

SENATE FINANCE COMMITTEE  
February 29, 2024  
9:04 a.m.

[9:04:40 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

FISCAL SUMMARY UPDATE and SCENARIOS - LEGISLATIVE FINANCE DIVISION

Co-Chair Stedman relayed that the committee would discuss current revenue and expenditures for the FY 25 budget. The director of the Legislative Finance Division (LFD) had prepared a presentation. He wanted the committee, legislature, and public have a briefing of the state's fiscal position before assembling the budget.

^FISCAL SUMMARY UPDATE and SCENARIOS - LEGISLATIVE FINANCE DIVISION

[9:05:51 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed a presentation entitled "Fiscal Update" (copy on file). He looked at slide 2, "Fiscal Summary of Governor's Amended Budget," which was an updated fiscal summary that did not include any amendments. He noted that the fall revenue forecast was the top line of the table, and that he was expecting the Spring Revenue Forecast in about two weeks. He noted that numbers were tracking pretty closely to the fall forecast, and the present forecast would be only slightly higher. For FY 24, there was \$6.5 billion in Unrestricted General Fund (UGF) revenue, and for FY 25 there was \$6.3 billion. The governor's amendments added about \$30 million to agency operations above the original budget.

Mr. Painter recalled that the slides the Office of Management and Budget (OMB) director had recently shared showed a \$20 million difference. He noted that the difference was that LFD had already backed out some of the one-time items that were reflected in the governor's amended budget. The OMB and LFD reports currently matched, but previously the LFD reports had shown lower spending. There were no changes to statewide items. The governor had reduced the capital budget a bit for FY 25, primarily due to lower projected need for federal highway matching funds and also shifting a Department of Fish and Game fishing vessel project from the FY 25 budget to the supplemental budget.

Mr. Painter detailed that the governor's number for the Permanent Fund Dividend (PFD) of \$2.3 billion would likely be updated with the Spring Revenue Forecast. He noted that the APFC had an updated investment forecast with realized income figures. He thought the number would not be hugely different after the incorporation of an additional year in the calculation. He spoke to energy relief payments, which based on the fall forecast was \$110.6 million. He recalled a provision from the FY 24 budget that stipulated that if revenue exceeded the spring revenue forecast, the amount over the forecast would be split equally between the Constitutional Budget Reserve (CBR) and energy relief payments that would go out in FY 25 with the regular PFD. Based on the fall forecast, the amount would be \$110.6 million for each of the two split items. With the slightly higher oil prices, the amount got slightly higher, and the current data showed an estimated energy relief payment of an additional \$175 to add to the FY 25 PFD.

Mr. Painter continued to address slide 2 and highlighted that the total budget before supplemental items in FY 24 was \$6.1 billion, and the FY 25 governor's budget was \$7.3 billion, with the largest change being a switch to the statutory dividend for an increase of just under \$1.2 billion. In FY 24, before fund transfers there was a surplus of \$416 million. He pointed out the largest item being the transfer to the CBR of \$110.6 million. The post-transfer surplus to spend in FY 24 was 292.7 million. If the surplus was not spent it would revert back to the CBR. The governor's total supplemental budget including amendments was \$183 million, which left was a post-transfer surplus of about \$109.3 million which could be appropriated for additional supplementals or lapse back to the CBR.

Mr. Painter continued that in FY 25, there was a pre-transfer governor's proposed budget showed a deficit of about \$996.3 million. After fund transfers the total was \$1.16 billion. The governor proposed to fill the deficit by drawing from the remainder of the Statutory Budget Reserve (SBR) and \$1 billion from the CBR.

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Co-Chair Stedman asked Mr. Painter to discuss the post-transfer surplus/deficit for FY 24, which was forecast to be around \$109 million. He asked if it would be prudent to leave some of the funds on the table in order to balance the books for FY 24 in case of a potential revenue call.

Mr. Painter explained that with the way the Energy Relief and CBR transfer worked, there was a sizeable buffer between projected revenue and the amount of the transfer. If projected revenue fell short of the fall forecast, the transfer to the CBR and energy relief would go down. Under the fall forecast there would be an approximately \$220 million buffer. If the legislature spent up to the amount of the transfer, it would have the energy relief as a buffer.

Mr. Painter added that with the number of unfilled positions in state government, the state had been lapsing significant amounts of funds in the last few years, which could be accounted for by moving unspent funding. He had heard anecdotally with preliminary numbers that there was a substantial lapse of over \$100 million of appropriations

primarily due to the vacant positions. He agreed that having some sort of buffer was prudent, but that between the energy relief and the potential lapsed money there was a potential buffer.

Mr. Painter continued that if the legislature was concerned about a potential \$1 billion deficit in FY 25, he thought it might be prudent to leave the CBR to fill the deficit.

Co-Chair Stedman relayed that the legislature would adjust the \$1 billion deficit.

Co-Chair Olson considered the FY 24 column on slide 2 and observed that the Community Assistance Fund was foremost in his mind. He asked if the fund was included.

Mr. Painter relayed that \$30 million appropriated by the legislature for the fund had been vetoed out of the FY 24 budget and was not included in the totals for FY 24.

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Mr. Painter spoke to slide 3, "SB 140 (House Amended) Fiscal Notes," which showed the bill provisions and projected costs for SB 140 [a bill offered in 2023 that related to funding for Internet services for school districts] as passed by the legislature. He noted that the bill was currently on the governor's desk. He had brought the fiscal notes and made a document that was available on Basis. He discussed how the timing of the bill made it so the notes were not available to be attached to the bill. He noted that the fiscal notes were prepared by the Department of Education and Early Development (DEED) and were submitted through OMB.

Mr. Painter listed a number of fiscal impacts of the bill and listed the Broadband Assistance Grant estimated to cost \$39.4 billion, a \$680 Base Student Allocation (BSA) increase estimated to cost \$174.6 million, a pupil transportation increase estimated to cost \$7.3 million, and a change in the correspondence student rate estimated to cost \$14.55 million. He noted that the increase included the impact of the proposed BSA increase.

Mr. Painter continued to list budget impacts of the bill including a new charter school coordinator position for \$186.4, and a provision for a \$500 per-student payment to

districts for K-3 reading improvement plans estimated to cost \$5.2 million. The reading plans estimate was based on the mid-year reading assessment scores in the new assessment from the Reads Act. He noted that LFD had made an estimate based on the MAP state assessment that was closer to \$10 million. He encouraged the committee to use the \$5.2 million estimate, which he thought to be more accurate. The total for the entire bill was \$241.2 million.

Senator Merrick referenced a remark by the governor in a press conference that posited that there was nothing in SB 140 that was related to the Alaska Reads Act. She asked if Mr. Painter would disagree with the statement.

Mr. Painter explained that the bill was not directly related to the Alaska Reads Act but would provide additional funding to students not meeting the assessment from the act. He thought the bill was related to the act.

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Mr. Painter referenced slide 4, "Major Outstanding Items":

- Senior Benefits Legislation (SB 170): Passed Senate with \$23.5 million UGF fiscal note
- Alaska Energy Authority Electrical Grid Grant: Not yet included in Governor's budget. Estimated need for this year is \$30-35 million
- Alaska Marine Highway: Shortfall in CY25 of up to \$38.0 million
- Ongoing Employee Bargaining Negotiations: three unions (Alaska Correctional Officers Association, Alaska Public Employees Association Supervisory Unity, and Labor, Trades and Crafts) are currently negotiating new contracts to begin in FY25.

Mr. Painter noted that there was childcare legislation that had passed that House and which he had neglected to add to the summary. The fiscal note was under \$1 million and there were possible tax implications. He discussed the Alaska Energy Authority's Electrical Grid Grant and the potential for using existing bond funds or going out for new bonds. He thought under most scenarios, if the legislature wanted the work to proceed in the current year it would have to put forward the approximately \$30 to \$35 million in matching funds.

Mr. Painter discussed the maximum Alaska Marine Highway System (AMHS) shortfall and explained that the shortfall would be a maximum of \$38 million if AMHS received the same grants in CY 25 as in CY 24 and the state tried to run the same schedule in CY 25 as in CY 24. Items that could reduce the shortfall would include running less ships than the 7 planned or receiving a larger grant than expected. He suggested that the legislature consider backstop language in case the AMHS did not receive the full federal grant.

Mr. Painter recalled that the legislature had put in \$10 million in backstop language the previous year, which was really only to cover the difference between the amount of federal authority in the governor's budget for the maximum grant the state was eligible for. He contended that it had not technically been backstop language because it was known that the state would need the funds. The legislature had put in a \$20 million backstop, which the governor had vetoed. He summarized that if the legislature wanted a backstop in the case of not getting the grant, it would want to go beyond what was in the current governor's budget.

Mr. Painter discussed the three ongoing union negotiations. He noted there was a new bargaining unit in the University of Alaska of graduate student employees trying to get a first contract. He estimated there were potentially as many as four new contracts, and that the contracts were often received after the statutory deadline of day 60 of the legislative session. He recalled that a few years previously, Co-Chair Stedman had offered an amendment on the Senate floor to add in a late arriving contract. He noted that for the supervisory unit, there was language from a bill passed a couple years previously that indicated that exempt salaries would follow the supervisory unit contracts. He thought there was some concern the language would not be effective as currently drafted, but if the change was implemented it could add several million.

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Senator Kiehl asked about the grid modernization grant and thought Mr. Painter had indicated that the state had to provide a one-to-one match. He asked if the requirement was part of the grant or if the funds could come from ratepayers that would buy electricity.

Mr. Painter believed the funds did not have to be from the state. He explained that the Alaska Energy Authority (AEA) had to come up with the matching funds, but it could be from a source other than state General Fund dollars.

Senator Kiehl assumed that there would be a split and the state would come up with a portion of the funds. He wondered if the timing would allow for rate payers to come up with some of the funds for a portion of the match in the first year.

Mr. Painter was not certain, and relayed that when he talked to AEA it was still working on potential plans without providing details on timing. He hoped details would be available in the near future.

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Mr. Painter turned to slide 5, "Getting to a Balanced FY25 Budget," which showed a table suggested by the chair to illustrate building a budget. He highlighted that the table showed the fall revenue forecast at the top, then subtracting the governor's operating budget and fund transfers and the governor's capital budget. There was a total of \$1.3 billion left to spend before accounting for other items such as the PFD. The next category was legislation passed by both bodies. He mentioned SB 140 and a bill for senior benefits, which accounted for \$241.3 million and \$235 million respectively. There were additional items that the legislature might want to account for, including items listed on the previous slide. He estimated that a 75/25 dividend (the amount the legislature appropriated the previous year) for \$914.3 million, combined with the other expenditures above on the table, would leave a surplus of \$55 million. A 75/25 PFD was estimated to be \$1,360 per person, with an additional \$175 energy relief payment.

Mr. Painter addressed the next line on the table, which considered if legislature paid a 50/50 PFD for about \$1.8 billion, it would leave a deficit of \$859 million. The statutory PFD proposed by the governor would total \$2.3 billion, which would leave a deficit of about \$1.3 billion. He clarified that the 50/50 PFD was estimated to be \$2,277 plus \$175 of energy relief, and the statutory PFD was estimated to be \$3,513 plus \$175 of energy relief.

Co-Chair Stedman pondered the scenario with a \$55 million surplus.

Mr. Painter answered affirmatively.

Co-Chair Stedman remarked that it looked as though the capital budget was in peril and the committee had work to do.

Mr. Painter considered slide 6, "Other Potential Budget Items," which showed a table of items that there may be demands for. He listed the Renewable Energy Fund, which had put out a total of \$32 million in grants and the governor had put in \$5 million. The governor funded the top project on the school construction list for \$4 million, and the entire list was \$260.5 million. He noted that the entire project list could be found on DEED's website. He cited that the governor had funded the top two projects on the school major maintenance list, and the entire list had a total of \$249 million.

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Mr. Painter continued to address slide 6 and spoke to the deferred maintenance list. He noted that the governor had funded \$28.2 million using the Capital Income Fund. The entire list was \$2.1825 billion. He noted that \$1.5 billion and the majority of the list was from the University, which had requested an additional \$35 million through HB 236. The rest of the list of approximately \$700 million.

Co-Chair Stedman relayed that normally the entire major school maintenance was not funded. He noted that for major school maintenance, the legislature would often fund part of the list for \$25 million to \$40 million, and in stronger revenue years up to \$100 million. He relayed that for UA it was not uncommon to fund from \$25 million to \$30 million.

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Senator Wilson asked for information on average historical legislative funding.

Mr. Painter was happy to provide a historical information. He noted that there was not a set funding plan, but rather the legislature seemed to appropriate what was available from year to year. He mentioned the School Bond Debt Reimbursement Program, with a moratorium that was in effect since 2015. The moratorium was set to expire July 1, 2025, after which districts would be able to go out and bond and seek state reimbursement for 40 percent to 50 percent per year.

Mr. Painter displayed slide 7, "Other Potential Budget Items (cont.)":

- Governor vetoed \$30.0 million FY24 capitalization of Community Assistance Fund; without that, the FY25 distribution will be \$20.0 million instead of the full \$30.0 million.
- Fiscal notes for Governor's bills:
  - Governor's Alaska Affordability Act (SB 237) could cost up to \$237.6 million in tax revenue.
  - Governor's Teacher bonuses bill (SB 97) has an estimated cost of \$54.5 million.
- Legislative capital budget additions and district projects are not yet included.
- Other potential additions include:
  - University of Alaska (\$18.6 million UGF operating difference between Regents' request and Governor's budget, \$27.0 million difference in the capital budget).
  - Additional items that emerge in subcommittee process.

Mr. Painter expanded that the legislature had the option of a one-time payment to the Community Assistance Fund. He thought the governor had introduced over 50 bills in each body. He discussed the teacher bonuses bill and noted that LFD did not think the fiscal notes fully matched the bill text. He mentioned potential additions to the budget from the University or from within the subcommittee process.

[9:35:55 AM](#)

Senator Bishop asked Mr. Painter to repeat what he said about the governor's teacher bonus bill and how it would be funded.

Mr. Painter reiterated that the bill had an estimated cost of \$54.5 million, and he thought the fiscal note was slightly higher with UGF for a three-year program.

Senator Bishop thought Mr. Painter had mentioned the Teachers' Retirement System (TRS).

Mr. Painter explained that when the bonuses were paid, there would be deductions for the employee contributions to TRS. The bill stipulated that the bonus would be less the amount. The way the fiscal note was written, the teacher would receive the bonus and the state would pay the TRS contribution on behalf of the teacher, which did not quite match the bill text. He thought the fiscal note could be aligned with the bill at some point, and the \$54.5 million reflected the funding necessary to do so.

Co-Chair Hoffman addressed the teacher bonuses, and recounted that the governor had stated "our work isn't done." He thought the governor was referring to the item on the slide. He referenced slide 3 and discussed SB 140. He noted that the Senate had added \$40 million, and the other body had increased the other items. He mentioned a lot of discussion in the Senate. He did not see where there would be room to address the teacher bonuses given the state's financial position and the overwhelming support for SB 140 received by both bodies.

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Mr. Painter highlighted slide 8, "Fire and Disaster Funding":

- FY14-23 actual UGF spending for Fire Suppression averaged \$49.3 million. The FY25 Governor's budget is \$14.2 million, a difference of \$35.1 million.
- The FY24 Governor's supplemental includes \$94.0 million for this purpose.
- Underbudgeting this item leads to routine supplemental needs.
- FY16-23 average spending from the Disaster Relief Fund is \$20.5 million. The Governor's FY25 budget requests \$5.0 million, a difference of \$15.5 million.
- Disasters are unpredictable, but annually funding the average usage would make the budget more consistent.

Mr. Painter thought that the state had not necessarily funded the items on the slide up to the expected cost each year. He addressed the graph that showed the legislature had not met the funding need each year, even though it increased funding in FY 20. The green line showed average spending. He noted that the 10-year average did not account for any anticipation of costs going up due to inflation or other factors. The governor's budget did account for an increase in firefighter pay he was proposing as part of the budget. He summarized that the impact of the underfunding was an increase in supplemental items.

Mr. Painter addressed the graph on slide 8 that showed deposits and expenditures to the Disaster Relief Fund. The legislature had funded the fund thought larger amounts of funding periodically, with smaller amounts from year to year. He noted that the average spending from the fund was \$20.5 million. The Governor's FY25 budget requests \$5.0 million, a difference of \$15.5 million. He noted that the legislature put \$50 million in FY 22. Based on the current spending level of \$20 million per year, there would be a shortfall in the fund in FY 25.

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Senator Bishop referenced testimony from firefighters around the state with requests for increased funding after losing crew to out of state where there were better wages.

Co-Chair Hoffman asked if Mr. Painter had looked at the problem of snow removal, which seemed to be a recurring issue in areas of the state such as Anchorage, Fairbanks, and Juneau. He asked if there was an estimated number to determine if the last two years were the norm.

Mr. Painter did not have the numbers at hand. He noted that the governor's budget included an additional \$1 million for snow removal, which was about the amount needed for one weather event. He noted that there was often more than one snow event. He added that funding could come from emergency weather events appropriations using lapsing balances. He thought the governor had a proposal for the funding in the current year, but the amount was smaller than the previous year's available funding. He offered to provide further details related to actual spending.

Co-Chair Stedman noted that the funding had been a topic of a subcommittee meeting with the Department of Transportation and Public Facilities.

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Co-Chair Stedman asked to go back to slide 5, and considered the three different PFD calculations and amounts at the bottom. He thought the PFD would likely be one of the three scenarios listed on the slide and noted that historically the committee had used the 75/25 calculation. He thought it looked as though the scenario with the \$55 million surplus would result in the funds being absorbed by fire disaster and disaster relief as mentioned on the previous slide. He noted there would be a revenue update on March 15, after which there would be a list of expenditures to prioritize.

Co-Chair Hoffman asked Mr. Painter to provide a number for the buffer that the legislature used for the previous five years.

Mr. Painter agreed. He noted that in some years there had been a balanced budget but there had also had access to the CBR with a three-quarters majority as a backstop. He thought there probably needed to be a buffer if the CBR access was not available in the case that oil prices ended up below the forecast. He reminded that in FY 23, the state had not had a very large buffer and had to go back for a CBR vote in the supplemental budget because of an oil price drop.

Co-Chair Stedman thanked Mr. Painter for his testimony and noted that the discussion had not included funds set aside as a dollar target for fiscal notes. He commented that all legislation had a cost.

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

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ADJOURNMENT

[9:48:18 AM](#)

The meeting was adjourned at 9:48 a.m.

