



FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US

P.O. Box 110001
JUNEAU, ALASKA 99811-0001
(907) 465-3500
FAX (907) 465-3532
WWW.GOV.STATE.AK.US

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 11, 2006

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

Dear Speaker Harris:

The operating budget bill delivered today contains my proposal for the 2007 fiscal year.

The proposed operating budget, combined with other spending proposals, reflect my administration's commitment to ensuring each Alaskan has the opportunity to fully participate in Alaska's bright future. At the same time, our proposals ensure that the state can continue to meet its obligations, especially to those most in need.

Unlike the first two operating budgets of this administration in which we cut \$150 million in general funds and 473 positions, the Fiscal Year 2007 budget proposals reflect increases in four primary program areas:

K-12 support - \$90 million

The increase, which requires passage of a statute, will bring per student funding to \$5,352 from the current \$4,919. Increased funds will pay the \$40 million in increased retirement system costs, provide funds to meet the increased cost of day-to-day operations, and enable further investment in helping students achieve.

University of Alaska - \$42 million

The Alaska Scholars program is a success story in keeping Alaska's brightest at home. Over the last five years, 98 percent of Alaska Scholars that graduated from the University stayed in Alaska. My proposed budget includes \$5 million to expand this program to the top 15 percent from the current top 10 percent of Alaska's high school graduates.

Other increased investment in the University includes continuing programs that address high demand careers, such as in health and

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teaching, and establishing a competitive university research program that capitalizes on Alaska's geographic advantages.

Medicaid - \$104 million

Additional funds will meet this formula-based program's requirements due to increased caseloads and costs. Another \$45 million of the increase is due to the federal government's disapproval of the FairShare program that was put in place under the last administration. The program allowed Tribal hospitals to receive a higher reimbursement rate than non-Tribal hospitals for uncompensated care.

Transportation - \$42 million

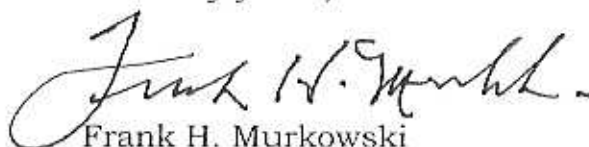
We again propose to increase funding for maintenance of the state's highways, airports, and harbors. Some of this is to cover increased costs of commodities and fuel. In addition, we are proposing additional funding for the Alaska Marine Highway System to cover increased fuel costs and staffing to meet increased ports of call.

Another major increase is \$65 million for state employee salary and benefit costs. Over half of the amount (\$34 million) is to pay the increased retirement system contribution.

Our administration's Fiscal Year 2007 operating budget and other proposals are investments in Alaska's future that will help create the kind of Alaska in which Alaskans can fulfill their tremendous potential and achieve their dreams. By our working together on what I believe to be a shared vision for the future, it will mean every Alaskan can have hope for what the future will bring, instead of simply hoping for a future.

To these ends, I look forward to working with the Legislature.

Sincerely yours,



Frank H. Murkowski
Governor

Enclosure