

SENATE FINANCE COMMITTEE
January 28, 2026
9:02 a.m.

[9:02:53 AM](#)

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:02 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

Senator Cathy Giessel, Alexei Painter, Director,
Legislative Finance Division;

SUMMARY

^GOVERNOR'S FY 27 BUDGET REQUEST OVERVIEW: LEGISLATIVE
FINANCE DIVISION

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION,
(LFD) discussed the presentation, "Overview of the
Governor's FY27 Budget" (copy on file). He addressed slide
2, "Outline":

FY26 Recap and Update - Vetoes, Supplementals
Fall Revenue Forecast
FY27 Governor's Budget
Long-Term View

Mr. Painter pointed to slide 3, "FY26 Recap: Adjournment Budget":

When the legislature adjourned last year, there was a projected budget deficit of \$192.8 million in FY25 and a surplus of \$56.6 million in FY26 based on the Spring revenue forecast (\$68 oil).

The vote to fill the FY25 deficit from the CBR failed, so the deficit would have been filled first with a draw of up to \$100 million from AIDEA, then the remaining amount from the Higher Education Investment Fund.

The legislature did not have a source for a potential FY26 deficit.

The legislature accepted \$42.9 million of the Governor's requested \$80.4 million of UGF increments, added \$44.6 million of increases not proposed by the Governor, and made \$34.0 million of budget reductions to the Adjusted Base.

The legislature's budget funded the K-12 formula and most statewide items at their statutory levels.

School Debt Reimbursement was funded at 75 percent and the Community Assistance Fund capitalization was \$13.3 million, enough to pay a \$20.0 million distribution to communities.

The Fire Suppression Fund and Disaster Relief Fund were capitalized at their five-year average of expenditures.

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Co-Chair Stedman requested a 10-year average to see the delta between the five-year and ten-year comparison.

Mr. Painter agreed to provide that information.

Co-Chair Stedman remarked that the governor's veto did not use a ten-year average.

Mr. Painter agreed.

Mr. Painter discussed slide 4, "FY26 Recap: Governor's Vetoes and Override":

FY25 Supplemental vetoes
\$5.0 million UGF for ASMI
\$62.2 million reappropriations to DOT for match
(coming from a mix of old projects and unused
prior year match)
AIDEA deficit fill language (meaning entire
deficit came from HEIF)

FY26 UGF vetoes totaled \$103.6 million from operating
budget and \$14.3 million from capital budget.
Largest veto (\$45.4 million) was from K-12
foundation formula and was overridden.
Other vetoes included \$26.9 million from Fire
Suppression Fund, \$10.3 million from Disaster
Relief Fund, and \$25.1 million from Major
Maintenance Grant Fund.

After the override, the enacted FY26 budget had a
projected \$130.4 million surplus.

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Mr. Painter addressed slide 5, "FY26 Recap: Surplus to
Deficit":

The Governor and legislature expressed skepticism
about the \$68 oil price in the Spring Forecast, and
both aimed for a lower balancing price.

The Fall forecast reduced the projected oil price for
FY26 to \$65.48 and projected revenue by \$181.4 million
(due also to increased projected deductible expenses
and reduced production). This moves the projected
\$130.4 million surplus to a projected \$51.0 million
deficit before supplemental appropriations.

Mr. Painter looked at slide 6, "Vacancy Rates Have Reversed
Their Previous Downward Trend."

Co-Chair Stedman requested that LFD come back after the
governor's amendments with a full projection on oil to
determine the sensitivity on the deficit.

Mr. Painter agreed to appear in a future meeting on the
subject.

Mr. Painter continued to discuss the graph on slide 6.

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Mr. Painter displayed slide 7, "FY25 Lapsing Funds":

In the FY25 budget, lapsing general fund appropriations were directed as follows:

Working Reserve Fund (none needed in FY25)

Group Health and Life Benefits Fund (\$23.1 million utilized in FY25)

School Major Maintenance Grant Fund (added by Legislature, \$4.9 million used in FY25)

Catastrophe Reserve Account (none needed in FY25)

Central Services Cost Allocation Rate Smoothing (\$5.0 million used in FY25)

Any remainder would reduce the deficit draw from the Higher Education Investment Fund

Entire amount of available lapse was utilized for these appropriations, and \$1.6 million need for Group Health and Life Benefits Fund was unmet and will be carried forward to FY26.

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Co-Chair Stedman wanted transparency, and remarked that the state should not rely on the lapse but rather appropriate the needed funds to deal with the issue. He wondered if the lapse money should go into the CBR.

Mr. Painter responded in the affirmative.

Co-Chair Hoffman stated that the assertion must have significant consideration.

Co-Chair Stedman wondered whether it would change the cash flow.

Mr. Painter stated that increasing the Alaska Care rate would show the funds spread out across all agencies.

Co-Chair Stedman remarked that the budget would stay level.

Mr. Painter replied that it was the hope that the budget would remain level.

Co-Chair Hoffman queried the impact of a governor's veto on decreasing the budget.

Mr. Painter replied that an example could be seen in the University budget.

Senator Kiehl remarked that there was some handling of retirement payments that have similar consequences.

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Mr. Painter pointed to slide 8, "FY24 and FY25 Overspending of Appropriations":

In FY24, Legislative Audit identified that the Department of Corrections overspent its UGF appropriations by \$8.0 million.

In FY25, DOC and the Department of Family and Community Services both overspent their UGF appropriations. Based on unaudited figures, the amounts are \$12.6 million and \$0.7 million, respectively.

These amounts will come to the legislature as ratification requests.

Senator Kiehl remarked that it was not acceptable for the governor to appropriate funds beyond what the legislature passes in the budget.

Mr. Painter pointed out that the difference in spending was due to a change in reporting by OMB to more clearly identify current year overspending.

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Mr. Painter highlighted slide 9, "FY26 Governor's Supplemental Budget":

The Governor's operating and capital bills include \$239.8 million of UGF supplementals, including:
\$69.7 million UGF for capital match for DOT to make up for the vetoed FY25 reappropriations.
\$40.0 million UGF for the Disaster Relief Fund.
\$129.6 million directly from the CBR to the HEIF to repay the estimated FY25 deficit draw.

The Governor's supplemental requests do not include \$55.0 million for the Fire Suppression Fund that is needed to pay for fire disasters issued in 2025. A more refined figure that includes spring 2026 costs will likely be available later.

The operating budget includes Constitutional Budget Reserve Fund deficit-filling language for FY26. Additional supplemental requests are due on the 15th day of the legislative session. These are expected to include \$36.4 million for Medicaid, among other items.

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Co-Chair Stedman noted the issue of ratification of previous year's non-appropriated spent funds. He noted the waterfall of expenditures, resulting in a borrowing from the CBR. He stressed that without the three-quarter vote, the money would already be spent requiring a cash flow need that would be drawn from the ERA.

Mr. Painter commented that there was a statutory procedure for the governor to withhold expenditures, but that was found to be unconstitutional. The result was that there was currently no procedure to replace that statute.

Co-Chair Stedman stressed that the procedure would need to happen before the end of the fiscal year.

Senator Kiehl stressed that it was a crime to spend money without an appropriation.

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Mr. Painter discussed slide 10, "Fall 2025 Revenue Forecast":

DOR's Fall 2025 Forecast shows lower oil prices in both FY26 and FY27. Production is lower in FY26 but higher in FY27.

Lease expenditures (which are deducted in the production tax calculation) are also up significantly, although not all are deductible due to the lower price projection.

Petroleum corporate income tax projections are also down by \$90.0 million in FY26 and \$75.0 in FY27. The overall result is lower projected revenue in FY26 and FY27 beyond what the price change alone suggests.

Mr. Painter looked at slide 11, "NPR-A Revenue - Background":

Federal royalties from leases in the National Petroleum Reserve-Alaska have historically been split 50/50 with the State, but 42 U.S.C. 6056a(1)(1) requires that the State "give priority to use by subdivisions of the State most directly or severely impacted by development of oil and gas leased under this Act." This requirement was litigated in the 1980s and the result is the NPR-A Impact Grant program under AS 37.05.530. Appropriations to that program are made annually in the capital budget.

HR1 (also known as the One Big Beautiful Bill Act or OBBBA) changed the royalty split to 70/30 for leases issued after July 2025, but not until 2034.

Legislative Legal wrote an opinion in November 2025 that confirmed that OBBBA did not amend the sharing requirement.

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Mr. Painter addressed slide 12, "NPR-A Revenue - Governor's Budget":

In the Fall 2025 Revenue Sources Book, this revenue is no longer classified as federal revenue and instead is split between the general fund, Permanent Fund, and the Public School Trust Fund.

The Governor's capital budget does not include the typical appropriation to the NPR-A Impact Grant program. His operating budget does, however, include typical language that appropriates any lapsing appropriations from the grant program to first the Permanent Fund (up to 25 percent of total revenue) and then the Public School Trust Fund (up to 0.5 percent of revenue) and PCE Endowment, consistent with statute.

However, the Governor's budget reports do not count the latter appropriation as a general fund expenditure, understating the deficit in the Governor's fiscal summary by \$9.6 million.

Based on the Legislative Legal opinion, LFD's reports and fiscal summary maintain the federal classification of NPR-A funds, decreasing FY27 UGF revenue by \$9.6 million.

Co-Chair Stedman recalled that there was a deadline for applying for the grants, which was generally ignored by the state.

Mr. Painter agreed.

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Mr. Painter pointed to slide 13, "Percent of Market Value (POMV) Draw from Permanent Fund."

Mr. Painter addressed slide 14, "FY27 Adjusted Base":

The starting point for the next year's budget is the Adjusted Base, which is the prior year's budget less one-time appropriations plus current statewide policy decisions (such as salary adjustments and formula changes) needed to maintain services at a status quo level.

Starting in FY25, LFD modified the Adjusted Base to include formula changes. Previously, it was difficult to distinguish policy changes from changes in formula amounts. Now, formula-driven adjustments (for items like the K-12 formula, debt service, or retirement payments) will be reflected in the Adjusted Base, making policy changes by the Governor easier to see.

For formula items funded at a partial amount (such as the PFD), the Adjusted Base would be the same formula carried forward into the next year (so the amount needed for a \$1,000 payment, which was the formula used in FY26, is carried forward into the FY27 adjusted base).

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Mr. Painter looked at slide 15, "FY27 Adjusted Base (cont.): One-Time Items":

Some of these items originated in FY25 and the amounts here represent balances carried forward into FY26.

Mr. Painter discussed slide 16, "FY27 Adjusted Base (cont.): Formula Adjustments":

K-12 formula reduced primarily due to 2,064 (2.0 percent) decrease in brick-and-mortar students (only partially offset by an 861-student increase in correspondence students) and increased local property tax values (offsetting State cost).

State retirement contributions increased due to actuarial changes and policy changes by the ARM Board.

Mr. Painter addressed slide 17, "FY27 Adjusted Base (cont.): Salary and Benefits Adjustments":

Five unions are currently negotiating across the Executive Branch and University of Alaska. These contracts will likely be in future amendments from the Governor.

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Co-Chair Stedman requested the percentage of the state salaries and benefits relative to overall state spending.

Mr. Painter agreed to provide that information.

Mr. Painter highlighted slide 18, "Governor's FY27 Budget." The trend was pretty flat, and very similar to the previous year's budget. The largest impact was the Permanent Fund Dividend (PFD). He noted that in FY 26 the deficit was \$51 million, and there were \$240 million in supplemental requests. He noted the resulting current deficit, which would need to be covered from some source. He remarked that there was a projected deficit of approximately \$1.5 million.

Co-Chair Stedman asked about the estimate that might be presented the following week.

Mr. Painter replied that the largest items were Medicaid, fire suppression, SNAP benefits, and the Department of Corrections (DOC) community residential centers. He stated that there were other items that he was not aware.

Co-Chair Stedman remarked that it was one of the largest supplemental budget he has seen.

Co-Chair Hoffman stressed that the legislature would work on complying with the governor's request.

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Mr. Painter discussed slide 19, "Governor's FY27 Budget (Cont.)." He stated that the graph was often referred to as the "swoop graph." He remarked that most items were fairly close, except for the PFD. The graph compared the priorities of the legislature versus the governor's priorities. He noted that the Department of Agriculture was included in the graph, because it was in the governor's budget.

Co-Chair Stedman thanked the Office of Management (OMB) for including the PFD. He wondered whether there was guidance on the capital budget versus the operating budget.

Mr. Painter replied that the constitutional spending limit reserves one-third of the spending limit for the capital budget. He noted that approximately half of the current limit was spent currently. He stated that the operating budget was not currently in danger of reaching the two-thirds of the limit.

Co-Chair Stedman remarked on the deferred maintenance, and then hoped that there would be some capital budget investments on building infrastructure. He stressed that payroll must be met before any other proposals.

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Co-Chair Hoffman felt that the governor should also support the capital budget, and not veto the capital budget requests.

Mr. Painter pointed to slide 20, "Governor's FY27 Budget (Cont.)." He stated that the slide outlined where the money comes from and where it goes. He remarked that the largest

source of the revenue was the POMV draw from the Permanent Fund. He stated that the graphic might help the public understand the revenue. He stated that the agency operations used the most money.

Mr. Painter displayed slide 21, "Governor's FY27 Budget (Cont.)":

Agency operations are \$11.3 million (0.2 percent) above adjusted base.

DOH: Medicaid reduced by \$10.0 million due to early termination of FY26-27 temporary increment for behavioral health rates.

DOT: Added \$6.5 million UGF to replace one-time fund sources used in the FY26 budget.

Added \$5.2 million UGF to replace Restorative Justice Funds that are unavailable due to the lower FY26 PFD.

Added \$1.9 million UGF, \$7.9 million all funds for IT Class Study.

Mr. Painter addressed slide 22, "Governor's FY27 Budget (Cont.)":

Statewide items are \$14.5 million (3.1 percent) below Adjusted Base.

Does not fully fund ARM Board recommended contribution to PERS and TRS. Governor's amount is \$37.7 million below ARM Board.

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Co-Chair Stedman wondered how short funding the unfunded liability would be split between the state and communities.

Mr. Painter replied that the ARM Board wanted to use a payment plan for the post-2014 new liabilities due to actuarial underperformance that would have paid it off within fifteen years from when they began.

Co-Chair Stedman remarked that approximately 13 percent of the aggregate payroll went toward the unfunded liability.

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Mr. Painter replied that the ARM Board was attempting to solve the issue, and stated that there was great concern about not paying off the liability in a timely manner.

Mr. Painter continued to discuss slide 22:

Fully funds school debt reimbursement and REAA fund.
\$14.0 million from PCE Fund and no UGF to Community Assistance Fund. This would result in an \$18.0 million payment to communities in FY28, less than the amount of the base payments.
\$47.5 million UGF for Fire Suppression Fund, matching post-veto, pre-supplemental FY26 total.
\$24.0 million UGF to Disaster Relief Fund, \$11.0 million above post-veto, pre-supplemental FY26 total.

Mr. Painter highlighted slide 23, "Governor's FY27 Budget (Cont.)":

Capital Budget totals \$156.6 million UGF, \$2.1 billion all funds.
\$127.7 million GF/Match (81.1 percent of total UGF)
\$22.9 million AHFC dividends to AHFC projects (compared to \$28.7 million board recommendations)
\$1.9 million GF/Mental Health (compared to \$6.5 million MH Trust recommendation)
\$4.1 UGF for two projects in DFG (\$3.3 million Gulf of Alaska Chinook Salmon, \$0.8 million Alaska Marine Salmon Program)
No funding for school construction/major maintenance
\$26.3 million from Alaska Capital Income Fund for deferred maintenance

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Mr. Painter looked at slide 24, "Governor's FY27 Budget (Cont.)":

Also notable is what is not yet in the budget:
Medicaid - the Governor's budget does not contain an increase to Medicaid funding, but the Department of Health stated that the projection will be trued up in a future amendment.

Preliminary projections indicate a need for an additional \$47.4 million UGF.

This does not factor in any increases related to four rate rebalancing studies commissioned by DOH.

Ongoing Employee Bargaining Negotiations - five unions are currently negotiating new cost of living increases to begin in FY27.

SNAP Administrative Cost Match - Starting in FFY27, the State's match share for SNAP administrative costs will increase from 25 percent to 50 percent, increasing State cost by an estimated \$10.7 million. This was not included in the Governor's budget.

From FY21-26, the Governor's amended budget was on average \$103.3 million UGF higher than his December release.

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Co-Chair Hoffman asked about the SNAP administrative cost match. He specifically asked about the implications of not increasing the match from 25 to 50 percent.

Mr. Painter replied that there would not be enough general funds to pay for those employees.

Co-Chair Hoffman surmised that the impact of cutting staff would impact the administration of SNAP funds.

Mr. Painter agreed.

Mr. Painter discussed slide 25, "Additional Potential Items for FY26-28":

Federal Disparity Test: Governor's budget assumes Alaska passes the federal K-12 disparity test, allowing the State to deduct federal impact aid from its share of the K-12 formula. The State failed the FY26 test and is currently appealing the ruling. If the State fails its appeal, formula costs would go up by an estimated \$78.9 million in FY26 and \$70.8 million in FY27.

AMHS: Federal Transit Administration has not yet issued grant application for FFY26 Rural Ferry

program. CY26 AMHS budget relies on \$77.9 million of federal funds (after factoring in \$5.0 million of UGF backstop) and FY27-28 Governor's request relies on \$83.3 million. If these funds are not granted, those will be budget holes in both FY26 and FY27.

FY26 capital budget appropriated previously awarded funding so it is unaffected.

Even if the funds are granted eventually for FY26 and FY27, they expire after that and would need to be replaced in FY28.

SNAP Match: In addition to the administrative match, H.R. 1 adds a match requirement for SNAP funding itself. The timing and amount depend on Alaska's error rate and would begin in FFY28 unless the State receives a waiver to delay the impact. DOH estimates an impact of \$15.4 to \$46.2 million.

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Mr. Painter addressed slide 26, "UGF Budget and Revenue, FY14-26." He stated that the graph was the current fiscal picture because oil prices began to decline in 20214. He stated that the big change occurred in 2019, because the legislature passed the POMV, which increased revenue significantly.

Mr. Painter highlighted slide 27, "CBR and SBR Balances, FY14-26." He noted the significant reductions in the savings balances before the POMV draws.

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Mr. Painter pointed to slide 28, "Earnings Reserve Account (ERA) Sufficiency":

APFC's Statutory Net Income projection for FY27+ is 6.20 percent, compared to inflation of 2.50 percent and a 5.00 percent POMV draw. This leads to a projected decline in the balance of the ERA balance.

LFD's probabilistic modeling shows an 33 percent chance of having an insufficient ERA balance to make the full POMV draw over FY27 - FY36, assuming full inflation proofing and statutory POMV draws. If inflation-proofing is suspended when the ERA balance

drops below the following year's POMV draw, that drops to 24 percent.

This outlook is significantly better than a year ago when the chances were 46 percent and 33 percent, respectively. This improvement is due to relatively strong realized earnings in FY25 (\$5.9 billion, compared to a projected \$4.6 billion).

Mr. Painter displayed slide 29, "Long-Term Revenue Outlook":

The Department of Revenue's Fall Forecast projects that oil prices will rise from \$62.00 in FY27 to \$73.0 in FY35 (slightly slower than inflation)

Oil production is projected to increase from 517.8 mbbbl/day in FY27 to 659.9 mbbbl/day in FY35.

The Permanent Fund is projected to earn 7.30 percent per year. APFC's POMV projections do not match the Revenue Sources Book (they are slightly higher for all years). LFD's modeling is based on APFC's forecast, with an adjustment for NPR-A royalties.

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Co-Chair Stedman wondered whether a per barrel production forecast was expected to go out.

Mr. Painter replied in the affirmative.

Co-Chair Stedman he felt that there should be an analysis the various components on that issue.

Senator Kiehl wondered whether the production increase was expected to be plus 160,000 barrels per day.

Mr. Painter replied in the affirmative.

Senator Kiehl remarked that it was \$3.5 billion of additional gross value.

Mr. Painter highlighted slide 30, "Long-Term Fiscal Outlook":

Since revenue is projected to increase roughly with inflation, LFD modeling shows that the current \$1.5 billion structural deficit will persist throughout the modeling window without policy changes.

This outlook arguably understates the true ongoing deficit because the current capital budget is unsustainably small for deferred maintenance and renewal of State facilities.

The Governor's 10-Year Plan does not make significant policy changes and therefore continues the structural deficit. The Governor's proposed revenue measures were introduced too late to be analyzed for this presentation.

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Mr. Painter concluded his presentation.

Senator Kaufman remarked that personal finance often showed probabilistic modeling. He wondered whether there was a product like that which would take in the likely assumptions of revenue and projected assumptions of cost and projects it out in a graphic presentation of likelihood for success.

Mr. Painter stated that there was a probabilistic model that incorporated volatility of investment revenue and oil production and price. He agreed to present on that mode.

Co-Chair Hoffman stated that the next meeting would be the upcoming Monday.

#

ADJOURNMENT

[10:47:14 AM](#)

The meeting was adjourned at 10:47 a.m.