

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

January 12, 2006

Thursday

No. 10

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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-Fourth Alaska State Legislature

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January 12, 2006

Juneau, Alaska

The following was submitted for publication:

Introduction

- Tonight I would like to thank the Legislature for your strong support of the priorities of this administration:
 - adding to Alaska's transportation infrastructure, with the approval of last year's capital budget which relieved significant congestion in the Mat-Su Valley, Anchorage, Kenai and Fairbanks
 - increasing education funding by 22% over the last three years and advance funding this year's education budget
 - taking care of our schools by approving funds to cover all of the 141 projects on the deferred maintenance list – for the first time ever
 - assisting small businesses by approving workers' compensation reform
 - reforming our state employee pension system with a defined contribution plan
 - streamlining permitting by
 - moving the Division of Governmental Coordination to the Department of Natural Resources
 - modernization of the Coastal Zone Management Program
- And there is more to do.

- On Tuesday, I shared with you the four main priorities of this administration going forward:
 - building the gas pipeline and reforming the ELF oil taxation system – which not only will transform the North Slope but also provide increased state revenues to fund essential public services
 - developing the state's transportation infrastructure
 - improving education – both K-12 and the University
 - educating the Lower 48 about Alaska's role in national energy policy

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- Tonight I would like to talk about how the budget, which I presented on December 15th, proposes to finance these priorities.
- Let me share with you some of the highlights of our administration to date.
- We moved expeditiously to take control of the reins of state government during our transition in November – December 2002. That successful transition positioned us for one of the most successful legislative sessions that any first year Alaska Governor has experienced. We hit the ground running.
- During my campaign for Governor, I promised to get the state's stagnant economy moving again, create good-paying jobs, and pursue an aggressive resource development agenda if elected Governor. My harshest media critics would have to agree that as Governor I follow through with action on my promises even when it is not popular politically.
- Our legislative program is one of the most successful of any first term Governor. We have passed more than 100 Governor's bills in our first three sessions. This is significantly more than recent administrations. Most of these were significant items – regulatory reforms, retirement reform and workers' compensation.
- Finally, we have recruited one of the most talented and skilled cabinets in Alaska history; this includes my third floor staff. You will not find a more professional, qualified group anywhere.
- And, yes, we have made our share of mistakes, which I acknowledge. Some say they don't like our style. I say look at the state of our state. Look at our results. Consider the road map we have put together to use natural resource development to provide a better quality of life for all Alaskans.
- My budget builds upon our past performance as well as our expected achievements. Let me share them with you.

Education K-12 Investment

- Last session, we worked together to save \$400 million of FY05's increased revenues to help pay for education in FY06 this year. This helped assure educators around Alaska that the money would be there for education. It was the right thing to do and it worked effectively.
- This year, I propose to take \$565 million, or half of our FY06 additional revenues to again advance fund the education budget.
- This will give school districts the opportunity to plan for the upcoming year, knowing the level of state support they can expect. Since K-12 education is nearly one-third of our operating budget it is important to get education funding resolved early because it allows school districts to focus on delivering instructions, retain teaching staff, and not waste time developing multiple budget scenarios.
- The success of the Alaska Military Youth Academy, Alaska's only state-run military school, has been **awesome**. It is one of our very best education investments ever, saving many kids who could otherwise face a future with severe consequences. I am putting \$500,000 into the budget to expand the program with a new facility north of the Alaska Range.
- And we are doing more. As Commissioner Sampson announced yesterday, we are proposing a school performance incentive program designed to engage all school personnel in innovative instruction aimed at raising student achievement beyond one year of expected growth.
- All of this shows the priority the Legislature and this administration places on education. How many other states have paid ahead for education or have been as innovative as Alaska has?
- Congratulations. Together we have shown what a Governor and Legislature committed to education can do. We have worked effectively together to improve education by investing in our

children and holding the education system accountable for results. No other first term administration has done more to advance education. I am very proud of what we together have done for education over the last three years and what more we can do through what I am proposing in this budget.

Gas Pipeline Investment

- I also propose that we save \$400 million of the additional revenue toward our equity share in the gas pipeline. Why?
 - As part of our negotiations we will have a 20% ownership share in the gas and the gas pipeline in exchange for taking our gas in kind.
 - If the gas pipeline costs \$20 billion to construct, our share of those costs will be \$4 billion.
 - Our financial advisors have suggested that we finance 80% of our \$4 billion share. This means that we will need \$800 million in cash.
 - The state will need to put up its funds early to help pay our share of permitting and other construction-related activities within 60 days of when a gas pipeline contract is ratified.
 - Given this, I believe it is prudent that we save \$400 million of the FY06 increased revenue by setting it aside for this tremendous investment in Alaska's future. This is not an expense, it's an investment that will provide handsome returns.

TAPS Ownership

- I also mentioned in my State of the State last year that it is important for the state to own a part of the TAPS pipeline. Because the gas pipeline will transform the North Slope, and our incentives will increase oil production, owning a portion of the oil pipeline is critical for Alaska.
- Sound familiar? Then former Revenue Commissioner Eric Wohlforth recently wrote a very interesting op-ed regarding the late Governor Egan's effort in 1974 for Alaska to own a part of TAPS. Governor Egan's idea passed the state's House of Representatives that same year, but failed the Senate. Copies have

been placed on your desk. [Eric Wohlforth, "Oil lessons apply to gas line issue," *Anchorage Daily News* (adn.com), October 23, 2005.]

- The TAPS pipeline has recently had its operating permit renewed after a full EIS by the Bureau of Land Management. The state's royalty oil (12 ½%) moves through the pipeline and the state pays a tariff to TAPS. The state can easily justify acquiring an interest equal to its through put. Payment for the acquisition cost would come from the tariff adjustment. The state has been in litigation almost constantly with the TAPS owners over tariff disputes. State ownership would reduce the likelihood of litigation. Initial contacts have been made with TAPS owners and there is interest in the proposal. There is every reason to believe that with the administration incentive proposal, production of new fields, and heavy oil, the TAPS line will be in business another 30 years.
- Our team negotiating the gas pipeline will pursue this once they are done with their current work and available to negotiate the oil pipeline ownership. I urge the Resource Committees to hold hearings on the issue as well.

Transportation Infrastructure Investments

- I also am proposing to invest \$86 million of our additional FY06 revenue in transportation infrastructure to relieve traffic congestion throughout our state.
- As part of my "Bottleneck Busters" transportation initiative that I announced in Anchorage in October 2004, I proposed \$97 million dollars in state funding for significant congestion relief projects within the Anchorage, Mat-Su, and other areas.
- It was a good start, but tackling problems that have built up over many years takes a multi-year solution.
- The long-range Transportation Plan for Anchorage was recently completed and contains a 20-year blueprint of needed projects. It is a good plan, with broad public support.

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- I'm proposing to jump start this partnership with \$30 million of state funds and make a long-term commitment to addressing Anchorage's traffic congestion. This will be in addition to the federal funds for the State Transportation Improvement Plan, or STIP.

- As recent news events have reminded us, the Seward Highway, especially between Anchorage and Girdwood, continues to be one of the state's most dangerous stretches of roadway.
 - I have included \$12 million to reconstruct "Windy Corner," which will realign this very bad section and add passing lanes.
 - It is not only dangerous because it is a heavily traveled two-lane road, but spotty icing conditions and driver behavior can make it exceptionally dangerous. I've asked DOT to install variable message and speed limit signs so drivers will be warned when icing conditions exist and there is a need to slow down.
 - And for those drivers that might not pay attention, I've directed the State Troopers to increase enforcement.
 - Further, I have asked that the Commissioners of DOT and Public Safety designate this section of highway as a "Safety Corridor," much like we do "Work Zones." Penalties for moving traffic violations in this Safety Corridor would be doubled.

- I know Anchorage does not have a monopoly on traffic problems – the Mat Su Borough's rapid growth requires immediate attention. Last year I included funds to start reconstruction of the Palmer/Wasilla Highway. I am now proposing \$12 million for intersection improvements on that busy road.

- In addition, I also am proposing funds to start work on the Big Lake-Burma road so we can be ready for construction in 2008.

- I am proposing \$8 million to complete paving of K-Beach Road and the Kenai Spur Highway, projects that we started last year.

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- In Kodiak, I am proposing \$6 million to complete reconstruction and paving of the road to the Aerospace Corporation's launch facility.
- In Fairbanks, I've included \$2.5 million for access improvements to the new fire and police facility downtown so that the emergency vehicles will be able to respond faster and more safely. In addition, I am proposing \$6.5 million in funding to continue the repaving of the Richardson Highway south of Fairbanks that we started last summer.
- In addition, my proposed FY07 budget includes \$15 million for maintenance of the Dalton Highway. Another \$27 million in work on the Dalton is slated for this year as part of the STIP.
- I am exploring the concept with commercial truckers and the Department of Law to see if there is some way Dalton Highway fees could go directly back into upgrade and maintenance of the Dalton, which is truly the lifeline of transportation to the North Slope.
- I am proposing \$5.4 million for the new Wood River Bridge near Dillingham.
- Two infrastructure projects that have attracted much of the nation's attention are the two bridges. I support the Knik Arm crossing and the Gravina Island Bridge.
- Our state rules prescribe the amount of federal funds we can allocate toward transportation projects in any one-year. Within this budget I am proposing we spend the maximum amount from the freed-up earmarks that we can on these projects.
- This means our capital budget will include \$94 million for Knik Arm crossing and \$91 million for the Gravina Bridge plus the necessary state match.
- I recognize that this is not nearly enough to build these bridges, but I want to keep both projects moving ahead.

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- I have asked my Budget Director to look for additional funding for these projects from future revenue streams. When we have revenues from our gasoline flowing, we will have the ability to underwrite significant portions of these mega projects.
- All combined, our FY07 transportation budget is \$1.3 billion of which \$873 million is federal funds – for those who are adding it up.

Deferred Maintenance

- In addition to meeting the transportation needs of the future, the state must maintain projects that have already been built.
- For too long the state's ever growing list of required maintenance around the state was not addressed – It was ignored.
- Last session we worked together to change that. Your agreement to fund all 141 school maintenance projects on the Department of Education's list was significant and we will see much of that work done this upcoming summer. This is the first administration working with the Legislature to commit to fund all back maintenance for our schools. Thank you.
- But there's more work that we need to do. I propose that we invest nearly \$45 million of this year's additional revenue to start reducing the backlog of deferred maintenance in state facilities.

Telling Alaska's Story – As I described in my State of the State

- My administration intends to work with you and Ted, Lisa, and Don in fashioning a plan to tell Alaska's story in the Lower 48.
- We will start with a more precise assessment of perceptions in the Lower 48 and what information might assist in correcting misperceptions.
- We will then ask for an RFP to learn, without cost, how to proceed.

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- We will evaluate the assessments of perceptions and the RFPs with you, the Congressional Delegation, and Arctic Power before moving ahead.
- We would also propose having an experienced Alaska communications organization as part of the National effort. We would of course look to our major newspapers, TV, and radio outlets for their professional guidance.
- Some might ask. Can we afford it? The answer is can we afford not to? The estimated return to the state if ANWR had passed was one half the estimated lease bids--the estimates were as high as \$5 billion. A return of \$2.5 billion is a pretty good return on a national education effort that succeeds.

High Energy Costs

- While we all appreciate that high oil prices have resulted in a significant increase in state revenues, we can't forget what that means to the ability of individual Alaskans to heat their homes.
- As I promised at the AFN Convention last October, tomorrow I will introduce a supplemental request to fund a number of programs that will help Alaskans this winter, including:
 - Full funding for Power Cost Equalization;
 - Adding state funds to increase the amount available to low income Alaskans under the Federal Heating Assistance Program; and
 - Again providing funds to small cities to purchase bulk fuel.
- Because we're in the middle of winter, it is important that early action be taken so that assistance can get to those most in need when it's needed. Pray for a mild winter.

An Investment, Not a Growth Budget

- I've already discussed how we are investing the additional FY06 revenue to advance fund K-12 education, to save for ownership in the gas pipeline to develop and complete local transportation projects, and maintain state facilities. This is a very conservative and responsible use of these unexpected revenues.

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- Next year's operating budget is up. Increases include:
 - \$104 million for increased caseload and costs of the Medicaid program, which includes the bill to pay the \$45 million cost for the Fair Share program started under the last administration that the federal government rejected;
 - \$90 million for K-12 and \$19 million for University programs;
 - \$65 million for increased salary and benefit costs for state employees include legislative employees, that the Legislature has approved. This includes \$34 million for increased retirement system contributions;
 - \$33 million to operate and maintain Alaska's transportation system; (ferries, airports, and roads).

- As you see, retirement costs are a substantial contributor to next year's budget increase.
 - We know these costs will continue to escalate in the foreseeable future. We are seeing IBM, GM, major airlines, and other businesses change their retirement systems from defined benefit plans to defined contribution plans for this very reason.
 - Businesses and government around the country are facing a pension crisis and Alaska is at the forefront of making the changes necessary to cope with that crisis. It was a tough fight but we did the right thing.

- I am proud of the work we did collectively last year on Senate Bill 141 to help corral the future costs of the state's retirement systems through a defined contribution plan for new state employees hired after July 1, 2006.
 - I would particularly like to thank Senator Bert Stedman and Representative Mike Kelly for taking the lead on this.
 - Employees under the new plan will have more control over their retirement and portability of their plans regardless of whether they make government service a career.
 - While the change was controversial it was the right thing to do.

Helping Alaska Business – Workers' Compensation Reform

- During the last two sessions of the Legislature we successfully acted together to reform Alaska workers' compensation laws.
- It was an issue that many advised me was too tough to take up, or too late, but we proved them wrong – we passed it.
- What's in it for Alaska small business? Lots.
 - We took a step toward reining in increasing medical costs, which is fair to employees and fair to the health care community.
 - We set up an administrative appeals board that will increase the speed with which decisions are made and provide consistency in those decisions.
- All of this should assist in addressing and arresting the cost of Workers' compensation insurance.
- I appreciate everyone's co-operation last year in getting this through the Legislature. There is no turning back on this issue.

PERS/local governments

- When I spoke before the Alaska Municipal League last November, I stated that I would again support the state covering local governments increased retirement system costs, just as we did last session.
- I challenged AML to help identify how these recurring costs could be paid from a recurring fund source like Amerada Hess. Because this is a recurring increase, it is unwise to simply pay these costs from the general fund--when you have no assurance yearly contributions can be satisfied. \
- Some outside the AML have even suggested that I am blackmailing the AML. Can anyone take that seriously when we're only asking AML to support good citizenship?

POMV as a potential solution

- One responsible proposal is the Percent of Market Value (POMV) plan that I proposed two sessions ago.
- As you recall, in 2004 I convened the Conference of Alaskans in Fairbanks to make recommendations regarding a fiscal plan for the state.
- As a result of this conference I proposed to:
 - Use the percent of market value (POMV) approach to manage the Permanent Fund;
 - Take 5% of the Permanent Fund's value each year
 - With half going to the dividend
 - With 45% going to education, and
 - With 5% going to communities
 - This approach passed the House but did not pass the Senate.
- Had my proposal been enacted in FY04, \$1.8 billion would have been available to fund education, nearly \$200 million would have gone to communities around the state – without touching one penny of the state's general fund.
- And over the last two years, Alaskans would have each gotten \$2,080 in Permanent Fund dividends instead of \$1,765.
- And the Permanent Fund would still have grown from \$27.4 billion to \$32.1 billion.
- It was a great opportunity then and it is a great opportunity now.
- I will have more to say about this issue later in the session. I really believe this issue should be put to the people of Alaska on the ballot. I believe Alaskans are willing to share a portion of the Permanent Fund to benefit the whole. We shouldn't be afraid to ask.

Formation of Unorganized Areas

- I recognize that unorganized areas of the state do not have the tax base to support the services that communities Outside take for granted.
- As we work to determine how to appropriately assist local communities, we also must ask for a commitment from unorganized areas to increase their responsibilities.
- We are the only state in the union not served by a comprehensive network of organized local government. I encourage you to join me in calling upon these communities to seriously evaluate organizing as a political subdivision.
 - This is the vision of our state Constitution
 - This needs to be accomplished if we are to achieve a reasonable balance between state financial support and local accountability and responsibility
 - I believe in this so strongly that I am proposing a community dividend program by which funds will be made available to communities organized as either a municipality or borough
 - To further help, I am also proposing to significantly increase the amount of state assistance to newly formed boroughs
- I know the Legislature, under the leadership of Senator Gary Stevens and Representative Bill Thomas, has worked on this issue and I look forward to working with you on your recommendations.

Natural Resource Development and Permitting Reform

- The other night I spoke about how growing the economy will provide great careers and increased state revenues to fund public services. By completing the gasoline contract, changing the oil tax system, and opening ANWR and NPR-A, we will be reforming and transforming the North Slope.
- The Statehood Act looked to natural resource development, rather than taxes, as the means by which Alaska would pay for essential public services.

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- Together, we have done a lot to create the right climate for natural resource development.
- For example, we have reformed and modernized permitting--the only administration in recent years to turn the growing bureaucracy around. We have established a permitting framework that protects the public interest yet reduces delay, needless cost, uncertainty and litigation that all too often encumber responsible development of our resources.
 - We've moved the habitat division from ADF&G to DNR where it is doing a responsible job of speeding up the permitting process while still protecting the environment.
 - We've moved the Division of Governmental Coordination from the Governor's office to DNR where it has done a great job of improving the permitting process.
 - Most recently, DNR completed a significant overhaul of the Coastal Zone Management Program, which has just been approved by the federal government.
- We are on schedule to assume control of wastewater permitting from the Environmental Protection Agency next year. With Alaskans running this important program, I am confident we are going to see vast improvements in the speed with which permits are issued.
- For FY07, I am requesting funds to take on primacy for drinking water compliance. This will ensure that Alaska's public water systems will continue to be regulated by Alaskans and not the federal government.
- Since I've taken office, my administration has introduced, and you have passed, three key permit reform bills to revise and revitalize the state's environmental regulatory program.
- Together, we have eliminated permitting backlogs, reduced processing times and made the rules more rational, while improving pollution control and environmental protections.

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- Our permit reform efforts are paying dividends. Check with any of our resource industries whether permitting today is more rational, faster, less wasteful, and more effective than it was. You will get a positive response.
- My administration is also proposing that the Department of Transportation and Public Facilities begin a pilot program offered to only five states. We will perform the National Environmental Policy Act function for the Federal Highway Administration. This should speed up transportation infrastructure projects.
- We also heard the concerns of a number of Alaskans that allowing wastewater mixing zones in salmon spawning areas might threaten our ability to market Alaska salmon.
- That's why the Commissioner of the Department of Environmental Conservation and I, in consultation with the Commissioners of Fish and Game and Natural Resources, have determined that the state will retain the current regulatory prohibition on mixing zones in salmon spawning areas.
- So our policy is balanced – on the one hand we are streamlining the permitting system by removing unnecessary processes and delays. Yet, we are retaining the environmental protections necessary to maintain our resources and way of life.

Mining

- Our permitting changes and other initiatives have yielded great results in the mining industry, as well.
- The Pogo Mine has successfully completed its permitting and avoided litigation as a result of our efforts. With your help, we were able to push back against the environmentalists attempt to stop the mine. Five hundred workers are now completing construction of the Pogo Mine.
- We have worked with federal and state agencies to complete permitting on the Kensington Mine near Juneau which will create nearly 200 good paying jobs. Again, there is environmental

litigation, and again we have intervened in support of the Forest Service and the mine.

- Our expedited permitting effort has increased mining exploration and brought new mining companies to Alaska. In an all time record, the mining industry generated \$1.6 billion in mineral products and exploration investment in 2004.

Fishing

- When we came into office the salmon industry had been in a downward spiral for a number of years. My administration set out to change that:
 - I redirected \$50 million in federal funds obtained by Senator Stevens and our Delegation to revitalize the industry. I required that industry match dollar for dollar. The theory was simple, if the industry was willing to put money into a project, that probably meant it was a good candidate for state help.
 - Our sustainable management approach - recognized as the best fisheries management regime in the world, is more visible than ever. For only the third time since commercial salmon fishing began in Alaska 127 years ago, Alaska's commercial fishermen harvested over 200 million salmon in 2005.
 - While salmon is an important component of our fishing industry, it is also important that the state of Alaska continue to work closely with the halibut, cod, pollock, shellfish, and crab fishing industry, as well.
- My FY07 budget proposes to invest state funds in salmon stock assessment projects around the state. This will enable the department to improve and monitor the scientific basis of established escapement goals.
- I've also proposed funding to focus on the productivity of sockeye in the Upper Cook Inlet and Susitina areas.

Timber

- The timber industry has been in decline since the closure of the

pulp mills during the previous administration.

- I am determined to bring back this industry in support of timber-dependent communities, predominantly in southern Southeast Alaska.
- We are preparing a Memorandum of Understanding with the Forest Service calculated to have state and federal forests officials work together to make more economic timber available.
- The availability of an economic timber supply will once again make Southeast Alaska attractive as a place to open a sawmill or a veneer mill or a fiberboard plant.
- I thank the Forest Service for its cooperation with our administration in this effort.

Game Management

- I am proud of what my administration has been doing in protecting subsistence rights and managing our wildlife. I want an Alaska where we can continue to hunt and fish and use the outdoors just as earlier generations of Alaskans have done.
 - We cannot guarantee the well being of our wildlife without a successful predator control program.
 - I will continue our carefully conducted and science- based program of predator control and I will **not** be intimidated by threats of a howl-in or inaccurate reporting of our methods and approach by those outside Alaska.
 - Preliminary results indicate that this program is working but we need to continue it for several years to achieve our goals.
 - I am particularly pleased with the recognition by the Alaska Federation of Natives of the importance of this program to subsistence hunting. Copies of the AFN and the AVCP Resolutions have been placed on your desk.

[AVCP, Association of Village Council Presidents, Forty First Annual Convention, October 4-6, 2005, Resolution 05-10-13; Alaska Federation of Natives, Inc., 2005 Annual Convention, Resolution 05-13]

- I appreciate your continued patience and support as we work to ensure that all Alaskans have the game resources they need to feed their families.

- I also will appreciate your support for the general funds I have requested for the Wildlife Conservation Division to restore the mix of federal funds, Fish and Game funds, and general funds that have traditionally financed their work. The \$3 million requested will enable the division to resume adequate levels of wildlife inventories and studies that will facilitate intensive management and maximum allocation to consumptive uses.

Tourism

- The visitor industry has rebounded from the 9-11 tragedy and we are proposing additional funding to assist with marketing;
 - Last year we funded the increased state contribution as a result of legislation that reduced the industry's match from 60% to 50%.
 - This year we are proposing additional funding to increase marketing to independent and international travelers.
- An important issue for tourism is having access to destinations. That is why we are supporting greater access to important destinations within Alaska, like Denali National Park through the Stampede Road, Glacier Bay National Park through additional ferry and cruise ship access, and Wrangell-St. Elias National Park.

Families and Communities

- The Department of Health and Social Services has done great work to strengthen families and communities throughout the state.
- Important initiatives to strengthen families this year include:
 - The Youth Success Initiative, which is an innovative approach to reach youth around the state who are at risk of substance abuse, suicide, or adopting criminal behavior.
 - The "Bring the Kids Home" initiative that will return children from behavioral health care in out-of-state residential facilities to Alaska and keep children in-state at community-based care facilities.

- Increased funding for substance abuse/FAS prevention that will save the future health of Alaskans and save funding on treatment.
- In recent months we have been reminded of the challenge and basic responsibility of governments to protect the public's health. For FY07, we have requested funds for several important initiatives. These include infectious disease control preparedness, which includes the Public Health division's ability to respond appropriately to public health emergencies, such as planning for pandemic flu and bioterrorism preparedness. We have included \$1.2 million for anti-viral drugs as part of our preparedness plan. This is in addition to constructing the new virology lab in Fairbanks that you approved last session.
- Alaskans should be assured. We are acting ahead of these potential crises. Our Administration will go to whatever means is necessary to protect the health of the public.

Public Safety

- I'm especially proud of the work of our criminal justice system, particularly the work of our Alaska State Troopers. We have toughened bootlegging laws and alcohol seizures are up by 44%.
 - In FY05 the Troopers investigated 17 murders and resolved every one of them. In fact, for the past three calendar years, every murder investigated by our troopers has been resolved. Much of this success can be traced back to the work of the scientists in the Crime Lab. This year alone, DNA profiles obtained from over 90 crime scenes across the state were matched to known offenders.
 - Our capital budget proposes funding to plan and design an expansion of the crime lab so we can continue to meet the needs of municipal and state law enforcement agencies.
- There has been a lot of attention in the news about the devastating effects of meth. To help stop this plague:
 - 10 Troopers have been assigned to a special investigation drug enforcement team.

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- In 2005 nearly six pounds of processed meth was seized – a 48% increase from the year before. We have seen a 32% drop in the number of meth labs.
- Thanks to our partnership with local police departments, this is the first reduction in four years.
- Our Troopers do a terrific job for Alaska and deserve our thanks and the support of us all. Please join me in recognizing Commissioner Bill Tandeske, Colonel Julia Grimes, Lt. Jim Helgoe, Trooper Chris Umbs and Trooper Todd Machacek.

New Judges

- More arrests and more prosecutions mean more cases that go to trial and now there is a huge backlog of criminal cases. Accordingly, I will be proposing to create four new Superior Court judgeships – two in Anchorage, one in Palmer and one in Kenai.

Corrections – Mat-Su Prison

- The results of our law enforcement efforts also mean that we are pushing the capacity of the state correctional system.
- Accordingly, we will be moving forward with the Mat-Su prison as authorized by Senator Lyda Green's legislation. I want this facility to house all of the state's prisoners who have extended sentences.
- Regional facilities will primarily house pre-sentenced offenders and will be expanded if necessary as authorized.
- I want to thank our 850 corrections and probation officers who maintain the prisons and oversee the activities of the 4900 prisoners housed in Alaska (another 770 outside Alaska) and the 5900 offenders on probation and parole in our communities.
- We have four officers with us tonight in the gallery--prison transportation officer Michael Fischer, correctional officer

Michael Anderson, correctional officer Sandra Boddy and probation officer David Wilson. And, also with us tonight is Commissioner Marc Antrim. You provide a tremendous public service. Thank you.

Stand up to Federal Government

- A guiding principle of my administration has been to stand up for Alaska and Alaskans in our relationship with the federal government. This advocacy has taken several forms.
- I have had spirited conversations with officials of the Interior Department and other federal agencies about various issues affecting Alaska. When necessary, I have directed the initiation of litigation to protect our interests.
- For example, the State brought a lawsuit against the federal government to confirm our traditional access rights under RS2477. Also, we have challenged expansive assertions of federal jurisdiction over marine waters, state selected lands, and certain areas of navigable waters.
- Recently, the state proposed a land exchange with the U.S. Fish and Wildlife Service to permit the construction of a road from King Cove to Cold Bay in order to create a safe and certain means of access for local residents. We have proposed a land exchange for Chirikof Island as well.
- We have advised the Interior Department that we intend to aggressively pursue selection of additional lands in the TAPS Pipeline Corridor since most of these lands are not needed for right of way purposes.
- In the Wrangell-St. Elias National Park, we have insisted that inholders there be given reasonable access to their in holdings. And, I have indicated my desire to improve access into the northern portion of Denali National Park Preserve. Further, I have directed that improved access to state lands on the north side of the preserve via the Stampede Route.

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- Further, we have insisted that Alaskans' customary and traditional use of federal lands be understood and protected in the implementation of ANILCA. A "one size fits all" approach emanating from land management in other parts of the country simply will not work here.
- In addition, we have advocated Alaska's interest in a number of federal decision making processes, including the need for responsible oil and gas development in NPR-A and the federal OCS.
- Yesterday's announcement by BLM adding 387,000 acres to oil and gas exploration – Big News!
- Also, there is a necessity for the Environmental Protection Agency to recognize Alaska's social, economic, and environmental conditions as it considers new mines and other resource projects. This includes establishing a region headquarters in Alaska.
- I will insist that federal agencies recognize Alaska's uniqueness and the traditional use patterns of our people as they implement federal laws of general applicability.
- For me, preserving the rights and privileges contained in the Alaska Statehood act is a sacred trust. I ask you to join me in fulfilling that trust through the actions we take together.

Conclusion

- This will be an historic session of the Legislature.
- Decades from now Alaskans will look back to see whether we got it right.
 - Gas pipeline
 - oil tax
 - expenditure of \$1.2 billion in unanticipated revenue
- They will ask whether we played partisan politics, or did what was right for Alaska.

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- I am proud of our record of accomplishments together and expect that jointly we will make those future generations of Alaskans proud – just like we are proud of the 55 Delegates to Alaska's Constitutional Convention.
- Let us join together this session in the quest to achieve mutual contribution to the greater good of our great state.

Please report corrections to the Chief Clerk's office.





