

**SENATE AND HOUSE
JOINT JOURNAL SUPPLEMENT**

January 10, 2006

Tuesday

No. 9

State of the State Address

by

The Honorable Frank H. Murkowski

Governor

State of Alaska

Before a Joint Session

of the

Second Session of the

Twenty-Fourth Alaska State Legislature

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Juneau, Alaska

The following was submitted for publication:

Introduction

I extend a warm welcome to all Alaskans tonight and wish you all a happy new year. It is a pleasure to acknowledge Alaska's First Lady, Nancy, Lt. Governor Leman and his wife Carolyn, House Speaker Harris and Senate President Stevens, along with members of my administration.

This evening I want to remember the Alaskan soldiers we have lost in Iraq, and the four fallen heroes from the recent helicopter accident. Please join me for a moment of silence in their honor. They and their families will never be forgotten.

Tonight I also want to recognize and thank a special guest, Laura Gilbert, wife of Major Joel Gilbert, and her children Kayleigh and Angus. Major Gilbert is the commander of Alpha Company, 3rd Battalion 279th Infantry, of the Alaska National Guard. He has been fighting the war on terror in Iraq, protecting not only our freedom in Alaska, but freedom for those around the world. Juneau is planning a community event April 9 to honor Major Gilbert and all our National Guard soldiers who have served in Iraq. I thank you, and other families who like you, have sacrificed, for your dedication to our family of soldiers. I understand Major Gilbert is on his way home, and I wish him Godspeed.

I also welcome and thank each and every member of this legislative body - Republicans and Democrats alike - for your support in helping my administration achieve a strong economy for our state. This is the fourth year I've had the honor of presenting to you and all Alaskans my assessment of the State of our State and I am pleased to tell you that our future is bright.

Our development initiatives are working. The private sector has created more than 13,600 new jobs in this state since my administration took office.

We have had the good fortune to generate a substantial surplus. We have maintained a significant balance in our Budget Reserve and the Permanent Fund stands at \$33 billion. A quick glance back to 2002, with its projected \$800 million deficit, reminds us of what might have been, and is a sobering reminder of what we have left behind.

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Today we can look forward to both a permanent fund and a permanent economy. The key to Alaska's future, as I've noted many times, is the responsible development of our resource wealth. Not only do we have the wealth of our great land, but we have an energetic and determined people dedicated to its responsible stewardship.

Let me remind you of the extraordinary wealth of our great land:

- 20% of the nation's known oil reserves;
- 18% of the nation's natural gas;
- 50% of the nation's commercial harvest from the sea - which is in excellent shape and well managed by the state;
- the Tongass, largest of all our national forests;
- huge and numerous deposits of gold, silver, copper, coal, and molybdenum;
- spectacular open land;
- pristine environment;
- 131,000 children in K-12 and 32,000 students attending the University of Alaska;
- and, again, \$33 billion in the bank.

In my report to you three years ago, I acknowledged that bold moves are not without controversy. I challenged us to rise to the level of our great natural wealth. I pledged to do what was right for Alaska, and I have fulfilled that pledge.

My administration is working for an Alaska in which every citizen will have the tools to succeed. That means:

- every child is healthy, well educated, and safe;
- every child receives an education that prepares him or her for a successful career here in Alaska;
- every Alaskan can have the opportunity to find a good job;
- families are protected from crime, violence, and drugs, including the ravages of meth;
- we can hunt and fish out our back door, something those elsewhere can only dream about;
- we care for our seniors, and support those most in need;
- our communities are strong and thriving. That strength comes from taking responsibility and making decisions at the local level where they are most effective.

As I see it, achieving these results for Alaskans is what resource development is all about. It provides the public funds to improve life in Alaska, and offers more opportunities for our young people to work in jobs that build a strong Alaska for future generations. It's not the drill and dig; it's what we do for Alaskans with the resource revenues that really counts.

No other state has such dramatic opportunities for resource development to help its citizens. And of all our bountiful resources, oil and gas have the most potential.

The oil and gas pipelines will truly anchor our future. And along with oil and gas that will be produced from our existing fields, there are huge undiscovered reserves of oil and gas to be developed on Alaska's rich North Slope, particularly the Arctic National Wildlife Refuge.

Opening ANWR

Opening ANWR has been a goal of Alaskans since before Congress passed ANILCA, 25 years ago.

I want to commend our Delegation - Ted, Don, and Lisa - but in particular Senator Stevens, whose perseverance and whose dogged determination is a reminder that creating a bright future for Alaska takes tremendous personal effort and commitment. Please help me recognize and thank this great Alaskan, this great American, my friend, and colleague.

Just think, if President Clinton had not vetoed opening ANWR when Senator Stevens, Representative Young, and I got it through Congress in 1995, funds from ANWR would now be available to help address issues such as aiding Hurricane Katrina victims and protecting the nation from the potential avian flu pandemic - as well as helping Alaska.

Representative Young has done a great job in addressing Alaska's needs in the transportation bill under some difficult circumstances.

I also want to thank Senator Lisa Murkowski for her efforts to gain approval in the Senate of the FMAP - Medicaid formula providing \$70 million for Alaska. It now awaits House approval.

Telling Alaska's Story to the Lower 48

The nation's view of Alaska is sorely distorted, and Alaskans are clearly frustrated by our inability to open ANWR. All of this has been evidenced in the last few weeks, when Congress and the national media debated the issue. Misled special interest extremists have once again prevented Congress from doing what is right for the energy security of the nation by blocking ANWR.

The extremist agenda cannot be sustained when fuel prices rise, hurricanes threaten oil fields in the Gulf of Mexico, and Americans face a cold winter. The irony that some congressional members of our neighboring states of Washington and California, which depend on our North Slope oil and the business it brings them, do not support our quest is unconscionable.

It is unfair to expect the Congressional Delegation to do this job alone. As the past weeks have demonstrated, they have given their all in this task. Arctic Power has also done a good job, too.

The Lower 48's perception problem with Alaska is not just with ANWR. The need to educate the nation covers other controversial issues with our federal government - disputes over selecting land along the pipeline corridor, timber harvest in the Tongass, Glacier Bay access, building the King Cove - Cold Bay Road, predator control, wetland designation, and Denali access - to name a few.

In addition, Alaska has been held up to ridicule by the special interest extremists' "bridges to nowhere" campaign - as if Alaskans should not enjoy the same transportation and access infrastructure other Americans take for granted - a road to an airport or across an inlet - a way to reach necessary services and expansion throughout our state.

And then there are the things that Alaskans have to live with, but that most people Outside do not understand - vast distances and a lack of transportation services that contribute to high fuel costs in rural Alaska, a scarcity of health care services in bush communities, the strains on an educational system when the lack of housing is a barrier to teachers staying in rural Alaska. AHFC has initiated a new program to relieve the housing shortage in rural Alaska. Senator Lyman Hoffman has been a great supporter on this issue.

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The strength of our nation is made up of the 50 states, each contributing to the whole. Alaska's role is unique - we are a young, still-developing state. But Alaska does not just take. We give, and we have the capacity to give much, much more - if permitted to do so. I am reminded of a statement from former Territorial Governor Earnest Gruening, "For too long the federal government has ignored and refused the petitions, pleas, prayers, and memorials of legislative delegates, governors, and the whole of the Alaska people." Nearly 60 years later his observation still stands.

Our strength is contributing our resources - oil, gas, minerals, fish products, timber. In return, our citizens deserve a quality education, health care, public safety, care for those who cannot care for themselves, and quality job opportunities - in short, we have the right to make Alaska a world class society. This is the story of Alaska. We have many successes. We have many challenges. We have many contributions to make to our country, in sharing our resource wealth and ingenuity.

In not prevailing on ANWR, Alaska's energy potential is being set aside. I believe we must develop a very thorough and professional national education campaign to accurately portray Alaska, and we must start it now. It is important that we prevail in this Presidential term of office, because we have a President and Administration who support ANWR. Alaska can truly become America's pipeline to energy independence. Join with us and our delegation in this historic effort that is long overdue. We have seen the success of national promotions whether it be from the Sierra Club or Charlton Heston proclaiming the right to bear arms for the National Rifle Association. It is appropriate that we solicit proposals for such an effort and be prepared to adequately fund it with appropriations over at least two years. We have a proud story to share on our efforts to protect our environment and use America's technology and ingenuity to responsibly develop our resources.

Gas Pipeline

This year we will be able to deliver the promise of a future secured by the gas pipeline - this is a world class project - fit for a world class resource - the 35 trillion cubic feet of proven gas and more. Our negotiations have resumed with a meeting yesterday. They will continue here in Juneau until completed.

To give you a preview of what the Alaska of tomorrow might be after the revenues from the gas pipeline begin to come in, consider this: At the extraordinarily high prices we see today, oil and gas revenues are about \$4 billion. Adding in the projected gas pipeline revenues plus the application of a new net profits tax could yield \$5 billion more than current revenues. At current prices that would total \$9 billion per year.

What will this mean for each and every Alaskan?

This new revenue will allow us to continue to build the Permanent Fund, replenish our state savings, and provide a long-term revenue source to continue to support essential public services without imposing state income taxes on our citizens.

Why is it taking so long to negotiate? Because I'm fighting to achieve each of the six principles that are guiding our negotiations:

1. Alaskans deserve a fair share of revenues from the project.
2. Alaskans need the opportunity to access the gas.
 - A new energy source is critical to the Railbelt and Southcentral Alaska. This has been negotiated with tariffs based on mileage from wellhead - not at a Henry Hub price in Louisiana.
3. Future explorers must have access to the gas pipeline.
4. The gas pipeline must be expandable.
5. The state must share in the wealth by owning a share of the gas pipeline. We are proposing that the state take a 20% equity share in return for taking our gas in kind and paying 20% of the cost. This will increase our return for the project.
6. Alaskans deserve and will be trained for gas pipeline jobs.

The negotiations on the gas pipeline have been very successful to date. The substance of these key issues has been negotiated, but important details remain.

Net Profits Tax On Oil

In order to finalize the gas pipeline contract we are negotiating for fiscal certainty on oil. By fiscal certainty, I mean that we would include the oil tax system in the contract. With record high oil prices and our present antiquated oil tax system, Alaska has not been getting

a reasonable share of oil revenue compared to what the producers are paying elsewhere in the world. You will recall last year I made an administrative decision on the industry's aggregation of smaller satellite fields in the Prudhoe Bay infrastructure. This resulted in increased revenues of between \$200 and \$250 million.

Now we must reform our oil production tax system, or ELF, by replacing it with a new tax system. This new system will keep industry strong by providing incentives for exploration and development. At the same time it will ensure that at high oil prices Alaska gets a reasonable share. This share will be comparable to what these companies are paying in similar areas around the world. A "net profits tax" will do just that, and it is the industry's standard. It would allow us to share the risks and rewards of anticipated higher oil prices.

Under our current ELF oil tax regime, with production in decline, within fifteen years only one barrel out of every five would be taxed. That is unacceptable. When I pay sales tax in Juneau, I pay it on every dollar I spend, not just one in five. Our current production tax system is flawed in other ways: oil and gas companies that reinvest their profits in the development of Alaska's great resources pay the same tax as companies choosing to take those profits out of Alaska. This doesn't make sense.

Tonight, I call upon the Legislature to stand with me to secure a gas contract that also reforms our oil tax system and ensures a strong future for Alaska. I call this plan, "Our Covenant for Alaska." Let me be very clear, I will use the full force of my powers as Governor to finalize a gas pipeline contract that protects the public interest, returns maximum revenues to the state treasury, and provides good job opportunities for Alaskans.

Improved Infrastructure Makes Us One Alaska

I think we would all agree that one of government's basic responsibilities is to build transportation infrastructure. So, I have another request of the Legislature: continue to support and expand my transportation plan to connect Alaska by rail to the rest of North America.

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First, visualize a rail connection from Fairbanks-Delta and through the Yukon to the Lower 48. It would dramatically reduce transportation costs into and out of Alaska, help reduce the gas pipeline construction costs by as much as \$1 billion, and help us develop our ports for container shipping, moving gas liquids to Asia, and transport mineral resources from the Interior.

The Alaska and Yukon governments have each contributed resources to a feasibility study begun last March. Tonight I ask that you set aside funds this session for the second phase of this feasibility study to extend the Alaska Railroad. Actual expenditure of this sum is dependent on positive results from the first phase of the study.

Second, support the overly maligned Alaska bridges our Delegation fought to secure for us. In addition to the well documented community development benefits for Anchorage, Mat-Su, and Ketchikan, these links are key to sustained resource development - Beluga coal and Knik Arm, as well as access to an airport and affordable land. The Knik Arm Crossing will give Anchorage and Mat-Su a place to grow. I predict that within a few short years after its construction we will have a brand new community there.

Third, help me continue to build other transportation arteries and ease traffic congestion in Anchorage, Fairbanks, the Mat-Su Valley, Kenai, and other areas of the state which we started last year.

We are still a state of isolated communities. Too often “nowhere to go” because there is no road or bridge translates into “nowhere to go in the future.” It is time to connect Alaskans to jobs, education, health care, and each other.

Education

The engineers, construction and service workers, technicians, mechanics, and skilled laborers who will perform gas pipeline, railroad, oil field, mining, and other resource jobs the next few years are currently in our middle schools. Let me share my commitment to their future.

I will continue to advocate increased funding for the K - 12 schools.

- We have increased per student funding by over 22% in three years - the greatest untold story of my administration.

- I am proposing an additional \$90 million increase that would bring the total to 33% over the current four-year term of this administration.

I will hold students, teachers, and schools accountable for results. A well-supported public education system should be results-driven and regularly reviewed. Each dollar must count in preparing our children for success. In fact, we are already seeing the impacts in the Adequate Yearly Progress report - 59% of schools met the standard this year compared to 42% two years ago.

We have reduced the achievement gap between Native and non-Native students and improved outcomes for low income students. We have implemented a mentoring program for beginning teachers and principals to improve student achievement and reduce teacher turnover. This program will help Alaska attract the best teachers.

Tomorrow, Education Commissioner Roger Sampson will unveil an innovative, performance incentive program to further improve student achievement scores and recognize outstanding teachers and school staff. With increased funding we must continue to see improved results.

A truly bright shining star in education has been the success of the state operated Mt. Edgecumbe High School. Some students need an alternative way to get an education. Boarding schools, such as Mt. Edgecumbe, are certainly one option.

What's impressive is that a high percentage of Mt. Edgecumbe students passed the high school exit exam. That's why I worked to expand the school. Now 62 additional students are able to attend compared with two years ago. The superintendent of Mt. Edgecumbe, Bill Denkinger, cannot be here tonight, however, I would like to congratulate him for a job well done. We must continue offering these types of successful choices in education.

I also support Representative John Coghill's bill (HB 16) that would provide state funds to pay room and board costs at boarding schools in Galena, Bethel, and Nenana. If the current bill comes to my desk, I

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will sign it. Many of those middle schoolers who are headed for jobs that are being created today will go on to vocational school or college. I am committed to their future.

We know that some 75% of the jobs in Alaska will require training beyond high school. Unlike decades ago, when going into trades meant working with your hands, today's students will need to obtain the same high level skills whether they enter a trade or go on to college. Today's high school graduates will experience up to ten career changes in their lifetime. The bar has been raised for the academic preparation and employability skills our students must have to be ready to perform jobs to build Alaska's future.

The Department of Labor and Workforce Development is launching its Alaska Youth First Initiative. It will use career counseling, industry skills training, apprenticeship training, and actual work experience opportunities through internships to assist young Alaskans in their career choices.

I took my entire cabinet to visit the Fairbanks campus of the University to see how the state could more effectively use the resources provided by the University in developing our human and natural resources. We learned more about how we could help the University and how the University could help all Alaskans.

Alaska Scholars

Another significant advancement is my announced plan to increase the Alaska Scholars program for UA tuition from the top 10% to the top 15% of those graduating from our high schools.

The Alaska Scholars program is an Alaska success story - 98% of Alaska Scholars that have graduated from the University have stayed in Alaska. For those school-aged Alaskans that may be watching tonight, I want you to know that I am committed to providing you with the very best educational opportunities possible.

As we enter into the last year of our first term, I believe Alaskans would agree that our administration's legislative program for education is the most successful of any governor.

I am proud of what my administration has accomplished in advocating for the greatest of all our resources - the children of Alaska.

Conclusion

I have shared with you my administration's vision for Alaska:

- Construction of a gas pipeline that transforms the North Slope.
- Natural gas at affordable prices for our homes and industry.
- Increased oil development that reinvigorates the Trans Alaska Pipeline.
- Dramatic increase in state revenues for public services without taxation of Alaskans.
- A rail link to the Canadian system.
- Roads to connect Alaskans.
- A strong and accountable education system that prepares our children to succeed in Alaskan jobs.

On Thursday night, I will explain how our budget has been constructed to achieve these goals.

Boris Yeltsin

Last summer Russia's first president, Boris Yeltsin, came to Alaska for a visit. Nancy and I hosted a dinner party for him. He wanted me to tell him how we "keep" people in Alaska, and how do we continually grow our economy? He explained to me that, in Russia, more people are leaving than staying, in communities at similar northern latitudes. I told him that people stay in Alaska because there is hope and opportunity, quality education, and good job opportunities.

I told him of our bright future in which young people stay to work in our resource industries and raise their families in Alaska. I told him about the wealth of our land going to Alaskans in our Permanent Fund, and the quality of life for Alaskans.

The northern sky is visible in Russia, too. What I showed Mr. Yeltsin was our shared belief that our great northern lands hold hope and promise as well as cold nights and brilliant stars. We have passed the winter solstice. The days are growing longer and light is returning to the morning and evening sky.

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The dawn of 2006 breaks favorably for Alaska. We have the opportunity to transform Alaska. Resource development is the key to the funding of essential public services critical to Alaska's well-being.

As former President Ronald Reagan once said, "There are no great limits to growth because there are no limits of human intelligence, imagination, and wonder." Let us also pledge tonight to set aside our political and regional differences, recognize our strengths as Alaskans and provide the leadership and meet the expectations of those we represent.

I appreciate this opportunity to share with you my vision for our opportunities, future, and our shared growth.

It is an honor to serve as your Governor. God Bless Alaska and our great nation.

Please report corrections to the Senate Secretary's office.