

HOUSE FINANCE COMMITTEE  
February 3, 2025  
1:33 p.m.

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CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 1:33 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 Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative DeLena Johnson  
Representative Jamie Allard

ALSO PRESENT

Eric DeMoulin, Administrative Services Director, Department of Administration.

SUMMARY

OVERVIEW: FY 26 DEPARTMENT BUDGET

Co-Chair Josephson reviewed the meeting agenda.

^OVERVIEW: FY 26 DEPARTMENT BUDGET

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ERIC DEMOULIN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ADMINISTRATION, introduced the PowerPoint presentation "State of Alaska: Department of Administration" dated

February 3, 2025 (copy on file). He began on slide 2 and explained that the Department of Administration's (DOA) primary mission was to provide support services for the rest of the executive branch, ensuring that agencies were better equipped to serve Alaskans. The details of DOA's structure were provided later in the presentation. He advanced to slide 3 and detailed the historical budget comparison. He noted that the majority of the funding sources fell under the "other" category, which he would explain in more detail during the Results Delivery Unit (RDU) overviews. He noted that DOA was primarily funded through the "other" category because it was a chargeback agency. He reiterated that the main objective of DOA was to provide services for other state departments. There was also some unrestricted general funds (UGF) funding allocated for legal and advocacy services statewide.

Representative Johnson asked what Mr. DeMoulin meant by the term "chargeback."

Mr. DeMoulin responded that chargeback referred to the process of billing other agencies for services provided.

Mr. DeMoulin continued to slide 4 which included a breakdown of the budget by various fund categories. The majority of the funding was categorized under other, including the interagency receipt authority, which was the amount charged to other agencies and departments for the services DOA provided. He relayed that a large portion of the funding for the Office of Information Technology (OIT) came from the Information Services Fund (ISF), which was an internal service fund at the state level.

Mr. DeMoulin continued to the RDU overview on slide 5. He explained that most sections within DOA were designed to provide services to other departments across the state. The services provided included centralized administrative services, shared services of Alaska, OIT, risk management, and legal and advocacy services. The primary funding sources for the units were interagency receipts or designated general funds (DGF). All agencies were considered chargeback agencies because they all charged services out to other departments.

Co-Chair Josephson asked if the term "appropriation" was synonymous with the term RDU.

Mr. DeMoulin responded in the affirmative.

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Representative Stapp asked if there was a specific item driving the UGF increase from the FY 21 actuals to the FY 26 proposed budget. He noted that there was about a 30 percent difference in UGF. He asked if there was a particular item causing the increase.

Mr. DeMoulin responded that the increase in UGF was primarily driven by the legal and advocacy services category and the increase in caseloads. He explained that the department was requesting several positions in the governor's FY 26 budget, such as a supervising attorney for paralegal support. He relayed that the classification section of the Department of Labor and Workforce Development (DLWD) had determined that the guardian ad litem positions were now eligible for overtime, which had historically not been the case. The change was also contributing to the cost increase in the general fund for that year.

Representative Stapp asked for a rough estimate of the caseload increase. He asked whether the increase was substantial.

Mr. DeMoulin replied that he would need to consult with the Director of the Office of Public Advocacy (OPA) to get the specific increase in caseloads. He would follow up with the information.

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Representative Hannan asked about the asterisk and footnote on slide 5, which indicated that the RDU overview excluded some divisions. She asked where she could find the overview for the excluded Division of Motor Vehicles (DMV), particularly because it was a significant revenue producer. She was interested in seeing the DMV included in the RDU overview.

Mr. DeMoulin responded that the RDU overview was strictly a view of the budget and did not necessarily include revenues. He noted that while DMV was a revenue center for the state and fully funded through DGF receipts, there were no significant budget changes from year to year. He relayed

that DMV had been omitted from the overview to avoid cluttering the graph with units that had no substantial changes.

Representative Hannan asked what was being done with DMV receipts, other than funding the operation of DMV.

Mr. DeMoulin responded that the DMV receipts were transferred directly to the general fund.

Co-Chair Josephson asked what the specific amounts of the receipts were.

Mr. De Moulin responded that he would follow up with the information.

Representative Bynum asked whether DOA reported the other charges or intergovernmental charges it billed to other departments as revenues. He wondered if the charges were passed through to the general fund or if the charges were recorded as expenses.

Mr. DeMoulin responded that interagency authority appeared as revenue for DOA and the expense was reflected when other departments made payments to DOA. He explained that interagency authority had a unique structure in that the expenditure portion was omitted from statewide expenditures while the expenses were viewed on the departmental side.

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Mr. DeMoulin continued to slide 6 which outlined some of DOA's recent accomplishments. He highlighted the successful negotiation of several bargaining unit contracts during the previous year within the Labor Relations (LR) component within DOA. The department had also been able to implement an intake portal for occupational injury reports through the Division of Risk Management (DRM), which had proven to be a valuable reporting tool for improving efficiencies. The department had also been able to negotiate significant savings regarding pricing through the Division of Retirement and Benefits (DRB) for mid-market checks with OptumRx and the pharmacy benefits. Additionally, he noted that DMV was close to introducing mobile driver's licenses, or e-driver's licenses, which would soon be available to the public.

Co-Chair Josephson understood that the governor wanted to move a number of positions from LR to the Department of Law (DOL). He asked if he was correct.

Mr. DeMoulin responded in the affirmative.

Co-Chair Josephson asked how LR would be impacted by the change. He asked what would remain behind after the positions had been transferred.

Mr. DeMoulin responded that the situation had not yet been fully flushed out, though some positions had already been transferred to DOL from LR. He added that DOL and the DOA Division of Personnel (DOP) were working together to determine exactly what responsibilities and positions would transfer. He clarified that much of the work was still in progress, with both departments working on a clean handoff to determine where responsibilities would lie, which duties would remain, and which would be transferred.

Co-Chair Josephson asked whether attorneys would be involved in negotiations.

Mr. DeMoulin replied that it seemed likely. He relayed that attorneys had previously advised on contract negotiations, and it was a reasonable assumption that attorneys would participate moving forward.

Representative Stapp asked for more details on the third bullet point on slide 6, which related to implementing improved pricing through mid-market checks with OptumRx, and an AlaskaCare Pharmacy Benefit Manager for employee and retirement plans. He asked for further details on the item and whether it would be beneficial or detrimental for DOA.

Mr. DeMoulin responded that he would need to defer to DRB to provide more detailed information. He offered to provide answers to any questions in writing.

Representative Hannan asked about the types of positions that had been transferred to DOL. She asked how many positions were attorneys and how many were not. She wondered whether new attorneys would be hired into positions that had previously been occupied by LR specialists.

Mr. DeMoulin replied that he would need to defer to DOL to detail the positions that had been transferred, but he confirmed that the positions that had moved from LR were not attorney positions. He would need to follow up with the committee on the exact job titles but clarified that the positions generally fell within Human Relations (HR) job classifications.

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Representative Stapp commented that it would be helpful for Mr. DeMoulin to include a brief overview of the items on the slides.

Mr. DeMoulin understood the comment. He continued to slide 7 which detailed some of the increases and decreases to the governor's FY 26 budget.

Representative Galvin asked Mr. DeMoulin to elaborate on what he meant by expanding operations on slide 7.

Mr. DeMoulin responded that the department was looking at providing additional administrative support for legal and advocacy services. He elaborated that the support was based on evaluating total caseloads, case counts, and the growing administrative needs within the legal division, which were reflected in the second bullet point on slide 7.

Representative Galvin asked if there were more cases now than there had been in the past and whether the expansion was intended to support the increase.

Mr. DeMoulin responded in the affirmative and confirmed that OPA had seen an increase in cases. He added that OPA did not employ case caps and it had been striving to become fully staffed to provide the best services possible.

Representative Galvin noted that the second bullet point on slide 7 mentioned expanding operations. She asked if there would be a need for other attorney and staff positions to support the expansion. She suggested that that additional positions would be needed due to similar expansions and needs within the department.

Mr. DeMoulin responded that the subsequent bullet points outlined several positions and initiatives designed to support the expansion. Some of the additional positions

that the department sought to fill were an Attorney IV position to provide legal support and leadership within the Public Guardian section, a paralegal support position, and the conversion of a part-time HR position to a full-time position to support payroll services. He noted that there was also an increase in the budget in funding for the Workiva accounting software, which the department used to produce the statewide financial statements annually. The additional funding was intended to add more functionality and build efficiencies. Additionally, there were increases for OPA related to lease costs for building upgrades. He added that software costs were rising every year and the department was renegotiating contracts with its enterprise IT licenses.

Co-Chair Josephson highlighted the reversing of a one-time case backlog contractor support, which appeared on the right side of the slide. He asked which division was impacted by the item.

Mr. DeMoulin replied that the contractor support related to the legal department.

Co-Chair Josephson was concerned because OPA and the Public Defender Agency (PDA) were facing significant challenges. He questioned whether the department could manage with a reduction of about \$1.5 million in legal assistance considering the delays in case processing.

Mr. DeMoulin responded that the decreases in the budget were part of a point-of-process and that one-time increments were not increases directly to the base budget. He explained that the one-time increment was never part of the department's base budget. He noted that the \$1.4 million allocation was only available for one year as it was a one-time increment. He relayed that reversing the increment in the future would be a point of process during the budget drafting process.

Co-Chair Josephson asked if the \$1.4 million would be made up for in the base budget.

Mr. DeMoulin replied, "not to the full extent." He acknowledged that he was not involved in putting together the one-time increase and was not aware of the specifics of what made up the \$1.4 million. He thought that some of it

was related to the additional personnel positions being added within the legal services component.

Representative Galvin asked whether the backlog had been fully resolved.

Mr. DeMoulin responded that he could not confirm that the backlog had been fully resolved.

Representative Galvin asked if it would be possible to investigate what would be required to clear the backlog. She shared that constituents had reported to her that there were long wait times on the phone and frequent disconnections. She understood the issues were intended to be addressed by the one-time increment. She asked whether the funds would help resolve the difficulty individuals were experiencing in receiving the assistance they needed. She asked what it would take to fix the problem and expressed that she would be happy to support the process in any way possible.

Mr. DeMoulin asked if the backlog to which Representative Galvin was referring was specific to the public guardians.

Representative Galvin replied that it was part of the problem, but there were delays across the board and recipients had trouble accessing all types of services. She commented that the Supplemental Nutrition Assistance Program (SNAP) and Women, Infant, and Children (WIC) program were both experiencing disruptions.

Co-Chair Josephson commented that SNAP was under the Department of Health (DOH).

Representative Galvin understood that SNAP was not under DOA, but the backlogs were being experienced across the board.

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Representative Hannan directed attention to the third bullet under decreases, which referred to the reversal of labor contract negotiations and arbitration for \$146,000. She asked whether the amount represented an increment for DOL or if it was simply for the purpose of saving money for DOA.

Mr. DeMoulin responded that the reversal of some items in the budget were one-time adjustments and part of the budgeting process. He clarified that he could not speak directly to the resources being requested by DOL.

Representative Hannan asked for more information on the reversal related to labor contract negotiations.

Mr. DeMoulin responded that LR had received multi-year operating appropriations to hire external assistance as needed for contract negotiations. He noted non-base budget funds were utilized for the negotiations. Budget corrections would need to be made in DOA's base budget because the work was being moved to DOL and some of the one-time funds would no longer be necessary.

Mr. DeMoulin continued to slide 8. He explained that the next slides would outline the significant budgetary changes for FY 26 and the services provided by various agencies within DOA. He relayed that Administrative Services provided services such as budget consultation, accounting consultations, and business development work aimed at building efficiencies in payroll. He noted that while health and administrative services were primarily handled by DRB, there was coordination between DRB and Administrative Services. He remarked that Administrative Services appeared to be relatively stable.

Mr. DeMoulin moved to slide 9 and the changes within the Division of Finance. He explained that the division provided statewide accounting services, managed enterprise systems, and maintained the payroll systems IRIS and ALDER. The division also handled payroll services for the state and managed the central corporate travel management contract, which included corporate travel services and procurement cards through U.S. Bank.

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Mr. DeMoulin advanced to slide 10 and discussed DOP, which provided statewide human resource services. He noted that the division had been involved in labor union negotiations, arbitration, and conflict resolution. The extent of the division's continued involvement in the areas was still being determined. He acknowledged that the most significant budgetary change for DOP was the ongoing transfer of

positions to DOL. He did not know the exact number of positions.

Co-Chair Josephson understood that the transferred personnel would not necessarily be lawyers, but labor negotiators housed under DOL.

Mr. DeMoulin responded in the affirmative.

Representative Hannan asked if all labor negotiators would be transferred to DOL or whether the positions would exist in both departments.

Mr. DeMoulin replied that the work was currently being done collaboratively between the two departments. He was aware of one DOL employee with extensive experience in contract negotiations who was still involved in the process despite the transfer. He relayed that while DOL would likely handle labor negotiations in its entirety in the future, there would be some overlap due to the natural transition. The department would continue to support its sister agencies during the period of change.

Co-Chair Josephson asked which agency was responsible for monitoring or tracking the salary study report.

Mr. DeMoulin replied that DOL had initially contracted for the salary study and that the classification managers within the department were deeply involved in the project.

Co-Chair Josephson asked when the legislature would be able to review the report.

Mr. DeMoulin responded that he did not have a specific date or timeframe to share with the committee. He noted that there had been a presentation on the report in the previous week but he did not have any new information to provide.

Co-Chair Josephson asked whether the proposed release date for the report had been set for late March of 2025.

Mr. DeMoulin responded in the affirmative.

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Representative Galvin asked how much funding the state allocated for the report.

Mr. DeMoulin replied that the initial appropriation for the study was \$1 million.

Representative Galvin asked if there had been an additional appropriation for the salary study.

Mr. DeMoulin responded that there had been no supplemental appropriation.

Representative Galvin asked what was the original agreed upon timeframe for the completion of the report.

Mr. DeMoulin replied that the initial time frame was to receive some preliminary data by the end of the last fiscal year, which was on June 30, 2024. The department had been working with its contractor Segal to gather data for the report by that date.

Representative Galvin noted that as of the current date, the release of the report was already six months late.

Mr. DeMoulin stated that he was unsure of whether any promises had been made regarding the final report's release date. He shared that Segal was under contract with the state to provide the report by June 30, 2024.

Representative Galvin asked whether it was common practice for reports to be released six months to a year after they were seen by the department.

Mr. DeMoulin responded that it was not a common practice and it did not set a precedent. He noted that there were many variables and inputs involved in creating a statistically relevant salary study, especially for policymakers who would rely on the data to make informed decisions. The classification section worked extensively on the study, which covered approximately 400 positions statewide. He emphasized that conducting a salary study for a single job class could be a lengthy process and the comprehensive nature of the study across the state contributed to the time required to complete it.

Co-Chair Schrage inquired whether the additional time taken to complete the salary study was due to additional work requested beyond the original scope. He asked if there would be additional costs associated with the delay. He

expressed concern that if the study took twice as long, it might result in double the cost.

Mr. DeMoulin responded that there would be no additional cost, as the original appropriation of \$1 million was still sufficient to cover the work. He explained that the scope of the contract was being refined, but no price overruns were expected.

Co-Chair Foster asked for the name of the company conducting the study.

Mr. DeMoulin confirmed that the company was Segal.

Co-Chair Foster asked if Segal would provide a report explaining the significant delay in completing the study.

Mr. DeMoulin responded that he was uncertain whether a narrative from Segal would be provided.

Co-Chair Schrage asked what changes in the scope of the study had contributed to the delay.

Mr. DeMoulin replied that he was not directly involved in the contract and could not speak to the specifics of the changes, but he would follow up and provide more information.

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Mr. DeMoulin continued to slide 11 and explained that there were not many significant changes for DRB and that salary adjustments were the primary budgetary change.

Co-Chair Josephson expressed concern about delays in retirement reporting, particularly for teachers in the Teachers' Retirement System (TRS) defined contribution (DC) plan. He had spoken with multiple constituents who were in Tier III and were retirement planning and concerned about the delays. He explained that the districts were struggling to forward the necessary revenue to accurately track retirement contributions due to a security breach. He asked for an update on the situation and what was being done to remedy the issue. He asked whether affected individuals were entitled to interest for the delay.

Mr. DeMoulin replied that there was a lot going around at DRB in the aftermath of the breach, but the division was working to resolve the situation. He noted that there had been coordination with tax professionals and Empower, the administrators of the retirement plans, to address the breach. He anticipated that a plan of resolution would be communicated later in the week. He relayed that the resolution would likely be implemented in stages due to the volume of work involved.

Representative Stapp understood that after the breach, retirement payments were delayed up to 14 weeks. The delays were particularly long for TRS members. He asked what the current timeframe for retirees to receive their benefit payments following retirement was. Additionally, he asked for more information on the current processing times.

Mr. DeMoulin responded that DOA received updates from DRB. He recalled that the goal was to process payments within six weeks or less, which had been achieved.

Representative Stapp noted that there were no requests for additional personnel within DRB. He asked whether Mr. DeMoulin could guarantee the payments would be made within the projected timeframe of six weeks going forward.

Mr. DeMoulin replied that he thought it was an attainable goal. He remarked that DRB Director Kathy Lea had done a great job at reducing vacancies and changing organizational structures to allocate resources properly in order to meet the deadline.

Representative Stapp relayed that he wanted to make sure that the standard would be continuously met going forward. He asked if Mr. DeMoulin was confident that future retirement payments would be timely.

Mr. DeMoulin responded in the affirmative. He could not make any guarantees, but he was highly confident that the goal would be met.

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Co-Chair Schrage asked whether retirees who had experienced delayed contributions would be entitled to interest payments. He asked if a decision had been made about the payments.

Mr. DeMoulin stated that he was not able to speak to the decision as it was beyond the scope of his job. He emphasized that the division was focused on taking care of employees statewide.

Representative Bynum asked for clarification on the communication plan regarding the retirement issue. He asked what the form the communication would be in and who it would be distributed to.

Mr. DeMoulin responded that communication would be sent out soon, but he was uncertain about the specific audience or format. He thought it might come in the form of a communication resolution. He knew that many people were impacted by the decision.

Mr. DeMoulin advanced to slide 12 and explained that Shared Services of Alaska provided centralized processing services across departments, including accounts payable, travel, debt recovery, procurement, and print and mail services.

Representative Tomaszewski asked whether each department had its own accounting system.

Mr. DeMoulin responded that that all departments and the executive branch used the same IRIS accounting system, although some state corporations used proprietary systems.

Mr. DeMoulin moved to slide 13 and explained that OIT was responsible for enterprise-level IT services, including information security, service management, communications connectivity, enterprise applications, and centralized data center support.

Representative Tomaszewski asked if OIT was responsible for statewide IT.

Mr. DeMoulin responded that OIT handled the enterprise-level services. Each department across the state had its own proprietary systems and oftentimes had bespoke IT needs.

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Mr. DeMoulin continued on slide 14 and the Risk Management section, which focused on managing the state's self-

insurance risk and included claims processing, litigation management, contract review, insurance administration, and consulting. He noted that a significant change from the FY 25 management plan to the governor's FY 26 budget was a reduction of \$967,000 in the state insurance capacity reserve account. He added that the Catastrophe Reserve Account (CRA) had grown, which had been made possible through year-end general fund sweeps.

Co-Chair Josephson asked whether a reduction had been made from the \$50 million allocated for CRA.

Mr. DeMoulin replied that no reduction had been made from the \$50 million to CRA. He explained that the \$967,000 reduction referred to the reversal of the four-year state insurance reserve account, which was separate from CRA. The funds had been built into the reserve account to address the specific appropriation, while CRA remained intact.

Representative Hannan asked why \$967,000 was being withdrawn instead of leaving it in the account.

Mr. DeMoulin responded that the withdrawal was related to one-time budgetary items, specifically the four-year state insurance catastrophe account. He indicated that the department had already addressed the issue on a larger scale by increasing the total balance of CRA, which had \$250 million cumulatively.

Representative Hannan understood that the \$967,000 would return to the general fund.

Mr. DeMoulin responded in the affirmative.

Mr. DeMoulin continued on slide 15, which addressed legal and advocacy services. The services included public guardianship, elder fraud prevention, guardian ad litem positions, and services for children in need of aid, commonly referred to as the "CINA" cases, court-appointed special advocates, and PDA as a whole. He explained that some of the significant budget changes included expanding leadership positions and administrative support and allowing guardian ad litem positions to qualify for overtime pay, which had not been budgeted for previously. The department had been monitoring the additional costs associated with making the positions overtime eligible.

Additionally, the department was examining the cost of increasing office spaces to accommodate additional staff.

Co-Chair Josephson noted that there appeared to be a discrepancy between the budgetary needs reflected on slide 15 and the reversal of one-time contractor support shown on slide 7. He understood that OPA had long relied on contractor support, with private attorneys being hired for additional cases or to handle conflicts. He noted that slide 15 illustrated the need for about \$1 million to pay for personnel, while there was a lack of need indicated on slide 7.

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Mr. DeMoulin replied that the one-time increments were technical budget items and agreed that Director James Stinson of OPA might express a desire for additional funding.

Mr. DeMoulin continued on slide 16 which detailed the requests for DMV. Major services provided by DMV included licensing, registration, and titling services, providing commercial driver's licenses, training resources, crash data, real IDs, and screening for fraudulent activity. One of the significant budget changes for DMV was the addition of a new analyst programmer position. The need was driven by an increasing workload within the DMV's IT department, which was handling over 100 IT projects, including system updates, upgrades, and security patching. The workload had significantly increased, prompting the need for an additional IT position within the organization.

Co-Chair Schrage asked why the new position was being funded as a one-time increment given the temporary nature of the increased workload.

Mr. DeMoulin responded that IT support was dependent upon the nature of the projects and the breakdowns. He noted that the timeline for IT projects was often indicated to start at implementation and end at fruition. He explained that IT support was a lesser burden. He relayed that it depended upon the project and the scope, and the projects would not necessarily continue into perpetuity.

Co-Chair Schrage asked if it would be reasonable to ask Mr. DeMoulin to provide a list of the ongoing IT projects along

with the expected completion dates. He asked for more information regarding the shift towards mobile or digital IDs, what was driving the change, and why it was being prioritized at this time. He remarked that there was no federal mandate to make the shift and he thought it seemed like an increased workload during a time at which the state did not have extra capacity.

Mr. DeMoulin responded that the shift towards issuing digital driver's licenses and IDs had been a priority for both the commissioner's office and the governor's office. He also indicated that he was unsure about the scope of the workload involved in the project, though it would be a valuable service for Alaskans and provide greater efficiency and convenience. He noted that DOA was working with a contractor to help facilitate the project but he was uncertain of its direct impact on the need for the additional IT position.

Co-Chair Schrage commented that while having access to digital IDs would be convenient, he was not sure it should be a high priority given the state's current financial constraints.

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Co-Chair Foster remarked that he had initially assumed that mobile ID referred to the unit that traveled to rural Alaska to assist individuals in obtaining their IDs, particularly considering the upcoming deadline for obtaining Real IDs. He asked for an update on the program.

Mr. DeMoulin confirmed that the program was not the same as the mobile ID initiative, but DMV could provide more details. He would follow up with more information.

Representative Galvin remarked that the deadline for compliance with the Real ID initiative had been pushed back multiple times, with the current deadline set for May 7, 2025. She asked whether the increased workload within the DMV was related to the effort to ensure that all Alaskans received an ID that would allow them to travel domestically in compliance with Real ID requirements. The issue had been brought up by several of her constituents, and she wanted to confirm that the state was on track to meet the needs of all its residents.

Representative Hannan asked whether the new digital IDs would be recognized by federal authorities as a Real ID. She asked whether the electronic version of a Real ID would meet federal requirements, particularly for those who already possessed a Real ID and were seeking a digital version.

Mr. DeMoulin responded that he understood that there were some validation tools that would need to be in place at places like airports. He understood that TSA recognized digital IDs as a valid form of identification. He thought the implementation would begin at the Ted Stevens Anchorage International Airport.

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Mr. DeMoulin continued on slide 17, which focused on the department's vacancy counts. He acknowledged that vacancy rates had been a recurring topic of conversation and provided some context regarding DOA's staffing changes. He explained that the department experienced frequent transfers in and out, depending on the services being provided or if responsibilities were shifted back to other departments. He noted that recent changes included the return of recruitment services and IT help desk positions to their respective divisions, which led to fluctuations in the total number of positions across the department. The shifting dynamic meant that the number of positions grew or shrank based on statewide initiatives and the denominator for vacancy rates also changed, which impacted the overall vacancy percentage. He indicated that DOA's vacancy rate was not solely based on percentage but also on the gaps in budgeted positions.

Co-Chair Josephson asked where payroll was housed.

Mr. DeMoulin responded that the Division of Payroll [Payroll Section] was part of the Division of Finance, which fell under the Central Administrative Services component. He skipped ahead to slide 19 which provided a breakdown of vacancy rates by RDU. He noted that the Division of Finance currently had a vacancy rate of 32 percent, but the payroll section specifically was facing a significantly higher vacancy rate of 46 percent. The increased vacancy rate was largely due to the ongoing staffing challenges in the payroll unit, which had been struggling with vacancies for the past two years.

Co-Chair Josephson asked whether the payroll division was still relying on outside contractors to manage the workload.

Mr. DeMoulin replied that the payroll division was no longer using contractors to handle payroll tasks. Instead, the division had digitized the process, which had introduced efficiencies over the past year. The digital transformation had replaced the previous paper-based system for processing Notice of Pay Problems (NOPPs). The old system of submitting NOPPs on paper and printed out was inefficient, especially given the high volume of inquiries caused by staffing shortages. As part of the new system, the department had implemented a ticketing system to manage and resolve issues. He stated that there were currently over 3,000 tickets in the system. Not all of the tickets were formal NOPPs and the number included various types of payment inquiries. Specifically, there were 708 formal NOPPs that currently needed to be addressed.

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Representative Stapp asked about the trends in premium and overtime pay within the DOA's RDU components from FY 24 to FY 25.

Mr. DeMoulin responded that overtime in payroll had been higher in FY 24 compared to previous years, primarily due to staffing shortages and the resulting increased workload.

Representative Stapp asked whether the department was experiencing a decrease in overtime across all of its components considering that the vacancy rate for FY 25 was lower than FY 24. He remarked that fewer vacancies typically meant less overtime. He asked if overtime hours were up across the board or only in payroll.

Mr. DeMoulin responded that rates were up only in payroll. He did not think there was a drastic increase or decrease in other areas of the department.

Representative Galvin asked for confirmation that the payroll vacancy rate within the department was 46 percent.

Mr. DeMoulin responded in the affirmative.

Representative Galvin expressed significant concern about the ongoing vacancy issues within DOA, particularly in light of the wage study that had been requested over a year ago. She noted that the study was intended to evaluate whether the state was competitive with industry standards and help address the underlying causes of vacancies. She questioned whether the study would be relevant given the time lapse. She suggested that rather than spending \$1 million on the study, the state could have simply increased wages, which could have potentially reduced the vacancy rate. She was also concerned about whether enough attention was being given to solving the problem and she asked whether there was anything the legislature could do to assist in addressing the issues.

Mr. DeMoulin responded that the concerns were valid. He explained that the salary study and adjusting pay rates were small components in addressing vacancies. While he agreed that increasing pay could help fill vacancies, there were risks of paying above the established pay rates for certain positions, which could create issues of fairness and consistency. He stressed that efficiency improvements were another crucial element in managing vacancies and addressing staffing needs. For example, the Division of Finance had undertaken several initiatives to streamline processes and reduce the need for additional personnel, such as automating the approval processes for low-risk timesheets and the implementation of a system to digitize and index paper documents. The improvements would allow staff to handle cases more efficiently and reduce the time spent searching through physical files. The digitization of documents such as NOPPs was a key step in improving efficiency. By digitizing the paperwork and allowing it to be queried by employee ID, the division hoped to eliminate the time-consuming task of manually searching through thousands of physical documents. Such changes would speed up the resolution of issues and reduce the burden on staff, which would address some of the underlying causes of vacancies.

Representative Galvin asked how many positions were represented by the 46 percent vacancy rate.

Mr. DeMoulin responded that the 46 percent vacancy rate equated to approximately 30 vacant positions in payroll.

Representative Galvin asked whether the goal of the division's efficiency efforts was to eliminate the need for the 30 positions.

Mr. DeMoulin replied that the goal was not necessarily to reduce the number of positions, but to ensure that the department could adequately staff the existing positions by improving efficiency. Some of the efficiency initiatives might reduce the need for high numbers of staff members in certain areas, but other departments and tasks could also benefit from redeploying resources. The focus was on optimizing the existing workforce while continuing to address vacancies as effectively as possible.

Representative Galvin asked if there was any other department that was experiencing similar vacancies.

Mr. DeMoulin responded that he did not know offhand.

[2:33:08 PM](#)

Co-Chair Josephson asked if payroll was provided for public health nurses.

Mr. DeMoulin confirmed that payroll was handled for DOH.

Representative Bynum asked whether the 2025 vacancy figures included additional positions that were added in 2024 and had not yet been filled.

Mr. DeMoulin responded in the affirmative.

Co-Chair Schrage relayed that he was concerned about the payroll issues. He had worked for a construction company where he found out firsthand how important it was to pay employees correctly and on time. He was alarmed by the 46 percent vacancy rate and asked whether the system improvements and initiatives would resolve the payroll issues in the next year or if they would merely serve as a temporary fix to reduce errors and delays.

Mr. DeMoulin responded that he understood there was a loss of confidence in the system and that payroll was one of the most sensitive issues for employees. He explained that significant progress had been made in identifying and addressing inefficiencies. He was working on an analysis of the collective bargaining agreements and payroll

complications to streamline processes and restore trust. He noted that he had been meeting with unions to address the issues directly and expressed confidence that the improvements made so far were leading to tangible progress. He could not offer a definitive timeline for resolving the issues as the process of implementing new systems and gathering data to track progress was ongoing. The new applications were rolling out in the coming week, and he hoped to share the timeline soon. He acknowledged that addressing the backlog was a priority and offered reassurance that the department was actively working on a strategic plan to ensure that the payroll issues would not resurface in the future.

Co-Chair Schrage remarked that he was glad to hear that eradicating the backlog was Mr. DeMoulin's goal. He asked if the implementation of new systems and efficiencies would be enough to resolve the issue, or if the vacancy rate would still need to be addressed in order for payroll to function well.

Mr. DeMoulin responded that he was not fully equipped to answer the question. He thought that the solution would likely be a combination of both approaches. He explained that it was possible that more could be done with fewer resources as efficiencies were built. However, he could not provide a precise definition of what "less" would look like at the current moment. He added that even if employees were relieved from their current paper-based processes and manual timesheets, there would still be a need to enhance services in other areas. The services might involve allocating resources to quality assurance or other necessary tasks. He noted that currently, many resources were focused on validating inputs on a day-to-day basis. The goal was not necessarily a reduction in positions, but rather to increase efficiency, improve accuracy, and provide better service to Alaskans.

Co-Chair Schrage appreciated that large strides were being made, but he was not sure that the issue would be resolved solely through efficiencies and new applications. He stressed that the vacancy rate needed to be addressed. He thought that the state should address the issue with the same urgency as a small business would in similar circumstances. He was concerned that the seriousness of the issue was not understood. He agreed with Representative Galvin that higher pay would help address the issues. The

lack of information about appropriate wages was a significant concern, as it contributed to uncertainty regarding timely pay and the associated vacancy rate issues across various state departments. He reiterated that the vacancy rate should be a central focus.

Mr. DeMoulin replied that despite a vacancy rate exceeding 40 percent, the payroll team had consistently processed 99.8 percent of payroll on time. The team's accomplishment was particularly impressive given the team's staffing shortages and lack of adequate tools. He emphasized that the staff had been working hard and had achieved a high level of efficiency, even without the necessary resources. He was confident that ongoing improvements would continue to support their efforts.

[2:41:10 PM](#)

Representative Hannan shared that when she met with payroll employees the previous year, the employees had expressed concerns not only about the vacancy rate but also about the complexity of the job. Working in payroll was more complex than it appeared. She requested additional longitudinal data on employee tenure, specifically the number of employees who had been in their positions for more than one year, five years, and up to ten years. She believed that the lack of experienced employees with knowledge of the nuances of the system contributed to inefficiencies and it typically took about a year for new employees to become fully functional in these positions. She asked for information on whether employee retention had improved and whether the state had been able to keep new hires long enough to advance them through the state's step process.

Mr. DeMoulin responded that he had a detailed payroll presentation prepared and would be happy to present it to the committee at a later date. He added that he would be presenting on payroll in the House State Affairs Committee later in the week.

Co-Chair Josephson looked forward to the department's responses to the committee's questions.

Representative Stapp commented that it seemed like payroll was functioning well, except for the small 0.2 percent of individuals who had not received their paychecks on time. However, he thought that the steps taken so far appeared to

be mitigating the problem. He thought the situation must be moving in a positive direction because there had been no requests for additional funding or budgetary support. He asked what should be done if the problem worsened rather than improving, despite the steps that had been implemented and the absence of any requests for additional resources.

Mr. DeMoulin responded that he was unsure how to answer Representative Stapp's question. He noted there was indeed an ask related to payroll in the capital budget, which he believed would help improve the situation in the future. The capital request involved a more robust time and attendance system designed to address several challenges that made payroll processing difficult for staff. He explained that one of the significant issues was the large number of rules related to various bargaining unit contracts that needed to be adhered to. Navigating the complicated system was especially challenging given that many payroll positions were entry-level. He acknowledged that it would take time to build the efficiencies necessary to process the contracts. He emphasized that the key to solving the challenges was providing staff with the necessary tools, and that was the purpose of the capital ask.

Representative Stapp asked for confirmation from Mr. DeMoulin that the payroll situation would improve significantly if the capital appropriation was funded and implemented.

Mr. DeMoulin confirmed that he expected the situation to improve significantly if the capital appropriation was funded and implemented. He acknowledged that while the request was based on the best estimates available, he could not guarantee that it would address all the state's needs. He offered reassurance that the appropriation would put the state in a more positive position.

[2:46:00 PM](#)

Representative Jimmie understood there were payroll processing issues related to missing payments and revised administrative processes in other departments. She asked for more information about the processes involved and asked which department was responsible for addressing the issues.

Mr. DeMoulin asked for clarification from Representative Jimmie on whether she was referring to union dues.

Representative Jimmie responded that she was unsure.

Mr. DeMoulin responded that many dues were opt-in or opt-out, and he could not speak to the details without further information.

Co-Chair Josephson suggested that Representative Jimmie follow up offline for further clarification.

[2:47:26 PM](#)

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

#  
ADJOURNMENT

[2:47:54 PM](#)

The meeting was adjourned at 2:47 p.m.