

HOUSE FINANCE COMMITTEE  
February 6, 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 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  
Representative Calvin Schrage, Co-Chair

ALSO PRESENT

Kim Kovol, Commissioner, Department of Family and Community Services; Marian Sweet, Assistant Commissioner, Department of Family and Community Services; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

HB 53      APPROP: OPERATING BUDGET; CAP; SUPP

HB 53 was HEARD and HELD in committee for further consideration.

HB 55      APPROP: MENTAL HEALTH BUDGET

HB 55 was HEARD and HELD in committee for further consideration.

OVERVIEW: FY26 DEPARTMENT BUDGET

PRESENTATION: AGENCY RESPONSES TO FY25 INTENT LANGUAGE

Co-Chair Josephson reviewed the meeting agenda.

#hb53

#hb55

HOUSE BILL NO. 53

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 55

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

^OVERVIEW: FY26 DEPARTMENT BUDGET

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KIM KOVOL, COMMISSIONER, DEPARTMENT OF FAMILY AND COMMUNITY SERVICES, introduced herself and the PowerPoint presentation "Department of Family and Community Services; FY2026 Budget Overview," dated February 6, 2026 (copy on file). She reminded members that Department of Family and Community Services (DFCS) came into existence in 2022. She continued to slide 2 and shared that the department had seen positive results from the reorganization and was continuing to progress its priorities. She noted that department staff were present to answer questions.

Ms. Kovol continued to slide 3 and relayed that the department's mission was to provide support, safety, and ensure personal well-being for vulnerable Alaskans. The department was divided into four primary divisions: Alaska Pioneer Homes (APH), Alaska Psychiatric Institute (API),

Office of Children's Services (OCS), and the Division of Juvenile Justice (DJJ). Additionally, there were departmental support services included within the department. The total budget for the department was just under \$500 million.

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MARIAN SWEET, ASSISTANT COMMISSIONER, DEPARTMENT OF FAMILY AND COMMUNITY SERVICES, continued to slide 4 and provided a financial overview of the department. The slide included DFCS's FY 24 actuals, the FY 25 management plan, and the FY 26 governor's proposed budget. She explained that the proposed budget for FY 26 represented a 1.4 percent increase compared to the FY 25 management plan. The increase was attributed to technical salary adjustments and a few new budget items, which would be discussed further in the following slides.

Ms. Sweet reported that in FY 24, the amount of unutilized unrestricted general fund (UGF) authority that had lapsed had been 1.8 percent of the total budget and amounted to approximately \$4.4 million. The majority of the lapse had been found in the grant line and was primarily due to a reduction in the number of foster families under OCS, leading to fewer funds being distributed. The department had been conducting a review of its restricted revenue sources to assess any potential lapse balances. The review had included evaluating historical lapse balances and any anticipated lapses for the current fiscal year, which allowed the department to make necessary adjustments in future budget cycles.

Ms. Kovol continued to slide 5 and gave an overview of APH, which provided a range of services to assist elderly residents. The services included daily living assistance, medical and nursing services, recreational and social programs, dietary needs, and housekeeping. Notably, 61 percent of residents had been diagnosed with a dementia-related disease, though the percentage varied from the high 40s to the low 70s depending on the specific home. The division had employed over 400 staff members and had a budget exceeding \$112 million.

Representative Galvin relayed that she was concerned about the growing elderly demographic need in Alaska. She asked whether there had been an analysis of future demand for

services, particularly in relation to the state's growing elderly population and the 506 bed capacity at APH. She was particularly concerned about the Fairbanks facility.

Ms. Kovol replied that the 506 bed capacity could fluctuate between 85 percent to 95 percent full, depending on the home. For example, Juneau was at 100 percent capacity, while Anchorage's capacity percentage had been in the mid-80s due to renovations. She relayed that private entities in the state had been operating independently and had not been subject to the same regulations as the pioneer homes. The private entities were typically better equipped to serve residents with lower levels of care. However, there had been a growing demand for higher levels of care, with more elders requiring more care than the private entities had been equipped to handle. As a result, many residents with more severe needs had been seeking care at APH which had contributed to the rising demand.

Representative Galvin thought it appeared that private entities might have been taking in elders requiring lower levels of care, while APH had increasingly served those with higher needs.

Ms. Kovol responded in the affirmative. She explained that while private entities might have accepted a few residents that had high assisted living needs ranked at level three and level four, the private entities generally preferred to serve residents with levels one and two care needs. Consequently, APH had become the primary option for individuals requiring more intensive care.

Representative Galvin asked if APH was receiving additional funding. She asked how the facilities were accommodating the influx of residents with more intensive care needs. She assumed that APH would need more staff support and possibly a different type of environment for some kinds of patients.

Ms. Kovol responded that residents requiring level three to five care often needed more mechanical supportive equipment. She noted that the department was looking into replicating its memory care units to accommodate higher care needs. There were also safety considerations to address, such as staffing ratios and facility design, especially since APH and other aging facilities in the state had been originally designed under different

regulations and for a different population. She suggested Ms. Sweet elaborate on the funding aspects.

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Ms. Sweet added that there were distinct rate structures for each level of care provided. The higher the care level, the higher the charge, although the department also faced challenges with the increased cost of care. She explained that the legislature's payment assistance program came into play because the additional funds could provide support to ensure that all elders in all homes could be cared for despite the financial challenges posed by higher care levels.

Representative Galvin asked whether a resident who started at a level one or two and later escalated to a level four or five would be required to remain at APH, even if the funding for higher care level was unavailable.

Ms. Sweet responded in the affirmative. She explained that once a resident entered APH, it became their home and the department would provide the necessary funding to support them and ensure they were not displaced.

Representative Hannan asked to be provided with the number of beds available at each APH location. She also requested more information regarding wait lists.

Ms. Sweet responded with the details for each facility, starting with the Anchorage Pioneer Home, which had a capacity of 177 and a current census of 153. At the Veterans' Pioneer Home, the capacity was 79, with a current census of 69. The Fairbanks Pioneer Home had a capacity of 91 and a census of 58, but the reduction was intentional due to remodeling work being done on the flooring. The Juneau Pioneer Home had both a capacity and a census of 49. The Ketchikan Pioneer Home had a capacity of 45, with a census of 44. Finally, the Sitka Pioneer Home had a capacity of 65, with a census of 61. She asked if Representative Hannan also wanted the wait list numbers.

Representative Hannan responded in the affirmative.

Ms. Sweet responded with the active wait lists for each facility, starting with the Anchorage Pioneer Home, which had 124 individuals on its wait list. The Veterans' Pioneer

Home had a wait list of 94, while the Fairbanks Pioneer Home had 157 individuals waiting for a bed. The Juneau Pioneer Home had 126 individuals on its wait list, and the Ketchikan Pioneer Home had 73. The Sitka Pioneer Home had 48 individuals on its wait list.

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Ms. Sweet continued to slide 6 and described the main sources of funding for APH. She noted that the largest portion came from the "other" category, which included interagency receipts from Medicaid claims and APH's Payment Assistance Program. Additionally, the division had a reimbursable service agreement (RSA) with DJJ for pharmacy services where APH supplied pharmacy services. In the other category, statutory designated program receipts (SDPR) were also significant, especially for revenue collected through the pharmacy program. The primary source of funding for UGF was the Payment Assistance Program, with the remaining \$4.6 million UGF balance being used to help support the operations of each of the homes. She noted that general fund program receipts included revenue collected from residents' private pay as well as private insurance. Additionally, due to the classification of the Palmer facility as a home for veterans, the department was able to receive federal reimbursement through the federal Veterans' Affairs (VA) for the Palmer home. The increase of 100 percent in the APH budget was strictly for salary adjustments.

Ms. Koval continued to slide 7 and API's budget information. She explained that API was the only state-run hospital providing acute psychiatric care to individuals experiencing mental health crises in Alaska. The institute had a licensed capacity of 80 beds and it was the only provider in the state offering competency restoration treatment for individuals found by the court to be incompetent to stand trial. The total FY 26 budget was \$62.5 million.

Ms. Sweet continued to slide 8 and explained that API's proposed budget for FY 26 included an increase of \$4.4 million to support a structural deficit within the facility that was caused by rising operational costs coupled with reductions in revenue collections. She shared that API collected revenue through the other category, which included interagency receipts as well as SDPR. The majority

of API's interagency receipt collections came from the Disproportionate Share Hospital (DSH) program, followed by Medicaid receipts and claims. She relayed that API also collected revenue from private pay and private insurance. In December of 2024, API received a notice that federal FY 26 DSH allotments would be reduced to just under \$1 million, which would directly impact API's revenue. If the department maintained its current rate of revenue collections from Medicaid, private pay, and private insurance, it anticipated a reduction of approximately \$4.7 million in total revenue for FY 26.

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Representative Stapp asked whether there had been any discussion at the federal level regarding further reductions in DSH payments, as it seemed likely that such reductions could continue. He asked how concerned the department was about the impact on operations at API.

Ms. Sweet confirmed that the department had heard that there would be incremental decreases over the next several years. She explained that it was likely that similar reductions would occur in FY 27 based on the expected reduction of around \$1 million in FY 26. The department was focusing on how to mitigate the impact of the reductions and increase revenues within API.

Representative Stapp asked if the department had any replacement revenue sources planned, aside from general funds.

Ms. Sweet responded that the department had developed a plan to address the revenue shortfall. She explained that the department had hired a contractor to review and assess the coding and billing processes to improve the collection of revenues and optimize the financial operations at API. She hoped to see the results of the revenue increases as early as the end of the current fiscal year, but the department expected to see proven successes by FY 26. Another aspect of the plan involved evaluating expenditures to mitigate the reduction in revenues. The department had already started trimming down expenditures where possible, but cuts could not compromise the services provided to patients. One area that the department was focusing on was staffing, particularly overtime. She noted that API had been relying on significant overtime due to lower staffing

levels and there was a strong push to hire more staff to reduce overtime costs. Additionally, the use of locum tenens [temporary providers brought in to support the hospital] had been significantly reduced. The department planned to reduce locum tenens even further once it was able to hire more full-time psychiatrists and psychologists. The department had seen success in hiring staff through the Sexual Harassment/Assault Response and Prevention (SHARP) program, which was why there was an additional Alaska Mental Health Trust Authority (AMHTA) recommendation for \$200,000 for the program.

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Representative Galvin asked if there were transitional care options for mental health patients in Alaska, similar to the step-down care that patients from Providence Hospital might receive. She asked what options existed for individuals transitioning away from API.

Ms. Sweet responded that there were steps being taken by partners at the Department of Health (DOH) to address the need for transitional care. She noted that the proposed legislation HB 73 and its companion bill SB 76 aimed to create a complex care home residence license. The new license would allow for the creation of step-down facilities, which would serve as more home-like environments for individuals transitioning out of institutionalized settings. The facilities would provide support similar to that of API but in a smaller, less expensive setting, with a capacity of up to 15 beds. She explained that the average length of stay could vary widely due to the different types of patients the facility served. Some patients were court-ordered, and the length of their stay depended on the specific services they required. Some patients remained at the facility longer than intended because API was designed for short-term stays. There were also youth patients, whose stays could vary based on their comorbidities and diagnoses. The hospital was not designed for long-term care.

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Co-Chair Josephson asked why there was no mention of the reduction in DSH funds in the presentation.

Ms. Sweet replied that while the DSH funds were federal dollars, the funds were awarded out of the coordinated health and complex care component, which was where grant programs were issued. The general fund match was supported under the component, which was why it did not appear in the federal revenue section. The funding was not part of API's budget, but the institute did receive the funding through interagency receipts.

Co-Chair Josephson noted that there had been reform legislation in the past. He asked if the intended result to require more people to be analyzed for commitment was achieved.

Ms. Kovol asked if Co-Chair Josephson was referring to the omnibus crime bill.

Co-Chair Josephson responded in the affirmative.

Ms. Kovol responded that the reform had been implemented on January 1, 2025. She explained that the department had not yet begun filing for extensions of the 180-day timeline but anticipated that a backlog of patients would soon begin to grow, resulting in a waitlist. She noted that the department had already implemented competency restoration services outside of API. She relayed that a community-based location for the services had been established in Anchorage. The program served individuals who had already been court-ordered for release. In addition to the community-based option, the department maintained ten available spaces at the Anchorage Correctional Complex and another ten at Hiland Mountain Correctional Center, specifically for female court-ordered patients. She confirmed there were already participants in the program, but the census had not yet reached the full 30 slots. The capacity had not been reached yet partially due to the staggered timing of court orders, which led to participants rotating in and out of the programs at different intervals.

Ms. Kovol emphasized that the department was continuing to evaluate the eligibility criteria for services. Initially, individuals with more serious felony charges had not been accepted into the program. However, the department was now considering including those cases and evaluating each case individually and in coordination with the courts. The department was proceeding cautiously due to limited staffing.

Co-Chair Josephson asked if the legislation had gone into effect recently.

Ms. Kovol confirmed that the effective date of the new legislation had been recent.

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Ms. Kovol continued on slide 9 which introduced DJJ. She explained that DJJ operated using a restorative justice model to work with adjudicated youth. The division focused on addressing delinquent behavior, promoting public safety, supporting the restoration of victims and communities, and assisting youth and their families in developing skills to prevent future offenses. She relayed that DJJ operated six secure facilities across the state, as well as thirteen probation offices. She highlighted that the vast majority of youth under DJJ's oversight were not in detention but rather living in their communities, which she viewed as a positive development. The division employed approximately 400 full-time staff and operated with a budget of nearly \$67 million.

Representative Hannan asked what the current census of juveniles in state custody was.

Ms. Kovol responded that the current detention census was 152 and the capacity of the facility was 176. The six facilities were located in Bethel, Fairbanks, Juneau, Kenai, Mat-Su, and Anchorage.

Representative Hannan asked for the number of youth under DJJ jurisdiction who were not in detention.

Ms. Kovol responded that there were approximately 530 youth.

Co-Chair Foster asked Ms. Kovol to repeat the locations.

Ms. Kovol repeated the six locations.

Co-Chair Foster relayed that there were some other locations in the past in Nome and Ketchikan. He asked if there was another location on the North Slope.

Ms. Kovol responded that "Barrow" [Utqiagvik] had a probation office.

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Ms. Sweet continued on slide 10 and detailed the two key items that contributed to the funding increase for DJJ in FY 26. The first item was an expansion of the Successful Youth Courts Grants Program. She explained that funding was already being provided to the eight community partners that operated the program. She noted that due to significant interest from community partners in the Fairbanks area, the department anticipated positive outcomes in reducing recidivism rates among participating youth. The requested increase for the item was \$25,300 in UGF.

Ms. Sweet continued that the second item was funding intended to support provider agreements for occupational therapists serving within DJJ. She explained that occupational therapy services played a critical role in supporting youth who had experienced trauma and it helped them develop coping mechanisms, self-regulation skills, and ultimately contributed to reducing recidivism. The funding request totaled \$100,000 and was supported by AMHTA.

Representative Galvin asked how many occupational therapists were currently employed under the program and serving the approximately 530 youth within DJJ's jurisdiction.

Ms. Sweet responded that the occupational therapists primarily provided services in the detention facilities and did not necessarily serve all youth in community supervision. She acknowledged that McLaughlin Youth Center in Anchorage had one occupational therapist, but she did not know the complete statewide count. She confirmed that the proposed funding would be used to add one more occupational therapist to the existing group. She would follow up with the details.

Ms. Sweet continued that remaining changes in the FY 26 budget for DJJ were due to technical salary adjustments across staff positions.

Ms. Kovol continued to slide 11. She explained that OCS served as the state's child welfare agency and was charged with investigating reports of child abuse and neglect and

managing Alaska's foster care system. The division operated across five regions with a network of 21 offices statewide, employed 600 full-time staff members, and maintained a total budget of \$205.5 million.

Co-Chair Josephson asked whether there was still a clinician employed to assist workers dealing with difficult or traumatic work experiences.

Ms. Kovol confirmed that OCS continued to have a wellness officer on staff.

Co-Chair Josephson recalled that there were lapsed funds of a few million dollars within the foster care component. He asked for an update on the current rates paid to foster families and whether the rates had been assessed for adequacy.

Ms. Kovol responded that a key challenge was the decrease in licensed foster homes, which began around the time of the COVID-19 pandemic. She noted that prior to the pandemic, there had been more than 1,400 licensed non-child-specific foster homes. By 2022, the number had dropped to just over 1,100. As of the current date, the count stood at 920 non-child-specific homes. She clarified that the total number of licensed providers was still over 1,100, but non-child-specific homes had decreased to 920.

Ms. Kovol added that in the previous legislative session, the legislature had approved an average base rate increase of 30 percent for foster care payments, with actual increases ranging from approximately 26 percent to 32 percent depending on the age and needs category of the child. Since the rate increase took effect on July 1, 2024, the department had received 348 new foster care license applications. Some of the applicants had already been approved and others were still moving through the approval process. She was encouraged by the response and noted that the number continued to rise. She suggested that Ms. Sweet address the issue of lapsed funds.

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Ms. Sweet replied that the amount of funds that had lapsed totaled \$2.3 million and a significant portion had been within OCS. She noted that there had been a reduction in the number of children placed in out-of-home care, which

appeared to be the primary factor behind the decrease in expenditures. The reduction was attributable to the decreased number of children in such placements rather than the licensing process.

Co-Chair Josephson acknowledged that the reasons for the decline were complicated and it was difficult to determine whether the reduction should be seen as a positive development, especially considering the reasonable concerns surrounding youth mental health, economic instability, and domestic violence. He asked whether the decrease in out-of-home placements should be viewed optimistically or if it pointed to other underlying issues.

Ms. Kovol replied that the situation was multifaceted. She wondered whether the current need truly centered on increasing the number of foster homes, particularly in light of the decrease in children in state care. She suggested there was a possibility that what was actually needed was a broader range of foster homes that could meet diverse needs and serve specific population demographics, including sibling groups. She noted that not every foster parent was equipped to care for a young child, and not every foster family was prepared to support a teenager. She also identified challenges such as the availability of child care, which many foster families required. The department had established a dedicated search and foster unit to support foster families. She added that a new respite program had recently been launched following requests from foster families for additional assistance and support.

Ms. Kovol continued that there was a growing trend among families who preferred to avoid state involvement, opting instead for private relationships with foster children or kinship placements. The department respected the choices, but acknowledged that preferences might evolve over time. The department still encouraged families to consider the licensing process. She explained that when the department underwent reorganization, there had been just under 3,000 children in out-of-home care, and the number had declined to slightly more than 2,400 at present.

Ms. Kovol continued that there had been significant progress made in terms of family reunification and achieving permanency for children. However, she also recognized that in Alaska, achieving permanency generally

took longer due to a range of factors. For example, many Alaska Native tribes did not want OCS to move quickly into terminations of parental rights (TPR) and instead wished to consider guardianship. She relayed that the strategy was frowned upon on the federal level but it was embraced in Alaska as the more suitable option for certain families. She acknowledged that guardianship was not considered a form of legal permanency under federal standards, meaning that such cases remained open for extended periods. The department's perspective was that honoring the family's wishes through guardianship was often the most appropriate solution, even if it did not conform to federally defined categories.

Co-Chair Josephson noted that further discussion regarding audits would likely be necessary during the upcoming finance subcommittee process.

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Representative Galvin expressed concern about the caseload volume assigned to caseworkers. She stated that she had received information suggesting that the number of children assigned to each caseworker remained approximately three times the national average. She asked if her understanding was correct.

Ms. Sweet responded that discussions regarding caseloads and case counts were ongoing. She relayed that a key point of debate centered on whether a case should be counted by family unit or by the individual number of children involved. The differing interpretations of what constituted a case continued to influence reported figures. Some progress had been made in reducing caseloads, though desired levels had not been reached. She affirmed that the figures no longer reflected the double or triple multiples previously seen.

Ms. Sweet continued that caseloads varied by region. In certain areas, a small number of caseworkers served multiple remote communities, resulting in caseloads that differed significantly from those in urban settings. She emphasized that it was not possible to equate one child to another on a one-to-one basis. The needs of individual children could differ dramatically; a child requiring a lower level of care necessitated far less time and support

than one with high needs. She reiterated that cases varied greatly.

Representative Galvin asked whether any audits had been conducted in Alaska similar to those undertaken in other areas of the U.S. in which standardized evaluations might account for variables and allow for more accurate comparisons. She stated that her primary concern was whether the department had access to adequate assistance. She noted that the budget appeared flat and that addressing caseload issues could enhance both recruitment and retention. She stressed that she wished to support the department in any way possible.

Ms. Sweet responded that the department had strong partnerships with tribal organizations, particularly those participating in formal compacts. Of the 229 tribes in Alaska, 170 were involved in compacts. The ongoing discussions and investments had supported a collaborative relationship with the tribes. She noted that the tribes worked closely with the department and possessed the right of first refusal in cases concerning child welfare. When a tribe declined to assume responsibility for a case, the department stepped in to offer support. She emphasized that each case required a tailored approach and the department worked diligently to respect tribal decisions on whether to intervene. She described the dynamic as a unique and case-specific partnership.

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Ms. Sweet continued to slide 12. She stated that UGF authority within OCS was composed of the general fund, general fund mental health dollars, and the general fund match sources. She explained that the match supported several federal grant programs, the largest of which was Title IV-E [of the Social Security Act]. Other grants included the Social Services Block Grant, the Promoting Safe and Stable Families grant, and the Independent Living grant.

Ms. Sweet clarified that additional funding sources categorized as "other" were secured through reimbursable service agreements (RSA). She explained that the department maintained several RSAs with DOH, which included RSAs that funded support for foster care providers and the Facility Attuned Training program, which aimed to improve

relationships between OCS staff and caregivers. She also noted that there was an RSA with the court system supporting the Palmer Families and Infants and Toddlers Court. There were no additional increases in the FY 26 budget outside of technical salary adjustments.

Co-Chair Josephson asked for more information about the Title IV-E portion.

Ms. Sweet responded that Title IV-E referred to funding for foster care, guardianship, and adoption programs. She noted that the term "Title IV-E" functioned much like the name of a grant program, similar in structure to Medicaid.

Ms. Sweet continued to slide 13. She reported that for FY 26, the department projected a budget of \$41.6 million and a total of 94 full-time positions. She shared that the talent acquisition team had been operational since the previous year and had been successful. She relayed that the department had posted 83 job requisitions, many of which were ongoing recruitment postings. The department had reviewed 539 applications, conducted interviews with 425 candidates, and successfully hired 73 new staff members. The hiring efforts included Protective Service Specialists and various social service associates within OCS. She explained that prior to the implementation of the program, the vacancy rate for these job classes had been 34 percent, while the current vacancy rate had decreased to 27 percent.

Ms. Sweet relayed that the department was committed to using data to inform decisions and it remained committed to the development of "data lakes" to enable analytics-based decision-making. She explained that the department was partnering with ImageSource on several programs, including an automated process designed to improve efficiency in the talent acquisition system. She also reported ongoing collaboration with Smartsheet to develop a strategic project management and spending plan. In addition, the department was working with the Department of Transportation and Public Facilities (DOT) to integrate its facility maintenance needs into the existing FacilityForce platform. The department had also successfully implemented an electronic health record system for APH and was continuing work on a similar system for API. In FY 25, the department had undergone an internal administrative consolidation which realigned lead administrative staff in each division under the Departmental Support Services (DSS)

unit. The shift was intended to improve organizational alignment, create standard procedures, and streamline administrative processes across the agency.

Ms. Sweet continued to slide 14. She stated that the funding authority within DSS remained unchanged, apart from technical salary adjustments. She explained that the department utilized both a direct and an allocated chargeback model for the services provided across divisions. Additionally, she noted that the department received AMHTA funding under the Coordinated Health and Complex Care component, which were the two categories included in the "other" fund source designation. The department also employed a public assistance cost allocation plan through which it allocated costs to both federal and general fund sources.

Co-Chair Josephson thanked the presenters and looked forward to a more detailed discussion in the finance subcommittee.

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RECONVENED

Co-Chair Josephson introduced the presentation.

^PRESENTATION: AGENCY RESPONSES TO FY25 INTENT LANGUAGE

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced the PowerPoint presentation "Agency Responses to FY25 Legislative Intent Language" dated February 6, 2025 (copy on file). He began on slide 2 and explained that he would focus on a selection of significant intent responses, rather than reviewing each one in detail. He noted that the memo regarding legislative intent had been distributed to legislators at the beginning of the session and included a comprehensive list for those who wished to explore additional items.

Mr. Painter continued to slide 3, which included language from Ms. Megan Wallace of Legislative Legal Services (LLS) and was originally used during a training session on budget

amendments. He explained that the legislature frequently included intent language in appropriation bills to provide guidance to state agencies. However, such language was constrained by the confinement clause of the Alaska State Constitution. The Alaska Supreme Court set the limits in *Alaska Legislative Council v. Knowles*. He read a key passage from the ruling, which was included on the slide (copy on file):

The qualifying language must be the minimum necessary to explain the Legislature's intent regarding how the money appropriated is to be spent. It must not enact law or amend existing law. It must not extend beyond the life of the appropriation. Finally, the language must be germane, that is appropriate, to an appropriation bill.

Mr. Painter stressed that legislative intent did not carry the force of law and could be unconstitutional if it failed to meet these standards. Each year, the legislature passed a number of intent items that did not meet constitutional requirements. In such cases, the administration was under no legal obligation to comply. He clarified that the memo and intent language served primarily as guidance or requests to departments, which retained the discretion to respond or not. Nevertheless, agencies often chose to comply given the cooperative nature of the budget process.

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Co-Chair Josephson asking whether the core legal concern stemmed from an encroachment upon executive privilege and jurisdiction, as defined in the traditional model of separation of powers.

Mr. Painter responded that it was indeed one of the primary concerns. He added that another major issue involved the constitutional requirement that appropriation bills be confined strictly to appropriations. If an intent item contradicted an existing statute or attempted to impose new legal requirements, it could violate the confinement clause. He emphasized that if the legislature sought to enact such changes, it should do so through formal legislation.

Mr. Painter continued to slide 4 and explained that many legislative intent items included a request or requirement

for follow-up from state agencies. Often, agencies were asked to complete a task and submit a report detailing the outcome. To simplify tracking and review, the Legislative Finance Division (LFD) had established December 20 as the annual due date for the submissions. He explained that December 20 was chosen because it followed the release of the governor's budget and allowed agencies to avoid revealing budget details prematurely. The deadline also gave the Office of Management and Budget (OMB) a few additional days to complete its own responsibilities during an already demanding period. He noted that OMB compiled and submitted agency responses for each intent item to LFD, which then assessed whether agencies had complied with the legislative intent, then LFD prepared a comprehensive memo that included all responses along with the division's analysis. In cases where agencies submitted longer reports, the reports were attached to the memo as appendices. He noted that the complete memo had currently reached approximately 100 pages, due in part to several extensive reports.

Mr. Painter relayed that final memo had been sent to the co-chairs of the House Finance Committee early in the legislative session. There was one final item that had been due on the first day of session and the division had to wait to receive it before completing the document. The FY 25 memo included 50 intent items from the current fiscal year, as well as five items carried over from previous years. He clarified that while state constitution prohibited intent language from extending beyond the life of the appropriation, some items were addressed after the original deadlines for logistical reasons. For example, the legislature had included language permitting DOH to transfer funds between appropriations with the understanding that a report would be submitted at the close of the fiscal year detailing the transfers. There was uncertainty as to whether a report would be submitted since FY 25 had not yet concluded; however, DOH had submitted a report for FY 24 which had been included in the current year's analysis. There was often a one-year delay between the directive and the resulting evaluation due to timing issues.

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Mr. Painter continued on slide 5, which detailed LFD's determinations of agencies' compliance in the FY 25 intent

memo. He reported that of the 55 responses spanning FY 24 and FY 25, 33 had been deemed compliant. He stated that six responses were considered non-compliant due to vetoes by the governor, which would be addressed on the following slide. He stated that four responses were classified as partially compliant, meaning that agencies had either attempted to comply but had fallen short, or had fulfilled only part of a multi-part directive. There were four items that could not yet be evaluated due to pending outcomes or delays in reporting and would require future assessment. He reported that eight items had been determined non-compliant for other reasons and all of which would be discussed as he continued through the presentation.

Co-Chair Josephson commented that non-compliance was a privilege enjoyed by the agencies.

Mr. Painter responded in the affirmative.

Mr. Painter advanced to slide 6, which detailed six legislative intent items that had been rendered non-compliant due to vetoes. He clarified that while the governor could not directly veto legislative intent as it represented the will of the legislature, the governor could veto the associated appropriation item. In such instances, agencies were unable to comply because the necessary funding had been eliminated, which was a decision that was beyond the agencies' control. He offered an example involving intent language related to public radio stations in which the funding was vetoed, leaving no basis for compliance. There was a similar situation with UGF designated for the Alaska Seafood Marketing Institute (ASMI), which was also vetoed and ASMI was unable to act on the legislative directive. There had also been a partial veto of funding intended to increase general relief temporary assisted living rates. Despite the reduced funding, the rates were increased to the extent possible, though not to the level originally specified by the legislature.

Mr. Painter explained that another example within DOH concerned the reimbursement of pharmacies for dispensing specific medications in locking bottles. The funding was vetoed, and the department did not comply. He relayed that there were two further items from DOT: one involving hiring incentives for certain positions, and another regarding the collection of fees from the Manh Cho Mining Project for

highway maintenance. In both cases, the related funding had been vetoed. He explained that all six examples on the slides were instances of non-compliance, but were all due to funding that had been vetoed by the governor.

Co-Chair Josephson commented that the last two items on slide 6 appeared substantively different from the others. Specifically, the item concerning the collection of fees from the Manh Cho Mining Project seemed to fall outside the proper scope of legislative intent. He noted that establishing such a fee would likely require statutory authority and corresponding administrative regulation, rather than a mere request via budget language.

Mr. Painter responded that the legislature had appropriated \$8 million in receipt authority and had requested that the department enter into an agreement with the project operator. He explained that the receipts in question were designated program receipts, not general fund program receipts, and therefore required a contractual agreement rather than unilateral action. The legislative intent was for the department to negotiate a fee structure with the operator; however, since the \$8 million in program receipts had been vetoed, the department did not pursue the agreement.

Co-Chair Josephson agreed that there was a clear linkage between the vetoed funding and the department's inability to act.

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Mr. Painter continued on slide 7 and stated that the remainder of the presentation would focus on a selection of the most significant legislative intent items. He began with an item related to the Alaska Gasline Development Corporation (AGDC). He explained that the legislature had included language in the prior year's budget directing AGDC to complete an independent, third-party review of a project proposal and to present the findings to the legislature. He relayed that AGDC contracted with the firm Wood Mackenzie and submitted the completed report in November of 2024. He added that AGDC and Wood Mackenzie subsequently presented their findings to the House Resources Committee on November 19, 2024, just one week after the report's submission.

Mr. Painter elaborated that the analysis conducted by Wood Mackenzie included four demand scenarios, ranging from current in-state demand to a full liquefied natural gas (LNG) facility designed to export gas internationally. The report also examined the impact of various pricing variables, such as a federal loan guarantee and differing property tax structures. He stated that the analysis was included in the legislative intent memo. Given the submission and presentation of the report, the item was deemed compliant.

Representative Stapp asked whether appropriations functioned differently for state-owned enterprises and executive departments. He recalled that there was a reduction in AGDC's salary line appropriation and noted that the corporation had chosen to apply the reduction to its commodities line instead. He whether such budget flexibility was unique to state-owned enterprises.

Mr. Painter responded that under the Executive Budget Act, specific line items were designated to the executive branch. He explained that when data was transmitted from the legislature to OMB, the funding that belonged within each line item was clearly delineated. He noted that 50 years ago, line items were included directly in the budget bills and were binding. Since that time, line item data served primarily as a signal of legislative intent rather than a legally binding requirement. Therefore, departments were legally permitted to adjust funding across line items.

Co-Chair Josephson asked whether "line items" referred to allocations.

Mr. Painter clarified that he was referring to categories such as personal services, travel, and commodities. He explained that departments were constitutionally prohibited from moving funds between appropriations, but departments could move funds between allocations within a single appropriation or across line items within each allocation.

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Representative Stapp asked if the legislature appropriated funds specifically for employee bonuses, could the department reallocate the funding to travel or commodities instead.

Mr. Painter responded in the affirmative. He commented that the budget was an iterative process that was built upon every year. Although the executive branch had considerable power, it was ultimately required to return to the legislature for appropriations in future years. The recurring process served as the legislature's strongest enforcement mechanism for ensuring its funding priorities were respected.

Co-Chair Josephson relayed that he had a bonus-related provision that had been paired with HB 226 [passed by the thirty-second legislature in 2022], which aimed to overhaul compensation structures for exempt and partially exempt employees. He asked whether there was an effective method for the legislature to include bonuses in the budget in a way that would ensure they were honored.

Mr. Painter responded that the issue was a complex one. He explained that the legislature could not directly interfere with collective bargaining agreements, and any directive requiring the executive branch to negotiate bonuses with unionized employees could potentially result in unfair labor practice complaints. However, he thought that HB 226 would be an effective way to ensure that bonuses were honored for exempt employees. He emphasized that bonuses or any other pay-related provisions could not necessarily be implemented through the budget process. If the compensation structure was governed by statute or included in a collective bargaining agreement, it was outside the legislature's authority to alter it through appropriations. He explained that bonuses could potentially be added through a letter of agreement if the bonuses were not already part of a union contract, which was a mechanism to amend the existing contract with a special provision.

Representative Hannan remarked that AGDC existed in a unique statutory position. She asked whether setting of salaries and wages within the corporation was entirely the responsibility of the board of directors or if it was governed by statute, as in the case of commissioners. She recalled that there was a past situation in which API had obtained a waiver to offer supplemental compensation because it was unable to recruit psychiatrists under standard pay schedules. She noted that the executive position within AGDC was a singular role and had consistently been the highest paid state position. She

asked who had the authority to set the salary and how it was determined.

2:38:55 PM

Mr. Painter responded that the AGDC board was responsible for setting the salary. He added that the process was consistent with the structure used by other state corporations. He shared that Alaska Industrial Development and Export Authority (AIDEA) and the Alaska Housing Finance Corporation (AHFC) both chose to adopt the same increases for their employees. He explained that the boards were required to take formal action to apply such increases and that these adjustments were not automatically implemented. He relayed that AHFC had few employees and the salaries were set by the board.

Representative Hannan asked if the board would have had to formally approve a reallocation of funds in the case of a legislative reduction to AGDC's personal services budget, or whether the corporation was authorized to make the adjustments independently. She questioned whether the movement of funds had occurred in defiance of legislative intent.

Mr. Painter responded that there was no intent language regarding where the reduction was located, but the personal services line item had been reduced. He explained that agencies were allowed to reallocate reductions or increases across different budget categories. He noted that it was common for agencies to redistribute legislative additions and reductions among line items. He was not fully familiar with the internal procedures of AGDC and was unsure whether such reallocations were executed solely at the discretion of the board or also by the chief executive. He remarked that LFD had defined statutory authority over similar matters and suggested that AGDC likely operated under a comparable framework. However, he acknowledged that AGDC might have specific statutory provisions that governed such processes, and he did not feel confident offering a definitive explanation without further examination.

Co-Chair Josephson thought that the reduction to AGDC's personal services budget, as written by the legislature, appeared ambiguous. He suggested that the action may have been motivated by a lack of confidence in the agency, but

the reduction did not include specific language addressing salary schedules.

Mr. Painter responded that legislature had clearly intended to reduce personal services funding, but AGDC was not legally required to adhere to the direction.

Representative Stapp understood that the legislature effectively provided a lump sum of money to entities such as AGDC or AHFC and the funds were handed off with little legislative control unless otherwise restricted in statute. He described the process as "tossing the money over a fence."

Mr. Painter responded that Representative Stapp's characterization was broadly accurate. He explained that when the legislature appropriated funding to an agency, whether a department or a state-owned enterprise, the agency could expend the funds within the boundaries of its statutory authority and for the purposes described in the name of the appropriation. For example, if the name of the appropriation was AGDC, the funds could be spent for purposes that fell within the scope of AGDC's statutory authority. He explained that the legislature could convey additional expectations through the titles of transactions and specific line items, and that agencies generally attempted to comply with expectations. However, compliance was not mandatory beyond the actual language contained in the appropriations bill.

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Mr. Painter moved to slide 8 which addressed three nearly identical legislative intent items, each pertaining to a different group of employees but sharing the common objective of addressing the criminal case backlog. He stated that the backlog had received significant public attention and he would not delve deeply into background details. He explained that the intent language had been included in three areas of the FY 25 budget. The first was under Legal and Advocacy Services within the Department of Administration (DOA), which encompassed the Public Defender Agency (PDA) and the Office of Public Advocacy (OPA). The second was within the Department of Law's (DOL) Criminal Division, and the third was in the Trial Courts component under the Judicial branch.

Mr. Painter relayed that PDA had outlined several efforts in response to the directive, including enhanced training and mentorship programs that emphasized the importance of resolving cases in a timely manner. The agency had also prioritized recruitment efforts, recognizing that turnover among defense attorneys often caused delays as new attorneys needed time to reacquaint themselves with existing cases. Retaining a more stable workforce was viewed as a critical step in managing the backlog.

Mr. Painter explained that the Judiciary's Trial Courts had provided a detailed response highlighting specific procedural reforms, including a "trailing calendar" approach. The scheduling strategy involved setting multiple trials to begin on the same day, with the understanding that delays often occurred at the start of trials. By planning for multiple trials on the same day, the likelihood that at least one would proceed was increased and court time would be minimized. There had also been efforts to reduce unnecessary status hearings and had issued directives limiting both the duration and frequency of continuances granted in criminal cases. He noted that DOL had acknowledged ongoing efforts to address the backlog but it had not provided the same level of detail as PDA in describing the improvement activities.

Mr. Painter continued to slide 9 and detailed Medicaid and fire suppression projections. He explained that the effort to enhance Medicaid forecasting accuracy had been underway for nearly a decade and was aimed at increasing legislative understanding of projected costs and improving communication between branches of government. He relayed that DOH utilized a highly complex spreadsheet model to generate Medicaid projections. While the model itself was robust, the length and intricacy of the spreadsheet made it difficult to interpret and communicate to legislators. He shared that two years ago, LFD had collaborated with DOH and OMB to develop a more transparent and comprehensible projection method. The projection model was built from actual claims and adjusted for policy changes and other expected costs like rate changes. The model distinguished between policy-driven decisions and external factors beyond the state's control, such as federal mandates.

Mr. Painter relayed the most recent projection had been received on December 15, 2024. Due to the timing, the results of the model had not been incorporated into the

governor's budget on December 15, but it was incorporated into the governor's amended budget on the thirtieth legislative day. The most recent projection indicated that a supplemental appropriation would be required for FY 25 and that additional UGF funding and federal funding would likely be necessary for FY 26. The day after DOH completed its Medicaid projection model, the department informed LFD that it received an additional rate increase from the federal government. He noted that the federal government controlled the Indian Health Service (IHS) rates that were charged for tribal health facilities. The new increase had been in the double digits and came too late to be included in the December 15 budget. As a result, the governor's supplemental budget was based on data that did not account for the updated IHS rates. He stated that further adjustments would likely be necessary to reflect the rate change accurately.

Mr. Painter noted that according to the December 15 projections, the total additional UGF cost would be \$14 million for FY 25 and \$19 million for FY 26. The state still needed over \$200 million more in federal funds for both FY 25 and FY 26 even with the \$300 million increase in federal authority for Medicaid enacted the previous year. He attributed the increase primarily to the rising IHS rates charged by tribal providers. There were general fund increases because IHS could also serve non-Alaska Native populations. When non-tribal residents accessed care at tribal health facilities, the state paid a share of the cost using the same IHS rates. The accessibility contributed to the need for additional general funds, since Medicaid-covered services for non-tribal residents did not qualify for the 100 percent federal match for services provided to tribal members.

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Co-Chair Josephson understood that there was a clinic in downtown Juneau that was operated by a tribal health organization. He asked for clarification about whether the state received a more favorable federal match when a non-Indigenous, Medicaid-eligible resident visited that clinic.

Mr. Painter responded that the match percentage did not change, but the rate structure would change. If the patient was a tribal member, the visit would be fully funded by the federal government under the IHS rate. However, if the

patient was a Medicaid recipient who was not a tribal member, the federal-state match would remain at the standard percentage, which was typically between 50 percent and 90 percent. He explained that the IHS rate would still apply and the total cost would potentially increase.

Representative Stapp remarked that the situation seemed like a "runaway time bomb" for the state's Medicaid liability. He understood that rates could be increased externally by tribal providers without the state's input and still required a state match for non-tribal Medicaid recipients. He asked how predictable the cost increases were and what portion of the state's overall Medicaid spending was currently impacted.

Mr. Painter replied that he did not have the information on hand but would provide it to the committee in a follow up.

Mr. Painter continued on slide 9. He stated that in addition to the efforts around Medicaid, there had also been similar work related to fire suppression budgets. The goal in both cases was to improve visibility of the projections to increase understanding while avoiding unpredictable supplemental budget requests. He reiterated that fire suppression budgeting was aimed at avoiding supplementals and improving not only the legislature's understanding but also OMB's insight into future needs. In the prior year, a different strategy had been employed to portray the projections. The latest projection had been received on January 19, 2025, and it had not been incorporated into the governor's supplemental budget received earlier in the week. He explained that a supplemental would likely be needed based on the new projection, but OMB was not yet fully confident in the data. He added that LFD also had questions about the projection. The work was still in progress as the model was only in its second year of development. He noted that OMB indicated a future amendment would likely be needed to incorporate updated projections.

Co-Chair Foster asked whether the expected supplemental would be requesting a large dollar amount or just a few million dollars more.

Mr. Painter responded that the amount would likely be under \$10 million. He emphasized that the goal was to improve accuracy, especially for the spring fire season, and

reimbursements from the federal government were always a point-in-time estimate. There was a new structural change that placed appropriations directly into the fire suppression fund. He explained that the change meant unspent balances would remain in the fund and could be used to offset future supplementals. The change reduced the consequences of overestimating as any surplus would not lapse to the general fund but would instead remain available. The newer structure helped mitigate a bit of risk by adding a supplemental and then lapsing it, but the amount should be relatively small based on a relatively light fire season the previous year.

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Co-Chair Josephson thought that a low snowpack across the state could predict a high fire season. He asked how fire suppression efforts would be funded if the fire season was high and fire suppression was underfunded.

Mr. Painter responded that in such a situation, the governor had statutory authority to issue a disaster declaration and allow the state to continue funding fire suppression efforts. The request for reimbursement would be submitted to the legislature afterward.

Co-Chair Josephson asked where the funds would come from.

Mr. Painter replied that the source of the funds would depend on legislative approval. If the current fiscal year's appropriation was insufficient and the fiscal year closed before the legislature reconvened, a ratification would be required. If there was a deficit, the ratification would need to be funded from the Constitutional Budget Reserve (CBR). If there was a surplus, the funds could come from the general fund. He noted that the legislature might see a ratification request for FY 24 as the amount appropriated appeared to be a few million dollars short of what was actually spent.

Co-Chair Josephson asked whether such a ratification would be done through a bill.

Mr. Painter responded that it would typically be included in the supplemental or operating budget bill.

[2:56:27 PM](#)

Mr. Painter moved to slide 10 which detailed eight intent items for the Department of Corrections (DOC), which was the most of any agency. The first intent item directed the department to work with OMB and LFD to develop a budgetary projection model. The goal was to improve projection accuracy and avoid routine supplementals. The second intent item required the department to prepare a report examining potential cost savings that would come from closing institutions. He understood prisoner capacity was around 84 percent, which suggested possible excess capacity in savings from closing institutions. He noted that the department's response to the capacity item would be addressed on the following slide.

Mr. Painter continued that the third item involved creating a plan to increase institutional efficiency and the fourth required the department to begin monthly reporting on spending related to overtime and premium pay. He noted that while DOC had complied with the reporting requirement, the data presented did not align with the kind of forward-looking projection models used by Medicaid and fire suppression programs. Instead of incorporating actual expenditures to date and adjusting for known changes, DOC's model simply highlighted budget variances without offering improved forecasting. He acknowledged that DOC had experienced staffing challenges for administrative services positions, which might have limited its capacity to develop more sophisticated models for financial analysis. He suggested that progress might be possible in future years with recent hires.

Mr. Painter noted that DOC had shared that a significant portion of facility beds remained unusable due to deferred maintenance. As a result, usable capacity was much lower than the reported 84 percent, making consolidation less straightforward than it appeared. He relayed that DOC did not provide the necessary data or analysis. The next item addressed billing issues with the U.S. Marshals, which had previously covered costs for more inmates. He explained that DOC had met with the Marshals but had not yet reached an agreement. The governor's current supplemental budget did not include a funding request for the billing issue, though it was likely a request would be submitted later once the necessary analysis was completed.

Mr. Painter continued to the next intent item encouraging the department to expand alternatives to community residential centers (CRCs), sometimes referred to as halfway houses. He explained that DOC appeared to be complying with the directive.

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Mr. Painter continued on slide 11. There was a pilot furlough program in Mat-Su for residential substance use disorder treatment as a potential substitute for CRC-based programming, which could lower costs. Additionally, DOC was exploring transitional housing options in Juneau to potentially reduce the number of individuals housed in the local CRC.

Co-Chair Josephson asked about item 15 on slide 10 which involved notifying the court system about lengthy periods of electronic monitoring. He asked what the intended outcome of the notifications would be.

Mr. Painter responded that the goal was to prompt the courts to resolve the cases more quickly or allow for resolutions such as credit for time served. He explained that DOC responded that it coordinated with the courts, but time spent on electronic monitoring was not always treated the same as time served in custody and it did not always lead to earlier releases. The intent behind the notification was to help reduce case backlogs by accelerating the legal resolution process.

Representative Galvin asked whether DOC was using actual expenditure trends to inform future overtime projections and whether it was making adjustments based on the trends. She asked what the potential size of future supplemental budget requests was. She noted that the department had a surprisingly large supplemental request in the previous year.

Mr. Painter responded that there was a difference between how LFD typically understood a budget projection model and the way in which DOC was currently operating. He explained that in an ideal model, actual spending patterns, such as current overtime usage, would be used to forecast end-of-year costs and adjust for one-time anomalies or known policy changes. However, DOC had not taken that approach and had instead used the original budget as a baseline. He

explained that DOC had simply noted areas where the original budget was no longer accurate, such as unaccounted standby pay and unresolved issues with federal mandate billing. There was no incorporation of actual expenditures into a forward-looking model.

Mr. Painter noted that one area likely to require additional funding through a supplemental was the federal mandate billing issue. He estimated that the cost could be similar to the \$7.5 million already included for FY 26. The second area was related to contracts for CRCs. The prior year's budget was prepared while the contracts were still under negotiation. All CRC contracts had now been renegotiated and the department was still analyzing how the new terms would affect the budget. He believed the outcome would not require a supplemental as large as the \$10 million increase that had been required in the previous year. The renegotiated contracts offered more cost certainty and better alignment with actual service utilization, which could possibly save money. However, a small supplemental might still be necessary depending on the final analysis.

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Representative Stapp asked whether DOC had complied with the intent item instructing the department to conduct a fiscal analysis of closing a correctional institution. He understood that the department had essentially declined to do so and had offered no supporting explanation beyond suggesting that there would be no savings.

Mr. Painter responded that the department's response was that it did not believe closing a facility would generate savings and it did not provide an analysis to justify the position.

Representative Stapp asked whether the current prison population was lower than it had been in the past.

Mr. Painter responded that the current population had remained fairly stable in recent years but was lower than it had been a decade ago.

Representative Stapp asked whether the state currently had more correctional facilities than it did a decade ago.

Mr. Painter confirmed that there the number of facilities had increased. He noted that the Palmer Correctional Center had been reopened in anticipation of rising prisoner numbers, but the rise ultimately did not occur.

Representative Stapp understood that there were more prisons and fewer people in the prisons, but the prisons could not be closed for "no reason."

Mr. Painter responded that the department had said there were maintenance issues at many of the prisons. If a prison was closed, the maintenance funding and prisoners could be reallocated, but DOC had not provided a full fiscal analysis and pertinent information was not available.

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Representative Hannan noted that there had been similar discussions in the DOC finance subcommittee. She explained that the reopening of the Palmer Correctional Center had occurred just before the onset of the COVID-19 pandemic. The pandemic had then stalled movement within the system, causing backlogs in court cases and effectively locking populations in place. She explained that most correctional facilities were either designated for pretrial detainees or sentenced inmates, which limited the state's ability to shift prisoners among available beds. She emphasized that the challenge was not simply about the number of empty beds, but about matching inmates to the appropriate facility based on gender, sentence status, and custody level. For example, a pre-sentence female inmate might only be able to be housed in a single facility because she could not be mixed with sentenced female inmates. In Juneau, the combined facility housed all genders and both pretrial and sentenced inmates. The facility had recently experienced a structural failure that forced the relocation of the inmates which further limited flexibility. She acknowledged that from the legislative perspective, the solution of closing facilities seemed obvious, but the logistical reality was more complex. She asked if Alaska was the only state being affected by federal manday billings because it did not have any federal correctional facilities.

Mr. Painter replied that he was unsure if Alaska was the only state dealing with the issue, but he confirmed that Alaska was certainly unique in how far it was from the nearest federal prison. He noted that while other states

might not have federal facilities either, the other states were typically close enough to one that transporting prisoners overland was feasible. In Alaska's case, transporting inmates to federal facilities meant flying the inmates to Washington and back, which would make the issue much more costly and logistically challenging.

Representative Hannan asked whether the manday billing issue only arose when inmates faced joint state and federal charges. She offered an example involving cooperation between the FBI and ICE and asked whether the federal government covered the cost when inmates were entirely under federal hold.

Mr. Painter responded in the affirmative. The federal government paid when inmates were detained solely on federal charges. The mandate billing issue emerged only when charges were mixed between state and federal jurisdictions.

[3:11:22 PM](#)

Mr. Painter continued on slide 12 which detailed the statewide salary study. He explained that in FY 24, the legislature had appropriated \$1 million for a capital project to study all executive branch job classes. The purpose was to identify and address pay disparities compared to similar private-sector roles within the state. He noted that the last salary study had been conducted in 2009 but was never implemented. He relayed that two intent items had been tied to the capital project: the first directed that compensation be aligned to the sixty-fifth percentile to improve recruitment and retention, and the second required that the study include total compensation, which meant that benefits would be considered as well. Additionally, the FY 25 operating budget included an intent item directing the Office of the Governor to implement the result of the study and report on implementation efforts by December 20, 2024. At the time, the report had been expected to be completed by June of 2024. The report had still not been submitted and it was not known when it would be submitted.

Representative Galvin was concerned about the timeliness and usefulness of the salary study. She understood the reasoning behind funding the study and thought it was important; however, she questioned whether the data being

collected would still be relevant by the time it became available. She asked whether the delay might render the findings outdated given the evolving nature of the economy and recent economic changes.

Mr. Painter responded that he shared Representative Galvin's concerns. He explained that the current expectation was that the study would be delivered at the end of March of 2025, which coincided with the deadline for bargaining agreements on the sixtieth day of the legislative session. The overlap meant that many unions might be negotiating contracts before the results of the study were available. Once the agreements were made and presented to the legislature, the salary study would also be released, creating a complicated scenario where the state would either ignore the study or risk having to renegotiate and revise newly finalized salary structures. The challenge was ongoing and salary levels and conditions would always be shifting, meaning that waiting for a perfect moment when the data would be static was unrealistic. He acknowledged the tension in timing but did not think that there was an easy solution. The cycle of constant change meant that any salary study would eventually become slightly outdated, but it could still be a valuable tool if used appropriately.

Representative Galvin asked whether inflation metrics like the Consumer Price Index (CPI) could be used to update the data and make it more current. She asked whether national or sector-specific wage trends were stable enough to allow the state to extrapolate from older data and still produce relevant comparisons. She stressed that if the ultimate goal was to benchmark state salaries against industry standards, it would be important to know whether the benchmarks stayed relatively consistent or changed too quickly to be reliable.

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Mr. Painter replied that the study could still be useful even if it was not entirely up to date. He explained that much of the analysis focused on structural differences in pay between public and private sectors, such as whether certain roles like accountants or engineers were systematically underpaid compared to their private-sector counterparts. He emphasized that it was unlikely for specific professions to experience dramatic wage changes in

a short period that would render the study obsolete. He acknowledged that the administration was concerned about recent wage increases tied to new bargaining agreements that went into effect on July 1, 2024, but adjustments to account for those changes were already being made. He remarked that a deadline had to be chosen at some point, and it was important to make the deadline clear and transparent.

Co-Chair Josephson understood that the FY 24 intent language directed the administration to align wages to the sixty-fifth percentile and the follow-up intent language in FY 25, which directed implementation of the study's results. He asked whether the instruction to the administration was to incorporate the salary changes directly into the FY 26 budget. For example, if the study concluded that a position like an OCS social worker was underpaid and recommended raising the starting salary from \$45,000 to \$55,000, the intent language suggested that the administration should include the increases in the next operating budget.

Mr. Painter explained that the legislative intent language from the previous year directed the administration to incorporate salary study recommendations into the budget preparation process. The instruction was not to begin implementing the changes immediately, but to build a plan to implement the changes and reflect the changes in the proposed budget. The legislature had essentially given a green light to start moving toward implementation, even though the final study had not yet been released.

Co-Chair Josephson commented that it seemed like a bold move as it could potentially lead to substantial growth in the budget.

Mr. Painter agreed and noted that since the study had not been made public, the legislature had committed to supporting implementation without knowing the full scope of the cost. However, any actual expenditures would still require appropriation approval by the legislature, and it would still have the chance to assess the proposals before funding them.

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Representative Bynum asked whether the legislative intent had addressed situations where positions being paid higher than the market rates. He wondered whether the administration was expected to freeze or limit future increases for the positions.

Mr. Painter replied that the intent language did not go into that level of detail.

Representative Bynum acknowledged that while it was unlikely that wages would be cut, freezing future increases might be a more plausible outcome in cases where positions were found to be over market.

Co-Chair Josephson noted that any changes would also be subject to collective bargaining agreements. He asked if his understanding was correct.

Mr. Painter responded that when a job classification was downgraded in past classification studies, incumbent employees typically did not see salary reductions. Instead, employees might stay in the same pay range or receive step increases, even if the overall range for the position had changed. He emphasized again that no detailed plan had yet been submitted and it remained unclear how such cases would be handled.

Representative Bynum asked for clarification that there was no specific intent to address the issue.

Mr. Painter confirmed that the intent language included by the legislature simply instructed the executive branch to develop a plan to implement the salary study's findings, but did not specify how to implement it.

[3:20:43 PM](#)

Mr. Painter introduced slide 13, which addressed two intent items related to maintenance and operations of state-owned buildings and vehicles. In the FY 25 budget, the legislature had made structural changes aimed at improving compliance with AS 37.07.020(e). The statute was enacted in the 1990s and required that maintenance and operations costs be separately accounted for and distinct from programmatic expenses. The purpose was to prevent agencies from cutting maintenance funding when faced with budget

reductions, which would avoid long-term degradation of state assets.

Mr. Painter explained that the legislature had not made major budget shifts due to limited visibility into the executive branch's internal accounting. Instead, the legislature had renamed existing allocations and added intent language directing the governor's office to continue the process and align the FY 26 budget more closely with the statutory requirements. He noted that most agencies had followed through and restructured their budgets accordingly. While a few had not yet completed the changes, the overall response had been a good-faith effort to improve adherence to the statute.

Mr. Painter added that there was a separate intent item requesting a report on operating and maintenance costs for all state-owned assets, including vehicles, vessels, aircraft, and heavy equipment that were not part of the State Equipment Fleet unit. He explained that most vehicles owned by state agencies were managed through the State Equipment Fleet which was operated by DOT. He noted that agencies paid the department a rate intended to cover both maintenance and replacement, but the arrangement did not extend to all equipment. Many assets, including vessels, aircraft, and snow machines, fell outside the fleet and were managed directly by individual agencies. He indicated that the legislature had expressed concern in the previous year that maintenance for non-fleet assets was being underfunded.

Mr. Painter stated that OMB had acknowledged deficiencies in tracking maintenance spending for these items. In response, OMB had implemented a new object code in the accounting system to allow improved tracking going forward, which began on January 1, 2025. He explained that it would provide more accurate data in the future. The governor's proposed budget included additional funding in several areas for the maintenance of vehicles outside the fleet, such as vessels and aircrafts. He suggested the addition of the funding reflected a recognition by the executive branch that more support was needed for the assets.

[3:24:08 PM](#)

Mr. Painter advanced to slide 14 which detailed the Alaska Permanent Fund Corporation's (APFC) Anchorage office. He

explained that the legislature had restricted the corporation's office expenditures by renaming the appropriation to refer solely to the Juneau office and allocating only \$100 for the Anchorage location. He highlighted that there was intent language directed by APFC not to establish or maintain any new office locations without corresponding budget increments, and all expenditures related to the Anchorage office were required to be reported to the legislature. The governor vetoed the Anchorage office funding but APFC's Board of Trustees decided to keep the office open. He noted that APFC reported increased FY 25 expenditures such as travel to the Juneau office and equipment purchases. He reiterated that the corporation did not follow the legislative intent to close the office.

Co-Chair Josephson understood that the governor and the legislature were aligned on the issue and that APFC disregarded the intent of both branches.

Mr. Painter responded that he could not speak on behalf of the governor. He explained that the governor's veto of the \$100 appropriation was intended to facilitate the decommissioning of the Anchorage office and the governor's intent was unclear. He reiterated that the decision to keep the office open was made by the board itself.

Co-Chair Josephson remarked that the governor's veto of the funds could be interpreted as support for maintaining the Anchorage office.

Mr. Painter responded that it was similar to DOL's "Janus" agreement, in which the governor vetoed the contract's funding but left the general structure in place. He indicated the two scenarios were similar, but he did not want to deviate from the main conversation.

Mr. Painter continued to slide 15 which detailed items outside an agency's control. There were situations where intent language required agencies to perform actions that were ultimately the responsibility of the governor or the legislature. He explained that while agencies could develop plans, they did not have the authority to fund the plans. For example, in FY 24, the legislature requested that DFCS submit a plan and timeline for renovating or replacing the Fairbanks Pioneer Home. The department complied and provided cost estimates. In FY 25, the legislature asked

the department for a plan to pay for the renovation, but such funding decisions rested with the governor and the legislature.

Mr. Painter provided a second example also involving DFCS. He explained that the federal government had notified the state that the Online Resource for the Children of Alaska (ORCA) system needed to be upgraded to comply with federal standards. In FY 24, the department developed a plan and estimated the cost to be \$52 million, with approximately half to be funded by UGF. In FY 25, the legislature requested a funding plan, but the governor's proposed budget did not include funding for the project. He reiterated that decisions about funding were outside the department's control, and that the agency had fulfilled its responsibilities in providing the necessary plans and estimates. The department had indicated it was working to develop a phased strategy in case full funding could not be secured at once, but the approach was time consuming and was not ready for inclusion in the current year's budget.

Mr. Painter explained that the final item was for the Department of Public Safety (DPS) and concerned funding for child advocacy centers in the FY 26 budget. He shared that no additional funding for the centers was included in DPS's budget nor was there funding allocated through DFCS, which was another appropriate agency. He emphasized that decisions regarding which projects received funding rested with the governor and the legislature, not with the agencies themselves.

[3:28:14 PM](#)

Representative Tomaszewski asked if Mr. Painter knew the cost estimate for replacing the Fairbanks Pioneer Home.

Mr. Painter responded that there had been two options under consideration. One option involved renovation, which would have required relocating residents during construction. He relayed he did not recall the cost of that option, though he believed it was the more expensive of the two. He relayed that the replacement option had an estimated cost of \$115 million and was the cheaper option.

Representative Tomaszewski asked for confirmation that replacement was the less expensive option.

Mr. Painter responded in the affirmative. He elaborated that attempting to renovate the facility while keeping part of it operational would extend the project timeline significantly. The department estimated it would take approximately a decade to fully renovate the facility and that constant relocation of residents during the process would substantially increase overall costs.

Co-Chair Josephson thanked Mr. Painter and thought the presentation was useful.

HB 53 was HEARD and HELD in committee for further consideration.

HB 55 was HEARD and HELD in committee for further consideration.

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

#

ADJOURNMENT

[3:29:44 PM](#)

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