

Bradners'

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Deficits grow for 2025, 2026

Senate leaders are warning of widening budget deficits out to FY 2028 after a briefing last week by the nonpartisan Legislative Finance Division. Oil production and prices are expected to be flat or slightly down. A bright spot is the projected increase of the Permanent Fund's annual budget contribution from \$3.65 billion this year to \$4 billion in 2028. Still, state operating costs are increasing and schools are clamoring for a much-needed increase, which even Republican legislators acknowledge. For the current FY2025 fiscal year ending June 30, a deficit of \$140 million is estimated. For FY2026, which begins July 1 (the budget legislators are preparing now) a \$400 million deficit is seen. The two-year deficits total \$536.3 million. This is the amount that legislators will have to find this spring. Sen. Lyman Hoffman, D-Bethel, who is in charge of the operating budget on the Senate side, said the Finance committee, so far, is working with an assumed capital budget of \$300 million; \$29 million for new state employee labor contracts (typically agreed in

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Some federal funds frozen now starting to thaw

Federal money frozen by President Donald Trump has started to flow again in some programs, according to sources. Infrastructure projects seem to be finding favor with the new administration and funds in certain U.S. Environmental Protection Administration projects have been restored. Much of this is anecdotal, so there's no firm data yet. However, Julie Kitka, Federal Co-Chair of the Denali Commission, a federal-state body that coordinates mainly federal money to rural projects, told us that of about 50 Denali Commission projects initially frozen have now seen funds released. As of Feb. 3 there was \$50.6 million in active and pending Denali Commission projects active and pending, according to data given the House Judiciary Committee in Juneau. Of this, \$35.6 million was obligated by federal agencies to projects, according to the data. The Denali Commission funds mostly small rural projects such as water, sanitation and solid waste, health facilities, village infrastructure protection.

Clarification: In last week's Legislative Digest we reported on state energy projects frozen by Trump. We listed the electric vehicle recharging station program as canceled. Its status is more corrected defined as "suspended," we're told, the implication being that it could be restarted at some point.

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... Education ...

HB 69, on school funds, flies through House. Veto in its future?

The first education funding bill of the 2025 session went roaring through the House last week, landing in the House Rules Committee last Friday. The bill will be delayed going to the House floor to allow time for negotiations with the governor, however. Votes in the committees were on partisan lines and the same is expected on the House floor. The House Majority holds control on the floor by only a slim margin and there is concern on how Rep. Nellie Jimmie, D-Toksook Bay, may vote. She signed “No recommendation” when the bill came from House Finance. Twenty one affirmative votes are needed to get the bill out of the House and the Senate. The bill is spendy, however, increasing schools’ Base Student Allocation of \$5,960 by \$1,808 and adds inflation-proofing beginning in 2025. The governor has said he disapproves of HB 69, so look for another showdown over a veto.

Mayors to Legislature: We’re carrying the load; give us a hand

The winter Alaska Municipal League, or AML, conference brought local officials to Juneau and the state capitol, last week. Mayors were at a joint House and Senate Education committees meeting on Wednesday. A key point made was that despite the state Constitution’s requirement to support public education local governments are increasing their share of support for schools as state support lags. Energy and property loss insurance are rising fast and municipalities help out to the extent they can but this strains other municipal services. Kodiak Borough Mayor Scott Arndt told the committees that 60% of local school costs (actually 80% when all factors are considered) are now paid by the borough

AML executive director Nils Andreassen said a particular bone of contention is the state in effect taking 75% of federal impact aid in communities where there are federal installations or lands. This is done by reducing the state contribution to schools for the amount of federal funds received. This affects Fairbanks, Anchorage and Kodiak where there are military installations as well as Southeast communities where there are national forest lands. There are also concerns about a pending regulation change before the state school board, which is appointed by the governor, to deduct other payments made by municipalities to support schools from state support, the committees were told.

Also from the mayors: Help pay for those unfunded mandates

Andreassen said unfunded mandates, or requirements laid onto local schools by the state, are a burden on school districts the state should at least help pay for. School Districts are annually required to:

- Produce disciplinary report on all incidents involving restraint or seclusion
- File a planning report to the state with goals and measures of success
- If low performance, file an improvement plan having “maximum” public input
- File a safe schools report and safety action plan
- Develop written procedures for identifying students entitled to surrogate parent
- Report average daily membership

– Continued on next page

... Education ...

Unfunded mandates put a burden on school districts (Cont.)

– *Continued from previous page*

- Develop and submit teacher evaluation reports
- File annual and quarterly transportation reports
- File qualification statements for all teachers and administrative employees
- Administer statewide assessments
- Offer bilingual and cultural education
- Develop and adopt policy that prohibits harassment and bullying
- Develop and publish concussion guidelines, parent information, and have knowledgeable staff
- Develop and renew a crisis response plan
- Submit developmental profile for each student entering kindergarten or first grade
- Implement employee evaluation system, and conduct observation twice a year
- Develop school disciplinary and safety program
- Develop and provide services to gifted children
- Appoint teams to determine necessary accommodations for English learners

Alaska spending on education is 15% below national average, university research shows

Here are key points from a University of Alaska Anchorage's Institute of Social and Economic Research briefing on school funding to the Senate Education Committee on Feb 17:

- After adjusting for geographic costs, Alaska's per pupil spending is 15% below the national average and has fallen consistently since 2017.
- Since 2017, the proportion of per-pupil spending in the state from federal and local sources has increased while state support has decreased. In 2017 the state provided 64% of funds for schools. That dropped to 55% in 2023. Municipalities provided 22% of all school funds in 2017. In 2023 that increased to 23%. (Note: Municipal funds go only to schools within local governments. Schools operated in Rural Education Attendance Areas are funded only from state and federal sources. Between 2017 and 2013 the share of school funds from the federal government has increased from 14% to 22%.
- In 2022, 46% of funds in Alaska schools went for wages and 27% for benefits. Nationally, 54% of school funds went for wages and 23% for benefits. Operations and maintenance took 27% of Alaska school funds in 2022. Nationally, operations and maintenance took 23% of school funds.
- Adjusted for living costs differentials, teacher salaries are 25% below the national average, or \$16,000 per year.

The research was done by Dayna Jean DeFeo, UAA Associate Professor of Education Policy, and Matthew Berman, Professor of Economics at ISER, working with data from the U.S. Census Bureau and other sources.

... Status of Bills ...

Introduced in the House

- HB 108: Peace officers' retirement benefits (By Rauscher)To SA, L&C, FIN
- HB 109: Lease and sale of state land for recreational cabin sites (By GOV)To RES, FIN
- HB 110: Social work licensure compact (By Gray)To L&C, FIN
- HB 111: Finfish farms and finfish farm products (By GOV)..... To FSH, RES
- HB 112: Special education appropriations (By Bynum)To FIN

House Committees' Actions

- HB 49: Raise minimum age for tobacco, nicotine, electronic smoking products (4 do pass, 1 do not pass, 1 no rec)L&C To FIN
- HB 73: Complex care residential homes (6 do pass)H&SS to FIN
- HB 74: Crime of airbag fraud (6 do pass)L&C to JUD
- SB 15: Posting of warning signs for alcoholic beverages (5 do pass, 1 amend)L&C to RLS
- HB 33: Conflict of interest: Board of Fisheries and Board of Game (7 do pass)FSH to RES
- HB 10: Board of Regents of the University of Alaska (3 do pass, 3 no rec)SA to FIN
- HB 21: Voter preregistration for minors at least 16 (4 do pass, 2 do not pass)SA to JUD
- HB 69: Education funding (5 do pass, 4 do not pass, 1 no rec, 1 amend)FIN to RLS

House Floor Actions

- HB 65: Alaska Railroad Corp. revenue bond for Seward terminalPASSED 36-0
- HB 69: Education funding, discharged from EDU by House vote of 21-18.....Referred to FIN

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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, Tribal Affairs

Coming this week in the Legislature

- HB 25, disposable food ware, House State Affairs, 2/25
- SB 83, telehealth reimbursement, Senate Health and Social Services, 2/25
- School funding, ISER report, House Education, 2/26
- Public hearings, budget, Senate Finance, 2/26
- Lunch and Learn (noon), Report Card on Infrastructure, 2/26
- HB 99, money transmission, House Labor and Commerce, 2/26
- SB 93, early education, Senate Education, 2/26
- Briefing, Launch Alaska enterprises, Senate Resources, 2/26
- Briefing, Alaska military status, House Military & Veterans Affairs, 2/27
- Lunch and Learn (noon), briefing Alaska educator recruitment, retention center, 2/27
- Briefing, Alaska Railroad Corp., House Transportation, 2/27
- Briefing, Municipal Planning Organizations, Senate Transportation, 2/27
- Medicaid funding, pending resolution, Senate Health and Social Services, 2/27
- Small business tax credit, pending introduction, House Labor and Commerce, 2/28

... Status of Bills ...

Introduced in the Senate

- HB 65: Alaska Railroad Corp. revenue bond for Seward terminal (By Stutes)To FIN
- SB 62: Board of parole (By Tobin)
.....To SA, L&C
- SB 102: Exempt state from daylight saving time (By SA)To C&RA, FIN
- SB 103: Certified nurse aide training (By Gray-Jackson)To L&C, FIN
- SB 104: Transfer of a title on the death of the owner (By Kawasaki)To TRA, SA
- SB 105: Lease and sale of state land for recreational cabin sites (By GOV)To RES, FIN
- SB 106: Not introduced
- SB 107: Violation for hindering the Alaska Sunset Commission (By Hughes)To SA, FIN

Senate Committees' Actions

- SB 69: Sexual assault examination kit and kit tracking system (2 do pass, 1 no rec) ...JUD to FIN
- SB 17: Crime of airbag fraud (3 do pass, 2 no rec)L&C to JUD
- SB 29: Executive administrator for the Big Game Commercial Services Board (5 do pass, 2 no rec)RES to FIN
- SB 30: State park permits for disabled veterans (5 do pass, 2 no rec)RES to FIN
- SB 31: Address confidentiality program (4 do pass, 1 amend)SA to FIN
- SB 63: Local Boundary Commission (4 do pass)C&RA to FIN
- SB 76: Complex care residential homes (4 do pass)H&SS to FIN
- SB 98: Extend termination, Board of Veterinary Examiners (3 do pass, 2 no rec)L&C to FIN
- EO 136: Establishing Department of Agriculture (7 disapprove)RES to FIN

What committee reports mean

When a committee reports a bill out (see Committees' Actions) members sign on their recommendations. Many sign "do pass," indicating they support the bill. If they oppose the bill, they will likely sign "do not pass." Many simply sign "no recommendation," meaning they neither support or oppose the bill. Legislators must take a position when they vote on the floor, pushing a button for a green light (approval) or a red light (disapproval).

In committee last week

- SB 17, penalties, nonfunctioning airbag, Senate Labor and Commerce, 2/17
- House Fisheries briefing on Legislative Seafood Task Force final report, 2/18
- SB 63, Local Boundary Commission, Senate Community and Regional Affairs, 2/18
- Senate Transportation briefed by DOTPF, 2025 construction update, 2/18
- SB 72, Alaska Railroad bonds, Seward dock, Senate Finance Committee, 2/19
- SB 39, payday loans, Senate Labor and Commerce, 2/19
- Briefing, state Workers' Compensation program, Senate Labor and Commerce, 2/19
- Briefing on immigration, House Judiciary, 2/19
- Briefing on child care in Alaska, House Labor and Commerce, 2/10
- Briefing, microplastics exposure in Alaska, noon "Lunch and Learn"
- Briefing on small rural energy projects, House Energy, 2/20
- Briefing on winter road maintenance, Senate Transportation, 2/20
- HB 60, procurement preference, farm and fish products, House Labor and Commerce, 2/21
- HB 72, timber management and leasing, House Resources, 2/25

. . . Resources . . .

Sen. Yundt's oil tax bill: First revenue measure of session

Hearings began in Senate Resources Committee last Wednesday on the first new revenue bill of the session, Sen. Rob Yundt's SB 92. *If passed, the bill could bring in substantial revenues, estimated at \$180 million in FY2026, which could help plug an estimated \$500 million hole in the FY2025 and FY 2026 budgets.* SB 92 sets up new state corporate income tax for oil and pipeline companies organized as "S" corporations. S corporations are exempt from the current state corporate income tax because the federal tax liability is instead held by shareholders of the corporation, typically a small number of individuals. In contrast, most large businesses in Alaska are "C" corporations where the state corporate income tax is paid by the business. Because Alaska has no personal state income tax the shareholders pay no tax, however, thus creating a loophole. The bill is really aimed at Hilcorp Energy, a major Alaska oil producer that is organized as an S corporation.

Yundt's bill is a bit awkward as the first legislation by a conservative new senator from the conservative Mat-Su region, but he argues it as fairness in "leveling the playing field" between Hilcorp and other major oil producers that are C corporations and which do pay state corporate income taxes. Yundt is also part of the conservative Senate Republican Minority. The Minority Leader, Sen. Mike Shower, R-Mat-Su, said he doesn't support SB 92. The Senate's coalition-led Majority will support it, however. Gov. Mike Dunleavy is likely to veto the bill if it passes the Legislature, however. In the Senate Majority briefing last Tuesday Sen. Lyman Hoffman, D-Bethel, said new revenues are being discussed in the Majority caucus but that a state income or sales tax is not being considered. That leaves taxes on oil to fill revenue gaps. Tax bills on oil other than Yundt's SB 91 may be in the works.

Department of Agriculture could face headwinds. Being a governor's priority a problem?

The governor's Executive Order, or E.O., creating a Department of Agriculture appears to face headwinds and it may just because it's his priority, meaning politics is a factor. A resolution disallowing the EO went out of the Senate Resources Committee last Wednesday and is now in Senate Finance. Objections, mostly from Senate Majority members, were that creating the new department will cost \$2.7 million to set up and will require 13 new permanent positions, and that its functions can be done by the present Division of Agriculture which is now within the Department of Natural Resources. Sen. Shelly Hughes, R-Mat-Su, supports the proposal and said it was a key recommendation by the Legislature's food security and farming task force, which Hughes chaired. Having a seat at the table in the governor's cabinet meetings will elevate the level of attention given agriculture, she said.

Governor brings in a fish farm bill, allowing farms in closed inland waters

Alaska has long banned fish farms but a new governor's bill would allow farming in closed, inland waters under rules set by the Departments of Fish and Game and Environmental Conservation. Salmon would be excluded from the program.

. . . Health Care . . .

Bill in the works on health insurers' pre-approvals

A bill is being prepared to set guidelines for health insurers on pre-approvals for medical procedures, which has become a real problem for health care providers. Legislation foundered late last session when the state's large health insurer, Premera Blue Cross, threaten to pull out of the state if a bill passed. Legislators buckled under the threat and the bill failed. Over the summer health providers, insurers and the state Division of Insurance negotiated a new version that, hopefully, will be acceptable to Premera. We haven't heard who the sponsor will be yet. Health providers have been complaining of delays in approvals for procedures as well as denials often done by algorithms in insurers' software. This causes physicians and providers' staff to spend time haggling with insurers to get approvals.

Senate committee moves governor' bill on complex care licensure, SB 76

The governor's SB 76, setting up a new license for "complex care" treatment facilities, moved out of the Senate Labor and Commerce Committee last week and is now in Senate Finance Committee. The new license fills a gap for treatment of complex behavioral, medical or disability-related needs between high-cost acute care and lower-level treatment environments. It would reduce the need for sending children out of state for complex care treatment, Senate Labor and Commerce was told.

Rep. Mina sounds alarm on expiration of health insurance tax credits

Rep. Genevieve Mina, D-Anch. is sounding the alarm on pending expiration of health insurance premium federal tax credits. She has introduced HJR 9 asking Congress to extend the credits, which are used by more than 29,000 Alaskans who hold individual health insurance plans. Federal tax credits were introduced in the American Rescue Plan and extended under the Inflation Reduction Act. They are set to expire at the end of this year. If the credits expire the average annual premium cost will increase 125%, from an \$1,464 to \$3,300 for an individual health plan. The tax credits are important to small business owners as well as individuals.

Training for major medical emergencies, HB 27 in House committee last week

HB 27, also by Rep. Genevieve Mina, D-Anch., was up for a hearing in the House Health and Social Services Committee last week. The bill requires the Department of Health to develop training programs for medical emergency first responders to include strokes and heart attacks as well as trauma. The bill requires new guidelines for time-sensitive treatment for physicians and advanced nurse practitioners.

SB 89, licensing provisions for physician assistants, active in Senate committee

SB 89, by Sen. Löki Tobin, D-Anch., on licensing provisions for physician assistants, was up for hearing Feb. 18 in the Senate Health and Social Services Committee. It is scheduled again this week, on Feb. 27. The bill sets up an independent license for experienced physician assistants, which will expand capacity in health care. Sens. Elvi Gray-Jackson, D-Anch. and Cathy Giessel, R-Anch., are cosponsors.

... Energy/Budget ...

Governor withdraws \$50 million request for Alaska LNG Project

The governor has withdrawn a \$50 million request for state funds for the Alaska LNG Project. Instead, the Alaska Industrial Development and Export Authority, or AIDEA, the state development finance corporation, will reserve \$50 million in its projects budget for the big gas project, which is being developed by the Alaska Gasline Development Corp., or AGDC, another state corporation. The \$50 million is a backstop for Glenfarne, AGDC's potential partner in the project. If AGDC finalizes its deal with Glenfarne the company will proceed to final engineering and updated cost estimates for Alaska LNG. Costs have been estimated at \$40 billion-plus but need to be updated. Under the backstop, if the Alaska LNG project does not proceed AIDEA will refund Glenfarne for \$50 million of its costs. AGDC has spent a lot of time before legislative committees in the last two weeks giving updates on the project status, and explaining the \$50 million backstop. Given the tight budget this year the governor decided to withdraw his request to use state money and to let AIDEA fund it. *The recent ringing endorsement of the project by President Donald Trump has raised hopes in the Legislature that Alaska LNG will finally move forward. It includes an 800-mile 42-inch gas pipeline built from the North Slope to Southcentral Alaska.*

Senate Finance Committee estimates \$500 million needed to fund FY 2025, FY 2226 budgets

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late spring); a contingency for the 2025 wildfire suppression and a Permanent Fund Dividend following the “75-25” split as last year (75% of the annual payment from the Fund to the state budget and 25% to the dividend). The size of the deficits require new revenues, Hoffman and other Senate leaders said in briefings last Tuesday. A major new uncertainty is how the federal government changes by President Trump and shadow-President Elon Musk will affect Alaska. Forty percent of Alaska's overall budget is federal dollars. Here's one to watch: If Trump undoes the enhanced federal share for the expanded Alaska Medicaid population this will increase the state's requirement to fund Medicaid. It could be a major new cost factor going forward.

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