

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

January 13, 1998

Tuesday

No. 10

**STATE OF THE STATE ADDRESS
BY
THE HONORABLE TONY KNOWLES
GOVERNOR
STATE OF ALASKA

BEFORE A JOINT SESSION
OF THE
SECOND SESSION OF THE
TWENTIETH ALASKA STATE LEGISLATURE**

January 13, 1998

Juneau, Alaska

REPUBLIC OF CHINA
MINISTRY OF NATIONAL DEFENSE

SECRET
CONFIDENTIAL
TOP SECRET

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

January 13, 1998

No. 10

1998 State of the State Address
To the 20th Alaska Legislature
January 13, 1998

By Governor Tony Knowles

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

Tonight marks my fourth appearance before you in this forum. It's my purpose to review the past year and look to the year ahead, as we consider a vision of our Alaska - where there are good jobs and economic opportunities; quality education; safe, healthy children and communities; and budget discipline.

I'm pleased to report that as a result of our work together over the past three years, the state of our state is sound. Alaska's economy is healthy; our course is the right one; the future for most Alaskans is bright. As we take stock of our responsibilities on this, the cusp of a new millennium, we face no more important task than building for Alaska's future. Our history proves we are up to the job - Alaskans are great builders.

When the first Alaskans crossed a formidable land bridge to settle here thousands of years ago, they carved a permanent civilization from the wilderness. When prospectors made their way here a century ago, they built communities that still stand strong. When America required Alaska energy nearly 30 years ago, Alaskans responded by building the trans-Alaska oil pipeline - America's largest, privately funded construction project.

Our most important challenge, and the top priority for Alaskan families, is well-paying, meaningful jobs and a healthy growing economy.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

I'm pleased to report that in the past three years, more than 8,400 new jobs have been created. This helps account for an all-time high of 273,000 Alaskan workers earning a record \$6.6 billion a year. Most of these jobs – more than 185,000 – are with private sector Alaska companies and businesses.

For the first time since Statehood, the annual unemployment rate is on target to remain below 8 percent five years in a row.

As the number of jobs increases, the number of Alaskans in these jobs also is rising. Working with the private sector, we're delivering on our commitment to hire Alaskans.

We're also making progress moving Alaskans from welfare to work. Since we adopted welfare reform last July, 2,200 families have left public assistance rolls for jobs. The number of Alaskans on welfare today is at the lowest level in six years – 22 percent below the peak in April 1994.

All this good news has confounded the naysayers, who not long ago predicted an Alaska in the doldrums. Today the opposite is true: Alaska's economy is growing and Alaskans are optimistic about the future.

Alaska's Associated General Contractors put it well in their Fall construction forecast: "An economy that looked like it might have a few rough spots ahead now looks like a super highway to the turn of the century, with better than a fair chance for another 1,000 jobs and over \$2 billion in investments between now and the year 2000."

One of the brightest stars in this constellation of success is our oil and gas industry. Thanks to an oil patch resurgence, more than 1.3 million barrels a day are flowing through the pipeline. That good news contrasts with dire predictions of dwindling production, layoffs and shutdowns.

In fact, the industry goal is a Prudhoe Bay curve that will actually rise by the turn of the century.

There have been highly successful state lease sales in the Beaufort Sea and Cook Inlet. New discoveries like Alpine, Badami, Tarn and Liberty are in development. Existing fields like Niakuk and Milne Point are being expanded. New projects like heavy oil from West Sak and Schrader Bluff and the Kuparuk Large Scale Enhanced Oil Recovery are under way. Hopefully, Northstar also will start soon.

This turn-around in our oil and gas industry is a tribute to the entrepreneurial risk-taking of Alaska's private sector, encouraged by the state's open and ready for business environment.

The privilege of developing Alaska's publicly owned resources carries with it an obligation to do so on Alaska's terms. That's why my administration insists any development here be done right – by hiring Alaskans, using Alaska businesses and protecting our air, water, wildlife and habitat.

There's no better place Alaskans can prove to the nation that we do development right than in the federally owned National Petroleum Reserve. Set aside for oil development in 1923, the Indiana-sized NPRA could hold up to 5.5 billion barrels of oil.

Last summer at the new Alpine field next to NPRA, I showed Interior Secretary Bruce Babbitt how Alaska's oil industry employs the best, most modern technology, to protect the bountiful fish, wildlife and habitat resources. Now, we're working hard to ensure that a federal lease sale in the NPRA takes place this year.

Our ability to do development right in NPRA can prove to America that Alaskans should have the opportunity to develop oil elsewhere, such as beneath the federally owned Arctic National Wildlife Refuge.

Through partnerships with industry, Alaska is building the world's safest and most advanced oil exploration, production and transportation system.

We've reached an important milestone with development of America's second largest source of hydrocarbon energy – Alaska natural gas. Only Prudhoe Bay is larger. I will introduce legislation later this

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

month to increase the competitiveness of Alaska's clean-burning gas on the world market. This project means jobs for Alaskans, revenues for vital services and gas for Alaskans along the pipeline route.

The gas commercialization team we created last year has reached a first-ever agreement on our next step among the four major gas producers – ARCO, BP, Exxon and the state of Alaska, along with Yukon Pacific. As Alaska does its part, we'll work with our congressional delegation to change federal tax laws to make this project feasible. Supplying the 35 trillion cubic feet of North Slope natural gas to international markets is good for Alaska, good for the nation and good for the global environment.

Another bright spot in a growing Alaska economy is mining, which topped the \$1 billion mark this year for the first time. With five world-class hard rock mines operating today – from Fort Knox in Fairbanks to Kotzebue's Red Dog to Greens Creek in Southeast – and others coming on line, the value of Alaska's mining industry has tripled in just the past 10 years.

In the face of mill closures, declining world timber prices and reduced supply in National Forests, Southeast Alaska is on the rebound. For example, Steve Seley's new saw mill outside Ketchikan and Frank Age's Wrangell mill are creating new value-added timber jobs.

Whether protecting Alaskans in Canadian treaty talks or ensuring that the benefits of our fisheries come home, Alaska can be proud of its healthy fish stocks and sound conservation practices, in this, the International Year of the Ocean.

The CDQ program in western Alaska has created more than 1,200 new jobs and generated more than \$120 million in new wealth for a rural region sorely needing economic opportunities.

The future success of our wild salmon fisheries is to continue the work on quality, adding value and marketing. At the same time, many Alaska salmon fishermen faced disastrously low prices and low returns last year, especially in Bristol Bay and the Kuskokwim.

I urge the Legislature to act quickly on my supplemental disaster request, as we work with the federal government on assistance for the Alaskan families and communities in this cornerstone of the world's most productive wild salmon fishery.

In Alaska's diversifying economy, there is plenty of other good news. The record 1.2 million visitors to Alaska last year pumped \$700 million into our economy and provided jobs for more than 27,000 Alaskans. And in just the first nine months of 1997, we set a new record of \$5.2 billion in the value of Alaska exports.

New challenges and tough competition requires us to build on our successes, not rest on them. The key to building for Alaska's future is protecting and growing our assets – from our savings accounts to our public facilities, to our most precious asset of all – our children.

Working together since 1995, we have deposited all available surplus earnings - an extra \$1.7 billion - into the principal of the Alaska Permanent Fund. This means every available dollar earned by the Fund and not spent on dividends has been protected. Democrats and Republicans, administration and Legislature - have all supported this effort to grow our Fund. We can all share pride in this record.

These deposits and a bullish stock market helped push the Permanent Fund's value today to more than \$22 billion and dividends to record levels. We expect the Fund to grow to more than \$29 billion in just four more years.

As I've said often, as long as I'm governor, there will be no tinkering with the Permanent Fund without a vote of Alaskans.

One hundred years ago, Alaskans closed a century by blazing new trails to open up Alaska's rich gold deposits. In that same spirit, we must boldly revitalize our transportation links that will connect us to the global economy of the 21st century.

Three years ago, I committed to rebuild Alaska's national highway system. Our work is well underway, with the highest standards of safety and efficiency for our highways – the Dalton, Seward,

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

Richardson, Glenn, Parks, and the road to Whittier. Now we must turn to our urban centers to bust the gridlock and improve safety with improvements such as Lake Otis and Tudor in Anchorage and the Badger Road-Richardson Highway intersection near Fairbanks, among others.

Roads are only one way to move people. We're expanding our Marine Highway System by welcoming this summer – the Kennicott - the first new ferry to our fleet in 20 years.

I also believe the time is ripe to consider efficient commuter rail links between Anchorage, the Mat-Su Valley and Girdwood. What a way to mark the 75th anniversary of the Alaska Railroad by embarking on this innovative new service.

We have initiated and are developing a statewide trail system unequaled anywhere in the world. It is highlighted by trails connecting Anchorage and Girdwood, now under construction, and we're converting the old Kennicott route into a world-class Copper River trail.

Travel by air, pioneered by courageous Alaska bush pilots, is a strategic tool for a growing economy. A major economic engine for Alaska is Anchorage International Airport, the nation's Number 1 cargo airport which handled 5 million passengers last year and accounts for nearly 7,000 direct and 4,000 related jobs. To address antiquated facilities and access there, I am asking the Legislature to approve Gateway Alaska, a phased, \$350 million regional plan to rebuild the airport and access to it. It will be financed almost entirely by user fees and federal dollars.

Now's the time to prove that Alaska truly is the air crossroads of the world.

As we close out this final chapter of the 20th century and realize the promise of the coming century, it is our responsibility to ensure Alaskan management of fish and game resources. Simply put, Alaskans deserve the opportunity to vote on subsistence.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

January 13, 1998

No. 10

Your legislative leaders, President Miller and Speaker Phillips - along with Lt. Governor Ulmer, former Governor Jay Hammond, former Attorney General Charlie Cole, Permanent Fund Executive Director Byron Mallott and myself - have submitted a proposal that I believe is fair and balanced.

It contains the two principles I have always said are non-negotiable. First, the state - not the federal government - must manage Alaska's fish and wildlife resources. Second, we must protect the essential role of subsistence in the culture and economy of rural Alaska.

I do not question the sincerity of those of you who disagree with this solution, nor do I ask you to change your position. All you're being asked is to allow all Alaskans to be heard on this matter, just as Legislatures 36 times before you have allowed Alaskans to vote on constitutional changes.

History will judge harshly those who fail to act on the responsibility and opportunity before us today. Let's bring Alaskans together.

There's no more important foundation as we build for Alaska's future than education. With a solid base in reading, writing and math, young Alaskans will have the skills to compete in a rapidly changing global economy, to be good citizens, and to expand their own personal horizons.

There are many examples of student, teacher and school excellence in Alaska. But it would be foolish to ignore warnings, like last week's national scorecard, that gave Alaska low marks. All the studies show that if kids aren't competent in these basic skills by fourth grade, school - and life - only gets worse for them. It should come as no surprise that the average inmate in Alaska's prisons has no more than a seventh grade education.

That's why I'm asking the Legislature this session to approve a comprehensive Quality Schools initiative. The result of work by Alaska teachers, superintendents, principals, business leaders, parents, the State Board of Education and scores of others, this initiative has three main components.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

First, mandatory standards for all school districts in the basics - reading, writing and math. Second, mandatory testing throughout a student's entire school career, so we can identify early on those who need extra help and make sure they get it. Third, mandatory remedial action when students aren't learning the basics. We'll give the school community - parents, teachers, principals and others - the help they need to put students on track for a bright future. Failure is not an option.

For the coming century, higher education is not a luxury but a necessity. With our support, the University of Alaska can meet this challenge and we should begin by continuing to revitalize its facilities and restore the harmful cut imposed last year.

As we demand more from our school system, we should offer sorely needed resources. Under my Quality Schools Initiative, conditional on mandatory standards and tests, I am proposing an additional \$24 million for Alaska's public schools - only the second increase in a decade. That money is headed for the classroom - higher standards, meaningful tests, better results. We can - and must - do a better job educating our children.

Building a bright future for Alaska is impossible as long as crime disrupts our communities and predators prey on our children. In just the past few weeks alone, we've been shocked by the ambush of three Fairbanks police officers, the murder of a 2-year-old, an Eagle River man who shot his wife in the face and then turned the gun on himself.

Yet, over the past 13 years, 72 Troopers and Fish and Wildlife Protection officers have been eliminated from the budget. An additional 30 Trooper positions have been kept vacant because of legislative underfunding. And 27 Trooper posts from Sand Point to Valdez to Unalakleet have been closed. On a recent Friday night in Fairbanks, there was a single Trooper on duty responsible for almost 50,000 people covering 7,400 square miles.

This is simply unacceptable. This year, I am again asking you to act to protect Alaskans.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

January 13, 1998

No. 10

While on this subject, let me pause to say the prayers of all Alaskans are with the widow and family of Fairbanks Police Officer John Kevin Lamm, who two weeks ago sacrificed his life protecting us.

According to Alaska Public Safety Commissioner Ron Otte and virtually every other top cop in the country, the most effective anti-crime tool available is prevention. That begins by helping children start life on the right foot. That's why I'm asking the Legislature to approve our three-part initiative called "Smart Start" – a combination of anti-crime, prevention and intervention efforts to help raise safe, healthy children, promote strong families and fight crime.

First, I propose extending basic health care to more than 11,000 children of Alaska working families. The cost is dirt cheap – the benefits last a lifetime. Thanks to Senator Duncan and Senator Ellis for being long-time champions on this issue. Children lacking such health care are more likely to suffer chronic health problems which can lead to learning delays, poor school performance and lower productivity as adults.

When Vermont increased health coverage for its kids – combined with early childhood programs such as home health visits - child abuse rates dropped 39 percent in just four years. Reports of sexual abuse of young children declined even more – 73 percent over six years.

Alaska's working families making too much for welfare but who can't afford health insurance for their children, need the same health benefits received by your family and mine.

Second, I propose an additional investment in programs that are proven successes – Head Start, Healthy Families, more child care, immunizations, anti-drug and alcohol efforts – all programs to build strong families.

Third, I propose zero tolerance for the abuse and neglect of Alaska's children. Sadly, Alaska has one of America's highest rates of child

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

abuse. We cannot tolerate leaving our children with broken bones and shattered dreams.

My zero tolerance plan calls for filling 28 Troopers positions and at least five Village Public Safety Officer openings next year. These public safety officers, combined with additional child protection workers, foster parents, prosecutors and others, will provide a coordinated team approach to combating abuse and neglect.

This past year, Alaskans across this state were saddened by news reports of violence to Alaska's children. Abuse beyond imagination, including murder. We must have tougher laws on crimes against children.

The comprehensive children's protection legislation I am introducing will fill the gaps in the current law, mend the holes in Alaska's safety net when our children are at risk of falling through and increase the severity and penalties of crimes against Alaska's children.

This Smart Start investment uses \$31 million covered by Alaska's larger Medicaid payments from the federal government, plus \$1 million from the recently increased state tax on snuff and chewing tobacco. There are those who say we should pocket this money as part of closing the fiscal gap. That is an option. But turning our backs on Alaska's children is an act we can ill afford.

The miracle of a child's spirit is always a source of inspiration. Who cannot be moved by the story of a young Alaskan who succeeded against all odds?

Born into a family torn apart by drug abuse and domestic violence, Laura Ingham is the product of 15 different foster homes during her 18 years. She once was kidnapped, hidden from authorities and rescued from neglect by the police.

If there's been a constant in her life – a driving force that's prevented the odds against her from getting the best of her – it's basketball. While other kids her age went to parties or hung out at

the mall, Laura headed to Anchorage's Mountain View Rec Center to practice her jump shot or coach kids half her age.

Last year as a junior for Anchorage's East High Thunderbirds, Laura was named Alaska basketball player of the year. She was rated the nation's fourth best point guard. Between scoring baskets and winning trophies at track, she has maintained a 3.2 grade point average.

After 40 inquiries from Division I college basketball programs, Laura plans to play for Ohio State on a full scholarship this fall. She was recommended to the Buckeyes by the Stanford University coach, who said: "If I can't have her, I don't want her in the Pac 10."

Laura's ability to overcome the painful circumstances of her young life have been aided by many Alaskans who gave her hope – social workers, guardians ad litem, foster parents, teachers, an older brother and sister. But her greatest inspiration has been her coach since eighth grade – Dorena Bingham. As Laura admits, Coach Bingham is tough, but helped her become the model Alaskan we can all be proud of.

They are with us tonight, so please join me in saluting Laura Ingham and her coach, Dorena Bingham.

An essential part of the framework for building Alaska for the future is using budget discipline. On this, we have made considerable progress. When I took office, I promised to control government spending. Working with the Legislature, we have done exactly that. Even with the additional investments in schools I propose for the coming year, my budget for Fiscal Year 1999 is \$150 million less than when I took office.

Today, oil prices are nearly \$10 a barrel lower than when I addressed you last year. This is a rude reminder that there are world events beyond our control that affect our future. This is nothing new for Alaskans. The budget we will consider this year is based on previous oil price forecasts. If oil prices remain low for long, we will have to reassess our budget plans together.

HOUSE AND SENATE JOINT JOURNAL SUPPLEMENT

No. 10

January 13, 1998

Thursday evening in the State of the Budget, I will address these issues.

As we write the final chapter of Alaska's story in the 20th century let's work together to build for Alaska's future – for good jobs and a growing economy; for better schools; for safe, healthy children and communities; and budget discipline.

Good night.