

**HOUSE AND SENATE  
JOINT JOURNAL SUPPLEMENT**

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**January 17, 2007**

**Wednesday**

**No. 1**

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**State of the State and  
State of the Budget Address  
by  
The Honorable Sarah Palin  
Governor  
State of Alaska  
Before a Joint Session  
of the  
First Session of the  
Twenty-Fifth Alaska State Legislature**

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**January 17, 2007**

**Juneau, Alaska**



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## **The following was submitted for publication:**

Good evening. It is an honor to stand before you tonight. Lt Governor Parnell. Madame President Green. Speaker Harris. All our legislators, thank you for this opportunity.

Governor Sheffield, thank you for being here. To our Commissioners and staff, I'm privileged to serve with you. And to our guests in the gallery and to my family, I'm glad you're here.

But a most sincere, heartfelt thank you to all our service men and women – and your families – those here tonight – those not with us - for your sacrifices day in and day out. I thank you.

Let us pause for a moment and remember those troops who are serving our country and the Veterans who've past served. May God bless them and their families. Let us pause to remember and honor.

(Moment of silence.) Thank you.

Tonight, I dedicate this to all Alaskans as I speak to our Alaskan family! This administration reflects new people with new ideas inspired to find new ways of governing and we're certainly filled with boundless new energy.

Less than a half-century old, Alaska is young, but we can exercise maturity and foresight to LEAD this great nation. With our rich energy supplies, we can contribute GLOBALLY in many arenas, if we do things right. We can help make this world a better place, a safer place, and we can inspire greatness ONE WAY - by leading through example. First and foremost, we must lead with trust – founded upon a most ethical government.

It's my responsibility to establish the kind of foundation Alaskans deserve, because mutual trust, amongst administrators, lawmakers, the judiciary, and the public, is ultimately inherent to our success as a state.

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Trust begins with the open door. And the door to my office is always open. As promised, I'll sponsor an ethics reform bill. The administration should be involved in the discussion because ethics must be addressed for the legislative and executive branches.

Let's combine the best concepts from all the introduced ethics measures into "a" bill. I don't have "pride in authorship." I'm confident we'll work together, seizing the opportunity, finally, for reform – we'll do this for the people whom we serve! One of our budget priorities includes funding an APOC investigator to enforce our changes.

Let's work together collectively to see real reform. Individually, we can all build a more trustworthy government. Through greater personal responsibility, everyone gains. And so, my fellow Alaskans, in that spirit, I say to you tonight, the state of the state is strong. It is promising... with challenges ahead.

Many of the challenges are economic, so the foundation of our administrative decisions rest upon what I believe Alaskans want – it's what we OWE future generations – that's "fiscal prudence" in the use of public resources – saving for our future; and not burdening Alaskans with new taxes to support any "over growth" of government.

We can expect to bring in \$3.9 BILLION dollars in revenue next year. That's \$1.4 BILLION dollars more than was spent just a few years ago. And that's in addition to the billions in federal funds we receive. I guarantee most Alaskans feel with that level of income, we should be able to fund our priorities to serve fewer than 700,000 people, and save money.

Here's where we are: Without increased oil development, forecasts show about a \$100 million dollar reduction each year in available revenue. In addition, it's dangerous to assume that our current level of federal funding will continue.

For sustainability, I have established an aggressive goal of reducing general fund spending by \$150 million dollars. No question this is a challenge that takes tremendous effort by staff as well as the

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cooperation of the Legislature. We're taking a hard look at every state program.

On the savings side, by depositing our one-time surplus of \$1.8 billion dollars into the Constitutional Budget Reserve, we'll build our savings account to nearly \$4.3 billion dollars. It's a necessary step to ensure that we can fund essential services tomorrow; and avoid massive "single year" cuts down the road, if and when, faced with tougher times. We're also, legally obligated to do this. We'll finally repay some of the past C-B-R withdrawals, as is Constitutionally required. And we've promised to protect the Permanent Fund by depositing \$1.3 billion dollars into the Fund's corpus.

To help Alaska's families, and small businesses (the backbone of our local economies), I propose to repeal "nuisance taxes" including the tire tax – we shouldn't make Alaskans pay a premium to keep families safe driving Alaska's roads. And we'll significantly reduce business license fees - taxes which send the wrong message by financially discouraging our small businesses!

To sustain our future, we must look to ramp up responsible resource development. As if we need another reminder about fluctuating oil prices, this summer was the primary example of what we need to prepare for... record high prices just months ago are now below what we need to balance our budget. Additionally, I'm keenly aware of sharply declining production from North Slope fields. The amount of oil currently flowing through the Pipeline is less than half of what it was at its peak. So, we must look to responsible development throughout the state - from the Slope all the way through and down to Southeast - every region participating! From further oil and gas development, to fishing, mining, timber and tourism, these developments remain the core of our state. And one thing we can do in our volatile market is provide stability in regulations for our developers.

We're excited about many great prospects, and naturally our focus is on energy supplies because we're blessed with them. We can lead this nation, to help this nation, with a zealous energy plan which contains renewable energy components and cost-effective alternatives,

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especially for rural Alaska. We'll support real energy conservation efforts, and we'll engage in safe development, and we'll show the way for the rest of the world - that we can be good stewards of God's green earth. We haven't always done that.

To prove we can responsibly develop, we'll beef up oversight on the North Slope because we've seen some legal obligations ignored. Greater oversight ensures proper maintenance of the lines that carry our oil to market. I won't tolerate corrosion eating through pipelines while crippling our state economy with costly shutdowns. I'll establish a dedicated state team to ensure rigorous inspections and line integrity analyses. Our oil must, and will, flow and continue to help fund essential services.

In traveling across Alaska, I'm always struck by this absurd situation we're in - where our state - so blessed with energy sources - has many communities facing threats to safety and well-being because of the high price and limited supply of energy. Some communities face closure of their schools because they can't buy fuel or pay electric bills. This burden is nonsensical because we're sitting on some of the most plentiful reserves on the globe. The State needs to coordinate its energy programs to find local sources, to help communities become self-sufficient.

So, DNR will inventory potential sources of energy, including renewables like tidal, wind, hydro, and geothermal. Taken together, new initiatives can finally provide new energy. New energy must come from proven reserves, too! And we will aggressively defend the state's obligations to responsibly develop ours.

A perfect example is Alaska's Pt. Thomson. Huge reserves up there. "Leases" held by producers are iron-clad contracts – they're promises to develop the public's resources for mutual benefit – or give back the leases. There's a large producer who's held the lease at Pt. Thomson for roughly 30 years with no development – three decades to develop or step aside. WAREHOUSING Alaska's resources is not an option anymore. We can't afford it!

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The state should be trusted to keep its promises. The standard should be no different for industry. Ironically, we're trying to convince the rest of the nation to open ANWR, but we can't even get our own Pt. Thomson, which is right on the edge of ANWR, developed! We are ready for that gas to be tapped so we can fill a natural gas pipeline. I promise to vigorously defend Alaska's rights, as resource owners, to develop and receive appropriate value for our resources.

Of course, the primary focus of our long-term energy plan can be summed up in three words -- NATURAL GAS PIPELINE! This gasline will fuel our homes, our economy, and careers for Alaskans - for generations. The gasline is critical not just for our future, but for the nation's future. It's also an essential component of our nation's energy policy. Truly, for energy independence, the nation will look to Alaska. We've already begun working with the White House. In fact, I had a nice conversation with Vice President Cheney today. And we are also blessed to have a strong ally in former State Senator Drue Pearce, who's been tasked by the President to get the gasline built. The energy industry is also engaged and I look forward to working with Congress and our legislators – our "partners" to deliver our natural gas to market.

There's currently more than 30 trillion cubic feet, or "TCF," of proven reserves on the North Slope. However, if you talk to most geologists, you'll hear there's a good chance there's actually hundreds of "TCF" in the ground. It's in Alaska's and America's interest to get that gas to market. We need a project that ensures any viable explorer or producer can access a gasline on reasonable terms and we need a project that can be expanded when there's more gas found.

However, we must be realistic about the complexity of this. It won't happen with the snap of a governor's fingers. It can't happen overnight. The process involves many entities with differing considerations, and requires a lot of discussion with experts and stakeholders.

While bringing natural gas to market is costly and risky, there's no question – THIS IS A SOUND, ECONOMIC PROJECT.

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Over the last year, Alaskans have learned a lot from the prior attempt to develop our gas, under the old "Stranded Gas Development Act." For instance, Alaska's gas is not stranded.

And we learned what the Oil Producers' terms are. We learned that under the old act, some producers will talk to us, and talk to us, and talk to us until we agree to their terms. The terms were unacceptable. They demanded that, in a sense, we give up some fundamental rights as a state, as part of these United States, because the deal removed our taxing, regulatory, and judicial authorities for DECADES. In fact, under those terms, my youngest daughter, Piper, would be older than I am right now before the state could amend those terms!

The deal was a "no deal." And our Legislature was handed a plan that even exceeded the administration's authority. Remember, in exchange for unnecessary concessions, the producers didn't have to commit to preparing applications, much less build a gasline.

We need progress on this project — and competition to result in the best project. We don't need endless discussions behind closed doors. It's time we leave the Stranded Gas Development Act in the past and move forward with a new vehicle. A vehicle that builds on the knowledge and experience gained from a valiant — but futile — effort previously in a non-competitive process.

So let me tell you our plan. My gasline cabinet is developing a bill, entitled the Alaska Gasline Inducement Act or "AGIA."

The centerpiece of this is to INDUCE construction of the gas pipeline. A gasline constructed on OUR terms, without selling Alaska's sovereignty. This law allows a transparent and competitive process. It jumpstarts progress with incentives, and strikes the right balance on a project for the state, the nation, project proponents, and producers. It will be good for all!

We'll introduce "AGIA" this legislative session. We're scrutinizing its legality, strategy, and efficacy with top experts right now. With legislation this important, it's more important to "do it right than to do it fast."

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We're not limiting this review to our own hired experts. The day after I took office, Lt. Gov. Parnell and I began meeting with -- and we're continuing to meet with -- potential applicants to ask their opinions. We want to be assured that this bill provides the best chance to induce the best project, and includes the right "must have" components for Alaska.

Since this issue is so important, let me delve into some of the specifics of the Act:

First, it offers inducements to those who will build the pipeline itself. This might be the three major oil producers, it might be an independent pipeline company, it might be a state or quasi-state entity, or it might be a combination of entities joining forces. The pipeline construction incentives will be valuable, and will encourage companies to compete for the right to build this line. We're currently developing such incentives as a substantial state capital contribution so bidders know that we'll have skin in the game. We're also developing permit streamlining and a state-funded training program to ensure a qualified Alaskan workforce. We find this approach very exciting, and so do many potential applicants.

Second, to get a chance to compete for the inducement package, the applicant must agree to certain bedrock, "must-have" requirements of the state; such as gas for Alaskans; jobs for Alaskans; and project benchmarks. It requires terms that ensure competitive and long-term exploration and MORE development on the Slope. The pipeline must be able to expand in step with the development of new reserves so North Slope gas energizes us not just for our lifetimes, but for the lifetimes of our grandchildren.

Third, the Act provides inducements to those who hold the leases and control the gas. Regardless of who builds the line, we need a mechanism to "strongly encourage" the leaseholders to commit their gas to the licensed project.

But above all, one of the most appealing differences between this bill and the former is that "AGIA" will contain clear, competitive criteria by which we can judge which project best meets our long-term needs.

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That means Alaskans will know why the state is making the choices that it is. This is an unprecedented approach. I recognize that but that's what leadership, new ideas, and new ENERGY are all about.

We're proud that within our first month, "AGIA" was devised and put in the hands of experts for evaluation. We will continue to work on the bill until we're satisfied that it represents a "launching pad" for a pipeline project that not only passes legislative and public scrutiny, but will receive excellent proposals from applicants excited to build this gasline. It protects the state from untenable risk-taking; and ultimately, we're confident it will result in a project that powers our state, and the nation! Alaskans are counting on us to succeed. With your patience and support, WE WILL SUCCEED.

Last year, the Legislature also embarked on a new oil and gas tax structure, called the Petroleum Profits Tax or PPT. It's anticipated this tax will provide almost "one and a half billion dollars" in our budget. However, with no track record to go on, this is merely an estimate.

Like many legislators, and experts in the public, I would have preferred to stick with our proven method of taxing oil and gas based on its gross value, rather than the much more complicated system, basing taxes on an oil company's "claimed" expenses and profits.

However, at this point, it is law, passed by the Legislature. So I have asked our Revenue Commissioner to assess and adopt necessary regulations to ensure PPT works as Alaskans were promised, and tighten up any loopholes. We'll watch carefully as the first tax returns come in, to make sure there aren't any surprises. If so, let's try again and get our production tax right.

Getting fair value for our known resources is the only way we can be self-sustaining and less reliant upon the federal government. It also fulfills the mandates in our State Constitution. But inherent in that responsibility is also the need to explore for more.

On the national scene, with changes in Congress, it appears our chances to open ANWR, diminish. However, I will continue to stand alongside our Congressional delegation to prove to the rest of the nation that Alaska must be the foundation of a National Energy Plan.

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Alaska can create a more secure United States by providing more domestic supplies of energy. With ANWR, with NPR-A, with a gasline, with alternative power projects. We must be ready.

So we've dedicated time to the revenue side of the balance sheet, now it's important to reiterate spending commitments.

First, my philosophy: More government is not the answer. But we all know government's proper role is to help change the conditions to improve lives and economically stimulate communities. Government can't make you happy, it can't make you healthy, it can't make you a productive member of society. Government's role is to provide the tools.

One such tool is education. My commitment to education is unwavering. My budget includes fully funding the "K through 12" foundation formula. In addition, I've included more than \$200 million in new dollars to cover the increased retirement costs for local school districts, so that more local school district dollars get into the classroom, where the money belongs.

Remember, we're facing a potential \$10 billion dollar PERS/TRS retirement plan shortfall that affects local schools. Our \$200 million dollar line item for school districts is part of the half BILLION dollar proposal to help the districts, local governments and the state alleviate the pension plan burden while we work with the Legislature on a long-term solution.

I've also committed to help provide local school districts with more predictability, for better planning by supporting "early funding of education." So I'll introduce a separate education appropriation bill and ask the Legislature to begin work on it immediately and ask that it's passed within the first 60 days of the session. Our local school districts deserve to know what they have to work with early enough for them to create efficiencies through planning. They shouldn't have to "pink slip" teachers in the spring, and make "last minute" rehire attempts in the fall.

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But my vision for education is NOT only about funding – it's about changing the way we think about, and operate our schools. It's not the amount of money we pour into each child, but how we spend the money that counts.

We'll look at successful education programs statewide and Outside that can be replicated, and we'll look at new approaches! We've got to do something different. Our high school graduation rate is 61%. That's unacceptable! Our vo-tech opportunities need to grow so that our kids stay in school and then fill the voids in our industries. And at the same time, we need to make sure those who want to go to college are ready. We know that we need more mechanics, technicians, teachers, doctors, and nurses. We shouldn't have to import our workforce when it's growing up before us.

And so a centerpiece of my administration IS our commitment to a "world class education" system. Let's take education and move beyond No Child Left Behind to ensure that "no ALASKAN is left behind." We'll work with our Congressional delegation to ADAPT federal mandates to fit Alaska. I'm so thankful Sen. Lisa Murkowski is also committed to changing federal requirements so they make sense for the uniqueness here. Flexibility is needed, for rural schools, especially.

To meet our challenges, I've asked our departments to bring together the private sector, the Department of Labor, postsecondary institutions, and our wonderful alternative education choices, including home schools, to ensure that students have the skills to meet Alaska's workforce needs. And, I will continue to ask families and individuals to take more responsibility.

You'll hopefully find this theme consistent throughout my administration – cooperative efforts and personal accountability.

We must think "outside of the box" to make true progress. You know we had 80% unemployment rates in our villages before we built the oil pipeline more than three decades ago – and we still have 80% unemployment in some areas. Something's got to change! So, sub-cabinets will be established and existing cabinet goals will be

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amended. Let me give an example: we have a Fish Cabinet and basically what it's done is simply "distribute grants." It'll now work with labor and workforce development to create new ideas on everything from employment opportunities to new seafood marketing initiatives.

I have included in my budget, \$48 million dollars to support communities, which includes the need to balance the high cost of fuel. That's why we also fully funded Power Cost Equalization.

The state will also take care of the unexpected PERS/TRS increase that communities faced this year – to the tune of \$77 million dollars. But again, the state cannot sustain this level of spending. We can do this because we have a surplus today.

Providing the funds should help communities focus on core responsibilities, including the safety of their residents. And the state will focus on that as well. We have got to improve all aspects of public safety with new resolve. Alaskans deserve to be able to trust those sworn to protect. At the core of that, we must recruit and retain the best.

We CAN now and must now work in trusting partnerships to ensure that every citizen feels safe and is treated fairly. We'll also restore the balance needed between protecting the public and the public's wildlife resources so that we can continue to enjoy access to hunting and fishing. The way to do that? Undo the recent merger of the State Troopers' brown shirts and blue shirts and move in a new direction through separation. Tonight, we're announcing the new "Alaska Wildlife Trooper" - coming soon to a fishing stream near you.

With our goal of creating safer and HEALTHIER communities, it's imperative that we aggressively tackle substance abuse and violence throughout Alaska and find solutions to the rising costs of health care! By Administrative Order, I'll enact our "Alaska Health Strategies Council" to effectively provide access and help lower the costs of health care. We must deal with our looming health care crisis from the young to our elderly.

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And with respect to our elders, who built this state, and toiled before us, and FOR us, my budget keeps the state's promise and funds the longevity bonus for those who were enrolled in the program scheduled to phase out. We'll also propose legislation to continue SeniorCare for those who meet current eligibility criteria.

A "healthy Alaska" also requires that we keep up with the growing demands on the state's infrastructure. Our state is maturing, but our transportation infrastructure has not kept pace. The public feels the effects of that every day. Our capital budget funds projects based upon matching federal funds. I look forward to rebuilding the capital budget with legislators. I've identified more than \$180 million dollars that can be used to fund our critical capital needs, including reliable ferry service and solutions to traffic congestion. Our general fund investments will potentially leverage more than \$700 million federal dollars.

We have a tremendous opportunity to shape the future of our state. This opportunity was handed to us with a lot of faith and hope, by Alaskans' desire to see change. The people asked for new leadership with new energy.

Our mission is "Putting Alaskans first" by restoring trust, controlling spending, and communicating between the people's government and the people! And just as the public placed its trust in me, I place my trust in all of you! I promise that I will work just as hard as I know you will every day for this state.

Finally, let me conclude by sharing with you, some of my first experiences serving as Governor. Four days after taking office, I welcomed home some of our National Guard troops after serving a year in Iraq. Less than a week later, we saw the return of the then "One-72nd" Stryker Brigade in Fairbanks.

Let me brag a little bit about our 27,000 active duty Coast Guardsmen, Soldiers, Airmen, and Marines – including our own National Guard! After brave and successful missions in the War on Terror, our Alaska troops proved to the rest of the world what we Alaskans already know:

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our troops are the best in the world. We are so proud of their service and valor – making a difference half way around the world!

Each return is a moving experience. To see the father return home to see his baby for the first time, the mother reunited with her husband, her children and her parents. All those Alaskans returning home to our great state, to a place we cherish.

As I listened to our troops, I learned about the values that help them keep focused on their mission. I learned about courage, commitment, teamwork, self-discipline, and an absolute dedication to protecting our freedom. Let's use those values to help guide us.

There is no question we'll face challenges every day. But we promise to stay focused on our mission: to build trust; to create opportunities so that Alaskans have a chance to work; to fund essential services without unsustainable spending; and to help improve the success of our students, and make our homes and communities places of safety, prosperity and peace.

We've been handed an incredible opportunity to set Alaska on course to keep the state of our state strong, for generations!

Thank you for this opportunity to address you tonight.

May God bless us and this great state.

**Please report corrections to the Chief Clerk's office.**