

**SENATE AND HOUSE  
JOINT JOURNAL SUPPLEMENT**

---

---

**January 15, 1998**

**Thursday**

**No. 11**

---

---

**\*\*\*\*\***

**State of the Budget 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 15, 1998**

**Juneau, Alaska**



**SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT**

**January 15, 1998**

**No. 11**

1998 State of the Budget Address

To the 20th Alaska Legislature

January 15, 1998

By Governor Tony Knowles

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

Two evenings ago, we came together to write the last chapter on Alaska's story in the 20th century. In these final two years of the current millennium, those of us in these chambers elected to lead our state face an important responsibility.

To keep Alaska's economy healthy, so Alaskan families can have good jobs. To improve our schools, so Alaskan children can have the skills to compete. To make our communities safer so, Alaskan families have the brightest opportunities possible. And to do all this with budget discipline.

The good news is, we're on the right track. As I reported Tuesday evening, our economy is healthy. For most Alaskans, the future is bright.

My purpose here is to discuss the state budget and how we use it to build for Alaska's future. Just as any successful construction project requires an accurate blueprint, the right tools and the flexibility to adjust to unforeseen circumstances, so must Alaska have a long-term plan, adequate budgetary tools and be equipped to deal with world events beyond our control.

Tonight, I'll discuss the standards we bring to this legislative session to arrive at the appropriate budget number for this year, as we plan for the next five years.

I'll detail the steps we're taking to hold the line on state spending, especially in the face of lower than forecast oil prices. And I'll propose several investments I believe are vital for Alaska's long-term good health - regardless of the price of oil.

## **SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT**

**No. 11**

**January 15, 1998**

First, some good news from the customer side of the counter. When it comes to making government work, there's no better example than the Department of Motor Vehicles. Waiting to renew your license at any DMV across the country has become a national joke. You may remember that TV commercial a few years ago where the only guy smiling in a long line at the DMV was the one eating Doritos.

In my first State of the Budget address, I promised to do something about this - and we have. We're partnering with the private sector and using the latest technology for better service at less cost. The results are going to be remarkable. We're building two new highways into the DMV: electronic highways.

Starting next week, Alaskans who need to renew their vehicle registration will be able to dial in from anywhere, anytime, to a toll free number: 1-888-DMV-KWIK.

And for Alaskans who use the Internet, you can register your vehicle through the state's homepage - and even order customized license plates.

For now, you can use a credit card to register your vehicle on the telephone and the Internet. In the future, we can just bill you. Making registration renewal user-friendly eliminates an estimated 220,000 transactions in crowded DMV offices across the state and, saves hundreds of thousands of dollars. Each DMV transaction in person costs an average of eight dollars. Those by phone or computer cost less than a buck.

We're also partnering with car dealers and emissions inspectors, who can issue auto registrations or change titles when you buy your car or get it inspected. Thanks go to the hard-working employees at Alaska's DMV and the Division of Information Services for this cost-saving, service-improving innovation. My goal is a smiling Alaskan when dealing with the DMV - even without Doritos.

Making sure Alaskans get value for their dollar from the customer side of the counter is an important standard of any budget, including mine for the coming year.

# SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

January 15, 1998

No. 11

When deciding the appropriate level of the Fiscal '99 budget, there are four important standards I applied - standards considered by every Alaskan family and business making decisions about finances and the future. Is our economy healthy, now and in the future? How much savings do we have? What's our level of debt? And what is the level and priorities of public expenses?

As I address these standards, those of you watching on television will see illustrations on your screen which we've distributed in the Capitol here in Juneau.

The first standard is Alaska's economic health - today and tomorrow. As I noted Tuesday evening, more than 8,400 new jobs have been created in the past three years. Another 14,000 more are projected over the next five years.

Deposits in Alaska banks and credit unions - a sign of confidence in the future - reached an all-time high last year of more than \$6 billion. And the number of new Alaska companies is on track to set a new record.

We're reversing the decline in Alaska's oil patch as the motto, "no decline after '99," is becoming an industry reality. Most of Alaska's other major industries - mining, international trade, tourism, agriculture - are doing well. Others, like timber, are making comebacks after being battered by world events.

The second standard is the bottom line in Alaska's savings accounts. I'm happy to report they're well in the black. As you can see in Graph Number 1, thanks to \$1 billion, 700 million in extra deposits we have made together since 1995, Alaska's Permanent Fund will grow to more than \$23 billion by July and is projected to grow to \$29 billion in just four more years. As I've said often and want to repeat tonight, as long as I'm governor, there will be no changes to the Permanent Fund without a vote of Alaskans.

Our other major savings account is the Constitutional Budget Reserve, established by Alaskans at the ballot box in 1990 to cushion against the changing price of oil.

## SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

No. 11

January 15, 1998

Three years ago, this reserve totaled less than a billion dollars. Today, as you can see in Graph Number 2, it has grown 258 percent to \$3.3 billion.

Even with the new investments I propose in Alaska's schools - and depending on the price of oil - the Constitutional Budget Reserve is projected to grow even more, to \$3.4 billion.

Three other state assets will pay dividends well into the future if we protect their "seed corn." The Alaska Industrial Development and Export Authority, with assets of more than \$1.2 billion, helps create jobs in mining, tourism, refining, energy and transportation. Each year it remains healthy, it provides a \$16 million dividend for reinvestment in economic development.

The Alaska Housing Finance Corporation uses its \$4.3 billion in assets to provide decent, affordable housing for Alaskan families - urban and rural, students and seniors. Again this year, AHFC will contribute \$50 million to the treasury.

The Alaska Science and Technology Foundation, endowed with \$100 million, is helping launch new industries from salmon in a pouch to an Alaska aerospace industry.

Clearly, Alaska's savings and investment accounts are strong.

The third standard we applied to the budget is the level of debt. Here also, the news is good. Alaska's general obligation debt - the money we've borrowed for new schools, roads, water and sewer systems and university buildings - will be completely paid off in just 18 months. And in just four years, all other debt for state facilities approved so far will amount to only \$47 million.

Maybe we should burn the mortgage and celebrate. But not like Homer Simpson, who burned his house down instead of his mortgage.

Alaskans are truly fortunate, because I know of no state and few nations with our state's enormous savings and negligible debt.

The final standard we apply to the budget is, the level and priority of public expenses.

The values that guide my answer to this standard are simple. Our state has a constitutional and moral responsibility to play an important role in keeping our economy healthy, our communities safe, being good stewards of this land we love and protecting and growing our greatest asset - our children.

There's no question there are public expenditures in Alaska provided by no other state, like the \$800 million in Permanent Fund dividends we give Alaskans each year. Or the \$68 million for senior citizens Longevity Bonus payments. We also pay a larger share of services funded elsewhere by local and county governments, such as prisons, transportation and education.

Despite these expenses, what we pay for services in Alaska is actually going down.

As you can see in Graph Number 3, state general fund spending per Alaskan in today's dollars is nearly fifteen hundred dollars less than 20 years ago, when oil first flowed through the pipeline.

Except for a new investment in education, my \$2.4 billion operating budget proposal for the coming year continues to hold the line on state spending.

Compared to my first year as governor, this budget is \$150 million smaller. In addition, we've told state agencies to absorb more than \$100 million in population and inflation-driven increases, from the higher cost of gas for road graders to more children in our schools.

We achieved this reduction not only by legislative action but through outstanding work by our departments. The Department of Health and Social Services significantly reduced the rate of growth of the state's two fastest growing programs - Medicaid and welfare.

## SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

No. 11

January 15, 1998

With aggressive management controls, pushing significant changes in state law and pressing for our full entitlement in Washington, they saved in the last three years an impressive \$86.3 million over what these programs otherwise would have cost.

This was achieved even after investing \$6 million of the savings into child care and job training. At the same time, the Legislature finally agreed to our fourth plea to pay for eyeglasses, acute dental care and other critical medical services for elderly and poor Alaskans.

Providing Alaskans essential services with dwindling dollars is a tribute to thousands of hard-working, dedicated public servants. Two evenings ago, we met an inspiring young woman who, despite the enormous odds against her, is an Alaskan who makes us all proud.

Born into a family torn by drugs and domestic violence, Laura Ingham's dreams are coming true with her grit and determination and through the care and hope she received from social workers, guardians ad litem, child protection attorneys - all state employees.

Child protection workers make life and death calls on behalf of children and their own lives are sometimes threatened. It is one of the toughest jobs there is. And it hasn't gotten easier in recent years. The typical Alaska child protection worker carries twice as many cases as the national standard, yet their cases are hardly standard - broken bones, burned bodies, horrors beyond belief.

In fact, as you can see on Graph Number 4, reports of abuse and neglect of Alaska's children have grown 50 percent since 1991, from just over 10,000 cases to nearly 15,500 today. Yet, the number of child protection workers in Alaska's Division of Family and Youth Services has remained exactly the same in those seven years.

In other words, we've asked these Alaskans to protect 50 percent more abused and neglected children, but provided them no additional help. We owe them our gratitude and our children more resources. We'll continue to restructure and rebuild this vital agency.

## SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

January 15, 1998

No. 11

Like those who police the streets, who clear the snow, who teach and protect our kids; like the National Guardsmen and women who are apart from their families tonight on foreign shores so we may enjoy our freedom here at home - these dedicated, hard-working Alaskans are the faces behind our state budget.

Please join me in saluting them for the work they all do for us.

A vital purpose of Alaska's operating budget is providing new economic opportunities for Alaskans. It encourages development on Alaska's terms through oil and gas leasing, timber harvesting and mining while being good stewards of our resources. It allows us to partner with industry to maintain and properly manage our air, water and wild lands. Through Marketing Alaska, the budget helps us tell America and the world that Alaska is open and ready for business - a good place to invest and hire Alaskans.

To maintain and expand Alaska's basic infrastructure and boost a growing economy, I propose \$92.3 million in state general funds. This will help attract nearly \$780 million in federal and other funds.

As we hold the line on state dollars, the increased federal investment in our state is due in large part to our senior United States senator, Ted Stevens, who is working hard to help America understand Alaska's needs.

Our capital investment this year includes:

- \$191 million for Gateway Alaska - the expansion of Anchorage International Airport, an economic engine for the entire state.
- More than \$50 million of housing improvements, including senior housing in Anchorage, Juneau and Dillingham.
- More than \$11 million in improvements to University of Alaska facilities.
- \$6 million to upgrade the Alaska Marine Highway System.
- \$6 million each for new National Guard Armories in Nome and Juneau.
- \$500,000 for airborne geological surveys for our mining industry.
- \$800,000 to help construct the Alaska Native Heritage Center in Anchorage.

## SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

No. 11

January 15, 1998

As we prepare for future transportation challenges, we must continue our commitment to rebuild the national highway system in Alaska, promote commerce and safety and address gridlock in our cities.

Another major jobs creator, particularly in rural Alaska, is our campaign to put the honey bucket in the museum by the year 2005. Thanks to a record investment of state and federal dollars last year, we retired nearly 1,000 honey buckets. This year, we earmark a record \$53 million for this effort to improve public health and create local jobs.

When it comes to maintaining Alaska's public facilities, one area neglected too long is our schools. Schools districts estimate \$720 million worth of back-logged needs in maintaining schools and building new ones. I propose using revenues from last year's tobacco tax increase to help finance up to \$100 million annually over the next 10 years to fix schools and build new ones to combat overcrowding.

This plan will finally address problems like the 32-year-old Talkeetna Elementary School, 142 percent over capacity and where during rainstorms, students have to dodge buckets in their classrooms. Or Arctic Village Elementary School, nearly 40 years old and 181 percent over capacity, where student restrooms are honey buckets behind curtains.

I'm pleased the Legislature's Deferred Maintenance Task Force is addressing Alaska's serious problem of long-delayed attention to our public facilities. I pledge to work with you to find a long-term, affordable workable solution.

Likewise, I commend Speaker Phillips for introducing the concept of two-year budgeting - a significant step for efficiency and long-term planning.

On any average day, Alaska's prisons are seriously over-crowded - endangering guards and threatening public safety. I'll introduce a bill this year that starts with three expansion projects - replacing the 6th Avenue Jail in Anchorage, and facilities in Palmer and Bethel.

I believe there's no more important investment we can make than preparing our children for the future challenges of the global market. Of the \$40 million more I propose investing in Alaska's public schools and the University of Alaska, more than \$7 million is necessary just to keep up with increased enrollment and student transportation. In the past decade, there's been only one inflationary increase for Alaska's schools - just 1.6 percent.

I am proposing an additional \$24 million for school districts tied to Alaska establishing quality standards and tests. My Quality Schools initiative calls for mandatory standards in the basics, mandatory testing for students throughout their entire school career, and mandatory remedial action for students who aren't learning the basics.

And as we all know - and as mayors don't hesitate to remind us -- cuts to education and municipal aid just shift tax increases to the local taxpayer.

As we improve public schools, a great way to prepare Alaskans for careers is through the University of Alaska. My budget proposal restores the \$3.5 million cut imposed by the Legislature last year. With increased competition in the job market, we must invest in higher education and vocational training.

To encourage more Alaskans to attend our state's public university and provide students an incentive to excel in high school, I am proposing the Alaska Scholars Program.

It will provide four-year scholarships to any UA campus for the top 10 percent of each Alaska high school graduating class. The \$1 million cost of this program is well worth a solid investment in Alaska's future.

My other major investment in Alaska's children will not increase state general fund spending, but it is one of the most important steps we can take to combat crime and the abuse and neglect of our children.

**SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT**

**No. 11**

**January 15, 1998**

I noted in my State of the State address that over the past 13 years, funding for 72 Troopers and Fish and Wildlife Protection officers has been eliminated from the budget. On Graph Number 5, you can see that as the population served by Troopers has increased, the number of Troopers assigned to protect Alaskans has been cut - from nearly 300 Troopers in 1987 to just 229 today. We must change this. My budget for the coming year calls for 28 new Troopers and five Village Public Safety Officers to protect Alaskans.

This important anti-crime action is part of our Smart Start initiative - a combination of prevention and intervention efforts that's the best deterrent to crime there is.

It includes \$7.2 million for children's health - extending health care to 11,000 children in Alaska's working families, who make too much for welfare but can't afford health insurance for their children. These funds will attract 15 million in federal dollars Alaska would not otherwise receive.

To help get Alaska's children off on the right start in life, I propose \$11 million for proven prevention programs - child care, Head Start, immunizations, Healthy Families home visits and substance abuse.

The third component of Smart Start is zero tolerance for the abuse and neglect of our children. This team approach to intervention on behalf of abused and neglected kids calls for additional Troopers, prosecutors and child protection workers, along with quicker adoptions and more foster homes. This investment will cost \$14 million.

Fortunately, Alaska has a unique opportunity to take these vital steps against crime and for our children. The Smart Start investment uses \$31 million the federal government is now paying as a bigger share of Medicaid expenses for Alaska, plus one million from the increased state tax on snuff and chewing tobacco.

## **SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT**

**January 15, 1998**

**No. 11**

As the number of Alaska's kids without adequate health care continues to grow, as we watch reports of harm and neglect go unanswered, as we see children with no home or parent, we already know the inevitable result.

Teen-age suicides, juveniles in jail at an annual cost per child of \$60,000 - we're growing Alaska's future criminals. That cost is vastly higher in the long-term than whatever savings some may want to pocket today.

As Alaskans look ahead to the next five years, we are better prepared than ever to adjust to oil price fluctuations. Following the oil price crash of the late 1980s, Alaskans created the Constitutional Budget Reserve to cushion against these swings. Today that reserve totals \$3.3 billion. Last year, when oil prices jumped to \$24 a barrel, we didn't go on a spending binge, but instead accumulated the first budget surplus in this decade.

A further protection is our reserves policy, developed in cooperation with the Legislature's finance committees, which maximizes the budget reserve earnings potential, while maintaining enough liquidity to offset year to year price changes.

Alaska's oil industry employers also prepare for these major fluctuations by planning their capital investments and personnel needs based on a wide spectrum of prices. All these safeguards allow for a thoughtful and measured response.

As I noted Tuesday evening, the current low price of oil is a warning, and I'm already taking stock of the possible implications. For instance, we've calculated that if oil prices remain at their current \$15 a barrel level for the next 18 months and current budget plans proceed, our budget reserve would contain more than \$2 billion in the year 2002.

Claims of an immediate dollar problem are unfounded. Revenue estimates for this year and next were based on oil at about \$18 a barrel - not \$25, apparently the basis for those claims.

# SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

No. 11

January 15, 1998

We will continue to monitor the trend in oil prices. In fact, I met with the legislative leadership about it this afternoon as they expressed their concerns to me. I will work with the Legislature to evaluate these fluctuations and make the necessary adjustments.

My budget plan fulfills our vision of Alaska. An Alaska where our children receive a quality education in schools that don't leak and aren't crammed beyond capacity.

Where our children are protected from crime, abuse and neglect and better prepared for a healthy start in life. An Alaska where we have passed on to them a financial foundation more secure than what we inherited.

An Alaska where our savings accounts are full, with \$3.4 billion in our Constitutional Budget Reserve Fund and a Permanent Fund that grows to \$29 billion. Where we're nearly debt-free.

An Alaska with a healthy economy, new jobs, international trade moving through our airports, and oil, mining, tourism, fishing, and timber opportunities waiting for our college and vocational school graduates.

An Alaska with jobs and new economic opportunities. Better schools. Safe, healthy children and families. Budget discipline. An Alaska united.

Good night.

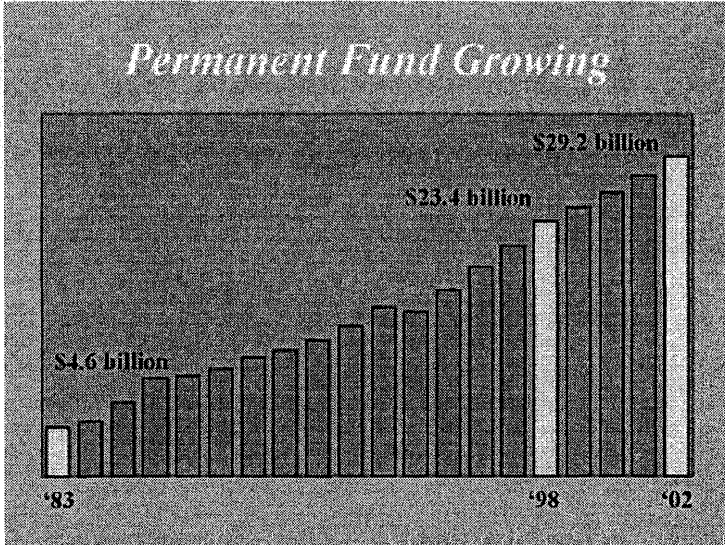


Illustration 1

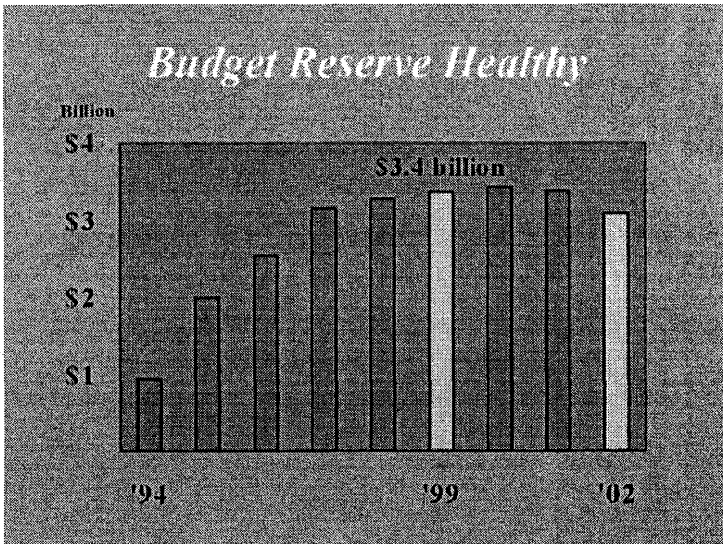


Illustration 2

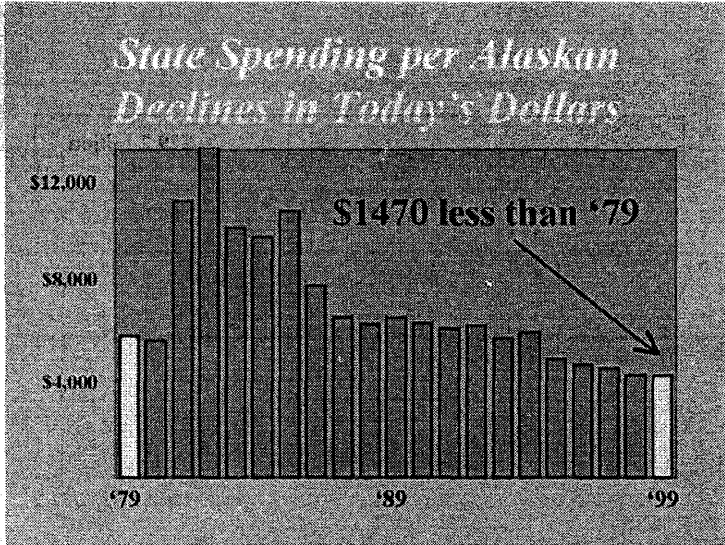


Illustration 3

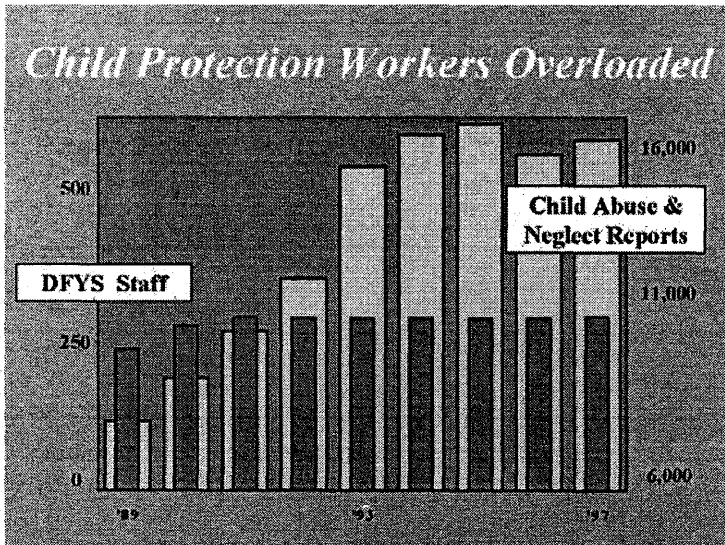


Illustration 4

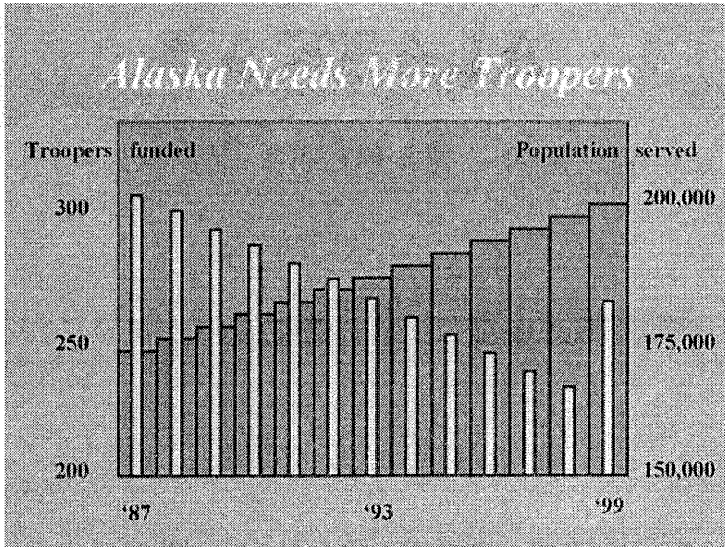


Illustration 5

**SMART START**  
FOR ALASKA'S CHILDREN

\$7.2 m Children's Health Care

\$11 m Prevention Programs

\$14 m Child Protection

Illustration 6

**SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT**

No. 11

January 15, 1998

