

SENATE FINANCE COMMITTEE  
January 28, 2025  
9:05 a.m.

[9:05:14 AM](#)

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Mike Cronk  
Senator James Kaufman  
Senator Jesse Kiehl  
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget;  
Alexei Painter, Director, Legislative Finance Division;  
Senator Cathy Giessel.

SUMMARY

CONTINUED: OFFICE OF MANAGEMENT and BUDGET

FY 26 OVERVIEW: LEGISLATIVE FINANCE DIVISION

^CONTINUED: OFFICE OF MANAGEMENT and BUDGET

[9:06:46 AM](#)

LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, (OMB) finished discussing the presentation from January 27, 2025. She specifically pointed to the 10-Year Plan as proposed by the governor.

Co-Chair Hoffman wondered whether the governor had a direction on new revenue measures.

Ms. Sanders replied that the governor did not introduce any new revenue measures.

Co-Chair Hoffman stressed that the governor should address that issue.

Co-Chair Stedman agreed, and queried the governor's position on the Permanent Fund Dividend.

Ms. Sanders agreed to have the conversations with the governor.

[9:10:53 AM](#)

Co-Chair Hoffman stressed that there was a requirement to balance the budget.

Senator Kiehl recalled former revenue bills by the governor which passed the legislature.

Ms. Sanders replied that she had referred to proposals in plans.

[9:15:04 AM](#)

AT EASE

[9:15:54 AM](#)

RECONVENED

^FY 26 OVERVIEW: LEGISLATIVE FINANCE DIVISION

[9:16:11 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) introduced the staff of LFD.

Co-Chair Hoffman acknowledged Senator Cathy Giessel in the room.

Mr. Painter discussed the presentation, "Overview of the Governor's FY 26 Budget" (copy on file). He looked at slide 2, "Outline":

- FY25 Recap and Update -Vetoed, Supplementals

- Fall Revenue Forecast
- FY26 Governor's Budget
- Long-Term View

Mr. Painter addressed slide 3, "FY25 Recap: Adjournment Budget":

- When the legislature adjourned last year, there was a projected budget surplus of \$66.3 million in FY24 and \$7.8 million in FY25.
- The legislature did not include any provision to fill a potential deficit in FY25 if revenue falls short of projections.
- Capital budget appropriations totaled \$565.5 million UGF across FY24 supplementals and FY25.
- Included \$174.6 million of outside-the-formula K-12 funds (\$680 in Base Student Allocation, or about 11 percent of total foundation funding).
- Increased funding for Department of Corrections, Fire Suppression Preparedness and Disaster Relief Fund to try to avoid routine supplementals.
- Fully funded all statewide operating items to statutory levels.

[9:21:03 AM](#)

Mr. Painter displayed slide 4, "FY 25 Recap: Governor's Vetoes":

- Largest UGF operating budget vetoes:
  - \$20.0 million for Community Assistance Fund to reach \$90 million balance
  - \$11.9 million to school districts to satisfy federal Maintenance of Equity requirement for FY22
  - \$11.1 million for Broadband Assistance Grants
  - \$10.0 million for Alaska Seafood Marketing Institute
  - \$10.0 million for AMHS backstop
  - \$7.5 million for Disaster Relief Fund
  - \$5.4 million for UAF's Tier 1 Research
  - \$5.2 million for additional funds for K-3 students
- Capital vetoes included 34 percent of UGF FY24 supplementals and 12 percent of UGF FY25 projects (mostly legislative district projects).

[9:24:05 AM](#)

Mr. Painter highlighted slide 5, "FY25 Recap: Surplus to Deficit":

- After vetoes, the FY25 budget had a projected \$146.9 million surplus based on the Spring Revenue Forecast.
- The Fall Revenue Forecast decreased the FY25 projection by \$219.9 million. This turned the surplus into a projected \$81.5 million deficit (after adjusting budgetary estimates).
- The FY25 budget now has an unfilled deficit that will likely need to be addressed this session (unless oil prices rise significantly).

Mr. Painter looked at slide 6, "Fall 2024 Revenue Forecast":

- DOR's Fall 2024 Forecast shows lower oil prices and production in both FY25 and FY26.
- Lease expenditures (which are deducted in the production tax calculation) are also up significantly.
- The result is lower projected revenue in FY25 and FY26.

[9:26:45 AM](#)

Mr. Painter discussed slide 7, "Daily ANS Price, November 2022- January 2025." He displayed slide 8, "Percent of Market Value Draw from Permanent Fund."

[9:30:03 AM](#)

Co-Chair Stedman requested a chart that used the realized earnings.

Mr. Painter agreed to provide that information.

Mr. Painter pointed to slide 9, "FY25 Budget Sensitivity Chart." He addressed slide 10, "FY 25 Governor's Supplemental Budget":

- The Governor introduced a fast-track supplemental bill with two items:
  - \$50.0 million UGF to AIDEA as backstop for an AKLNG contract.
  - \$15.0 million UGF to the Disaster Relief Fund, which does not have enough general funds to pay pending disaster costs.

- In addition, the Governor's operating bill includes a \$10.0 million supplemental appropriation to ASMI as an FY25-27 Multiyear appropriation.
- The operating budget also includes Constitutional Budget Reserve Fund deficit-filling language for FY25, up to \$200.0 million. This should be moved to the fast-track supplemental bill because otherwise those appropriations are not funded.
- Additional supplemental requests are due on the 15th day of the legislative session. These are expected to include items in the Department of Corrections, Fire Suppression, and Medicaid, among others.

[9:35:27 AM](#)

Co-Chair Stedman looked at slide 9, and wondered about the dollar price of oil to break even.

Mr. Painter that a \$76 annual oil price was needed to balance the budget.

Mr. Painter spoke to slide 11, "FY26 Adjusted Base":

- The starting point for the next year's budget is the Adjusted Base, which is the prior year's budget less one-time appropriations plus current statewide policy decisions (such as salary adjustments and formula changes) needed to maintain services at a status quo level.
- Starting in FY25, LFD modified the Adjusted Base to include formula changes. Previously, it was difficult to distinguish policy changes from changes in formula amounts. Now, formula-driven adjustments (for items like the K-12 formula, debt service, or retirement payments) will be reflected in the Adjusted Base, making policy changes by the Governor easier to see.
- For formula items funded at a partial amount (such as the PFD), the Adjusted Base would be the same formula carried forward into the next year (so 25 percent of the POMV draw, which was the formula used in FY25, is carried forward into the FY26 adjusted base).

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Mr. Painter looked at slide 12, "FY 26 Adjusted Base (cont): One-Time Items":

- Largest One-Time Item removed in Adjusted Base is K-12 Additional Foundation Funding (\$174.7 million), all other items total \$53.2 million.

Mr. Painter pointed to slide 13, "FY 26 Adjusted Base (cont): Formula Adjustments":

- K-12 Formula reduced due primarily to projected 3,777 student (3.6 percent) decrease in brick-and-mortar students (only partially offset by a 978-student increase in correspondence students).

[9:45:09 AM](#)

Senator Merrick wondered whether the program would be paid off, if the moratorium on school debt reimbursement were to continue.

Mr. Painter replied that it would not be for a long time, because the refinancing could continue.

Mr. Painter continued to discuss slide 13:

- Retirement contributions up due to higher PERS and TRS past service costs based on June 30, 20223 valuations.
- School debt reimbursement continues to decline due to ongoing (since 2015) moratorium on new debt, which is scheduled to end on July 1, 2025.

Co-Chair Stedman surmised that the unfunded liability created by previous tiers result in a "past service cost."

Mr. Painter agreed, and explained that the technical term was "past service costs."

Mr. Painter addressed slide 14, "FY 26 Adjusted Base (cont): Salary and Benefits Adjustments":

- Eight Executive Branch unions are currently negotiating, plus one University of Alaska union. This includes the largest executive branch unions, so there may be significant future amendments as these contracts are negotiated.

[9:51:22 AM](#)

Co-Chair Stedman recalled that the salary adjustments came in late in session.

Mr. Painter highlighted slide 15, "Governor's FY26 Budget."

Co-Chair Stedman wondered the number of a targeting reserve balance in the CBR.

[9:54:49 AM](#)

Mr. Painter explained the services of the CBR, and cash flow needed about \$500,000, and also a shock absorber.

Co-Chair Stedman recalled that different leaders had stated that the CBR needed around \$2.5 billion, which he felt was a bit low.

Co-Chair Hoffman stressed the OMB director should keep the committee informed of communication from the federal government around funding.

[10:00:35 AM](#)

Mr. Painter discussed slide 16, "Governor's FY26 Budget (Cont.)." He pointed to slide 17, "Governor's FY26 Budget (Cont.)."

Co-Chair Stedman asked about the basic facilities and the certain allocation in the constitution.

Mr. Painter replied that within the limit, one-third shall be reserved for the capital budget.

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Senator Kiehl stressed that the deficit draw in the CBR was concerning.

Mr. Painter looked at slide 18, "Governor's FY26 Budget (Cont.)"

- Agency Operations total \$4.5 billion UGF, \$57.0 million UGF (1.3 percent) above the Adjusted Base:
  - \$7.5 million UGF increase to Department of Corrections to replace federal funding from manday billings.

- \$6.6 million UGF for multiple increments for Department of Public Safety, Alaska State Troopers, including reopening the Talkeetna post, adding Troopers in Kotzebue, and adding additional funding for overtime.
- \$5.9 million UGF to Department of Health for SB 189 impacts on child care assistance.
- \$4.4 million to Family and Community Services, Alaska Psychiatric Institute to address a structural deficit due to reduced federal payments.
- No significant budget reductions.

Mr. Painter pointed to slide 19, "Governor's FY26 Budget (Cont.)":

- Statewide Items total \$414.5 million UGF, \$8.6 million (2.0 percent) below the Adjusted Base:
  - Statutory funding for debt service, REAA Fund deposit, retirement system, and Community Assistance Fund.
- Community Assistance Fund remains below the \$90.0 million full balance due to vetoes, so the FY26 distribution will be \$23.3 million based on the Governor's budget.
  - \$13.0 million UGF deposit to Disaster Relief Fund, matching FY25 post-veto number but below \$16.8 million average usage.
  - \$25.8 million UGF deposit to Fire Suppression Fund, \$8.6 million lower than FY25 deposit and far short of the \$53.5 million average UGF cost of fire suppression activity.

Co-Chair Stedman recalled that the committee should examine using the fund again for the fire management.

Mr. Painter discussed slide 20, "Governor's FY26 Budget (Cont.)":

- Capital Budget totals \$282.4 million UGF, \$2.8 billion all funds. This is a 14.6 percent reduction from FY25 and a 38.2 percent reduction from the total for the 2024 session across both fiscal years.
  - \$154.6 million UGF (55 percent of total UGF) is to match federal funds.
  - \$33.5 million UGF for AHFC capital projects.
  - \$19.5 million UGF for IT projects across five agencies.

- \$17.3 million UGF for University of Alaska projects (most of which would be more properly reflected as operating budget items).
- \$6.5 million UGF to the Department of Public Safety for a Pilatus PC-12 aircraft.
- \$6.5 million UGF for AEA's Dixon Diversion project.
- \$6.3 million DGF for AEA's Renewable Energy Fund, which funds the top six projects on the priority list.
- \$5.6 million UGF to the Department of Fish and Game for Gulf of Alaska Chinook Salmon research.
- No funding for school construction or major maintenance.

[10:19:30 AM](#)

Mr. Painter pointed to slide 21, "Governor's FY26 Budget (Cont.)":

- Also notable is what is not yet in the budget:
  - o Education-no outside the formula funds or BSA increase (there was \$174.7 million outside the foundation formula and \$7.3 million outside the Pupil Transportation formula in FY25). The Governor mentioned a planned \$200.0 million K-12 funding bill in his budget release press conference.
  - o Medicaid-the Governor's budget does not contain an increase to Medicaid funding, but the Department of Health stated that the projection will be trued up in a future amendment. Preliminary projections indicate a need for an additional \$19.6 million UGF.
  - o Ongoing Employee Bargaining Negotiations -nine unions are currently negotiating new contracts to begin in FY26. Legislative Finance estimates that a 3 percent increase (in line with what the Supervisory Union will receive in FY26) would cost about\$29.4 million UGF.

[10:21:20 AM](#)

Mr. Painter addressed slide 22, "75/25 PFD Alone Won't Balance the Budget." He pointed to slide 23, "UGF Revenue and Budgets, FY14-25."

Mr. Painter looked at slide 24, "Long-Term Revenue Outlook":

- The Department of Revenue's Fall Forecast projects that oil prices will fall from \$70.0 in FY26 to \$68-69 from FY27-32, then increase slightly after that.
- Oil production is projected to increase from 479.5 mbbl/day in FY26 to 656.9 mbbl/day in FY34.
- The Permanent Fund is projected to earn 7.65 percent per year.

[10:26:12 AM](#)

Mr. Painter discussed slide 25, "Earnings Reserve Account (ERA) Sufficiency":

- APFC's Statutory Net Income projection for FY25+ is 6.25 percent, compared to inflation of 2.50 percent and a 5.00 percent POMV draw. This leads to a projected decline in the balance of the ERA balance.
- APFC's projections show that the year-end ERA balance will drop below the following year's POMV draw amount in FY32, assuming statutory inflation proofing each year. That means that when the year begins, the ERA won't have enough money to pay out the entire POMV draw for the year and will have to rely on current-year earnings.
- LFD's probabilistic modeling shows an 46 percent chance of having an insufficient ERA balance to make the full POMV draw over FY26 - FY35, assuming full inflation proofing and statutory POMV draws. If inflation-proofing is suspended when the ERA balance drops below the following year's POMV draw, that drops to 33 percent.

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Co-Chair Stedman requested an examination of the asset allocation of the Permanent Fund.

Mr. Painter looked at slide 26, "Long-Term Fiscal Outlook and Governor's 10-Year Plan":

- LFD modeling baseline assumes the FY25 Management Plan grows with inflation and all statewide items are funded to statutory levels (including the PFD), or FY25 levels if there's no clear funding formula to follow.

- This results in substantial deficits every year in the modeling window, illustrating Alaska's continued structural budget deficit.

[10:33:12 AM](#)

Mr. Painter pointed to slide 27, "LFD Baseline Model, No ERA Overdraws." He addressed slide 28, "LFD Baseline Model with ERA Overdraws."

Mr. Painter discussed slide 29, "Long-Term Outlook and Governor's 10-Year Plan (Cont.):

- Policy changes in Governor's 10-Year Plan:
  - Governor's FY26 agency operations and capital budgets are below the FY25 levels.
  - Only other difference is reduction of funding to Fire Suppression Fund.
  - Unlike prior years, Governor assumes 2.5 percent growth with inflation rather than 1.5 percent growth.
- Assumption Differences in LFD Model:
  - Governor assumes supplementals and lapse cancel out after FY25, LFD includes \$50.0 million placeholder.
  - LFD includes a placeholder for new school debt after the moratorium ends in 2025, Governor does not.
  - LFD uses Permanent Fund projections from APFC's December report, which corrects an error that was in the DOR Forecast.

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Mr. Painter highlighted slide 30, "Long-Term Outlook and Governor's 10-Year Plan (Cont.)." He pointed to slide 31, "Governor's 10-Year Plan in LFD Model, No ERA Overdraws."

[10:40:21 AM](#)

Mr. Painter addressed slide 32, "Governor's 10-Year Plan in LFD Model with ERA Overdraws."

Senator Cronk asked about the increase in oil production but not increase in revenue.

Mr. Painter replied that new oil was not considered the same as oil that was already in production.

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AT EASE

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RECONVENED

Co-Chair Hoffman stated that the upcoming Friday meeting will be cancelled.

#  
ADJOURNMENT  
10:45:10 AM

The meeting was adjourned at 10:45 a.m.