

HOUSE FINANCE COMMITTEE  
March 5, 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 Jamie Allard  
Representative Jeremy Bynum  
Representative Alyse Galvin  
Representative Sara Hannan  
Representative Nellie Unangiq Jimmie  
Representative DeLena Johnson  
Representative Will Stapp  
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

PRESENTATION: FISCAL OUTLOOK FY 25 - FY 28 BY THE LEGISLATIVE FINANCE DIVISION

Co-Chair Josephson reviewed the meeting agenda. He provided a comment about the fiscal outlook. He relayed that legislators had received the document "Volume 13, January 2025, Alaska's Economy" in their mailboxes from the Department of Revenue (DOR) [Co-Chair Josephson later clarified the document was from the First National Bank of Alaska]. He highlighted that the document contained some favorable news pertaining to increased oil production,

Alaska's labor market thriving amid national slowdown, and an increase of 7,700 jobs in Alaska. He remarked that the presentation the committee would hear was a bit glum with no great news. He remarked that there was a lot of work to do to get the state's fiscal situation in proper form. He highlighted that Alaska had a sovereign wealth fund, no broad-based tax, and distributed a Permanent Fund Dividend, unlike any other state. He added that New Hampshire came close with regard to the broad based tax issue. He thought it may be interesting to ask the director [of the Legislative Finance Division (LFD)] if the other 49 states would have similar presentations that gave pause and considered how to get through the morass.

^PRESENTATION: FISCAL OUTLOOK FY 25 - FY 28 BY THE LEGISLATIVE FINANCE DIVISION

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Representative Hannan noted that Co-Chair Josephson had referenced a DOR publication. She had not seen the document.

Co-Chair Josephson apologized and clarified that the publication was from the First National Bank of Alaska.

Representative Hannan stated that she had not received the document.

Co-Chair Josephson would see that all members received the publication.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "FY25-FY28 Fiscal Outlook," dated March 5, 2025 (copy on file). He provided an outline of the presentation on slide 2. He noted that the Spring Revenue Forecast [from DOR] was expected the following week. The presentation covered the following:

- Revenue Outlook
- Agency Operations Cost Drivers
- Formula items (K-12, Medicaid, etc.)
- Non-formula items
- Statewide Items
- Capital Budget
- FY25-FY28 Scenarios

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Mr. Painter turned to the revenue outlook for FY 25 to FY 28 on slide 3. A table on the slide indicated that the percent of market value (POMV) draw from the Permanent Fund was the state's largest source of unrestricted general fund revenue (UGF). Other revenue sources were listed under a row labeled "Traditional Revenue" followed by a row showing total UGF revenue. The slide also showed oil forecast assumptions. He explained that the FY 26 revenue forecast of about \$6.2 billion was built on a \$70 oil price and Alaska North Slope (ANS) production of about 470,000 barrels per day. The lower half of the slide included an oil price forecast comparison chart showing the DOR forecast and a couple of external forecasts to indicate whether the DOR forecast was in the expected range for the spring. The blue line reflected the fall forecast starting at \$73.86 in FY 25, \$70 in FY 26, and \$69 into FY 27 and FY 28. The Brent crude forecast was reflected by the red line. He noted that the futures market for Brent crude was the international standard, which ANS was often pegged to as "water borne crude" transported on tankers. The red line began a bit above the DOR forecast for the remainder of FY 25 and was about \$1 below the state's going forward. He noted that the difference fluctuated slightly by day, but the difference of \$1 to \$2 was not too far off.

Mr. Painter continued to review slide 3. The green line was the Energy Information Agency (EIA) short-term energy outlook from February 11 (the outlook was updated quarterly). The EIA forecast predicted prices would decrease to the mid \$60s by the end of calendar year 2026. The EIA forecast was based on an assumption that production would increase globally and demand would not significantly increase, which resulted in lower prices. He noted there had been announcements from Oil Producing and Exporting Countries (OPEC) implying that production would increase. He noted that it was hard to say the DOR fall forecast looked gloomy compared to other forecasts - there could be a spring forecast that showed a lower or comparable price - but it was fairly unlikely the spring forecast would be higher than the [past] fall.

Representative Galvin highlighted the importance of the oil price shown on slide 3 in terms of accessible budgeting

dollars for the state. She understood it was complex to make predictions. She asked how certain Mr. Painter was about the numbers.

Mr. Painter replied that he was not certain at all. He explained that oil [prices] could be extremely volatile. Occasionally there were stretches where the price settled at a certain level. He highlighted that things had not changed significantly since the fall forecast was developed in December. There had been a lot of uncertainty in the global oil market and it was easy to imagine prices being \$10 higher or \$10 lower in a year's time with very plausible sounding reasons based on things that were not yet known. He would not be surprised if the forecast was \$10 off from the actual price in one year's time.

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Mr. Painter discussed sources of revenue uncertainty on slide 4:

- Oil prices: at current prices, each dollar change in the price of oil is about \$35-\$40 million in revenue.
- Oil production and expenses: while not as volatile as prices, both oil production and producer costs can change from year to year and impact revenue.
- Investment returns: if the Permanent Fund underperforms its projection by 1% in FY25, FY27 revenue is reduced by about \$8 million and FY28 revenue is reduced by about \$16 million.
- Federal revenue: reductions in federal funds to programs like Medicaid could greatly impact the State's overall revenue. In the FY25 budget, federal funds exceeded general funds, and in FY26 they total \$6.1 billion.

Mr. Painter elaborated on slide 4. He explained that if oil prices were \$10 higher or lower than the forecast, it equated to \$350 million to \$400 million above or below the forecast that could easily occur a year from the current day. There were other variables including oil production, especially production in legacy fields that were responsible for much of the production. He detailed that if production was lower than expected, there could be

significantly less revenue. He explained that because Alaska had an oil production tax based on a profits tax, marginal changes in production were less of a big driver than prices. He detailed that a \$1 change in price resulted in a higher profitability level whereas production going up and down did not do so quite as much.

Mr. Painter continued to address sources of revenue uncertainty on slide 4. The costs experienced by producers could also change from forecast to forecast. He relayed that DOR was projecting higher capital and operating expenses for North Slope operators compared to one year ago, which impacted the state's production tax amount because of the profits tax. Another driver of UGF revenue was investment returns. He explained that because the Permanent Fund was the state's largest revenue source, if investment returns over or underperformed projections, it made a difference in revenue. He elaborated that due to the lag in the POMV draw, it was not seen immediately. He detailed that the FY 26 POMV draw was based on fiscal years ending FY 24 (five years ending FY 24); therefore, no matter what happened in the current year, the amount for FY 26 was set. He highlighted that if the Permanent Fund underperformed its FY 25 projection by 1 percent, the impact in FY 27 would be about \$8 million for each 1 percent difference. He explained that it would represent one year of the five-year average, meaning that in FY 28 it would be \$16 million because it would reflect two years of the average. He stated that the POMV draw was much more stable because it was based on the total value of the fund. He detailed that 1 percent - an \$8 million difference - was not that large and there was a delay, meaning it was not quite as volatile as oil revenue.

Mr. Painter continued reviewing slide 4. Federal revenue represented the largest source of revenue in the FY 26 budget. He would address potential changes in federal funds throughout the presentation based on things going on in Washington, D.C. that could greatly impact the state's overall revenue. In FY 25, federal funds exceeded general funds and in FY 26 federal funds were about \$6.1 billion between the operating and capital budgets. Federal funds were a very significant amount of money and were about the same as the state's UGF.

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Representative Stapp referenced the spring revenue forecast. He noted that OPEC had recently stated it was boosting production substantially. He observed that Brent and WTI [West Texas Intermediate] prices were below \$70 and looked like they would remain there. He asked what a \$10 drop in price would do to Alaska's revenues. He asked if the same calculation applied and the difference would be roughly \$400 million.

Mr. Painter answered that the rule held for about \$10 plus or minus. Beyond that it would be necessary to use a different calculation.

Mr. Painter turned to slide 5 titled "Significant One-Time Items in FY25 Budget." He detailed that the previous year there were some significant one-time items in the budget, some of which were repeated in the governor's budget and others were repeated in likely forms at the end of session. One item was K-12 outside-the-formula funds of nearly \$175 million. He explained that it was not part of the formula and had to be added back in the FY 26 budget if there was to be additional money. Another significant one-time item was for the R-1 research project for the University of Alaska, a multiyear operating budget project of \$14.6 million. He elaborated that the item counted against the FY 25 budget, but it would be available. The governor was asking for another \$5 million for the project. A third item was the Alaska Marine Highway System (AMHS) backstop funding of \$10 million that had been included in the FY 25 budget in case the state did not receive the full federal grant. He relayed that the backstop was triggered based on the actual grant amount received. The item was not included in the governor's FY 26 budget.

Mr. Painter continued addressing slide 5. The fourth item was \$7.5 million for the Child Care Grant Program for grants going to providers. The governor's [FY 26] budget included \$6.1 million for childcare assistance grants (needs based grants), which pertained to SB 189 (passed the previous year). He explained that the bill was being challenged in court as potential violation of the single subject rule. He stated that it was unclear whether there would be certainty by the end of session about whether the bill would take effect or not. He clarified that the \$7.5 million going to providers was not repeated in the FY 26 budget; however, the budget did include the \$6.1 million for needs based grants. Another significant one-time item

was K-12 additional pupil transportation funds of \$7.3 million. He noted it was a one-time item similar to the outside-the-formula foundation money. The last item on the slide was \$5 million UGF for tourism marketing. He remarked that there were additional one-time items [in the FY 25 budget], but he had selected items of \$5 million or more to highlight on the slide. He reiterated that the items were not repeated in the governor's FY 26 budget. He noted that if the legislature wanted the funds included in the budget, it would be an addition above the governor's numbers.

Co-Chair Josephson asked for verification that the items listed on slide 5, with the exception of \$5 million for the R-1 research program, were not included in the FY 26 budget.

Mr. Painter agreed.

Co-Chair Josephson stated his understanding that invariably the budget was going to grow above the governor's amended budget.

Mr. Painter believed Co-Chair Josephson's statement was fair, given that the governor had legislation that would add significant K-12 funding inside the formula and for the pupil transportation formula and other items. He noted the committee would talk about those fiscal notes later. He stated that the governor was proposing legislation that would result in over \$100 million for K-12 in the final budget.

Representative Hannan asked about the childcare grants tied up in litigation. She asked how it would impact the budget. She wondered if the money could be spent if the court settled the case after the fiscal year. She presumed the state agency was not distributing grants awaiting legal decisions.

Mr. Painter responded that the fiscal note associated with the [childcare grant] bill was not funded in FY 25. There were currently no funds in the FY 25 budget to implement the program.

Co-Chair Josephson provided a hypothetical scenario where the legislature did not correct its purported error. The money was there effective July 1. He stated that if the court ruled that the legislature was wrong and former

Representative David Eastman was right, the administration would still have \$6.1 million. He asked what would happen to the money.

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Mr. Painter answered that the administration could redirect the \$6.1 million to other programs within the same allocation, such as other childcare grants.

Co-Chair Josephson asked if it was Mr. Painter's understanding that the lawsuit would not defeat the legislation.

Mr. Painter agreed. He elaborated that the appropriation was not contingent, as a fiscal note would have been one year ago. He explained that it was an appropriation as part of the numbers section [of the budget].

Representative Stapp thought the childcare money was under the Department of Health (DOH). He believed the funds could be spent anywhere in the department because it was under the \$10 million threshold of authority.

Mr. Painter agreed that DOH would not be obligated to spend the funds on that purpose.

Mr. Painter turned to slide 6 titled "Agency Operations: Formula Programs." He explained that formula programs comprised about half of the UGF budget. The largest of which were K-12 driven by a statutory formula and Medicaid, which entailed a combination of rates negotiated with the federal government. There was also nearly \$200 million in UGF in other formula programs including Pioneer Home payment assistance, Foster Care and Adoption/Guardians programs, Adult Public Assistance, Child Care Benefits, and Senior Benefits. He elaborated that formula programs were generally dictated by statute and by rates set out by the departments, often in coordination with the federal government, especially in the case of Medicaid. There was less control on the state level of the dollars through the appropriation process than through nonformula programs because there was some sort of external program or formula followed. He explained that if Medicaid was short funded it did not necessarily mean the services did not happen, it may mean that billing was pushed to the following fiscal year. There was not necessarily the power in the

appropriations bill to completely dictate how the formula was spent.

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Representative Stapp looked at slide 6 and observed that 54 percent of the budget was non-formulaic, which included statutes passed by the legislature and things inside the different RDU components of divisions. He asked when a department last went through an RDU component and attempted to zero-base its budget.

Mr. Painter answered that he was not aware of a department that had gone through a zero-based budget exercise with the exception of the Alaska Mental Health Trust Authority (AMHTA), which used a zero-based budget annually.

Representative Stapp asked if a reason had ever been provided as to why different RDU components did not attempt to zero-base their budgets. He realized the entire budget was likely too large to zero base in a fiscal year, but he thought it would be an interesting exercise to have departments zero base their expenses in different division level components.

Mr. Painter answered that the concern had often been about the administrative capacity in the state in terms of the number of budget analysts at the Office of Management and Budget (OMB) and other departments. He noted that many departments had a couple of budget analysts, and it may be difficult to do that level of analysis.

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Mr. Painter advanced to slide 7 and discussed K-12 funding legislation and trends. He noted that the slide included information based on the assumption that the House Rules committee substitute (CS) would move forward. He would explain the difference based on what the committee had actually moved out. The FY 25 budget included about \$175 million in funding above the foundation formula, which was equivalent to \$680 in the Base Student Allocation (BSA), plus \$7.3 million for the pupil transportation formula, for a total of \$182 million. The governor currently had two major K-12 bills. The first, HB 76, was the education omnibus bill with fiscal notes totaling \$116 million in FY 26, rising to \$181 million in FY 27. The second was a

tribal compacting bill that would have a \$17 million fiscal note in FY 26 and \$12 million in FY 27.

Mr. Painter continued to address slide 7. He relayed that HB 69 had been introduced in the House, and the House Education Committee version would have increased funding in FY 26 by about \$325 million. The House Rules CS as introduced would have increased the BSA by \$1,000 and had a total cost of \$253 million. The committee adopted an amendment that added some language from the governor's bill that gave out additional amounts to schools for reading proficiency incentive grants with a cost of \$22 million (not reflected on the slide). He detailed that the projected K-12 formula money was projected to decrease by about \$28.7 million UGF largely due to a lower student count. He highlighted that the Department of Labor and Workforce Development's demographic projections showed significantly fewer children aged zero to five than six through 18 (about 1,000 fewer per year). The trend may continue, which would drive the baseline cost of K-12 down.

Co-Chair Josephson asked for verification that SB 82 was the same as HB 76.

Mr. Painter agreed.

Co-Chair Josephson asked for the fiscal note amount associated with the tribal compact legislation.

Mr. Painter replied that the tribal compact legislation, HB 59/SB 66, was \$17.5 million [in FY 26] and \$12 million [in FY 27].

Co-Chair Josephson asked for verification that the \$17 million went down to \$12 million.

Mr. Painter agreed.

Co-Chair Josephson thought it sounded like the governor wanted to spend about \$200 million in total by FY 27. He asked for verification that the bill advanced by the Rules Committee earlier in the day was closer to about \$275 million. He observed that both options were expensive.

Mr. Painter agreed. He explained that when the governor gave a press conference announcing the budget, he said he

was coming out with K-12 bills that would total about \$200 million.

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Representative Tomaszewski referenced Mr. Painter's mention of loss of funding due to lower student enrollment. He asked for the average dollar amount per student paid by the state.

Mr. Painter replied that the BSA was \$5,960, but when accounting for the multiplier he believed the average was about \$12,000 to \$13,000 per student. He would follow up with a number.

Representative Tomaszewski remarked that the BSA did not reflect total spending for schools. He asked for a ballpark figure for the total spending.

Mr. Painter would follow up with an answer.

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Mr. Painter advanced to slide 8 titled "Student Count (ADM), FY11-FY26." He remarked that sometimes people in the Capitol Building talked about the BSA only or total funding only. He explained that neither completely hit the mark in terms of what was taking place in district finances. He elaborated that over the past 15 years the number of students had decreased and there had been a significant shift towards correspondence students and away from brick and mortar students. He highlighted FY 17 where there had been a total of 130,000 students, which was the most recent peak year in terms of total number of students. He detailed that the total average daily membership (ADM) between FY 17 and the projection for FY 26 was down about 4.3 percent or 5,600 students. The correspondence ADM had increased from about 12,000 to 22,000 students (an 86 percent) whereas the brick and mortar ADM had decreased by 16,000 students or nearly 14 percent. The correspondence students received less funding at 0.9 percent of an ADM and did not go through the multipliers. He elaborated that correspondence students received significantly less funding than non-correspondence students. He explained that total dollars had gone down on a per student basis in part because of the shift; however, districts were also seeing lower costs due to that because correspondence students were cheaper. He

noted that some districts had cost issues relating to the shrinking student population in terms of schools having to consolidate. Additionally, some districts were too small to consolidate and ended up with empty classroom space. He clarified that the total dollars shown on the slide could be a little misleading because of the change in student makeup over the past decade.

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Mr. Painter addressed slide 9 titled "K-12: Impact of Factors per Non-Correspondence ADM, FY11-26." He explained that the slide addressed why only considering the BSA [in terms of K-12 funding] missed part of the point. The slide showed how the multipliers had changed over time and each layer on the graph represented the impact of each adjustment to each student on the ADM. The blue portion of the bars represented one ADM. Other layers included the school size multiplier, cost factor multiplier, special needs factor, career and technical education factor, and special education (SPED) intensives. There were some changes in formula but there had not really been any changes since FY 15.

Mr. Painter explained that the graph showed that \$1 in the BSA in FY 11 became \$1.96 [when including the other layers]. In FY 26, \$1 in the BSA meant \$2.28 per student. There was a significantly greater impact of a single dollar on the BSA at present. One of the drivers of the count of the special education intensive students, which had increased over one-third or 10,000 students over the past decade. He elaborated that because those students were counted as 13 times the BSA, there was a significant impact on total funding. He elaborated that it increased funding and changed the cost structure for districts because there were certain obligations it came along with, in terms of how they provide services to students. He summarized the slide by explaining that looking at the BSA only overlooked that more money was received, but looking at total dollars only missed that there were higher costs. Part of the reason it was so difficult to wrestle with the issue was because there were changes to both the cost side for the state and cost side for districts.

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Representative Stapp thought there were some interesting correlations between the graphs on slides 8 and 9. He observed when the non-correspondence ADM count went down, the school size multiplier funding went up. He considered that students were not in school; therefore, an empty school was worth more money to districts than a full school because of the multiplier. He asked why the state would want to incentivize more schools with fewer people.

Mr. Painter replied that one of the reasons for the correlation, especially in FY 21, was a result of the hold harmless provision that could be phased in over the course of several years if a school lost more than 5 percent of its in-person student count. He explained that in FY 21, during the COVID-19 pandemic, there were many students who switched over [from in-person to correspondence], which triggered the hold harmless provision in many districts. As a result, districts saw a spike in funding on a per student basis. There had been a spike in total funding because some districts received the hold harmless funding for a student and also counted them as correspondent students, which resulted in the districts receiving double the funding mostly confined to FY 21. He noted that in FY 26, 18 districts were under the hold harmless provision because of losing 5 percent [of their in-person student count] within the last several years. He explained that many districts were losing population, and they retained some of the funding for a few years based on the hold harmless provision.

Representative Stapp remarked that he was aware of the hold harmless provision and was trying to think of the financial impacts. He stated that the hold harmless provision ran out after a period of time and if a school district was not prepared it could face a cliff in funding when the hold harmless was gone. He asked about the logic behind utilizing a multiplier such as school size.

Mr. Painter answered that the reason it was included in the formula in 1998 was related to economies of scale. He detailed that certain fixed costs associated with buildings scaled up to some degree, but not necessarily one-to-one with the student count. He elaborated that the first student in a building was the most expensive, while the 1001st student would not have a big increase in the facility cost. He explained that when [the school size multiplier] was designed there were not as many shrinking

communities and when the extent became clear, the legislature had adopted a school consolidation hold harmless provision several years back to try to encourage districts to consolidate without losing funding for four years. He elaborated that when the bill was adopted, the legislature understood that districts may want to leave schools open because they got the school size factor, but it would save money overall to close them; therefore, it had offered the hold harmless for consolidation to encourage districts to close schools if needed.

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Representative Allard highlighted that the state spent a certain amount on SPED based on the formula that was to be directed to individual students. She asked if it was possible that funds could be spent by districts on other items instead of SPED students.

Mr. Painter answered he could not speak confidently in detail on the specific question. He relayed that there were certain requirements for services that must be provided, but he did not know the extent of the reporting required. He could check with DEED and follow up with details. There was a 20 percent special needs factor in the form of a block grant. Additionally, there were SPED intensives. He stated that other than for intensives, there was nothing that scaled up for students who may need extra help but not the full intensive. He explained it was "all or nothing" where a district received 13 times extra for a student or nothing extra for a student. He detailed that there may be students that needed some extra help, but because the special needs factor was merely a block grant, the district had no extra money for those individuals unless they were an intensive. He remarked that it was one of the challenges of the current formula.

Representative Allard wondered if schools could reallocate any potential money left over from intensive need funding to other purposes. She asked if there was a way to track where the funding was spent. She wondered why the funding was perhaps not given back. She understood Mr. Painter would follow up with DEED and provide the information to the committee.

Mr. Painter would follow up with DEED and get back to the committee.

Representative Galvin looked at slide 8 pertaining to student count. She referenced a DEED report dated February 26 and looked at the preliminary brick and mortar ADM of 103,110 with a projected number of 101,840, reflecting a decrease of 1.2 percent. She highlighted that the preliminary correspondence student count for 2025 was 23,620 and the projected number was 22,840, reflecting a decrease of 3.3 percent. She considered that it was an unusual trend and perhaps some of the [correspondence students] were returning [to brick and mortar schools], but the reason for the change was unknown. She stated it was hard to know which high intensive needs students were moving where and she thought it was critical in terms of overall expenses. She highlighted that the trend was changing a bit more than the committee had just heard.

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Mr. Painter moved to slide 10 titled "Medicaid UGF Funding." He reviewed that Medicaid spending declined from FY 15 to FY 18, primarily due to Medicaid reform efforts, tribal reclaiming, and efforts to hold the rate structure down at the time. Spending dropped further in FY 20 and FY 21 due to a temporarily higher Federal Medical Assistance Percentage (FMAP) and reduced utilization during the COVID-19 pandemic. He relayed that spending had increased as the enhanced FMAP had gone away and utilization returned to normal. He noted that based on DOH's December 15, 2025 projection, the FY 26 need was \$134.2 million (21.9 percent) higher than FY 23. He elaborated that the MESA [Medicaid Enrollment and Spending in Alaska] report the committee had heard [on Monday 3/3/25] indicated Medicaid growth should exceed inflation by around 4.4 to 4.7 percent. The state had been fortunate that over the past decade it had not been a significant cost driver, the level from FY 15 had only recently been exceeded; however, it may be an upward cost driver going forward.

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Co-Chair Josephson noted that Dr. [Ted] Helvoigt [MESA presenter] had praised the state. However, he observed the cost was inching up.

Mr. Painter advanced to "Non-formula Agency Operations" on slide 11. He reported that there were significant

reductions from FY 15 to FY 18 decreasing from ~\$2.3 billion to ~\$1.8 billion. He explained there was a flat period and starting in FY 22 there was an upward trend. He reported that using FY 22 as a baseline, nonformula agency operations had increased by about \$500 million or 26 percent, reflecting an average annual growth rate of 5.9 percent. Inflation was also high with a cumulative 18 percent over the same period, but the non-formula agency operations growth rate exceeded inflation. He explained that part of the reason was because the cost had been held flat for a period of time. He likened it to avoiding going to the dentist and eventually needing to deal with cavities. He detailed that even with cost belt-tightening efforts that kept agency operations going down and flat eventually there would be upward pressure on things like health insurance costs, employee pay, commodities and services costs, and program expansion (some from adding things back that had been cut and some from adding in different places). Additionally, much of the temporary COVID-19 funding used to offset general fund expenditures was no longer available. For example, there were COVID-19 funds in the Department of Transportation and Public Facilities (DOT) that significantly reduced the UGF cost of airports for a number of years, but those funds were gone.

Mr. Painter continued to review slide 11. He noted that one of the large variables was the statewide salary survey that was expected to be released within the next several weeks. He highlighted that the UGF funding for executive branch salaries was about \$661 million, which did not include all personal services. He pointed out that if salaries were increased across the board, each 1 percent increase equated to \$6.6 million. He noted that the salary study may only include targeted raises, but the information was not known because it was not yet public.

Co-Chair Josephson noted there was a 1.3 percent growth in agency spend in the governor's proposed FY 26 budget. He asked how the [annual growth] rate had been 5.9 percent over the last several years. He asked if there were big ticket items that had contributed to the increase.

Mr. Painter replied that the governor's number included formula programs. He noted that the governor's budget contained nothing compared to the K-12 outside the formula funding of \$175 million, which suppressed apparent growth. He separated out non-formula items in the current

presentation to show there was a steady increase in the past four years.

Co-Chair Josephson remarked on Mr. Painter's statement that inflation over the period was [a cumulative] 18 percent. He asked if the remaining 7 percent "is sort of on us."

Mr. Painter answered that some bargaining contracts were making up for lost inflation they had not received. For example, several years back the Public Safety Employees Association contracts included 10 percent raises. He explained that inflation had not been 10 percent, but the increase reflected that the employees had not received raises for a couple of years before that time. He elaborated that sometimes there was a flat trend followed by a higher-than-inflation catchup provision.

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Mr. Painter turned to statewide items on slide 12. He described statewide items as operating items that did not fit into agency budgets. The largest was state assistance to retirement, reflecting what the state paid on behalf of school districts and municipalities for costs above their contribution caps for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). The Alaska Retirement Management Board (ARMB) projected the number would increase from \$220.0 million in FY 26 to \$284.4 million in FY 27. He believed the FY 27 number would be lower in reality because the June 30, 2024 valuation was more favorable than the June 30, 2023 valuation. He explained that when the 2024 valuation was adopted for FY 27, the number should be lower than the \$284 million shown on the slide. He noted that the \$284 million was used in the budget scenarios later in the presentation because it reflected the adopted rate.

Mr. Painter continued to review slide 12. He relayed that state debt payments are expected to stay flat for general obligation bonds. He noted some of those started to fall in a few years, but not within the next three years. School debt reimbursement was projected to go down and had done so in the past several years because of the moratorium on the debt. The moratorium had been in place for a decade and was scheduled to end on July 1, 2025. He explained that LFD had an assumption that the exact same rate of debt that existed prior to the moratorium would resume at a new prorated

amount after the moratorium ended. He detailed that the reimbursement rate used to be 60 or 70 percent and the new rate was 40 or 50 percent. He stated that in the absence of better information, the assumption was that the old trend would continue. Realistically, there were reasons to believe the new debt could be higher due to pent-up demand or it could be lower because the state had not always paid its share. He noted that the legislature made up the amount in a lump sum in FY 22, but there were several years where some municipalities had to raise property taxes because debt reimbursements had been vetoed. He summarized that LFD was using \$7.8 million of new debt per year as a placeholder, but the actual amount was "a big question mark."

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Co-Chair Josephson used a high school in Seattle in a hypothetical scenario where the city had bonded indebtedness. He asked if King County would also afford some revenue to the Seattle city schools. He noted that Alaska did not have that local government structure; therefore, it fell on the state and sometimes the cities. He asked if it explained some of the issue.

Mr. Painter answered that it was part of it, but he did not know the structures in other states well.

Representative Bynum referenced Mr. Painter's discussion about outstanding debt and LFD's base assumption. From his perspective, when considering long-term capital throughout the state, he speculated there was a bigger backlog of deferred maintenance and that facilities were not being planned for. He feared that there would be much more debt in the future because of the aging of facilities. He asked where LFD was getting its information when trying to accurately project school bond debt into the future.

Mr. Painter answered that the \$7.8 million came from asking DEED for the history of new school debt for the decade prior to the moratorium and taking an average of the number. He stated it was intentionally not a sophisticated number because LFD did not believe there was a basis for a good number. He shared that DEED had a publication on its website that showed the value of school facilities and what 3 percent of the replacement cost would be for ongoing costs to maintain them. He explained that it was very hard

to predict what local governments would do with the backlog. He offered to provide the DEED report to the committee.

2:25:19 PM

Mr. Painter moved to slide 13 titled "Deferred Maintenance." He detailed that in FY 25 the state had a \$2.4 billion deferred maintenance (DM) backlog. The University of Alaska accounted for over \$1.5 billion (63%) of the total because of its large square footage of buildings and in part because it had more rigorous standards for tracking. For example, the DOT commissioner had talked to the committee about the Public Building Fund a couple of weeks back, where the state paid into a pool to use for deferred maintenance. Two years back, the department estimated \$81 million in deferred maintenance for the fund. Subsequently, DOT did a complete inspection of its facilities and determined the true number was \$211 million. He noted that when it was seen that the state as a whole accounted for much less than the university, some of that was that much of it was not tracked as rigorously.

Mr. Painter continued to address slide 13. He detailed that based on an estimated \$9 billion asset value (as of 2022, excluding the University) if the state spent 2 percent on the backlog, it would need to spend \$180 million on deferred maintenance. He highlighted that the 2 to 6 percent guideline for ongoing maintenance expenditure did not really include a deferred maintenance backlog. He elaborated that with a \$2.4 billion deferred maintenance backlog it was unclear if spending more on regular maintenance would catch the state up. There was a five-year period from FY 10 through FY 14 when the legislature and administration had a deferred maintenance program that spent \$100 million per year on deferred maintenance, which was the one time the backlog had been reduced. He relayed that as soon as the \$100 million went away, the backlog started increasing.

Mr. Painter detailed that the governor's FY 26 budget included \$26 million for deferred maintenance in state facilities. The university sometimes used some of its operating money [on deferred maintenance], but it did not have an increment in the capital budget for that purpose. He explained that the \$26 million and the idea of basing the amount on the asset value did not account for the

eventual need to replace aging specialized facilities such as Pioneer Homes and prisons. He expounded that it was not possible to keep maintaining the same facility without reaching the point of no return where the facility needed to be replaced. He noted that the cost may need to be handled through bonding because it was too large to handle through the regular capital budget process. He added that the numbers did not account for line-of-business technology systems. He explained that a monetary value was not placed on the state's accounting system; therefore, it was not included in the \$9 billion. However, the governor's FY 26 budget included nearly \$20 million for IT projects because replacing IT systems over time was a significant need. He added that it did not account for school construction major maintenance because they were not state owned facilities or they were not counted as state owned facilities even if the state technically owned them. He explained that school construction major maintenance was handled through the school debt reimbursement program and the Regional Educational Attendance Area (REAA) fund used for rural maintenance but was not really reflected in the overall totals.

[2:29:33 PM](#)

Mr. Painter advanced to slide 14 titled "FY25 Deferred Maintenance by Agency." He noted that the graph did not include the university. The DOT accounted for the largest deferred maintenance need because it managed many buildings on behalf of other agencies. The next largest was the Department of Natural Resources including park facilities, which were often small and remote. The Department of Corrections accounted for the next largest deferred maintenance need associated with its operation of a number of multi-decadal prisons. Additionally, the Department of Family and Community Services included Pioneer Homes and juvenile justice facilities that could be expensive to maintain.

[2:30:17 PM](#)

Mr. Painter turned to slide 15 titled "Operating Budget Federal Funding Outlook." The federal funding outlook was uncertain for programs like Medicaid due to proposed budgetary changes by Congress. The federal House of Representatives passed a reconciliation budget directing the Energy and Commerce Committee to make \$880 billion of

cuts to Medicaid and the Supplemental Nutrition Assistance Program (SNAP) over the next decade. He noted that many of the proposed changes were difficult to quantify. One discussed change was reducing the FMAP for the Medicaid expansion population to the regular Medicaid rate. He explained that currently in FY 24, the department estimated the UGF cost for the Medicaid expansion population was about \$50 million. He detailed that changing the rate from 90 percent to the state's regular FMAP of 51.54 percent would cost the state around \$250 million. He noted there had been discussions about phasing in a reduction to FMAP. There had been many other discussions about changes to Medicaid that were very difficult to quantify, such as work requirements or per capita coverage caps. He could not begin to know how the changes would impact the state's Medicaid budget. He noted that the state was quite dependent on the federal government revenue to pay for the current budget.

Mr. Painter continued to review slide 15. He explained that the FY 26 operating budget included \$76.5 million of federal authority for AMHS for the fourth of five years of federal grants (totaling \$1 billion) under the Infrastructure Investment and Jobs Act (IIJA). He explained that there was no funding for the item in FY 28, the third year in LFD's three-year outlook. He elaborated that the state would have to make up \$76.5 million from somewhere. He remarked that when the state first started receiving the federal funding there was some expectation the state would be able to save up a balance in the Marine Highway Fund. He noted it had not come to pass and the state had been spending the fund in the operating and capital budgets. The department projected, based on the governor's budget, the AMHS would be about \$8 million in the hole in FY 26. He explained that if there was no extension of the program, there could be a sudden \$76.5 million hole in the operating budget where the federal funds had been.

[2:33:33 PM](#)

Representative Bynum looked at the second bullet point on slide 13 related to deferred maintenance using an estimated \$9 billion asset value assumption for FY 22. He assumed the asset value was based on when the actual asset was put into place. For example, if a facility was put in place in 1970, they were assuming the asset value from 1970. He asked for

verification that the values were not inflated or escalated values based on the initial investment.

Mr. Painter replied that he did not know the answer. He explained that the number came from OMB, and he would follow up with an answer.

Representative Bynum remarked that Mr. Painter had listed many things that were not included on the backlog list if Alaska spent 2 percent of [the 9 billion asset] value. He asked if highways were included in the value.

Mr. Painter responded that he did not believe highways were included. He elaborated that generally highways were not included in the deferred maintenance backlog because it was handled through federal funding. He explained that DOT included things like maintenance stations and repair to sheds that were state funded.

Representative Bynum remarked that state highways and state obligated roadways were not included. He assumed bridges were not included. He asked about federal and state grant money going into facilities in communities. He asked if the state took the value and needs for long-term capital replacement for the facilities into consideration. Alternatively, he asked if it fell on the shoulders of the communities receiving the dollars.

Mr. Painter answered that the Executive Budget Act specified the information should be provided, but he could not guarantee it always was.

[2:36:06 PM](#)

Representative Stapp asked for verification that the Congressional budget set a number but did not identify specifically where cuts were supposed to come from.

Mr. Painter replied affirmatively. He elaborated that the federal budget did not specify how the reduction would happen. There were a range of federal programs they could fall on.

Representative Stapp recalled the public debate when the previous governor expanded Medicaid and the legislature adamantly disapproved of doing so at the time. He thought the primary reason was the legislature did not believe that

the federal government would maintain the level of FMAP funding - that used to be 100 percent and stepped the state down to 90 percent - in perpetuity because the congressional budget office indicated it would expand the federal deficit. He considered a scenario where there was a reduction to the FMAP percentage. He asked if LFD had any information on what the number would be if it was a 70 or 80 percent cost share, similar to the oil price per dollar.

Mr. Painter answered that LFD used the \$53 million from FY 24 and scaled it because it was at 90 percent. He explained that going to 80 percent doubled the amount by about \$53 million. He relayed that it was difficult to get anything more recent than FY 24 from the department. He elaborated that they did not know what Medicaid expansion would be in FY 25 or its projection for FY 26. The department felt confident in the FY 24 number, and it could be scaled up and down.

Representative Stapp shifted topics to AMHS. He highlighted that during his time in the legislature, the plan was to bank the federal money, but it was not happening. He asked what the state's liability would be once the federal funds expired.

Mr. Painter replied that on the operating side the state would have to replace \$76.5 million. He explained it was harder to determine on the capital side because it depended on what the state planned to do going forward in terms of constructing vessels. Currently much of the capital money was going to the Tustumena replacement, which would be completely funded in FY 26. He explained it was a broader question in terms of what would be funded the next year (i.e., the next mainliner), how much the funding would be, and where the money would come from.

[2:39:17 PM](#)

Mr. Painter moved to slide 16 titled "Capital Budget Federal Funding Outlook." The state had received a [federal] grant for the Alaska Energy Authority (AEA) Grid Resilience and Innovation Partnership (GRIP 1) project, but it had not received a grant for GRIP 2. The state had received a large award for the project a couple of years back. Some state match had been allocated, and it would require another \$143.0 million in state match from FY 27 to FY 32. He explained that if the state did not provide the

funds, the cost could be passed on to local ratepayers. The governor's FY 26 budget included a \$1.5 million request. Based on the project timing, the number would need to increase over time in certain years when there were larger needs. He noted that it was a relatively small part of the state's budget in FY 26. He elaborated that if the cost was spread out evenly between FY 27 through FY 32 it would be \$24 million per year; however, the request would not be even each year. He added that the federal funds for the project were currently frozen. He explained that a project season may be lost depending on how long the funds were frozen. He did not know how it would impact the cashflow of the project going forward.

Mr. Painter continued to address the capital budget federal funding outlook on slide 16. He relayed that IIJA increased capital funds available for DOT's highways and aviation, AEA's renewable energy projects (although these funds were frozen), and the Department of Environmental Conservation's Village Safe Water Program. He noted that when IIJA expired in FY 27, it was unclear whether the higher funding levels would continue. To some extent, the DOT amounts had not kept up with project inflation. He highlighted that the state was receiving approximately 20 percent more for highways than prior to IIJA, but projects were more than 20 percent more expensive than prior to the pandemic. He questioned whether the state should expect to see a new [federal] infrastructure bill with more or less money than IIJA. He explained that it was uncertain and hard to say. He noted it was also unclear whether higher funding levels would continue for programs like Village Safe Water when IIJA funds expired. He concluded it was very difficult to project what the federal government would be doing a couple of years into the future.

Co-Chair Josephson asked how much GRIP funding the governor's FY 26 budget included.

[2:42:09 PM](#)

Mr. Painter replied that the governor's budget included \$1.5 million.

Co-Chair Josephson noted that Mr. Painter had explained that it was not an even amortization. He asked for verification that funding only \$1.5 million meant the \$23.8 million cost would increase.

Mr. Painter responded that the \$23.8 million factored in funding of \$1.5 million in FY 26 and would be the average from FY 27 to FY 32. He explained that based on AEA's cashflow, there would be some years the agency needed \$60 million and other years it needed \$10 million.

Representative Johnson thought she asked the Department of Commerce, Community and Economic Development (DCCED) if GRIP funding had been paused and the department indicated the funds had not been frozen. She had previously heard it had been paused. She understood there were a couple of different projects under the Department of Energy grants. She asked for clarification.

Mr. Painter replied that his information was based on what had been reported in the media. He would follow up with DCCED.

Representative Stapp recalled the chart from the previous year, and he believed the FY 26 appropriation was supposed to be much larger than \$1.5 million. He was a little perturbed about the idea of entering into something the state wanted done and putting a future legislature and governor on the hook for paying the bulk of the funding, especially when revenue projections were not as optimistic in the next couple of years. He understood that if the legislature appropriated the funding it would sit there until utilized. He asked what the future liability would be if another \$1.5 million was paid [into GRIP] in the next year.

Mr. Painter answered that he would not try do the math in his head, but the number would increase. He was not certain when the large need for cash flow would be. He believed the number in FY 26 was unusually low because AEA had an ability to use some bonding authority it already had for a portion of the cost.

[2:45:07 PM](#)

Co-Chair Schrage considered that if \$1.5 million was paid in FY 26 and again the next year, it was essentially \$140 million in state match required by future legislatures and administrations. He stated that whatever was paid at present would reduce the amount to be paid by future legislatures.

Mr. Painter agreed to the extent that the liability was not shifted to ratepayers.

Representative Hannan asked how much GRIP funding ended up making it through the veto process in the FY 25 budget.

Mr. Painter answered that he would follow up with the number. He explained that it was split between the supplemental and FY 25.

Representative Hannan stated there had been "13 and 30 and both were cut."

Mr. Painter would follow up with the information.

Co-Chair Josephson recalled that the GRIP award came with \$206 [million]. He asked if it was the amount the state was awarded if it matched the amount.

Mr. Painter confirmed it was \$206 million matched dollar for dollar.

Co-Chair Josephson surmised it would be odd to apply for the funding, be awarded the generous grant, and not try to match it. He understood it was a policy call.

Mr. Painter agreed that the previous year the legislature appropriated the entire federal award and only a portion of the general funds. The expectation was it would be financed in the future.

[2:46:52 PM](#)

Mr. Painter turned to long-term state needs on slide 17. He noted that much of the information on the slide rolled up items discussed on the past several slides such as deferred maintenance, school major maintenance, and school construction, which were included on DEED lists. There were other annual state needs lists including the Harbor Matching Grant fund and the Renewable Energy Fund. There were priority lists for the Bulk Fuel program and the Rural Power System program. He explained that the top 25 projects were large and the amount in the governor's budget was not quite enough to get through the list quickly. The state was basically matching the federal funds available for the two

programs. Additionally, there was the pension past service liability, which would be amortized through 2039.

Co-Chair Schrage asked to what extent the list on slide 17 was vulnerable to the cost of inflation and escalating costs. He asked if the inflationary cost was built into the costs.

Mr. Painter answered that it was built in for pension past service liability, but not for the others. He explained that if the state paid for the deferred maintenance backlog it would currently cost \$2.4 billion. He detailed that if the backlog was not funded it would increase due to inflation and the deterioration of assets.

Co-Chair Schrage asked for verification that the costs on the slide reflected the present day cost and included the last several years of inflation.

Mr. Painter responded, "To some extent." He believed the deferred maintenance amount understated the true need. For example, the full deferred maintenance list for the whole department [DFCS] was over \$40 million, while the cost of replacing a single Pioneer Home was multiple times the amount. He stated that the actual cost "to deal with all of these things" may far exceed the deferred maintenance backlog.

[2:49:35 PM](#)

Mr. Painter advanced to the FY 25 supplemental budget on slide 18. He noted that the presentation focused on the three-year plan; however, it also included the supplemental, which reflected four years. There was an \$81.5 million deficit based on the fall forecast prior to any FY 25 supplementals. He noted that prices had been a bit above the average so far, but he would be surprised if the spring forecast showed a balanced budget in FY 25. He elaborated that it may slightly reduce the deficit, but it would likely not be a large amount. The governor's UGF supplementals currently totaled \$84.2 million, which was down from a previous number because the governor removed a \$50 million UGF supplemental from his list. There may be additional supplemental amendments. For example, judgements and settlements often came in late as settlements were reached. The next amendment package [from the governor] was due on March 14, which may include additional supplemental

items. He relayed that combined it was a \$165 million deficit in FY 25 that the legislature needed to address. He explained that the current legislature needed to address the issue because the previous legislature had not. The governor proposed filling the FY 25 deficit from the Constitutional Budget Reserve (CBR), which required a three-quarters vote of the legislature.

Co-Chair Josephson stated that alternatives to using the CBR were limited and controversial.

Mr. Painter agreed that funding could be used from the Permanent Fund, the Higher Education Fund, or the Power Cost Equalization Fund, which would not be easy options.

Co-Chair Josephson surmised that the governor's choice was arguably the easiest choice, without impacting existing capitalized funds.

Mr. Painter replied that it was the easiest choice financially. He would leave it to the legislature to determine whether it was the easiest choice politically.

Representative Hannan asked about the legal parameters and timeline in terms of filling the FY 25 deficit. She asked if it could be done on June 30.

Mr. Painter replied affirmatively; however, the governor included supplemental requests because he wanted some of the things to happen sooner than June 30. He highlighted capitalization of the Disaster Relief Fund as an example. The governor had around \$29 million of appropriations into the specific fund in FY 25 because it was currently in the negative and the administration was borrowing from the deferred maintenance appropriation to try to get through the cost of disasters. He stated that it was possible to wait until June 30 to deal with the issue, but the governor's inclusion of the funds in the fast track supplemental indicated some urgency that he wanted the funds appropriated earlier. The governor could not constitutionally sign an unbalanced budget. For example, if the legislature gave the governor a supplemental from the general fund without paying for it, constitutionally, Legislative Legal Services indicated the governor could not sign it. He stated that if the legislature wanted agencies to have money before June 30, it needed to deal with the deficit problem before June 30.

Representative Hannan clarified that she was not advocating for June 30. Theoretically, the legislature could pass and balance the FY 26 budget before it dealt with the FY 25 deficit.

Mr. Painter answered affirmatively, but the longer the legislature pushed it there would be questions about whether the governor should be invoking impoundment at that point assuming the legislature was not going to act. He stated it got into some interesting legal territory.

Co-Chair Josephson compared the issue to planting a new garden before raking the leaves from the previous year.

[2:54:00 PM](#)

Representative Stapp asked for an explanation of impoundment and when it could be used by the governor.

Mr. Painter replied that there were not many supreme court cases that gave clear guidance on the topic. He explained that if the legislature left an unbalanced budget, the governor had to figure out how to pay bills and could impound/withhold appropriations to try to get through the year. Generally, he did not believe governors would impound appropriations while the legislature was still in session and trying to get through the budget process. However, it may come to a point where the governor would have to act if no movement took place by June 30. He was not an attorney and did not want to get into the legal ramifications, but essentially, it was the last resort to not spend money on the capital or operating items to ensure there was not a shortfall in the year.

Co-Chair Josephson believed there was a case involving former Governor Bill Sheffield that may be the only authority and was fact specific.

Mr. Painter stated his understanding that the case was so fact specific, it was not possible to draw general rules as a result. He restated that he was not an attorney and did not want to wade into that territory.

Mr. Painter advanced to slide 19 titled "House Finance Co-Chairman's FY26 Budget Scenarios." The House Finance Co-Chairman requested several scenarios to envision what the

final FY 26 budget could look like. He clarified that the scenarios did not reflect final decisions and were illustrative only. He added that the scenarios were not developed by LFD and had been requested by the co-chair. The presentation included five different scenarios with varying Permanent Fund Dividend (PFD) levels.

Mr. Painter moved to "HFIN Co-Chair FY26 Budget Scenario 1" slide 20. The scenario began with the \$6.2 billion UGF revenue forecast and removed the governor's amended operating budget and fund transfers, leaving the surplus remaining of more fungible items. The first item was a placeholder for new contracts. He referred to an LFD overview presentation from six weeks earlier that included a \$29.6 million placeholder. The amount had been increased to \$40 million because contracts were coming in and the correctional officers were getting 11 percent rather than 3 percent and Mt. Edgecumbe teachers received 5.6 percent. He was uncertain the \$40 million would be sufficient, but it was a ballpark placeholder. The second item was the foundation formula increase for the \$1,000 BSA increase. The amount matched the original CS for HB 69. He noted that the [House] Rules Committee version came out \$22 million higher. The next item was \$7.3 million for the pupil transportation formula, which matched the amount that went outside the formula in FY 25. He noted that it was not included in HB 69. The governor's education bill included a pupil transportation formula increase that was about twice the amount. He explained that \$7.3 million was a placeholder matching FY 25.

Mr. Painter continued to review scenario 1 on slide 20. He moved to line 7 of the table and addressed \$6.7 million for community assistance, which represented the additional amount needed to add to the distribution in FY 26 for a total distribution to communities of \$30 million. Without any additional appropriations, the distribution would be \$23.3 million, which was enough to pay base payments, but not full per capita payments. Line 8 included \$7.5 million for childcare, which matched the FY 25 level. Lines 9 and 10 matched the fire suppression and Disaster Relief Fund amounts in the governor's budget. Line 11 added \$10 million for AMHS backstop. He noted the amount was increased to \$76.5 million in FY 28 - when federal money was presumed to run out - under the multiyear scenarios. Line 12 included a base capital budget of \$300 million compared to the governor's amend number of \$294 million. There was no

funding for legislative additions of district projects. The scenario included \$50 million for school construction, deferred maintenance, and University of Alaska deferred maintenance. He noted that the co-chair had mentioned additional renewable energy projects, which were another possibility. The two numbers resulted in a capital budget of \$350 million without legislative district projects. Line 15 for fiscal notes did not include anything for fiscal notes beyond foundation formula increase in line 5. Line 16 included \$40 million for subcommittee and other additions above the governor's number. He remarked that the last subcommittee was scheduled to close the following day. Line 17 included a 75/25 Permanent Fund Dividend, where the PFD was 25 percent of the percent of market value (POMV) draw or about \$1,400 per recipient and a total cost of about \$950 million. The scenario resulted in a deficit of \$440 million in FY 26.

Co-Chair Josephson believed the Alaska Superintendents Association and the School Board Association were hoping item 5 [on slide 20] would be \$1,800.

Representative Allard stated she did not see a scenario with a lower BSA. She asked if the idea had not been considered with regard to coming closer to a balanced budget.

Mr. Painter deferred the question to Co-Chair Josephson.

Co-Chair Josephson believed the governor would be incredibly surprised if the budget did not include one-time funding of \$182 million because it had been included in the current year. The number proposed in the House Rules CS [for HB 69] was larger than \$182 million by about \$60 million. He answered that the scenario had not been considered because it would further starve school districts.

Representative Johnson noted there were several bills that looked like they would pass. She highlighted the defined benefit bill [HB 78] and calculated its cost at \$76 million. She estimated the BSA bill would cost \$200 million. She asked if the bills would increase the amount [shown on slide 20].

[3:02:27 PM](#)

Mr. Painter referred to line 5 on slide 20 showing the foundation formula.

Representative Johnson observed that the scenario showed a \$440 million [deficit]. She remarked that the BSA bill was the only bill accounted for in the scenario.

Mr. Painter agreed.

Representative Johnson asked for verification that the scenario reflected the governor's capital budget with no additions.

Mr. Painter replied that the scenario was \$6 million higher plus \$50 million for deferred maintenance. The amount included in the scenario was \$56 million higher.

Representative Johnson thought they would be looking at [an additional] \$500 million at a minimum by the time some bills were included. She was surprised the proposal did not show a balanced budget. She asked what the PFD would be if the budget was balanced.

Mr. Painter believed it was reflected in scenarios 4 and 5.

Co-Chair Josephson noted that slide 20 showed a deficit of \$440 million, while the governor's budget had a deficit of about \$1.5 billion. He argued that the deficit in the governor's budget was higher than \$1.5 billion if one-time funding was added.

Mr. Painter agreed. He elaborated that if the governor's education bill was included in the governor's budget, the number would be closer to \$1.7 billion.

[3:04:21 PM](#)

Representative Stapp looked at the community assistance line of \$6.7 million on slide 20. He asked if the scenario capitalized the fund at \$30 million even though the total capitalization in statute was \$90 million.

Mr. Painter answered that the scenario would provide an additional amount to ensure the distribution was \$30 million, but it would not add an additional amount to the fund to reach \$90 million. The fund currently had a balance of \$70 million, leading to the \$23.3 [million]. The

governor's budget included \$30 million to add back, which ended up at around \$70 million. He clarified that scenario 1 did not include anything to bring the amount back up to \$90 million, it topped off the distribution for FY 26 only.

Representative Stapp stated that statute specified one-third of capitalization funds distributed to communities. He surmised that the funding would be expended, the fund balance would reduce to \$60 million, and it would need to be recapitalized at some point later on.

Mr. Painter replied that the governor's budget included \$30 million, which was also included in scenario 1 [slide 20]. The fund would be reduced from its current \$70 million balance by \$23.3 million and \$30 million would be added; therefore, the ending balance would be a bit higher (~\$77 million) than the starting balance. In FY 27, one-third of the balance would be "\$20 something million" again. He explained that it was not a full distribution, but a \$6.7 million addition to the FY 26 budget would bring the distribution to the full \$30 million, despite not having the full \$90 million in the fund.

Representative Stapp observed that scenario 1 reserved a \$40 million placeholder for contract negotiations. He characterized the salary study that was not yet available as "the elephant in the room." He noted there were critical shortages, especially in the DOT Dalton Highway northern region. He had not seen the salary study, but when comparing to private sector wages, he estimated it could reflect wage increases of up to \$200 million the state would have to pay people in order to hire them. He asked if Mr. Painter was comfortable with a \$40 million placeholder. Alternatively, he wondered if Mr. Painter saw the number being higher.

Mr. Painter answered that the \$40 million placeholder was probably a bit on the low side. The number was based on taking 3 percent for the unions that did not yet have contracts and percentages in actual contracts. He thought they may be underestimating a couple of the true impacts for the marine highway union for example "where we don't have those in the personal services." He noted it was hard to estimate the true cost, and he reiterated it was likely on the low side.

[3:07:32 PM](#)

Representative Stapp noted that a salary increase had been given to a union the previous year. He asked if the increase had been 7 percent.

Mr. Painter answered that the supervisory unit received a 5 percent increase plus one step worth approximately 3.3 percent for a total of about 8.3 percent. He noted that the correctional officers had been up in the past year, but did not come to a contract agreement. Subsequently, they received 11 percent in the current year. He explained that when adding the 3 percent the supervisors would receive in FY 26 in addition to the 8 percent they received in FY 25, it was about equal to the correctional officer's increase. He stated it was unclear exactly where the general government unit would land. He explained that 3 percent was used in the scenario because that was what the supervisory unit had for FY 26.

Representative Stapp observed that the PFD amount was the only item that changed in the other [upcoming] scenarios. He noted that he had asked LFD about modeling a 99/1 scenario at the beginning of session. He asked if it was included in the presentation.

Mr. Painter replied that he did not believe the co-chair requested that analysis.

Mr. Painter advanced to "HFIN Co-Chair FY26 Budget Scenario 2" on slide 21. The scenario changed the PFD shown on line 17 to \$1,000. The change would reduce the deficit to \$168.9 million. He clarified that the \$680 million included the cost needed for the dividend program and the projected recipients.

Co-Chair Josephson asked for verification that the scenarios used \$70 per barrel of oil.

Mr. Painter agreed.

Mr. Painter moved to "HFIN Co-Chair FY26 Budget Scenario 3" on slide 22. The scenario doubled the PFD to \$2,000 per recipient with a total of ~\$1.3 billion. The scenario increased the deficit to \$808.2 million.

Co-Chair Josephson remarked that the scenario got closer to the governor's request.

Mr. Painter replied, "Yes."

[3:10:14 PM](#)

Mr. Painter addressed "HFIN Co-Chair FY26 Budget Scenario 4" on slide 23. The scenario showed a statutory dividend of ~\$3,800 per recipient for a total of \$2.5 billion. He noted that it did not reflect the governor's number. He explained that it was the Alaska Permanent Fund Corporation's (APFC) new number; therefore, it was about \$50 million lower. The scenario would result in a deficit of approximately \$1.9 billion.

Mr. Painter looked at "HFIN Co-Chair FY26 Budget Scenario 5" on slide 24. The scenario showed a balanced budget with a PFD of \$511.9 million or \$736 per recipient.

[3:11:06 PM](#)

Co-Chair Josephson observed that under scenario 5, line 4 was not much of a variable because the state typically paid contracts, lines 5 and 8 were wild cards, the capital budget on line 12 could be smaller, and other changes on line 16 could be smaller; however, overall, there was not a lot that could change.

Mr. Painter agreed there was not a lot that could be changed unless the legislature wanted to make significant changes to the structure of the budget.

Representative Tomaszewski looked at scenario 5 on slide 24. He noted that Representative Stapp had asked about a 99/1 split. He asked what the POMV split was under the scenario. He stated it looked like "about a 99 to something."

Mr. Painter replied that he would follow up with the information.

Co-Chair Josephson suspected the [government services/PFD] split [under scenario 5] was around 83/17.

[3:12:28 PM](#)

Co-Chair Schrage noted that adjusting the PFD amount was not the only solution available. He highlighted that the

committee had talked about the CBR. Additionally, there were revenue measures being discussed in the other body. The legislature did not know what the [revenue] forecast would be the following week, but he thought it was not likely to change significantly. He thought there were a number of tools available to the legislature and it would be necessary to continue having the difficult conversations.

[3:12:57 PM](#)

Mr. Painter turned to slide 25 titled "FY26-28 House Finance Co-Chairman's Scenario." The three-year scenarios assumed the existing schedules for statewide items and added a \$7.8 million placeholder for new school bond debt starting in FY 27. The scenario assumed agency operations and the capital budget would grow with inflation of 2.5 percent and added a \$50.0 million placeholder for future supplemental budgets in FY 26 and beyond.

[3:13:39 PM](#)

Mr. Painter turned to " House Finance Co-Chairman's FY25-28 Scenario 1" on slide 26. The scenario used a 75/25 PFD and began with a deficit shown previously [in scenario 1 on slide 20], which crept up to a deficit of \$487.8 million [in FY 26] with the addition of the \$50 million supplemental. The deficit for FY 25 through FY 26 was projected at \$653.6 million, which was projected to grow in the next several years as revenue did not grow with inflation, but costs did. He noted there was also an assumption in FY 28 that federal money for AMHS ended and was replaced with UGF.

Co-Chair Schrage considered the scenarios and the numbers moving into the out years. He and remarked that the s-corp loophole had been talked about quite a bit. He asked how much revenue was projected to come in if the loophole was closed. He noted it would reduce the annual deficit. He asked what the current balance in the CBR was. He did not believe running annual deficits was sustainable, but he thought there was a general view in the legislature that in the future there may be an increased appetite for fiscal reform. He asked about the state's ability to weather annual deficits for some time with funds from the CBR.

Mr. Painter replied that the s-corp legislation was proposed in the other body and would bring around \$180 million in the first year and around \$120 million in next couple of years. He would get back to the committee with a more precise number. The CBR balance was currently about \$3 billion.

Co-Chair Josephson shared that he had asked his staff to look at CBR balances. He believed the balance was down to \$1.3 billion in 2021 or 2022. He highlighted that the CBR balance was currently more than twice its lowest recent point.

Mr. Painter responded affirmatively.

[3:16:36 PM](#)

Representative Allard asserted that the s-corp was not a loophole. She asked for verification that it was in statute.

Mr. Painter agreed. There was no tax on s-corps.

Representative Stapp observed there was a lot of red on the slides, indicating money was not available for the items. He noticed that since subcommittee closeouts were taking place, the red was increasing. He had not heard of any revenue proposals from the majority. He noted that the s-corp taxation did not generate enough revenue to cover the red. He asked what the legislature should do to get into black.

Mr. Painter noted that it was a policy call for the legislature. There were a number of alternatives in terms of revenue generation or spending reductions.

Co-Chair Josephson remarked that Representative Stapp was correct. For example, the subcommittee had elected to include \$5.5 million to pay for forensic exams of sexually abused children because it was important. He hoped his colleagues would join in supporting the funding.

Representative Stapp supported the \$5.5 million for rape kits, which was valuable and important. He pointed out that it was not the \$653 million red number on the screen. He asked what would happen if the legislature sent an unbalanced budget to the governor.

Mr. Painter answered that the last time it occurred was during the Walker administration and the governor had vetoed down to the amount needed to have a balanced budget.

Representative Stapp asked for verification that if the finance committee failed to balance its budget, the governor would take care of it for the legislature.

Mr. Painter confirmed that in order for the governor to sign the budget, he would have to balance it.

[3:19:32 PM](#)

Co-Chair Schrage asked for verification that it was possible to run deficit budgets as long as there was a funding source available to fill the deficit for the year. He noted that some of the things (e.g., education) were constitutional obligations the legislature had to balance with the rest of the constitutional obligations. He remarked that the legislature's duties went beyond a fiduciary responsibility.

Mr. Painter responded that the state could run a deficit as long as there was a deficit filling source available. For example, if the state drew \$3 billion per year from the CBR for a five-year period.

Co-Chair Josephson thanked Mr. Painter for the presentation. He reviewed the schedule for the following day.

#

ADJOURNMENT

[3:20:48 PM](#)

The meeting was adjourned at 3:20 p.m.