

HOUSE FINANCE COMMITTEE
January 24, 2025
1:31 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget, Office of the Governor; Pam Halloran, Assistant Commissioner, Department of Health.

PRESENT VIA TELECONFERENCE

Marian Sweet, Assistant Commissioner, Department of Family and Community Services; Brent Goodrum, Deputy Commissioner, Department of Natural Resources; Bryan Fisher, Director, Division of Homeland Security and Emergency Management, Department of Military and Veterans Affairs; Dianna Thornton, Administrative Services Director, Department of Public Safety; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities.

SUMMARY

OVERVIEW: GOVERNOR'S FY 2026 OPERATING BUDGET BY OFFICE OF MANAGEMENT and BUDGET

Co-Chair Josephson relayed that the committee would hear a presentation on the FY 26 governor's operating budget. The second part of the presentation would be heard the following Monday afternoon.

^OVERVIEW: GOVERNOR'S FY 2026 OPERATING BUDGET BY OFFICE OF MANAGEMENT and BUDGET

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Co-Chair Josephson asked Ms. Sanders to join the meeting at the testifier table.

LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and relayed that administrative services directors were available for detailed department questions. She provided a PowerPoint presentation titled "State of Alaska Office of Management and Budget: Overview of the FY2026 Governor's Budget," dated January 24, 2025 (copy on file). She relayed that the governor was statutorily required to release a budget for the next fiscal year on December 15th every year. The governor's FY 26 budget was released on December 12, 2024. The budget consisted of the operating, mental health, capital, and fast track supplemental bills. The numbers in the presentation encompassed all four appropriation bills.

Ms. Sanders relayed that the budget reflected the governor's priorities including reducing crime, improving educational outcomes, passing a balanced budget, and bringing outside investment to Alaska. The FY 26 budget was a reflection of those investments to build a better Alaska for residents and future generations.

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Ms. Sanders moved to an FY 26 fiscal summary on slide 2. She explained that the document showed the highest level summary provided by the Office of Management and Budget (OMB) including all revenues and expenditures associated with the budget. The right side of the slide reflected the

FY 25 budget enacted by the legislature the previous session. The FY 25 portion of the summary also included a few supplemental items she would address during the presentation. She noted that supplemental requests were due by statute on the 15th day of session (February 4th of the current session). She noted there would be additional supplemental requests from the governor prior to the February 4th deadline. The three supplemental existing items totaled \$75 million including \$60 million in agency operations and \$15 million in statewide operations. The left side of the summary showed the governor's proposed FY 26 budget that would begin on July 1, 2025. Additionally, the slide showed a comparison of unrestricted general funds (UGF) in FY 25 and FY 26 on the far right of the summary.

Ms. Sanders explained that in order to simplify the hundreds of fund codes used for tracking in the budget, OMB and the Legislative Finance Division (LFD) categorized funding into four categories including UGF, designated general funds (DGF), other receipts, and federal receipts. She detailed that federal, other, and DGF funding sources were more limited in their use and were mostly designated for a specific purpose in statute; they were also required to have a specific revenue source or receipt to be collected for use on a given purpose. She detailed that revenues for those sources equaled expenditures in the fiscal summary. She highlighted that the primary focus was UGF and it did not have any restrictions.

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Representative Galvin observed that slide 2 showed a deficit of \$1.52 billion [for FY 26]. She noted the governor had submitted a \$75 million fast track supplemental. She understood that the governor would likely submit an additional supplemental request. She did not know what the second supplemental would look like in terms of funding.

Ms. Sanders would address all of the points throughout the presentation.

Representative Hannan noted there were two supplemental requests listed for the FY 25 fast track supplemental. She asked if either of the items were rolled into the base budget for FY 26.

Ms. Sanders replied that there were three supplementals she would discuss during the presentation. One of the items was requested in the base and she would address it in the presentation.

Co-Chair Schrage asked for verification that the supplemental requests impacted the projected deficit for the current fiscal year, FY 25. He asked for verification that any additional supplemental requests would impact the FY 25 budget.

Ms. Sanders confirmed that supplementals all impacted the current year.

Co-Chair Schrage noted that it would continue to drive up the deficit and put the state in a worse financial position for FY 26. He asked how many millions of dollars the additional supplementals would be.

Ms. Sanders answered that she did not have the total at the current point. For example, the timing of the Medicaid projection provided to the legislature included a need of about \$14 million in the current year. She relayed that OMB was going through the process of reviewing all of the agencies' budgets to determine whether potential needs may be able to be absorbed and where agencies were in their projections for the year. There were numerous pieces that went into gathering the information for a presentation when the statutory deadline hits.

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Co-Chair Schrage asked if the deficit was filled with the state's savings accounts.

Ms. Sanders answered that she would address slide 2 in depth, which would address some of the questions. Currently, the governor's budget proposed a draw from the Constitutional Budget Reserve (CBR). The estimate OMB utilized was a number from the Division of Finance, which showed a CBR balance of approximately \$2.8 billion. Currently, the FY 25 supplementals and the FY 26 deficit of \$1.5 billion would be drawn from the CBR.

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Ms. Sanders continued to review slide 2. The fiscal summary was broken down into four categories including revenues, expenditures, Permanent Fund appropriations, and the surplus/deficit. She detailed that OMB used the fall 2024 revenue forecast prepared by the Department of Revenue (DOR), which resulted in \$2.6 billion UGF in FY 25 and \$2.4 billion UGF in FY 26. The slide reflected the percent of market value (POMV) transfer from the Earnings Reserve Account (ERA) of \$3.6 billion for FY 25 and \$3.8 billion for FY 26. The total UGF revenue was just under \$6.3 billion for FY 25 and \$6.2 billion for FY 26.

Ms. Sanders relayed that the fiscal summary on slide 2 showed operating and capital expenditures. She would provide highlights of significant changes in the budgets on the upcoming slides. Total expenditures for FY 25 were about \$5.4 billion or about \$5.5 billion when including supplementals. Total expenditures for FY 26 were \$5.2 billion for FY 26. The information showed an overall deficit in the budget of \$280 million when comparing year-to-year. The overall change could be attributed mostly to numerous one-time items appropriated by the legislature in 2024 that were being removed from the budget. She noted there were substantial increases in maintaining the budget that were carried forward into the next year. For example, there were over \$100 million in salary adjustments associated with the increase in employees' salaries, of that amount, \$62 million was UGF. She explained that the fiscal summary provided a high level picture of the budget; there were numerous factors to consider when looking at the differences from year-to-year. There tended to be very detailed conversations in House Finance Committee meetings and in the budget subcommittee process.

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Ms. Sanders addressed the Permanent Fund Dividend (PFD) appropriations on slide 2. In FY 25, the legislature specified the amount of the PFD with a total appropriation of \$914 million. The governor's FY 26 budget included the full statutory PFD totaling \$2.5 billion. She stated that the governor continued to advocate for a full statutory PFD to follow the existing law. There were fund transfers between accounts and the surplus/deficit shown at the bottom of the slide. She explained that when the budget was signed into law the previous year, the surplus was approximately \$150 million. Since that time, the fall 2024

revenue forecast showed a decrease of approximately \$220 million from the spring 2024 forecast. Additionally, the three supplemental items further impacted the budget. She explained that as a result of the decrease in revenue and the supplementals, there was a proposed deficit of \$150 million. The governor's budget proposed funding the deficit with funds from the CBR.

Representative Galvin thought the committee had heard in the past day or so that the number may be adjusted based on a change in oil price. She asked about the dollar figure. She thought it was a little more positive than it looked.

Ms. Sanders answered that DOR would release an updated spring forecast in March incorporating the higher price per barrel that had been occurring. She did not have an updated number at the moment because it had only been one month since the fall revenue forecast had been released. She highlighted that the governor's proposed budget was a starting point reflecting a point in time in the DOR Revenue Sources Book. She relayed that as the budget process progressed including supplementals, amendments, and the updated spring forecast, there would be a more solid picture of the budget.

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Co-Chair Schrage considered that expenditures were expected to increase due to some additional supplementals for FY 25. He asked if there were any other big holes expected on the expenditure side for FY 26. He asked at what level the governor's budget funded education.

Ms. Sanders replied that the budget was built based on current statute. The budget included the statutory Base Student Allocation (BSA). She elaborated that OMB would bring forward any known amendments to bring the FY 26 into a line. There were currently several bargaining units under negotiation. Until the negotiations were complete she could not bring amendments to the committee and could not predict what the outcome of the negotiations would be.

Co-Chair Schrage respected the position of putting forward what was in statute, but he thought that for the public at home there had to be some acknowledgement that it was not realistic. For example, he believed most people were not expecting the legislature to just pay out what was in

statute for education. He highlighted that it would be a cut in education funding over the last year. He did not know that it was the best approach in order to understand the fiscal reality facing the state. There would be a lot of work to do.

[1:52:04 PM](#)

Ms. Sanders moved to a budget lookback of the state's UGF budget and revenue from FY 19 through FY 26 in the governor's proposed budget (slide 3). A chart on the slide reflected a slight increase in state operations (represented by the light blue portion of the bars). The yellow portion of the bars represented statewide operations. She highlighted that the state had done a good job at repaying the oil and gas tax credits and bringing its debt service payments down, resulting in a lower amount necessary for statewide items. The capital budget had fluctuated year to year depending on the revenue forecast. She explained that the approach tended to be ensuring there was sufficient funding to address the operating budget and then funding the capital budget for things like matching funds required to meet federal grant awards. Occasionally there was sufficient funding to put more towards capital projects (capital budget funds were reflected in light green). The dark blue portion of the bar represented the PFD, which had varied by year. She noted that the FY 26 bar on the right included a full statutory PFD.

Co-Chair Josephson looked at slide 3 and asked noted that in the couple of years prior to FY 19 there had been numerous cuts late in the former Walker administration. He asked if agency operations were smaller than at that time in the past or whether they were beyond that number due to salary increases and fiscal notes.

Ms. Sanders answered that she had looked at not looked at the state as a whole, but she had looked at the public safety departments - a priority of the governor's - including Department of Public Safety, Department of Corrections, and Department of Law. She reported that those departments were substantially above where the past reductions had been; they were ahead of where the cuts had brought the numbers down to. She had not looked closely at other agencies, but she offered to follow up with the information.

Co-Chair Josephson remarked that there were numerous variables with inflation and the like. He thought it would be interesting to see whether the funding was at Parnell administration levels or in the first year of the Walker administration in FY 15. He remarked many legislators had constituents who wanted cuts to government. He pointed out that the legislature had made cuts frequently and certainly a couple of years back. He was curious about the overall picture.

Representative Galvin was interested in the capital spending shown in green (slide 3). She believed Ms. Sanders had stated that sometimes there had been the luxury of adding more funding. She understood the state had about \$9 billion worth of property that it needed to maintain. She asked what portion of the capital spend had been on deferred maintenance.

Ms. Sanders did not have a percentage off the top of her head. She relayed that several years back the legislature had passed a law putting a portion of the Amerada Hess settlement funds into the Capital Income Fund. She explained that the funds were DGF and were not reflected on slide 3. There had been annual investment ranging from \$20 million to \$30 million into deferred maintenance. She noted that the funding had perhaps not gone to the scope of specific deferred maintenance capital projects she could tie it to.

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Representative Galvin had heard globally that somewhere between 2 to 4 percent of the value of state property should be spent to maintain it. Based on the numbers provided by Ms. Sanders, she observed that investment had not reached that amount. She wanted to ensure the public was aware that capital spending was not always about new buildings, but about protecting existing infrastructure.

Co-Chair Josephson stated his understanding that when considering deferred maintenance spending the public should look at the capital budget and the Capital Income Fund appropriations.

Ms. Sanders agreed.

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Ms. Sanders moved to a snoop graph of the total UGF spent in the governor's FY 26 budget by state agencies, debt service, and retirement payments (slide 4). She reported that K-12 foundation formula funding and pupil transportation under the Department of Education and Early Development (DEED) and Medicaid under the Department of Health (DOH) continued to be the two primary cost drivers in the state operating budget. Both programs were formula funded, reflected in orange on the slide. Non-formula agency costs were shown in blue. The state's K-12 foundation formula and pupil transportation program were funded in the budget at the statutory BSA level of \$5,960 [per student].

Co-Chair Schrage asked how the presentation defined formula versus non-formula. He asked if formula only pertained to the BSA and anything federal such as Medicaid/Medicare.

Ms. Sanders responded that during its budget development process OMB looked at the individual appropriations in the bill to determine whether there was a formula driving the amount the state was obligated to pay. There was a statutory formula for the BSA and pupil transportation requiring the state to pay a certain amount. Another example was state retirement payments, where a formula drove the amount appropriated on an annual basis.

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Representative Hannan observed that the Permanent Fund Dividend (PFD) formula funding was not included on the graph on slide 4. She asked if it was included on another slide and what percentage of the operating budget it comprised.

Ms. Sanders responded that she did not have the information included in the presentation. It was the administration's perspective that it was the state's obligation to pay the statutory PFD. She did not have a number available.

Representative Hannan requested the information. She pointed out that slide 4 showed that the two formula programs [K-12 and Medicaid] were 38 percent of the operating budget. She wanted to see what the proposed PFD was as a percent of the operating budget.

Ms. Sanders would follow up with the information.

Representative Stapp asked if the PFD appropriation had to be part of the operating budget or if the legislature chose to make it part of the operating budget.

Ms. Sanders replied there was a court case determining that the governor was required to follow the existing statute and put [the PFD] forward in the operating budget. She stated that the legislature had the power of appropriation, and the governor did not. The legislature could make the choice on how to fund the PFD (e.g., capital budget, operating budget, or a single appropriation bill). She highlighted that the legislature also had the power of enacting legislation to change the statute if it determined there should be something else in law.

Representative Stapp addressed the Medicaid liability. He stated his understanding that DOH had concluded or would shortly conclude a permanent rate increase through the rate study across the board. He asked if there was an estimate of what it looked like.

Ms. Sanders answered that the information would be available on February 19.

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Co-Chair Josephson asked how Medicaid rate adjustments made by regulation were paid for.

Ms. Sanders responded that there was a perpetual process of bringing things back throughout the process of setting rates. She explained that the administration may need to come back to the legislature with a supplemental if something were to change. She elaborated that the budget reflected what the administration had the authority to spend. She stated that if it did not have the authority, the administration would have to ask the legislature for the additional authority.

[2:05:10 PM](#)

Ms. Sanders moved to slide 5 and addressed significant operating budget highlights. She began with the Department of Administration (DOA) including \$513,600 UGF for three administrative and legal support positions to assist with

increased workload at the Office of Public Advocacy (OPA). The second DOA increment was \$450,000 for guardian ad litem positions, which advocate for Children in Need of Aid (CINA) cases becoming overtime eligible. She relayed that the positions were reviewed by DOA's Division of Personnel in a class study and the positions were determined to be eligible for overtime. Additional authority was needed to cover the overtime cost associated with the positions.

Ms. Sanders moved to the Department of Commerce, Community and Economic Development (DCCED). The first increment was \$50 million UGF to Alaska Industrial Development and Export Authority (AIDEA) to provide a backstop for Front End Engineering work toward a Final Investment Decision on the Alaska Liquefied Natural Gas (AKLNG) Pipeline project over FY 25 to FY 27. She noted that energy development was a priority of the governor. The second increment was \$2,487,500 to restore the Alaska Gasline Development Corporation's (AGDC) operating funding to provide continued efforts on AKLNG. She explained that the funding had been provided the previous year as a one-time increment and the governor's budget included an additional one-time increment. The budget also included a supplemental multiyear increment of \$10 million UGF for the Alaska Seafood Marketing Institute (ASMI) to implement a comprehensive marketing plan for wild Alaska seafood from FY 25 to FY 27. She relayed that the prior session a \$10 million appropriation had been put forward by the legislature and it had been vetoed by the governor pending a review and ASMI bringing forward a comprehensive marketing plan over the interim. The work had been done and the administration was including the \$10 million for ASMI to start the work.

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Representative Stapp noted that the \$50 million was in the fast track supplemental bill. He did not see why it needed to be fast tracked. He asked for an explanation.

Ms. Sanders answered that the increment was intended to be in the fast track supplemental given the timing AGDC needed in order to move forward with negotiations. She deferred detailed questions to the directors of AGDC and AIDEA.

Representative Stapp found it weird to see multiyear appropriation combined with the word "fast." He stated that it was not fast.

Representative Johnson asked how the \$50 million figure had been reached. She was curious why it was fast tracked and whether the funding would sit there or have some associated goals.

Ms. Sanders replied that AGDC and AIDEA would follow up with answers.

Co-Chair Josephson asked about the \$2,487,500. He asked if the legislature moved all AGDC funding to one-time funding in FY 25.

Ms. Sanders responded affirmatively and relayed the funding in FY 25 was a one-time appropriation.

Co-Chair Josephson asked if it was the first time AGDC had been exposed to one-time funding for the entire agency.

Ms. Sanders replied that [Department of Commerce, Community and Economic Development] administrative services director Hannah Lager indicated it was possibly one-time funding previously.

Co-Chair Josephson asked if the increment would restore it as base funding.

Ms. Sanders replied in the negative.

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Ms. Sanders moved to increments for the Department of Corrections (DOC). She relayed that OMB and DOC had been working closely to address DOC's budget projections and ensure there were accurate calculations for the department's budget proposals. The first item was an additional \$3,900,000 for the Alaska Public Employees Association supervisory union collective bargaining agreement. There was a previous year budgetary structure change that moved all of the overtime for DOC into its own allocation. Due to the change, OMB was unable to calculate personal services on a PCN [position control number] by PCN basis that it prepared salary adjustments for. She explained the situation resulted in the under projection of

the costs for the supervisory positions by \$3.9 million. She relayed that OMB was moving all of the overtime back to the institutions in the budget where the positions were actually budgeted for to ensure there were monetary calculations done correctly moving forward.

Representative Stapp asked how it had not been possible to calculate payroll just because a line item was broken out in a different area on a spreadsheet.

Ms. Sanders answered that the monetary terms for a bargaining unit agreement were calculated by OMB on a PCN by PCN basis. All of the overtime costs for the positions were moved to a different location; therefore, when the calculation was run, it missed the overtime. She explained that a better calculation was obtained by moving each PCN to show the corresponding amount of overtime per PCN.

Representative Stapp stated his understanding that the money for overtime was split out in order for the legislature to monitor what had been "atrocious and excessive" overtime hours in DOC. He asked for verification that the software program had been run and it had assumed there was no overtime associated with a single position. He asked if it was a supplemental request was for overtime hours incurred in FY 25.

Ms. Sanders responded that OMB was working through every aspect of the department's budget to ensure it was calculating things correctly in order to come back to the committee with an accurate number. She noted that the legislature had included intent language in the FY 25 budget; therefore, OMB was reporting payroll costs (including regular pay and overtime) by institution on a monthly basis.

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Representative Galvin was very aware of how hard correctional officers were working and she appreciated how much supervisory officers were having to make up when there was short staffing. She thought it was important for the legislature to consider putting more money in the lower "on the ground level" workers to reduce the amount of overtime and issues around recruitment and retention. She was a bit put off by the size of the funding increment going into UGF for supervisory positions when she was also concerned about

the broader picture of supporting [correctional] officers. She wanted to see a deeper dive. She recognized that slide 5 was showing budget highlights and she hoped there was information not reflected on the slide. She stressed that the increment [of \$3.9 million UGF] was a lot of money.

Ms. Sanders confirmed that the slide only showed a small number of highlighted items within each department's budget. She pointed out that the FY 26 included over \$100 million in salary adjustments and \$61 million of the total was associated with UGF. She relayed that there were bargaining unit agreement increases for employees' salaries to continue to increase year-to-year.

Representative Hannan shared that she would chair the subcommittee for DOC. She stated her understanding that the \$3.9 million was not the overtime pay for corrections officers, which was accounted for in the budget actions. She asked for verification that the increment reflected the standby pay for supervisory, which was related to overtime but not the same thing.

Ms. Sanders agreed.

Representative Hannan presumed the peer support and wellness program [shown under DOC highlights on slide 5] was for DOC employees. She asked if the program would grow in the second year or remain the same size.

Ms. Sanders relayed that the increment was \$500,000 UGF to establish a peer support and wellness program. She confirmed that the program was for [DOC] employees. She explained that it was the start of the program, and she did not have an answer to the second part of Representative Hannan's question.

Representative Hannan was happy to wait to discuss the topic in subcommittee.

Co-Chair Josephson recalled that about one year ago DOC needed a substantial infusion of supplemental dollars in the tens of millions of dollars range for population management. He thought the current increment looked fairly modest comparatively.

Ms. Sanders confirmed that there had been substantial supplementals that were talked about the previous session.

She reported that OMB had been working closely with DOC; there were other increases as well. She explained that OMB had been working with DOC to ensure it was tracking in alignment with the budget to ensure the budget presented to the committee reflected what expenditures would be.

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Representative Bynum asked if there was evaluation being done to see if there would be a long-term cost savings effect by including peer support and wellness and the expansion of vocational support programs. He was happy to see the expansion of vocational programs listed.

Ms. Sanders responded in the negative, but she thought it was a very good point. She highlighted the last bullet on slide 5 showing an increment of \$850,000 to expand vocational programming and training opportunities for 2,500 inmates. She explained that throughout the governor's budget there were several vocational education items for the Department of Labor and Workforce Development and Department of Education and Early Development. She relayed that the governor was excited and wanted to see opportunities for vocational education throughout the state in order to increase the state's workforce and fill the needs where there may be holes currently. The \$850,000 was meant for coding, software development, electrical, plumbing, and carpentry classes. She relayed that OMB did not have a report or tracking, but it was something the administration could consider in order to see outcomes downstream.

Co-Chair Josephson asked for verification that there had been a veto of \$700,000 for DOC vocational training in the FY 25 budget.

Ms. Sanders relayed that there was a vetoed DOC item, but it was something separate. She relayed that the increment for vocational training shown on slide 5 was the result of a workforce development recommendation from a group of agencies over the past interim. She stated there may have been a veto that had some additions for workforce development, but she would have to look at the details.

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Ms. Sanders continued to review significant operating budget highlights on slide 6. She began with DEED and highlighted an increment of \$1.5 million for continued teacher recruitment, retention, certification, and development funding. She detailed there was a teacher recruitment and retention (TRR) working group that prepared the TRR action plan for implementing strategic recommendations targeted for short and long-term improvements specifically related to teachers. The increment had been before the legislature in prior years and specifically addressed priority areas focusing on recruitment efforts and opportunities, restructuring retirement options, streamlining certification, and strengthening workforce conditions. The department had been working with federal counterparts to implement an apprenticeship program for teachers. The funding would help continue the effort.

Ms. Sanders highlighted an increment of \$1.25 million for career and technical education initiatives. The increment was intended to establish the implementation of a career pathway for students; the increment would also support school districts with grants for them to develop programs in their schools. The funds would cover areas such as internships, pre-apprenticeships, and other hands on work-based learning opportunities. The funding also supported career and technical student organizations; there were six chapters actively working throughout the state. There was an increment of \$300,000 to establish curriculum and student pathways, which involved DEED building out a curriculum for students to be used by any school district.

Representative Johnson highlighted there had been a \$1.5 million increment [for continued teacher recruitment, retention, certification, and apprenticeship development] in FY 24 and FY 25 as well. She surmised it was likely not a one-time increment. She was interested in the results from the FY 24 and FY 25 increments and what the administration expected for FY 26.

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Ms. Sanders agreed that the items had been before the committee in prior years. She explained that each year they were put forward and were changed to a one-time item; therefore, the administration kept bringing them back. She

offered to follow up with DEED to ensure they provided the information on outcomes to the committee.

Ms. Sanders continued on slide 6 and addressed a \$4,368,700 UGF increment to the Department of Family and Community Services to ensure continued operations of the Alaska Psychiatric Institute (API). She detailed that the Centers for Medicare and Medicaid Services (CMS) reduced the disproportionate share hospital (DSH) allocations nationally. When the public health emergency declaration expired, the Medicaid redeterminations resulted in a decrease of the Medicaid eligible patients at the hospital. The change required an increase in UGF to ensure there was not a structural deficit at API.

Co-Chair Josephson asked if the need for increased funding was COVID-19 related.

Ms. Sanders replied that because the public health declaration had ended there had been a redetermination resulting in a need for additional general funds.

Representative Hannan asked what API's current UGF funding was.

Ms. Sanders deferred the question to the department.

MARIAN SWEET, ASSISTANT COMMISSIONER, DEPARTMENT OF FAMILY AND COMMUNITY SERVICES (via teleconference), answered that the total UGF funding for API in FY 25 was \$25.54 million.

Co-Chair Josephson asked if any of the \$4.3 million [proposed in the FY 26 budget] related to the competency and commitment bill. Alternatively, he asked if the entirety was all due to a reduction in the share of the DSH subsidy.

Ms. Sanders believed the increment was only due to the redetermination. She deferred the question to Ms. Sweet.

Ms. Sweet responded that there were significant reductions in the department's revenue collections from Medicaid claims as well as the reduction in the DSH funding. Additionally, the department was receiving less collections from private insurance companies. The department was looking at increasing revenues and doing additional rebillings, but it had seen much success. There had also

been some slight increases in operational costs due to inflation over the past couple of years; operation of the API facility was costing more. The significant reduction in revenue collections was requiring the department to request the additional funding authority.

Co-Chair Josephson remarked that there were supposed to be more people who were referred for commitment consideration when they were deemed incompetent to stand trial. He noted the subject could be discussed during the subcommittee process.

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Ms. Sanders reviewed the last two budget items on slide 6 pertaining to the Department of Fish and Game (DFG). The first increment was \$716,500 UGF to restore fisheries survey and assessment projects located throughout the state. She explained that there had been a reduction of \$716,000 the prior year during the budget process to commercial fisheries. The proposed request brought the item back before the legislature. Examples of the projects included Judd Lake weir, herring assessments, and the Prince William Sound trawl survey. The budget included \$450,000 UGF base funding for maintenance of vessels, aircraft maintenance, repair, and upgrades. She detailed that DFG had six research vessels and five aircrafts used to transport employees for monitoring efforts, stock assessment programs, and various research projects. The costs were continuing to increase and the increment would enable the continuation of maintenance needs into future years.

Co-Chair Schrage asked why there were maintenance upgrades in the operating budget as opposed to the capital budget. He asked how OMB decided to put a request in the operating or capital budget.

Ms. Sanders replied that OMB looked at whether a need was ongoing. The item was included in the operating budget because there was an ongoing operational need to keep equipment, vessels, and aircrafts sustained. She detailed that OMB occasionally put a specific item in the capital budget because of the scope. For example, maintenance for Alaska Marine Highway System (AMHS) vessels was funded in the capital budget because of the extensive scope. She elaborated that it varied from year to year and OMB was

trying to get more consistent determining where increments should go based on whether there was an ongoing operational need versus a one-time need.

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Ms. Sanders addressed operating budget highlights on slide 7 beginning with the DOH. She explained that the passage of SB 189 in 2024 increased the eligibility standards for childcare assistance to 105 percent of the state median income. The department estimated there were approximately 18,000 additional children meeting the eligibility requirements, resulting in approximately 1,200 to 1,300 more usage under the Childcare Assistance Program [the increment was \$6,092.2 million including \$5,867.1 million UGF and \$225,100 in federal funds]. The budget also included full statutory funding for the Senior Benefit Payment Program. She detailed that SB 170 had been rolled into SB 147 and had passed in 2024. The proposed increment ensured there was full funding based on that statutory program. Additionally, there was a \$1.5 million increase split between \$750,000 UGF and \$75,000 in mental health trust authority authorized receipts to establish the mental health trust crisis call center to support individuals across the state with mental health needs.

Ms. Sanders moved to the Department of Labor and Workforce Development (DLWD) and reviewed an increment of \$182,300 UGF to increase available Alaska Vocational Technical Center (AVTEC) class seats from 15 to 30 students in the Industrial Electrical Program in support of an initiative to expand Alaska's electrical and plumbing workforce. She addressed increments for the Department of Law (DOL) including \$1,194,100 UGF for five new positions to provide support to reduce caseloads to a manageable level as suggested by the American Bar Association. Additionally, there was a request of \$500,000 UGF to support continued statehood defense efforts across multiple agencies. She explained that DOL would partner with other state agencies to plan, review, and continue efforts supporting Alaska's statehood sovereignty.

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Co-Chair Josephson noted that he had spoken with officials with DOL. He remarked that there would still be litigation brought by groups like the Natural Resources Defense

Council. He stressed that unless something was wildly different than he thought it would be, there would be substantially less litigation from the from the federal government. He noted it was something the committee would weigh when it looked at the final budget.

Representative Galvin asked about the childcare assistance increment. She understood that historically a very small number of families took advantage of the opportunity for childcare assistance. She was hopeful that the increase more aligned with the cost of care would result in an increase in families using the assistance. She asked if the number was based on the current usage of Alaskan families or on potential growth.

Ms. Sanders deferred the question to DOH.

PAM HALLORAN, ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH, replied that there was an assumption that about 18,000 additional children aged 12 and under would meet the eligibility criteria.

Representative Galvin asked how the cost increment had been derived. She noted that only 5 percent of those eligible currently used the assistance.

Ms. Sanders replied that the department would follow up with an answer.

[2:41:22 PM](#)

Ms. Sanders moved to budget highlights for the Department of Military and Veterans Affairs (DMVA) on slide 8. She highlighted an increment of \$175,000 to expand operations of the Alaska State Defense Force, Naval Militia, and Civil Air Patrol. The department was increasingly responding to disasters; the funding would allow for a coordinated oversight of the entities by DMVA. The second item was the last fast track supplemental item at \$15 million for deposit into the Disaster Relief Fund. The fund's current \$51,000 balance was the lowest it had been. She explained that due to the balance in the fund, OMB had been working with DMVA to ensure there was available funding and it had set aside about \$6 million from the capital appropriation within the Office of the Governor to address any current disasters. The request was to deposit \$15 million into the fund; a portion of the amount would go towards returning

the original capital appropriation to its prior balance. Additionally, it would provide the department with money to get through the end of FY 25. The FY 26 budget included a request of \$13 million UGF for deposit into the fund. She added that DMVA estimated there was about one disaster per month, which was about \$1 million per month.

[2:44:04 PM](#)

Representative Stapp stated he was under the impression that the Disaster Relief Fund was under the Office of the Governor and administered by DOR. He asked if his understanding was accurate.

Ms. Sanders answered that the Disaster Relief Fund was a fund in the state's accounting system that was managed by DMVA. She relayed that OMB worked closely with the Division of Finance to monitor the fund and ensure there was a sustainable balance.

Representative Stapp asked if the fund was typically capitalized with funds from the waterfall through lapses.

Ms. Sanders answered, "No." She clarified that the fund was capitalized annually through the budget with a combination of UGF and federal appropriations.

Representative Hannan asked how much the legislature had appropriated the previous year to the Disaster Relief Fund and how much had been vetoed.

Ms. Sanders responded that she did not have the precise number on hand. She relayed that there had been a veto in the FY 25 budget, which was based on an estimate the administration felt comfortable with. She stated that the department could provide a more detailed response. She noted that disasters were hard to predict and unfortunately there had been more disasters than anticipated. The supplemental request would put money into the fund to ensure the state could respond immediately to disasters.

[2:46:16 PM](#)

Representative Hannan considered the proposed request of \$15 million for the Disaster Relief Fund via the supplemental to backfill money borrowed against another fund and \$13 million in the base for FY 26. She remarked on

the estimated \$1 million per month cost for disasters and highlighted that the state had seen a streak of bad years where disasters were much more expensive. She was concerned the amounts in the budget were not sufficient to pay for the average year of disasters. She stated that funding had been vetoed. She was looking for guidance from DMVA on the right number in order to avoid having to provide supplemental funding annually.

Ms. Sanders replied that the legislature deposited \$20.5 million to the fund the previous year and the veto was \$7.5 million. She was happy to have the conversations with DMVA on what a comfortable amount was.

[2:48:05 PM](#)

Co-Chair Josephson asked if OMB could describe in writing how delays in the funding would be reflected. He was sympathetic to the request because it was called disaster relief and it sounded like a fast track item. He asked what the impact would be if the funding was not received until the governor signed the bill on June 15th. Additionally, if the dollars were going to be replenished to deferred maintenance, he wondered if it was a capital item where there was no rush and the funding could go into FY 26, FY 27, and FY 28. Alternatively, he asked if the catch up had to occur in the two-week window after an operating budget was signed.

Ms. Sanders answered that the legislature appropriated deferred maintenance funding annually and the Department of Transportation and Public Facilities (DOT) facilitated a process with all state agencies to rank the capital projects. Subsequently, OMB worked through the list in order of the ranking to allocate the funding. When it had been identified there would be an issue with the balance of the Disaster Relief Fund, OMB had reviewed capital appropriations. She elaborated that OMB had determined it could temporarily use deferred maintenance funding for the purpose with the understanding it was important to put the money back in order for state agencies to continue to move forward with deferred maintenance projects in order to avoid larger problems. Timing wise, the legislature had the ability to pass a fast track supplemental quickly and get it to the governor for signature. She hoped the funding for the Disaster Relief Fund could be addressed sooner than June.

[2:51:06 PM](#)

Representative Bynum was supportive of the expanded operations for Civil Air Patrol included in the budget. He believed it was good for communities. He did not see anything with regard to expansion of veterans' services, specifically for veteran services officers. He asked if the administration had considered including the funding. He noted there was a tremendous need for direct services for veterans in the state. He believed there was not necessarily a high focus on the topic.

Ms. Sanders replied that the FY 26 budget did not include an expansion for veterans' officers. She noted there had been significant conversation during the 2024 legislative session about additions of the positions. She would follow up with the information.

[2:52:45 PM](#)

Ms. Sanders highlighted two operating budget items for the Department of Natural Resources (DNR) on slide 8. The budget included \$858,000 UGF and three new positions for forestry management and development for increased access to land and resources. She detailed that it was a top priority for the department to expand access to state forests and timber resources in order to increase timber sales to drive economic development. The request would go towards providing stable funding sources for equipment operators, mapping services, and foresters. The budget also included \$648,400 UGF for natural disaster emergency response and prevention. The primary responder was DMVA; however, with the increasing number of disasters across the state, other agencies were called upon for their expertise. The increment would provide the Division of Geological and Geophysical Surveys the ability to respond to the state emergency operation center's request for assistance and have a team specifically dedicated to emergency response and the prevention of natural disasters. The team would conduct geological hazard assessments promptly and proactively to manage land and mitigate geological risks in the state.

[2:54:51 PM](#)

Representative Galvin asked for more clarity on the \$858,000 for three positions. She thought perhaps there the cost involved housing, cars, or something else. She thought the positions seemed to be very high paying.

Ms. Sanders deferred to DNR for detail.

BRENT GOODRUM, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (via teleconference), answered there were two parts to the increment. One was to help secure stable funding for 12 positions including 4 foresters, 5 GIS analysts, and 3 equipment operators. He detailed that much of the work they did was related to fire risk reduction and fuel breaks. Up until the current point the work had been funded through expiring CIPs and federal funds. He explained it was important to secure more stable funding to help reduce fire risk and increase access to state timber resources. The funding would also pay for a new forester position in Haines, an engineer to help with road work to create the access, as well as an accountant technician to help make sure the work was done effectively.

Co-Chair Josephson did not see anything about the executive order (EO) on the agricultural department. He asked if it was more appropriate for a hearing on the EO. He asked about the cost of standing up a new department.

Ms. Sanders answered that OMB had been working closely with DNR on the topic. The governor's office would submit amendments in the governor's amended budget, which would show the total cost and positions. She noted that OMB was also working on some statements of cost so the committee could see what it looked like prior to the release of the amended budget.

[2:57:42 PM](#)

Co-Chair Josephson relayed that a number of legislators had a meeting a couple of years ago with a former professor Mr. Steiner from the University of Alaska Fairbanks who is an author and expert on climate science. He detailed that Mr. Steiner had talked about the need for a resiliency fund. He highlighted Haines, Wrangell, and Sitka and landslides that he believed were clearly climate related. He cited Typhoon Merbok [a storm that hit western Alaska in September 2022] as another example of a climate related disaster. He asked if the administration had thought about a broader

discussion about the impact of climate change on appropriations in the future.

Ms. Sanders replied that she had not participated in any of those discussions. She deferred the question to DMVA.

BRYAN FISHER, DIRECTOR, DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (via teleconference), replied that he had worked for the department for 30 years and there had been constant discussions on the impact of climate change and what it meant. He relayed that the number of disasters declared around the state had become more frequent including coastal sea storms, wildfire in the Interior and Arctic regions of the state, and landslides in Southeast. He stated that the frequency and intensity of disasters in Alaska and nationwide had trended to be increasing. He stated that the division's response to disasters was about the effects, not the cause of climate change. There were a pretty significant number of disasters declared in Alaska occurring about once per month on average for the past 1.5 or 2 years.

Co-Chair Josephson encouraged the department to think about the impact of the climate.

Ms. Sanders moved to the Department of Public Safety (DPS) increments on slide 8. The governor continued to advocate for investment in public safety across the state. The budget included \$1,215,200 UGF to provide five additional Village Public Safety Officer (VPSO) positions, increasing the program from 85 to 90 positions. She stated that DPS had done a great job working to fill the positions and reduce the number of vacant VPSO positions. The increment would continue to rebuild the program at a sustainable rate. Additionally, the budget included \$3,750,100 UGF and nine new positions for the Alaska State Troopers (AST). She detailed that the increment was broken into two parts. First, there was \$2.4 million to reestablish the Talkeetna Post, which was closed in 2016. The post would ensure there was timely response and coverage of Willow, Talkeetna, and Trapper Creek. The increment was intended to improve response times, traffic enforcement efforts, and provide full-time law enforcement services to residents in the upper Susitna Valley. The post would require five new positions including one sergeant, three troopers, and a criminal justice technician. Additionally, there was a

request for a wildlife trooper at the post. The second portion of the increment was \$1.3 million to add three troopers for child crime investigations in Western Alaska. She relayed that three positions were added in the FY 25 budget to serve Bethel and surrounding villages. She detailed that the volume of sexual assault cases surpassed existing trooper investigative capacity. The addition of non-permanent investigators dedicated to the sexual assault of minor cases in the Kotzebue, Nome, and surrounding areas would allow the department to bring on investigators to manage the case volume in the region.

[3:02:47 PM](#)

Representative Tomaszewski asked how many VPSO positions had been added the previous year and how many had been filled.

Ms. Sanders deferred the question to the department.

DIANNA THORNTON, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF PUBLIC SAFETY (via teleconference), answered that 10 VPSO positions had been added in FY 25. The 85 positions funded for FY 25 had been filled.

Representative Johnson stated that investigator positions had been funded in FY 25. She asked if the positions had been filled.

Ms. Sanders believed the positions were filled, but she deferred to Ms. Thornton.

Representative Johnson repeated her question.

Ms. Thornton answered that the three investigator positions were for Bethel and were filled. The three proposed positions in the FY 26 budget were for Kotzebue.

Representative Hannan asked how many Alaska State Trooper positions were unfilled. She remarked there had been a fairly high vacancy rate in 2024.

Ms. Thornton did not have the number on hand and would follow up.

[3:05:54 PM](#)

Representative Hannan asked about the trooper policy when a person was hired for a specific area. She asked if an individual who took a position in Bethel could transfer internally to the Trapper Creek post if it was created. She highlighted that there had been focus on filling rural positions, which had been difficult to fill. She was concerned about the idea of losing those people hired in rural positions. She wondered whether a person who had taken a specified position such as a child crime investigator in Bethel could transfer into the regular ranks at a trooper post on the road system when it became available.

Ms. Thornton replied that there was a policy in place, but she did not have the information on hand. She would provide the answer in writing.

Co-Chair Schrage recalled there had been difficulty in past years where positions had been created and the state had been unable to fill them, or the position was filled but another position within the same allocation went unfilled. He asked for an aggregate breakdown of the number of positions, how many were filled, and how it had changed over the past several years. He asked what other posts (apart from Talkeetna) had been closed in the past decade.

Ms. Sanders replied that DPS would follow up.

Co-Chair Schrage asked why the Talkeetna post had been selected for reinstatement over the other posts that had been closed.

Ms. Sanders agreed to follow up with the information.

[3:08:48 PM](#)

Ms. Sanders addressed the DOT budget highlights on slide 9. The budget included a \$250,000 UGF increment to provide employees with specialized training to respond to accidents along the Dalton Highway. She explained that due to increased hauling activity on the Dalton Highway, particularly with the transport of liquified natural gas (LNG), employees needed specialized training to respond effectively to highway accidents in the remote area. The increment would ensure employees had training and equipment and skills to manage hazardous materials or perform accident response safely. The budget also included \$692,500

UGF for maintenance camp contracting. She detailed that the Dalton Highway had experienced personnel shortages; therefore, DPS was proposing contracting out for personnel including equipment operators, mechanics, and other needs. The budget included \$1 million UGF for the northern region roadside hardware repairs. She expounded that there was often damage done to guardrails, signs, and other installations along the roadway that protect drivers. The department often sought compensation from the person responsible for the damage through insurance and the funds were frequently insufficient or the damaging party was unknown. The increment would enable the department to start addressing repair needs. The budget included \$500,000 UGF for right-of-way clearing of vacated homeless encampments. There was an increased number of vacated homeless encampments on state right of ways, which left debris, hazardous materials, environmental damage, and were often a public safety hazard.

Co-Chair Josephson remarked that there had been a mass denuding of forest the past fall in Representative Galvin's district. He explained that the location was in the right of way and had homeless encampments. He believed there had been some dispute or consternation about how it had been done. He stated it was vast acreage that may have exceeded the bounds of the encampment. He would like details from DOT on how the decision had been made. He had been told that although DOT had the right to do it, it was not the way the Municipality of Anchorage would have done it. He was curious to know the policy.

Ms. Sanders noted that the ASD director was available online. She would have the department follow up in writing.

[3:13:33 PM](#)

Representative Hannan asked about the Northern region roadside hardware repairs. She wondered what funding the department currently had for the repair and why there was only funding for the Northern region. She suspected that all of the state's highways had the same issue. She wondered if there was some major incident resulting in the funding request.

Ms. Sanders deferred the question to DOT.

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), replied that the department was split into three regions by statute. He relayed that the Northern region was significantly larger than the Southcoast and Southcentral regions. He explained that the request was in response to watching trends. He detailed that damaged guardrail posed a safety risk and the request was about safety. He elaborated that the Northern region was seeing a trend up and an increase in the cost of the materials. The region was trying to mitigate the impacts to its operating budget and still be able to keep the guardrails safe for the traveling public. He explained that the situation was not as big an issue in the other two regions.

Representative Hannan asked what the state currently spent for the item in the Northern region. She asked if it was a fraction of what was spent or reflected a doubling of the budget.

Mr. Pannone replied that the department spent roughly \$2.5 million annually in the Northern region for guardrails. He would be happy to follow up with information showing the history for the couple of years.

[3:17:10 PM](#)

Co-Chair Schrage returned to Co-Chair Josephson's question about right of way clearing. He stated that some of right of way clearing had been done over the past year and he assumed it was small enough in scale that it was absorbed into the budget and the existing level of appropriated funding. He asked if there was a reason the same could not be done moving forward. He asked if the department was anticipating a larger scale of right of way clearing. Based on his experience driving down the new Seward Highway he found the clearing to be extensive. He remarked that there may be some frustration with how it was done. Generally, he believed it was likely a good public safety step. He asked what the state would get for \$500,000 and if DOT was expecting that much additional right of way clearing into the next year.

Mr. Pannone responded that the department spent roughly \$300,000 on the [right of way clearing] activity in the Anchorage area and approximately \$150,000 in the Fairbanks area. The department was recognizing the need to clean the

areas up as more areas were identified. The request was to continue with the effort to ensure the areas were safe. He elaborated that DOT managed the right of ways as part of a federal funding requirement. The budget request was to continue the work without impacting other maintenance and operation areas.

Representative Allard asked if the department was also looking at preventing the encampments from happening. She asked what DOT was doing to prevent the situations from getting to the point where it cost so much.

Ms. Sanders deferred the question to Mr. Pannone.

[3:19:34 PM](#)

Mr. Pannone answered that the department looked at clearing trees, adding sightlines, and increasing safety in encampments. The department also looked at controlled access to the facilities. He explained that a lot of the concerns stemmed from pedestrians and traffic and keeping the public safe. When the department became aware of encampments and locations, clearing the trees was one way to increase safety. Additionally, changing the way highways were designed could also help mitigate the situation. He added that he was not the policymaker on maintenance and operations or highway design. He deferred detailed questions on the subject to a subcommittee meeting.

Representative Stapp asked if the department had the ability to send a bill to the municipality for allowing the situation to continue to happen.

Mr. Pannone replied that the department was requesting the funds for locations that were the state's responsibility. Sending a bill would be a policy call, which was outside his expertise.

[3:22:12 PM](#)

Representative Allard stated that while something may be on a state road, the Anchorage Police Department still had jurisdiction over the area. She suggested a municipality should reimburse the state. She believed a single mom in Fairbanks should not have to foot the bill for the Municipality of Anchorage not doing its due diligence.

Mr. Pannone answered that they were policy calls and he deferred to the right of way section of DOT that had a full understanding of the departments obligations for the federal highway funds it received. He deferred the policy to policymakers.

[3:23:24 PM](#)

Co-Chair Josephson relayed that during the latest campaign season many of the legislators had spoken with constituents about homelessness. He asked Ms. Sanders to resume her review of slide 9.

Ms. Sanders highlighted a \$20 million request (\$3.9 million UGF and \$16.9 million in university receipts) for the University of Alaska for fixed operating cost increases such as cyber security and information technology, facilities maintenance, and utilities. She noted there were substantial items such as salary adjustments that were also included for the University. She relayed that a \$100 million increment she had discussed earlier also included almost \$20 million for the University's salary adjustments associated with its bargained contracts. The last item on the slide was a statewide item request of \$2.5 billion UGF to provide a full statutory PFD. She stated it was the governor's priority to continue to put forward a statutory PFD.

Representative Bynum referenced investments made in the University of Alaska and other programs. He stated that one of the ongoing themes he would discuss was workforce development including creating pipelines for students to help with trades that were needed in Alaska. He hoped there were specific budget items that would highlight the needs.

Ms. Sanders replied that the University would be prepared to address the item with the committee.

Co-Chair Josephson thanked Ms. Sanders and her colleagues. The presentation would continue during the meeting the following Monday.

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ADJOURNMENT

[3:26:50 PM](#)

The meeting was adjourned at 3:26 p.m.