

*Bradners'*

# Alaska Legislative Digest

*- Commentary on Alaska issues and policy*

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## *Bottom line is status quo; Education funding fight back in 2025*

### **Governor's budget a starting point**

Gov. Mike Dunleavy introduced what is basically a maintenance state budget for the state's Fiscal Year 2026, the budget year that begins July 1. Dunleavy's proposed spending plan is a starting point for the Legislature, which will write the final plan. The budget is required to be submitted by Dec. 15 but Dunleavy has traditionally released the proposed spending plan a few days early, as he did this year. The state Department of Revenue also released its revenue forecast for FY 2025, which underpins the governor's budget. We'll analyze this in our next report.

As he has done in the past, Dunleavy has proposed a "full" Permanent Fund Dividend, or PFD, paid to citizens of \$3,892 per recipient. This throws the budget into a deficit but the Legislature will change this. The governor's proposal follows a formula in state law that dates from the 1980s that sets out how the dividend is calculated. The formula is considered obsolete, however, and the Legislature typically appropriates an amount for the PFD that can be afforded. In recent years the actual PFD has been about half, or less, than what the governor has proposed.

In total, the governor's plan proposes \$5.21 billion in undesignated general fund expenditures, or UGF. These are funds that are at the discretion of the Legislature and are not tied to specific program obligations. In comparison, \$5.49 billion in UGF funds are being spent in the current fiscal year, so the governor's proposal represents a 5% reduction. Expect this to change.

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### **No new money for schools, so BSA fight will resume**

There's no new money for schools in the governor's budget, which leaves school districts again eating inflation. Expect a repeat of last year's fight over the Base Student Allocation, or BSA, the formula that drives state education funding. We expect a bill will pass raising the BSA and for the governor to veto it again. The question will be whether the override votes can be mustered. Last year the override fell one vote short. The partisan alignment has changed in the 2025 Legislature, so the outcome may be different.

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# Governor's capital budget down 15%

## Capital spending is down, but federal funds in budget offset this

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The governor's proposal calls for \$282.4 million for state-funded construction, a 15% drop from \$330 million appropriated in the current year. Expect this to change. The bulk of state-managed construction is paid for by the federal government, but the state must provide a match, which is in the state capital budget. The amount for the state capital budget is typically changed by the Legislature, usually upward. State legislators must approve the governor's budget in time for his final signature before July 1, the start of FY 2026. The appropriation amounts for specific programs and projects usually change as the Legislature's finance committees make changes, but the governor has the final say over the budget amounts though his line-item veto.

Key items in the FY2026 proposed budget include:

### Public Safety:

- \$2.4 million to establish a Talkeetna State Trooper Post to ensure law enforcement coverage of Willow, Talkeetna and Trapper Creek along the northern Parks Highway corridor
- \$1.3 million to hire three new Alaska State Trooper Investigators to investigate Child Crimes Investigations in Kotzebue, Nome, and the Northwest Arctic
- \$1.2 million to hire five additional Village Public Safety Officers, bringing the total to 90 VPSO positions. In 2020, there were only 40 VPSOs serving rural Alaska villages.
- \$6.5 million to purchase a Pilatus PC-12 aircraft for emergency rural response across Alaska
- \$1.5 million for Alaska Housing Finance Corp.'s "Empowering Choice" voucher program for victims of domestic violence
- General funds deposited into the Disaster Relief Fund for response to disasters. This was \$15 million in FY2025, the current year, with \$13 million proposed for FY2026

### Education

- Total investment in K-12 Education, \$1.5 billion
- \$1.1 billion in K-12 Foundation Formula, which encompasses the Base Student Allocation funding, and \$67.8 million for Pupil Transportation, or school buses
- \$2.75 million in continued support for career and technical education, teacher apprenticeships, and teacher recruitment and retention initiatives
- \$300,000 for a electrician and plumber career pathway development for students
- \$5 million for the University of Alaska Fairbanks toward achieving "R1" status, a quality designation that will attract additional research funding

### Energy Development

- \$50 million for advancing the AK LNG Project Phase 1 to construction

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## **. . . Energy, natural resources, transportation . . .**

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### **Energy (Cont.)**

- \$6.5 million for the completion of engineering, design, permitting, and geological studies for the Bradley Lake Hydropower Dixon Diversion Project
- \$6.3 million for Alaska Energy Authority Renewable Energy Project Grants
- \$5 million for Alaska Housing Finance Corporation Energy Weatherization Programs (utilizing federal funds and funds from the AHFC Dividend)

### **Transportation**

- \$4.2 million for improvements along the Copper River Highway and development of the Wood River Canyon Bridges and Trails
- \$2.5 million for Dalton Highway Heavy Maintenance milepost 76-89
- \$18.1 million for Alaska West Coast Resiliency Projects for damage to infrastructure caused by Typhoon Merbok (\$14.5 million federal, \$3.6 million State funds)
- \$500,000 for Alaska DOT&PF Right-of-Way clearing of vacated homeless encampments

### **Natural resources**

- \$5.6 million initiating a Gulf of Alaska chinook salmon marine harvest study
- \$800,000 to continue the Alaska Marine Salmon Program to obtain critical marine research in the Bering Sea and Gulf of Alaska
- \$858,000 to develop forest infrastructure for increased timber sales in Southeast Alaska
- \$10 million for the Alaska Seafood Marketing Institute to invest over three years to market Alaska's seafood. This is introduced as a FY2025 supplemental

### **Housing and living costs**

- \$11.5 million for the Alaska Housing Finance Corporation Rural Professional Housing Program (\$10.5 million AHFC Dividend, \$500,000 other, \$500,000 federal)
- \$10.1 million for the Alaska Housing Finance Corporation Homeless Assistance Program (\$9.2 million AHFC Dividend, \$950,000 other)
- \$6 million to implement expanded eligibility of the Child Care Assistance Program implementing SB 189
- \$3 million for the Point Mackenzie Correctional Farm Produce Processing Plant
- \$3 million for the University of Alaska Fairbanks – Agriculture and Food Systems for Alaska's Economic Sustainability

## ... What to watch ...

*New Senate Minority; New “stealth” raid on school budgets*

### **New Senate Minority of six senators**

The state Senate will have an official Minority with five Republicans, up from three in the last Legislature. The five include Mat-Su senators Mike Shower, who will be Minority leader, Shelley Hughes, and newly-elected Rob Yundt; Robert Myers of North Pole; Mike Cronk of Tok (elected to the seat being vacated by Sen. Click Bishop; and James Kaufman of Anchorage. With sufficient numbers for an official Minority designation the Republican senators will have more seats on committees as well as staff.

One consequence of Yundt’s decision not to join the Senate Majority, as well as the new partisan lineup in the House, is that Mat-Su, still a growing region with needs for state help on roads and schools, will have no one at the table when key decisions are made in the Senate and House Majorities. That role was played by Sen. David Wilson, R-MatSu, who joined the Senate coalition Majority in the current Legislature, which ends in January. Wilson was a pipeline into the Senate leadership for Mat-Su municipal leaders. He was defeated by Yundt because he joined the Senate Democrat-Republican coalition two years ago. Mat-Su conservatives consider working with Democrats and moderate Republicans as making a pact with the devil.

### **In our next issue:**

Analysis of governor’s capital budget. This will change during the 2025 session but what’s important in the proposed capital budget is that these are projects and programs the governor supports. That means he is less likely to veto them if they are in the final FY 2026 budget.

### **New state regulations, school funding**

The state Board of Education will finalize new regulations at its March meeting that will change how local contributions to schools will be classified in the “local match” calculation that determines state funding. We hear the planned change was developed by the Department of Education and Early Development. It would result in local funds being counted in a way that reduces state funds to school districts. Anchorage, for example, could see a \$11 million loss in state funding. In Anchorage and Fairbanks the presence of military installations results in federal in-lieu-of-tax payments. In rural areas these payments are made to compensate for nontaxable land like national wildlife refuges and national forests. Under the proposed regulations these payment, which are large, would be counted as local contributions and would adversely affect the state payments.

The state administration has argued that this change is needed to bring the state into compliance with federal “disparity” requirements. Sources in the education community tell us this isn’t really the case. The state has been in compliance with the disparity guidelines for two years, we’re told.

*What’s unclear is how this change would affect other local contributions to districts such as from private companies to support career programs and training. If these funds are affected it could effectively “zero out” the private contribution, since it would result in less state money to the district. This could chill local private contributions.*