

**SENATE AND HOUSE
JOINT JOURNAL SUPPLEMENT**

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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-Eighth Alaska State Legislature

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January 22, 2014

Juneau, Alaska

The following was submitted for publication:

Mr. President, Mr. Speaker, Lt. Governor, legislators, fellow Alaskans:

Thank you for welcoming my family and me here tonight. I brought three strong women with me: my wife, First Lady Sandy Parnell; my mom, Thelma Parnell; and my beloved aunt, Jeannie Zimmerman.

Legislators, you and I have the privilege of serving the greatest people, of a mighty state, in an exceptional nation. Our job is profound: to secure liberty and create opportunity for all Alaskans.

In so doing, we honor the legacy of Alaskans past, we act boldly for Alaskans today, and we will leave a bright future, a stronger Alaska. Thank you legislators, and to your staff, for entering the arena of public service, and for dedicating so much of your lives to better our fellow Alaskans and our state.

I also thank members of my cabinet for their service. These men and women undertake an awesome responsibility to faithfully administer the laws you pass. I salute them.

As I have said many times, Alaska's greatest strength is her people: their courage and their compassion. As governor, I witness these qualities every day. The courage of our public safety community, three of whom we lost last year:

- VPSO Tom Madole
- Trooper Tage Toll
- Pilot Mel Nading

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We also witnessed the courage of Coast Guard Petty Officer Third Class Travis Obendorf, who we lost following a search and rescue mission.

We saw that courage last July when a small plane crash-landed outside Talkeetna and stranded two people. The Alaska Air National Guard, which rescued the two victims, set a milestone: The incident represented the 2,000th life saved by the Alaska Air National Guard in nearly 20 years.

We honor the service and courage of our National Guard, just as we honor the service and courage of our military members and first responders. They are Alaska strong.

Our strength as a state lies not only in Alaskans' courage, but in Alaskans' compassion. I witnessed this courage and compassion last April. Nikki Toll had just lost her husband, Trooper Tage Toll. Burdened with her own grief, she went to the memorial service for Mel Nading, the Public Safety Helo-1 pilot who was lost alongside her husband.

Nikki stood with her arm around Denise Nading during Mel's service, to show her love and support. The very next day, Denise and her family attended Trooper Toll's memorial in support of his family. Pain so raw embraced by compassion so great.

We saw compassion at Palmer's Pioneer Home, where a senior suffering from Alzheimer's stood confused and crying in the hallway. One of the Pioneer Home maintenance staff set his work aside, hugged the woman, told her she was loved, and that she was home. Courageous and compassionate Alaskans make Alaska strong.

Last year, I said the choices we would make in 2013 would determine Alaska's future strength. I asked you to choose wisely and well to keep Alaska strong. You did. As a result, tonight I can report the state of our state is strong, stronger than even just one year ago, and getting stronger by the day. We tackled important policies last year. We made serious choices. And we must do so again this year.

We must find new ways to use Alaska's resources to drive down the cost of energy – gas for Alaskans first, and then for the world. That is why last year we created the Interior Energy Project to get lower-cost natural gas to Alaskans. That natural gas trucking solution should deliver first gas to Fairbanks in winter 2016.

Recently, we made historic progress on Alaskans' gasoline. For the first time, all the necessary parties have aligned to make an Alaska gasoline project go: three producers, a pre-eminent pipeline builder, the Alaska Gasline Development Corporation (AGDC), and the State agencies responsible for the people's royalties and taxes.

Because a liquefied natural gas (LNG) project is complex, we hired some of the world's most qualified experts to examine Alaska's cost, tax, and royalty structures. We asked them to look for ways we could be competitive in the world market. Alaska can best control her own destiny if we own a stake or participate in the Alaska LNG Project.

Here's why: Ownership or participation in the Alaska LNG Project means the State shares in the profits of the project, rather than paying them all to someone else. Ownership also means we will better understand, and can more effectively negotiate, and ensure the lowest possible costs. With Alaska owning a stake, Alaskans stand to gain more.

Next, our proposed phased legislative approval process will be more open and transparent to the public than either the Stranded Gas Act or the Alaska Gasline Inducement Act (AGIA). When the Stranded Gas Act and AGIA were passed, everyone assumed that in order to get a gasline, we had to negotiate all the fiscal terms at the outset. That meant the State carried all the risk up front – for decisions worth billions of dollars – without having the benefit of the information, time, and analysis to get it right.

We have learned the lessons of history. For the Alaska LNG Project, we will insist on terms that any partner would enjoy in a traditional commercial agreement, one where parties make commensurate, proportionate commitments; they go forward in phases; and they seek approval from their boards of directors before committing to the next phase of the project. The State will return to its board of directors, the people, by seeking review and approval, at all key decision points, from legislators.

This session, I ask that you work with me to review and decide Alaska's course on this initial phase of the Alaska LNG Project. To keep Alaska strong, I am asking legislators to review the guidance documents our team has negotiated, and take up legislation that would allow us to move through the Pre-FEED phase of the Alaska LNG Project.

The Pre-Front End Engineering and Design phase of the project – that's a half-billion dollar step in gasline development – refines the cost and engineering challenges the project faces. These challenges that must be addressed before the parties commit any additional funds to complete the project. Costs of this 18-month phase known as Pre-FEED will be shared among the parties, so the State's portion will be between \$70 and \$90 million.

After that Pre-Front End Engineering and Design Phase, the Administration will come back to the Legislature, report progress, and ask for your commitment and approval before proceeding to the next stage. In the past, we have seen efforts to develop a large gas project stall out for various reasons. That's why we will maintain our backup plan to get Alaska's gas to Alaskans.

The Legislature wisely addressed this in creating AGDC. AGDC is uniquely positioned to be our ace in the hole. If work falters on the Alaska LNG Project, we can still get gas to Alaskans first with AGDC's smaller-volume project. AGDC is on track for an open season in early 2015.

The gasline legislation I ask you to consider is important to create a competitive investment environment for any project that gets Alaska's gas to Alaskan homes and businesses. The legislation is important to both AGDC's smaller-volume gasline project and the larger-volume Alaska LNG Project. This has been a dream of Alaskans since 1968, when Prudhoe Bay was first discovered. Our way forward will be on Alaska's terms and in Alaskans' interests.

Alaska's financial foundation is already very healthy. The books are balanced because we have been disciplined with the people's checkbook. We have built significant budget reserves and preserved our triple-A bond rating. In my budget this year, I follow four guiding principles: to live within our means, meet our constitutional priorities, fix what we have, and finish what we have started.

To keep Alaska strong, I ask you to preserve these principles in the final budget bills. This is especially true now, where we face less revenue due to lower oil prices. We must do what

the president and Congress have been unable to do: reform spending, so we can live within our means during this generation and the next. Washington has not made Social Security sustainable, but in Alaska we can reform our pension system so it is fully funded.

Fellow Alaskans, the time is now to tackle our \$12 billion pension deficit. Alaska's escalating annual pension payments squeeze dollars from every other program and State service – education, public safety, natural resources – and that vise will soon tighten. Without action, our \$630 million annual payment will balloon to more than \$1 billion. To keep Alaska strong, I propose we transfer \$3 billion of our \$16 billion in budget reserves into the Retirement Trust Fund.

Next year, this shift will allow us to reduce our annual payment to \$500 million, instead of more than \$750 million – that's a savings of more than 50 percent in the first year. Our plan will dramatically drop future operating budgets and put us on a more sustainable financial path. Our current economic policies navigated us safely through the Great Recession. With these policies in hand, the "Great Alaska Comeback" is underway.

Last year, we passed the More Alaska Production Act, and now, new oil investment dollars, new jobs, and better opportunities are flowing into the state. Alaskans are better off under the new tax regime. The people's treasury takes in more revenue at lower oil prices than under the old tax regime.

Last year, we also cut payroll taxes for individual Alaskans. As a result, this year Alaskans and Alaska businesses will have \$55 million more in their pockets. Our commitment to a more fiscally responsible government has not gone unnoticed:

- Business and professional licenses were up three percent in 2013;
- The Kaufmann Foundation ranks Alaska as one of the top four states for entrepreneurship;
- Alaska's summer visitor volume increased last year for the third consecutive year; and
- George Mason University's Mercatus Center reported last week that Alaska's fiscal situation is the strongest in the nation.

The Great Alaska Comeback is beginning, and we will make sure it continues for us and for future generations.

The brightness of Alaska's future depends on the strength of our children. That strength will hinge on whether we provide them with a high-quality education. Three years ago, I set a goal that we would increase our high school graduation rate from the mid-sixties to 90 percent by 2020. I am proud to report our graduation rate improved in 2013 for the third year in a row. At 72 percent, we are better off than we were a year ago, but we still have a long way to go.

The good news is more graduating seniors, on a percentage basis, have earned Alaska Performance Scholarships. Those hard-working students were also much less likely to need remedial courses at the University of Alaska. What more can we do to prepare these children for life after high school? Tonight, I propose key changes to keep Alaska strong.

First, we must recognize our students need 21st century classrooms to compete in a 21st century economy. Our Alaska Digital Teaching Initiative will give our young people access to high-quality teachers and instruction.

Today, eight districts use video conferencing to reach our more remote schools. Course instruction is delivered in real time, so students can take courses not otherwise available to them.

The Alaska Digital Teaching Initiative will empower our teachers to reach beyond their own classrooms and districts. Digital teaching can bring together students from Tanana and Ruby with Fairbanks students. Not only will students have access to a more diverse array of classes, they will have access to a more diverse array of insights.

Second, we must make sure what we are doing now is working. Last year, we demonstrated that the Terra Nova assessment was unused and unneeded by the districts. So, in 2013 the Alaska Department of Education eliminated the Terra Nova testing requirement. This year, I propose repealing and replacing the obsolete High School Graduation Qualifying Exam. Like Terra Nova, it is no longer a valid measure of student success.

The qualifying exam measures student progress against our State's old education standards, not against Alaska's new, more rigorous standards: Alaska's standards set by Alaskans. Today's qualifying exam does not measure readiness to graduate or college and career training preparedness.

In its place, I propose high school students take either the SAT, ACT, or WorkKeys test within two years of their expected graduation date. The first test they take would be at the State's expense. Rather than a high-stakes test of limited value, we will have better information from these tests, and they will open the door to a young person's post-secondary education and job training.

Third, school districts should allow more high school students to test out of a class for credit. Nothing is gained by requiring a student to take a seat in a class whose subject matter he or she has already mastered. Let us reward students' achievement, and offer them more opportunity to enhance their skills and knowledge.

Fourth, we must offer educational paths that reflect the choices and interests of all our students. Career Technical Education is a strong pathway to success, and many of our students would thrive with better access to this path. In the Northwest Arctic Borough last year, Career Technical Education classes were again offered in all 12 schools.

Offering career and technical classes to students resulted in an impressive 11 percent increase in the borough's graduation rate. Eighty-three percent of students who took two vocational courses in the same career pathway graduated. That's higher than the State's graduation rate. It's simple: Students excel when they find a subject that inspires them.

To keep Alaska strong, we must improve career and technical programs by expanding dual-credit options for both high school graduation and certification in a career field. More than 3,700 Alaska high school students currently take advantage of dual-credit courses through the University of Alaska. Let us open that door to thousands more.

In 2000 we created TVEP, the Technical Vocational Education Program, to provide grants to statewide job training institutions. To keep Alaska strong, this year we should require institutions receiving TVEP funding to establish and maintain partnerships with Alaska schools, so students can earn both high school and post-secondary credit toward certification.

Finally, we must continue to expand the number and type of regional residential schools, which serve our rural students. To keep Alaska strong, we must guarantee more access to these schools by requiring the Department of Education to provide an annual application period for them. We must also increase funding for residential schools.

These changes are the easiest ones we can make, but they are not the only ones we must make. To keep Alaska strong, we need more significant reforms that create more educational opportunity for our children.

Until now, the debate over education has generally proceeded from two fronts. On one side are those who believe reform begins and ends with increased funding. The other side, myself included, has focused on results – what are we getting for what we are already spending?

In the past, both sides dug into their respective positions, instead of rising up and creatively finding the solutions our children so desperately need. Tonight, I want each of us to climb out of whichever trench we are in and declare: 2014 will be the Education Session. Let us commit ourselves to a respectful debate that ends with a plan to offer more opportunity to more students.

I want to start that discussion by going back to basics: the Alaska Constitution. Under Alaska's Constitution, the Legislature is required to maintain a system of public schools open to all our children. Public schools must remain free of sectarian control. However, Alaska's Constitution also says no money shall be paid from public funds for the direct benefit of any religious or other private educational institution.

The question of school choice is not about private schools or religious schools; it is about whether parents should have the freedom to say what school best meets their child's education needs with their child's share of public money – their money. Wealthier Alaskans can always send their kids to private or religious schools, but others cannot – and don't get to under our Constitution.

Since Alaska's constitutional provision was put in place, the United States Supreme Court has affirmed a parent's right to make these choices under what they call the "private choice test." The education spending must have a valid secular purpose; the aid must go to parents and not the schools; a broad class of beneficiaries must be covered; the education program must be neutral with respect to religion; and there must be adequate non-religious options.

Since this Supreme Court decision was handed down in 2002, discussion of school choice in Alaska has gone largely unaddressed. However, members of this body have courageously stepped up to speak about what matters most: educational opportunity flowing from parental choice. You already have legislation before you on this topic – by Senators Dunleavy, Dyson, Kelly, Coghill, and Giessel; and by Representatives Keller, Reinbold, Lynn, and Stoltze. To keep Alaska strong, I urge the House and Senate to vigorously debate the provisions of Senate Joint Resolution 9 and move it to the people for a vote.

On this question – whether parents ought to have a greater say in their child's education – it is time legislators let Alaskans decide. Expanding choice for parents and opportunity for our kids also means expanding charter schools and replicating successful models. In Anchorage, for

example, almost 800 students are locked into their current school while their parents have them on the wait list for the Aquarian Charter School. When we have a charter school like this, and others with wait lists, we have proven schools that work for kids. We should give parents more freedom to replicate it.

Unfortunately, Alaska's charter school law is one of the most restrictive in the country. We limit these schools' rights and their funding. Charter schools and their students are part of the public school system, but don't get equal treatment under the law. This is grossly unfair. I propose all local, State and federal funding – except some capped district administrative expenses – travel with a student to a charter school.

Also under current law, the local school district has sole authority to approve or deny charter school creation, with no path to appeal a denial. We must create an appeal route to the commissioner of Education. It is time we allow parents some recourse when a district denies their freedom to create the best education for their child.

Real change comes only with real reform. If you are willing to join me in passing real education reform, I will work with you to authorize an increase in the base student allocation (BSA). To show my good faith in this, I am introducing legislation to reform Alaska's education system by focusing on charter school opportunity, career technical training, digital teaching, and other opportunities.

And, I am introducing legislation to raise the BSA for each of the next three years. If we are successful at real reform and more new funding, our children will benefit.

The big items we have talked about tonight – building a gasline, paying down our pension, and reforming education – these are issues that matter to us all and bring us together as a people.

Earlier tonight, I said that courageous and compassionate Alaskans make Alaska strong. Trevor Millar is a young man who exhibits both qualities. He is a natural-born leader with a heart full of faith and compassion, who mentors high school students through a group known as Young Life.

Last June, Trevor was inner tubing and jet skiing with some of these young people. A rope became wrapped around his neck, and he was dragged behind the boat and nearly strangled to death. While recovering from this severe injury, he had a major stroke. The damage to his brain was described as massive, impairing one complete side of his body.

All the dreams that Trevor had for himself – and for the students with whom he worked – were blurred, as he faced a life of immobility. But Trevor has not only a heart full of compassion, he has a heart full of courage. Thousands of people rallied around Trevor, praying for him, sending him notes of encouragement, and even traveling to Seattle to be with him in the hospital. And with that, Trevor fought back.

Trevor's recovery is described as miraculous. He worked hard every day to regain his functions. And doctors who once thought he would pass away cannot explain his recovery. Last October, he rolled into South Anchorage High School in his wheelchair, where students welcomed him back.

A month later, I witnessed Trevor get up out of his wheelchair. He climbed the stairs of a stage with the help of a cane, before about 400 people, and began to talk about his journey back and about his hopes for Alaska's high school students.

Despite all he has been through in his own life, Trevor wants nothing more than to see these young people succeed in life. Trevor's courage, his resilience, and his compassion make all who meet him strong.

The Alaskans I spoke of tonight, from those we lost to those still living profoundly impactful lives, they set the bar very high. Now, it is up to us to take up our challenge, to secure more liberty and opportunity for Alaskans. We have the duty to provide our young people with a better future:

- A strong Alaska where families worry less about making ends meet, and have more lower-cost natural gas.
- A strong Alaska where families suffer less violence, and more Alaskans Choose Respect.
- A strong Alaska where our retired civil servants do not worry that the health of their pensions competes with the security of their grandchildren's future.
- A strong Alaska where we afford greater choice and more opportunity in education.

This is our mandate and our mission this year. I look forward to working with you again to keep Alaska strong.

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

Please report corrections to the Senate Secretary's office.