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Alaska Legislative Update

The Legislature remains in special session on tax relief for the proposed Alaska LNG project, with the six-member conference committee on HB 381 scheduled to meet this afternoon at 2:00 p.m. Governor Dunleavy has returned the signed FY2027 operating and capital budgets with approximately $90 million in line-item vetoes while preserving core K-12 formula funding. A court decision is expected soon in the high-profile challenge by a second Republican candidate also named Dan Sullivan seeking to remain on the August primary ballot. Today's report covers the latest on the gasline conference committee, a detailed breakdown of the Governor's vetoes and their program-level impacts, the narrow focus of the special session, the 2026 election landscape, and key political dynamics heading into the July 1 target date.

Special Session Update

Governor Dunleavy called the current special session after earlier attempts to pass tax relief for the Alaska LNG project stalled. The vehicle is HB 381, which would replace the existing 20-mill petroleum property tax on project facilities with a volumetric tax based on gas throughput and provide construction-period and early-operation exemptions from certain taxes.

The House passed its version on a 34-5 bipartisan vote. The Senate adopted a significantly amended version that included an S-corporation tax provision and other changes the administration and developer Glenfarne said would undermine project economics. The House declined to concur, leading to the appointment of a conference committee on June 20. Both bodies adjourned until July 1.

Conference committee members are Speaker Bryce Edgmon (I-Dillingham), Rep. Calvin Schrage (I-Anchorage, chair), and Rep. Justin Ruffridge (R-Soldotna) for the House, and Sen. Lyman Hoffman (D-Bethel), Sen. Bert Stedman (R-Sitka), and Sen. Mike Cronk (R-Tok) for the Senate. The committee is scheduled to meet this afternoon at 2:00 p.m. Leadership has expressed interest in public proceedings. If a compromise position is reached, the Legislature could return July 1 for up-or-down votes. At that point the Governor could veto the final negotiated bill and send the legislature back to work, or claim victory and sign the bill into law.

Budget Update

Governor Dunleavy signed the FY2027 operating and capital budgets earlier this week and returned them with approximately $90 million in line-item vetoes. He preserved the statutory Base Student Allocation and core K-12 formula funding while trimming discretionary additions approved by the Legislature. The vetoes came after the Legislature transmitted the bills on June 15.

The final operating budget spends roughly **$1.4 billion less** in Unrestricted General Funds than the Governor's original proposal. Much of the reduction can be attributed to a steeply reduced PFD. The Governor's proposed PFD came in at $3,650 per eligible Alaskan, at a cost north of $2.3 billion. Given that the PFD delta alone is in the $1.5–$1.67 billion range, the reduced dividend (plus the $200 energy relief instead of a full statutory payment) accounts for essentially all — or very nearly all — of the $1.4 billion reduction in UGF spending. The final budget funds a $1,000 Permanent Fund Dividend plus $200 per-person energy relief (combined cost ~$800 million), maintains the statutory BSA of $6,660 per adjusted average daily membership, and includes targeted restorations in health, corrections, and community assistance.

Detailed Veto Analysis and Program-Level Impacts

The Governor's vetoes total nearly $90 million and primarily target discretionary expansions and rate increases. Key items include:

- **$20 million for Community Assistance Payments** — Reduces direct distributions to municipalities. Smaller communities may face tighter budgets for local services and operations.
- **$6.4 million for early education workforce recruitment and retention** — Impacts efforts to address shortages in child care and early learning programs, potentially slowing expansion and increasing turnover.
- **$6.25 million to increase Medicaid reimbursement rates for in-home caregivers** — Maintains existing rates for personal care attendants serving seniors and people with disabilities, which could affect provider participation and access to home-based care.
- **$5 million to increase Medicaid reimbursement rates for direct support professionals** — Affects rates for providers assisting individuals with intellectual, developmental, and physical disabilities, potentially constraining workforce stability and service capacity.
- **$4.2 million for behavioral health grants** — Reduces support for community mental health and substance use treatment providers, which may lead to scaled-back services or longer wait times in some areas.
- **$3.7 million for Head Start grants (with $16.8 million remaining)** — Partial reduction may require some programs to adjust enrollment or staffing while preserving the majority of funding.

Additional vetoes reportedly include teacher incentive-related payments and the $400,000 legislative study on K-12 funding formula adequacy. These changes reflect the administration's focus on spending restraint while protecting statutory education obligations. Full details of the vetoes can be found at https://omb.alaska.gov/fiscal-year-2027-enacted/. Local governments, early childhood providers, Medicaid service organizations, and behavioral health agencies will feel the most direct effects.

Bills

The special session remains narrowly focused on HB 381. No other major policy legislation is moving. The conference committee's work today will determine whether a compromise can be finalized ahead of the July 1 target.

Elections

Statewide: The 2026 gubernatorial race remains crowded, with more than 15 candidates having declared or filed. The outcome of the gasline special session—particularly any compromise on HB 381—and the Governor's budget vetoes will supply early campaign material on resource development, fiscal policy, and legislative effectiveness. The final day for candidates to withdraw from the August 18th Primary is on Saturday, June 27th.

Incumbent Republican U.S. Senator Dan Sullivan is seeking re-election and remains the frontrunner in the August top-four primary. A second Republican candidate with the identical name - Dan J. Sullivan, a retired teacher from Petersburg - was disqualified by the Alaska Division of Elections. A judge heard oral arguments in his appeal on June 25, and a decision is expected soon. Any further appeals would likely go to the Alaska Supreme Court ahead of the June 30 ballot printing deadline. The situation has drawn significant attention due to the potential for voter confusion.

Trending Topics in Alaska Politics

High oil prices have provided fiscal flexibility, allowing protection of the PFD and core education funding – but every shipment of oil through the strait of Hormuz strips away at Alaska’s anticipated fiscal cushion. The gasline conference committee and the fast-tracked court case on the Senate primary ballot are the dominant stories in Alaska politics today. Both highlight ongoing tensions around election integrity, resource development, and fiscal policy as candidates position themselves for 2026. Proponents of tax relief argue it is necessary for project financing and long-term state benefits, while the Governor’s veto choices reflect a preference for targeted restraint over broader program expansions. The short window before July 1 means any agreement will need to balance project viability with Senate concerns over revenue and oversight.

We do hope you’re enjoying this summer. Please feel free to reach out to me or Eldon any time, we’re always happy to connect with you.

All the best,

Ben Mohr Eldon Mulder