

STATE INVESTMENT ADVISORY COMMITTEE MEMBERS

August 26, 1976

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Distributed by Senator Bill Wielechowski
SJR 1: Constitutional PFD
Senate State Affairs Committee 2/9/21

STATE INVESTMENT ADVISORY COMMITTEE

ANCHORAGE, ALASKA

August 26, 1976

A G E N D A

- 9:30 a.m. I. Opening comments and introduction of new members:
Sterling Gallagher, Commissioner of Revenue
- 10:00 a.m. II. Status report on current activity:
- A. Administration's role and overview of the Permanent Fund
Sterling Gallagher, Commissioner of Revenue
 - B. Legislative role and introduction of consultants:
Hugh Malone and Jim Rhodes
- 10:45 a.m. III. Report on the Permanent Fund:
Vince Wright
- 12:00 Noon Lunch Break
- 1:30 p.m. IV. Report by Bob Richards
- 2:00 p.m. V. Open Discussion - possible topics:
- A. Role of the Permanent Fund
 - B. Structure of the Permanent Fund:
Management
Development
Bank
Etc.
 - C. Role of the Investment Advisory Committee
 - D. Economic Growth
- 3:00 p.m. VI. Planning Session
- A. Administrative Activities
 - B. Legislative Activities
- 4:00 p.m. VII. Discussion of future meeting - time and place
- 4:30 p.m. VIII. Adjourn



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

August 25, 1976

The Honorable Sterling Gallagher
Commissioner
Department of Revenue
Pouch S
Juneau, Alaska 99811

Dear Sterling:

The purpose of this letter is to express to you some of my concern and thoughts on the proposed permanent fund for Alaska. As you know, I have been an advocate of a permanent fund for a number of years. My feelings about the fund and its establishment led me to veto the 1975 legislative effort because it failed to establish a permanent fund on constitutional grounds. The 1976 legislature has passed, and I have signed, HR 39 which calls for a constitutional amendment that would allow the establishment of a permanent fund. This places the issue before the voters in November and allows them the opportunity to resolve the issue. As you are aware, my proposal included oil and mineral taxes, however, HR 39 eliminated the tax clause. The effect this has is to reduce the size of the fund to approximately half the size it could have been if the tax clause were included in the resolution.

There are several areas of concern that I wish to express to you for your deliberation:

1. The preliminary work necessary to establish the permanent fund.
2. The estimated size of the permanent fund.
3. Policy concerning the investment goals of the permanent fund.
4. The management and organization of the permanent fund.
5. State and public interest in the permanent fund.

I am sure that there are other areas of importance in thinking about a permanent fund and I feel confident that you will be of

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valuable assistance in identifying such areas for consideration. However, let us expand on the five aforementioned items.

1. Preliminary work necessary to establish the permanent fund.

The legislature appropriated \$135,000 for use in establishing the permanent fund and placed these funds in the Department of Revenue. The Department of Revenue has the responsibility for investing (managing) the State's money through the activities of your office and the Treasury Division. Additionally, you are my chief advisor on all fiscal matters relating to any State revenues and tax issues. For these reasons I am appointing you to act as the Administration's lead person in establishing the permanent fund. I know that your capabilities and those of your staff will be of valuable assistance in accomplishing this task.

It is my desire to use every possible resource available to establish the permanent fund. The State Investment Advisory Committee (S.I.A.C.) is charged by statute to advise the Commissioner of Revenue on investment policy for the State. This Committee seems to be the best vehicle for increasing the pool of expertise from which you may draw in establishing the permanent fund. On your advice I have temporarily expanded the membership of the S.I.A.C. to include additional members from the public at-large, the legislative body, and from my own staff, the Director of Policy Development and Planning. I would like to ask that the S.I.A.C. work with you in the establishment of the permanent fund. It is my hope that the joint effort of the S.I.A.C. and yourself will have accomplished the task and developed recommendations for my consideration prior to the convening of the 1977 legislature.

2. The estimated size of the permanent fund.

The Alaskan environment may be characterized as subject to rapid and significant change. Historically Alaska has had the gold-rush, the world wars, the fisheries exploitation, and now the oil development. Each experience has affected the life style in Alaska. The State received \$900 million from the North Slope oil lease sales-- a virtual "barrel" of gold for the State's treasury. Today, much of those funds have been expended in the many and various programs subsequently developed after receipt of the "windfall."

Today, Alaska is anticipating receipt of funds from the taxes and royalties to be received as a result of the production of North Slope oil flowing through the trans-Alaska pipeline. The proposed constitutional amendment establishing the permanent fund calls for a minimum of 25 percent dedication of royalty funds to the permanent fund. While there are many variables to consider in determining how much money will be received by the State it is a primary concern that the permanent fund be the vehicle for preserving a legacy for

future generations of Alaskans. This calls for intelligent, advanced planning and the adoption of firm management policies.

Various estimates have placed the accumulated amount of the permanent fund between \$1.5 billion and \$2.5 billion by 1985. Eight years ago \$1.0 billion seemed like a large amount of money. It was! The catcher is there seems to be an even larger capacity for politicians to devise ways to spend large sums of State funds.

I pointed out earlier that my original proposal called for the inclusion of "taxes" as well as royalty revenues to be included in the permanent fund. This inclusion could have boosted the estimated size of the permanent fund to approximately \$3.0 billion - \$5.0 billion. The current resolution proposing the constitutional amendment sets a "minimum" of 25 percent of all State oil and gas royalties. It is desirable, in my estimation, to consider an even larger percentage of royalties to be dedicated to the permanent fund if they can be properly utilized. In this regard I would like the S.I.A.C. to consider alternative amounts and what can be accomplished at various levels.

3. Policy concerning the investment goals of the permanent fund.

It is one thing to create a permanent fund and another to establish investment policies and goals for it. While I have long advocated the establishment of a permanent fund I have also advocated a philosophy which subscribes to a "planned" growth policy with an emphasis on those economic or industrial development projects which are economically and environmentally sound. I do not wish to see development which cannot pay its own way. The permanent fund will give the State the opportunity to invest revenue received from non-renewable resources into renewable resources. An example of this type of investment is the fish hatchery loan program currently funded out of the State's general funds. I have previously stated that I do not subscribe to the philosophy of "super-growthers" but rather to a one-step-at-a-time approach providing full employment for a moderate population for the long term, rather than crash exploitation that triggers a massive boom, then bust.

The long term policy considerations should definitely include investments in renewable resources, infra-structure for development projects, non-renewable resources and other relative investment opportunities. The performance of the investments and the types of investments of the permanent fund are important in the long term because the permanent fund will belong to the residents of the State. It is my concern that the long-term investment policy take into consideration the constituency of the permanent fund. It is necessary

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that the investment policy reflect the interests of the State's residents. For example, there is ample opportunity to provide long term capital for utility loans which would have the advantages of helping a broad spectrum of the population and providing maximum loan security.

It is important that the permanent fund be viewed as an integral part of the State business community and not as a competitive component of the banking system. Permanent fund long term investments will fill an existing void in the current capital requirements of the State. The State banking system currently meets the short term capital needs of the State's business environment. Portfolio staff management requirements for long term investments are not as large as the short term staff requirements.

Investment policy should consider achieving the maximum benefit for Alaskans. In this line using the fund for "participating" loans with industry for development purposes may have considerable merit. This also includes the use of "leverage" when feasible for funding large projects.

It is my hope that the S.I.A.C. will review the existing State loan programs and make recommendations concerning their current management. For example, should the State small business loans be kept in the investment portfolio of the Treasury Division or should they be sold to the permanent fund? Should the permanent fund provide financing for small business types of loans of this nature? What kind of terms should be provided? Interest rates?

Additionally, investment policy should consider any money market types of investments. Should there be a constraint or limitation on equity type investments? These questions and others should be considered in the development of investment policy.

4. The management and organization of the permanent fund.

It is important that the permanent fund be established in such a way as to allow for the maximum benefit to accrue to the Alaska residents while providing for the security and preservation of the fund. This concern may be addressed in the management and structure of the organization which finally administers the permanent fund. The following represent some concerns I have in this important area:

- a. The structure of the organization.
- b. The relationship of the organization to the legislature, the State administration, and the public.
- c. The selection of the management and policy making board (or boards).
- d. Criteria for insuring that the fund retains its integrity.

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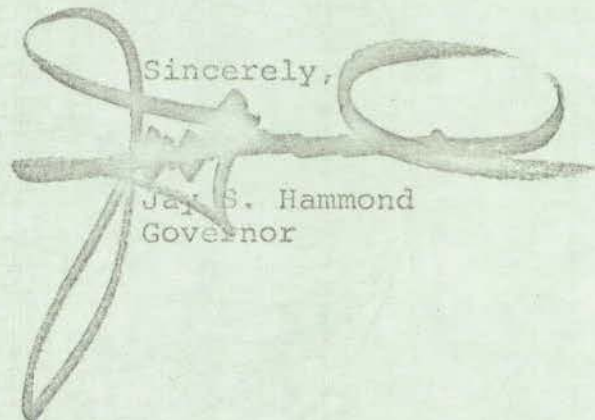
- e. Security and protection from fraud and political influence.
- f. Reporting requirements to the public.

These concerns reflect my desire to insure that the permanent fund get off on the right foot. It is imperative that much consideration be given to each of the areas mentioned. There are probably other important concerns and it is my hope that the S.I.A.C. will identify these and include them in its recommendations.

5. State and public interest in the permanent fund.

The permanent fund will be a very visible entity to the Alaskan public. The purpose of the permanent fund is to preserve a legacy for future generations of Alaskans and still provide immediate benefits to the present Alaskans. In this regard I have frequently discussed my ideas on the concept of Alaska, Inc. I ask that the Division of Policy Development and Planning be placed specifically in charge of proposing means of developing such a concept. I envision this entity to be similar to a corporation owned by all Alaskans which would receive a dividend paid out of the earnings of the permanent fund. While I realize that there are potentially many problems with this idea I would like the S.I.A.C. to consider not only the developmental aspects of the permanent fund but to also consider how to best and most directly provide tangible benefits to Alaskans.

Sincerely,

A large, stylized handwritten signature in dark ink, appearing to read 'Jay S. Hammond', is written over the typed name and title.

Jay S. Hammond
Governor

Mr. Edenso: Apparently the public does not know what HR-39 says. HR-39 says the permanent fund's principal may be invested or will be invested in income earning projects, opportunities, or investments. That pretty well states what the permanent fund will do. I can't see any person voting for or against a permanent fund without understanding what they are voting for. We understand there will be 25% oil revenues and royalties -- oil revenues set aside for a permanent fund which will be used to invest into different income earning opportunities. Something should be done about educating the public.

Mr. McFarland: What are the present sources? Did I hear about \$120 million a year?

Mr. Edenso: The veterans' portfolio is \$110 million and it would run about \$50 million annually. That money is coming from the general fund. It is mandated. Any loan that the veterans make the Department of Revenue has to purchase the paper.

Mr. Gallagher: The pension funds are \$290 million in size; we have \$80 million in loan mortgages, about \$20 million of that is in commercial property and \$60 million is in dwellings. The pension funds will go from \$290 to \$350 million in size by the end of the year. In the general fund there is \$450 million, \$110 million in veterans loans. We have another \$20 million in ASHA loans and purchases of AHFC. We have \$27 million long term deposits with banks in Alaska and they will start running in 1981 through 1985. That was part of that 14 year program. We have \$9 million in fishing loans; \$5 million in agricultural loans; \$200,000 in Native Corporations, and \$8 million in municipal loans.

Mr. McFarland: We really don't have any problem of where we're going to put our money until fiscal 1978, is that correct? I think this committee should take a position for or against a permanent fund. That might be a place to start.

Mr. Wohlforth: I move that the committee support the amendment establishing the permanent fund.

Mr. Gruening : I'll second that.

Mr. McFarland: Moved and seconded. Any discussion? Any objection?

Mr. Gruening: What do we tell the public, aside from the fact that we support the fund. I get the feeling, even though a lot of legislators will want to act on it right away, you're looking at least two or three years before you have enough to get into any of these areas, the social or just purely economic.

Maybe one of the recommendations, aside from just a broad general area that the fund could have multipurposes is that the legislature may take more than one session to look at it. I think it would be a political mistake to devise a lot of things that may not agree with what the people have in mind. There is also another area that is interesting. What do you do with the income that it says will go into the general fund, that was how it came down from the Governor, unless otherwise provided by law, which would enable the legislature to either dedicate those revenues for the specific purpose or to require them to go back into the permanent fund, or to have a dividend check to every Alaskan.

Mr. Gallagher: When you actually look at Alaska, Inc. and look at what is meant by Alaska, Inc., you are really talking about not the investments that go into the bank itself, but about the income that comes off the fund and how you could use it. Jim, do you have any comments?