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## Governor Bill Walker STATE OF ALASKA

June 28, 2016

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

Dear President Meyer:

On this date, I have signed, with line item vetoes, the following bill passed during the Fourth Special Session of the Twenty-Ninth Alaska State Legislature and am transmitting the engrossed and enrolled copies to the Lieutenant Governor's Office for permanent filing:

### CCS HB 256

"Making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; repealing appropriations; making supplemental appropriations and reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

Chapter No. 3, 4SSLA 2016  
[Effective Date: See Chapter]

As passed by the Legislature, CCS HB 256 contains a total of \$8.41 billion, including \$4.67 billion in unrestricted general funds. CCS HB 256 included unrestricted general fund appropriations for FY 2016 and FY 2017.

Alaska is in a period of fiscal crisis unrivaled in state history. Unrestricted general fund revenue has fallen dramatically in the last two years; FY 2017's projected unrestricted general fund revenue will cover less than 30 percent of the legislatively approved appropriations. The gap between spending and revenue will draw the state's primary savings account below \$3 billion, not leaving enough to cover an additional year's deficit. This significant savings draw is still needed even after substantial reductions to the budget.

Even under optimistic assumptions, neither oil prices nor production are expected to increase sufficiently to make up for these large revenue shortfalls over the next several years. Given this reality, the state must preserve its remaining savings. To that end, I have used my authority to line item veto \$1.29 billion from the three appropriation bills passed (HB 256, HB 257, SB 138) during

the Fourth Special Session of the Twenty-Ninth Alaska State Legislature. The majority of the vetoes affect CCS HB 256, \$1.28 billion of the \$1.29 billion total.

In January, at the beginning of the Second Session of the Twenty-Ninth Alaska State Legislature, my administration proposed a long-term, sustainable fiscal plan that was balanced and fair. Because no revenue elements of that plan have been enacted the state now has less than one year of available savings remaining. In order to protect Alaska's future I am compelled to make these difficult veto decisions.

Every decision was weighed in light of the long-term fiscal plan and focused on preserving savings while maintaining balance and fairness. Unfortunately, because the Legislature did not act on new revenue measures, every function, including those that were previously prioritized and protected in the New Sustainable Alaska Plan are being impacted to preserve savings.

I am continuing to reduce the size of government. As part of my deliberations, I asked all executive branch departments except the Department of Public Safety to identify additional reductions. Over the last two years, inclusive of these vetoes (\$19.6 million unrestricted general fund and \$38.6 million total funds), executive branch agencies have reduced their unrestricted state general fund budgets by \$525 million. Eleven of 16 executive branch departments have unrestricted general fund budget reductions of 20 percent or greater. Last January, I imposed hiring and travel restrictions and those will remain in place. The legislative and judicial branches have seen reductions of 17 percent and five percent respectively. I have not made any vetoes to either branch, but challenge both branches to seek additional reductions.

The New Sustainable Alaska Plan proposed increases to existing taxes, reinstatement of an income tax, changes to the permanent fund dividend calculation, and drawing a sustainable amount of permanent fund earnings as a stable revenue source to address the deficit. To assure the permanent fund earnings reserve balance remains solvent enough to enact this plan, \$666.4 million of the \$1.36 billion permanent fund dividend appropriation was vetoed. The amount remaining after the veto allows for a dividend of \$1,000 per person and is sufficient to meet the draw contained in Permanent Fund Protection Act (SB128) recently passed by the Senate.

Also in the fiscal plan, I proposed legislation to reduce annual oil and gas tax credits to \$100 million and capitalize a fund to cover all earned credits to date. Although legislation was passed, the reductions are slight and without revenue measures, funding above the minimum is not possible at this time. The line item veto of \$430 million to these credits preserves state savings and covers the FY 2017 statutory minimum level of \$30 million.

I have consistently prioritized K-12 education funding. Unfortunately, I cannot fully insulate education from the state's fiscal challenge. The line item vetoes affecting education have attempted to minimize direct impacts on the classroom. To this end, there are five vetoes that total \$58.3 million, of which only \$6.4 million is vetoed from the \$1.21 billion K-12 foundation formula funding. The other four include: \$6.4 million in pupil transportation; \$4.7 million in funding to schools outside the formula; and a 25 percent reduction in both school debt service reimbursement, \$30.5 million, and the rural schools construction fund, \$10.4 million.

The Honorable Kevin Meyer  
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University of Alaska funding has also been vetoed. The \$10 million veto brings the SLA 2016 University of Alaska reduction to \$25.9 million which will be challenging to manage. I commend the Board of Regents' attention to consolidating academic programs and administrative functions by focusing on the strengths of the three primary university campuses. Given the reality of the state's fiscal situation, the number of community campuses (especially those within driving distance of main campuses) should be reviewed. At a minimum, community campuses should receive local support at a level common in other states. I trust the Board of Regents to determine how best to allocate this reduction to preserve priority university programs important to Alaska's future.

Related to the state's higher education investment, the legislative transfer of \$80 million into the Higher Education Fund is vetoed strictly to preserve savings. The remaining balance after the veto is sufficient to continue the Alaska Performance Scholarship if future appropriations are limited to the scholarship program.

The \$1.28 billion vetoed from this appropriation bill preserves nearly \$600 million of Alaska's Constitutional Budget Reserve and maintains an adequate permanent fund earnings reserve balance to implement the Permanent Fund Protection Act if should it pass.

I urge you to pass appropriate revenue measures including the Permanent Fund Protection Act to give Alaskans and investors greater certainty and confidence in Alaska's future. Attached is a comprehensive list of my line-item vetoes.

Sincerely,



Bill Walker  
Governor

Enclosure

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**STATE OF ALASKA**

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Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
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