Municipality of Skagway Legislative Report
Prepared March 29, 2023

General Issues:

- Today is the 72nd legislative day. Regular session is slated to end May 18. The regular session can be extended up to 10 additional days if 2/3 of each body agrees.

- 265 bills have been introduced to date: 148 in the House, 117 in the Senate. 3 bills have passed through the process.

- At this point in the session, the House Finance Committee is working through the amendment process on HB39 – Operating budget. After finishing their mark-up Monday and Tuesday, the committee appears to have hit the pause button and the next schedule hearing on the bill is April 1st. At this point, the committee version of the bill includes a 50% POMV dividend (approximately $1.7 billion) whereas the governor's original budget proposal advanced a full statutory dividend (approximately $2.4 billion). Following the release of the Department of Revenue 2023 Spring Revenue Forecast, it is becoming apparent that even a 50% POMV dividend is unaffordable and would leave the budget in deficit. Meanwhile, the Senate Finance Committee is discussing legislation (SB107) setting the dividend amount in statute, essentially repealing the old dividend statute and establishing a new re-set for a 25% POMV dividend with a pathway to work that amount up to a 50% POMV dividend *when new revenues are achieved*, until then the dividend remain at 25% POMV or approximately $1,350.

- Link to 2023 Spring Revenue forecast:
https://tax.alaska.gov/programs/programs/reports/RSB.aspx?Year=2023&Type=Spring
In short, the current FY2023 revenues have fallen such that the current year budget is $246 million in deficit; *this is in addition to the governor's pending supplemental budget requests of another nearly $120 million.* The FY2024 forecasted revenue is now estimated to be $679 million *less* than the 2022 Fall Forecast, creating a looming deficit for that budget (the budget before the House and Senate Finance Committees) *and this is before adding funding for education, increasing the capital budget for items the governor did not include*. The Constitutional Budget Reserve Fund (CBRF) does have a balance of approximately $2 billion however it requires a ¾ vote in each body to access and financial advisors caution against drawing the reserve balance too low for fear of having insufficient ability for the Department of Revenue to meet treasury obligations, i.e., cash flow.

Education Funding:

- The legislature is actively discussing the need for additional education funding with districts statewide testifying to depleted funding, increased costs; high teacher vacancy rates and unmet capital needs. The Senate Education Committee sponsored SB52 proposing an increase to the Base Student Allocation (BSA) of $1,000 and the Representative Dan Ortiz has introduced HB65 which while originally drafted would increase the BSA $1,250, was amended in (H) EDC Committee to add $680 to the BSA in FY2024 and then bump that to $800 beginning FY2025. The price for the Senate version is estimated at $257 million and the revised House bill is expected to cost approximately $178 million in FY2024 and adjust upward the next year. The trouble now is that, following the 2023 Spring Revenue Forecast, the proposed budget is underwater *before the additional education spending, regardless which version advances*.

Budget Issues:

- In addition to the earlier paragraphs, in general, the budget as proposed by the governor for agency operations is reasonably speaking, flat. The legislature, so far the House, has generally acquiesced on the governor recommendation with a few exceptions. Of course they will most definitely depart from the governor on the matter of the dividend, namely because there simply is not the funds to fund a large statutory dividend – spending less on the dividend allows funding to flow to general government and thereby fund the FY2024 budget in large-part consistent with the governor's proposal. In other words, the fight, at this point, is not about the level of government operations, even the governor has tacitly acknowledged this following his 2019 proposed budget cuts that were largely rejected. As a matter of fact, all parties (governor and legislature) are realizing that additional spending is necessary in order to make state employment, state education both K-12 and university more attractive to both prospective employees and students.

- The 2022 Census reported a steady out-migration of Alaskan residents, particularly in the younger age groups even though there was some in-migration of older, perhaps retired persons. This portends future spending challenges for the legislature, not to mention the risks associated with high vacancy rates - for example the Alaska Marine Highway System (AMHS) testified that a) they were unsuccessful in their recent recruitment effort (8 hired/250 applications) and b) sailing schedules will be impacted if full crews are not available. This same 'squeeze' has and will happen on other 'critical mission' state operations (snow removal crews at airports, correctional and public safety officers and DOT operations to name a few).

- Following the release of the 2023 Spring Revenue Forecast, the Senate majority introduced legislation to revisit and revise components of the oil tax structure. While the bill has yet to be reviewed, vetted and or amended, not to mention getting it passed in both Senate and House *and* signed into law by the governor (again, today is the 72nd legislative day so we have a long way to go and a short time to get there), as written it is estimated to raise over $300 million. Additional discussions are beginning to come into the mix for other revenue raising measures including sales & use taxes and perhaps someone will re-introduce the education and/or motor fuel tax legislation from previous sessions.

- Normally, the conversation regarding the mark-up of the capital budget begins as the House wraps up their work on the operating budget so I would expect that to begin more earnestly in mid-late April. Again, all the above commentary applies; that is, where does the money come from, do we ignore deferred maintenance, do we add beyond the governor's initial recommendation, if so how much? At this point, the governor has proposed a general fund capital budget somewhere north of $330 million and I'm expecting SFIN is desiring to get that level higher, perhaps north of $400 million but the question becomes that of an available funding source. While general obligation bonds could be a source for consideration, I am not hearing that discussed at this point. Reappropriations from previous year appropriations is another possibility. In short, the smaller the capital budget, the fewer the number of pending CAPSIS requests can be funded.