

**HOUSE & SENATE JOINT
JOURNAL SUPPLEMENT**

January 19, 1995

Thursday

No. 2

STATE OF THE BUDGET ADDRESS

BY

THE HONORABLE TONY KNOWLES

GOVERNOR OF ALASKA

STATE OF ALASKA

BEFORE A JOINT SESSION

OF THE

FIRST SESSION OF THE

NINETEENTH ALASKA STATE LEGISLATURE

January 19, 1995

Juneau, Alaska

State of the Budget Address
by Alaska Governor Tony Knowles
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President Drue Pearce, Speaker Gail Phillips, senators and representatives of the 19th Alaska Legislature, Justice Rabinowitz, members of the cabinet, my wife Susan and fellow Alaskans.

Two nights ago, I ended the State of the State address with a promise to discuss in detail the final element of this administration's vision for Alaska's Family - budget discipline. And so, as Paul Harvey says: Now, for the rest of the story.

As I come before you tonight to discuss Alaska's budget, I'm reminded of a story from the campaign trail. Last fall, Jerry Mackie and I were down in Craig on Prince of Wales Island, speaking to a high school class. One question, posed with all the wisdom, innocence and directness of youth, has always stayed with me: "Mr. Knowles, the state government is spending more than it's taking in. What are you going to do about it?"

That's really the question of the evening. We are spending more money than we're taking in. Tonight I intend to tell you what I plan to do about it, for now and in the future.

Those who think the budget is just a bunch a numbers don't understand the whole picture. We have to get value for our dollar, set our priorities and then deal with the numbers.

To most people, when you pay a dollar, you expect a dollar's worth of service. Since I come from the customer side of the counter, I appreciate that sense of value. And one counter where I know people don't feel like they're getting their value for their buck, is at the DMV - waiting in line to register a car or get a driver's license. Although Alaska's workers are trying to do a good job, and a lot of them are, the system is broken. The DMVs everywhere have become a national joke - a symbol of how government doesn't work and just doesn't get it.

Some people say there are a lot more important things than the Division of Motor Vehicles. But my approach to both public service and retail business is on the customer service side. In the restaurant business, something I am familiar with, you have to listen to the customer.

They say you can tell a place by the coffee it makes. If you can't make a decent cup of coffee, you probably can't make a very good main course. In other words, it's the little things that tell you about the big ones.

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That's why we're developing a system so that Alaskans who just want to change registrations or update their licenses can do it themselves at machines like automatic bank tellers. We're going to change that TV commercial that you've all seen, where the only guy smiling in a long line at the DMV, is the one eating Doritos.

Today, many Alaskans feel like they've lost that value for the dollar. The credibility of those of us in this room is at stake; the public wants a decent cup of coffee.

As I noted two nights ago, the goals of Alaska's Family are common: jobs; good schools; safe, healthy communities; budget discipline. With our commitment to this vision and our belief in our common goals, let's turn to our priorities.

For better than a decade, Alaskans have enjoyed something shared by few others: a healthy mix of services and benefits provided largely by one source - our oil wealth. With that wealth, Alaskans have done something no other oil state - from Alberta to the Arab Emirates - has been able to do. We've created and protected a 15 billion-dollar Permanent Fund.

And you have my pledge that this administration will continue to protect the Fund. We will preserve the principal and there will be no change to the Permanent Fund dividend without a vote of the people.

Alaska's oil dollars have allowed us to establish other entities that help create economic opportunities and share the wealth, such as the Alaska Housing Finance Corp., which has helped thousands of Alaskans buy their own homes; and the Alaska Industrial Development and Export Authority, which has helped finance development projects. All of these savings accounts are our seed corn. I'll protect the integrity of these funds.

As we enjoy our oil wealth, we must remember that our vision of a new partnership with industry, competitiveness in the global economy, safe streets and good schools, will remain only dreams unless we develop a sustainable, long-term budget plan . . . and stick to it.

During my visit last week with the corporate chiefs of ARCO, Exxon USA and Unocal, we discussed jobs, expanded development and ways to encourage more investment in Alaska. Yet, like that high school junior from Prince of Wales, their chief concern was budget discipline in Alaska's state government.

So, what are the facts about Alaska's budget today?

1. The budget approved by last year's Legislature totals 2.5 billion dollars in state general funds.
2. We have 80 to 90 million dollars worth of holes in that budget. Those holes include such big ticket items as:

- * 16 million dollars for disaster relief for the villagers hit hard by last year's floods on the Koyukuk River;
- * 13 million dollars to insure public safety by keeping prisoners in jail;
- * 10 million dollars for last summer's fire-fighting costs in the Interior;
- * And 20 million dollars to continue this year the state's efforts to resolve legal disputes over oil and gas taxes.

3. Since we're only taking in 2.3 billion dollars in revenues, that means this year's budget has a gap of around 300 million dollars.

4. The good news is - our gap could have been worse. We'll be collecting 167 million dollars from higher oil prices. The rest of the good news is that we have 1.6 billion dollars in our Constitutional Budget Reserve, which we can use to help plug this year's budget gap.

How long can we sustain these bad spending habits? If we don't do something to stop spending more than we're taking in, our budget gap will grow dramatically - to more than 500 million dollars next year. And in just four years, we will have drained away the entire Constitutional Budget Reserve.

So we are faced with two choices. One is the easy way, like the bumper sticker on the RV cruising down the Seward Highway, which reads: "I'm enjoying spending my kid's inheritance." Or we could take the responsible course and put Alaska on a strict but healthy financial diet.

So here is this administration's six-point plan for a safe landing:

First, we must adopt responsible, full-year budgeting. The past practice of deliberately short-funding some programs must stop. Certainly, no one can anticipate in advance the cost of major disasters, such as last year's flood. But Alaska suffers natural disasters every year and we should budget for them.

I urge the Legislature to give quick approval to this year's supplemental costs. In turn, I pledge to do everything within my power to limit this practice of coming back for more.

We must also stop the practice of budgeting one year at a time. We must pay attention to where today's budget decisions will put us a couple of years down the road. For instance, how will the capital projects we propose today affect the operating budget tomorrow?

We will present a five-year fiscal projection in detail to the Legislature with our budget proposal in February.

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Second, we will immediately stop the budget increases. To that end, I repeat a pledge I made during my campaign: I will veto any increase over the previous year's total budget, except for education.

Let me talk about that single exception to my veto pledge, the public education of our children, from childhood through the university. Just because we have exempted it from growth, education does not have a blank check.

I am committed to early and full funding of constitutionally mandated public education in Fiscal '96. This year, we will pass more than 620 million dollars in state general funds to our 54 school districts. We do this through a convoluted method of calculations, exclusions, exemptions and differentials known as the Foundation Formula.

This method pits district against district, making some winners and leaving some short in the funding game. There should be no losers in the education of our children.

We currently fail to address the fatal flaw in the way we fund education: placing numbers, not children, at the center. It is time to address the Foundation formula.

I believe the way we fund education must meet four consensus points.

1. It must be fair, equitable and accountable.
2. Funding levels must be affordable, both now and in the future, and must protect the partnership between state, federal and local dollars.
3. Resources should be channeled toward the greatest need.
4. We must insure the integrity of vocational and special education and bilingual programs.

When it comes to the education of our children, we can't forget that more money doesn't always translate into better education. We must reward better educational accountability and higher standards of excellence.

The third element in our plan is to control costs and streamline programs. That brings us to reforming welfare, which this year will cost about one quarter of a billion dollars in state general funds. Welfare is actually three programs:

* Aid to Families with Dependent Children provides cash assistance and medical care to about 25,000 Alaskan children in roughly 13,000 poor families. It costs 61 million dollars this year alone.

* Adult Public Assistance provides cash assistance and medical care to 11,000 Alaskans who are blind, disabled or the elderly poor. This year it totals 39 million dollars.

* Medicaid provides health care services to those families receiving other types of state aid. This year, that cost is 134 million dollars.

Our welfare reform program must be tough but compassionate. We must set realistic goals for increasing personal responsibility. In my State of the State address, I announced creation of a task force to develop an Alaskan Blueprint for Welfare Reform to implement our proposals. I have asked this group to focus on four objectives:

1. Welfare recipients in Alaska who are able to work should have a goal of being self-sufficient within three years, depending on family and economic circumstances.
2. Alaska's welfare program will require that both parents are held responsible for the long-term financial well-being of their child.
3. Alaska's welfare program will be designed to educate and train people for the job market.
4. Alaska's benefit system should always make it pay to work.

I believe we can stop the rapid growth in the cost of welfare and put more Alaskans to work.

Another key part of controlling state spending involves public employee labor unions. My administration has just begun negotiations with Alaska's largest union. I'm asking them to work with us to develop cost-effective strategies to downsize government. Let's take a page from the private sector and explore early retirement incentives, if they save money.

We should use attrition in a way that helps reduce government costs while maintaining good service to our customers. Our union workers must work with us to reduce costs, develop flexibility in work rules and form labor management committees, all designed to reduce the cost of providing public services.

I regard public employees as part of the solution. They plow our roads, they treat our sick and some risk their lives. Just like those of us in this room, they have chosen public service because they believe they can make a difference. I will ask them to help. I know from personal experience in my own business that if you ask the workers how to do the job better, you get great ideas.

Alaskans also must undertake a fresh and creative approach to redesigning how we deliver services in a modern, cost-effective way. For example, we need to reform the way we train Alaskans for jobs.

Right now, 7 state departments operate 15 separate job training programs totaling 46 million dollars.

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To help prepare Alaskans for future jobs, I will work with the Legislature to establish the Human Resources Investment Council. It will be charged with coordinating job training programs among the various state agencies.

Its efforts will increase efficiency, reduce waste and coordinate with private sector employers to identify new jobs and fill them with qualified Alaskans. It's a step already taken by 16 other states; Alaska is long overdue.

Our state government needs to regain its technological edge. A decade ago, we were on the front lines of the information revolution with our state-of-the-art telecommunications network, satellite links and distance education programs.

Today, I can't send an electronic message across the street, much less to Barrow. In fact, only a handful of state agencies are equipped to enter the information age. Just as it does in the private sector, better technology can save us millions of dollars through increased efficiency.

Both to improve access to government and provide services more cheaply, I've asked Lt. Gov. Fran Ulmer to head an effort to bridge the great distances between our communities.

Her group of technological wizards is developing plans for increased video-conferencing to cut back on the 44 million dollars in state travel costs each year, a toll-free 800-number Alaska Help Center and better connections to the information highway. There's no reason it should cost Alaskans more to contact their government for information than to call Maine to order a pair of boots.

We're also not serving our customers very well with our antiquated, duplicative voter registration system. I'd like to take advantage of Alaska's unique dividend program, by instituting a system that makes registering to vote as automatic as applying for the Permanent Fund dividend.

Effective with next year's dividend application, we will change the form so that the application for your dividend can also be your voter registration application.

Alaska already has a high percentage of registered voters and a high voter turnout, but I believe we should do everything possible to remind Alaskans of our civic responsibility when we collect a Permanent Fund dividend.

Next in our plan to control costs is the need for new regional and local partnerships. As a former mayor, I've been at the bottom of the state-federal food chain where they claim to cut their budget, but in reality only raise taxes at the local level. I'm going to change that.

We'll become good partners with regions and communities by creating economic development plans that lead to diversified local economies. Our Marketing Alaska effort will combine the resources of several state agencies, including the Municipal Bond Bank, to make economic development projects successful.

As communities develop healthier economies, we will look to them to pick up a greater share of local services now provided by the state. For example, inspecting restaurants, enforcing local fire and building codes, prosecuting misdemeanors. But we'll also develop a fair and sustainable level of municipal support.

The fourth element of our plan is reforming our capital budgeting. This administration will propose a five-year capital spending plan calling for yearly capital budgets between 100 to 150 million dollars.

Over the past five years, our capital budgets have jumped from 147 million to 616 million dollars and back again. If those aren't boom and bust cycles, I don't know what is.

The irony is that much of the money in the biggest capital budget years doesn't end up in the pockets of Alaskans. There's simply too much work for our own Alaskan companies to handle.

My priority is maintenance of existing roads and facilities and construction of the essentials, such as water, sewer, school and transportation projects. Any new construction projects should be developed through community and regional partnerships. No more pork barrel politics!

One of the best examples of years of deferred maintenance that requires our immediate attention is the University of Alaska. I visited the Fairbanks campus several times last year and frankly, I was embarrassed by the neglect I saw.

The university trains Alaskans for economic opportunities of the future and attracts millions of public and private dollars each year for vital research. It can't do either one in buildings that are falling down around the students.

We need to explore innovative solutions, such as revenue bonding or creation of a maintenance reserve fund, an idea recommended through my Transition Team. We're going to fix those buildings and be sure we don't get behind again!

Fifth is the issue of new revenues. We can all hope for significant new oil revenues. As the bumper sticker says: "Please God, give us another oil boom and we promise not to . . . throw it away." But we can't count on it.

Most Alaskans would be willing, I believe, to reach into their own pockets to help pay for the services we need, but only after we show that we're listening, we have a long-range budget plan and we have the discipline to spend their money wisely.

So until we put our house in order, I will not introduce new taxes.

The sixth and final element of our effort is a long-term budget plan to regain the confidence of Alaska's Family. Failure to plot a steady budget course will leave us at the edge of a financial cliff, our bank accounts empty.

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I agree with Commonwealth North and other citizen groups which advocate creation of a bipartisan commission to take a hard look at our revenue sources and our spending habits. This commission, which should include members of my administration, the Legislature and citizens, would seek out the best ideas and recommend ways to close our budget gap.

I commend Senate President Drue Pearce and House Speaker Gail Phillips, for introducing legislation to create such a commission. I pledge to work closely with you, with legislators from both sides of the aisle and with other Alaskans to develop a plan that responsibly meets the budget realities that lay ahead.

Following the course I've outlined tonight will not be easy. But as our families do when faced with a challenge, we will rely on the courage, responsibility, caring, discipline and sacrifice within each of us. Alaska's Family is up to the challenge.

Thank you and good evening.