
Legislative Report

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 2 attachments (306 KB)

Whittier Hearing Schedule .pdf; City of Whittier .pdf;

Legislative Report

I will continue to work on getting the report automated in the new system. Lucky there are many benefits other new benefits in the system.

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This week, Governor Dunleavy presented details of his proposed fiscal plan aimed at tackling Alaska's ongoing financial challenges, particularly the projected \$1.6 to \$2 billion deficit. The proposal is in response to budgetary concerns highlighted in December and represents a starting point for discussions in the legislature. The plan includes several significant measures, notably a seasonal sales tax, corporate income tax adjustments, increases in production taxes, and an infrastructure surcharge.

**Seasonal Sales Tax-** The proposed sales tax would have a broad base with minimal exemptions, applying a 4% tax during the summer months (April to September) and a 2% tax during the winter months (October to May).

Currently, municipalities set their own tax rates with varying exemptions. Under this proposal, local control over exemptions would be removed, and legislative authority would manage the tax base.

Key exemptions proposed include:

- Sales to the Federal Government or State of Alaska
- Purchases using food stamps or WIC
- Sale of state licenses or permits
- Occasional sales (e.g., garage sales)
- Jet fuel
- Sale of real property
- Health care services
- Goods or services deductible under IRS tax code

- Rent payments for real property

The tax would begin in FY2028 and sunset on January 1, 2034, with an estimated cumulative collection of \$5.1 billion over seven fiscal years.

**Corporate Income Tax-** The plan introduces market-based sourcing to generate an estimated additional \$15 million annually in corporate income tax, allowing Alaska's corporate income tax to be applied to services delivered to Alaskans by businesses outside the state. This provision is expected to raise \$62 million over the lifespan of the bill.

Notably, the proposal includes a provision to eliminate corporate income taxes starting mid-FY2031, which could decrease total state revenues by approximately \$540 million in FY2032.

**Production Taxes-** The fiscal plan proposes increasing the floor for production taxes from 4% to 6%, effective January 1, 2027, and set to sunset January 1, 2032. This increase is projected to generate about \$777 million over the six fiscal years, averaging \$150 million per year. A provision exists for the tax to sunset early if average daily oil production exceeds 650,000 barrels.

**Infrastructure Surcharge-** The bill proposes a 15-cent infrastructure surcharge, though further details on the implementation and specific impacts of this surcharge are pending.

Impact Analysis, the proposed seasonal sales tax is anticipated to be one of the most controversial aspects of the governor's fiscal plan, particularly concerning local municipalities that rely heavily on existing sales tax revenues.

The proposed changes to corporate income taxes and production taxes could also ignite extensive debate among lawmakers and stakeholders within the oil and business communities.

As this proposal moves through the legislative process, it is expected to undergo multiple revisions and adaptations. There will be a focus on community feedback, and various stakeholders have already begun voicing their concerns.

**Permanent Fund Constitutional Amendment-** This proposed amendment goes beyond merely restructuring the Permanent Fund. It proposes a 50/50 Percent of Market Value (POMV) split between government spending and the Permanent Fund Dividend (PFD). The amendment would result in a \$500 million reduction in the cost of the dividend program based on the legacy statute.

However, it presents a \$1.3 billion increase in spending when compared to the recent payout at about \$1,000 PFD to Alaskans.

**Proposed Appropriation Limit-** A new proposed expenditure limit would restrict total state general fund expenditures to a maximum of 1% growth year-over-year. PFD payments and state debt payments authorized under general obligation bonds would be exempt from this cap. Concerns have been raised that this limit could hinder the state's ability to meet projected costs and necessary expenditures moving forward.

Also, and importantly the Meet the Match issue was front and center. Industry and business representatives emphasized the urgent need for the legislature to expedite Governor Dunleavy's supplemental request for nearly \$70 million. This funding is critical to ensuring that construction and highway projects get out for bid in time for the 2026 summer construction season.

In response, the House Finance Committee introduced HB 283, aiming to fast-track the Governor's supplemental requests. This move reflects a commitment to maintain infrastructure improvements and support economic growth. Meanwhile, the Administration's message is that funding is not needed until July 1, 2026.

**Stakeholder input will remain critical as lawmakers work to balance fiscal responsibility with the need for infrastructure and public services.**

This week's developments underscore the ongoing complexity of balancing Alaska's budget amidst rising spending needs and proposed reforms to the Permanent Fund structure.

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