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STATE OF THE BUDGET ADDRESS

by

The Honorable Walter J. Hickel

Governor of the State of Alaska

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THE STATE OF THE BUDGET:
OPTIMISM AND PIONEERING

by the Honorable Walter J. Hickel
Governor

Before a Joint Session of
The Alaska State Legislature
Juneau, Alaska

January 14, 1993

Thank you Mr. President, Madam Speaker, Lieutenant Governor, members of the Cabinet, legislators and fellow Alaskans.

Tonight we are gathered here to address an issue of great concern to all Alaskans. State spending in Alaska touches each Alaska family and each Alaska business.

Since oil began to flow down the pipeline, we have witnessed an annual ritual, as Alaskans of all persuasions gather in Juneau to lobby for more and bigger budgets.

Alaskans have developed an appetite for and a dependence on funding programs unheard of by other states.

No wonder that the spectre of Prudhoe Bay oil beginning to decline has caused shudders throughout Alaska's villages, businesses and neighborhoods.

In response, I called an Economic Summit to examine if and when a crunch might hit us, and to look at our options.

Some Alaska newspapers scoffed when Alaska announced a home-grown Economic Summit. And then praised President-elect Clinton when he announced his Economic Summit a few weeks later.

But, while some editorial writers couldn't figure out if they thought Economic Summits were a good thing--the people of Alaska had no such problem.

On the 29th of November, 125 delegates, at their own expense, gathered in Anchorage.

They examined five basic tools that Alaskans have to work with--budget cuts, state savings accounts, economic development, taxes, and Permanent Fund earnings.

The delegates, including several of you here tonight, argued in open debate, with no hidden agenda, about how to take Alaska forward.

In listening to their reports, two fundamental conclusions were obvious:

1. When dealing with an economy that is 85% dependent on natural resource development--Alaskans must think beyond a year-to-year budget cycle. And,

2. When Alaskans look at the long term picture, they are remarkably united.

For those reasons, tonight I want to make a proposal to the legislative branch. In addition to developing the budget for Fiscal Year 1994, let's work together on a five-year fiscal plan.

I assure you, the public wants one, deserves one, and is eager to help.

This evening, as I discuss the FY 94 budget, I will do so in the context of some of the ideas that came from the Summit and give you my early thoughts for a five-year fiscal plan.

I look forward to hearing yours.

As we look to 1994, I am ready to recommend three of the five fiscal tools I mentioned -- spending reductions, state savings accounts and economic development.

Progress must be made from these three before we turn to taxes or Permanent Fund earnings.

First, spending cuts.

Yes, we heard the message. We "get it." We must cut the budget. And we must do it now.

What we present here this evening is \$16.3 million less than last year. It is a 2.5 percent decrease in state spending.

To accomplish this we have had to absorb \$80 million in inflationary increases in the cost of operating state agencies.

To evaluate our progress, we must look at true buying power.

Over the past two years, total general fund spending in real dollars has been cut by 6.4%. If this budget is approved, spending will be cut nearly 11% in three years.

Some of you are convinced that more can be cut. You will find me a willing partner.

While we have made some progress with reducing state agency costs, we have not been successful at reducing Alaska's unique and unconventional programs.

They include school debt reimbursement, Municipal Assistance, the Longevity Bonus, Power Cost Equalization, and 15 other programs and pass-throughs.

There was a clear message at the Summit that most of these unconventional programs should be modified or eliminated.

The yardstick is obvious. The priority should be people in need. That's only fair.

To begin with, we should reduce Municipal Assistance and Revenue Sharing, requiring local governments with a tax base to pay for local services.

Secondly, reflecting the recommendations of nine out of 10 Summit working groups, now is the time to gradually phase out the Longevity Bonus.

This began as a well-meaning concept to keep Alaska's pioneer seniors in the state, but it has become financially unrealistic.

It will consume \$67 million this year.

Of those who fit the original criteria, only a few are alive today.

Our plan will not cut off those currently in the program or those planning to enter in the next three years. But in just over 10 years, it will reduce state spending by \$65 million a year.

Many at the Summit asked about the high cost of wages and benefits in state government.

Frankly, I take pride, and the people of Alaska can take pride, in the quality of our state workforce. But in the light of our economic realities, we must focus on increased productivity and cost effectiveness.

While we propose an over-all budget reduction, some areas of government need additional funds. We can't just accept the priorities of the past. We must set our own point in our history.

In the State of the State, I outlined the concepts for education through Alaska 2000.

We cannot avoid the hard work of change by simply throwing money at education.

Former State Board of Education member, Kathy Cuddy of Anchorage, summed it up when she wrote, "Some day we will have to learn that there is not enough tax money in the world to pay government to raise our children for us."

But we recognize that Alaska has a growing population and higher enrollment in both K through 12 and the university system. Therefore we recommend an increase of \$22.8 million this year for education.

Today, Americans everywhere are witnessing a wave of violence. It's breaking records, and it's deadly. Violence in the home. Violence on the streets. Violence in the schools.

Well, Alaska is fighting back.

We are recommending increases of \$19.2 million for public protection.

But tough new troops are not enough. We need to give our police and prosecutors tough new laws--the tools they need to do the job.

My crime bill last year never made it out of committee. But with new leadership in this body and a strong, new class of '93, I believe we can pass a tough new crime bill now.

Let's turn to savings accounts and reserves.

In addition to the principal of the Permanent Fund, Alaska has savings that total over \$1.5 billion.

While some of my friends suggest that we put these accounts in the Permanent Fund, I respectfully disagree.

We should not store our opportunities away, awaiting the future. Rather we should take advantage of our opportunities, and build a future.

To begin with, we cannot ignore the shameful backlog of schools that must be built or repaired. The estimated total is a staggering \$600 million.

To turn a blind eye to those needs is to bequeath a tattered, second-rate future to our children.

We have three alternatives:

1. We can let our kids and teachers struggle on using crowded, run-down facilities.
2. We can go into debt and sell bonds that will cost twice as much over time.
Or,
3. We can allocate up to \$150 million a year for four years from our savings.

I support using savings, and I will submit legislation to that effect.

Every district will benefit.

We need new schools in Fairbanks, Wasilla, Gambell, Fort Yukon and Edna Bay, to name a few. We need major repairs of West Anchorage High, Kenai Junior High---Wrangell, Petersburg, Sitka---and the list goes on and on.

To maintain fiscal restraint, let's use a matching grant formula so every district must contribute.

The communities have already put these projects at the top of their lists. Now we need your support.

Why do these savings accounts exist?

One reason is our recent success in resolving the tax and royalty disputes we inherited.

We've brought in three-quarters of a billion dollars.

This we will continue. I have directed the Attorney General to pursue aggressive action to resolve the remaining assessments against major oil producers through settlement or litigation.

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The third fiscal tool is economic development. The source of most of our revenue. Of course, the importance of our economic opportunities goes far beyond meeting government's fiscal needs.

While some of our resources such as minerals, timber, fish, tourism and Arctic research generate very little state revenue compared to oil--

--they hold great promise in terms of jobs and economic benefits for our people.

That's why we have launched a survey to inventory and catalogue our mineral resources,

-- an effort to support the Community Development fish Quotas from the Bering Sea,

-- a program to encourage cottage industries, tourism, and other enterprises in rural communities which has already attracted 230 applicants since last June,

-- as well as Arctic research, a rapidly growing \$65 million a year industry, led by the University of Alaska and the Science and Technology Foundation.

Previous administrations have let economic development wither to less than one percent of the state budget.

I find that amazing.

This legislature can and must reverse this trend.

I was encouraged to learn, Madam Speaker, that you have established an Economic Task Force in the House. I understand that you will be doing the same in the Senate, Mr. President. I congratulate you for that.

I pledge full cooperation.

Prudhoe Bay is not the end of an era. It is just the beginning. The recent discoveries by ARCO Alaska on state lands are clear signals that we have just begun to tap the oil potential of Alaska.

This session we will re-introduce legislation to encourage exploration of remote areas.

We want to explore large blocks of land on a given timetable, and to extend exploration credits to those who drill wells for geologic information.

This legislation will increase our knowledge of our resource base.

And it will make Alaska more attractive, not just to the "oil giants," but to a wide range of companies, including independents and smaller firms.

We want America's oil industry more committed to invest in Alaska than in Columbia, Kamchatka, or Kuwait.

Also, the Alaska public believes in the future of our natural gas. And the markets in Asia are there and real.

The gasline project, with its jobs and revenue, will make Alaska a bright spot in the nation and one of the world's largest suppliers of near pollution-free energy.

Eventually, we will see the opening of ANWR along the coastal plain, despite some South 48 Congressmen who believe Alaska needs more wilderness.

I'm looking forward to when they clean up their own states--starting with that embarrassing, junk-filled rail corridor from New York to Washington, DC.

Here in the North, we have exciting new opportunities with our fellow Arctic regions, including the Russian Far East.

Last September, the Northern Forum, was legally established, drawing together 14 Arctic regions, with Alaska as the hub.

Through these new working relations and combined with my visit to Moscow in October, we were able to sign a contract with Murmansk Shipping Company.

In late summer, the first two ice-armored freighters--loaded with Alaska cargo---will use the Northern Sea Route, over the top of the world to Europe.

Yes, pioneering is alive and well in Alaska.

If, and only if, we keep spending under control, and seize our economic opportunities, we can fill the fiscal gap during the next three to four years without reinstating taxes or tapping earnings from the Permanent Fund.

I'm a believer that there will be major new oil discoveries on state lands and the oil pipeline will remain near capacity.

Otherwise, it may be necessary to levy more taxes and to use some form of Permanent Fund earnings to fill the gap.

If a choice has to be made among taxes, there was a near unanimous support at the Summit for a personal income tax.

A personal income tax will tap the wages of thousands of Outside workers who come to Alaska every year--to work in our fisheries, tourism or on the Slope.

As it is now, they pay nothing for state services.

Sales taxes should be left to local governments.

The subject of Permanent Fund earnings, as this body knows, is a political hand grenade.

One of the presenters at the Economic Summit quipped that the Permanent Fund is not a sacred cow--it's a sacred bull!

Most of the Summit delegates felt that inflation-proofing the fund should continue. But they were open minded on dividends.

They indicated that there may come a day when we have to take that bull by the horns.

The most popular approach discussed was to continue the dividend, but cap it at some level, perhaps \$1,000.

But there should be a debate about how those earnings are used.

The fund itself did not come from taxes. It is the result of royalties from seizing the economic opportunity at Prudhoe Bay.

Some argue that earnings from the fund should not be spent to operate government but should be reinvested not only to create more Prudhoe Bays but to create a better quality of life.

That means better schools, roads, landscaping and architecture that enhance the environment.

As I look at Alaska's communities--with their public buildings in their wonderful natural settings--I say to myself. "Let's stop building junk, let's build a culture."

In summary, let's produce an FY 94 budget that we are proud of, cutting waste and duplication, while making essential services stronger and attainable.

Let's wean ourselves away from unconventional giveaway programs.

I've recommended we start with Municipal Assistance and the Longevity Bonus.

I look forward to your proposals.

But, let's not ignore our children who need better schools,

--let's not ignore our families that need safer villages and neighborhoods,

--and let's not ignore our economic opportunities.

Most important, let's look together and work together for the long term. Our five-year fiscal plan can be a road map for state priorities.

Finally, let's re-ignite the fire of optimism.

A cynic cannot be a pioneer. He would never make it to the outskirts of town, let alone the moon.

I hesitate to shatter a myth, but, for the record, let's forget the old label of Alaska, "the last frontier."

There will be frontiers as long as there are humans.

Every child born is given new frontiers to explore--from childhood to teenage, from teenage to adulthood.

God's way to test us is to give us our own frontiers.

It has nothing to do with real estate. The frontiers are in the heart, in the mind and in the soul.

The days of pioneering are not over. Alaska is blessed because our challenges are so obvious--our opportunities so clear.

Let's step up to the moment together.

Thank you.