

Bradners'

Alaska Legislative Digest

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Another fight with governor on school funds?

Senate President Gary Stevens, R-Kodiak, said legislators are trying to find a compromise to avoid another knock-down with Gov. Mike Dunleavy over school funding, but things may build toward a head early in the session. School districts are in increasing desperate shape with rising fixed costs and cash reserves being drawn down. All four caucuses are meeting with the governor's people in closed-door discussions. This includes the Senate Majority and new Minority and the House Majority and Minority. Engaging minority Republicans is a healthy development. However, the policy and funding differences appear even more stark than last year. Meetings of legislators with the governor's people are reminiscent of similar meetings last year which went nowhere. Initial meetings last week did not go well. Jordan Shilling is representing the governor in the talks; Senate Majority members are Anchorage Democratic Sens. Löki Tobin and Bill Wielechowski. Republican Sens. Mike Cronk and Shelley Hughes are Senate Minority members. House Majority members are Rep. Rebecca Himschoot, D-Sitka and Speaker Bryce Edgmon, I-Dillingham, House Minority members are Republican Reps. DeLena Johnson and Justin Ruffridge. The governor's new education bill stakes out his position for targeted increases linked to performance as well as "open entry" to districts' online classes statewide. It also cuts local school boards out of approval for charter schools. Approvals would instead be done by the state.

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Senators unhappy with Harvest LNG deal

Two Senate leaders, Sens. Cathy Giessel and Bill Wielechowski, are unhappy with the acquisition of the Kenai natural gas liquefaction plant by Harvest Alaska, a Hilcorp Energy affiliate, from Marathon Petroleum. The governor is also reported to be concerned. What has amped up concerns is an exemption of LNG imports from Regulatory Commission of Alaska review through an amendment made to HB 50, a bill authorizing carbon injection and storage, as it went through the Senate in 2023. Purchases of natural gas from the imported LNG by regulated utilities would come under RCA review but not the facility or the pricing of the LNG. Legislators' concern is that this gives Harvest/Hilcorp control over liquefied gas shipped in to offset a regional natural gas shortfall.

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. . . Education . . .

House-Senate Joint Education Committees meets Monday with school boards

School board members are in the capitol building this week lobbying legislators for an increase in the Base Student Allocation, which has not changed since 2017 except for a minor increase connected to the Alaska Reads Act. The House and Senate Education Committees will hold a joint hearing Monday morning to hear from school board members.

Governor has people out promoting his school bill

Gov. Mike Dunleavy has his people out promoting his new education bill. Todd Smoldon, the governor's representative in the Mat-Su, described for the Mat-Su borough assembly the governor's targeted incentives for improvements in reading and teacher retention along with career and technical education support. Smoldon said that approach is superior to the general increases in funding pushed by educators. He also said one bill introduced for a BSA increase, HB 69, would add \$1.2 billion to the budget after three years, with \$300 million in the first year, \$600 million in the second year and \$700 million in third-year funding. The "accountability" parts of the governor's bill went over well with the conservative Mat-Su assembly. "This is music to my years," said Dee McKee, an assembly member. "It's almost enough to make me want to go back to teaching."

Destruction of the U.S. Department of Education could help Alaska, Dunleavy aide says

Smoldon also said state officials are watching the possible destruction of the U.S. Department of Education by President Trump's shadow president Elon Musk. A lot of the federal education money coming to Alaska has tight strings attached, Smoldon said. Musk might allow the money to come directly such as in block grants.

Legislative Finance data shows governor's education spending in FY 2026 budget is down

Data from the Legislative Finance Division shows the governor's proposed FY 2026 budget is \$213 million below the FY 2025 "management" plan, or actual current year spending. In FY 2025 \$1.465 billion was appropriated. The governor's proposal for FY 2026 is \$1.252 billion.

Another fight with the governor on school funding?

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In contrast to the governor's targeted funding approach, school groups and legislators supporting them are pushing for increases in general state funding partly to offset districts' rising costs that include fixed costs like insurance and utilities as well as repairs which cannot be dealt with through the governor's performance-targeting approach. There is also rising costs for pupil transportation, for school buses. We expect another one-time fund appropriation this year that could deal with some of this, as was done last year, but nothing is proposed so far for the FY 2026 budget. There is also the question of where the funds would come from to pay for this, given the extremely tight revenue situation.

Governor's carbon program: Where are things?

Two programs for carbon storage promoted by Gov. Mike Dunleavy and enacted into law by the Legislature in 2023 are well along in development, but operations, and new revenue to the state, are still some time away. The governor has aspirations that sales of carbon credits could be a big source of big new income for the state. They still could be, but expectations are now tempered.

Underground carbon injection under HB 50: The “rock” bill

Draft regulations for one program, authorized in HB 50 in 2023 and involving underground injection of carbon dioxide, went from the Department of Natural Resources, or DNR, to the Lieutenant Governor's office Jan. 17, DNR told the House Resources Committee last week. The department should be ready to accept applications starting Feb. 15 for exploration licenses to seek underground CO₂ storage locations. The exploration licenses are similar to licensing for oil and gas. Once exploration is done the license can be converted to a state lease. The CO₂ injection itself must be done in a special “Class VI” injection well approved by the Alaska Oil and Gas Conservation Commission, or AOGCC, a quasi-judicial regulatory agency. Carbon dioxide is corrosive and requires wells with special steel. The AOGCC injection well program, still under development, must be approved by the U.S. Environmental Protection Agency. The Commission is well along in developing its application and it is expected to be submitted to the EPA this summer, the House committee was told. It is expected to take one to two years to get the EPA's approval for the special wells. After that the state can begin leasing the underground space for carbon storage and earning revenue. HB 50, which authorized underground storage and leases, requires a minimum rental fees and a minimum per-ton gas storage fee. The first underground injection sites are likely to be on the North Slope, legislators were told. Santos Ltd., committed to “net zero” on carbon emissions for its new Pikka oil field, will likely capture carbon emissions in power and process plant emissions.

Forest carbon offsets under SB 48, the “tree” bill

Meanwhile, a second state carbon program is also moving along. This was authorized under SB 48, also in 2023, and involves sales of carbon credits from state forest lands for carbon sequestered, or stored, in trees. The DNR has completed regulations on this and now has an experienced consulting firm, Terra Verde, on board to develop forest storage projects. The program will include the Tanana Valley State Forest in the Interior and expand to state forested lands in the Mat-Su and Kenai regions. and Haines, in Southeast. Terra Verde will develop applications to a recognized carbon registry, such as the The American Carbon Registry, which verifies the science behind the application. The Registry issues certificates for the carbon credits and they are then sold. The authorizing statute limits the commission paid to the developer to 30%. The developer must make the investment for the technical justification for the application. *DNR estimates that the first project could be generating credits by the end of 2026.* A variation of this, also authorized in SB 48, is for third parties to lease state forest lands and develop their own carbon offset programs. DNR has developed the regulations for this. They are now submitted to the Department of Law. The state Division of Land and Water Management will administer the program.

Update: The federal freeze on funds

Federal court orders have temporarily halted President Trump's freeze on many federal grants and loans but we hear that money still isn't flowing for many programs. Grants under the U.S. Environmental Protection Agency, or EPA, are still frozen. However, EPA money for the state's rural water and sanitation programs is coming in after some initial holds. Some funds appear to be moving in U.S. Department of Agriculture programs as well as in Economic Development Administration grants. But anything connected with renewable energy or justice and equity is on the watch or hold list, our sources told us.

Some of the federal freezes seem counter to the new president's priorities. For example, federal funds supporting a joint critical minerals program by the University of Alaska Fairbanks and the state Division of Geologic and Geophysical Surveys were frozen, although we expect a thaw.

Critical minerals in Greenland, Canada

Speaking of critical minerals, the *New York Times* has reported that people around President Trump have investments in mining companies interested in Greenland and that this may be driving the president's push to acquire Greenland. Canada appears to be a similar story: Prime Minister Justin Trudeau said last week he now believes President Trump's talk of Canada as a 51st U.S. state is driven by a desire to control Canada's critical minerals.

Alaska Sen. Dan Sullivan says Alaska has critical minerals. Why not focus on that, he said. Our comment: Should we do this rather than upsetting our Canadian and Danish (Greenland) allies?

Spat over highway funding

Legislators are puzzled over the spat between construction contractors and the state Department of Transportation and Public Facilities, or DOTPF, over the amount of money going out this spring for surface transportation projects. The disagreement surfaced in hearings held by the Senate Transportation Committee last week. The Associated General Contractors (AGC) said \$1.6 billion in state and federal funds have been approved for federal FY 2025 but as of the first quarter of the fiscal year bids were solicited on only \$93 million in projects. DOTPF acknowledges that elevated materials and labor costs, delays in federal funding, protracted right-of-way acquisition and federal "Buy America" rules are impeding its ability to get work on the street. These will result in reduced contractor payments in federal FY 2025, now estimated at \$885.7 million compared with \$1.115 billion for prior year FY 2024. While highway contractors are concerned about the flow of work construction overall is booming thanks to North Slope activity. State labor department data show 17,200 at work in construction in December, up from 14,700 in the same month of 2023.

Federal funds tied to birth rates?

On federal surface transportation funding, we couldn't resist this, from the latest order from new U.S. Transportation Secretary Sean Duffy: Federal transportation agencies will: "Give preference to communities with marriage and birth rates higher than the national average (including in administering the Federal Transit Administration's Capital Investment Grant Program) . . ." Alaska's rate for 2023 was 62 births per 1,000 women aged 15-44. The nation's rate for 2023 was 54.5. *That should put Alaska in good shape for federal funds, right?*

... Status of Bills ...

Light week in Juneau for bill actions!

House Actions

House Bills Introduced

-- HB 81: Restrict release of certain records of convictions (By Nelson)To SA, JUD

Senate Actions

-- SB 84: Supplemental appropriations (By GOV)..To FIN

-- SB 85: Unauthorized eavesdropping and use of communications (By GOV)To L&C, JUD

-- SB 86: Money transmission; virtual currency (By Kiehl)To L&C, FIN

-- SB 87: Reject recommendation of the State Officers Compensation Commission (By RLS) To RLS

-- SB 88: Child placement; diligent search (By Bjorkman)To HSS, FIN

-- SB 89: Physicians Assistants' scope of practice (By Tobin)To HSS to L&C

Senate Committees' Actions

-- SB 14: AIDEA; workforce housing development projects (5 do pass).....L&C to FIN

-- SB 44: Minors, psychiatric hospitals (3 do pass)..HSS to FIN

-- SB 87: Reject State Officers Compensation Commission's recommendations (waived from Rules)To CAL

Senate Floor Actions

-- SB 87: Reject recommendation of the State Officers Compensation Commission.....PASSED 19-0

Committee abbreviations:

RLS	Rules
FIN	Finance
RES	Resources
L&C	Labor and Commerce
JUD	Judiciary
HSS	Health and Social Services
EDUC	Education
MVA	Military and Veteran Affairs
ARCTIC	Special Committee on Arctic
TRI	Special Committee on Tribal Affairs

SB 75: Timber resource management

Senate Resources Committee took up the governor's SB 75, on forest resource management, last Friday for an initial hearing. The bill would allow forest management contracts with private entities for work on harvesting, fire prevention and forest road building. The Commissioner of Natural Resources will be able to negotiate 55-year contracts. This initiative results from the governor's priority to grow the state's small forest products industry.

SB 67: In-state purchase differential

Another governor's bill with its first hearing last Friday in Senate Resources Committee was SB 67, allowing for an increase in the allowable purchase price differential against out-of-state purchases of Alaska agricultural and seafood products for state agencies, municipalities and school districts. At present the allowed differential is, for required in-state purchases of certain products, from 7% to 10%, and for other, permissible, purchases from 15% to 20%.

. . . Municipal/Business . . .

Senate committee takes up SB 50, municipal comprehensive plans

SB 50, giving municipalities authority to include housing in their periodic revisions to comprehensive plans, was up in Senate Community and Regional Affairs Committee. Bill sponsor Sen. Forest Dunbar, D-Anch., said the bill is not a mandate but gives local governments the option to include a housing plan along with other parts of its plan, like transportation. Dunbar said having a housing plan focuses attention on housing issues which can otherwise be lost or be given lower priority amid other municipal issues. The bill was held for further work.

Division of Community and Regional Affairs begins work on Title 29 revision

In the Senate committee hearing Dunbar also mentioned that the state Division of Community and Regional Affairs has started discussion on a long-planned overhaul of Title 29, the state's statute governing local governments. This will be a long process that is just starting, Dunbar said.

Senate Labor and Commerce takes up SB 14, AIDEA workforce housing

The Senate Labor and Commerce Committee took another housing bill by Sen. Dunbar last week. It is SB 14, which gives the Alaska Industrial Development and Export Authority, or AIDEA, the state development corporation, authority to do multi-family workforce housing financing. Dunbar had the bill in last year as SB 239, but it did not move. Dunbar's bill is targeted toward projects of five or more units. Alaska Housing Finance Corp. also does multi-family project financing typically linked to federal tax credits. AIDEA financing, which would be geared more toward worker housing, would be complementary to AHFC's programs. For example, the AIDEA money could be short-term construction financing which could then be rolled over into long-term AHFC financing for projects. It's likely AIDEA now has authority to do this, and the corporation did do housing finance in the 1980s, but SB 14 would just make the authority explicit. Dunbar said new housing is urgently needed in rural communities where private and public sector employers can't bring in workers until housing is available.

Municipalities on edge over HB 80, building code

Municipalities are worried about HB 80, a House Labor and Commerce Committee bill establishing a residential building code applicable statewide. The committee scheduled a hearing on the bill last week but delayed it. It has already drawn the attention of municipalities, however. Similar bills were considered last year (none passed) but this year's version has more teeth. That's because municipal building codes would have to comply with a state code, as would Alaska Housing Finance Corp. lending. Last year's bill would have had the code would apply outside municipalities. Kenai Mayor Peter Micciche is already on the phone to other mayors including Mat-Su's Mayor Edna Devries. Devries told Micciche that she would call Sen. Rob Yundt, R-Mat-Su, to watch for HB 80 if it heads to the Senate, which is likely. Yundt is a builder and member of the Senate Labor and Commerce Committee. Micciche would also have the ear of the Senate committee chair, Sen. Jesse Bjorkman, R-Soldotna.

. . . Business . . .

House committee moves resolution on Universal Service Fund

Here's an issue not on many Alaskans' radar but needs to be: The U.S. Supreme Court will take up a case that could invalidate, until Congress takes action, the federal Universal Service Fund, or USF, that supports telecommunications and internet service to rural communities. The court will weigh a decision by the Fifth Circuit of Appeals that says the government lacks congressional authority for the USF. The fund now brings \$509 million into Alaska to support rural service including \$211 million for health care facilities and hospitals and \$110 million for rural schools. Losing the support would essentially mean, for children, loss of access to online classes and testing. The House Labor and Commerce Committee moved HJR-6, urging Congress to act if the Supreme Court upholds the fifth circuit decision in *Consumers' Research v. Federal Communications Commission*.

Sen. Merrick's alcohol server bill to be on Senate floor Monday

SB 15, Sen. Kelly Merrick's bill allowing persons under 21 to serve alcohol in dining establishments, is moving quickly. It is scheduled on the floor of the Senate today, Feb. 9. The House version, HB 68 by the House Labor and Commerce Committee, was up in the House Health and Social Services Committee late last week. It is expected to move soon. An identical bill was passed by the Senate and House last year with broad support but was one of the bills caught at the last minute when the House had to adjourn before final floor action. The bill will give restaurants more flexibility in employing young people, easing staff shortages.

HB 73: Governor's bill on special licensing for complex health care

The House Health and Social Services Committee held an its initial hearing last week on HB 73, a governor's bill creating a new license type and regulatory framework for complex health care facilities. The Department of Health and Department of Family and Children's Services have been working to identify gaps in health services to individuals with complex care needs, often behavioral and mental-health related. These are cases that may not need the kinds of intensive, high-cost care at acute care facilities like Alaska Psychiatric Institute and hospitals but more than the lower levels of care now provided in smaller, often home-based environments. The Department of Health would develop the framework for implementation and seek funding mechanisms, most likely through Medicaid.

SB 79: Employers use payroll card to pay wages

This bill, by Sen. Jesse Bjorkman, R-Soldotna, would allow employers to pay wages with a payroll card, with employees' permission. It was up for its first hearing in Senate Labor and Commerce Committee last Friday, Feb. 7. A similar bill was before the Legislature last year but did not pass. Making payment with a card is less expensive than paying with paper checks but employees would have the option of continuing to be paid with checks if preferred.

... Health Care ...

Psychedelic medicine task force established in HB 228 holds initial organizational meeting

The psychedelic medicine task force, established in HB 228 last year, held its first meeting last week to prepare for a possible FDA approval of psychedelic medications. The bill was sponsored by Rep. Jennie Armstrong, D-Anchorage. The task force would not take a position on the medicalization, decriminalization, or legalization of psychedelic medicines but create a set of policy recommendations if it happens. Alaska could be heavily affected by these medications given the number of potential patients and the state's high suicide rate, addiction deaths, domestic violence along with a large population of veterans, many who are afflicted with service-related problems.

The task force consists of Sen. Forrest Dunbar, who is Chair; Rep. Justin Ruffridge, Co-chair; Dustin Allen, clinical health supervisor with Knik Tribe Behavioral Health; Courtney Enright, legislative liaison for the State Department of Health; Justin Heminger, board member, NAMI Fairbanks and National Alliance Mental Illness Alaska; Angela Laflamme, special assistant to Major Gen. Torrence Saxe, Alaska National Guard Adjutant General; Lauree Morton, deputy director, Alaska Network on Domestic Violence and Sexual Assault; Dr. Robert Lawrence, chief medical officer for the state Department of Health, and the Commissioner's designee on the task force; Kristen Maves, pharmacist with the Alaska Native Health Board; Dr. Michael DeMolina with Wisdom Traditions Integrative Behavioral Health and Alaska Addiction Professionals Association; Sara Kozup-Evon, Advanced Practice Registered Nurse Alliance representative; Glen Saviers, deputy director, State Division of Business and Professional Licensing.

The meeting last week was mainly organizational, establishing procedures for future work. No date was set for the next meeting, however.

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