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June 12, 2003

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
119 N Cushman St.
Fairbanks, AK 99701

Dear President Therriault:

On this date I have signed with line item vetoes the following bill passed by the first session of the Twenty-third Alaska State Legislature and am transmitting the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing:

HOUSE CS FOR CS FOR SENATE BILL NO. 100(FIN) am H(brf sup maj fld H)

"An Act making capital appropriations, supplemental appropriations, and reappropriations; capitalizing funds; making other appropriations; making appropriations under art. IX, sec. 17c, Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

Introduction of the administration's operating budget last March and the Legislature's subsequent deliberations marked a turning point in Alaska's fiscal history. The approved budgets and revenue-related legislation reflect our joint recognition that Alaska's finances must immediately be corrected. We also recognize that we must take these necessary steps now and not wait for a "politically convenient" time—because it will never arrive. This means we must cut spending now, use our reserves prudently now, and get more users to help pay for state services. We also recognize that we must take the steps necessary now to generate revenues from resource development in the near future.

To these ends, I challenged the Legislature to keep Fiscal Year 2004 spending below the current year's and set a goal of not using more than \$400 million of the state's reserve funds, or Constitutional Budget Reserve (CBR). As

you know, the state has relied on the CBR since its creation in 1990 to prop up spending at a level which the state could not otherwise afford. Unfortunately, if we were to continue the last Administration's "business as usual" level of spending, the CBR would be depleted in early 2006 and we would need to cut the following year's spending by 40%, sending the state's economy in a downward spiral. To understand this and not take corrective steps would be irresponsible.

For this reason I proposed that we make spending decisions that will enable the CBR's remaining balance to last for five years. If we limit our annual draw to \$400 million, the reserve will be able to serve as "bridge financing" while new resource development causes new revenues to flow into the state's treasury.

While the Legislature did a good job in holding down spending, the Fiscal Year 2004 would have required an estimated CBR draw of \$525 million. As discussed with the Legislature prior to adjournment, my commitment to limit the CBR draw was steadfast. As a result, vetoes are necessary to prudently use these reserves. Accordingly, I have vetoed \$27 million from the capital budget that, when combined with action taken in the operating budget means the CBR balance will be reduced by \$380 million in order to support next year's level of reduced spending.

In reviewing the capital budget, every effort was made to fund projects that are traditional responsibilities of state government, such as transportation and protecting the public's health and safety. We also vetoed a great number of the "discretionary" projects that the Legislature added on behalf of district-related requests because again, we must get state government back to funding the basics of what state government should be doing. As earlier announced, we also vetoed the \$15 million in funding for Community Capital Matching Grants. For the time being, local communities will need to make the same kind of tough choices regarding what they do, just as the state is doing. The responsibility to make these difficult choices was not taken lightly, but it's one we recognized that must be done for the reasons earlier outlined.

The need to cautiously use our reserves made each of the vetoes necessary. The following is additional information about other reductions:

Department of Administration

Electronic Filing of Public Official and Legislative Financial Disclosure Statements and Lobbying Activity Reports

Total veto: \$449,000 General Funds

Reason: Higher priority services

This project was originally proposed to enable electronic filing as a substitute for a reduction in the Alaska Public Offices Commission (APOC) staff and to replace existing overburdened reporting systems. The legislation and APOC budget ultimately approved by the legislature did not alter the APOC's operations as significantly as originally proposed, although agency staffing will be reduced. This project will be started when alternate funding becomes available. A \$1,000 balance is retained in the capital budget so that if Federal or other funding is obtained, the project could be funded through the Legislative Budget and Audit Committee during this interim.

Alaska Land Mobile Radio

Total veto: \$127,000 General Funds

Reason: Other revenues to be available

This reduction to \$400,000 is not expected to result in any service level changes. This appropriation is used to pay management costs for the Alaska Land Mobile Radio project, a long-term effort to improve emergency communications throughout the state. Existing Federal grant funding for this project does not cover management costs. The department will reduce management expenses and seek other funding to cover management costs.

Payroll and Accounting Systems Replacement

Total veto: \$100,000 General Funds

Reason: Other savings available

The department has determined that \$96,000 is expected to remain from the project's FY2003 capital appropriation.

Department of Community and Economic Development

Grants to Local Governments and Grants to Named Recipients

Total veto: \$9,170,050 (\$4,786,250 General Funds; \$3,099,400 AHFC Dividend; \$804,000 ASLC Dividend; \$480,400 AIDEA Dividend)

Reason: Higher priority state obligations

The Legislature added appropriations for grants primarily to local governments and/or non-profit organizations. The state's need to prioritize scarce revenues means that the state will be less able to fund local priorities until a time when state recurring revenue is sufficient to pay for the state's obligations. As a result, many of these discretionary projects were vetoed.

Power Generation Projects

Total veto: \$1,213,276 General Funds

Reason: Higher priority state obligations

Grants to Copper Valley Electric Association and Kodiak Electric Association for payment or retirement of pre-existing debt are eliminated. The Department of Law has advised that a payment for retirement of a pre-existing debt to which the state is not a party confers no benefit on the public, which violates the public purpose doctrine set out in the Alaska Constitution.

Delta Junction Settlement

Total veto: \$500,000 General Funds

Reason: Department of Law advice regarding legality

The Department of Law advises there are several legal concerns with this appropriation, which is to pay the costs of the settlement agreement for litigation regarding the establishment of a private prison in the vicinity of the city. If a borough were formed, the balance owing on the loan would be converted to a grant. Law again advises this violates the public purpose provision of the Alaska Constitution.

Department of Education and Early Development

Yukon Koyukuk School District, Manley Hot Springs School Improvements

Total veto: \$27,000 Alaska Student Loan Corporation Dividend

Reason: Review process not followed

State law has established a process by which school district projects are evaluated by the department (AS 14.11). The requesting school district should include this project for review as part of the FY 2005 annual evaluation of school construction and major maintenance projects for future funding consideration. This ensures consistent standards are used in evaluating school district projects.

Section 63

Total appropriation: \$609,248 General Funds

This is a one-year only appropriation to be distributed as a grant to the specific school districts listed. These grants hold harmless those school districts affected by the passage of SB202 that moved funding for the learning opportunity grant program into the formula-driven state aid for public school program.

Department of Environmental Conservation

Village Safe Water Projects -- Rural Clinics Sewer and Water Service

Total veto: \$500,000 (\$125,000 Alaska Housing Finance Corporation Receipts, \$375,000 Federal Funds)

Reason: Other funding anticipated

This reduces the Village Safe Water projects appropriation to \$78.3 million by eliminating \$500,000 in funding for water and sewer to rural clinics constructed with Denali Commission funding. The Denali Commission health care facility program has received over \$80 million for facility construction. It is anticipated that loss of the small Village Safe Water contribution for water and sewer will not have an appreciable effect on the program, and that water and sewer costs will be provided by the Denali Commission as part of the overall facility costs.

Municipal Water, Sewer, and Solid Waste Matching Grant Projects

Total veto: \$14,454,200 (\$6,899,900 General Funds; \$2,561,700 AHFC Dividend; \$1,272,600 AIDEA Dividend; \$3,720,000 Federal Funds)

Reason: Need to prioritize projects

This reduces the Municipal Water, Sewer and Solid Waste Matching Grant funding to \$9,423,000. This program makes grants to communities for drinking water, wastewater, and solid waste projects. Projects proposed by communities for grant funding are assigned priority scores as part of an application process. These reductions eliminate lower priority projects, which includes elimination of two solid waste planning projects considered lower environmental and public health priority, as well as a Valdez project that warrants further assessment before proceeding. Finally, the annual allocation for the Municipality of Anchorage was reduced in proportion to the overall program reduction - from \$3,000,000 to \$1,250,000.

Village Safe Water Feasibility Studies

*Total veto: \$300,000 (\$75,000 Alaska Housing Finance Corporation Dividend;
\$225,000 Federal Funds)*

Reason: Lower priority projects

This reduces the amount for Village Safe Water Feasibility Studies to \$2,645,800 by eliminating three projects that would study solid waste management alternatives in rural communities. Solid waste generally is a lesser health and environmental threat than drinking water and wastewater, and solid waste planning projects are considered primarily a local responsibility. Communities may be able to secure financial assistance from federal agencies.

Department of Fish and Game

Maintenance and Deferred Maintenance Projects

Total veto: \$150,000 (\$50,000 General Funds, \$100,000 Fish & Game Funds)

Reason: Higher priority services

The department will phase maintenance work on its facilities, docks, and commercial fishing aircraft and vessels around the state.

Chignik/Cape Igvak Stock Separation Study

Total veto: \$50,000 General Funds

Reason: Funding inadequate

The study relates to socioeconomic issues and the funding level provided by the Legislature is not sufficient to get the job done.

Lower Kenai River Public Use Impact Study

Total veto: \$100,000 Fish & Game Funds

Reason: Study unnecessary as information available

The funding is for a public use impact study on the Kenai River. The results were to be used to facilitate implementation of a guide moratorium on the river. The department believes that the survey is not necessary to implement a moratorium. Instead, it will work with the Commercial Fisheries Entry Commission, Department of Natural Resources, Governor's Office, and interested legislators to develop options and recommendations that will identify tools to address issues of growth and development of the guided sport fishing industry on a statewide basis.

Office of the Governor

Americans with Disabilities Act Compliance Projects

Total veto: \$250,000 General Funds

Reason: Other priority services

This project funds the renovation and remodeling of state-owned facilities to remove physical barriers to persons with disabilities. In excess of \$12 million has been provided since 1993 and projects will continue to be addressed according to a statewide priority list.

Department of Health and Social Services

Fairbanks Public Health Center Repair

Veto Total: \$110,000 General Funds

Reason: Higher priority services

Other funding will be explored in order to make the needed repairs.

Department of Natural Resources

Division of Parks – Sultana Road Maintenance

Total veto: \$8,000 General Funds

Reason: Higher priority services

Priority is funding for the overall management of the park system and accordingly, this project was vetoed.

Navigable Waters Assertions

Total veto: \$188,700 General Funds

Reason: Other funding available

There were three appropriations in the FY 04 budget that fund, in part, asserting ownership of navigable waters. The two other appropriations address both navigable waters and RS 2477. With veto of this one appropriation, the other two are expected to provide sufficient funding for FY 04 work on assertions of navigable waters and RS 2477 trails.

Recorder's Office Film Conversion

Total veto: \$250,000 General Funds

Reason: Other priority services

The original \$338,000 appropriation would have converted the last ten years of existing film records to digital images. The project now will be phased so that 3-4 years of records are converted.

Land Acquisition on Northern Afognak Island

Total veto: \$12,450,000 (\$2,000,000 Federal Receipts; \$10,450,000 EVOS)

Land Acquisition in Diamond Creek

Total veto: \$450,000 (Federal receipts)

Reasons: Policy Disagreement

The first appropriation was for the purchase of land on Northern Afognak Island for the Perenosa Bay project. The second eliminates funding for land acquisition in the Diamond Creek project as part of the Kachemak Heritage Land Trust's development. For too long state government has allowed (and in the case of the Exxon Valdez Oil Spill Fund actually encouraged) public monies to be used to acquire private land, particularly in Prince William Sound. This is poor policy. We need to maximize the amount of land in private ownership.

West Icy Bay Remediation

Total veto: \$150,000 General Funds

Reason: Management/other savings

The Department of Natural Resources and the Department of Law have reviewed the West Icy Bay remediation settlement and believe it may be possible to complete the summer 2003 effort for \$764,000. After this work is completed, an evaluation will be made to see if the entire project can be completed next year within this amount.

Airborne Geophysical Surveys

Total veto: \$100,000 General Funds

Reason: Management/other savings

DNR will use the remaining \$100,000 in funding to provide information to the mining community by updating the six airborne geophysical surveys that were flown in 1994 and 1995, instead of doing new surveys.

Department of Public Safety

Fairbanks Roof Replacement

Total veto: \$510,000 General Funds

Reason: Insufficient funding to complete project

The roof replacement is estimated to cost over \$1 million. The project cannot begin without full funding.

New Ketchikan Public Safety Building Construction

Total veto: \$1,227,500 General funds

Reason: Project scope change

Original financing plans for a new building in Saxman have not been successful. Less expensive alternatives are being developed during this interim. As a result, \$1.2 million remains for a new building.

Department of Revenue

Child Support Enforcement Case File Imaging Project

Total veto: \$50,000 (\$17,000 Receipt Supported Services; \$33,000 Federal Funds)

Reason: Management/other savings

To achieve savings, the design phase will now be completed by in-house staff, which will extend the project to three years instead of two years. As a result, efficiencies expected to be gained from the project will be delayed until fully implemented.

Child Support Enforcement Computer Replacement Project-Phase 4

Total veto: \$80,000 (\$27,200 Receipt Supported Services; \$52,800 Federal Funds)

Reason: Management/other savings

Reduction will defer replacement of older computer hardware.

Department of Transportation and Public Facilities

Weights and Measures Test Unit Replacement Project

Total veto: \$75,000 General Funds

Reason: Higher priority services

The department will seek lease purchase financing for replacement of Juneau's 1980 volumetric prover truck.

Materials Stockpiles

Total veto: \$300,000 General Funds

Reason: Higher priority services

Purchase of materials will become part of a specific maintenance or construction project's cost. Because the purchases now will be bid separately, economies of scale will not be realized. If project-related costs increase, there may be a slight increase in summer road maintenance costs.

Federal Programs State Match

Total veto: \$8,980,500 General Funds

Reason: Other savings/sharing in costs

The savings are the result of a decrease in Federal funding that the state expects from the highway and aviation programs (the state's funds are a percentage of the federal funds). Only the match required for basic highways and aviation programs remain. This lower funding level will not include the match for any new Federal earmarked projects or Denali Commission transportation funds that may become available to the State in future congressional appropriation bills. Federal aid will continue to be available for the Community Transportation Program (CTP) and Trails and Recreational Access for Alaska (TRAAK), but reductions will be also be taken in the state match amount available. The department encourages local governments with road powers to participate in meeting 50% of the programs' match requirements for local roads and trail enhancements. This will reflect sharing of financial responsibility already found in the Airport Improvement Program and Harbor Corp of Engineer Program.

University of Alaska

Alaska Geospacial Information Coalition

Total veto: \$500,000 General Funds

Reason: Legal concerns

While the goal of this project to improve the state's mapping has merit, the Department of Law has raised issues regarding the award of a grant to a group of private firms. This raises competitive bidding issues because it appears specific private firms are attempting to receive public money and an exclusive right to sell geospacial information produced. While public agencies support the project, it is inadvisable to approve the funding at this time because of these concerns.

Kenai Vocational Education Project

Total Veto: \$50,000 ASLC Dividend Funds

Reason: Higher priority services

The University of Alaska has a priority setting process by which it identifies capital and operating priorities. The local college is encouraged to work through this process so that its request can be evaluated and integrated into the University system's overall program. This type of priority setting process is especially important when dollars are scarce.

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Alaska Court System

Deferred Maintenance Projects

Total veto: \$230,000 General Funds

Reason: Higher priority services

Substandard lighting in the southeast courts and a roof repair in a Fourth District court facility will not take place.

Justice Information and Communication Project

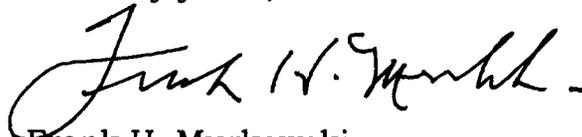
Total veto: \$50,000 General Funds

Reason: Higher priority services

Communication systems may not be replaced within timeframes necessary for the scheduled deployment of the court's new case management system. A delayed implementation schedule may impact agencies relying on the court's case management system to be integrated into other state justice projects such as those within the Department of Public Safety and Child Support Enforcement Division.

The fiscal decisions we make over the next few years will be critical in determining the kind of Alaska we will leave for the next generation. These choices, including my vetoes of many worthy projects included in the capital budget, are in line with my view that we each must take responsibility today, for Alaska's tomorrow.

Sincerely yours,



Frank H. Murkowski
Governor