

SENATE FINANCE COMMITTEE  
March 18, 2024  
9:01 a.m.

[9:01:51 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

Co-Chair Stedman reviewed the meeting agenda. The committee would hear a presentation detailing the new release of the Spring Revenue Forecast. The administration introduced additional expenditures in the prior week through amendments.

^FISCAL UPDATE: LEGISLATIVE FINANCE DIVISION

[9:03:41 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Fiscal Update" dated March 18, 2024 (copy on file). He pointed to slide 2, "Fiscal Summary of Governor's Amended Budget: Spring Forecast." He stated that the slide represented the new fiscal summary of the governor's amended budget, including the amendments released in the prior week as well as the Spring Revenue

Forecast. The new forecast increased the FY 24 revenue expectations by about \$58 million and FY 25 revenue by about \$140 million over the revenue forecast for the fall. In addition, the governor had introduced an amendment to the budget that would increase the FY 24 aided dividend by \$6.9 million. The increase showed as unrestricted general fund (UGF) revenue on the first line on the slide, but it was a budget amendment.

Mr. Painter stated that the total amount of new revenue was about \$61 million in FY 24. The additional revenue would not increase the amount of spendable revenue in FY 24 because of the waterfall provision. If revenue exceeded the spring 2023 revenue forecast, the additional amount up to a total of \$636 million would be split 50/50 between two "buckets": an energy relief payment in FY 20 that would be distributed in FY 25 and the constitutional budget reserve (CBR). The revenue estimate had increased to \$143.3 million for each bucket which had increased from the \$110.6 million estimate based on the fall forecast. The aided dividend amendment created UGF revenue that would be allocated to the energy relief payment and CBR transfers while the governor used the funds directly as an appropriation. The UGF revenue would still be allocated to the two buckets and the deficit would not be decreased by spending the revenue in the budget.

Mr. Painter relayed that the governor's supplementals currently totaled \$175.8 million as seen on the bottom of the slide, which was a decrease from \$183 million prior to the amendments. The decrease in fire suppression by \$19 million resulted in offsetting other supplementals that the governor put forward. After supplementals, there was \$116.5 million left in FY 24 that would relapse to the CBR by the end of the year if it remained unspent. In FY 25, the governor's amendments increased the budget slightly, but the revenue more than offset the increase. The governor's budget now showed a post-transfer deficit of about \$867 million down from about \$1 billion in the fall forecast, which was a slight upward adjustment.

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Mr. Painter displayed slide 3, "FY 24 Budget and Oil Revenue." The FY 24 budget was based on the spring forecast that had a \$292.3 million surplus after the governor's vetoes. Any additional revenue went into the aforementioned

two buckets of money. The blue bar on the bottom of the slide was revenue that would fill the existing FY 24 budget. The dark blue bar on the top of the slide represented the governor's new supplementals totaling \$175.8 million. The budget had an unfilled deficit below an annual average of about \$75 a barrel. Prices would need to reach as low as \$40 to \$50 per barrel for the rest of the year to average \$75 per barrel. The break-even point was about \$71 million earlier in the session, but the point had now risen due to the supplementals. Below \$71 million, there would be an unfilled deficit and a CBR drop would be needed, but it was unlikely that prices would dip to \$40 or \$50 per barrel. The yellow bar was the surplus that was available for supplementals. Any additional revenue would be split between the energy relief payment represented by the orange bar and the CBR represented by the green bar. If prices were to rise, there would be an additional CBR drop. Given that the fiscal year was nearly three quarters of the way over, Mr. Painter expected that the revenue would fall somewhere between the \$78 to \$90 million range unless there was a drastic change. The \$116.5 million would likely be available to spend beyond the governor's supplementals. Based on the spring forecast, he estimated that the energy relief transfer would be a \$220 additional payment on top of the dividend in the fall.

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Mr. Painter advanced to slide 4, "Major Outstanding Items" and stated that there would be a vote later in the day on SB 140. He relayed that there was an error on the slide and it should say SB 140 rather than SB 241. He read from the slide:

- SB 241 [SB 140] (Education bill): fiscal notes total \$241.3 million.
  - If the veto is sustained, the BSA and pupil transportation increases could be converted to one-time item budget items.
  - However, it would likely be too late to address broadband this year with another bill.

Mr. Painter noted that the veto override on SB 140 would occur later in the day. There were several components to the cost increase of the bill, such as a change in the Base Student Allocation (BSA). There was also a change to the multiplier for correspondence students and a pupil

transportation increase. All of the increased items could be converted to one-time budget items. He explained that the increased items could be incorporated into the budget without the bill. The other item was an increase of about \$40 million for broadband; however, it was unlikely that the applications could be completed by the federal application deadline if the veto was upheld. He clarified that if the veto was sustained, the \$40 million would not be necessary in the current year because it could not be spent without meeting the application deadline.

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Senator Bishop asked whether the deadline for broadband funding was March 27, 2024, or March 28, 2024.

Mr. Painter responded that he did not remember the exact date, but the deadline was approaching quickly. The broadband bill would need to be addressed soon.

Mr. Painter continued to discuss slide 4:

- Senior Benefits Legislation (SB 170): Passed Senate with \$23.5 million UGF fiscal note.
- Alaska Marine Highway: Shortfall in CY25 of up to \$38.0 million (assuming the same size grant as CY24 and a 7-ship schedule).
- Ongoing Employee Bargaining Negotiations: four unions (Alaska Correctional Officers Association, Alaska Public Employees Association Supervisory Unit, Labor, Trades and Crafts, and new University of Alaska Graduate Student Employees union) are currently negotiating new contracts to begin in FY25.

Mr. Painter noted that the \$38 million for the Alaska Marine Highway System (AMHS) could shrink or disappear if the state ran a lighter schedule or received a larger grant, which the state was eligible for. In 2023, the uncertainty was addressed by adding backstop language of \$10 million. The backstop could potentially count towards the budget, but it would only be triggered if needed because of the size of the federal amount. He added that the bargaining negotiations from the unions were not yet factored into the budget and the costs were not clear. He expected the cost to be in the millions of dollars range at least.

Mr. Painter continued that there was also a statutory tie between the supervisory union and exempt salaries. There was a bill being discussed by Legislative Council to clarify the language. There was a possibility that any increase given to the supervisory unit would then go to exempt employees as well, which would increase the cost. The statutory deadline for contractual negotiations to be submitted by the legislature passed in the prior week, but he offered reassurance that it was rare for the negotiations to be submitted on time.

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Mr. Painter discussed slide 5, "Getting to a Balanced FY25 Budget." He explained that the revenue forecast was shown at the top of the slide, followed by the governor's amended operating budget and capital budget. There was a remaining \$1.4 billion after considering the budgets and revenue. There were a few bills that had passed the House, the Senate, or both bodies, such as SB 140. There were a number of other bills that had only passed one body. The impact on UGF from the legislation that had been passed by at least one body totaled \$11 million. If it were to be assumed that all of the bills would pass, there would be \$1.16 billion available to spend, which would leave \$246 billion as the amount available to spend in FY 25 with the 50 percent of Percent of Market Value (POMV) going to the dividend and a deficit of \$668 million. After considering the statutory Permanent Fund Dividend (PFD) in the governor's budget, the state would have a \$1.1 billion deficit. Depending upon the size of the PFD, the state would have anywhere between a \$246 billion surplus to a \$1.1 billion deficit.

Mr. Painter addressed slide 6, "Other Potential Budget Items." The slide included a list of items that could receive funding and the amount that the governor funded. The full amount was listed on the right. The full list for the Renewable Energy Fund was \$32 million. In 2023, the legislature funded many of the projects on the list. The governor funded the top project for school construction while the full list was \$260 million. The governor included \$4.3 million for the top two school major maintenance projects while the full list was \$249 million. There was a total backlog of nearly \$2.2 billion for deferred maintenance. The governor had \$28 million from the Alaska Capital Income Fund and the university had requested at least \$35 million. The university had indicated that it

wanted legislation that would offer more flexibility on the funding, but Mr. Painter thought the university would be satisfied with anywhere from \$30 million to \$35 million. The governor had currently allocated about \$4 million to the university in the operating budget but no funding had yet been allocated in the capital budget. He reminded members that the university held about \$1.5 billion of the backlog.

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Co-Chair Stedman suggested that Mr. Painter provide a high level overview of the last decade of major maintenance expenditures in order to highlight the trends. He was specifically interested in the categories of kindergarten through 12th grade, the university, the state, and the court system. The committee would soon have a conversation about whether it would increase major maintenance for schools and school construction. He thought it would be helpful to have the information when the committee was trying to make decisions.

Mr. Painter would provide the information.

Senator Merrick asked whether Mr. Painter knew the balance of the Alaska Capital Income Fund (ACIF).

Mr. Painter responded that LFD anticipated that the fund would have a slight negative balance due to the realized income in the Permanent Fund at the end of FY 24. The current forecast was slightly under the spring projection. Money flowed into the fund through realized income on the Amerada Hess balance in the Permanent Fund, which was a fixed balance. The percentage was dependent upon how much income was realized. The current forecast was slightly under the projection and the balance was in the negative. The \$28.2 million would be the full projected deposit in FY 25, leaving the fund still slightly in the negative depending on the final numbers for FY 24.

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Mr. Painter highlighted 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.

- House Finance CS for operating budget includes \$10.0 million in FY25 to increase distribution to \$30.0 million, but no additional capitalization.
- Fiscal notes for bills that have passed one body:
  - HB 89 (Childcare): \$5.9 million UGF cost and \$4.8 million revenue reduction
  - SB 104 (Civil Legal Services Fund): \$444.8 UGF cost
  - SB 24 (Mental Health Education): \$256.0 UGF cost
- 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).
  - Replacing one-time items from FY24 (childcare \$7.5 million, Council on Domestic Violence and Sexual Assault \$3.7 million, Head Start \$2.5 million, etc.)
  - Additional items that emerge in subcommittee process.

Mr. Painter noted that he had previously discussed the Grid Resilience and Innovation Partnership (GRIP) project, which had not been funded in prior budgets. The governor's recent amendments provided funding totaling \$32.7 million from several difference sources, such as from the AIDEA dividend and re-appropriations of past Alaska Energy Authority (AEA) projects. He indicated that \$20 million of the fund would come from repurposing existing AEA bonds. There were some efficiencies that would reduce the existing upgrade project, but significant work needed to be done on the transmission lines regardless. The choice was whether to use the \$20 million instead of incorporating state funds.

Mr. Painter recalled that he had told the committee in the past that there was some concern that repurposing the bonds might have to go back to the bondholders and go through an extensive process. He offered reassurance that the bonds had be subjected to the extensive process and had received approval.

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Co-Chair Stedman requested that Mr. Painter provide a high level overview of the funded one-time items that would potentially be absent from the budget in the following year.

Mr. Painter agreed to provide the information.

Senator Kiehl recalled that an earlier slide indicated that the fiscal impact of all bills that had passed at least one body was \$11.4 million. He asked if the total included both years of the legislative session or strictly the current year. He asked if the total incorporated capital fiscal notes as well.

Mr. Painter replied that it was both years. There were some bills from the previous year without updated fiscal notes because the bills had only been heard in one body. He was not certain if the bills that had only been heard in one body were included in the total. He responded that capital fiscal notes were incorporated into the total.

[9:27:31 AM](#)

Co-Chair Olson relayed that the committee had recently heard from a community that was impacted by vetoed community assistance funding. He asked what the communities could expect in the coming years if the current operations continued and community assistance funding was not determined in the standard manner.

Mr. Painter responded that if the legislature took no action, it would receive the \$20 million distribution for community assistance in FY 25. The per capita payments would only increase if the legislature took action. The governor's budget included \$30 million in FY 26, which would result in a \$23 million payment if the legislature took no action. The payment would cover the base and a small portion of the per capita payments, which was about one-third of the total amount.

Co-Chair Olson asked for clarification on whether communities could expect less funding in the coming years if current operations continued.

Mr. Painter replied that communities could expect slightly more funding in FY 26 as compared to FY 25 because the

government vetoed the FY 24 amount. The amount in the fund was being increased over time, but the difference would be a marginal amount of per capita payments.

Co-Chair Stedman suggested that LFD provide a spreadsheet that would allow the public to see the difference between the base payment and the per capita payments. He thought the communities were mainly interested in the amount of funding they could expect to receive.

Co-Chair Olson was curious whether communities would need to be more frugal.

Co-Chair Stedman relayed that he would request Mr. Painter to return before the committee in the future to provide finer detail to determine what recommendations the committee would make for the budget. He asked Mr. Painter to also address the funds that he would recommend being left on the table in the event that there were unforeseen expenditures between May of 2024 and June of 2025.

[9:30:20 AM](#)

Mr. Painter discussed 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 \$75.0 million for this purpose.
- Under budgeting 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 noted that if an average number of future disasters was assumed, the legislature would need to fund \$50 million per year to cover the cost. He explained that LFD assumed \$50 million as the supplemental placeholder in its long-term modeling. There were emergent items every year in addition to natural disasters. To accommodate emergent items, either extra room could be left in the forecast or the CBR could be utilized to fill a deficit if

it arose. In 2023, oil dropped between the spring forecast in 2022 and the spring forecast in 2023. The legislature voted to access the CBR to pay for the FY 23 supplemental. The problem could potentially be addressed in the following year by delaying the decision, but there were a few associated risks. There were new costs that the state was likely to face related to fires, disasters, and agency items, as well as oil price volatility. The amount of headroom left in the budget was a policy call. There were limited options in 2023 because a vote to access the CBR was difficult to achieve. Even without any supplementals, the legislature would not have funded the budget based on the spring forecast. He explained that a shortfall became more likely when the oil price being utilized in budget decisions was higher. Budgeting based on a \$78 per barrel oil estimate was riskier than budgeting based on a \$70 per barrel estimate. He thought it would be prudent to have a savings balance or have more headroom available before considering a CBR vote. The financial position of the next legislature would be dependent upon the decisions made by the current legislature.

[9:34:57 AM](#)

Co-Chair Stedman understood that if the BSA was increased by \$680 for a total of \$174.6 million, there would be a shortfall for AMHS, community assistance, school construction and deferred maintenance, and other services that were funded in the budget in the prior year. The oil price was already right under \$74 per barrel, which would not allow for a large margin because the goal was \$78 per barrel. He understood that the change listed on the slide would require an increase of \$50 million.

Mr. Painter agreed.

Co-Chair Stedman understood that there would not be much headroom left in the budget and that the budget would be "snug" when the committee was finished with it. He thought it would be helpful for Mr. Painter to provide a column list of items to illustrate how tight the budget would be.

Senator Bishop noted that the forecasting numbers were good, but the numbers revolved around the price of oil. He thought it was clear that Alaska needed to diversify its economy.

Co-Chair Stedman commented that the fishing industry was not receiving any assistance. He thought that the industry was in a tailspin. The fishing industry was another topic that should be considered by the committee, and the committee would have to make difficult decisions over the coming months.

[9:38:16 AM](#)

Mr. Painter added that the price forecasts by both the futures market and the analysts were in the decline. The Energy Information Administration (EIA) had a more hopeful case, but it was generally the more optimistic forecaster. If prices declined, there might be an even tighter budget situation in 2025 even if the \$74 per barrel price was sufficient. He clarified that the decisions made during session about higher oil prices could lead to an even tighter budget in the future.

Mr. Painter pointed to slide 9, "Change in Budgeted Positions." He recalled that he had presented a similar version of the slide two years prior and Co-Chair Stedman had asked for a new version of the information. The slide compared the budgeted positions in the prior year's budget management plan to the current governor's amended budget, including the new amendments, in order to show the increases. There were no areas within the budget where the governor was reducing the number of positions. There were quite a few areas where there were increased position numbers. In total, there were 115 new positions. There were no changes within the University of Alaska as the university's positions were budgeted slightly differently. The general trend was an increase in positions and not towards a smaller government footprint.

Co-Chair Stedman asked if there was an increase in population in the state.

Mr. Painter responded that population had remained flat.

[9:40:22 AM](#)

Co-Chair Olson understood that the department with the most change listed on the slide was the Department of Law (DOL). He asked Mr. Painter to expand upon the reason behind the significant increase in positions.

Mr. Painter replied that there were a variety of positions being added within DOL. The department added some investigator positions that already existed in the Department of Public Safety (DPS), but DOL needed its own investigators. The department was also adding attorneys that were in line with the originally projected need to work on a bill on the change in the definition of consent. The department was also adding a significant number of intern positions that were now paid positions in the hopes that more interns would become employees after the completion of the internship.

Co-Chair Stedman asked Mr. Painter to remind the committee of the vacancy rates within the various departments.

Mr. Painter responded that the statewide vacancy rate for full-time, permanent positions was at about 14 percent. The vacancy rate varied wildly between departments.

Co-Chair Stedman asked how the current vacancy rate compared to historical vacancy rates.

Mr. Painter responded that the vacancy rate was in line with the rates for the past four or five years, but previously the state had experienced lower vacancy rates. He explained that LFD typically budgeted a vacancy factor in programs between 0 percent and 7 percent, with 7 percent reflecting what was considered a high vacancy rate. Vacancy factors did not typically exceed 7 percent, though statewide rates had been in excess of 15 percent the last few years for a variety of reasons; however, the rates had started to come down in the last few months.

Mr. Painter concluded his presentation and relayed that he would return to the committee in the future with the additional requested information.

[9:43:13 AM](#)

Co-Chair Stedman thought it would be helpful for the committee to review the information. He reviewed the agenda for the following day's meeting.

#

ADJOURNMENT

[9:44:40 AM](#)

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