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January 12, 2005

The Honorable John Harris
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801-1182

Dear Speaker Harris:

The capital budget bill delivered today contains my proposal for the 2006 fiscal year.

As you know, a capital budget is how a government meets one of its most basic infrastructure responsibilities to citizens, that of ensuring safe roads, schools, and state facilities.

Overall, the capital budget totals a little over \$1 billion of which \$825 million will be supported by federal funds. Of this, \$518 million in federal transportation funds are proposed for road, highway, ferry, and airport projects throughout Alaska. Another \$134 million of primarily state funds is proposed to tackle the state's backlog of deferred maintenance, which ranges from repairs to Pioneers' Homes and correctional facilities to fixing state roads, airports, and harbors. It also includes \$30 million to fund priority major maintenance in schools around the state.

The capital budget also includes \$145 million in state funds for two major transportation initiatives. The first is \$37 million for transportation projects that will provide access to some of our natural resources so economic development can take place and create good jobs, especially in rural Alaska. Another \$108 million is proposed for projects that will help relieve congestion in Alaska's more populated communities.

In addition to maximizing federal funds, the administration is looking at ways to leverage limited state funds. Using the bond capacity of state corporations is one way to stretch state dollars in the short-term and still enable us to meet the state's responsibilities. At the same time we are able to

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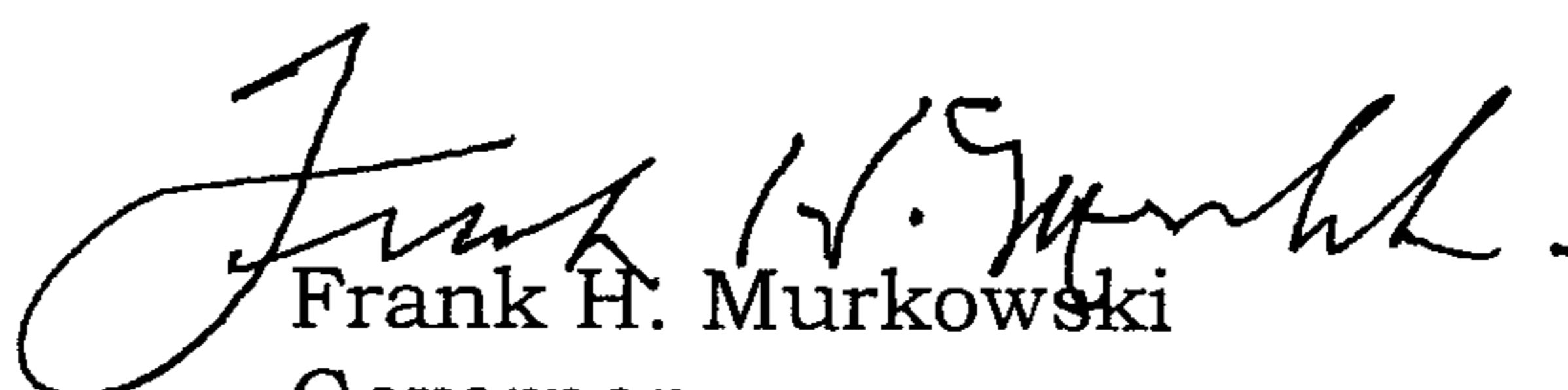
prudently save the state's reserves while we aggressively work on new revenue from resource development.

The proposal also includes \$340 million of primarily transportation, university, and deferred maintenance projects that will be funded through bonds issued by the Heritage Securitization Corporation, that I will propose to create in separate legislation. Debt will be issued over several years as money is needed to pay for projects. Debt service will be paid from the Heritage Capital Fund, which consists of earnings of the Amerada Hess settlement principal.

The capital budget includes proceeds from the sale of bonds by the Alaska Student Loan Corporation (ASLC). This is the second of a three-year plan by which ASLC is repaying the state for its initial investment of \$300 million in student loan programs. The proposal reflects the corporation's desire to assist the state in bridging its short-term fiscal gap. This proposal will have *no impact on student loan programs*. ASLC plans to repay the state up to \$260 million by the end of FY 2007.

I look forward to working closely with this Legislature to jointly craft a capital budget that provides Alaska residents essential state services and creates good jobs for hard working Alaskans.

Sincerely yours,


Frank H. Murkowski
Governor

Enclosure