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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
Second Session of the
Twenty-second Alaska State Legislature**

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January 16, 2002

Juneau, Alaska

**Gov. Tony Knowles'
State of the State/State of the Budget Address**

Lt. Governor Ulmer, President Halford, Speaker Porter, members of the 22nd Alaska Legislature, my cabinet, my wife Susan, our daughter Devon, fellow Alaskans. Good evening.

I'm honored to join you for my eighth report on the state of our state and its budget.

Thanks to the hard work of Alaskans, our state is enjoying unprecedented prosperity.

To keep building a better Alaska, I believe we must take three important actions this year. Doing nothing threatens the economic, social and physical well-being of Alaska's families. But if we are able to muster the courage and vision to address these challenges responsibly, I believe they will profoundly benefit generations of Alaskans.

First, we must continue to increase our investments for Alaska's children in education and provide for their health and safety.

Second, we must protect the subsistence way of life by allowing Alaskans to vote on a constitutional amendment.

Third, we must take action on a sustainable balanced budget.

Let these goals be a shared vision of a stronger, better Alaska – a bold agenda worthy of the greatness of the Great Land.

We have much to be proud of, especially the achievements of young Alaskans. Next month, as world attention turns to the Winter Olympics, Alaska will be well represented by a strong contingent of world-class athletes.

For those Alaskans who have made America's Olympic team so far - Alan Alborn, Rosey Fletcher, Jay Hakkinen, Nina Kempffel, Rachel Steer, Jeremy Teela and Joe Tompkins - let's begin the cheering now. Good luck Alaskans!

Like our athletes, Alaska's economy is strong. Our state is now in its 14th consecutive year of economic growth.

More Alaskans are working than ever before. We've added 30,000 new jobs to Alaska's economy in seven years and enjoy the lowest unemployment rates in a generation.

Our savings accounts are the nation's envy, with a Permanent Fund worth 25 billion dollars.

Fifty-one hundred Alaska families have gone from welfare to work, saving 172 million dollars over the past four years.

Violent crime in our state is down 40 percent since 1994.

Fellow Alaskans, the state of our state is strong. Our source of strength is citizenship and unity.

After September 11th, all Americans answered the call to citizenship like never before. Alaskans responded quickly, generously and compassionately with donations, assistance and prayer.

In November, I visited New York City to pay my respects to the fallen police, firefighters and other victims. As I stood among the terrible destruction, a dusty rescue worker tapped my shoulder and said he heard I was from Alaska. "Please thank Alaskans for all they've done to help us here," he said. Tonight, I'm grateful to honor his request.

Answering the call to public service and rising to great heights of citizenship is nothing new for Alaskans. Let me share the story of one Alaska hero.

Trooper Larry Erickson was headed home after his shift last summer when he received a report of a car swerving through downtown Fairbanks that may have plunged into the Chena River. Arriving first at the scene, he found the car submerged in the cold, dark water and a woman on the riverbank screaming for her baby, still in the car.

Trooper Erickson rushed into the river, pried open the car door and by feel, located the 1-year-old strapped in her car seat and cut the restraints to free her. She wasn't breathing, so he, Troopers Mark Eldridge and Bryan Barlow and Fairbanks Officer Scott Adams cleared water from her tiny throat and performed CPR.

Thanks to Trooper Erickson's unflinching courage and calm under pressure, today that baby is alive and well. Earlier today, I presented Trooper Larry Erickson the state Medal for Bravery and Heroism. Please join me in thanking him for his courageous act that day, and for the work he does every day to protect Alaskans.

Tragically, the year 2001 saw three active duty Alaska law enforcement officers - Troopers Hans Roelle and James Moen and Anchorage police officer Justin Wollam - make the ultimate sacrifice. May their families find comfort in the gratitude of every Alaskan for their service and sacrifice.

We're equally grateful for the contributions of many other outstanding Alaska citizens who left us this past year, including Jay Rabinowitz, Rosemarie Maher, Hugh Malone, Celia Hunter and Mike McDonald.

Another courageous Alaskan lost her battle to breast cancer last year after fighting hard to extend health coverage for women with breast and cervical cancer. In honor of Barbara DuBois, I introduced two days ago - on the first day of this session - a measure correcting the two-year limit this Legislature imposed on that health care. I urge you to pass it immediately.

Alaskans putting themselves in harm's way - our military servicemen and women and law enforcement officers - deserve our support more now than ever. After the terrorist attacks on America, President Bush directed each state to increase its readiness for our nation's security.

To answer the President's call, as has every other state, I proposed an Alaska Homeland Security Initiative based on recommendations from state and federal disaster officials. More than most Americans, Alaskans understand the critical need for trained first responders,

modern communications, adequate troopers and emergency services to save lives against all threats, natural and foreign. We owe them careful consideration. Alaska's safety depends on us.

As we work to make our communities safer, we know our top priority is ensuring Alaskans have good jobs in a growing economy. We know the best social program is a job and only a growing private sector economy can provide the resources to invest in education, children and safety.

While other states are reeling from high unemployment and recession, Alaska's economy is moving forward. We can stay on track by continuing a pro-business environment, encouraging investment, building transportation and providing essential services.

North Slope oil production will increase this year for the first time in a decade, as we welcome production from Northstar and new discoveries. Activity in the NPRA and 16 scheduled area-wide lease sales will keep exploration and new production growing.

There's no other place in America with the huge quantities of oil our national economy needs than beneath a small portion of the Arctic National Wildlife Refuge. This environmentally responsible development will create tens of thousands of jobs in Alaska and throughout America. We must keep the full court press working with our congressional delegation, the national administration and the forceful coalition of business and labor to open ANWR this year.

Development of our enormous North Slope natural gas resources is at the top of every national energy plan. Now the question of building an Alaska gas line is not "if" but "when."

The 28 Alaska leaders on our Natural Gas Policy Council produced a blueprint for jobs for Alaskans and Alaska businesses, access to gas, and a fair share of revenues. Next, we need federal legislation this year to support the Alaska Highway route. We must continue working with producers and pipeline companies to make this project commercially viable. America needs the Alaska natural gas pipeline now.

Even with low world prices, two of our other resource industries are holding their own. The value of Alaska mining topped a billion dollars for the fifth year in a row.

In the forest industry, more timber for in-state processing will be made available this year to Alaska businesses than ever before.

We also must work together to solve the unprecedented challenges facing Alaska's visitor industry and our fishing families – the impact of terrorism and a glut of foreign farmed fish driving prices to rock bottom. While those industries are our top two largest employers providing billions in payroll, the Alaska families and small businesses of these industries need our help like never before. Let's begin by acting now for effective marketing and the funding to support it.

With new economic opportunities comes our obligation to ensure that every Alaska worker can earn a decent, livable wage. Shamefully, Alaska's minimum wage is the lowest on the West Coast, so last year I asked this Legislature to raise it. Despite widespread support by many in this chamber, the legislative majority declined. So 50,000 Alaskans are demanding it appear on November's ballot.

Let's show our support for Alaskan working families by passing that needed and overdue legislation this year.

It's also time to show you understand the needs of laid-off workers by increasing unemployment benefits for Alaska workers who face among the lowest maximum weekly benefits in America.

We have new allies in our commitment to jobs, health care, sanitation and education in rural Alaska in the historic Millennium Agreement we signed with Alaska Native tribes. These federally recognized tribes and tribal-based organizations bring to Alaska more than half a billion dollars worth of services annually. It is our responsibility to further this important relationship with an Office and Council on State-Tribal Affairs.

To help build Alaska, I ask you to approve my comprehensive capital and bond package of sorely needed improvements: schools, roads and marine highway construction, veterans' housing and deferred maintenance. Let's put Alaskans to work building Alaska.

For persuading the federal government to allow more affordable Internet access in rural Alaska and reducing the digital divide, please join me in thanking Lt. Governor Fran Ulmer.

We know our long-term success in creating a healthy economy and prosperous society depends on our investments in children. That's why four years ago - with the help of many of you - we launched Smart Start.

I recently encountered a compelling role model for teenagers headed down the path toward alcohol, drugs, or worse. Togiak's Francesca Sutton has a powerful message to rural Alaska families that applies to us all: The power of Alaska's Native cultures can change the climate of despair from substance abuse.

After she delivered the keynote address to the Alaska Federation of Natives annual convention, AFN President Julie Kitka said: "I would trust my life with this young woman, her values are so good." Not bad for a 21-year-old. Please help me recognize Francesca Sutton.

Smart Start is showing results.

Four years ago, one in four reports of harm against children couldn't be investigated. Today, 91 percent are, and our goal is 100 percent.

Only two-thirds of Alaska's children were fully immunized against communicable disease. Today 77 percent are. And we need 100 percent.

Many children were stuck for years in state foster care. Today, nearly 1,200 more are in permanent homes, and adoptions have more than doubled. Our goal is no more waiting list.

21,000 more children now get basic health care under our Denali KidCare program.

We've made child care a priority - improving quality and investing dollars so families can get and keep good jobs while their kids get good care.

This is great progress, and on behalf of Alaska's families, I thank those of you who supported Smart Start. Those of you who didn't will now get another chance.

Our new Smart Start package includes critical improvements in vital areas:

- Teenage tobacco use.
- Child abuse and neglect.
- Early literacy.
- Teenage substance abuse and suicide.

This 13 million-dollar effort is an incredibly modest investment for truly great returns.

I recently met a Wasilla family doctor who has dedicated her life to doing what Smart Start is designed to achieve: giving every Alaska child the opportunity to excel with their God-given talents. One child she treated was worried about the arrival of summer - because he couldn't find ice and snow to soothe his wounds after beatings from his father.

After too many heart-breaking cases like that, she co-founded The Children's Place for young victims. And she just made all Alaskans proud by being named the national Family Physician of the Year for 2002. For her commitment to Alaska's children, please help me commend Dr. Cathy Baldwin-Johnson.

For her work on preventing the little known but tragically widespread use of alcohol by children between 9 and 15, please join me in thanking First Lady Susan Knowles.

In large part, the educational success of every Alaskan child is due to the extraordinary public service of parents, educators, business and civic leaders. Like 2001 Teacher of the Year Vivian Montoya of Juneau's Harborview Elementary.

We have a role too, and we're making solid progress. Alaska students already score at or above average on national tests, and our Quality Schools Initiative of standards, resources and accountability is achieving new levels of success.

Last year, at the recommendation of the Education Funding Task Force, we increased student education funding by 20 million dollars. This group of business, community and education leaders recommends further investment in Alaska's schools. I agree, and have included their 33 million-dollar proposal in my budget request.

To keep our top students in state - and help them become the business creators, innovators and leaders of the 21st century - we must continue our support of the great job being done by the University of Alaska. For the third year in a row, I'm backing the regents' request for a \$17 million increase.

No report on Alaska's progress would be complete without discussing the bottom line. The 7.3 billion-dollar budget I propose for the coming year includes state general funds, federal funds, Permanent Fund earnings to pay for dividends and inflation-proofing, and other funds, such as airport revenues.

Alaskans can be reassured the general fund budget I propose for the coming year is financially responsible, with a sharp eye for cutting costs.

Six years ago, I pledged to work with you to reduce state spending by 100 million dollars. The legislative majority said 250 million was the right number. We went at least to the 100 million-dollar general fund cut, including this year's budget. We'll still spend eleven-

hundred less per person in today's dollars than in 1979 – the first full year of oil flow through the pipeline. That includes the 179 million-dollar general fund increase I propose in this year's budget.

Some, including a handful of you in this chamber, have asked if it's responsible to increase the budget when lower oil prices have produced a billion-dollar budget gap.

First, let me remind you that 81 million dollars of this increase is a direct result of actions you have taken in approving laws, budgets, contracts and replacing lost federal and other funding sources.

It includes debt for approved new schools. Operating new facilities, from the Ketchikan youth home to the Anchorage jail. Obligations you approved for pupil transportation and state worker contracts. Medical care required by law for more seniors and Alaskans with disabilities. And holding constitutionally required elections this fall.

Now, on my 64 million-dollar increase for improving education and children's health and safety, I recognize there is a fundamental difference of opinion between some of you and the many Alaskans who, like me, believe this is a top priority. So I welcome a healthy, open, honest debate on two different visions of what our Alaska can be.

There can be an Alaska where our children can learn to the best of their abilities, provide for their future families, be good citizens. An Alaska that has saved hundreds of millions of dollars in fewer prisons, less welfare, lower health costs and fewer broken lives.

I want to realize tomorrow's returns by making wise investments today. That has been my mission as your governor for seven years and I'm not stopping now.

Each year my budget proposals in education and Smart Start have been declared dead on arrival by the majority of this body. Yet thanks to the vision and grassroots advocacy of thousands of Alaskans and

eventually bipartisan support here, good ideas have prevailed. Rather than tying the commitment for our kids to the price of oil, I believe Alaskans will always put children first.

As we engage in a positive, productive manner on increasing the investment in Alaska's children, I believe we face two other overriding issues that if left unresolved, profoundly threaten our prosperity and unity.

Unlike other threats, they do not come from nature or beyond our borders. They come from within and can be resolved right here, in these chambers. I speak, of course, of a sustainable balanced budget and subsistence.

Because Alaskans want and deserve straight talk, I'll be direct. I have proposed solutions to these issues seven years in a row in every regular legislative session and I've called special sessions on both issues.

Across party lines, individual legislators have worked hard to make progress. The majority of you believe in and have worked for good solutions and Alaskans commend you for it.

Yet, we've failed to muster the necessary votes to take action on either issue. Starting now, let us recommit ourselves to work boldly, effectively and perhaps most importantly - together. Time is short; the stakes are high. Alaskans know what needs to be done.

For 20 years, Alaska governors, legislators, economists, business and civic leaders have all urged long-range budget plans recommending the same basic combination of cuts and revenues to replace dwindling oil dollars. Now the day of reckoning is upon us.

Six years ago, I proposed a Safe Landing Budget Plan of budget cuts, an income tax, the use of some Permanent Fund earnings for an education endowment, and other tax increases. Three years ago, faced with record low oil prices and a billion-dollar budget deficit, I again proposed a specific, fair and balanced budget plan.

It filled the budget gap with continued efficiencies, resumption of Alaska's personal income tax, and use of surplus earnings from the Permanent Fund after inflation-proofing and paying dividends.

Instead, the Legislature favored starting with a single source of new revenue – Permanent Fund earnings. Eventually in a special session, I joined you in supporting that approach when you agreed to allow Alaskans to vote. My multi-tool approach won little favor with you, and your single-tool approach won little favor with Alaskans.

Tonight I again offer a proposed solution that reflects the best ideas of many public-spirited Alaskans. My approach is based on five principles.

One, any plan must be fair. Everyone should contribute, including those who make money here but live elsewhere.

Two, Permanent Fund earnings, after inflation-proofing and dividends and a vote of the people, should be used only after a broad-based tax and corporate taxes are in place.

Three, new revenues should be phased in rather than imposed all at once. This avoids shocking the economy and helps families and businesses adjust to the change.

Four, any budget plan must be realistic – not based on unsubstantiated estimates or bogus promises.

Five, efficiencies, savings and continued cost reductions must always be part of budget considerations.

The math of the challenge before us is pretty simple. We must average approximately 1.2 billion dollars a year in new revenues to balance our budget through the end of this decade.

I propose the solution be phased in over three years, implementing additional measures each session to generate about 400 million dollars each year. My proposal for action this session has three elements:

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- First, 350 million dollars from resumption of a modest state income tax, which is less than half the rate Alaskans paid under our old income tax;
- Second, 30 million dollars from the first alcohol tax increase in 19 years; and
- Third, 20 million dollars from a passenger fee on the cruise ships that pay no state tax.

I will introduce or support legislation for each of these revenue measures.

Of course, no one likes paying taxes and no elected official likes proposing one. But I believe the most fair, broad-based tax is an income tax based on the percentage of federal income tax paid. People who work in Alaska but live elsewhere would contribute about 23 million dollars of the bill. The federal government would pay about 52 million of it through federal tax deductions Alaskans would get on their state income taxes.

That means to generate 350 million dollars in taxes, Alaskans would pay about 275 million dollars.

To assure Alaskans the state is not collecting more than necessary in the future, I will include a provision to reduce the tax rate when reserves are sufficient.

The state tax on alcohol was last raised in 1983. Asking those who consume alcohol to contribute an extra dime a drink will raise 30 million dollars. This is small compared to the cost each year of treating the problems of alcohol abuse, estimated at 453 million dollars a year. Representative Lisa Murkowski already has introduced legislation to increase the alcohol tax by a dime. I endorse her measure and will work to ensure it passes.

Today, the multi-billion dollar cruise ship industry pays no corporate income tax to Alaska on its cruise ship operations, or for that matter, to the federal government or any other state in America. It is only fair that every industry contribute something to Alaska for the

many benefits they receive here. A tax of 30-dollars per passenger would raise about 20 million dollars for the state.

This is a serious and substantial start on filling the 1.2 billion-dollar budget gap that threatens Alaska businesses and families.

For the following two years, there are sufficient tools available to future legislatures and governors to fill the remaining gap before the reserves are totally exhausted.

Some have suggested the oil tax be revised to help balance the fiscal gap. This may be a potential source of revenue in future years, but any change must be carefully considered as they currently pay about 80 percent of the state budget in taxes and royalties. Private investment in future oil and gas development depends on fiscal stability and global competitiveness. Tax rates should be changed only if they meet those criteria or we will kill the goose that has laid the golden egg.

Each year in this balanced budget plan requires heavy lifting and the first may well be the most difficult. Yet the do-nothing approach is a blueprint for future economic disaster. Doing nothing when reserves are exhausted means drastically and irresponsibly cutting basic services and liquidating state assets - including Permanent Fund earnings - at a frightening clip.

It would be easy for me to escape the political pain from advancing new taxes this year. When I leave office, there will be 1.8 billion dollars left in the budget reserve, more than when I took office seven years ago.

So why am I risking what little political goodwill I may have with Alaskans to propose unpopular measures now to balance our budget? Simple. Along with hundreds of thousands of other Alaskans and all of you in this room, I care deeply about the future of this state. My children - our children - deserve at least the same or better opportunities we have had in this great land. We should not let denial or lack of gumption foul their future.

I commend the many of you who have actively participated in the bipartisan Fiscal Policy Caucus. Your numbers are growing. Now we need to broaden the circle and take action. We cannot afford to fail.

Just as we know failure to balance our budget is a clear threat to our future, we know the failure to resolve subsistence has created a growing and bitter urban-rural divide. The cultural, nutritional and economic importance of subsistence to rural Alaskans is respected by every Alaskan.

Yet, the permanent protection of this time-honored way of life by allowing Alaskans to vote on a constitutional amendment has been denied us for 12 years by a handful in the Legislature. That's why in August I convened 42 Alaska leaders - business, civic, religious, fishing, village, rural and urban - to participate in the Subsistence Leadership Summit.

Over two days under the glare of television lights, they demonstrated an overwhelming sense of unity, respect, values and an agreement on what needs to be done.

They discussed the economic consequences of a divided Alaska where rural resources like oil, minerals, fish and tourism bring prosperity to urban Alaska. Yet the most basic values and nutritional needs of rural Alaskans are not supported or protected by some urban legislators.

Native-owned corporations attract and spend millions in private capital for development. They have been potent advocates in Washington working to open up federal lands in Alaska. Yet, as a state we have failed to protect the fundamental value of subsistence for their shareholders. The growing anger, frustration and misunderstanding are taking a terrible toll. This must change.

The most dramatic moment in that summit came when a vocal opponent of a subsistence amendment casually dismissed its significance. "Nobody's going to die," he said. The response from the Reverend Michael Oleksa silenced the room. "Without subsistence, Alaska Native peoples will die spiritually, die emotionally and eventually die physically."

As an inspirational leader serving rural Alaska for three decades, Father Oleksa knows what he's talking about. A teacher and author, he brings together Alaskans from diverse walks of life for common good. That's why I asked him to serve on the Tolerance Commission and to join us tonight. Please help me honor Father Michael Oleksa.

The work of the subsistence summit has brought a sense of moral authority and political strength that has re-ignited the hope of bringing Alaskans together.

Since then, many summit members have worked to produce an innovative constitutional amendment that protects the importance of subsistence for rural Alaskans first, and then recognizes the needs of those urban residents who have a customary and traditional use of fish and game resources.

With the broad support of Alaskans, I will introduce legislation to allow Alaskans to vote on that constitutional amendment. By giving Alaskans the opportunity to vote on subsistence, let this Legislature be the one to build a bridge across the urban-rural divide.

I know all Alaskans were shocked a year ago to witness three young white men cruising the streets of downtown Anchorage targeting Alaska Natives for violence. In response to this crime of hate and other acts, I asked 14 Alaska leaders how to achieve a more tolerant Alaska that celebrates the diversity of our people and cultures.

The Tolerance Commission produced nearly 100 bold recommendations. I want to emphasize four here.

First, we must have tougher laws to prosecute crimes of hate. Such a law, introduced and supported by many legislators last session, was not granted a single hearing by this Legislature. I urge you to send a clear message that there is no place for hate crimes in our Alaska.

Second, the Tolerance Commission found that education is the key to understanding and respecting a more diverse society. Our students and future leaders need the legislation introduced by Representative Mary Kapsner and Senator Donny Olson requiring Alaska history be taught in our schools.

Third, we know it's wrong to fund new student enrollment in some rural areas at a lower rate than urban areas. No action has been taken on legislation that would fix this injustice. What a shameful message to give our kids. Let's show there is no room for this rule in our schools.

Finally, the commission stated what Alaskans overwhelmingly support and what we all know - the single, most important action we can take to bridge the urban-rural divide is to protect subsistence.

There's no Alaskan who has done more to protect the subsistence way of life for this and future generations of Alaskans than an 87-year-old Athabascan great-grandmother of quiet determination and steely resolve. She has deservedly become an inspiration to many Alaskans, especially our youth, who know of her love of family and her courage in fighting for them and their way of life. I join them in saluting the courage and citizenship of Katie John.

As we reflect on this past year and the citizenship that has made ours the strongest nation on earth, none have made greater sacrifices than our veterans. In asking you to make this the year of the veteran, I urge you to pass a package of veterans' bills long discussed and supported by every veterans' organization in this state.

This includes one to change Alaska from being the only state without a veterans' home to one that, in the words of America's Veterans Secretary, could be a national model. Last year I asked you to create the Alaska Pioneers' and Veterans' Home System. It has the broad support of veterans and seniors.

Our veterans took care of America when they were called, now it's our turn to take care of them.

One Alaskan who distinguished himself in service to his state and nation works tirelessly for his fellow veterans every day. Bob Bowen joined the Navy in 1937 and served in the Pacific Theater until his capture by the Japanese Imperial Army in Manila four years later.

After three long, hard years in a Japanese prison camp, Bob returned home to better his community. He started a Chapter of the American Ex-Prisoners of War and his most recent achievement is bringing the bronze statue honoring World War II veterans to Anchorage's Park Strip. For his many acts of generosity for veterans, I was honored to present Bob the Governor's Veterans Advocacy Award. Please join me in thanking and honoring Bob Bowen.

Tonight I have talked about success in our Alaska. Our economy is healthy, our families are strong, we're optimistic, certainly resilient and always fiercely independent.

I have asked you, in the spirit of bipartisan cooperation, to work with me on three goals for Alaska: We must continue to increase our investments for Alaska's children in education, health and safety. We must protect the subsistence way of life by allowing Alaskans to vote on a constitutional amendment. We must take action on a sustainable balanced budget.

We know this won't be easy. But let's be inspired by the call to great new heights of citizenship already answered by Trooper Larry Erickson, Francesca Sutton, Vivian Montoya, Dr. Cathy Baldwin-Johnson, Father Michael Oleksa, Katie John and Bob Bowen.

Examples of public service demonstrated so dramatically by ordinary people doing extraordinary things for their neighbors, their friends, their fellow Alaskans. We should do no less.

Good evening.