OVERVIEW

This report discusses the factors behind the Alaska FY 09 budget plan. It treats the Alaska economy in 2007 and 2008, demographic changes, important issues in state politics, the Alaska Natural Gas Pipeline, federal issues, the Alaska budget process, the executive budget request and legislative responses, the final state operating, supplemental and capital budgets, as well as two special sessions conducted in mid-2008.

Unlike the other Western states, in 2008 Alaska is awash in petroleum revenues, part of which state leaders saved but most of which support operating, supplemental, and capital expenditures that are unsustainable. Also, the state continued to operate under the cloud of political bribery and corruption convictions and continuing accusations. Convictions and indictments of state (and federal) officials doubtless will influence the 2008 election season.

The year in retrospect provided Alaskans ample opportunities to be thankful for the blessings of its natural resource wealth as oil prices surged to record levels. They also had the chance to observe the corrupting influence of oil wealth on the state’s political system.

THE ALASKA ECONOMY IN 2007 AND 2008

Developments in most areas of the Alaska economy were favorable in these two years. We review oil prices, the new petroleum profits tax (PPT), oil production (with an excursion into environmental issues with the oil industry), other natural resource developments, and resulting changes to the state’s rainy day accounts.

Oil Prices. Oil prices continued to be high over the period. At the start of FY 08 (July 2007), oil prices were higher than $75/barrel. They continued to inch up, until by March 2008 they had topped $102/barrel, the highest real (inflation adjusted) oil price in history. By July 2008, the start of FY 09, oil prices peaked at $147/barrel, a nearly 100 percent increase in just one year (Anchorage Daily News [ADN], 7/12/08). Several factors pushed up oil prices:

- Continued high demand from the industrialized economies of the world (with strong demand from newly industrialized countries, particularly China and India)
- Disinclination of OPEC to increase production significantly
- Disruption of supply affecting some producers (such as Nigeria)
- In 2007-08, the decline in the value of the US dollar, which made oil a more secure investment and oil futures a target of speculators
The price of oil throughout the 2007 calendar year was volatile, rising from $54.51/barrel in January to $91.69/barrel in December. By April 2008 prices passed $120/barrel, by May, $135/barrel, and as mentioned, by early July, $147/barrel. In early 2008, the state’s Department of Revenue estimated that the surplus for FY 08 would be at least $1.4 billion, and it forecast a fiscal year price of $66.32/barrel (Fairbanks Daily News-Miner [FDNM], 1/10/08). However, the department also indicated that production would drop from 731,000 barrels in FY 08 to 701,000 barrels in FY 09.

By the time of the March spring revenue forecasts, the revenue department was claiming record revenues. It projected that unrestricted revenues would rise to $8.5 billion for FY 08, some $3 billion higher than FY 07 revenues and $2 billion more than earlier projections. The department projected that oil prices would average $84/barrel in FY 08; it also revised upward the production total to 720,000 barrels a day (FDNM, 3/15/08), but this still represented a 3 percent decline from the previous year.

Petroleum Profits Tax (PPT). By the close of the second special session in 2006, under the prodding of then-governor Frank Murkowski (R), the Alaska Legislature adopted a significant increase in taxation on the oil industry. The new tax of 22.5 percent on net profits of oil companies (after deducting their expenses) was supposed to produce an increase in the state’s “take” of at least $1.6 billion by the close of fiscal year 2008 (June 30, 2008) (see McBeath, 2008). Then, a series of events cast doubt on the process and outcome of the PPT:

- British Petroleum (BP) was accused of negligence in the large North Slope oil spill of 2006
- Legislators were indicted for bribery and corruption associated with enactment of the PPT
- The new Palin administration sought to distance itself from both corporate negligence and political corruption

In August 2007 Governor Palin called for an October 2007 special session of the legislature to revisit the PPT. Saying the oil tax was not working as promised, she also said it was necessary to “remove the taint of corruption and restore public trust” (ADN, 8/4/07). Immediately, the Alaska Oil and Gas Association (AOGA), representing the major producers, and Big Oil itself, registered protests to revisiting the PPT, saying that tax proceeds were lower because the companies had deducted their expenses, as the legislation permitted (FDNM, 8/7/08). Many legislators questioned the need to revisit the tax in the absence of data that it was flawed, and some newspapers, such as the Fairbanks Daily News-Miner, thought a revision would increase the perception of instability in the state’s oil taxation regime, discouraging investment.

Shortly before the special session began, Governor Palin introduced her “Alaska’s Clear and Equitable Share (ACES)” proposal. It raised the rate on net profits to 25 percent, applied a surtax when oil prices exceeded $30/barrel, disallowed deductions attributable to company negligence, and increased reporting, monitoring, tax auditing, and enforcement requirements (FDNM, 10/3/07; also 10/17/07). The legislative leadership demonstrated reluctance to revise the act by referring it to three committees. Yet House Speaker John Harris (R, Valdez) said “If
we don’t do anything, we still have a cloud over us.” (ADN, 10/20/07) Legislators expressed concern about what would be done with surpluses resulting from the higher taxes when oil prices were high. They repeated oil company protests that increased taxes threatened future prospects.

Like an angry schoolmarm dealing with unruly children, Governor Palin said if legislators did not act, they would face yet another special session (ADN, 11/14/07). Fortuitously for her objectives, the corruption trial of former house member Vince Kohring began toward the end of the session, and by then already convicted former House Speaker Pete Kott had been sentenced to six years in prison. Introduced as evidence by the FBI were wiretaps revealing behind-the-scenes plotting by VECO executives Bill Allen and Mike Smith. Indeed, Allen said of Kott “I own your ass,” and Kohring was accused of using VECO as his personal ATM machine (FDNM, 11/10/07).

By the close of the PPT special session, two-thirds of the members of both houses adopted the ACES proposal, which seemed likely to increase state revenues by more than $1.6 billion for FY 08 (see McBeath et al., 2008, 238). Later projections indicated that the PPT was responsible for 57 percent of total unrestricted revenue in FY 08 (ADN, 3/15/08).

**Oil/Gas Production Prospects and Problems.** At the start of FY 08, continued oil production prospects looked very good. For the first time in nearly two decades, independent oil companies showed interest in North Slope drilling. Pioneer planned to drill at Ooguruk, with an estimated 90 million barrels (FDNM, 10/6/07), and it developed a facility-sharing agreement with ConocoPhillips. High oil prices brought record profits to the North Slope producers. After the third quarter, ExxonMobil posted earnings of $9.4 billion, followed by BP with $4.4 billion, and ConocoPhillips at $3.7 billion (FDNM, 11/4/07). By May 2008, oil companies needed to defend these high profits before Congress (ADN, 5/22/08). Oil field employment boomed at 11,400 jobs, the largest number since the 1970s (ADN, 11/16/07).

Then, the legislature revised PPT and the oil companies howled in protest—and threatened retaliation. ConocoPhillips cancelled its plans to upgrade the refinery at Kuparuk, citing the adverse change in the PPT. (The state’s revenue commissioner, Pat Galvin, said the company wanted a $300 million subsidy that the state would not give [FDNM, 11/28/07].) ConocoPhillips also said it would reconsider its $1 billion spending plan for drilling and other oil field work. BP announced before the year’s end that it was reviewing its 2008 spending plan in response to the revised PPT (after claiming it spent $2 billion in the state in 2007—ADN, 12/27/07). ExxonMobil also said it would review its Alaska investments because of changes in the state’s tax regime. This was not the first time Big Oil had threatened to stage an “investment strike” in Alaska because of tax increases. The high profitability of the state’s two legacy fields—Prudhoe Bay and Kuparuk—as well as trouble in oil regions of the developing world seem likely to keep the industry in Alaska for the near-term, however. In Fact, BP announced a $600 million project in the west field of Prudhoe Bay to develop gas handling and oil heating facilities, just six months after passage of the PPT (FDNM, 4/13/08).

In addition to exercising its sovereign powers of taxation, the state as regulator (along with the federal government) paid more attention to production-related pollution. Industry critics complained not only of frequent spills but of antiquated fire suppression equipment, leading to
high risk and fire damage (FDNM, 8/11/07, 8/15/07, and 9/12/07). BP pled guilty to environmental crimes and paid $20 million in penalties for violating the Clean Water Act for its 2006 oil spill (ADN, 11/29/07 and FDNM/11/30/07). The state sued BP for environmental as well as financial damage caused by BP’s negligence in this huge spill (ADN, 12/6/07). It proposed fines of $800,000 (ADN, 1/25/07) initially, upping it to $4.7 million later (FDNM, 2/29/08). Legislators joined in, too. House Speaker John Harris threatened to hold hearings if oil shippers did not properly maintain tankers as a precaution against oil spills (ADN, 3/20/08).

Meanwhile, the ExxonValdez case reached the US Supreme Court. Exxon claimed it had sufficiently compensated the state and injured parties for the destruction it wrought on Prince William Sound in 1989. The state sided with the plaintiffs in this $2.5 billion case, arguing that the company should pay punitive damages. The high court ruled in late June 2008. In a divided 5-4 vote, the court found that Exxon’s damage payments of $503 million were adequate, and it reduced punitive damages to this amount, a ruling which stunned Alaskans and particularly those most affected by the giant 1989 oil spill (ADN, 6/26/08).

A large issue concerning oil and gas producers was the Pt. Thomson field. The major producers—Exxon, BP, and ConocoPhillips—had held some of these leases since the 1969 bonus lease sale. Although Exxon, the companies’ representative on this production unit, had filed annual plans, it had failed to produce hydrocarbons for several reasons. The field was distant from producing sites, its potential oil reserves were not large, and the companies’ attention focused on oil production over gas (the prices and profits of which have been less certain than oil in the unstable US energy market).

Nevertheless, Pt. Thomson is estimated to have 7 trillion cubic feet of gas, and the plans to market Alaska’s natural gas have counted on it. The Murkowski administration threatened to cancel the leases, and the Palin administration continued this threat. Exxon responded, in April 2008, with a plan to drill six wells and spend $1.3 billion on field development (FDNM, 4/23/08), but the state rejected the plan because DNR officials did not believe the company would follow through. The issue went to a Superior Court judge; Exxon sued the state for damages, and ultimately, in early August 2008, Commissioner of DNR, Tom Irwin, terminated all but one of the 45 leases (see FDNM, 5/13, 6/4, 6/12, 6/18, and 8/6/08). The issue seems likely to remain unresolved for several years, influencing debate over the Alaska natural gas pipeline.

**Other Natural Resource Production.** The state’s second most productive non-renewable resource in FY 08 was hard rock mining. In 2007-08 gold prices reached $830/ounce, a 27-year high, but production costs increased. Prices for zinc and other metals reached record highs in 2006-07. For example, the Red Dog mine of the northwest Arctic is the largest zinc producer in the world and employs 3,523 workers. More people were employed in the mining industry than in previous years, and the 2006 value of the industry was $3.5 billion (FDNM, 11/8/07).

While established mines such as Fort Knox and Pogo in the Interior and Red Dog in the Northwest face declining production, exploration news has been positive in other areas. Closest to production and also most controversial is the Pebble Mine project of southwest Alaska, near
Dillingham. Northern Dynasty is developing mines believed rich in copper and gold. However, the mines are close to the state’s rich Bristol Bay salmon fishery, and the conflict centers on the adequacy of state and federal regulations in mining development and the trade-off between non-renewable and renewable resource development. A controversial initiative on this mining development appears on the 2008 primary election ballot (FDNM, 2/3/08).

Renewable resource developments in 2007 and 2008 were mixed. The state closed its sole remaining dairy in the Matanuska Valley, because it continued to lose money (FDNM, 8/29/07). Revenue from the wood products sector increased somewhat from previous years, but the 2008 salmon run was late and less productive than that in 2007. The tourism industry scored another record year as Alaska remained a premier destination for the cruise ship industry and over land travelers. A total of 1.7 million summer visitors came to the state, a 3 percent increase over the previous year. Early figures for 2008 showed a slump, largely because of high gas prices.

**Return on Investments.** The Alaska Permanent Fund (PF) reached a high value of $40 billion in mid-2007, then fell to $37.5 billion in 2008 because of stock market declines. Earnings from the PF do not contribute to state government expenses, as do earnings from the state’s several economic development funds (whose assets collectively total nearly $10 billion). A small amount of earnings defray the expenses of the Alaska Permanent Fund Corporation, which manages the fund. The only statutorily approved purpose for the PF is to issue annual Permanent Fund Dividends (PFDs). In 2007, based on a rolling five-year average of fund earnings, the state issued $1,654.00 checks to about 600,000 eligible Alaskans. They promised to top $2,000 in 2008 (ADN, 7/28/08).

Alaskans present at the initial PFD distribution in 1982 would, by 2007, have received $27,536. The total value of PFDs in this time period has been $15.2 billion (ADN, 9/20/07). The PF earned 17.1 percent in FY 07, and its management continues to follow the prudent investor rule (see chapter 7, “Managing the Wealth,” in McBeath et al., 2008). The PFDs were a boon to the Alaska economy as much of the money is spent in Alaska. Although the issue has not been studied, PFDs seem to have increased population stability. In 2007, 41 percent of PFD recipients were born in Alaska.

**ALASKA DEMOGRAPHICS**

Alaska’s population in 2007 stood at about 677,000. The average annual growth rate was 1.1 percent in 2000-07, (Department of Labor, 2008), slightly above the average US growth rate. Natural increase is responsible for most of this population change. While Alaska has the highest population turnover of the American states, the rate of transiency has declined significantly since statehood. Table 1 presents information in response to the “five-year” question: whether respondents had lived in another state five years previously:
Table 1.—Alaska Population Stability

<table>
<thead>
<tr>
<th>Year</th>
<th>Lived in Another State 5 Years Ago?</th>
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<tr>
<td>1960</td>
<td>47 percent</td>
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<tr>
<td>1970</td>
<td>37 percent</td>
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<tr>
<td>1980</td>
<td>31 percent</td>
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<td>1990</td>
<td>24 percent</td>
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<tr>
<td>2000</td>
<td>19 percent</td>
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Source: Neil Fried, Department of Labor, August 6, 2008.

The Alaska population has been relatively stable in recent years, with the exception of a short-term turnover rate (in- and out-migration) of 6-7 percent, attributable to the military, mainly. Since the closure of military bases at Adak and Ft. Greeley in the early 1990s, the military population has declined. Service personnel numbered 23,000 in mid-2007, and military dependents 31,400—about 8 percent of the state population. This compares with a combined military-dependent population of more than 20 percent at statehood in 1959.

The oil industry supported 9.4 percent of employment in 2007 and 11.2 percent of wages paid, reported the Alaska Oil and Gas Association (AOGA). Some 4,497 Alaskans were directly employed by oil producers and support contractors—a payroll of $644 million. Spending of company employees on goods and services created 8,410 jobs and a payroll of $769 million. The indirect effects of spending by company employees, AOGA reported, created an additional 28,837 jobs and $987 million in payroll. The combined jobs totaled 41,744 with a payroll of $2.41 billion (Bradners’ *Alaska Economic Report*, June 30, 2008).

As a resource dependent state, there is a seasonal bump to Alaska’s population. About 50,000 work in seasonal occupations—primarily fish processing and then tourism and construction. They enter Alaska in early summer and depart in the fall (personal communication, Greg Williams, State Demographer, 8/6/08). Unlike the military, this is a non-migrant population.

In 2007, the Municipality of Anchorage remained the most populated area of the state, with 283,823 inhabitants or nearly 42 percent of the total population. The fastest growing region of the state since the 1990s has been the Matanuska-Susitna Borough, north of Anchorage. The Anchorage/Mat-Su region now has 54 percent of state population. The Fairbanks borough in interior Alaska, with a population of 91,000, is the state’s second largest region, followed by Mat-Su, the Kenai, and Juneau (the state capital). (See Alaska Department of Labor)

Alaska Natives, at 16 percent of the population, remain the state’s largest minority. Although most continue to live near areas settled thousands of years ago, rural migration to the cities, especially of young women, has increased in recent years. A study by the Institute of Social and Economic Research (ISER) in 2008 indicated that rural to urban migration had doubled since 2006. The rural birthrate declined, and this was especially pronounced for young (18-24 year old) women (FDNM, 5/15/08). High rural energy costs were another factor.
Numbers of other ethnic/racial minorities—blacks, Latinos, Asians—collectively approach those of Alaska Natives.

Alaska’s sex ratio has become more balanced since the 1970s, yet men still outnumber women. The state has a relatively young population, and traditionally the young have left the state more frequently than other age groups (along with seniors, until recently) to attend college or seek job opportunities not available in the state. The age distribution of the population probably reflects the greatest change. Projections indicate that when the population reaches 800,000 between 2025 and 2030, the number of seniors will have tripled (FDNM, 11/25/07).

ALASKA STATE POLITICS

Three categories of political events occupied attention during FY 08 and the start of FY 09: political corruption, a popular governor, and federal/state primary election races. We discuss each in turn.

Political Corruption: State. In the 2007 report, we discussed FBI investigations of six state legislators (members of the self-styled “Corrupt Bastards Club”) and the trial of a seventh. At the root of the cases was VECO, a multi-billion-dollar oil field services corporation, headquartered in Anchorage but doing most of its business on the Alaska North Slope. VECO’s president, Bill Allen, was an important insider in Alaska politics, and in his recent career, used VECO resources to influence the state’s political officials to support continued corporate investment in oil exploration/development and construction of an Alaska natural gas pipeline from Prudhoe Bay to the Mid-West. His objective throughout was to insure continued prosperity for his firm through oil industry investments and jobs for Alaskans. Allen’s primary methods were influencing elections and lobbying officials. For the former purpose, Allen funneled $400,000 into Alaska elections, accomplished through giving bonuses to VECO executives who then made coordinated contributions to candidates favoring VECO and Big Oil interests. His firm also organized productive fund-raisers for favored candidates, including members of the state’s congressional delegation. For the latter purpose, Allen formed personal relationships with legislators and officials willing to use their offices to benefit VECO’s objectives.

Bill Allen and Mike Smith (VECO vice president) were early targets of FBI probes, and when confronted with evidence of guilt agreed to cooperate with investigators. The FBI wiretapped Allen’s phones and monitored with video equipment a room in the Baranof Hotel (closest to the capitol) where VECO executives met with legislators. In addition to materials the FBI gathered when it investigated legislative offices, there were 400 hours of videotaped meetings and additional hundreds of hours of wire tapped phone evidence.

The first investigation of Tom Anderson, Anchorage Republican member of the House of Representatives (married to Republican Senator Lesil Macguire) was indirectly related to VECO. He received $20,000 from VECO, but the illegal use of funds was not proved to the satisfaction of the jury. Instead, he was convicted of receiving bribes from what he believed was the agent of a private corrections firm seeking to do business in Alaska (but in fact was a FBI informer); Anderson was sentenced to five years. The other investigations (and one is still proceeding)
were directly related to VECO. Three indictments and two trials occurred by mid-March 2008. Former House Speaker Pete Kott was accused and convicted of bribery and corruption (accepting payments from VECO for work not performed; accepting illegal campaign contributions; and working in the legislature to influence 2006 PPT legislation in exchange for the promise of future employment as a VECO lobbyist). Kott’s sentencing to a six-year term was announced during the October 07 special session on the PPT.

Vince Kohring, Wasilla Republican and 11-year veteran of the House was accused of gaining a job for his nephew, cash payments, and attempting to pay off a $17,000 credit card debt in exchange for missing critical PPT votes and otherwise supporting VECO’s interests in the legislature. He was tried and convicted during the PPT deliberations, and sentenced in May to 3.5 years (ADN, 5/9/08). The trial of former Republican legislator Bruce Weyrauch has been delayed.

Senator John Cowdery (R, Anchorage), previous chair of the rules committee, was indicted in early July 2008. He was charged with two counts of bribery and conspiracy to influence votes. Specifically, he allegedly offered campaign assistance to Senator Donnie Olson (D, Nome) to swing his vote on the PPT. (One of the six legislators under investigation, Olson cooperated with federal investigators. The only Democrat, he was not charged with any criminal offense.) Upon Cowdery’s indictment, the governor and Senator Gene Therriault (R, former Senate president) called for his resignation (FDNM, 7/11/08).

The most prominent of the six investigated legislators is Ben Stevens, son of Alaska’s senior US Senator Ted Stevens. When on the witness stand, Bill Allen admitted to bribing Ben Stevens on the PPT issues; also, he said he paid Stevens one-quarter million dollars as a lobbyist while requiring no work other than legislative services. Ben Stevens was the previous Senate President, but did not run for re-election in 2006, and has not yet been indicted.

Alaskans were surprised when chief of staff to former Governor Frank Murkowski, Jim Clarke, pled guilty to illegal campaign finance activities in March 2008. He had not been publicly indicted and apparently agreed to plead guilty instead of going to trial. His crime was in having accepted $68,000 in unregistered donations to Murkowski’s primary election campaign from VECO. Murkowski himself was not implicated.

Investigations: Congressional Delegation. The VECO scandal also reached into the Alaska congressional delegation. Ted Stevens, at 84 the longest-serving Republican in the Senate and former chair of Senate Appropriations, was accused of having VECO do extensive renovations to his Girdwood home in 2000, without fully compensating them. In late July 2007, Steven’s home was raided by FBI agents, which was the first occasion when the residence of a sitting US senator was searched. Stevens claimed he paid all renovation costs—$130,000—himself, but Bill Allen and VECO employees working on the house implied the costs of the work and materials were much greater than that. Complaints also surfaced that Stevens had directed federal earmarks to benefit his son’s fisheries interests and the financial gain of a former chief of staff, Trevor McCabe. Initially, Stevens was silent about these accusations, stating that any explanation he might make would prejudice an ongoing criminal investigation.
In late July 2008, Senator Stevens was indicted on seven counts of failing to disclose VECO’s “gifts” from 1999 to 2006, totaling more than $250,000 (USA Today, Christian Science Monitor, Washington Post, ADN, FDNM, 7/20/08). Most of the charges pointed to the difference between what Stevens paid and what his Girdwood home renovations cost, but they also included the value of a new car for his daughter for whom he traded an old model, and other smaller items. At first, observers speculated Stevens would be pressured to resign and some Republican sources, such as the National Review did call for his resignation. Members of the Senate, however, were silent as were most political and party leaders in Alaska. The latter valued his highly effective service to the state over a Senate career spanning 40 years, for which he is widely respected. Stevens pled innocent to the charges, saying he had never “knowingly” filed false statements. He drew strong support at home and his lawyers asked for an expeditious trial on the charges before the November election, and that the venue of the trial be moved from Washington, DC to Alaska (FDNM, 8/1/08). (It was not; the trial will be in DC, in September 2008.)

The state’s sole congressman, Don Young, at 75 the third most senior Republican (and former chair of the House Infrastructure and Transportation Committee) was accused of using his influence to steer appropriations to road construction benefitting a Florida developer who contributed $40,000 to his re-election campaign. This charge influenced the deliberations of Congress. Taxpayers for Common Sense called for a congressional investigation of Young’s action by the House ethics panel (see FDNM, 4/22/08 and 5/1/08). Senator Tom Coburn (R, OK) contended that Young had engineered changes in the language of the transportation earmark after the Congress had adopted it (steering the money to the Florida interchange), and requested an investigation (ADN, 4/13/08) In April 2008, the Senate voted to request the Justice Department to investigate this $10 million earmark in the 2005 highway bill (FDNM, 4/18/08). Shortly thereafter the House approved an investigation into changes in the bill’s language (FDNM, 4/22/08).

Like Stevens, Young had been the recipient of thousands in VECO campaign contributions, and VECO managed an annual fund-raiser for him. Also, one of Young’s aides was indicted and convicted for having received $30,000 in tickets from convicted lobbyist Jack Abramoff. The Anchorage Daily News tracked 120 contacts of Abramoff with Young’s staff, including 10 with Young himself, from 1996 to 2001 (ADN, 4/21/08). This medium also criticized Young for offering preferred access to an “A” team of transportation lobbyists, who could visit Young’s staff at any time (ADN, 6/21/08). Young said the charges were baseless, but by August 2008 had spent $1.3 million from his campaign treasury on legal expenses.

Early on, Governor Palin asked both Stevens and Young to explain charges of unethical behavior. Fairbanks Republican House member, Mike Kelly, called for their resignations. However, when, in Stevens’ case, the accusations became indictments, the governor (and Stevens’ general election opponent, Mark Begich) described them just as a “dark day” for Alaska.

The third member of the delegation, Lisa Murkowski, briefly was under a Senate ethics complaint regarding a sweetheart land deal. She and her husband purchased a tract of land along the Kenai River (a major salmon-fishing location on the peninsula) from a friend at below
market prices. When criticized for this action, she quickly resold the land, taking a loss, but the
damage was done. For a week-long period, all members of the congressional delegation were
being investigated. In making its 2007 awards for the most corrupt members of Congress,
Citizens for Responsibility and Ethics in Washington listed the entire Alaska delegation, along
with nine other members of Congress (FDNM, 9/23/07).

**A Popular Governor.** At the end of Governor Palin’s first year in office, the Hays
Research Group released polling information from a sample of 400 Alaskans. It showed that 81
percent of the sample had positive views of the governor; only 8 percent were negative, and
more than half—54 percent—were very positive. This compared with approval ratings for Ted
Stevens of 44 percent and for Don Young of 34 percent (FDNM, 11/18/07).

The governor used her popularity to develop a new approach to construction of a natural
gas pipeline (AGIA) that was open and competitive. As mentioned, her ACES proposal to revise
the PPT, while strongly opposed by the oil industry and initially receiving a polite but indifferent
response from legislative leaders, passed out of the legislature with two-thirds majorities in each
house.

Palin expanded her “ethics in government” agenda upon being inaugurated. She insisted
that the legislature reform both executive and legislative branch ethics statutes. Then she held
the state’s representatives to high standards. She criticized the amount of earmarks gained for
Alaska by its congressional delegation, instructing her commissioners to reduce their requests.
As mentioned, she also criticized Stevens and Young for failing to explain the actions leading to
FBI investigations of their behavior in office. It helped the governor that she is quite attractive.
She granted *Vogue’s* request to pose in the capitol, saying “We’ve got to make sure the rest of
the United States doesn’t believe the only thing going on in Alaska is FBI probes and corruption
trials” (FDNM, 12/27/07).

The governor did make a few mistakes. As discussed in the 2007 report, she vetoed 10
percent of capital projects in the FY 08 budget without having provided clear instructions on
which projects would be acceptable. This angered municipalities whose projects were cut, as
well as legislators whose pet projects weren’t funded, and motivated the latter to re-insert some
vetoed projects into the 2008 supplemental budget request (discussed below).

The governor also erred by initially declining to appoint an Alaska Native to the State
Board of Game (which lacked any Native representation for the first time since statehood).
Native legislators threatened a “nuclear option” (denying confirmation of all appointments), and
the governor quickly changed her mind and appointed a Native (FDNM, 2/8/08, 2/9/08). Yet by
the end of the second session of the Alaska Legislature, the governor’s popularity continued to
be high, and most legislators remained reluctant to challenge her. Shortly after the start of the
legislative session, the governor revealed she was pregnant. She delivered her fifth child in
April, and gained public sympathy because the baby had Down Syndrome (FDNM, 4/19/08).
Returning to work three days after delivery, she bolstered her credentials as a take-charge,
focused leader. Polling in early June 2008 indicated that her personal popularity stood at 85
percent. Nearly three-quarters of Alaskans, based on the sample for this poll, supported her
handling of oil and gas issues (FDNM, 6/9/08), and as noted below, she achieved nearly all her

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legislative objectives. Her positive image and high popularity were among the factors pushing her into the national spotlight as a possible Republican vice presidential candidate.

In mid-July 2008, the governor’s long honeymoon came abruptly to an end when Andrew Halcro, who ran as an independent in the 2006 gubernatorial campaign, claimed Palin had tried to fire a state trooper who was involved in a messy divorce and child custody proceedings with her sister, Molly McCann (ADN, 7/19/08). Halcro alleged that the governor had replaced the Commissioner of Public Safety because he had not fired the trooper. The commissioner reported that he had felt pressure to fire the trooper from Governor Palin, her husband, the chief of staff, and the director of boards and commissions (FDNM, 7/20/08). Thereupon the legislative council established a bipartisan joint committee to investigate whether the governor had abused her powers of office (FDNM, 7/29/08). The governor claimed she had not used her powers of office improperly, and told the legislature to “hold me accountable.” Poll results showed a slight drop in the governor’s popularity—to 76 percent (FDNM, 8/3/08)—and most Alaskans regarded the issue as an overblown family dispute.

Presidential Primaries. Alaska’s Republican and Democratic parties moved their presidential primaries to Super Tuesday to draw national attention to the state and increase turnout. Only Barack Obama of the Democratic candidates set up an Alaska office; Republican candidate Romney sent his son to campaign briefly in Anchorage and Fairbanks, and Huckabee sent his spouse to Anchorage. Grassroots groups formed to advance the major candidates in both parties (ADN, 1/21/08).

Compared to the low participation rate in 2004, the 2008 turnout was high; and 17,000 more people voted than four years previously. The Democratic event drew more interest than the Republican. It was a caucus, with discussion and some debate. Overall, Obama took 74 percent of the vote compared to 25 percent for Hillary Clinton. The Republicans conducted a secret ballot, which Mitt Romney (the only major candidate to support opening ANWR for oil/gas development) led with 44 percent of the vote, followed by Mike Huckabee with 22 percent. Independent Republican candidate Ron Paul led John McCain for third place (ADN, 2/8/08). Still, McCain has a lead over Obama by about 5 points (ADN, 4/27/08). This notwithstanding, the Obama campaign set up four offices in the state to contest the general election.

The Alaska August 2008 Primaries. The state’s primaries for congressional and state races are in late August. A few members of the legislature already announced that they would not run for re-election, such as Senator Gary Wilken (R, Fairbanks) and John Cowdery (R, Anchorage, indicted member of the CBC). Most interest, however, focused on federal races.

Ted Stevens loaded up his campaign war chest by raising an half million dollars by the end of the third quarter of 2007. He was confident of his re-election prospects and rebuked an “overzealous media” for its focus on investigations into his linkages to Bill Allen and VECO (ADN, 11/17/07). Notwithstanding his great success in directing federal dollars to Alaska (see earmarks, below), he was old (84) and ethnically tainted. Former president of the Anchorage 1st National Bank, Dave Cuddy, filed to run against him in the Republican primary. (Cuddy ran against Stevens in 1996 and won just 27 percent of the vote [FDNM, 12/22/08]). A second primary contender was Vic Vickers, a Florida lawyer and college professor, who had visited...
Alaska in the previous 15 years but established residency only in January 2008. Formerly registered as a Democrat, Vickers called himself a “Teddy Roosevelt, fiscal conservative.” He planned to spend nearly $1 million in the primary, and focused on Stevens’ integrity, while the Stevens campaign called him a carpetbagger, serving as an agent for the Democrats before the general election. In response, Vickers said “If people think that I’m a carpetbagger . . . they’ll have a choice between an honest carpetbagger and a crook” (FDNM, 8/17/08). Neither Vickers nor Cuddy seemed likely to attract more votes than Stevens in the primary election.

A more serious contender entered the race later—Anchorage mayor (and Democrat) Mark Begich, son of former Alaska congressman, Nick Begich. In March, he tested the waters by making exploratory visits throughout the state. Begich, 46, declared for the Senate in April, calling for a change in the Congress. In the second quarter of 2008, Begich raised more money in campaign donations than Stevens, but the latter had a 2:1 edge in overall funding (ADN, 7/16/08), because he started earlier. After Begich announced his candidacy, polls showed him leading Stevens, 51 to 44 percent (FDNM, 6/9/08). As Stevens returned to Alaska to campaign, this lead disappeared; however, the general election contest between Stevens and Begich may be one of the most competitive in state history.

Don Young is regarded as even more vulnerable than Stevens. In the 2006 election, Democratic opponent Diane Benson won nearly 40 percent of the vote, without spending even $100,000. In 2008, she filed against Young but soon was joined by Jake Mctcalfe, chair of the Democratic Party of the state, and then Ethan Berkowitz. Berkowitz represented an Anchorage district in the House and served as minority leader, before running with Tony Knowles as the lieutenant governor candidate in the 2006 state election. Young had raised $1.5 million by the start of 2008, but had also spent most of it in legal fees pertaining to the FBI investigation (FDNM, 2/21/08). Repeated questions from the media about what the legal fees provided for, and a rebuke from Governor Palin, evoked highly evasive and defensive responses.

A surprise in this campaign occurred at the March 2008 State Republican Party Convention in Anchorage. Lieutenant Governor Sean Parnell announced he was filing against Young, remarking “The days of unquestioning loyalty are gone . . . It’s time for principled leadership.” Governor Palin took the unusual step of endorsing Parnell months before the primary. She said “When something’s right, it’s right . . . . There’s no time like the present to state your case and speak candidly about what you believe in. And I believe in his candidacy.” (FDNM, 3/15/08) Young’s response was to gloat that “I beat your dad and I’m going to beat you.” (FDNM, 3/15/08). Sean Parnell’s father, Pat Parnell (D, Anchorage), ran against Young in the 1980 general election and lost. Then, Young was 46 (Sean Parnell is younger now), and today Young is 75.

Parnell attracted support for his campaign from the anti-earmark and fiscally conservative Club for Growth, which by bundling campaign contributions has played an active role in many recent congressional campaigns (FDNM, 6/6/08). Early in his campaign, Parnell said he would support a one-year moratorium on earmarks to “restore Americans’ faith in Congress and reform the state’s public image” (ADN, 4/20/08). Then, on the campaign he appeared to waffle on the earmark issue. Also, he did not energetically campaign until the primary season was nearly over and missed several campaign fora. Although Parnell raised twice as much money as Young in
the second quarter of 2008, Young, even while spending $1.3 million on his legal defense, had more on hand (ADN, 7/26/08). By the primary, Parnell’s lead over Young had disappeared, and the primary promised to be a cliffhanger. The primary winner will face Berkowitz in the November general election, and this, too, will likely be among the most competitive House races in Alaska’s history.

MAJOR CURRENT ISSUES

We discuss four issues dominating the news in Alaska in 2007-08: federal earmarks, wolf control, ANWR, and OCS drilling. We treat a fifth issue, the natural gas pipeline, in the section on special sessions below. All had a federal component, even the most important, the gas pipeline.

**Earmarks.** The Alaska congressional delegation has two of the most senior members of Congress with recognized skills at “bringing home the bacon.” However, FBI investigations put both Stevens and Young under an ethical cloud, which observers said would “sap their clout” (ADN, 8/15/07). Moreover, Governor Palin’s frosty relations with delegation members raised the question whether Alaska’s earmarks served any important state or national purpose (assuming that is what Congress intends when it enacts them). For example, the governor moved federal funding for the Ketchikan “bridge to nowhere” to other state transportation projects, which riled Stevens (FDNM, 9/27/07).

The record shows that Stevens’ ability to milk the federal cow remained intact. Taxpayers for Common Sense reported that since 2000, Alaska’s delegation had secured 2,000 federal projects worth $7.5 billion. The 2005 highway bill alone had $1 billion for Alaska (FDNM, 8/15/07). Even in the minority, Stevens collected the second largest amount of federal dollars—some $502 million in 2007 compared to $774 million trapped by Thad Cochran (ADN, 12/21/07). In federal FY 08, Stevens outperformed Cochran; he led the Congress with $345 million (to Cochran’s $209 million), which represented $506 on a per capita basis (FDNM, 2/14/08). In a later report, Citizens against Government Waste said that in federal FY 08, Alaska again led the nation with $380 million in earmarks or $556/person (FDNM, 4/6/08).

One concession the delegation made to ethics reform was to post on their websites all earmark requests. As in previous years, the delegation said the earmarks went to legitimate purposes and were needed to address Alaska’s unmet needs. During the congressional session, the interest in a ban on earmarks waned, and by mid-2008 earmarks abounded (ADN, 4/1/08, 6/9/08).

**Wolf Control.** Alaska has an aerial wolf control program, supported by governors and most legislators since the Democratic Knowles administration (1994-2002). The Board of Game designates game control units where wolves can be hunted on the same day sighted from planes. The issue for the game board is to reduce pressures from wolves on moose, prized by hunters. The state’s policy has been controversial with national animal rights organizations, which regard the state’s policy as inhumane.
In late 2007, George Miller, California Democrat, proposed a bill called PAWs (Protect America’s Wildlife Act) in the House to close Alaska’s aerial control program. Miller said “It’s time to ground Alaska’s illegal and inhumane air assault on wolves,” remarking that the state policy violated the 1972 US Airborne Hunting Act (FDNM, 12/21/07). Defenders of Wildlife began another advertising campaign against the Alaska policy.

The state has an estimated 7,000 to 11,000 wolves, and certainly most hunters believe they endanger the state’s moose and caribou populations, or at least endanger hunters’ abilities to easily load their freezers with fresh meat. Most observers thought Miller’s bill would die in the House, and it did. Animal rights activists in state directed their efforts to collecting signatures to put another initiative on the ballot to ban aerial hunting. This initiative, measure #2 on the August primary election ballot, would tighten the state predator control program by including grizzly bears as well as wolves, restricting the taking of predators to employees of the Department of Fish and Game, and limiting shooting to predators already causing a decline in prey. Animal rights groups also focused on a new proposal before the Board of Game that would kill wolf pups in their dens (FDNM, 1/29/08), a proposal that has yet to claim attention of national media and preservationist groups. Animal rights groups also challenged the state program in court, contending that new units were added to the program in 2007 without a scientific basis. The court ruled that most of the program was valid and legal, but ordered the Board of Game to fix problems in newly added units (FDNM, 3/15/08, 3/25/08).

Arctic National Wildlife Refuge (ANWR). This once perennial Alaska issue before Congress has been effectively dead since Democrats took control of the House and Senate in the 2006 elections. Although some supporters of opening ANWR referred to it during congressional hearings on high fuel and gas prices in 2007, a critical change proposal came from Connecticut Independent Senator Joseph Lieberman. In late 2007, he introduced legislation to designate ANWR off-limits to oil drilling (FDNM, 11/13/07). It is unlikely that this measure would survive a filibuster by the Alaska delegation, should it ever reach the floor.

The sharp increases in gasoline prices of 2008 briefly revived the ANWR campaign. Senators Stevens and Murkowski proposed opening a section of ANWR if oil prices climbed above $125/barrel, using proceeds to provide incentives for development of renewables (ADN, 3/14/08). President Bush spoke in favor of opening ANWR to counter soaring gas prices (FDNM, 4/20/08). When Congress deliberated over energy policy in the spring, Stevens and Murkowski were successful in adding the opening of ANWR to the Republican proposal to boost domestic oil production (ADN, 5/2/08, 5/12/08). However, when this measure came to a vote in the Senate, opponents rejected it in a vote of 46 to 42 (FDNM, 5/14/08). Opponents used the same arguments featured in previous campaigns: permitting oil/gas development, even in a small section of ANWR, would do nothing to alleviate the immediate energy crisis; sacrificing the “pristine” ANWR environment for industrial development was ethically unconscionable; and energy conservation and/or development of renewables would have more beneficial, and immediate, effects.

The ANWR issue became embroiled in partisan differences over energy policy. Yet soaring gasoline prices had some effect on public opinion. A Pew Research Center survey taken in mid-2008 showed a rise in support for opening ANWR, from 42 to 50 percent. Changes in
viewpoints on ANWR were most pronounced among Democrats, independents, and young people (ADN, 7/6/08).

**Outer-Continental Shelf (OCS) Drilling.** OCS drilling in the American Arctic has been controversial for Native groups and environmental organizations. The former fears adverse impacts of seismic testing and blowouts on the bowhead whale, which migrates annually along the Arctic Coast and is central to Inuit subsistence whaling culture. The latter fear impacts not only on the bowhead but also on other threatened or endangered species, such as the Pacific walrus and polar bear.

Shell Oil Company aroused opposition when it proposed drilling 12 wells on leases it purchased in federal waters of the Beaufort Sea. Shell had been absent from the North Slope for a decade, but returned in 2007, calling Alaska the “future heartland” of oil development (FDNM, 12/9/07). Objections increased when the Minerals Management Service of the US Department of the Interior opened sales for drilling leases in the Chukchi Sea (off northwestern Alaska). These were the first federal lease sales in the Chukchi since 1991, and raised concerns about both climate change and endangered species.

Environmental organizations challenged the MMS environmental risk assessment, but the US District Court found it sufficient (FDNM, 1/15/08). However, Ed Markey, Chair of the House Select Committee on Global Warming, urged the agency to halt lease sales in the Chukchi until the status of the polar bear had been resolved (FDNM, 1/18/08). Several environmental organizations had proposed that the polar bear be listed as an endangered species, because thinning sea ice, apparently caused by climate warming, challenged the species’ continued ability to den (and thus reproduce) in the Chukchi. The department did not complete the listing process within a year, as required, and requested an extension. Meanwhile, MMS proceeded with the lease sales. EarthJustice, the Audubon Society, and four other environmental groups sued MMS for failure to disclose documents on potential harm to polar bears of oil drilling (FDNM, 1/29/08). They also sued to delay the lease sales until a more thorough environmental review had been conducted (FDNM, 2/1/08).

The lease sales proceeded but Native and environmental groups protested them. About $3.4 billion in bids were offered, with Shell bidding for (and gaining) the largest number of leases (FDNM, 2/7/08). Environmental groups suspected that Bush administration officials delayed the polar bear decision so that lease sales could proceed. They persuaded the Interior Department’s inspector general to examine the delay in endangered species listing (ADN, 3/8/08).

After prodding by environmental groups and a mandate by a federal judge (FDNM, 3/11/08, 4/18/08, 4/30/08), the Department of the Interior finally issued its decision. It agreed to list the polar bear as an endangered species because of thinning sea ice, but Secretary Kempthorne said he would issue rules blocking a linkage of melting sea ice to global warming (ADN, 5/15/08). Multinational oil companies in Alaska challenged the listing (FDNM, 5/16/08), and the Palin administration sued the interior department. Both argued that the Alaska polar bear population was robust, and that the connection between sea ice thinning and climate change was not conclusively established. Simultaneously, three environmental organizations—the Center for
Biological Diversity, Greenpeace, and the National Resource Defense Council—sued the Interior Department for prohibiting what, to them, was an obvious causal linkage between Arctic climate change and biodiversity loss (FDNM, 5/21/08). Meanwhile, the Bush administration gave oil companies permission to annoy and potentially harass polar bears as development proceeded, expressed in new rules of the US Fish & Wildlife Service. Environmental groups objected to this as well (ADN, 6/15/08, 7/9/08).

The OCS off Alaska’s coast has vast potential for production of hydrocarbons. Environmental groups repeatedly have protested oil/gas (and also fisheries) developments, because of concerns regarding threatened and endangered marine mammals and sea birds. The state’s interest has been to increase its share of OCS revenues with the federal government (see FDNM, 4/20/08). Partisan differences on OCS development and endangered species protection affect actions of both federal and state administrations.

**THE 2008 ALASKA BUDGET PROCESS**

We discuss briefly changes in the second session of the 25th Alaska Legislature, before examining the executive budget request and legislative responses.

**Changes in the Second Session.** By voter initiative, the 2008 session was the first to operate under a 90-day limit. Legislators responded by starting budget and other hearings soon after convening in mid-January. They held some weekend sessions and worked into the evenings on some days. Most lawmakers the author interviewed in early February and mid-March expected little difficulty completing operating and capital budgets by the last day of the session, April 13, and they met the 90-day session limit. However, the governor early on indicated she would call a special session in mid-April for consideration of TransCanada’s AGIA application. As we note below, the shortened session left insufficient time for careful review of education funding issues, fuel costs, and changes in health care.

The Senate, organized by the Bipartisan Working Group at the start of the 2007 session, changed a few leadership positions. The caucus selected Anchorage Democrat Johnny Ellis as majority leader and replaced John Cowdery as rules chair with Gary Stevens (R, Kodiak). The organization of the House by the Republican majority remained unchanged.

**Executive Budget Request.** Governor Palin submitted her budget proposal to the legislature in December 2007. Overall, she proposed a $8.3 billion operating budget, with $4.4 billion from the general fund and the remainder from federal and other funds (ADN, 12/11/07). The advertised increase from the FY 08 operating budget was 4.5 percent, but as noted below, this figure was contested, and the final total was closer to a 10.2 percent increase after the governor and legislators added items under conditions of high budget surpluses.

The operating budget included significant changes to education funding, both by increasing the base student allocation $200/year for each of three years (reaching $5,980 by 2011), phasing in the 2005 ISER district cost factors study recommendations, and using FY 08 surpluses to forward fund education for three years (FDNM, 12/8/07). The budget proposal
accommodated increases in Medicaid costs, negotiated salary increases for state employees, and a pay down of $450 million for the Teachers Retirement System (TRS) and Public Employee Retirement System (PERS) liability. (See Alaska Legislative Digest, 1/18/08).

The initial capital budget proposal of $1.4 billion (nearly doubled later) would include $372 million in general funds, $200 million in other funds, and the balance in federal funds. Federal funds primarily would support road and airport construction safety/emergency repairs, village water and waste water projects (Alaska Legislative Digest, 11/18/08, 6).

Governor Palin’s state-of-the-state address recounted the achievements of her first year in office and re-emphasized how the budget would continue important state programs. She remarked “The state of the state is great and our potential is even greater.” (ADN, 1/16/08) It is noteworthy that the executive drove budget deliberations. Although numbers increased during the session, each emphasis area and priority of the governor was adopted.

Legislative Responses. By mid-March, the legislature had nearly reached agreement on the size and nature of the operating budget. Most legislators initially disagreed with the forward-funding of education for three years (FDNM, 2/23/08 and 2/25/08). However, they concurred in increases to the foundation formula, but reduced them by half.

The legislature also sympathetically considered aid to municipalities, many of which have suffered since Governor Murkowski terminated the municipal assistance and revenue sharing programs in 2003. They developed a new municipal assistance plan of $60 million/year for three years, as part of the supplemental budget. Also, the high fuel costs paid by Alaskans (urban costs of gas are higher than Mid-West prices; rural fuel costs in some regions are three to five times higher). Initially legislators proposed sending checks of $500 to $1,000 to all Alaskans to offset fuel cost increases (FDNM, 1/24/08), but this issue was postponed until the second special session. Later discussions focused on improvement in state weatherization programs.

By early March, as work on the operating budget neared closeouts in the House and Senate, lawmakers became creative with the supplemental budget. The governor had proposed large deposits of FY 08 surpluses into the Constitutional Budget Reserve (CBR). Senate leaders, still smarting from the governor’s vetoes of capital projects in 2007, resurrected half of the vetoed items, adding them to the supplemental. Critics objected, saying this had never been done before and omitted any public discussion. The Senate passed its version of the supplemental over the governor’s objections. It included $2.6 billion in a deposit to the CBR, $1 billion in a deposit to a statutory budget reserve, $180 million for three years’ revenue sharing with municipalities, $200 million in energy assistance for weatherization (ADN, 3/6/08) and $220 million in previously vetoed capital projects. At $4.3 billion, this surely, on a per capita basis, is the largest supplemental budget of any state. Yet the addition of the vetoed capital projects caused Senator Con Bunde (R, Anchorage) to call it a “bastardization of the process.”

The House initially planned to adopt the Senate version when Governor Palin met with House members in the Speaker’s office. The governor offered a compromise. She proposed a two-year plan, allocating $1 million per house district for local requests in the FY 09 budget if
legislators removed vetoed projects from the supplemental and retained 80 percent of proposed administration capital projects (FDNM, 3/14/08). However, the final versions of both the House and Senate supplemental budget, passed by a margin of 39-1 in the House and 15-5 in the Senate, still included $70 million in vetoed projects (as well as an increase to $300 million for weatherization and $125 million in petroleum production tax credits). (ADN, 3/18/08, 3/19/08) The governor used her line-item veto power to delete 80 percent of funding for the vetoed projects, suggesting these could be added to the FY 09 capital budget (FDNM, 4/4/08).

Within a week, the houses returned to consider the $10 billion operating budget, using $4.2 billion from the General Fund, $4 billion in other state funds, and $1.7 billion in federal funds (ADN, 3/22/08). The Senate proceeded to add $1 billion to the budget as a further deposit to the CBR. As adopted on April 13, the last day of the 90-day session, the operating budget totaled $11.2 billion (with special appropriations and savings, it totaled $12.3 billion), the largest in state history. It drew $5 billion from the state General Fund. Agency spending increased at about 4 percent as compared to FY 08. Overall state spending increased by 23 percent, however, because of increases in K-12 funding, paying down the state’s pension liability with $450 million, the new oil production tax credits adopted under the PPT, and new programs such as the $300 million weatherization plan and the municipal assistance program (ADN, 4/13/08). Both legislators and the governor remarked that the spending increases were unsustainable, but they faced exceptionally large surpluses. One positive action was a joint legislative resolution requiring the governor to submit an annual 10-year long-range fiscal plan (FDNM, 4/7/08). The governor made few reductions (just $2.6 million) in the operating budget.

The last days of the session focused on the FY 09 capital budget. The governor asked legislators to cap this budget at $2 billion (she had initially proposed $1.8 billion), but the final version totaled $2.7 billion and $315 million in bond authorizations for transportation projects (FDNM, 4/13/08). At the governor’s request, legislators restored capital proposals of the Palin administration it had cut in committees. When the governor asked legislators to prioritize district projects in the capital budget, most of them declined to do so (FDNM, 5/3/08). Thereupon, she again used her line-item veto power to cut $250 million (about 10 percent) of projects from the capital budget, justifying action by the lack of legislative prioritization as well as lack of lead time for spending on roads and facilities in Alaska’s short construction season (ADN, 5/24/08).

Legislators threatened to override the governors’ vetoes to both supplemental and capital budgets, and they had the opportunity to do so during the first special session (beginning less than two months after the close of the regular session). However, they failed to reach consensus on which vetoed projects to support, and the proposal was still born (ADN, 6/7/08).

**SPECIAL SESSIONS**

Governor Palin called the legislature into a special session, beginning June 3rd, to act on the administration’s recommendation on the Alaska Natural Gas Pipeline. She called a second special session meeting the following month to deal with rising energy costs.
Natural Gas Pipeline. As reported in 2007, the legislature adopted Governor Palin’s proposal, the Alaska Gasline Inducement Act (AGIA). This essentially was a call for proposals to construct the line from Prudhoe Bay to markets in the Mid-West, with state payments upfront of $500 million if the builder agreed to the state’s “must haves” (such as in-state use of gas, a project labor agreement (PLA), and the like).

By the state’s deadline of November 30, 2007, five companies made proposals: the Alaska Gasline Port Authority, TransCanada, AEnergia LLC, Sinopec, and the Alaska Natural Gas Development Authority. ConocoPhillips submitted a proposal (unlike ExxonMobil and BP), but not under AGIA’s terms. It offered to build a $19 to 32 billion pipeline to Alberta, with gas flowing by 2018. The CEO Jim Mulva asked for a “fiscal framework,” instead of the $500 million state subsidy. It declined to commit to the “must haves,” but promised to negotiate a PLA, in-state gas use, and open seasons (for new gas finds linked to the pipeline) every two years (FDNM, 12/1/07).

The lack of an AGIA-conforming proposal from one of the three gas producers disappointed state officials. Also troubling was the absence of an application from MidAmerican, a subsidiary of Warren Buffett’s Berkshire Hathaway Inc. This company, which carries 8 percent of US natural gas, had been expected to bid. Instead, its CEO wrote Governor Palin:

(T)he deepening and ongoing investigations into political and corporate corruption in Alaska make a thorough and thoughtful proposal in compliance with AGIA an unrealistic experience for our organization. For a project of this magnitude to proceed, integrity must be the foundation upon which all project elements are based (FDNM, 12/3/07).

It seems likely that MidAmerican was more influenced by the lack of producer interest in meeting the state’s requirements than in Alaska political corruption.

After a month-long review, the state decreed that only TransCanada’s application met AGIA’s requirements. The company proposed building a 48-inch diameter pipeline from Prudhoe Bay to Alberta, a distance of 1,700 miles. (The gas line would parallel TAPS to Delta Junction.) The projected cost was $26 billion, and it would require 10 years to complete. The firm estimated that its profits over 25 years would be $17 billion, and that the state would gain $130 billion in royalties, taxes, and fees (ADN, 1/5/08)

Then the governor rejected ConocoPhillips’ proposal, saying it would require the state to concede its sovereign taxation authority (to provide the fiscal certainty—no change in state taxation for 25 years—that the company demanded), while it provided no guarantees of pipeline completion (ADN, 1/11/08). Several lawmakers wanted the legislature to review the proposal, and the Senate Resources Committee heard the proposal. But without the governor’s support, ConocoPhillips withdrew its proposal and promised to re-evaluate it. Later, the company announced it would proceed with a pipeline without state endorsement, and mentioned it would spend $40 million on preliminary work during the summer (ADN, 2/27/08).
By early April, BP joined ConocoPhillips in forming Denali-The Alaska Gas Pipeline Consortium. The two companies promised to spend $600 million in upcoming years on planning and other pre-construction work, to hold an open season by 2010, and to move gas by 2018. They asked for no state assistance upfront, but said they would ask the state for fiscal certainty terms later (FDNM, 4/9/08). A BP executive said that Denali would be built no matter who won the state contract (ADN, 4/17/08). The companies lobbied in Washington, DC and pre-filed with the Federal Energy Regulatory Commission (FERC) for a certificate (ADN, 4/21/08). By June, they had begun survey work in Tok and had discussed right-of-way issues with state regulators (FDNM, 6/20/08). Several legislators wanted to consider the producers’ proposal along with that of TransCanada in the special session, but the governor declined their request. Nevertheless, Denali was the “silent alternative” to the governor’s proposal throughout the session.

The administration’s gas pipeline team made a statewide presentation of the TransCanada proposal during the 60-day public comment period. Some criticism emerged concerning the company’s $9 billion debt from existing projects, but most responses were positive. Just before the special session began, the administration formally accepted TransCanada’s proposal and released the administration’s findings (including those of consultants to the Palin administration). The state would gain $260 billion in taxes, royalty payments, and fees over 25 years, while producers would make at least $147 billion. The administration thought there was a reasonable likelihood that TransCanada would overcome project hurdles, and prospects were good that TransCanada would eventually merge with Denali, or if not, that the North Slope producers would commit to the line because, in the words of DNR Commissioner, Tom Irwin, they had a “duty to produce” (FDNM, 5/23/08, 6/9/08).

During the special sessions, legislators expressed concerns about TransCanada’s capability to build a gas line from the North Slope to Alberta, and legislative consultants assured them that it did (ADN, 6/5/08). They questioned the necessity of paying TransCanada $500 million to secure a pipeline, and the complex logistics of the project (FDNM, 7/9/08). The gas producers opined that TransCanada sought too high a profit, did not absorb sufficient risk, and asked too much of gas producers (ADN, 7/12/08). Finally, former Governor Hickel, champion of the previous Yukon Pacific gas line project, published a large newspaper ad saying if TransCanada built the gas line, Canada would control Alaska gas, and that 60 former leaders of the state (now deceased) would have opposed it (FDNM, 7/14/08). These concerns occupied time during the session, but were addressed satisfactorily by the administration, TransCanada, and the consultants. Although legislators recognized there was no certainty that producers would move their gas through a pipeline they did not own, they responded to the sentiment of most Alaskans that a pipeline needed to be planned and built to provide a new revenue stream to the state when North Slope oil wells ran dry.

The most debated aspect of the administration’s proposal was absence of an in-state gas line. During 2007-08, constituents hammered their legislators on rising costs to heat homes, especially in the Interior. Anchorage, supplied by Cook Inlet gas at low prices, faces a depletion of this resource within 10 years. Some legislators called on the governor to include an in-state gas line on the special session agenda. She did not include this but agreed to a feasibility study (FDNM, 4/3/08, 4/5/08). Her difficulty was that AGIA blocked the state from supporting a “competing” proposal—a pipeline carrying more than 500 million cubic feet of gas a day—if it
licensed TransCanada (ADN, 6/26/08). This stricture effectively derailed the proposal of the Alaska Gasline Port Authority to build an in-state line from the North Slope to Valdez, shipping LNG to ports south (FDNM, 5/28/08).

During the regular legislative session, ENSTAR, a state energy firm marketing Cook Inlet gas in Southcentral Alaska, proposed construction of a small diameter pipeline. It would run from the foothills of the Brooks Range, moving gas produced by independent firm Anadarko to Southcentral (FDNM, 3/13/08). Responding to a public stressing the need to reduce home heating costs and to legislators, in July the governor modified the ENSTAR proposal. She proposed an in-state bullet line from the foothills, through Fairbanks, to Southcentral. The project would be a joint venture of the Alaska Natural Gas Port Authority and ENSTAR (with state assistance), and would be completed by 2011 (ADN, 7/8/08). Although legislators were suspicious about the timing of this proposal—a few weeks before the legislature voted on the AGIA license for TransCanada—they thought it did address the issue of in-state use of gas.

The House passed the license on a vote of 24 to 16. Sixteen Democrats and 8 Republicans supported it, and 15 Republicans and 1 Democrat opposed it, displaying the beliefs of most Republicans that a gas line could not be built without the assent and active participation of the producers. The Senate vote—14 to 6—was less close; again, Republicans in the caucus, including the Senate President Lyda Green and Resources Chair Charles Huggins, were opposed (FDNM, 7/23/08, 8/2/08). Having accepted TransCanada as its gas transportation agent, many legislators were alarmed to learn that the firm’s CEO had remarked casually “Nothing goes ahead until Exxon is happy with it” (ADN, 8/5/08).

Responding to High Energy Costs. As mentioned, in 2007-08 Alaskans complained about gasoline prices that were the highest in the nation and very high costs to heat homes, offices, schools, and other facilities. Legislators did enact a new weatherization program and adopted several measures to assist low-income Alaskans pay for energy. By the close of the regular session, however, they had not developed a program including all Alaskans at a time of large state surpluses. One month after the regular session ended, the governor called for a second special session on relief for high energy costs (FDNM, 5/13/08).

The governor’s initial proposal was that the state should spend $1.2 billion to offset rising costs—granting $475 million to utilities to lower heating bills and giving each Alaskan a $100 energy debit card. Immediately, Interior and rural residents complained that the proposal was unfair, as it would bring no special benefits to regions such as the Interior and rural Alaska, which had the highest energy costs (FDNM, 5/20/08). The administration then revised its proposal, offering each resident $1,200 to offset higher prices and suspending the state’s 8 cent/gallon fuel sales tax (ADN, 6/21/08).

By the end of the special session, the House had adopted the governor’s proposal. The Senate version planned a smaller payout ($500) and assistance with heating costs through payments to utility companies. By the close of the session, the Senate adopted most of the items in the House approach. The House consented to increase funding to the state’s Power Cost Equalization (PCE) program, which provides assistance to rural Alaskans with utility costs exceeding the national average. The package, adding $1 billion to the FY 09 budget, did little to
encourage conservation, but the governor said “We can build on this good work as we bring forward a much more comprehensive energy package for consideration in the next regular session” (FDNM, 8/8/08). Alaskans could look forward to receiving more than $2,000 PF dividends with $1,200 energy rebates tacked on the check, and the governor announced that many of the checks would be ready by early September 2008.

FINAL STATE BUDGET

Revenues. Alaska’s FY 09 total, all-source, operating budget is $12.3 billion. Table 2 indicates sources of revenue, comparing FY 08 to FY 09 (both years based on forecasts):

<p>| TABLE 2.—Revenue Sources, FY 2008 and FY 2008 Budgets |</p>
<table>
<thead>
<tr>
<th>(millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil Revenue</strong></td>
</tr>
<tr>
<td>(history)</td>
</tr>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Restricted</td>
</tr>
<tr>
<td><strong>Other Revenue (except federal/investment)</strong></td>
</tr>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Restricted</td>
</tr>
<tr>
<td><strong>Federal Revenue</strong></td>
</tr>
<tr>
<td>1,972</td>
</tr>
<tr>
<td><strong>Investment Revenue</strong></td>
</tr>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Restricted</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
</tr>
<tr>
<td>10,719</td>
</tr>
</tbody>
</table>

Source: Department of Revenue, Tax Division, Spring 2008 Forecast, 4/10/08.

Later revisions to these forecasts most likely will show increases to FY 09 totals, making comparisons at this point (August 2008) difficult. The primary sources of unrestricted state revenues and the lion’s share of the operating budget are oil production taxes, royalties, corporate petroleum taxes, and property taxes. Restricted oil revenues include, primarily, royalties to the Permanent Fund (beyond the reach of the legislature). Other revenues include a balance of taxes, charges for services, fines, licenses and permits, and rents and royalties. They are not much changed over the three year period displayed.

Federal funds are significantly less important in FY 08 and FY 09 than in previous budget years when, with low oil prices, they were a close second to unrestricted oil revenues. Importantly, there is a slight increase projected for FY 09. Federal earmarks are about 20 percent of federal funds spent in Alaska, and as noted previously, these are slated to remain as large as in previous years (notwithstanding the FBI investigations into the affairs of Senator Stevens [and his indictment] and Congressman Young).
A number of investments rounds out the revenue picture. The state has several corporations that return dividends to the state annually, for instance the Alaska Household Finance Corporation. The largest returns to the state, however, come from its two large trust accounts, the CBR and PF. CBR earnings can be appropriated by the legislature, but PF earnings—beyond those used to pay out dividends—typically have remained in the earnings reserve and are not used to support state government programs.

As noted throughout, the high revenues of FY 08 and FY 09 primarily are attributable to the state’s new petroleum production tax and, of course, to historically high oil prices.

**Capital Budget.** As noted above, at the close of the legislative session, lawmakers enacted a $2.8 billion capital budget, nearly $1 billion greater than the one adopted in the previous year, under conditions of large impending revenue surpluses. They proceeded to lard this budget with local projects—schools, community facilities, access roads, special programs—to satisfy their constituents’ requests. When the governor earlier vetoed items from the supplemental budget, she promised to work with legislators to fashion a supportable capital budget. Yet she also asked legislators to prioritize their local capital projects, and most did not.

The 2008 capital budget building process reflected the structure of power in the House and Senate. Interior legislators complained that the project list heavily favored Southeast and Southcentral, and only two Interior legislators held seats on the powerful finance committees. The governor paid less attention to regional inequities than to the overall size of the general fund portion. She used her line-item veto to strike $250 million (a larger cut [by $20 million] than in the previous year and the largest capital budget reduction in 20 years). The resulting budget at $2.257 billion was still nearly $500 million larger than that of FY 08. The general fund supplied $668 million, other funds, $801 million, and federal funds, $786 million.

**Supplemental Budget.** We discussed the super-size supplemental budget in a previous section. Most of the budget was composed of deposits to the CBR and statutory reserves of FY 08 surplus revenues.

**Operating Budget.** The state’s operating budget, displayed in Table 3, totals $12.3 billion, including $6.5 billion in general funds, $1.7 billion of federal dollars, and $44.1 billion of other state funds. The GF portion of the operating budget is $3.3 billion larger (51 percent) than the FY 08 operating budget passed in 2007. Most of this difference is explained by savings and increases in fund capitalization; savings are discussed below. Significantly, the governor made only a few vetoes, totaling $2.6 million, to operating budget allocations.
TABLE 3.—GF Operating Budgets FY08/09 and Changes
(millions)

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>Change in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>63.344</td>
<td>72.184</td>
<td>14.0</td>
</tr>
<tr>
<td>Commerce, Community &amp; Economic Development</td>
<td>10.801</td>
<td>15.162</td>
<td>40.4</td>
</tr>
<tr>
<td>Corrections</td>
<td>198.835</td>
<td>210.982</td>
<td>6.1</td>
</tr>
<tr>
<td>Education &amp; Early Development</td>
<td>1,018.258</td>
<td>1,057.475</td>
<td>3.9</td>
</tr>
<tr>
<td>Environmental Conservation</td>
<td>17.893</td>
<td>18.891</td>
<td>5.6</td>
</tr>
<tr>
<td>Fish &amp; Game</td>
<td>40.061</td>
<td>54.978</td>
<td>37.2</td>
</tr>
<tr>
<td>Governor</td>
<td>31.517</td>
<td>66.902</td>
<td>109.1</td>
</tr>
<tr>
<td>Health &amp; Social Services</td>
<td>794.605</td>
<td>913.588</td>
<td>15.0</td>
</tr>
<tr>
<td>Labor &amp; Workforce Development</td>
<td>23.380</td>
<td>29.427</td>
<td>25.9</td>
</tr>
<tr>
<td>Law</td>
<td>39.257</td>
<td>51.339</td>
<td>30.8</td>
</tr>
<tr>
<td>Military &amp; Veterans Affairs</td>
<td>12.325</td>
<td>11.328</td>
<td>-8.1</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>71.180</td>
<td>70.912</td>
<td>-0.4</td>
</tr>
<tr>
<td>Public Safety</td>
<td>108.336</td>
<td>119.065</td>
<td>9.9</td>
</tr>
<tr>
<td>Revenue</td>
<td>15.573</td>
<td>17.184</td>
<td>10.3</td>
</tr>
<tr>
<td>Transportation</td>
<td>205.471</td>
<td>213.508</td>
<td>3.9</td>
</tr>
<tr>
<td>University of Alaska</td>
<td>290.758</td>
<td>307.836</td>
<td>5.9</td>
</tr>
<tr>
<td>Alaska Court System</td>
<td>77.362</td>
<td>84.486</td>
<td>9.2</td>
</tr>
<tr>
<td>Legislature</td>
<td>60.858</td>
<td>61.956</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Sub-total, agencies</strong></td>
<td>3,079.815</td>
<td>3,376.203</td>
<td>9.6</td>
</tr>
</tbody>
</table>

**Statewide Items**

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>Change in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>124.769</td>
<td>144.275</td>
<td>15.6</td>
</tr>
<tr>
<td>Fund Capitalization</td>
<td>28.439</td>
<td>36.715</td>
<td>29.1</td>
</tr>
<tr>
<td>Direct Appropriations to Retirement</td>
<td>454.992</td>
<td>449.623</td>
<td>-1.2</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>73.686</td>
<td>.460</td>
<td>-159.2</td>
</tr>
<tr>
<td><strong>Sub-total Statewide</strong></td>
<td>681.886</td>
<td>1,090.612</td>
<td>59.9</td>
</tr>
<tr>
<td>Savings (Budget Reserves)</td>
<td>-611.824</td>
<td>1,175.293</td>
<td>292.1</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td>3,149.876</td>
<td>5,642.108</td>
<td>79.1</td>
</tr>
</tbody>
</table>

*Source:* Legislative Finance Division, 2008 *Legislature*-Operating Budget, 7/23/08, figures rounded.

Overall, the legislature increased agency spending by 10 percent, but the pattern was uneven. Table 4 presents the changes (from FY 08) of 10 percent or greater in the budgets of state agencies.
TABLE 4.—FY 09 Operating Budget, Major Changes

<table>
<thead>
<tr>
<th>Agency</th>
<th>Nature of Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>The increase to the DOR budget provides funding to improve the electronic infrastructure of the department, absorb increases in leasing costs and newly acquired state facilities, and defray increased expenditures for public radio broadcasting, legal &amp; advocacy services, and therapeutic court services.</td>
</tr>
<tr>
<td>Commerce, Community &amp; Economic Development</td>
<td>Funding increases support the Alaska Travel Industry Assoc., which markets Alaska to US and foreign tourists, expands both domestic and foreign marketing of Alaska seafood, increases funding for the Power Cost Equalization program lodged in the department, and provides assistance for the Renewable Energy Fund and Task Force.</td>
</tr>
<tr>
<td>Fish &amp; Game</td>
<td>This increase adds general funds to activities once supported by the nearly depleted Fish and Game Fund and federal funds; it increases capital funding used in game management activities, increases response capabilities under the Endangered Species Act, and increases support for subsistence data assessment and other planning.</td>
</tr>
<tr>
<td>Office of the Governor</td>
<td>The large increase to the governor’s office funds consolidation of AGIA functions, centralizes special fuel/utility cost contingency funding to be distributed to agencies to cover increased costs, and increases funding to support primary and general elections in 2008.</td>
</tr>
<tr>
<td>Health &amp; Social Services</td>
<td>The legislature funded major increases to support reduction to the Federal Medical Assistance Percentage (FMAP) rate, to accommodate growth in the state Medicaid program and increases in rates charged by Medicaid providers. In addition, it funded increases in the senior benefits program, greater support for child advocacy centers, and energy assistance for low-income Alaskans.</td>
</tr>
<tr>
<td>Labor &amp; Workforce Development</td>
<td>The legislature’s major funding increase was for one-time funding of the Alaska Construction Academy Training Opportunities Program. It also added funding to the technical vocational education program and the state training and employment program.</td>
</tr>
<tr>
<td>Agency</td>
<td>Nature of Adjustment</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Law</td>
<td>Part of the funding increase replaced reduced federal funding. The largest single increases supported gas pipeline and other oil and gas projects, and the corrosion litigation against BP. Smaller increases were designed to deal with increased caseloads and to establish a special offenders unit in the criminal division.</td>
</tr>
<tr>
<td>Public Safety</td>
<td>Funding increases to public safety supported increased overhead and service costs statewide, increased costs for prisoner transportation, new state trooper investigator positions, new wildlife trooper positions, and to replace declining federal funds with state general funds.</td>
</tr>
<tr>
<td>Revenue</td>
<td>The major element of this increase supports new audit master positions in DOR to monitor the state’s revised petroleum production tax as well as additional contractual assistance.</td>
</tr>
</tbody>
</table>

*Source: Legislative Finance, Conference Committee Books, selected agencies, 7/24/08*

A common element in several of these increases is the need to replace reduced federal spending with state general funds. Several of the agencies sought and received catch-up funding, to compensate for budget reductions in previous years. Finally, several of the agencies received increased support to implement new legislation, both the petroleum production tax (ACES) and the Alaska natural gas pipeline process under AGIA (including job training).

Table 5 presents agency totals for all sources of funding:
The federal share of the operating budget is nearly the same as in the previous year. As in years past, Health & Social Services receives most (58 percent) of federal funding. Both K-12 and the University of Alaska receive substantial federal support. Program receipts, such as user and license/permit fees as well as university tuition, are large parts of the budget of many state agencies. As in previous years, they comprise 49 percent of the statewide university budget, 45 percent of the budget for the Department of Environmental Conservation, 52 percent of the Department of Commerce, Community & Economic Development’s budget, 57 percent of the budget of the Department of Transportation & Public Facilities, 74 percent of the Department of Administration’s budget, and finally, 79 percent of the Department of Revenue’s budget.
Savings. Large spending increases in times of plenty are unsustainable, but understandable. Yet the 25th Alaska State Legislature saved $5.7 billion, drawn from FY 08 surpluses and those anticipated in FY 09. Table 6 tells this story:

<table>
<thead>
<tr>
<th>Deposited in</th>
<th>FY 08</th>
<th>FY 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constitutional Budget Reserve</td>
<td>$4.1 billion</td>
<td>$1 billion</td>
</tr>
<tr>
<td>Statutory Budget Reserve</td>
<td>$1 billion</td>
<td></td>
</tr>
<tr>
<td>Public Education Fund</td>
<td>($0.612 billion)</td>
<td>$0.175 billion</td>
</tr>
<tr>
<td></td>
<td><strong>$4.488 billion</strong></td>
<td><strong>$1.175 billion</strong></td>
</tr>
</tbody>
</table>

*Source: David Teal, Legislative Finance, 8/25/08. Also see the Bradners’ *Alaska Legislative Digest*, April 14, 2008.*

The CBR, after these deposits, has more than $8 billion. If the earnings reserve of the PF were included with the other reserve accounts mentioned above, the legislature could easily finance the FY 10 budget without dipping into any other source of funding for state government.

**CONCLUSIONS**

In 2007-08, Alaska had another momentous year. Oil prices were at historically high levels, allowing the state legislature to appropriate funds for virtually any purpose, and reigniting the debate over spending versus saving. Alaska has had such debates years previously, notably in the early 1980s when oil prices were at high levels and the state had very large operating and capital budgets. During the 2008 session, with evidence of huge state surpluses, state officials did save $5.7 billion in various accounts, but they also spent to the limit of foreseeable surpluses. When adopting the large operating and capital budgets, both the governor and lawmakers commented that the spending was unsustainable.

The governor drove the budget process in 2007-08. She set objectives to increase K-12 education funding, pay down the state’s large pension liability, and help out municipalities. The legislature, for the most part, honored the governor’s preferences. When legislators reinserted vetoed capital projects into the huge supplemental, the governor objected. She attempted negotiation with legislators, but when many of the projects remained in the final bill, she vetoed most of them. She repeated actions she had taken in 2007 on yet another bloated capital budget. As in 2007, she vetoed 10 percent of the local projects from the budget, when legislators had failed to prioritize them and state the broader public purpose they would serve. When the legislature did not conclude action providing relief to Alaskans suffering from high energy costs, she called it into a second special session, which adopted her version of a relief package—primarily per capita payments of $1,200 to each eligible Alaska resident.

The governor had similar success in implementing the AGIA process. Her administration found only one of five applications to be viable, that of TransCanada. Her staff took its findings throughout the state, and presented them to legislators. Her team (including several
administration consultants) handled objections to the TransCanada proposal to the satisfaction of most legislators. When pressed to give equal consideration to an all-Alaska gas line, the governor demurred. Yet, sensing the importance of this issue to legislators and Alaskans, before the end of the special session she proposed a joint public-private partnership involving the state’s primary gas marketer (ENSTAR) to construct a bullet line from the foothills of the North Slope through Fairbanks to Southcentral, which would provide cheap gas to most Alaskans. The final vote on the license for TransCanada under AGIA passed with two-thirds majorities (less than the passage rate for AGIA itself, but still well more than the majority of votes needed).

Relations of the state with the oil industry during the period covered by this report were mixed. Objecting to the conditions under which the PPT had been passed in the previous administration, and the amount of “take” for Alaska, the governor called legislators into a special session in October 2007, where she persuaded them to adopt a revision of the PPT called ACES. The revised legislation instituted a higher rate of taxation on oil company profits, narrowed allowable deductions, and simultaneously increased state monitoring and auditing capabilities. This was one of the few episodes in Alaska’s history when the state has stood firmly against corporate interests. However, the governor was not successful in enticing the three major producers to apply under the AGIA process. ConocoPhillips submitted an application, which did not conform to the requirements. Then, BP joined ConocoPhillips in proposing the Denali natural gas pipeline from the North Slope to Calgary. It did not meet the state’s “must haves,” nor did it seek the $500 million in state assistance provided under AGIA. The two producers committed $600 million to survey and other pre-construction work, insisting they would build a gas line under their own terms and secure FERC certification, whatever resulted from the AGIA process. This creates uncertainty as to whether producers would commit their gas to a TransCanada pipeline. As recounted above, the state’s suit against ExxonMobil to produce gas from Pt. Thomson, promises no easy resolution to the state’s contention that producers have a “duty to produce.”

Federal investigations, criminal corruption and bribery charges against Republican state legislators (and convictions of three legislators and former Governor Murkowski’s chief-of-staff) threw a heavy cloud over state politics and government in 2007 and 2008. National attention focused on Alaska repeatedly during these events, and crystallized when the state’s senior US senator, Ted Stevens, was indicted in late July 2008 on seven counts of failure to disclose “gifts” received from VECO from 1999 to 2006. Political investigations initially gave the governor the state’s ethical high ground, and leverage over legislators (and the congressional delegation). Then, the governor herself came under investigation for alleged attempts (largely by her spouse, chief-of-staff, and director of state boards and commissions) to fire a state trooper in a bitter divorce/child custody proceedings involving the trooper and the governor’s sister.

The governor’s popularity remained high despite the legislative investigation. Corruption investigations, trials and convictions—which continue through the 2008 primary and general election season—may decisively influence who represents Alaska in the US Congress. Already they have influenced perception of Alaska in the United States and abroad, with unfortunate parallels drawn between America’s frontier state and developing nations both blessed and cursed by the bounty of oil.
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**About the Author: Jerry McBeath** is professor of political science at the University of Alaska Fairbanks, where he has worked since 1976. He especially thanks David Teal, Director, Alaska Legislative Finance Division, for assistance.