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February 2, 2009

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

Dear President Stevens:

I am transmitting to you today a supplemental appropriation bill for Fiscal Year 2009 that reduces demand on the general fund by \$268.6 million and seeks your authorization to access the Constitutional Budget Reserve Fund at the end of the fiscal year to balance the FY2009 operating and capital budgets.

FY2009 has been a year of unprecedented revenue volatility. Due to the dramatic decline in oil prices, the estimated revenue of \$7.5 billion in the Spring 2008 forecast was lowered to \$5.5 billion in the January 2009 interim forecast, making responsible reductions necessary. The FY2009 budget authorized expenditures of \$5.99 billion plus the savings appropriation of \$1.18 billion totaling \$7.17 billion. The \$268.6 million in reductions will bring the estimated revenue shortfall to \$1.36 billion in FY2009.

As you know, we have already taken steps to reduce general funding spending. Even when oil prices were near their highest last summer, I implemented a \$20 million savings target for state agencies to manage their budgets for efficiencies and achieve lower levels of spending in the current year. We have also implemented a hiring freeze and instructed departments to restrict purchases – again, as a management tool to help achieve more savings in the current year. The more we reduce now, the less we will have to draw from savings at the end of the year.

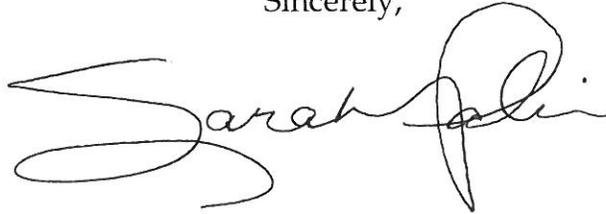
Because of these efforts, we have minimized the supplemental need by eliminating the \$50 million proposed for supplemental requests, reducing other expenditures, and reappropriating balances to minimize current year funding needs. In addition, we are reducing the authorization for tax credits by \$200 million – due only to the timing and payment of tax credits. We are seeing an increase in oil and gas exploration and this new tax credit program has served us well.

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We will continue to monitor the changing economic conditions and the impact on oil prices in the coming weeks as we continue to work on this, and other appropriation bills this session.

When oil prices and state revenue were on the rise, we worked together to build our reserves. Working together we can keep our economy on a steady, confident course - with discipline - to protect our reserves and promote economic growth. Thank you for your consideration of this legislation.

Sincerely,

A handwritten signature in black ink that reads "Sarah Palin". The signature is written in a cursive style with a large, looping "S" at the beginning and a distinct "P" at the end.

Sarah Palin  
Governor