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Federal freeze on project grants: It isn't over

Last week was wild – in Washington, D.C., not Juneau. But the effects will be felt soon enough in Alaska. Early last week new President Donald Trump abruptly cut trillions of dollars in grants and loans, sowing mass confusion, including in Alaska. Trump rescinded the order but left directives intact that “pause” funding for projects financed by the Infrastructure Investing and Jobs Act, or IJIA, and the Inflation Reduction Act, or IRA. Those orders are now having impacts in Alaska. We have confirmed that at least one program, Solar for All, is paused. A rare earths minerals research program is also on hold. The status of the Alaska Energy Authority's \$400 million railbelt electrical grid upgrade is also uncertain although the AEA says it can tap state funds to keep the project on track until the mess at the federal level is straightened out. *However, there's a lot worry about how the projects hold could affect state transportation initiatives, particularly the ferry system.* The House Judiciary Committee will hold hearings Monday on impacts of the federal pauses. State agencies on the hearing schedule were pulled off the agenda, however. It is unclear why this happened. Nonprofit and rural Alaska groups are still scheduled to talk, however.

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The energy muddle: Alaska LNG or LNG imports?

Legislators are weighing the Alaska Industrial Development Corp.'s \$50 million “backstop” for the Alaska LNG Project final engineering. This would come from AIDEA's reserves, not state general funds, if it is needed. At the same time lawmakers, in hearings last week, were mindful of several hundred million dollars Southcentral Alaska consumers will pay (through regional utilities) to build infrastructure for liquefied gas import facilities. Those are to meet expected natural gas shortfalls. Alaska LNG involves a 42-inch gas pipeline from the North Slope and a liquefaction plant to export LNG to Asia if fully developed. The state gas corporation, Alaska Gasline Development Corp., or AGDC, also proposes to build the pipeline first as a “phase one.” Legislators worry that this is an either/or decision, and that there could be stranded investments if import facilities are built and the pipeline from the North Slope proceeds later. However, AGDC told the House Finance Committee last week that facilities for LNG imports can be used as part the larger export project. If the bigger project proceeds AGDC said it will reimburse utilities.

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. . . Education . . .

Governor takes a swipe at education groups, teachers over school funding

In his State of the State speech Gov. Mike Dunleavy again touted superior performance of charter schools but also took a surprisingly aggressive swipe at education groups pushing for an increase in stable funding for schools. This seemed unusual in a major address. Here's what the governor said: "There are some very loud voices that show up down here like the swallows returning to Capistrano with megaphones and T-shirts telling you that the only thing that matters is money. We even have people that will take the State to the Supreme Court to try to limit student options and force them into a one-size-fits-all model." (*Note: We're not sure what litigation the governor is referring to but it may be a possible new legal challenge over chronic underfunding of public schools, with the charge that this violates the Constitutional responsibility for the state to provide public education.*) The people "wearing T-shirts" the governor refers to are obviously teachers who came to Juneau during the 2024 legislative session to lobby for an increase in the Base Student Allocation for schools. Obviously, this got under Dunleavy's skin. The BSA fight resumes this spring.

Alaska charter schools do well, but Harvard researchers caution on interpretation of study

Here's what the governor also said: "Our charter schools are the best in the nation . . . 2022 research from Harvard University concluded that our charter schools are . . . the best performing in the nation." Educators agree that Alaska's charter schools do well but note that the lead researcher of the Harvard study subsequently cautioned legislators that the study was limited and its conclusions can't be used too broadly to justify policy changes.

Governor cites growth in reading skills, success of READS Act

The governor also lauded progress in childrens' reading resulting from passage of the Alaska Reads Act. Assessments in school districts last year showed "the percentage of Alaska students who met early literacy benchmarks grew from 41% to 57%. Among kindergarten students, proficiency rates (in basic skills) rose from 24% at the beginning of the year to 60% by the end of the year. According to national data released in June, Alaska students outpaced national growth in kindergarten, first and second grades."

Governor's new education bill introduced Friday, to mixed reviews

The governor introduced his "comprehensive" new education bill last Friday. It is HB xx and SB xx. This is a complex proposal with many parts that will take a while for legislators to absorb. It includes authorization in statute of tribal schools (which has been in the works for some time) and teacher retention incentives, which is a recycling of the governor's bill from last year. There would be grants tied to reading improvements and a ban on cell phones in schools (these will go over well). *Some things in the bill being championed by the governor are considered dead on arrival by many in the Legislature, like charter schools approved by the politically-appointed state school board rather than elected local school boards.*

Governor's priorities: State of the State

Governor sets new priorities in professional licensing, lands and forestry

Gov. Mike Dunleavy spelled out some new priorities in his State of the State Address to the Legislature last week. The governor talked about new oil, gas and mining activity and praised charter schools. **But what was missing, many noted, was any mention of the economic crisis facing the state's seafood industry.** Here are a few of the governor's new initiatives, from his speech:

- New legislation to improve the state professional licensing. No details on this yet but this is viewed positively and follows Dunleavy's initiatives last year attempting to streamline professional licensing. The bill did not pass, however. The administration has been promoting reciprocal licensing with other states but a proposal for Alaska (made by health care providers) to get more nurses into Alaska, has been bogged down by opposition from an Alaska nurse's union.
- A new bill to get more state lands into private ownership is coming, the governor said. This is a politically popular idea and presumably the bill would tweak existing state land disposal programs. There doesn't seem to be a huge demand from the public for more state lands to be made available, however. Also, much of the state lands sold earlier, typically in remote areas, has been returned to the state
- A new forestry bill will be introduced. This will build on recent legislation (legislators' initiatives) to spur development of the state's small forest products industry with timber from state forests in Southeast and Interior Alaska. Forest products in Alaska are at a low level with nowhere to go but up. This will be viewed positively. The problem is that forest legislation often doesn't get the attention it deserves and gets lost in the shuffle of bills as the Legislature advances.

Senate President Gary Stevens responded to the governor's speech

Here are comments by Senate President Gary Stevens reacting to the governor's speech and notably the lack of support for new school funding: "Among (Alaska's) challenges, education stands out as one of the most urgent. Classroom sizes in many of our schools exceed 40 students, schools are closing across all districts, and essential programs—from advanced placement courses to extracurricular activities—are being cut due to insufficient resources. We must tackle this crisis now or risk falling further behind. Education is a cornerstone of our economy, and a strong public education system is essential if we want to attract young families to Alaska and provide them with opportunities for growth and success.

In the Senate's Republican Minority, Sen. Mike Cronk, R-Tok, was receptive to ideas in the governor's new education bill (*see page 2*): "As elected officials, we must advocate for all students, whether they are public, homeschool, correspondence, charter, or private school students. We must recognize parental rights so parents may choose the best education path for their child," said Cronk, who is a former teacher.

... Status of Bills ...

Introduced in the House

- HB 70: Emergency medical services for operational canines (By Schrage)To HSS, L&C
- HB 71: Obstruction of public places (By GOV)..
.....To TRA, JUD
- HB 72: Timber leases on state lands (By GOV) ..
.....To RES, FIN
- HB 73: -- SB 76: Complex care residential homes (By GOV)To HSS, FIN
- HB 74: Crime of airbag fraud (By Tomaszewski)To L&C, JUD
- HB 75: Permanent Fund; employment; eligibility (By Bynum)To SA, L&C
- HB 76: Education: schools; grants; funding; debt (By GOV)To EDU, HSS
- HB 77: Make the theft of mail or an article within mail theft in the second degree (By Coulombe) ..
.....To JUD, FIN
- HB 78: PERS/TRS employer pension contribution (By FIN)To FIN
- HB 79: Vic Fischer Shoup Bay State Marine Park (By Fields)To RES
- HB 80: Residential building code (By L&C)
.....To L&C

House Committees' actions

- HB 68: Posting of warning signs for alcoholic beverages (5 do pass, 2 amend)L&C to HSS

Coming this week

Monday:

- House Education, HB 68 (school funding)
- Senate Labor and Commerce, SB 14 (AIDEA financing workforce housing)
- House Judiciary, impacts, federal cuts to grants and loans

Schools: Some good news

Amid all the gloom about school funding there are nuggets of better news: Despite severe budget problems in Fairbanks schools (see page 5) the Fairbanks North Star Borough School District saw a 23% increase in lower-grade literacy between 2023 and 2024, most likely a result of the Alaska Reads Act. School attendance in Fairbanks is also rising from the pandemic year, from 54.3% during the pandemic (includes online classes) to 66.7% in 2023 and 2024. Student full attendance means present for instruction 90% of the school year.

Schools: Not so good news

The Anchorage Education Association, or AEA, which represents teachers, sold the Senate Education Committee that the district was short 148 teachers the first day of school last fall, up from 59 in 2018.

On teacher resignations, 48% are resigning in the first five years of teaching. Reasons include stress from large classes, lack of support and lack of an attractive retirement system. Overall resignations in the Anchorage School District have been holding fairly steady, however. Departures totalled 320 in 2108 and held roughly at that level, rising a bit to 358 in 2024. Corey Aist, president of the AEA, presented the data to the Senate committee.

HB 48: Civil Legal Services Fund

The House Judiciary Committee took up Rep. Sara Hannan's HB 48 last Friday, Jan. 31. The bill restores funding to 25% of court filing fees. It had been reduced to 10%. The fund supports the non-profit Alaska Legal Services Corp. in representing low-income Alaskans on a variety of legal issues.

... Status of Bills ...

Introduced in the Senate

- SB 74: Obstruction of public places (By GOV) ..
.....To TRA, JUD
- SB 75: Timber leases on state lands (By GOV)
.....To RES, FIN
- SB 76: Complex care residential homes (By
GOV)To HSS, FIN
- SB 77: Permanent Fund; employment; eligibility
(By Kiehl)To L&C, SA
- SB 78: Disclosure of wage information (By Dun-
bar)To JUD, L&C
- SB 79: Wage payments (By L&C)To L&C
- SB 80: Extend the termination date of the Big
Game Commercial Services Board, Boards of Mas-
sage Therapists and Marijuana Control (By L&C)
.....To L&C
- SB 81: PERS/TRS employer pension contribu-
tion (By Stedman)To L&C, FIN
- SB 82: Education: schools; grants; funding; debt
(By GOV)To EDU, FIN
- SB 83: Telehealth reimbursement rates (By Cla-
man)To HSS, FIN

Senate Committees' Actions

- SB 1: Appropriations to civil legal services fund
(4 do pass, 1 no rec)JUD to FIN
- SB 15: Posting of warning signs for alcoholic
beverages (4 do pass)L&C to RLS

Committee abbreviations:

RLS	Rules
FIN	Finance
RES	Resources
L&C	Labor and Commerce
JUD	Judiciary
HSS	Health and Social Services

Education: Schools in tough shape

The House and Senate Education Committees got an earful last week from school districts on funding shortfalls. Clayton Holland, Superintendent in the Kenai Borough's schools, told the Senate committee his district is facing a \$16.9 million FY 2025 deficit. Larger class sizes and reduced curriculums will be the outcome. A real problem for his geographically large district is short-funding for school bus operations. It's a problem that also affects Mat-Su, another large district. Holland said school transportation costs statewide are estimated at \$84 million this year with about \$71 million in state school bus support. School districts have to subsidize the difference.

Fairbanks: \$31 million school deficit

Fairbanks schools face a \$31 million deficit and even if there were a \$680 addition to the Base Student Allocation this year (adjusting for inflation since 2017) Fairbanks' deficit would still be \$16 million. District Chief Operating Officer Andy DeGraw told the House Education Committee that since 2107 school utility costs are up 21% and insurance is up 43%.

Kuspuk schools: Roofs are leaking

In the rural Kuspuk School District, in Southwest Alaska, Superintendent Madeline Aquillard told the House committee that classes are reduced including career and technical education; roofs are leaking and some buildings are in danger of wall collapses. Electricity costs are \$1.65 per kilowatt hour. Grants, mostly federal, cover 50% of operating expenses. Students do not have adequate technology to access online classes.

. . . Budget . . .

Legislators confront bleak budget picture; governor not open to new revenues

The House and Senate finance committees started digging into the governor's operating and capital budget proposals last week. Lawmakers are confronting the reality of fiscal constraints with lower oil revenues expected next year but upward cost pressures to sustain programs and deal with increasing maintenance on facilities, including schools. School districts are under heavy pressure particularly in rural areas, and there are no state funds proposed, so far, for rural schools' deferred maintenance, which the Legislature has traditionally helped support. The obvious step would seem to be raising revenues, but Gov. Mike Dunleavy is cold to that. Given the likely veto of any tax measure, Senate leaders said last week they say they won't bother with passing one because getting three quarters of the Legislature to override a veto will be extremely difficult.

Senate Finance Committee begins scrutiny of operating budget, SB 56

The Senate Finance Committee began its budget work last week with high-level overviews of the operating and capital budgets. In opening remarks, said Sen Jesse Kiehl, D-Juneau, said that a \$150 million surplus in the current year FY 2025 budget has been erased by a \$220 million drop in oil revenues. Later in the week, Alexei Painter, director of the Legislative Finance Division, told legislators that even a smaller Permanent Fund Dividend would push the budget into a deficit. (The Legislature is required to pass a balanced budget). Committee cochair Sen. Lyman Hoffman, D-Bethel, warned about drawing down the Constitutional Budget Reserve, or CBR, which now holds about \$2.8 billion, to pay a deficit. Hoffman said that with the razor-thin partisan split in the House, getting the required "super-majority" legislative vote to withdraw funds from the CBR would be a challenge. Sen. Bert Stedman, R-Sitka, also a cochair of Finance, is concerned that drawing down the reserve fund is risky given the volatility of oil revenues. If new U.S. President Trump gets his way in stimulating oil production then oil prices and revenues could drop, Stedman said. He can see scenarios where the reserve fund could be depleted by half in one year. Previous administrations had pushed for larger balances, up to \$5 billion, held in the CBR.

Office of Management of the Budget director Lacey Sanders said the operating budget is down \$280 million mainly because several one-time increases in the current spending, such as \$175 million in extra payments to school districts. However, there are increases in the budget, including \$100 million for inflation adjustments in state employee contracts. Overall, the \$6.2 million operating budget for FY 2026 is \$100 million down from FY 2025, she said. On a positive note, the Permanent Fund contribution to the budget, through the 5% Percent-of-Market-Value payment, is \$200 million up in FY 2026 from FY 2025.

Other budget items highlighted in the Senate Finance hearing:

- SB 57 and HB 53 include \$692,500, Dalton Highway contract maintenance, supplementing DOT/PF
- Alaska Vocational Technical Center would have funds to expand electrical and plumbing training
- Alaska Seafood Marketing Institute will have \$10 million for a three-year marketing program

. . . Budget . . .

Capital budget is lean. Most funds go as match to federal programs

The governor's capital budget, HB 54 and SB 57, is pretty thin in Undesignated General Funds, or UGF, which is money that can be appropriated by the Legislature. The proposed FY 2026 UGF capital spending is \$282.4 million, down from the current FY 2025 UGF capital budget of \$330.7 million. The Finance Committees will tweak the governor's decisions but will not be able to add much in the current fiscal environment. Federal funds spent through the capital budget are also estimated to be down, or \$2.935 billion in FY 2025 compared with \$2.249 billion in FY 2026. About 55% of the FY 2026 UGF capital budget of \$282.4 million is appropriated as the required match to federal programs, with 45% of this for the big federal surface transportation programs, mainly highways and airports. The remaining 10% will mainly go as match to federal funds for village sanitation and safe water projects administered by the state Department of Environmental Conservation.

House Finance Committee members drilled down into some of the governor's capital requests last week. Here are a few projects discussed:

- \$7 million for payroll system upgrades for the Department of Administration. This is badly needed because workers are struggling with aging systems, some which still require manual inputs. The result of this, combined with workforce shortages, has been delays in pay for many state employees. Some retirement payments have also been affected.
- \$4.4 million for port electrification system in Whittier to allow cruise ships to plug into the local grid and turn engines off. Committee members questioned why state funds are going to upgrade a private marine facility. State budget officials said the total cost is much higher and that Holland America, a major cruise company, is contributing \$6 million toward the project along with \$1 million from the local community, presumably the City of Whittier. The Legislature has previously appropriated \$5 million.
- Committee members asked questions about \$6.5 million proposed for the Alaska Energy Authority's Dixon Diversion hydro project near Bradley Laker and Homer. This is to allow AEA to complete technical work needed for a planned application for a Federal Energy Regulatory Commission certificate next January. That will allow construction to begin after financing is completed. Regional electric utilities are expected to buy the new hydro power which will allow construction to be financed.
- \$3.1 million is proposed to complete frozen vegetable processing facilities at the Department of Corrections inmate-operated farm in the Mat-Su region. The cost of the equipment has increased substantially since planning was done and the first phases built.
- Appropriations of \$4.5 million for Dalton Highway aggregate stockpiling is requested along with a second \$2.5 million for heavy maintenance on a deteriorated segment of the highway, which is critical to moving equipment and supplies to the North Slope. Trucking companies are pressing for the work.
- \$14 million is requested for system upgrades in processing Medicaid health payments. Most of this is federal funds but a state match is required. The existing Medicaid processing system is antiquated, resulting in delays for approvals for procedures and payments to health providers.

. . . Business/Resources . . .

SB 15: Updates to state law governing sales, consumption of alcoholic beverages

SB 15, sponsored by Sen. Kelly Merrick, R-Eagle River, would allow those working in restaurants, breweries, and other establishments between the ages 18-20 to serve alcohol. The bill also allows access for minors aged 16 and up to dine in licensed premises under specific protections, as well as adjust alcohol service hours for theaters to accommodate modern entertainment needs. The Alaska Center for the Performing Arts and the Alaska Cabarets, Hotels, Restaurants, Retailers (CHARR) association spoke in support of the bill last week. CHARR cited difficulties in hiring staff due to “Alaska being one of only three states (along with Utah and Nevada) that requires a person to be 21 years of age or older to serve alcohol.” The bill is a new version of HB 189 that passed last year but was vetoed by the governor last session. Despite that, the bill is moving quickly and has a hearing scheduled for Senate Health and Social Services Committee Feb 6. The House version, HB 68, sponsored by the House Labor and Commerce Committee, is scheduled to be heard Feb. 6 in the House Health and Social Services Committee.

Sen. Giessel: State could move to support second “jack-up” drill rig in Cook Inlet

Senate Resources Committee chair Sen. Cathy Giessel said HEX/Furie, a small Cook Inlet natural gas producer, found gas in a new well and that two more wells are planned but there’s uncertainty on whether Hilcorp Energy can make its jack-up rig available. Hilcorp may need the rig for its own work. The solution, Giessel said, is to get a second jack-up rig working in the Inlet, but state incentives may be needed to entice a drilling company to move a unit to Alaska. The cost to secure a rig, likely in Asia, move and modify it to sub-Arctic conditions, could reach \$50 million, Hilcorp Energy told the Senate Resources Committee. A multi-year drilling contract would also be required.

Senate Rules chair Sen. Bill Wielechowski’s solution to the state revenue squeeze: Raise oil taxes.

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