

SARAH PALIN
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

March 19, 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 a second appropriation bill to implement the \$787 billion American Recovery and Reinvestment Act of 2009 (ARRA). This bill contains authorization requests for capital projects designed to create jobs and promote economic growth within the State of Alaska. This appropriation bill does not include every ARRA program that runs to or through the State of Alaska.

Under the direction of the Office of Management and Budget, I have asked our departments to review the Federal spending package with jobs for Alaskans in mind. This is particularly important because I must certify that all the funds I am requesting on behalf of the state will create jobs and promote economic growth. However, because I cannot yet in good conscience certify that all funds in the Federal stimulus package will be used to create jobs and stimulate our economy, I am requesting only job-ready funding and am encouraging a public discussion through the legislative process.

There are three categories of funding that are not included in this legislation: programs with potential strings attached for receipt of the funds; competitive funding where the federal guidance and requirements are uncertain or unknown; and operating funds that increase existing federally funded programs above what is already included in the state budget to provide services to Alaskans.

Programs that have been left out of this bill include those with outstanding questions, such as the impact on Alaskans of "strings" Congress attached to the funding, and tenuous or unclear links to job creation or economic growth. Descriptions of the specific issues for each program that has not been included in this legislation are set out in more detail later in this letter.

My concerns about ARRA spending too much on operating programs that leave the state responsible to pay for expanded services after federal funding ends were stated even before it was passed by Congress. I was disappointed when the final bill cut billions in spending for infrastructure and jobs in favor of operating programs. Despite such changes to the final version of ARRA, Congress maintained a requirement for Governor's to certify that ARRA funds will be used to create jobs and promote economic growth within their respective states.

I respectfully request your assistance and that of the entire Legislature to hold hearings for review, and allow public testimony and debate on the projects included for funding in the bill as well as programs that have not been included. I understand the amount of hard work this effort will require and that this approach is definitely not the easy way out. The easy way would be to blindly say "yes" to all ARRA federal funds without concern, review, or discussion for the consequences to the state, individual Alaskans, and the nation. Our efforts at review and discussion would likely be made easier by issuance of clear final guidance documents from all federal agencies and adequate answers to specific questions we have posed about certain programs.

The appropriation bill I am transmitting today contains capital projects requests totaling \$252.5 million, with all but \$1.0 million coming from economic stimulus funds. Capital projects requested include \$20.7 million for education and job training, \$68.6 million for water and sewer projects and storage tank replacements, \$3.0 million for the Alaska Vocational Training Center, \$2.5 million for Fire Fuels and Forest Management, \$39.6 million for public housing projects through the Alaska Housing Finance Corporation, and \$116.0 million for the University of Alaska Fairbanks Research Vessel. We have also included two \$1.0 million placeholders for competitive grant opportunities for state agencies and the University.

After careful review of the assurances and requirements in ARRA under each title for receipt of federal economic stimulus funds, there are several items that are not included in this appropriation bill. Some items require statutory changes in order to receive and expend these funds, or, in some instances, we have not yet obtained sufficient information upon which to base recommendations to you. Following is a list of the items and policy questions for legislative consideration:

Unemployment Insurance - after review of the requirements to expand unemployment insurance benefits, I will not propose a revision to Alaska's current law to permanently change the calculation of unemployment insurance benefits that would result in a cost increase to employers and businesses. The statutory change would require that Alaskan businesses pick up this increased cost once the federal funds are no longer available. Increasing taxes on business is simply not the way to stimulate the economy. \$15 million would be available to the state if the legislature makes a statutory change to comply with the new requirement. Once those funds are no longer available, the Department of Labor estimates a \$2 million annual cost to the UI Trust Fund in the future.

I would like to note that Alaska has already moved forward on accepting the additional \$25 a week for unemployment benefits provided in ARRA. The additional weekly benefit is 100 percent federally funded and will benefit unemployed Alaskans and support the stability of Alaska's economy. The \$25 additional benefit is payable for weeks of unemployment beginning February 22 2009 and continuing through the end of 2009 with a phase out for existing claims through July 3, 2010.

Energy - three assurances that present challenges for Alaska are required in order to receive energy funds: (1) implementation of a general policy that ensures that electric and gas utility financial incentives are aligned with helping customers use energy more efficiently; (2) implementation of a statewide building energy code; and (3) an implementation plan for both pieces in order to achieve 90% compliance on new or renovated buildings within eight years. Without these assurances, the state will not qualify for \$28.6 million for the State Energy Program, \$18.5 million for Weatherization, and \$8.5 million for Energy Efficiency and Conservation Block Grants.

This administration is taking a proactive approach to address areas where federal requirements in the economic stimulus bill create significant hurdles for receipt of funds, such as the adoption of a statewide building energy code. We currently are working with the U.S. Department of Energy to determine possible solutions that will allow Alaska to receive these funds.

Air Quality Grants - Granting authority is needed by the Department of Environmental Conservation (DEC) to receive and expend approximately \$2 million from the Environmental Protection Agency (EPA) for the Diesel Emission Reduction Program. The goal of the program is to reduce diesel emissions with new technologies and to further advance these technologies to a larger audience.

This is not a new program; DEC currently has a grant award from EPA and is already spending this funding on diesel emission reduction projects. Current funding is distributed to other government agencies such as the Alaska Energy Authority to increase the fuel efficiency of stationary source diesel power generation, the Alaska Railroad, and the Department of Transportation & Public Facilities for diesel equipment retrofit. Statutory language would be necessary for DEC to identify grantees beyond government agencies, such as smaller private sector businesses, that are looking to forward more efficient diesel fuel usage.

Broadband and health information technology grants - These are two other areas that are not included in the appropriation bill. Gaining sufficient guidance from the federal agencies and a clear understanding of the requirements for receipt of the funds require additional time in order to develop the requests for these significant program areas. These programs fall under the long-range economic development strategies in the economic stimulus legislation. The administration is closely monitoring the evolution of guidelines in the relevant federal agencies in order to determine the benefits and timing of these funds.

Other competitive grant funds for state agencies are also not included in this appropriation bill due to lack of information regarding the application process, amounts available, requirements, and other needed guidance. The Legislative Budget & Audit (LB&A) Committee process is certainly an option for legislative consideration of funding requests during

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the interim or the FY2010 supplemental process is another option once more information on these programs becomes available. We have included a statewide placeholder for capital project grants for state agencies and also for the University to allow for LB&A consideration should agencies be successful in obtaining grant funds for capital projects.

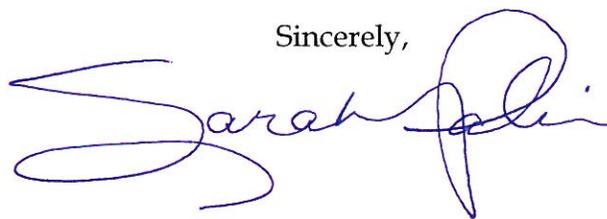
ARRA also provides competitive grant funding to non-state entities, communities, and organizations through the discretion of federal agencies that will flow directly to project applicants. We are communicating information to interested parties and guiding them to <Recovery.gov>, <Grants.gov>, and federal department websites. We are also posting information on the state website at alaska.gov/recovery.

In conclusion I am required to certify that the requests I am forwarding for legislative approval will meet the requirements of the ARRA to create jobs and promote economic growth in Alaska. We are open to discussions on the operating funds that are not included in this appropriation bill. These program increases should be fully debated as part of the ongoing budget process. The Legislature has been working diligently on the operating budget for the next fiscal year to provide for the needs of Alaskans. Simply expanding these programs based on receipt of economic stimulus funds does not meet the ARRA certification requirement and creates an unrealistic expectation that the state will continue these programs when the federal funds are no longer available.

The federal economic stimulus package will have profound implications for Alaska and the nation. The legislative process to consider proposed ARRA spending is crucial to developing a responsible approach to use of these funds. When the final tally of spending and borrowing is added up, current and future generations of Alaskans and all Americans will be required to pay what amounts to the biggest credit card bill in history.

I appreciate your consideration of this legislation.

Sincerely,

A handwritten signature in blue ink that reads "Sarah Palin". The signature is fluid and cursive, with a large initial "S" and a distinct "P" at the end.

Sarah Palin
Governor