

SENATE FINANCE COMMITTEE
February 24, 2025
9:00 a.m.

9:00:59 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:00 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

Jane Pierson, Staff, Representative Louise Stutes; Lacey Sanders, Director, Office of Management and Budget; Senator Cathy Giessel.

SUMMARY

HB 65 RAILROAD CORP. FINANCING

HB 65 was REPORTED out of committee with six "do pass" recommendations and one previously zero fiscal note: FN 1 (CED).

OFFICE OF MANAGEMENT and BUDGET: GOVERNOR'S AMENDMENTS

#hb65

HOUSE BILL NO. 65

"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."

[9:02:54 AM](#)

Senator Cronk MOVED to ADOPT Amendment 1, 34-1S0448\A .2, Walsh, 2/17/25 (copy on file):

Page 1 , line 3, following "Alaska;":

Insert "authorizing the Alaska Railroad Corporation to issue revenue bonds to 3 finance the completion of the Port MacKenzie Rail Extension in Point MacKenzie, Alaska;"

Page 2, following line 7:

Insert a new bill section to read:

"* Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to 9 read:

LEGISLATIVE AUTHORIZATION AND APPROVAL. (a) The Alaska Railroad I l Corporation is authorized to issue revenue bonds under AS 42.40.250 to finance the completion of the Port MacKenzie Rail Extension in Point MacKenzie, Alaska, and associated costs, including, without limitation, reserves for debt service and capitalized 14 interest, if necessary or appropriate, and costs of issuance. The maximum principal amount of bonds that the Alaska Railroad Corporation may issue under this section is \$58,000,000. The Alaska Railroad Corporation may issue the bonds in a single issuance or in several issuances, without limitation as to number of issuances or timing, and as the Alaska Railroad Corporation determines best furthers the purpose of financing the extension of the Alaska 19 Railroad Corporation's rail from Point MacKenzie, Alaska, to Houston, Alaska, and associated costs. The bonds shall be repaid from revenue or other funds available to the Alaska Railroad Corporation. The general credit of the Alaska Railroad Corporation and the state may not be pledged for the repayment of the bonds.

(b) The authorization under (a) of this section extends to bonds issued to refund the

-1- Drafted by Legal Services

34-LS0448\A.2 bonds authorized in this Act. The principal amount of the bonds authorized in this Act may be 2 increased in an issue of refunding bonds in an amount equal to the costs of refunding.

(c) This section constitutes the approval required by AS 42.40.285 for the issuance of 4 the bonds described in this section.

(d) The bonds authorized to be issued under this section are issued by a public 6 corporation and an instrumentality of the state for an essential public and governmental 7 purpose.

(e) In this section, "bond" means a bond, bond anticipation note, note, refunding bond, or other obligation."

Renumber the following bill section accordingly.

Senator Merrick OBJECTED for discussion.

[9:03:09 AM](#)

Senator Cronk explained the amendment.

Senator Cronk WITHDREW the AMENDMENT.

[9:04:15 AM](#)

JANE PIERSON, STAFF, REPRESENTATIVE LOUISE STUTES, thanked the committee.

[9:04:53 AM](#)

Co-Chair Stedman explained the fiscal note.

[9:05:26 AM](#)

Co-Chair Stedman MOVED to REPORT HB 65 from committee with individual recommendations and attached fiscal note. There being NO OBJECTION, it was so ordered.

[9:05:46 AM](#)

AT EASE

[9:05:52 AM](#)

RECONVENED

HB 65 was REPORTED out of committee with six "do pass" recommendations and one previously zero fiscal note: FN 1 (CED).

[9:06:15 AM](#)

AT EASE

[9:07:52 AM](#)

RECONVENED

^OFFICE OF MANAGEMENT and BUDGET: GOVERNOR'S AMENDMENTS

[9:08:16 AM](#)

LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, (OMB) discussed "FY2026 Governor Amended Budget" (copy on file). She looked at slide 2, "FY2026 Updated Fiscal Summary." She stated that the most recent amendments from the governor's office were sent on February 18, 2025. She relayed that the slide showed an updated fiscal summary that incorporated the amendments, which included FY2025 Supplemental Requests and FY2026 budget amendments. She stated that FY2025 Operating Supplemental requests submitted totaled \$40 million in All Funds, of which \$36.2 million was Unrestricted General Funds (UGF). The amendment increased the total for Operating Supplementals to \$453.2 million, of which \$83.7 million was UGF. She spoke to the Capital Supplementals, which totaled a reduction of \$1.9 million, but an increase of \$500,000 UGF. The total for Capital Supplemental was \$74.3 million, \$500,000 of which was UGF. The total of all Supplementals submitted was \$522 million, \$84.2 million in UGF. The overall deficit for 2025 was approximately \$157 million.

Ms. Sanders spoke to the Operating Budget Amendments. She shared that for FY2026 the Operating Budget amendments submitted totaled \$300 million in All Funds, and \$32 million in UGF. The Operating Supplementals totaled \$12 million, an increase of \$11.6 million in UGF. The total for amendments was \$312 million, of which \$43.9 million was UGF. She noted the bottom of the slide which showed the total overall deficit for FY2026 totaling \$1.56 billion.

[9:11:26 AM](#)

Co-Chair Hoffman interjected that Ms. Sanders had misspoken, calling the Operating Budget the Capital Budget.

[9:11:27 AM](#)

Ms. Sanders clarified that she was discussing the Operating Budget amendments. She stated that the total of all amendments was \$312 million. Operating amendments totaled \$300 million and Capital Budget amendments totaled \$12 million.

[9:11:46 AM](#)

Co-Chair Stedman asked for more clarity about the second line on the slide, "POMV ERA Draw For Government". He asked where the Permanent Fund Dividend was located on the slide.

[9:12:06 AM](#)

Ms. Sanders replied that the second line on the chart showed revenue available for appropriation.

[9:12:40 AM](#)

Co-Chair Stedman asked whether the line reflected the operating expenditures of the permanent fund.

[9:12:46 AM](#)

Ms. Sanders replied that the permanent fund appropriation was the Permanent Fund Dividend, and the line showed the amount that would be appropriated in 2026 and showed a full statutory dividend.

[9:13:03 AM](#)

Co-Chair Stedman thought that the label could be confusing for the public. He asserted that the POMV draw was a draw into the general treasury to be disbursed. He thought it would be helpful if expenditures were clearly delineated.

[9:13:59 AM](#)

Co-Chair Hoffman clarified that the percent of market value (POMV) draw was the 5 percent maximum and was not overdrawing the fund.

[9:14:12 AM](#)

Ms. Sanders agreed.

[9:14:22 AM](#)

Ms. Sanders looked at slide 3, "Operating Governor Amend Requests." The slide encompassed the governor's Operating Budget requests by department. She highlighted each department She said that the amendments incorporated the changes for the implementation of EO 136, which would establish the Department of Agriculture. There were two pieces to the request: the transfer of the existing 37 positions and \$2.7 million from the Department of Natural Resources, and new funding of \$2.7 million for 13 new positions and start-up costs. There were two requests from the Department of Administration of Artificial Intelligence (AI) initiatives. The first was offering Microsoft 365 Co-Pilot to 2,000 state employees, and two short term AI projects - one in the Department of Environmental Conservation to improve forms and permitting processes, and a second in the Department of Administration to improve payroll processes. Two significant adjustments were shown under the Department of Corrections: a \$4.1 Million increase for Community Residential Centers and a technical correction related to Restorative Justice funds of \$5 million. She noted changes to the Department of Education budget for the Alaska Performance Scholarship and Alaska Education Grants. She continued to the Department of Environmental Conservation, which contained a new item for the Clean Water Act Section 404 Dredge and Fill Permitting Program totaling \$1.4 million. She furthered that in the Department of Health, the updated Medicaid projections brought an increased need \$19.6 million UGF and \$220 million in anticipated federal receipts. She noted two additional items in Public Assistance, one for \$8.2 million - \$4.1 UGF and \$4.1 federal receipts, and another for administrative work totaling 1.6 million - \$814.9 UGF and \$814.9 in federal receipts. She spoke to changes in the budget for the Department of Natural Resources associated with the EO 136 transfer from the Department of Natural Resources to the Department of Agriculture. She highlighted the in the Department of Public Safety there was a request for \$1.6 million to increase a grant to the Northwest Arctic Borough Public Safety Office Program.

[9:21:37 AM](#)

Ms. Sanders remarked that there were many pages of transactions that showed a net zero that reflected changes to address intend language added the previous year by the

legislature and adhered to AS 37.07.020(e) and reflected annual facility maintenance operations and repairs throughout the university's budget structure. She concluded that there were two technical adjustments in Debt Services and Fund Capitalization, both changes aligned the Public School Trust fund with the Fall Revenue Forecast as well as a technical adjustment in the calculation for community assistance through the Power Cost Equalization Program.

[9:22:40 AM](#)

Co-Chair Hoffman announced that the amendments would be submitted to the budget subcommittees for consideration. He commented that the state was currently in deficit spending and the committee did not plan to use the Constitutional Budget Reserve (CBR) to pay for the substantial increase to a budget already in deficit. He spoke to \$680 increase for the Base Student Allocation and the 75/25 split for the Permanent Fund Dividend and the need to address the already \$500 million deficit. He asserted that the state could not spend money it did not have.

[9:24:12 AM](#)

Senator Kiehl asked about the request for funding for AI to improve functionality of the payroll system. He understood that the current payroll system involved three manual steps and had heard that the attempt to digitize timesheets instead of printing them had been shelved. He wondered how the state was going to get AI to help with manual processes.

[9:25:04 AM](#)

Ms. Sanders replied that there were many improvements that needed to be made surrounding the payroll processes. She said that connecting the paperwork for new employees to the payroll system was cumbersome and incomplete. She believed that automation would streamline the process.

[9:26:10 AM](#)

Senator Kiehl agreed that reducing manual entry and paper forms was a good goal but argued that AI was not the tool to make the process more efficient.

[9:26:32 AM](#)

Senator Kiehl asked about the DEC supplemental request for 404 Primacy. He recalled that there had been policy discussion about whether the state should pay for the work. He wondered why the item was a supplemental and not a regular budget funding request.

[9:27:09 AM](#)

Ms. Sanders clarified that the request was an FY2026 request and not a supplemental request.

Co-Chair Hoffman said that the line item had been addressed in the past and subsequently denied.

[9:27:32 AM](#)

Co-Chair Stedman wondered why the administration would come forward with additional expansions, such as the proposed Department of Agriculture, given the size of the deficit.

[9:28:10 AM](#)

Ms. Sanders relayed that the administration had grappled with the budget for several years. She felt that the changes that would appropriately stand up the new department needed to be brought before the committee. She said it was her job to bring the requests before the committee.

[9:28:53 AM](#)

Co-Chair Stedman thought that expansion of state services could be investigated when there was additional revenue, but that this was not the current situation.

[9:29:16 AM](#)

Co-Chair Hoffman agreed.

[9:29:45 AM](#)

Ms. Sanders addressed slide 4, "Capital Governor Amend Requests." She highlighted the two items under the Department of Commerce, Community, and Economic Development. The first was federal receipt authority for the Alaska Energy Authority (AEA) Statewide Grid Resilience

and Reliability Project, which was receiving an additional \$2.7 million of federal funds. The second was the request for \$600 thousand that would provide three organizational grants if a municipality was created under statute. She noted a \$1.5 million request for Mount Edgecumbe High School under the Department of Education and Early Development for installation of an elevator to meet Americans with Disabilities (ADA) compliance. She said the in the Department of Natural Resources there was a National Historic Preservation Fund request for federal matching funds. She spoke to the request for the Department of Public Safety for the Fairbanks Post Remodel Evidence Building and Site Work completion totaling \$6.2 million. She ended with a \$2 million capital project for State Managed Seaplane Base and Harbor Facility Funding.

[9:32:44 AM](#)

Co-Chair Stedman asked about the DOT&PF harbor project. He shared that the state subsidized a handful of small harbors that produced no revenue. He said that the issue could be examined in subcommittee.

[9:34:12 AM](#)

Co-Chair Stedman spoke to the elevator at MEHS. He asserted that the problem had existed for over a decade and wondered why the request had taken so long.

Ms. Sanders replied that in previous years classes had been relocated to accommodate students that needed to use the elevator. She said that the number of students that needed the elevator had increased and now also included faculty.

Co-Chair Stedman requested the maintenance list for MEHS for the last several years. He wanted to see when the elevator had first appeared on the list. He stated that maintenance funds had been added by the committee in the past for maintenance at the school, which had been subsequently vetoed. He furthered that there were maintenance issues at the Fairbanks Pioneer home that should be addressed. He wondered about the administration's long-term view for the home.

[9:36:41 AM](#)

Ms. Sanders replied that the home was on the administration's radar. She lamented that the cost to replace the home exceeded available funds. She assured the committee that the home was operating and housing residents and was still a topic of conversation by the administration.

[9:37:26 AM](#)

Co-Chair Hoffman noted that CO-Chair Steman was the Chair of the Capital Budget and would be bringing the issue back to the table.

[9:37:43 AM](#)

Ms. Sanders pointed to slide 5, "Operating Supplemental Requests." The first item on the slide was under the Department of Commerce, Community, and Economic Development and was a reversal of the \$50 million UGF request in the Fast track Supplemental for AIDEA's backstop. Under the Department of Corrections there was an addition of \$7.5 million dollars, a fund source change from federal receipts to UGF funds for federal man day billings. The addition would be reflected in the FY2026 budget and was the result of changed made by U.S. Marshalls resulting in less federal man days that reduced collections for both FY2025 and FY2026. She continued to the item under the Department of Family and Community Services, which was also requested in the FY2026 budget, \$3 million to ensure continued operations at the Alaska Psychiatric Institute. She discussed the \$5.9 million listed on the Department of Health (DOH) line and the Special Appropriations line. The DOH had been recently notified by the federal Department of Agriculture that the state's 2023 error rate for the Supplemental Nutrition Assistance Program (SNAP) program had been insufficient, which resulted in an \$11.9 million penalty. The penalty could be split, with half of the funds being invested in new investments within the department. The DOH funds would be used for one-time technology improvements and the Special Appropriation would go from the Department of Law to the U.S. Department of Agriculture. She said that this was a reappropriation and had a different tracking code due to a 2021 cyberattack, which was no longer a threat.

[9:42:43 AM](#)

Senator Kiehl asked about the \$10 million encumbered for liability on the cyberattack.

Ms. Sanders said it was a combination of the \$5.9 that would be reinvested in DOH IT related project, and \$5.9 that would be paid under Special Appropriations. She said the \$10 million was still available.

[9:43:25 AM](#)

Senator Kiehl remarked that the state could get some value out of half of the penalty. He said that when DOH had previously been before the committee he had asked about the risk of federal penalties related to SNAP and had been assured that the resources would fix the problem and that the state would not face federal penalties.

[9:44:20 AM](#)

Ms. Sanders replied that she had not been a part of those conversations. She said that the department knew about the backlog in 2023 and had worked to address the backlogs with one-time appropriations. She reiterated that the backlog had resulted in the penalty. She offered to ask the department to follow up with the committee.

[9:44:55 AM](#)

Co-Chair Hoffman noted that the current administration had made the SNAP comments, and it would be appreciated if the committee could get an answer on the matter. He stressed that the committee relied on useful responses from the Dunleavy Administration to do their work.

[9:45:26 AM](#)

Senator Kiehl asked whether the administration had decided to bear the penalties rather than try to fix the backlog problem.

[9:46:04 AM](#)

Ms. Sanders replied that she did not have the paperwork in front her but would follow up with the committee. She stated that the notification allowed for the \$11.9 million penalty but did not allow for the prior investment to be included.

[9:46:59 AM](#)

Ms. Sanders continued to discuss slide 5. She noted the item for the Department of Labor and Workforce Development. She said that there were several items throughout the budget for the supplemental that adjusted the Technical Vocation Education Program distribution. She said that in the FY2025 budget, appropriation for the TVEP program were in the numbers section of the bill, which required OMB to bring forth supplementals based on what was available for grants. In 2026 the appropriations would be in the language section so that they did not need to come before the committee each time the estimate was adjusted. She noted the \$1 million request in the Department of Law for contracting for assistance with negotiation of bargaining unit agreements. She moved to Fund capitalization, which was an additional \$11 million for Disaster Relief.

[9:50:51 AM](#)

Ms. Sanders explained slide 6, "Capital Supplemental Requests." She noted that the two items were both within the Department of Commerce Community and Economic Development, one for the Blood Bank of Alaska to finalize their doner testing laboratory, and a technical correction for Alaska Oil and Gas Conservation Commission's data management project.

[9:52:11 AM](#)

Ms. Sanders thanked the committee. She remarked that there were two spreadsheets in the backup and was available for questions.

[9:52:46 AM](#)

Co-Chair Hoffman discussed committee business.

#

ADJOURNMENT

[9:53:16 AM](#)

The meeting was adjourned at 9:53 a.m.