

Bradners'

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Governor to Legislature: Shove it

Relations between Gov. Mike Dunleavy and the Legislature are getting worse. The governor's vetoes, particularly of SB 183, a bill dealing with the Legislature's ability to oversee the Department of Revenue's tax audit process, have set the stage for a contentious, difficult 2026 session. This will come in the governor's final year in office. A lot has been written about the vetoes of school funding, which totaled \$50 million, a disproportionate share of the \$122 million in total vetoes. The veto of the tax audit bill was largely expected given the hard line the administration has taken on shielding (obscuring, critics say) the revenue department from the Legislature poking into its work. Legislators say they need to oversee the department's audits of oil and gas company tax returns. The department sees it as intruding, given sensitivity around taxpayer data and audits, which are confidential. The department has said it recognizes the Legislature's oversight role, in some form, but complains that legislative auditors want data provided reformatted for them. The department says this imposes a lot of work and an unreasonable burden, and that the Legislative Budget and Audit Committee should do the work itself. The governor cites legal reasons for vetoing the bill. There's obviously more to this and we would expect an override push in January. The Legislature successfully overrode the governor's veto of the education funding bill, HB 57, on May 20, so lawmakers may get comfortable with override. The HB 57 action was the first time in two decades a governor's veto was overridden. This defeat no doubt stung Dunleavy. The \$50 million veto of the school funding in HB 57 is seen as retaliation by many legislators.

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Eyebrows raised over veto of match for transportation funds

There are concerns being raised over the governor's veto of state funds to match federal transportation dollars, where a 10% match is needed. The veto sections begin on page 50 of the capital budget, SB 57, and include \$52 million in state match for surface transportation projects and \$9.8 million in match for airports. The budget bill does not appropriate the matching funds elsewhere that we can see. Without a state match the 90% federal funding is not available.

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Veto of state matching funds for federally-funded transportation programs

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We're told, however, that the Department of Transportation and Public Facilities has enough state match available from 2025, so this is not an immediate problem. But as the unused match is used up the Legislature will have to provide \$70.2 million in new match funds in a FY 2026 supplemental appropriation in January, or else there will be a squeeze on projects. So how did this happen? The governor had requested \$115.9 million in state general funds to provide the federal highway match funding. In its struggle to craft a balanced budget, the Legislature removed \$64.2 million of those general funds for the federal matches, with money reappropriated from other transportation projects, in this case money for the Juneau Access Project, a road project that was shelved, as well as other projects. Legislators also took money from Alaska Industrial Development and Export Authority reserves. Meanwhile, DOTPF had planned to tap the unused Juneau Access funds for the planned new Cascade Point ferry terminal north of the capital city. That project was in an advanced planning stage and was moving to design. Given the reappropriation actions by Legislature, which created compliance risks for federal funding, the governor decided to veto those sections, leaving the money for Cascade Point and AIDEA. But that left a shortfall for money needed for the federal match, which will now require the supplemental.

Dalton Highway project is cut from budget

The Dalton Highway is in the news because of new washouts that have blocked the road. What hasn't received attention is that the governor also vetoed \$2.5 million for rehabilitation of a Dalton Highway section needing work. It is for Milepost 76 to 89. Truckers have been complaining about poor conditions of the road but DOTPF has had trouble getting the Legislature to appropriate money. But when at least some funds were appropriated this spring it was vetoed.

Two other economic development-related vetoes

The governor cut a \$10 million appropriation for the Alaska Seafood Marketing Institute to \$5 million for domestic U.S. promotion for Alaska fishery products. Foreign seafood producers, mainly of farmed salmon, are aggressively pushing into U.S. markets to make up for weak international markets. ASMI's program is to counter this. A \$5 million appropriation to the Alaska Travel Industry Association, the trade association for tourism, was cut to \$2.5 million. ATIA does Alaska generic "brand" marketing and works with small Alaska-based visitor-related companies. The marketing cut is a concern because of the economic headwinds that are dampening the industry mainly among independent travelers who are now more cautious with spending.

Fire suppression, disaster relief funds cut

Included in the vetoes was \$26.8 million in fire suppression funding. The governor is counting on a low fire year. Also cut was \$10.3 million added by legislators to the state disaster relief fund, which was judged to be at a low level. For this, too, the governor is counting on no earthquakes or floods.

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Vetoes strain relations between governor, legislators

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What hasn't attracted much attention is the governor's veto of the Legislature's action to tap \$100 million of funds from the Alaska Industrial Development and Export Authority's new projects account, as well as \$100 million from the state's Higher Education Fund, which is used to fund the Alaska Performance Scholarships as well as a grant program for low-income students, to help close a deficit in the current FY 2025 budget year. The Legislature's action included a provision that if AIDEA's \$100 million is stricken by the governor (which it was) the entire \$200 million will come from the Higher Education Fund, which now has \$400 million. This leaves the fund with \$200 million, which reduced it by half.

A comment on this: The Alaska Performance Scholarship Program encourages students to take more academically challenging courses in high school. The state-funded scholarships are awarded based on performance in those classes. The scholarships can only be used in Alaska higher education institutions (mostly likely at the University of Alaska). The program encourages bright Alaska high school graduates to stay in Alaska for further education. Otherwise, many would opt for Lower 48 institutions. This keeps more young Alaskans in the state, and has a direct bearing on future workforce. Research shows university graduates tend to settle down near colleges they graduated from.

Cuts to major maintenance for schools

Another education veto is \$13 million cut from \$38.1 million appropriated by the Legislature for major maintenance on schools, many in rural areas. The governor said the remaining \$25.1 million in funds are sufficient to pay for the top three major maintenance projects identified on the Department of Education and Early Development's priority list for schools. Projects funded include \$969,300 for a school boiler replacement at Koyukuk, in Interior Alaska; \$6.8 million for a K-12 school renovation at Anvik, on the lower Yukon River, and \$7.2 million for fire system replacements at six schools in the Northwest Arctic Borough.

School districts in a tough spot

The cut to K-12 funding has put school districts in a tough spot, as they have to have approved budgets by July 1. Mat-Su is really exposed on this as the next school board meeting, needed to amend their budget (which assumed more state money), isn't scheduled until after July 1. Mat-Su Borough School District Superintendent Randy Trani said \$7.1 million has been cut, and in comments to reporters describing the district, "as being in a horrible state of limbo, and having to make impossible decisions on how to balance the deficit," he said.

... Budget ...

The revised revenue forecast: What it showed

Alaskans may not like the effects of Gov. Mike Dunleavy's vetoes but the governor based his decisions on an updated, and gloomy, June 12 revenue forecast that reflects expectations of a continued slide in oil prices. That will change, of course. The Department of Revenue based its forecasts on oil futures prices, so the estimates reflect oil traders' expectations for the coming year as of June 12. Since then the Israel-Iran war is upsetting oil markets, which wasn't foreseen. Oil prices are already higher. By June 17 Alaska oil prices were estimated at \$79.84 per barrel, up \$3.54 per barrel from the previous day. The state's next official revenue forecast is due in December, which will be the basis for the governor's FY 2027 budget also due in December.

Governor used June 12 revenue update in deciding on vetoes

In doing his vetoes, however, the governor worked with the most recent June 12 forecast that showed a \$222.1 million drop in revenue for FY 2026. That was based on an assumed average North Slope oil price of \$64.23 per barrel, down from \$68 per barrel price assumed in the March revenue forecast that legislators used in finalizing the budget.

Post-veto budget totals show 5% drop in expenditures

The governor has now signed the budget, and the post-veto totals show a 5% reduction from current year FY 2025, or \$269.8 million, in total expenditures, according to data from the Office of Management and Budget. The operating budget, which includes agency spending, is down 2%, or \$91.2 million. The capital budget, mostly for construction, is down 53%, or \$178.6 million from FY 2025. Legislators reduced the Permanent Fund Dividend outlay, too. That is down 25% from the current year, or \$229 million. The PFD appropriation is \$764.8 million for FY 2026 compared with \$996.3 million in the current FY 2025. *Oil prices, and revenues, will change, so expect a big push for FY 2026 supplemental appropriations in January.*

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