

SARAH PALIN  
GOVERNOR

GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

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

January 17, 2007

The Honorable Lyda Green  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 111  
Juneau, AK 99801-1182

Dear President Green:

Today I am transmitting to you my Fiscal Year 2008 operating budget bill. As I have stated previously, I view this bill as a starting point in the development of the Fiscal Year 2008 operating budget. This budget contains new funding for three of my priorities: \$48.1 million in general funds for local government support, \$33.7 million in general funds to restore the Longevity Bonus program, and approximately \$100,000 in general funds for an additional investigator in the Alaska Public Offices Commission.

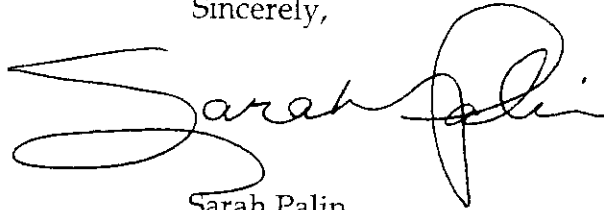
As you know, the Alaska Retirement Management Board established the Fiscal Year 2008 retirement systems' rates to include payback of the systems' unfunded liabilities of \$8.6 billion over 25 years. Those rate increases, of course, have resulted in cost increases to the tune of \$178.4 million in general funds and \$62 million in federal and other funds for the Executive Branch, the Legislature, the Court System, and the University of Alaska, which are included in this budget. The bill also includes \$77.5 for the retirement systems' increases for local governments. Together with the school districts' retirement systems' cost increases of \$207.4 million in general funds contained in my stand-alone K-12 Education budget bill, the retirement systems' cost increases account for \$463.3 million in general funds, or roughly 13% of the entire Fiscal Year 2008 general funds budget. My administration will review the retirement systems' data and make recommendations for a long-term solution.

One of my goals is to have state government live within its means. To that end, the budget bill includes an unallocated reduction of \$150.0 million in general funds for the Executive Branch. I look forward to beginning the discussion with my new cabinet and with the Legislature of where best to reduce the budget. I certainly hope that you will also look at the Legislature's and Court System's budgets to identify any cost-savings within those branches of government that might possibly be applied against the \$150 million target.

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I look forward to working with you to develop a cost-effective budget for the upcoming fiscal year.

Sincerely,

A handwritten signature in black ink, appearing to read "Sarah Palin". The signature is fluid and cursive, with a large initial "S" and a distinct "P" at the end.

Sarah Palin  
Governor