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The fiscal plan we should have had

Senate Republicans engaged in some finger-wagging at their weekly briefing for reporters last week. Minority Leader Sen. Mike Shower, R-Mat-Su, said that if lawmakers had taken up a package of proposals made in 2021 by the Legislature's bipartisan Fiscal Policy Working Group the state wouldn't be in the financial jam it is now mired in with a \$500 million-plus budget hole. Shower was a member of the fiscal policy group along with several other legislators now in the Senate and House. The task force had met from July to August, 2021 and put forth a package of recommendations including gradual spending reductions, a cap on future budget growth, changes in the Alaska Permanent Fund to resolve a structural problem and new revenues. The initiative was bipartisan with Majority and Minority members from both the House and Senate engaged. The proposals were conceptual and not developed into bills and the one for new revenues was the stickiest (it called for a broad-based new tax). But the fact that conservatives like Republicans Shower and Sen. Shelley Hughes bought into these ideas as a compromise was striking. But they were never seriously discussed by legislative leaders, Shower complained in the briefing.

However, some of the ideas are newly-minted this year in bills put forth by Sen. James Kaufman, R-Anch. and Hughes (*see page 5*). Besides Shower and Hughes the 2021 task force included Sens. Lyman Hoffman, D-Bethel, Scott Kawasaki, D-Fairbanks, Jesse Kiehl, D-Juneau, and Reps. Calvin Schrage, I-Anch. and Kevin McCabe, R-Big Lake. Rep. Mike Prax, R-North Pole, and

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Education funding, HB 69, on House floor this week

The first major policy and funding bill of the session is to be on the House floor this week. It is HB 69, by Rep. Rebecca Himschoot, non-affiliated-Sitka. The bill started out in the House with a large boost in school funding but was modified as it moved through committees to have a \$1,000 increase in the Base Student Allocation, or BSA, formula for state education funding, added to the present BSA of \$5,960 per pupil. The latest version of the bill also includes policy changes similar to some of those in Gov. Mike Dunleavy's education bill, HB 82. With Rep. Maxine Dilbert, D-Fairbanks, back after an absence due to illness the House Majority coalition now has its thin margin of control restored. *– Continued on page 7*

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. . . Education . . .

Senate committee continues work on Governor's SB 82, policy changes and funding

The Senate Education Committee continued its review last week of the governor's education bill, SB 82. The bill overall would increase funding for schools by \$180 million. In the committee meeting education commissioner Deena Bishop highlighted parts of the bill that increase state funds to 32 of 52 school districts that offer correspondence study programs. Many students in school districts that are in correspondence study also take classes like art and music in their local "brick and mortar" schools, as well as participate in sports, so the governor's bill would increase support for these schools to offset expenses borne in serving those students, Bishop said. Also, the money goes to the local districts, not to the families of students in correspondence through their stipends, she said.

Committee chair Sen. Loki Tobin, D-Anch., questioned lack of data on graduation rates and assessments for correspondents students, pointing out that only 18% of students in correspondence studies participate in annual tests that are required of all children in traditional schools. Bishop acknowledged that students in correspondence programs can opt out of the tests, but said other testing shows correspondence students do well. Sen. Jesse Kiehl, D-Juneau, a committee member, questioned the appropriateness of comparing results from different kinds of tests. "There's a massive selection bias here," Kiehl said, and asked for more analysis. Sen. Tobin said the state has a responsibility to ensure fair assessments. SB 82 increases funds for correspondence study and career and technical education by \$75.2 million.

Commissioner Bishop spoke to sections of the bill offering bonuses for teachers renewing contracts with higher bonuses paid to teachers in remote schools. This is a three-year pilot to see whether it reduces teacher turnover. It is essentially the bill that was proposed by the governor last year. Bishop said this provision comes from recommendations of a teacher recruitment and retention task force organized by the state education department. Other parts of SB 82 increase per-pupil funding for residential boarding schools by 50% and transportation (school bus) funding for all districts by 20%.

HB 57: Cellphones in public schools

HB 57, on cellphones in schools, is moving quickly in the House. It is out of House Labor & Commerce Committee and was up in House Education last week. Sponsored by Rep. Zack Fields, D-Anch., the bill has the Department of Education & Early Development create a model policy for cellphones in schools. A study in *Frontiers in Psychology* found that poor academic performance can often be predicted by high levels of smartphone use, the committee was told. The bill requires school districts to adopt their own policy to prohibit students from using private cellphones during school hours. HB 57 got a lot of support in last week's hearing. Palmer High School addressed concerns parents might have: People against the ban were concerned that safety would be compromised. "Having a phone and being able to notify someone that a threat is in the school is enough justification for cellphones in school," critics of the bill argued. But the opposite is actually more true: With many students calling, emergency teams can be overwhelmed and getting real time information from adults is difficult.

. . . Health Care/Budget . . .

Medicaid: Waiting for Trump's axe

President Donald Trump and Republicans controlling the U.S. House, including Alaska's new Congressman Nick Begich, seem determined to whack the federal budget. Cuts to Medicaid, the health care safety net for low-income and disadvantaged people, are front and center on the agenda. If this happens it will have big effects on health care coverage for Alaskans, for health providers and for the state budget. Legislators will be under heavy pressure to have the state make up the difference. This will be tough.

Here's what's at stake: About 246,000 Alaskans are enrolled in Medicaid. About 99,000 are children and 77,000 are Alaska Native. The federal government picks up most of the tab for Medicaid in Alaska, at about \$2.0 billion annually. The state contributes about \$700 million per year. If Republicans in Congress and President Trump proceed with this, the likely effect would be a big reduction in the federal share. How much is unknown but the Legislature may be suddenly confronted with making up several hundred million dollars for the reduced federal share. This would be laid on top of the projected budget shortfall this year of \$500 million and possibly more.

\$130 million in clean energy projects, mostly rural, frozen by President Trump

Renewable and "clean" energy projects are most at risk in President Trump's new administration. More than \$130 million in federal grants for clean energy projects in rural Alaska are now subject to the president's freeze on funds. Given the president's opposition to funding linked to the "Green New Deal" or climate initiatives, this money is at high risk of permanent elimination.

Affected rural projects include:

- Wind turbines in Kotzebue, Toksook Bay, and Chevak
- Hydro projects in Old Harbor (Kodiak) and Chignik Bay
- Solar energy in Ouzinkie, Brevig Mission, Elim, Koyuk, Savoonga, and Teller

A lot of deficit numbers are being estimated. Here's the latest on what we hear

There are a lot of projected deficit numbers being tossed about although the general assumption is that it will be over \$500 million for the combined FY 2025 and 2026 budgets (this is the amount the Legislature will have to find money for this spring). The Legislative Finance Division told us the projected FY 2025 (current year) deficit is estimated at \$162.1 million including the governor's supplemental appropriations for FY 2025. For FY 2026, the budget year starting July 1, the House Finance Committee has estimated a \$440.2 million deficit assuming a "75-25" POMV split for the Permanent Fund Dividend. FY 2025 and FY 2026 deficits would total \$653.6 million under the House Finance Committee analysis, which also includes the \$1,000 addition to the Base Student Allocation for schools in HB 69. The Senate Finance Committee has meanwhile estimated a \$536.6 million deficit for the two years assuming a \$680 addition to the BSA. However, this does not include the governor's FY 2025 supplementals, which would push it a bit higher. New oil taxes are proposed to cover part of this (*see page 6*).

... Status of Bills ...

Note: Status current through March 7, 2025

House Bills Introduced

- HB 121: Practice of accounting (By Schrage)To L&C
- HB 122: School funding; local contribution (By Prax)To EDU, FIN
- SB 43: Establish month of March as Women’s History Month (By Gray-Jackson)To SA
- HB 38: Supplemental employee benefits (By Saddler)To L&C, FIN
- HB 123: Vehicle rental taxes; issuance of subpoenas related to tax records (By McCabe)To L&C, FIN
- HB 124: Alaska Industrial Development and Export Authority (By Carrick).....To SA, FIN
- HB 125: Membership of Board of Fisheries (By Jimmie)To FSH, RES
- HB 126: Reinstatement of Native corporations (By Foster)To TRB, CRA
- HB 127: Overtime pay exemption for certain newspaper employees (By Foster)To SA, L&C

House Committees’ Actions

- HB 23: Definition of “employer” for purposes of the State Commission on Human Rights (4 do pass, 3 no rec)L&C to FIN
- HB 36: Foster children psychiatric treatment (7 do pass)H&SS to FIN
- HB 75: Permanent Fund; employment; eligibility (5 do pass)SA to L&C
- HB 34: Alaska Innovation Council (3 do pass, 3 amend)L&C to FIN

Coming this week in the Legislature:

- March 11: Senate Finance, SJR 14: Constitutional amendment, Permanent Fund

House Floor Actions

- SB 87: Disapprove the recommendations of the State Officers Compensation CommissionPASSED 36-0

Committee abbreviations:

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

Senators propose “75-25” in statute

Sen. Lyman Hoffman, D-Bethel, has proposed SB 109, with six cosponsors, that revises the obsolete formula now in statute that sets out how the Permanent Fund Dividend is to be calculated. The formula now in statute was created in the 1980s and is now unaffordable. SB 109 codifies the so-called 75-25 formula that is now being followed informally as the finance committees plan the budget. The bill reserves 75% of the annual contribution of the Alaska Permanent Fund to the state treasury for budget support with 25% allocated for the citizen dividend. The bill will be controversial with House Republicans but it recognizes fiscal reality facing the state and would reduce public misunderstanding that the current 1980s formula can be afforded. *Significantly, Sens. James Kaufman, R-Anch. and Mike Cronk, R-Tok, signed on as cosponsors.*

. . . Status of Bills . . .

Note: Status current through March 7, 2025

Introduced in the Senate

- SB 46: Education funding; base student allocation (By Claman)To EDU, FIN
- SB 114: In-state natural gas pipeline developed by AGDC (By Cronk)To RES, FIN
- SB 115: Exemption from insurance regulation for cooperative commercial fishing agreements (By RLS for Fishing Task Force)To L&C, FIN
- SB 116: Campaign finance, contribution limits (By SA)To SA, FIN
- SB 117: State Commission for Human Rights (By SA)To L&C, FIN
- SB 118: Board of Regents of the University of Alaska (By SA)..... To EDU, FIN
- SB 119: Fundamental rights (By Gray-Jackson)To SA, JUD
- SB 120: Establish Alaska Climate Change Emergency Response Commission (By Gray-Jackson) ...
.....To SA, FIN
- SB 121: Health insurance allowable charges (By Giessel)To HSS, L&C
- SB 122: Health insurance network standards (By Giessel)To HSS, L&C

Senate Committees' Actions

- SB 22: Establish financial literacy program for public schools (4 do pass, 1 no rec)EDU to FIN
- SB 23: Civics education, civics assessments, and secondary school graduation requirements (3 do pass, 2 no rec)EDU to FIN
- SB 41: Mental health education (4 do pass, 1 no rec)EDU to FIN
- SB 47: Chugach State Park (6 do pass, 1 no rec)RES to RLS

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 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).

Fiscal policy, 2025 version

– Continued from top, page 1

Sen. Elvi-Gray Jackson, D-Anch. were alternates. *It will really never be known if the task force recommendations, had they been acted on, would have averted present-day problems, but Shower's point was that the attempts were never made.*

Budget reform and fiscal policy proposals have been introduced this year. Sens. James Kaufman, R-Anch. and Shelley Hughes, R-Mat-Su are sponsors of measures. Kaufman has proposed SB 36, a statutory limit on agency appropriations. He links this with his SJR 4, a constitutional spending limit that would replace the current obsolete constitutional spending limit, which is ineffective. Kaufman's SB 36 would link spending growth to 12% of the state Gross Domestic Product averages over the preceding five years. Another bill, Kaufman's SB 37 requires state agencies to set out strategic plans and goals to guide annual budget. The bill requires the governor to review the plans to ensure compliance.

. . . Resources . . .

Senate Resource Committee continues work on oil tax bills

The Senate Resources Committee continued work last week on SB 92, the proposal by Sen. Rob Yundt, R-Mat-Su, to impose a new corporate income tax on oil producers organized as “S” corporations and who pay no state income tax. Industry people lined up to testify against the bill. Kara Moriarty, CEO of the Alaska Oil and Gas Association, said her members were unanimous in opposing a tax essentially targeted at one company, Hilcorp Energy, a major North Slope producer. Moriarty also objected to parts of the bill that were retroactive. It could also create double taxation on producers that are “C” corporations, which pay state income tax, but which have subsidiaries like pipeline companies that are S corporations. SB 92 could result in both the parent corporation and the pipeline subsidiary paying income tax. Moriarty, of AOGA, asked the committee not to move the bill until modeling was done to determine any unintended impacts. Sen. Cathy Giessel, R-Anch., chair of the committee, said the consultancy firm Gaffney Cline has been retained to do modeling.

Some at the Senate Resources hearing supported SB 92. Caroline Storm, executive director of the Coalition for Education Equity, a school advocacy group, urged the committee to pass the bill to provide more funds for education.

First bills in fisheries package up in House committee last week

The House special fisheries committee began work on bills aimed at easing the crisis confronting the state’s seafood industry. HB 116, the first bill taken up, would allow member-owned fisheries insurance cooperatives in Alaska without a new co-op being considered an insurer and falling under regulation of Title 21, the state insurance code. Currently, fishing vessel owners must seek private insurance liability and vessel damage and face rising premiums for individual policies and underwriters that are increasingly selective as to which vessels they insure. An insurance co-op would involve pooling of policies, spreading risks and potentially lowering costs. The bill was sponsored by the House Fisheries Committee.

Watch for more seafood bills to come in

One that is expected soon expands tax incentives for value-added products. Another also expected increases revenue-sharing of state raw fish taxes with coastal communities hit by declining revenues.

HB 117, in Fisheries Committee, would undo bureaucratic wrangle for small fishing groups

The House fisheries committee also took up HB 117 last week, another committee bill that seeks to undo a bureaucratic problem now facing small salmon set-net operators. A new interpretation of state law undoes a long-standing practice of allowing small harvester groups to cooperate and commingle fish with one salmon permit-holder making a delivery. Under the new legal interpretation small harvesters have to hold and deliver salmon separately with each small permit holder delivering and signing for their fish, creating inefficiencies and raising costs. This is the kind of burden the seafood industry doesn’t need.

. . . Business/Education . . .

HB 106: Organized theft, mail theft, and theft of medical records

This bill, by the governor, had its second hearing in House Judiciary last week and will be held pending another meeting. HB 106 looks to create and define “organized theft “as a crime committed by individuals acting in coordination with a group of three or more persons who have engaged in multiple theft violations,” according to the bill. Due to Alaska relying heavily on mail service HB 106 establishes mail theft as a crime, which “can lead to identity theft, credit card fraud, and the loss of valuables,” the governor said in his transmittal letter. The bill would make mail theft a crime of theft in the third degree. The other matter HB 106 tackles is theft of medical records and information, which would be a class C felony to help protect from misuse. The bill currently has no other hearing scheduled.

House Bill 69 picks up ideas from governor’s education bill, HB 89

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A big change on the part of the House is that the latest version of HB 69 does not include annual inflation-proofing. In past years most bills increasing the BSA have included annual inflation-proofing. *This is a significant change perhaps intended to help persuade the governor not to veto the bill if it passes.* The House bill also adopted a version of the governor’s proposal in HB 82 for “open access” for students to enroll in other schools than what would be their neighborhood or local school. In her analysis of HB 69, Sen Loki Tobin, D-Anch., the Senate education committee chair, noted that HB 69 allows students to apply to schools within their district boundary or any school as long as there is space. “The bill language also requires schools to establish a lottery system to admit students outside their borders—effectively overriding any specific application processes established by a school. It would also allow a non-district student admission over an in-district student, and adds more reporting requirements to schools, which grows administrative overhead,” Tobin wrote.

HB 69 also includes streamlining for charter school applications but does not go as far as the governor would like. It does not include the governor’s proposal for appeal of denied charter school applications to the state school board, which the governor appoints. The bill requires a school district to explain why a charter school application was denied. There is also an increase in HB 69 of the percentage of the administrative overhead a school district can retain from a charter school, as well as language to permit charter schools to retain a 10% fund balance, Sen. Tobin noted. The bill also proposes a \$450 incentive for every K-6th grade student who scores proficiently or shows improvement in reading. Sen. Tobin noted a caution: “This approach raises concerns as it may inadvertently direct resources away from struggling readers who need after-school tutoring and summer school access, and towards those who are already performing well.”

There will be extensive debate and amendment action on HB 69 this week on the House floor. We expect this to take most if not all of the week.

... Business ...

HB 113: Tax exemption for small business

The House Labor and Commerce Committee moved this bill out of committee last week. HB 113 reinstates a small business tax exemption enacted in 2012 in SB 23. In 2013, the Legislature passed SB 83, setting an expiration in July, 2023, in SB 83 for the exemption. Since the expiration, business groups have pushed for its reinstatement. Over three years 50 small businesses took advantage of the exemption, the largest group being marijuana retailers, with a cost to the treasury of \$2.5 million, according to information presented at the Labor and Commerce Committee last week. HB 113 is now in the House Finance Committee.

HB 97: Retail theft sales tax; HB 77: Mail theft

The House Judiciary Committee was busy last week with bills on theft. On page 7 we discussed HB 106. Rep. Zack Fields, D-Anch., has another bill, HB 97, which had its second hearing last week alongside a similar measure, HB 77, by Rep. Julie Coulombe, R-Anch. On March 5 the committee compared the three bills including HB 106 to see which would be more effective. Under HB 77, by Coulombe, “possession of mail from theft is Class A, then with this bill the action of theft of mail becomes Class C. If that theft of mail results in identity theft that would be Class B,” Coulombe’s staff explained. HB 97 would modify the criminal code to lower the dollar-amount for felony offenses. About 54% of U.S. small businesses experienced an increase in shoplifting in 2021. Thirty-four other states have adopted similar bills to reduce this. The three bills are all held pending discussions on combining them.

Coming this week in the Legislature:

- Senate Finance, March 10: SB 113, state income tax on digital businesses
- Senate Resources, March 10: SB 108, allow finfish farming
- Senate Transportation, March 11: Port MacKenzie, Alaska Railroad Mat-Su spur
- Senate Health and Social Services, March 11: SB 121, SB 122, health insurance charges, networks

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