

HOUSE FINANCE COMMITTEE  
January 30, 2025  
1:34 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Jamie Allard

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

OVERVIEW: FY 2026 FISCAL OVERVIEW

Co-Chair Josephson reviewed the meeting agenda.

^OVERVIEW: FY 2026 FISCAL OVERVIEW

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced himself and his staff. He noted that in addition to being the Legislative Finance Division (LFD) Director, he was also the analyst for the governor's office and the

legislature's budget. He outlined which LFD analyst was responsible for each department: Rob Carpenter was the analyst for the Department of Administration (DOA), the Department of Commerce, Community and Economic Development (DCCED), and the Department of Law (DOL). The coordinator for the operating budget was Morgan Foss, who was also the analyst for the Department of Fish and Game (DFG). The capital budget coordinator was Michael Partlow, who was also the analyst for Department of Environmental Conservation (DEC), the Department of Military and Veterans' Affairs (DMVA), the Department of Transportation and Public Facilities (DOT), and the University of Alaska (UA). The division's fiscal modeler was Connor Bell, who also was the analyst for the Department of Corrections (DOC), the Department of Family and Community Services (DFCS), the Department of Revenue (DOR), the Department of Health (DOH), and the Department of Labor and Workforce Development (DLWD). The division's newest analyst was Nathan Teal, who was the analyst for the Judiciary, the Department of Natural Resources (DNR), and the Department of Public Safety (DPS).

Mr. Painter introduced the PowerPoint presentation "Overview of the Governor's FY26 Budget" dated January 30, 2025 (copy on file). He began on slide 2 and offered an overview of the presentation. He would start by recapping the current year's budget and providing an update on changes since the legislature adjourned in 2024. He would also cover the fall revenue forecast, the governor's FY 26 budget, and conclude by providing a long-term outlook.

Mr. Painter continued to slide 3 and noted that when the legislature adjourned in 2024, there was a projected budget surplus of approximately \$66.3 million in FY 24 and \$7.8 million in FY 25. The surplus for FY 25 was narrow and the legislature had not included any provision to cover a potential deficit if revenue fell short of projections. He explained that the \$7.8 million surplus for FY 25 had been based on DOR's spring revenue forecast from the previous year. At the time, the state had a projected \$7.8 million surplus. The capital budget appropriations approved by the legislature amounted to \$565.5 million across the FY 24 supplemental and FY 25. He recalled that both legislative bodies had agreed on a deal that set the figure at \$550 million, excluding the mental health capital items, which were handled separately.

Mr. Painter explained that in 2024, a significant portion of capital budget funds were put into the supplemental because there was a surplus in the supplemental. He explained that it was more appropriate to look at the capital budget on a legislative session basis rather than a fiscal year basis. This approach accounted for the fact that each legislative year encompassed two fiscal years, and the surplus in the previous year provided more flexibility in the budget for the supplemental period.

Mr. Painter relayed that the budget had also included about \$175 million in outside-the-formula K-12 funds, which had been one of the larger policy decisions made in 2024. The funding was equivalent to \$680 in the base student allocation (BSA). He outlined several changes made in the previous year's budget aimed at reducing the need for routine supplemental budget requests. He noted that the supplemental budget had been growing over recent years, and the goal was to integrate certain items into the base budget to minimize the reliance on supplementals.

Mr. Painter explained that DOC had proposed several increases in order to align its budget with supplemental needs, especially after experiencing over \$40 million in supplemental requests in 2024. Another significant change was the handling of fire suppression activity, which had been moved from DNR into a fund that allowed for carry-forward balances from year to year. The change would enable the state to retain funds from low fire years to offset future supplemental requests.

Mr. Painter noted that the legislature had significantly increased funding for fire suppression, coming close to the 10-year average of fire suppression costs. Additionally, funding for the Disaster Relief Fund (DRF) had been substantially increased to \$20.5 million which intended to cover projected needs and provide a buffer of up to \$5 million for unforeseen disasters. The goal was to ensure that there was sufficient funding to handle unexpected events while reducing the need for routine supplemental funding.

Mr. Painter shared that the legislature had funded all statewide operating items to statutory levels in FY 25, which included items like school debt reimbursement and fund capitalization, excluding the Permanent Fund Dividend (PFD).

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Representative Galvin noted that Mr. Painter had mentioned in a previous presentation that there were some changes made at the end of session in the prior year that had not gone through the House Finance Committee, nor had a fiscal note been provided for the committee. She inquired whether Mr. Painter had conducted any analysis on those items and could provide a figure to help the committee consider the impact.

Mr. Painter replied that he did not have an exact number of the increments. He explained that several increments in the governor's budget for the current year were related to fiscal notes that had not been included in the previous year's budget. He explained that fiscal notes were typically included in the appropriation bill and were added by the conference committee toward the end of the legislative session. He further explained that 2024 had seen an unusually high number of bill combinations, with some bills passing without going through the finance committee. As a result, some of the fiscal notes were not properly vetted by the committee. He relayed that one of the bills involved was legally challenged due to the degree to which bills were combined. He acknowledged that the combination process typically happened in the second session of the legislature, and sometimes the conference committee could not anticipate all of the implications. He offered to follow up with the total amount of increments requested by the governor that corresponded to fiscal notes not funded in the previous year.

Representative Galvin asked for an update on an item that related to teachers who had a higher degree in education. She asked if Representative Hannan knew what the certification was called.

Representative Hannan responded, "National Board Certification."

Representative Galvin recalled there was a bill granting a bonus for the certification, but that it was not included in the governor's budget. She asked for confirmation of her understanding and if there were any other such instances where bills had passed but were not reflected in the

budget. She wanted to make sure that the committee was up to date on the numbers.

Co-Chair Josephson commented that the governor typically requested funds in the budget to comply with and execute new laws, although not every law necessarily received funding. He asked Mr. Painter to provide a breakdown of such instances for the committee.

Mr. Painter confirmed that the governor had generally requested funds to comply with new laws, though funds were not requested for all of the new laws. He would follow up with the committee.

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Mr. Painter advanced to slide 4. He explained that after the legislature passed the budget in 2024, the governor signed it into law and exercised his line-item veto power. The slide included a table breaking down the vetoes by fiscal year and budget type, showing that the majority of the governor's operating budget vetoes occurred in FY 25. The capital budget vetoes were more evenly distributed between the two fiscal years but the majority occurred in FY 24, during the supplemental period.

Mr. Painter relayed that in total, the governor's vetoes amounted to approximately \$191 million of unrestricted general funds (UGF). He highlighted some of the largest items in the operating budget that had been vetoed and noted that several of the items would be discussed in future meetings. The largest veto was \$20 million from the Community Assistance Fund (CAF), which was governed by statute. The fund's balance was not permitted to exceed \$90 million and one-third of the balance was drawn down on July 1 every year to provide distributions to communities. As a result of the \$20 million veto, the balance at the end of FY 25 would be \$70 million. The amount distributed to communities would be \$23.3 million, which was \$6.7 million short of the full \$30 million distribution.

Mr. Painter further clarified that CAF had a base payment for all municipalities, cities, or boroughs, regardless of population, and that the base payment cost was about \$20 million. The remaining \$10 million of a full distribution was a per capita payment. In the case of a partial distribution, the per capita payment would decrease, and

the base payments would be prorated only if the amount fell below the base. Therefore, with a distribution of \$23.3 million, the per capita amount would primarily be about one-third of what it would have been with a full distribution.

Mr. Painter added that another significant veto was \$11.9 million intended for school districts to satisfy a federal maintenance of equity requirement from FY 22. The issue stemmed from a disagreement with the federal government over a condition tied to COVID-19 relief funds for school districts. The \$11.9 million was the amount the federal government determined that Alaska owed the districts to address the inequity. After the veto in December of 2024, the federal government decided that the outside-the-formula funding already provided to the districts met the maintenance of equity requirement and placed Alaska back in compliance. The decision contradicted the guidance the legislature had received during session, but ultimately, the issue was resolved.

Co-Chair Josephson recalled that the number was \$17 million.

Mr. Painter responded that \$17 million was the total amount across FY 22 and FY 23. The legislature had chosen to only appropriate the FY 22 amount, leaving the FY 23 amount unresolved. The intent was to address at least part of the issue related to the timing of the federal guidance.

Mr. Painter continued that there was also an \$11.1 million veto related to the Broadband Assistance Grants (BAG), which had been included in a bill [SB 140] passed midway through the 2024 session to reauthorize and expand the program. The appropriation was already reduced during the conference committee, but the governor reduced it further. The reason for the reduction was that some districts were late in applying due to the timing of the bill, and the growing competition from other cheaper services led several districts to opt out of the program which reduced costs.

Mr. Painter relayed that the governor vetoed \$10 million for the Alaska Seafood Marketing Institute (ASMI), a base budget item, as well as \$10 million for the Alaska Marine Highway System (AMHS) backstop, which had been included in case federal funds were insufficient. However, the \$10 million was found to be sufficient due to the actual amount

received from the federal government, making the veto have no impact on operations. Additionally, \$7.5 million was vetoed from the increase to DRF which reduced the total amount to \$13 million instead of the \$20.5 million originally included. There was also a veto of \$5.4 million for the University of Alaska Fairbanks' (UAF) Tier I research and \$5.2 million for additional funds for school districts for students in grades kindergarten through third grade. About one-third of the FY 24 UGF supplementals were vetoed from the capital budget and 12 percent of the supplementals were vetoed from the FY 25 projects. Most of the vetoes were related to legislative district additions, with some statewide items also included. The structure of the budget meant that Alaska State Senate additions were more heavily vetoed, as the additions were more likely to be supplementals.

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Co-Chair Josephson asked if the \$11.9 million for the maintenance of equity and the AMHS item harmed those who wanted the funds.

Mr. Painter responded that while the maintenance of equity issue had been resolved, the school districts would have preferred to receive the funds. He thought it was likely that the districts still would have wanted the funding to be restored, regardless of whether the federal maintenance of equity requirement applied. The actual usage of the AMHS backstop would have only been \$10 million which meant that the veto did not have a practical impact other than reducing the amount to the necessary level.

Co-Chair Josephson asked if the maintenance of equity dollars were like any other dollars in the way that the dollars were spent.

Mr. Painter responded in the affirmative.

Representative Galvin asked for more information about the \$5.2 million for grade school students. She asked for details on the impact of the funds for students who needed help with reading, which might have been related to the Reads Act.

Mr. Painter confirmed that the distribution formula was based on a fixed amount per student, plus an additional

amount for students identified as needing reading assistance. The funding was focused on grades kindergarten through third grade. However, the \$5.2 million allocation was not enough to cover the full projected amount and it would have been prorated even without the veto. Without the funding, the school districts would not receive additional assistance.

Representative Galvin understood that when the Reads Act had initially passed, there had been a \$30 increase to the BSA, but it was recognized that the amount was not sufficient to meet the goals of the Reads Act. The additional \$5.2 million was intended to help fill the gap, but the districts ultimately ended up with no extra help.

Mr. Painter responded that the governor's veto message cited the broader outside-the-formula funds as the reason why the funding was not necessary. However, the \$5.2 million funding would have been more targeted to the specific needs of the students.

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Representative Stapp asked for more information about the broadband funding and wondered whether a program with a 90 percent federal subsidy and a generous state subsidy could still be unaffordable for some school districts. He suggested that the program was leading districts to opt for alternative options.

Mr. Painter confirmed that this was indeed the situation as reported by the federal Department of Education.

Representative Johnson reminded the committee of the \$175 million in outside-the-formula funding provided in 2024. The goal had been to avoid vetoes of the funding and ensure it went to the school districts. She noted that the \$5.2 million was a minimal amount and that the \$30 increase to the BSA, along with the additional \$680, had helped provide funding outside of the formula.

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Mr. Painter continued on slide 5, explaining that after the vetoes, the projected \$7.8 million surplus in FY 25 turned into a \$146.9 million surplus based on the spring forecast, providing a bit more breathing room. However, the fall

revenue forecasts later turned the surplus into a deficit. The deficit was now estimated at \$81.5 million before considering any supplemental items in FY 25. Considering that there was no longer a balance in the statutory budget reserve (SBR) and the legislature did not have a three-quarters vote to access the constitutional budget reserve (CBR), the state was left with an unfilled deficit of \$81.5 million, plus any additional supplementals. The situation would likely need to be addressed during the current session unless oil prices rose significantly.

Co-Chair Josephson asked whether surplus funds were often sweepable when the state ran surpluses unless the funds were appropriated for specific needs or put into the SBR.

Mr. Painter replied that if the state ran a surplus, the remaining funds generally were swept into the CBR at the end of the fiscal year.

Co-Chair Josephson thought that given the lack of revenue, leaving surplus funds in the general fund increased the risk of the funds being spent on other needs, which made it harder to get the funds back out once they were used. If surplus funds were left in the treasury as general funds, the chance of appropriating the funds to a beneficial need would be reduced. He asked if his understanding was correct.

Mr. Painter responded that it was difficult to retrieve funds once the funds were left in the CBR. He noted that a couple of years prior, the legislature had included a provision to appropriate any additional surplus funds to SBR with a majority vote, but the governor had vetoed the provision. Last year, the legislature did not include a similar provision due to the expectation that it would be vetoed again.

Representative Hannan asked Mr. Painter whether the \$81.5 million deficit prediction incorporated the supplementals requested for FY 25. She noted that 14 additional supplementals were expected, which would only expand the deficit.

Mr. Painter clarified that the \$81.5 million deficit did not include any supplementals and was based solely on the budget passed by the legislature.

Representative Hannan asked whether the requested supplementals had been analyzed to calculate the expanded deficit.

Mr. Painter responded that the information would be provided in a few slides as part of the fiscal summary.

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Mr. Painter continued on slide 6 and discussed the fall revenue forecast. He relayed that the December 2024 revenue forecast prepared by DOR indicated lower oil prices and production in both FY 25 and FY 26. The forecast projected that revenue in FY 25 would be \$220 million less than the previous forecast, and in FY 26, revenue would be \$230 million less. The drop in revenue was attributed primarily to a \$4 decrease in oil prices in both fiscal years. Additionally, production was slightly down, with a reduction of 10,000 barrels per day in FY 25 and 12,000 barrels per day in FY 26, contributing to lower revenue.

Mr. Painter explained that another factor affecting total revenue was an increase in lease expenditures. Since the state's production tax was a net profits tax, companies could deduct lease expenditures down to the minimum tax. As lease expenditures rose, the state received less production tax revenue. The fall revenue forecast showed a significant increase in lease expenditures for both FY 25 and FY 26 which was driven in part by investments in new fields on the North Slope and were more expensive than originally projected. There was also an increase in operating costs for the fields.

Mr. Painter indicated that the combined effect of the changes in production and lease expenditures was that the state was projected to receive less revenue than originally forecast in the spring, regardless of oil price. While there had been hope that higher oil prices would offset the issues, even hitting a price of \$78 per barrel would result in approximately \$90 million less in revenue compared to the spring forecast due to the increased costs and lower production.

Mr. Painter continued that the difference in revenue projections from the spring forecast was due to various factors, including the volatility of oil prices and the structure of production costs. He emphasized that oil price

alone could not be relied upon to balance the budget because the shifts in revenue projections from year to year were significant. Currently, each dollar change in the price of oil resulted in a revenue difference of approximately \$35 million to \$40 million. However, the starting point for the revenue projections could change based on other factors, shifting the goalposts.

Co-Chair Josephson understood that the current thirty-fourth Alaska State Legislature, along with the upcoming thirty-fifth and thirty-sixth legislatures, would likely bear the consequences of working through the lease expenditures. However, he suggested future legislatures could benefit from the increased production after about 2030, assuming the forecast for oil production and prices remained stable. He asked if his understanding was correct.

Mr. Painter responded in the affirmative. He explained that DOR had analyzed two large oil fields expected to come online: the Pikka field and the Willow field. Both fields had different economics due to the type of company operating the fields as well as the fields' locations. Positive revenue would not appear for either field until oil started flowing, and even then, it would take some time for the production tax revenue to materialize. The Willow field was being developed by an existing player on the North Slope who could deduct its lease expenditures against current production. The fiscal analysis from DOR showed the Willow field as a negative revenue impact until the field came online; once the field was operational there would be a significant positive revenue impact. In contrast, the Pikka field had no current production to offset expenses, meaning that production tax revenue would not be realized for several years after oil started flowing, although royalties would begin right away.

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Representative Galvin asked for further clarification regarding the impact of lease expenditures. She speculated that as the years went on, the situation would work more to the state's advantage.

Mr. Painter responded in the affirmative. He explained that the two fields had different timelines for realizing revenue. He reiterated that because the Willow field was a current operation, it would begin to generate production

tax revenue as soon as oil started flowing. However, Pikka would have carried forward credits from the years during which there was no production because Pikka was not currently producing. For the first few years of operation, Pikka would pay minimal production tax as it would simply be going through the carried forward annual losses or carried forward credits. He clarified that Pikka would be paying royalties immediately, but the production taxes would not be implemented until much later because of the nature of the production tax.

Mr. Painter moved to slide 7 and discussed the volatility of oil prices, showing a graph of daily oil prices from November 2022 to the most recent data. He pointed out that the volatility of oil prices made revenue projections unpredictable. For instance, a change of just \$1 in the price of oil could result in a \$35 million to \$40 million shift in the revenue forecast. He noted that while there were periods where oil prices seemed to be stabilizing at \$80 per barrel, the price could drop to \$76 per barrel just a few days later and cause significant changes in the revenue forecast. He emphasized that it was important not to become overly attached to any given forecast due to the volatility of oil prices. He remarked that while the volatility in oil prices had been extreme in the past, such as during the COVID-19 pandemic when oil prices briefly went negative, the current volatility was much more constrained.

Mr. Painter moved on to slide 8 and relayed that a more stable source of revenue for the state was the percent of market value (POMV) draw from the Permanent Fund. He explained that in FY 25, the draw was based on the five-year average market value from FY 19 to FY 23. In the upcoming fiscal year FY 26, the draw would be based on the five-year average from FY 20 to FY 24. He noted that the balances changed from year to year. For example, FY 19 had a balance of approximately \$66 billion, while FY 24 had a balance of \$80 billion. The shift resulted in a significant increase in the POMV draw, which was an increase of about \$140 million from FY 25 to FY 26. The trend was expected to continue next year as the balance from FY 20 would be replaced by the balance from FY 24, further boosting the draw. However, the POMV draw would likely stabilize after FY 27 and stop increasing significantly because the spike in FY 21 would no longer be part of the average. He emphasized that the current structure was helping Alaska's

revenue situation considerably as it still benefited from the big spike in FY 21. The stability would likely continue for another year, but the Permanent Fund's growth rate would soon moderate.

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Co-Chair Josephson noted that he appreciated the positive message, but there were challenges as well. He asked for confirmation that no other state could turn to a \$3.7 billion annual draw.

Mr. Painter responded in the affirmative. He noted that North Dakota had a similar fund, but it was not nearly as large as Alaska's.

Mr. Painter proceeded to slide 9 which displayed the budget sensitivity chart for the current year. He mentioned that in 2024, the chart had been a major point of focus because of the waterfall provision in the budget. If revenue exceeded the spring forecast by more than \$135 million, the excess would be allocated to an energy relief appropriation because of the waterfall provision. However, the possibility of hitting a surplus of \$135 million was unlikely as the current projections showed a \$220 million shortfall in revenue. He relayed that the lower section of the slide indicated that the budget had originally been expected to have a surplus. However, the state was now facing an unfilled deficit as revenue projections had dropped, which was represented in red. The deficit would increase if additional supplementals were added to the budget because it would raise the total appropriations.

Representative Galvin asked if there might be additional resources that could help fill the deficit from funds held by DOR. She was interested in learning more about the funds and whether they were accessible for use.

Mr. Painter asked if Representative Galvin was referring to the Higher Education Fund (HEF) and Power Cost Equalization (PCE) fund.

Representative Galvin responded in the affirmative.

Mr. Painter responded that he would not be covering those funds in detail during the current discussion. He noted that the funds were already being drawn upon at

unsustainable levels. While it was possible to draw additional amounts, the funds were designed to support ongoing programs, unlike the CBR and SBR, which were reserves not tied to specific programs. While drawing from the funds could help address the deficit, it was a policy choice and not something he would necessarily recommend.

Representative Galvin commented that she would be crossing her fingers regarding the price of oil.

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Mr. Painter continued to slide 10 which outlined the governor's supplemental budget. He noted that when the governor introduced his budget in December of 2024, it included a fast-track supplemental bill. Another supplemental bill was expected to be introduced soon, with Tuesday, February 4, 2025, being the deadline for submissions, although it was unclear when the bill would be introduced.

Mr. Painter explained that the fast-track supplemental bill included two main items. The first was a request for \$50 million in UGF for the Alaska Industrial Development and Export Authority (AIDEA) to serve as a backstop for the Alaska Liquefied Natural Gas (AKLNG) contract. The second item was a request for \$15 million in UGF for DRF. The request came after the governor vetoed \$7.5 million from that fund in the previous year. At that point, DRF did not have enough general funds to cover pending disaster costs, and the fund had been borrowing from the deferred maintenance appropriation to cover expenses. Additionally, the governor requested another \$10 million in UGF for ASMI, which was the same amount that had been vetoed from the FY 25 budget. However, the request was structured as a multi-year appropriation spread over three years.

Mr. Painter noted that if the bill was intended to be fast-tracked and passed before the operating budget, it should include the CBR vote. He emphasized that the governor could not sign an unbalanced budget and the state's constitution required a balanced budget. If the fast-track bill appropriated from the general fund without a corresponding source to cover it, the governor could not sign it. If the legislature wished to proceed with the governor's request, the CBR vote would need to be moved from the operating budget into the fast-track bill. He added that more

supplemental bills would likely be introduced next week, including for DOC for fire suppression and [DOH] for Medicaid.

Co-Chair Josephson understood that there was a previous situation where deficit-filling language had been included in the supplemental budget. He asked if it was in FY 25 or FY 24.

Mr. Painter responded that there was deficit-filling language for the SBR, but the SBR had no balance left which would make it ineffective. There was a surplus in FY 24 and the language was unnecessary. In FY 23, deficit-filling language was added in the supplemental from the CBR. The last time the CBR was accessed was in FY 23.

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Representative Stapp asked if there was a possibility that the governor could invoke an impoundment if a supplemental bill passed without an available fund source.

Mr. Painter responded that impoundment typically only applied if the legislature adjourned without addressing the deficit. If the legislature remained in session, it would have the opportunity to address the issue before the governor would need to consider impoundment.

Co-Chair Josephson understood that the state would not run out of money until early June of 2025 if the legislature took no action. He asked if it would make sense if the state passed a fast-track supplemental bill and one operating budget bill that spanned FY 25 and FY 26.

Mr. Painter responded in the affirmative. The reason for the fast-track bill was not due to an immediate need to address the deficit, but rather to fund certain priorities more quickly than waiting until May of 2025. Even when the state had large deficits such as in FY 15, the legislature was still able to deal with the deficits during the regular legislative process. The fast track represented the governor's desire to appropriate the \$50 million and \$15 million more quickly than waiting until May.

Representative Hannan asked for more information about the impact of using the deferred maintenance account to cover disaster relief costs. She understood that some projects

originally intended to be funded by the deferred maintenance account had been delayed or halted. She asked for clarification on how the deferred maintenance schedule was being affected, as it already had a significant backlog.

Mr. Painter responded that the Office of Management and Budget (OMB) had indicated that only a \$6 million portion of deferred maintenance funds was being used for disaster relief purposes. As a result, the funds were not being allocated to other projects. If the gap in DRF was filled, the \$6 million worth of projects could be resumed, but the projects currently remained on hold.

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Mr. Painter moved to slide 11 which focused on the upcoming FY 26 budget. He explained that the starting point for the FY 26 budget was what was referred to as the "adjusted base," which involved taking the prior year's budget, removing one-time appropriations, and adding necessary statewide policy decisions to maintain services at a status quo level. For example, if there was a change in student enrollment affecting the education formula, the change would be reflected in the adjusted base, but it would not be considered a policy choice. Similarly, statewide salary adjustments for union contracts that had already been approved would also be included in the adjusted base. The inclusion of formula changes in the adjusted base was a recent development, which made it easier to compare policy changes. He emphasized that the adjusted base for the next year would typically mirror the prior year's funding levels unless there were changes. For instance, the PFD was set at 25 percent of the POMV draw, and it could be assumed that the baseline for the following year would assume the same percentage of the new POMV draw.

Mr. Painter continued to slide 12 and addressed one-time items, the largest of which was the \$175 million for kindergarten through twelfth grade (K-12) education funding outside the formula. The funding amount was removed from the adjusted base because it was considered a one-time item. He explained that this accounted for most of the one-time items, with other smaller one-time items totaling about \$53 million. The items included funding for the AMHS backstop, child care grant programs, pupil transportation, and tourism marketing. He noted that the rate-smoothing

appropriation was technical and would be reflected in the management plan.

Co-Chair Josephson asked if he was correct that even though the legislature might not be repopulating or refunding the items on slide 12, it was still important for legislators to focus on the items. He advised that legislators not become fixated on the governor's budget, which was a slimmed down budget.

Mr. Painter responded in the affirmative. Some of the items were one-time needs and some were ongoing needs that were funded once with the intention to revisit the items, such as the K-12 formula. He did not think the message was that the legislature thought schools only needed funding for one year, but that the legislature wanted to visit the item again the following year.

Mr. Painter continued to slide 13 which covered significant formula adjustments to the state's budget. The largest change was a projected reduction of \$28.7 million in UGF to fund the same base student allocation as in FY 25. The main driver of the reduction was a decrease in the student count. There was a noticeable drop of approximately 3,800 brick-and-mortar students, although this was partially offset by an increase in correspondence students, which added around 978 students. Despite the offset, the overall trend was a decline in student enrollment. The reduction in student numbers aligned with demographic projections from DLWD, which indicated that there were fewer children in the zero to five age group compared to those aged six to eighteen. The trend of declining student enrollment would continue in the coming years unless there were significant changes in the state's demographic landscape.

Mr. Painter noted that the K-12 foundation formula also saw changes in funding contributions. The required local contribution to the formula was set to increase, while the federal impact aid was projected to decrease slightly, which somewhat balanced out the formula adjustments. Additionally, the amount allocated for pupil transportation was also reduced due to the decrease in student numbers. Another significant change was in the school debt reimbursement program, which was projected to decrease by \$10.2 million in UGF. The reduction stemmed from a moratorium on new school debt eligible for reimbursement, which had been in place since 2015. The moratorium was

scheduled to end on July 1, 2025, allowing school districts to take on new debt. The program had seen a steady decline in funding year after year because schools had been unable to take on new debt for several years. The expiration of the moratorium could potentially increase future state obligations as new school debt became eligible for reimbursement.

Mr. Painter explained that the capitalization of the Regional Educational Attendance Area (REAA) fund was also tied to the school debt reimbursement program, meaning as the school debt reimbursement amount decreased, the REAA fund capitalization was also reduced. The adjustment reflected the broader trends related to the state's approach to school debt. Additionally, the state saw reductions in other debt services attributed to a successful refinancing effort by DOR's debt management group, as well as the fact that the state had not issued a general obligation bond in over a decade. As older debts were paid off, the state's debt obligations continued to decrease.

Mr. Painter also highlighted an increase in state contributions to retirement, which was set to rise by \$36 million based on the June 30, 2024, valuation. The increase in retirement contributions was one of the cost drivers for FY 26 and was expected to have significant financial implications moving forward.

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Co-Chair Josephson noted that when he arrived in Alaska in 2013, the state had allocated \$90 million to community assistance. The typical annual allocation had been about \$60 million but over the years, that amount had decreased. Currently, the state was providing only around \$23 million. He noted that the suspension of the school bond debt reimbursement program had contributed to the deterioration of buildings due to a lack of funds for necessary repairs and maintenance. He understood that the moratorium on school bond debt reimbursement was set to end in six months. He asked what the impact on future budgets would be if the moratorium were not extended. He asked if it would add \$10 million to the budget.

Mr. Painter responded that it was hard to tell if municipalities would bond for more projects. There were ten

years of built-up projects and once the moratorium ended, it was difficult to predict whether districts or municipalities would initiate many new bond projects. He explained that the program would be less generous than in the past, with reimbursement levels decreasing from 60 percent to 70 percent to only 40 percent to 50 percent, which was down from a peak of 90 percent. While the reimbursement rate reduction would decrease the state's financial burden, the uncertainty remained regarding how many new projects would be pursued after the moratorium ended. Many districts had seen their previous school debt projects fall off the books, providing municipalities more debt capacity and more projects had the potential to come online.

Mr. Painter continued to slide 14 and relayed that the salary and benefits adjustments were based on finalized negotiations with certain bargaining units. The adjustments included changes in the Public Employees' Retirement System (PERS) rate, health insurance adjustments, and salaries for UA, which had been impacted by past costs incurred by the university. He clarified that while the legislature funded the adjustments on an annual basis, it was not bound by a multi-year contract, which meant that the legislature had the discretion to decide whether to continue funding the adjustments in the future.

[2:29:33 PM](#)

Representative Hannan asked for more information about the legislature's historical record of not funding contracts that were negotiated in good faith.

Mr. Painter responded that there was a legal case in the early 1990s that had settled the current understanding of constitutional provisions regarding contract funding. He would need to gather more information on whether the legislature had defunded a contract since then.

Co-Chair Josephson asked if the funding for the Alaska State Troopers (AST) and small-town police officers would be guaranteed in future years. He understood that the Public Safety Employees Association (PSEA) needed \$9.3 million more to reach the bargain for agreement and the governor had included the entirety of the \$9.3 million in the FY 26 budget. He thought it was likely that it would be funded again in FY 27.

Mr. Painter replied that the decision was at the purview of the legislature. Funding for such agreements was subject to legislative appropriation and if the legislature chose not to fund it in future years, the union would return to the bargaining table.

Co-Chair Josephson thought it seemed unfair.

Representative Stapp commented that he would be surprised if the items were not funded. He understood that the AlaskaCare plan had more eligible enrollees than the UA choice plan.

Mr. Painter responded in the affirmative.

Representative Stapp asked what the percent increase was to the UA Choice Plan. He noted that the increase for AlaskaCare was 6.2 percent, which seemed typical.

Mr. Painter responded that he did not know the exact percentage increase for the UA Choice plan. He explained that the increase for AlaskaCare was partially due to past costs, and that the current 6.2 percent increase was subsidized through the Group Health and Life (GHL) fund. The subsidy was a result of a policy choice made by DOA to use part of the fund balance to offset the increase. Without the subsidy, the increase would have been closer to 10 percent.

Representative Stapp asked for more information about the lapsing funds used to subsidize the premiums. He asked where the fund source originated from and whether it was related to people leaving their place of employment.

Mr. Painter responded that unspent personal services funds at the end of the year went into several categories before being lapsed into the general fund. Some of the categories were the working reserve, which paid for things like leave cash ins, and the GHL fund which helped maintain a certain balance for the health insurance plan, which was primarily due to unfilled positions beyond the vacancy factor. He offered reassurance that the fund would get refilled.

Representative Stapp understood that DOA was using lapsing funds from unfilled positions that fell into GLH and subsidizing the premiums on AlaskaCare. He was curious

about the potential impact of a high vacancy rate on the health insurance premiums. He asked whether the costs of the premiums would increase sharply if the state were to reach near full employment, as the subsidies from unfilled positions would no longer be available.

Mr. Painter responded in the affirmative. He added that some of the costs were paid for by other fund sources, not just the lapsing funds. He also noted that lapsing funds would not be dollar-for-dollar in terms of savings, as some of the savings would go into the CBR.

[2:34:52 PM](#)

Mr. Painter moved on to slide 15 and provided a fiscal summary for FY 25 and beyond. He began by outlining the projected fiscal situation for FY 25. Before any supplementals, there was an expected deficit of \$81.5 million. With the governor's proposed supplementals of \$75 million, the deficit was anticipated to rise to \$156.5 million. The projection did not account for any further supplementals that the governor might propose the following week. He noted that there was a significant reduction in the agency operations budget for FY 26, which had decreased by \$175 million compared to the previous year. The main reason for the reduction was the removal of \$228 million in one-time items. He explained that statewide items had increased slightly and that there would be more details in a later slide.

Mr. Painter highlighted that there was a 15 percent reduction in the capital budget, but the figure understated the actual difference in the capital budget because there was a supplemental in the previous year. When accounting for the supplemental budget from the previous year, the true decrease from session to session was closer to 38 percent. He added that the governor proposed the statutory amount of \$2.5 billion for the PFD. Ultimately, there was a projected deficit of around \$1.5 billion for FY 26. The governor proposed drawing from the CBR to cover the shortfall. He explained that the CBR had an estimated balance of \$3 billion, which meant that using the CBR for the deficit would be using approximately half of the fund.

Mr. Painter advanced to slide 16 which included a sloop graph showing a visual comparison of the governor's proposed budget in blue against the FY 25 management plan

in red. The graph highlighted key differences, such as the significant reduction in the PFD, the smaller allocation for education due to no additional funding outside the formula, and a reduced capital budget. He noted that the other changes were likely too small to be noticeable.

Mr. Painter moved to slide 17 and explained the Sankey diagram, which was another way to visualize the governor's budget. On the left, the diagram showed the sources of UGF revenue, with the largest contribution coming from the Permanent Fund's POMV draw at nearly \$3.8 billion. Petroleum revenue was estimated at around \$1.7 billion, while non-petroleum revenues, including excise taxes and corporate income taxes, were approximately \$675 million. The budget also included a deficit draw from the CBR, which amounted to \$1.5 billion and brought the total UGF available for the budget to \$7.7 billion. The largest portion of the revenue was allocated to agency operations, totaling \$4.5 billion. Other items such as the PFD, the capital budget, and fund transfers were also included in the diagram.

Mr. Painter proceeded to slide 18 and reviewed agency operations. He relayed that the governor's budget included \$57 million above the adjusted base which meant that there were policy changes contributing to the budget, even though overall spending was lower than the previous year. One of the items was \$7.5 million in UGF allocated to DOC to replace lost federal funding due to changes in federal prisoner reimbursements. The reduction in federal funding came from a decline in the number of federal prisoners and changes in how the federal government reimbursed the state for housing prisoners.

[2:40:00 PM](#)

Representative Galvin asked for more information about a discrepancy in the funding for additional troopers. In a previous presentation from OMB, the cost for additional troopers was listed as \$3.75 million, whereas in Mr. Painter's presentation, the figure was \$6.6 million.

Mr. Painter responded that the higher figure represented multiple increments, including the costs for the new trooper post, additional troopers in Kotzebue, and overtime funding.

Representative Galvin understood that there was a remaining discrepancy of about \$1.7 million and requested further clarification offline.

[2:41:42 PM](#)

Mr. Painter continued to slide 19 and the statewide items in the governor's budget. He explained that the statutory appropriation for CAF was \$30 million annually, but the amount did not bring the fund up to the full \$90 million level that had been provided in the past. To reach the full \$90 million, additional funding would need to be added to the budget. The next item was the \$13 million UGF deposit to DRF, which matched the post-veto number for FY 25. Over the last eight years, the average usage of the fund has been around \$16.8 million, although the number fluctuated based on the occurrence of disasters. If the first two years during which there were fewer disasters were excluded, the average would be higher. If the 2018 Anchorage earthquake were not included in the total, the average would be lower. He explained that the amount to be allocated in the governor's budget was a judgment call, with some flexibility in how the legislature might choose to leave a buffer for potential needs.

Mr. Painter explained that the next significant item was the Fire Suppression Fund (FSF). The budget allocated \$25.8 million for the fund, which was \$8.6 million less than the FY 25 deposit. The amount represented about 75 percent of the costs associated with fire suppression, as most of the expenses were incurred during the first half of the fiscal year, which aligned with the fire season. The remaining 25 percent would likely be allocated through a supplemental request later in the year. He noted that the fire season spanned two fiscal years, and funding only 75 percent now might reduce the need for additional funding in the future. However, the growing costs of fire suppression made it difficult to predict the total amount that would be needed each year. By funding the FSF more robustly, the state could avoid the need for larger supplemental requests in the future. The fund could be used to bring stability to the funding process year-to-year, with the added benefit of potential federal reimbursements coming in after a multi-year billing cycle.

Mr. Painter explained that the more funds that were allocated now, the fewer funds that would be required for

future supplementals. Over time, unspent amounts could be carried forward to offset future costs. The federal reimbursements could help offset costs in the future, though the benefit had not yet materialized.

Co-Chair Josephson remarked that he had recently examined the DNR budget and noticed that item after item showed increments for fire suppression related activity. He asked whether the items were supplemental, suggesting that they could be helpful in mitigating future costs.

Mr. Painter clarified that fire suppression involved two components: preparedness and activity. Preparedness referred to ongoing efforts to mitigate future costs, such as constructing fire breaks, which could reduce the need for emergency response and reduce long-term costs. While the benefits of preparedness measures might not be immediately apparent, such measures could ultimately reduce activity costs. However, unlike some other states, Alaska had not conducted extensive cost-benefit analyses of the preparedness measures. The state funded less than the average amount it spent on activity and it would not be able to reduce the activity budget; however, in theory, spending money on preparedness reduced the need for activity spending in the future.

[2:47:08 PM](#)

Representative Galvin recalled that there had been previous discussions on ways to avoid high supplemental costs, especially in relation to fire suppression. She understood that there was an attempt to amend the budget to reflect the high 10-year averages, but the governor was not on board with the idea. She asked whether it would have been worth further consideration to accurately estimate a two-year average, or if there had been other reasons for ensuring the funds were available beyond simply improving budgeting and reducing supplementals.

Mr. Painter replied that the amount in the governor's budget for fire suppression was still nearly twice the amount allocated the previous year. He noted that DNR needed enough funding to cover initial setup costs at the beginning of the fire season but beyond that, the disaster relief statute ensured that the state would respond to disasters regardless of the available funds. He emphasized that the goal had been to reduce unpredictability and avoid

supplementals, though the executive branch would still respond to emergencies using the disaster declaration process even if the funds were not yet available.

Representative Galvin asked whether there was concern that the state would not have enough readily available funds for urgent needs that could eventually be drawn from the CBR.

Mr. Painter responded that the executive branch had not been worried as the CBR had about \$3 billion in it. Fire costs were not expected to come close to depleting the CBR. The assumption had been that the legislature would approve a draw from the CBR if needed.

[2:50:49 PM](#)

Mr. Painter moved to slide 20, which covered the capital budget. The governor's capital budget proposal for FY 26 totaled \$282 million in UGF, which was a 14.6 percent reduction from FY 25 and a 38.2 percent reduction from the total for the 2024 session across both fiscal years. The \$282 million in UGF would be used to match \$2.8 billion in total funds and 55 percent of the total funds would be allocated to match federal funds, primarily for the surface transportation program, airport improvement projects, and the Village Safe Water (VSW) program. The funds would be used to match other large federal appropriations, including those from DEC. He highlighted a few key items in the budget, noting that the Alaska Housing Finance Corporation (AHFC) would receive UGF funding that mirrored its dividend, which the corporation used to build its budget. Though the governor had made some adjustments, the funding level remained largely the same.

Mr. Painter noted that there was \$19.5 million for IT projects across five agencies. The demand was growing for IT-related expenditures, with the potential for more projects in the future. There was also \$17 million allocated for UA, though many of the items in the university's capital budget were effectively operating budget items such as the drone program.

Mr. Painter continued that there was a \$6.5 million appropriation for an airplane requested by DPS, which had been turned down by the legislature the previous year. He noted that AEA had requested \$6.3 million for the Dixon Diversion Hydro Project. The Renewable Energy Fund (REF)

list had several unfunded projects from the previous year, with around \$15 million still unallocated. Additionally, there was a \$5.6 million request for DFG for Gulf of Alaska Chinook Salmon research.

Mr. Painter clarified that there was no funding for school construction or major maintenance in the governor's budget. However, the school debt reimbursement program would be coming back online and rural areas would receive some funding through the REAA fund.

Co-Chair Josephson asked if the \$154.6 million match was larger than usual due to the Infrastructure Investment and Jobs Act (IIJA).

Mr. Painter responded in the affirmative. The match had increased as the amounts for DOT projects had also increased. The largest increase in IIJA funding was for DEC and came in the form of funds that did not require a state match.

Representative Galvin understood that there was a lack of funding for school construction and major maintenance.

Mr. Painter clarified that the funding under the school debt reimbursement program could go toward either deferred maintenance or new projects.

Representative Galvin asked what the total amount needed for school construction and maintenance was.

Mr. Painter responded that it was around \$500 million across major maintenance and school construction. He offered to follow up with the exact figure.

[2:55:39 PM](#)

Representative Hannan asked if any analysis had been done regarding the federal executive orders and the impact on the state's match for federal grants or projects. She wondered if any of the \$154.6 million in matching funds might not come through.

Mr. Painter replied that the primary items being matched in the capital budget were for DOT projects and the VSW program, which were unlikely to be affected by any federal funding freezes. However, the broadband funding could

potentially be impacted. There was funding in the operating budget for the state's Green Bank, which was funded through AHFC. He noted that some of the AHFC grants might be targeted, along with renewable energy projects supported by federal funds through AEA. However, many of the projects were not dependent on a state match as the grants would be distributed to recipients.

Representative Hannan commented that she was most interested in AMHS grant funds that the state had anticipated receiving.

Representative Tomaszewski asked for an estimate of the yearly obligation for school debt reimbursements.

Mr. Painter responded that it was difficult to estimate due to the 10-year backlog. He explained that there was uncertainty about how much the local districts would submit initially and whether the districts would be wary of the state's willingness to fund the full amount. He added that the fiscal modeling used a placeholder based on past usage but it was not clear how accurate the number would be.

Representative Tomaszewski asked how much the school districts were currently paying in debt.

Mr. Painter responded that there was an established debt schedule. He could follow up with a list from DEED outlining the current debt schedule. He noted that some of the projects had been refinanced until FY 39.

Mr. Painter expressed that the governor's proposed capital budget was unlikely to be sufficient to meet the ongoing capital needs of the state, especially if the state intended to maintain its current facilities. He relayed that many state buildings were constructed during the late 1970s through the mid-1980s and were now 40 to 50 years old and in need of replacement and not just maintenance. He noted that there was a \$2 billion deferred maintenance backlog, but the figure likely underestimated the actual need. For example, the Fairbanks Pioneer Home (FPH) required a full replacement, although it was listed in the deferred maintenance budget. He stressed that the facility was not ADA accessible and needed a new roof. The estimated replacement cost was \$115 million, which was a significant expense not included in the capital budget. He stressed that if the state did not plan for the replacement of aging

facilities, there would be future problems as some of the buildings could become uninhabitable within the next few years.

Mr. Painter explained that while it would be ideal for the state to spend a small percentage of its facilities funding on maintenance. The funding did not account for the replacement of aging structures. Additionally, the state's IT systems were aging, such as the Integrated Resource Information System (IRIS) accounting system, which had no value as an asset but still required eventual replacement. He offered a specific example of a system used for the Office of Children's Services (OCS) that was deemed inadequate by the federal government and would cost an estimated \$52 million to replace. He highlighted that only about half of the cost would be covered by federal funds. The legislature would need to decide whether to fund the remaining \$26 million or allow the department to phase in the replacement over several years. However, phasing the replacement in would mean the system would be more expensive in the long term because the entire cost would not be paid all at once. He remarked that the system would need to be replaced if the state were to keep functioning and if OCS were to continue receiving federal funds.

[3:02:07 PM](#)

Mr. Painter highlighted that the \$282 million allocated for capital expenses likely would not be sufficient unless there was a drastic change in the way the state operated. He emphasized that deferred maintenance and new construction needed to be addressed. He encouraged legislators to think proactively about solutions and build the solutions into fiscal planning, particularly to avoid leaving future legislatures to handle the consequences of neglecting facilities like FPH.

Co-Chair Josephson asked if the federal connection to OCS was primarily through the Indian Child Welfare Act (ICWA).

Mr. Painter responded in the affirmative and noted that ICWA provided some funding. The state had to meet certain standards within its system to continue receiving federal funds.

Mr. Painter continued to slide 21 to further discuss the operating budget. He relayed that the amended budget would

likely reflect a \$200 million bill for education funding, which had not yet been included in the governor's proposed budget. As a result, the projected \$1.5 billion deficit would likely increase to \$1.7 billion after the education bill was added. He explained that the Medicaid budget did not yet account for the \$19.6 million UGF increase requested by DOH. The department had recently been notified of a potential federal rate increase for the Indian Health Service (IHS), which could further increase costs.

Mr. Painter stated that there were nine unions still negotiating their contracts and the cost of the agreements was not yet included in the budget. The cost could total nearly \$30 million if a 3 percent increase were to be assumed. He advised the legislature to factor in a reasonable estimate for unknown expenses when developing the budget.

[3:05:30 PM](#)

Mr. Painter advanced to slide 22 and noted that the governor's budget had a \$1.5 billion deficit. Over the last two years, the legislature had responded to the governor's budget by reducing the PFD from the statutory amount to a 75-25 split. If the same approach were taken in the current year, the proposed budget would be balanced; however, the split would only address the deficit in the governor's budget and would not cover the additional costs discussed in the previous slides. He noted that the \$1.5 billion deficit did not include other proposed costs, such as the \$200 million in funding the governor had mentioned or the additional costs from the proposed HB 69, which would increase the BSA. There were also other items not yet accounted for.

Mr. Painter emphasized that simply adjusting the PFD to the 75-25 split would not be enough to balance the budget. The legislature would need to either find other budget reductions, reduce the dividend further, or explore new revenue options to close the gap. He emphasized that simply relying on one solution, which had been the strategy for the last two years, would not be sufficient in the current year.

Representative Stapp asked for more information about the impact on revenue of a possible drop in oil prices. In the past, the 75-25 split rule had been pitched to him as the

"gospel," but he thought it was unaffordable because the legislature could not stop itself from spending money and it relied on oil prices. He asked what the revenue loss would be if the spring revenue forecast showed the oil price had dropped to \$63, which would be a \$10 decrease from the current price.

Mr. Painter replied that the difference would be \$7 for FY 26. He added that if the price were to fall to \$60, the revenue loss would range between \$350 million and \$400 million.

Representative Stapp suggested that the deficit could reach about \$500 million if the oil price dropped further. He had heard about many ways the legislature wanted to spend money, but he had not yet seen any new revenue or tax bills from the House Majority. The bills he had seen appeared to propose an additional \$100 million in education funding for the first year. He expected another couple hundred million dollars in operating expenses and a potential capital budget increase. He stated that if oil prices dropped and such expenses were included, the deficit could be closer to \$700 million to \$800 million.

Mr. Painter responded that the additional expenses would bring the deficit to Representative Stapp's estimated range.

Representative Stapp asked if Mr. Painter had modeled "99 things that people want to spend money on but the PFD isn't one."

Mr. Painter responded that he assumed Representative Stapp's question was facetious but clarified that they had not modeled that particular 99-1 split. He stated that it would likely result in a zero dividend at that level.

[3:09:29 PM](#)

Mr. Painter continued to slide 23. He explained that the graph on the slide showed the state's UGF revenue and budgets dating back to FY 14. He chose FY 14 because it marked the beginning of the state running large deficits. The bars at the front of the graph represented the budget, while the area in the background represented revenue. The major change in the graph began in FY 19, when the state started the POMV draw from the Permanent Fund. Since then,

the state had been running relatively balanced budgets each year, with an average deficit of about \$200 million. He noted that, although the state had drawn down the CBR to zero, the state had been able to rely on revenue replacement dollars from the federal government. He added that the CBR balance had grown over the period due to those other revenue sources.

Mr. Painter relayed that historically, the legislature had generally managed to figure out the budget on a year-to-year basis and the large deficits had not continued year after year. However, there was still a structural deficit, which was reflected in the governor's budget. If the state followed the current PFD statute, a structural deficit would remain, even before factoring in other proposed expenditures. The state's current projected deficit was expected to continue into the if nothing was done to address it. The governor's 10-year plan illustrated a status quo scenario, where the \$1.5 billion deficit would persist and likely worsen over time.

Mr. Painter continued to slide 24 which included a chart of projected revenue by source from FY 26 to FY 34. He explained that DOR forecasted that oil would be a relatively stable over time and decrease only slightly from \$70 per barrel in FY 26 to \$68 to \$69 from FY 27 to FY 32. Oil production was projected to increase over time from the current level of just under 500,000 barrels a day in FY 26 to 650,000 barrels a day by FY 34. However, he noted that the projections did not necessarily mean that revenue would grow faster than inflation. For the first several years of the forecasted period, revenue would grow slower than inflation and it was not expected to reach an inflation-adjusted level until FY 34, which would coincide with a higher production year and the end of carried-forward credits from Pikka. He emphasized that if a balance could not be achieved now, it would not be achieved in the future.

Mr. Painter stated that the Permanent Fund was projected to grow at 7.65 percent per year during the forecasted period, and the POMV draw would also grow; however, oil revenues would not grow faster than inflation. He reiterated that if the legislature could not balance the budget using the POMV draw in the current year with current strategies, it would not work in the overall modeling period. He noted that

while oil prices could spike, the fall forecast did not suggest that it would happen.

3:13:08 PM

Mr. Painter advanced to slide 25 which included a similar chart of the realized Earnings Reserve Account (ERA) balance from FY 22 to FY 35. The total return from the Permanent Fund was projected to grow 7.65 percent from FY 22 to FY 35, but the statutory net income, which represented realized income each year, was projected to be only 6.25 percent. The discrepancy meant that a growing portion of the fund would be made up of unrealized gains that were "paper" gains that could be spent through the POMV draw as the draw was based on the total market value. However, the gains had to be realized and moved into the ERA in order for the gains to be spendable which meant that there would be a gap between the unrealized and realized gains in the future. He pointed out that with 2.5 percent inflation and a 5 percent POMV draw, the total amount spent would exceed the 6.25 percent projected realized income. As a result, the ERA balance was projected to decline over time.

Mr. Painter noted that the graph compared the year-end realized ERA balance starting in FY 22 with the following year's POMV. The comparison was used because it showed how much money was available to spend on June 30 of a given year, and then how much APFC owed to the general fund by on July 1. He explained that if APFC owed more on July 1 than it had on June 30, the corporation would need to pay as it earned, which could lead to a precarious situation. The graph assumed statutory inflation proofing, which included a 2.5 percent inflation adjustment each year. Based on static modeling, there would not be enough money in the ERA to make the following year's full POMV draw by FY 31, meaning the state would need to rely on additional earnings.

Mr. Painter added that probabilistic modeling indicated a 46 percent chance that the ERA balance would be insufficient to make the full POMV draw during the modeling period even after realizing all earnings. He explained that the scenario was based on the assumption that the legislature would continue inflation proofing each year. If the legislature chose not to inflation proof in FY 31, the likelihood of an insufficient balance would drop to 33

percent. The legislature could make a policy call about whether to inflation proof at all or to inflation proof less aggressively. Over the last two years, the legislature had not fully inflation proofed the Permanent Fund. Two years ago, the inflation proofing transfer had been capped at the estimated \$1.4 billion, rather than the full amount with true inflation. The transfer was currently capped at \$1 billion and the governor's budget did not include any inflation proofing at all.

Mr. Painter added that the decision regarding inflation proofing was a significant policy choice. He suggested that the best choice from a strictly financial standpoint would be to never inflation proof as it would retain all the money in the ERA to make it spendable. He stressed that the decision would likely be one of the largest policy decisions the legislature would make in terms of dollar amounts. Whichever choice the legislature made, there were risks involved. If the ERA was not inflation proofed, the money would always be spendable, but the legislature and the governor often proposed overdrawing the ERA when it contained large amounts of money. The reason for inflation proofing was to protect the fund from future legislatures and governors. The question was whether the legislature feared the unpredictability of the financial markets more or the unpredictability of the legislature more.

[3:17:07 PM](#)

Representative Bynum asked what the POMV draw would need to be in order to ensure long-term stability.

Mr. Painter responded that different draw percentages had not been experimented with yet. He noted that adjusting the draw rate was another policy choice and would affect the likelihood of being able to fully make the POMV draw. He stated that based on static modeling, the draw could always be made, but the probabilistic modeling would show how different draw rates might impact the likelihood of running out of funds. However, LFD had not done an analysis yet. He offered to follow up if the committee desired.

Co-Chair Schrage assumed that the reason LFD had not modeled lower draw amounts was that it seemed unlikely the legislature would reduce the draw from the current level. He understood that doing so would require a major reduction in spending, which was something that had not been proposed

by the legislature or the administration. He acknowledged that there was a general appetite for spending and that it was unlikely to change from year to year. He asked if this was a fair summary of why lower draw rates had not been modeled.

Mr. Painter agreed with Co-Chair Schrage's assessment. He explained that if the draw rate were lowered, the money would have to be supplemented from other sources, which would further increase the deficit. While it might be a wise policy decision to lower the draw rate and find other sources of revenue, LFD had not modeled the scenario due to the existing deficit.

Co-Chair Schrage asked for more information on the overall growth rate of the Permanent Fund. He asked what growth rate was for both the corpus and the ERA combined.

Mr. Painter replied that the projected growth rate was 7.65 percent.

Co-Chair Schrage asked if the 5 percent POMV draw rate was sustainable when considering the overall account structure, particularly given the inflation rate over the last year.

Mr. Painter responded that the POMV draw rate would grow slightly faster than inflation based on the projection of a 7.65 percent growth rate and a 2.5 percent inflation rate. The issue was not with the total draw rate itself but with the ERA balance overall.

Co-Chair Josephson remarked that Representative Stapp's comments on the legislature's thirst for spending was somewhat contradicted by the "two large checks" in the Senate Finance Committee room. He noted that the checks were not required.

Mr. Painter agreed and noted that the checks represented the legislature's choice to spend \$4 billion on inflation proofing.

[3:20:41 PM](#)

Representative Hannan asked whether the recommended restructuring of the Permanent Fund corpus in the ERA had been modeled. She asked how the restructuring would impact the draw and adjustment.

Mr. Painter explained that if the state adopted a constitutionalized POMV system, the risk of overspending the draw or having insufficient amounts in the ERA would be eliminated. The state would always have enough funds to make the draw if it was constitutionalized, which would remove the risk of being unable to make the payment. He clarified that the restructuring would not change the POMV amount itself but would ensure that there was no risk of being unable to fulfill the payment.

Representative Hannan commented that she had heard the issue described in a different way by the APFC trustees, who had relayed that restructuring the accounts and unrealized gains reduced the risk and properly overall reduced the POMV mandate. She asked if her understanding was correct.

Mr. Painter responded that if the accounts were combined, the distinction between realized and unrealized gains would only be relevant from a cash flow perspective. The POMV draw would no longer be reliant upon the content of the ERA, but the legislature would only need to ensure there was enough cash available each year to meet the draw. The restructuring would remove the risk of not being able to make the draw. Additionally, it could potentially allow for a slightly different investment portfolio, though he did not anticipate significant changes in the portfolio due to the adjustment at present.

Co-Chair Schrage expressed concern about the potential insufficiency of the ERA in future years as it could result in not having enough money for state services or the PFD. He understood that the proposed solutions were to stop inflation proofing, reduce spending, or generate new revenue; however, he argued that there was another solution which was to constitutionalize the Permanent Fund and restructure it into a one-account structure. He argued that constitutionalizing would ensure both the availability of funds for the draw and protect the fund from overdrafts.

Mr. Painter confirmed that adopting a constitutionalized POMV system would eliminate both the risk of not being able to make the draw and the risk of overdrafts. The remaining risk would be selecting an unsustainable draw rate. He clarified that if the draw rate was set too high or if investment returns were poor over an extended period, the

ERA could act as a floor. However, if the draw rate was properly structured, there would not be a significant risk.

[3:24:03 PM](#)

Mr. Painter moved to slide 26 and relayed that he would finish the presentation quickly due to the committee's time constraints. He explained that if the budget was not balanced in the current year, it could not be balanced in 10 years either. He emphasized that revenue was not projected to grow faster than inflation, and spending was assumed to grow with inflation. He noted a key difference between LFD's modeling and OMB's 10-year plan was that LFD used last year's management plan as a baseline, which assumed that the budget would grow with inflation, while OMB's 10-year plan assumed the governor's current budget would grow with inflation. He explained that either approach would result in large deficits, with the deficit size varying depending on the assumptions used.

Mr. Painter continued to slide 27 and explained that the baseline model projected a deficit between \$1.8 billion and \$2.1 billion, assuming no overdrafts from the ERA. The chart on the slide depicted a situation in which the budget could not be balanced, leading to the depletion of the CBR within the next year. Without a source to fill the revenue gap, the model depicted an unsustainable financial situation.

Mr. Painter advanced to slide 28 which showed a similar projection but assumed the ERA would be used to fill the revenue gaps. The scenario allowed for a few more years of drawing from the ERA, but it would be depleted by FY 31 which would make it impossible to continue the practice into the future. The model depicted larger deficits due to the reduced POMV draw resulting from drawing from the ERA. Although the scenario was unlikely, it illustrated the size of the financial challenge the legislature faced.

Mr. Painter moved to slide 29 which detailed the long-term outlook and the governor's 10-year plan. He noted that the governor's main policy change was that the FY 26 agency operations and capital budgets were below the FY 25 levels. The budget assumed a 2.5 percent growth with inflation rather than 1.5 percent growth. The 10-year plan also included a reduction of fire suppression funding. He highlighted that the plan was significantly different from prior 10-year plans and reflected the status quo scenario,

highlighting the size of the gap that the legislature needed to address. He noted that the plan matched LFD's assumptions. He added that there were some assumptive differences in the LFD model, such as the division using placeholders for school debt and supplementals in its projections. The governor's plan assumed supplementals and lapses canceled out after FY 25 while LFD included a \$50 million placeholder. There was an error in DOR's fall revenue forecast, which was being corrected. The department had indicated that the correction would be made in the spring forecast.

Mr. Painter continued to slide 30 and explained that the governor's 10-year plan projected lower spending across all years due to one-time items and other elements from the prior year's budget not being carried forward, as well as some differences in assumptions. He relayed that the gap was about \$375 million in FY 26 and would grow in future years.

[3:27:26 PM](#)

Co-Chair Josephson understood that "one is sort of awful and one is more awful."

Mr. Painter responded in the affirmative. Both projections included large deficits, but one was significantly larger than the other. He continued to slide 31 and explained that the modeling on the slide was similar to the governor's 10-year plan, but LFD did not assume the CBR would be drawn down to negative \$12 billion. Instead, LFD simply assumed that the model was broken, but it still projected that there would be a \$1.5 billion deficit that would grow in future years.

Mr. Painter advanced to slide 32, which illustrated what would happen if the ERA were used to fill the deficit gaps. The approach would allow for a few more years of funding, but the model would be broken by FY 33 and there would be no revenue left. He clarified that he was not suggesting this course of action should be taken but he was using it to highlight the magnitude of the structural deficit.

Co-Chair Josephson remarked that the issue was not just theoretical as the legislature had come close to voting in favor of overdrawing the ERA in the past. He asked if his recollection was correct.

Mr. Painter responded in the affirmative. He noted that there was one year in which the House Finance Committee's version of the budget even included a second POMV draw as a supplemental, following a failed vote to overdraw the ERA the previous year.

[3:29:14 PM](#)

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

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ADJOURNMENT

[3:29:25 PM](#)

The meeting was adjourned at 3:29 p.m.