

SENATE FINANCE COMMITTEE  
February 19, 2025  
9:01 a.m.

9:01:25 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Mike Cronk  
Senator James Kaufman  
Senator Jesse Kiehl  
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Bill O'Leary, President and CEO, Alaska Railroad Corporation; Meghan Clemens, Director of External Affairs, Alaska Railroad Corporation; Senator Cathy Giessel; Representative Louise Stutes; Preston Carnahan, Vice-President of Destinations, Royal Caribbean Group; Alexei Painter, Director, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Kat Sorensen, City Manager, City of Seward; Jillian Simpson, President and CEO, Alaska Travel Industry Association.

SUMMARY

SB 72 RAILROAD CORP. FINANCING

SB 72 was HEARD and HELD in committee for further consideration.

PRESENTATION: THREE YEAR BUDGET OUTLOOK - LEGISLATIVE  
FINANCE DIVISION

Co-Chair Hoffman discussed the agenda. He noted that the committee would consider invited and public testimony for SB 72 before setting it aside. He recalled that the committee had heard the bill the previous session. He noted that the committee would consider a three-year budget overview from the Legislative Finance Division (LFD).

#sb72

SENATE BILL NO. 72

"An Act authorizing the Alaska Railroad Corporation to issue revenue bonds to finance the replacement of the Alaska Railroad Corporation's passenger dock and related terminal facility in Seward, Alaska; and providing for an effective date."

9:03:02 AM

BILL O'LEARY, PRESIDENT AND CEO, ALASKA RAILROAD CORPORATION, introduced himself. He spoke to a presentation entitled "Seward Passenger Dock & Terminal Replacement Project" (copy on file).

Mr. O'Leary showed slide 2, "Mission Statement" and summarized that the Alaska Railroad Corporation (ARC) mission statement could be summarized through safety, service, profitability, and economic development. He thought ARC's request for support of a project in Seward fit with the mission statement perfectly.

9:04:52 AM

MEGHAN CLEMENS, DIRECTOR OF EXTERNAL AFFAIRS, ALASKA RAILROAD CORPORATION, spoke to slide 3, "ARRC SEWARD PASSENGER DOCK: NEED FOR REPLACEMENT"

- Current Seward dock facility is rapidly approaching end of useful life
- Seward cruise port is critical infrastructure for Alaska's travel industry:  
205,240 passengers cruised to or from Seward in 2024, many adding on travels in Southcentral and Interior

Ms. Clemens noted that the current Seward dock dated back to the 1960's and was approaching the end of its life. She recounted that the Royal Caribbean Group (RCG), together with a local developer, had approached the railroad with a proposal for a new passenger dock and terminal facility in Seward. She relayed that with legislative approval, ARC could purchase the facilities and plan for a ribbon-cutting in spring of 2026. The company hoped for bond authorization to advance the project.

Ms. Clemens advanced to slide 4, "PLANNED INVESTMENTS IN SEWARD MARINE INFRASTRUCTURE":

- \$137 million passenger dock and terminal replacement (seeking ARRC bond authorization)
- \$25 million freight dock expansion (funded by MARAD grant and ARRC match)

MS. Clemens discussed the freight dock expansion project and noted that the passenger dock was one of three docks that ARC owned in Seward. She pointed out the dock facility shown on the slide.

Ms. Clemens spoke to slide 5:

- Double berth pier with floating barge dock will be able to accommodate wide range of vessels, including side-loading marine highway vessels
- ARRC invested additional \$1.8 million to enhance transfer span for light freight

Ms. Clemens detailed that the proposed dock would be much longer and would be able to accommodate two ships at one time. She presumed that cruise ships would be the expected main customer base for the facility, but ARC was looking for the new infrastructure to accommodate a broader range of vessels. She noted that an enhanced transfer span would help free up the adjacent dock for other uses.

Ms. Clemens referenced slide 6, which showed a photograph of the Seward Cruise Terminal. She described the terminal as key infrastructure for the community and noted that it was the largest community facility in Seward. The new terminal was planned to be larger, and ARC looked forward to it being a local option for city events.

[9:09:17 AM](#)

Ms. Clemens showed slide 7, which showed an aerial view of the project area. She noted that RCG signed a 30-year Pier Usage Agreement, which was critical the revenue bonds that ARC was seeking legislative approval for. She cited that the bonds were not an obligation of the state but would be backed solely by the railroad and the 30-year pier usage agreement. She noted that ARC would own the new facility and RCG would have preferential berthing rights on one side of the dock, with other cruise lines hopefully calling on Seward as well.

Ms. Clemens spoke to slide 8, "FUNDING & TIMELINE":

2022: \$60 million in bond authorization approved.  
2024: Requested additional \$75 million bond authorization.  
HB122 passed by Legislature eight minutes after close of session; not recognized as legal bill passage by bond counsel or Governor.  
Fall 2024: \$45 million EPA Clean Ports Grant awarded to City of Seward to support Seward dock electrification and city utility infrastructure improvements for shore power; \$5 million match provided by dock developer.  
2025: Re-seeking additional \$75 million bond authorization.  
Fall 2025: Dock replacement construction begins.  
Spring 2026: New dock and terminal complete.

Ms. Clemens directed attention to the spring 2026 estimated completion date for the new dock and terminal. She reiterated that the current dock was rapidly approaching the end of its useful life. She thought the project was currently on schedule to meet the deadline pending the timely bond authorization from the legislature.

Co-Chair Hoffman noted that Senator Cronk had jointed the meeting and recognized Senator Cathy Giessel.

Mr. O'Leary reviewed slide 9, "KEY POINTS":

Bonds issued by ARRC are not a liability of the state, and no state dollars will be used for repayment.

ARRC bonds will be secured by a 30-year pier use agreement with anchor tenant Royal Caribbean Group;

annual revenue guarantee is sized to cover debt service.

The new dock and terminal facility will support the next 50 years of industry growth and visitor demand, with economic impacts spanning Southeast, Southcentral and Interior Alaska.

Mr. O'Leary noted that the anchor tenant and revenue guarantee would not only cover the debt service, but also the operations and maintenance of the facility. He emphasized the project's statewide impact.

Co-Chair Hoffman recognized that Representative Louise Stutes was present.

[9:13:33 AM](#)

PRESTON CARNAHAN, VICE-PRESIDENT OF DESTINATIONS, ROYAL CARIBBEAN GROUP, introduced himself. He noted that RCG had about 65 ships globally, and brought about 10 to Alaska. He commented on a great working relationship with ARC and the city of Seward. He considered that the project was in line with some of RCG's sustainability pillars, including community resilience.

Senator Kiehl noted that the testifiers previous to Mr. Carnahan had both used the word "guarantee." He asked Mr. Carnahan to comment on his understanding of RCG's level of commitment to making payments even if something untoward happened.

Mr. Carnahan explained that the guarantee was a legal, binding contract for RCG to provide a minimum amount of revenue to the railroad as the owner of the port. The contract was legally binding, included annual revenue, and had already been executed.

Senator Kiehl pondered the revenue guarantee as being "sized" to the debt service. He asked about details pertaining to the revenue guarantee.

Mr. O'Leary cited that the guarantee was sized such that no other ships came to the dock, the debt service and operations/maintenance would be paid to ARC. He noted that the corporation was actively marketing the dock and hoped to have other tenants or customers.

Co-Chair Stedman wanted to thank the railroad for thinking beyond the cruise lines and considering getting freight into the main corridor of the state where 70 percent of the population lived. He thought the state needed to keep Seward and Whittier in mind for moving goods in case of anything happening in Anchorage.

Co-Chair Hoffman listed individuals for invited testimony.

[9:18:00 AM](#)

KAT SORENSEN, CITY MANAGER, CITY OF SEWARD (via teleconference), testified in support of the bonding authority for the dock and terminal project in Seward. She relayed that Seward was the home of an economic and transportation hub in the state. She noted that the proposed terminal was designed for year-round use and would be used by the community. She mentioned the Seward Music and Arts Festival. She mentioned the inclusion and economic benefits of shoreside power infrastructure. She discussed economic benefits of cruise ships.

[9:20:04 AM](#)

JILLIAN SIMPSON, PRESIDENT AND CEO, ALASKA TRAVEL INDUSTRY ASSOCIATION (via teleconference), relayed that the Alaska Travel Industry Association (ATIA) had over 625 members, and strongly supported the dock replacement project. She stressed the urgent nature of the project. She discussed the importance of cruise visitors as part of Seward's economy. She discussed economic activity in the state as a result of cruise tourism. She noted that the new dock would allow for a larger class of ships.

[9:21:47 AM](#)

Co-Chair Hoffman OPENED public testimony.

[9:22:04 AM](#)

Co-Chair Hoffman CLOSED public testimony.

Co-Chair Hoffman set an amendment deadline for the following day at 5 o'clock p.m.

SB 72 was HEARD and HELD in committee for further consideration.

[9:22:22 AM](#)

AT EASE

[9:23:48 AM](#)

RECONVENED

Co-Chair Hoffman relayed that the presentation from LFD would provide a three-year overview of the budget requested by the committee.

^PRESENTATION: THREE YEAR BUDGET OUTLOOK - LEGISLATIVE FINANCE DIVISION

[9:24:14 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed a presentation entitled "FY25 - FY28 Fiscal Outlook" (copy on file).

Mr. Painter looked at slide 2, "Outline":

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

Mr. Painter spoke to slide 3, "FY25-FY28 Revenue Outlook: DOR 2024 Fall Forecast," which showed a table of revenue outlooks for FY 25 through FY 28, and a graph of oil price forecast comparison. He made note of the percent of market value (POMV) revenue increasing between FY 25/26 and FY 27. The spike in the value of the Permanent Fund in FY 21 was still being factored in, but would level off in FY 28. The traditional oil revenue was driven by the two factors of oil price and North Slope oil production shown on the table. He noted that Department of Revenue's (DOR) forecast called for oil around \$70 per barrel (bbl) dipping to \$69/bbl in FY 27 and FY 28. Production was forecast to increase back over 500,000 barrels per day (bpd) by FY 28 as new fields came online.

Mr. Painter noted that the graph on the bottom on the slide compared DOR's fall forecast (shown in blue) with the Brent futures market as of the previous week (shown in red), and the Energy Information Agency's (EIA) Short-term Energy Outlook (STEA). The fall forecast closely mirrored the futures market as of the previous week. He noted that the EIA STEO had forecasted a significant reduction in oil prices going forward. It had forecasted that Oil Producing and Exporting Countries (OPEC) would increase production, but demand would not increase enough to prevent a price decline.

Mr. Painter observed that the EIA forecast showed oil down in the mid-60's by the middle of FY 26, versus the other forecast almost up to \$70/bbl. He commented on the significant revenue impact on Alaska by a price change of \$5/bbl. He commented that at current prices, every dollar of change in the price of oil signified a change of \$35 million to \$40 million for the state. He surmised that if oil prices were around \$65/bbl rather than \$70/bbl it would be a difference of \$200 million in state revenue. The spring revenue forecast from DOR would be available the following month and would likely be based on the futures market in early March. He noted that prices had remained fairly constant.

Co-Chair Hoffman noted that DOR had informed the committee that it would make its presentation on the fourteenth of March.

[9:27:59 AM](#)

Mr. Painter referenced slide 4, "Sources of Revenue Uncertainty":

- 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 mentioned producer expenses, which could affect state revenue significantly even at a level price. He discussed the five-year averaging utilized by the POMV draw. He discussed how the state was somewhat insulated from investment returns as a driver of state revenue, but there could be an impact on the Earnings Reserve Account (ERA) balance.

Mr. Painter addressed the volatility in federal revenue, which was the state's largest revenue source in FY 25. Changes to federal allocations for programs could significantly affect the amount of revenue the state had to carry out appropriations. In some cases, he thought the state could have to step in with funds.

Co-Chair Hoffman made note of increased influence from Elon Musk in the federal budget process, and thought there were substantial cuts contemplated. He did not know what to expect from the rise of the Department of Government Efficiency (DOGE) but did not think it would be good for the state.

[9:31:54 AM](#)

Mr. Painter turned to slide 5, "Significant One-Time Items in FY25 Budget":

- Of the items above, the only one repeated in the Governor's FY26 budget is \$5 million for the University of Alaska's R1 research.
- The Governor's budget includes \$6.1 million for child care assistance grants related to SB 189, which expanded eligibility for the needs based child care grant program. The \$7.5 million one-time item in the FY25 budget was directed to providers.

Mr. Painter noted that the table at the top of the slide listed significant one-time items in the FY 25 budget. He thought it was important to point out that the University of Alaska's (UA) R1 research was funded the previous year, but by a different fund source. He highlighted \$10 million in Alaska Marine Highway System (AMHS) backstop funds, as the difference between the budgeted federal authority and the maximum federal grant rules. The governor had not

included the funds. He thought a similar provision would probably be needed in the current year in order to run a full ferry schedule.

Mr. Painter made note of the \$7.5 million for the childcare grant program from the previous year, which was not repeated in the governor's budget. He highlighted that the governor's budget included a \$6.1 million childcare related item.

Mr. Painter spoke to the \$7.3 million of K-12 additional pupil transportation funding outside the formula. The item was not in the governor's budget but was in his education bill. He mentioned \$5 million for tourism marketing that was in the operating budget the previous year as UGF. The item was not in either budget from the governor.

Co-Chair Hoffman thought it should be noted that the total of the items was \$220 million, which would probably be met. He added that the \$174 million for K-12 outside the funding formula was related to a \$680 Base Student Allocation (BSA) increase. There was legislation pending to make the amount state law.

[9:36:03 AM](#)

Mr. Painter considered slide 6, "Agency Operations: Formula Programs":

- Formula programs comprise nearly half of the UGF budget. This includes K-12 funding above the statutory formula that is distributed according to the formula.
- Other UGF formula programs include the Alaska Pioneer Home Payment Assistance, Office of Childrens' Services Foster Care and Adoption/Guardians programs, Adult Public Assistance, Child Care Benefits, Tribal Assistance, and Senior Benefits.
- Formula programs are dictated by statute and by rates set out by the departments, often in coordination with the federal government. There is less control of the amounts through the appropriation process than for nonformula programs.

Mr. Painter thought it was useful to understand how formula programs and non-formula appropriations grew differently. In FY 25 management plan, K-12 formulas made up 29 percent of the budget, Medicaid formula made up 15 percent, and

other formulas made up 4 percent. Nearly half the current year's budget was comprised of formula programs.

Mr. Painter displayed slide 7, "K-12 Funding Legislation and Trends":

- The FY25 budget included \$174.7 million in funding above the Foundation Formula (equivalent to \$680 in the Base Student Allocation) and \$7.3 million above the Pupil Transportation formula (\$182.0 million total).
- The Governor proposed two major K-12 bills this year: SB 66 (Tribal Compacting) and SB 82 (Education Omnibus). In the House, HB 69 would increase the BSA over the next three years.
- In FY26, the projected K-12 formula amount went down by \$28.7 million UGF, primarily due to a lower student count. Based on the Department of Labor's demographic projections, this may continue over the next several years.

Mr. Painter highlighted a table at the top of the slide that showed the cost of three K-12 funding bills. He highlighted that HB 69 was moving through the other body and would increase funding by an estimated \$325.6 million in FY 26, with larger amounts in the following two years for a total of nearly \$1.5 billion above the current formula across the three years. He discussed the governor's two separate education bills, including SB 82 the "education omnibus" bill. He detailed that SB 66 was related to tribal compacting and had a significant fiscal note with \$17.45 million in FY 26 and \$12 million in the out years. The omnibus bill was \$116 million in FY 26 and over \$181 million in FY 27. The big jump in expense was for a teacher bonus program that would start in FY 27. While the governor did not have K-12 outside the formula funding in his budget, he was introducing bills that would equate to about a combined \$193 million in FY 27 if implemented.

Mr. Painter relayed that that the next few slides would address the trends in the existing funding. He cited that in the current year the projected K-12 formula amount went down by \$28.7 million. The biggest reason was lower student count. He noted that demographic projections from the Department of Labor and Workforce Development (DLWD) expected the trend to continue. He made note of increased required local contribution due to rising property values,

which would decrease the state's contribution. Another factor was federal impact aid.

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Mr. Painter highlighted slide 8, "Student Count (ADM), FY11-26," which showed a bar graph. The blue portion of the bars signified students in "brick and mortar" schools, while the red portion denoted correspondence students. He directed attention to the total average daily membership (ADM), which peaked in FY 17. Since FY 26, the state was down 4.3 percent. There were very different trends between the student types, with correspondence increasing by over 86.6 percent since FY 17. The non-correspondence students decreased by 13.7 percent.

Mr. Painter continued that the change in student type had accelerated during the Covid-19 pandemic, but the trend began prior to the pandemic. He pointed out an increased multiplier for correspondence students in FY 15. He thought it was significant due to the fact that correspondence students were funded differently than non-correspondence students. The move to correspondence meant less money to school districts. He considered that analysis was complicated by the differing student types. The BSA could go up but less funding might be available due to a change in the type of students.

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Co-Chair Hoffman thought analysis was further complicated by the fact that less students were attending brick-and-mortar schools, and many districts faced the problem of not enough students in schools and subsequent school closures.

Mr. Painter thought Co-Chair Hoffman made a great point and cited that 18 districts were under the hold harmless provision because of experiencing a five percent drop in brick and mortar schools. He noted that the change was a long-term trend and noted that in FY 15 there were 20 districts under the hold harmless provision. He noted that the impact currently was greater because the reduction was happening in larger population districts. He thought the change could be accelerating but it was not a new problem.

Mr. Painter looked at slide 9, "K-12: Impact of Factors per Non-Correspondence ADM, FY11-26," which showed a bar graph

depicting the impact of formula adjustments on different adjustments to the ADM. He relayed that the legislature had changed the statutory factors a number of times to change what the multipliers were, most notably between FY 09 and FY 13. Even though the factors had not changed since FY 13, the impact of the factors had increased.

Mr. Painter described the factors/multipliers to achieve an adjusted ADM (AADM). He summarized that in FY 26 the schools would receive 16.5 percent more with the same BSA because of changes in the factors. He thought one notable item was the rise of special education intensive students, which had risen by 11,000 by FY 15. The change was significant because the students each counted as 13 times the regular BSA, which influenced the amount of money districts received. He made note of shifting cost structures in districts, and explained that special education student funding had requirements and the students incurred higher expenses.

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Senator Kaufman asked if there were studies that showed what drove the increase in intensive special education student numbers.

Mr. Painter relayed that the Department of Education and Early Development (DEED) had put out a request for proposals (RFP) the previous fall for a contractor to look into the issue.

Co-Chair Hoffman explained that the factors related to the foundation formula may change, but the formula remained the same.

Mr. Painter thought the multiplier of 13 for intensive special needs students had been changed a couple of years prior to the bill in FY 15. He affirmed that the multiplier had not changed in over a decade, but the number of students the multiplier affected had changed.

Mr. Painter addressed slide 10, "Medicaid UGF Funding":

- From FY15 to FY18, Medicaid spending declined primarily due to Medicaid reform efforts.

- Due to a temporarily higher FMAP and reduced utilization during the COVID-19 pandemic, spending dropped even further in FY20 and FY21.
- As the enhanced FMAP has gone away and utilization has returned to normal, spending has increased. Based on DOH's 12/15/25 projection, the FY26 need is \$134.2 million (21.9%) higher than FY23.

Mr. Painter addressed the graph on slide 10, which showed the Unrestricted General Funds (UGF) for Medicaid going back to FY 15. He noted that the graph showed actuals rather than budgeted numbers that were projected. He observed a rise in FY 19, then a drop during the Covid-19 pandemic. Since that time, the number had gone up significantly. Based on the projection, the FY 26 budget would be nearly 22 percent higher than the FY 23 budget for Medicaid. The item was a significant cost driver in the budget.

[9:50:57 AM](#)

Mr. Painter advanced to slide 11, "Non-formula Agency Operations":

- Non-formula agency operations were relatively flat from FY17 through FY22, after significant reductions. Since FY22, they have increased by \$498.6 million (25.8%), an average annual growth rate of 5.9%. Inflation over that period was a cumulative 18.0%.
- Cost drivers include health insurance costs, employee pay, inflationary impacts on commodities and services costs, and program expansion. In addition, temporary COVID funds offset some general fund expenditures from FY21-23.
- The impact of the statewide salary survey are unknown. UGF funding for executive branch salaries are about \$661 million in FY25, so each 1% of across-the-board salary increases costs about \$6.6 million.

Mr. Painter noted that agency operations had grown faster than inflation over the past few years. He mentioned that some of the program expansion was opening things that had been previously closed due to downward pressure on the budget. He mentioned increased funding for state aircraft and vehicles that had been able to be reduced temporarily. He noted that there were still some significant federal

funds that were offsetting general fund expenditures, mostly for AMHS. The funds were temporary. He noted that expenditures were reappearing for items that had been temporarily funded by Covid funds that had now diminished. He used the example of airport funding. He discussed the potential scale of salary increases.

[9:54:25 AM](#)

Mr. Painter looked at slide 12, "Statewide Items":

- State Assistance to Retirement (PERS and TRS) is projected to increase from \$220.0 million in FY26 to \$284.4 million in FY27 based on the June 30, 2023, valuation.
  - The draft June 30, 2024, valuation indicates that the actual rate may go down based on positive investment performance in FY24, so the true increase will likely be less than that.
- State debt payments are expected to stay flat, but school debt reimbursement is projected to go down based on established school debt.
  - The moratorium on new debt is scheduled to end on July 1, 2025. The fiscal impact of this is unknown, but it would likely impact debt reimbursement amounts starting in FY27 and REAA fund capitalization amounts in FY28.
  - LFD fiscal modeling typically assumes \$7.8 million per year of new debt based on historical averages. However, the true amount could be higher due to pent-up demand or could be lower due to the State's history of not always making full payments.

Mr. Painter commented that many statewide items were driven by external formulas. He noted that the governor's education omnibus bill proposed to extend the moratorium on school debt reimbursement by several years. He discussed the potential of new debt after FY 27. He noted that several municipalities had significant impacts after school debt reimbursement was vetoed. He highlighted that the future debt was an uncertainty in budget projections going forward.

Co-Chair Hoffman pondered a hypothetical school with an approved \$50 million voter-approved debt. He asked what

percentage the state was obligated to pay under current law.

Mr. Painter relayed that depending upon the qualifying features of the project, the amount was 40 percent or 50 percent.

Co-Chair Hoffman commented that it was substantial for the state to be responsible for 50 percent of the \$50 million school.

Mr. Painter noted that the obligation would include interest, which could be sizable even with a low interest rate.

[9:58:52 AM](#)

Mr. Painter showed slide 13, "Deferred Maintenance":

- In FY25 the State had a \$2.4 billion deferred maintenance (DM) backlog.
- The University of Alaska accounted for over \$1.5 billion (63%) of that, in part due to more rigorous standards for tracking maintenance issues than the rest of the executive branch.
- Based on an estimated \$9 billion asset value (as of 2022, excluding the University) if Alaska spent 2% of that on the backlog, we would need to spend \$180.0 million on deferred maintenance. The Governor's FY26 budget has \$20.0 million in statewide the deferred maintenance appropriation and \$6.0 million for Public Building Fund deferred maintenance.
  - This does not account for the eventual need to replace aging specialized facilities, such as Pioneer Homes and prisons. These large projects could potentially be handled through bonding.
  - It also does not account for line-of-business technology systems, which need to be replaced as technology changes. The Governor's FY26 budget includes \$19.5 million for IT projects.
  - It also does not account for school construction and major maintenance.

Mr. Painter noted that OMB had just sent an updated deferred maintenance list. He discussed a review of deferred maintenance evaluations. He pondered how much deferred maintenance should be funded and made note of the

deferred maintenance backlog. He noted that deferred maintenance could not be handled through bonding, although facility replacement could be. He discussed the need for budgeting for IT projects. He mentioned DEED's separate list of school construction and maintenance.

Mr. Painter referenced slide 14, "FY25 Deferred Maintenance by Agency," which showed a bar graph showing deferred maintenance backlog amounts by agency, not including the University. The graph was from a new list from OMB. He pointed out that the Department of Transportation and Public Facilities (DOT) had the two largest items with its own agency facilities and \$210 million for Public Building Fund facilities, which was up considerably. There were other agencies with significant amounts of deferred maintenance backlogs including the Department of Natural Resources (DNR), particularly in the Parks Division, with public cabins. He highlighted the Department of Corrections (DOC), with most of its prisons built in the previous century. He highlighted the Department of Family and Community Services (DFCS), which had pioneer homes built in the 1980s and even one in the 1930s.

[10:04:56 AM](#)

Mr. Painter turned to slide 15, "Operating Budget Federal Funding Outlook":

- The federal funding outlook is uncertain for programs like Medicaid due to proposed budgetary changes by Congress. The House indicated up to \$880 billion of cuts to Medicaid and SNAP. One discussed change is reducing the FMAP for the Medicaid expansion population to the regular Medicaid rate. We estimate that would cost Alaska around \$250 million.
- The Alaska Marine Highway System's (AMHS) operating budget in FY26 includes \$76.5 million of federal authority for the fourth of five years of federal grants under the Infrastructure Investment and Jobs Act (IIJA).
  - The actual amount of the federal grant for FY26 is not yet known, and will likely not be known until after the legislative session.
  - In FY28, if that federal funding is not extended, general funds would have to supplant those federal funds to avoid a service reduction.

Mr. Painter discussed proposed budgetary changes to Medicaid by Congress. He noted that Medicaid expansion currently covered over 70,000 people, at a 90 percent federal reimbursement rate that cost the state around \$50 million. If the reimbursement rate went down to the regular 51.5 percent rate, there would be a significant change in the state's budget. He discussed timing of federal grants. He noted that the federal government was known to be currently holding back grants. He discussed plans to save AMHS funds, which had later been expended for ongoing maintenance. Income was lower than expected due to decreased sailings. He had attended a DOT finance subcommittee meeting and seen a projected balance of the AMHS Fund that was negative in FY 27. He thought there was significant uncertainty the legislature might have to address in the next few years.

[10:08:40 AM](#)

Mr. Painter considered slide 16, "Capital Budget Federal Funding Outlook":

- AEA's Grid Resilience and Innovation Partnership (GRIP 1) project requires \$143.0 million of State match from FY27-32. In FY26, the Governor's budget requests \$1.5 million. If spread evenly, this remaining cost would amount to \$23.8 million per year in the future.
  - The federal funds for this project have been frozen by President Trump's administration.
- IIJA increased capital funds available for DOT's highways and aviation, AEA's renewable energy projects (although these funds have been frozen), and DEC's Village Safe Water program. When IIJA expires in FY27, it is unclear whether the higher funding levels will continue.

Mr. Painter noted that the state had not received the grant for Alaska Energy Authority's (AEA) GRIP 2 funding. The GRIP 1 project was on hold due to frozen funds. There was \$1.5 million in the governor's FY 26 budget for a portion of the matching funds. The plan had been to come up with the matching funds over time, and there was \$143 million of matching funds that needed to come in future years. He noted that there had been discussion about bonding and other means to cover the cost of the matching funds. The project outlook was unclear. He made note of a 20 percent

increase in highway funds, but a larger than 20 percent increase in costs.

[10:11:09 AM](#)

Mr. Painter displayed slide 17, "Long-Term State Needs," which showed a table of items including the deferred maintenance backlog, school major maintenance, school construction, the Harbor Matching Grant, the Renewable Energy Fund, the top 25 Bulk Fuel Projects, Rural Power System Upgrades, and pension past service liability. He highlighted \$7.1 million for the Harbor Matching Grant but noted that harbor projects tended to come up throughout the year, so the amount was not the whole long-term need. The Bulk Fuel and Rural Power System Upgrades were both ongoing with a mix of federal and state funds. The amount of funds in the governor's budget was a 50/50 split with federal and state matching funds. He specified that \$7.4 pension past service liability that was amortizing through FY 39 and was an ongoing cost in the budget.

Mr. Painter highlighted slide 18, "FY25 Supplemental Budget":

- Before supplementals, there is an \$81.5 million deficit in FY25 based on the Fall 2024 Revenue Forecast.
- The Governor's UGF supplementals so far total \$97.5 million.
- Additional supplemental items are expected in DOC and for Fire Suppression but have not yet been received.
- The legislature did not enact any deficit-filling language for FY25 last session. The Governor proposes filling the deficit from the CBR.

Mr. Painter explained that the governor had a fast-track supplemental bill, a regular supplemental bill, as well as supplemental items in the governor's operating budget itself. It was unclear the vehicle the legislature may use to fund supplementals, but he thought in either case there was some need to fill a deficit in the current year.

[10:14:39 AM](#)

Mr. Painter looked at slide 19, "Senate Finance FY26 Budget Scenario":

- The Senate Finance Co-Chairs requested a scenario to envision what the final FY26 budget could look like. This does not reflect final decisions and is illustrative only.

Mr. Painter clarified that the committee's budget scenario was not intended to reflect how much money the committee wanted for things, but to illustrate how large the budget may end up.

[10:15:11 AM](#)

Mr. Painter addressed slide 20, "SFIN FY26 Budget Scenario," which showed a table of the budget scenario for FY 26. He highlighted the UGF revenue forecast, which after subtracting the governor's operating budget and fund transfers left about \$1.26 billion to spend on other items. There was \$19.6 million factored into the scenario for a Medicaid projection. There was a placeholder in the amount of \$29.4 million for new contracts that was not a part of the governor's amended budget yet. The amount was based on assuming a 3 percent increase for 9 labor unions that were up for contract renewal. He thought the actual number could be significantly higher or lower.

Mr. Painter noted that the co-chairs had requested the inclusion of a \$680 BSA increase, whether inside the formula or outside. The amount was slightly lower than the previous year due to a lower student count. Additionally, the co-chairs requested \$7.3 million for pupil transportation to match the previous year. For community assistance, the scenario reflected \$6.7 million. The total distribution to communities would add up to \$30 million.

Mr. Painter continued to address items in the budget scenario, including \$10 million for childcare. The one-time item was \$7.5 million the previous year, and there were expiring federal funds. For fire suppression, the \$27.7 million increase above the governor's budget was reflective of an average year of usage of fire suppression activity. He noted that the governor's budget now included four different appropriations into the Disaster Relief Fund, with the governor's amended budget and three different supplementals and an appropriation in FY 26.

Mr. Painter highlighted line 12 of the budget scenario, which reflected \$10 million in AMHS backstop funds to match FY 25. There was also an increase to \$76.5 million in FY 28 to account for the anticipated end of IIJA funding for the item. For the capital budget, the assumption was \$300 million. The governor's capital budget was \$282.4 million, and the governor's amended budget increased the amount by \$11.6 million for a total of \$293 million. He considered the scenario just rounded up the governor's budget.

Mr. Painter continued that there were zero dollars for legislative additions in the budget scenario, to reflect that there were not necessarily district projects included. There was \$50 million added for various deferred maintenance, school construction and major maintenance, and University deferred maintenance appropriations on top of the governor's budget; which would total \$350 million for the capital budget between the two combined items. There was a placeholder of \$20 million for 'other changes' which could include the salary study or other unknowns. He noted that the governor's budget included only \$12.4 million of increases without the Medicaid item accounted for in line 4.

[10:20:05 AM](#)

Mr. Painter looked at line 18 of the budget scenario, which showed a PFD amount of \$950 million. The amount was 25 percent of the POMV draw and would pay an estimated \$1,419 per recipient. In total, all the additions in lines 4 through 18 added up to \$1.6 billion and left a deficit of \$347 million. If the budget added a placeholder for future supplementals of \$50 million, it would add up to deficit in FY 26 of \$397 million.

Co-Chair Hoffman thought the two items that had received the most discussion throughout the building were line 6 (a \$680 BSA increase that was a status quo amount), and line 18 (the 75/25 PFD, which was also the status quo from the previous year). He commented that the committee had asked what the FY 26 budget would look like reflecting the decisions from the previous year. He commented that more importantly, if the legislature adopted the budget the people of the state had expected the previous year, there would be a \$400 million deficit, showing the gap the state would have with a status quo budget as compared to FY 25.

[10:22:13 AM](#)

Co-Chair Stedman asked to go back to slide 17 and the table on long-term state needs. He shared a concern about pension past service liability for \$218 million. He thought regardless of other bills in circulation, the state would have to spend about two and a half times the \$218 million in order to pay off the liability by 2039. He thought an earlier slide had mentioned the \$218 million going up to \$260 million or \$280 million. He thought the concern needed to be expressed to the Alaska Retirement Management (ARM) Board that the liability had not gone down in a decade. He hoped that over the following months the discussion would take place with the ARM Board. He commented on the magnitude of the amount of unfunded liability and lamented the inability to move the liability down to free up some needed cash flow. He pondered that the state might not be struggling with the BSA if the liability had been gotten under control.

Mr. Painter advanced to slide 21, "FY26-28 SFIN Scenario":

- Assumes existing schedules for statewide items, adds \$7.8m placeholder for new school bond debt starting in FY27.
- Agency operations and the capital budget grow with inflation (2.5%) over FY26 levels (from scenario on previous page).
- \$50.0 million supplemental budget placeholder in FY26 and beyond.

Co-Chair Hoffman commented on the second bullet point and thought agency operations and capital budget growth had been in the double digits in recent years. He thought the inflation number was very conservative.

Mr. Painter thought a previous slide showed that agency operations had grown faster than inflation over the past few years, and inflation had been higher than 2.5 percent as well.

Co-Chair Stedman clarified that the growth had not been equally spread across agencies and mentioned the Department of Health, the Department of Corrections, and the Department of Public Safety as having had the most growth.

Mr. Painter agreed.

10:26:03 AM

Mr. Painter looked at slide 22, "SFIN FY25-28 Scenario," which showed a table with budget scenarios for FY 25 through FY 28. He addressed supplementals on line 13 and noted that there was a placeholder of \$50 million for FY 25. He pointed out that the governor's current supplemental request was at \$84.2 million, which had not been anticipated when the scenario was created. He thought the \$139 million budget deficit could be significantly larger depending on the governor's amended supplemental budget. For FY 26 there was a projected \$397 million deficit as shown on the previous page. The table showed items growing with inflation for FY 27, and the agency operations and capital budget (including the 75/25 PFD) still going forward. The state would end up with a \$436 million deficit in FY 27, which jumped up \$582 million in FY 28. The amount jumped up in part to the assumption that AMHS funds would go away that year.

Mr. Painter thought Co-Chair Hoffman had wanted to point out that the current legislature had to deal with the FY 25 deficit in addition to the FY 26 deficit. The combined deficit was \$536 million across two years.

Co-Chair Hoffman thought the slide reflected the point that there was a trend of increased deficit that was substantial under status quo assumptions. He considered that if the legislature was to turn the trend around, there would have to be major reductions or increased revenue. He clarified that the committee did not propose to use the CBR, primarily it was for "rainy day" expenditures. He wanted to impress upon people the magnitude of the deficit in the current year. There were assumptions made for FY 26 through FY 28, but the state needed to determine what level of services it wanted, including for education. He emphasized that the state was going to meet its obligations, it needed to consider new revenues.

10:30:15 AM

Co-Chair Stedman agreed with Co-Chair Hoffman's comments. He commented on line 13 and supplementals. He thought the number had changed by \$20 million between lunch time and dinner time the previous day.

Mr. Painter affirmed that LFD had received the governor's amended budget the previous evening, which had included some significant increases for supplementals. One notable increase was an additional \$11 million for the Disaster Relief Fund, on top of the two existing appropriations the governor had for the fund in FY 25. Some supplementals were anticipated, such as funds for fire suppression (that were a little larger than anticipated), and funds for DOC. There were more items than were built in than before LFD had seen the amendments. He thought OMB would be before the committee to present the amendments in detail. He noted that he had not looked at the items in depth as of yet.

Co-Chair Hoffman commented that the legislature had an obligation to pass a balanced budget.

Senator Kaufman thought reductions were needed.

#

ADJOURNMENT

10:32:43 AM

The meeting was adjourned at 10:32 a.m.