

SENATE FINANCE COMMITTEE
March 10, 2025
9:00 a.m.

9:00:51 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 Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair

ALSO PRESENT

Senator Bill Wielechowski, Sponsor; David Dunsmore, Staff, Senator Wielechowski; Savaya Bieber, Staff, Senator Jesse Bjorkman; Alexei Painter, Director, Legislative Finance Division; Senator Cathy Giessel.

SUMMARY

SB 80 EXTEND BOARDS

CSSB 80(FIN) was REPORTED out of committee with five "do pass" recommendations and with one new fiscal note from the Department of Health, and two previously published fiscal notes: FY 1(CED) and FY 2(CED).

SB 113 APPORTION TAXABLE INCOME; DIGITAL BUSINESS

SB 113 was HEARD and HELD in committee for further consideration.

PRESENTATION: THREE YEAR BUDGET OULOOK UPDATE, LEGISLATIVE
FINANCE DIVISION

#sb113

SENATE BILL NO. 113

"An Act relating to the Multistate Tax Compact; relating to apportionment of income to the state; relating to highly digitized businesses subject to the Alaska Net Income Tax Act; and providing for an effective date."

9:02:31 AM

SENATOR BILL WIELECHOWSKI, SPONSOR, presented the bill. He said that the bill made two reforms to Alaska's tax apportionment system. The bill adopts market-based sourcing for calculation the portion of a taxpayer's sales that are subject to Alaska's corporate income tax and adopts a single sales factor for calculation the taxable income of highly digitized businesses. He noted that the reforms would raise funds for the state and would not change the state's corporate income tax rates. He stressed that the bill would not tax Alaskan businesses or consumers.

9:05:50 AM

DAVID DUNSMORE, STAFF, SENATOR WIELECHOWSKI, discussed a presentation entitled "SB 113 - Corporate Income Tax Modernization" (copy on file). He looked at slide 2, " SB 113 makes two reforms to bring Alaska's tax apportionment system into the 21st century":

Market-based sourcing to ensure Alaskan sales are properly apportioned to the state

Single sales factor for highly digitized businesses

SB 113 makes no changes to corporate income tax rates or brackets.

Mr. Dunsmore showed slide 3, "What is tax apportionment?"

Mr. Dunsmore referenced slide 4:

Under the Commerce Clause of the U.S. Constitution, states may only tax activity that is reasonably attributable to that state.

For taxpayers who operate in multiple states, it is necessary to determine what portion of their income can be taxed by each state.

To avoid taxpayers having to do separate accounting in each state, states have adopted mathematical formulas to determine tax apportionment.

Mr. Dunsmore turned to slide 5:

The U.S. Supreme Court has ruled that states must use "fair apportionment" to determine what is taxable by their state, requiring the system be internally and externally consistent.

Internal consistency: If all states used the same system, there would be no double taxation.

External consistency: That the value taxed is "fairly attributable" to the state.

Oklahoma Tax Comm'n v. Jefferson Lines, Inc., 514 U.S. 175 (1995)

Mr. Dunsmore considered slide 6, "Traditionally states have used an equally weighted three-factor formula for tax apportionment":

Sales Factor

The percentage of a taxpayer's sales that are made in the state

Property Factor

The percentage of a taxpayer's property that is located in the state

Payroll Factor

The percentage of a taxpayer's payroll that is made in the state

Mr. Dunsmore displayed slide 7, "The Traditional Three-Factor Corporate Tax Apportionment Formula."

Mr. Dunsmore highlighted slide 8, "Alaska is a member of the Multistate Tax Compact":

This is an advisory compact with 14 other states and the District of Columbia that promotes uniformity in tax apportionment and filing procedures.

The Commissioner of Revenue represents Alaska on the commission that governs the compact.

The 6th Alaska State Legislature codified the compact in Alaska Statutes in 1970 as AS 43.19.010 which establishes Alaska's tax apportionment laws.

The Legislature has not made any amendments to this statutory language since then.

Mr. Dunsmore looked at slide 9, "The current apportionment formula was designed for a brick-and-mortar world":

In the modern digital economy a corporation can target advertising to Alaska, sell a product through Alaska's broadband infrastructure, and ship it through Alaska's roads, ports and airports without having any property or payroll in Alaska.

SB 113 makes common sense reforms to ensure these sales are properly apportioned to Alaska.

[9:08:44 AM](#)

Co-Chair Hoffman queried the significance of the photo on slide 9.

[9:08:47 AM](#)

Mr. Dunsmore replied that he'd simply sought a good visual aide.

[9:08:57 AM](#)

Mr. Dunsmore displayed slide 10, "Market-Based Sourcing."

Mr. Dunsmore advanced to slide 11, "Currently Alaska uses a methodology called "cost of performance" to determine whether sales happened in Alaska":

- Under cost of performance, a sale is considered to happen in Alaska when "the income producing activity is performed in this state."
- This means that out-of-state corporations can argue that online sales to Alaskans do not take place in Alaska.

SB 122 replaces cost of performance with a "market-based" methodology where sales will be considered to happen in Alaska when the market for the sales is in Alaska.

Mr. Dunsmore looked at slide 12, "Under market-based sourcing a sale occurs in Alaska when":

- For sales of real property, when the property is located in the state
- For tangible personal property, when the property is located in the state
- For services, when the service is delivered in the state
- For intangible property, when it is used in the state

Mr. Dunsmore showed slide 13, "At least 36 other states already use some form of market-based sourcing."

Mr. Dunsmore showed slide 14, "Single Sales Factor for Highly Digitized Businesses."

Mr. Dunsmore turned to slide 15, "For highly digitized businesses only, the sales factor would be the only factor used for tax apportionment."

Mr. Dunsmore considered slide 16, "A business would be considered highly digitized if 50 percent or more of its Alaska sales are of":

- Intangible property delivered electronically
- Services delivered electronically
- Services related to computers, electronic transmission, or internet technology

- Tangible property purchased through the internet

Mr. Dunsmore displayed slide 17, "The three-factor formula will still be used for brick-and-mortar businesses."

Mr. Dunsmore highlighted slide 18:

Alaska has previously adopted a different apportionment formula for the oil and gas industry, because the Legislature found that the traditional formula did not fairly reflect their Alaska income.

Similarly, it is appropriate to use a different formula for highly digitized businesses, because the current formula does not fairly reflect Alaska sales.

Mr. Dunsmore looked at slide 19:

The current three-factor formula is a disincentive to high-tech businesses opening Alaska facilities

Having payroll and property in Alaska can significantly increase an online business' Alaska taxes.

Adopting a single sales factor for this industry will remove this disincentive and level the playing field between out-of-state and Alaska businesses.

Mr. Dunsmore addressed slide 20, "At least 37 other states already use a single sales factor for at least some industries."

Mr. Dunsmore advanced to slide 21, "These reforms would have little or no impact on Alaskan consumers":

Online businesses generally set their prices at the national or global level

Both market-based sourcing and single sales factor are common features of tax apportionment systems across the country

This bill does not change the tax rates or brackets at all, merely the formula for determining what income is taxable in Alaska.

[9:12:17 AM](#)

Co-Chair Hoffman asked about the effective date of January 1, 2026. He wondered why the effective date was not July 1, 2025 - the beginning of the fiscal year.

[9:12:35 AM](#)

Mr. Dunsmore replied that it was recommended that it began at the calendar year, because most corporations used a calendar year beginning January 1st.

[9:13:04 AM](#)

Senator Kaufman asked what was to prevent businesses for adding service charges for sales in Alaska.

[9:13:40 AM](#)

Mr. Dunsmore replied that there had been no evidence of businesses using tax apportionment to set prices in the state.

[9:14:13 AM](#)

Senator Kaufman thought it would be easy for businesses to set prices using tax apportionment.

[9:14:38 AM](#)

Senator Kiehl looked at slide 16. He asked how the total of Alaska sales would be reached.

[9:15:13 AM](#)

Mr. Dunsmore replied that the number would be 50 percent aggregate of all the listed criteria.

[9:16:20 AM](#)

Co-Chair Hoffman OPENED and CLOSED public testimony.

SB 113 was HEARD and HELD in committee for further consideration.

#sb80

SENATE BILL NO. 80

"An Act extending the termination date of the Big Game Commercial Services Board; extending the termination date of the Board of Massage Therapists; extending the termination date of the Marijuana Control Board; and providing for an effective date."

[9:17:44 AM](#)

SAVAYA BIEBER, STAFF, SENATOR JESSE BJORKMAN, summarized the bill. She thanked the committee.

Co-Chair Hoffman shared the names of people available for questions.

[9:19:52 AM](#)

Senator Kiehl reviewed the three fiscal notes: two from the Department of Commerce, Community and Economic Development and one from the Department of Health.

Senator Kiehl MOVED to REPORT CS SB 80(FIN) from committee with individual recommendations and attached fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 80(FIN) was REPORTED out of committee with five "do pass" recommendations and with one new fiscal note from the Department of Health, and two previously published fiscal notes: FY 1(CED) and FY 2(CED).

[9:22:26 AM](#)

AT EASE

[9:46:55 AM](#)

RECONVENED

^PRESENTATION: THREE YEAR BUDGET OULOOK UPDATE, LEGISLATIVE FINANCE DIVISION

[9:47:27 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) discussed, "Updated FY25 - FY28 Fiscal Outlook" (copy on file). He 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 addressed slide 3, "GovAmend Fiscal Summary." He noted that the numbers included the amendments that had been received through the statutory deadline. He shared that further amendments from the governor were expected by the end of the week. He relayed that before supplementals, \$an 81.5 million deficit was expected. He said that the governor's supplemental budget was smaller than before pre-amendment because he removed a \$50 million dollar request for AGDC, but then added other items to the total of \$84.2 million. He said that the post-transfer deficit in the governor's amended budget was \$165.7 million for FY25.

[9:49:42 AM](#)

Co-Chair Hoffman understood that the deficit was for the current fiscal year.

[9:49:45 AM](#)

Mr. Painter replied in the affirmative. He furthered that in FY26, the governor's budget added \$30 million in agency operations by amendment, and approximately \$10 million to the capital budget. He related that this raised the deficit by \$40 million, pre-amendment.

Senator Hoffman asked about the box on the lower right of the slide.

Mr. Painter answered that the box reflected ending balances for the Statutory Budget Reserve (SBR) and Constitutional Budget Reserve (CBR) for FY25 and FY26. He noted that the SBR had no balance in FY25 or FY26, and the CBR was \$2,972.2 in FY25, then down by half in FY26 to \$1,547.9.

[9:50:27 AM](#)

Co-Chair Hoffman pointed to the drop in the CBR. He announced that the committee did not intend to use CBR funds to balance the budget.

Mr. Painter pointed to slide 4, "FY25-FY28 Revenue Outlook: DOR 2024 Fall Forecast." He stated that the forecasted

numbers were the same as his previous presentation and that the Spring Revenue Forecast was expected by the end of the week. He said that the forecasted numbers would vary depending on the Brent NYMEX Futures numbers.

[9:52:11 AM](#)

Co-Chair Hoffman wondered about the difference in projections versus the futures numbers swing.

[9:52:22 AM](#)

Mr. Painter replied that a three-dollar swing could result in \$110 million in forecasted dollars.

[9:52:39 AM](#)

Co-Chair Hoffman understood that dates were critical when looking at projection numbers.

[9:52:58 AM](#)

Senator Kaufman wondered whether the forecasts had any reliability factor that could be included when looking into high-risk periods of time. He asked what a friendship with Russia might do for the forecast.

[9:53:32 AM](#)

Mr. Painter replied that when the forecast was prepared the futures marked was applied and analysis did not account for a friendship. He said there was more upside with higher prices than downside with lower prices. He believed that there was a high degree of variability in oil price right now.

Mr. Painter looked at slide 5, "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 percent 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 spoke to slide 6, "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.

[9:59:10 AM](#)

Mr. Painter discussed slide 7, "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 Children's 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 non-formula programs.

[10:00:54 AM](#)

Mr. Painter addressed slide 8, "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, the Rules Committee CS for HB 69 would increase the BSA by \$1,000 and add reading incentive grants that were proposed in the Governor's bill.

- 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.

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Co-Chair Hoffman stated that there was a \$100 million difference between the house and senate proposals due to the increase difference of the base student allocation (BSA).

[10:02:43 AM](#)

Mr. Painter agreed.

[10:03:09 AM](#)

Mr. Painter addressed slide 9, "Student Count (ADM), FY11-26." The slide offered background on the K-12 formula, particularly how the student count had changed overtime. He noted that the blue reflected the non-correspondence daily count, and the red showed the correspondence daily count. He noted that in FY17, there were 5,600 more students overall, but the correspondence count had risen by over 10,000 students. He stated that the non-correspondence daily count was down 16,000 from FY17. He relayed that 18 districts were under the hod harmless provision that allowed them to retain funding, but it only applied to non-correspondence students. He said that the correspondence students received less money from the state and cost less to districts, which resulted in less money to the district because of less per student expenses but noted that there were legacy expenses. Overall, the loss of brick-and-mortar students cost districts funding.

[10:05:17 AM](#)

Mr. Painter pointed to slide 10, "K-12: Impact of Factors per Non-Correspondence ADM, FY11-26." He shared that the BSA often received a lot of attention but that the BSA was multiplied by the adjusted average daily membership, which considered many factors. He explained that the factors had not changed since FY15, but the multiplier had due to the growth of students classified as "special education intensive" (33.7 percent). Those students were funded at 13 times the BSA because serving those students had significant cost to districts. He stressed that looking at the BSA, or total funding, left out the nuance of the actual district financial picture.

[10:06:37 AM](#)

Mr. Painter discussed slide 11, "Medicaid UGF Funding":

- From FY15 to, 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 percent) higher than FY23.

Mr. Painter relayed that the state had been successful at holding down Medicaid spending over the last decade. He lamented that significant growth had occurred in FY25.

[10:07:48 AM](#)

Mr. Painter pointed to slide 12, "Medicaid Projection":

- According to the Long-Term Medicaid Forecast by Evergreen Economics, the UGF cost of Medicaid is expected to grow by 4.5 percent per year.
- The table below illustrates the effect of 4.5 percent growth in Medicaid in FY27 and FY28 compared to growth with inflation (2.5 percent).
- At 2.5 percent annual growth, Medicaid UGF would increase by \$37.8 million from FY26 to FY28. At 4.5 percent growth, it would increase by \$68.7 million.

Mr. Painter reflected on the significant increase in Medicaid.

[10:08:59 AM](#)

Co-Chair Hoffman noted that the Long-Term Forecast of Medicaid Enrollment and Spending in Alaska (MESA) report had shown that the increase in Medicaid was expected to last for the next 20 years.

[10:09:06 AM](#)

Mr. Painter replied in the affirmative.

[10:09:16 AM](#)

Mr. Painter discussed slide 13, "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 percent), an average annual growth rate of 5.9 percent. Inflation over that period was a cumulative 18.0 percent.
- 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.

[10:11:45 AM](#)

Co-Chair Hoffman referred to slide 12 and noted the FY28 projection of \$31 million. He believed the increase meant reductions in spending or increased revenue. He noted that the CBR would not bail the state out of the projected increase.

[10:12:32 AM](#)

Mr. Painter remarked that the MESA projection included current policy from the federal government; significant changes would increase state costs significantly.

[10:13:12 AM](#)

Co-Chair Hoffman stressed that Medicaid expansion could help but would take time and put pressure upon the

reduction of services. He lamented that the alternatives were "not great."

[10:13:26 AM](#)

Senator Kiehl asked when the state might see the policy changes being considered on the federal level.

[10:13:40 AM](#)

Mr. Painter replied that it was unclear. He said that congress was working on a resolution to avoid a government shut down. He said that a temporary shut down aversion deal could be made, which would push the question down the line.

[10:14:20 AM](#)

Senator Kiehl expressed concern that the CBR could be depleted because of federal decisions.

[10:14:48 AM](#)

Mr. Painter finished discussing slide 13:

- The impact of the statewide salary survey are unknown. UGF funding for executive branch salaries are about \$661 million in FY25, so each 1 percent of across-the-board salary increases costs about \$6.6 million. This excludes the University, Legislature, Judiciary, and Alaska Marine Highway System; it is unclear whether these agencies would be affected by the survey.

[10:15:48 AM](#)

Mr. Painter pointed to slide 14, "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 shared that the state had a history of not making full payments, which could cause voters to fear that they will be responsible for school debt reimbursement.

[10:18:19 AM](#)

Co-Chair Hoffman understood that the extension on the school debt moratorium was expected to last the next 5 years.

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Mr. Painter agreed.

[10:18:27 AM](#)

Senator Kiehl spoke of lease purchases that were expected to fall off the debt schedule within the next few years, specifically Goose Creek Correctional Facility.

[10:18:43 AM](#)

Mr. Painter replied that Goose Creek Correctional Facility was on through FY33, but the Lenny Pacillo Parking Garage and a medical center would be off by FY28 and FY29.

[10:19:06 AM](#)

Mr. Painter looked at slide 15, "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 percent) 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 percent 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 the statewide 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.

[10:23:37 AM](#)

Senator Kaufman looked ahead at page 16. He queried the "public building fund" and wondered what kind of buildings were not covered by that fund.

[10:24:09 AM](#)

Mr. Painter displayed slide 16, "FY25 Deferred Maintenance by Agency." He explained that DOT, which managed public facilities, would manage office buildings and non-specialized facilities, but DNR managed deferred maintenance on park facilities. He said that DOC owned its prisons, and DOT participated in projects, but the buildings fell under DOC. He furthered that Family and Community Services managed Juvenile Justice Centers and Pioneer homes. He said that there was a considerable number of parks deferred maintenance, which received federal funding but not enough to get through the entire backlog.

[10:25:41 AM](#)

Mr. Painter pointed to slide 17, "Operating Budget Federal Funding Outlook":

- The federal funding outlook is uncertain for programs like Medicaid due to proposed budgetary changes by Congress. The House reconciliation budget includes up to \$880 billion of cuts to Medicaid and SNAP over the next decade. Many of the proposed changes are difficult to quantify. 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.

[10:29:34 AM](#)

Mr. Painter addressed slide 18, "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.
 - In the previous version of this presentation, we noted that GRIP funding had been frozen. As of March 6, AEA reports that GRIP is moving forward again.
- 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.

[10:31:50 AM](#)

Mr. Painter pointed to slide 19, "Long-Term State Needs." The needs included:

Deferred Maintenance
Total Need - \$2,370.0
FY26 Gov Funding - \$26.0

School Major Maintenance
Total Need - \$261.5
FY26 Gov Funding - \$0

School Construction
Total Need - \$363.1
FY26 Gov Funding - \$0

Harbor Matching Grant
Total Need - \$7.1
FY26 Gov Funding - \$0

Renewable Energy Fund
Total Need - \$21.2
FY26 Gov Funding - \$6.3

Bulk Fuel (top 25)
Total Need - \$275.0
FY26 Gov Funding - \$4.0

Rural Power System Upgrades (top 25)
Total Need - \$175.0
FY26 Gov Funding - \$5.0

Pension Past Service Liability
Total Need - \$7,428.5
FY26 Gov Funding - \$218.8

Total
Need - \$10,901.4
FY26 Gov Funding - \$260.1

[10:33:04 AM](#)

Senator Kiehl queried the "total need" column. He noted that the school major maintenance and construction numbers reflected what districts had requested for FY25. He wondered whether a total cost of deferred maintenance could be "spitballed."

[10:33:40 AM](#)

Mr. Painter replied that the districts had approximately \$10 billion of asset value and a complete deferred maintenance list was not included in the full report. The department provided the capital improvement plans for districts but that did not give a total of every project.

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Senator Kiehl commented that the numbers were a one year look at the total need of approximately \$10 billion of total building value. He suggested that the total need column should more closely reflect the actual need.

[10:34:46 AM](#)

Mr. Painter addressed slide 20, "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 \$84.2 million.
- There may be some additional supplemental amendments (judgments and settlements often come in late, for example).
- The legislature did not enact any deficit-filling language for FY25 last session. The Governor proposes filling the deficit from the CBR.

[10:36:18 AM](#)

Mr. Painter pointed to slide 21, "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.
- Since the February 19 presentation, the budget baseline has been changed to the Governor's amended budget
 - The placeholder for new contracts has been increased from \$29.6 million last month to \$40.0 million now, primarily based on the ACOA contract coming in with an 11 percent increase.

Mr. Painter noted that there had not been an increase in the previous year for ACOA contracts. The supervisory unit contracts had increased. He said that it was hard to judge the final dollar amount for the three Alaska Marine Highway units. He stated that those contracts had complicated bargaining unit contract negotiations, and the number could increase.

[10:38:14 AM](#)

Co-Chair Hoffman stated that he did not anticipate that the number would decrease.

[10:38:35 AM](#)

Mr. Painter displayed slide 22, "Senate Finance FY26 Budget Scenario. (illustration only, millions)":

1. UGF Revenue Forecast - \$6,198.8
2. GovAmend Operating Budget/Fund Transfers - \$4,971.5
3. Surplus Remaining - \$1,227.3
4. Placeholder for New Contracts - \$40.0
Increased from previous estimate due to ACOA 11 percent
5. Foundation Formula Increase - \$172.7
\$680 BSA increase
6. Pupil Transportation Increase - \$7.3
Matches FY25
7. Community Assistance - \$6.7
For \$30m total FY26 distribution
8. Child Care - \$10.0
FY25= \$7.5 million
9. Fire Suppression (above Gov) - \$27.7
Average year is \$27.7 million above Gov
10. Disaster Relief Fund (above Gov) - \$3.8
Average year is \$3.8 million above Gov
11. AMHS Backstop - \$10.0
Matches FY25, FY28 increase to \$76.5
12. Capital Budget - \$300.0
GoveAmend = \$294.0
13. Legislative Capital Budget Additions - -
14. DM, School Construction/Maintenance, UA DM -
\$50.0
15. Fiscal Notes - -
16. Other Changes - \$20.0
Subcommittee and other additions
17. 75.25 PFD - \$949.7
\$1,420 per recipient

- 18. Total Additions - \$1,590.6
- 19. Deficit - (\$363.3)
 - +50 million placeholder for future supps: (\$413.3)

[10:41:56 AM](#)

Co-Chair Hoffman asked about line 5. He said if the BSA increase were to pass at \$680, it would be reflected on line 15, Fiscal Notes.

[10:42:38 AM](#)

Mr. Painter addressed slide 23, "House Finance Co-Chairman's FY26 Budget Scenarios":

- A House Finance Co-Chairman did a similar exercise in a March 5, 2025 meeting, but included several PFD scenarios:
 1. 75/25 PFD
 2. \$1,000 PFD
 3. \$2,000 PFD
 4. Statutory PFD
 5. "Balanced Budget" PFD
- The Senate Finance Co-Chairs asked to show Scenario 5 in this presentation. The remaining scenarios are part of the meeting documents for the March 5 House Finance Committee meeting.
- The House three-year scenarios grow with inflation for all items rather than having Medicaid grow at 4.5 percent like the Senate scenario does.

[10:43:37 AM](#)

Co-Chair Hoffman noted that there were two items that the house had not considered: additional funding of \$22.7 million for K-12 and \$31 million for Medicaid. He wondered how much those items would add to the house numbers.

Mr. Painter replied that line 5 of the next slide reflected a \$1,000 increase to the BSA, which was added before the items Senator Hoffman had mentioned. He said that once those numbers were added the PFD would be approximately \$700.

[10:44:24 AM](#)

Mr. Painter highlighted slide 24, "HFIN Co-Chair FY26 Budget Scenario 5. (illustration only, millions)". He stated that the numbers were like the senate numbers except for the PFD.

[10:46:05 AM](#)

Co-Chair Hoffman said that he had not considered lines 1 through 4 of the house budget scenario. He lamented that the house had not reduced the budget or considered new revenue sources. He requested an update on line 5 or slide 24, incorporating the two items (K-12 funding and Medicaid) previously mentioned.

[10:47:50 AM](#)

Mr. Painter agreed to provide that information.

[10:48:00 AM](#)

Senator Kaufman requested modeling of revenue uncertainty.

[10:48:21 AM](#)

Mr. Painter pointed to slide 25, "FY26-28 Senate Finance 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 percent) over FY26 levels (from scenario on previous page), except Medicaid is shown with a 4.5 percent growth rate.
- \$50.0 million supplemental budget placeholder in FY26 and beyond.

Mr. Painter discussed slide 26, "Senate Finance FY25-28 Scenario." The slide reflected a FY25-26 deficit total of \$579.0 million. He said that the number would increase overtime with inflation and healthcare costs.

[10:49:44 AM](#)

Co-Chair Hoffman noted that the \$628.5 million deficit projected in FY28 did not include the \$53.7 million for Medicaid and K-12 funding.

10:50:08 AM

Mr. Painter displayed slide 27, "House Finance Co-Chairman's FY25-28 Scenario 5." The slide reflected a \$215.8 million deficit total in FY25-26. He noted that the numbers did not include growth to Medicaid or K-12 funding.

10:50:45 AM

Co-Chair Hoffman requested an update of slide 27 that included the Medicaid and K-12 funding. He asked whether the addition of those numbers would lower the PFD below \$500.

10:51:17 AM

Mr. Painter agreed to provide the information.

10:51:30 AM

Senator Kiehl thought that modeling revenue certainly could be helpful.

10:51:51 AM

Mr. Painter thanked the committee.

Co-Chair Hoffman commented on the state's deficit. He stressed that the committee was facing a mountain of work.

#

ADJOURNMENT

10:52:35 AM

The meeting was adjourned at 10:52 a.m.