

SENATE FINANCE COMMITTEE
March 19, 2025
9:00 a.m.

[9:00:47 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 Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

PRESENTATION: UPDATED FISCAL OUTLOOK BY THE LEGISLATIVE FINANCE DIVISION

Co-Chair Hoffman reviewed the meeting agenda. He noted the committee would hear a three-year fiscal outlook update from the Legislative Finance Division (LFD).

^PRESENTATION: UPDATED FISCAL OUTLOOK BY THE LEGISLATIVE FINANCE DIVISION

[9:01:29 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Updated Fiscal Outlook," dated March 19, 2025 (copy on file). He began on slide 2 titled "Fiscal Summary of Governor's Amended Budget

with Spring Revenue Forecast." The most significant change was to the spring revenue forecast, which was a fiscal summary showing the governor's amended budget with the spring forecast, and also incorporated amendments received through the previous week. In FY 25 the governor added three amendments with Unrestricted General Fund (UGF) impact. The change was shown on the governor's supplementals line, which was up to \$91.4 million, after previously being about \$84 million. In FY 25 the spring revenue forecast had almost no change and was less than a million difference. The deficit before the supplemental for FY 25 was \$81 million. With the supplemental the FY 25 deficit was projected to be \$172.5 million. In FY 26 the revenue forecast was down about \$70 million, representing \$2 in oil price as well as a few other changes. The agency operations number from the governor was a little higher due to amendments.

Mr. Painter continued that the governor's amendments received the previous week included three bargaining unit contracts. There were six more contracts expected to be renegotiated in the current year. The renegotiations included the Alaska Correctional Officers Association (ACOA), one of the University unions, and teachers at Mt. Edgecumbe. The bargaining unit contracts totaled about \$16 million, and the other numbers were unchanged. The amendments brought the deficit up. The FY 26 deficit from the governor's budget was projected to be \$1.5 billion at the beginning of session and the current projection was \$1.65 billion. The difference was due to the amendment packages and the lower revenue forecast. Post-transfer, the deficit in the governor's budget was 1.655 billion, which would draw over half the \$3 billion remaining balance in the Constitutional Budget Reserve (CBR). With the FY 25 deficit and the FY 26 deficit (following the governor's proposed budget) it would draw a little over half the CBR balance.

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Co-Chair Hoffman relayed the committee was working with the other body to address the FY 25 supplemental. He hoped to work with the committee to come up with a plan in the next 30 days. He relayed that since the budget was voted on by the last legislature and it was their position to try to fund the gap with the CBR. He mentioned the lower-than-expected price of oil and lower production, resulting in

less state income. He noted that there had not been adequate funds contained in the budget and mentioned other traditional items in the supplemental including fire suppression and corrections. He mentioned trying to address the FY 25 budget and get it resolved in order to work on the FY 26 budget. He pondered that with every update the deficit continued to grow, which was a problem the committee and legislature as a whole would continue to address. He noted that the next day was the 60th day of session, meaning there were 60 days remaining.

Co-Chair Stedman asked if Co-Chair Hoffman had considered any room in the \$172 million deficit for use in the event of unforeseen circumstances such as "slippage" of revenue.

Co-Chair Hoffman responded affirmatively. He cautioned ending up in a short funding scenario again that would necessitate the legislature coming back into a session to address the issue.

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Co-Chair Hoffman noted there were more slides.

Mr. Painter turned to slide 3 titled "K-12 Funding Legislation." He noted that there was an update that referenced HB 69. He noted that there was a slight increase due to amendments, and part of the difference was due to a simplified long-term look at the K-12 funding formula. The difference raised the cost a bit in FY 27 and FY 28, and slightly for FY 26. He thought it was important to recognize that the fiscal summary with deficit did not include any additional funding for K-12 education. The governor had his own bills, and the House had passed a bill in the Senate Education Committee that would cost about \$275 million per year. The Senate Finance Committee had asked LFD to look at an increase similar to the previous year at about \$172 million plus an increase to the pupil transportation formula. He considered the governor's deficit of \$1.65 billion, and the addition of \$100 million to \$275 million if the legislature added money outside the formula or adopted the bills.

- 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). HB 69, which is currently in the Senate Education Committee, would increase the BSA by \$1,000 and add reading incentive grants that were proposed in the Governor's bill.
- The amounts for this bill have been updated to match the Department of Education and Early Development's fiscal notes reflecting all amendments made in the House.

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Mr. Painter addressed budget scenarios on slide 4 including the spring revenue forecast and the governor's amendments. The two items changing had increased the overall deficit.

Mr. Painter advanced to a table on slide 5 showing the Senate Finance FY 26 budget scenario with a \$680 Base Student Allocation (BSA) increase and a 75/25 Permanent Fund Dividend (PFD). He remarked on the placeholder for new contracts. As the contracts had come in, it was higher than the baseline percentage. He discussed the calculation for contract increases. The University agreement showed an expected increase of 2.75 percent, and the others were estimated for 3 percent. The increases for ACOA and Teachers' Education Association of Mt. Edgecumbe (TEAME) were at 11 percent and 5.6 percent, respectively. He commented that the reason had to do with the timing of the contracts. He detailed that ACOA had not reached an agreement the previous year, so there had been a zero percent increase in FY 25 while others had seen significant increases. The Supervisory Union had received more than 11 percent in two years.

Mr. Painter continued that when unions had been negotiating contracts in 2022 it was a big inflation year, so many did not know the extent of inflation, and therefore the contracts did not keep up with true inflation that year. The updated contracts would account for the inflationary increases. He would not be surprised to see more than inflationary increases because they were trying to make up for the past shortage. He summarized that the contracts had been more variable than the placeholder had been able to account for.

Mr. Painter detailed that the other items on the slide were the same as in a past presentation. There was \$10 million for childcare, a foundation formula increase of \$172.7 million or a \$680 BSA increase, a pupil transportation increase of \$7.3 million, matching funds for Community Assistance, an amount for fire suppression, matching funds to the previous year's AMHS backstop funds, a \$350 million capital budget, and \$20 million for miscellaneous additions that could come in. Additionally, there was a 25 percent of the percent of market value (POMV) PFD, which equated to about \$1,400 per person. The scenario resulted in a FY 26 deficit of \$454.6 million plus a \$50 million placeholder for future supplementals.

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Mr. Painter turned to slide 6 and addressed the House Finance Co-Chair's FY 26 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.
- This presentation shows that scenario modified to use the Governor's amended budget and the spring forecast as the starting point, plus the House-passed version of HB 69 rather than the pre-amendment version.

Mr. Painter moved to slide 7 and reviewed a table titled "Modified by SFIN to Add Spring Forecast, 3/13 GovAmends, and full HB 69 Cost." The difference in the slide from the previous week was due to the spring forecast, and the governor's amended budget. The foundation formula amount was the total amount for HB 69. Most of the policy choices were similar to the Senate version, with the exception of fire suppression and disaster relief funds matching the governor's number, and the "other changes" \$40 million placeholder that was a little larger than the Senate's

number. The House Finance budget subcommittees closed out with about a \$41 million increase over the governor's budget, including the childcare funds shown on line 8. The scenario showed a balanced budget PFD of \$406.3 million or about \$570 per recipient.

Mr. Painter advanced to slide 8 showing the FY 26-FY 28 Senate Finance Committee 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), except Medicaid is shown with a 4.5% growth rate. This change has also been applied to the House scenario.
- Adds additional \$66.5 million for AMHS in FY28 to replace expired federal funds.
- \$50.0 million supplemental budget placeholder in FY26 and beyond.

Mr. Painter addressed a table showing the Senate Finance FY 25 - FY 28 Scenario with a \$680 BSA increase and 75/25 PFD on slide 9. He mentioned the \$677 million deficit across FY 25 and 26, which was the hole the legislature needed to deal with during the legislative session. In FY 27, the deficit was a little higher due to growing expenditures. In FY 28 revenue grew a lot slower. He cited a flatter POMV draw between FY 27 and FY 28, with a smaller increase in revenue as well as a downward trajectory forecast for oil prices. There was a projected larger deficit of \$728 million in FY 28 based on inflation growth and the AMHS funding addition.

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Mr. Painter highlighted the table on slide 10, which showed the House Finance version of the FY 25 to FY 28 Scenario 5 with modifications from Senate Finance and including the balanced-budget PFD. The balanced budget calculation was based on appropriations that session, and the supplementals were not factored in. There was a resultant \$50 million deficit each year after the supplementals were factored in. The scenario was similar to the previous scenario. He thought one could look at the PFD number to see that it would be relatively level between FY 26 and FY 27 then drop

significantly in FY 28 for the same reason that the deficit grew in the previous scenario.

Co-Chair Hoffman noted that line 11 was most problematic. He observed the previous year's budgeted dividend and considered FY 28's dividend of \$310. He thought everyone could see that following the budget approach, the dividend would be eliminated in a decade. He noted that the legislature was looking at additional revenue sources but there was still much work that needed to be done after getting through the FY 25 budget.

Senator Cronk mentioned the POMV draw and asked about the scenario if the POMV draw was lowered to 4.5 percent.

Mr. Painter replied that lowering the POMV draw by .5 percent would increase the deficit by about \$400 million. In the scenario where the PFD did not depend upon the POMV draw, there would be a \$400 million deficit increase; but if the scenario used the 75/25 dividend approach, there would also be a \$100 million reduction in the PFD.

Co-Chair Stedman stated that when the POMV payment was moved down, the state lost cash flow in the short run but would have asset growth in the long run.

Co-Chair Hoffman noted there was a lot of work to be done between the present day and the end of session.

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ADJOURNMENT

9:23:59 AM

The meeting was adjourned at 9:23 a.m.