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July 19, 2004

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The Honorable Pete Kott
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801

Dear Representative Kott:

On this date I signed with line item vetoes the following bill passed by the second 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:

Conference CS For House Bill 375

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; and providing for an effective date."

Chapter No. 158, SLA 2004

The Fiscal Year 2005 budget that I proposed last December represented a \$245 million spending reduction from Fiscal Year 2003. To get government back to basics, the administration prioritized state services—while saving money—in order to increase investment in programs that meet the state's traditional responsibilities to citizens. We proposed, and the Legislature agreed, to add 20 Alaska State Troopers—the largest one-time addition in memory. Once criminals have been arrested, we want them off the street. We proposed, and the Legislature agreed, to add nine criminal prosecutors. Lack of commitment to convicting criminals over the last decade left the state without prosecutors to handle the more than 70 percent increase in felony cases. This budget adds more prosecutors than in the last ten years combined.

The greatest investment we can make in the growth and diversity of our economy is to invest in education. Funding for the K-12 base student allocation will increase \$82 million, bringing the state's investment in K-12 support to \$805 million—35 percent of the state's general fund operating budget. Another \$229 million in state general funds will be invested in the University of Alaska, which

The Honorable Pete Kott
July 19, 2004
Page 2

represents an increased \$16 million investment. (Funding for K-12 education and the University were included in FCCS SB 283 (Corrected).)

The Legislature also agreed to invest an additional \$12 million to develop Alaska's natural resources, which are key to Alaska's future. This budget more than doubles the state's investment in the Department of Natural Resources' work to develop the state's oil and gas. The additional funding will enable the Division of Oil and Gas in the Department of Natural Resources to further its work on oil and gas lease sales, such as Alaska Peninsula and National Petroleum Reserve-Alaska. This includes \$5.5 million to support the department's work on permitting and processing the stranded gas applications for a future gas pipeline. This also includes \$5.1 million that will be invested in the Department of Revenue's work to bring Alaska's North Slope natural gas to market. We have made a lot of progress over the last year in getting Alaska's natural gas to market. I am confident that with this additional investment we will provide a road map for realizing the value of our North Slope gas both in-state and in the markets beyond our borders.

Just as I did in Fiscal Year 2004, I challenged the Legislature to keep Fiscal Year 2005 spending below the current year and set a goal of not using more than \$400 million of the state's reserve funds, or Constitutional Budget Reserve (CBR) to prop up spending. In terms of overall spending, the Legislature's approved spending was \$17 million higher in general funds over Fiscal Year 2004. Based on the Department of Revenue's spring forecast, the projected draw from the CBR would have been \$371.2 million for Fiscal Year 2005.

I have made \$4.3 million in general fund vetoes in the Fiscal Year 2005 operating budget. Each is discussed below. Of this amount, \$1.2 million will come from savings in travel. These initiatives are part of our on-going effort to improve the state's business practices. We are not finished with reducing the size of government and remain focused on the state's bottom line. We are working to ensure the state gets value for every dollar spent and that programs are effective in delivering results for Alaskans.

The following are the vetoes I have made in the Fiscal Year 2005 operating budget:

Department of Community and Economic Development - \$138,300
Community Assistance and Economic Development – Community Advocacy

- *Local Boundary Commission staff* - \$75,800

This would have added an additional position to work with the Local Boundary Commission. In light of the challenge of trying to balance spending with revenues, the funding for this new position was vetoed. The department will have to re-prioritize its workload to meet other demands.

- *Alaska Legal Services Corporation grant* - \$62,500

The state's support to this non-profit organization has declined over the years. Providing a grant to an organization that provides legal assistance to individuals is not a basic responsibility of state government.

Department of Education and Early Development - \$169,400

Alaska Library and Museums

- *Library Operations* - \$100,000

The Legislature reinstated this reduction that was included in the administration's proposed budget. The department continues to believe that management efficiencies can be found within the library's operations without diminishing services to the public.

- *Archives* - \$69,400

The Legislature added funding for electronic records management. The reality of trying to balance the state's budget means that initiatives such as this need to be funded internally by re-prioritizing and finding efficiencies that will free up funding.

Office of the Governor - \$193,000

Reductions were spread among three areas:

- Executive Operations - \$75,000
- Office of Management and Budget - \$50,000
- Lieutenant Governor - \$68,000

Each organization will find savings through belt-tightening, which includes \$25,800 in estimated travel savings).

Section 21-(b) Fund Transfers - \$1 million

- Alaska Marine Highway System Fund - \$1 million

The general fund deposit into the Alaska Marine Highway System fund was reduced to \$31 million. This reduction was possible due to the savings expected from the recently negotiated contracts with the marine highway unions. The Legislature also appropriated an additional \$8 million to the fund. This veto will not result in a decrease in the level of service.

Salary and Benefit Adjustments - \$1,015,300

Section 30-(a) (3) Public Safety Employees Association - \$1,015,300

The union members failed to ratify the contract and new contract terms will be submitted to the next Legislature. The following amounts were vetoed:

Department of Public Safety

General Funds	\$774,500
Federal Funds	\$31,600
Other Funds	\$30,900

Department of Transportation and Public Facilities/International Airports

Federal Funds	\$7,500
Other Funds	\$170,800

Section 3-(b) University of Alaska monetary terms

Technical veto as this language also appears in section 59 (c) of FCC SSB 283 (Corrected).

New Legislation (Section 2, pages 39-41)

As a result of further analysis, the following fiscal notes were vetoed or reduced. Departments will accomplish the work in support of the new legislation within existing budgets:

- *HB 484 – Corrections: Fees/ Surcharge - \$46,500*

The funding, appropriated to the Department of Law, was for a clerk to assist with collection of the new fees. Instead, the department will accomplish the necessary tasks with existing resources and work with the court system to electronically transfer the information.

- *SB 65 – Correctional Facility/ Personnel - \$260,000*

This funding, appropriated to the Department of Corrections, was for three project managers for planning and construction of new correctional facilities. Regardless of my decision on whether to sign this legislation into law, the department will not need these positions during Fiscal Year 2005. At this time the administration is not willing to jeopardize the state's debt rating by incurring new state-backed debt to build new facilities. The administration has been clear that only when a long-term fiscal solution is in place will it support new debt. At that time the necessary project managers can be hired.

- *SB 224 – Lower DWI for Minors to .02 - \$134,700*

This funding, appropriated to the Department of Administration for the Public Defender Agency, would have funded a new attorney. The final version of this legislation imposes a mandatory minimum fine and community service for juveniles operating a vehicle after consuming alcohol or refusing to submit to a blood alcohol content test. These offenses are already infractions and establishing minimum fines and community service is not expected to cause a substantial enough increase in the number of cases to warrant an additional attorney.

- *SB 231 – Decrease Time to Claim Unclaimed Property - \$30,000*

The funding, appropriated to the Department of Revenue, was reduced from \$60,000. The department will re-prioritize work performed by existing staff in order to achieve the \$30,000 savings and still get the work done.

All Departments – Travel and State Vehicle Savings - \$1,280,200

Department budgets were reduced by \$375,700 in general funds for expected savings in travel costs (the University's \$250,000 in savings brings the total to \$625,700). Another \$904,500 was taken in anticipated savings from a reduction in the number of state vehicles and improved management of the state's fleet. There will be no impact on direct services delivered to citizens as a result of these savings.

- *Travel Savings - \$375,700*

General fund savings by department are:

Administration	\$12,000
Community and Economic Development	\$5,000
Corrections	\$110,000
Education and Early Development	\$10,000
Environmental Conservation	\$14,300
Fish and Game	\$17,000
Governor's Office	\$25,800
Health and Social Services	\$104,900
Labor and Workforce Development	\$3,300
Military and Veterans Affairs	\$25,000
Natural Resources	\$12,000
Public Safety	\$26,000
Revenue	\$11,200
Transportation and Public Facilities	\$25,000

(The University of Alaska's savings was taken in FCC SSB 283 (Corrected). The \$25,800 in Governor's office travel is tallied in the earlier summary of reductions for the Office of the Governor.)

- *State Vehicle Savings - \$904,500*

General fund savings by department are:

Corrections	\$65,000
Environmental Conservation	\$6,500
Fish and Game	\$10,000
Health and Social Services	\$5,800
Labor and Workforce Development	\$2,200
Law	\$4,000
Transportation and Public Facilities	\$811,000

In spite of the increased level of investment made in key programs discussed earlier, approved spending from all appropriation measures is basically flat when compared to Fiscal Year 2004. With the customary addition of a \$12.5 million placeholder for supplemental spending next session, overall general fund spending after vetoes for Fiscal Year 2005 is \$13.5 million higher. When compared to Fiscal Year 2003, spending has been reduced by \$163 million. The projected CBR draw, based on the Alaska Department of Revenue's Spring revenue forecast of \$28.30 per barrel, is \$360.6 million.

The current high oil prices have given Alaska's finances a slight reprieve. For some, it may also have served as political permission to avoid making politically challenging decisions to bring stability and certainty to state finances and public services. This administration's plan is for the state to live within its means and develop its resource wealth. This includes managing not only our natural resources but also our financial resources wisely.

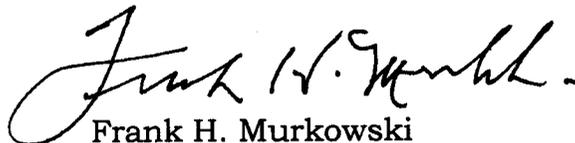
We need to protect the value of our Permanent Fund for future generations of Alaskans. And we need to decide, together as Alaskans, on the wisest use of the income from the growing fund. I have advocated putting dividends first because our economy and individual Alaskans depend on them. After dividends are paid, I believe we should make sure we have enough money for education and that we provide some assistance to help keep the lights on and reduce the property tax burden in communities around the state.

The Honorable Pete Kott
July 19, 2004
Page 7

I will continue to work with the Legislature and all Alaskans on these financial issues. But we should not let debate over how to manage our bank account take our eye off our job. Job one is to develop our resource wealth to provide hope and opportunity for all Alaskans. Developing our resources is the best way to fund the basic priorities of government—education, public safety, transportation, and public health—and to grow our Permanent Fund.

To these ends, I look forward to working with the Legislature and Alaskans on these critical issues. Alaskans deserve leaders who will take responsibility today for Alaska's tomorrow.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frank H. Murkowski". The signature is written in a cursive style with a large, sweeping initial "F".

Frank H. Murkowski
Governor

Enclosure