

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

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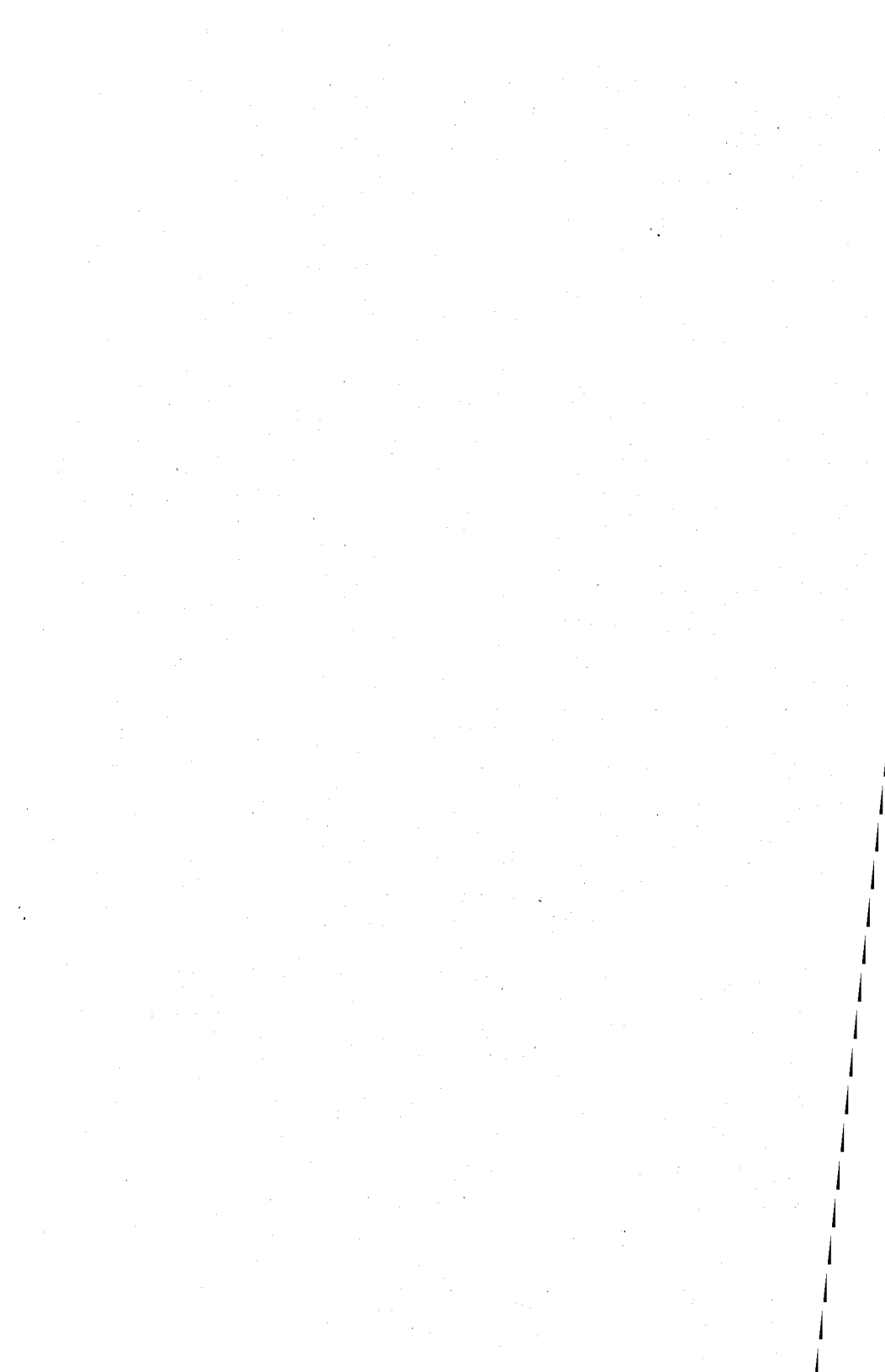
Thursday

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
TWENTIETH ALASKA STATE LEGISLATURE**

January 16, 1997

Juneau, Alaska



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1997 State of the Budget Address
To the 20th Alaska Legislature
January 16, 1997

By Governor Tony Knowles

Lt. Governor Fran Ulmer, President Mike Miller, Speaker Gail Phillips, the 20th Alaska Legislature, my cabinet, my wife Susan, and fellow Alaskans.

On Tuesday evening, we came together to review our progress on a journey toward the 21st century. I reported then that our course is the right one. Initiatives we've undertaken together are producing a growing, diversified economy and a record number of jobs. My message - then and now - is about Alaskan jobs and families.

Alaskans enjoy the highest average household income in the nation and the second lowest rate of poverty of any state. We're making our schools better, our communities safer. We're taking steps to live within our means.

Tonight my purpose is to talk about the budget for the coming year. I'll discuss the principles we'll use to arrive at the "right" number. I'll report on a long-term financial plan for Alaska and ways we can put our financial house in order. And I'll propose how we can leave an important legacy for our children - and our children's children - an education endowment.

As I discuss these matters, for those of you watching on television, you'll see the illustrations on your screen which we've distributed in the Capitol here in Juneau.

A healthy economy gives us the essential gear for our journey. It gives Alaskans hope and dignity. It produces wealth and pays the mortgage. It builds the foundation on which our elected representatives can provide essential services to those who elected them. Defining what those services are and determining how we

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collect the revenues to pay for them, is the essence of our democratic budget process.

As we embark on another legislative session, many are asking: what is the right level of the state budget - what's that magic number we should agree on 118 days from now?

My answer is this: the budget should be enough to provide Alaskans the essential public services we need, and not a penny more.

But what is an essential service? For the single, working mom in Fairbanks who needs somebody to watch her young son every day, her answer is adequate child care. For the Kwethluk family putting out their gill net and the family sportfishing on the Kenai, their answer is properly managed salmon runs so the fish return every year. For the Hoonah grocery store owner, his answer is keep the ferries running on time.

Each answer is the right answer. Each answer describes the balance of values we must consider as we construct the state budget.

To help find the right answers for the Alaskan Family, I'm asking one of our most able ambassadors, Lt. Governor Fran Ulmer, to criss-cross our state in the coming months. She'll be continuing the dialogue about what matters most for Alaska's children - education, crime, safe, healthy communities and how we can work together to improve their future.

As we work together over the coming four months to reduce state spending and serve Alaskans from the customer side of the counter, we must be mindful that Alaska's budget is more than just a column of numbers.

We must also be mindful that those who deliver Alaska's public services aren't so-called faceless bureaucrats. They're our neighbors - sometimes risking their lives. They are dedicated, hard-working public servants.

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Like 76-year-old Jerry Luebke of Tazlina, who started working for the Alaska Roads Commission before Statehood. With 53 years of government service under his belt, Jerry just keeps on going - fixing state trucks and bulldozers as an equipment shop foreman because he loves what he does, and he does it well.

Or Randy Kaycon, a Bethel-based Fish and Game wildlife biologist whose work managing wildlife affected the well-being of thousands of western Alaska residents. Randy was so dedicated to his job that when the weather broke during last Thanksgiving weekend, he decided his priority was to conduct a much needed aerial moose survey. Tragically, the Cessna 185 he and the pilot were in crashed on the lower Yukon River, killing them both.

Or Mat-Su public health nurse Susan Ott, who was recently asked by a state-funded Healthy Families worker to visit a two-week-old baby who just didn't look right. Detecting a heart murmur, Susan immediately put the mother in touch with the baby's pediatrician, who discovered a life-threatening illness. Her quick thinking saved the infant's life.

These and thousands of other public employees like them, are the Alaskans who police our streets, repair the potholes and educate our kids. They are the faces behind our state budget.

Alaska's budget fosters jobs and economic development. It gives us the tools to provide our children a healthy start and a solid education. It determines whether our communities are safe and healthy and our environment clean. It permits us to manage our resources wisely and on Alaskan terms. It requires us to get the best value for our dollar.

For the coming year and into the next century, my administration's approach to both the size and shape of the budget is guided by five values.

First, we must keep our economy growing so it produces jobs for Alaskans. This means partnering with industry. Marketing Alaska and doing development right - being good stewards of this land we love

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and protecting our clean air, water, wild lands and environment. We must do so through management by Alaskans - for Alaskans; not by the federal government - for Washington bureaucrats.

Second, we must invest in our children's future by improving our schools. This means a healthy start for our children, investing more resources for quality schools and holding students and educators to higher standards.

Third, we must keep our streets and communities safe and healthy - fighting the predators who prey on our children and women as we work to prevent domestic violence and juvenile crime. It means ensuring that no Alaskan lives in Third World conditions, and that we provide for the needs of our most vulnerable citizens, including our seniors.

Fourth, as we develop our resources, we must protect our assets - the Permanent Fund, our economic development agencies and our public facilities - schools, roads, ports and airports.

Fifth, to give Alaskans the best value for their dollar, we must deliver services in ways that are efficient, cost-effective and customer-friendly.

The budget I propose for the coming year continues efforts we began two years ago to cut state spending. I am proposing a budget of two point four billion dollars in state general funds.

In my first year in office, forty-eight million dollars was cut from the budget. Then, last year I pledged to cut an additional one hundred million in three years. As you can see in Illustration 1, we're already 90 percent of the way there.

That's in spite of increased school enrollment, inflation, contending with disasters and other costs that required more resources. In this year's budget alone, we've absorbed forty million dollars of those costs.

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As I said when I introduced last year's budget, this is the ceiling - not the floor. I look forward to working with the Legislature to deliver services at less cost. We're already in partnership with communities and others, such as the Alaska Municipal League and Conference of Mayors.

In fact, it may come as a surprise that we're now spending a lot less per person than we were nearly two decades ago. As you can see in Illustration 2, in today's dollars we now spend \$340 less per Alaskan than in 1979. That includes the Permanent Fund dividend program, which didn't even exist then.

I noted Tuesday evening that the private sector is Alaska's economic engine. By partnering with businesses and industries in our state, more than 4,000 new jobs have been created in just the past two years. By working with industry to keep more oil flowing through our pipeline, we're reversing the direction of the Prudhoe Bay curve.

Our budget proposal continues these job creation efforts by encouraging development on Alaska's terms and doing it right. Opening up land for oil and gas leasing, timber harvesting, mining and tourism, depends on adequate funding for the Department of Natural Resources.

To show the nation we can responsibly develop the Arctic National Wildlife Refuge and the National Petroleum Reserve, our environmental regulations must be fair, tough and enforced by the Department of Environmental Conservation. To recapture our position as the world's leading seafood supplier and put salmon and moose on the dinner tables of Alaskans, our Department of Fish and Game must have adequate resources.

Our budget includes other investments to create jobs. A \$200,000 increase in tourism marketing will help keep the flow of visitors to the 49th state strong. To encourage new jobs and business expansion, I'm proposing tax credit incentives for Alaskan businesses.

Our second value is the need to invest in our children's future by improving Alaska's schools. The progress we've already made - and

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the progress still to come - is blueprinted in our state Board of Education's Quality Schools Initiative. The initiative will set tougher new standards for students, teachers and administrators.

The old carrot-and-stick approach will help. My carrot: incentives for quality education. The stick: mandatory standards and accountability.

We have already absorbed twelve point four million dollars for increased student enrollment in next year's budget. As part of a Foundation Formula rewritten by the state Board, I am proposing a twelve million dollar incentive for achieving higher standards.

I am asking the legislature to pay for this incentive with a portion of the one dollar per pack tax increase on cigarettes I reintroduced Monday. That is the only new tax I will be proposing this year.

I've said I hope the tobacco tax increase doesn't raise a dime - that would mean young Alaskans are avoiding a killer habit. However, we estimate it will raise about forty-four million dollars a year. I am asking the legislature to designate any new revenues collected from the tobacco tax to education and childrens' health programs.

Every year in this country, tobacco kills more people than murders, suicides, drugs, alcohol, AIDS and fires combined. Every state that has raised taxes on tobacco has cut the number of kids using it.

This year - for our children - let's make Alaska's tobacco tax the straw that breaks Joe Camel's back.

We're making other investments in our children. I am proposing new initiatives to make sure our kids enter school healthy and ready to learn, to prevent and combat juvenile crime, to attack drug abuse, and to crack down on the assault and abuse of our children. The payoff on these investments will be enormous.

Consider the story that inspired us Tuesday night about Juneau-Douglas high school senior Dan Fink. Prevention, intervention, dedicated teachers and personal motivation combined to turn that young man's life around.

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Our third budget value is safe, healthy communities. My crime priorities are: stopping the terrible incidence of domestic violence that plagues Alaska and cracking down on youth crime. My budget commits 200,000 more state dollars to supplement more than half a million new federal dollars to fight domestic violence.

Many of our smaller communities lack the resources to deal with violent predators and they need our assistance. I am asking the Legislature this year to approve 300,000 dollars for 10 new Village Public Safety Officers. Over the next three years, our goal is a VPSO in 33 more rural communities.

Another aspect of safe, healthy communities is the basic right to clean water and adequate sanitation. To achieve our goal of making the honey bucket obsolete by 2005, we're providing basic water and sewer to 1,000 more rural households each year. Those improvements bettered the health of 1,600 Alaska children and generated 1,000 summer jobs paying eight million dollars in wages. For the coming year, we're continuing our commitment.

We're also protecting the services and benefits Alaska's senior citizens rely on. Those programs include Pioneer Homes, Meals on Wheels, senior housing, transportation and important Medicaid services. We will again propose capping the Longevity Bonus based on income, but that will affect only the most wealthy - individuals with incomes over \$60,000 or couples making more than \$80,000.

Yet again, we are asking the Legislature to restore funding for eyeglasses, acute dental care, hearing aids and stroke therapy for low-income seniors and other needy Alaskans - services that insurance covers for all of us in this room.

Our fourth budget value is protecting our assets - the agencies that promote economic development and our public facilities. Alaska's most valuable financial asset is our Permanent Fund. As Illustration 3 shows, the value of the Fund was pushed over the 20 billion dollar mark with the one point seven billion dollar deposit we made together last year. In just 13 years, we'll double it.

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Our Permanent Fund helps keep Alaskan families strong and creates jobs. The dividend program is a shot in the arm to our economy. The annual dividend is growing, as you can see in Illustration 4. It comprises 5 percent of the average Alaska family's disposable income.

For low income Alaskans, it means a fourth of a family's annual income. At the same time, the economic activity generated by the dividend creates 8,000 Alaskan jobs. I will see that the Alaska Permanent Fund dividends will grow and be protected.

Three other vital economic development tools are the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority and the Science and Technology Foundation. They provide Alaskans the opportunity to own a home and they assist with job-creation projects, from the world class Red Dog zinc mine to launching a new aerospace industry.

Our fifth budget value is giving Alaskans the best value for their dollar and serving them from the customer side of the counter. There are many examples in our budget.

We are using technology to make government more efficient and more accessible to the people it serves. In two years, we've made progress: Alaska One, the Governor's Open Door, video conferencing, electronic mail and state information on the Internet. But we'll do more. Lt. Governor Ulmer's long-term telecommunications plan is a revolutionary blueprint for the 21st century.

Another area of efficiency is public assistance. Restructuring welfare and requiring capable Alaskans on public assistance to work, will save two point five million dollars next year alone. As this is reinvested into job training and child care, we will generate additional savings in the future.

As we approach the 21st century, the goals of Alaskans are remarkably similar: construct a plan to provide for our families and protect and grow our savings. From Alaska's living rooms to the

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board rooms of international corporations considering investments here to the national bond rating houses of Wall Street, the message is clear: Alaska needs a long-range financial plan.

The State of Alaska's willingness to live within its means gives the private sector the confidence to start and expand businesses, which creates the jobs that fuel our economy.

Mike Bowlin, the CEO of ARCO USA, put it bluntly a year ago when he said, quote: "The single most important thing the state can do to improve Alaska's investment climate and long-term well being is close the fiscal gap."

We need to rekindle the same bipartisan support for a long-range budget plan that existed two years ago. Then, the legislature and my administration committed ourselves to such a course with the appointment of the 15-member Long-Range Financial Planning Commission.

I said a year ago any long-range budget plan must follow five principles. They are principles on which most Alaskans agree. I reiterate them tonight:

First, we must close the budget gap and balance our budget.

Second, we must continue to cut the budget.

Third, we must protect and enlarge the Permanent Fund.

Fourth, any plan to generate new revenues to pay for essential services must be fair.

And fifth, there will be no changes to the Permanent Fund without a vote of the people.

Several of these principles have been achieved. We're within 90 percent of my target to cut one hundred million dollars more.

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We've grown and protected the Permanent Fund. With last year's deposit, our savings account now has more money for future Alaskans than ever in its 20-year history.

I said then - and I want to repeat here now - as long as I'm governor, there will be no changes to the Permanent Fund - or dividends - without a vote of Alaskans.

To my original five principles, tonight I am adding a sixth - establish an education endowment - for secure, growing funding of quality schools.

The single largest expense in Alaska's budget - and rightly so - is our public schools. We invest some 700 million dollars in our schools each year, about one-third of the total operating budget. As school enrollment continues to increase and we invest more to improve their quality, that need will continue to grow.

Our commitment to our children should not - and need not - fluctuate with the price of oil. To me - and I believe to most Alaskans - there is no more important task we can undertake than to assure the continued good financial health of our public schools.

There have been many proposals to do so. Last year, Senator Jim Duncan led the debate for an education endowment. Others in these chambers and elsewhere have meritorious ideas.

I urge the legislature to focus, this year, on the need for an education endowment. I pledge the support of my administration in this important work. Our goal should be a long-term solution for funding the education of our children. I believe we should take the proposal to Alaskans for their approval on the 1998 general election ballot.

As the legislature refines this year's budget, we must continue our course toward a long-range financial plan which addresses all three elements of any budget: operating expenses, capital investments and the revenues to pay for them.

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An important part of a growing economy is maintaining our roads, airports, harbors and other public facilities as we build new ones. I commend Speaker Phillips for her concern with deteriorating public facilities. I offer my administration's support for a long-term deferred maintenance strategy.

I urge the legislature to include in their work on deferred maintenance an assessment of new, long-term facility needs - new schools, university buildings, roads, harbors, prisons and other facilities. Any plan must include how we pay for them.

My administration's proposal last year for a six-year capital plan was a first start, and I look forward to working with you to expand on it.

As Alaskans pause at this start of a New Year to take stock of our place, we are indeed a fortunate people. We live in a magnificent land we love, endowed with resources rivaled by none. Our economy is healthy, our savings account full.

We Alaskans have an opportunity unique in America - the opportunity to do something of lasting benefit for our children and their children.

Our challenge today is shaping the legacy we leave Alaskans tomorrow. By creating an education endowment, we have the opportunity to guarantee quality schools. By adopting a long-range financial plan, we have the opportunity to assure good jobs and the public facilities to keep our economy healthy. By protecting and enlarging our Permanent Fund, we have the opportunity to pay dividends for generations.

Let's take advantage of our opportunities while we still have them before us.

Thank you, and good night.

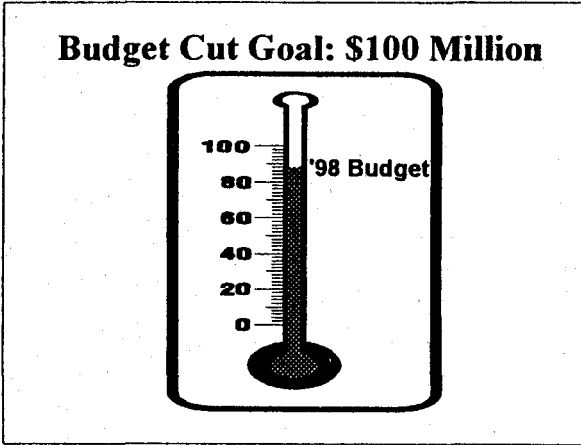


Illustration 1

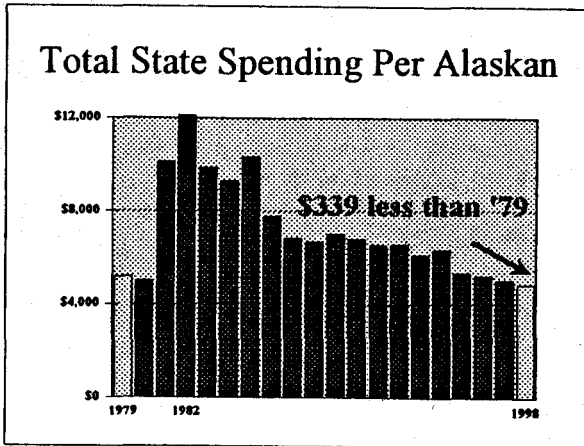


Illustration 2

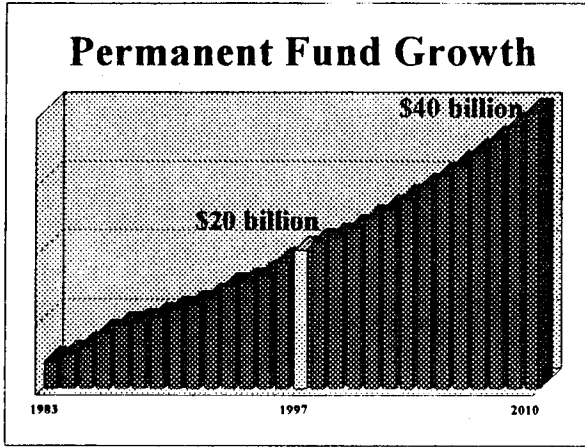


Illustration 3

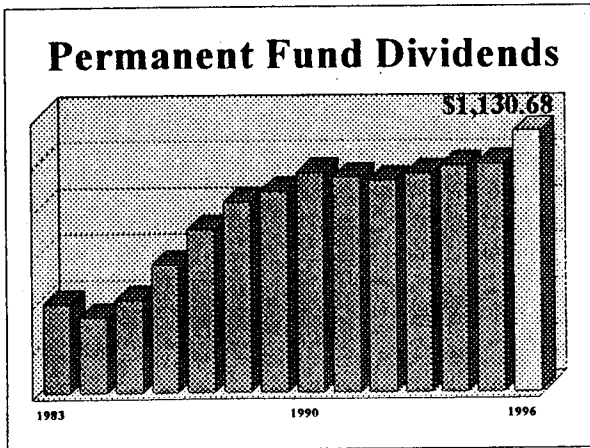


Illustration 4

Budget Principles for Alaska

1. Close the budget gap
2. Cut the budget
3. Protect and enlarge Permanent Fund
4. Fair taxes and fees for essential services
5. No changes in Permanent Fund without a vote of the people

Illustration 5

Budget Principles for Alaska

1. Close the budget gap
2. Cut the budget
3. Protect and enlarge Permanent Fund
4. Fair taxes and fees for essential services
5. No changes in Permanent Fund without a vote of the people
6. Establish an Education Endowment -- for secure, growing funding of Quality Schools

Illustration 6