

SCOMM

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# How to Spend the Next Billion-Dollar Windfall

One oil fortune has been spent, but another soon will shower down on Alaska. This time, the State is set on avoiding mistakes of the past.

## JUNEAU

Alaska, which already has run through its first 900 million dollars in oil royalties, is about to come into another enormous fortune.

With the 794-mile Trans Alaska Pipeline scheduled to open next year, oil and gas revenues will soon start flowing into State coffers, eventually mounting to more than a billion dollars annually.

Yet many Alaskans are anxious about the bonanza, which some fear could become another embarrassment of riches. Residents are acutely aware that not a single cash dollar remains of the 900 millions paid to the State by the oil companies in 1969 for oil and gas leases on the North Slope.

*A splurge.* The money disappeared in what has been described as a splurge of spending for education, aid for cities and towns, assistance for the aged and loans to small businessmen.

Alaska has managed to stay out of the red only by issuing bonds and levying a special tax on oil and gas reserves, expected to yield 220 million dollars in 1976. One of Alaska's main problems, a State official says, is to keep the money "away from the insatiable appetites of free-spending bureaucrats."

Some Alaskans admit they handled the first bonanza poorly. State officials say they were unable to resist demands at many levels for a share of the money "because we had nothing for so long."

Residents complained, prior to achieving Statehood in 1959, that Alaska was little more than a neglected ward of the Federal Government. With a small population spread over the equivalent of one fifth of the old 48 States, many essentials from roads to social services were

costly and in short supply. Thus the discovery of huge oil fields along the virtually unpopulated plains hugging the Arctic Ocean seemed providential. Observes Andrew S. Warwick, State commissioner of administration: "When we had the 900 million, it was difficult to say 'No' to projects because the financial resources were sitting right there."

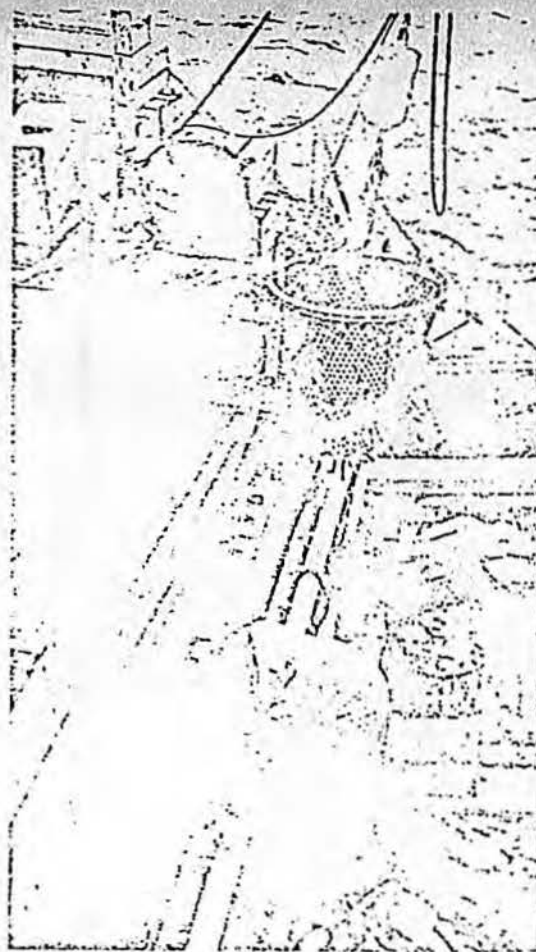
That overspending has strengthened the resolve of many residents to avoid similar problems in the future.

*Feeding the kitty.* Plans are being formulated to create a permanent investment fund fed by at least 25 per cent of all mineral royalties, bonuses and money from leases. The principal would be spent only on income-producing ventures. Alaskans will vote on the proposal in November.

Much of the fund, if it is approved, is expected to be spent on strengthening industries that draw on renewable resources: fishing and timber, the second and third-ranking income producers after petroleum. Both traditional industries are ailing.

Fishing, until 1963 the backbone of the area's economy, has had two bad years in a row. Salmon fishing, the key sector of the industry, has been in a 30-year slump with a 1975 harvest of 26 million fish. That compares with 126 million in 1936.

Lumbering was flourishing until the



Ailing Alaskan fishing industry would benefit from a proposed investment fund.

Highway building may get a boost, though opposition from conservationists is likely.

## ENERGY-RICH ALASKA

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1974-75 recession cut deeply into sales. Federal bans on clear cutting of some forests and requirements for antipollution devices at mills are viewed as threats to future profits. One firm has indicated it will go out of business as a result.

The proposed investment fund, officials say, would be used to help the fishing industry modernize and restock. The money also would be available to help timber firms re-equip.

Another use considered for the revenues is helping to establish new businesses and create more jobs, with the direction supplied within Alaska.

Says Langhorne A. Motley, commissioner of commerce and economic development: "The fund means Alaska will be in the position of not having to knuckle down to foreign capitalists, whether in the 'Lower 48' [States] or abroad."

Mr. Motley envisions the establishment of such firms as a plant for manufacturing concrete, thereby eliminating the need for importing the product. Concrete, he says, leaves Seattle at \$30 a ton and sells for \$108 in Fairbanks.

Some Alaskans believe the new capital

could help attract a variety of companies to the State. Industry in the past has been wary of locating in the region because of high labor costs, a small local market and the reluctance of many big U.S. banks outside Alaska to risk their money so far away.

Robert Richards, executive vice president of the newly formed Alaska-Pacific Bank, says that at the present time it is more economical to build a petrochemical plant in Texas or California than in Alaska.

"However," he says, "if the State of Alaska offered to make capital available at some interest rate below the cost of financing in Texas or California, the rate of return on investment to the Alaska plant might be increased above that of the competition."

"Last thing we want." Private financiers and State officials generally agree that any such manufacturing operations should remain firmly in the hands of private businessmen.

"The last thing we want is a bunch of State-run entities," says Commissioner Motley.

Already, expansion has begun in some areas. Examples: An oil refinery is under construction near Fairbanks, another may be built at Valdez, and a firm at Kenai is in the midst of a 230-million-

dollar enlargement of its ammonia-urea operations. And even larger activities soon may be in the works.

There is talk of building links outward from a new highway, paralleling the pipeline, to permit access to untapped mineral-rich areas of the State. That would open up rich reserves of lead, zinc, copper, silver, iron and coal.

Environmentalists, however, are opposed to unrestricted development and have been influential in halting some previous projects. Conservationists enjoy considerable support among Alaska's thousands of hunters and fishermen who want to prevent destruction of the virgin forests, lush grasslands and unpolluted rivers.

Yet there is also widespread recognition that more permanent jobs must be created to avoid the "boom or bust" eras of the past seven decades. Many residents believe it is possible to reconcile both sides—allowing controlled development while safeguarding the State's natural resources.

In any case, planners say, the oil revenues will be used more prudently than they were in the past.

"We have learned our lesson," says one State official. "There will be no more squandering of our money or our resources."

## Alaska's Portrait in Oil: "A Crazy Quilt" Economy

Interview With Jay S. Hammond,  
Governor of Alaska

Even oil revenue of a billion dollars a year is no guarantee of prosperity. In this interview held in Anchorage, Governor Hammond gives his spending-and-investment plan designed to keep Alaska on an even keel.

**Q** Governor Hammond, how is all this oil wealth changing Alaska?

**A** Significantly. We hope the change will be for the better, but realistically it will be a mixed bag of both pluses and minuses.

Already we've seen evidence of healthy growth and unhealthy growth—improved economic circumstances coupled with overcrowding, high prices, crime. Hopefully, we'll be able to improve what is traditionally the nation's highest

unemployment rate and to raise living standards in rural Alaska from a level that makes Appalachia, by contrast, appear affluent.

**Q** You mean Alaska is not about to become America's oil-rich sheikdom?

**A** I think there's a sobering awareness in Alaska that we're not necessarily going to be up to our hips in lavish wealth. The fact is we have a long way to go to pull many Alaskans even up to the twentieth-century level of economic parity.

We currently have an economic patchwork quilt—a crazy quilt—with poverty interspersed with prosperity. The benefits of oil development are not translating equitably into the community. People who are gainfully employed and making fat money think oil is the best thing that ever happened here. Those who find that the life style that attracted them to Alaska in the first place is disappearing think it's the worst thing that ever happened.



**Q** How much money is the State in line to receive?

**A** Well, the first thing to note is that the pot of gold appears to be several city blocks away instead of just around the corner—and likely it will be smaller than we expected. In fact, unless we throttle down State spending, we may well find at the end of the pipeline rainbow only the pot and none of the gold. The gold will have gone into government.

Actually, the sum changes virtually daily because of imponderables—the price of petroleum, the rate the oil will flow, possible delays in starting up the pipeline. But our economists estimate that revenues could reach upward of 1 billion dollars a year by the mid-1980s. But, unfortunately, our State budget by then will far exceed that just to provide existing services.

## FOILING "LONG-FINGERED POLITICIANS"—

**Q** How are you going to spend a billion dollars a year?

**A** Prudently, I hope.

One of the most significant actions taken by the legislature in the last session was the proposed creation of a so-called permanent fund that will be allotted at least a quarter of all of our oil and gas revenues. It will be a kind of savings account where we will be able to sock some of this revenue away and preclude long-fingered politicians from picking the public pocket. We'll be plowing it into the economy, all right, but using it for investment purposes—not to balloon the bureaucracy.

**Q** What kinds of investments?

**A** The most critical goal is to strengthen our renewable resource industries—such as fishing and timber—for the day when the nonrenewable resources run out.

We're already moving in that direction. We'll have on the ballot this fall a 29-million-dollar bond issue for a fisheries rehabilitation-and-enhancement program. We are also establishing a loan program to create nonprofit hatcheries.

We are going to be involved shortly in exploring the possibility of stepped-up agricultural development. Apparently, there is a strong potential for growing certain types of grain in the interior. Using fertilizer produced from some of our natural gas, this kind of farming could have a significant economic capability.

Another thing I'd like to explore is a form of Alaskan investment corporation in which all Alaskans would be shareholders. In concept, it would be similar to some of the employe stock-ownership plans established by private industry. For example, the funds could be used to finance an actuarially sound income, educational or health-insurance program plus, perhaps, a supplemental social-security program, especially aimed at our old-timers. You know, many of our old-timers now have to leave the State when they retire because they can't afford to stay here.

**Q** Where would the money come from?

**A** The earnings of the permanent fund. There would be an additional benefit from such a program. I think we would create a very conservative constituency insofar as unnecessary government expenditures are concerned. There would be very great distress, I am sure, over attempts to put platinum doorknobs on schoolhouses if you were reducing the dividend potential or income insurance of John Q. Alaskan.

**Q** Do you foresee a major effort at industrialization?

**A** We simply cannot build a massive industrial complex here keyed to nonrenewable resources, which ultimately will exhaust.

You know, we are not like States in the "Lower 48." We are at the end of the line geographically and commercially. We are not surrounded by other States from which trade and commerce will flow through our State en route to not only

our own, but other marketplaces. It's not likely anybody will one day pump oil and gas back up here to feed a big Alaskan industrial complex.

That is not to say I am opposed to the creation of an industrial base as such, but I am against putting most of our eggs in that one basket. We have to selectively pick and choose only those which are viable.

**Q** Is there a chance Alaska will "lock up" its gas and oil, and mete it out slowly, playing for higher prices?

**A** There's no way to do it. Conceivably the State could lock up anything on its own lands. But there are large regions of native-owned lands that will be subject to exploration and development.

The Federal Government has offshore tracts it already is moving to exploit. These all pose a competitive threat to the value of State properties.

We are not going to sit by and lose money by our failure to do anything. If they put their straw down in an oil-structure area just outside State jurisdiction, we're going to have to put our own straw down just to make sure they are not draining us dry.

So the charge that we are going to put a lock on our energy resources is unwarranted and unreasoned. But we are hoping to pace development more carefully.

**Q** What about the State's mineral potential?

**A** It all depends on world market conditions. When the price is right, our hard-rock minerals—coal, copper, gold, iron—will be exploited. We have massive low-grade deposits—just as many States in the "Lower 48" do—but our distance from markets, the high cost of transportation and labor, places them further removed from the development process.

## "YO-YOING BETWEEN BOOM AND BUST"—

**Q** Some people want forced exploitation of resources—

**A** I disagree. Unless they can be developed without subsidization, they should be left in the ground until they can. For example, there have been ridiculous suggestions that we build a 100-million-dollar road to tap a 30-million-dollar mineral deposit. Moreover, I think you should build the transportation means once you have determined it is needed—not build it and hope the needs are out there somewhere.

I'm not at all interested in subsidizing "development" which cannot pay its way. For example, we could say to people, "Come on up and we'll pay you \$100 a day to mine gold." Hordes of people would race in and the local economy would boom. Business would be happy in those areas where the boomers congregated, but I think most would agree there's something wrong with that. There would be a net loss to the State.

But, unfortunately, that has been the traditional history of Alaska, a Yo-yoing back and forth between boom and bust. We don't want to attract multitudes to our State that we can't sustain over the long term. We don't want people to come up here simply to rip off and run. This is why we have this basic criteria: Can it turn a profit for the State?

**Q** Aren't people going to come anyway?

**A** Well, you're right. The boom conditions now here are going to be a lodestone unless people realize that the State is not intent on smoking supergrowth—but to a one-step-at-a-time approach providing full employment to a small population for the long term, rather than crash exploitation that triggers a massive boom, then bust.

**Q** Are you telling other Americans to stay out?

**A** You can't put up barriers at the borders, and we have no intentions of doing so. But I want to make it clear that jobs are not in that long supply in Alaska.