

**SENATE AND HOUSE
JOINT JOURNAL SUPPLEMENT**

January 13, 2004

No. 11

**State of the State and
State of the Budget Address
by
The Honorable Frank H. Murkowski
Governor
State of Alaska
Before a Joint Session of the
Second Session of the
Twenty-third Alaska State Legislature**

January 13, 2004

Juneau, Alaska

The following was submitted for publication:

Happy New Year to all of you. The good news is there are only 17 more Saturdays until the Session ends.

Mr. President, Mr. Speaker and members of the Alaska State Legislature - I appreciate this opportunity to address you, and all Alaskans, on the state of our state.

My theme tonight is securing Alaska's future.

First, let me introduce my indispensable partner, the state's first lady, Nancy, who is here in the gallery. Also here tonight is Lieutenant Governor Loren Leman and in the gallery, his wife Carolyn and members of my cabinet. I want to thank them all for their service to Alaskans.

What we have accomplished this past year is a result of teamwork, and I know the spirit of cooperation - and the spirit of service - will continue to reap benefits for Alaska's future.

Alaska's greatest resource is our people. The energy - the enthusiasm - the spirit of Alaskans is what makes us strong. Many Alaskans are far from home this year, serving in our Armed Forces - so that we can enjoy the benefits of freedom at home.

Two are here with us tonight. Michael Boy Scout, was raised in Chevak and graduated from the Alaska Military Youth Academy before joining the Marines. Last September he was deployed to Kuwait. As part of the Marine's 60th Engineer Support Battalion, Corporal Boy Scout rolled into Iraq one day after the ground war started. He proudly served our country until returning home to Anchorage in December. Join me in welcoming Michael Boy Scout home.

Sitting next to Michael is Lieutenant Colonel Steve Williams of the Alaska Army National Guard. He spent nine years on active duty in the Army before returning to Alaska. He has served with the Guard for the past 10 years. On September 11, 2001, Colonel Williams was in Washington, D.C. - attending the National War College - where he

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watched smoke billowing from the Pentagon attack. Shortly thereafter Colonel Williams began service on the U.S. Counter-Terrorism Task Force. He then asked to be deployed to Afghanistan, where he served with the 82nd Airborne. His job was to bring order to the Southern Region. Let's welcome Colonel Williams.

Steve and Michael - on behalf of all Alaskans - I want you to know that we recognize and appreciate the great sacrifices that service men and women and their families have made in the War on Terrorism.

With one year in office now passed, my enthusiasm and optimism for Alaska is brighter than ever.

The state of our state is strong! The opportunity - and the responsibility - lie before all of us to make an even better future for Alaskans.

Before becoming your governor, I promised that I would:

- launch an aggressive resource development program,
- impose no income tax, and
- rein in state spending

I take my promises seriously. And I am proud to report that we are implementing our fiscal program to keep our promises. In just one year we have accomplished a great deal for which all Alaskans can be proud.

We instituted a meaningful program to stimulate natural resource development in a responsible way. It includes: a streamlined permitting process, - new incentives to encourage private investment, - and a business-friendly regulatory climate - without relaxing our strict environmental safeguards.

We held firm on the imposition of no new income tax. And we reduced General Fund spending by \$245 million dollars.

I recognize that a government's budget is about more than just how much money is spent. It's also about our responsibility to see that those dollars produce results. And, - it's about getting a return on the dollars invested in services. But most important it's about people, their

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lives and their children. What we approve during this legislative session will have a great impact on the future of our children, who make up nearly one third of the population.

We still have much to do. Indeed, we are going to be held accountable by future generations for how well we conduct our stewardship responsibilities today. In an address I intend to make on March 9th I will detail the many initiatives and developments of my administration. They include oil, gas and mineral development - new roads, revitalized timber and fisheries, and new services - especially for senior citizens. In fact, each of you has on your desk a special report describing what we are doing in these areas. Others can find the report on the state's web site.

Our initiatives promise great results for Alaskans. But to achieve these results, we must create an investment climate based on financial stability and certainty. Everything else depends on it.

When I delivered my proposed budget on December 15th, I promised to discuss my long-term fiscal program with you tonight.

This subject is so important that it's the primary topic of my remarks. It will chart our shared future. And the key to that future is financial stability. Throughout our short history - Alaskans have demonstrated the ability and resolve to balance individual and shared needs. Tonight, I will call Alaskans to the task again.

The Alaska Constitution bestows extraordinary authority and responsibility on the Governor - and along with that authority, goes the responsibility to lead. I eagerly shoulder this responsibility, and tonight I am proposing a fiscal program that sets a path to financial stability for us to follow together. This path is consistent with my promise to develop jobs, a strong economy and to control state spending without undue burden on our citizens.

My fiscal program is based on sound economic principles. It recognizes that development of our resources, both human and natural, is the only long-term foundation for fiscal stability for Alaska. This program recognizes that building a vibrant and sustainable economy

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will not be served by simply taxing the income of hard working Alaskans. People don't tax themselves to prosperity. They invest to prosperity.

Let me discuss the five elements of my fiscal program.

30 years ago, the Trans-Alaska Pipeline was designed and built to carry two million barrels of oil a day. It only reached that capacity briefly in the late 1980s when the nation was gearing up for the Persian Gulf War. Today, the pipeline moves less than 1 million barrels and in the years to come we can continue to expect less (unless) we act now to explore and develop new oil fields. New oil in the pipeline coupled with new developments in natural gas, form the first element of my program. The state will help build the infrastructure - and create the economic atmosphere - to increase oil flow and move gas to market.

The top priority of this administration is the construction of a gas pipeline - to move to market the 35 trillion cubic feet of gas stranded in Prudhoe Bay. Remember though - Prudhoe Bay took 8 years to develop after it was discovered. It will likewise take time for new developments like the natural gas pipeline, the National Petroleum Reserve, and oil and gas from the Alaska Peninsula. The state will gain the jobs and economic lift from these activities by the end of the decade.

The second element of my program is fiscal discipline. My commitment to this element of my fiscal program is unwavering. This means:

- Control state spending - and be accountable for delivering results for every dollar spent; and
- Emphasize the essential responsibilities of government such as education, public health and safety, transportation and environmental protection - all of which are hallmarks of a strong and caring society.

Spending by state government cannot serve as the underpinning of our state economy. Government spending cannot be our economy. The role for state government is to enable Alaska's economy to grow by encouraging the development of our land and its resources.

My Administration has taken the first step with our state's budgets for fiscal years 2004 and 2005. These budgets do control state spending and are needed to preserve our Constitutional Budget Reserve until we realize the financial benefits from our resource investments. Over the last 13 years \$5 billion dollars of the \$7 billion in the Constitutional Budget Reserve has been used to prop up everyday spending.

We are committed to end this drain on the Constitutional Budget Reserve. We will spend less than the preceding year and narrow the gap between spending and current revenue. By spending less we extend the life of our Constitutional Budget Reserve.

Let me thank the Legislature for its leadership in the "Missions and Measures" process by which state departments define their purpose and measure the effectiveness of their results. In fact, this is the first time in 27 years that this kind of comprehensive review of departments has been undertaken. I thank also the state employees who are essential in making this initiative successful and delivering results. I am proud that we are fulfilling this element of my program and have been able to maintain funding for essential state services while keeping our roads open in winter and parks open in the summer.

The third element of my program is that the costs of government should be borne as much as possible by the direct users of services. My fiscal program expects that those who directly benefit from state services pay a fair share - through modest fees and taxes that do not interfere with personal savings and investment.

The fourth cornerstone of my program is local responsibility for local needs. Local governments should look first to local revenue sources to help fund schools, public facilities, fire and safety services. The regional and local development of timber, fisheries, minerals and tourism provides jobs. It also provides a tax base that strengthens local economies, which then will need less financial support from the state. It also means greater local control. We encourage even our smallest communities to support economic development that will create local jobs. After all, one of the best social programs is a good job.

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Finally, the fifth element is whether to use a portion of the Permanent Fund income to maintain public services. While one can argue whether this should happen in an election year or some other time, I think the time has come to begin this process.

Over the last quarter century Alaskans have shown foresight and ability to make tough choices. Guided first by Governor Hammond, and later by Governor Hickel, citizens prudently developed both the Permanent Fund and the Constitutional Budget Reserve from the wealth produced by oil. The Constitutional Budget Reserve was intended to be a savings account to serve as a shock absorber against a drop in oil prices - not as a source of funds for everyday spending. We must maintain a cushion to protect funding for essential public services when oil prices go down, and keep sufficient cash in the bank to maintain our cash flow.

In spite of our reduced spending and high oil prices, the Constitutional Budget Reserve is projected to dip below one billion dollars in July 2006. Allowing the Constitutional Budget Reserve to drop below a billion dollars in order to continue to underwrite the budget deficit will not happen on my watch!

Both the Permanent Fund and the Constitutional Budget Reserve were voted in by the people. I am trusting the people to again consider the interests of all Alaskans and I am calling on the Legislature to join me in allowing Alaskans to decide. We all acknowledge the Permanent Fund was established for the future. The opening contribution to the fund was 54 million dollars. Today the Fund is 27 billion dollars.

The income has flowed in two ways: into dividends and back into the principal. The principal has grown so large that the income created by the Fund often has exceeded the revenue the state received from oil. Let me repeat that - The principal has grown so large that the income created by the Fund exceeds the revenue the state receives from oil.

At the same time we are threatened with an erosion of essential public services. Alaskans need to consider the health of our society in terms of both the dividends they receive and shared services. How much and

for how long do we allow the Fund to grow - and public services to decline - before we Alaskans address using a portion of the Permanent Fund's annual income to support our most important public services?

Tonight I am announcing a process to do just that.

Let's start the discussion now. There are two paths before us. One is the easy road - avoid the issue, do nothing and wait. The other is the course I propose. It will require that we move beyond the rhetoric and the politics of the past to protect our future.

I am calling for a non-partisan Conference of Alaskans to determine whether the time has come to use a portion of the Permanent Fund income to maintain essential public services. Such a proposal would be in the form of a Conference Resolution that will be developed into a bill for submission to the Legislature.

As the Conference deliberates, let it be clear to Alaskans that there are two important principles on which I will insist for use of any portion of the Permanent Fund income:

- First, the people of Alaska must agree. We must have a vote on the proposal in November.
- Second, I will work with the Legislature for an effective Constitutional Spending Limit in order to assure Alaskans that government will be frugal and efficient.

This spending limit must also be on the November ballot.

I have worked hard to find a diverse group of knowledgeable and fair-minded Alaskans to convene this Conference. Please join me in recognizing these Alaskans. Sitting in the gallery are: Mike Burns, who will serve as Chair, and Steve Frank, Clark Gruening, Marc Langland, Helvi Sandvik, Arliss Sturgulewski, and Eric Wohlforth who will serve as convenors.

I want the Conference to get straight to work: Former Representative Brian Rogers - who is also with us in the gallery tonight - will facilitate the Conference.

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Any ballot question addressing the Permanent Fund must reflect the best thinking of the people of this state. It must represent broad-based, non-partisan consensus and focus only on the best interest of Alaskans.

There will be 55 participants in the Conference. This is the same number that sat in the United States Constitutional Convention in 1787, and the same number who traveled to Fairbanks for our own Constitutional Convention in 1955. The Legislature's Majority and Minority leaders are included as members of the Conference. The seven convenors will select the remaining participants by a vote of at least six of the convenors who must reflect the many faces of Alaska and a wide range of thinking. Those selected will be knowledgeable about the issues and willing to work cooperatively with other Alaskans to come up with the best recommendation. As with our Constitutional Convention in 1955, those chosen must be prepared to put politics aside and focus solely on what is best for Alaska. Like Judge Tom Stewart, who was the Secretary to Alaska's Constitutional Convention almost a half century ago. Judge Stewart has agreed to be Honorary Chair of the Conference and he is here with us tonight.

I am pleased to announce the Conference will take place at the University of Alaska Fairbanks on February 10-12, 2004. It's not going to be just another government task force or a collection of words. It will be a fast-moving, results-oriented group that will debate one issue - whether and how to use the Permanent Fund income to protect our future. Please note, I am not asking the Conference to address a broad-based tax plan for Alaska. I charge the members to reach a consensus in the form of a Resolution which addresses the following four questions:

First: Should the use of income from the Permanent Fund be limited by the Constitution to 5% of the Fund's value, as the Permanent Fund Trustees have proposed?

Second: Should a portion of the income of the Permanent Fund be used for essential state services, such as education?

Third: Should the use of the income of the Permanent Fund for dividends and possibly for other purposes be determined annually by the Legislature, as is currently the case? Or should it be dedicated in the Constitution?

Fourth: Should the state maintain a minimum balance in the Constitutional Budget Reserve to stabilize state finances against fluctuation in oil production or prices?

I am asking the Conference to address specifically these four issues so that Alaskans can assess what will happen to the dividend if we also use some of the Permanent Fund income to pay for essential public services? Also, what will happen to our economy, jobs and public services if we do not?

The Resolution received from the Conference will be the basis for legislation that I will present to the Legislature. Tonight I am calling the Legislature into Special Session on March 1st to consider legislation that I will propose. I believe this issue warrants the focused attention and limited agenda of a special session. I will work closely with the Legislative Leadership to make sure the Legislature approves a ballot proposal. I then will ask Conference members to join with my administration, the Legislature and other Alaskans in discussing the proposal in preparation for the November election.

This education process must be comprehensive and explain the proposal's impact on dividends, future state spending, jobs, Alaska's economy, and the value and management of the Permanent Fund itself. Throughout my long public service career I have been consistent in my trust in the people. It is time to engage them again. They will make the choice.

Tonight, I thank in advance those who will participate in the Conference. I also thank those Alaskans who will wait, listen and carefully consider the proposal and give the process a chance.

In conclusion, my program is consistent with my promises:

- To generate new income from oil and gas.
- To control government spending.
- To avoid an income tax.
- To grow strong local economies and provide job opportunities which support strong local governments.
- To give Alaskans the opportunity to implement two of the purposes of our healthy and growing Permanent Fund:
 - One: to meet shared public needs, and
 - Two: to provide fiscal stability.

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Finally a little reflection on the state of our state. Consider what we have:

- 20% of the nation's known oil reserves
- 15% of the nation's natural gas
- 50% of the commercial harvest from the sea
- spectacular open land with limitless tourism potential
- pristine environment
- engaged citizens and
- 27 billion dollars in the bank

Most states can only dream of our wealth.

The Permanent Fund plays a unique role in defining our past. Wealth from oil was a springboard to growth throughout the state and remains an annual stimulus to our economy. But remember, the Fund was and is dedicated to Alaska's future.

The Permanent Fund program converts our non-renewable resources to the sustainable and renewable resource of annual income for those of us here now and for future generations. That wealth is part of our present currency and will be our children's inheritance. But an inheritance without the benefit of a great education, a sound economy, and job opportunities would be a cruel hoax on our children and grandchildren. One third of Alaskans are under the age of 20. We are told that nearly 40% of our young people leave Alaska after graduation. We must turn this around.

Our wealth arose from our collective efforts and a portion of its renewable income should accrue to the shared burdens and benefits of citizenship in our Great Land.

Bold moves are not without controversy. I was elected to make decisions that affect people's daily lives. I pledge to do what is right for Alaska, and I will - controversy or not.

Our generation of Alaskans has something to learn from our pioneers, who left a legacy of commitment to future generations. Our legacy can be a vibrant economy and jobs for our children - to allow them to stay here in the state and raise their own families. Our legacy can be the highest quality of life in the United States. Our legacy will rest on whether we place a higher priority on investment than consumption.

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I welcome all Alaskans to join me along the way. Our shared future is bright. Our Northern frontiers are open. I look forward to our journey. God Bless the United States of America and God Bless Alaska.

Please report corrections to the Senate Secretary's office.