

**SENATE AND HOUSE  
JOINT JOURNAL SUPPLEMENT**

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**January 18, 2012**

**Wednesday**

**No. 9**

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**State of the State and**

**State of the Budget Address**

**by**

**The Honorable Sean Parnell**

**Governor**

**State of Alaska**

**Before a Joint Session**

**of the**

**Second Session of the**

**Twenty-Seventh Alaska State Legislature**

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**January 18, 2012**

**Juneau, Alaska**



**The following was submitted for publication:**

Mr. Speaker, Mr. President, Lieutenant Governor, distinguished guests and fellow Alaskans, this evening we continue a tradition that speaks to the strength of our republic. Alaska's Constitution calls the governor to deliver a message to the Legislature about the state of the State. As we convene in one chamber tonight, we remember that we have come for one reason – to serve the people of Alaska.

So let us work in a spirit worthy of Alaskans. Let us honor the proud history we share by building a brighter future. And let us ensure the Last Frontier forever remains first in freedom, and first in opportunity.

Tonight, we begin by celebrating the courageous crew of the U.S. Coast Guard Cutter Healy. With ice blocking the Bering Sea, the Healy cleared a path for a tanker carrying much-needed fuel to Nome. The Healy had already been away from home for seven months when Rear Admiral Thomas Ostebo asked the crew to accept the mission. It would mean extending their tour of duty at sea by several more weeks. But the crew's response lived up to the Coast Guard's sacred creed: Semper Paratus. Always Ready.

To the crew of the Healy and to all the other federal, state, and local officials who made this operation possible: Thank you for your service, and thank you for your sacrifice. We are honored to have Admiral Ostebo and Adjutant General Tom Katkus with us tonight. Through them, we want to send a message to all our men and women in uniform around the world: You enliven and embolden our liberty, and we are eternally grateful. Please join me in showing our profound gratitude for our military members.

Since we met last year, 27 Alaska-based service members gave their lives for us. To the families of all our fallen military heroes: Your loved ones made the ultimate sacrifice for our freedom, and we will honor their memories tonight and for all time.

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This evening, we also remember Alaskans whose names will live large through the ages: Dr. Walter Soboleff, Hannah Solomon, and Caleb Pungowiyi. Finally, we pay tribute to the legacy of former Alaskan legislators who once served in this chamber – Dick Eliason, Carroll Fader, Ben Grussendorf, Phillip Guy, Don Harris, Walter Kubley, Ed Orbeck, and Howard Pollock.

Tonight, we meet during a period of great global challenges. In the Middle East and Africa, revolutions have swept across the region, while Iran’s nuclear ambitions cast a menacing shadow. In Europe, a debt crisis threatens to plunge the global economy into an abyss. Meanwhile, America’s economy teeters between recession and recovery, as the federal government succumbs to its own spending addiction.

But amid this sea of uncertainty, Alaska has emerged as a rock of stability. While millions of Americans go without work, Alaska’s unemployment rate remains nearly one and a half points below the national average. While the dream of home ownership has turned into a nightmare for many American families, Alaska has posted the nation’s lowest foreclosure levels.

While more Americans slip below the poverty line, Alaska’s median income has remained among the highest in the country. And while many states face unprecedented budget deficits, we have preserved surpluses of nearly \$13 billion. As Alaska leads our nation to a new era of growth and opportunity, our friends in the Lower 48 have more reason than ever to look North to the Future.

But while we are well positioned, Alaska is not immune from an ailing global economy. Instability in other parts of the world can send shockwaves to our shores. The upheaval in the Middle East can seem a world away, but our people pay the price for our heavy dependence on foreign oil. The debt troubles in Europe can sound distant, but our fishermen – and their families – depend on these nations to buy our seafood. The deficit debates in Washington can seem detached from reality, but no one should doubt that real cuts will be necessary and painful. And while Alaska currently enjoys a surplus of revenue, that is only so long as high oil prices mask declining production.

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With these challenges looming, Alaska cannot be complacent. Our future depends on the actions we take this session. How we approach these issues will determine what legacy we leave our children: a future of shrinking possibilities, or a future of greater opportunity. The decision is ours.

Tonight, I will tell you where I stand on the issues, and I will ask you to stand with me. During this year of decision, we must stand together for an economy that creates new jobs and fuels prosperity.

It is an undeniable fact: Oil production drives Alaska's economy. In the public sector, it provides the revenue we need for teachers, troopers, and transportation. In the private sector, oil production fuels work for restaurant waiters, small business owners, contractors, engineers, and many more. It even funds the environmental industry.

For many years, the Trans Alaska Pipeline System has provided a pathway to prosperity for Alaskans. But where more than two million barrels of oil per day once flowed through the pipeline, less than 600,000 barrels now inch through.

Unless we act to reverse this decline, we will pay a stiff price in lost jobs, lost State revenues, and lost opportunities. This is not the future our children deserve, and this is not a future we will accept. To chart a course for faster growth and greater opportunity, we must act in five critical areas.

First, we will be wise stewards of our citizens' money. I have proposed a balanced budget that holds the line on government spending, so we can add nearly \$4 billion to our savings accounts for future years. This budget reduces total expenditures by \$856 million without shortchanging important investments. It includes more than \$1 billion for infrastructure projects, ranging from roads and airports to the Alaska Marine Highway and harbors. It forces agencies to save where they can – eliminating 288 vacant positions – so we can spend where we must.

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In short, this budget balances short-term needs with long-term priorities. This budget is a model of clear-eyed, conservative planning. And by ensuring we live within our means today, this budget will provide greater economic security for Alaskans tomorrow.

Second, we will grow Alaska's economy by encouraging more private-sector investment in oil production. While oil production continues declining, any real downward adjustment in oil prices will send the State budget into the red. Even worse, there will come a day when the Trans Alaska Pipeline System shuts down. Some say this point will come at 300,000 barrels. Others say at 100,000. I say: Let's not find out.

The people of Alaska want a future of economic growth, not economic decline. That's why I have set a goal of increasing oil production to one million barrels a day over the next decade. We know what must be done to achieve it.

If the Legislature passes meaningful tax reform, companies have already pledged at least \$5 billion in new investments, and we will likely see billions more. Significant new investment in oil production would be a game changer for our state – a down payment on Alaska's future we cannot afford to turn down. The question before us now is not whether we have enough oil reserves to meet our goals. The question is this: Do we have enough will to give up short-term gains for long-term growth? I believe the answer is "yes."

Our State's constitution tasks us with managing our natural resources for the maximum benefit of Alaska's people – that means for Alaskans today and for Alaskans tomorrow. If our policy is to grab all the tax dollars we can from declining oil production today, our children and grandchildren will have to fend for themselves. If we fail to incentivize new oil production through tax reform, companies will continue to send more investment dollars to other places in this global economy. Alaska's oil production decline will become Alaska's decline.

Alaskans deserve better. I know you agree. So tonight I'm asking each of you to vote yes on meaningful tax reform. The logic is clear: Meaningful tax reform means Alaska will have a more competitive economy. A more competitive Alaska economy means more investment in Alaska. More investment in Alaska means more oil production. And more oil production means a bigger economic pie for Alaskans.

In addition to lowering taxes, we are working to increase oil production by streamlining the State's permitting processes, and by making Alaska's resources more accessible through our *Roads to Resources* initiative. The message is clear: Never write off Alaska. Far from being tapped out, we are only beginning to tap into our vast potential.

Unfortunately, there are those in Washington who view our land differently. Years of misinformation and lobbying have convinced some bureaucrats that Alaska is just one big national park, with no room for economic growth. In some cases, the Environmental Protection Agency will no longer issue permits unless businesses first reach agreement with environmental organizations. In effect, the EPA has outsourced its permitting function to a stakeholder with a political agenda.

It's time to stop putting extreme special interests above our people's interests. Where the federal government would lock us out, we will open the doors of opportunity for Alaskans. So long as I am governor, we will not revert to colonial status – and we will not cede control of Alaska's future.

Members of the Legislature: This evening, I ask you to join me in refilling Alaska's pipeline to prosperity. You have had time to study this issue closely. We cannot allow the paralysis of analysis to set in. We must act, and we must act now. Let's meet my goal of one million barrels a day. Let's enact the oil tax reform and spark investment and growth in Alaska. And let's show the world that Alaska's resources can lead to America's energy independence.

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Third, we will also grow Alaska's economy by accessing our abundant natural gas. Experts estimate our state has more than 200 trillion cubic feet of natural gas in the ground. This gas represents cheaper heating fuel for Alaska homes and Alaska businesses, and these reserves can energize and grow Alaska's economy. But before we can realize these benefits, a gasline must be built to bring these reserves to market.

Currently, Alaska is pursuing parallel tracks to get a gasline. The State financially supports two different projects – one under the Alaska Gasline Inducement Act, and the other under the Alaska Gasline Development Corporation. While both are making progress, neither can finish the job alone.

So last year, I called on the parties to consolidate their efforts. As one step to that end, I invited three CEOs, representing the major leaseholders of Alaska's gas, to come together and begin a new era for Alaska. Remember that, until just recently, these three companies pursued different directions on Alaska's gas.

We had a productive discussion together. Teams from the companies have been working diligently to align on a gas project. Our State teams in the Department of Natural Resources and the Department of Law have worked very hard, as well, to resolve outstanding litigation issues. Within the last 24 hours, I have talked with all three CEOs again to get a progress report. I ascertained that while teams were diligently working, agreement on key issues has not yet been reached. So, tonight, the State of Alaska sets some expectations - some benchmarks of progress we will look to during 2012.

Here's a roadmap to a gasline in Alaska's interest: First, these companies need to agree to resolve the Point Thomson litigation. If no settlement in the State's interest can be reached with all parties, the State will fight for Alaska's interests at the Alaska Supreme Court hearing on February 8 in Anchorage.

During the first quarter of 2012, Alaska expects these producers to formally align under an Alaska Gasline Inducement Act framework. This alignment must include work on a large-diameter liquified natural gas line through Alaska to tidewater.

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By third quarter of 2012, the two projects, one under the Alaska Gasline Inducement Act with the aligned parties, and the other under the Alaska Gasline Development Corporation, will complete discussions determining what potential exists to consolidate projects.

The AGDC has valuable ongoing work. It is already engaged in an Environmental Impact Statement process for an in-state gasline route to tidewater. And, the AGDC has a 417-mile State right-of-way in hand, assets useful in a consolidated project.

Also, by third quarter 2012, Alaska expects the companies to harden their numbers on an Alaska liquified natural gas project. By that time, they will identify a pipeline project with an associated work schedule.

If these milestones are timely met, the 2013 Legislature can take up gas tax legislation designed to move the project forward.

The path ahead is better defined and benchmarks for progress are in place. While a lot more work remains, Alaska is closer to the day when our gas can move from the ground to Alaskans and markets beyond.

Fourth, outside of oil and gas, we will foster a climate that cultivates investment in Alaska's other natural resources. We are blessed to live in a land that provides many ways to earn a living. Alaska offers the world's best seafood. When I visited Europe for a trade mission last year, I spoke with companies that buy our wild, sustainably harvested seafood. I explained how our fisheries support families and villages across our state. And I showed how we sustainably manage our fisheries for future generations. Fishing is part of Alaska's history. It is part of Alaska's future. And we will keep it strong.

Alaska also has a vibrant mining industry that supports more than 5,500 jobs, and this is only scratching the surface of the potential. Indeed, Alaska has many deposits of untapped rare earth elements. These minerals are critical to America's security and economy. The nation should not have to depend on foreign rare earths when we have plentiful supplies here in this state. My budget includes almost \$3 million for an assessment of rare earths. Tonight, I ask you to appropriate these funds this session.

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The timber industry also has deep roots in Alaska. I am proud to report that, with your help, we expanded the Southeast State Forest, because when we open more land for timber, we open more opportunity and more jobs for Alaskans.

Fifth, we will act to support Alaska's entrepreneurs and small business owners who represent the true pioneer spirit of our state. Like many of you, Alaska's entrepreneurial spirit runs deep within me. As a child, I saw my parents operate a retail store in Anchorage. I remember helping them put prices on merchandise, run the cash register, and serve customers. And when I opened my own law practice, I learned the challenges of owning a small business firsthand.

Now as governor, our State's policy is to unleash new opportunities for Alaska's small business owners. My administration has reduced processing times for business filings, so new ventures can launch faster. We have strengthened financing programs, so small businesses can better access capital. We have stepped up tourism marketing, so new customers walk into Alaskan shops and businesses. And we have promoted new avenues for trade, so people around the globe can buy the world's best products – those made right here in Alaska.

During this year of decision, we must also stand together to develop Alaska's most valuable resource – our children. By improving education, we can give Alaska's children the skills they need to succeed. Two years ago, we took an historic step. We created a mechanism in law that provides fair school construction funding between urban and rural districts. This year, we funded a renovation in Kwigillingok and a school replacement in Napaskiak.

My administration also resolved the Kasayulie case, a long-term lawsuit addressing inadequate rural schools. In resolving the case, I pledged to support funding for five of the highest-priority rural school projects.

Together, we are taking historic strides toward a great goal: ensuring educational excellence across our state. Our joint efforts have made this progress possible – and I thank you for supporting our schools. I also thank you for working with me to create a merit scholarship that

gives all Alaska's children an incentive to complete a more rigorous high school curriculum. The Alaska Performance Scholarship opens doors of higher learning to more students – for those who want to go to a university, and for those who want to go to a certified job training school.

In just its first year, this scholarship is already changing lives. More students are taking the SAT and ACT, with a 20 percent uptick in Fairbanks alone. This is a sign that students are setting their sights higher than ever.

One person who has experienced the change firsthand is Tracy Badger. She is a counselor in the Lower Yukon School District. Tracy recently sent a note saying: "The Alaska Performance Scholarship ... is a good motivator for students to shoot for goals that go beyond district minimums. This scholarship is the biggest incentive for them to continue working ahead." Tracy, I couldn't agree more. Those working to earn the Alaska Performance Scholarship represent the future of our state.

One Alaska Performance Scholarship recipient is Chelsea Mills of Kake. She is a freshman at UAS, and she is with us tonight. Congratulations, Chelsea. You make us proud!

In its first year, this scholarship has been a remarkable success. Now we must secure it for future years. This legislative session, let us take the \$400 million that we set aside last year, and build a strong fence of moral obligation around it. Let us create a fund for that money so the fund's earnings can pay for these scholarships for future generations. Send our students this unmistakable message: If you keep your end of the bargain in the classroom, we will keep our end of the bargain in this chamber.

During this year of decision, we must also stand together to strengthen public safety. Alaska has the nation's finest first responders. We salute our National Guard and Coast Guard, our State Troopers, our VPSOs, VPOs, local police officers, firefighters, our EMTs and paramedics, and all our first responders. Please join me in honoring them.

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Increasing public safety remains a core priority – and that will not change. Increasing public safety means bringing law enforcement officers to communities that have none. So my new budget adds 16 new law enforcement officers.

Increasing public safety means shining the light of justice and a ray of hope into places where domestic violence and sexual assault have ruled, for we will not rest until every Alaskan lives safe from abuse and terror.

Our administration’s budget includes nearly \$12 million to eradicate this epidemic. The *Choose Respect* initiative focuses on prevention and enforcement, and it provides services for victims and survivors. But *Choose Respect* is more than just a government initiative – it is a personal initiative. It is about each of us honoring the dignity and value of every human being. It is about setting people free from generations of abuse.

Tonight, I want to recognize a Juneau coach who helps his players make that choice in their own lives – Coach John Blasco. As we speak, his Thunder Mountain Falcons boys basketball team is practicing for tomorrow’s game against the Chugiak Mustangs. When Coach Blasco’s players warmed up before a game last season, they wore *Choose Respect* T-shirts, and they will wear them again tomorrow. Thank you, Falcons, for sending a powerful message both on and off the court.

Increasing public safety also means stepping up preparedness for natural disasters, so we can respond to victims quicker and help them rebuild their lives faster. When storms battered our coastal communities this fall, the damage was far less than expected thanks to good planning. During this winter of heavy snowfall, we have once again seen the importance of preparedness.

When 16 feet of snow buried Cordova, the men and women of the Alaska National Guard and many other Alaskans were ready to help – and they have earned our thanks.

Last legislative session you responded to my request to fund emergency generators and water purifiers for larger scale disasters. In the legislative session ahead, we must take the next steps in disaster preparation. My proposed budget increases funding for emergency food supplies and finances a cold-climate rescue helicopter in the Interior. These investments are a matter of life and death, and we must make them.

The legislative session that together we now begin will be one of the most consequential in our state's history. The debates will be intense. The choices will be tough. And the stakes will be high. Of all the decisions we face, the most important is the legacy we leave future Alaskans.

Let it be said that when oil production declined, we made the bold reforms needed to refill Alaska's pipeline to prosperity. Let it be said that when we had the opportunity to align our efforts for a gas pipeline, we did not shrink from it. Let it be said that we gave our children every opportunity to learn and earn a world-class education. And let it be said that by choosing respect, we broke the chains of abuse and freed families from the tyranny of fear.

Throughout our history, Alaskans have blazed the trail for others. We are the descendants of elders and pioneers who pushed the boundaries of this Last Frontier. While these early Alaskans did not always know what challenges would arise between checkpoints, they never lost faith in where they were headed – to greater opportunity.

Our journey today is no different. Rather than hunkering down and hoping for the best, it is time to act. While those of us in this chamber will not always agree on the means, we have a common vision for the ends: more opportunity, more prosperity, and more freedom. Let this be the legacy we leave our children and grandchildren.

No one should doubt Alaska's future, because it belongs to men and women of extraordinary courage. Alaska's future belongs to people like Tessa Baldwin, a Mount Edgecombe senior from Kotzebue. When she addressed fellow students last April at a conference, she found the courage to speak about a tragedy too often shrouded in silence –

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suicide. Tessa has since started a campaign to provide student services for preventing suicide. She has testified before Congress and serves on the Statewide Suicide Prevention Council. Tessa, thank you for joining us. As you stand in defense of human life, it is only fitting that we stand in thanks for you now.

Alaska's future belongs to people like the heroes aboard the State ferry Malaspina. Last June, as Roger Sperber manned the lookout, he heard a cry in the night. Captain Nick Kollars swung the ship to starboard, so the crew and passengers could scan the shoreline with their binoculars. They launched a rescue boat and delivered a bleeding and bruised hiker to safety. To the entire crew of the Malaspina, and on behalf of a grateful state, we thank you.

As these Alaskans answered the call of duty, we in this chamber must now answer the call of history. We will rise to the challenge. We will meet our moment. And yes, we will create a future of greater opportunity.

Thank you, and may God bless our wondrous state and her people.

**Please report corrections to the Senate Secretary's office.**