

**HOUSE AND SENATE
JOINT JOURNAL SUPPLEMENT**

January 16, 2013

Wednesday

No. 1

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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

First Session of the

Twenty-Eighth Alaska State Legislature

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January 16, 2013

Juneau, Alaska

The following was submitted for publication:

Mr. President, Mr. Speaker, Lieutenant Governor, former Governor Sheffield, distinguished guests, and fellow Alaskans:

I come before you to discharge a duty as old as our democracy. At the beginning of every legislative session, Alaska's Constitution requires the Governor to report on the state of our state.

That is as it should be, because in our country, government reports to the people, not the other way around.

Over the next 90 days, we must heed voices far beyond the echo of this chamber. We must hear not only the voters who cast their ballots in the last election, but also future generations, who will cast judgment on the legacy of opportunity we leave.

This is the voice of history – and we must answer its call.

As I look around this chamber, I see many fresh faces – lawmakers who, I have no doubt, will rejuvenate our debate. Join me in welcoming our newest members and their families.

As I look around, I also remember lawmakers who once served. This past year, we said farewell to Representative Carl Gatto and former lawmakers Al Adams, Cheryll Heinze, Bruce Kendall, Michael Beirne, and Henry Pratt.

We also remember nine military service members who deployed from Alaska and perished before returning home. They gave their lives for our freedom, and now, we live forever in their debt.

Let us stand to thank our service members and veterans — all who have stood in defense of our country.

I want to honor one veteran in particular. He was going to be with us until technical issues at the Juneau Airport prevented that.

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After Pearl Harbor was attacked, Rod Bain joined the 101st Airborne Division. A member of Easy Company, he landed – under fire – with his "Band of Brothers" in Normandy, on June 6, 1944.

When Sergeant Bain came home from war, he gave Alaska 25 years of service as a teacher and administrator in schools, from Kake and Petersburg to Anchorage.

An educator, a commercial fisherman, and a veteran, Rod Bain represents the best of Alaska, and the best of America.

We are honored to have Sergeant and Donelle Bain's daughter, Donna, with us here tonight. Thanks to the legacy that Alaskans like Rod and Donelle Bain have given us, our state – the Last Frontier – has remained first in freedom.

Tonight, I can report to you that our economy remains prosperous, our natural resources remain abundant, our schools remain hopeful, our workers remain competitive, and the state of our state remains strong.

In a time of economic retreat across much of America, Alaska has stepped forward as an outpost of opportunity. Over the two years between 2009 and 2011, more people moved to Alaska than at any other time in nearly two decades.

Americans aren't just looking North to the Future, they are moving North to the Future – and for good reason. While other states run unsustainable deficits, Alaska has billions in budget reserves. While America saw its credit rating shamefully downgraded, we have seen ours upgraded to AAA.

While the federal government in Washington has grown faster than taxpayers can afford, we've held State agency spending growth in Alaska to less than one percent – the lowest increase in recent years.

No wonder Alaska has been recognized as one of the best-run states in the country. That is, in part, a tribute to your convictions, and to your commitment to your constituents. I thank you.

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The question before us tonight is not: What is the state of Alaska? The question is: How can we keep the state of Alaska strong?

Make no mistake: Our present prosperity does not guarantee our future security. The choices we make during this short session will have long-lasting consequences. So let us choose wisely and well.

SAFETY AND RESPECT

To keep the state of our state strong, let us choose a future of safety and respect.

In recent years, we united against three great evils: domestic violence, sexual assault, and trafficking. Last session, we defined sex trafficking as the terrible crime that it is, and I was proud to sign that bill into law.

Now, when we catch sex traffickers, we can give them a one-way ticket to the one place they belong – prison.

This session, I ask you to build on that effort by passing comprehensive crime legislation addressing domestic violence, sexual assault, and sex trafficking.

The bill I propose would increase sentences for child pornography, ensure sex traffickers serve all of their time, require "johns" who target minors to register as sex offenders, and allow court-ordered GPS tracking of abusers, stalkers, and assaulters.

By passing this legislation, we will send a stern message to criminals who prey on the weak: You won't get away, and you will pay.

To ensure predators and other criminals have nowhere to hide, I ask you to fund 15 more Village Public Safety Officers for communities that often have no other law enforcement.

We've already seen what a difference these officers can make. According to the Copper River Native Association, new VPSOs around Glennallen have reduced assaults.

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By adding more VPSOs, we can ensure that Alaskans receive the help they need, when they need it, not days later.

Where population growth has strained resources in the Mat-Su, the Kenai Peninsula, and Fairbanks, I ask you to fund 15 more State Trooper positions.

Law enforcement intervention, of course, is only one front in our battle against domestic violence and sexual abuse. The other front is creating a culture of respect through prevention.

Now active in more than 120 communities, our *Choose Respect* Initiative has helped break cycles of abuse and exploitation. I thank all of you for leading annual marches in your communities.

The cultural wave of respect we have started has swept across our schools and sports fields, and we will not rest until this hopeful tide washes over every corner of our state.

EDUCATION FOR ALASKA'S FUTURE

To keep the state of our state strong, let us also choose a future of higher standards and higher achievement in our schools. The jobs of tomorrow will require more education and more training, so we must begin preparing our students today.

Of all Alaska's natural resources, our children are unquestionably the most valuable.

In a world where college diplomas and advanced certificates are more important than ever, too many of our young people never even earn a high school diploma. Alaska's graduation rate remains under 70 percent. As far as I am concerned, that is not a passing grade.

So tonight, I ask you to join me in achieving a new goal. Let's raise our graduation rate to 90 percent by 2020. That's the threshold for an A grade, and that's what we will strive to meet.

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Meeting our goal will require raising expectations. To see the power of high expectations, just look at the success of Alaska Performance Scholarships. More than 4,600 young people have already earned these scholarships by taking more rigorous coursework.

By fully funding performance scholarships, you sent our students a hopeful message: When you achieve high standards in the classroom, we in this chamber will help you achieve your dreams.

Meeting our goal will require outstanding teachers. That's why the State Board of Education has not only raised content standards, but now will evaluate teachers based on how well their students learn.

That's why we recommend giving teachers more freedom to teach, by eliminating the unnecessary TerraNova assessment, while leaving our important standards-based assessments in place.

Meeting our goal will require a commitment to childhood literacy. Our next major initiative will be improving reading instruction for kindergarten through third grade, because literacy is a critical building block for success.

Meeting our goal will require an unwavering focus on the low-performing schools that need the most help. We have resolved time-consuming litigation, so we can get back to improving education. Instead of draining resources in courtrooms, we're investing unprecedented resources in classrooms.

Meeting our goal will require innovation. Through the promise of digital learning, we can deliver world-class instruction to Alaska's students anytime, anywhere, especially in our most rural communities.

Our efforts will include partnering with school districts and the Association of Alaska School Boards on the Alaska 1-to-1 Digital Learning Initiative, because when it comes to learning online, Alaska should be first in line.

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Finally, meeting our goal will require safe learning environments. We will continue working with you and our local districts to improve school safety and security for Alaska's children.

GROWING ALASKANS' OPPORTUNITY: MORE OIL PRODUCTION

To keep the state of our state strong, let us choose a future of more oil production, not less.

Our state's prosperity has always rested on natural resources. Tonight, that foundation is at risk, not because we are running out of oil, but because we are running behind the competition.

Alaska's North Slope has billions of proven barrels, and billions more waiting to be discovered. What we do not have is a tax system that attracts new investment for greater Alaska oil production.

Our problem is not below the ground. Our problem is above the ground. One recent analysis shows a company will make substantially more, at today's oil prices, by investing in the Lower 48, rather than in Alaska.

Over the past year, Alaska has dropped behind North Dakota in oil production. If this trend continues, we will soon fall behind California into fourth place in our own country. My friends, that's not even on the medal stand!

Making matters worse, our laws give tax credits based on how much money companies spend in oil fields, not based on how much of that spending leads to production.

While Alaskans haven't always seen eye to eye on these issues, we can all see the obvious: Unless we restore balance to our tax system, our oil fields will become obsolete. We must make reforms – and we must make them now. Waiting only makes this problem worse.

By eliminating progressivity, and rebalancing capital tax credit payments, we can create a simpler 25 percent tax. Gone will be the old

arguments about what qualifies for the capital expenditure credits. Gone will be the need to calculate progressivity each month.

What will remain will be a more balanced, more competitive, and more predictable tax system, one with greater protections for Alaskans at lower oil prices, in exchange for lower taxes at higher oil prices.

As we debate these reforms, my administration will be open to new ideas, but not old delays. We will judge any proposal based on four questions:

- Are the changes fair to Alaskans?
- Will they foster new oil production?
- Will they simplify and restore balance to our fiscal system?
- And, will the changes make us competitive not only for this year but for years ahead?

If you pass legislation that answers these four questions, you won't have to ask for my answer, because you will get my signature.

Members of the Legislature: This problem has been studied long enough. It is time for action – right here, right now.

ALASKANS' GAS FOR ALASKANS FIRST, THEN TO MARKETS BEYOND

To keep the state of our state strong, let us choose a future that gets our gas to Alaskans first, and then to markets beyond.

In recent years, we have pursued two gasoline efforts on parallel paths. Tonight, I can report that both projects have made progress.

On one path, the Alaska Gasline Development Corporation – better known as AGDC – has pursued a small diameter line. The project has cleared major regulatory hurdles by obtaining a State right of way and completing an environmental impact study – all key steps forward.

As AGDC has moved beyond these regulatory hurdles, it has also moved toward a larger diameter pipe. By switching to a larger pipe

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concept, AGDC has provided a simple answer to a complex question about how to lower the cost of getting Alaska's gas to Alaskans: Get more gas in the pipe.

On the other parallel path, the Alaska Pipeline Project moves forward with backers including BP, ConocoPhillips, ExxonMobil, and TC-Alaska.

Last year, I stood before you and set benchmarks for gasoline progress. Tonight, I can report those benchmarks were met. For the first time, development of Alaska's eastern North Slope is under way. Hydrocarbons will come from Point Thomson by 2016.

It's hard to overstate the significance of our administration taking the Point Thomson case to the Alaska Supreme Court, and resolving that litigation.

It means billions in new investments. It means 600 to 700 new sustained jobs, and it means progress toward a gasoline project, because Point Thomson's facilities and infrastructure will be able to produce gas.

For the first time, Alaska has three major producers aligned and working together, with a pipeline company, on an Alaska gasoline.

Members of my administration and I have undertaken an aggressive advocacy campaign throughout Asia, where liquefied natural gas demand is expected to soar in the coming years. Our goal was to put Alaska on the map as a liquefied natural gas supplier – and that is exactly what we have done.

We recently welcomed a South Korea delegation representing the largest LNG purchaser in the world. We also held discussions with a consortium of Japanese companies.

There is no doubt we have come a long way toward a gasoline, but we still have a long way to go. Here's the roadmap I propose for AGDC:

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First, we need to boost AGDC's ability to build an all-Alaska gasline, or to participate with others in building one. Representative Hawker and the Speaker have filed legislation to add horsepower to AGDC's engine.

Without sacrificing accountability, we can unite around that legislation, and accelerate AGDC's work. We can accelerate a merger between the State's two parallel paths, and help avoid redundant costs between the projects.

Together, in the committee process, we will ensure that AGDC can commercialize Alaska's gas for the maximum benefit of all Alaskans.

While AGDC needs to be stronger, the Alaska Pipeline Project needs to make a firm commitment to an all-Alaska gasline.

Tonight, I set another important benchmark for the private parties involved in the Alaska Pipeline Project: By February 15 – one month from now – they must select a concept on an all-Alaska project.

Let me be clear: That means describing and detailing the project and pipeline specifications. More specifically, it means telling us the size of the pipe and the daily volume of gas. It means telling us the location of the gas treatment plant, and detailing the number of compressor stations to move the gas along.

It means telling us the size and scope of the liquefaction plant and LNG storage tanks. It means telling us the number of off-take points to ensure that Alaskans can utilize our gas for our needs.

Most importantly, we want to ensure that APP's concept components are designed to ensure Alaska's gas goes to Alaskans first.

By this spring, I call on the companies to finalize an agreement to advance into what's known as the pre-FEED stage of a gasline – that's "pre-front-end engineering and design," for those of us who are not engineers.

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They must ensure a full summer of field season work will commence this year, and once into that pre-FEED stage, the companies will be spending hundreds of millions of dollars – private sector dollars – on this project.

With concept selection made, a pre-FEED commercial agreement executed, and a summer field season completed in 2013, the project will finally move at the speed that Alaskans demand and our future requires.

To keep the state of our state strong, let us choose a future of affordable and abundant energy. Despite all our energy sources, energy costs remain a huge burden on Alaskans. That needs to change.

That's why we developed the Interior Energy Plan, a strategy that includes low-interest loans, gas storage tax credits, and cash for a moveable gas liquefaction plant and distribution system.

This plan jump-started private sector efforts for transporting natural gas in the Interior. It will slash energy costs for homes and businesses.

Tonight, I ask you to grant legislative authority to the Alaska Industrial Development and Export Authority (AIDEA) to move this Interior Energy Plan forward.

I also ask you to fully fund Power Cost Equalization, renewable energy grants, and our budget request for the Susitna-Watana Hydro project.

Taken together, these investments will keep us on the road to achieving our goal of 50 percent renewable energy. It's an important goal that we set, and it's a commitment that we intend to keep.

FISCAL RESTRAINT

To keep the state of our state strong, let us choose a future of public sector restraint and private sector growth. Let us come together to set a spending cap early this session, because limited government requires

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firm limits. Let us come together to support hard working Alaskans and Alaska businesses.

In recent years, Uncle Sam's growing reach has cast a shadow over the dreams of Alaska's entrepreneurs. While we in this chamber cannot unilaterally fix Washington's mistakes, we can act to minimize the damage.

By reforming our unemployment tax law, we can reduce the tax burden on Alaskans and their employers. Last year, the State took an additional \$20 million in unemployment insurance contributions, even though our unemployment insurance fund was solvent without that increase.

It makes no sense for Alaskans and their businesses to be overtaxed, so government can be overfunded.

Tonight, I propose creating a formula to determine whether the unemployment insurance fund is solvent. If the fund has enough money, we will cut unemployment taxes, because it's time we cut a break for hardworking Alaskans and Alaska businesses.

Let us also come together to stop federal overreach. When a federal agency tramples on what is our right, we will not roll over; we will not lie down. We will stand up for what is right.

We recently won a major victory when a federal court ruled that the U.S. Fish and Wildlife Service had overstepped its bounds by declaring a huge swath of our land critical habitat for polar bears, without properly following the law.

As Alaskans, we regularly experience the disconnect between federal flights of fancy and on-the-ground realities.

Well, here's the reality: Washington, D.C. just doesn't get Alaska – never has, never will.

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Federal law says that states have the right to regulate activities regarding their own lands and waters – and it's about time Alaskans exercise these rights over our resources.

So tonight, I urge you to pass legislation giving our State authority to seek and assume primacy over dredge and fill operations within our borders. By assuming primacy, the people of Alaska will have a greater say over their lands and waters.

The future of Alaska belongs to Alaskans – not to Washington, D.C.

ALASKA'S FUTURE: STRONG AND FREE

Tonight, I have outlined the challenges and priorities that will define this session. By working together, we can leave our children the future they deserve – a future of greater safety, higher achieving schools, growing oil production, more affordable energy, vibrant economic growth, and brighter opportunity.

As you debate these proposals in the legislative branch, remember that you have a partner in the executive branch. From public servants deep within our agencies to the well-known Cabinet members here with us tonight, we have State employees standing up for Alaskans, standing up against federal encroachment, and standing up for the values that make Alaska special.

Among the 50 stars on the American flag, Alaska's has always stood for a place high above the rest.

It is the star that guided our first people and early pioneers. It is the star that rises in our time, even when troubled global markets dip and fall. And it is the star that, we here tonight, vow to keep burning and bright for future generations.

That is the task before us. Let us answer history's call. Let us confront challenges that must be met. And let us work together in a spirit worthy of our fellow Alaskans.

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If we stay true to our values – the values that veterans like Rod Bain defended in distant lands – then the state of our state will always be as it should be: Strong and free.

May God bless you, and may God bless Alaska. Thank you, and good night.

Please report corrections to the Chief Clerk's office.