

HJR

39

# COMMITTEE REPORT

3/10/76

HOUSE

Mr. Speaker:

Date 3/24

The Committee on JUDICIARY has had SSHJR 39

under consideration. A Majority of the members of the Committee

( ) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

recommends it BE REPLACED WITH CS FOR SSHJR 39 AND THAT

CS FOR SSHJR 39 DO PASS

( ) "and" recommends it BE REFERRED TO THE \_\_\_\_\_  
COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

|                      |       |       |
|----------------------|-------|-------|
| <u>Tony Anderson</u> | _____ | _____ |
| <u>John L. ...</u>   | _____ | _____ |
| <u>...</u>           | _____ | _____ |
| <u>...</u>           | _____ | _____ |

Members NOT concurring in the Majority report:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

Tony Anderson Chairman

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

hjr 39  
JAY S. HAMMOND, GOVERNOR

POUCH S - JUNEAU 99811

February 4, 1976

The Honorable Hugh Malone  
Chairman  
House Finance Committee  
Alaska State Legislature  
State Capitol Building  
Juneau, AK 99811

Re: Sponsor Substitute for House Joint Resolution No. 39

Dear Mr. Malone:

Sponsor Substitute for House Joint Resolution No. 39, proposing an amendment to the Alaska Constitution, establishing a permanent fund for certain proceeds derived from non-renewable resources was introduced on January 15, 1976 by the Rules Committee at the request of the Governor and was referred to the House Finance and Judiciary Committees.

For the consideration of the House Finance Committee, I am enclosing a copy of a fiscal note prepared by Lawrence P. Eppenbach, Deputy Commissioner, Treasury, Department of Revenue along with a copy of a memorandum from the same employee detailing fiscal note comments.

If you or any members of the House Finance Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Eppenbach for further information or testimony at a hearing.

Very truly yours,

R. D. Stevenson  
Special Assistant

Enclosures

cc: The Honorable Terry Gardiner  
Chairman  
House Judiciary Committee

Lawrence P. Eppenbach  
Deputy Commissioner, Treasury  
Department of Revenue

THE LEGISLATURE OF THE STATE OF ALASKA  
FISCAL NOTE  
 Second Session - Ninth Legislature

I. REQUEST

~~XXXXXXXXXX~~ Joint Resolution - Permanent Fund

Title: \_\_\_\_\_

Requested by: Governor

Date: January 12, 1976

Return Date Requested: \_\_\_\_\_

Agency: Revenue

Program: State Investment Advisory  
 Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: \_\_\_\_\_

A. EXPENDITURES: (Thousands of dollars)

| OBJECT                   | FY 76 | FY 77   | FY 78 | FY 79 | FY 80 | FY 81 |
|--------------------------|-------|---------|-------|-------|-------|-------|
| 100 PERSONAL SERVICES    |       |         |       |       |       |       |
| 200 TRAVEL               |       |         |       |       |       |       |
| 300 CONTRACTUAL          |       | 150,000 |       |       |       |       |
| 400 COMMODITIES          |       |         |       |       |       |       |
| 500 EQUIPMENT            |       |         |       |       |       |       |
| 600 LAND & STRUCTURES    |       |         |       |       |       |       |
| 700 GRANTS, CLAIMS, ETC. |       |         |       |       |       |       |
| TOTAL                    |       | 150,000 |       |       |       |       |

B. FUNDING: (Thousands of dollars)

|               |  |         |  |  |  |
|---------------|--|---------|--|--|--|
| GENERAL FUND  |  | 150,000 |  |  |  |
| FEDERAL FUNDS |  |         |  |  |  |
| OTHER         |  |         |  |  |  |

C. POSITIONS:

\_\_\_\_\_ / / / / / / / / / /

## MEMORANDUM

TO: Sterling Gallagher  
Commissioner  
Department of Revenue

FROM: *Lawrence C. Epenbach*  
Lawrence C. Epenbach  
Deputy Commissioner, Treasury  
Department of Revenue

DATE: January 12, 1976

SUBJECT: Fiscal Note Comments -  
Permanent Fund Concept

The proposed Constitutional initiative would establish a permanent fund composed of 10 percent of all mineral lease revenue and production taxes received by the State. The amendment calls for the fund to be invested in income yielding projects and investments, with the income transferred to the general fund.

The amendment language is broad in nature and a comprehensive piece of enabling legislation will be required to make the concept work. Many topics will have to be addressed by this enabling legislation such as the investment objectives, the creation of development financing institutions, new loan programs, and even the organizational framework. To study these questions and to have draft legislation ready for introduction at the beginning of the 1977 session will require research to commence right away. In addition, since the success of this fund will hinge on the quality of management personnel work must also proceed in identifying and recruiting qualified managers.

This fiscal note assumes that the present State Investment Advisory Committee will research and draft this legislation and that it will be completed by January 15, 1977. This Committee is presently responsible for advising the Commissioner of Revenue with respect to investments and its membership (legislative, executive, and public) is broadly representative of Alaskan interests.

The State Investment Advisory Committee does not have a permanent staff; this fiscal note would provide funds for securing the necessary research capability. In addition, new members may be appointed to the Committee to enhance its ability to undertake this responsibility. Even though the approach taken ultimately will be up to the Committee, the following outline might represent a typical plan. It divides the work into four phases:

1. Preliminary/Conceptual Research: Typical assignments would include a study of the experience of similar funds in other states; a thorough cataloging of Alaska's renewable and non-renewable resources; an examination of the need for credit expansion in Alaska; the evaluation of present loan programs; the identification of alternative administrative frameworks for the fund; and background data gathering on the State's financial position.

2. Economic Research: Work in this area might consist of the classification of present and potential revenue sources into recurring and non-recurring components; the identification of possible recurring revenue increments related to development activity, and the identification of environmental costs associated with that activity. This should provide a ranking of potential economic projects with respect to long term net economic benefit to Alaskans. Careful coordination with the development plans of Native Regional and Village Corporations, State authorities, municipal, and private sector corporations will be required.

3. Financial Research: Here the detail work begins in identifying alternative investments that may qualify for permanent fund participation. Each project would have to be ranked according to its ability to stimulate net recurring revenue benefits to the entire State. Measurements of the impact of fund operation on State budget expenditures would also have to be made.

4. Legal Research: Reviews of legal investments, the legal status of investing in quasi-public institutions, and the actual writing of proposed legislation would logically fall into this category.

LCE:ge  
Enclosure

## Amendments to HJR 39

- ① Page 1 line 6  
Changed title to Alaska Permanent Fund from "a permanent fund"
- ② lines 13 & 14 changed "except as provided in sec 15, and" to "as provided in sec 15 of this article or"  
The deletion of "where required" is a typo  
This is better language construction
- ③ line 21 added the word "ALASKA"  
to title to be consistent with HJR title
- ④ line 21 changed "10%" to "25%"  
Reason: more bucks
- ⑤ line 22 added "federal mineral"
- ⑥ line 23 added "all" see committee report for reason
- ⑦ line 25 through 28. The original words were "shall be used for income investment". The committee amended this to read "shall be used only in a manner to be provided by law". This was again changed without committee approval to say "shall be used only for those income producing investments specifically designated by law as eligible for permanent fund investment". This was done so a state employee could

Page 2

not argue that any change in present law, i.e. vet loans, which had fiscal implications was impliedly "in a manner to be provided by law" and hence taps the fund.

(8)

Page 2 line one; added "unless otherwise provided by law."

Reason: Standard language and to be consistent with amendment 7

(9)

Page 2 line 6 through 8 added Sec 4 at request of France  
Constitution ~~has~~ says an amendment becomes effective 30 days after certification unless amendment ~~say~~ give another time. This ~~am~~ section says 90 days from certification. I don't know the reasoning

Introduced: 1/15/76  
Referred: Finance and  
Judiciary

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the  
6 Alaska Constitution, establishing  
7 a permanent fund for certain pro-  
8 ceeds derived from non-renewable  
9 resources.

10 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 \* Section 1, Article IX, Section 7, Constitution of the State of Alaska,  
12 is amended to read:

13 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or  
14 license shall not be dedicated to any special purpose, except as pro-  
15 vided in section 15 and except when required by the federal government  
16 for state participation in federal programs. This provision shall not  
17 prohibit the continuance of any dedication for special purposes exist-  
18 ing upon the date of ratification of this constitution by the people  
19 of Alaska.

20 \* Sec. 2. Article IX, Constitution of the State of Alaska, is amended  
21 by adding a new section to read:

22 SECTION 15. PERMANENT FUND. <sup>25</sup> [Ter] per cent of all mineral lease  
23 rentals, royalties, royalty sale proceeds, revenue sharing payments,  
24 bonuses, and <sup>all</sup> mineral production taxes <sup>received</sup> received by the state shall be  
25 placed in a permanent fund, the principal of which shall be used only  
26 for income investments. <sup>which shall be established by law.</sup> The legislature may appropriate additional  
27 amounts to the permanent fund which shall become a part of the principal  
28 of the fund. All income from the permanent fund shall be deposited in  
29 the general fund, <sup>unless otherwise provided by law,</sup>

AMENDMENT #1

OFFERED IN THE HOUSE:

BY: FINANCE COMMITTEE

To: \_\_\_\_\_ HOUSE BILL No. SSHJR 39

SENATE BILL No. \_\_\_\_\_

1) PAGE: 1 LINE: 6 Title \_\_\_\_\_  
after "estat shing" insert: an ALASKA PERMANENT FUND

2) 1 22  
before PERMANENT FUND insert: ALASKA  
before "per cent" delete: Ten  
insert: Twenty-five

3) 1 23  
before "revenue" insert: federal mineral

4) 1 26  
after "investments" insert: *In a manner to be provided by law*  
which shall be established  
by law

5) 1 29  
after "fund" add: *In a manner to be provided by law*  
unless otherwise provided  
by law

6) 2 5  
add another section:  
\* Sec. 4. The amendments proposed by this resolution if adopted by the voters at the next general election shall become effective 90 days after the certification of the election returns by the lieutenant governor.

Before the House Judiciary Committee  
Regarding: HJR 39 Exception for Dedication of Revenues  
Constitutional Amendment for a "permanent fund"

Testimony by Norman Bailey of Anchorage, Alaska - March 15, 1976

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

As the permanent fund concept is before you for passage during this Legislature we cannot stress its importance to the State, and to the future of its citizens, enough.

Alaska is to be the recipient of an additional one billion dollars each year (if tax laws remain unchanged). As oil begins to flow in 1978 and continues for nearly 20 years, we will be awash in "petro-dollars".

Prudence dictates that we begin now to set up a mechanism for the management of these monies we will receive from the sale of one of our non-renewable resources.

The permanent fund, or placement of a certain percentage, is a fund to preserve the money while it waits to be placed in the State economy to help that economy be more self-reliant. In the past we have seen the negative results of economic exploitation.

The gold industry, once the most influential in Alaska, now presents only closed up mines, ghost towns, and old cabins as evidence of the period. The wealth left Alaska to New York, Seattle, San Francisco, Chicago, and elsewhere. It did Alaskans little good and left no economic benefit for Alaskans of today.

The fishing industry, once strong and thriving, has been exploited nearly beyond recovery. For the most part the wealth has left Alaska. The canneries are owned, still today, almost all by outside interests. The wealth from exploiting that resource has been of little benefit to Alaskans.

The story line is almost the same in each industry. The permanent fund can alter that line. It can allow Alaska the ability to exercise a greater degree of control than ever before over its economic and financial destiny.

Through no acts of our own, we are heir to the benefits of this ~~once~~<sup>ONCE</sup> occurring treasure. It is doubtful that another Prudhoe Bay will come Alaska's way. It is the obligation and duty of the members of this Legislature to offer all Alaskans the opportunity to decide - since this time they have a chance - what they think the policy of the State ought to be with regard to the preservation of our oil wealth.

I urge you pass HJR 39 out of Committee and give it early attention on the floor.

*Norman Bailey*

ASSUMPTIONS

NATIVE CLAIMS  
(millions)

|               |                |                |
|---------------|----------------|----------------|
| FY76 - \$ 6.4 | FY77 - \$ 5.9  | FY78 - \$ 71.6 |
| FY79 - \$90.8 | FY80 - \$124.6 | FY81 - \$140.9 |
| FY82 - \$59.8 |                |                |

This is the payment schedule which is included in State Expenditures.

PROPERTY TAX  
(millions)

|                                   |                                  |
|-----------------------------------|----------------------------------|
| FY76 - \$16.3 + \$70.1 = \$86.4   | FY77 - \$70.1 + \$58.1 = \$128.2 |
| FY78 - \$128.2 + \$23.9 = \$152.1 | FY79 - \$152.1 + \$2.3 = \$154.4 |
| FY 1980 = \$154.4                 | FY 1981 = \$154.4                |
|                                   | FY 1982 = \$148.2                |

The Petroleum industry property is depreciated at 4% per year from FY81 on.

The aforementioned assumes a move up in the effective payment date from Sept. to June. This is why the additional (+) revenues appear from FY76 to FY79.

BONUS SALES

No Anticipated Bonus Sale Receipts Included

RESERVE TAX CREDIT  
(millions)

The Permanent Fund is calculated on the total reserve tax before the companies receive credits. This is in conformity with the intent of the bill.

|                          |               |                      |
|--------------------------|---------------|----------------------|
| Receipts \$220 in FY76   | \$269 in FY77 | for a total of \$489 |
| Paybacks \$109.2 in FY78 | \$142 in FY79 | \$198.4 FY80         |
| \$ 39.4 in FY81          |               |                      |

INTEREST RATES

The Permanent Fund earns 6% on the previous year's balance which is deposited in the General Fund.

The General Fund earns 6% on the previous year's balance which is deposited into the General Fund.

ANALYSIS OF PERMANENT FUND - AT 25% CONTRIBUTION RATE  
(in millions of current dollars)

| FISCAL<br>YEAR | TOTAL<br>UNRESTRICTED<br>GENERAL FUND<br>REVENUE<br>BEFORE<br>CONTRIBUTION | TOTAL<br>REVENUE<br>SUBJECT TO<br>PERMANENT<br>FUND<br>CONTRIBUTION | 25% CONTRIBUTION<br>TO<br>PERMANENT FUND<br>PER YEAR | PERMANENT<br>FUND<br>BALANCE | TOTAL<br>UNRESTRICTED<br>GENERAL FUND<br>REVENUE<br>AFTER<br>CONTRIBUTION | TOTAL<br>UNRESTRICTED<br>GENERAL FUND<br>EXPENDITURES<br>+ ALASKA NLC | GENERAL FUND<br>SURPLUS<br>(DEFICIT) | GENERAL<br>FUND<br>BALANCE |
|----------------|--|---|--|------------------------------|---|---|--------------------------------------|----------------------------|
| FY75           | 333.4  | ---   | ---  | ---                          | 333.4   | 490.0   | (156.6)                              | 379.3                      |
| FY76           | 650.0  | 68.6  | 17.2   | 17.2                         | 632.8   | 626.4   | 6.4                                  | 385.7                      |
| FY77           | 728.7  | 63.5  | 15.9   | 33.1                         | 712.8   | 705.9   | 6.9                                  | 392.6                      |
| FY78           | 986.4  | 688.7   | 172.2  | 265.3                        | 814.2   | 871.6   | (57.4)                               | 335.2                      |
| FY79           | 1181.5   | 874.3   | 218.6  | 423.9                        | 962.9   | 990.8   | (27.9)                               | 307.3                      |
| FY80           | 1493.0   | 1198.9  | 299.8  | 723.7                        | 1193.2  | 1124.6  | 68.6                                 | 375.9                      |
| FY81           | 1871.3   | 1374.9  | 343.7  | 1067.4                       | 1527.6  | 1240.9  | 286.7                                | 662.6                      |
| FY82           | 2111.7   | 1526.4  | 381.6  | 1449.0                       | 1730.1  | 1259.8  | 470.3                                | 1132.9                     |
| FY83           | 2403.8   | 1757.1  | 439.3  | 1888.3                       | 1964.5  | 1300.0  | 664.5                                | 1797.4                     |
| FY84           | 2651.7   | 1931.0  | 482.8  | 2371.1                       | 2168.9  | 1400.0  | 768.9                                | 2566.3                     |
| FY85           | 2819.8   | 2018.5  | 504.6  | 2875.7                       | 2315.2  | 1500.0  | 815.2                                | 3381.5                     |

THE LEGISLATURE OF THE STATE OF ALASKA  
FISCAL NOTE

Second Session - Ninth Legislature

HJR 39

I. REQUEST

XXXXXXXXXX Joint Resolution - Permanent Fund

Title: \_\_\_\_\_  
Requested by: Governor \_\_\_\_\_ Date: January 12, 1976  
Return Date Requested: \_\_\_\_\_  
Agency: Revenue \_\_\_\_\_ Program: State Investment Advisory  
Committee

II. FISCAL DETAIL

Budget Request Unit(s) Affected: \_\_\_\_\_

A. EXPENDITURES: (Thousands of dollars)

| OBJECT                   | FY 76 | FY 77   | FY 78 | FY 79 | FY 80 | FY 81 |
|--------------------------|-------|---------|-------|-------|-------|-------|
| 100 PERSONAL SERVICES    |       |         |       |       |       |       |
| 200 TRAVEL               |       |         |       |       |       |       |
| 300 CONTRACTUAL          |       | 150,000 |       |       |       |       |
| 400 COMMODITIES          |       |         |       |       |       |       |
| 500 EQUIPMENT            |       |         |       |       |       |       |
| 600 LAND & STRUCTURES    |       |         |       |       |       |       |
| 700 GRANTS, CLAIMS, ETC. |       |         |       |       |       |       |
| TOTAL                    |       | 150,000 |       |       |       |       |

B. FUNDING: (Thousands of dollars)

|               |  |         |  |  |  |  |
|---------------|--|---------|--|--|--|--|
| GENERAL FUND  |  | 150,000 |  |  |  |  |
| FEDERAL FUNDS |  |         |  |  |  |  |
| OTHER         |  |         |  |  |  |  |

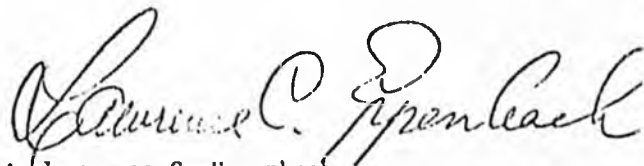
C. POSITIONS:

|                     |   |   |   |   |   |   |
|---------------------|---|---|---|---|---|---|
| PERMANENT/TEMPORARY | / | / | / | / | / | / |
| MAN MONTHS (P./T.)  | / | / | / | / | / | / |

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This fiscal note displays the reasonable minimum in research expenses to draft bills for introduction in the 1977 legislative session to implement the permanent fund. It does not describe the longer term revenue impact of such a fund.

IV. ATTACHMENTS



V. DATE: January 12, 1976 PREPARED BY: Lawrence C. Eppenbach

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)

MEMO TO: Terry Gardiner  
FROM: Rick Svobodny  
RE: SS HJR 39 Permanent Fund

March 16, 1976

After the Committee meeting of March 15 I discussed the question of broadening the language concerning taxation of mineral products and severance with Av Gross. Av suggested I contact John Messenger, the attorney in the Department of Law who deals with tax matters. On March 16, Messenger and I discussed the committee's desire to broaden the language of sec. 15 while at the same time restricting the income to the fund to proceeds of mineral production or severance. Messenger and I suggest that on page 1, line 24 the word "all" be added after the word "and". The addition of this word makes the language more explicit but is not overly broad. We discussed other language but given the propensity for the Supreme Court to liberally construe the Constitution we felt that any other language will be overly broad.

The proposed amendment should be coupled with a Chairman's Report to read as follows:

Introduced: 1/15/76  
Referred: Finance and  
Judiciary

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 39

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Proposing an amendment to the  
6 Alaska Constitution, establishing  
7 a <sup>Alaska</sup> permanent fund for certain pro-  
8 ceeds derived from non-renewable  
9 resources.

*AK  
REG*

10 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 \* Section 1. Article IX, Section 7, Constitution of the State of Alaska,  
12 is amended to read:

13 SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or  
14 license shall not be dedicated to any special purpose, except as pro-  
15 vided in section 15 and except when required by the federal government  
16 for state participation in federal programs. This provision shall not  
17 prohibit the continuance of any dedication for special purposes exist-  
18 ing upon the date of ratification of this constitution by the people  
19 of Alaska.

20 \* Sec. 2. Article IX, Constitution of the State of Alaska, is amended  
21 by adding a new section to read:

22 SECTION 15. <sup>Alaska</sup> PERMANENT FUND. <sup>25</sup> Ten per cent of all mineral lease  
23 rentals, royalties, royalty sale proceeds, <sup>later mineral</sup> revenue sharing payments,  
24 bonuses, and <sup>all</sup> mineral production taxes received by the state shall be  
25 placed in a permanent fund, the principal of which shall be used only  
26 <sup>in accordance to</sup> for income investments, <sup>which shall be established by law.</sup> The legislature may appropriate additional  
27 amounts to the permanent fund which shall become a part of the principal  
28 of the fund. All income from the permanent fund shall be deposited in  
29 the general fund <sup>unless otherwise provided by law</sup>

1 \* Sec. 3. The amendments proposed by this resolution shall be placed  
2 before the voters at the next general election in conformity with art.  
3 XIII, sec. 1, Constitution of the State of Alaska, and the election laws of  
4 the state.

5 ~~X~~ Sec. 4 ...

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STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99801

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 15, 1976

SUBJECT: SSHJR 39 and amendments proposed by the House  
Finance Committee

TO: Representative Gardiner, Chairman  
House Judiciary Committee

FROM: Randolph Berry *RB*  
Revisor of Statutes

I have examined the amendments proposed by the House Finance Committee to SSHJR 39 and do not find any problems or internal inconsistencies created by those amendments. I would, however, recommend that for grammatical clarity and to conform to the cross-citation form used elsewhere in the constitution, the amendment to the constitution made by sec. 1 of the resolution be worded in the following manner:

SECTION 7. DEDICATED FUNDS. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. This provision shall not prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this constitution by the people of Alaska.

RB/sm

# Permanent fund: new independence

By CLARK GRUENING

The Fourth of July came three days early to Alaska in 1958. Alaskans paraded in the streets, exploded fireworks, and generally showed their pleasure over President Eisenhower's signature of the Alaska Statehood Act. Passage of the Act culminated nearly a century of struggle by Alaskans for political self-determination enjoyed by the rest of the Union.

The future of the new state could not have looked brighter. Two factors weighed in the state's favor — a scarcity of population and an abundance of natural resources. Even though lack of population was not universally seen as an asset, it has allowed the state to apply a liberal per capita dose of money to social ills.

TODAY, THE ORIGINAL optimism is tempered by a growing recognition that statehood was an important, but not final victory in a larger struggle. The continuing struggle is both political and economic.

On the political front, Alaska has much to lose if, true to historical patterns, federal decisions to lease the Gulf of Alaska for offshore oil development and to classify large acreages of 17 d-2lands are made with indifference to state needs and rights.

On the economic front, it was hoped statehood would provide relief from the political impotence that seemed to allow financial subjugation of the Territory by outside interests. It is significant that when Alaskans overwhelmingly approved their State Constitution on April 24, 1956, the ordinance to abolish fish traps placed on the same ballot also passed by a wide margin.

ALTHOUGH THE FISH TRAP issue was often debated in terms of conservation and fair competition, the reality was that fish traps, being owned and operated by absentee-owned cannery interests, were a symbol of the worse kind of economic exploitation. Yet, today, as fish traps fade from memory, the processing and marketing segment of Alaska's fishing industry is still largely owned by absentee interests.

As oil exploitation finances an increasing portion of the state's operating budget, Alaskans with an eye to the future are wondering with some apprehension what happens when the oil runs out. Oil and gas production will fund some 29 per cent of the operating budget now under consideration for Fiscal Year 1977. By 1982, oil revenues (projected at current tax rates) will supply at least 80 per cent of all available state revenues.

Of course, other non-renewable resource revenues will be found, but like the Prudhoe Bay oil, these too will dwindle as the resource is extracted. Prudhoe Bay revenues will begin to wane around 1985 and if the present trend of oil consumption continues, use of oil as an energy source, as well as a revenue source, will become history within one generation of Alaskans.

HOW MUCH OF THIS OIL wealth will benefit future generations of Alaskans? The answer is precious little, unless some of today's mineral wealth is set aside in a permanent fund, the principle of which is invested and reinvested in the Alaska economy.

The concept of a permanent fund was debated right after the state fell heir to the \$900 million Prudhoe Bay bonus lease sale monies. But at that time there were, as there are now, many immediate needs crying for immediate relief. The temptation of



(Today's Alaska Forum writer is Clark Gruening, a Democratic state representative from Anchorage District 7.)



being able to meet present needs without raising taxes was too much and the permanent fund idea was shelved.

It would be unfair to say that the total expenditure of the \$900 million between 1970 and 1976 will provide little future benefit for Alaska. The lion's share of the bonus money was dedicated to education which is an investment in people (who certainly should be considered a renewable resource). Indeed, people have proven to be a much more renewable resource than fish, to whose propagation the state has also devoted a large segment of the Prudhoe bonuses.

IN GENERAL, HOWEVER, the bonus money has helped to promote a governmental boom which is responsible for the present flurry of economic activity as the construction of the pipeline.

Today, one out of every three Alaskans is employed by federal, state, or local government. The number of permanent full-time state employees has blossomed from 5,700 in 1969 to over 12,000 in fiscal year 1976. Nearly one-half of the state's general funds is allocated to salaries and benefits for state employees.

The permanent fund, by reducing the amount of money available for use in the state's operating budget, would limit the operation of Parkinson's Law. Nevertheless, the main purpose of the fund would be to accumulate a meaningful capital pool for investment within the state. Investment by the fund would help smooth out the boom and bust cycles and reduce outside financial domination.

Last session, the legislature passed House Bill 324 which provided for the placing of 50 per cent of the state's mineral lease bonuses into a perpetual trust "... for the benefit of both present and future generations of Alaskans." The governor, although voicing support for the concept, vetoed the bill, ostensibly on technical grounds.

THIS SESSION, THE GOVERNOR has introduced Sponsor Substitute for House Joint Resolution 39; a proposal for a constitutional amendment to establish a permanent fund of at least 10 per cent of all mineral lease rentals, royalties, bonuses, as well as mineral production taxes, the principal of which may only be used for income producing investments. Commissioner of Revenue Sterling Gallagher, in a hearing before the House Finance Committee on HJR 39, testified that the 10 per cent is intended as a floor.

The establishment of a permanent fund of revenue from the production of the state's mineral wealth is a task this legislature and the administration should not postpone. Passage of HJR 39 will require two-thirds concurrence of each house. If the resolution passes, the permanent fund will be before the voters in the upcoming general election in November of this year.

After a thorough study of possible alternative investment strategies, a more detailed design of the investment programs can be incorporated in a bill to be considered either this session or by the next Legislature. In either event, the purpose of the fund would be to provide a capital pool for investments which will maximize the benefits of our renewable resources and help promote a viable Alaskan economy.

A RECURRENT BUT SHALLOW criticism of the permanent fund concept is that it would be arrogant for one legislature to tell future legislatures how to spend the state's money. If by chance too much of the state's revenues is earmarked for specific purposes, future legislatures will be unable to respond effectively to changing priorities and problems.

However, the real problem facing the state is just the opposite extreme — too much is being spent to meet supposed immediate needs by auctioning off non-renewable resources which in some part rightfully belong to future generations.

The supreme arrogance is the supposition that any one administration or legislature has all the answers. The annual allocation of 100 per cent of current non-renewable resource revenues to what are then perceived as priorities hardly gives future governments much to work with. A permanent fund should and can be structured to as to be flexible enough to meet future needs. On the other hand, given the present level of per capita government spending in Alaska, a modest 25 per cent set aside of revenues from one time only mineral development will not hamstring necessary government operations.

THE CANADIAN PROVINCE of Alberta, with current annual government expenditures nearly equal to Alaska, has established the "Alberta Heritage Savings Trust Fund" funded from 30 per cent of all non-renewable resource revenues.

The preface to the Alberta act states that "... it would be improvident to spend all non-renewable resource revenues as they are received ..." and "... It is appropriate that a substantial portion of those revenues be set aside and invested for the benefit of the people of Alberta in future years."

The kind of foresight Alberta has shown is needed in Alaska. Given Alaska's need for a greater degree of financial independence, the establishment of a permanent fund makes good sense in the continuing battle for statehood.