

HOUSE FINANCE COMMITTEE
January 27, 2025
1:32 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:32 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 Frank Tomaszewski

MEMBERS ABSENT

Representative Will Stapp

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget; Eric Demoulin, Administrative Services Director, Department of Administration; Hannah Lager, Administrative Services Director, Department of Commerce, Community, and Economic Development; April Wilkerson, Deputy Commissioner, Department of Corrections; Dianna Thornton, Administrative Services Director, Department of Public Safety.

PRESENT VIA TELECONFERENCE

Amber LeBlanc, Administrative Services Director, Department of Law; Bob Ernisse, Administrative Services Director, Department of Military and Veterans Affairs; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities.

SUMMARY

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

Co-Chair Josephson relayed that the meeting was a continuation of the meeting from the previous Friday, January 24, 2025. The committee would continue hearing a presentation from the Office of Management and Budget (OMB) on the governor's FY 26 operating budget.

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

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LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, continued the PowerPoint presentation titled "State of Alaska Office of Management and Budget" dated January 24, 2025 (copy on file) on slide 10. She explained that the graph on the slide was provided to outline the unrestricted general fund (UGF) breakdown for the proposed capital budget for FY 26, as proposed by the governor. She relayed that the Department of Transportation and Public Facilities (DOT) was the primary financial driver of the capital budget, accounting for 46 percent of the proposed budget. She also highlighted that 55 percent of the capital budget was attributed to general fund match, particularly for DOT, but also in the Department of Environmental Conservation (DEC), which would be matching federal grant awards. She provided the slide as a high-level overview and noted that she would continue by discussing several agencies in the following slides, focusing on key capital projects within each of their budgets.

Ms. Sanders moved to slide 11 and addressed the first item under the Department of Administration (DOA), which was a \$7 million state request for a statewide time and attendance management system. She explained that the Division of Finance under DOA was seeking to implement a new time and attendance management system to improve payroll processing for approximately 14,000 executive branch employees across various state departments. She outlined the current system, which relied on the IRIS accounting system and an attached human resource management system. While the current setup allowed for basic timesheet

entries, it was inadequate for addressing the complex timekeeping needs that had arisen from various bargaining agreements and payroll arrangements. The goal of the new system would be to streamline the processing of timesheets and ensure accuracy.

Representative Galvin asked for clarification on what the \$7 million would specifically cover. She noted that the issue had needed attention for some time and asked whether the funding would be used for hardware, software, or personnel.

Ms. Sanders responded that she would defer the question to DOA's Administrative Services Director to explain in more detail how the \$7 million would be allocated.

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ERIC DEMOULIN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ADMINISTRATION, responded that the \$7 million would primarily address system needs, focusing on the time and attendance system. He explained that the system would need to account for the various collective bargaining agreements in place across the state. The goal was to implement software that could aggregate payroll data from different bargaining unit agreements and streamline the entire process.

Representative Galvin asked if the new system would eliminate the need for employees to manually record and process payroll, noting that some payroll procedures had involved a "pen-to-paper" method. She asked whether the state had already developed the request for proposal (RFP) to ensure the \$7 million estimate would cover the system for all 14,000 employees.

Mr. DeMoulin responded that the \$7 million estimate was based on initial information obtained from a previous request for information (RFI). He noted that while the RFP for a complex time and attendance system needed to be carefully defined to ensure payroll accuracy and timely payments, the \$7 million was the best estimate with the current information provided to vendors. He added that the final cost could vary depending on the project's scope.

Representative Tomaszewski asked whether the new system would replace the IRIS system or add to it.

Mr. DeMoulin clarified that the new system would not replace IRIS. He explained that IRIS was the state's system of record for payroll, and the new system would be a time and attendance module integrated with IRIS to support the payroll process.

Representative Tomaszewski asked if there had been any discussions about potentially replacing IRIS altogether.

Mr. DeMoulin responded that there were no current plans to replace IRIS.

Representative Hannan asked for more information about the current hardware and software provisions for the payroll office, as there had been concerns from constituents in the past about insufficient or outdated equipment. She asked whether the payroll office had the necessary equipment to run the new system, and if the new system would address the payroll issues that had been ongoing for a couple of years.

Mr. DeMoulin responded that the payroll office was fully equipped with the necessary hardware. He explained that in 2024, all payroll technicians had been provided with new, tablet-style laptops. The laptops would allow the technicians to process electronic timesheets while still being able to annotate and make corrections digitally, eliminating the need for paper-based timesheets. Additionally, the payroll office had been relocated to the Alaska State Office Building and was now fully provisioned with the equipment necessary for the tasks.

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Representative Hannan understood that some payroll responsibilities had been delegated to individual departments, particularly for departments with more complex payroll needs, such as the Department of Transportation and Public Facilities (DOT) for the Alaska Marine Highway System (AMHS). She asked if the new time and attendance management system would centralize payroll responsibilities back to the DOA or if the services delegated to other departments would remain at the departmental level.

Mr. DeMoulin responded that he was not fully informed on the reasoning behind the idea to move AMHS back to DOA. The goal behind implementing a new and robust time and

attendance system was to build consistency across the payroll system. He explained that the intent was not necessarily to relocate work but to make the system adaptable across all agencies, even agencies that currently handled payroll functions internally. He hoped that by building statewide consistency, the state could achieve both uniformity and cost savings.

Representative Johnson asked if the new system would have any impact on issues related to retirement payments from municipalities to the state, particularly regarding the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). She noted that there were concerns about a possible cyber-attack affecting retirement payments and asked whether the new time and attendance system would require upgrades or additional funding to address the problem.

Mr. DeMoulin responded that the time and attendance system and the retirement payment system were not currently interconnected. When developing the scope of work and a detailed RFP for the payroll system, the department would ensure that stakeholders were considered, including those involved with retirement systems like the Division of Retirement and Benefits (DRB). He noted that DRB's new system, "BEARS" [Benefits and Retirement System], was currently being developed, and it would be important to coordinate to ensure that the systems worked well together and did not create any issues.

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Ms. Sanders continued to the Department of Commerce, Community, and Economic Development (DCCED) on slide 10. She highlighted several capital projects, beginning with a \$6.3 million deposit into the Renewable Energy Grant Fund (REGF). The funding would support approximately 17 renewable energy projects, with six additional projects from the prioritized list of the Alaska Energy Authority (AEA). She noted that the previous year's budget had included the top five projects, totaling \$10.5 million, and the FY 26 deposit would continue funding for the remaining projects on the list. Next, she highlighted the \$4.4 million allocation in Ocean Ranger receipts for AEA's Whittier-Cruise Ship Terminal Port Electrification Project. The funding would complete the project to upgrade the cruise ship dock in Whittier, allowing cruise ships to plug

into shore power and turn off the engines while docked, reducing emissions.

Ms. Sanders continued to discuss the funding for the Alaska Gas Line Development Corporation (AGDC), which would support legal expertise for overseeing agreements and contracts related to Alaska Liquefied Natural Gas's (LNG) gasline project. Additionally, the funding would support data management systems, geographic information systems, and federal permitting efforts. The next item was a \$6.5 million request for AEA to continue work on the Dixon Diversion Project. The funding would cover additional engineering, design, permitting, and geological studies necessary to obtain the required Federal Energy Regulation Commission (FERC) license and advance the project toward construction.

Ms. Sanders continued by highlighting a \$2.5 million request to the Alaska Industrial Development Export Authority (AIDEA) for the West Susitna Road Access Project. The funds would allow AIDEA to complete necessary fieldwork and submit a Clean Water Act Section 404 permit application to the U.S. Army Corps of Engineers, which would ensure the project could progress with all federal permitting in place.

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Co-Chair Josephson noted that there were some questions regarding the second bullet item, the Ocean Ranger receipts, which would fund the Whittier project. He mentioned that the program had originated in around 2006 and that the receipts were initially collected by DEC.

Ms. Sanders responded that the Ocean Ranger receipts were collected by DOR and then deposited into the Environmental Compliance Fund (ECF), which had been managed by DEC. Within ECF, there had been two sources of revenue that had been tracked separately but were both deposited into the same account: the environmental compliance fees and the Ocean Ranger receipts. She explained that DOA had worked closely with the Division of Finance and DEC to ensure accurate accounting of the receipts. She relayed that DOA had worked through the process in 2024 to document the two funds properly.

Co-Chair Josephson explained that while he had understood the benefits of electrifying the Whittier terminal in terms of reducing air pollution, he questioned whether the project was truly what voters had envisioned when the initiative passed. He was concerned that the initiative was originally meant to fund the regulation of cruise ship pollution, but it had not been clear whether enough resources had been directed toward pollution regulation. He asked whether adequate resources had still been applied to cruise ship regulation in the absence of the receipts.

Ms. Sanders deferred the question to DEC. She acknowledged that there had been discussions about balancing the Ocean Ranger fund and the growing amount of funds being collected. She relayed that DEC was still involved, but not to the extent that was originally intended. She explained that because the funds had been collected through a "head tax" on cruise ships, the funds were required to be used to serve the cruise ship industry, and the Whittier project had fit within the scope.

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Representative Hannan asked for the total dollar amount already allocated to the Whittier project, including both the Ocean Ranger receipts and other funding sources. She asked if the dock was private or owned by the city of Whittier, and what contributions had come from other sources.

Ms. Sanders deferred the question to DCCED.

HANNAH LAGER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, responded that she could provide a copy of a spreadsheet tracking the history of Ocean Ranger fund collections and expenditures. She noted that there had been a previous appropriation of \$5 million from the Commercial Passenger Vessel Environmental Compliance Fund (CPVECF) to the dock project. She relayed that Holland America had contributed \$6 million towards the project, and \$1 million had been contributed by the community of Whittier itself. She would follow up with information about the dock's ownership.

Ms. Sanders clarified that in 2024, \$5.4 million should have come out of the Ocean Ranger fund, not CPVECF. The issue had since been corrected.

Representative Hannan asked Ms. Lager to provide the spreadsheet for further review and asked for the terms of the agreement for the project. She understood that the bulk of the funding was state-authorized, but the dock was privately owned. She was concerned that the state funding could potentially benefit only one cruise line and asked for clarification on whether the dock was owned by Holland America or the city of Whittier. She emphasized the need to ensure that the Ocean Ranger funds did not create favoritism toward one cruise line as the funds were collected from all cruise ship lines.

Representative Bynum asked why additional UGF was being added for AIDEA as it did not seem to need it.

Ms. Sanders replied that there were several projects underway at AIDEA, and UGF had been identified as the funding source for the dock projects. She clarified that UGF was simply the funding source identified for the project.

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Representative Johnson asked what the \$6.5 million for the Dixon Diversion Project would pay for.

Ms. Sanders responded that the funding would cover the remaining costs to get the project to construction, which included federal permits and geological studies. The funds were necessary to submit the FERC license and proceed to construction.

Ms. Lager added that the project was intended to be bonded for the utilities.

Representative Galvin understood that the project would allow ships to be shut down while docked in Whittier. She recalled that the project would cost over \$15 million, with \$6 million coming from Holland America. She asked whether the state would be responsible for maintaining the facility, including upkeep and deferred maintenance, or if Holland America would be involved. She asked if the project would place additional responsibilities on the state.

Ms. Sanders responded that the dock in Whittier was not state-owned, and the state would not be responsible for

deferred maintenance. She acknowledged that community requests for state funds could arise in the future, even though the responsibility for maintenance would rest either with the community or with Holland America. She offered reassurance that the department would follow up with more information on the dock's ownership.

Co-Chair Josephson asked for more information about the West Susitna funding. He understood that prior appropriations were for activities such as permitting and construction on the east side of the Susitna River, but not for the west side, which was the more controversial side. He asked whether the Army Corps of Engineers' CWA permitting and other federal permitting efforts were for the east side or the west side of the river.

Ms. Sanders replied that she would follow up with the requested information.

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Ms. Sanders continued on slide 11 and explained that there were two budget requests for the Department of Corrections (DOC). The first was to finalize the development of the Point Mackenzie Correctional Farm and its produce processing plant. The department had previously received \$1.5 million to start the project and the current request for \$3.1 million would provide the remaining funding needed to purchase and install equipment for a fully functional plant. The farm would be able to grow and store produce year-round for distribution. The second request was for \$4 million for the construction of a booking and intake area at the Hiland Mountain Booking and Intake Area, which currently did not have such a facility.

Representative Galvin remarked that she had visited the Point Mackenzie processing plant and observed the need for new equipment. She was surprised by the high price tag of the new request and asked whether it was also meant to cover meat processing needs, as the previous request seemed to be more focused on produce and storage.

Ms. Sanders replied that DOC would explain the high cost of the equipment.

APRIL WILKERSON, DEPUTY COMMISSIONER, DEPARTMENT OF CORRECTIONS, responded that the funding would complete the

produce processing part of the project and was not related to meat processing. The request would cover the cost of missing equipment, including distribution freezers, a chiller blancher, a steam boiler, a water chiller, heat exchangers, a blast shock freezer, and conveyor tables. She explained that when DOC submitted the RFP, it was discovered that some of the necessary equipment had not been identified in the original request, as well as some missing infrastructure. As a result, the initial \$1.5 million was not sufficient to cover all the required equipment and was used instead for other infrastructure, water, and electrical needs. There had been a substantial increase in the costs associated with the equipment since COVID-19.

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Ms. Sanders continued to the budget requests on slide 12, beginning with DEC. She explained that there was a request for \$450,000 in designated general funds (DGF) from the Oil and Hazardous Response Fund (OHRF). The funding would pay for the Home Heating Oil Tank Oversight program. She also pointed out a typo, clarifying that the funding would come from DGF although the slide indicated that it would come from UGF. She explained when there was a release from a home heating oil tank, the responsible parties were required to clean up the release, conduct inspections, and dispose of materials. However, the cleanup often became the responsibility of private residents, who might not have the technical or financial means to address the issue themselves. She relayed that DEC had a program in place to assist residents in the event of a hazardous release, which could involve conducting site characterizations or helping with risk evaluations to ensure the contaminated soil was cleaned up properly.

Representative Hannan asked for clarification on how the money was allocated into OHRF.

Ms. Sanders explained that there were several funding sources, including a surcharge on fuel and settlement funds related to specific incidents. She remarked that it was complex, but the funds were generally used for a variety of purposes related to oil and hazardous substance releases.

Representative Hannan asked if the Spill Prevention and Response (SPAR) division of DEC contributed to the fund.

Ms. Sanders confirmed that SPAR was one of the contributors to the fund.

Representative Hannan asked for more specific information on how much money was generated annually by the fund and what impact the \$450,000 allocation would have on the overall balance.

Ms. Sanders responded that she did not have the fund balance summary with her but would ask DEC to follow up with the information. She noted that DEC also needed to maintain reserves in the fund, particularly in case of a large spill.

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Ms. Sanders continued to the three budget requests from the Department of Fish and Game (DFG). First, there was a \$5.6 million request for the Gulf of Alaska Chinook Salmon Program, which was a five-year effort by the department to sample, assess, analyze, and report the stock composition of Chinook Salmon harvested across the Gulf of Alaska. The program was necessary to ensure the accuracy and reliability of the data, which was essential for the sustainable management of Chinook in the region. There was also an \$800,000 request to continue the Alaska Marine Salmon Program, which would further support salmon management and conservation efforts. The program was an ongoing survey aimed at pinpointing survival bottlenecks in salmon populations, assessing health metrics that might serve as early indicators of poor marine survival, and collecting abundance data to forecast run sizes for up to three years in the future. The next item was a \$6.8 million request in federal receipts for the Pacific Coastal Salmon Recovery Fund (PCSRF). The funding was a continuation of federal grants from PCSRF and projects under the program were selected through a competitive process, with the funds supporting stock assessments, harvest monitoring, eradication of invasive species, and habitat projects.

Co-Chair Josephson asked whether it was typical for these types of programs to be in the capital budget.

Ms. Sanders responded that the situation varied from year-to-year, but it was generally appropriate for such programs to be included in the capital budget, especially if the

project was not intended to continue indefinitely. She added that including the projects in the capital budget brought more stability to the DFG budget, as it avoided large fluctuations in funding. Additionally, it allowed DFG to begin projects earlier in the year. Without the flexibility of a multi-year appropriation, the department would miss out on a significant portion of the season as it would be required to wait until July 1 of each year to begin projects under the operating budget.

Ms. Sanders moved on to discuss the Department of Health (DOH). She highlighted a request for \$14 million to replace the provider services module for the Alaska Medicaid program. The request included \$12.6 million in federal receipts and a \$1.4 million match. The provider enrollment process was a critical part of the state's Medicaid program, but the current system that was embedded in the existing Medicaid Management Information System (MMIS) was outdated and required extensive manual data entry. The new provider services module would greatly improve processing and approval times in line with the efforts of the Centers for Medicare and Medicaid Services (CMS) to modernize legacy MMIS systems and would ideally reduce the wait to one week or less.

Ms. Sanders continued to the request from the Department of Law (DOL) for \$8 million to replace its case management system. She explained that there were currently two separate and outdated systems used by the Civil Division and Criminal Division. The Civil Division's system was not compatible with cloud technology or a virtual private network (VPN), and the Criminal Division's system could not keep up with the volume and types of evidence and could not maintain consistent connectivity with the court system across the state. The \$8 million request aimed to replace both systems with one new system that would meet the needs of both divisions.

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Co-Chair Schrage asked whether DOL had solicited proposals and if so, he asked how many proposals it had received.

Ms. Sanders replied that the department had solicited information, specifically working with other states to see what systems other states were using. She deferred to DOL for more information.

AMBER LEBLANC, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF LAW, (via teleconference), explained that DOL had not issued an official RFP, but had gathered information from other states that had recently updated their legal systems. The department asked other states about the options available and the associated prices for the systems. She noted that there were only a few options available and the department did not anticipate many more becoming available. She explained that the Civil Division's current system was outdated, and the vendor providing service had indicated it would no longer support or upgrade the software in the future. She clarified that the \$8 million allocation would not fully fund the replacement for both divisions. The department would need to request additional funding in the future to complete both systems.

Ms. Sanders continued to discuss the Department of Military and Veteran's Affairs (DMVA). She explained that the statewide Armory Barracks conversion projects were spread throughout the state aimed at converting space for disaster response or other events. Additionally, the Camp Carroll modernization project and Alcantra modernization projects involved restoring and upgrading facilities. For example, the dining facility at Alcantra was not up to current health code requirements and updates were needed to ensure it could properly serve soldiers. All of the projects were federally funded with a matching requirement, and detailed backup information was available for further review.

Representative Hannan asked how many Army Barracks conversion projects there were. She asked for more details about Alcantra as she was unfamiliar with it. She asked whether Alcantra and Camp Carroll were both barracks conversions.

Ms. Sanders responded that she did not have the detailed spreadsheets in front of her but confirmed that there were multiple barracks conversion projects. The budget documents included project allocations that broke down the costs for each location. She deferred the question to DMVA for more details.

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BOB ERNISSE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS, (via teleconference),

explained that the statewide barracks conversion projects had specific allocations for Nome, Kodiak, Bethel, and Fairbanks. He clarified that Alcantra was located in the Wasilla area.

Representative Hannan noted that the federal-to-state match for the statewide barracks appeared to be a dollar-to-dollar match, while the other projects did not have the same ratio. She asked why there was a dollar-to-dollar match for the barracks conversion and not for the Camp Carroll or Alcantra modernization projects.

Mr. Ernisse responded that the match requirements varied by armory location and were dependent on the ownership of the land. He explained that most of the barracks conversion projects would follow a 50-50 split, but Camp Carroll had a 75 percent federal and 25 percent state split. He relayed that Alcantra would also follow a 50-50 split, but it had received a waiver from the National Guard Bureau for part of the project, allowing the federal government to contribute more than was typical.

Ms. Sanders continued to slide 13 and the requests for the Department of Natural Resources (DNR). The first item was a \$2.5 million request for the acquisition of a firefighting aircraft to replace the turbo commander aircraft, which was at the end of its operational life. The aircraft was critical for mission specific to wildfire firefighting and for coordinating aerial and ground resources during fires, which would enhance safety for Alaskans by protecting private citizens and communities from wildfires.

Ms. Sanders continued to the Department of Public Safety (DPS), which had a \$6.5 million request for the purchase of a single-engine turbine-powered all-weather Pilatus PC-12NG aircraft, which would be used for emergency response capabilities across 96 percent of Alaska's maintained airports.

Representative Allard asked to revisit slide 12 and the Alcantra and Camp Carroll modernization projects. She emphasized the importance of military bases for strategic military needs and highlighted that upgrades had been requested for five or six years. She thought that Alcantra could have served as an essential meeting place for the National Guard if it had already been modernized during

recent earthquakes. She added that the modernizations were crucial for ensuring military readiness.

Co-Chair Josephson noted that Commissioner James Cockrell had made valid arguments about the importance of the Pilatus aircraft. Other states had Pilatus aircrafts and the aircrafts were relied upon during statewide emergency responses. He was not certain if Alaska currently had a Pilatus.

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Ms. Sanders responded that the state did not presently have a Pilatus.

Ms. Sanders continued speaking to DPS's requests. The next request was for \$1.4 million for annual aircraft maintenance and repairs for DPS aircrafts and would cover the replacement cost of worn-out equipment such as propellers, radios, and landing gear, as well as upgrades and deferred maintenance. The department also made a request for \$2.8 million for the maintenance and repair of Alaska Wildlife Troopers' (AWT) marine vessels. The troopers had 41 marine vessels that required ongoing maintenance. She explained that DPS had a plan and process for addressing deferred maintenance related to marine vessels on an annual basis. For example, there were several vessels that needed to go into a shipyard, which was a common process. She noted that the AMHS vessels also had to go into dry dock for maintenance. She added that there was a \$750,000 request for rifle-related armor and a less lethal 40mm program. The funding would ensure that troopers had adequate protective gear, including body armor, helmets, and ballistic shields, to perform their duties safely and effectively.

Representative Galvin asked if the estimate of \$1.4 million in UGF for annual aircraft maintenance was based on best practices for deferred maintenance. She asked if the figure was derived using a common approach, such as spending 2 percent to 4 percent of the equipment's total value for deferred maintenance.

Ms. Sanders replied that there were likely more deferred maintenance needs than could be addressed. The focus was on life, health, and safety for troopers operating in Alaska under diverse conditions. She deferred the question to DPS.

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DIANNA THORNTON, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF PUBLIC SAFETY, responded that the maintenance schedule was based on the current fleet of aircraft and the maintenance requirements set by the Federal Aviation Administration (FAA). The FAA required certain tasks to be performed by specific dates, which determined the fleet's maintenance schedule. She reiterated that the schedule was not reliant upon on a specific percentage of the equipment's value.

Representative Galvin asked for confirmation that the maintenance schedule was based on FAA regulations and not on the equipment's value.

Ms. Thornton responded in the affirmative.

Representative Johnson asked if the \$2.5 million request for the turbo commander aircraft was for a new aircraft.

Ms. Sanders replied that she could not remember if it represented the total cost for a new aircraft or a used aircraft. She would follow up with the information.

Representative Johnson noted that the aircraft had been requested in the past. She was wondering if the request was a net cost or the total cost. She asked if there was any value in selling the old aircraft and suggested that it could potentially offset the cost for a new aircraft.

Ms. Sanders responded that there could be some reimbursement from the state if there was an aircraft to sell. However, DPS was seeking an additional aircraft and was not planning to sell its old aircraft. She explained that similar to the way DFG handled budgets, there was often language in the budget that allowed DPS to reuse earnings from the sale of a vessel to fund new maintenance or equipment costs.

Representative Hannan asked if there was an operating budget corollary to cover the staffing, maintenance, and housing of the new Pilatus aircraft. She asked if there were any operating budget considerations related to staffing the aircraft and maintaining it.

Ms. Thornton responded that there were no corollary operating budget items at the moment. She explained that DPS currently had pilots who were rated to fly the Pilatus aircraft. The request for funding was only for the purchase of the aircraft, and the department planned to purchase a used plane. Any additional operating costs would not be known until the aircraft was actually acquired.

Representative Hannan asked how many aircrafts the department currently had and how many pilots were certified to operate the planes. She asked if, for instance, there were pilots without an assigned aircraft or a discrepancy between the number of aircrafts and available pilots.

Ms. Thornton responded that the pilots currently on staff were certified to operate the aircraft the department already had and would also be qualified to fly the new one. She added that the department currently had one long-range aircraft. She did not know the exact the number of pilots but she would follow up with the information.

Representative Hannan emphasized the importance of understanding the total number of aircrafts and pilots in DPS and not just the number of pilots rated for the specific new aircraft. She asked for more clarity on the department's overall aircraft operations.

Co-Chair Josephson acknowledged that many AWTs were often pilots as well.

Ms. Thornton responded in the affirmative. She apologized for the lack of specifics but assured that she would follow up with more detailed information.

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Co-Chair Schrage asked for more information about the ongoing operational maintenance of the aircraft and other items like vessels and rifle-rated armor. He asked if there would be additional capital budget requests in the future for things like aircraft maintenance, and whether the costs were expected to be covered in future operating budgets.

Ms. Sanders replied that maintenance costs for capital assets such as aircrafts, vessels, and armor could vary depending on the agency. She acknowledged that different agencies managed maintenance costs differently. Some had

maintenance budgets built into the annual operating budgets, while others had requested the costs year after year through the capital budget. She added that maintenance costs were not a one-time cost and many of the expenditures, like aircraft purchases, were part of ongoing long-term expenses for maintenance and repairs. Plans could also change due to unexpected conditions. She emphasized the importance of flexibility in managing the costs. For instance, if a project was estimated to cost \$1 million but ended up costing \$1.2 million, agencies needed the ability to adjust and redirect funds as needed. She explained that flexibility allowed agencies to manage maintenance needs over time, particularly when budgets were tight and costs were escalating. She also noted that the capital budget approach was becoming more common in some agencies, like DNR, DPS, and DFG, where maintaining specialized equipment such as aircrafts, vessels, and snow machines was critical for employee safety.

Co-Chair Schrage remarked that while he understood the reasoning behind the flexibility, as an appropriator, he wanted oversight over unexpected costs and cost overruns. He emphasized that legislators should be made aware of the issues, especially given the difficult fiscal environment. He was concerned about the trend of shifting maintenance costs into the capital budget. For example, he felt that rifle-rated armor should be part of the annual budget, rather than treated as a one-time expense, which would make it harder to anticipate future costs and plan for them. He also raised concerns about hidden costs across departments, such as the replacement of ATVs or firearms, and how the costs would affect the budget long-term.

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Co-Chair Foster asked if the current aircraft that was serving in the role of the Pilatus was similar to a King Air or Cessna 208. He asked if the department was replacing the aircraft because it was reaching the end of its life or if it was simply looking to expand capability.

Ms. Thornton responded that the department currently had a King Air based in Anchorage, but the intent was to have a second long-range aircraft based in Fairbanks to help with travel in the western region of the state without crossing the Alaska Range. While the department also used other aircrafts or chartered planes, the other planes did not

have the range or capacity to handle the distances needed in one trip. The new aircraft would allow for faster responses and would help eliminate delays in providing services to Alaskans.

Representative Jimmie asked if the current fleet of planes had the ability to handle the weather and airport conditions that a Pilatus could handle.

Ms. Thornton confirmed that the current fleet did not have the same flexibility as the long-range Pilatus aircraft, which could travel longer distances without the need for multiple stops. The department had other aircrafts, but none with the same range or carrying capacity.

Co-Chair Schrage asked if there was a record of callouts over the past one or two years and an analysis of how a new aircraft might improve service or performance.

Ms. Thornton responded that she would follow up with the information.

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Ms. Sanders continued to DOR's requests on slide 13. She relayed that the Dividend Application Information System (DAIS) replacement project had an additional request of \$4.5 million to complete phase 2. She noted that in 2024, the legislature approved \$7.5 million for the first phase. The total cost of the system replacement project was \$12 million, and the \$4.5 million request was necessary to complete it.

Ms. Sanders reviewed the request for over \$65 million in ongoing funding for Alaska Housing Finance Corporation (AHFC) programs, such as the senior citizens housing program, rural professional housing, and homeless assistance programs.

Representative Johnson asked for assurance that there would be no additional phases or further funding requests for DAIS.

Ms. Sanders replied that the \$4.5 million request was the final request to complete the system replacement, and there should be no additional funding needed for it.

Co-Chair Schrage asked why UGF was being used instead of Permanent Fund receipts, which typically covered Permanent Fund operations.

Ms. Sanders responded that using Permanent Fund receipts would reduce the amount of the dividend paid to eligible recipients. The decision was made to use UGF instead after discussions between the administration and the legislature.

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Ms. Sanders continued on slide 14 and the request for DOT. The first item was a request for the Silvertip Camp Bunkhouse (STCB). The \$325,000 request was to construct a bunkhouse for maintenance workers at the Silvertip Maintenance Station near milepost 56 on the Sterling Highway. Due to the remote location, workers currently commuted daily, and the new bunkhouse would allow workers to stay overnight during winter storms and ensure quicker response times for maintenance. Additionally, there was a \$2.5 million request for heavy maintenance on the Dalton Highway between mileposts 76 and 89, which would require extensive work to maintain the highway.

Ms. Sanders added that there was also a \$4.5 million request for aggregate stockpiles along the Dalton Highway to construct stockpiles at strategic locations for short-term maintenance. The purpose was to help address the poor surface conditions of the highway, which required an increased quantity of aggregate materials for repairs. She also noted that the funding source had been initially listed incorrectly and would be corrected through a technical amendment because capital improvement project (CIP) receipts were typically handled in the operating budget, not the capital budget.

Co-Chair Josephson asked for clarification that the Silvertip project was a Kenai Peninsula project, followed by the two Dalton Highway projects.

Ms. Sanders responded in the affirmative.

Co-Chair Josephson asked whether the Dalton Highway requests had been driven by the need to safely deliver supplies to the North Slope, and if the roughly \$7 million total cost had been industry driven.

Ms. Sanders responded that the requests had come directly from DOT. She acknowledged the fiscal challenges the state had faced and explained that while there had been extensive needs along the Dalton Highway, the department had prioritized what had been most urgent and feasible given the current financial limitations.

Co-Chair Josephson suggested that Director Dom Pannone offer additional insights.

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), responded that the funding would be allocated to a high priority section of the Dalton Highway. He confirmed that the funding was considered a single request. He explained that DOT had collaborated with the Alaska Truckers Association (ATA) and commercial operators to identify priority areas for road maintenance. The state funding request had allowed for quick and efficient action, with substantial federal funds from the Statewide Transportation Improvement Program (STIP), which was also allocated annually for capital projects and preventive maintenance on the Dalton Highway.

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Co-Chair Josephson asked if the \$7 million request was the cure for road erosion and other safety concerns. He asked if the highway would need more updates over the next five or ten years.

Mr. Pannone replied that there were maintenance funds in the operating budget and preventative maintenance funds in the capital budget. He clarified that the maintenance of the Dalton Highway was ongoing, especially given the harsh environment, and he explained that the gravel road had required regular grading and handling of heavy truck loads. The requested funding would not be a permanent fix but part of an ongoing effort to maintain and improve the highway for safe transportation. He also pointed out that no single project would have completely solved the challenges of road erosion and other safety concerns over a long period and continual work was needed.

Representative Hannan asked whether the Dalton Highway "slump" area, which had been sliding for several years, was located between mileposts 76 and 89.

Ms. Sanders responded that she would need to follow up with the information.

Representative Hannan understood that there was a capital budget item a few years ago that would have addressed the slump. She noted that the slump area had been notorious for melting and sliding, causing significant disruptions in traffic flow. She relayed that the slump disrupted traffic flow every year.

Ms. Sanders replied that she had the opportunity to travel to the area and observe the slump and subsequent traffic disruption. She emphasized that there was significant deferred maintenance along the entire highway and not only in the area that was considered the slump. She agreed that there would need to be continued capital projects along the highway to address maintenance.

Representative Bynum asked if the committee would be discussing not just the upcoming fiscal year's deferred maintenance but also the broader, long-term maintenance needs in the state.

Ms. Sanders responded that she could arrange a specific committee meeting to discuss deferred maintenance in greater detail if the committee desired. She suggested that such a presentation would be helpful to offer a comprehensive view of the scope of deferred maintenance needs.

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Ms. Sanders continued with the additional requests on slide 14. There was a \$4.25 million request for the Wood River Canyon Bridges and Trails project aimed to realign and build new trail bridges along the Copper River Highway Wood Canyon Trail, from O'Brien Creek to Haley Creek. The goal of the project was to improve access along the route while avoiding significant cultural sites. The project would focus on enhancing the road, bridges, waysides, and protecting the area from erosion, as well as conducting preservation activities for historic and cultural sites. She noted that collaboration with the Chitina Task Force would be key in the efforts. Additionally, there was a \$2.7 million request for the second phase of the Williamsport Intermodal Connector project. The second phase would

continue the design work that began in 2024, focusing on the Williamsport side of the road corridor to complete the multi-modal connection between Pile Bay on Iliamna Lake and Williamsport on Iliamna Inlet, which was part of Cook Inlet.

Ms. Sanders relayed that the next request was a \$6.25 million initiative to deploy system-wide Wi-Fi on the AMHS fleet, of which \$5 million was federal receipts and \$1.25 million was matching funds. The initiative aimed to enhance the passenger experience and improve operational efficiency by providing reliable wireless connectivity during transit. Finally, there was a request for \$10 million for a project at Ted Stevens Anchorage International Airport to install a 10-megawatt solar array, allowing the airport to generate renewable solar energy and reduce operational costs.

Representative Galvin asked if some of the appropriation requests for DOT were due to displaced federal funds that were expected but not received. She noted that there were concerns about the state missing out on tens of millions of dollars in federal funding.

Ms. Sanders responded that the projects included in the presentation were simply items of note and part of the governor's priorities. She understood that the conversation to which Representative Galvin was referring regarding lost federal funds was related to the STIP. She clarified that none of the items she had discussed in the presentation were due to a deferment because of issues with the STIP. She deferred to Mr. Pannone to provide additional context on the matter.

Co-Chair Josephson clarified that the question was if the appropriation requests were in lieu of dollars that the state arguably should have received through STIP.

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Mr. Pannone responded that the state did not miss out on any federal dollars in 2024. He suggested that Representative Galvin's concern might be related to the August redistribution, which provided an opportunity to spend more funds than initially authorized. He emphasized that the federal funds were not lost, but carried forward. He offered reassurance that none of the current requests

were related to August redistribution or STIP funding issues.

Representative Galvin asked if Mr. Pannone could comment on STIP funds in general and whether the state was losing any expected project funds.

Mr. Pannone responded that the STIP was currently working on Amendment 1 and would begin work on Amendment 2 in the near future. He explained that DOT was strategizing to maximize the available funds during the August redistribution.

Co-Chair Josephson asked Mr. Pannone to clarify the location of the Williamsport Intermodal Connector project. He asked if it was in the Lake Clark area.

Mr. Pannone responded that the project aimed to connect a barge landing for the community to an area with deeper water barge landings, but he admitted that his knowledge of the exact details was limited. He would follow up with additional information.

Co-Chair Josephson asked if the project was for Iliamna.

Mr. Pannone responded that he would need to follow up with the information.

Ms. Sanders continued to the requests for the University of Alaska (UA) on slide 14. One of the highlighted projects was the continuation of the drone program, which was part of the University of Alaska Fairbanks' (UAF) Alaska Center for Unmanned Aerial Systems Integration (ACUASI). The project focused on developing a drone economy in Alaska by creating educational pathways and working with the FAA to establish the safe integration of drones into traditional aviation systems in the state. Another significant project for UA was the Research 1 (R1) status initiative at UAF, with a \$5 million investment to continue progressing toward achieving national research prominence. The project had started in 2024 and aimed to elevate the university's research capacity.

Ms. Sanders detailed the next UA request, which was \$3 million to invest in research at UAF on agriculture and food Systems to improve Alaska's economic sustainability. The project was designed to strengthen Alaska's

agricultural research in response to increasing food security demands and the need for industrial growth. Additionally, the University of Alaska Southeast (UAS) sought \$2 million to support its growing mariculture program. The funding was intended to purchase a floating mariculture laboratory and construct necessary moorage facilities. The program aimed to address the rising demand for skilled technicians in Alaska's expanding mariculture industry.

Ms. Sanders noted that while the projects were included in the Board of Regents' capital budget, there were other requests from the university that were not included due to the state's fiscal constraints, such as a \$60 million request for deferred maintenance. She emphasized that the governor's budget was designed to prioritize the most pressing needs given the state's financial limitations.

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Co-Chair Josephson noted that in 2024, Representative Stapp had proposed a bill to capitalize and sustainably draw down a deferred maintenance program for the university. He asked if the administration took a position on such a remedy.

Ms. Sanders responded that while having a sustainable plan for deferred maintenance would have been beneficial, the main challenge was identifying a consistent funding source. She pointed to the example of the Alaska Higher Education Investment Fund (HEIF), which required a \$400 million capitalization to provide enough funding for programs like the Alaska Performance Scholarship (APS). She acknowledged that while a deferred maintenance fund would be beneficial, finding a stable revenue stream for such an initiative remained difficult.

Representative Galvin commented that she frequently heard that a deferred maintenance plan could not be put in place because the state could not find revenue to dedicate to it. She noted that other states had approached the issue differently. She cited Utah as an example, where the state committed to spending 2 percent of the total value of state properties on deferred maintenance before allocating funds to new capital projects. The state of Utah made choices about how to prioritize revenue, and deferred maintenance could be a part of that discussion.

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Ms. Sanders continued on slide 15 and praised state agencies for their hard work over the past year. She pointed out that there had been many conversations about the number of budgeted positions in state agencies and the growing vacancies. She highlighted that state agencies had responded to the concerns by focusing on filling vacant positions before requesting new ones, except in a few critical areas like DPS.

Co-Chair Josephson asked how DFG and DNR had more filled positions than budgeted positions. He asked if it was because the positions were temporary summer jobs.

Ms. Sanders responded in the affirmative. She explained that some positions could be double filled, and that the data, based on December 2024, included part-time and seasonal positions. The positions were more common in agencies like DFG and DNR as the departments' needs were more seasonal.

Co-Chair Schrage asked for more information on the concept of double filling positions.

Ms. Sanders explained that double filling could occur when an employee went on long-term medical leave, for example, and another person was hired temporarily to ensure that the position's duties were still carried out.

Ms. Sanders continued to slide 16 and discussed the state's vacancy rate. The slide included data from July 2017 to July 2024. She noted that vacancy rates had been high, especially after the COVID-19 pandemic, but there had been positive progress. The state had a roughly 16 percent vacancy rate as of July 2024. She mentioned that the data was constantly changing, as agencies were working hard to recruit and fill positions. She explained that what might have been 10 vacant positions one day could be reduced to five the next day, based on the success of recruitment efforts. The numbers represented a point in time and the situation was improving.

Representative Allard asked how many vacant positions were for remote workers.

Ms. Sanders responded that she did not have the data but would follow up with DOA about whether it was tracking information about full-time teleworkers. There were instances in which employees had a telework agreement in place but were not full-time remote workers. She reiterated that she would provide the committee with more specific data about remote work and its potential savings for the department.

Representative Allard asked how much money telework was saving. She asked if there were remote workers who never physically came into the office. She wondered if positions that were held open due to telework had been initiated during COVID-19 and whether employees working remotely from outside of the state would be returning to the office. She also requested a breakdown of how long budgeted positions had been vacant. She specifically wanted to know how many had been vacant for 12 months, 24 months, 36 months, 48 months, or even five years.

Ms. Sanders responded that that the department tracked the length of vacancies closely and that she would follow up with the requested data.

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Representative Galvin thought it would be important to understand why positions that were still listed as open remained unfilled, particularly if the department could not deliver services effectively due to vacancies. She suggested that it could be worth exploring how leadership viewed the unfilled positions and how they planned to address the challenge of filling the vacancies. She added that there were concerns about the lack of a wage study, though she chose not to delve into the issue further at the moment.

Co-Chair Schrage asked why 849 budgeted positions were listed for DFG on slide 15 but 1,132 positions were listed as filled. He asked whether the discrepancy was due to double filled positions or seasonal work.

Ms. Sanders responded in the affirmative and indicated that the budgeted positions represented full-time employees only, whereas the filled positions included both full-time and part-time workers, making it a less-than-ideal comparison. She would provide a corrected chart to the

committee to ensure a more accurate "apples-to-apples" comparison.

Ms. Sanders continued to slide 17, which focused on the 10-year fiscal outlook. She explained that the governor was required by statute to publish the outlook on December 15 of each year, balancing sources of revenue with state expenditures and ensuring that essential state services were maintained while safeguarding the state's economic stability. The slide presented a condensed version of the plan. She explained that the governor had proposed different versions of the fiscal outlook over the years.

Ms. Sanders continued by emphasizing that the 10-year fiscal outlook was a status quo projection and the outlook was clearly unsustainable. She explained that by FY 28, the state's savings would be depleted. The governor acknowledged that a combination of revenue measures and spending reductions would need to be implemented before the state's savings were exhausted. She highlighted that policymakers would need to have ongoing discussions to address the state's structural deficits.

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Co-Chair Josephson remarked that from his perspective, the governor was the most important policymaker. He was surprised that the governor would not want to engage in solving the state's budget issues with only two years left in office so that the next governor could focus on other challenges. He relayed that the House Majority would invite and encourage the governor's participation in addressing the issues.

Representative Galvin expressed that she was excited to hear the hopeful words about the willingness to address the budget issue, and she was looking forward to the discussion. She also asked about the expected changes related to federal funding, particularly due to executive orders pausing funding allocated to infrastructure projects under the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA). She emphasized that Alaska's revenue was heavily reliant on federal funding. She questioned whether the \$282 million requested in the capital budget would change if there was no federal funding due to the federal executive orders. She asked Ms. Sanders

to comment on the thought process behind the fiscal projections in light of the federal input.

Ms. Sanders responded by acknowledging that DOA was working with state agencies to identify the impacts on the funding that had been allocated through IRA and IIJA. She clarified that there was not a full understanding yet of what would be implemented at the federal level. She noted that the federal government was still working through the situation and the impact on future years was still unknown. There would be conversations about the projects and whether the projects would continue if federal funds were unavailable. She offered reassurance that the administration would share more information with the committees and the legislature as it became available. She remarked that it was difficult to predict the future, which meant that the 10-year fiscal outlook could only be based on assumptions that the current programs in the FY 26 budget would continue forward.

Representative Galvin asked for clarification regarding the percentage of federal funds in the capital budget for FY 25, FY 26, and FY 27. She asked what portion of the contribution was expected to be federal.

Ms. Sanders responded that the numbers provided in the projections were for UGF and did not reflect any federal funds. She explained that the current federal match in the budget was around 55 percent, which amounted to \$155 million. However, there were other projects like the Grid Resilience and Innovation Partnership (GRIP) which had various funding sources contributing to its match.

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Co-Chair Josephson thanked the presenters and asked if there were any closing comments.

Ms. Sanders thanked the committee and reiterated that the presentation was just a starting point. She expressed her willingness to assist and collaborate with the committee, emphasizing that DOA was looking forward to working together through the process to achieve a positive outcome for the state.

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

ADJOURNMENT

3:18:52 PM

The meeting was adjourned at 3:18 p.m.