

HOUSE FINANCE COMMITTEE
February 11, 2026
9:05 a.m.

9:05:05 AM

CALL TO ORDER

Co-Chair Josephson called the House Finance Committee meeting to order at 9:05 a.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 Elexie Moore
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Alexander Schroeder, Staff, Representative Andy Josephson.

SUMMARY

HB 263 APPROP: OPERATING BUDGET;AMEND;SUPP

HB 263 was HEARD and HELD in committee for further consideration.

HB 265 APPROP: MENTAL HEALTH BUDGET

HB 265 was HEARD and HELD in committee for further consideration.

Co-Chair Josephson reviewed the meeting agenda.

#hb263

#hb265

HOUSE BILL NO. 263

"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 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. 265

"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."

9:06:02 AM

Co-Chair Josephson reviewed the items in members' packets including the new committee substitute (CS) for HB 263, redline comparison document between the governor's budget and CS, summary of changes, CS for HB 265, redline comparison document for HB 265, agency summary totals (all funds), and agency summary totals (UGF only) (copy on file).

Co-Chair Josephson asked for a motion on the first CS.

Co-Chair Schrage MOVED to ADOPT the proposed committee substitute for HB 263, Work Draft 34-GH2498\G (Marx, 2/6/26).

Co-Chair Josephson OBJECTED for discussion.

Co-Chair Josephson asked his staff to explain the changes in the CS.

9:07:18 AM

ALEXANDER SCHROEDER, STAFF, REPRESENTATIVE ANDY JOSEPHSON, reviewed the changes in the CS. He read from prepared remarks:

Before the committee is a proposed committee substitute for HB 263: the Operating bill, work draft 34-GH2498\G, also called House Committee Substitute 1 or HCS1. Also included in members' packets is a redline comparison between the Governor's December 11, 2025, operating bill and HCS1. For purposes of this walk through today, I will refer to the page and line numbers in the redline comparison, not the work draft.

I want to begin by identifying three broad changes to the bill.

The first broad change is to address technical and conforming changes. If the committee permits, I ask to refrain from getting into detail about what those technical and conforming changes are. In summary: the administration has different drafting requirements than the legislature, so we translate the operating bill to meet Legislative Legal's requirements.

The second broad change is that all supplemental items have been removed. There are currently two supplemental bills, HB 283 and HB 289, under the committee's consideration. The Co-Chair's position is that, at this time, those bills and their items should be considered separately from the operating bill. So, fair warning, I do not plan to walk through the supplemental items removed from the bill.

The third broad change is reverting to an "adjusted base" budget in accordance with the Legislative Finance Division's definition (with one exception, to be explained in a moment). The "adjusted base" definition is "The prior year's budget less one-time appropriations plus current statewide policy decisions (such as salary adjustments and formula changes) needed to maintain services at a status quo level."

Formula items funded at a partial amount (meaning deviations from statutory formulas in the previous fiscal year's budget) are carried forward in this committee substitute. Those items will be explained when I get to the language section.

It's worth noting that the Legislative Finance Division does not apply the adjusted base concept to

certain aspects of the bill and uses the Governor's submission for those items. Examples include:

- Wordage, such as conditional language in the number's sections.
- FY26 language sections with no fiscal impact added or removed by the Governor in his proposed budget, such as the section implementing Bonuses for State Employees authorized by Letters of Agreement.
- Miscalculations by the Governor in formula-driven appropriations.

If an item falls outside the definition of "adjusted base," it is unchanged from the Governor's version in this committee substitute.

That concludes the broad changes between the Governor's proposed budget and the work draft before you. Ultimately, this work draft is meant to be a starting point while we work through the Finance subcommittee process and the House Finance amendment process.

[9:10:39 AM](#)

Co-Chair Josephson noted that the mental health budget would be taken up after the operating budget. He clarified that the mental health budget CS was version I.

Representative Stapp remarked there were many numerical changes that were not listed on the summary of changes. For example, he pointed to page 6 of the CS and remarked that the Alaska Gasline Development Corporation (AGDC) budget was substantially less. He asked if it was the adjusted base change.

Mr. Schroeder replied affirmatively. He elaborated that any of the numbers section changes were shown in the transaction comparison and were not included in the summary of changes because the difference reflected the reverse of the transaction compare between adjusted base and gov amend.

Mr. Schroeder reviewed the changes in the CS with the redline comparison document:

In the number section, please turn to Page 4, Lines 19 through 33. We have flagged it in the committee members' redline document. Here, you will see the Department of Agriculture was removed. On Page 32, Line 25 to Page 33, Line 4 you'll be able to see it was restored as the Division of Agriculture under the Department of Natural Resources. Technically, this is consistent with LFD's definition of adjusted base. It is also consistent with the Superior Court ruling that "the Governor transmit a proposed executive order to the Legislature only during regular session." This meaning that Executive Order 137 was unlawful and the creation of a Department of Agriculture void.

The second structure difference in the numbers section is found on Page 77, Lines 1 through 19, where you will see the Alaska Marine Highway System reflected as Section 4 in numbers, which is consistent with how the legislature passed the FY26 budget.

The remaining changes in the numbers section are only reflected as differences in appropriation totals. All transactions the Governor proposed, the ones before the Finance subcommittees, were removed. You can view these transactions in full in the transaction comparisons between the adjusted base and the Governor's proposed budget on the Legislative Finance Division website.

That concludes the changes in the numbers section.

Moving on to the language section, I mentioned earlier one exception to the adjusted base made in this committee substitute. Please turn to Page 81. It is the second flag in the members' redline document. Looking at Section 11, subsection (c), (specifically Page 81, Line 27 to Page 82, Line 1). Here, the committee substitute modifies the earnings reserve account deposit. Instead of splitting the transfer from the earnings reserve account between the general fund and the dividend fund, the Co-Chair believes that depositing all the funds to the general fund first is a better starting position for the work of this committee. This structure mirrors the same structure in last year's Enrolled operating bill, and every operating bill since FY19 when the Percent of Market value draw began.

Yes, it does not yet appropriate a portion of the general fund for the payment of a permanent fund dividend. That appropriation will be revisited in the budget amendment process in this committee and on the House Floor.

[9:15:15 AM](#)

Mr. Schroeder reviewed adjusted base changes beginning on page 82 of the redline document:

The remaining language section items before us are all adjusted base changes. Please turn to page 82, Lines 5 through 8. Here you see that it removes the inflation proofing appropriation to the Alaska Permanent Fund. The next change is on Page 88, Lines 6 through 14. Here you see it removes State's Employment Assistance and Training Program, or STEP, estimated appropriations from the language section. A corresponding increase maintains funding in the numbers section for the Department of Labor and Workforce Development. LFD notes that this language was new this fiscal year. It is conceptually similar to the Alaska Technical and Vocational Education Program, or TVEP, language in Section 9, which was moved from numbers to language in FY24 and FY26.

The next change is on Page 89, Line 15 through Line 18. Here you see it removes Department of Revenue section on externally managed investment profit sharing fees. The department reports that they have new profit-sharing agreements with public entities investment managers. Only if those external managers outperform market benchmarks would these fees be paid.

The next change is on Page 89 Line 19 through Page 90, Line 1. Here you see it removes language moving the Alaska Marine Highway System from a calendar year to a multiyear appropriation spanning two fiscal years. The change was requested in FY26 and denied by the legislature. It was requested again in the Governor's FY26 supplemental. Effectively, it would allow the department to move any surplus in the current fiscal year forward, and future year funding to fill current year budget holes.

[9:17:37 AM](#)

Mr. Schroeder continued to the next change on page 94:

The next change is on Page 94, Line 4 through 7. Here you see it removes appropriation of arbitrage rebate related to investment earnings in the Alaska International Airport System reserve fund. Investment earnings in this fund have exceeded allowable arbitrage yield, so this item would allow the earnings to maintain the bonds' tax-advantaged status.

The next subsection is on Page 94, on Lines 8 through 12. Here you see it removes the backstop to the previous section if the estimate is sufficient to cover arbitrage rebate.

Page 94, Line 26 to Page 95, Line 1. Here you see it Reduces School Bond Debt reimbursement to 75 percent of statutory requirement (same as FY26). The next change is on Page 96, Lines 5 through 6. Here you see it reduces the appropriation to Disaster Relief fund to \$13,044,800 UGF (matching FY26 enacted policy, in keeping with LFD's definition for adjusted base language items)

Please note: Lines 7 and 8 on this page removes the \$40 million supplemental appropriation to the disaster relief fund because all supplemental items were removed from this committee substitute.

Staying on the same page, the next change is Page 96, Line 30 to Page 97, Line 1. Here you see it reduces the Regional Educational Attendance Area and Small Municipal School Fund deposit to 75 percent of statutory requirement (again matching FY26 policy). For context, last year, the legislature funded school aid for costs of school construction at 75 percent. The Governor vetoed the REAA deposit down to 75 percent to match the school bond debt reimbursement.

[9:20:01 AM](#)

Mr. Schroeder continued to review adjusted base language section changes with prepared remarks:

The next change is on Page 98, Lines 17 through 21. Maintains FY26 policy for the Community Assistance fund deposit by adding \$5,978,000 in UGF. This would result in a \$20 million disbursement in FY27 (same as FY26). The next FY27 adjusted base change is on Page 101, Lines 6 through 13. Adds \$37,945,000 in UGF to meet the Alaska Retirement and Management Board's actuarial recommendations for State Retirement contributions. For context, the Governor did not fund the ARM Board's FY27 contribution rate, instead choosing a different rate which pays less upfront but more in future years. And the last change is on Page 104, Line 30 to Page 105 Line 13. Removes the constitutional budget reserve draw to cover appropriations made in the FY27 budget.

That concludes the adjusted base language section changes.

Overall, the net reduction from the Governor's bill to HCS1 in non-duplicated fund sources for FY27 operating and statewide items is the following:

\$2,358,386,400 in Unrestricted General Fund
\$11,170,600 in Designated General Fund
\$7,772,100 in Other State Funds
\$31,328,200 in Federal Receipts

If you include the appropriations in the Governor's proposed capital budget, the surplus of unrestricted general fund in the operating budget is \$819.5 million.

That concludes the differences between the Governor's December 11, 2025, operating bill, and HB 263, version G.

[9:22:11 AM](#)

Representative Bynum referred to page 82, lines 5 through 8 pertaining to the removal of inflation proofing from the budget and page 89, line 19 through page 90, line 1 that moved the multiyear appropriation for the Alaska Marine Highway System (AMHS) to the numbers section of the bill. He asked for an explanation of the rationale.

Mr. Schroeder responded that the two items had been removed because in the Legislative Finance Division's (LFD) adjusted base definition the items would revert back to the prior year's version. For example, AMHS was in the numbers section the previous year and the legislature had denied changing it to the language section. The current CS put AMHS back into the numbers section. Additionally, there was no inflation proofing in the prior year's budget; therefore, it had been removed from the CS. He deferred to LFD if a more detailed explanation was needed.

Co-Chair Josephson clarified that the CS was designed as a starting point with some consistent basis. He stated that it was not what the budget would look like when the legislature adjourned in May due to a variety of reasons including the wishes of members of both bodies.

Representative Stapp stressed that the budget had gone from a budget deficit to a budget surplus because the Permanent Fund Dividend (PFD) had been deleted from the budget. He recognized the language for the PFD was included, but the bill contained no fund source. Additionally, he stated that the bill dramatically undercharged known expenses for disaster relief, specifically pertaining to Typhoon Halong. He agreed it was a starting point, but he underscored that the surplus resulted from not including a PFD.

Co-Chair Schrage stated that the CS reflected a procedural adjustment back to the FY 26 budget's starting point the past year. He believed it was too early to talk about whether there was a surplus or deficit. He viewed the CS as an early starting point that procedurally stripped out changes that occurred in the budget passed the previous year. He believed disaster funding was a priority of the legislature's, in order to address costs in Western Alaska. He stressed that the expenses were being incurred and would have to be paid. He thought the funding to meet the need would be included in the supplemental budget in the near future. He directed his comments to the public and explained that the CS reflected a procedural step to unwind some of the changes that occurred through the budgetary process and through some of the vetoes over the interim. He stated that through the subcommittee and amendment process, it would start to become clearer whether there would be a surplus or deficit and what the appropriation may be for the PFD, disaster funding, retirement, etcetera. He remarked that there were many policy choices the committee

and body would have to work through. He appreciated Co-Chair Josephson for getting the budget to a good starting point. He added that the starting point followed years of precedent.

[9:27:25 AM](#)

Co-Chair Josephson highlighted that in about an hour he hoped the House would adopt the governor's financing plan for disaster relief on the floor. He noted that the other body had passed the item unanimously. Additionally, the supplemental budget reflected the same urgency. He reiterated that the CS was a starting point.

Representative Tomaszewski asked for verification that the Constitutional Budget Reserve (CBR) section had been removed.

Mr. Schroeder confirmed the CBR section had been removed.

Representative Tomaszewski thought it sounded like déjà vu from the previous year. He believed it had been removed from the budget the previous year only to have to try to put it back in. He wondered what the purpose was.

Co-Chair Josephson replied that it was removed because the CS currently reflected a surplus and the language did not have a purpose in a surplus budget.

[9:28:48 AM](#)

AT EASE

[9:29:10 AM](#)

RECONVENED

Co-Chair Josephson added that the adjusted base did not have a CBR vote and the goal was to stay true to the adjusted base.

Co-Chair Foster did not believe the purpose of the CS was to indicate there was a surplus. He noted that everyone knew the PFD was not included in the CS. He characterized the PFD as the biggest elephant in the room that would require an ongoing conversation. He remarked that there had been some one-time items included in the budget the previous year. He provided a hypothetical example of a \$1 billion increment for a road to Nome that was meant to be a

one-time item. He stated that the committee would not want to automatically repeat the item in the FY 27 budget. He explained that the one-time items had been removed to get to the adjusted base. He reiterated that the PFD was the elephant in the room that the committee would need to work through. Additionally, the spring forecast was forthcoming, which would provide a projection of oil revenue for the state. With regard to disaster relief, he did not believe anyone was saying it should not be funded. He expected the legislature would be doing something along the way. He remarked that it impacted his district and his neighbor's district [Representative Jimmie] and he believed everyone was sensitive of the need to provide support.

[9:31:31 AM](#)

Representative Moore thought there were serious policy implications in the CS. She did not think it was normal. She thought the removal of the CBR gave leverage to the PFD conversation later on. She did not think it was something the committee should be entertaining.

Co-Chair Josephson replied that the recent history showed that the removal of the PFD at the current stage was fairly typical.

Co-Chair Schrage reminded committee members the CS was returning to adjusted base in order to make policy decisions at the table. He stated that it reflected a procedural step to unwind choices that had been made since the last budget passed in order to make new policy decisions. He emphasized that the move was not from a place of leverage. He remarked that if it was a policy choice he would likely not be supportive of reducing funding for some of the items being reduced in the CS. For example, he did not know that he would choose to [reduce] school bond debt reimbursement. He stated that following the process of prior legislatures to get back to a place of adjusted base allowed the committee to make cleaner decisions. He remarked that the policy decisions were still before the committee. He understood it may appear that some of the policy decisions were being made in the CS, but he reiterated that it was a procedural step to unwind what had been done since the last budget passed in order to have a clean place to move forward from. He looked forward to making the policy choices after thorough discussion with the committee.

Co-Chair Josephson WITHDREW the OBJECTION.

Representative Stapp OBJECTED. He stated that the CS included fundamental structure changes that did not reflect merely returning to the adjusted base. He pointed to the deposit of the entire withdraw from the Permanent Fund to the General Fund. He stated it was not the norm. He stated that the policy decision could have been to leave the dividend split for the percent of market value (POMV) draw. He stressed that the CS reflected an intentional choice to put all of the funds typically appropriated for the PFD into the General Fund for future appropriation. He highlighted that there was no change in the [K-12] foundation formula and if the CS was based on the prior year's adjusted base, the foundation formula would have been adjusted as well.

Co-Chair Josephson asked Mr. Schroeder for verification that the other body put the entirety of the draw into the General Fund in its draft budget in April.

Mr. Schroeder confirmed that the Senate version of the budget appropriated the Earnings Reserve Account (ERA) deposit to the General Fund, which was the version adopted in the final budget signed by the governor.

Co-Chair Josephson stated his understanding it was consistent with an adjusted base budget.

Mr. Schroeder replied affirmatively.

[9:36:00 AM](#)

Co-Chair Foster pointed out that in three out of the four years between 2020 and 2024 the PFD had been stripped out of the budget at the start of the process with the knowledge that the legislature could not come to a consensus on what the number would be at the start of session and that ongoing discussions were necessary.

[9:36:36 AM](#)

AT EASE

[9:37:26 AM](#)

RECONVENED

Representative Stapp MAINTAINED the OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Galvin, Hannan, Jimmie, Foster, Schrage,
Josephson

OPPOSED: Tomaszewski, Allard, Moore, Stapp, Bynum

The MOTION PASSED (6/5).

There being NO further OBJECTION, Work Draft 34-GH2498\G
was ADOPTED.

HB 263 was HEARD and HELD in committee for further
consideration.

[9:38:25 AM](#)

Co-Chair Josephson requested a motion on HB 265.

Co-Chair Schrage MOVED to ADOPT the proposed committee
substitute for HB 265, Work Draft 34-GH2502\I (Marx,
2/6/26).

Co-Chair Josephson OBJECTED for discussion.

Co-Chair Josephson asked his staff to explain the changes
in the CS for HB 265.

ALEXANDER SCHROEDER, STAFF, REPRESENTATIVE ANDY JOSEPHSON,
reviewed the changes in the CS with prepared remarks:

Before the committee is the proposed committee
substitute for HB 265: the mental health bill, work
draft 34-GH2502\I. A redline comparing the Governor's
December 11, 2025, mental health bill and HB 265,
version I is included in members' packets. However, I
will not be referencing it for this walk-through.

The changes in this committee substitute parity the
operating bill committee substitute. This work draft
contains technical and conforming changes, and it also
reverts to an adjusted base budget in accordance with
Legislative Finance Division's definition.

Please note that the Governor's December 11 mental
health bill contained mental health capital items.

This committee substitute does not change the Governor's request, preserving those items and their funding per the December 11 mental health bill.

That concludes the differences between the Governor's December 11, 2025, mental health bill, and HB 265, version I.

[9:40:13 AM](#)

Co-Chair Josephson WITHDREW the OBJECTION.

There being NO further OBJECTION, Work Draft 34-GH2502\I was ADOPTED.

HB 265 was HEARD and HELD in committee for further consideration.

Co-Chair Josephson reviewed the schedule for the afternoon meeting.

#

ADJOURNMENT

[9:41:23 AM](#)

The meeting was adjourned at 9:41 a.m.