

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

January 10, 2001

Wednesday

No. 1

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**State of the State and
State of the Budget Address
by
The Honorable Tony Knowles
Governor
State of Alaska
Before a Joint Session
of the
First Session of the
Twenty-second Alaska State Legislature**

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January 10, 2001

Juneau, Alaska

**State of the State and
State of the Budget Address
to the First Session of the
22nd Alaska Legislature**

By Governor Tony Knowles

Lt. Governor Ulmer, Senate President Halford, House Speaker Porter, members of the 22nd Alaska Legislature, my cabinet, my wife Susan, our children -- Devon, Luke and Sara -- and fellow Alaskans. Good evening.

I'm honored to join you tonight, one week after Alaska's 42nd anniversary of Statehood, to report on the state of our state and its budget.

First, let me congratulate the 50 of you in this chamber who stepped forward in the last election to take on this important public service. There are new faces and fresh ideas and I look forward to working with each of you.

Congratulations are also in order to Lt. Governor Ulmer for running such a smooth election. We knew most results shortly after the polls closed, and without a dimpled chad. And her creative "Let's Vote! Alaska" campaign got results. Alaska reversed a national trend in November when 48 percent more young Alaskans voted than anytime in our state's history.

Alaska is a national model for needed election reform. Thank you, lieutenant governor.

Thanks to the hard work and creative talent of Alaskans, our state is enjoying unprecedented prosperity. To achieve the promise of much more to come, we must take actions this year.

- We must put Alaskans to work.
- Provide excellence in education.
- We must protect families and children.

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- Preserve the subsistence way of life.
- And we must take the steps we need to balance our budget.

Let these goals be a shared vision of a stronger, better Alaska.

We began this new century with more Alaskans working than ever before -- nearly 282,000 -- earning a record 9.5 billion dollars. We've created more than 22,000 new jobs, and enjoy the lowest unemployment rates in a generation.

With three-quarters of Alaskan jobs in the private sector, our economy is more diversified than ever. And the Last Frontier is on the cutting edge of the New Frontier, with the nation's highest Internet use and 98 percent of our schools connected to the information superhighway.

Annual earnings for the average Alaska family have jumped to nearly 60,000-dollars. Home ownership among Alaskans exceeds the national rate, an all-time high of 67 percent.

Our savings accounts are healthy, with the Permanent Fund ending the fiscal year at a record \$28 billion. This produced the largest dividends ever, injecting nearly \$1.2 billion into our economy and creating 15,000 Alaska jobs.

And Alaskans enjoy America's lowest tax burden.

Welfare rolls dropped to their lowest levels in a decade, saving \$51 million over four years. 15,000 more children get basic health care under our Denali KidCare program. And violent crime is down 25 percent over the last decade.

Alaska's environment, with our clean air and water and fish and wildlife, is the envy of the nation.

Fellow Alaskans, the state of our state is strong.

Our source of strength is a strong belief in hard work; a love of independence; a reverence for our cultural diversity; a cherished sense

of family, village, community and state. Our source of strength is citizenship.

In just 60 days, Alaskans will witness an extraordinary display of citizenship when 10,000 athletes, coaches, families and volunteers from 80 nations arrive for Alaska's largest ever international sporting event -- the 2001 Special Olympic World Winter Games.

One of Alaska's bright stars is Anchorage's Megan McDermott, a Special Olympics athlete since she was eight. Figure skating is Megan's event in these games, but she's an all-around athlete, excelling in swimming, basketball and bowling.

Megan is no stranger to the Capitol. As a Special Olympics Global Messenger, she's lobbied us as part of the Key Campaign about the importance of funding for people with special needs. Megan lives the promise of the Special Olympics oath, which says: "Let me win. But if I cannot win, let me be brave in the attempt."

Megan joins us this evening, along with Special Olympics Volunteer Manager Rachel Barber. Let's congratulate Megan McDermott and wish her good luck on the ice rink.

As the State of Alaska's contribution to the important Special Olympics, I urge your quick approval of \$500,000 I'm including in this year's supplemental budget.

Prosperity for Alaska's families means a healthy growing economy. We are on the verge of a new era of hope and opportunity for good Alaska jobs. Certainly at the top of the list is the prospect of marketing our abundant North Slope natural gas and supplying it to Alaska communities.

I believe Alaskans can be on the working end of a shovel building a natural gas pipeline within two years.

After two decades of false starts and broken dreams, the economic and political stars are finally aligned in our favor. Natural gas is the fuel of the 21st century.

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Most Alaskans and industry experts believe the viable project is a natural gas pipeline from Prudhoe Bay to Fairbanks, and then along the Alaska Highway to the energy-thirsty American market. Already permitted by Congress in 1977 and the subject of an international treaty with Canada, Americans can join Alaskans in saying, "My way is the highway!"

We're working hard to keep this project on track -- conferring with Alaska's major oil and gas producers; co-sponsoring a natural gas summit in America's heartland; listening to Alaskans. Earlier this week, I issued an order creating a special Natural Gas Pipeline Cabinet and directing state agencies to work aggressively for timely one-stop permitting and right of way preparation. I also introduced legislation extending our ability to negotiate tax flexibility for natural gas projects. These initiatives are supported by a \$4 million budget request, which needs your quick action.

And I'll soon appoint the Governor's Natural Gas Policy Council to ensure Alaskans realize the maximum benefits from this project. This includes feedstock for new industries, community access to gas and future gas projects.

All these efforts are designed to achieve the three goals most Alaskans agree on when it comes to developing this resource: Alaska hire and use of Alaska businesses; Alaskan access to gas; and a fair share of revenues for Alaskans.

I commend the Legislature for your leadership in moving this important project forward. Let's work together to develop Alaska's natural gas on Alaska's terms, for Alaskans.

To fully realize our potential, Alaskans must control the resources within our borders. The federal government is a partner, as envisioned in the promise of statehood and the spirit of America's constitution.

But when the federal government intrudes, we must -- and have -- resisted forcefully.

Most recently in the Tongass and Chugach National Forests, the federal government is double-crossing Alaskans. We are fighting in

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court, in Congress and the administration this mockery of the public process.

We're also suing the feds to prevent the phase out of traditional commercial and subsistence fishing in Glacier Bay National Park. We're in court defending the state's high air quality standards at the Red Dog mine against federal meddling. We're suing the Department of Interior to protect RS2477 access to traditional transportation routes in the Interior.

We fought in court and on the North Pacific Fisheries Management Council to stop an unfair federal court directive on Steller sea lions. Thankfully, Senator Stevens successfully led congressional intervention on behalf of Alaska fishing families.

The list goes on. But the bottom line is the chilling effect of federal interference in our resource management must stop.

With our "doing it right" approach, we successfully convinced the national administration to explore the oil and gas potential in the National Petroleum Reserve. Now we must persuade America and Congress to permit environmentally responsible development in the Arctic National Wildlife Refuge.

On that, there's good news. Alaskans can finally rest easy now that the Clinton administration has heard Alaska loud and clear, agreeing earlier today not to make ANWR a national monument.

ANWR is America's best chance for major oil and gas discoveries at a time of national energy shortages. With our congressional delegation and a new national administration in favor of development in the Arctic Refuge, we're better positioned than ever for success.

After the realignment in our oil and gas industry and with higher prices, today's oil patch is booming. Last fall's North Slope area-wide sale set a record for state oil and gas lands leased for exploration, over 713,000 acres. Both BP and Phillips are aggressively exploring on the North Slope, working to increase their production by nearly

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20 percent. Other companies are equally bullish on the Slope and in Cook Inlet. The state will respond to that interest with 16 area-wide lease sales in the next five years.

In mining, the value of this important industry exceeded \$1 billion for the fifth successive year, with more than 12,000 claims -- a record number -- staked on state lands last year.

In tourism, our second largest employer, the number of visitors continues growing -- to more than 1.4 million a year. As Alaska transitions from a seasonal attraction to a year-round destination, winter tourism has grown 17 percent.

In the timber industry, the state is fulfilling its responsibility in offering 53 million board feet of timber for value-added processing to 80 Alaska companies.

Exports of Alaska products and expertise continue to grow. And we're taking advantage of Alaska's geographic location and information technology to develop new jobs in air cargo, telecommunications, transportation, health care and applied research.

We're proudly on America's front lines of freedom and welcome the opportunity to house the nation's missile defense system. In that regard, please join me in saluting the Coast Guard, National Guard and all active duty servicemen and women who every day serve our state and country so well.

Despite rough waters for many of our fishing families last year, Alaska seafood products comprised nearly half of America's overall seafood production. With value-added products and niche marketing, we're breaking into exciting new markets in China, Australia and Europe.

Five years ago, we took a major step together to reform welfare. Since then, more than 5,000 Alaska families have successfully and proudly moved from welfare to work.

Like Ahmed Warren of Wasilla. Four years ago, struggling through bankruptcy and with no high school diploma, he and his

young family had to rely on friends and the State to make ends meet. They even split up the family to live with different relatives as they worked to pay off debts.

He landed a job at TJ Electric in Wasilla, even though he had never worked in the field. Once unsure of his academic abilities, Ahmed studied hard and today is a respected journeyman electrician. The family reunited. Ahmed, his wife Michelle, a teller at NBA, and their three sons are using their Permanent Fund dividends as a down payment to move into the first home of their own - this week.

When I first met Ahmed in November to honor his achievements, he brought along his son so he could witness first-hand what hard work and determination can achieve. Ahmed Warren and his oldest son, A.J., are with us tonight. Please join me in thanking them for their accomplishments.

Thanks to the hard work of thousands of Alaskans like Ahmed, Alaska's private sector-driven economy is strong. But we must ensure that every working Alaskan has the opportunity to earn a decent, livable wage. At \$5.65 an hour, Alaska's minimum wage is the lowest on the West Coast. That must change.

So I am asking you this year to increase Alaska's minimum wage to \$6.40, raise it again the following year, and then tie future increases to inflation. Working for a minimum wage in Alaska shouldn't mean a minimum quality of life.

While we enjoyed international fisheries success, another year of record low returns of Yukon chinook and chum and Kuskokwim and Norton Sound chums sent shock waves through Western Alaska communities. Some subsistence fisheries had to be closed and we did not meet our spawning escapement in some drainages.

When I visited the hardest hit villages last summer, I saw despair and fear in the eyes of subsistence families.

The state responded quickly and extensively through "Operation Renew Hope," with disaster relief, subsistence aid, individual and business assistance, jobs and long-term research. Senator Stevens

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provided relief through village non-profits and is fighting to ensure our fishermen get the same consideration for federal assistance that farmers have for generations.

Let's expand Operation Renew Hope as the foundation of a bridge to span the growing urban-rural divide. I know everyone in this room is committed to bridging that divide.

Thanks to broad support by last year's Legislature, we guaranteed affordable energy for 100,000 Alaskans in 190 villages by endowing Power Cost Equalization.

The Denali Commission, created by Senator Stevens and co-chaired by Lt. Gov. Ulmer, is working to expand rural employment and address energy, environmental and health issues.

We're making history and improving services with our initiative to acknowledge and work more closely with federally recognized tribes.

Yet we know there is no more important action we can take to bridge the urban-rural divide than to recognize and preserve the rural subsistence way of life in state laws and our constitution. Overwhelmingly, Alaskans support two fundamental principles. First, the economic and cultural importance of the subsistence way of life in rural Alaska. And second, the State must manage its fish and game resources.

This issue has been fought for 10 years. Now, many believe the prospects of resolution are slowly slipping away. Sides are hardening and federal managers are tightening their grasp.

I ask you one more time to work with me and stakeholders, to commit all of our creativity and good will to another effort. Let us finally bridge that gap, heal the wounds and begin a new era of understanding and respect.

Alaska's continued success in the changing global economy depends on achieving one goal. We must excel as a knowledge-based economy. We can only accomplish this with investments in quality

education and early childhood programs. I am glad to report to you that we have made significant progress in this effort.

Today, Head Start serves children in 107 communities. I ask you to take advantage of a great opportunity to enroll more Head Start students by investing only 20 state cents for every new federal dollar.

We need to invest \$1 million to better equip early childhood workers and parents. I ask you to commit \$3 million in welfare reform savings to eliminate the wait list for child care -- vital for families trying to find and keep jobs.

We are making progress preparing young Alaskans for the highly skilled jobs of the 21st century, thanks to the most significant change in our schools since Statehood -- the Quality Schools Initiative. With higher standards, benchmark tests in the basics in the 3rd, 6th and 8th grades, a high school graduation exam and grades for schools, we are demanding education accountability.

Alaska's schools produce success stories every day, like the next Alaskan who joins us tonight, Kanani Pavitt. At Juneau-Douglas High School, Kanani was a whirlwind of activity -- junior and senior class president, vice president of the National Honor Society, Alaska's representative to the National Ocean Science Bowl, captain of the volleyball team.

In her spare time, she volunteered at Big Brothers-Big Sisters and worked with freshmen to ease their entry into high school. All this while excelling in her studies. So well in fact, that Kanani graduated in the top 10 percent of Juneau's class of 2000, making her one of 566 Alaska Scholars -- our best and brightest students who qualify for free tuition at the University of Alaska.

Today, holding down two jobs, Kanani has a 3.5-average in her first year at the University of Alaska Southeast. Please join me in recognizing Kanani Pavitt for her hard work and inspiration.

Every state under taking an education revolution knows success takes time and resources. We need more of both. Our job -- the job of

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every Alaskan -- is to take responsibility for ensuring every child has the chance to achieve the new, higher level of knowledge they need to excel.

Three-quarters of those who took Alaska's high school graduation exam last spring passed reading, half passed writing and only a third passed math. Those who tried a second time in October didn't do much better.

This is serious. We face the prospect that up to two-thirds of our high school students aren't on track for a diploma under the current exit exam law. That's neither acceptable, nor fair.

We must address this. As a start, I ask you to approve 16 million more dollars for kindergarten through 12th grade education and early childhood development.

You'll hear more about additional resources for education next month. That's when a report is due from 11 Alaska leaders I asked to review public education financing and recommend to us a five-year plan.

Education funding must be fair. You'll get a report next week about flaws in the education formula that arbitrarily funds enrollment in many rural schools at lower rates than urban schools.

Let's agree to fix those flaws and fully fund education for every Alaska child.

We also must repair decrepit and dangerous schools, whether in the smallest village or largest city. The proposal I presented the Legislature last year would have done exactly that. But the 21st Legislature came up short. Let's make sure the 22nd Legislature completes this important job for Alaska's students and teachers.

Finally, let's accept the unanimous recommendation of the State Board of Education to find a more responsible effective date for the high school graduation exam. By kicking in too soon, the existing law traps too many students -- requiring them to know material they haven't necessarily been taught.

We also must have higher expectations of our special needs students, but not under the exit exam law. By working with these students and their families to craft Individual Education Plans, these students can work to the best of their God-given abilities, meet higher standards and receive a high school diploma. I commend the Legislature for championing our schools.

Let's agree that we won't retreat from higher standards, but we will give every child the opportunity and time to master them.

The great progress states make has always been tied to great universities, and we're well on our way. Last year, the Legislature agreed to most of my request for a \$17 million budget increase for the University. President Hamilton and the regents invested that money wisely -- helping recruit, retain and train Alaska students and build Alaska's technological capacity.

I make the same budget request this year -- \$16.9 million more -- so we can continue re-energizing Alaska's university.

We also must continue and expand our investments in job training and vocational education. Alaskans must be ready to fill those gas pipeline and other new jobs on the horizon.

Another major area of state responsibility is the public safety of Alaskans. As Alaska's population has nearly doubled since the pipeline years, the number of state law enforcement officers has declined by about 100. That's unacceptable, and we're going to fix it.

That's why I have proposed a 19-million dollar, comprehensive public safety package. It includes 20 new Troopers, 20 new Village Public Safety Officers -- with a raise for the VPSOs -- and establishing a public safety constable program with eight new constables this year.

We're also combating the ravages of alcohol abuse, a devastating killer. I will introduce legislation to reduce the legal blood-alcohol level, strengthen penalties for repeat DWI offenders and crack down on bootleggers. And I ask you to approve better monitoring, treatment and follow-through of adult and juvenile offenders.

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The war on alcohol abuse requires prevention as well as prosecution. For her initiatives to prevent under-age drinking, please join me in commending Alaska First Lady Susan Knowles.

Thanks to last fall's crime victims conference, I am submitting proposals to improve services for victims of crime, better collect restitution and establish stronger victims' advocacy within state government.

Every Alaskan deserves to feel safe in their home, village and community.

Many Alaskans remember an earlier era when dangerous diseases were epidemic across our state. Some, like TB, have re-emerged and new ones like hepatitis C, are taking their toll on Alaskans.

To combat this threat to our public health, I propose a three-part "back to basics" initiative -- more public health nurses, a fully staffed public health lab and doctors trained to investigate and prevent disease.

We must continue vital investments in the facilities of commerce. Since 1994, we've invested a record \$2.7 billion in Alaska's transportation -- roads, airports, marine highway, harbors and trails.

This year, we'll continue our progress bringing Alaska's transportation system to new 21st century standards with a comprehensive statewide initiative to take advantage of new, additional federal funds.

As we upgrade our asphalt highways, we commit to improving Alaskans' access to the information highway. Thanks to innovative state employees, quick, easy and convenient public services are now available on the Internet. Now, let's strive to bring the information age to every Alaskan home.

Another important obligation of our stewardship to Alaskans is to our unspoiled land, clean water and pure air. Yet a recent state-federal report found toxic contaminant traces in subsistence foods from factories thousands of miles away.

That's why Alaskans recently helped craft a 120-nation treaty to prevent the pollution of Arctic plants and animals. I ask you to fund our budget request to keep our air, water and traditionally harvested food safe and healthy with better research and monitoring.

Working with Alaska's congressional delegation, we convinced Congress to require tougher standards for cruise ships operating in Alaska's waters. Now, I ask your help to ensure strong state oversight, enforcement and monitoring.

Let me also thank the Legislature and our congressional delegation for continuing to fund rural sanitation. Six years ago, half of all rural households were forced to use honey buckets as the only means of sewage disposal.

Thanks to \$523 million in state and federal funds, nearly 70 percent now have clean water and sewage disposal. We're making progress putting the honey bucket in the museum by the year 2005.

Because of our investment in Smart Start, Alaska's children and families today are safer and healthier. We're breaking the vicious cycle of family violence and shielding more children from abuse and neglect. We must continue this progress. I ask you to invest \$4 million more to move endangered children into loving homes through foster care and adoption and to better deal with juvenile offenders.

Overall, my budget proposal for the coming year totals 2.4 billion in state general fund dollars. It's easy to understand why this year's budget requires 80 million more dollars just to maintain existing services. Recent legislatures have approved, and now we must operate, a new Anchorage jail, a new health lab and additional juvenile correctional centers in Ketchikan, Juneau and Anchorage.

We have higher caseloads for such vital services as health care for the elderly and disabled. We must fund legislatively-approved labor contracts. And paying the interest on bonds for newly approved schools will cost 28 million more dollars.

The new initiatives I propose for education, the university, public health and safety, seniors and veterans, and children's health and

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safety, are the minimal modest investments we must make as a down payment for the next generation.

I am sure there is broad agreement in these chambers on their need. But I am as troubled as many of you that we project dipping into our Constitutional Budget Reserve savings account for \$528 million to balance next year's budget.

We know the dilemma. We must provide vital services, but our savings won't last forever.

Two years ago, with single-digit oil prices and a \$1 billion budget deficit, I proposed a balanced budget plan. It relied on a combination of an income tax, some Permanent Fund earnings and further cuts. It achieved a dubious distinction -- failing to win a single vote in the Legislature.

Instead, a majority of the 1999 Legislature favored starting with a single source of new revenue -- Permanent Fund earnings and further cuts. That plan achieved its own dubious distinction -- the largest "no vote" margin in Alaska history, 84 percent opposition.

As often happens, higher oil prices once again saved the day. Once again, Alaskans witnessed that the only thing right about oil price predictions is that they are probably wrong.

I'm as relieved as anyone that drastic steps were unnecessary then. I'm proud Alaskans continue to enjoy the lowest tax rates in the nation. I'm proud our fair share of developing our oil and gas pays for most of our essential services. And I'm proud we're the only place in the world with a Permanent Fund that pays each citizen a generous dividend as their return on a public resource.

We are all working hard to build a gas line, open ANWR and generate enough economic activity to prevent the need for new taxes. But we know it would be irresponsible to fail to plan for the possibility that oil and gas revenues someday will be insufficient to pay for essential services. So tonight, I offer a different approach for a responsible balanced budget and call on you to work with me.

Let's agree that if our Constitutional Budget Reserve savings account falls to a critical level -- \$1.5 billion, for instance -- let it trigger new revenue measures automatically.

This approach has long been discussed by many thoughtful Alaskans, most recently by former Gov. Jay Hammond.

I believe most Alaskans are willing to accept measures necessary to keep our level of public services healthy if they're fair. They want to make sure we protect the Permanent Fund and that no single source carries too much of a burden. Of course, this is the same general formula suggested by many task forces and commissions over the last 20 years.

What works best, they all say -- and I agree -- is some combination of all the tools available. A broad-based tax such as an income tax or state sales tax, some earnings from the Permanent Fund while protecting inflation-proofing and dividends, and modest increases to taxes that are currently in use.

We need to involve Alaskans in this issue and I hope you will join me to encourage and work with communities across Alaska to discuss and recommend action on this urgent issue. Failure to act would be irresponsible to Alaskans today and tomorrow.

As we take stock of Alaska in this new year and of the citizenship that makes us strong, none have contributed more to Alaska's development than our seniors. None have made greater sacrifices than our veterans.

Alaska is the only state that cares for its elderly with Pioneers' Homes. Yet, we're also America's only state without a veterans' home. To correct this injustice, I ask you to approve my \$2.4 million proposal to create "The Alaska Pioneers' and Veterans' Home" system.

By offering veterans the 100 beds currently empty because of lack of funding, it will continue to provide excellent care to our pioneers, attract new federal support and help pay our debts to these aging, patriotic Alaskans with six regional Pioneers' and Veterans' Home.

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One of the Alaskans who worked with us on this innovative proposal has done much to serve his state and nation. He is Marine Corps Lt. Colonel Pat Carothers, who at the time of his retirement was America's most decorated Marine.

A long-time Douglas resident, Pat is part of that special generation of Americans who fought for freedom in World War II. He spent most of his distinguished 36-year career on his belly on "deep recon" missions behind enemy lines. He earned three Purple Hearts in the muck of Korea; two more in the jungles of Vietnam. He's been a pilot, diver and paratrooper, making 973 jumps. He has earned 38 medals, ribbons and awards for his heroism and bravery.

As a civilian, Pat continues to serve - as chairman of the Alaska Veterans Advisory Council. Like many veterans who quietly serve their state and nation, Pat doesn't seek recognition. But he's earned it.

Wearing the same fighting-trim uniform he was commissioned in in 1953, please join me in thanking and honoring Marine Corps Lt. Col. Pat Carothers.

Tonight I have discussed many good things about our Alaska -- our economic and civic prosperity. I have asked you in the spirit of bipartisan cooperation to work together on five goals we know will help us achieve a stronger, better Alaska:

Let's put Alaskans to work.
Provide excellence in education for all Alaskan children.
Let's protect children and families.
Preserve the subsistence way of life.
And let's take the steps today we need to balance our budget tomorrow.

We know it won't be easy. But inspired by the courage and perseverance shown by the Alaska heroes we welcome here tonight -- Megan McDermott, Ahmed Warren, Kanani Pavitt and Col. Pat Carothers -- let us rise to the same heights of citizenship.

Thank you, and God bless the great state of Alaska.