)

Co-Chair Stedman commented on the vacancy rates in the teens up to twenty percent. He pondered what had happened to the authorized funding that went toward salary and benefits for positions that were not filled. He noted that DCCED had a vacancy rate of almost 19 percent. He asked for Ms. Sanders to answer the question in layman's terms.

Ms. Sanders noted that the legislature did not fully fund every single position, and each agency's budget had a "vacancy buffer," in the anticipation that not every position will be filled in every budget. She continued that in many areas, the state was entering into letters of agreement to temporarily address where it was having shortfalls or needed to retain or recruit employees. Some of the funding that was not being used for vacant positions would be used to cover the letters of agreement until positions were filled.

Co-Chair Stedman summarized that Ms. Sanders had indicated the legislature authorized one number of positions but funded at a lower number.

Ms. Sanders agreed.

Senator Wilson asked for DOA or OMB to provide further detail about vacant positions being skilled or entry-level positions. He referenced an article from the National Conference of State Legislatures (NCSL) which indicated that states were looking at getting rid of some degree and education requirements for positions.

Ms. Sanders agreed to follow up with DOA to get the requested information.

[9:34:27 AM](#)

Co-Chair Stedman thought there was a point of confusion regarding the vacancies resulting in potential surplus funding, which could be cut from the budget. He commented that if the solution had been so simple it would have been done already.

Ms. Sanders highlighted slide 18, "10-Year Fiscal Outlook," which showed a table. She cited that AS 37.07.020(b)

required the governor to publish a 10-year fiscal outlook which balanced revenues with the uses of funds while providing essential state services and protecting the economic stability of the state. The slide represented a condensed version of the plan, which was released on December 14, 2024. She noted that the full plan was posted on OMB's website. She expanded that the current report's approach was to present a status quo 10-year outlook. The report showed fund sources, reserves, and draws. She cited that in 2024 and 2025, reserves and draws aligned with the fiscal summary presented in committee the previous day.

Ms. Sanders pointed out reserve balances at the bottom of the table on the slide, which showed the balances at the end of each fiscal year. She cited that there was a statutory dividend reflected for each year from 2025 through 2034. She pointed out that the operating budget used a 1.5 percent inflation assumption but thought the number could be adjusted. She noted that OMB used DOR's fall forecast for revenue projections into the future, and used sources such as debt tables or projected public education funds for items that had projections. She noted that the status quo was clearly unsustainable, with savings being depleted in 2027.

Ms. Sanders continued that the governor acknowledged that a combination of revenue measures or reductions in spending needed to occur before the savings accounts were depleted, and that policymakers in the state would need to continue to address structural issues. She added that the governor was willing to have the conversations going forward, in recognition that the situation was not sustainable.

[9:38:04 AM](#)

Co-Chair Hoffman suggested that if the governor believed cuts need to be made or that revenue measures needed to be considered, the revenues took time to be implemented. He asked if the legislature could expect any form revenue measures to be implemented by the administration to address the structural deficit, even though the plan included a full dividend.

Ms. Sanders relayed that the governor did not have any proposed revenue measures at the current time but was willing to have conversation, as there were legislators that wanted to work toward implementing the measures.

Co-Chair Stedman relayed that he asked Ms. Sanders to adjust the table after submission of the governor's amendments, which were due February 14. He thought the committee should consider a shortening of the time frame to 2027 or 2028 and begin to consider cash flow. He thought it would be unacceptable to pass the next administration no flexibility and no cushion (a liquidated Constitutional Budget Reserve [CBR]) in volatile oil prices. He noted that the Permanent Fund was constrained by the capital markets and asset allocation as to how much income it could deliver. He considered that running out of cash flows was unacceptable. He shared concerns about increasing the state's debt and reversing the goal of trying to increase the financial rating of the state.

Co-Chair Stedman commented that when the committee ran the numbers it would change the dividend amount, which was a large portion of the picture. He considered that zero dividends were as unacceptable as a dividend that bankrupted the state. He thought that there were some things that were not included in the summary that would even make the numbers even look worse. He commented that a statutory dividend that was created 40 years previously was not fit the current structure for the financial times of the state nor the Permanent Fund.

[9:42:00 AM](#)

Co-Chair Hoffman wanted to revisit the disastrous position of the fishing industry. He thought that the administration would take a second look at the situation for FY 25. He thought the situation was so dire that the administration should consider a supplemental item as well.

Ms. Sanders commented that it was only a few days into the legislative session, and she was new to her role. She looked forward to working with the members and urged them to contact her with any questions.

Co-Chair Stedman thanked Ms. Sanders for the 10-year plan and using numbers that were real.

Co-Chair Stedman thanked OMB budget staff and support staff.

Co-Chair Stedman discussed the agenda for the afternoon meeting.

#

ADJOURNMENT

9:44:29 AM

The meeting was adjourned at 9:44 a.m.