

STATE CAPITOL  
PO Box 110001  
Juneau, Alaska 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue Suite 1700  
Anchorage, Alaska 99501  
907- 269-7450  
fax: 907- 269-7463  
[www.Gov.Alaska.Gov](http://www.Gov.Alaska.Gov)  
[Governor@Alaska.Gov](mailto:Governor@Alaska.Gov)

## Governor Bill Walker STATE OF ALASKA

September 30, 2016

Alaska Chamber  
c/o Mr. Curtis Thayer

Alaska Support Industry Alliance  
c/o Ms. Rebecca Logan

Resource Development Council of Alaska, Inc.  
c/o Ms. Marleanna Hall

ProsperityAlaska.org  
c/o Mr. Scott Hawkins

RE: Alaska Business Report Card

To Whom It May Concern:

Enclosed is a point-by-point response to your unsigned letter dated September 12, 2016, purporting to assess the performance of my Administration during the past legislative session. Overall, it is difficult to take the grade or analysis seriously, on account of your shifting criteria and inaccurate and selective use of facts.

Of far greater concern to me is the message your analysis sends: that Alaska's business community is ignoring the reality and complexity of our State's current fiscal situation.

Alaska is facing an unprecedented fiscal challenge, with annual revenue plummeting to \$1 billion and deficits in excess of \$3 billion. What have your organizations done to help solve this overarching threat to Alaska's prosperity?

I was a founding member in the mid-1970s of the Organization for the Management of Alaska Resources, which later became the Resource Development Council. In that era, we worked cooperatively as colleagues and fellow Alaskans alongside our State and local officials to advocate for and represent Alaska's interests. I believe there is much we can accomplish by working together to resolve our fiscal crisis, develop our resources, and foster growth and prosperity for Alaska.

I often speak of the picture I received from Lt. Governor Byron Mallott showing Metlakatla in the early 1900s when the entire community would pull on a rope to remove tree stumps. The picture is titled "Pulling Together." Many organizations and individuals have come to me to ask how they can

find a place on that rope. They want to help pull Alaska into the prosperous future our children and grandchildren deserve.

Rather than spending time assigning grades, I encourage your organizations to be on the front end of that rope pulling just as hard for Alaska's future. Alaska was not built – or rebuilt after our various disasters – by forces pulling us apart. I hope you will reconsider your strategies, push past parochial interests, and do all you can to contribute constructively to the tough decisions needed for Alaska to truly prosper.

Following is a response to the specific points you raise.

*Assignment: Budget policy that focused first and foremost on reversing the unsustainable State budget growth of the past.*

*Performance: The budget your administration introduced was \$4.8 billion dollars - well above a sustainable budget level - and your administration only reduced the operating budget by \$140 million over the previous year.*

The \$4.8 billion budget I introduced in December 2016 was down from \$6.1 billion when I took office [see press release [here](#)]. But that's only half the story. Following the legislative session, after lawmakers failed to adopt any new revenue measures or to restructure the Permanent Fund as I proposed, I cut a further \$1.3 billion using my line-item veto authority [see press release [here](#)].

Those vetoes brought unrestricted general fund spending to \$4.4 billion. This is a new low not seen in ten years. And it is **below** the spending target of \$4.5 billion the Alaska Chamber called for in its [2016 state priorities](#). Moreover, we achieved the target a year ahead of the Chamber's timeframe.

To put it generously, you're moving the goalposts.

*Assignment: Create an endowment model or similar framework to use Permanent Fund earnings to support essential services in a timely manner to avoid liquidating excessive amounts of state reserves.*

*Performance: Your initial legislation to create an endowment model was later modified and passed by the Senate but was essentially rejected by the House.*

Your assignment was to create an endowment or similar framework for the Permanent Fund earnings to support essential services to avoid excessive liquidation of state reserves. We did exactly that.

In January we introduced the Alaska Permanent Fund Protection Act, which called for a restructuring of the Fund to support stable, sustainable use of Fund earnings in perpetuity – and that would allow for continued dividends to Alaskans [see [“It's time for Alaskans to put our wealth to work”](#)].

This framework was the centerpiece of my administration's New Sustainable Alaska Plan. We thoughtfully developed this plan, we painstakingly explained the plan, and we convinced a majority of Alaskans of the need for our plan or similar action. I embraced the changes the Senate made to the Alaska Permanent Fund Protection Act. The Senate passed the bill. In the House, the full body was never given an opportunity to vote on the bill.

I don't have the power to single-handedly enact law. To blame my Administration for the inaction of lawmakers – some of whom publicly admitted that their re-election was a higher priority than fixing the fiscal gap – negligently fails to assign responsibility where it belongs.

*Assignment: Consider other revenue sources only after reducing spending and employing Permanent Fund earnings.*

*Performance: Your administration called for modest cuts, implementation of the Alaska Permanent Fund Protection Act (APFPA) and adoption of broad-based taxes and fees. Continued cuts fell out of the discussion early on as your administration championed APFPA, taxes and increased fees.*

We clearly heard from the public that the price of admission for considering additional revenue measures was more budget cuts, and that is exactly what we did. Again, please refer to my response to your first "assignment."

*Assignment: Pro-growth policies designed to stimulate and expand Alaska's private sector.*

*Performance: Your administration's policy calls and introduction of new industry taxes has worked specifically against private employers, focusing instead on expanding governmental control of Alaska's private sector, such as coopting the Fairbanks natural gas project from private sector service providers.*

We are on a course to deplete our budget reserves in less than two years. Our bond ratings have been downgraded. Credible economists warn of severe recession if we don't bring our spending and revenues into balance.

Growth of the private sector depends on commercial investment and economic confidence, not government handouts. A balanced and sustainable State fiscal plan that removes the cloud of uncertainty can get private investment flowing again. That's the best thing this Administration can do to help business in this state.

You are correct that I proposed modest tax increases as part of my comprehensive fiscal plan. My aim was to keep taxes to a minimum and to spread the impact across all sectors in the interest of fairness. If your group had a credible proposal to balance the budget in a sustainable way without taxes – and without bringing dividends to zero – I never heard or saw it.

With regard to the Fairbanks energy project, Fairbanks has been burdened with high energy costs for many decades while Anchorage has enjoyed low-cost energy in part from financial subsidies. In

essence you claim we have interfered with Fairbanks' high energy costs, which reduced energy costs for that area and spurred additional economic activity. We proudly stand by that charge.

*Assignment: Continue to progress the AKLNG pipeline by achieving the milestones set forth in SB 138.*

*Performance: Progress on AKLNG has slowed down significantly. Your insistence on repeating a study to determine pipe size and announcement that AGDC would focus on a "backup plan" introduced the uncertainty of a competing project.*

My Administration looked at all the tools available to advance the long-overdue Alaska gasline. Following years of trying to determine what works best for the North Slope producers, we are in a position to find out what works for Alaska, while still working alongside the North Slope producers.

There will only be one gasline in Alaska. That gasline must be properly sized to ensure that new entrants to the North Slope are not disadvantaged because the gasline only has room for existing producers. The best way to get more oil into TAPS is by having a gasline so that new explorers coming to Alaska will know they will be able to ship the gas they find while looking for oil.

In February the producers asked us to consider a State-led project given the economic advantages a State-owned gasline might bring. We are now working on that concept under the structure authorized for the AK LNG project as created by SB 138 [see ["Alaska needs to take the lead on gas line project"](#)].

We are making significant progress. On September 19<sup>th</sup> I received a [letter](#) from BP and ConocoPhillips affirming their commitment to helping the Alaska Gasline Development Corporation (AGDC) advance a State-led project. On September 20<sup>th</sup> ConocoPhillips signed a [memorandum of understanding](#) with AGDC to form a joint venture to market Alaska's North Slope gas. And during my recent trip to [Singapore](#) where I gave a keynote address about Alaska's vast resources of gas at an LNG conference and in [Korea](#), we advanced discussions with potential investors in the Asian market, which comprises 70 percent of the world's liquefied natural gas consumption.

*Assignment: Maintain a stable business climate for Alaska's oil and gas industry, respecting the decision of Alaska voters and giving SB 21 time to work.*

*Performance: Legislation you introduced changed the oil tax structure and vetoed fulfillment of tax credit obligations, delaying a financial cost that the state must later honor, and damaging the State's credibility.*

SB 21 provided protection for the industry, ensuring oil producers enjoyed the upside when oil prices are high by capping Alaska's percentage at 35 percent, but SB 21 did little to protect Alaska at low oil prices. My Administration did not propose to increase the 35 percent cap on State revenues

at high oil prices. We did introduce legislation to protect Alaska at low oil prices. We cannot afford to subsidize oil companies' losses when we are experiencing multi-billion dollar deficits. I am confident that a majority of Alaskans agree.

As to the State's tax credit program, it shed one check and balance after another during the heady years of high oil prices. In 2006 when it was designed, it was limited to Cook Inlet and capped at \$10 million annually. The subsequent expansion to the North Slope with removal of the cap was reckless.

When I came into office the annual price tag for our oil tax credits was heading to over \$1 billion per year – just as oil revenue was plummeting. On some exploration wells the State had to pay as much as 85 percent of the cost of exploration with virtually no ability to analyze whether the investment could result in a viable project. As the chair of the now-bankrupt Buccaneer Energy said of Alaska's subsidy program, ["It's about the closest thing you're going to get to free money from a government in the world."](#)

A formula in law establishes the minimum payment required [see [AS 43.55.028](#)(b) and (c)]. That amount was \$30 million this year, and that is what remains in the budget. There is no interest expense to the State for carrying the costs of the remainder of the credits. This is a cash flow consideration when prioritizing State expenditures.

I acknowledge the issues deferring payments may have for some companies, and I don't mean to trivialize this impact. We have had ongoing meetings with each of the independent oil companies that have submitted credits for reimbursement beyond the formula amount. But by any objective analysis of the current situation, my fiduciary responsibility must first be to Alaskans. I can't in good conscience use scant State funds to pay corporations hundreds of millions of dollars in excess of what is statutorily required when we are reducing education, public safety, and Alaskans' dividends.

Also not factored into your assessment was our proposal, introduced during the last legislative session as part of the New Sustainable Alaska Plan, to pay these credits off in full. Here again, it was legislative inaction that resulted in the eventual outcome. Without a single piece of our plan passing the Legislature, it would have been irresponsible to pay out the credits beyond the minimum required in statute.

*Assignment: Adopt policies that ensure a streamlined, efficient, and adequately funded regulatory system.*

*Performance: The rejection of the annual development plan at Prudhoe Bay added further regulatory uncertainty at a difficult time.*

Please note that on September 20, a revised 2016 Prudhoe Bay Plan of Development (POD) was [approved](#). Contrary to your assertion, the initial plan was not rejected. Rather, my Administration inquired as to the leaseholders' efforts to market the stranded gas in Prudhoe Bay during the period covered by the POD. The approval process included constructive dialog between the State of Alaska

and the companies that own and operate the Prudhoe Bay Unit concerning the producers' willingness to market the gas. My Administration is committed to upholding Alaska's constitutional requirement that Alaska's resources be developed for the maximum benefit of Alaskans.

Your criterion for assessing my regulatory policy appears to be extremely narrow. You fail to acknowledge the number of times I have called or traveled to Washington, DC, to meet with Secretary of Interior Sally Jewell at the request of one of the producers that needed my assistance on a time-sensitive permit, or the number of times I have pushed the White House to expedite a permit process at the request of a North Slope producer.

Just [this week](#), I traveled to Washington, DC, for a meeting with Secretary Jewell and her key staff followed by a meeting at the White House to push key Obama Administration officials to keep Alaska in the five-year Outer Continental Shelf plan and to ensure Alaska's interests are prioritized as the administration transitions out. I have been and will continue to be a passionate advocate for the responsible development of Alaska's resources for the maximum benefit of Alaskans.

*Assignment: Prioritize investment in long-term infrastructure projects.*

*Performance: Projects like the Ambler Mining District Industrial Access Road were initially put on hold, resulting in unnecessary delay and increased uncertainty.*

In this exercise you criticize my Administration for spending too much, then criticize us for not spending enough – on the projects you support. We have a nearly \$4 billion deficit. We simply can't be all things to all people, and I believe you would agree we have a responsibility to do our due diligence before investing multiple hundreds of millions of dollars of Alaskans' money in a project.

I continue to support the mining industry in many ways. I suggest you talk with the good folks at Usibelli Mine regarding the number of times we have written letters and made phone calls to federal regulators on their behalf, and dispatched our staff *post-haste* to DC to help with a permitting or regulation issue of importance to the mining industry.

The reality is, Alaska is currently constrained by real-world fiscal limitations. I'm looking at the long game. The best thing we can do now to ensure future investment in major infrastructure projects is to get our fiscal house in order – so we can grow and build our state again.

Sincerely,



Bill Walker  
Governor