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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

May 23, 2008

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

Dear President Green:

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

HCS CSSB 221(FIN) am H

"An Act making and amending appropriations, including capital appropriations, supplemental appropriations, and appropriations to capitalize funds; ratifying certain expenditures; and providing for an effective date."

Chapter No. 29, SLA 2008

The budget goals for this administration have been very clear: to slow the growth of government, live within our means, and save for the future. The capital budget presented for legislative consideration this past session was designed to meet these goals. I appreciate the careful consideration and support from the Legislature of this request.

Senate Bill 221 as passed by the Legislature contained operating and capital appropriations for Fiscal Year 2008 and FY2009, totaling \$3.9 billion. The capital budget totals nearly \$3.0 billion, including \$1.2 billion in general funds. Through line-item vetoes, I have reduced the operating and capital appropriations in SB 221 by \$268.2 million of which \$152 million is general funds. Making these reductions now means

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that this revenue will be available for additional savings and vital services for Alaskans in the future.

I appreciate the increased level of communication between my administration and the Legislature before, during, and following completion of the first 90-day session. I believe we share similar priorities for funding including basic government services for life, health, public safety, transportation, infrastructure development, and education. Alaska is blessed with the unique opportunity through this time of extraordinary revenue to invest in our communities and citizens and also be able to put a significant amount of surplus revenues into savings.

We conducted a comprehensive review of the operating and capital items included in SB 221. I asked our departments to look closely at items we included in our operating and capital budgets as well as legislative changes to the budget. I also instructed the Office of Management and Budget to contact each legislator and ask for a prioritized list of projects within each district and to ensure that we had complete backup for each project. We also contacted communities to confirm that we had correct information and understanding of the community priorities.

There are some broad areas that are important to note in the overall approach to the budget.

SB 256 Supplemental Capital Projects – We had very positive and productive meetings with legislators during the regular session to discuss specific projects that were inserted into the supplemental bill. As a result, there were 155 projects totaling \$35.4 million that I recommended be moved from SB256 for consideration in the capital budget.

The SB 256 “moved” and some of the vetoed projects were included in SB 221 in sections 7, 10, and 13. In some cases the amount of the projects increased from what was originally requested in SB 256. There were 162 projects totaling \$59.8 million. Of the 162 projects, 102 projects are funded entirely for a total of \$45.8 million, 22 projects are reduced by \$4.2 million, and 36 projects are vetoed for a total \$5.4 million. Individual reasons for those reductions are noted on the enclosed spreadsheet.

SB 221 includes a number of legislative designated grants to schools and education organizations in support of operating programs, books, and materials at local schools. While I have let a number of these appropriations remain, I believe that this is not a fair way to address the needs of schools. All schools need supplies, books, laptops, and

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ongoing repairs that are not typically funded through the state's major maintenance program.

The Anchorage School District implemented a process at the school building level to identify projects by priority and to have those projects approved by the Anchorage School Board. I appreciate the efforts of the district to develop a public process for these projects. However, I am concerned that these additions create an unfair advantage to some schools. The education funding formula is designed to create parity between school districts. Elected school boards are authorized to make funding decisions for schools within their districts. We also have a statewide school construction and major maintenance grant and debt reimbursement program to help districts pay for significant capital costs. I would encourage school districts to address their building needs through the state funding already provided and local community funding in the future.

Inclusion of operating funds to various organizations through the capital budget is also an area of concern. I have retained some of these grants, particularly where there are extraordinary circumstances or transitional funding needs. These appropriations should be considered as one-time to help the organization secure other operating funds for the future. Many of the appropriations that remain in the budget are also flagged with the caveat that these state funds are one-time and other funds should be sought for future costs. In many cases, I have vetoed funds for new programs or facilities that would require additional state funds in the future.

In reviewing the budget, I found that many of the requests included matching funds or the ability to leverage additional funds based on the state's contribution. The presence of matching funds was an important element of our decision to retain projects in the budget. A number of projects were reduced to demonstrate the state's commitment to be a partner in the project but to also encourage the recipient to seek other funds for the project.

The enclosed spreadsheet lists the projects I have vetoed including the appropriation cite, funding source, and the reason I have vetoed the appropriation. The reasons for veto fall into several categories:

1. Fund at reduced level

There are many services where the state has some responsibility and has a proper role in providing some funding. Several projects that were reduced are also flagged as one-time items.

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2. Lower priority for funding

Projects that address life, health, safety, transportation, infrastructure, and education are funding priorities. Many projects included in the budget were reduced or vetoed because they were a lower funding priority.

3. Consider in future budget

Many projects met the funding criteria and may be considered in a future budget.

4. Other funding options available

There are numerous state programs and other sources of funding that make grants and other resources available. In some instances, it may be possible to perform the work within existing agency resources.

5. Legal concerns

The Department of Law provides a review of all expenditures for compliance with state laws and regulations. Each appropriation must clearly be for services and programs that meet public funding requirements.

6. Duplicate funding

Funding for some projects was included more than once in error.

7. Request reduced or withdrawn

Recipients of funding or their legislative sponsors indicated that they no longer were requesting approval or could move forward with the project at a reduced amount.

8. Inadequate funding provided

Some projects and programs were provided insufficient amounts of money in order to provide meaningful achievement.

9. Creation of new facilities and programs

Given current funding shortfalls for existing programs and the ongoing need to address a backlog of deferred maintenance of public facilities, few projects for new facilities or programs were approved.

Our process for evaluating these projects attempted to review each appropriation based on a policy applied consistently and even-handedly. No one region, community, or legislative district was singled out at any time.

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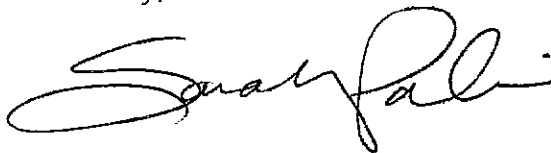
I have vetoed two appropriations from the Railbelt Energy Fund. These projects will be considered under the efforts of the Alaska Energy Authority on the unified plan to serve all the consumers in the region in a cost effective and efficient manner. The unified system plan will be a key component of the Statewide Energy Plan that will be completed later this year. It is premature to fund these distinct projects without the benefit of the unified plan.

Education is a top priority for legislators and this administration. Alaska's public schools will receive nearly \$1 billion in FY2009. SB 221 contains \$20.7 million in supplemental funds for energy relief grants to schools in addition to an increase of \$112.5 million for changes approved in the public school funding formula under HB 273.

This budget focuses on the state's basic responsibilities, schools, public safety, and needed transportation improvements that are essential to getting Alaska's infrastructure ready for the state's economic future, especially the gas pipeline.

There is more work to be done. I am committed to working with the legislature to move Alaska forward.

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 long, sweeping underline.

Sarah Palin
Governor

Enclosures